Haringey Council

Pensions Committee

THURSDAY, 18TH SEPTEMBER, 2014 at 19:00 HRS - .

MEMBERS: Councillors Berryman, Bevan (Vice-Chair), Diakides (Chair), Doron, Marshall, and Ross

Non-voting Members: Roger Melling and Michael Jones (1 vacancy)

AGENDA

1. APOLOGIES FOR ABSENCE (IF ANY)

To receive any apologies for absence.

2. URGENT BUSINESS

The Chair will consider the admission of any late items of Urgent Business. (Late items of Urgent Business will be considered under the agenda item where they appear. New items of Urgent Business will be dealt with under Item 11 below. New items of exempt business will be dealt with at Item 14 below).

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.

NOTE FROM THE ASSISTANT DIRECTOR OF CORPORATE GOVERNANCE AND MONITORING OFFICER

When considering the items below, 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.

4. MINUTES (PAGES 1 - 4)

To consider and agree the minutes of the meeting held on 23 June 2014 as a correct record.

5. PENSION FUND ANNUAL REPORT AND ACCOUNTS 2013/14 AND AUDIT REPORT (PAGES 5 - 156)

The report presents the audited Pension Fund Annual Report and Accounts for 2013/14 and the Annual Governance Report of the external auditors, Grant Thornton, which reports on their annual audit of the Pension Fund accounts.

6. LOCAL GOVERNMENT PENSION SCHEME IT SYSTEM: CONTRACT RENEWAL (PAGES 157 - 162)

The report proposes that to enable the Council to carry out its functions as an administering Authority under the Local Government Pension Scheme (LGPS), it enters into a contract with Heywood, an external IT contractor, for the provision of a new IT system.

7. LOCAL GOVERNMENT PENSION SCHEME - ADMISSION OF NEW EMPLOYERS AS TRANSFEREE ADMISSION BODY (PAGES 163 - 166)

The report sets out details relating to the admission of new eligible admission body employers into the Local Government Pension Scheme (LGPS).

8. ESTABLISHMENT OF PENSION BOARD (PAGES 167 - 198)

The report details draft regulations issued by the Department for Communities and Local Government (DCLG) that require each local government pension scheme to establish a pension board.

9. PENSION FUND QUARTERLY UPDATE (PAGES 199 - 222)

The Council is required to review investment performance on a quarterly basis, and sections 13 and 14 of the report provide the information for this.

10. PENSION FUND - WORK PLAN 2014-15 (PAGES 223 - 228)

The report identifies topics that will come to the attention of the Committee in the next nine months and to seek Members' input into future agenda's.

11. ANY OTHER BUSINESS OF AN URGENT NATURE

To consider any items admitted at item 2 above.

12. EXCLUSION OF THE PUBLIC AND PRESS

The following item is 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).

13. LOCAL GOVERNMENT PENSION SCHEME IT SYSTEM: CONTRACT RENEWAL - APPENDIX A (PAGES 229 - 232)

Exempt appendix related to item 6 above.

14. ANY ITEMS OF EXEMPT URGENT BUSINESS

15. DATE OF NEXT MEETING

Monday 15th December 2014 – 7.00pm

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

Oliver Craxton
Principal Committee Coordinator
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Thursday, 11 September 2014

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MINUTES OF THE PENSIONS COMMITTEE
MONDAY, 23 JUNE 2014

Councillors	Bevan (Vice-Chair), Diakides (Chair), Doron, Marshall and Ross
Apologies	Councillor Reith, and Michael Jones and Keith Brown.
Also Present:	John Raisin

MINUTE NO.	SUBJECT/DECISION	ACTON BY
1.	**APOLOGIES FOR ABSENCE (IF ANY)** Apologies for absence were received from Councillor Lorna Reith, and from Michael Jones and Keith Brown (non-voting advisory members).	
2.	**INTRODUCTORY COMMENTS BY THE CHAIR** Councillor Diakides drew attention to the complex nature of matters relating to pensions and stressed the need for members of the Committee to acquire detailed knowledge of the subject area. He went on to state that members of the Committee had already had a useful training session, but that further in-depth training sessions were required. Councillor Diakides referred to the fact that the Council's employers' contributions into the Pension Fund accounted for a considerable proportion of the Council's annual budget. He stressed that members of the Committee were Trustees to the Pension Fund and therefore their priority and commitment was to achieve the best results for the growth of the Fund, as opposed to optimising any financial benefit to the Council. Councillor Diakides pointed out that the Committee was part of a checks and balances process, along with the internal and external auditors, and therefore he wanted the Committee to be active in its work and not just a 'rubber stamping' tool. He consequently proposed that where necessary the Committee delay taking decisions on matters placed before it in order to obtain further information so that a more informed decision could be made, or request officers to explore alternative options to those proposed. **NOTED**	
3.	**URGENT BUSINESS** There were no items of urgent business.	
4.	**DECLARATIONS OF INTEREST** There were no declarations of interest.	

5.	**TERMS OF REFERENCE OF THE PENSIONS COMMITTEE** The Committee considered the report on its Terms of Reference which had been agreed by Full Council at its meeting on 24 March 2014. **RESOLVED:** That the content of the report be noted.	
6.	**EXTERNAL AUDIT PLAN - 31 MARCH 2014** The Committee considered a report on the Audit Plan prepared by the external auditors, Grant Thornton, for the audit of the Pension Fund accounts 2013/14. The report was presented by Emily Hill and Paul Jacklin of Grant Thornton. The Committee noted that Grant Thornton had proposed a fee of £21,000 for the 2013/14 audit, which was £1,379 less than the prior year fee. Emily Hill highlighted the fact that there had been a number of changes in the challenges and opportunities facing the Pension Fund arising from the Public Service Pensions Act 2013 and the associated regulations. She drew attention to the significant audit risks, and other risks, referred to in the report. In response to a question from the Committee it was stated that the external auditors would monitor the Committee's work and comment if the auditor had concerns as to whether the Committee was acting appropriately in carrying out its duties and would look at how effective the Committee was in terms of management of the Fund. **RESOLVED:** That the fee of £21,000 levied by Grant Thornton for the 2013/14 audit be noted, and that 2013/14 Audit Plan prepared by Grant Thornton be agreed.	
7.	**PENSION FUND - REVIEW OF PRIOR YEAR ACTIVITY** The Committee considered a report which summarised the pension's activity undertaken by the Council's Corporate Committee in 2013/14 and which highlighted outstanding issues brought forward to the current year. **RESOLVED:** That the pensions issues discussed by the Corporate Committee in the last twelve months, and in particular those items carried forward into the 2014/15 work plan, including the actuarial valuation; the change from a final salary pension scheme to a career average scheme; the establishment of a 'Collective Investment Vehicle'; the revue of the	

	investment strategy, and the appointment of two new fund managers, be noted.	
8.	**PENSION FUND - WORK PLAN 2014/15** The Committee considered a report which identified topics that would come to the attention of the Committee in the year to March 2015. It was noted that it was intended to have a day long training session in July 2014 for members of the Committee and in addition, short training sessions immediately prior to the commencement of meetings of the Committee, specifically targeted at items on the agenda for that particular meeting. It was drawn to the Committee's attention that a detailed strategy review had been completed in 2013/14, and that one main item carried forward from the strategy review was the required level of inflation protection, and whether this could be enhanced through the use of leverage index linked funds. **RESOLVED:** That the Work Plan for 2014/15, as detailed in the report, be noted, and that further consideration be given to the Committee's work plan for the remainder of the municipal year, and also its long-term work plan, at its meeting in September 2014.	
9.	**PENSION FUND QUARTERLY UPDATE** The Committee considered a report which reviewed investment performance for the three months to 31st March 2014. In response to a question from the Committee in regard to the under-performance of the fund, as highlighted on page 41 of the agenda, it was stated that the Council's decision to introduce passive, as opposed to active, fund managers, had been the right one to make, but that it would take time for the benefits of this change in strategy to be reflected in the performance of the fund. In response to further comments from the Committee, officers stated that the format of reports included in agendas for future meetings would be changed to suit the preference of members of the Committee. **RESOLVED:** That the information provided in respect of the activity in the three months to 31st March 2014, as detailed in the report, be noted.	
10.	**DCLG CONSULTATION RESPONSE - OPPORTUNITIES FOR COLLABORATION, COST SAVINGS AND EFFECTIVENESS** The Committee considered a report which set out the Council's	

	proposed response to the Department for Communities and Local Government's consultation document 'Local Government Pension Scheme: Opportunities for collaboration, cost savings and efficiencies'. The Committee were informed that the proposals set out in the consultation document included support for the establishment of common investment vehicles to provide funds with a mechanism to access economies of scale, helping them to invest more efficiently in listed and alternative assets and to reduce investment costs; significantly reducing investment fees and other costs of investment by using passive management for listed assets, since the aggregate fund performance has been shown to replicate the market; keeping asset allocation with the local fund authorities, and making available more transparent and comparable data to help identify the true cost of investment and drive further efficiencies in the Scheme, and a proposal not to pursue fund mergers at this time. **RESOLVED:** That the proposed response to the Department for Communities and Local Government (DCLG), regarding the consultation document 'Local Government Pension Scheme: Opportunities for collaboration, cost savings and efficiencies', attached at Appendix 2 to the report, be approved, and that the Assistant Director – Finance be authorised to send the response to DCLG on behalf of the Council.	
11.	**ANY OTHER BUSINESS OF AN URGENT NATURE** There were no new items of urgent business.	
12.	**DATE OF NEXT MEETING** The Committee noted that its next meeting was scheduled for Thursday 18 September 2014 at 7.00pm.	

Councillor Isidoros Diakides

Chair

Haringey Council

Report for:	Pensions Committee 18th September 2014	**Item number**	

Title:	Pension Fund Annual Report and Accounts 2013/14 and ISA260 Audit report

Report authorised by :	Kevin Bartle, 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 presents the audited Pension Fund Annual Report and Accounts for 2013/14 and the Annual Governance Report of the external auditors, Grant Thornton, which reports on their annual audit of the Pension Fund accounts.

2. Cabinet Member Introduction

2.1 Not applicable.

3. Recommendations

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

3.2 That the Committee approves the Pension Fund Annual Report and Accounts for 2013-14.

4. Other options considered

4.1 None.

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5. Background information

5.1 The Local Government Pension Scheme Administration Regulations 2008 require local government pension funds to produce an annual report every year to be published by 1st December following the year end. One of the key components of the annual report is the audited pension fund accounts for the year. The pension fund accounts are also still required to be part of the Council's main accounts, even though they are audited separately. The deadline for the publication of the Council's audited accounts is 30th September each year.

5.2 At the Pensions Committee meeting on 23rd June 2014 Grant Thornton presented their plan detailing how they would undertake the audit of the 2013/14 accounts. The Audit Commission's statutory Code of Practice for Local Government bodies requires the external auditor to report to those charged with governance on matters arising from their audit before it is finalised.

6. Comments of the Chief Financial Officer and financial Implications

6.1 The Pension Fund auditors have given an unqualified audit opinion to the financial statements with no specific recommendations.

7. Head of Legal Services and Legal Implications

7.1 As the report confirms the Authority is required to publish a pension fund annual report in a specific format annually on or before 1 December of the year following the year end to which the annual report relates. Regulation 57 of the Local Government Pension Scheme Regulations 2013 sets out this requirement. The annual report annexed to this report complies with the requirements of Regulation 57.

7.2 Members must take into account any verbal updates given (if any) by Grant Thornton at the meeting prior to approving the Pension Fund Annual 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

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10.1 None.

11. Use of Appendices

11.1 Appendix 1: Pension Fund Annual Report and Accounts 2013-14
Appendix 2: ISA260 - Annual Governance Report, Grant Thornton
Appendix 3: Letter of Representation
Appendix 4: Administration & Investment Costs

12. Local Government (Access to Information) Act 1985

12.1 Not applicable.

13. Annual Report and Accounts 2013/14

13.1 The annual report has been prepared in accordance with the Local Government Pension Scheme Regulations 2013 and includes all the items required.

13.2 The first section of the report sets out the management arrangements for the Pension Fund were during 2013/14 including the committee membership and the Fund's advisers. The following section covers investments setting out the investment strategy operated during the year and the resulting performance. The administration section is next, describing the administration arrangements during the year and reporting on the membership. The results of the last formal actuarial valuation are set out in the funding section. The Financial report follows and the appendices are the latest versions of the Pension Fund's policy statements.

13.3 The accounts are made up of the Fund Account, which shows income and expenditure during the year, the Net Assets Statement, which shows the Fund's investments and other asset and liabilities at the end of the year and the Notes to the Accounts which provide more detail about the figures.

13.4 The market value of the Fund was £899m as at 31st March 2014, an increase of £36m. Investments added £39m net of expenses, while benefits and other expenditure exceeds contributions and transfers in by £3m.

13.5 Also attached (appendix 4) is a comparison of administration and investment management costs incurred in the last two years with benchmarking data provided by the Government.

14. Auditor's Annual Governance Report

14.1 The ISA260 - Annual Governance Report from Grant Thornton is attached at Appendix 2. This sets out their findings in detail. The report will be presented to the meeting by Ms Emily Hill, the Engagement Lead.

15. Letter of Representation

15.1 The Chief Financial Officer is required to sign a letter of representation to acknowledge the responsibility for the fair presentation of the information in the financial statements and the Pension Fund Annual Report. A proposed draft of this letter is shown at Appendix 3 of this report for the Committee's information.

` Haringey Council

Annual Pension Fund Report and Accounts

For the year ended 31 March 2014

Registration 00329316RX

Contents

Introduction

Haringey Council Pension Fund presents its Annual Pension Fund Report and Accounts of the Haringey Local Government Pension Fund for the year ended 31st March 2014.

The Local Government Pension Scheme is a defined benefit Pension Scheme and was established on 1st April 1965. The Scheme is a Registered Pension Scheme under Chapter 2 of Part IV of the Finance Act 2004 and is contracted-out of the State Second Pension (S2P). It is a national scheme run locally by councils nominated as “Administering Authorities”.

Haringey Council is the Administering Authority in the Haringey area and runs the Scheme to provide retirement benefits to all eligible employees of Haringey Council and other eligible organisations in the Haringey area. More detail about these organisations can be found in the Membership section on page 9. The Management report on page 4 provides information about how the scheme is run. The registration number is 00329316RX.

Scheme Rules

There have been no changes in the Scheme rules during the year. Other than in accordance with legislative requirements, there were no increases to benefits in payment in the year. The Administration report on page 17 provides details about the administration of the Scheme.

Membership

There were 5,838 active members (2013: 6,168), 8,336 (2013: 7,332) deferred members, and 6,891 (2013: 6,692) pensioners and dependents receiving benefits. More details can be found in the Membership section on page 9.

Financial position

The financial statements and notes on pages 30 to 55 show that the value of the Fund's assets increased by £36m to £899m as at 31 March 2014. The most significant factor in the increase in the value of the fund was the increase in the market value of investments of £38m. Investment income net of investment management expenses and taxation added £1m and a net deficit of £3m resulting from benefit payments being more than contributions offset it.

Investments

During the year the rate of return on the Fund’s investments was 5.03%. This was 0.35% below the Fund’s target for the year. More details of the investment strategy and the performance can be found in the Policy and Performance Report on page 12.

Funding position

The last formal valuation of the funding position took place as at 31st March 2013, when the funding level was 70% – details can be found in the Funding report on page 23. The next formal valuation will be carried out as at 31st March 2016.

Management & Financial Performance Report

Governance Arrangements

Haringey Council in its role as Administering Authority delegated responsibility for administering the Pension Scheme to the Corporate Committee during the year. Details of the Corporate Committee which served during 2013/14 are shown below. Responsibility for pension issues was moved to the Pensions Committee from April 2014.

The terms of reference for Corporate Committee and Pensions Committee are set out in the Council's constitution. The Corporate Committee consisted of ten elected Councillors, with full voting rights and three representatives. Councillors are selected by their respective political Groups and their appointment was confirmed at a meeting of the full Council. They were not appointed for a fixed term but the membership is reviewed regularly by the political groups. The three representatives were appointed by their peer groups. The membership of the Committee during the 2013/14 year was:

Cllr George Meehan	Chair
Cllr Kaushika Amin	Vice Chair
Cllr Charles Adje	
Cllr Isidoros Diakides	
Cllr Eddie Griffith	
Cllr Jim Jenks	
Cllr Gmmh Rahman Khan	
Cllr Monica Whyte	
Cllr Neil Williams	
Cllr Richard Wilson	
Roger Melling	Employee representative
Michael Jones	Pensioner representative
Keith Brown	Admitted & Scheduled Bodies representative

<u>Governance Compliance Statement</u>
The Pension Fund has published a Governance Compliance Statement in accordance with the LGPS Regulations and this is set out in Appendix 1 on page 60. The objective of the statement is to make the administration and stewardship of the Pension Fund transparent and accountable to all stakeholders.

Service Delivery

Haringey Council Pension Service is composed of two distinct arms: Fund Management and Pension Administration. These two functions are run from two business units in Haringey Council; Fund Management is part of Finance while Pensions Administration is part of Human Resources.

Finance is responsible for Fund Management work. Key tasks include:

- Support to the Committee to set investment strategy and monitor investment performance;
- Managing the contracts with the Pension Fund's advisers;
- Producing the annual Pension Fund budget and Annual report and accounts; and
- Maintaining the key governance statements the Pension Fund is required to publish (the current versions can be found in the Appendices).

The Scheme Administration report on page 17 sets out the key tasks of the Pensions Administration service.

The Pension Fund's internal auditors are Mazars Public Sector Internal Audit Limited. Regular audits are carried out on both Pension Fund investments and Pensions administration.

Key Officer Contacts

Assistant Director – Finance (CFO)	Kevin Bartle
Head of Legal Services and Monitoring Officer	Bernie Ryan
Head of Finance: Treasury & Pensions	George Bruce
Pensions Manager	Janet Richards

Pension Fund Advisers

The Pension Fund retains a number of advisers to provide specialist advice and services. The contracts with these advisers are reviewed on a regular basis. A list of all advisers is provided below:

Secretary to the Committee	Head of Local Democracy and Member Services
Scheme Administrator	Chief Financial Officer
Actuary	Hymans Robertson
Investment Managers	Legal & General Investment Management BlackRock Investment Management CBRE Global Investors Pantheon
Custodian	Northern Trust
Investment Consultants	Mercer (from September 2013) Aon Hewitt Limited (to September 2013)
Independent Adviser	John Raisin Financial Services Limited
Bankers	Barclays (from September 2013) and Royal Bank of Scotland
Legal advisers	Head of Legal Services
Additional Voluntary Contribution providers	Clerical and Medical Equitable Life Assurance Society Prudential Assurance
Internal Auditors	Mazers Public Sector Internal Audit Limited (from February 2014) Deloitte & Touche Public Sector Internal Audit Limited (to February 2014)
External Auditors	Grant Thornton UK LLP

Management Report for 2013/14

Financial Performance

The investment strategy was reviewed during the year and the strategic allocation to listed equities reduced by 10% (to 60%). Two new credit mandates were added to the strategy. Implementation of these changes took place after 31 March 2014.

The investment performance during the year was positive at 5.03% as the European and USA equity markets and property in particular performed very well. Asian markets and index linked produced negative returns. The performance was slightly below target (by 0.35%) mainly due to the relative returns from private equity.

Administrative Management Performance

On 1st April 2011, the Fund implemented a Pension Administration Strategy Statement. Details of the monitoring of the strategy are set out in the Scheme Administration report. During the financial year 2013-14 no formal action has been taken against any employers. The only breaches of the performance standards have been minor and have been dealt with informally. The timeliness of contribution payments from employers in the Fund has been monitored by Corporate Committee on a quarterly basis and issues followed up by the Fund's officers.

Total membership of the Fund increased by 873 to 21,065 between the years. The number of scheduled bodies increased from 1 to 22.

Risk Management

Investment risk is a key risk which the Fund is exposed to due to the range of different types of assets the Fund has chosen to invest in. All investments are undertaken in line with the Local Government Pension Scheme (Management & Investment of Funds) Regulations 2009 and only following advice from the Fund's investment adviser and from the Independent Adviser.

The Committee has set an investment strategy which involves a wide range of asset classes and geographical areas. This provides diversification which reduces the risk of low and volatile returns. Following the decision to invest the majority of the Fund on a passive basis, the risk of underperforming the benchmark has been significantly reduced.

The majority of the Pension Fund's assets are managed by external fund managers and they are required to provide an audited internal controls report regularly to the Council which sets out how they ensure the Fund's assets are safeguarded against loss and misstatement. The Committee took the decision to spread the Fund's passive equity and bond investments across two fund managers to mitigate any risk arising in one fund management company.

The Committee consider reports on investment performance, responsible investment activities and other pertinent matters relating to investments and fund managers on a quarterly basis.

Membership

Haringey Council is the Administering Authority for the Haringey Pension Fund and eligible staff are members of the scheme. In addition the Pension Fund has a number of other organisations participating in the Fund.

A scheduled body is a public body which is required by law to participate in the LGPS. Each scheduled employer is listed in the LGPS regulations.

A transferee admission body is an employer permitted to participate in the LGPS. This might be a non profit making body carrying out work that is similar in nature to a public service like local government or it might be a private company to which a service or assets have been outsourced.

A community admission body is an organisation providing a public service in the UK otherwise than for gain. The organisation is expected to have sufficient links with the Council such that it is regarded as having a community interest.

The table below shows the number of organisations with members in the Pension Fund on 31st March 2014, compared to the previous year.

	31st March 2014	**31st March 2013**
Administering Authority	1	1
Scheduled Bodies	22	21
Transferee Admission Bodies	7	7
Community Admission Bodies	3	3
Bodies no longer participating	10	10
TOTAL	**43**	**42**

The membership of the Pension Fund at 31st March 2014 compared with the previous financial year is shown in the table below:

	31st March 2014	**31st March 2013**
Active members	5,838	6,168
Deferred members	8,336	7,332
Pensioners & Dependants	6,891	6,692
TOTAL	21,065	20,192

The table above shows an overall increase in membership of 4.3%. The majority of this increase was in deferred members, which rose by 13.7%.

A schedule of the membership from each of the employers is shown overleaf.

Employer	**Active Members**	**Deferred Beneficiaries**	**Pensioners & Dependants**
Scheduled Bodies			
Haringey Council Employees	4390	7642	6390
Haringey Council Councillors	21	7	4

Homes for Haringey	470	171	149
College Haringey, Enfield & NE London	148	239	120
Greig City Academy	41	25	4
Fortismere School	44	20	7
John Loughborough School	2	12	5
Alexandra Park Academy	64	5	4
Woodside Academy	58	2	1
Eden Free School	10	0	0
Harris Academy Coleraine	18	0	0
Harris Academy Philip Lane	32	3	1
AET Trinity Primary	24	3	1
AET Noel Park	43	1	1
Haringey 6th Form Centre	56	3	0
St Pauls & All Hallows Infant Academy	21	0	0
St Pauls & All Hallows Junior Academy	14	2	0
St Michaels Academy	22	0	0
St Ann CE Academy	21	1	0
Holy Trinity CE Academy	15	0	0
Hartsbrook Academy	10	1	0
Heartlands Academy	19	1	0
St Thomas More School Academy	30	0	0
Community Admission Bodies			
Alexandra Palace Trading Co Ltd	3	11	8
Haringey Age UK	2	5	16
Haringey Citizens Advice Bureau	5	1	6
Transferee Admission Bodies			
Cofely Workplace Ltd	57	17	12
Churchill Contract Services	2	1	1
Europa Facilities Services Ltd	0	0	1
Fusion Lifestyle	70	2	0
TLC Ltd	12	8	6
Urban Futures London Ltd	3	8	0
Veolia Environmental Services (UK) plc	111	21	13
Bodies no longer actively participating			
CSS (Haringey) Ltd	0	31	51
Enterprise Futures London Ltd	0	40	44
Haringey Magistrates	0	20	20
Harrisons Catering	0	1	2
Initial Catering Ltd	0	1	1
Jarvis Workspace Ltd	0	24	19
Mittie Ltd	0	0	2
One Complete Solution Ltd	0	1	1
Ontime Parking Solutions	0	3	1
RM Education Ltd	0	3	0
Totals	**5,838**	**8,336**	**6,891**

Investment Policy & Performance Report

Investment Strategy

Responsible Investment

Fund Managers

Investment Performance

Investment Strategy

The Pension Fund's investment strategy is formulated within the parameters of the Local Government Pension Scheme (Management and Investment of Funds) Regulations 2009.

Corporate Committee is responsible for setting investment strategy with the aid of independent advice from the Pension Fund's advisers. Day to day investment decisions are delegated to fund managers.

The strategy is set out in detail in the Statement of Investment Principles, which is shown in Appendix 2 on page 64. All investments were externally managed, with the exception of a small allocation of cash used to meet benefit payments, which was held in-house.

In January 2014, the Corporate Committee approved a revised strategic asset allocation that reduced the allocation to listed equities by 10% (to 60%) and credited two new allocations of 5% each – Infrastructure debt and multi-sector credit. The implementation of the new strategy took place after the year-end.

The Fund's benchmark showing target asset allocation prior to the January 2014 revised strategy is shown below, alongside the actual allocation of the Fund's investments at 31st March 2014. This is the strategy that operated throughout the year. The financial statements show that the Fund is invested in pooled funds and the breakdown in the table below shows the allocation of the underlying holdings.

Asset class	Benchmark %	Actual % at 31 March 2014
UK Equities	17.5	19.3
Overseas Equities	52.5	54.4
UK Index linked gilts	15.0	13.6
Property	10.0	7.6
Private Equity	5.0	3.9
Cash	0.0	1.2

Custodial arrangements

The Council employs Northern Trust to act as independent custodian of the Pension Fund's investments. As professional custodians, they employ a rigorous system of controls to ensure the safekeeping of assets entrusted to them. The custodian is responsible for the settlement of all day-to-day investment transactions, collection of investment income and the safe custody of the Pension Fund's investments.

Responsible Investment

The Pension Fund believes that the adoption by companies of positive Environmental, Social and Governance principles can enhance their long term performance and increase their financial returns. These issues are of concern to the Fund because it is considered that companies who do not have regard for the social and environmental impact of their business, or who conduct their business in a way which is not sustainable over the longer term are in danger of adversely affecting the future prospects of the company, and potentially the company's long term share price.

Due to the need to prioritise fiduciary duty, the Fund does not participate in stock screening or exclusionary approaches. Instead the Fund seeks to influence the behaviour of companies through engagement. This engagement is undertaken through the following parties:

- The Fund's investment managers
- Local Authority Pension Fund Forum (LAPFF)
- National Association of Pension Funds (NAPF)

The Fund maintains membership of the LAPFF and the NAPF in order that engagement can be undertaken on it's behalf.

In addition to this, the Fund has signed up and formally adopted the 'United Nations Principles for Responsible Investment' initiative and all the Fund's investment managers are also signatories to it.

On a quarterly basis the Corporate Committee receive reports on the engagement activity undertaken on behalf of the Fund, covering environmental issues, governance and remuneration and all other responsible investment issues.

Fund Managers

The Pension Fund has appointed external fund managers to undertake day to day management of the Fund's investments. Each fund manager is appointed with a mandate covering a defined asset class or classes with a target set that relates to a benchmark covering the asset class or classes they are managing. The fund managers in place during the 2013/14, the asset classes they cover and their percentage of the Fund's investments on 31st March 2014 are shown in the table below (the remaining 0.4% was invested in-house in cash):

Investment Manager	Mandate	% at 31 March 2014
BlackRock Investment Management	Passive Global Equities & Bonds	59.6%
Legal & General Investment Management	Passive Global Equities & Bonds	27.7%
CBRE Global Investors	Property	7.6%
Pantheon	Private Equity	3.9%

NB: the allocations above relate to total assets. Page 41 is based on investment assets only.

The benchmarks and targets set for the fund managers are detailed below:

Passive managers – target is to meet the benchmark:

Asset class	Benchmark
UK Equities	FTSE All Share
North American Equities	FT World Developed North America GBP Unhedged
European Equities	FT World Developed Europe ex UK GBP Unhedged
Japanese Equities	FT World Developed Japan GBP Unhedged
Pacific ex Japan Equities	FT World Developed Pacific ex Japan GBP Unhedged
Emerging Markets Equities	FT World Global Emerging Markets GBP Unhedged
Index Linked Gilts	FTA Index Linked Over 5 Years Index

Active managers

Investment Manager	Benchmark	Target over 3 year rolling periods
CBRE Global Investors	HSBC/APUT Balance Funds Index	+1 % (gross) of fees p.a.
Pantheon	MSCI World Index plus 5%	+0.75% (gross) of fees p.a.

Investment Performance

The investment performance of the Pension Fund and the fund managers is regularly reviewed by Committee members. Performance reports to compare actual performance against the targets set for the fund managers are provided to and discussed by the Committee quarterly.

The overall Pension Fund performance is summarised in the table below. All figures shown are annualised performance figures over the various periods to 31st March 2014.

	1 year	**3 years**	**5 years**
Overall Pension Fund performance	5.03	7.82	12.81
Benchmark	5.38	8.23	13.69
Performance versus benchmark	(0.35)	(0.41)	(0.88)

Individual fund manager performance against the benchmarks during 2013/14 is shown in the table below. All managers, with the exception of Pantheon exceeded their benchmarks. Due to the nature of private equity, returns in the early years of investment may understate those expected over the life of the fund.

Fund Manager	**Mandate**	**Annual actual return %**	**Annual target return %**	**Annual (Under)/Over Performance %**
BlackRock Investment Mgt	Passive Equities & Bonds	6.68	6.51	0.17
Legal & General Investment Mgt	Passive Equities & Bonds	(0.38)	(0.41)	0.03
CBRE Global Investors	Property	12.50	12.04	0.46
Pantheon	Private Equity	8.04	14.45	(6.41)
Total Fund Performance		**5.03**	**5.38**	**(0.35)**

Targets have been set to outperform the benchmarks for CBRE (1% p.a.) and Pantheon (0.75% p.a.).

Scheme Administration Report

Local Government Pension Scheme

Administration Service Delivery

Communications Policy

Pensions Administration Strategy

Local Government Pension Scheme

The Haringey Pension Fund is part of the Local Government Pension Scheme (LGPS), which is a statutory scheme with defined benefits based on membership and final pay and guaranteed by law. The benefits are set out in the Local Government Pension Scheme (Benefits, Membership and Contributions) Regulations 2007. Haringey Pension Fund cannot make changes to the scheme, and may only exercise such discretions as are prescribed by the LGPS regulations.

Membership is open to the non-teaching employees of the Administering Authority, all scheduled bodies and certain admitted bodies and Councillor Members until the day before age 75. There were no changes to scheme benefits during the 2013/14 financial year. From April 2014, the benefit structure changed from a final salary scheme to a career average revalued earnings based scheme, with changes to the accrual rate and to align the normal retirement date with the age at which the state pension commences.

Administration Service Delivery

The Haringey Council Pension Service is composed of two distinct arms: Fund Management and Pension Administration. Pension Administration is part of Human Resources.

The Pension Administration service is included in the HR business plan which makes links to the Council's aims and objectives. The Pensions team calculates and pays pension benefits, maintains a database of members and is responsible for the interpretation and implementation of the Local Government Pension Scheme regulations and related legislation.

The service operates in accordance with their professional standards and within the regulations laid down by the Local Government Pension Scheme.

Internal Dispute Resolution Procedure

Members of pension schemes have statutory rights to ensure that complaints, queries and problems concerning pension rights are properly resolved.

To facilitate this process, an Internal Disputes Resolution Procedure has been established. In the first instance, members are expected to take up matters with the Pensions Manager, Janet Richards at the following address: Level 4, Alexandra House, 10 Station Road, Wood Green, London, N22 7LR or janet.richards@haringey.gov.uk. If the matter remains unresolved, a stage 1 appeal may be made to the Head of Human Resources and thereafter, if necessary a further appeal may be made to Bernie Ryan, Head of Legal Services at Level 5, River Park House, 225 High Road, Wood Green, London, N22 8HQ or bernie.ryan@haringey.gov.uk.

If the problem remains unresolved, members then have the facility to refer the matter to The Pensions Advisory Service (TPAS) which has a network of pension advisers who will try to resolve problems before they are referred on to the Pensions Ombudsman. However, the TPAS service may be invoked at any stage of the appeal process. Both TPAS and the Pensions Ombudsman can be contacted at:
11 Belgrave Road
London
SW1V 1RB

The statutory body responsible for the regulation of pension schemes in the United Kingdom is The Pensions Regulator and can be contacted at the following address:
The Pensions Regulator
Napier House
Trafalgar Place
Brighton
BN1 4DW

A central tracing agency exists to help individuals keep track of deferred pension entitlements from previous employers' pension schemes. An application for a search can be submitted to:

Pension Tracing Service
The Pension Service
Whitley Road
Newcastle upon Tyne
NE98 1BA
The Haringey Pension Fund's details are registered with the tracing agency.

Further information

For information about the Scheme generally, further information about resolving disputes, or an individual's entitlement to benefit, please refer to the member's booklet issued to all members of the Scheme or contact the Pensions Team, 4th Floor, Alexandra House, 10 Station Road, Wood Green, N22 7TR / telephone 020 8489 5919 or refer to the Council's website: www.haringey.gov.uk/pensionfund

Communications Policy

Effective communication between the Administering Authority, the scheme members, and the employers within the Fund is essential to the proper management of the Local Government Pension Scheme on a transparent and accountable basis.

The current policy, which has been prepared in accordance with the LGPS regulatory requirement is attached in Appendix 3 on page 79 and sets out the policy framework within which the Pension Fund communicates with:

- Members of the scheme;
- Representatives of scheme members;
- Employing bodies; and,
- Prospective scheme members.

It identifies the format, frequency and method of distributing information and publicity. It also outlines the processes for promoting the scheme to prospective members and employing bodies.

The Communications Policy includes the provision of a pension's page on the Haringey website www.haringey.gov.uk/pensionfund. This facility enables staff to access information about the Local Government Pension Scheme in their own home with families and partners who may also have an interest in the benefits of the scheme.

Pensions Administration Strategy Statement

The Fund implemented a Pensions Administration Strategy Statement on 1st April 2011, following consultation with the employers participating in the Fund and approval by Committee.

This statement sets out the performance standards expected of the Council in its role of Administering Authority for the Fund and those expected of employers participating in the scheme. It seeks to promote good working relationships, improve efficiency and ensure quality of service and data. It sets out details of how performance will be monitored and what action might be taken in the event of persistent failure.

During the financial year 2013-14 no formal action has been taken against any employers. The only breaches of the performance standards have been minor and have been dealt with informally.

The Pensions Administration Strategy Statement can be found on the Haringey Pension Fund website
http://www.haringey.gov.uk/pensionfund#policy_statements_and_reports

Actuarial Funding Report

Funding Position

Funding Strategy Statement

Statement of the Fund Actuary

Funding Position

The Pension Fund is independently valued every three years by a firm of actuaries to assess the adequacy of the Fund's assets to meet its long term obligations.

The most recent triennial actuarial valuation of the Fund was carried out as at 31 March 2013 in a report dated 17 March 2014.

The 2013 valuation was carried out in accordance with the Fund's Funding Strategy Statement and Guidelines GN9: Funding Defined Benefits – Presentation of Actuarial Advice published by the Board for Actuarial Standards. The valuation method used was the projected unit method. The resulting contribution rates reflected the cost of providing year by year accrual of benefits for the active members and the level of funding for each employer's past service liabilities.

The market value of the Fund at the time of the last triennial valuation as at 31 March 2013 was £863m. Against this sum liabilities were identified of £1,232m equivalent to a funding deficit of £369m. The movement in the actuarial deficit between 2010 and the last valuation in 2013 is analysed below:

Reason for change	**£m**
Interest on deficit	(58)
Investment returns greater than expected	51
Contributions greater than cost of accrual	23
Change in demographic assumptions	(4)
Experience items	51
Change in financial assumptions	(136)
Total	(73)
Deficit brought forward	(296)
Deficit carried forward	(369)

The level of funding on an ongoing funding basis increased to 70.0% from 69.2% between the triennial actuarial valuations as at 31st March 2010 and as at 31st March 2013. The main reason for the deficit increase was the fall in government bond yields that increased the value placed on pension liabilities.

The funding objective of the Fund is to be fully funded. As this objective had not been achieved at the last valuation date it was agreed with the actuary that the past service deficit would be recovered over a period not exceeding 20 years. Further information about the principles for achieving full funding is set out in the Funding Strategy Statement in Appendix 4 on page 81.

Following the valuation as at 31 March 2013, the actuary agreed that the Council's contribution rate should increase by 2% over a three year period from April 2004, from 22.9% of pensionable salaries to 24.9%. The actuary specified a minimum level of deficit contributions in monetary terms. The 2013/14 contribution rate was split between 5.8% for the past service adjustment to fund the deficit over 20 years and the future service rate of 17.1%.

The main assumptions used in the 2013 valuation were:

Investments	**Annual nominal rate of return %**
Discount rate	4.6

	Annual change %
Pay increases	4.3*
Price Increases (pension increases)	2.5

** Salary increased assumed to be 1% p.a. until 31st March 2016 reverting to the long term assumptions shown thereafter.*

Funding Strategy Statement

The Local Government Pension Scheme Regulations require Local Government Pension Funds to prepare, publish and maintain a Funding Strategy Statement in accordance with guidance issued by CIPFA.

The purposes of a Funding Strategy Statement are:

- 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.

The Funding Strategy Statement is reviewed in detail every three years alongside the triennial valuation. It is reviewed in collaboration with the Pension Fund's actuary, and after consultation with the Pension Fund's employers and investment advisers. The current statement was reviewed and agreed in March 2014.

The objectives of the Funding policy set out in the Statement are:

- to ensure the long-term solvency of the Fund (and of the share of the Fund notionally allocated to individual employers);
- to ensure that sufficient funds are available to meet all benefits as they fall due for payment;
- 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;
- to help employers recognise and manage pension liabilities as they accrue;
- to minimise the degree of short-term change in the level of each employer's contributions where the Administering Authority considers it reasonable to do so;
- 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;
- to address the different characteristics of the disparate employers or groups of employers to the extent that this is practical and cost-effective; and
- to maintain the affordability of the Fund to employers as far as is reasonable over the longer term.

The policy is shown in full in Appendix 4 on page 81.

London Borough of Haringey Pension Fund ("the Fund") Actuarial Statement for 2013/14

This statement has been prepared in accordance with Regulation 34(1)(d) of the Local Government Pension Scheme (Administration) Regulations 2008, and Chapter 6 of the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the UK 2013/14.

Description of Funding Policy

The funding policy is set out in the administering authority's Funding Strategy Statement (FSS), dated January 2014. In summary, the key funding principles are as follows:

- 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.

The FSS sets out how the administering authority seeks to balance the conflicting aims of securing the solvency of the Fund and keeping employer contributions stable. For employers whose covenant was considered by the administering authority to be sufficiently strong, contributions have been stabilised below the theoretical rate required to return their portion of the Fund to full funding over 20 years if the valuation assumptions are borne out. Asset-liability modelling has been carried out which demonstrate that if these contribution rates are paid and future contribution changes are constrained as set out in the FSS, there is still a better than 60% chance that the Fund will return to full funding over 20 years.

Funding Position as at the last formal funding valuation

The most recent actuarial valuation carried out under Regulation 36 of the Local Government Pension Scheme (Administration) Regulations 2008 was as at 31 March 2013. This valuation revealed that the Fund's assets, which at 31 March 2013 were valued at £863 million, were sufficient to meet 70% of the liabilities (i.e. the present value of promised retirement benefits) accrued up to that date. The resulting deficit at the 2013 valuation was £369 million.

Individual employers' contributions for the period 1 April 2014 to 31 March 2017 were set in accordance with the Fund's funding policy as set out in its FSS.

Principal Actuarial Assumptions and Method used to value the liabilities

Full details of the methods and assumptions used are described in the valuation report dated 17 March 2014.

Method

The liabilities were assessed using an accrued benefits method which takes into account pensionable membership up to the valuation date, and makes an allowance for expected future salary growth to retirement or expected earlier date of leaving pensionable membership.

Assumptions

A market-related approach was taken to valuing the liabilities, for consistency with the valuation of the Fund assets at their market value.

The key financial assumptions adopted for the 2013 valuation were as follows:

Financial assumptions	31 March 2013	
	% p.a. Nominal	% p.a. Real
Discount rate	4.60%	2.10%
Pay increases	4.30%	1.80%
Price inflation/Pension increases	2.50%	-

The key demographic assumption was the allowance made for longevity. The life expectancy assumptions are based on the Fund's VitaCurves with improvements in line with the CMI_2010 model, assuming the current rate of improvements has reached a peak and will converge to long term rate of 1.25% p.a.. Based on these assumptions, the average future life expectancies at age 65 are as follows:

	Males	Females
Current Pensioners	21.9 years	24.1 years
Future Pensioners*	24.2 years	26.5 years

*Currently aged 45

Copies of the 2013 valuation report and Funding Strategy Statement are available on request from London Borough of Haringey, the administering authority to the Fund.

Experience over the period since April 2013

Experience has been slightly better than expected since the last valuation (excluding the effect of any membership movements). Real bond yields have risen and asset returns have been broadly in line with that expected meaning that funding levels are likely to have improved since the 2013 valuation.

The next actuarial valuation will be carried out as at 31 March 2016. The Funding Strategy Statement will also be reviewed at that time.

Douglas Green FFA

Fellow of the Institute and Faculty of Actuaries
For and on behalf of Hymans Robertson LLP
9 May 2014

Hymans Robertson LLP
20 Waterloo Street
Glasgow
G2 6DB

Financial Report

Chief Financial Officer's Responsibilities

The financial statements are the responsibility of the Chief Financial Officer. Pension scheme regulations require that audited financial statements for each Scheme year are made available to Scheme members, beneficiaries and certain other parties, which:

"show a true and fair view of the financial transactions of the Scheme during the Scheme year and of the amount and disposition at the end of that year of the assets and liabilities, other than liabilities to pay pensions and benefits after the end of the Scheme year, in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom".

The Chief Financial Officer has supervised the preparation of the financial statements and has, agreed suitable accounting policies, to be applied consistently, making any estimates and judgments on a prudent and reasonable basis.

The Chief Financial Officer is also responsible for making available certain other information about the Scheme in the form of an Annual Report.

The Chief Financial Officer is responsible for ensuring that records are kept in respect of contributions received in respect of any active member of the Scheme and for monitoring whether contributions are made to the Scheme by the Administering Authority and other participating bodies by the due dates.

The Chief Financial Officer is responsible for the maintenance and integrity of the financial information of the Scheme included on the Authority's website. Legislation in the United Kingdom governing the preparation and dissemination of the financial statements may differ from legislation in other jurisdictions.

The Chief Financial Officer also has a general responsibility for ensuring that adequate accounting records are kept and for taking such steps as are reasonably open to them to safeguard the assets of the Scheme and to prevent and detect fraud and other irregularities, including the maintenance of an appropriate system of internal control.

Statement of the Chief Financial Officer

I certify that the financial statements set out in pages 30 to 55 have been prepared in accordance with the accounting policies set out above and give a true and fair view of the financial position of the Pension Fund at the reporting date and of its expenditure and income for the year ended 31st March 2014.

Kevin Bartle, CPFA
Assistant Director - Finance / Chief Financial Officer

September 2014

Basis of Preparation

The financial statements have been prepared in accordance with the Local Government Pension Scheme Regulations 2007 (as amended) and with the guidelines set out in the Code of Practice on Local Authority Accounting in the United Kingdom 2013/14, which is based on International Financial Reporting Standards and having regard to the Financial Reports of Pension Schemes – A Statement of Recommended Practice. The principal accounting policies of the Fund are set out below.

Accounting Policies and Principles

Contributions
Employer and employee contributions are included on an accruals basis relating to wages and salaries payable for the financial year. Employers' capital cost payments are also accounted for on an accruals basis relating to the period in which the liability arises.

Benefits
Benefits are shown on an accruals basis relating to the date on which they become payable.

Transfers in and out
Transfers in and out are accounted for on a cash basis whenever the transfer value is paid or received.

Administrative expenses
Administrative expenses are shown on an accruals basis. A proportion of relevant Council officers' time, including related on-costs, has been charged to the Fund on the basis of actual time spent on scheme administration and investment related matters. Charges paid to HMRC in respect of scheme members breaching the Pensions Lifetime allowance are disclosed under administrative expenses.

Investment income
Dividends are shown on an accruals basis by reference to the ex-dividend date. Withholding tax, which is recoverable, is accrued on the same basis as the income to which it relates. Interest on fixed interest investments, index linked securities, cash and short term deposits is accounted for on an accruals basis. Distributions from equity and bond pooled funds are recognised on the date of payment. Distributions from property unit trusts are shown on an accruals basis by reference to the ex-dividend date.

Income from pooled investment vehicles is normally retained within the vehicle and included within change in market value of investments.

Taxation
The Fund is exempt from UK income tax on interest received and capital gains tax on the proceeds of investments sold. Income from overseas investments suffers withholding tax in the country of origin, unless exemption is permitted. Irrecoverable tax is accounted for as an expense as it arises.

Investment management expenses

Fund managers' fees are based on the market values of the portfolios under management. Where managers invest in in-house investment vehicles, e.g. unit trusts where management fees are covered in the price of the units, the market value of such holdings are deducted from the portfolio value before calculating chargeable fees. All the Investment Management expenses are shown on an accruals basis.

Financial Assets & Liabilities

Financial assets and liabilities are included in the net assets statement on a fair value basis as at the reporting date. A financial asset or liability is recognised in the net assets statement on the date the fund become party to the contractual acquisition of the asset or party to the liability. From this date any gains or losses from changes in the fair value of the asset or liability are recognised by the fund.

Investments – valuation
Investments are stated at fair value on the final working day of the financial year as follows:

- Listed securities are stated at bid value;
- Unquoted securities are stated at the estimate of fair value provided by the investment manager;
- Units in managed funds and pooled investment vehicles are stated at bid value; and
- Property held in pooled investment vehicles is valued by each fund in accordance with local market practice, for UK property this is The Royal Institute of Chartered Surveyor's Valuation Standards.

There are no published price quotations available to determine the fair value of the Fund's private equity holdings. The value of these holdings is based on the Fund's share of the net assets in the private equity fund or limited partnership using the latest financial statements published by the respective fund managers adjusted for drawdowns paid and distributions received in the period from the date of the private equity financial statements to 31 March 2014.

The valuation of foreign equities is calculated by using the overseas bid price current at the relevant date and the exchange rate for the appropriate currency at the time to express the value as a sterling equivalent.

Cash and Cash Equivalents

Cash is represented by cash in hand and deposits with financial institutions repayable without penalty on notice of not more than 24 hours.

Cash equivalents are investments that mature in no more than a three month period from the date of acquisition and that are readily convertible to known amounts of cash with insignificant risk of change in value.

Actuarial Present Value of Promised Retirement Benefits
The actuarial present value of promised retirement benefits is assessed on a triennial basis by the scheme actuary and a roll forward approximation is applied in the intervening years. This is done in accordance with the requirements of IAS19 and relevant actuarial standards. As permitted under IAS26, the Fund has opted to disclose the actuarial present value of promised retirement benefits as an annex to the financial statements.

Additional Voluntary Contributions ("AVCs")

Members of the Fund are able to make AVCs in addition to their normal contributions. The related assets are invested separately from the main fund, and in accordance with the Local Government Pension Scheme (Management and Investment of Funds) Regulations 2009, are not accounted for within the financial statements. If on retirement members opt to enhance their Scheme benefits using their AVC funds, the amounts returned to the Scheme by the AVC providers are disclosed within transfers-in.

Further details about the AVC arrangements are disclosed in note 19 to the financial statements.

Critical Judgements Applied

There are two areas in the accounts where critical judgements are applied which are materially significant to the accounts:

Actuarial present value of promised retirement benefits – the figure of net liability to pay pensions is based on a significant number of assumptions including the discount rate, mortality rates and expected returns on fund assets. The Pension Fund's qualified actuary calculates this figure to ensure the risk of misstatement is minimised. The liability is calculated on a three yearly basis with annual updates in the intervening years. The Actuary has advised that this has provided a reasonable estimate of the actuarial present value of promised retirement benefits.

Private Equity valuations – the value of the Fund's private equity holdings is calculated by the General Partner of the fund using valuations provided by the underlying partnerships. The variety of valuation bases adopted and quality of management data of the underlying investments in the Partnership means that there are inherent difficulties in determining the value of these investments. Given the long term nature of the investments, amounts realised on the sale of these investments may differ from the values reflected in these financial statements and the difference may be material.

Pension Fund Account

2013/14		Notes	2012/13
£'000			**£'000**
	Dealings with members, employers and others directly involved in the scheme		
39,015	Contributions receivable	1	40,762
2,435	Transfers In	2	4,258
(40,411)	Benefits payable	3	(40,077)
(3,283)	Payments to and on account of leavers	4	(5,128)
(802)	Administrative Expenses	5	(876)
(3,046)	**Net additions from dealings with members**		**(1,061)**
	Returns on Investments:		
2,577	Investment Income	6	3,603
38,279	Change in market value of investments	9	107,377
0	Taxes on Income	7	(33)
(1,658)	Investment management expenses	8	(1,642)
39,198	**Net returns on investments**		**109,305**
36,152	**Net increase in the fund during the year**		**108,244**
863,192	**Add: Opening net assets of the scheme**		**754,948**
899,344	**Closing net assets of the scheme**		**863,192**

Net Asset Statement

The Net Asset Statement sets out the assets and liabilities for the Fund as at 31 March 2014. The Fund is separately managed by the Council acting in its role as Administering Authority and its accounts are separate from the Council's.

Net Assets Statement

31/03/14		Notes	31/03/13
£'000			£'000
893,758	Investment assets	9	860,379
(12,606)	Investment liabilities	9	0
881,152			860,379
19,332	Current Assets	12,13	3,802
(1,140)	Current Liabilities	13,14	(989)
899,344	**Total Assets**		**863,192**

Notes to Pension Fund Account

1. Contributions Receivable

2013/14		2012/13
£'000		**£'000**
22,729	Employers' normal contributions	23,127
6,692	Employers' deficit funding contributions	6,661
1,040	Employers' other contributions	2,155
30,461		**31,943**
8,554	Members' normal contributions	8,819
39,015	**Total**	**40,762**

Employers' deficit funding contributions include lump sum payments and the deficit element of the employers' contribution rate. In addition, payments resulting from cessation valuations are also included.

Employers' other contributions relate to capital cost payments and cover the cost to the Fund of members awarded early retirement before age 60 or otherwise after age 60, but before their normal protected retirement date.

Contributions are further analysed in the following note:

1a. Analysis of Contributions Receivable

2013/14		2012/13
£'000		**£'000**
28,718	Administering authority	31,599
8,805	Scheduled bodies	7,937
1,492	Admitted bodies	1,226
39,015	**Total**	**40,762**

Haringey Council is the administering authority. Scheduled bodies are public bodies required by law to participate in the LGPS. Admitted bodies are in the LGPS either because services have been outsourced or because they have sufficient links with the Council to be regarded as having a community interest.

2. Transfers In

2013/14 £'000		2012/13 £'000
2,435	Individual transfers in from other schemes	4,258
0	Bulk transfers in from other schemes	0
2,435	**Total**	**4,258**

3. Benefits Payable

2013/14 £'000		2012/13 £'000
32,824	Pensions	31,380
7,054	Commutation of pensions & lump sum retirement benefits	7,771
533	Lump sum death benefits	926
40,411	**Total**	**40,077**

Benefits payable are further analysed in the following note.

3a. Analysis of Benefits Payable

2013/14 £'000		2012/13 £'000
36,471	Administering authority	36,183
2,900	Scheduled bodies	2,995
1,040	Admitted bodies	899
40,411	**Total**	**40,077**

4. Payments to and on account of leavers

2013/14 £'000		2012/13 £'000
6	Refunds of contributions	1
3,277	Individual transfers out to other schemes	4,052
0	Bulk transfers out to other schemes	1,075
3,283	**Total**	**5,128**

5. Administrative Expenses

Note 5

2013/14 £'000		2012/13 £'000
656	Administration and processing	646
136	Legal and professional fees	87
10	HMRC Charges	143
802	**Total**	**876**

Other than costs disclosed, all administrative costs of running the Scheme are borne by the Administering Authority. Included within professional fees are audit fees of £21,000 paid to Grant Thornton UK LLP

6. Investment Income

2013/14 £'000		2012/13 £'000
0	Interest from fixed interest securities	19
(4)	Dividends from equities	1,008
0	Income from index-linked securities	53
2,510	Income from pooled investment vehicles	2,437
71	Interest on cash deposits	86
2,577	**Total**	**3,603**

7. Taxes on Income

2013/14 £'000		2012/13 £'000
0	Irrecoverable withholding tax on investment income	33
0	**Total**	**33**

8. Investment management expenses

2013/14 £'000		2012/13 £'000
1,378	Fund managers fees	1,462
89	Custodian fees	60
142	Investment consultant fees	81
25	Independent adviser fees	20
24	Other	19
1,658	**Total**	**1,642**

9. Reconciliation of movements in Investment assets & liabilities

2013-14	Value as at 1 April 2013	Purchases at Cost & Derivative payments	Sales Proceeds & derivative receipts	Changes in market value	Value as at 31 March 2014
	£'000	£'000	£'000	£'000	£'000
Pooled Investment vehicles	848,572	88,243	(86,803)	38,392	888,404
Cash Deposits	11,310	781	(6,698)	(111)	5,282
Other Investment assets	497	6	(429)	(2)	72
Other investment liabilities	0	0	(12,606)	0	(12,606)
Net Investment Assets	**860,379**	**89,030**	**(106,536)**	**38,279**	**881,152**

2012/13	**Value as at 1 April 2012**	**Purchases at Cost & Derivative payments**	**Sales Proceeds & derivative receipts**	**Net Security Movements**	**Changes in market value**	**Value as at 31 March 2013**
	£'000	**£'000**	**£'000**	**£'000**	**£'000**	**£'000**
Fixed Interest securities	0	1,107	(2,258)	1,163	(12)	0
Equities	131,453	0	(5,056)	(114,181)	(12,216)	0
Index-linked securities	53,316	714	(9,112)	(37,647)	(7,271)	0
Pooled Investment vehicles	529,585	315,813	(274,340)	150,665	126,849	848,572
Derivative Contracts	(1)	10	(14)	0	5	0
	714,353	317,644	(290,780)	0	107,355	848,572
Cash Deposits	38,684	5,385	(32,793)	0	34	11,310
Other Investment Balances	(1,205)	2,554	(840)	0	(12)	497
	37,479	7,939	(33,633)	0	22	11,807
Net Investment Assets	**751,832**	**325,583**	**(324,413)**	**0**	**107,377**	**860,379**

The changes in market value during the year comprise all increases and decreases in the market value of investments held at any time during the year, including profits and losses realised on sales of investments during the year.

Transaction costs are included in the cost of purchases and sales proceeds. Transaction costs include costs charged directly to the Fund such as fees, commissions, stamp duty and other fees. Transaction costs incurred during the year amounted to nil (2012/13: £2k). In addition to the transaction costs disclosed above, indirect costs are incurred through the bid-offer spread on investments within pooled investment vehicles. The amount of indirect costs is not separately provided to the Fund.

9a. Analysis of investment assets excluding derivatives and other investment balances

31/03/14 £'000		31/03/13 £'000
	Pooled Investment Vehicles	
	Unit Trusts:	
67,568	- Property - UK	44,053
	Unitised Insurance Policies	
295,336	- UK	342,400
489,280	- Overseas	423,661
	Other managed funds	
887	- Property - Overseas	3,702
0	- Other - UK	0
35,333	- Other - Overseas	34,756
888,404		**848,572**
	Cash Deposits	
4,288	Sterling	10,823
994	Foreign Currency	487
5,282		**11,310**

The managed funds in which the Scheme has invested are all operated or managed by companies registered in the United Kingdom.

9b. Derivative Contracts

The Pension Fund did not hold any derivative contracts as at 31 March 2014 or 31 March 2013.

9c. Investment Assets – Other Investment Balances

31/03/14 £'000		31/03/13 £'000
44	Outstanding dividend entitlements	495
0	Interest receivable	2
28	Pending foreign exchange purchases - spot deals	0
72		**497**

9d. Investment Liabilities – Other Investment Balances

31/03/14 £'000		31/03/13 £'000
0	Pending foreign exchange sales - spot deals	0
12,606	Unsettled investment trade purchases	0
12,606		**0**

9e. Analysis of Investments by fund manager

31/03/2014 £'000	%	Fund Manager	31/03/2013 £'000	%
535,935	60.0%	BlackRock Investment Mgt	516,158	60.0
248,963	27.9%	Legal & General	249,906	29.1
70,478	7.9%	CBRE Global Investors	54,046	6.3
36,633	4.1%	Pantheon	34,756	4.0
1,749	0.2%	In house cash deposits	5,513	0.6
893,758	**100.0%**	**Total**	**860,379**	**100.0**

9f. Investments exceeding 5% of Net Assets

31/03/2014			31/03/2013	
£'000	**%**	**Name of holding**	**£'000**	**%**
150,121	16.8%	BlackRock Aquila Life UK Equity Index Fund	193,256	22.4%
210,961	23.6%	BlackRock Aquila Life US Equity Index Fund	139,082	16.1%
98,356	11.0%	BlackRock Aquila Life Over 5 Years Index Linked	102,848	11.9%
88,730	9.9%	Legal & General World Emerging Equity Index	84,242	9.8%
39,692	4.4%	Legal & General Europe ex UK Equity Index	47,589	5.5%
38,796	4.3%	BlackRock Aquila Life Europe Equity Index Fund	43,563	5.0%

10a. Classification of Financial Instruments

The majority of the Fund's financial assets and liabilities are classified as "fair value through profit and loss". This means that the assets can be exchanged between parties at a market price. The Accounting Policies describe how fair value is measured. Assets which have fixed payments and are not quoted in an active market are classified as "Loans and Receivables". The only financial assets in this class held by the Fund are cash deposits and debtors. Creditors to the Fund are classified as financial liabilities at amortised cost because they are not held for trading. No assets or liabilities have been reclassified.

31/03/14			31/03/13	
Carrying Value	**Fair Value**		**Carrying Value**	**Fair Value**
£'000	**£'000**		**£'000**	**£'000**
FINANCIAL ASSETS				
	-			
Financial Assets at Fair Value through Profit or Loss				
	-			
888,404	888,404	Pooled Investment vehicles	848,572	848,572
72	72	Other Investment Balances	497	497
888,476	**888,476**		**849,069**	**849,069**
Loans & Receivables				
5,282	5,282	Cash Deposits	11,310	11,310
4,448	4,448	Debtors	3,802	3,802
14,884	14,884	Cash at Bank	0	0
24,614	**24,614**		**15,112**	**15,112**
FINANCIAL LIABILITIES				
Financial Liabilities at Amortised Cost				
(13,746)	(13,746)	Creditors	(897)	(897)
0	0	Cash overdrawn	(92)	(92)
(13,746)	**(13,746)**		**(989)**	**(989)**
899,344	**899,344**	**Net Assets**	**863,192**	**863,192**

10b. Net gains and losses on financial instruments

The table below analyses gains and losses according to financial instrument classification.

31/03/14		31/03/13
£'000		£'000
Financial Assets		
38,392	Fair Value through profit or loss	107,201
(113)	Loans & receivables	34
Financial Liabilities		
0	Fair Value through profit or loss	142
0	Financial Liabilities at Amortised Cost	0
38,279	**Total**	**107,377**

10c. Valuation of Financial Instruments Carried at Fair Value

In accordance with IFRS 7 Financial Instruments, the valuation of financial instruments has been classified into three levels according to the quality and reliability of information used to determine fair values. Criteria utilised in the instrument classifications are detailed below:

Level 1
Financial instruments at level 1 are those where the fair values are derived from unadjusted quoted prices in active markets for identical assets or liabilities. Products classified as level 1 comprise quoted equities, quoted fixed securities, quoted index linked securities, cash and short term investment debtors and creditors and pooled funds whose value is derived wholly in such investments.

Level 2
Financial instruments at level 2 are those where quoted market prices are not available; for example, where an instrument is traded in a market that is not considered to be active, or where valuation techniques are used to determine fair value and where these techniques use inputs that are based significantly on observable market data. Property is treated as level 2.

Level 3
Financial instruments at level 3 are those where at least one input that could have a significant effect on the instrument's valuation is not based on observable market data. Such instruments would include unquoted equity investments, which are valued using various valuation techniques that require significant judgement in determining appropriate assumptions.

The following table provides an analysis of the financial assets of the pension fund grouped into levels 1 to 3, based on the level at which the fair value is observable. All financial liabilities are all categorised as level 1.

	Quoted market price	Using Observable inputs	With significant unobservable inputs	
	Level 1	Level 2	Level 3	Total
values at 31 March 2014	£'000	£'000	£'000	£'000
Financial assets	784,688	68,455	35,333	888,476
Loans and receivables	24,614			24,614
	809,302	68,455	35,333	913,090

	Quoted market price	Using Observable inputs	With significant unobservable inputs	
	Level 1	Level 2	Level 3	Total
values at 31 March 2013	£'000	£'000	£'000	£'000
Financial assets	766,061	47,755	34,756	848,572
Loans and receivables	15,112			15,112
	781,173	47,755	34,756	863,684

11. Nature and extent of risks arising from Financial Instruments

The Pension Fund's investment objectives are to achieve a return on Fund assets, which is sufficient, over the long term, to fully meet the cost of benefits and to ensure stability of employers' contribution rates. Achieving the investment objectives requires a high allocation to growth assets in order to improve the funding level without increasing contribution rates, although this leads to a potential higher volatility of future funding levels and contribution rates.

a) Management of risk

The Pension Fund is invested in a range of different types of asset – equities, bonds, property, private equity and cash. This is done in line with the Local Government Pension Scheme (Management & Investment of Funds) Regulations 2009, which require pension funds to invest any monies not immediately required to pay benefits. These regulations require the formulation of a Statement of Investment Principles, which sets out the Fund's approach to investment including the management of risk. The latest version can be found in the Pension Fund Annual Report & Accounts

The majority of the Pension Fund's assets are managed by external fund managers and they are required to provide an annual audited internal controls report to the Council which sets out how they ensure the Fund's assets are safeguarded against loss and misstatement.

Prior to 2012-13 the Council had become increasingly concerned about the performance of its active fund managers and the volatility in returns that this style of management can produce. To seek to improve performance and the management of risk the Council decided to alter its strategy and to invest all listed equities with managers who are required to manage on a passive basis and produce consistent performance closely aligned to defined indices.

b) Market price risk
The key risk for the Pension Fund is market risk, which is the risk that the value of the investments fluctuates due to changes in market prices. The majority of the Fund is invested in pooled funds with underlying assets which can fluctuate on a daily basis as market prices change e.g. equities and bonds. The Fund's investments increased in value during 2012/13 by £107m, equivalent to around 14.2%. During 2013/14 the change in value was equivalent to 4.4% of the opening value. To demonstrate the impact of this volatility, the table below shows the impact a 10% movement up and down in market prices would have had on the portfolio in 2013/14 and for the previous year. 10% has been used as the average return over the past two years.

	Market Value at 31/03/14 £'000	**% change**	**Value on increase £'000**	**Value on decrease £'000**
Pooled Investment vehicles	888,404	10%	977,244	799,564
Cash Deposits	5,282	0%	5,282	5,282
Other Investment Balances	(12,534)	0%	(12,534)	(12,534)
Net Investment Assets	**881,152**		**969,992**	**792,312**

	Market Value at 31/03/13 £'000	**% change**	**Value on increase £'000**	**Value on decrease £'000**
Pooled Investment vehicles	848,572	10%	933,429	763,714
Cash Deposits	11,310	0%	11,310	11,310
Other Investment Balances	497	0%	497	497
Net Investment Assets	**860,379**		**945,236**	**775,521**

A number of controls have been put in place to minimise this risk. A key method to reduce risk is to diversify the Pension Fund's investments. This is achieved through the setting of a benchmark, which incorporates a wide range of asset classes and geographical areas. A range of investment managers have been appointed to further diversify the Pension Fund's investments and lower risk. In addition to diversification, parameters have been set for the investment managers to work within to ensure that the risk of volatility and deviation from the benchmark are within controlled levels.

Investment values and performance of the fund managers is measured on a quarterly basis through reporting to Corporate Committee.

c) Exchange rate risk
The Pension Fund holds assets in currencies other than sterling, which made up 59% of the Fund value on 31st March 2014, equivalent to £526 million. These arise from passive pooled equities, private equity, property and cash. Foreign currency exposures are not hedged.

The main non sterling currency exposures as at 31 March 2014 were US dollar (£263 m), Euro (£94m) and Yen (£29m). The remaining exposures arise from a wide range of Asian, emerging market countries and the Canadian $.

There is a risk that due to exchange rate movements that the sterling equivalent value of the investments falls. The table below shows the impact a 10% movement up and down of the pound against foreign currencies would have had on the portfolio in 2013/14 and for the previous year. On average sterling's effective rate has changed by 4% per annum over the last 30 years.

	Market Value at 31/03/14 £'000	**% change**	**Value on increase £'000**	**Value on decrease £'000**
Overseas exposure in Pooled Investment vehicles	525,500	10%	578,050	472,950
Foreign Currency	994	10%	1,093	895
Total	**526,494**		**579,143**	**473,845**

	Market Value at 31/03/13 £'000	**% change**	**Value on increase £'000**	**Value on decrease £'000**
Overseas exposure in Pooled Investment vehicles	462,119	10%	508,331	415,907
Foreign Currency	487	10%	536	438
Total	**462,606**		**508,867**	**416,345**

The cash balances managed internally are only permitted to be in sterling.

d) Interest Rate risk
Movements in interest rates affect the income earned by the Fund and can have an impact on the value of net assets, in particular bonds. To demonstrate this risk, the table below shows the impact on income earned of a 1% increase and decrease in interest rates.

	Interest earned 2013/14 £'000	Interest if rates 1% higher £'000	Interest if rates 1% lower £'000
Cash Deposits	71	210	0
	71	**210**	**0**

	Interest earned 2012/13 £'000	Interest if rates 1% higher £'000	Interest if rates 1% lower £'000
Fixed Interest securities	19	30	8
Index-linked securities	53	97	8
Cash Deposits	86	215	0
	158	**342**	**16**

e) Credit risk and counterparty risk

Credit risk is the risk a counterparty fails to fulfil a transaction it has committed to entering into. This risk is particularly relevant to the Council's bond and cash investments.

The Investment Management Agreements the Council has signed with the external fund managers set out limits on the types of bonds the fund managers can purchase for the Fund in order to limit the possibility of default. The table below shows the split of the bond investments by credit rating at 31st March 2014 and 31st March 2013. All bonds are UK Government index linked. The UK Government has an AA+ credit rating.

	Market Value at 31/03/2014 £'000	AAA %	AA %	A %	BBB %	Below BBB %
Bond exposure in Pooled Investment vehicles	122,200	0.0	100.0	0.0	0.0	0.0
Total / Weighted Average	**122,200**	**100.0**	**0.0**	**0.0**	**0.0**	**0.0**

	Market Value at 31/03/2013 £'000	AAA %	AA %	A %	BBB %	Below BBB %
Bond exposure in Pooled Investment vehicles	127,780	100.0	0.0	0.0	0.0	0.0
Total / Weighted Average	**127,780**	**100.0**	**0.0**	**0.0**	**0.0**	**0.0**

The cash that the Council manages internally on behalf of the Pension Fund is invested in line with the Council's Treasury Management Strategy, which sets out very strict limits on the counterparties which can be used and the amounts that can be invested with them. The amount of cash held by fund managers is kept to a minimum and when held for a period of time is invested in the custodian bank's AAAm rated money market fund. The table below details the credit ratings of the institutions the cash was held with.

	Credit rating on 31/03/14	Exposure £'000
Northern Trust	AA-	3,547
Barclays Bank	A	1,735
Total		**5,282**

	Credit rating on 31/03/13	Exposure £'000
Northern Trust	AA-	521
Money Market Funds	AAAm	10,789
Total		**11,310**

The limits for both bonds and cash are kept under constant review to be able to respond quickly to changes in the creditworthiness of counterparties which may increase risk.

f) Liquidity risk

Liquidity risk is the risk that monies are not available to meet the Pension Fund's obligation to pay pension benefits on time. Maintaining a level of internally managed cash balances enables the Pension Fund to ensure liquidity is not an issue. All of the internally managed cash held on 31 March 2014 was in accounts with the main bank or custodian, ensuring cash is available as required. Monitoring of the cashflow position daily assists with maintaining this position.

The majority of the Council's non cash investments are in pooled funds whose underlying holdings are listed equities or bonds. These funds have regular, at least monthly dealing dates, which ensure it is possible to realise the investments easily if necessary.

12. Debtors

31/03/14 £'000		31/03/13 £'000
	Local Authorities	
	Contributions due from :	
2,642	Administering Authority in respect of the Council	2,100
526	Administering Authority in respect of members	523
3,168		2,623
318	Administering Authority - other	3
318		3
	Central Government Bodies	
10	HM Revenue & Customs	14
10		14
	Other entities and individuals	
	Contributions due from :	
75	Admitted Bodies in respect of employers	102
22	Admitted Bodies in respect of members	29
674	Scheduled Bodies in respect of employers	959
151	Scheduled Bodies in respect of members	59
30	Other	13
952		1,162
4,448		**3,802**

All contributions due to the Scheme at the year end were paid within the timescales required by the Scheme Rules, with the exception of two employers, whose contributions were received late.

13. Cash at bank

31/03/14 £'000		31/03/13 £'000
14,884	Cash at bank / (Cash Overdrawn)	(92)
14,884		**(92)**

14. Creditors

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31/03/14 £'000		31/03/13 £'000
	Local Authorities	
320	Administering Authority	27
	Central Government Bodies	
321	HM Revenue & Customs	320
	Other entities and individuals	
48	Unpaid benefits in respect of the Administering Authority	205
451	Fund manager and adviser fees	345
0	Other	0
1,140		**897**

15. Contingent assets

Five admitted bodies in the London Borough of Haringey Pension Fund hold bonds to protect the Fund against the possibility of being unable to meet their pension obligations. The bonds would only be payable to the Fund in the event of default on the part of the admitted body. There were five bonds in place on 31st March 2013.

16. Commitments

The Fund had the following outstanding commitments to invest at the balance sheet date:

31/03/14 £'000		31/03/13 £'000
12,708	Pantheon - Private Equity	**18,250**

The commitments relate to outstanding call payments due in relation to the private equity portfolio.

17. Related party transactions

Haringey Council
In 2013/14 the Pension Fund paid £0.480m to the Council for administration and legal services (£0.564m in 2012/13). As at 31 March 2014 a net £3.166m was due from the Council to the Fund (£2.599m in 2012/13), mainly in relation to employer and employee contributions.

Governance
During 2013/14 five council members who served on the Corporate Committee were also members of the Pension Fund. Committee members are required to declare their interests at the beginning of each Committee meeting.

Key Management Personnel
Local Authorities are exempt from the key management personnel requirements of IAS24, on the basis of the disclosures required by the Accounts and Audit (England) Regulations. This also applies to the Haringey Pension Fund. The disclosures prepared in line with the Regulations can be found in the main accounts of Haringey Council. The key management person is Mr Kevin Bartle, Chief Financial Officer, who is the “Scheme Administrator”.

There were no other material related party transactions.

18. Actuarial present value of promised retirement benefits

Annex 1 to the Financial Statements is a report from the Fund’s Actuary setting out this information.

The figures included in this note are for the purpose of accounting under International Accounting Standard 19 only. It is the results of the formal funding valuation that are used to determine the funding strategy and employer contribution rates for the Pension Fund. Details of the results of the formal funding valuation can be found in the Actuarial Position section.

19. Additional Voluntary Contributions ("AVCs")

Separately invested AVCs are held with the Equitable Life Assurance Society, Prudential Assurance, and Clerical Medical in a combination of With Profits, Unit Linked and Building Society accounts, securing additional benefits on a money purchase basis for those members electing to pay additional voluntary contributions.

Movements by provider are summarised below:

2013/14	Equitable Life Assurance Society	2012/13
£		£
343,116	Value as at 6 April	333,145
2,919	Contributions received	2,891
(28,694)	Retirement benefits and charges	(12,565)
14,341	Change in market value	19,645
331,682	Value as at 5 April	**343,116**
141,323	Equitable With Profits	158,724
69,514	Equitable Deposit Account Fund	70,733
120,845	Equitable Unit Linked	113,659
331,682	Total	**343,116**
23	Number of active members	24
20	Number of members with preserved benefits	22

2013/14	Prudential Assurance	2012/13
£		£
990,480	Value as at 1 April	1,095,650
150,729	Contributions received	175,664
(297,500)	Retirement benefits and charges	(322,964)
47,956	Change in market value	42,130
891,664	Value as at 31 March	**990,480**
611,447	Prudential With Profits Cash accumulation	779,091
136,417	Prudential Deposit Fund	87,394
143,801	Prudential Unit Linked	123,994
891,664	Total	**990,480**
74	Number of active members	75
25	Number of members with preserved benefits	24

2013/14	Clerical and Medical	2012/13
£		£
74,983	Value as at 1 April	66,735
2,492	Contributions received	2,894
(43,099)	Retirement benefits and charges	0
1,053	Change in market value	5,354
35,429	Value as at 31 March	**74,983**
5,216	Clerical Medical With Profits	4,838
30,213	Clerical Medical Unit Linked	70,145
35,429	Total	**74,983**
3	Number of active members	4
2	Number of members with preserved benefits	2

20. Post Balance Sheet Events

From 1st April 2014, the benefit structure of the scheme changed from a final salary basis to career average earnings as discussed on page 17.

There have been no other material post balance sheet events that would require disclosure or adjustment to these financial statements.

Annex 1 to the Financial Statements

As referred to in note 18 to the Financial Statements, the following actuarial report has been provided by Hymans Robertson.

Pension Fund Accounts Reporting Requirement

Introduction

CIPFA's Code of Practice on Local Authority Accounting 2013/14 requires administering authorities of LGPS funds that prepare pension fund accounts to disclose what IAS26 refers to as the actuarial present value of promised retirement benefits.

The actuarial present value of promised retirement benefits is to be calculated similarly to the defined benefit obligation under IAS19. There are three options for its disclosure in pension fund accounts:

- showing the figure in the Net Assets Statement, in which case it requires the statement to disclose the resulting surplus or deficit;
- as a note to the accounts; or
- by reference to this information in an accompanying actuarial report.

If an actuarial valuation has not been prepared at the date of the financial statements, IAS26 requires the most recent valuation to be used as a base and the date of the valuation disclosed. The valuation should be carried out using assumptions in line with IAS19 and not the Pension Fund's funding assumptions.

I have been instructed by the Administering Authority to provide the necessary information for the London Borough of Haringey Pension Fund, which is in the remainder of this note.

Balance sheet

Year ended	31 Mar 2014 £m	31 Mar 2013 £m
Present value of Promised Retirement Benefits	1,434	1,389

Liabilities have been projected using a roll forward approximation from the latest formal funding valuation as at 31 March 2013. I estimate this liability at 31 March 2014 comprises £551m in respect of employee members, £348m in respect of deferred pensioners and £535m in respect of pensioners. The approximation involved in the roll forward model means that the split of scheme liabilities between the three classes of member may not be reliable. However, I am satisfied the aggregate liability is a reasonable estimate of the actuarial present value of benefit promises. I have not made any allowance for unfunded benefits.

The above figures include both vested and non-vested benefits, although the latter is assumed to have a negligible value.

It should be noted the above figures are appropriate for the Administering Authority only for preparation of the accounts of the Pension Fund. They should not be used for any other purpose (i.e. comparing against liability measures on a funding basis or a cessation basis).

Assumptions

The assumptions used are those adopted for the Administering Authority's IAS19 report as required by the Code of Practice. These are given below. I estimate that the impact of the change of assumptions to 31 March 2014 is to increase the actuarial present value by £37m.

Financial assumptions

My recommended financial assumptions are summarised below:

Year ended	31 Mar 2014 % p.a.	31 Mar 2013 % p.a.
Inflation/Pensions Increase Rate	2.80%	2.80%
Salary Increase Rate	4.60%	5.10%*
Discount Rate	4.30%	4.50%

*Salary increases are assumed to be 1% p.a. until 31 March 2016 reverting to the long term assumption shown thereafter.

Longevity assumption

As discussed in the accompanying report, the life expectancy assumption is based on the Fund's VitaCurves with improvements in line with the CMI_2010 model, assuming the current rate of improvements has reached a peak and will converge to long term rate of 1.25% p.a. Based on these assumptions, the average future life expectancies at age 65 are summarised below:

	Males	Females
Current Pensioners	21.9 years	24.1 years
Future Pensioners*	24.2 years	26.5 years

*Future pensioners are assumed to be currently aged 45

Please note that the assumptions have changed since the previous IAS26 disclosure for the Fund.

Commutation assumption

An allowance is included for future retirements to elect to take 50% of the maximum additional tax-free cash up to HMRC limits for pre-April 2008 service and 75% of the maximum tax-free cash for post-April 2008 service.

Professional notes

This paper accompanies my covering report titled ‘Actuarial Valuation as at 31 March 2014 for IAS19 purposes’ dated April 2014. The covering report identifies the appropriate reliances and limitations for the use of the figures in this paper, together with further details regarding the professional requirements and assumptions.

Prepared by:-

Douglas Green FFA

9 May 2014

For and on behalf of Hymans Robertson LLP

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF LONDON BOROUGH OF HARINGEY

Opinion on the pension fund financial statements

We have audited the pension fund financial statements of London Borough of Haringey for the year ended 31 March 2014 under the Audit Commission Act 1998. The pension fund financial statements comprise the Fund Account, the Net Assets Statement and the related notes. The financial reporting framework that has been applied in their preparation is applicable law and the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2013/14.

This report is made solely to the members of London Borough of Haringey in accordance with Part II of the Audit Commission Act 1998 and for no other purpose, as set out in paragraph 48 of the Statement of Responsibilities of Auditors and Audited Bodies published by the Audit Commission in March 2010. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Authority and the Authority's Members as a body, for our audit work, for this report, or for the opinions we have formed.

Respective responsibilities of the Assistant Director of Finance and auditor

As explained more fully in the Statement of the Assistant Director of Finance Responsibilities, the Assistant Director of Finance is responsible for the preparation of the Authority's Statement of Accounts, which includes the pension fund financial statements, in accordance with proper practices as set out in the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom, and for being satisfied that they give a true and fair view. Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

Scope of the audit of the pension fund financial statements

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the fund's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the Assistant Director of Finance; and the overall presentation of the financial statements. In addition, we read all the financial and non-financial information in the explanatory foreword to identify material inconsistencies with the audited financial statements and to identify any information that is apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired by us in the course of performing the audit. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

Opinion on the pension fund financial statements

In our opinion the pension fund's financial statements:

- give a true and fair view of the financial transactions of the pension fund during the year ended 31 March 2014 and the amount and disposition of the fund's assets and liabilities as at 31 March 2014, other than liabilities to pay pensions and other benefits after the end of the scheme year; and
- have been properly prepared in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2013/14 and applicable law.

Opinion on other matters

In our opinion, the information given in the explanatory foreword for the financial year for which the financial statements are prepared is consistent with the financial statements.

Emily Hill
Associate Director
for and on behalf of Grant Thornton UK LLP, Appointed Auditor

Grant Thornton House
Melton Street
London NW1 2EP

September 2014

Appendices

Current approved versions of key policy statements

1 Governance Compliance Statement

2 Statement of Investment Principles

3 Communications Policy

4 Funding Strategy Statement

Appendix 1: Governance Compliance Statement

1 Introduction

This Governance Compliance Statement document sets out how governance of the Pension Fund operates in Haringey. It is prepared in accordance with Regulation 31 of the Local Government Pension Scheme (Administration) Regulations 2008 and the associated statutory guidance issued by the Department for Communities and Local Government.

The objective of the Governance Compliance Statement is to make the administration and stewardship of the scheme more transparent and accountable to the stakeholders.

2 Council delegation

Haringey Council, in its role as Administering Authority, has delegated responsibility for administering the Local Government Pension Scheme to the Corporate Committee. The terms of reference for the Committee were adopted by the Council on 23rd May 2011, are included in the Council's constitution and are set out in the section below:

3 Terms of reference

The terms of reference for Corporate Committee in relation to Pensions Administering Authority functions are set out below:

"Exercising all the Council's functions as "Administering Authority" and being responsible for the management and monitoring of the Council's Pension Fund and the approval all relevant policies and statements. This includes:

(A) Selection, appointment and performance monitoring of investment managers, AVC scheme providers, custodians and other specialist external advisers;

(B) Formulation of investment, socially responsible investment and governance policies and maintaining a statement of investment principles;

(C) Monitoring the Pension Fund Budget including Fund expenditure and actuarial valuations; and

(D) Agreeing the admission and terms of admission of other bodies into the Council's Pension Scheme."

4 Membership of Committee

The Committee's membership is made up of ten elected members of Haringey Council and three members representing Scheduled & Admitted Bodies, Active Members and Pensioners.

5 Compliance with statutory guidance

The Council is fully compliant with the statutory guidance issued by the Department for Communities and Local Government in 2008. Annex 1 details this compliance in each area of the guidance.

Annex 1: Compliance with Statutory Guidance

A. Structure
a) *The management of the administration of benefits and strategic management of fund assets clearly rests with the main committee established by the appointing council.* b) *That representatives of participating LGPS employers, admitted bodies and scheme members (including pensioner and deferred members) are members of either the main or secondary committee established to underpin the work of the main committee.* c) *That where a secondary committee or panel has been established, the structure ensures effective communication across both levels.* d) *That where a secondary committee or panel has been established, at least one seat on the main committee is allocated for a member from the secondary committee or panel.*
<u>Haringey position</u> Fully compliant. The terms of reference for Corporate Committee in respect of Pensions are clear that administration of benefits and strategic management of fund assets are part of the remit. In addition to elected members, there are three representative members on the Committee representing Scheduled & Admitted Bodies, Active members and Pensioners. The Pensions working group is a sub-group of the main Committee, so all members attend both working group meetings and the main Committee, which ensures all issues are communicated.
B. Representation
a) *That all key stakeholders are afforded the opportunity to be represented within the main or secondary committee structure. These include:-* *i) employing authorities (including non-scheme employers, e.g, admitted bodies);* *ii) scheme members (including deferred and pensioner scheme members);* *iii) independent professional observers, and* *iv) expert advisers (on an ad-hoc basis).* b) *That where lay members sit on a main or secondary committee, they are treated equally in terms of access to papers and meetings, training and are given full opportunity to contribute to the decision making process, with or without voting rights.*

<u>Haringey position</u> Fully compliant. In addition to elected members, there are three representative members on the Committee representing Scheduled & Admitted Bodies, Active members and Pensioners. Independent and expert advisers attend as required by the Committee. All representative members of the Committee have access to all papers, meetings and training on an equal footing with elected members.
C. Selection and role of lay members
That committee or panel members are made fully aware of the status, role and function they are required to perform on either a main or secondary committee.
<u>Haringey position</u> Fully compliant. The terms of reference for the Committee sets out the role and function of the Committee in relation to Pensions. This is supplemented by induction training offered to all new members of the Committee.
D. Voting
The policy of individual administering authorities on voting rights is clear and transparent, including the justification for not extending voting rights to each body or group represented on main LGPS committees.
<u>Haringey position</u> Fully compliant. The policy regarding voting rights is clearly set out and only elected members of the Committee are permitted to vote. Representative members are able to participate fully in all discussions of the Committee and the nature of the decisions is such that the majority have been reached by consensus, rather than voting.

E. Training, Facility time, Expenses
a) That in relation to the way in which statutory and related decisions are taken by the administering authority, there is a clear policy on training, facility time and reimbursement of expenses in respect of members involved in the decision-making process. *b) That where such a policy exists, it applies equally to all members of committees, sub-committees, advisory panels or any other form of secondary forum.*
<u>Haringey position</u> Fully compliant. There is a clear policy on reimbursement of expenses for elected members of the Committee. All members of the Committee have equal access to training.
F. Meetings (frequency/quorum)
a) That an administering authority's main committee or committees meet at least quarterly. *b) That an administering authority's secondary committee or panel meet at least twice a year and is synchronised with the dates when the main committee sits.* *c) That administering authorities who do not include lay members in their formal governance arrangements, provide a forum outside of those arrangements by which the interests of key stakeholders can be represented.*
<u>Haringey position</u> Fully compliant. The Committee meets four times a year and the Pensions working group meets as required to consider investment issues. The meetings of the working group are synchronised with the main committee to ensure issues are reported back on a timely basis.

G. Access
That subject to any rules in the Council's constitution, all members of main and secondary committees or panels have equal access to committee papers, documents and advice that falls to be considered at meetings of the main committee.
<u>Haringey position</u> Fully compliant. All members of the Committee have equal access to all papers, documents and advice.
H. Scope
That administering authorities have taken steps to bring wider scheme issues within the scope of their governance arrangements.
<u>Haringey position</u> Fully compliant. The Committee's terms of reference include the wide range of pension's issues – investment, funding, administration, admission and budgeting.
I. Publicity
That administering authorities have published details of their governance arrangements in such a way that stakeholders with an interest in the way in which the scheme is governed can express an interest in wanting to be part of those arrangements.
<u>Haringey position</u> Fully compliant. The Governance Compliance Statement is circulated to all employers in the Pension Fund and published on the Council's website.

Appendix 2: 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.

The investment objective of the Pension Fund is:

- To achieve a return on Fund assets, which 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.

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.

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%
Private 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.

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, as they are quoted on major markets. The investments in property, multi sector credit, private 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
CQS Investment Management	Multi Sector Credit	5
Allianz Global Investors	Private 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. 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.

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 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

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)
CQS Investment Management	5.00%	Multi Sector Credit	TBC	TBC
Allianz Global Investors	5.00%	Private 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%**			

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%

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%

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.

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.

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.

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.

Appendix 3: Communications Policy

Local Government Pension Scheme Regulations 1997 (as amended) Reg. 106B
Policy Statement on Communications with Members and Employing Bodies

Effective communication between Haringey Council, the scheme members, and the employers within the fund is essential to the proper management of the LGPS on a transparent and accountable basis.

This document sets out a policy framework within which the Council will communicate with:-

- Members of the scheme
- Representatives of members
- Employing bodies and
- Prospective members

It identifies the format, frequency and method of distributing information and publicity. It also outlines the processes for promoting the scheme to prospective members and employing bodies.

Members of the scheme:

A. Points of Contacts:

i. Admin Team for day-to-day contact and visits. The Pension Team operate an open door policy for visitors such that pre booked appointments are not required

ii. Ad hoc briefings and workshops

iii. Harinet

iv. Pensions web page www.haringey.gov.uk/pensionfund

A pension's page is maintained on Harinet which provides:-

- Guides to the LGPS including Pension Sharing on Divorce, Increasing Pension Benefits and the Appeals Process
- Policy Statements on the use of the Council's Discretionary Powers, Statement of Investment Principles, the Funding Strategy Statement and the Communications Policy
- Annual Reports and Pensions Bulletins
- Notice of events
- Contact List for Pensions Team
- Cost calculator for purchase of additional pension
- Links to other useful sites including the scheme regulations and the national LGPS website

The information held on the Harinet pension's page is reviewed and updated on a regular basis.

B. Levels of Communication:

i. General day to day administration of the scheme

ii. Payslips in April and May of each year and thereafter if net pay varies by £1

iii. Annual newsletter to Pensioner Members

iv. Statutory notices and statements e.g. : individual notices regarding entry to the scheme or hours changes and Annual Benefits Statements

v. Formal notice of significant proposals to change the scheme

vi. Life certificates to Pensioners living abroad.

C. Medium of communication

i. Telephone and e-mail

ii. Hard copy dispatches

iii. Annual Open Day for all fund members and employing bodies

iv. Workshops / Employee Briefings

v. Face to face meetings

D. Timing

i. General policy is to issue statutory notifications and statements within the prescribed limits and to respond to written enquiries within 10 working days.

ii. A summary Annual Report on the Fund is published annually prior to the Annual Open Day.

iii. Pension Bulletins on items of significance are issued as the need arises.

iv. The Pensions Newsletter is published in April of each year to coincide with pensions increase awards.

v. The Deferred members' newsletter is published in June each year and coincides with the distribution of the deferred members Annual Benefit Statements.

<u>Representatives of scheme members</u>

A. Points of Contact

i. The Corporate Industrial Relations Group

ii. Council and Staff Joint Consultative Committee

iii. Corporate Committee

iv. Face to face meetings or issues raised in correspondence or by telephone.

v. Ad hoc presentations to Trade Union Officers and work place representatives.

B. Levels of communication

i. Consultation on proposed scheme changes and significant policy issues on the use of employer discretions.

ii. Joint meetings with staff affected by TUPE transfers

iii. Response to employee complaints or queries via their representatives.

iv. Semi-formal meetings to brief employee representatives on scheme changes or to explain existing scheme rules.

C. Medium of communication

i. Telephone and e-mail

ii. Hard copy dispatches

iii. Ad-hoc informal meetings at Officer level

iv. Committee meetings at Elected Member level

v. Face to face meetings

D. Timing

Formal meetings are dictated by pre determined dates. Informal meetings as and when required.

<u>Employers</u>

A. Points of contact:

Day to day contact falls into three categories:-

i. Pensions team for day to day administration

ii. Pay Support (where the Council provides a payroll service)

iii. Finance for FRS 17 and IAS19 disclosure and funding issues.

B. Levels of Communication:

i. General day to day administration of the scheme

ii. Formal notification of discussion documents and consultation papers

iii. Employer briefings on issues affecting the scheme including an Employers Guide to the LGPS

iv. Pre and post fund valuation meetings.

C. Medium of communication

i. Telephone and e-mail

ii. Site visits

iii. Hard copy dispatches

iv. Annual General Meeting

D. Timing

The general policy is to keep employers informed of issues as they arise or are expected to arise in good time for the appropriate action to be taken or comments considered.

<u>Prospective Members and promoting the LGPS</u>

i. All new starters are issued with a leaflet Pensions Choice as part of their new starter packs. This gives a brief outline of the scheme benefits and the alternative choices available.

ii. All new Haringey Council starters attend an induction course where they are reminded of the right to join the scheme.

iii. An Annual Benefits Statement is issued which includes a forecast of State Scheme benefits. This ensures that members appreciate the value of being a scheme member which they can share with colleagues.

Promotions of the Additional Voluntary Contributions Scheme are held in conjunction with the Council's AVC providers. These events are open to all staff and act to attract non members to the LGPS.

Appendix 4: Funding Strategy Statement

London Borough of Haringey Pension Fund

Funding Strategy Statement

March 2014

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 17 March 2014, 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
Starting rate*	23.9% (as at 1st April 2014)
Max contribution increase	+1% of pay
Max contribution decrease	-1% of pay

*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.

e) The academy may, if it chooses, restrict its contribution rate to be no more than 24.9% in 2014-15, 26.9% in 2015-16 and 28.9% in 2016-17. However, this does not affect the Academy's ultimate obligations to the Fund, and it remains responsible for the funding of all benefits of its employees.

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). For other employers, review of contributions is

Risk	Summary of Control Mechanisms
	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 pension's 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 monitored and, if active membership decreases, steps

Risk	Summary of Control Mechanisms
	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).

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

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.

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.

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Grant Thornton

The Audit Findings Report for London Borough of Haringey Pension Fund

Year ended 31 March 2014

September 2014

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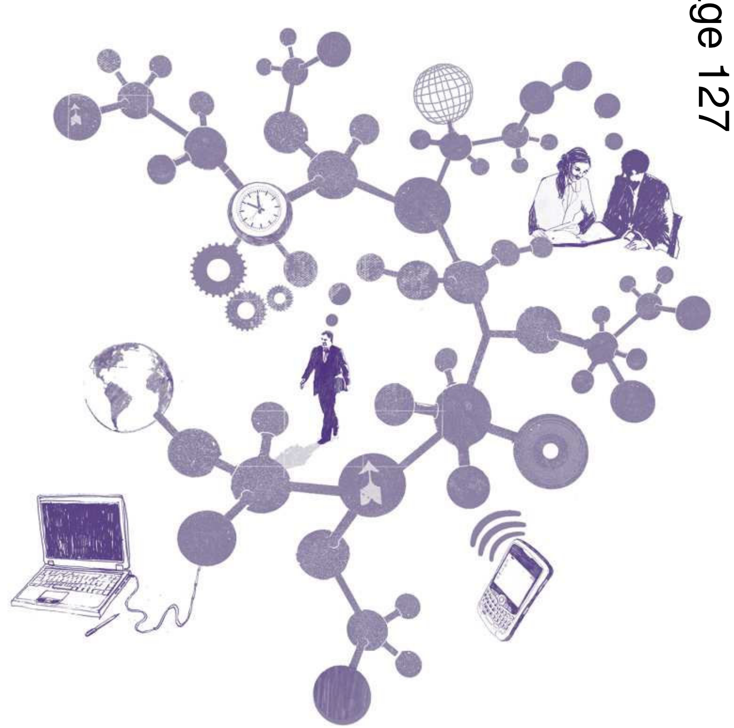

The contents of this report relate only to those matters which came to our attention during the conduct of our normal audit procedures which are designed primarily for the purpose of expressing our opinion on the financial statements. Our audit is not designed to test all internal controls or identify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

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

Contents

Section 1: Executive summary

Executive summary

Purpose of this report

This report highlights the key issues arising from the audit of London Borough of Haringey Pension Fund's (the Fund) financial statements for the year ended 31 March 2014. It is also used to report our audit findings to management and those charged with governance in accordance with the requirements of International Standard on Auditing (UK & Ireland) 260.

Under the Audit Commission's Code of Audit Practice we are required to report whether, in our opinion, the Fund's financial statements present a true and fair view of the financial position, the financial transactions of the Fund during the year and whether they have been properly prepared in accordance with the Code of Practice on Local Authority Accounting.

Introduction

In the conduct of our audit we have not had to alter or change our planned audit approach, which we communicated to you in our Audit Plan dated March 2014. Our audit is substantially complete although we are finalising our procedures in the following areas:

- obtaining and reviewing the final versions of the financial statements and Pension Fund Annual Report
- obtaining and reviewing the management letter of representation
- updating our post balance sheet events review to the date of signing the opinion.

Key issues arising from our audit

Financial statements opinion

We anticipate providing an unqualified opinion on the Fund's financial statements.

Our audit did not identify any adjustments affecting the Fund's reported financial position. The draft financial statements recorded net assets carried forward of £899,344k , and this remains the same in the audited financial statements. We have identified a number of minor presentational adjustments to improve the presentation of the financial statements.

The key messages arising from our audit of the Fund's financial statements are:

- the quality of the financial statements and supporting working papers were of a very good standard.
- response to audit queries were received in time for us to complete our fieldwork to our timetable.
- we identified a few minor presentational issues.

Management has amended the financial statements for the recommended disclosure changes.

Further details are set out in section 2 of this report.

Acknowledgement

We would like to take this opportunity to record our appreciation for the assistance provided by the finance team and other staff during our audit. This is particularly relevant during a year in which the pensions team have been working on implementation of the new LGPS 2014 scheme.

Grant Thornton UK LLP
September 2014

Section 2: Audit findings

Audit findings

In this section we present our findings in respect of matters and risks identified at the planning stage of the audit and additional matters that arose during the course of our work. We set out on the following pages the work we have performed and findings arising from our work in respect of the audit risks we identified in our audit plan, presented to the Pensions Committee on 23 June 2014.

Changes to Audit Plan

We have not made any changes to our Audit Plan as previously communicated to you on 23 June 2014.

Audit opinion

We anticipate that we will provide the Fund with an unmodified opinion. Our audit opinion is set out in Appendix A.

Audit findings against significant risks

"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 detail our response to the significant risks of material misstatement which we identified in the Audit Plan. As we noted in our plan, there are two presumed significant risks which are applicable to all audits under auditing standards.

	Risks identified in our audit plan	Work completed	Assurance gained and issues arising
1.	**Improper revenue recognition** Under ISA 240 there is a presumed risk that revenue may be misstated due to improper recognition	We have rebutted this presumption and therefore do not consider this to be a significant risk for London Borough of Haringey Pension fund since: • The nature of the Pension fund's revenue is in many respects relatively predictable and does not generally involve cash transactions. • The split of responsibilities between the Pension fund, the custodian and its Fund Managers provide a strong separation of duties reducing the risk around investment income. • Revenue contributions are made by direct salary deductions and direct bank transfers from admitted /scheduled bodies and are supported by separately sent schedules and are directly attributable to gross pay making any improper recognition unlikely. • Transfers into the scheme are all supported by an independent actuarial valuation of the amount which should be transferred and which is subject to agreement between the transferring and receiving funds.	Our audit work has not identified any issues in respect of revenue recognition.
2.	**Management override of controls** Under ISA 240 there is a presumed risk of management over-ride of controls	We have completed the following work to address this risk: • review of accounting estimates, judgements and decisions made by management • testing of journals entries • review of unusual significant transactions	Our audit work has not identified any evidence of management override of controls. In particular the findings of our review of journal controls and testing of journal entries has not identified any significant issues. We set out later in this section of the report our work and findings on key accounting estimates and judgements.

Audit findings against other risks

In this section we detail our response to the other risks of material misstatement which we identified in the Audit Plan

Transaction cycle	Description of risk	Work completed	Assurance gained & issues arising
Investments	• Investments not valid • Alternative investments not valid • Investment activity not valid • Fair value measurements not correct	We: • documented our understanding of processes and key controls over the transaction cycle to assess the whether those controls are designed effectively. • completed a walkthrough of the key controls to confirm our understanding. • reconciled investments information provided by the Custodian and the Fund Managers to the Fund's own records. • confirmed the existence of investments directly with Fund Managers and the Custodian. • tested sales and purchases during the year back to detailed information provided by the custodian. • Compared the valuation of Pantheon Private Equity unquoted investments to the latest available audited financial statements of the respective investment fund. • reviewed the Fund's compliance with its Statement of Investment Principles. • reviewed the ISAE3402 Internal Control Reports for the fund managers and noted that the expected controls are in place and operating as designed.	Our audit work has not identified any significant issues in relation to the risk identified.
Benefit Payments	• Benefits improperly calculated/claims liability understated	• We reviewed and tested the key control that all calculations of pension and lump sum payments are subject to review by a separate officer in the pensions administration team. • We ensured the pensioner payments calculated by the pensions administration system were correctly input onto the payroll system. • We selected a sample of individual transfers, new pensions in payment and lump sum benefits and tested them by reference to the benefit calculations on the respective member file. • We rationalised pensions paid with reference to changes in pensioner numbers and increases applied in the year together with comparing pensions paid on a monthly basis to ensure that any unusual trends are satisfactorily explained.	Our testing confirmed that the key control over benefit payment calculations is operating as designed. Our audit work on pension payments lump sum payments, and transfers out has confirmed the benefits are not materially misstated.

Audit findings against other risks

In this section we detail our response to the other risks of material misstatement which we identified in the Audit Plan.

Transaction cycle	Description of risk	Work completed	Assurance gained & issues arising
Contributions	• Recorded contributions not correct	• We sample tested employee and employer pensions contributions for the administering authority staff to payslips and to HR records to ensure gross salary and contributions to the fund were correctly calculated. • We rationalised contributions received with reference to changes in contributor numbers and average pay. • We sample tested contributions received from Schedule and Admitted bodies to ensure the contributions received agreed to underlying records.	Our audit work confirmed that contributions receivable are not materially misstated. We did identify a small number of late payments from admitted bodies during the year. The interest on late payments would be insignificant and inefficient for the fund to levy.
Member data	• Member data not correct	• We have reconciled the member data numbers within the financial statements to the pensions administration system. • We have sample tested starters, leavers and changes in circumstances to ensure that the member data has been updated accordingly.	Our audit work has not identified any significant issues in relation to the risk identified.

Accounting policies, estimates & judgements

In this section we report on our consideration of accounting policies, in particular revenue recognition policies, and key estimates and judgements made and included with the Fund's financial statements.

Accounting area	Summary of policy	Comments	Assessment
Revenue recognition	• Income and expenditure to the Fund are accounted for on an accruals basis with the exception of transfers.	• The Fund's accounting policies are appropriate under IAS 18 Revenue and the Code of Practice on Local Authority Accounting. • Accounting policies are adequately disclosed in the financial statements.	●
Judgements and estimates	• The key estimate and judgements included within the note to the financial statements is the actuarial valuation of the fund at 31 March 2013.	• The policies adopted for accounting estimates are appropriate under the Fund's accounting framework. • Our testing indicates that estimates included in the financial statements have been calculated based on reasonable judgements and assumptions. Estimates are calculated based on the best available information. • The actuarial valuation has been undertaken by the actuary as a management expert. • The level of judgement required by the Fund is low. Estimates used are supported by adequate working papers. • Disclosure of accounting policies in the financial statements is in line with the recommended disclosures.	●
Other accounting policies	• The Fund's accounting policies are in accordance with the requirements of the Code of Practice on Local Authority Accounting	• We have reviewed the Fund's accounting policies against the requirements of the Code of Practice on Local Authority Accounting. The Fund's accounting policies comply with the Code.	●

Assessment
- ● Marginal accounting policy which could potentially attract attention from regulators
- ● Accounting policy appropriate but scope for improved disclosure
- ● Accounting policy appropriate and disclosures sufficient

Adjusted and Unadjusted misstatements

Our audit did not identify any adjustments to the draft financial statements impacting on the financial position of the Fund. We identified a number of minor improvements to the presentation of the financial statements. Management has amended the financial statements.

Internal controls

The purpose of an audit is to express an opinion on the financial statements.

Our audit included consideration of internal control relevant to the preparation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of internal control.

From the work we have completed we have not identified any significant weaknesses in internal controls.

Other communication requirements

We set out below details of other matters which we, as auditors, are required by auditing standards to communicate to those charged with governance.

	Issue	Commentary
1.	**Matters in relation to fraud**	• We have previously discussed the risk of fraud with the Corporate Committee. We have not been made aware of any other incidents in the period and no other issues have been identified during the course of our audit.
2.	**Matters in relation to laws and regulations**	• We are not aware of any significant incidences of non-compliance with relevant laws and regulations.
3.	**Written representations**	• A standard letter of representation has been requested from the Fund.
4.	**Disclosures**	• Our review found no material omissions in the financial statements.
5.	**Matters in relation to related parties**	• We are not aware of any related party transactions which have not been disclosed.
6.	**Going concern**	• Our work has not identified any reason to challenge the Fund's decision to prepare the financial statements on a going concern basis.

Section 3: Fees, non audit services and independence

Fees, non audit services and independence

We confirm below our final fees charged for the audit and confirm there were no fees for the provision of non audit services.

Fees

	Per Audit plan £	Actual fees £
Fund audit	21,000	21,000
Total audit fees	**21,000**	**21,000**

The Fund has received a rebate of £2,874 from the Audit Commission.

Fees for other services

Service	Fees £
None	Nil

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.

We confirm that we have implemented policies and procedures to meet the requirements of the Auditing Practices Board's Ethical Standards.

Section 4: Future developments

Developments relevant to your Pension Fund and the audit

Political	Environmental	Social	Technological
Developments relevant to the next financial year			
1. Financial reporting CIPFA has published best practice guidance relating to the identification and disclosure of administrative and investment management expenditure. This applies from 2014/15 and will enable consistent reporting across the LGPS facilitating more meaningful comparisons in this area. The definition is separated into three distinct categories of costs.	**2. Legislation** Under the Local Government Pension Scheme (LGPS 2014), pensions will be calculated on Career Average Revalued Earnings (CARE) rather than a final salary basis from 1 April 2014. Administering authorities will need to ensure their updated administration systems are calculating new pensions accruals correctly from 1 April 2014; dealing effectively with more complex data requirements and that new contribution rates are being correctly applied by employers.	**3. Actuarial valuation** Following the 31 March 2013 actuarial valuation all employers will need to consider the level of additional employer deficit contributions required and how to fund them.	**4. Other issues** The number of LGPS employers continues to grow as local authorities outsource services. Affected funds need to consider the impact this has on its exposure to risks and reflect on the impact this has for their investment strategies.
Developments relevant to future periods			
1. Financial reporting Changes to the Pension SORP may affect the investment disclosures in the Net Asset Statement and Fair Value determination (changing the classification from level 1, 2 & 3 to A, B & C). A revised SORP will be issued in 2014 and may find its way into the LG code in 2015/16.	**2. Legislation** From April 1 2015 The Pensions Regulator will have formal powers and responsibilities for oversight of the LGPS. This will include monitoring implementation of new governance arrangements, which require the creation of a scheme manager and pension board for each LGPS. The Administering Authority will need to determine how it will meet the requirement to have a pension board and the consequent changes it will need to make to its general governance arrangements.	**3. Structural reform** DCLG is consulting on the potential use of Collective Investment Vehicles and passive management of funds. The outcome of this consultation may lead to a change in administration of some schemes and significant changes in investment strategies.	**4. Other issues** The Pensions Regulator, Financial Conduct Authority and HMRC continue to commit resources to combat pension liberation schemes. More guidance and potential changes to HMRC registration of new schemes is likely.

Section 5: Communication of audit matters

Communication of audit matters to 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.

The Audit Plan outlined our audit strategy and plan to deliver the audit, while this Audit Findings report presents the key issues and other matters arising from the audit, together with an explanation as to how these have been resolved.

Respective responsibilities

The Audit Findings Report 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 Fund'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 ('he Code) issued by the Audit Commission and includes nationally prescribed and locally determined work. Our work considers the Fund's key risks when reaching our conclusions under the Code.

It is the responsibility of the Fund 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 Fund 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 issues 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		✓
Compliance with laws and regulations		✓
Expected auditor's report		✓
Uncorrected misstatements		✓
Significant matters arising in connection with related parties		✓
Significant matters in relation to going concern		✓

Appendices

Appendix A: Audit opinion

We anticipate that we will provide the Fund with an unmodified audit report

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF LONDON BOROUGH OF HARINGEY

Opinion on the pension fund financial statements

We have audited the pension fund financial statements of London Borough of Haringey for the year ended 31 March 2014 under the Audit Commission Act 1998. The pension fund financial statements comprise the Fund Account, the Net Assets Statement and the related notes. The financial reporting framework that has been applied in their preparation is applicable law and the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2013/14.

This report is made solely to the members of London Borough of Haringey in accordance with Part II of the Audit Commission Act 1998 and for no other purpose, as set out in paragraph 48 of the Statement of Responsibilities of Auditors and Audited Bodies published by the Audit Commission in March 2010. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Authority and the Authority's Members as a body, for our audit work, for this report, or for the opinions we have formed.

Respective responsibilities of the Assistant Director of Finance and auditor

As explained more fully in the Statement of the Assistant Director of Finance Responsibilities, the Assistant Director of Finance is responsible for the preparation of the Authority's Statement of Accounts, which includes the pension fund financial statements, in accordance with proper practices as set out in the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom, and for being satisfied that they give a true and fair view. Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

Scope of the audit of the pension fund financial statements

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the fund's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the Assistant Director of Finance; and the overall presentation of the financial statements. In addition, we read all the financial and non-financial information in the explanatory foreword to identify material inconsistencies with the audited financial statements and to identify any information that is apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired by us in the course of performing the audit. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

Opinion on the pension fund financial statements

In our opinion the pension fund's financial statements:

- give a true and fair view of the financial transactions of the pension fund during the year ended 31 March 2014 and the amount and disposition of the fund's assets and liabilities as at 31 March 2014, other than liabilities to pay pensions and other benefits after the end of the scheme year; and
- have been properly prepared in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2013/14 and applicable law.

Opinion on other matters

In our opinion, the information given in the explanatory foreword for the financial year for which the financial statements are prepared is consistent with the financial statements.

Emily Hill
Associate Director
for and on behalf of Grant Thornton UK LLP, Appointed Auditor

Grant Thornton House
Melton Street
London NW1 2EP

September 2014

Grant Thornton

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Appendix 3

Emily Hill
Associate Director
Grant Thornton UK LLP
Grant Thornton House
Melton Street
London NW1 2EP

18 September 2014

Dear Ms Hill

London Borough of Haringey Pension Fund- Financial Statements for the year ended 31 March 2014

This representation letter is provided in connection with your audit of the financial statements of London Borough of Haringey Pension Fund for the year ended 31 March 2014 for the purpose of expressing an opinion as to whether the financial statements show a true and fair view of the financial transactions of the Fund during the year ended 31 March 2014, and of the amount and disposition at that date of its assets and liabilities in accordance with applicable law and the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2013/14 (the Code).

Financial Statements

1 We have fulfilled our responsibilities for the preparation of the financial statements in accordance with the Code; in particular the financial statements show a true and fair view in accordance therewith, and for keeping records in respect of contributions received in respect of active members.

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

3 Significant assumptions used by us in making accounting estimates, including those measured at fair value, are reasonable.

4 Related party relationships and transactions have been appropriately accounted for and disclosed in accordance with the requirements of the Code.

5 Actual or possible litigation and claims have been accounted for and disclosed in accordance with the requirements of the Code.

6 All events subsequent to the date of the financial statements and for which the Code requires adjustment or disclosure have been adjusted or disclosed.

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

8 We believe that the Fund's financial statements should be prepared on a going concern basis on the grounds that current and future sources of funding or support will be more than adequate for the Fund's needs. We believe that no further disclosures relating to the Fund's ability to continue as a going concern need to be made in the financial statements.

9 We have no plans or intentions that may materially alter the carrying value or classification of assets and liabilities reflected in the financial statements.

10 We acknowledge our responsibilities for making the accounting estimates included in the financial statements. Where it was necessary to choose between estimation techniques that comply with the Code, we selected the estimation technique considered to be the most appropriate to the Fund's particular circumstances for the purpose of giving a true and fair view. Those estimates reflect our judgment based on our knowledge and experience about past and current events and are also based on our assumptions about conditions we expect to exist and courses of action we expect to take.

Information Provided

11 We have provided you with:
  a access to all information of which we are aware that is relevant to the preparation of the financial statements such as records, documentation and other matters;
  b additional information that you have requested from us for the purpose of your audit; and
  c unrestricted access to persons from whom you determine it necessary to obtain audit evidence.

12 We have disclosed to you the results of our assessment of the risk that the financial statements may be materially misstated as a result of fraud.

13 All transactions have been recorded in the accounting records and are reflected in the financial statements.

14 We are not aware of any fraud or suspected fraud affecting the Fund involving:
  a management;
  b employees who have significant roles in internal control; or
  c others where the fraud could have a material effect on the financial statements.

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

16 We are not aware of any instances of non-compliance or suspected non-compliance with laws and regulations whose effects should be considered when preparing financial statements.

17 There have been no communications with The Pensions Regulator or other regulatory bodies during the year or subsequently concerning matters of non-compliance with any legal duty.

18 We are not aware of any reports having been made to The Pensions Regulator by any of our advisors.

19 We have disclosed to you the identity of the Fund's related parties and all the related party relationships and transactions of which we are aware.

Approval
The approval of this letter of representation was minuted by the Council's Pension Fund Committee at its meeting on 18 September 2014.

Signed on behalf of the Board

Name……………………………

Position………………………….

Date…………………………….

Name……………………………

Position………………………….

Date…………………………….

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Appendix 4

Administration and Investment Management Cost

1. Attached is a comparison of administration and investment costs incurred in the last two years.

Administration Cost

2. The main component of administration costs is the internal staff recharge. This was reduced by £84,000 reflecting a reduction of staff within the pensions administration function.

3. IT costs incurred during the year included a one off £127,000 relating to the upgrading of the pension administration IT system.

4. Other notable changes are the increase in actuarial fees linked to the March 2013 tri-annual valuation and the contribution of £25,000 to the set up costs of the London Collective Investment Vehicle.

5. Prior year costs included a tax charge on termination benefits.

Investment Management Costs

6. Fees from investment managers comprise the majority of investment expenses. The comparison between years is complicated by the change in fund managers in 2012-13 with Legal & General and BlackRock receiving new mandates and Fidelity and Capital being terminated.

7. Additional investment advisor costs were incurred in 2013-14 from both Aon Hewitt and then Mercer relating to the strategy review and the selection of Allianz and CQS.

8. During 2012-13 Custody fees reduced as the new manager structure involved little in the way of transactions. Northern Trust initially failed to notice that the contract had a minimum quarterly fee of £23,750. The minimum fee was implemented From April 2013, but following negotiations was reduced to £14,125 a quarter from September 2014.

Benchmarking

9. While reviewing the absolute costs incurred is informative, it doesn't tell whether Haringey's costs are reasonable or not in comparison to other local authorities. The DCLG has published data on average costs for local authority pension schemes in 2012-13.

10. For administration costs, the DLCG average for outer London is £45 per member and for England as a whole, £27. Haringey's cost was £43 per member in 2012-13 in line with the outer London average. The national average is impacted by the large county council's that achieve greater economies of scale.

11. Investment costs reported by the DCLG were £111 per member in outer London and £85 nationally. Haringey's costs were £81 per member. Using mainly low cost passive management is the reason for Haringey's lower costs.

Scheme Costs

Administration Costs

		2013-14 £'000	2012-13 £'000
Internal Charges	HR and Finance	480	564
	Legal	6	
	tax paid on benefits in excess of lifetime allowance		143
IT costs re pensions administration		162	41
Actuarial fees		81	49
Audit fees		21	21
London CIV		25	
CIPFA Pensions network		5	5
Pension newsletter		5	5
Overseas pension charges		8	26
Framework joining fees			10
Other		9	12
		802	**876**

Investment Management

	2013-14 £'000	2012-13 £'000
Legal & General	329	220
BlackRock	250	184
CBRE and property charges	353	359
Pantheon	446	399
Fidelity		219
Capital		83
Northern Trust (custodian)	89	59
Investment Advisor (Mercer / Aon Hewitt)	143	81
Independent advisor	24	20
other	24	18
	1658	**1642**
Total Cost	**2,460**	**2,518**

Agenda Item 6

Report for:	**Pensions Committee: 18 September 2014**	**Item Number:**	

Title:	Local Government Pension Scheme IT System – Contract Renewal

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

Lead Officer:	**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

1.1. At its meeting on 26th November 2013, the Corporate Committee approved the award of a contract for an IT system to enable the Council to administer the LGPS for its members and employers.

1.2. Following this decision negotiations with the supplier identified that the contract price was to be £14,288 higher than the original estimate.

1.3. This report is for the Committee to note the Chair's delegated action to approve this revised contract price.

2. Cabinet Member introduction

Not applicable.

3. Recommendations

That the Pension Committee note the amendment to the value of the Heywood Contract which has increased by £14,288 to £244,046 for a period of three years with the option to extend for a further two years to

Heywood for the provision of a managed service, including support, maintenance, and required upgrade.

4. Alternative options considered

4.1. It is not feasible to consider alternative options as this matter arose following a contract award.

5. Background information

5.1. At its meeting on 26th November 2013, the Corporate Committee approved the contract award for a new Local Government Pension Scheme (LGPS) IT system called Altair. The costs of the contract provided in the report were an estimate of costs.

5.2. Following further discussions with the supplier the final costs were slightly higher than those reported to Committee so on 2nd April 2014 the Chair, acting under delegated authority, approved the revised contract costs. A copy of the record of delegated authority is appended.

6 Costs

The additional costs are £14,288 giving a total contract price for a 3+2 year contract of £244,046

7 Comments of the Chief Finance Officer and financial implications

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

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

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

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

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

8 Comments of the Assistant Director of Corporate Governance and legal implications

8.1 The Assistant Director of Corporate Governance notes the contents of the report.

8.2 Approval was obtained at Corporate Committee on 26 November 2013 for award of the contract to Heywood for an IT system to enable the Council to administer the Local Government Pension Scheme. The Council procured the contract using the negotiated procedure without publication of a notice, a process allowed for under the Public Contracts Regulations 2006 (as amended).

8.3 Subsequent negotiations meant that the price was £14,288.00 higher than the original price which had been approved by Corporate Committee. The variation to the contract award was approved by way of Cabinet Member report in April 2014. This is a process which is compliant with Contract Standing Orders.

8.4 The business unit now wishes to formally inform the Corporate Committee of the variation in the contract.

9 Equalities and Community Cohesion Comments

N/A

10 Head of Procurement Comments

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

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

11 Policy Implications

N/A

12 Reasons for Decision

It is necessary to purchase this system to enable the Council to undertake its statutory obligations as an administering authority under the Local Government Pension Scheme.

13 Use of Appendices

Record of decision taken under urgent action is attached at Appendix A.

14 Local Government (Access to Information) Act 1985

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

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

Agenda Item 7

Haringey Council

Report for:	Pensions Committee: 18th September 2014	**Item Number:**	

Title:	Local Government Pension Scheme - Admission of New Employers as Transferee Admission Body

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 allows an administrating authority to enter into an admission agreement with an admission body. Under the TUPE regulations employees pensions should be protected when a service is outsourced.

Where a service is outsourced the new contractor can request that the transferred employees remain members of the Local Government Pension Scheme and the employer becomes part of the Local Government Pension Scheme as a Transferee Admission body.

2. Cabinet Member introduction

Not applicable

3. Recommendations

1. That catering contractors, Lunchtime UK Limited, Caterlink Limited, ABM Catering Limited, ISS Mediclean Limited and cleaning contractor Superclean Services Limited be admitted to the Haringey Pension Fund as Transferee Admission Bodies.

2. That each of the admission agreements is entered into and that the agreement is a closed agreement such that no new members can be admitted.
3. That the Pension Committee using The Scheme of Delegation, delegate the authority to admit employers to the Local Government Pension Scheme to the Section 151 Officer.

Haringey Council

4. Alternative options considered

n/a

5. Background information

School	Contractor	Date of transfer	Employer contribution rate
Welbourne	Lunchtime UK Limited	01/06/2014	26.7%
St Francis De Sales	Lunchtime UK Limited	01/09/2014	25.7%
St Marys Primary N8	Lunchtime UK Limited	01/09/2014	29.5%
St Gildas	Lunchtime UK Limited	01/09/2014	31.2%
St Pauls	Lunchtime UK Limited	01/09/2014	28%
Ferry Lane	Lunchtime UK Limited	01/09/2014	30.2%
Bounds Green	Lunchtime UK Limited	01/09/2014	26.3%
Bruce Grove	Caterlink Limited	October 2014	27.9% +£53,000 bond
Tiverton	Caterlink Limited	October 2014	26.6% + £66,000 bond
Weston Park	ABM Catering Limited	01/09/2013	26% + £35,000 bond
Muswell Hill	ABM Catering Limited	01/09/2014	28% + £41,000 bond
Crowland	ISS Mediclean Limited	01/09/2014	26.7% + £11,000 bond
Willow	Superclean Services Limited	01/08/2014	26.7% + £9000 bond

5.1 The above schools will be outsourcing their Kitchen catering / cleaning functions to contractors. Staff will be TUPE transferred they are members of the Local Government Pension Scheme (LGPS).

5.2 The contracts are for three years with a possible two year extension. Staff are required to work not less then 50% of their time on the contract.

5.3 The contractor will pay an employer contribution rate set by the actuary. This is based on the contractor starting on a notional 100% fully funded basis. The admission agreement is closed and only the TUPE transferred staff can participate in the LGPS.

5.4 Where there is a bond valued by the fund actuary the contractor is required to provide a bond to protect the fund from commercial failure of the contractor. It covers the cost of capital cost payments if staff aged 55 and over were made redundant.

5.5 Costs arising from the exercise of employer discretions are payable by the contractor as provided for in Section 5 of the Admission Agreement.

5.6 The transferee admission body meets the requirements of regulation 54 of the Local Government Pension Scheme Regulations 2013 and the administering authority **must** admit the eligible employees of the transferee admission body to the fund.

6. Delegation of Authority

Haringey Council

6.1 As mentioned in paragraph 5.6 above, the Council must admit those employers of transferred staff who meet the conditions (sign the admission agreement etc) and agree to pay the required contribution rate. As the decision has no right of refusal, it was delegated to the Chief Financial Officer prior to the establishment of the Pensions Committee.

6.1 The recommendations in section 3 contain a renewal of the historical delegation. The CFO is proposing that he will only use this delegation if there are no grounds on which to refuse admittance and the agreement to admit can not wait until the next Pensions Committee e.g. the start date of the new service is earlier than the next meeting. Every effort will be made to ensure that the Pensions Committee is consulted in advance on new admitted bodies.

6.3 Should it be necessary to use the delegation, this will be reported to the next Pensions Committee meeting.

7. Comments of the Chief Finance Officer and financial implications

7.1 In each case, the transferred liabilities represent less than ten staff; a small proportion of the overall scheme. Although, each transferred pension liability is fully funded at commencement, contractors are paying contribution rates of 1.8% to 7.3% greater than the Council. Those contractors not providing a bond under “pass through” arrangements are paying a 3% margin above the estimated future service costs to protect the Council and the pension fund from future defaults by the contractor.

8. Head of Legal Services and legal implications

8.1 The Haringey Pension Fund is obliged to admit those catering contractors listed if they meet the requirements of Regulation 54 of the Local Government Pension Scheme Regulations 2013. The Admission Agreements will be closed agreements.

8.2 Members should note that not all of the catering contractors will be providing a bond. Those not providing a bond are set out in paragraph 5 of this report. Where no bond is being provided a “pass through arrangement” has been agreed which means there is no bond/ indemnity or guarantee being provided to cover potential future liabilities however the contribution rate should be higher in order to deal with such liabilities..

9. Equalities and Community Cohesion Comments

N/A

10. Head of Procurement Comments

N/A

11. Policy Implication

N/A

12 Reasons for Decision

Haringey Council

The Council is obliged under the Local Government Pension Scheme Regulations 2013 to admit new eligible admission body employers into the pension scheme and to admit to the Scheme the eligible employees of that body.

13 Use of Appendices

None.

14 Local Government (Access to Information) Act 1985

Not applicable.

Agenda Item 8

Haringey Council

Report for:	Pensions Committee 18th September 2014	**Item number**	

Title:	Establishment of Pension Board

Report authorised by :	Kevin Bartle, 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 The Public Sector Pensions Act 2013 requires the establishment of Pension Boards to assist local authorities with the effective and efficient management of local pension funds. DCLG has issued draft regulation for consultation concerning the implementation of pension boards ("Board"). Final regulations are expected in the next few days.

1.2 This note summaries the draft regulations, the role of the Board and its likely composition.

1.3 Decisions will await the publication of the final regulations. However, the Committee will wish to consider the appropriate role for the Board and the implications for the Committee. Guidance from the Shadow Advisory Board and the approaches adopted by other schemes will emerge later in the year.

2. Cabinet Member Introduction

2.1 Not applicable.

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3. Recommendations

3.1 To note the information provided in this report, and specifically that no final decisions are requested at this stage.

3.2 That a special session is arranged to explore the issues in more detail prior to the next Committee meeting, where decisions will be made.

4. Other options considered

4.1 No proposals are made at this time. The options to be discussed include combining the Board and the Committee, the Board's remit, composition, appointment process, remuneration and reporting lines.

5. Background information

5.1 The Public Sector Pensions Act 2013 included a requirement that pension boards be established to assist administering authorities with the effective and efficient management and administration of the Scheme.

5.2 The requirements of the Act are to be implemented through The LGPS (Amendment) Regulations 2014. Pages 8-11 & 17-18 of the attached draft regulations (appendix 1) contain the proposed Board provisions. Final regulations are expected in a few days.

5.3 Officers responded to the consultation. The response is attached (appendix 2).

5.4 Although details are still to be confirmed, it is clear that we will have to have a Pension Board to be operational by April 2015. The Committee need to start preparing for it.

5.5 The draft regulations allow for either a separate Board or a single body combining the roles of the Committee and the Board. A single body with have to meet the membership requirements discussed in sections 5.8 below and require Secretary of State approval, which if granted may contain conditions.

<u>Board Responsibilities</u>

5.6 The main purpose / functions of the Board are to:

a) Assist LB Haringey as Scheme Manager; –

- to secure compliance with the LGPS regulations and any other legislation relating to the governance and administration of the LGPS,

Haringey Council

- to secure compliance with requirements imposed in relation to the LGPS by the Pensions Regulator, and

- in such other matters as the LGPS regulations may specify.

b) Secure the effective and efficient governance and administration of the LB Haringey Pension Fund.

5.7 The responsibilities revolve around the processes followed by the Committee and officer to take decisions and manage the affairs of the pension fund. It does not necessarily mean that any activity performed by the Committee will be transferred to the Board. In essence the Board will ensure that the decisions made by the Committee comply with regulations, best practice and that the processes followed by the Committee and officers are logical and consider all relevant information.

Membership of the Board

5.8 The regulations contain the following requirements for Board Membership:

a) That there should be equal numbers of employer and employer representatives.
b) That Councillors can't be (a).
c) That others to (a) can be appointed, including Councillors, but in aggregate others must be less in number than (a).

5.9 The regulations do not specify what is meant by employee or employer representatives or the process by which they are appointed. Neither is there any guidance on who has or does not have voting rights.

5.10 The draft regulations place emphasis on Board members being "up to the job". Employer and Employer Board members are required to have relevant experience and capacity to undertake the roles and all members must be free of conflicts of interest. These terms are relatively undefined, except that being a member of the pension scheme is not a conflict. It is hoped that future clarification on these terms will emerge.

5.11 The Committee is asked to consider whether they prefer a separate body, or would like to explore a joint Committee and Board i.e., apply to the Secretary of State to combine the roles.

5.12 In either case the Committee will have to decide the structure, number and eventually who will be chosen to be the Board members

Reporting

Haringey Council

5.13 The Board role is to assist the “Scheme Manager”, who is the Council. The Council has delegated this role to the Committee. Therefore, it is appropriate for the Board to communicate its finding and recommendations to the Committee.

6. Conclusions

6.1 No decisions are required at this stage. Members may wish to have a special session to explore the issues in more detail before the Committee’s next meeting, where it is expected that decisions will be made.

7. Comments of the Chief Financial Officer and financial Implications

7.1 The proposals are part of a process of tightening up oversight and governance standards in LGPS. The proposals will not alter the fundamental role of the Council in administering the Haringey fund or setting an investment strategy. While increased scrutiny of processes and controls is beneficial, there will be challenges to ensure an effective interaction between Committee, Board and Officers.

8. Assistant Director of Corporate Governance comments and Legal Implications

8.1 The Assistant Director of Corporate Governance has been consulted on the contents of this report. Section 5 of the Public Service Pensions Act 2013 requires the establishment through regulations of a board with responsibility of assisting the scheme manager in (a) securing compliance with legislations relating to the governance and administration of the fund, (b) securing compliance with requirements imposed by the Pensions Regulator and (c) such other matters as pension scheme regulations may specify.

8.2 The Department for Communities and Local Government has now published the draft of what is to become the Local Government Pension Scheme (Amendment) Regulations 2014. Following statutory consultation these Regulations will come into effect on 1 October 2014 and the local pension boards must be in place by 1 April 2015.

8.3 The terms of reference of the Board must comply with these Regulations.

9. Equalities and Community Cohesion Comments

9.1 There are no equalities issues arising from this report.

10. Head of Procurement Comments

Haringey Council

10.1 Not applicable

11. Policy Implications

11.1 None.

12. Use of Appendices

12.1 Appendix 1: Draft Regulations.
Appendix 2: Response to the draft regulations

13. Local Government (Access to Information) Act 1985

13.1 Not applicable.

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Department for
Communities and
Local Government

The Local Government Pension Scheme (Amendment) Regulations 2014

Draft Regulations on Scheme Governance

Consultation

This document/publication is also available on our website at www.gov.uk

Any enquiries regarding this document/publication should be sent to us at:

Department for Communities and Local Government
Eland House
Bressenden Place
London
SW1E 5DU
Telephone: 030 3444 0000

ISBN : 978-1-4098-4254-5

The Consultation Process and How to Respond

Scope of the consultation

Topic of this consultation:	The Local Government Pension Scheme (Amendment) Regulations 2014
Scope of this consultation:	This consultation seeks responses from interested parties on draft scheme governance regulations for the new Local Government Pension Scheme which came into force on 1 April 2014.
Geographical scope:	England and Wales.
Impact Assessment:	These Regulations have no impact on business or the voluntary sector.

Basic Information

To:	This consultation is aimed at all Local Government Pension Scheme interested parties.
Body responsible for the consultation:	The Secretary of State for Communities and Local Government is responsible for policy and the consultation exercise.
Duration:	8 weeks. As timing allows, account will be taken of representations made after the close of the consultation.
Compliance with the Code of Practice on Consultation:	This consultation complies with the Code and it will be for 8 weeks. The consultation is aimed at all parties with an interest in the Local Government Pension Scheme and in particular those listed on the Government's website: https://www.gov.uk/government/publications/local-government-pension-scheme-regulations-information-on-who-should-be-consulted

Background

Getting to this stage:	The Government commissioned Lord Hutton to chair the Independent Public Service Pensions Commission to review public service pensions and to make recommendations on how they can be made sustainable and affordable in the long term, and fair to both public sector workers and the taxpayer. Lord Hutton's final report was published on 10 March 2011. In that report he made clear that change is needed to "make public service pension schemes simpler and more transparent, fairer to those on low and

	moderate earnings”. The recommendations made by Lord Hutton were accepted by the Government and were carried forward into the Public Service Pensions Act 2013. The Act included a requirement for DCLG as a responsible authority to make regulations establishing a national scheme advisory board and enabling each LGPS administering authority to establish local pension boards. In June 2013, the Department published an informal discussion paper inviting comment from a wide range of interested parties on how the requirements of the 2013 Act should be taken forward into the new 2014 Scheme. The outcome of that exercise and comments from the Shadow Scheme Advisory Board has been fully taken into account in the preparation of the draft regulations. These draft regulations carry forward these requirements into the 2014 Scheme

How to respond

1. You should respond to this consultation by **15 August 2014**.

2. You can respond by email to Sandra.layne@communities.gsi.gov.uk. When responding, please ensure you have the words “LGPS Governance Regulations 2014” in the email subject line.

Alternately you can write to:

LGPS Governance Regulations 2014
Department for Communities and Local Government
Zone 5/F5 Eland House
Bressenden Place
LONDON SW1E 5DU

3. When responding, please state whether you are responding as an individual or representing the views of an organisation. If responding on behalf of an organisation, please give a summary of the people and organisations it represents and, where relevant, who else you have consulted in reaching your conclusions.

Additional copies

4. This consultation paper is available on the Department for Communities and Local Government website at: https://www.gov.uk/government/organisations/department-for-communities-and-local-government

Confidentiality and data protection

5. Information provided in response to this consultation, including personal information, may be published or disclosed in accordance with the access to information regimes (these are primarily the Freedom of Information Act 2000, the Data Protection Act 1998 and the Environmental Information Regulations 2004).

6. If you want the information that you provide to be treated as confidential, please be aware that, under the Freedom of Information Act 2000, there is a statutory code of practice with which public authorities must comply and which deals, amongst other things, with obligations of confidence. In view of this it would be helpful if you could explain to us why you regard the information you have provided as confidential. If we receive a request for disclosure of the information we will take full account of your explanation, but we cannot give an assurance that confidentiality can be maintained in all circumstances. An automatic confidentiality disclaimer generated by your IT system will not, in itself, be regarded as binding on the department.

7. DCLG will process your personal data in accordance with the Data Protection Act 1998 and in the majority of circumstances this will mean that your personal data will not be disclosed to third parties. Individual responses will not be acknowledged unless specifically requested.

Help with queries

8. Questions about the policy issues raised in the document can be sent to the address given at paragraph 2 above.

9. A copy of the consultation criteria from the Code of Practice on Consultation is at http://www.cabinetoffice.gov.uk/resource-library/consultation-principles-guidance. Are you satisfied that this consultation has followed these criteria? If not or you have any other observations about how we can improve the process please email: consultationcoordinator@communities.gsi.gov.uk

or write to:

DCLG Consultation Co-ordinator, Zone 8/J6, Eland House, Bressenden Place London SW1E 5DU.

Contents

Chapter 1

Introduction

1.1 This document commences a period of statutory consultation on the new governance arrangements for the 2014 Local Government Pension Scheme ("LGPS") which came into effect on 1 April 2014. Your comments are invited on the set of draft regulations at **Annex A**. and also on the separate policy issues included at Chapter 3 below.

1.2 **The closing date for responses is 15 August 2014**.

Background and context

1.3 This consultation on the Local Government Pension Scheme (Amendment) Regulations 2014 represents a key step in the process of reform that began with the commitment given in the Coalition Government's programme to review the efficiency, effectiveness and sustainability of public service pension schemes.

1.4 A key aim of the reform process is to raise the standard of management and administration of public service pension schemes and to achieve more effective representation of employer and employee interests in that process.

1.5 The Public Service Pensions Act 2013 included two main provisions to achieve this policy objective. Firstly, a requirement for responsible authorities such as DCLG to establish at national level a Scheme Advisory Board with responsibility to provide advice to the Department on the desirability of changes to the Scheme. And secondly, in cases where schemes like the Local Government Pension Scheme are subject to local administration, for scheme regulations to provide for the establishment of local pension boards to assist administering authorities with the effective and efficient management and administration of the Scheme.

Consultation responses

1.6 In view of the need to give administering authorities and other interested parties sufficient lead-in time to establish local pension boards, Ministers have agreed to a consultation period of 8 weeks.

1.7 To allow for the fullest response to proposed Scheme regulations, every attempt will be made to include any late submissions.

1.8 Your comments should therefore be sent by 15 August 2014 to LGPS Governance Regulations 2014, Department for Communities and Local Government, Zone 5/G6, Eland House, Bressenden Place, London SW1E 5DU. Electronic responses can be sent to Sandra.layne@communities.gsi.gov.uk.

Chapter 2

Proposals for consultation

2.1. The Regulations are being made under the powers conferred by the Public Service Pensions Act 2013. Under Section 3(5) of the 2013 Act, the Regulations require the consent of Treasury before being made.

Preliminary Provisions

2.2 **Regulation 1** covers the citation, commencement, interpretation and extent of the Regulations. The Regulations will apply to the Scheme in England and Wales and, for the most part, will come into operation on 1 October 2014 to allow sufficient time for the new Scheme Advisory Board and local pension boards to become operational on 1 April 2015.

2.3 **Regulation 2** amends the Principal 2013 Regulations in accordance with regulations 3 to 5.

2.4 **Regulation 3** deletes Regulation 53(4) from the Principal 2013 Regulations because that provision becomes obsolete in view of the amendments introduced by these Regulations.

2.5 **Regulation 4** amends Schedule 1 to the Principal 2013 Regulations to include definitions of "Local Government Pensions Scheme Advisory Board" and "local pension board".

2.6 **Regulation 5** inserts new regulations 105, 106,107, 108, 109, 110, 111, 112 and 113 into the Principal 2013 Regulations. These provisions are described in detail immediately below.

Main Provisions

2.7 **New Regulation 105** confers power on the Secretary of State to delegate functions under the Principal 2013 Regulations and administering authorities to delegate their functions. It also allows for any delegated function by an administering authority to be sub-delegated.

Local pension boards : establishment

2.8 **New Regulation 106** concerns the establishment of local pension boards.

2.9. **Regulation 106(1)** provides that each administering authority must establish a local pension board no later than 1 April 2015. This would not prevent a board being established before that date.

2.10 **Regulation 106(1)(a) and (b)** sets out the role of a local pension board as being to assist the administering authority in securing compliance with (i) the Principal 2013 Regulations, (ii) any other legislation, and (iii) requirements imposed by the Pensions Regulator in relation to the Scheme. The role is further extended by **Regulation 106(1)(b)** to assist the administering authority in ensuring the effective and efficient governance and administration of the Scheme. These provisions mirror those set out in section 5(2) and (3) of the Public Service Pensions Act 2013.

2.11**. Regulation 106(2)** carries forward into the Principal 2013 Regulations, section 5(7) of the Public Service Pensions Act 2013. This provides that where the scheme manager of a Scheme under section 1 of the Act is a committee of a local authority, the scheme regulations may provide for that committee also to be the board for the purposes of this section. This is discussed in more detail in Chapter 3.

To ensure that any proposal to combine the committee and local pension board into a single, dual-function body is appropriate and practicable, **Regulation 106(2)** requires such proposals to be approved by the Secretary of State. Where appropriate, the Department may seek advice from relevant interested parties, in particular, the Scheme Advisory Board and Pensions Regulator.

2.12 **Regulation 106(3)** provides that the Secretary of State may, in giving such approval, impose any such conditions that he thinks fit.

2.13 **Regulation 106(4)** enables the Secretary of State to withdraw any approval given under Regulation 106(2) if any of the conditions given under Regulation 106(3) are not met or, more generally, that there is evidence to suggest that the combined body is no longer working as intended.

2.14 **Regulation 106(5)** sets out the means by which an administering authority establishes its local pension board but the draft offers two different alternatives of the regulations as described later in Chapter 3 (Other connected policy issues). Consultees are specifically invited to indicate and comment on their preference.

2.15. **Regulation 106(6)** provides that the costs of local pension boards are to be regarded as administration costs charged to the fund.

Local pension boards : membership

2.16. **Regulation 107(1) –** requires each administering authority to determine the membership of the local pension board; the manner in which such members may be appointed and removed and the terms of their appointment.

2.17**. Regulation 107(2)** provides that in determining membership of their local pension board, an administering authority must include employer representatives and member representatives in equal numbers, the total of which cannot be less than four.

2.18**. Regulation 107(2(a)** prevents a councillor member of a local authority being included either as an employer or member representative, but this does not prevent an administering authority from appointing councillor members of a local authority (or any other person) to the local pension board over and above the required equal number of employer and member representatives.

2.19**. Regulation 107(2)(b)** requires an administering authority to be satisfied that employer and member representatives appointed to a local pension board have the relevant experience and the capacity to perform their respective roles. There is a risk that could act as an unhelpful barrier to people putting themselves up as pension board nominees but we believe that this pre-condition is necessary to ensure that appointees to the board have the background and capacity to undertake the duties and responsibilities required of pension board members. The Department will work closely with all relevant interested parties in preparing and publishing guidance on the experience and capacity required of local pension board nominees.

(It is important to note that Regulation 107(2)(b) and the pre-condition of "relevant experience and capacity" is not to be confused with the requirement for pension boards members to acquire "knowledge and understanding" under section 248A of the Pensions Act 2004 as introduced by paragraph 19 of Schedule 4 (Regulatory oversight) to the Public Service Pensions Act 2013.

2.20**. Regulation 107(3)** ensures that the number of employer and member representatives appointed to a local board must represent a majority of total members.

Local pension boards : conflict of interest

2.21. **Regulation 108(1)** carries forward section 5(4) of the Public Service Pensions Act 2013 and requires each administering authority to be satisfied that any person appointed to a local pension board does not have a conflict of interest as defined in section 5(5) of that Act.

2.22**. Regulation 108(2)** requires an administering authority to monitor conflict of interests over time.

2.23**. Regulations 108(3) and (4)** impose requirements on persons to provide relevant information to the administering authority on nomination as a member of a local pension board and, if appointed, during membership.

Local pension boards : guidance

2.24**. Regulation 109** requires an administering authority to have regard to guidance issued by the Secretary of State in relation to local pension boards. In formulating such guidance, the Department will work closely with all relevant interested parties, including the Scheme Advisory Board and the Pensions Regulator.

Scheme advisory board : establishment

2.25**. Regulation 110(1)** provides that a scheme advisory board is established.

2.26**. Regulation 110(2)** sets out the responsibility of the scheme advisory board to provide advice to the Secretary of State on the desirability of making changes to the Scheme in accordance with section 7(1) of the Public Service Pensions Act 2013. But note that we are not proposing to carry forward the provision in the Act that such advice is to be at the Secretary of State's request. We believe that the interaction between the Department and the scheme advisory board should be open and transparent and that scheme regulations should not prevent the scheme advisory board from initiating its own advice or recommendations to the Secretary of State.

2.27**. Regulation 110(3)** extends the scope of the scheme advisory board to include advice and assistance to administering authorities and local pension boards in relation to the effective and efficient administration and management of the Scheme and its pension funds.

2.28**. Regulation 110(4)** permits the scheme advisory board to establish its own procedures.

Scheme advisory board : membership

2.29**. Regulation 111(1)** sets out the membership requirements of the scheme advisory board. The Chair of the scheme advisory board is to be appointed by the Secretary of State and the Department will work closely with the Shadow scheme advisory board in formulating and organising the nomination and appointment process. Membership of the board must comprise at least 2 and no more than 12 persons appointed by the Chair with the approval of the Secretary of State.

2.30**. Regulation 111(2)** confers a duty on the Secretary of State to ensure that approval under Regulation 111(1)(b) is subject to consideration of how fair the Chair has been in nominating employer and scheme members to the board for approval.

2.31. **Regulation 111(3)** requires the constitution of the scheme advisory board to include details of the terms and conditions of members' appointments.

2.32. **Regulation 111(4)** permits persons who are not members of the scheme advisory board to be appointed as members of any sub-committee to the board.

2.33. **Regulation 111(5)** applies the same provision in Regulation 111(3) to members of any sub-committee to the board.

Scheme advisory board : conflict of interest

2.34. **Regulation 112** applies the provision in sections 7(4) and (5) of the Public Service Pensions Act regarding conflict of interest to nominees and members of the scheme advisory board.

Scheme advisory board : funding

2.35. **Regulation 113(1)** provides that the expenses of the scheme advisory board are to be treated as administration costs to the Scheme and recharged to administering authorities in such proportions as are determined by the board.

2.36. **Regulation 113(2)** ensures that safeguards are in place to ensure value for money. Before any monies can be levied on administering authorities by the scheme advisory board, the board's annual budget must first have been approved by the Secretary of State.

2.37. **Regulation 113(3)** requires an administering authority to pay the amount determined by the scheme advisory board under Regulation 113(2).

Chapter 3

Other connected policy issues

Combined Section 101 committee and local pension board (Regulation 106(2)).

3.1. Draft **Regulation 106(2**) enables a single, dual function body to carry out the functions of both a section 101 committee established by the administering authority to manage and administer the Scheme and those of a local pension board.

3.2. In practice, a combined body would be subject to two separate legal codes under both the Local Government Act 1972 and associated legislation, and the Public Service Pensions Act 2013. A combined body might also have difficulty in ensuring that all members had both knowledge and understanding that is currently expected of elected members and the experience and capacity required of local pension board members. There could also be difficult and different issues about conferring voting rights and compliance with local government law on the political composition of committees.

3.3. The Public Service Pensions Act 2013 does allow for this facility in scheme regulations but we are not compelled to introduce it. Comments are therefore invited on whether the Regulations should include such provision.

Establishment of local pension boards (Regulation 106(5)}

3.4. The draft regulations offer two alternatives to the way in which an administering authority could establish their local pension board.

3.5. The first version of **Regulation 106(5)** offers a simple solution by proposing that establishment of a local board should be undertaken as if it was a committee under section 101 of the Local Government Act 1972. This would automatically apply the section 101 regime to the way in which local boards are to be established. Although this option would provide administering authorities with a ready-made set of provisions to help them establish local pension boards, it is arguable that local pension boards should be established on a bespoke basis best suited to their own role and responsibilities.

3.6. The alternative version of **Regulation 106(5)** confers a wide discretion on administering authorities to establish the procedures applicable to a local pension board such as voting rights, the establishment of sub-committees, the formation of joint committees and payment of expenses. This list is not exhaustive, and could include some of the features of the section 101 regime, such as voting rights, political composition, etc. Although this option would represent more of a burden to administering authorities, it would allow greater flexibility and choice at local level in the way that local pension boards are established.

3.7. Consultees are therefore invited to state their preference for option 1, option 2, or any other proposal. Where option 2 is preferred, it would be helpful if the response could also set out those elements which should either be specifically excluded or included from the wide discretion afforded by the second version of Regulation 106(5).

Funding of the Scheme Advisory Board (Regulation 113)

3.8. It is accepted that funding the Scheme Advisory Board will be a complex and difficult matter. **Regulation 113** has been drafted on the basis of informal discussions with interested parties but we acknowledge that more work needs to be done to both ensure that the board is adequately funded to enable them to carry out their agreed work plans and that the cost of the board to each administering authority is fair and represents value for money.

3.9. Comments are therefore invited on what additional provision we need to make to Regulation 113 to achieve both objectives and regarding any other aspect of the scheme advisory board's funding.

Joint pension boards

3.10. As currently drafted, these Regulations require each administering authority to establish a local pension board. However, the extent to which administering authorities are either already sharing, or planning to share, their administration with other administrating authorities, suggests that provision ought to be made in these Regulations for a single pension board to serve more than the one administering authority.

3.11. On the other hand, it would run counter to the spirit of the primary legislation if a single board ended up serving a significant number of administering authorities. We believe therefore, that the default position must be one local pension board for each administering authority, but that exceptions where administration and management is mainly or wholly shared between two or more administering authorities should be catered for. This could be demonstrated by the management and administration being undertaken by a joint committee of the participating administering authorities.

3.12. Comments are invited on whether the Regulations need to provide for shared local pension boards and, if so, what test, if any, should be applied. For example, should provision be made for either the scheme advisory board or the Secretary of State to approve any proposal for a shared pension board?

Annual general meetings, Employer forums, etc

3.13. The staging of AGMs, employer forums, etc, is currently a recommendation in the Department's statutory guidance on governance compliance. There is evidence to suggest that a significant minority of administering authorities do neither and also that those that do, receive positive feedback from employers and scheme members alike.

3.14. Comments are invited on whether the Regulations should require administering authorities to facilitate a forum for both employers and employees on at least an annual basis.

Public Sector Equality Duty

3.15. The Equality Duty is a duty on all public bodies and others carrying out public functions to ensure that public bodies consider the needs of all individuals in their day to day work. It also encourages public bodies to ensure that their policies and services are appropriate and accessible to all and meet different people's needs.

3.16. This raises the question of whether these Regulations should extend the role of the scheme advisory board to have regard to the Equality Duty in making recommendations to the Secretary of State on the desirability of making scheme changes and extending the scrutiny/.compliance role of local pension boards to include the Equality Duty.

3.17. Comments are invited on the appropriateness and practicality of this proposal.

Knowledge and Understanding

3.18. These regulations would require members of local pension boards to have the knowledge and capacity to undertake that role. This contrasts with members of committees established by the administering authority to discharge its pension functions who, although recommended to have regard to the Knowledge and Skills Framework published by CIPFA, are under no regulatory requirement to do so. Whilst recognising that the knowledge and training needs of section 101 and local pension boards are not identical, it is open to question whether the same level of regulatory requirement ought to apply to both bodies.

3.19. Comments are invited on whether either in these Regulations or at some stage in the future, provision should be made in the Principal 2013 Regulations to require members of committees established by the administering authority to discharge its pension functions to comply with the Knowledge and Understanding Framework and other relevant training.

Annex A

STATUTORY INSTRUMENTS

2014 No. 0000

PUBLIC SERVICE PENSIONS, ENGLAND AND WALES

The Local Government Pension Scheme (Amendment) Regulations 2014

Made - - - -	*2014*
Laid before Parliament	*2014*
Coming into force - -	*2015*

These Regulations are made in exercise of the powers conferred by sections 1 and 3 of, and Schedule 3 to, the Public Service Pensions Act 2013(**1**).

In accordance with section 21 of that Act, the Secretary of State has consulted the representatives of such persons as appeared to the Secretary of State to be likely to be affected by these Regulations.

In accordance with section 3(5) of that Act, these Regulations are made with the consent of the Treasury.

The Secretary of State makes the following Regulations:

Citation, commencement interpretation and extent

1.—(1) These Regulations may be cited as the Local Government Pension Scheme (Amendment) Regulations 2014.

(2) In these Regulations "the Principal Regulations" means the Local Government Pension Scheme Regulations 2013(**2**)

(3) These Regulations come in to force as follows—

(a) on 1st October 2014, regulations 2, 4 and 5—

(i) so far as they insert regulation 105 (delegation) into the Principal Regulations,

(**1**) 2013 c. 25
(**2**) S.I. 2013/2356.

(ii) so far as they insert regulation 106 (local pension boards: establishment) into the Principal Regulations for the purposes of the obtaining of approval from the Secretary of State under paragraph (2) of that regulation, and

(iii) so far as they insert regulations 107 (local pensions boards: membership), 108 (local pensions boards: conflicts of interest), 111 (scheme advisory board: membership) and 112 (scheme advisory board: conflict of interest) for the purposes of appointment of members of local pension boards and the Local Government Pension Scheme Advisory Board; and

(b) on 1st January 2015—

(i) regulations 2, 4 and 5 so far as not already commenced, and

(ii) the remainder of these Regulations.

(4) These Regulations extend to England and Wales.

Amendment of the Local Government Pension Scheme Regulations 2013

2. The Principal Regulations 2013 are amended in accordance with regulations 3 to 5.

3. Omit regulation 53(4) (scheme managers: establishment of pension board).

4. In Schedule 1 (interpretation) after the entry for "local government service" insert—

""Local Government Pensions Scheme Advisory Board" means a board established under regulation 110 (Scheme advisory board: establishment);

"local pension board" means a board established under regulation 106 (local pension boards: establishment);"

5. After regulation 104(**3**) insert—

"PART 3

Governance

Delegation

105.—(1) The Secretary of State may delegate any functions under these Regulations.

(2) Administering authorities may delegate any functions under these Regulations including this power to delegate.

Local pension boards: establishment

106.—(1) Each administering authority shall no later than 1st April 2015 establish a pension board ("a local pension board") responsible for assisting it—

(a) to secure compliance with—

(i) these Regulations,

(ii) any other legislation relating to the governance and administration of the Scheme, and

(iii) requirements imposed by the Pensions Regulator in relation to the Scheme; and

(b) to ensure the effective and efficient governance and administration of the Scheme.

(2) Where the Scheme manager is a committee of a local authority the local pension board may be the same committee if approval in writing has been obtained from the Secretary of State.

(3) Approval under paragraph (2) may be given subject to such conditions as the Secretary of State thinks fit.

(**3**) Regulation 104 was inserted by S.I. 2014/1146.

(4) The Secretary of State may withdraw an approval if such conditions are not met or if in the opinion of the Secretary of State it is no longer appropriate for the local pension board to be the same committee.

(5) [Where a local pension board is established by a local authority within the meaning of section 270 of the Local Government Act 1972(**4**), Part 6 of that Act applies to the board as if it were a committee established under section 101 of that Act].

(5) [An administering authority may determine the procedures applicable to a local pension board, including as to voting rights, the establishment of sub-committees, formation of joint committees and payment of expenses].

(6) The expenses of a local pension board are to be regarded as part of the costs of administration of the fund held by the administering authority.

Local pension boards: membership

107.—(1) Subject to paragraphs (2) and (3) each administering authority shall determine—

(a) the membership of the local pension board;

(b) the manner in which members of the local pension board may be appointed and removed;

(c) the terms of appointment of members of the local pension board.

(2) A local pension board must include an equal number, which is no less than 4 in total, of employer representatives and member representatives (**5**) and for these purposes—

(a) a member of a local authority is not to be appointed as an employer or member representative; and

(b) the administering authority must be satisfied that—

(i) a person to be appointed as an employer representative has relevant experience and the capacity to represent employers on the local pension board; and

(ii) a person to be appointed as a member representative has relevant experience and the capacity to represent members on the local pension board.

(3) The number of members appointed under paragraph (2) must exceed the number of members otherwise appointed to a local pension board.

Local pension boards: conflict of interest

108.—(1) Each administering authority must be satisfied that any person to be appointed as a member of a local pension board does not have a conflict of interest(**6**).

(2) An administering authority must be satisfied from time to time that none of the members of a local pension board has a conflict of interest.

(3) A person who is to be appointed as a member of a local pension board by an administering authority must provide that authority with such information as the authority reasonably requires for the purposes of paragraph (1).

(4) A person who is a member of a local pension board must provide the administering authority which made the appointment with such information as that authority reasonably requires for the purposes of paragraph (2).

Local pension boards: guidance

109. An administering authority must have regard to guidance issued by the Secretary of State in relation to local pension boards.

(**4**) 1972 c. 70.
(**5**) See section 5(6) of the Public Service Pensions Act 2013 for definitions of these terms.
(**6**) See section 5(5) of the Public Service Pensions Act 2013 for the meaning of “conflict of interest”.

Scheme advisory board: establishment

110.—(1) A scheme advisory board ("the Local Government Pension Scheme Advisory Board") is established.

(2) The Local Government Pension Scheme Advisory Board is responsible for providing advice to the Secretary of State on the desirability of making changes to the Scheme.

(3) The Local Government Pension Scheme Advisory Board is also responsible for providing advice to administering authorities and local pension boards in relation to the effective and efficient administration and management of the Scheme and its pension funds.

(4) Subject to these Regulations, the Local Government Pension Scheme Advisory Board may determine its own procedures including as to voting rights, the establishment of sub-committees, formation of joint committees and the payment of remuneration and expenses.

Scheme advisory board: membership

111.—(1) The Local Government Pension Scheme Advisory Board is to consist of the following members—

(a) the Chair appointed by the Secretary of State; and

(b) at least 2, and no more than 12, persons appointed by the Chair with the approval of the Secretary of State.

(2) When deciding whether to give or withhold approval to appointments under paragraph (1)(b) the Secretary of State must have regard to the desirability of there being equal representation of persons representing the interests of Scheme employers and persons representing the interests of members.

(3) A member of the Local Government Pension Scheme Advisory Board is to hold and vacate office in accordance with the terms of that member's appointment.

(4) The Chair of the Local Government Pension Scheme Advisory Board may appoint persons who are not members of the Local Government Pension Scheme Advisory Board to be members of sub-committees of that Board.

(5) A member of a sub-committee of the Local Government Pension Scheme Advisory Board is to hold and vacate office in accordance with the terms of that member's appointment.

Scheme advisory board: conflict of interest

112.—(1) Before appointing, or approving the appointment of any person to be a member of the Local Government Pension Scheme Advisory Board, the Secretary of State must be satisfied that the person does not have a conflict of interest(**7**).

(2) The Secretary of State must be satisfied from time to time that none of the members of the Local Government Pension Scheme Advisory Board has a conflict of interest.

(3) A person who is to be appointed as a member of the Local Government Pension Scheme Advisory Board must provide the Secretary of State with such information as the Secretary of State reasonably requires for the purposes of paragraph (1).

(4) A person who is a member of the Local Government Pension Scheme Advisory Board must provide the Secretary of State with such information as the Secretary of State reasonably requires for the purposes of paragraph (2).

Scheme advisory board: funding

113.—(1) The expenses of the Local Government Pension Scheme Advisory Board are to be treated as administration costs of the Scheme and are to be defrayed by the administering authorities within the Scheme in such proportions as are determined by the Board.

(**7**) See section 7(5) of the Public Service Pensions Act 2013 for the meaning of "conflict of interest".

(2) The Local Government Pension Scheme Advisory Board must identify the amount to be paid by each administering authority towards its annual costs based on—

(a) its annual budget approved by the Secretary of State; and

(b) the number of persons for which the administering authority is the appropriate administering authority.

(3) An administering authority must pay the amount it is required to pay under this regulation at such time or times as the Local Government Pension Scheme Advisory Board may determine.".

We consent to the making of these Regulations

Names
Date Two of the Lords Commissioners of Her Majesty's Treasury

Signed by authority of the Secretary of State for Communities and Local Government

Name
Parliamentary Under Secretary of State
Date Department for Communities and Local Government

EXPLANATORY NOTE

(This note is not part of the Regulations)

These Regulations amend the Local Government Pension Scheme Regulations 2013 ("the 2013 Regulations") to make provision in respect of governance of the Scheme.

Regulation 1 commences the substantive provisions from 1st January 2015 for the purposes of making appointments to local pension boards and the Scheme Advisory Board, and brings the provisions fully into force from 1st April 2015.

Regulations 3 and 4 make minor amendments to the 2013 Regulations consequential to the substantive provisions.

Regulation 5 inserts a new Part 3 into the 2013 Regulations.

New regulation 105 permits the Secretary of State to delegate functions under the 2013 Regulations. It permits administering authorities to delegate their functions and also for any delegated function to be sub-delegated.

New regulations 106 to 109 make provision for each administering authority to establish a local pension board to assist it to comply with its legal obligations relating to the Scheme. Where a local authority discharges its pension functions through a committee, it can, with the approval of the Secretary of State appoint that existing committee to be the local pensions board. Local pensions boards must have equal representation of employer representatives and member representatives who must not be councillors of the administering authority and who must constitute the majority of members of the board.

Regulations 110 to 113 establish the Local Government Pension Scheme Advisory Board to advise the Secretary of State, administering authorities and local pension boards in relation to the Scheme. Provision is made for the appointment of members to the Board and for its funding.

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Assistant Director – Finance (Chief Financial Officer)

Haringey Council

Your ref:
Date: 12 August 2014
Our ref:
Direct dial: 02084895972
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LGPS Governance Regulations 2014
Department for Communities and Local Government
Zone 5/F5 Eland House
Bressenden Place
LONDON SW1E 5DU

Dear Ms Layne

The Local Government Pension Scheme (Amendment) Regulations 2014

The London Borough of Haringey (LBH) in its role as an Administering Authority is responding to the DCLG Consultation entitled "The Local Government Pension Scheme (Amendment) Regulations 2014", concerning draft regulations on scheme governance. This response has been prepared by officers and advisors of LBH.

Comments on the draft Regulations and other issues raised in the Consultation

<u>Overall</u>

We agree with the Secretary of State that a high standard of governance is required of those who administer local government pension schemes. We also believe that greater guidance and scrutiny of processes and decisions will lead to better outcomes. An obligation to undertake training is vital to ensure that those who take decisions have individual and collective relevant understanding.

Administering authorities currently carry out their duties diligently but may not always be aware when they fall short of best practice. There is a role for greater self scrutiny at local level supported by improved guidance and support from the Scheme Advisory Board and the Pensions Regulator to ensure any governance deficiencies are identified and addressed. Involving representatives of scheme members and other employers is vital to ensure all interests are considered, which is why these parties are represented at meetings of the LBH Pensions Committee.

LBH has reservations with the need for a separate pension board when in most circumstances entities with decision making roles also have compliance and good governance responsibilities. However, the differing legislation covering the establishment and operation of a pension board and a pension committee probably require that these entities be separate.

Regulation 106(1)

The LBH supports the responsibilities assigned to the pension board. We also agree that the timetable to establish a pension board no later than 1 April 2015 is achievable and with the responsibilities of the local pension board as set out in this draft Regulation. The wording of the draft Regulation will allow the establishment of a pension board prior to 1 April 2015 which is vital to ensure appropriate pre-commencement training.

Regulation 106(2) to (5)

LHB has established a pension committee to carry out the scheme manager functions. Performance of the functions set out in 106(1) does not necessitate that the pension committee and pension board be separate entities. Within the private sector, committees of management of pension schemes are expected to both manage the scheme and ensure compliance with regulations / best practice. This is also true within other complex areas of council activities. It is not usual for decision making bodies to have in their remit having regard to regulations, guidance best practice etc and the need for effective and efficient governance. Quite why the Secretary of State considers that the LGPS requires two committees to achieve this goal is unclear.

Separation of the pension board and pension committee has the capacity to generate conflict between the two. To manage this risk, the powers of the pension boards are likely to be limited to making reports, which will not encourage active involvement.

Despite our reservation on the need for separate pension boards and committees, LBH is of the view that establishment practicalities probably means that the two will be separate. As the Consultation itself points out (pages 12 and 13) a combined body would have to operate under two separate sets of legislation (the Local Government Act 1972 and the Public Service Pension Act 2013). The issue of voting rights and compliance with local government law on the political composition of committees would also need to be addressed if a joint committee were approved.

For the sake of flexibility and to allow for circumstances not yet anticipated the LBH encourages the Secretary of State to be open minded to approaches to combine the roles of scheme manager and pension board. We would further suggest that the Secretary of State puts into place a mechanism in order that he may receive the views of the Scheme Advisory Board and Pensions Regulator. The performance of pension boards should be monitored to ensure that separation is actually leading to better governance.

The LBH is of the opinion that the second option of 106(5) “An administering authority may determine the procedures applicable to a local pension board, including as to voting rights, the establishment of sub-committees, formation of joint committees and payment of expenses” should be adopted. This option will provide potentially greater flexibility to suit the local circumstances of the 89 individual LGPS Authorities in England and Wales than the first alternative option of establishing pension boards as if they were Section 101 Committees under the Local Government Act 1972. If however the second option is adopted it is suggested that the Secretary of State mandate the Scheme Advisory Board to produce guidance and guidelines.

Elements of discretion which should be allowed to administering authorities in respect of determining procedures under the second option should, we suggest, include:

- Terms of Reference including delegated authority
- Definition of the role of the pension board
- Determining the composition and number of members
- Process for selecting members of the pension board
- Number of meetings per year
- Determining the quorum
- Determining voting rights
- Knowledge and skills to be obtained by pension board members
- Payment of Allowances and Expenses
- Officer support
- Appointment of advisors
- Conflict of interest policy
- Establishment of sub-committees
- Publication of information

In exercising any of these areas of discretion the administering authority should take account of any guidance issued, for example in respect of conflicts of interest, by the Secretary of State, Scheme Advisory Board or the Pension Regulator.

<u>Regulation 106(6)</u>

The role and responsibilities of the local pension board relate to the LGPS. Therefore it is appropriate, as the draft Regulation states that the expenses of a local pension board be borne by the administering authority.

<u>Regulation 107</u>

The LBH suggests that the prohibition in draft Regulation 107(2)(a) on a member of a local authority serving as an <u>employer</u> representative be omitted from the final Regulations. This restriction does not seem to accord with the idea of "localism." Also if councillors are prohibited from serving as employer representatives then the major employer in the London Borough of Haringey Fund will not be able to be represented by those who actually are the employers, which are the locally elected councillors. While councillors may be appointed to the board as "others" that demeans the Council's status as the largest employer.

If the prohibition on councillors serving as an employer representative is maintained then in practice officers would have to serve as employer representatives for the London Borough of Haringey. This in practice, we suggest, may cause difficulties as scrutinising the decisions and actions of the decision making committee, which in this case is the Pension Committee, will require officers to "question" the decisions of Elected Members. This scrutiny role we suggest could be more easily exercised if the London Borough of Haringey in its Employing Authority role is able to be represented on the local Pension Board by one councillor.

The LBH would however suggest that the final Regulations place a prohibition on any serving member of the committee (usually the pension committee) that exercises the role of the scheme manager/administering authority from also serving on the pension board.

In respect of draft Regulation 107(2)(b) the LBH agrees that if local pension boards are to operate as intended is clearly necessary that persons serving on the board do have what could reasonably considered "relevant experience and capacity." Why this should be determined on an individual basis pre-appointment as suggested rather than either a collective basis or after a reasonable period for training is not explained and may limit the opportunity for participation. It will certainly restrict the ability of scheme members and employers to nominate and elect through voting representatives to the pension board. It is strange that a scrutiny body should have more onerous experience and capacity rules compared with the decision making committee being scrutinised. The LBH also believes that, as proposed on page 10 of the Consultation, it is essential that the DCLG, in consultation with relevant interested parties, prepares and issues guidance on what constitutes "relevant experience and capacity."

Regulation 108

In relation to the issue of conflicts of interest of local pension board members the LBH suggests that DCLG in consultation with other relevant parties, including the Scheme Advisory Board and Pensions Regulator, prepare and issue guidance on what might and might not constitute a conflict of interest taking into account, of course, the broad definition provided in Section 5 of the Public Service Pensions Act 2013.

Regulation 109

The LBH welcome the commitment of the DCLG, given on page 11 of the Consultation, to work closely with all relevant interested parties in formulating guidance to be issued by the Secretary of State relating to local pension boards.

In particular the LBH suggests that clear guidance is issued defining the role of local pension boards in relation to funding and investment issues. The LBH suggest that guidance make absolutely clear the limits of the role of the local pension board in relation to funding and investment issues which we understand relate only to the process followed in respect of these issues and not the actual decisions themselves.

Regulation 110

The LBH welcomes the proposed wording of Regulation 110(2) that "The Local Government Pension Scheme Advisory Board is responsible for providing advice to the Secretary of State on the desirability of making changes to the Scheme."

The LBH also agrees that the Scheme Advisory Board's remit should include "providing advice to administering authorities and local pension boards" as proposed in draft Regulation 110(3)

Regulation 111

The LBH suggests that the membership of the Scheme Advisory Board should as a minimum be a chair and six other members in order that the different major interest groups in the LGPS be represented. In order to avoid the Scheme Advisory Board becoming too large, and therefore potentially less effective, the LBH agrees with the proposal in the draft Regulations that the upper limit of other members be twelve.

The LBH suggests that in addition to persons representing the interests of scheme employers and persons representing the interests of members, the Scheme Advisory Board should have in attendance, at the main board, relevant practitioners to provide an "expert insight."

Regulation 112

In relation to the issue of conflicts of interest of Scheme Advisory Board members the LBH suggests that the DCLG in consultation with other relevant parties, including the Scheme Advisory Board and Pensions Regulator, prepare and issue guidance on what might and might not constitute a conflict of interest taking into account the definition provided in Section 7 of the Public Service Pensions Act 2013.

Regulation 113

The LBH agrees that as proposed in draft Regulation 113 (2)(a) the annual budget of the Scheme Advisory Board should be subject to approval by the Secretary of State. The budget should also be subject to consultation with those who pay the levy and the Secretary of State should consider the responses to this consultation.

The LBH also agrees that, as proposed in draft Regulation 113(2)(b) the cost of the Scheme Advisory Board to be borne by each Administering Authority should be proportional to the number of scheme members. This will mean that levies on administering authorities reflect their differing membership sizes.

Other Connected Issues

Joint Boards

Given that the responsibilities of the local pension board proposed in draft Regulation 106(1) are to ensure compliance with the Regulations, relevant legislation, requirements of the Pensions Regulator and "to ensure the effective and efficient governance and administration of the scheme" the default position must therefore logically be one local pension board for each administering authority. This will allow the pension board to concentrate upon and gain genuine understanding of the local administering authority.

The LBH considers that the Regulations should reasonably allow for shared local pension boards where the board can demonstrate through selection of membership, remit and experience the ability to perform this role for more than one scheme. Combined boards may offer greater scope to attract experienced pensions professionals and also to compare and contrast different approaches to good governance. We agree that a shared board should serve relatively few schemes.

Annual General Meetings, Employers Forums etc

The LBH considers that good governance across the LGPS would be promoted by a requirement within the Regulations that administering authorities hold an annual general meeting for employees and an employers' forum on at least an annual basis.

Public Sector Equality Duty

It would appear appropriate to include in the role of the Scheme Advisory Board the role to have regard to the Equality Duty in making recommendations to the Secretary of State. The LBH also considers the scrutiny/compliance role of local pension boards should include the Equality Duty.

Knowledge and Understanding

The LGPS is becoming ever more complex. Therefore, it is vital that members of decision making committees pension committees) have appropriate knowledge and understanding. Consequently the LBH considers that an amendment should be made to the LGPS Regulations to include a “knowledge and understanding” requirement for members of pension committees and sub committees of the main committee.

Yours sincerely

Kevin Bartle
Chief Finance Officer

Agenda Item 9

Haringey Council

Report for:	**Pensions Committee** 18 September 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 activities in respect of the three months period to 30th June 2014:

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

2. Cabinet Member Introduction

2.1 Not applicable.

3. Recommendations

3.1 That the information provided in respect of the activity in the three months to 30th June 2014 is noted.

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3.2 It is proposed (see 15.4) that the format of responsible investment reporting is changed to annual face-to-face meetings with BlackRock, L&G and LAPFF to replace the current quarterly commentary.

4. Other options considered

4.1 None.

5. Background information

5.1 This update report is produced on a quarterly basis. 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 Information on communication with stakeholders has been provided by officers in Human Resources and included in section 18.

5.4 The Independent Advisor has prepared an economic and market commentary (appendix 2).

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 negative performance over three and five years reflects the underperformance of the private equity portfolio that has a demanding public equity plus benchmark together with write downs on the European property portfolio. Over longer time periods, the fund has achieved a return in excess of the average local authority.

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

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performance compared with the target benchmarks 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;

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.

11.2 Appendix 2: Economic and market commentary.

12. Local Government (Access to Information) Act 1985

12.1 Not applicable

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13. Investment Update

13.1 Fund Holdings at 30th June and 31st July 2014

Total Portfolio Allocation by Manager & Asset Class

30/06/2014 & 31/07/2014

	Value 31.03.14 £'000	Value 30.06.14 £'000	Value 31.07.14 £'000	Allocation 31.07.2014 %	Strategic Allocation %
Equities					
UK	173,136	175,275	174,743	19.02%	17.50%
North America	257,969	258,463	258,293	28.11%	25.30%
Europe	78,487	77,520	74,622	8.12%	8.60%
Japan	29,449	30,899	31,488	3.43%	4.10%
Asia Pacific	34,644	34,643	36,186	3.94%	4.00%
Emerging Markets	88,730	93,093	96,206	10.47%	10.50%
Total Equities	**662,415**	669,893	**671,538**	**73.08%**	**70.00%**
Bonds					
Index Linked	**122,199**	123,607	**124,899**	**13.59%**	**15.00%**
Property					
CBRE	**68,473**	79,639	**82,142**	**8.94%**	**10.00%**
Private equity					
Pantheon	**35,333**	34,879	**35,012**	**3.81%**	**5.00%**
Cash & NCA	**9,204**	1,781	**5,320**	**0.58%**	**0.00%**
Total Assets	**897,624**	**909,800**	**918,910**	**100.00%**	**100.00%**
Fund Managers					
Legal & General	244,638	256,425	259,474	**28.24%**	**29.30%**
BlackRock	520,281	537,076	536,964	**58.43%**	**55.70%**

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The value of the fund increased by £12.2 million between March 2014 and June 2014. Equity gains were the main contributor to the market movements.

The recovery in equity markets in the last two years has seen the equity weighting rise to over 73%, in excess of its previous strategic weighting (70%). The other asset classes 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 £35 million funded from sales of equities. Following these acquisitions property investments at July 2014 represent nearly 9% of the portfolio (up from 8.1% at the end April 2014). These have been funded by sales of equities.

Since the quarter end, the appointments of Allianz (infrastructure debt) and CQS (multi sector credit) have been completed. Each involved an investment of £45 million. The CQS mandate was funded on 1st September, with realisations from equities. No funds have as yet been drawn by Allianz.

With the establishment of these two new mandates, the revised equity benchmark is 10% lower at 60%.

14. Investment Performance Update: to 30th June 2014

Appendix 1 provides details of the benchmarks and targets the fund managers have been set. The tables below show the performance in the quarter April to June 2014.

<u>14.1 Whole Fund</u>

	Return	Benchmark	(Under)/Out	
Apr-Jun 2014	2.39%	2.70%	(0.31%)	
One Year	9.11%	9.88%	(0.77%)	
Three Years	8.02%	8.57%	(0.55%)	
Five Years	12.05%	12.84%	(0.79%)	

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One year	Return (%)	Benchmark (%)	Under/out (%)
Equities			
UK	13.04	13.12	-0.08
Developed Europe	16.78	16.93	-0.15
North America	10.94	11.02	-0.08
Japan	-2.01	-1.71	-0.30
Asia ex Japan	6.14	6.19	0.05
Emerging	1.29	1.20	-0.09
I L gilts	4.40	4.31	0.09
Property	11.94	15.07	-3.13
Private equity	5.92	16.11	-10.19
Total	**9.11**	**9.88**	**-0.77**

Five years	Return (%)	Benchmark (%)	Under/out (%)
Equities			
UK	14.24	14.48	-0.24
Developed Europe	12.58	12.43	0.15
North America	17.27	17.39	-0.12
Japan	8.42	6.61	1.81
Asia ex Japan	12.64	12.59	0.05
Emerging	10.44	8.76	1.68
Index linked gilts	9.00	8.28	0.72
Property	7.51	11.09	-3.58
Private equity	9.09	20.43	-11.34
Total	**12.05**	**12.84**	**-0.79**

- All four time periods indicate under performance compared with the benchmarks, more so in the longer 3 and 5 year periods.
- Equity and index linked gilts, which are passively managed, show some variability compared to the benchmarks, but not significant differences.
- The main detractor from performance is private equity and property. These are discussed in detail below.

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14.2 BlackRock Investment Management

	Return	Benchmark	(Under)/Out
Apr-Jun 2014	2.14%	2.12%	0.02%
One Year	10.55%	10.28%	0.27%

- Total Value at 30/06/14: £538 million
- BlackRock manages equities and index linked passively.
- All the equity markets returned close to their benchmarks over 12 months, the most significant underperformance being 0.12 b.p. for Japan.

14.3 Legal & General Investment Management

	Return	Benchmark	Variance
Apr-Jun 2014	2.99%	3.08%	(0.09%)
One Year	6.09%	6.24%	(0.15%)

- Total Value at 30/06/14: £257 million
- Variances at regional level are minimal. The highest out-performance over one year was UK equities at 0.14 b.p. with European equities at minus 0.13 b.p being the greatest detractor.

14.4 CBRE Global Investors

	Return	Benchmark	(Under)/Out
Apr-Jun 2014	2.84%	4.30%	(1.46%)
One Year	11.70%	15.07%	(3.37%)
Three Years	4.99%	7.39%	(2.40%)
Five Years	7.91%	9.69%	(1.78%)

- Total Value at 30/06/14: £80 million

- The performance of the property has been poor over the reported periods. The table below, based on data from CBRE, segregates the returns for UK and European property.

	UK	Europe	Target
Quarter	4.8	-15.0	4.3
Year	15.9	-81.0	15.1
3 Years	8.7	-50.3	7.4
5 Years	10.6	-33.8	9.7

- The UK element of the portfolio has almost achieved its plus 1% target over 5 years and is positive in all periods.

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- The two European funds have very significantly underperformed. With an aggregate cost of £9.7 million, they are now valued at £0.7 million, a virtual total loss. Both funds are invested in highly leverage non prime property (German residential and Italian office / retail). The underlying holdings have suffered during the Euro crisis from low occupancy and refurbishment costs. The German fund has also lost money from interest rate hedges. The impact of the losses from the property holdings has been magnified on unit holders by the high levels of debt in each fund. Both funds are being rationalised which may offer an exit opportunity, but with little recovered value. The magnitude of the losses were not fully realised until a new valuer was appointed in 2013, who changed the basis of the valuation to one based on realisation proceeds reflecting the intention to sell the underlying properties.
- The portfolio will lag the benchmark for many years until the impact of the two European funds passes through.
- Both funds were established in 2006 and acquired by the previous property manager, ING, following a change in guidelines to permit 25% of the portfolio to be invested outside the UK. CBRE replaced ING in November 2011 taking over the existing portfolio. Due to the poor performance and high leverage it has not been possible to find an acceptable buyer for the two holdings. CBRE is a member of the investor advisory committees for these two investments and has been active if seeking an improved outcome.

14.5 Pantheon

	Return	Benchmark	(Under)/Out	Distributions Less drawdowns
Apr-Jun 2014	1.19%	3.68%	-2.49%	£0.9m
One Year	5.28%	16.11%	-10.83%	£2.01m
Three Years	8.61%	15.57%	-6.96%	-£0.7m
Five Years	9.07%	20.43%	-11.36%	£-24.49m

- Total Value at 30/06/14: £36 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%. The funds are still relatively young for long term returns to emerge. As yet only 69% of the committed funds have been invested and only a quarter of funds invested have been realised. Private equity valuations tend to underestimate exit prices. It is only when the fund is substantially realised will a more accurate picture of performance emerge.

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15. Responsible Investment Activity in the three months ended 30th June 2014

BlackRock	Legal & General	LAPFF
15.1 Environmental Issues		
	BP Meetings have been held with the Company to discuss a range of ESG issues and the structure of the newly formed Board. This includes discussions surrounding risk management and internal processes, Health and Safety, the ongoing settlement with the Department of Justice regarding the Gulf of Mexico and the Company's stake in TNK-BP. We will be arranging a meeting with the new Senior Independent Director later this year **Lamprell** In May, the Company announced a profit warning which led to a 57% drop in the Company's share price in one day. We held a conference call with the Board Chairman to discuss limited level of disclosure of key risks in the business and how this can have a significant impact on operations. We will continue to engage with the Company to improve	**Norwegian pension fund review** LAPFF reported the commissioning by the Norwegian Pension Fund (NPF) of an independent review to investigate whether it is better to address climate change by using influence as a shareholder in oil and gas stocks to engage, or alternatively developing responsible criteria to support an exclusionary stance. The NPF holds £43 billion in such stocks (8.6% of its equity portfolio). The review results are due in mid 2015 and LAPFF will monitor these closely. **Palm Oil** Following its participation in collaborative engagement with a number of US companies on sustainable palm oil, LAPFF was pleased to note at the beginning of April that

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BlackRock	Legal & General	LAPFF
	transparency. Subsequent to our conversation , the Company has announced that the Chairman would step down to become Deputy Chairman and a new independent Non-Executive Chairman was appointed	**General Mills** joined the growing number of companies that have pledged to only source from suppliers that provide fully traceable, deforestation-free palm oil.

BlackRock	Legal & General	LAPFF
15.2 Governance / Remuneration Issues		
A UK mining company held its Annual Group Meeting (AGM) this quarter where shareholders had the opportunity to vote on both the remuneration policy and report. BlackRock withheld support for their remuneration report at their last two AGMs. As a result, the CGRI team in close cooperation with portfolio managers, continued to engage with the company on their executive remuneration practices. During these engagements, BlackRock expressed concerns over a number of aspects, including the structure of the incentive schemes, inadequate transparency and the possibility for accelerated vesting of	**Thomas Cook** In Q3 2011, we reported to you our engagement with the Company which resulted in the CEO stepping down, a new Board Chairman being appointed and a full strategic reviewing being announced. LGIM has held private discussions with the Board Chairman regarding management succession. On the 24 May, the Company announced the appointment of a new CEO with FTSE 350 experience. We were consulted on her recruitment package **Carrefour**	**Barclays** LAPFF recommended voting against the re-election of the banks compensation committee chairman at the shareholder meeting on 25th April. LAPFF was particularly concerned by the scale of bonuses allied to the deteriorating performance, particularly within Barclay's investment banking division. Result: New chair of compensation committee elected following LAPFF and other shareholder pressure. **Smith & Nephew**

BlackRock	Legal & General	LAPFF
awards in case of a change in control. For the 2014 AGM, the company announced a number of changes, including a complete redesign of the executive incentive schemes, a considerable increase in disclosure and the elimination of problematic practices. As a result, BlackRock voted to support both the remuneration policy and the report. A UK provider of wireless technology and value-added services had its first ever say on pay at the 2014 shareholder meeting. The main concerns at the time of the vote were that awards were largely discretionary and that the long term incentive plan was not subject to any performance conditions. Furthermore, the company failed to disclose the limits of both the incentive schemes and the overall dilution. After careful consideration in cooperation with fund managers, BlackRock decided to abstain on the approval of the remuneration report given that it was the first time the company had submitted its pay policy to shareholders, and engage with the company in the second half of the year with the aim	We engaged with the Company ahead of the AGM to discuss severance agreements with the former and current CEO. As these agreements include the target bonus we explained to the company that this could result in rewarding for failure, therefore we opposed the agreements at the AGM	At the AGM LAPFF asked for more detail on factors taken into account in bonus payments. Sir John Buchanan, the chair, responded that both financial and nonfinancial issues were reflected in the bonus calculations. The remuneration chair, added that the score-card used took account not only of business objectives, but also had a measure of risk/return.

BlackRock	Legal & General	LAPFF
of encouraging changes ahead of the 2015 annual shareholder meeting. At the contested annual meeting of a UK company, a dissident shareholder sought to add a number of candidates to the board, citing a failure to deliver on promises of growth by underperformance against the sector on a wide range of measures thereby causing the share value to decline. BlackRock engaged extensively with both sides of this proxy contest, and while the dissident shareholder had made a compelling case, we determined not to support the election of the new board members proposed by the shareholder. Whilst we agreed, and further communicated to the company, that some measure of board level change and a new perspective on the company's strategy and performance would be beneficial given the poor track record, we reached the conclusion that the recently appointed Chairman should be provided with an opportunity to start a board renewal from within at a pace of his own. As part of an		

BlackRock	Legal & General	LAPFF
overall board review, the company subsequently announced a number of changes affecting the future composition of the Board, including a number of long standing board members stepping down, while commencing the search for new independent directors. We believe these changes should allow the Board to anticipate and address future technological and regulatory changes, ultimately being better positioned to maximize long-term value of the business and its shareholders. BlackRock will continue to monitor the situation over time and engage with the company when necessary.		

BlackRock	Legal & General	LAPFF
15.3 Other Engagement activity		
Members of BlackRock's EMEA CGRI team participated in a number of roundtables and one-to-one discussions with the objective of furthering the public policy debate on matters deemed important to investors and	**Chesapeake Energy Corp** We raised concerns including continued misalignment between executive remuneration and shareholder returns, the board structure, and the role of audit committee members following	

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BlackRock	Legal & General	LAPFF
which may help promote an increased understanding of BlackRock's approach to CGRI. We will aim to engage with those regulators and/or other corporate governance bodies where we can either highlight or suggest changes in current governance rules and market practices for the benefit of all BlackRock clients. BlackRock engaged with the Dutch Authority for the Financial Markets (AFM) regarding the Shareholder Rights Directive and its implications for investors. The discussion was centred on some specific aspects of the directive including shareholder approval of related party transactions and cross border voting.	issues surrounding the financial interaction between the co-founder/CEO and the Company. In an attempt to placate shareholder concerns ahead of the AGM the Company separated the roles of Chairman and CEO. In addition, at the AGM there was only 20% support for management's remuneration policy and the two audit committee members were not re-elected. The Company agreed to replace four of its board members. We shall continue to engage with the company to improve governance practices going forward	

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15.4 Proposals for SRI monitoring going forward (type SRI in full once please)

The current SRI monitoring arrangements consists of reporting key SRI and corporate governance engagements undertaken by Fund managers and the Local Authorities Pension Fund Forum (LAPFF) each quarter in a table in this report. This approach adds little value to members understanding of each issue and the part played by Fund managers and LAPFF in influencing and ultimately changing corporate behaviour to the benefit of shareholders. It is therefore proposed that the current arrangements are replaced with a more direct approach which involves Fund managers and a representative from LAPFF attending Pensions committee annually to focus specifically on these issues and answer any questions which committee members may have.

16. Budget Management – 3 months to 31st June 2014

	Prior year 2013-14 £'000	Current year 2014-15 £'000	Change in expenditure £'000
Contributions & Benefit related expenditure			
Income			
Employee Contributions	2,150	2,066	(84)
Employer Contributions	7,600	7,442	(158)
Transfer Values in	600	430	(170)
Total Income	10,350	9,938	(412)
Expenditure			
Pensions & Benefits	(10,100)	(12,215)	(2,115)
Transfer Values Paid	(825)	(542)	283
Administrative Expenses	(200)	(133)	67
Total Expenditure	(11,125)	(12,890)	(1,765)
Net of Contributions & Benefits	(775)	(2,952)	(2,177)
Returns on investment			
Net Investment Income	625	654	29
Investment Management Expenses	(400)	(218)	182
Net Return on Investment	225	436	211
Total	**(550)**	**(2,516)**	**(1,966)**

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The fund has moved into a position in which expenditure exceeds income as active membership fall and numbers of pensioners' increases. Member and employer contribution increases in 2014-15 will mitigate this trend.

The income shown for 2013-14 is virtually all from property as income from other asset classes is automatically re-invested and shown within the change in market value.

17. Late Payment of Contributions

17.1 The table below provides details of the employers who have made late payments during the last quarter. These employers have been contacted and reminded of their obligations to remit contributions on time.

Employer	Occasions late	Average Number of days late	Average monthly contributions(£)
Cofely Workplace	1	3	9,400
TLC	1	2	4,900

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.

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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%**			

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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%

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JOHN RAISIN FINANCIAL SERVICES LIMITED

Independent Advisors Report

Market Background 2013-14

The financial year 1 April 2013 to 31 March 2014 was, like 2012-13, another year in which the Central Banks played a major role. The year began with a dramatic announcement on 4 April 2013 by Haruhiko Kuroda the Governor of the Bank of Japan of a radical policy of monetary easing whereby the bank aimed to double the amount of money in circulation to reach 2% inflation in two years. In December 2013 after six months of market speculation the US Federal Reserve announced a tightening of its extremely loose monetary policy with a $10 billion taper in January 2014 of its monthly $85 billion worth of Quantitative Easing.

The announcement by the Bank of Japan on 4 April 2013 combined with intended fiscal and structural reforms by the Japanese Government represented a concerted effort (known as "Abenomics" after the Japanese Prime Minister Shinzo Abe) to end 15 years of deflation and general economic malaise through growth orientated policies. Following the announcement by the Bank of Japan of its huge Quantitative Easing programme the Nikkei 225 equity index increased by 31% between 1 April and 31December 2013. There was a significant fall in the index between January and March 2014 however the index ended the financial year 20% up. Despite questions about the likely long term success of "Abenomics" 2013-14 saw annual consumer price inflation rise to1.6% by March 2014 a remarkable figure in the context of recent Japanese economic history.

2013-14 was a clearly positive year for US equities, despite the fact that on conventional measures such as (Robert Shiller's) cyclically adjusted price/earnings ratio (CAPE) they appeared overpriced. The S&P 500 began the year on 1 April 2013 at 1569 and ended 19% higher at 1872 on 31 March 2014.

Despite some downward corrections during the year the S&P index reached new record highs during the year. This indicates that despite market concerns surrounding the "tapering" (reduction) in the US Federal Reserve's $85 billion per month Quantitative Easing programme and consequently a slower pace of monetary easing these were more than offset by other factors including improved sentiment resulting from continuing reductions in unemployment (which was 6.7% in March 2014 compared to 7.6% a year earlier), continuing house price increases (the Case Shiller House Price indices indicated increases of over 10% during the year), strong corporate earnings/balance sheets with pre-tax corporate profits at record highs, and the fact that the Federal Reserve indicated continued support for the Federal Funds (Base Rate) to remain at virtually zero. The Ukrainian crisis including the annexation of Crimea by Russia in March 2014 failed to halt the upward trend of the S&P 500.

Speculation and announcements regarding the future of Quantitative Easing were major features of the year. On 19 June 2013 Ben Bernankie the Chairman of the US Federal Reserve set out the case for “tapering” (reducing) its monthly $85 billion Quantitative Easing programme if the US economy grew as predicted. The immediate effect was a fall in the S&P 500 Index the following day, its biggest single day decline since November 2011 a fall of 2.5%. This fall had however been fully recovered by 5 July 2013. However, stock markets across the world reacted adversely to Mr Bernankie’s statement with Emerging Markets in particular suffering notable declines.

There was some expectation that the September 2013 meeting of the Federal Reserve Open Market Committee would see an announcement that “tapering” would begin. However on 18 September the Committee stated that it had decided that it required more evidence that improvements in economic activity and employment would be sustained before adjusting the pace of asset purchases.

However following further improvements in economic activity and reductions in unemployment the Federal Reserve announced on 18 December 2013 that it would “taper” its monthly Quantitative Easing programme by $10 billion from January 2014. This represented a decision by the Federal Reserve that it no longer needed to do ever more to facilitate economic recovery not an end to its highly simulative monetary policy. Indeed at the same time as announcing the beginning of the “taper” the Federal Reserve strengthened its forward guidance on policy emphasising that it would keep interest rates close to zero “well past” when US unemployment fell below 6.5% and said it wanted to see inflation heading back up towards its 2% target before the first rate rise. Consequently the S&P 500 achieved a (then) record high of 1,810 on 18 December 2013. Further “tapering” of $10 billion per month were approved by the Federal Reserve at both its January and March 2014 meetings.

In February 2014 Ben Bernankie stepped down after eight momentous years as Chairman of the US Federal Reserve and was succeeded by Janet Yellen. Mrs Yellen indicated her support for a continuation of the existing policy approach of the Federal Reserve in a speech in Chicago on 31 March 2014 stating extraordinary policy was “still needed and will be for some time to come.”

2013-14 was another difficult year for Emerging Markets. The prospect and then announcement of “tapering” by the US Federal Reserve was a major issue for Emerging Market economies which had seen large capital inflows as a result of the Unites States Federal Reserve policy of Quantitative Easing. Tapering by the Federal Reserve also implied a stronger United States economy and ultimately higher United States interest rates all of which would potentially entice investors towards the United States and away from Emerging Markets.

Concerns over tapering by the Federal Reserve together with deteriorating fundamentals such as high inflation (for example in India and South Africa), weakening growth, large current account deficits and economic slowdown in China resulted in significant selling off in emerging market currencies. Morgan Stanley identified a so called “fragile five” of Brazil, India, Indonesia, South Africa and Turkey. There were interest rate rises in a number of Emerging Market countries including India, South Africa and Turkey in an attempt by their Central Banks to improve economic stability. Over the financial year the FTSE All-World Emerging Markets index fell by 13.5%.

The promise by Mario Draghi President of the European Central Bank (ECB) in July 2012 to do “whatever it takes” continued to have positive effects in 2013-14.The prospect of a Eurozone crisis, which seemed so likely in 2011-12, clearly receded even further as demonstrated by further significant falls in Greek, Portuguese, Irish, Italian and Spanish 10 Year Government Bond yields between 1 April 2013 and 31 March 2014. For example the Greek 10 Year Yield fell from 12.48% to 6.57% while the Italian fell from 4.78% to 3.31%. Mr Draghi emphasised continued loose ECB monetary policy in July 2013 stating that key ECB rates were expected “to remain at present or lower levels for an extended period of time.”

2013-14 saw growth rather than contraction across the Eurozone economy, with Gross Domestic Product expanding by approximately 1% over the financial year, and strong purchasing of European shares by US investors. Eurozone stocks had a clearly positive year with the FTSE All-World Eurobloc Index advancing 18%.

The generally positive trend in the Eurozone was however mitigated by several factors. There was continued weakness in lending by the Eurozone banking sector and continued high unemployment in the peripheral Eurozone countries with Greece and Spain still experiencing levels well in excess of 20%. In particular there were growing concerns regarding a trend towards possible deflation with core Eurozone inflation below 1% for the last five months of the financial year. By March 2014 Eurozone Consumer Price inflation was a mere 0.7%. In January 2014 Mario Draghi stated that the Eurozone economy remained “fragile” and strongly emphasised that the ECB “will maintain an accommodative stance of monetary policy for as long as necessary.”

2013-14 was positive for the UK economy. There was broad based growth across manufacturing, services and construction. By February 2014 output in the UK services sector was reported to have reached levels last seen before 2008-2009. In March 2014 the Office for National Statistics reported unemployment was 6.8% compared to 7.8% a year earlier. The FTSE All Share index advanced by 5.2% over the financial year.

On 1 July 2013 Mark Carney took over from Sir Mervyn King as Governor of the Bank of England. In August 2013 the Bank of England introduced "forward guidance" into UK monetary policy indicating that a fall in unemployment to 7% would be a key indicator for an increase in Bank Rate from its present 0.5% the level held since 2009. However in January 2014 it was announced that unemployment had fallen to 7.1% in November 2013. This resulted in a rapid change in policy with the Bank of England announcing in February 2014 that it would abandon its policy of linking interest rate policy to unemployment.

2013-14 saw losses for holders of the "safe haven" government bonds. However despite the "taper" US Government 10 Year Bonds ended the 2013-14 financial year with a yield of 2.75% only 0.9% up over the financial year influenced at least in part by the Federal Reserve's continued commitment to ultra low interest rates. The UK 10 year benchmark increased over the year by 0.98% from 1.78% to 2.76%. However the German 10 year benchmark increased by only 0.29% from 1.29% to 1.58%.

Indeed the growing yield spread between UK and German Government Bonds and US and German Government Bonds was a clear feature of 2013-14 with the "spread" or difference reaching levels not seen since before the financial crisis which began in 2007. A significant factor in this trend is likely to have been developing differences in Central Bank policy and economic trends and expectations during 2013-14.

The Eurozone experienced very low inflation and weak growth and the ECB remained open to further monetary easing as demonstrated by its reductions in its main interest rate in May and November 2013. In contrast the US enjoyed broadly clearly positive economic indicators and the US Federal Reserve moved, albeit tentatively, towards tightening exceptionally loose monetary policy. UK economic performance was also clearly positive and the Bank of England was also anticipated to potentially begin monetary tightening in the foreseeable future.

John Raisin
Independent Advisor
29 July 2014

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Report for:	Pensions Committee 18th September 2014	**Item number**	

Title:	Pension Fund – Work Plan 2014-15

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 purpose of the paper is to identify topics that will come to the attention of the Committee in the next nine months and to seek Members input into futures agenda's.

2. Cabinet Member Introduction

2.1 Not applicable.

3. Recommendations

3.1 The Committee is invited to identify additional issues for inclusion within the work plan.

4. Other options considered

4.1 None.

5. Background information

5.1 It is best practice for a Pension Fund to prepare a work plan. This plan sets out the key activities anticipated in the coming municipal year in the areas of governance, members / employers, investment and accounting.

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6. Comments of the Chief Finance Officer & financial implications

6.1 There are no financial implications arising from this report.

7. Assistant Director of Corporate Governance comments and Legal Implications

7.1 The Assistant Director of Governance has been consulted on the content of this report. There are no specific legal implications arising from this report

8. Equalities and Community Cohesion Comments

8.1 Not applicable.

9. Head of Procurement Comments

9.1 Not applicable.

10. Policy Implications

10.1 None.

11. Use of Appendices

Appendix 1- future agenda's

12 Local Government (Access to Information) Act 1985

12.1 Not applicable.

13. Governance Issues

Member Training

13.1 Pension's is a specialist area involving the use of terminology that may be unfamiliar to new committee members. Training on all aspects of pensions is vital before Members are asked to consider technical issues.

13.2 An introduction to pension's session, presented by officers and the independent advisor, was held on 19th June. A further session considering engagement with investee companies and assets classes & strategy was held on 8th September. A further training session on assets classes and portfolio construction was hosted by Schroders prior to this Committee meeting.

13.3 It is proposed that a rolling programme of training is provided prior to each Committee meeting on both general topics and issues specific to the meeting agenda. This training will mainly be provided by the independent advisor and officers, with involvement from advisors, fund managers and the custodian.

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This programme of training cover areas of knowledge and skills identified in the CIPFA Pensions Knowledge and Skills Framework plus such other issues as are desirable for members of the Pensions Committee to have an understanding of.

Regulations

13.4 The Public Service Pensions Act 2013 will be fully implemented By April 2015. This will drastically change the governance framework under which pensions matters are managed and monitored. Due to the significance of the proposed changes, a consultation on their implications will commence mid June with final regulations in place by September 2014.

13.5 In addition to the regulations, the Pension Regulator, who has been given additional oversight responsibilities for LGPS administrative (but not investment) issues, will issue best practice guidance this summer relating to the controls and reporting that should be in place.

13.6 It is anticipated that a large proportion of the Committee's time in the next 6-9 months will be devoted to considering the options around the implementation of the regulations and code of practice.

14. Investment Strategy and Fund Managers

14.1 A detailed strategy review was completed in 2013-14 and it is not planned to repeat this exercise in the next twelve months, although the continued appropriateness of the strategy should be monitored. Material changes in the value of the assets, the pension liabilities, prevailing investment returns or interest rates will all impact on the continued appropriateness of the strategy.

14.2 The main item carried forward from the strategy review is the required level of inflation protection and whether this can be enhanced through the use of leverage index linked funds.

14.3 Other matters arising from the strategy that will feature on future agenda's are:

- The make up of the passive equity portfolio, in particular alternatives to market capitalisation based benchmarks.
- Additional commitments to private equity to maintain the 5% allocation.

14.4 The investment strategy is designed to generate an improvement in the funding level (bring assets into line with the value of pension liabilities). Over the last year, the funding level has improved by 3% to 73%. Improvements in the funding level offer the opportunity to take less investment risk through increasing the linkage between changes in the value of investments and pension liabilities. When these changes take place and how they will be implemented should be documented to ensure that opportunities to lock in favourable movements are not missed. It is intended to develop a long term investment plan linked to liabilities during the next year.

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15. Collective Investment Vehicle

15.1 The London Collective Investment Vehicle (CIV) is expected to be operational in Q1, 2015. Its role is to act on behalf of London LGPS to appoint and monitor fund managers, thereby generating fee savings, improving investment performance and increasing investment opportunities. Passive equity will be the first asset class for the CIV. Participation is voluntary and the Committee will be asked whether it wishes to switch the current BlackRock and Legal and General mandates to the CIV. Much will depend on the fee rates that the CIV is able to negotiate.

16 Routine Business

17.1 Other issues that will feature on agenda's include:

- Updates to statutory documents; the Statement of Investment Principles, Funding Strategy Statement, Governance Compliance Statement and Communications Policy. Other policy documents, such as disputes resolution procedures should also be reviewed.
- The approach to responsible investment and ESG issues.
- The setting and monitoring of budgets.
- The review of the fund's annual financial statements.

17 Future Meeting Agenda

17.1 Attached is an outline of the likely agenda items for the next three meetings. Additional items will be added as determined by the Committee.

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Appendix 1

Pension Committee - Meeting Plan

	Sep-14	Dec-14	Mar-15	Jun-15
Governance	Accounts & Auditors report			Audit Plan
	Work Plan			Work Plan
	Pension Board	Pensions Board developments	Pensions Board developments	
		Guidance from The Pensions Regulator		
		Collective Investment Vehicle (developments)	Collective Investment Vehicle (developments)	
Investment	Quarterly Report - val & perf	Quarterly Report - val & perf	Quarterly Report - val & perf	Quarterly Report - val & perf
			Annual review of investment strategy	
			Annual SIP & FSS review	
		Private Equity Proposal		Inflation Protection
		Review of listed equity portfolio		
Funding			Annual Valuation Update	
Training	Asset Allocation	Actuarial Valuation like for like comparison		
	Corporate Engagement (BlackRock)	Corporate Engagement (LAPFF)		Corporate Engagement (L&G)

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