Haringey Council

Pensions Committee

THURSDAY, 10th September, 2015 at 7.30 pm HRS - CIVIC Centre, High Road, Wood Green, N22 8LE.

Please note: At 6.30pm there will be training for Members of the Committee on roles and responsibilities within LGPS.

MEMBERS: Councillors Bevan (Vice-Chair), Ross, Basu, Bull (Chair), Peacock and Rice

Non-voting Members: Keith Brown, Michael Jones and Roger Melling

Quorum: 3 Councillors

AGENDA

1. FILMING AT MEETINGS

Please note this meeting may be filmed or recorded by the Council for live or subsequent broadcast via the Council's internet site or by anyone attending the meeting using any communication method. Although we ask members of the public recording, filming or reporting on the meeting not to include the public seating areas, members of the public attending the meeting should be aware that we cannot guarantee that they will not be filmed or recorded by others attending the meeting. Members of the public participating in the meeting (e.g. making deputations, asking questions, making oral protests) should be aware that they are likely to be filmed, recorded or reported on. By entering the meeting room and using the public seating area, you are consenting to being filmed and to the possible use of those images and sound recordings.

The Chair of the meeting has the discretion to terminate or suspend filming or recording, if in his or her opinion continuation of the filming, recording or reporting would disrupt or prejudice the proceedings, infringe the rights of any individual, or may lead to the breach of a legal obligation by the Council.

2. APOLOGIES FOR ABSENCE AND SUBSTITUTIONS (IF ANY)

To receive any apologies for absence.

3. 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 16 below. New items of exempt business will be dealt with at Item 20 below).

4. 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.

5. MINUTES (PAGES 1 - 8)

To confirm and sign the minutes of the meeting held on 13 July 2015 as a correct record.

6. LOCAL GOVERNMENT PENSION SCHEME - GUARANTEED MINIMUM PENSION RECONCILIATION INITIAL FINDINGS (PAGES 9 - 12)

Report of the Head of Human Resources and Shared Services to update the Pensions Committee regarding the Guaranteed Minimum Pension (GMP) reconciliation exercise.

7. LOCAL GOVERNMENT PENSIONS SCHEME - ADMISSION OF NEW EMPLOYERS AS TRANSFEREE ADMISSION BODY (PAGES 13 - 16)

Report of the Head of Human Resources and Shared Services relating to two new employers seeking to gain Admitted Body Status to the Local Government Pension Scheme – K M Cleaning and Maintenance Services Limited and Amey Community Limited.

8. LOCAL GOVERNMENT PENSION SCHEME - ADMINISTRATION REPORT, TRANSFERS OUT (PAGES 17 - 24)

Report of the Head of Human Resources and Shared Services to update the Pensions Committee with the number of members leaving the pension scheme and transferring their pension benefits out of the Local Government Pension Scheme to another pension provider.

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.

9. PENSION FUND ANNUAL REPORT AND ACCOUNTS 2014/15 AND ISA260 AUDIT REPORT (PAGES 25 - 186)

Report of the Assistant Director – Finance to present the audited Pension Fund Annual Report and Accounts for 2014/15 and the Annual Governance Report of the external auditors, Grant Thornton, which reports on their annual audit of the Pension Fund accounts.

10. INVESTMENT QUARTERLY UPDATE (PAGES 187 - 204)

Report of the Assistant Director, Finance, to report the following in respect of the three months to 30th June 2015:

- Investment asset values and allocation
- Investment performance
- Income and Expenditure
- Communications
- Late payment of contribution

11. INVESTMENT STRATEGY REVIEW (PAGES 205 - 242)

Report of the Assistant Director, Finance, to present Mercer's report on the impact of switching out of equities into a variety of alternative asset classes.

12. LONDON COLLECTIVE INVESTMENT VEHICLE (PAGES 243 - 248)

Report of the Assistant Director, Finance, to update the Committee on progress to make the CIV operational, including share capital requirements and future options to utilise the CIV.

13. THE ROLE OF THE PENSIONS REGULATOR IN LGPS (PAGES 249 - 258)

Report of the Assistant Director, Finance, to advise the Committee that the Pensions Regulator has published a code of practice titled “Governance and administration of public service pension schemes” and to discuss the implications of the code of practice and proposed actions to ensure that the Council and Fund operate in accordance with best practice.

14. APPLICATION FOR A COMBINED PENSION COMMITTEE AND BOARD (PAGES 259 - 268)

Report of the Assistant Director, Finance, to update the Pensions Committee on progress of the application to operate a Combined Pensions Committee and Board.

15. WORK PLAN AND MEETING REFLECTIONS (PAGES 269 - 274)

Report of the Assistant Director – Finance, to identify topics that will come to the attention of the Committee in the next twelve months and to seek Members’ input into future agendas.

16. ANY OTHER BUSINESS OF AN URGENT NATURE

To consider any items admitted at item 3 above.

17. EXCLUSION OF THE PRESS AND PUBLIC

The following items are likely to be the subject of a motion to exclude the press and public from the meeting as they contain exempt information as defined is Section 12A of the Local Government Act 1972, paragraph 3; namely information relating to the financial or business affairs of any particular person (including the authority holding the information).

18. EXEMPT MINUTES (PAGES 275 - 276)

To consider and confirm the exempt minutes of the meeting of the Committee held on 13 July 2015 as a correct record.

19. INVESTMENT QUARTERLY UPDATE (PAGES 277 - 280)

To consider exempt information pertaining to agenda item 10 above.

20. NEW ITEMS OF EXEMPT URGENT BUSINESS

To consider any new items of exempt urgent business as admitted by the Chair at agenda item 3 above.

21. DATE OF NEXT MEETING

Thursday, 14 January 2016

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Wednesday, 02 September 2015

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MINUTES OF THE PENSIONS COMMITTEE
13TH JULY 2015

Councillors	Bevan (Vice-Chair), Ross, Basu, Peacock and Rice
Also Present	Keith Brown (Non-voting) and Michael Jones (Non-voting)
Apologies	Roger Melling (Non-voting)

66. FILMING AT MEETINGS

The Chair referred Members present to item 1 as shown on the agenda in respect of filming at this meeting and Members noted the information contained therein.

67. APOLOGIES FOR ABSENCE AND SUBSTITUTIONS (IF ANY)

Apologies for absence were received from Roger Melling. Apologies for lateness were received from Cllr Peacock.

68. URGENT BUSINESS

There were no items of urgent business.

69. DECLARATIONS OF INTEREST

There were no declarations of interest.

70. MINUTES

In response to a question from the Committee regarding the minute number LC58 and the Guaranteed Minimum Pensions (GMP), Janet Richards, Pensions Manager, advised that this related to scheme members with service between 1978 and 1997. It was reported that from 2018 HMRC would cease to provide information to employers on GMPs, and employers would be responsible for ensuring that their own data on the GMPs for which they were liable was correct from this time. It was noted that this was a significant exercise.

Further to minute LC59 and the request for a briefing note on the possible use of the Pension Fund to contribute to the building of housing in the borough, George Bruce, Head of Finance – Pensions and Treasury, advised that he had been in contact with housing services regarding this possibility. It was reported that this was not a funding source that was being considered at present, but that if this were to change then officers would report back to the Committee.

RESOLVED

That the minutes of the Pensions Committee meeting held on 24 March 2015 be approved as a correct record and signed by the Chair.

71. WM PERFORMANCE PRESENTATION 2014/15

Lynn Coventry, State Street, gave a presentation to the Committee on the Fund's investment returns compared with other Local Government funds, and returns from the asset classes used by Local Government Pension Funds in general.

In response to a question from the Committee regarding the top-performing funds, and whether they shared any particular characteristics, Ms Coventry advised that these tended to be those funds with a heavier weighting in equities, as these had performed strongly over the past year, but with a lower weighting in UK equities, which had yielded smaller returns compared with other regions.

The Committee noted the value added to the Fund from transactions and asked about transactions more generally, in particular the cost to the Fund. Steve Turner, Mercer, advised that the cost from transactions in relation to Haringey's Fund was low as it was largely passively managed. It was noted that passive fund managers could only rebalance their portfolios in line with their mandate, and therefore there was not an issue of large numbers of transactions taking place at a cost to the Fund.

The Committee noted that it was most important to compare the Pension Fund's returns against its own liabilities, rather than against other funds, as meeting its liabilities was the critical issue for the Fund.

NOTED that the Haringey fund has out-performed the Local Government universe over the last 1, 3 and 5 years.

72. REQUEST TO APPROVE VIA A WAIVER A HOSTED PENSION WEBSITE PRODUCED BY HYMANS ROBERTSON

The Committee considered a report on the request to approve via a waiver a hosted pension website produced by Hymans Robertson, as presented by Janet Richards.

The Committee asked about the 'significant savings' referred to in the procurement comments of the report, and Ms Richards advised that this was compared with the cost of pensions staff administering the current web pages in-house. It was confirmed that the quality of the service would be reviewed after the initial 3-year period, and a decision taken at that time as to whether to continue with this site or seek an alternative solution.

In response to a question from the Committee, Ms Richards advised that it was intended that the website would include a member self-service facility.

The Chair moved the recommendation of the report and on a unanimous vote in favour it was

RESOLVED

To waive the Contract Standing Orders in accordance with paragraph 10.01 of the Contract Standing Orders of the Constitution on the basis that it is in the Council's overall interest to do so and approve the purchase of The Hymans Robertson Off the

Shelf Website for a period of three years for the set up cost of £4,000 plus £2,000 per annum. The total cost is £10,000.

73. PENSION FUND QUARTERLY UPDATE

The Committee considered the report on the Pension Fund Quarterly Update, as presented by George Bruce. The Committee noted the value of the Fund as £1,044,064,000 at 30 April 2015, and performance for the quarter up to 31 March 2015. In respect of the current asset allocations and those areas that were currently underweight compared with the strategy, it was noted that private equity and infrastructure allocations took time to draw down but would align with the strategic position over time.

The Committee noted that the European holdings that had suffered significant capital loss dated from 2007 and had been made by the previous property manager; it was noted that this was an issue that had affected many funds and was not specific to Haringey. In response to a question from the Committee, it was reported that no further European property investments had been made and that there were no current plans to do so. Any such investment would require the approval of the Committee.

The Committee also noted the resignation of the property portfolio manager from CBRE, and the interim management arrangements for this portfolio. Officers would meet with CBRE in due course to meet the new manager and provide the Committee with an update.

The Committee asked about the property portfolio, and why investment was in funds of funds rather than individual property holdings, as this involved an additional layer of fees. It was reported that this approach had been agreed by the Committee previously as it enabled greater diversity and a consequent reduction in volatility and risk. The Committee asked about the increase in investment management expenses as set out in the report, and it was advised that this was largely due to the increase in the value of the assets, as fees were charged as a percentage rather than a flat rate. Steve Turner advised that investment costs for the Haringey Fund were relatively low due to the high proportion of assets managed passively.

RESOLVED

That the information provided in respect of the activity in the three months to 31st March 2015 be noted.

74. ESTABLISHMENT OF PENSION BOARD

The Committee considered the report on the position of the Council’s application to operate a joint Pensions Committee and Pension Board and the actions taken in establishing a standalone Pensions Board, as presented by George Bruce. The Committee was asked to consider whether they still wished to pursue the option of having a joint Board.

In considering the background as set out in the report, the Committee were advised of the concerns raised by the Assistant Director of Corporate Governance with regards to the difficulties of a combined Pensions Committee and Board effectively scrutinising itself and the possible conflict of interest and that the preferred option would be to keep the Committee and Board separate. It was noted that, were the application for a joint Committee and Board to proceed and be granted by the Secretary of State, then such difficulties would need to be addressed. In terms of practical arrangements, it was noted that a combined Committee and Board would entail non-Councillors gaining voting rights on the joint body, and would mean more meetings of the joint body than the current number of Committee meetings per year. John Raisin, Independent Advisor to the Board advised that Members of a joint Committee and Board would be subject to the Pensions Regulator's requirements in respect of compulsory ongoing training and would be subject to inspection by the Regulator.

Mr Raisin advised that the purpose of the Pension Boards was to assist Pensions Committees; all decision-making would remain with the Committee and the Board would have no authority to challenge any decision of the Committee. The intention behind the introduction of the Pension Boards was to give employers and employees a greater role in their Pension Funds.

It was reported that there were pros and cons for both maintaining separate Pensions Committees and Boards and for the combined approach. It was noted that most Funds were operating with a separate Pension Board.

In response to a question from the Committee as to whether the function of the Pension Board could be fulfilled by Scrutiny, it was reported that this was something that had been looked into, but the Council's Scrutiny arrangements did not meet the requirements of the legislation in respect of Pension Boards.

In response to a question from the Committee, it was reported that if a combined Pensions Committee and Board were formed, this would be a single body, with the same members fulfilling both roles at the same meeting – it would not meet separately as the 'Committee' or the 'Board'. All members of the combined Committee and Board, Councillors and non-councillors, would have a vote at these Board meetings.

Cllr Bevan indicated that he was in favour of a combined Committee and Board, and noted that when this issue had been discussed previously, it had been indicated that the requirement to have a Pensions Board was particularly aimed at unfunded schemes where there were currently no committee structures in place, although it was noted that requirement did extend to the Local Government Pension Scheme under the legislation. Cllr Bevan also expressed concern at the sustainability and cost of providing training for members of a body that was only likely to meet twice yearly. It was felt that if the legal concerns around a combined Committee and Board arrangement were insurmountable, the Government would have raised these and not permitted any such arrangement.

Referring back to when the Committee had previously considered this issue, it was reported that it had been felt that in order for a Pension Board to effectively assist the Pensions Committee, the members of the Board would require considerable expertise. An issue had been raised regarding how easy it would be to find sufficient members with the requisite level of expertise to form a separate Board. John Raisin advised that, as Chair of a Pension Board in Merseyside, there had been no issues in recruiting to a separate Pension Board, however it was noted that the Merseyside Pension Fund was significantly larger than the Haringey Fund in terms of numbers of members. George Bruce advised that a nomination for a member of the Haringey Pension Board had been made by the trade unions, but that only a single individual had come forward from the employers, and no response had been received to an invitation for scheme members to take part.

The Committee considered the issue of voting rights and felt that this was unlikely to be an issue, as all members of a combined Committee and Board would be working together in the best interest of the Fund.

It was noted that if a combined Committee and Board were established, this would require changes to the Council's Constitution. It was noted that the approval granted by the Government for a combined Committee and Board in Hampshire was for a period of 12 months.

The Chair moved the recommendation of the report and on a unanimous vote it was

RESOLVED

That the Committee agree to proceed with its application to the Secretary of State to operate a joint Board.

75. PENSIONS COMMITTEE WORK PLAN AND TRAINING

The Committee considered the report on the work plan for the Pensions Committee for the next twelve months, as presented by George Bruce.

The Committee considered the issue of training, particularly as this would become increasingly important in light of the application to the Secretary of State for the approval of a joint Pensions Committee and Pension Board. It was suggested that training sessions should continue to be held in advance of scheduled meetings, and that some standalone training sessions would also be required. It was noted that attending training sessions by external providers would count towards the compulsory training for Pension Board members. It was suggested that the training attended by members between meetings be recorded in the minutes of the next meeting.

It was agreed that details of training courses available on pensions matters be circulated to the Committee.

In terms of future agenda items for the Committee, it was agreed that a standing report be produced on the number of people transferring out of the Haringey Pension Scheme. The Committee also requested a future report on ethical investment.

RESOLVED

That the approaches identified above in terms of training and items for future Committee agendas be agreed.

76. INVESTMENT STRATEGY UPDATE

The Committee considered the quarterly report on the Fund's investment strategy, as presented by Steve Turner, Mercer.

RESOLVED

i) That officers and advisers review the diversification of assets and, if considered appropriate, bring back proposals to reduce the equity allocation to the next meeting of the Committee.

ii) That the equity allocations be rebalanced as part of the consolidation of the two passive mandates, which will reduce the North American weighting, as set out in paragraph 5.4 of the report.

77. ANY OTHER BUSINESS OF AN URGENT NATURE

There were no new items of urgent business.

78. DATE OF NEXT MEETING

10 September 2015, 7.30pm.

79. EXCLUSION OF THE PRESS AND PUBLIC

RESOLVED

That the press and public be excluded from the meeting for the following items as they contain exempt information as detailed in Section 100a of the Local Government Act 1972, Paragraph 3; information relating to the business or financial affairs of any particular person (including the Authority holding that information).

80. EXEMPT MINUTES

RESOLVED

That the exempt minutes of the meeting of the Pensions Committee held on 24 March 2015 be approved as a correct record and signed by the Chair.

81. INVESTMENT STRATEGY UPDATE

The Committee considered the exempt information pertaining to agenda item 11.

82. REVIEW OF PASSIVE INVESTMENT MANAGER STRUCTURE

The Committee agreed the recommendation of the report.

83. ANY ITEMS OF EXEMPT URGENT BUSINESS

There were no items of exempt urgent business.

The meeting closed at 21.05 hrs.

MINUTES OF THE PENSIONS COMMITTEE
13TH JULY 2015

Councillor Clare Bull

Chair

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Report for:	**Pension Committee 10th September 2015**	**Item Number:**	

Title:	Local Government Pension Scheme - Guaranteed Minimum Pension Reconciliation initial findings

Report Authorised by:	**Jacquie McGeachie – Assistant Director Human Resources**

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

This report is an update to the March 2015 report to the Pension Committee regarding the Guaranteed Minimum Pension (GMP) reconciliation exercise.

The Pension Committee agreed in March that the fund could commence the GMP reconciliation exercise by obtaining the contracted out GMP data from HMRC and comparing that information with the data held on the pension administration system, Altair. The initial exercise has commenced. This exercise identifies where the GMP held by the HMRC does not agree with the GMP held by the fund.

2. Cabinet Member introduction

Not applicable

3. Recommendations

Members note and agree:

3.1 The first stage of the exercise for the reconciliation of GMP has been completed and it identifies where there are differences between the Funds' scheme records and HMRC records.

3.2 That following the first stage, the Pension Administration Team has assessed the potential resources required to reconcile the identified differences and complete the GMP reconciliation exercise This will include the need for additional resources, to hire an additional temporary member of staff with pension administration experience on a fixed

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term contract for at least 1 year. The cost of this person on a S01 grade £38083.21 (including oncost) will be met from the pension fund.

3.3 Agree a tolerance level for reconciliation it is recommended that the fund adopts the Pensions Regulators £2 per week tolerance.

3.4 Agree a policy regarding recovery of any current overpayments of £250 (reclaim over £250 and write off any overpayment under £250) and pay any underpayments

4. Alternative options considered

Not applicable

5. Background information

5.1 . The fund has registered with the HMRC's Scheme reconciliation service and received a data file with contracted out periods and GMP data for members who have left contracted out employment. The key objective of this stage is to determine the scale of the work that needs to be done, agree the tolerances that we will be working to and understand the resourcing requirements

5.2 This file contained 32,255 entries which were read.

Heywood's Altair system produced a report identifying areas of data mismatch between scheme records and data held on behalf of the scheme by HMRC.

Initial analysis of this data shows 23,257 records were matched. Some initial discrepancies between the data which have been identified include 8,998 rejected records and 16,234 queried records some of the reasons for rejection or query are included below and each record will have to be looked at individually**:** We will for the next pension committee produce a report to compare our results with a number of other local authorities.

Mismatches on contracted out dates

Mismatches on the value of the GMP

Name mismatches

HMRC data entries where there is no match to a record on Altair

Data entries from HMRC match to a record on Altair where the member has transferred out

GMP HMRC / ALTAIR	Number
Entries Read	32,255
Matched records	23,257
Rejected records	8,998
Queried records	16,234

5.3 To manage the first stage of this project additional resources will be required. One additional temporary role for approximately 1 year has been identified to complete the initial data investigative work and commence the liaison with the HMRC. The cost of

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this person on a S01 grade is £38083.21. Once the initial work has been done there will be additional work to be done.

5.4 Tolerance level for reconciliations, it is recommended that the fund adopts the Pensions Regulators £2 per week tolerance.

5.5 The fund adopts a policy regarding recovery of any current overpayments in excess of £250.00 and write off less than £250.00) and pay any underpayments

5.6 This exercise will ensure that no pensioner is underpaid because of the GMP. If a tolerance level lower than £2 per week is applied there is a risk that the exercise will take longer than a year to complete and there is also a risk that we will not be able to complete our obligation to complete this exercise. We will calculate for the next pension committee an estimate of the annual cost to the pension fund if a tolerance level of £2 per week is applied.

6. Comments of the Chief Finance Officer and financial implications

It is critical that GMP record differences are to ensure that the Fund pays the correct level of benefits. This will be a time consuming exercise and the additional requested resources are reasonable. A tolerance of up to £2 week will reduce the cost of the review without incurring substantial costs. [need more information on the number of cases below £2 and estimated cost of this tolerance. Also the overall cost of the exercise]

7 Assistant Director of Corporate Governance and legal implications

7.1The Assistant Director of Corporate Governance has been consulted on the content of this report. The reconciliation exercise is necessary if the Council, in its capacity as administering authority for the Haringey Pension Fund, is to meet its obligations.

7.2In agreeing the tolerance and recovery policy must take into account the Administering Authorities fiduciary responsibility, the professional advice given to it and the likely costs that is likely to be incurred.

8 Equalities and Community Cohesion Comments

Not applicable

9 Head of Procurement Comments

Not applicable

10. Policy Implication

Not applicable

11 Reasons for Decision

The Council is obliged under the Local Government Pension Scheme Regulations 2013 to have best governance practice and meet record keeping requirements.

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12 Use of Appendices

13 Local Government (Access to Information) Act 1985

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Report for:	**Pension Committee 10 September 2015**	**Item Number:**	

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

Report Authorised by:	**Jacquie McGeachie - Assistant Director Human Resources**

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.

This report is dealing with two new employers seeking to gain Admitted Body Status to the Local Government Pension Scheme –K M Cleaning and Maintenance Services Limited and Amey Community Limited

2. Cabinet Member introduction

Not applicable

3. Recommendations

That members agree:

3.1 That the cleaning contractor K M Cleaning and Maintenance Services Ltd be admitted to the Haringey Pension Fund as a Transferee Admission Body. The reason being K M

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Cleaning and Maintenance Services Limited is entering into a service contract with the Governing Body of the LDBS Academies Trust Schools i.e Holy Trinity, St Anns and St Michaels Schools and is subject to an admission agreement.

3.2 That the admission agreement be entered into and that the agreement is a closed agreement such that no new members can be admitted.

3.3 That the contractor Amey Community Limited be admitted to the Haringey Pension Fund. The reason being Amey Community Limited is entering into a service contract with FM services department is subject to an admission agreement.

3.4 That the admission agreement be entered into and that the agreement is a closed agreement such that no new members can be admitted

4. Alternative options considered

n/a

5. Background information

5.1 LDBS Academy Trust and K M Cleaning and Maintenance Services Limited

5.1.1 The LDBS Academies Trust will be outsourcing their cleaning functions to contractors on 1 October 2015. Staff will be TUPE transferred, they are members of the Local Government Pension Scheme (LGPS).

5.1.2 The contract is for one year Staff are required to work no less then 50% of their time on the contract.

5.1.3 The contractor (KM Cleaning and Maintenance Services Ltd) will pay an employer contribution rate set by the actuary of 31.4%. 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.

5.1.4 Where there is a potential contractor’s deficit or redundancy liability the contractor is required to provide a bond to protect the fund from default arising from insolvency. As an alternative to carrying deficit liability and providing bonds the contractor has the option will pay an additional 5% employer contribution. The contractor remains liable for the cost of capital cost payments if staff aged 55 and over were made redundant.

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

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5.1.6The transferee admission bodies meets the requirements of regulation 3 of the Local Government Pension Scheme Regulations 2013 and the administering authority must admit the eligible employees of the transferee admission bodies in to the fund.

5.2 Haringey Council Facility Management and Amey Community Ltd

5.2.1 The Council's Cabinet agreed on 14 July to the Council's Facilities Management Department outsourcing their functions to the contractors Amey Community Ltd on 1 November 2015. Staff will be TUPE transferred, they are members of the Local Government Pension Scheme (LGPS).

5.2.2 The contract is for five years with a option to extend for a further three one year periods Staff are required to work not less then 50% of their time on the contract.

5.2.3 The contractor , (Amey Community Limited) will pay an employer contribution rate set by the actuary of 26.8%. 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.

5.2.4 Where there is a potential contractor's deficit or redundancy liability the contractor is required to provide a bond to protect the fund from default arising from insolvency. The contractor remains liable for the cost of capital cost payments if staff aged 55 and over were made redundant.

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

5.2.6 The transferee admission bodies meets the requirements of regulation 3 of the Local Government Pension Scheme Regulations 2013 and the administering authority must admit the eligible employees of the transferee admission bodies in to the fund.

6 Comments of the Chief Finance Officer and financial implications

The transferred liabilities and future accruals for 38 members of staff is a very small part of the overall scheme. The contribution rate being paid by the contractor exceeds the Council rate and includes a margin over the estimated future service costs to protect the Council and the pension fund from future defaults by the contractor.

7 Assistant Director of Corporate Governance and legal implications

7.1 Under Regulation 3 of the Local Government Pension Scheme Regulations 2013 the employees involved are eligible to remain members of the Haringey Pension Fund if the service providers named in this report enters into an Admission Agreement with the Council as administering authority. The Admission Agreements are still to be agreed and will be a closed agreement.

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7.2 Members should note that a "pass through arrangement" (as set out in paragraphs 5.3 and 5.4) has also been agreed with KM Cleaning and Maintenance Services Ltd which means there is no bond/ indemnity or guarantee being provided.

8. Equalities and Community Cohesion Comments

N/A

9. Head of Procurement Comments

N/A

10. Policy Implication

N/A

11 Reasons for Decision

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

12 Use of Appendices

13 Local Government (Access to Information) Act 1985

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Report for:	**Pension Committee 10th September 2015**	**Item Number:**	

Title:	Local Government Pension Scheme - Administration report Transfers out

Report Authorised by:	**Jacquie McGeachie - Assistant Director Human Resources**

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

This report is to update the Pensions Committee with the number of members leaving the pension scheme and transferring their pension benefits out of the Local Government Pension Scheme to another pension provider.

2. Cabinet Member introduction

Not applicable

3. Recommendations

Members note:

3.1 The number of scheme members (as set out in paragraph 5.6 and 5.7) that have or are transferring their pension benefits into a defined contribution pension scheme

4. Alternative options considered

Not applicable

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5. Background information

5.1 Freedom and Choice offered flexibility in the way individuals age 55 and over can access their pension benefits.

5.2 From 6 April 2015 members can transfer their pension benefits to a defined contribution scheme and access their pension benefits through freedom and choice.

5.3 The Government acknowledged that the additional flexibility from 6 April 2015 for people with defined contribution benefits may increase interest from members wishing to transfer from Defined Benefit to Defined Contribution pension schemes. In acknowledging this the Government introduced safeguards including a requirement for members to get appropriate independent advice from a Financial Conduct Authority (FCA) authorised adviser where their benefits in the Scheme are valued at more than £30,000.

5.4 During the period 6 April 2015 to 31 July 2015, 36 members of the Haringey Scheme enquired about transferring their pension benefits to another pension scheme.

5 .5 A letter (appendix 1), is sent to members who request a cash equivalent transfer value if they are not transferring to another Local Government pension fund. This letter notifies members that they can request a transfer value and the members also receive a copy of the Pension Scam Leaflet which is issued by the Pensions Regulator

5.6 Of the 36 transfer out requests made this financial year 15 transfer values valuing £930,188.76 have been paid by the pension fund. Eight were paid to Local Authority Pension Funds amounting to £434,809.69.Two were paid to other occupational pension schemes amounting to £85,631.15 and the others, five valuing £409,747.92, were paid to personal pension schemes or defined contribution schemes, (one of these transfers amounting to £219,631.78 was made to a scheme by an individual who requested the transfer before the implementation date of the new regulations).

5.7 Since the introduction of the new transfer requirements on 6 April to obtain independent financial advice if the value of the cash equivalent transfer value is over £30,000 we have had no members who have requested and transferred to a defined contribution scheme or personal pension scheme with a transfer value in excess of £30,000.00

6. Comments of the Chief Finance Officer and financial implications

The Pensions Committee have previously expressed concern that members leaving the scheme may have received poor advice and that if it is subsequently established that the decision to transfer was inappropriate that there may be demands to reinstate into the Haringey scheme. Members leaving the scheme do not place an additional actuarial burden on the Fund. The numbers transferring to non workplace providers is reassuring low.

7 Assistant Director of Corporate Governance and legal implications

The Assistant Director of Corporate Governance has been consulted on the content of this report. The report raises no legal issues.

Haringey Council

8 Equalities and Community Cohesion Comments

Not applicable

9 Head of Procurement Comments

Not applicable

10. Policy Implication

Not applicable

11 Reasons for Decision

To update the pensions committee

12 Use of Appendices

Appendix 1 – Transfer Letter

13 Local Government (Access to Information) Act 1985

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Pensions Team
4th Floor, Alexandra House, 10 Station Road, Wood Green, London N22 7TR
Tel: 020 8489 5916
www.haringey.gov.uk

Haringey Council

Your Ref: ~
Our Ref: PEN/KH/~
This matter is being dealt with by: ~

E-MAIL: pensions.mailbox@haringey.gov.uk

Name
Add
Add
Add
Add
Add

12 August 2015

Dear Mr/Mrs,

LOCAL GOVERNMENT PENSION SCHEME REGULATIONS
RE: ~ Transfer Request

I acknowledge your letter received on the #date requesting a Cash Equivalent Transfer Value (CETV) quote for #name . A CETV can only be paid if the following apply:

1) You cannot be a current member of the pension scheme.

2) You must have three months or more service in the pension scheme to be entitled to a CETV calculation (except where a member retires with immediate entitlement to a pension on the grounds of redundancy business efficiency or ill health).

3) If you are in receipt of a LGPS pension you will not be entitled to a CETV calculation for any further period of scheme membership.

4) If you have deferred benefits in the LGPS, then subsequently rejoin the pension scheme and you do not aggregate the membership (i.e) you retain separate benefits you would not be entitled to a cetv whilst still an active member of a new employment in respect of the deferred benefit.

5) You are not entitled to a cetv calculation if you are within 12 months of your Normal Pension Age or you have already attained your Normal Pension Age.

6) You can only ask for one transfer statement within a 12 month period.

7) You will be required to take independent advice before transferring safeguarded benefits to another scheme with a view to acquiring a right or entitlement to flexible benefits if the transfer value of their rights in the LGPS (excluding AVCs) is more than £30,000. The cost of this financial advice has to be paid by the member and although not required in respect of transfer values of £30,000 or less (or in respect of a transfer of AVCs) the member is recommended to seek Independent Financial Advice before deciding to transfer their LGPS pension benefits and /or AVCs out to a pension scheme with a view to acquiring a right or entitlement to flexible benefits under that scheme.

Having read the above, if you are entitled to a CETV then please complete the slip below. If we have not heard from you within 6 weeks then we will assume quote is no longer required

Yours Sincerely

Pensions Manager

To, Haringey Pension Team, 4th Floor, Alexander House, 10 Station Road, Wood Green, London, N22 7TR.

Name ....   National Insurance Number ....

Date of Birth ....

- I have read the above and request the CETV quote.
- I have also read the enclosed Pension Scam letter
- I understand that if the transfer value is over 30,000, I will be required to seek advice from a registered member of Financial Conduct Authority (FCA) who are specialised in pension transfers.

The following website provides impartial information
www.pensionsadvisoryservices.org.uk

Signed ....   Dated ....

Scammers don't care whether you're an inexperienced investor or have never put your money anywhere other than a bank. They will try to flatter, tempt and pressure you into transferring your pension fund into an investment with guaranteed returns. Once the transfer has gone through, it's too late. Remember, the only people who benefit from scams are the scammers themselves.

How to spot the warning signs

Some of the most common tactics used by scammers to trick you out of your savings

A cold call, text message, website pop-up or someone coming to your door offering you a **'free pension review'**, **'one-off investment opportunity'** or **'legal loophole'**

Convincing marketing materials that promise you **returns of over 8%** on your investment

Paperwork delivered to your door by courier that requires immediate signature

Pension access before age **55**

Overseas transfer of the funds

A proposal to put your money in a single investment. **In most circumstances, financial advisers will suggest diversification of assets.**

What to do if you spot a scam

- Never be rushed or pressured into making a decision
- Before you sign anything, call The Pensions Advisory Service on 0300 123 1047
- If you have already accepted an offer, report it to Action Fraud at www.actionfraud.police.uk or call 0300 123 2040

Arm yourself with the facts and stop a lifetime's savings being lost.

Visit **www.pension-scams.com** to find out more.

A cross-government initiative by:

ActionFraud National Fraud & Cyber Crime Reporting Centre

City of London Police

HM Revenue & Customs

the Money Advice Service

FCA Financial Conduct Authority

NCA National Crime Agency

SFO serious fraud office

The Pensions Advisory Service

The Pensions Regulator

Agenda Item 9

Haringey Council

Report for:	Pensions Committee 10th September 2015	**Item number**	

Title:	Pension Fund Annual Report and Accounts 2014/15 and ISA260 Audit report

Report authorised by :	Kevin Bartle, Assistant Director – Finance

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 2014/15 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 2014-15.

3.3 That the Chair and Chief Financial Officer are authorised to sign the letter of representation to the Auditor.

Haringey Council

4. Other options considered

4.1 None.

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 24th March 2015 Grant Thornton presented their plan detailing how they would undertake the audit of the 2014/15 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 Chief Financial Officer is pleased to report that the Pension Fund auditors have given an unqualified audit opinion to the financial statements. One recommendation concerning the monitoring of contribution rates has been accepted.

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 must comply 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.

Haringey Council

9. Head of Procurement Comments

9.1 Not applicable

10. Policy Implications

10.1 None.

11. Use of Appendices

11.1 Appendix 1: Pension Fund Annual Report and Accounts 2014-15
Appendix 2: ISA260 - Annual Governance Report, Grant Thornton (to follow)
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 2014/15

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 2014/15 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 £1,045m as at 31st March 2015, an increase of £146m. Investments added £147m net of expenses, while

Haringey Council

benefits and other expenditure exceeds contributions and transfers in by £1m.

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 Mr Paul Jacklin, the Audit Manager.

14.2 The Auditor's have made one recommendation (page 15 of their report) concerning improving the monitoring of contribution rates in use by non Council employers. The recommendation has been implemented.

14.3 The report also mentions changes to private equity valuations (page 16) during the audit. This is a regular occurrence as the March report from the fund manager is not available when the accounts are first drafted. As noted in the report (age 17) a number of disclosures were revised when the accounts were reviewed.

15. Internal Audit Reports

15.1 The findings from internal audits have not previously been reported to the Pensions Committee, instead to the Corporate Committee. During 2014-15, one report was issued concerning pension fund investments. The conclusion was that the Auditors had received full assurance and no recommendations were made.

15.2 In future, Internal Audit reports will be presented in full to the Pensions Committee.

15.3 Internal audits have to date concentrated on the investments. It has been agreed that a wider scope will be considered when the Fund has developed its own risk register.

16. Letter of Representation

16.1 The Chair and the Chief Financial Officer are required to sign a letter of representation to acknowledge the Council's 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 2015

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 2015.

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

The benefits payable in respect of service from 1st April 2014 are based on career average revalued earnings and the number of years of eligible service. Pensions are increased each year in line with the Consumer Price Index. For service prior to April 2014 benefits are based on final salary and years of service. 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 5,958 active members (2014: 5,838), 8,678 (2014: 8,336) deferred members, and 7,080 (2014: 6,891) 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 56 show that the value of the Fund's assets increased by £146m to £1,045m as at 31 March 2015. The most significant factor in the increase in the value of the fund was the increase in the market value of investments of £146m. Investment income added £4m, with management expenses of £3 million and a net deficit of £1m resulting from benefit payments being more than contributions offset it. The value of the Fund’s investment assets has decreased by £33m (3.2%) from 31 March to 30 June 2015” that would be appreciated.

Investments

During the year the rate of return on the Fund’s investments was 16.1%. This was 0.75% 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 11.

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

Service Delivery

Pension Fund Advisers

Management report for 2013/14

Membership

Governance Arrangements

Haringey Council in its role as Administering Authority delegated responsibility for administering the Pension Scheme to the Pensions Committee during the year. Details of the individuals who served on the Pensions Committee during 2014/15 are shown below.

The terms of reference for Pensions Committee are set out in the Council's constitution. The Committee consisted of six 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 2014/15 year was:

Cllr Isidoros Diakides	Chair
Cllr John Bevan	Vice Chair
Cllr Patrick Berryman	
Cllr Natan Doron	
Cllr Denise Marshall	
Cllr Viv Ross	
Roger Melling	Employee representative
Michael Jones	Pensioner representative
Keith Brown	Admitted & Scheduled Bodies representative

Governance Compliance Statement

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.

Pension Board

Regulations require that all Local Government Pension Schemes establish a pension board by 1st April 2015, whose role is to assist the Council to ensure compliance with regulations and also effective and efficient governance and administration. The Board is intended to operate alongside the Pensions Committee, with the latter retaining the decision making authority. The Council has established a Pension Board in compliance with regulations but has requested Government approval to allow the existing Pensions Committee to undertake the role of the Pension Board.

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

Chief Operating Officer (CFO from August 2015)	Tracie Evans
Assistant Director – Finance (CFO to August 2015)	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 CQS Allianz Global Investors
Custodian	Northern Trust
Investment Consultants	Mercer
Independent Adviser	John Raisin Financial Services Limited
Bankers	Barclays 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
External Auditors	Grant Thornton UK LLP

Management Report for 2013/14

Financial Performance

Two new credit mandates (multi sector credit & infrastructure debt) were added to the investment strategy during the year, reducing the target allocation to listed equity by 10% to 60%.

The investment performance during the year was positive at 16.1% with all markets in which the Fund invests providing returns in excess of 10%, with the exception of UK and European equities that returned 7-8%. The performance was slightly below target (by 0.75%) mainly due to the relative returns from property & private equity. The latter typically underperforms when markets are rising strongly due to timing of valuations.

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 2014-15 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 651 to 21,716 between the years. The number of scheduled bodies was unchanged at 24.

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 in consideration of 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 audited internal controls reports regularly to the Council, which set out how they ensure the Fund's assets are safeguarded against loss and misstatement.

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 2015, compared to the previous year.

	31st March 2015	**31st March 2014**
Administering Authority	1	1
Scheduled Bodies	22	22
Transferee Admission Bodies	11	7
Community Admission Bodies	3	3
Bodies no longer participating	10	10
TOTAL	**47**	**43**

The membership of the Pension Fund at 31st March 2015 compared with the previous financial year is shown in the table below:

	31st March 2015	**31st March 2014**
Active members	5,958	5,838
Deferred members	8,678	8,336
Pensioners & Dependants	7,080	6,891
TOTAL	21,716	21,065

The table above shows an overall increase in membership of 3.1% due to staff increases at academy employers and auto enrolment of new joiners.

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	4,415	7853	6527
Haringey Council Councillors	0	23	9
Homes for Haringey	437	215	169
College Haringey, Enfield & NE London	141	268	129
Greig City Academy	50	25	4
Fortismere School	45	25	8
John Loughborough School	1	12	6
Alexandra Park Academy	78	10	4
Woodside Academy	65	3	1
Eden Free School	11	4	0
Harris Academy Coleraine	29	0	0
Harris Academy Philip Lane	32	5	2
AET Trinity Primary	30	3	1
AET Noel Park	46	4	1
Haringey 6th Form Centre	64	6	0
St Pauls & All Hallows Infant Academy	27	1	0
St Pauls & All Hallows Junior Academy	14	2	0
St Michaels Academy	27	1	0
St Ann CE Academy	21	1	0
Holy Trinity CE Academy	14	2	0
Brook House Primary	14	1	0
Heartlands Academy	68	2	0
St Thomas More School Academy	30	1	4
Milbrook Primary School	7	0	0
Community Admission Bodies			
Alexandra Palace Trading Co Ltd	4	10	9
Haringey Age UK	1	6	16
Haringey Citizens Advice Bureau	5	1	6
Transferee Admission Bodies			
Cofely Workplace Ltd	50	18	16
Churchill Contract Services	2	1	1
Fusion Lifestyle	48	19	3
TLC Ltd	11	9	6
Urban Futures London Ltd	3	8	0
Veolia Environmental Services (UK) plc	109	24	13
Lunchtime UK [six school contracts]	21	0	1
ABM	4	0	0
Caterlink	15	0	0
Absolutely Catering	3	0	0
The Octagon	16	0	0
Bodies no longer actively participating			
CSS (Haringey) Ltd	0	26	54
Enterprise Futures London Ltd	0	38	44
Haringey Magistrates	0	20	18
Harrisons Catering	0	1	2
Initial Catering Ltd	0	1	1
Jarvis Workspace Ltd	0	22	20
Mittie Ltd	0	0	2
One Complete Solution Ltd	0	1	1
Ontime Parking Solutions	0	3	1
RM Education Ltd	0	3	0
Europa Facilities Services Ltd	0	0	1
Totals	**5,958**	**8,678**	**7,080**

Investment Policy & Performance Report

Investment Strategy

Responsible Investment

Fund Managers

Investment Performance

Market Developments 2014-15

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.

Pensions 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 65. 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 a revised strategic asset allocation was agreed that reduced the allocation to listed equities by 10% (to 60%) and created two new allocations of 5% each – Infrastructure debt and multi-sector credit. The implementation of the new strategy took place during the year.

The Fund's benchmark showing target asset allocation during 2014-15 is shown below, alongside the actual allocation of the Fund's investments at 31st March 2015. 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 2015**
UK Equities	15.0	16.0
Overseas Equities	45.0	50.0
UK Index linked gilts	15.0	14.2
Multi Sector credit	5.0	4.4
Infrastructure debt	5.0	1.9
Property	10.0	9.3
Private Equity	5.0	3.8
Cash	0.0	0.4

<u>Custodial arrangements</u>

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 its behalf.

In addition to this, all the Fund's managers are signatories to the 'United Nations Principles for Responsible Investment' initiative.

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 2014/15, the asset classes they cover and their percentage of the Fund's investments on 31st March 2015 are shown in the table below (the remaining 0.4% was invested in-house in cash):

Investment Manager	Mandate	% at 31 March 2015
BlackRock Investment Management	Passive Global Equities & Bonds	52.5%
Legal & General Investment Management	Passive Global Equities & Bonds	27.8%
CBRE Global Investors	Property	9.3%
Pantheon	Private Equity	3.8%
CQS	Multi Sector Credit	4.4%
Allianz Global Investors	Infrastructure Debt	2.0%

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 3.5%	Benchmark
CQS	3 month libor +5.5%	Benchmark
Allianz Global Investors	5.5% p.a.	Benchmark

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 2015.

	1 year	3 years	5 years
Overall Pension Fund performance	16.10	11.84	9.47
Benchmark	16.85	12.33	9.92
Performance versus benchmark	(0.75)	(0.49)	(0.45)

Individual fund manager performance against the benchmarks during 2014/15 is shown in the table below. The returns for CQS and Allianz are part year only. The mandates that were in place for the full year all produced strong absolute returns. Private equity valuations are estimated and lag the changes in public equity markets, which results in underperformance when listed equities (the benchmark) rise strongly but out-perform in subsequent years when valuation movements catch up with listed markets.

Fund Manager	**Mandate**	**Annual actual return %**	**Annual benchmark return %**	**Annual (Under)/Over Performance %**
BlackRock Investment Mgt	Passive Equities & Bonds	17.42	17.32	0.10
Legal & General Investment Mgt	Passive Equities & Bonds	16.28	17.00	(0.72)
CBRE Global Investors	Property	13.74	16.69	(2.95)
Pantheon	Private Equity	14.90	23.80	(8.90)
CQS	Multi Sector Credit	2.31	1.51	0.80
Allianz	Infrastructure Debt	1.78	1.35	0.43
Total Fund Performance		**16.10**	**16.85**	**(0.75)**

Market Developments 2014-15

The ongoing reduction in Quantitative Easing by the United States Federal Reserve during the period April to October 2014 when the programme finally ended and the consequent strengthening US $, which reduced the overseas earnings of US large cap equities, failed to halt the continuing overall upward movement of US Equities. The S&P 500 was up 10% by the end of the financial year at 2068 on 31 March 2015 compared to 1872 a year earlier. While Quantitative Easing may have ended the highly stimulative monetary policy of the Federal Reserve continued with the main interest rate (the Federal Funds Rate) remaining at 0% to 0.25%.

In the Eurozone 2014-15 was a period of clear and continuing gradual recovery. Progressive monetary easing culminating in the announcement in January 2015 of a huge Quantitative Easing programme, which commenced in March and will result in 60 billion Euro a month asset purchases till at least September 2016, together with a related significant weakening of the Euro against the US $, slow but positive trends in confidence and employment combined to boost European Equity markets. Overall during the financial year the FTSE Eurofirst 300 increased by approximately 19%. By March 2015 the Eurofirst 300 was trading higher than for seven years.

The huge Quantitative Easing programme of the Bank of Japan continued and was significantly expanded during 2014-15 and together with a consequential competitive yen, lower world commodity prices and improved real pay levels resulted in an overall positive year for both the Japanese economy and equity prices. Corporate earnings were clearly positive. In October 2014 the Government Pension Investment Fund announced that it would reduce its holdings of bonds and increase its holdings of domestic (and foreign) shares giving yet more impetus to Japanese equities. The Nikkei 225 Index increased by approximately 30% during the financial year.

May 2014 saw a seismic shift in the politics of India and the expectations of markets. The Bharatiya Janata Party (BJP) led by Narendra Modi obtained an overall majority on a platform of major economic reform. The Sensex index increased by 24% over the period 1 April 2014 to 31 March 2015 fuelled by optimism following Mr Modi's election victory and falling commodity prices.

The US Treasury 10 Year bond benchmark yield was 1.94 on 31 March 2015 0.8% lower than a year before. Low inflation, weaker than anticipated growth, and policy statements from the Federal Reserve resulted in market expectations regarding interest rate rises receding during the year.

In 2014-15 weak inflationary pressure together with the progressive loosening of ECB monetary policy supported German and other Eurozone government bonds which saw their yields very significantly compress (and therefore their value increase). The German 10 year benchmark yield reduced from 1.58% at the start of the financial year to only 0.18% on 31 March 2015 while the Italian 10 Year bond closed the year at 1.29% compared to 3.31% a year earlier.

John Raisin Financial Services Limited
Independent Advisor, 26 August 2015

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 2013 and Local Government Pension Scheme (Transitional, Provision Savings and Amendment) Regulations 2014. 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 until the day before age 75. From April 2014, the benefit structure changed from a final salary scheme to 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, Principal lawyer of the Employment, Education and Corporate Team 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 Employees guide, which can be found on the council's website (details below) or contact the Pensions Team, 4th Floor, Alexandra House, 10 Station Road, Wood Green, N22 7TR / telephone 020 8489 5916 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 2014-15 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 2014/15 contribution rate was split between 6.8% 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 82.

London Borough of Haringey Pension Fund ("the Fund") Actuarial Statement for 2014/15

This statement has been prepared in accordance with Regulation 57(1)(d) of the Local Government Pension Scheme Regulations 2013, and Chapter 6 of the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the UK 2014/15. It has been prepared at the request of the Administering Authority of the Fund for the purpose of complying with the aforementioned regulation.

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

Real bond yields have fallen dramatically (leading to a higher liability value), but the effect of this has been only partially offset by the effect of strong asset returns. Overall funding levels are likely to have remained approximately the same, but the monetary amount of deficits will have increased over this period as both assets and liability values have increased in size.

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
8 May 2015

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 56 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 2015.

Tracie Evans, CPFA
Chief Operating Officer / Chief Financial Officer

September 2015

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 2014/15, 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. The benefits payable in respect of service from 1st April 2014 are based on career average revalued earnings and the number of years of eligible service. Pensions are increased each year in line with the Consumer Price Index.

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, governance 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
Interest on 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, or in the case of private equity, the value committed to funds. Fees

are either charged directly to the Fund or deducted from the value of pooled holdings, in the case of the latter an estimate of the fees is allocated to investment expenses from the change in the value of investments. All the Investment Management expenses are shown on an accruals basis. There is a provision for performance related fees for private equity, although none were charged in the year.

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 2015.

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 subjective 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.

Fund Account

2014/15		Notes	2013/14
£'000			**£'000**
	Dealings with members, employers and others directly involved in the scheme		
42,518	Contributions receivable	1	39,015
3,058	Transfers In	2	2,435
(43,060)	Benefits payable	3	(40,411)
(3,722)	Payments to and on account of leavers	4	(3,283)
(1,206)	**Net additions from dealings with members**		**(2,244)**
(3,236)	**Management Expenses**	5	**(2,460)**
	Returns on Investments:		
4,210	Investment Income	6	2,577
146,243	Change in market value of investments	7	38,279
150,453	**Net returns on investments**		**40,856**
146,011	**Net increase in the fund during the year**		**36,152**
899,344	**Add: Opening net assets of the scheme**		**863,192**
1,045,355	**Closing net assets of the scheme**		**899,344**

Net Asset Statement

The Net Asset Statement sets out the assets and liabilities for the Fund as at 31 March 2015. 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

31/03/15		Notes	31/03/14
£'000			£'000
1,045,941	Investment assets	7	893,758
0	Investment liabilities	7	(12,606)
1,045,941			881,152
727	Current Assets	10,11	19,332
(1,313)	Current Liabilities	11,12	(1,140)
1,045,355	**Total Assets**		**899,344**

Notes to Pension Fund Account

1. Contributions Receivable

2014/15		2013/14
£'000		**£'000**
23,786	Employers' normal contributions	22,729
8,193	Employers' deficit funding contributions	6,692
1,601	Employers' other contributions	1,040
33,580		**30,461**
8,938	Members' normal contributions	8,554
42,518	**Total**	**39,015**

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

2014/15		2013/14
£'000		**£'000**
31,094	Administering authority	28,718
9,679	Scheduled bodies	8,805
1,745	Admitted bodies	1,492
42,518	**Total**	**39,015**

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

2014/15		2013/14
£'000		**£'000**
3,058	Individual transfers in from other schemes	2,435
3,058	**Total**	**2,435**

3. Benefits Payable

2014/15		2013/14
£'000		**£'000**
34,842	Pensions	32,824
7,107	Commutation of pensions & lump sums	7,054
1,111	Lump sum death benefits	533
43,060	**Total**	**40,411**

Benefits payable are further analysed in the following note.

3a. Analysis of Benefits Payable

2014/15		2013/14
£'000		**£'000**
40,183	Administering authority	36,471
2,582	Scheduled bodies	2,900
295	Admitted bodies	1,040
43,060	**Total**	**40,411**

4. Payments to and on account of leavers

2014/15		2013/14
£'000		**£'000**
36	Refunds of contributions	6
3,686	Individual transfers out to other schemes	3,277
3,722	**Total**	**3,283**

5. Management Expenses

2014/15 £'000		2013/14 £'000
686	Administration costs	664
2,413	Investment Management expenses	1,658
137	Oversight & governance costs	138
3,236	**Total**	**2,460**

Included within oversight and governance costs are audit fees of £21,000 paid to Grant Thornton UK LLP. Administration costs include £561,000 charged by the Council in respect of the use of Council staff by the Fund.

Investment management fees are based on a percentage of the assets managed or committed. There were no performance related fees in the year.

Transaction costs are disclosed in note 7.

6. Investment Income

2014/15 £'000		2013/14 £'000
(2)	Dividends from equities	(4)
3,758	Income from pooled investment vehicles	2,510
454	Interest on cash deposits	71
4,210	**Total**	**2,577**

7. Reconciliation of movements in Investment assets & liabilities

2014-15	Value as at 1 April 2014	Purchases at Cost & Derivative payments	Sales Proceeds & derivative receipts	Changes in market value	Value as at 31 March 2015
	£'000	£'000	£'000	£'000	£'000
Pooled Investment vehicles	888,404	91,863	(93,874)	146,330	1,032,723
Cash Deposits	5,282	11,291	(3,337)	(86)	13,150
Other Investment assets	72	52	(55)	(1)	68
Other investment liabilities	(12,606)	12,606	0	0	0
Net Investment Assets	**881,152**	**115,812**	**(97,266)**	**146,243**	**1,045,941**

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**

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 (2013/14: nil. 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.

7a. Analysis of investment assets excluding derivatives and other investment balances

31/03/15		31/03/14
£'000		£'000
	Pooled Investment Vehicles	
	Unit Trusts:	
94,058	- Property - UK	67,568
	Unitised Insurance Policies	
315,264	- UK	295,336
520,901	- Overseas	489,280
	Other managed funds	
54	- Property - Overseas	887
17,260	- Other - UK	0
85,186	- Other - Overseas	35,333
1,032,723		**888,404**
	Cash Deposits	
9,658	Sterling	4,288
3,493	Foreign Currency	994
13,150		**5,282**

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

7b. Derivative Contracts

The Pension Fund did not hold any derivative contracts as at 31 March 2015 or 31 March 2014.

7c. Investment Assets – Other Investment Balances

31/03/15 £'000		31/03/14 £'000
1	Outstanding dividend entitlements	44
67	Recoverable Taxes	28
68		**72**

7d. Investment Liabilities – Other Investment Balances

31/03/15 £'000		31/03/14 £'000
0	Unsettled investment trade purchases	(12,606)
0		**(12,606)**

7e. Analysis of Investments by fund manager

31/03/2015 £'000	%	Fund Manager	31/03/2014 £'000	%
546,809	52.279%	BlackRock Investment Mngt	535,935	60.0%
15	0.001%	Capital International	14	0.0%
289,641	27.692%	Legal & General	248,963	27.9%
96,579	9.234%	CBRE Global Investors	70,478	7.9%
20,357	1.946%	Allianz Global Investors	0	0.0%
45,750	4.374%	CQS	0	0.0%
42,868	4.099%	Pantheon	36,633	4.1%
3,922	0.375%	In house cash deposits	1,735	0.2%
1,045,941	**100.000%**	**Total**	**893,758**	**100.0%**

7f. Investments exceeding 5% of Net Assets

31/03/2015			31/03/2014	
£'000	**%**	**Name of holding**	**£'000**	**%**
142,686	13.7%	BlackRock Aquila Life UK Equity Index Fund	150,150	16.7%
213,629	20.5%	BlackRock Aquila Life US Equity Index Fund	210,961	23.5%
119,135	11.4%	BlackRock Aquila Life Over 5 Years Index Linked	98,356	10.9%
103,138	9.9%	Legal & General World Emerging Equity Index	88,730	9.9%

8a. 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.

31/03/15			31/03/14	
Carrying Value £'000	**Fair Value £'000**		**Carrying Value £'000**	**Fair Value £'000**
FINANCIAL ASSETS			**FINANCIAL ASSETS**	
Financial Assets at Fair Value through Profit or Loss			**Financial Assets at Fair Value through Profit or Loss**	
1,032,723	1,032,723	Pooled Investment vehicles	888,404	888,404
68	68	Other Investment Balances	72	72
1,032,791	**1,032,791**		**888,476**	**888,476**
Loans & Receivables			**Loans & Receivables**	
13,150	13,150	Cash Deposits	5,282	5,282
727	727	Debtors	4,448	4,448
0	0	Cash at Bank	14,884	14,884
13,877	**13,877**		**24,614**	**24,614**
FINANCIAL LIABILITIES			**FINANCIAL LIABILITIES**	
Financial Liabilities at Amortised Cost			**Financial Liabilities at Amortised Cost**	
(1,129)	(1,129)	Creditors	(13,746)	(13,746)
(184)	(184)	Cash overdrawn	0	0
(1,313)	**(1,313)**		**(13,746)**	**(13,746)**
1,045,355	**1,045,355**	**Net Assets**	**899,344**	**899,344**

8b. Net gains and losses on financial instruments

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

31/03/15 £'000		31/03/14 £'000
	Financial Assets	
146,330	Fair Value through profit or loss	38,392
(87)	Loans & receivables	(113)
	Financial Liabilities	
0	Fair Value through profit or loss	0
0	Financial Liabilities at Amortised Cost	0
146,243	**Total**	**38,279**

8c. 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 and debt investments, which are valued using various valuation techniques that require significant judgement in determining appropriate assumptions. Private equity and infrastructure debt are classified as level 3.

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.

values at 31 March 2015	Quoted market price	Using Observable inputs	With significant unobservable inputs	
	Level 1	Level 2	Level 3	Total
	£'000	£'000	£'000	£'000
Financial assets	881,982	94,112	56,697	1,032,791
Loans and receivables	13,877			13,877
	895,859	94,112	56,697	1,046,668

values at 31 March 2014	Quoted market price	Observable inputs	unobservable inputs	
	Level 1	Level 2	Level 3	Total
	£'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

9. 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.

The listed equity and index linked portfolio, representing approximately 75% of the fund, are managed on a passive basis to minimise the volatility of returns compared with market indices and to reduce the fees and governance requirements compared with 'active' managment.

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. To demonstrate the impact of this volatility, the table below shows the impact of potential price changes based on the observed historical volatility of asset class returns. The potential volatilities are consistent with a one standard deviation movement in the change in value of the assets over the last three years. The volatility shown for Total Assets incorporates the impact of correlation across asset classes and therefore the value on increase / decrease for the asset classes will not sum to the Total asset figure.

Price Risk

Asset Type	Value (£)	% Change	Value on Increase	Value on Decrease
UK Equities	167,209,387	10.26%	184,365,070	150,053,704
Overseas Equities	520,900,898	9.32%	569,448,862	472,352,934
UK Bonds	165,314,395	9.10%	180,358,005	150,270,785
Cash	13,218,028	0.01%	13,219,350	13,216,706
Property	94,112,377	2.69%	96,644,000	91,580,754
Alternatives	85,186,255	6.51%	90,731,880	79,640,630
Total Assets	**1,045,941,340**	**7.01%**	**1,119,261,828**	**972,620,852**

The % change for Total Assets includes the impact of correlation across asset classes

31/03/2014				
Asset Type	**Value (£)**	**% Change**	**Value on Increase**	**Value on Decrease**
UK Equities	173,136,387	12.30%	194,432,163	151,840,611
Overseas Equities	489,280,285	12.28%	549,363,904	429,196,666
UK Bonds	122,199,296	6.79%	130,496,628	113,901,964
Cash	5,353,115	0.02%	5,354,186	5,352,044
Alternatives	35,333,411	7.25%	37,895,083	32,771,739
Property	68,455,060	2.79%	70,364,956	66,545,164
Total Assets	**893,757,554**	**8.27%**	**967,671,304**	**819,843,804**

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 57% of the Fund value on 31st March 2015, equivalent to £595 million (2014: £526 million). These arise from passive pooled equities, private equity, property, multi sector credit and cash. Foreign currency exposures are not hedged.

The main non sterling currency exposures as at 31 March 2015 were US dollar (£286m). Other significant exposures arise from the Euro, a wide range of Asian and 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 potential volatilities in the table below are consistent with a one standard deviation movement in the change in value using a currency basket desired from the fund's currency mix.

Currency Risk (by asset class)

Asset Type	Value (£)	% Change	alue on Increase	/alue on Decrease
Overseas Equities	520,900,898	6.03%	552,295,818	489,505,978
overseas property	53,967	6.03%	57,220	50,714
multi sector credit	31,023,524	6.03%	32,893,326	29,153,723
private equity	39,436,374	6.03%	41,813,221	37,059,527
cash	3,492,559	6.03%	3,703,057	3,282,061
Total	**594,907,322**	**6.03%**	**630,762,641**	**559,052,004**

31/03/2014				
Asset Type	**Value (£)**	**% Change**	**alue on Increase**	**/alue on Decrease**
Overseas Equities	489,280,285	5.67%	517,043,361	461,517,209
Overseas Property	886,573	5.67%	936,880	836,266
Private equity	35,333,411	5.67%	37,338,323	33,328,499
cash	993,671	5.67%	1,050,055	937,287
Total	**526,493,940**	**5.67%**	**556,368,618**	**496,619,262**

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 fixed income bonds. To demonstrate this risk, the table below shows the impact on income earned of a 1% increase and decrease in interest rates. For cash, the average rate earned was less than 1%, and the potential reduced income is limited to nil.

The Fund also has exposure to fixed interest bonds through the multi-sector credit and infrastructure mandates with CQS and Allianz respectively. Income earned is retained within these funds and potential changes thereto are reflected in the price risk above.

	Interest earned 2014/15 £'000	Interest if rates 1% higher £'000	Interest if rates 1% lower £'000
Cash Deposits	454	1,362	0
	454	**1,362**	**0**

	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**

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 2015 and 31st March 2014. A majority of bonds are UK Government index linked. The UK Government has an AA+ credit rating.

	Market Value at 31/03/2015 £'000	AAA %	AA %	A %	BBB %	Below BBB %
Bond exposure in Pooled Investment vehicles	210,364	0.0	70.4	3.2	8.8	17.6
Total / Weighted Average	**210,364**	**0.0**	**70.4**	**3.2**	**8.8**	**17.6**

	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**	**0.0**	**100.0**	**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 31/03/15	Exposure £'000
Northern Trust	AA-	9,228
Barclays Bank	A	762
Money Market funds	AAAm	3,160
Total		**13,150**

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

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. Currently the annual net cash outflow from dealing with members is low in relation to the fund value at £1.2 million and the fund is able to take advantage of the opportunity to earn additional returns from holding illiquid investments.

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 2015 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. The Fund's holdings in private equity and infrastructure are expected to be realised when the underlying instruments are sold by the fund manager or reach maturity and the timing of realisation events is not within the control of the Fund. These investments represent 5% of total investments.

10. Debtors

31/03/15		31/03/14
£'000		£'000
	Local Authorities	
	Contributions due from :	
158	Administering Authority in respect of the Council	2,642
38	Administering Authority in respect of members	526
196		3,168
78	Administering Authority - other	318
78		318
	Central Government Bodies	
35	HM Revenue & Customs	10
35		10
	Other entities and individuals	
	Contributions due from :	
226	Admitted Bodies in respect of employers	75
51	Admitted Bodies in respect of members	22
112	Scheduled Bodies in respect of employers	674
23	Scheduled Bodies in respect of members	151
6	Other	30
418		952
727		**4,448**

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.

11. Cash at bank

31/03/15		31/03/14
£'000		**£'000**
(184)	Cash at bank / (Cash Overdrawn)	14,884
(184)		**14,884**

12. Creditors

31/03/15		31/03/14
£'000		**£'000**
	Local Authorities	
24	Administering Authority	320
	Central Government Bodies	
344	HM Revenue & Customs	321
	Other entities and individuals	
221	Unpaid benefits in respect of the Administering Authority	48
540	Fund manager and adviser fees	451
0	Other	0
1,129		**1,140**

13. 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 2014.

14. Commitments

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

31/03/15		31/03/14
£'000		**£'000**
8,452	Pantheon - Private Equity	12,708
3,865	CBRE - Real Estate	0
28,093	Aviva - Infrastructure Debt	0
40,410	**Total**	**12,708**

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

15. Related party transactions

Haringey Council
In 2014/15 the Pension Fund paid £0.518m to the Council for administration and legal services (£0.48m in 2013/14). As at 31 March 2015 a net £0.247m was due from the Council to the Fund (£3.166m in 2013/14), mainly in relation to employer and employee contributions.

Governance
During 2013/14 no council members who served on the Pensions 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.

16. 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.

17. 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:

2014/15	Equitable Life Assurance Society	2013/14
£		£
331,682	Value as at 6 April	343,116
2,945	Contributions received	2,919
(9,188)	Retirement benefits and charges	(28,694)
18,738	Change in market value	14,341
344,177	Value as at 5 April	**331,682**
138,639	Equitable With Profits	141,323
134,469	Equitable Deposit Account Fund	69,514
71,069	Equitable Unit Linked	120,845
344,177	Total	**331,682**
5	Number of active members	23
37	Number of members with preserved benefits	20

2014/15	Prudential Assurance	2013/14
£		£
891,664	Value as at 1 April	990,480
125,066	Contributions received	150,729
(237,091)	Retirement benefits and charges	(297,500)
65,256	Change in market value	47,956
844,895	Value as at 31 March	**891,664**
493,359	Prudential With Profits Cash accumulation	611,447
194,059	Prudential Deposit Fund	136,417
157,477	Prudential Unit Linked	143,801
844,895	Total	**891,664**
76	Number of active members	74
28	Number of members with preserved benefits	25

2014/15	Clerical and Medical	2013/14
£		£
35,429	Value as at 1 April	74,983
2,017	Contributions received	2,492
0	Retirement benefits and charges	(43,099)
3,414	Change in market value	1,053
40,860	Value as at 31 March	**35,429**
5,561	Clerical Medical With Profits	5,216
35,299	Clerical Medical Unit Linked	30,213
40,860	Total	**35,429**
2	Number of active members	3
3	Number of members with preserved benefits	2

20. Post Balance Sheet Events

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 2014/15 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 2015 £m	31 Mar 2014 £m
Present value of Promised Retirement Benefits	1,708	1,434

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 2015 comprises £734m in respect of employee members, £419m in respect of deferred pensioners and £555m 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 2015 is to increase the actuarial present value by £226m.

Financial assumptions

My recommended financial assumptions are summarised below:

Year ended	31 Mar 2015 % p.a.	31 Mar 2014 % p.a.
Inflation/Pensions Increase Rate	2.40%	2.80%
Salary Increase Rate	4.30%	4.60%
Discount Rate	3.20%	4.30%

Longevity assumption

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 are identical to those used for 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 2015 for IAS19 purposes' dated 15 April 2015. 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:-

Anne Cranston

Anne Cranston AFA

8 May 2015

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 2015 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 2014/15.

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. Our audit work has been undertaken so that we might state to the members those matters we are required to state to them in an auditor's report and for no other purpose. 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 Chief Financial Officer Responsibilities, the Chief Financial Officer 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 2014/15, 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 Chief Financial Officer; 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 2015 and the amount and disposition of the fund's assets and liabilities as at 31 March 2015, 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 2014/15 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 pension fund financial statements.

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

Grant Thornton House
Melton Street
London NW1 2EP

September 2015

Appendices

<u>Current approved versions of key policy statements</u>

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.*

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<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.
Haringey position 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.
Haringey position 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.
Haringey position 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	5.00%	Multi Sector Credit	3 month GBP libor + 5.5% p.a.	Benchmark
Alliance	5.00%	Infrastructure Debt	5.5% p.a.	Benchmark
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 3.5%	Benchmark.
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%

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.
Haringey position 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.*
Haringey position 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.

Employers

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.

Prospective Members and promoting the LGPS

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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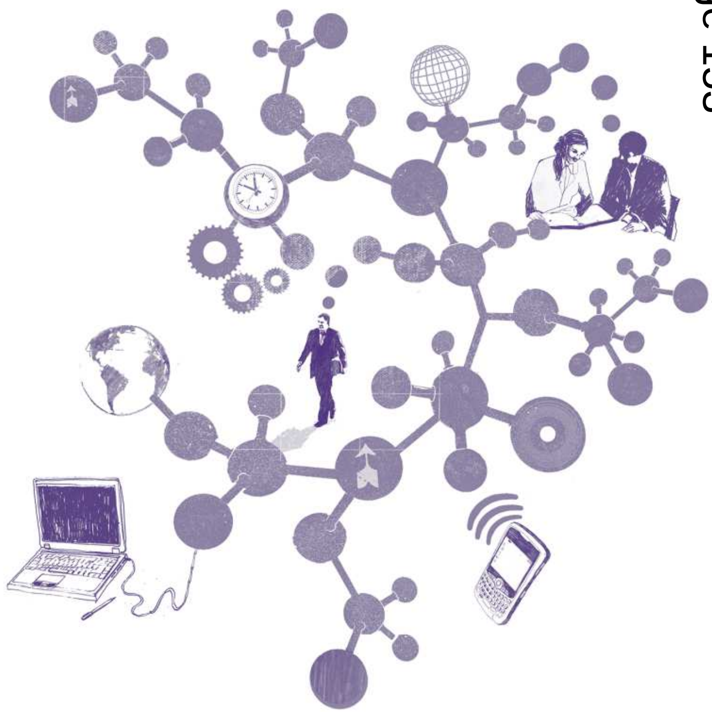
The Audit Findings for the London Borough of Haringey Pension Fund

Year ended 31 March 2015

September 2015



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September 2015

Dear Members of the Pension Fund Committee

Audit Findings for London Borough of Haringey Pension Fund for the year ending 31 March 2015

This Audit Findings report highlights the significant findings arising from the audit for the benefit of those charged with governance (in the case of London Borough of Haringey Pension Fund, the Pension Fund Committee), as required by International Standard on Auditing (UK & Ireland) 260. Its contents have been discussed with management.

As auditors we are responsible for performing the audit, in accordance with International Standards on Auditing (UK & Ireland), which is directed towards forming and expressing an opinion on the financial statements that have been prepared by management with the oversight of those charged with governance. The audit of the financial statements does not relieve management or those charged with governance of their responsibilities for the preparation of the financial statements.

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.

We would like to take this opportunity to record our appreciation for the kind assistance provided by the finance team and other staff during our audit.

Yours sincerely

Emily Hill

Engagement lead

Contents

Section 1: Executive summary

Executive summary

Purpose of this report

This report highlights the key matters arising from our audit of London Borough of Haringey Pension Fund's (the Fund) financial statements for the year ended 31 March 2015. 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 260 (ISA UK&I).

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 and expenditure and income for the year and whether they have been properly prepared in accordance with the CIPFA Code of Practice on Local Authority Accounting.

Introduction

In the conduct of our audit we have added one risk to those reported to you in our Audit Plan dated March 2015. As the level of purchases and sales were material we have added a risk that there is a potential for these to be misstated. The risk has been addressed on page 12 of this report

We received draft financial statements and accompanying working papers at the start of our audit, in accordance with the agreed timetable.

Our audit is substantially complete although we are finalising our work in the following areas:

- internal control reports from CQS request confirming that their controls remain unchanged from the last report in September 2014
- completion of final specialist partner review
- review of the final version of the financial statements
- obtaining and reviewing the final management letter of representation
- updating our post balance sheet events review, to the date of signing the opinion

We cannot formally conclude the audit and issue an audit certificate until the Corporate Committee have approved the Council's financial statements in which the pension fund is included. We also need to complete our consideration of an objection raised by a local elector in relation to the Council's financial statements.

Key issues arising from our audit

Financial statements opinion

We anticipate providing an unqualified opinion in respect of the Fund's 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 good standard.
- response to audit queries were received in time for us to complete our fieldwork to our timetable.
- we identified one adjustment affecting the financial statements and a few minor presentational issues.
- Management has amended the financial statements for all recommended disclosure changes.

We have identified one adjustment affecting the Fund's reported financial position. The draft financial statements for the year ended 31 March 2015 recorded a net surplus for the year of £142,433k ; the audited financial statements show a net surplus of £146,011k This change relates to updating the Pantheon investments to the valuation at 31 March 2015. An the time of preparing the draft financial statements the March 2015 valuation for assets invested with Pantheon had not been finalised. Therefore, the draft statements were prepared using the valuation at 30 September 2014.

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

.

Controls

Roles and responsibilities

The Council's management is responsible for the identification, assessment, management and monitoring of risk, and for developing, operating and monitoring the system of internal control

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 report these to the Council as the administering authority.

Findings

We draw your attention to one control issue. Our testing of scheduled and admitted body contributions identified that TLC Limited had been applying the employee contribution rates of the old LGPS scheme and had not updated these at 1 April 2014 as required. The amounts were trivial. However ,this highlighted the need for an additional control at the Council to check the reasonableness of the monthly information provided by the admitted and scheduled bodies.

Further details are provided within section two of this report.

The way forward

Matters arising from the financial statements audit have been discussed with the Chief Operating Officer, Assistant Director of Finance and the finance team.

We have made one recommendation, which is set out in the action plan in Appendix A. Recommendations have been discussed and agreed with the Chief Operating Officer and Assistant Director of Finance.

Acknowledgment

We appreciate that this has been a busy year for the Pension Fund with the implementation of the Career Average Revalued Earnings Scheme. 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.

Grant Thornton UK LLP
September 2015

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 the findings arising from our work in respect of the audit risks we identified in our audit plan, presented to the Pension Committee on 24 March 2015. We also set out the adjustments to the financial statements arising from our audit work and our findings in respect of internal controls.

Changes to Audit Plan

We have not made any changes to our Audit Plan as previously communicated to you on 24 March 2015 except for the additional risk we identified which is set out on page 12 below.

Audit opinion

We provide two opinions on the Pension Fund, as follows:

- an audit opinion on the Pension Fund financial statements included in the Council's Statement of Accounts
- an opinion on the Pension Fund financial statements included in the Pension Fund Annual Report, which confirms if these financial statements are consistent with the financial statements in the Statement of Accounts

Our proposed audit opinion on the Pension Fund financial statements in the Statement of Accounts is set out in Appendix B.

We also propose to give an unqualified consistency with opinion on the financial statements in the Annual Report.

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 (UK&I) 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 (UK&I) 240 there is a presumed risk that revenue may be misstated due to improper recognition	We rebutted this presumption during the interim phase of the audit, and this was communicated to members as part of the audit plan.	Our audit work including the testing of contributions and investment income has not identified any issues in respect of revenue recognition.
2.	**Management override of controls** Under ISA (UK&I) 240 there is a presumed risk of management over-ride of controls	• review of accounting estimates, judgements and decisions made by management • testing of journal 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 judgments.
3.	**Level 3 Investments – Valuation is incorrect** Under ISA(UK&I)315 significant risks often relate to significant non-routine transactions and judgemental matters. Level 3 investments by their very nature are subject to a significant degree of estimation uncertainty.	• We gained an understanding of management controls over the valuation of hard to value investments • Tested valuations by obtaining and reviewing audited accounts at latest date for individual investments and agreeing these to the fund manager reports at that date • Reconciliation of those values to the values at 31 March with reference to known movements in the intervening period.	At the time of preparing the draft financial statements, the March 2015 valuation for assets invested with Pantheon had not been finalised. Therefore, the draft statements were prepared using the valuation at 30 September 2014. The valuation of the Pantheon investments for March 2015 were £3,578k higher than the valuation included in the draft financial statements.

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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. Recommendations, together with management responses, are attached at Appendix A.

Transaction cycle	Description of risk	Work completed	Assurance gained & issues arising
Investment values – Level 2 investments	Valuation is incorrect	We have undertaken the following work in relation to these risks: • documented our understanding of processes and key controls over the transaction cycle • undertaken walkthrough of the key controls to assess the whether those controls were in line with our documented understanding • reviewed the reconciliation of information provided by the fund managers, the custodian and the Pension Fund's own records and obtained explanations for variances.	Our audit work has not identified any significant issues in relation to the risks identified.
Contributions	Recorded contributions not correct.	We have undertaken the following work in relation to this risk: • documented our understanding of processes and key controls over the transaction cycle • undertaken a walkthrough of the key controls to assess the whether those controls were in line with our documented understanding • tested a sample of contributions to source data to gain assurance over their accuracy and occurrence. • rationalised contributions received with reference to changes in member body payrolls and numbers of contributing members.	Our audit work has not identified any significant issues in relation to the risks identified.

Audit findings against other risks continued

Transaction cycle	Description of risk	Work completed	Assurance gained & issues arising
Benefit payments	Benefits improperly calculated/claims liability understated	We have undertaken the following work in relation to this risk: • documented our understanding of processes and key controls over the transaction cycle • undertaken a walkthrough of the key controls to assess the whether those controls were in line with our documented understanding • tested a sample of new individual pensions in payment by reference to member files • rationalised pensions paid with reference to changes in pensioner numbers and increases applied in the year	Our audit work has not identified any significant issues in relation to the risks identified.
Member data	Member data not correct.	We have undertaken the following work in relation to this risk: • documented our understanding of processes and key controls over the transaction cycle • undertaken a walkthrough of the key controls to assess the whether those controls were in line with our documented understanding • tested controls over verifications with individual members • tested a sample of changes to member data made during the year to source documentation.	Our audit work has not identified any significant issues in relation to the risks identified.

New issues and risks identified during the course of the audit

This section provides commentary on new issues and risks which were identified during the course of the audit and were not previously communicated in the Audit Plan

	Issue	Commentary	Assurance gained & issues arising
1.	**Investment activity not valid** Purchases and sales are significant.	We have undertaken the following work in relation to this risk: • documented our understanding of processes and key controls over the transaction cycle • undertaken walkthrough of the key controls to assess the whether those controls were in line with our documented understanding • reviewed the reconciliation of purchases and sales provided by the fund managers, the Custodian and the Pension Fund's own records.	Our audit work has not identified any significant issues in relation to the risks identified.

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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 Council'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 revenue recognition policy is consistent with the Code of Practice of Local Authority Accounting and the findings from our audit of the financial statements. Refer to earlier comments on revenue recognition on Page 9.	●
Estimates and judgements	The key estimates and judgements included within the financial statements is the actuarial valuation of the fund at 31 March 2013. Valuation of unquoted level 3 investments with Pantheon and Allianz.	• 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 3 investments were reconciled with audited financial statements. • 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	We have reviewed the Fund's policies against the requirements of the CIPFA Code of Practice of Local Authority Accounting and accounting standards.	Our review of accounting policies has not highlighted any issues which we wish to bring to your attention	●

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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

Other communication requirements

We set out below details of other matters which we 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 Pension Fund Committee. We have not been made aware of any incidents in the period and no 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 non-trivial 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.	**Confirmation requests from third parties**	• We requested and obtained direct confirmations from all Fund Managers and the Custodian for cash and investment balances included within the Accounts.
7.	**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.

Internal controls

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

Our audit included consideration of internal controls 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. The matters that we identified during the course of our audit are set out in the table below. These and other recommendations, together with management responses, are included in the action plan attached at Appendix A.

	Assessment	Issue and risk	Recommendations
1.	●	Our testing of admitted and scheduled bodies contributions identified that one of the smaller bodies (TLC Limited) were not applying the correct employee contribution rates to staff salaries. This highlighted that there were no reasonableness checks undertaken on scheduled and admitted body returns.	Undertake a reasonableness check of admitted and scheduled bodies monthly returns to ensure that employee and employer contributions are in line with expectations.

Assessment

● Significant deficiency – risk of significant misstatement

● Deficiency – risk of inconsequential misstatement

The matters reported here are limited to those deficiencies that we have identified during the course of our audit and that we have concluded are of sufficient importance to merit being reported to you in accordance with auditing standards.

Adjusted misstatements

A number of adjustments to the draft financial statements have been identified during the audit process. We are required to report all non-trivial misstatements to those charged with governance, whether or not the financial statements have been adjusted by management. The table below summarises the adjustments arising from the audit which have been processed by management.

Impact of adjusted misstatements

All adjusted misstatements are set out below along with the impact on the primary statements and the reported financial position.

	Detail	Fund Account £'000	Net Asset Statement £'000
1	At the time of preparing the draft financial statements the March 2015 valuation for assets invested with Pantheon had not been finalised. Therefore, the draft statements were prepared using the valuation at 30 September 2014. The valuation of the Pantheon investments for March 2015 were £3,578k higher than the valuation included in the draft financial statements.	Increase Change in Market Value of Investments £3,578k	Increase Investments value by £3,578k
	Overall impact	**£3,578**	**£3,578**

Misclassifications & disclosure changes

The table below provides details of misclassification and disclosure changes identified during the audit which have been made in the final set of financial statements.

	Adjustment type	Value £'000	Account balance	Impact on the financial statements
1	Disclosure	17,260	Level 3 Investments	Infrastructure debt investments were classified as Level 2 on page 107. However, confirmation from the fund manager are that the assets are unquoted and should be disclosed as Level 3. The Council has amended the accounts. The amendment has no impact on the Net Assets Statement.
2	Disclosure	13,150	Credit rating note	The internal cash exposure on page 110 of £44,458k was the balance for the Council and not the Pension Fund. The balance has been amended to £13,150k. This is an amendment to a disclosure note and has no impact on the main statements.
3	Disclosure	40,410	Commitments	Commitments for Pantheon investments were based on reports prior to 31 March 2015 and Commitments in CBRE Investments were excluded from the note. The total commitments have been increased from £33,809k to £40,410k.. This is an amendment to a disclosure note and has no impact on the main statements.

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 £
Pension fund scale fee	21,000	21,000

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 Financial Reporting Council'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: Communication of audit matters

Communication of audit matters to those charged with governance

International Standard on Auditing ISA (UK&) 260, as well as other (UK&I) 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 Council's independent external auditors by the Audit Commission, the body responsible for appointing external auditors to local public bodies in England. As external auditors, we have a broad remit covering finance and governance matters.

Our annual work programme is set in accordance with the Code of Audit Practice 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 of Audit Practice.

It is the responsibility of the Council to ensure that proper arrangements are in place for the conduct of its business, and that public money is safeguarded and properly accounted for. We have considered how the Council is fulfilling these responsibilities.

Our communication plan	Audit Plan	Audit Findings
Respective responsibilities of auditor and management/those charged with governance	✓	
Overview of the planned scope and timing of the audit. Form, timing and expected general content of communications	✓	
Views about the qualitative aspects of the entity's accounting and financial reporting practices, significant matters and 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: Action plan

Rec No.	Recommendation	Priority	Management response	Implementation date & responsibility
1	Undertake a reasonableness check of admitted and scheduled bodies monthly returns to ensure that employee and employer contributions are in line with expectations.	Medium	A quarterly review of the monthly contributions paid by employers for reasonableness (overall monetary value) and an annual check that the correct contribution rate is being paid will be undertaken	31 October 2015 Head of Treasury and Pensions

Appendix A: Audit opinion

We anticipate we will provide the Council with an unmodified audit report on the Pension Fund

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

We have audited the pension fund financial statements of the London Borough of Haringey for the year ended 31 March 2015 under the Audit Commission Act 1998. The pension fund account 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 2014/15.

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

Respective responsibilities of the Chief Finance Officer and auditor

As explained more fully in the Statement of the Chief Finance Officer Responsibilities, the Chief Finance Officer is responsible for the preparation of the Authority's Statement of Accounts, which include 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 2014/15, and for being satisfied that they give a true and fair view. Our responsibility is to audit and express an opinion on the pension fund financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards also 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 pension fund's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the Chief Finance Officer; and the overall presentation of the pension fund financial statements. In addition, we read all the financial and non-financial information in the explanatory foreword to identify material inconsistencies with the audited pension fund 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 2015 and of the amount and disposition of the fund's assets and liabilities as at 31 March 2015,other than liabilities to pay pensions and benefits after the end of the fund year, and
- have been properly prepared in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2014/15 and applicable law.

Opinion on other matters
In our opinion, the information given in the explanatory foreword for the financial year for which the pension fund financial statements are prepared is consistent with the pension fund financial statements.

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

Grant Thornton House
Melton Street
London NW1 2EP
September 2015

grant-thornton.co.uk

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

September 2015

Dear Ms Hill

London Borough of Haringey Pension Fund Financial Statements for the year ended 31 March 2015

This representation letter is provided in connection with your audit of the financial statements of London Borough of Haringey Pension Fund ('the Fund') for the year ended 31 March 2015 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 2015, 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 2014/15 ('the Code').

We confirm that to the best of our knowledge and belief having made such inquiries as we considered necessary for the purpose of appropriately informing ourselves:

Financial Statements

1 We have fulfilled our responsibilities for the preparation of the financial statements in accordance with proper practices as set out in the Code; which give a true and fair view in accordance therewith, and for keeping records in respect of contributions received in respect of active members.

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

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

4 We acknowledge our responsibility for the design, implementation and maintenance of internal control to prevent and detect fraud.

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

6 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 judgement 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.

7 We are satisfied that the material judgements used in the preparation of the financial statements are soundly based, in accordance with the Code and adequately disclosed in the financial statements. There are no other material judgements that need to be disclosed.

8 Except as disclosed in the financial statements:
   a there are no unrecorded liabilities, actual or contingent
   b none of the assets of the Fund have been assigned, pledged or mortgaged
   c there are no material prior year charges or credits, nor exceptional or non-recurring items requiring separate disclosure.

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

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

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

12 We have considered the misclassification and disclosures changes schedules included in your Audit Findings Report.

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

14 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.

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

Information Provided

16 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 determined it necessary to obtain audit evidence.

17 We have communicated to you all deficiencies in internal control of which management is aware.

18 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.

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

20 We have disclosed to you all our knowledge of 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.

21 We have disclosed to you all our knowledge of any allegations of fraud, or suspected fraud, affecting the Fund's financial statements communicated by employees, former employees, analysts, regulators or others.

22 We have disclosed to you all known instances of non-compliance or suspected non-compliance with laws and regulations whose effects should be considered when preparing financial statements.

23 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.

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

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

26 We have disclosed to you all known actual or possible litigation and claims whose effects should be considered when preparing the financial statements.

Approval
The approval of this letter of representation was minuted by the Council's Pension Fund Committee at its meeting on 10 September 2015.

Yours faithfully

Name……………………………

Position………………………….

Date…………………………….

Name……………………………

Position………………………….

Date…………………………….

Signed on behalf of London Borough of Haringey Council as administering body of the London Borough of Haringey Pension Fund

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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 has increased by £38,000, reflecting a higher allocation of HR time and Legal time relating to the admission of new employers.

3. IT costs incurred during the year included a one off £119,000 relating to the upgrading of the pension administration IT system.

4. Actuarial fees are £34,000 lower. The prior year's charges included work on the 2013 tri-annual valuation.

5. There was a second contribution in 2014-15 of £25,000 to the set up costs of the London Collective Investment Vehicle.

6. Others include bank charges of £8,000 and tax on refunds of £12,000.

Investment Management Costs

7. Fees from investment managers comprise the majority of investment expenses. Charges are based on the value of assets under management, which will move in line with the fund value. Fees for BlackRock did not increase as money was withdrawn to fund the CQS and Allianz portfolios.

8. Additional funds were invested in property, which has resulted in fees increasing. The charges of £460,000 comprise £178,000 for CBRE and £282,000 for underlying fund managers.

9. It would appear from the table that fees to Pantheon have doubled. In fact, the increase is due to Pantheon providing for the first time an estimate of fees charged by underlying fund managers. The costs reported are £393,000 charges from Pantheon and £530,000 from underlying managers.

10. Investment advisor costs were significantly reduced in the year. The prior year included charges from both Aon Hewitt and then Mercer relating to the strategy review and the selection of Allianz and CQS.

11. A lower custody fee rate of £14,125 a quarter was agreed from September 2014.

12. Other fees include Local Authority Pension Fund Forum (£9,000), Legal fees re Pantheon (£7,000) and WM performance (£4,000).

Benchmarking

13. 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 costs for local authority pension schemes in 2013-14.

14. For administration costs, the DLCG average is £27 per member England as a whole. Haringey's cost was £38 per member in 2013-14. The DCLG data does not provide a breakdown by location of scheme. From the 2012-13 data we know that the outer London average was £45 per member and that the national average is impacted by the large county council's that achieve greater economies of scale.

15. Investment costs in 2013-14 reported by the DCLG are 0.25% of assets values. Haringey's charges represent 0.18%. Using mainly low cost passive management is the reason for Haringey's lower costs. Care must be taken with these numbers. Haringey estimates fees included within pooled funds e.g. private equity and discloses these as expenses, while many schemes report these within change in value of investments. This will tend to underestimate other schemes fees.

Scheme Costs

Administration Costs

		2014-15	2013-14
		£'000	£'000
Internal Charges	HR and Finance	505	480
	Legal	19	6
IT costs re pensions administration		149	162
Actuarial fees		47	81
Audit fees		21	21
London CIV		25	25
CIPFA Pensions network		6	5
Pension newsletter		4	5
Overseas pension charges		6	8
Framework joining fees			
Bank charges & other costs		26	9
		808	**802**

Investment Management

Legal & General	375	329
BlackRock	250	250
CBRE and property charges	460	353
Pantheon	923	446
CQS	239	
Allianz	37	
Northern Trust (custodian)	57	89
Investment Advisor (Mercer / Aon Hewitt)	40	143
Independent advisor	24	24
other	23	24
	2428	**1658**
Total Cost	3,236	**2,460**

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Agenda Item 10

Haringey Council

Report for:	**Pensions Committee** 10th September 2015	**Item number**	

Title:	**Investment Quarterly Update**

Report authorised by :	**Assistant Director – Finance**

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

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

1. Describe the issue under consideration

1.1 To report the following in respect of the three months to 30th June 2015:

- Investment asset values & allocation
- Investment performance
- Income & Expenditure
- Communications
- Late payment of contribution

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 2015 is noted.

4. Other options considered

4.1 None.

Haringey Council

5. Background information

5.1 This update report is produced quarterly. 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. The report covers various issues on which the Committee or its predecessor body have requested they receive regular updates.

5.2 At the time of writing the report, equity markets have been highly volatile due to concerns with the slowing growth of the Chinese economy and the impact that this will have on commodities, commodity producers and exporters. Equity prices have declined sharply, particularly in Asia, but also USA and Europe. An update on the value of the fund will be provided to the meeting.

5.3 Information on communication with stakeholders has been provided by officers in Human Resources and included in section 18.

Issues Impacting Fund Managers

Legal & General and BlackRock

5.4 The July meeting agreed that the BlackRock assets should be transferred to Legal & General following a tender. The transfer took place week commencing 24th August and involved £540 million of equities, index linked bonds and cash being transferred. At the time of writing, no issues have arisen and both managers and the custodian (Northern Trust) have given high priority to the transfer. A report on the cost of moving the assets will be prepared by Legal & General and circulated to the Committee.

5.5 L&G will rebalance the equity holdings to benchmark as part of the take on of assets.

CBRE

5.6 A meeting was held with CBRE on 17th August to discuss the portfolio and the impact of the departure of the portfolio manager, Emma Kenyon. A note on the meeting prepared by the Independent Advisor is attached in the exempt agenda. Key points to note are the expected healthy property returns in 2015 to 2017, with a correction in valuations expected in 2018. Performance of the portfolio has been patch with retail elements underperforming. CBRE's plan to reduce the retail weighting with increases to offices outside London and industrial.

5.5 CBRE discussed the merits of including a global element in the benchmark. The current benchmark is entirely UK based, although the manager has the

Haringey Council

ability to invest up to 25% in Continental Europe. It was acknowledged that the performance of past European investments was not a strong encouragement to investing outside the UK. It is proposed that CBRE provide training on Global property opportunities comparing with the UK market.

Pantheon

5.5 The aggregate commitments of $75 million to the Pantheon Global Select and Secondaries funds have been completed. Catch up capital calls of $6.4 million have paid to Pantheon.

Allianz

5.7 Haringey allocated £45 million to the Allianz infrastructure debt fund in 2014, of which £20 million has been invested. Allianz anticipate closing the debt fund to new investors in quarter 4, 2015 following the admission of additional investors. These additional investors will pay a catch up call, which will be used to return capital to existing investors, with Haringey receiving an estimated £11 million that will be re-invested as new opportunities are found. Investments in the UK have been harder to find as the Government is using low cost internal funding rather than external finance and as a consequence competition has reduced returns below acceptable levels. This will delay the deployment of cash into 2016 and possibly beyond. Cash that is not invested is currently held in equities.

5.8 Allianz offered the opportunity to increase our commitment level, but this was declined as the debt fund will be concentrated across only 5-10 investments.

CQS

5.9 The holdings in the CQS Credit Multi Asset Fund have been switched into new share class I2, reducing the fees from 0.75% to 0.65%. CQS have introduced this new share class to standardise fees across $, € and £ mandates. This will save £46,000 a year in fees.

Market Developments 2014-15

5.10 The Independent Advisor's annual comments on market developments is attached (appendix 3).

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 mainly the loss of value from the European property portfolio.

Haringey Council

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 performances 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. Comments from the Independent Advisor

8.1 The total value of the Fund at 30th June 2015 was £1,012m. At 31 March 2015 the total value of the Fund was £1,039m. This small reduction of £27m equivalent to approximately 3% was primarily due to a limited retreat in equity markets mainly in June 2015. This was influenced by the latest "Greek crisis" the position in respect of which remained very uncertain during June 2015.

8.2 The overall performance of the Fund over the last Quarter, Year and Three Years is close to benchmark (see section 14.1) primarily due to the fact that the majority of the Fund is managed on a passive basis.

8.3 Officers together with the Independent Advisor met with CBRE on 17 August 2015 and with Allianz on 19 August 2015.

9. Equalities and Community Cohesion Comments

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

10. Head of Procurement Comments

9.1 Not applicable

11. Policy Implications

Haringey Council

10.1 None.

12. Use of Appendices

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

11.2 Appendix 2: Notes on meeting with CBRE prepared by the Independent Advisor

The information contained in Appendix 2 is not for publication as it contains information classified as exempt under Schedule 12A of the Local Government Act in that it contains information relating to the business or financial affairs of any particular person (including the Authority holding that information).

11.3 Appendix 3: Market Background 2014-15

13. Local Government (Access to Information) Act 1985

12.1 Not applicable

Haringey Council

Total Portfolio Allocation by Manager & Asset Class

30/06/2015 & 31/07/2015

	Value 31.03.15 £'000	Value 30.06.15 £'000	Value 31.07.15 £'000	Allocation 31.07.2015 %	Strategic Allocation %
Equities					
UK	167,209	164,665	168,613	16.46%	15.00%
North America	266,040	251,755	258,058	25.19%	21.70%
Europe	80,091	75,406	78,841	7.70%	7.40%
Japan	36,418	35,603	36,066	3.52%	3.50%
Asia Pacific	35,214	32,319	31,584	3.08%	3.40%
Emerging Markets	103,138	99,393	93,311	9.11%	9.00%
Total Equities	**688,110**	**659,141**	**666,472**	65.06%	**60.00%**
Bonds					
Index Linked	**148,054**	**143,215**	**147,770**	14.42%	**15.00%**
Property					
CBRE	**94,738**	**100,225**	**101,963**	9.95%	**10.00%**
Private equity					
Pantheon	**35,858**	**35,911**	**37,800**	3.69%	**5.00%**
Multi sector credit					
CQS	**45,750**	**46,108**	**46,108**	4.50%	**5.00%**
Infrastructure					
Allianz	**17,260**	**19,731**	**19,731**	1.93%	**5.00%**
Cash & NCA	**9,296**	**7,950**	**4,581**	0.45%	**0.00%**
Total Assets	**1,039,067**	**1,012,280**	**1,024,425**	**100.00%**	**100.00%**
Fund Managers					
Legal & General	289,641	277,690	275,879	**26.93%**	**27.80%**
BlackRock	546,524	524,668	538,365	**52.55%**	**47.20%**

Haringey Council

The value of the fund decreased by £27 million between March and June 2015 as equity markets gave back some of their previous gains.

The equity allocation exceeds target by 5%. This is mostly the unfunded Allianz mandate (3%). In addition private equity is around 1.5% below their benchmark weighting. It is anticipated that the Infrastructure debt mandate will be fully funded in 2016, this is later than originally anticipated.

14. Investment Performance Update: to 30th June 2015

Appendix 1 provides details of the benchmarks and targets the fund managers have been set. The tables below show the performance in the quarter October to December 2014 and for the 1, 3 and 5 years.

14.1 Whole Fund

	Return	Benchmark	(Under)/Out
Apr - Jun 2015	-2.61%	-2.77%	0.16%
One Year	10.42%	10.66%	(0.24%)
Three Years	11.60%	12.09%	(0.49%)
Five Years	10.48%	10.90%	(0.42%)

One year	Return(%)	Benchmark(%)	Under/out(%)
Equities			
UK	2.71	2.60	0.11
Developed Europe	1.37	1.37	0.00
North America	15.25	15.05	0.20
Japan	19.01	19.03	-0.02
Asia ex Japan	-0.49	-0.62	0.13
Emerging	6.63	6.73	-0.10
I L gilts	15.83	15.75	0.08
Property	15.04	15.52	-0.48
Private equity	20.05	14.68	5.37
Total	**10.42**	**10.66**	**-0.24**

Haringey Council

Five years	Return(%)	Benchmark(%)	Under/out(%)
Equities			
UK	10.61	10.74	-0.13
Developed Europe	10.70	9.50	1.20
North America	15.12	15.26	-0.14
Japan	9.47	8.20	1.27
Asia ex Japan	6.29	6.57	-0.28
Emerging	5.09	3.62	1.47
Index linked gilts	10.09	N/A	N/A
Property	7.88	9.54	-1.66
Private equity	11.70	16.49	-4.79
Total	**10.48**	**10.90**	**-0.42**

- Investment returns from all the asset classes over the last five years have been extraordinarily favourable. WM report that the ten year average local authority return to March 2015 is 7.5% p.a.
- Compared to benchmark the fund's returns have underperformed the benchmark by approximately 0.5% over 1, 3 and 5 years.
- 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 property, in particular overseas, and over the 3 & 5 years private equity. Individual manager's performance is discussed below.

14.2 BlackRock Investment Management

	Return	Benchmark	(Under)/Out
Apr - Jun 2015	-4.04%	-3.94%	(0.10%)
One Year	10.32%	10.36%	(0.04%)
Since inception (May 2012)	13.31%	13.11%	0.20%

- Total Value at 30/06/15: £524.7 million
- BlackRock manages equities and index linked passively.
- Performance from individual markets varied between +0.23% (North America) and – 0.25% (Japan) over the previous 12 months.

14.3 Legal & General Investment Management

Haringey Council

	Return	Benchmark	Variance
Apr - Jun 2015	-4.18%	-4.18%	(0.00%)
One Year	8.18%	8.76%	(0.58%)
Since inception (May 2012)	10.09%	10.67%	(0.58%)

- Total Value at 30/06/15: £277.7 million
- Variances at regional level are minimal, varying between +0.13% (UK) and -0.11% (Asia Pacific ex Japan) over the last year.
- The underperformance is due to the allocation of assets between markets being out of balance with the benchmark.

14.4 CBRE Global Investors

	Return	Benchmark	(Under)/Out
Apr - Jun 2015	4.07%	3.30%	0.77%
One Year	15.09%	15.55%	(0.46%)
Three Years	10.41%	11.34%	(0.93%)
Five Years	7.88%	9.54%	(1.66%)

- Total Value at 30/06/15: £101.7 million
- The relative performance of the property has been poor driven by two European holdings that have suffered significant capital loss. The UK element of the portfolio has generally exceeded benchmark, although the retail element has struggled in the last 12 months.
- The two European funds have been unsuccessful. With an aggregate cost of £9.7 million, they are now valued at £0.2 million, a virtual total loss. Both funds are invested in highly leverage non prime property (German residential and Italian office / retain). The underlying holdings have suffered during the Euro crisis and the impact 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 portfolio will lag the benchmark for many years until the impact of the two European funds passes through.

14.5 Pantheon

	Return	Benchmark	(Under)/Out	Distributions Less drawdowns
Apr - Jun 2015	4.19%	(4.30%)	8.49%	£1.37m
One Year	20.05%	14.68%	5.37%	£4.73m
Three Years	13.16%	18.75%	(5.59%)	£5.30m
Five Years	11.70%	16.49%	(4.79%)	£-6.96m

- Total Value at 30/06/15: £40.9 million
- Distributions have exceeded drawdowns during the quarter and the prior three years as the funds moved into the distribution phase of their cycles.

Haringey Council

- The performance target is the MCSI Worlds plus 3.5%. The funds are still relatively young for long term returns to emerge. As yet only 75% 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.

14.6 CQS (multi sector credit)

The CQS mandate was funded in Q3. The portfolio increased by £1.1 million to £46.1 million as at June 2015.

14.7 Allianz (infrastructure debt)

The initial drawdown of £17 million was completed in Q4. It is anticipated that most of the allocation will be drawn during 2015.

14.8 In house cash

	Value	Average Credit Rating	Average Maturity (days)	Return
At 30/06/15	£0.2M	AA	1	0.45%
At 31/03/15	£3.92M	AAA	1	0.38%
At 31/12/14	£2.25m	AAA	1	0.39%
At 30/09/14	£1.25m	AA	1	0.35%

Haringey Council

16. Budget Management – 3 months to 30TH June 2015

	Prior year 2014-15 £'000	Current year 2015-16 £'000	Change in expenditure £'000
Contributions & Benefit related expenditure			
Income			
Employee Contributions	2,225	2,301	76
Employer Contributions	8,400	8,405	5
Transfer Values in	775	310	(465)
Total Income	11,400	11,016	(384)
Expenditure			
Pensions & Benefits	(10,775)	(10,962)	(187)
Transfer Values Paid	(925)	(525)	400
Administrative Expenses	(213)	(132)	81
Total Expenditure	(11,913)	(11,619)	294
Net of Contributions & Benefits	(513)	(603)	(90)
Returns on investment			
Net Investment Income	1,050	1,118	68
Investment Management Expenses	(600)	(78)	522
Net Return on Investment	450	1,040	590
Total	**(63)**	**437**	**500**

The fund continues to have a small surplus of income over expenditure, although that is likely to diminish later in the year.

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

Haringey Council

17. Late Payment of Contributions

17.1 The table below provides details of the employers who have made late payments during the last quarter. 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(£)
Fusion	1	1	16,378
Tottenham UTC	2	13	1,278

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.

Haringey Council

Appendix 1 – Investment Managers mandates, benchmarks and targets

Manager	% of Total Portfolio	Mandate	Benchmark	Performance Target
BlackRock Investment Management	47.2%	Global Equities & Bonds	See overleaf	Index (passively managed)
Legal & General Investment Management	27.8%	Global Equities & Bonds	See overleaf	Index (passively managed)
CQS	5%	Multi Sector Credit	3 month libor + 5.5% p.a	Benchmark
Allianz	5%	Infrastructure Debt	5.5% p.a.	Benchmark
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 3.5%	Benchmark
Total	**100%**			

Haringey Council

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Asset Class	Benchmark	BlackRock Investment Management	Legal & General Investment Management	Total
UK Equities	FTSE All Share	12.4%	2.6%	15.0%
Overseas Equities		22.8%	22.2%	45.0%
North America	FT World Developed North America GBP Unhedged	17.9%	3.8%	21.7%
Europe ex UK	FT World Developed Europe X UK GBP Unhedged	3.1%	4.3%	7.4%
Pacific ex Japan	FT World Developed Pacific X Japan GBP Unhedged	1.4%	2.0%	3.4%
Japan	FT World Developed Japan GBP Unhedged	0.4%	3.1%	3.5%
Emerging Markets	FT World Global Emerging Markets GBP Unhedged	0.0%	9.0%	9.0%
Index Linked Gilts	FTA Index Linked Over 5 Years Index	12.0%	3.0%	15.0%
		47.2%	27.8%	75.0%

JOHN RAISIN FINANCIAL SERVICES LIMITED

Independent Advisors Report

Market Background 2014-15

The financial year 1 April 2014 to 31 March 2015 finally saw, in October 2014, the end of the US Federal Reserve policy of Quantitative Easing. However this did not represent a large scaling back of the interventionist role of the major Central Banks. March 2015 saw the launch of the long anticipated Quantitative Easing programme of the European Central Bank while the Bank of Japan continued and indeed increased its policy of radical monetary easing. In the Eurozone three years of progress in reforming the Greek economy and finances was suddenly thrown into serious doubt from January 2015 with the election victory of the anti-austerity Syriza party. However unlike in 2012 the new “Greek crisis” did not seriously undermine other Eurozone equity or bond markets. Falling inflation and indeed concerns about deflation exemplified by significant falls in the oil price were a clear theme of 2014-15.

The ongoing reduction in Quantitative Easing by the Federal Reserve during the period April to October 2014 when the programme finally ended and the consequent strengthening US $, which reduced the overseas earnings of US large cap equities, failed to halt the continuing overall upward movement of US Equities. The S&P 500 closed, for the first time at over 2,000 in August 2014 and overall the S&P 500 was up 10% by the end of the financial year at 2068 on 31 March 2015 compared to 1872 a year earlier. While Quantitative Easing may have ended the highly stimulative monetary policy of the Federal Reserve continued with the main interest rate (the Federal Funds Rate) remaining at 0% to 0.25% the level it has been held at since December 2008. The attractiveness of equities will also have been enhanced by the fact that during 2014-15 nearly a third of companies in the S&P 500 were paying dividends above the 10 year Treasury yield compared to a historic average around a tenth. Positive overall sentiment was undoubtedly also supported not only by generally positive business (particularly in respect of small cap companies) and consumer confidence but also by a further fall of over 1% in unemployment during the year to stand at 5.5% in March 2015, the lowest level since May 2008.

In the Eurozone 2014-15 was a period of clear and continuing gradual recovery with for example a slight reduction in unemployment together with some increasing demand for bank credit. However there were continuing concerns about the progress of economic recovery with generally weak growth and in particular the potential for deflation with the European Central Bank (ECB) progressively further loosening monetary policy with for example the introduction of a negative interest rate on bank deposits held with the ECB from June 2014. In August Mario Draghi the President of the ECB stated the ECB would use “all the available instruments needed to ensure price stability." September 2014 saw further interest rate cuts by the ECB and the announcement of a programme to purchase asset backed securities and covered loans which began in November. Continuing concerns about very low inflation/deflation finally led to the ECB announcing a huge Quantitative Easing programme in January 2015 which commenced in March 2015. The QE programme will result in 60 billion Euro a month asset purchases during the period from March 2015 till at least September 2016. This exceeded market expectations and the FTSE Eurofirst 300 increased by 7.1% for the month of January.

In particular progressive monetary easing together with a related significant weakening of the Euro against the US $, slow but positive trends in confidence and employment combined did much to boost European Equity markets. Overall during the financial year the FTSE Eurofirst increased by approximately 19%. By March 2015 the Eurofirst 300 was trading higher than for seven years.

The near failure of the major Portuguese Bank Banco Espirito Santo in July 2014 was untypical of the continued progress made by Eurozone banks during 2014-15. The results of tests by the European Banking Agency and ECB announced in October 2014 indicated that overall European (including Eurozone) banks were clearly more financially robust than in 2011.

In January 2015 three years of co-operation by the Greek government with the "troika" consisting of the European Central Bank, European Union and International Monetary Fund ended with the election of the anti-austerity Syriza party and the appointment of Alexis Tsipras as Prime Minister. The new Finance Minister Yanis Varoufakis stated that Greece would no longer co-operate with the "troika." The new government alarmed creditors and investors promising to freeze privatisations, re-employ state workers and abandon other reforms of the previous government. A temporary respite was however achieved when on 20 February 2015 Greece and its Eurozone bailout lenders agreed a deal including an extension to the Greek rescue programme by four months. The long term future of Greece in the Eurozone was, however, far from resolved by 31 March 2015. There was a sharp sell off in Greek shares. While Greek 10 Year bonds were yielding less than 7% on 31 March 2014 their price fell significantly after the Syriza victory and stood at over 11% at the financial year end.

2014-15 like 2013-14 was positive for the UK economy. In March 2015 the Office for National Statistics reported unemployment was 5.5% compared to 6.8% a year earlier. However, earnings increases and particularly inflation remained low (even though wage growth outpaced inflation in the latter part of the financial year) suggesting continued slack in the economy and the Bank of England maintained the Base Rate at 0.5% throughout the 2014-15 financial year. There was, overall, a lack of volatility in UK equity prices and the FTSE All Share advanced by only 3% over the financial year. For the second year in a row the UK equity market clearly lagged other major developed equity markets.

The huge Quantitative Easing programme of the Bank of Japan continued and was significantly expanded during 2014-15 and together with a consequential competitive yen, lower world commodity prices and improved real pay levels resulted in an overall positive year for both the Japanese economy and equity prices. Corporate earnings were clearly positive. However continuing concerns about low inflation/possible deflation resulted in the Bank of Japan announcing, in October 2014, an increase in the scale of its monthly purchases of Japanese Government bonds. In the same month the Government Pension Investment Fund announced that it would reduce its holdings of bonds and increase its holdings of domestic (and foreign) shares giving yet more impetus to Japanese equities. There were also clear signs of structural reform as indicated by government plans to increase female employment and the publication by Japan's Financial Services Agency, in December 2014, of a draft Corporate Governance Code seeking to address issues such as shareholders rights, cross-shareholding (where companies hold each others shares), whistleblowing and board composition. The General Election of December 2014 saw the re-election of Prime Minister Shinzo Abe and in effect endorsed the fiscal and structural reforms of the previous two years. The Nikkei 225 Index increased by approximately 30% during the financial year.

May 2014 saw a seismic shift in the politics of India and the expectations of markets. The Bharatiya Janata Party (BJP) led by Narendra Modi obtained an overall majority on a platform of major economic reform. During May 2014 the Sensex index gained over 8% and increased by 24% over the period 1 April 2014 to 31 March 2015 fuelled by optimism following Mr Modi's election victory and aided by falling commodity prices.

Although the Chinese equity market was positive the Chinese economy was subdued with weaknesses in industrial production, retail sales and the housing market. In November 2014 the People's Bank of China reduced benchmark interest rates for the first time since July 2012 and another rate reduction followed in February 2015 to provide further stimulus to the economy.

Though the US Federal Reserve ended it Quantitative Easing programme in October 2015 it did not increase its main interest rate and the 10 Year benchmark yield was 1.94 on 31 March 2015 0.8% lower than a year before. Low inflation, weaker than anticipated growth, and policy statements from the Federal Reserve resulted in market expectations regarding interest rate rises receding during the year. The UK 10 year benchmark reduced from 2.76% to 1.70%

During 2014-15 weak inflationary pressure together with the further and progressive loosening of ECB monetary policy, resulting in the announcement of a large Quantitative Easing programme in January 2015 and its implementation from March 2015 clearly supported German government bonds and government bonds of other Eurozone countries such as those of Spain and Italy which saw their yields very significantly compress (and therefore their value increase). The German 10 year benchmark yield reduced from 1.58% at the start of the financial year to only 0.18% on 31 March 2015. The Italian 10 Year bond closed the year at 1.29% (compared to 3.31% a year earlier) and the Spanish at 1.21% testimony not only to the influence of ECB monetary policy but also the failure of the ongoing Greek crisis which re-erupted after the Syriza election victory to significantly affect other Eurozone countries.

John Raisin Financial Services Limited
Independent Advisor
7 August 2015

Haringey Council

Report for:	Pensions Committee 10th September 2015	**Item number**	

Title:	Investment Strategy Review

Report authorised by :	Kevin Bartle, Assistant Director – Finance

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 At the July meeting, the Committee requested Mercer to model the impact of reducing the Fund's equity allocation by 5% or 10%. The attached Mercer's report considers the impact of switching out of equities into a variety of alternative assets classes and proposes that training be provided on the most highlighted alternatives.

2. Cabinet Member Introduction

2.1 Not applicable.

3. Recommendations

3.1 That training is provided on the following asset classes prior to making any decisions on reducing equity allocations:

- Diversified growth funds
- Private debt
- High lease to value properties

4. Other options considered

Haringey Council

4.1 The Mercer modelling considers a range of alternatives compared with the current portfolio and the proposed training will focus on those asset classes most suitable to add to the current portfolio.

5. Background information

5.1 The most important investment role for the Committee is the setting of an asset allocation strategy. This is the desired allocation to the various asset classed e.g. equities, bonds, property, cash etc. Different assets allocations will have different expected outcomes in terms of future returns and also the predictability of returns.

5.2 In setting the current strategy that has a high allocation to equities, property etc, whose values have a strong correlation with economic growth, the Committee is focused on funding the promised benefits primarily from investments returns while seeking to minimise / stabilise employer contributions. The current strategy is attached (appendix 1). The Committee are required to keep the strategy under review considering the impact of funding levels and market conditions.

5.3 At the July meeting the Committee requested Mercer to model the impact of reducing the equity allocations by 5% or 10% from the current 60%.

<u>Modelling Outcomes and next Steps</u>

5.4 The Mercer's report (pages 7 & 8) models the impact of 5% and 10% reductions in the proportion of listed equities. In each alternative portfolio, there is a meaningful reduction in risk, although in most cases a modest reduction in expected return. The impact on expected return is most noticeable when increasing the proportion invested in index linked gilts but less pronounced for the alternatives discussed. The findings support a long term approach to seeking out alternative sources of returns. Timing any move out of equities can add value, which should be discussed post training.

5.5 The report discusses a number of asset classes that the Committee may be unfamiliar – diversified growth funds, high loan to value properties and private debt. Each of these will have different characteristics e.g. degree of active management, fees and fit with the existing portfolio. The Committee will need to be comfortable with any asset class before consideration is given to investing.

5.6 It is proposed that training is provided on each of the new asset classes prior to the Committee being asked to make a decision on any of the alternative portfolio's discussed in Mercer's report.

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5.7 A copy of the findings from the report have been sent to the Actuary. The Committee will wish to ensure that any changes in strategy do not have a negative impact on the plan to address the funding deficit or the Actuary's comfort with current contribution levels. Comments from the Actuary will be reported to the meeting.

6. Comments of the Chief Financial Officer and financial Implications

6.1 The Fund has enjoyed strong returns in recent years primarily from rising equity and index linked valuations. The Pension Committee responsibility is to look to the long term when setting an investment strategy, ensuring an appropriate degree of diversification.

6.2 The proposal to review the strategic allocations in light of the high reliance on listed equities and to receive training on the available alternatives is supported.

7. Assistant Director of Corporate Governance comments and Legal Implications

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

7.2 Any changes to the allocations must comply with the Pension Fund Statement of Investment Principles and in line with the Pension Fund's investment strategy. This report recommends that training be provided about the different asset classes prior to any decision being made about asset allocations. There are no legal implications in respect of the recommendation.

8. Comments from Independent Advisor

8.1 The Fund has enjoyed good returns over the short (1 year) and medium term (both 3 and 5 years). This has been particularly driven by the Fund's Asset Allocation Strategy (Strategic Asset Allocation) – that is the choice of asset classes it has invested in and the proportion of the Fund invested in each asset class. The Fund's high allocation to Listed Equities and also its allocation to Index Linked Gilts have facilitated strong returns over the medium term. Listed Equities are, over the long run, a high returning asset class but they can also be highly volatile. Given however the historic long term positive returns of Listed Equities and the need for the Fund to clearly improve its Funding position I am of the view that, at this time and in the future unless there is some very clear change in the characteristics of the

Haringey Council

Fund, Listed Equities should continue to form at least 50% of the Fund's Strategic Asset Allocation

8.2 In 2014 the Committee reduced the Strategic Allocation to Listed Equities from 70% to 60% and further diversified its Strategic Asset Allocation through allocations of 5% to both Multi Sector Credit and Infrastructure Debt. Given the length of the present clearly positive returns from Listed Equities coupled with their potential and historic significant volatility consideration of a further limited reduction in the Strategic Allocation to Listed Equities is a matter the Fund may wish to consider. Additional diversification of the Funds Asset Allocation, to seek to further smooth returns over the long term, might also be considered given the requirement under Regulation 62 of the LGPS Regulations 2013 (as amended) that the Fund undergo an Actuarial Valuation every three years and the requirement that the Fund seek to maintain as stable Employer Contribution Rates as possible.

8.3 It is, in my view, absolutely essential that the Committee receive training in respect of any Asset Class before determining whether or not the Fund should utilise it as part of its Strategic Asset Allocation.

9. Equalities and Community Cohesion Comments

9.1 There are no equalities issues arising from this report.

10. Head of Procurement Comments

10.1 Not applicable

11. Policy Implications

11.1 None.

12. Use of Appendices

12.1 Appendix 1: Current Investment Strategy
Appendix 2: Mercer report – Investment Strategy Review

13. Local Government (Access to Information) Act 1985

13.1 Not applicable.

Haringey Council

Appendix 1

Asset class	Actual % 30 April 2015		Benchmark %		Range %
UK Equities		16.5		15	12-18%
Overseas Equities		49.8		45	40-50%
North America	24.9		21.7		
Europe ex UK	7.7		7.4		
Pacific ex Japan	3.4		3.4		
Japan	3.5		3.5		
Emerging Markets	10.3		9		
UK Index linked gilts		14.1		15	12-18%
Property		9.1		10	6-12%
Multi Sector Credit		4.4		5	4-6%
Infrastructure Debt		1.8		5	4-6%
Private Equity		3.4		5	4-6%
Cash		0.9		0	0-10%
Total		100.0		100.0	

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LONDON BOROUGH OF HARINGEY PENSION FUND

INVESTMENT STRATEGY REVIEW

August 2015

Steve Turner
Partner

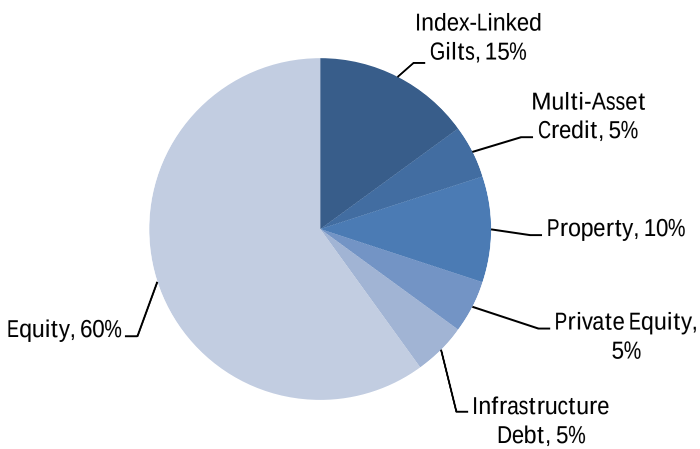
AGENDA

- Introduction and objectives
- Current Investment Policy
- Results of strategic modelling
- Implementation Considerations
- Asset Class Summaries
- Conclusion and Next Steps

INTRODUCTION AND OBJECTIVES

CURRENT INVESTMENT STRATEGY

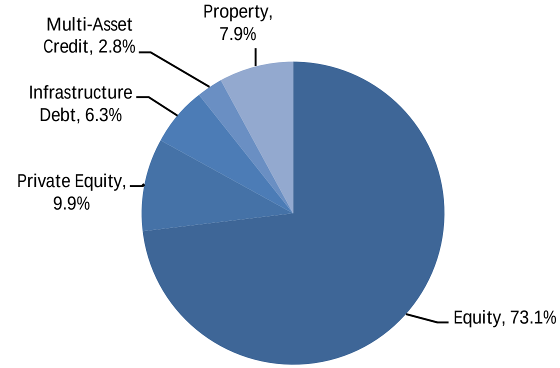
Asset Portfolio (Benchmark Weights)



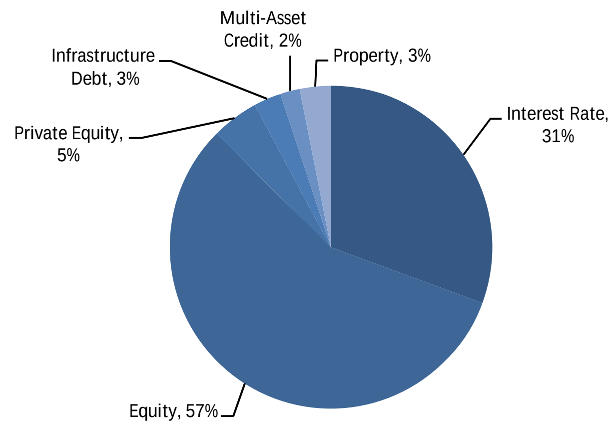
	Current Investment Strategy
Expected Return vs liabilities*	3.6
Expected Risk (volatility) vs liabilities*	12.8
Risk/Return Ratio	0.28
Hedge Ratio	19% of assets

* Where liabilities are assessed on a least risk gilts basis. Figures may not sum due to rounding

Contribution to Expected Return vs liabilities of 3.6%



Contribution to Expected Risk vs liabilities of 12.8%



The Fund is currently heavily reliant on the equity risk premium to generate investment return.

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EQUITY PORTFOLIO

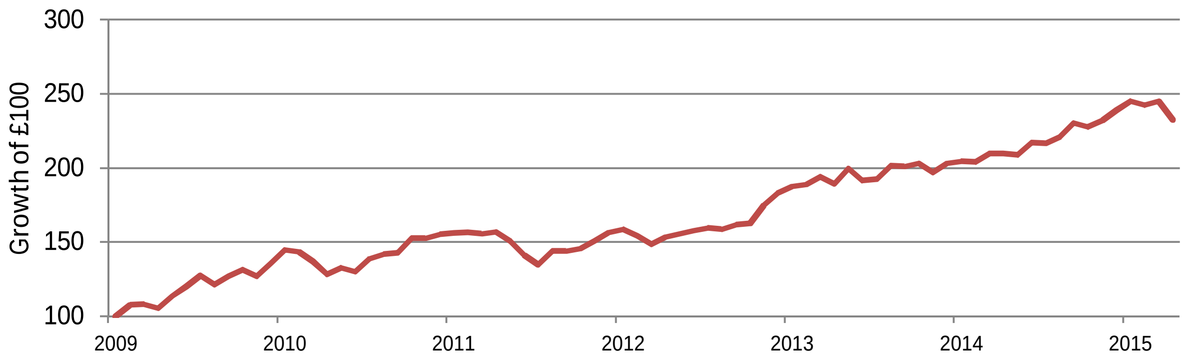
Current position & role

- Equities account for c. 60% of total invested assets
- **Return seeking role**: contributes c. 70% of the Fund's total excess expected return
- **Significant proportion of Fund's risk:** contributes c. 60% of the Fund's total expected risk

Market background

Mercer Dynamic Asset Allocation view = "Neutral", having been downgraded from "Attractive" in Q2 2015

Equity markets have returned over 130% since the end of March 2009



Source: Databank. MSCI World.

Strategic rationale for change

- In our view, developed market equities are now more fully priced, and forward looking returns from equity market 'beta' are expected to be lower than experienced over recent years.
- The Fund is highly reliant on the equity risk premium to generate return.
- We believe the Fund should consider a switch of up to 10% of assets from equities, with the proceeds to be invested in a number of possible asset classes to provide further diversification and more stable expected returns.

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PARAMETERS OF THIS REVIEW

We have agreed with Officers of the Fund and the Independent Advisor to consider the impact on the Fund's expected risk and return of disinvesting either 5% or 10% of the Fund's equity portfolio, with the proceeds being invested into a number of possible asset classes:

Asset Class	Role in the Portfolio
Unleveraged Index-Linked Gilts	• Help reduce risk relative to the liabilities (liability matching asset) • However, this will also reduce expected return. Is this acceptable?
Idiosyncratic Diversified Growth Fund	• Less reliant on traditional market returns • Exposure to dynamic asset allocation and specific trade ideas, hence diversification
Multi-Asset Credit	• To generate returns using a diversified and dynamic approach in growth fixed income markets
High Lease to Value ("HLV") Property	• Diversify sources of return, with relatively secure long term income • Long leases that can provide some inflation protection
Residential Property	• Alternative risk/return characteristics to core property mandate managed by CBRE
Private Debt	• Harvest illiquidity premium and credit risk premium

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RESULTS

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RESULTS – 5% ALLOCATION

5% switch from equities to:	Overall expected return over liabilities* (%)	Overall expected risk relative to liabilities* (%)	Expected return/risk ratio
Index-Linked Gilts	3.4	11.9	0.29
Idiosyncratic DGF	3.6	12.3	0.30
Multi-Asset Credit	3.5	12.3	0.29
HLV Property	3.5	12.1	0.29
Residential Property	3.5	12.3	0.29
Private Debt	3.6	12.2	0.30
Current	**3.6**	**12.8**	**0.28**

Figures may not sum due to rounding. *Risk (volatility) and Return figures are for the total portfolio, relative to the Fund's liabilities assessed on a least risk gilts flat basis, including a 5% switch from equities into the stated asset class.

- A 5% transition from equities to any of the asset classes under consideration is expected to result in an improvement in the risk-adjusted return of the Fund.
- Index-linked gilts are the best match for the Fund's liabilities, and result in the biggest reduction in risk. However, this comes at the expense of expected return.
- Higher risk-adjusted returns can be achieved by investing in illiquid assets (particularly private debt) to capture the 'illiquidity premium'.
- However, it takes time to deploy capital in most illiquid assets. We believe the initial focus should be reducing equity risk and on diversifying the investment policy within the next few months.
- A 5% switch into an idiosyncratic DGF would provide an attractive expected risk-adjusted return, and the assets could be deployed relatively quickly compared with less liquid alternatives.

The expected returns under each of these potential investment policies are consistently higher than the actuarial assumption of gilts + 1.6%

RESULTS – 10% ALLOCATION

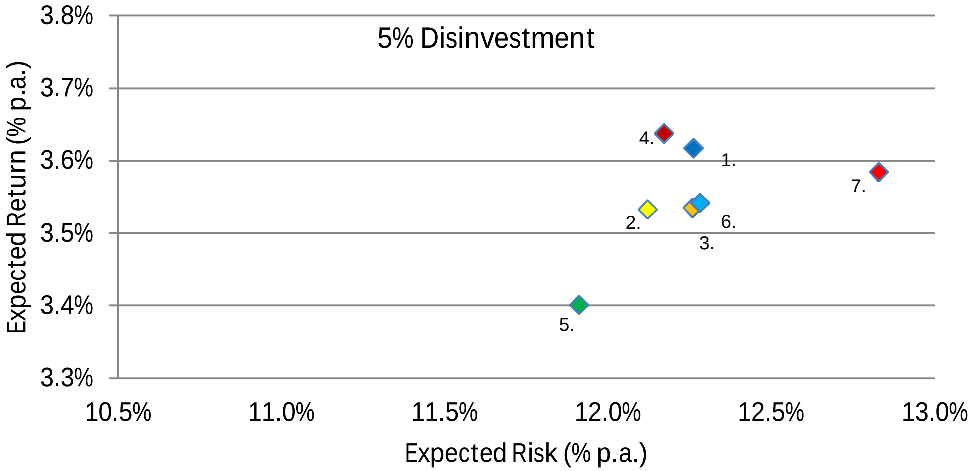
10% switch from equities to:	Expected Return (%)*	Expected Risk (%)*	Return/Risk Ratio
Idiosyncratic DGF	3.6	11.7	0.31
Index-Linked Gilts	3.2	11.0	0.29
HLV Property	3.4	11.4	0.30
Private Debt	3.7	11.6	0.32
Multi-Asset Credit	3.5	11.7	0.30
Residential Property	3.5	11.8	0.30
5% Index-Linked Gilts, 5% Idiosyncratic DGF	3.4	11.3	0.30
5% HLV Property, 5% Idiosyncratic DGF	3.5	11.6	0.31
5% Private Debt, 5% Idiosyncratic DGF	3.6	11.6	0.31
5% Multi-Asset Credit, 5% Idiosyncratic DGF	3.5	11.7	0.30
5% Residential Property, 5% Idiosyncratic DGF	3.6	11.7	0.30
Current	**3.6**	**12.8**	**0.28**

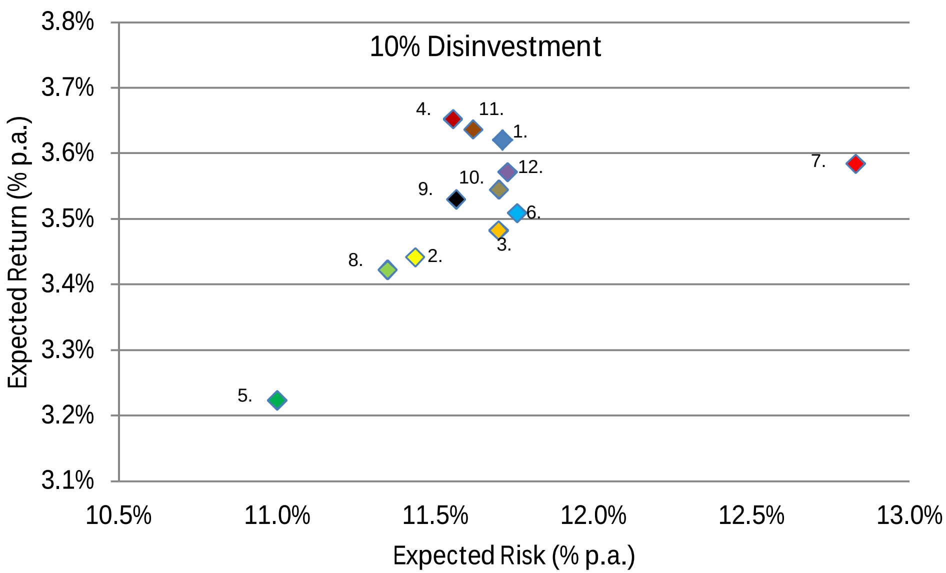
Figures may not sum due to rounding. *Risk (volatility) and Return figures are for the total portfolio, relative to the Fund's liabilities assessed on a least risk gilts flat basis, including a 10% switch from equities into the stated asset class(es)

- A 10% transition from equities to any of the asset classes under consideration results in an improvement in the expected risk-adjusted return of the Fund. Again, a switch to index-linked gilts results in the greatest risk reduction.
- As with a 5% allocation, the higher risk-adjusted returns can be achieved by investing in illiquid assets (particularly private debt). However, we believe the initial focus should be reducing equity risk and diversifying the investment policy within the next few months.
- We propose a 10% disinvestment from equities is considered, as this offers greater potential to improve diversification and the expected risk-adjusted return of the Fund compared with a 5% switch. The growth portfolio will still retain a strong bias towards equities, even after a 10% disinvestment.
- An allocation to idiosyncratic DGF would result in an attractive expected risk-adjusted return, and would allow capital to be deployed more quickly than less liquid asset classes, achieving the objective of "banking" equity gains. .

The expected returns of these potential investment policies are consistently higher than the actuarial assumption of gilts + 1.6%

RESULTS





Generally, a 10% switch from equities offers superior strategic benefits in terms of expected risk-adjusted return.

Index-linked gilts offer the greatest level of risk reduction, but this comes at the expense of expected return.

There are strong qualitative and quantitative reasons to support consideration of an allocation to idiosyncratic DGFs.

We set out implementation considerations for each asset class in the next section.

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Key:

1. Idiosyncratic DGF
2. HLV Property
3. Multi-Asset Credit
4. Private Debt
5. Index Linked Gilts
6. Residential Property
7. Current
8. Idiosyncratic DGF/Index-Linked Gilts
9. Idiosyncratic DGF/HLV Property
10. Idiosyncratic DGF/Multi-Asset Credit
11. Idiosyncratic DGF/Private Debt
12. Idiosyncratic DGF/Residential Property

IMPLEMENTATION CONSIDERATIONS

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IMPLEMENTATION CONSIDERATIONS

Asset Class	Timescale and liquidity	Cost of Investment	Estimated Fees (% p.a.)	Other
Unleveraged Index-Linked Gilts	No liquidity constraints; L&G funds are weekly dealt	Small spread may be incurred on investment	3bps	Real yields are near historic lows. We prefer leveraged index-linked gilts to hedge interest rate risk.
Idiosyncratic Diversified Growth Fund	No liquidity constraints; most funds are daily dealt	Most funds are single priced, and hence no explicit cost of investment	50-75bps	No 'timing' concerns; not wholly reliant on equity or other markets to generate returns
Multi-Asset Credit	CQS (and most managers) are monthly dealt	Potential for Anti-Dilution Levy based on fund flows	60-75bps	Low duration, so timing concerns less than other fixed income mandates. Use CQS or complementary manager?
High Lease to Value ("HLV") Property	Funds are typically drawn down over a period of 6-12 months	Initial charge of c. 5% of assets levied to cover transaction costs (e.g. Stamp Duty)	40-75bps	Little or no crossover with the current core property mandate managed by CBRE.
Residential Property	Can take a number of years for income to flow back	Initial charge of c. 5% of assets levied to cover transaction costs (e.g. Stamp Duty)	>100bps	Currently no crossover with the current core property mandate managed by CBRE.
Private Debt	Funds are typically drawn down over a period of 12-24 months	No initial cost of investment as funds are drawn down over time	50-150bps	'Reinvestment risk' as capital is returned throughout the investment period. Consider type of private debt and manager availability.

IMPLEMENTATION CONSIDERATIONS

Priority One: Diversify investment policy to reduce reliance on equity risk premium by making immediate changes (within 6 months) via liquid and immediately available asset classes

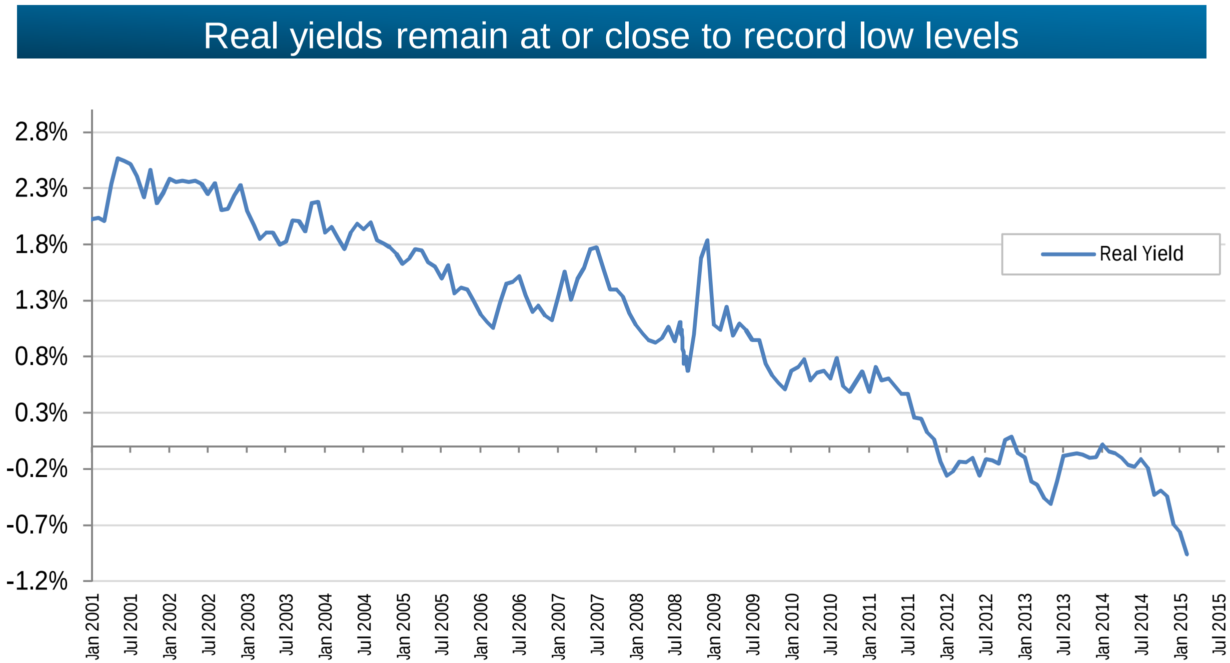
Asset Class	Comments
Unleveraged Index-Linked Gilts	• Although we believe leveraged index-linked gilts are more attractive for hedging interest rate risk, consideration of increasing liability hedging should be a priority for the Fund
Idiosyncratic Diversified Growth Fund	• Strong diversification benefits as less reliance on traditional market returns (i.e. beta) • Can be implemented quickly – most funds are daily dealt – and no timing concerns
Multi-Asset Credit	• No particular timing concerns, and can be implemented relatively quickly • Would suggest considering a manager selection exercise to select a complementary manager to the current CQS mandate

Priority Two: Once the reliance on the equity risk premium has been addressed, assess longer-term opportunities to capture 'illiquidity premium'. Assets could be "parked" in a liquid asset class (e.g. idiosyncratic DGF) and drawn down over time.

Asset Class	Comments
High Lease to Value ("HLV") Property	• Provides relatively secure long-term income, with some inflation linkage
Residential Property	• Alternative risk/return characteristics to core property mandate managed by CBRE
Private Debt	• Offers attractive expected risk-adjusted returns due to illiquidity premium, but also an element of reinvestment risk

ASSET CLASS OVERVIEWS

INDEX-LINKED GILTS



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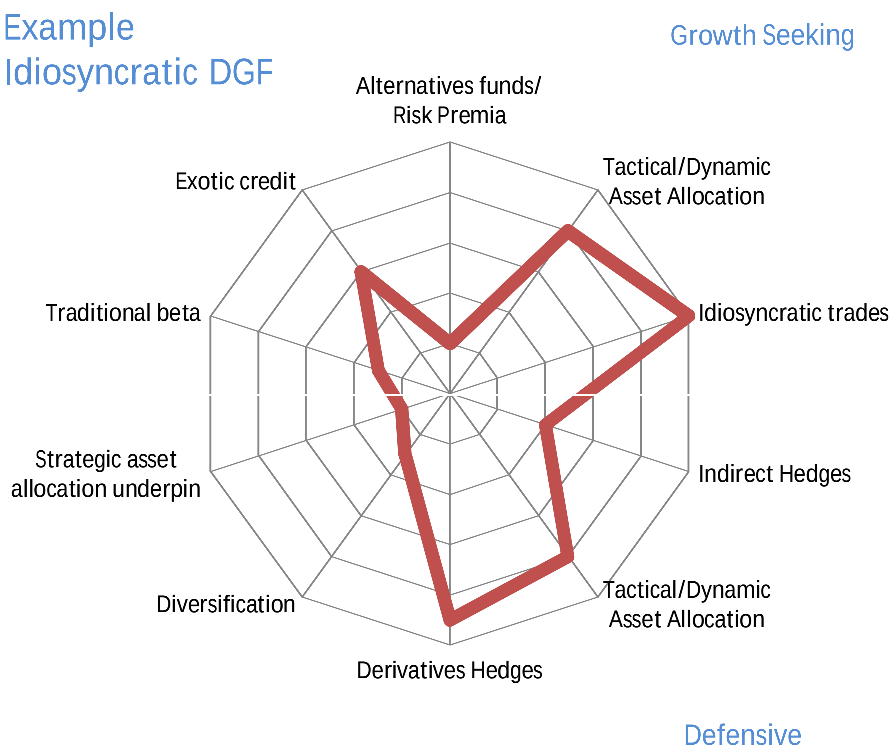
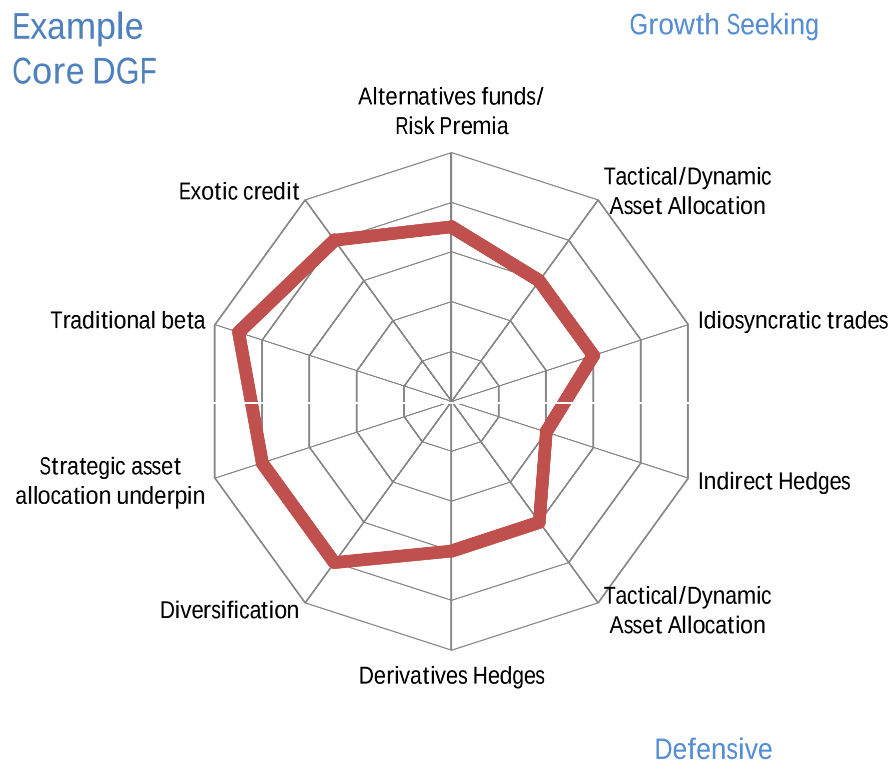
- We have a relative preference for index-linked bonds over fixed interest bonds given the nature of the liabilities is predominantly inflation-linked, and the macroeconomic backdrop which could see medium-term inflation pressures.
- However, physical index-linked gilts are not as capital efficient in terms of liability hedging/risk reduction. Leveraged index-linked gilts are more capital efficient, and we continue to believe the Fund would benefit from an allocation.

IDIOSYNCRATIC DGF – TYPICAL CHARACTERISTICS





DGFs typically target equity-like returns but with lower risk (often between 1/3 to 2/3 of equity risk).

Idiosyncratic DGFs have stronger biases to the right hand side of the “spider webs”. They are multi-asset strategies with a predominantly long bias, with emphasis on dynamic asset allocation and idiosyncratic trade ideas. Should provide more downside protection and lower volatility compared with ‘core’ diversified growth funds.

MULTI-ASSET CREDIT

Returns driven by **beta allocation plus alpha** from bond selection & beta rotation

Target Return: cash + 4 – 6%
Expected volatility: 5 – 10%

Sub-investment grade focus

Low interest rate sensitivity

Multi-Asset Credit

Monthly or weekly liquidity

Flexibility to move to cash and/or implemented hedges and in some cases shorting

Broad opportunity set
high yield debt, bank loans, securitised debt, distressed debt, emerging markets bonds & convertible bonds

Utilisation of less liquid assets

HIGH LEASE TO VALUE (HLV) PROPERTY

- Focus on income, not refurbishment potential or capital gains
- Long leases with upward, often inflation-linked, rental growth
  - Ideally over 20 years of the lease outstanding
  - unusual to have leases under 15 years outstanding
- High tenant quality
  - Government
  - High quality corporates (e.g. large supermarkets)

coupon
coupon
coupon
coupon
redemption

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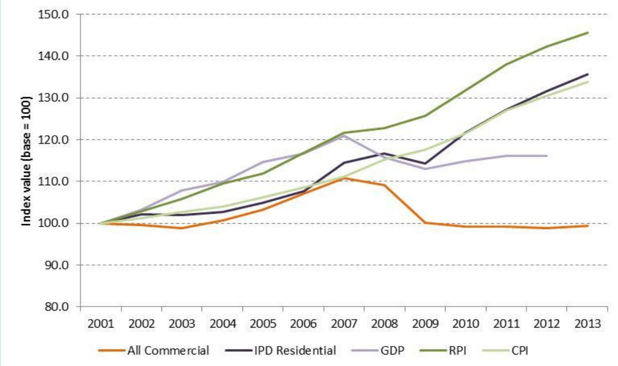
- Secure, long-term, predictable cashflows
  - Long leases and high tenant quality mean most of the return comes from income
  - Less exposure to property market capital fluctuations than in other sectors of the property market

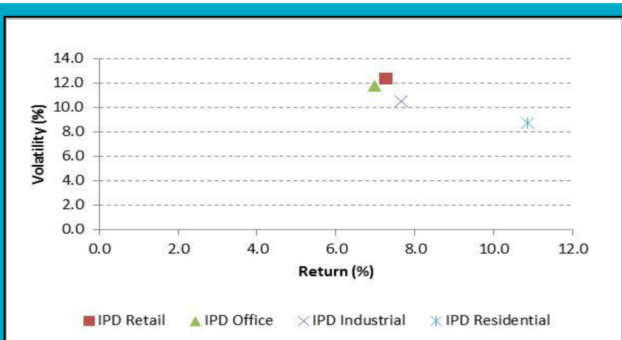
- Not as secure as gilts, but still a defensive/lower risk investment if held to “maturity” (for at least the term of the lease)
- Funds should have sensible limits on single corporate tenant exposures and geographical exposures

rent
rent
rent
rent
sale

RESIDENTIAL PROPERTY



- Rental growth for Residential Property has shown inflation-hedging characteristics
- More resilient than commercial sectors (despite shorter leases)
- Inflation linkage is inherently driven by market dynamics, not by lease structure



- Lower yielding but provides stable income
- Short leases offset by strong supply/demand imbalance
- Weak correlation to other sectors as less linked to economic activity
- Superior risk-adjusted returns over the past ten years than other property sub-sectors

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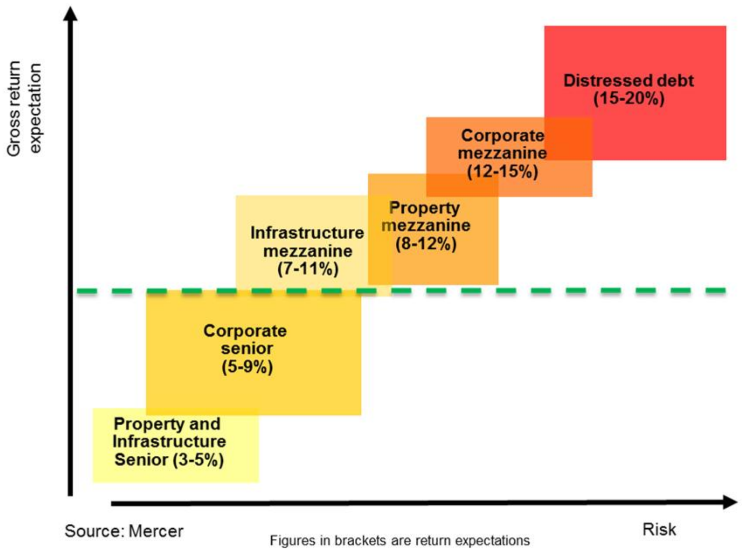
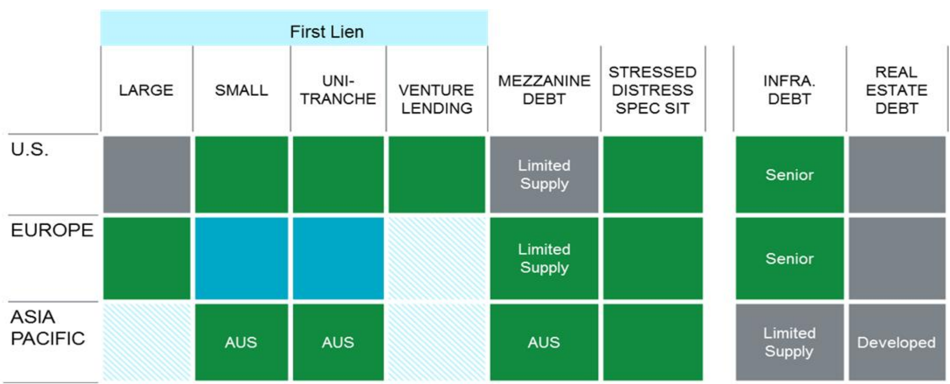
Summary:

- Strong underlying fundamentals should ensure that despite the short leases, occupancy should remain high (for the right assets) and rental increases should be steady as well as having an inherent link to inflation.
- Residential property has seen prolonged rental growth and more stable income than commercial sectors, and we feel that yield levels are relatively attractive at present.

PRIVATE DEBT





Very Unattractive Unattractive Neutral Attractive Very Attractive

Return Profile

- Return potential can vary significantly from 3% - 15+% depending on risk characteristics
- Strategies usually have absolute return targets

Other Key Information

- Key risks: illiquidity, credit risk, sourcing (adequate access to deal flow), due diligence and high level of research required
- The Fund currently has exposure to Private Debt through the Infrastructure Debt mandate managed by Allianz. The Fund would need to determine which area of Private Debt would be most suitable for an investment.
- The chart on the left shows our latest ‘private markets heatmap’ as at 30 June 2015, noting which areas of private debt we believe are most attractive.

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CONCLUSION AND NEXT STEPS

STRAWMAN PROPOSALS – PROPOSAL ONE

Proposal One: 10% Idiosyncratic DGF

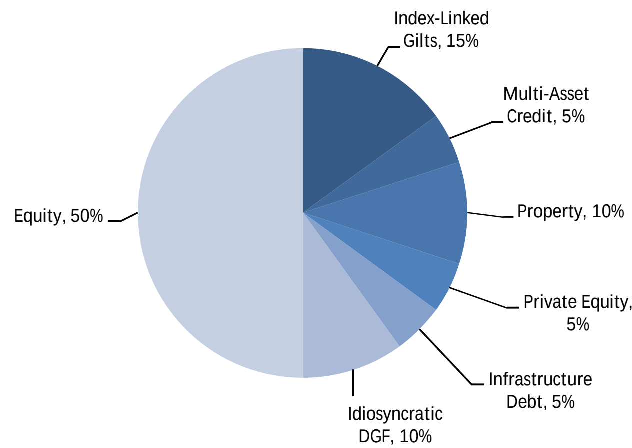
Rationale:

- Sources of return are differentiated from traditional 'beta'
- Should provide an element of downside protection in a period of market stress
- Additive to current investment strategy, and can be implemented quickly
- Expected to improve Return/Risk ratio from 0.28 to 0.31 (c.11% improvement).

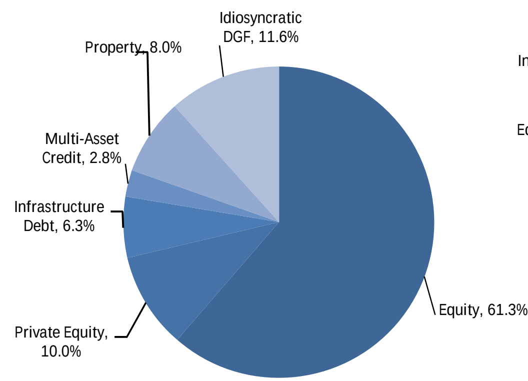
Implementation Considerations:

- No timing considerations as not reliant on performance of equity or other markets to generate returns
- Importance of manager selection; individual manager risk may be higher than 'core' diversified growth.

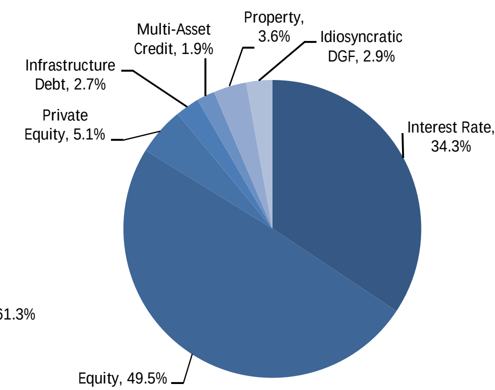
Asset Portfolio (Benchmark Weights)



Contribution to Expected Return vs liabilities of 3.6%

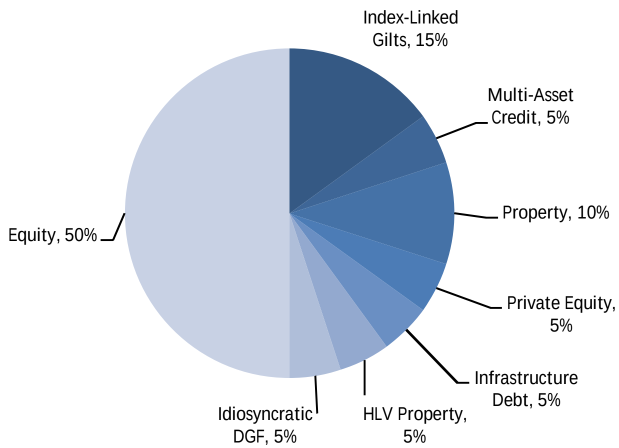


Contribution to Expected Risk vs liabilities of 11.7%

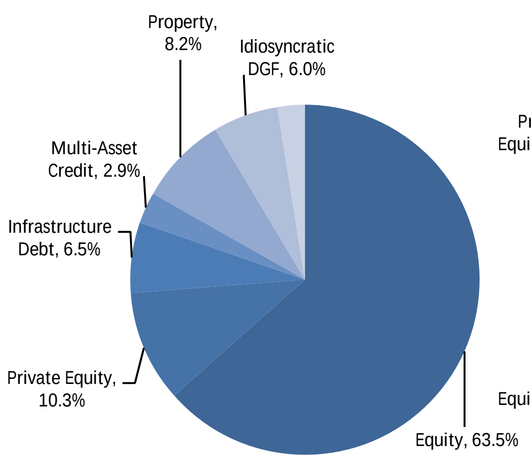


STRAWMAN PROPOSALS – PROPOSAL TWO

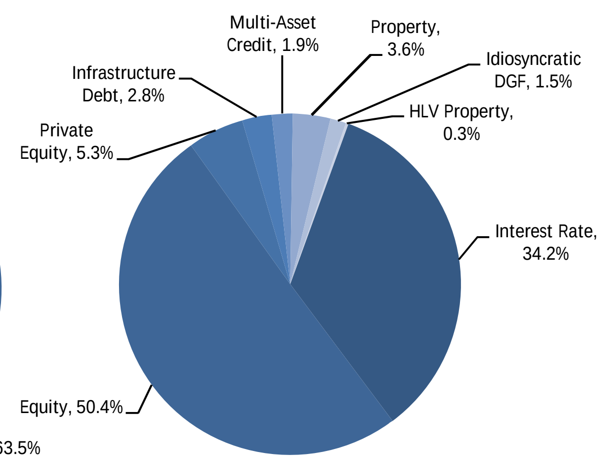
Asset Portfolio (Benchmark Weights)



Contribution to Expected Return vs liabilities of 3.5%



Contribution to Expected Risk vs liabilities of 11.6%



Proposal Two: 5% Idiosyncratic DGF, 5% HLV Property

Rationale:

- HLV generates attractive yield but also provides secure long-term income
- Some inflation protection is possible
- Strong diversification benefits when combined with Idiosyncratic DGF
- Expected to improve Return/Risk ratio from 0.28 to 0.31 (a c.9% improvement).

Implementation Considerations:

- Funds can be put to work with an Idiosyncratic DGF manager immediately, but will be ‘called down’ by the HLV manager
- Assets allocated to an HLV mandate could be ‘parked’ with the Idiosyncratic DGF manager until they are called.

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CONCLUSION AND NEXT STEPS

- We believe that making a 10% disinvestment from equities would be strategically beneficial for the Fund; we believe equity markets appear close to fully priced and prospective returns from equity ‘beta’ will be lower than experienced in recent years. The proceeds could be invested in a number of different assets classes (or combination of asset classes).

- The more attractive expected risk-adjusted returns can be achieved by locking up capital for a long period of time, therefore capturing the ‘illiquidity premium’. Opportunities exist in asset classes such as private debt and residential property.

- We believe the key areas of consideration are the timescale for implementation and to invest the disinvestment proceeds, the cost of investment and ongoing investment management costs, and the positive strategic impact on the Fund’s investment policy.

- Therefore, we believe the first priority for the Fund should be to reduce the reliance on the equity risk premium as soon as practically possible, and we would be supportive of a 10% investment in an idiosyncratic DGF fund.

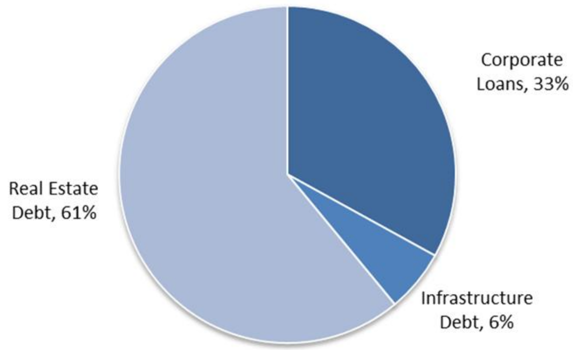
- Alternatively, the Fund could make a 5% investment in an idiosyncratic DGF and a 5% allocation to HLV Property, which we believe offers attractive strategic characteristics (e.g. long term secure income with some inflation linkage). Any proposed investment in HLV property could be ‘parked’ in an idiosyncratic growth fund whilst being called for investment.

- We would be happy to undertake further training on any of the asset classes included in this presentation.

APPENDIX

PRIVATE DEBT
A DIVERSE ASSET CLASS

Market structure



Source: Mercer

Credit Profile

- Credit ratings will vary depending on the class and issuer of debt
- Issuers may be investment grade but on the whole the private debt market is sub-investment grade and on par with high yield but with higher expected returns given the illiquidity

Private Debt	
Return Expectation	Cash plus 8% (net of fees)
Primary Focus	Junior/Mezzanine

Senior Private Debt	
Return Expectation	Cash plus 1 - 3% (net of fees)
Primary Focus	Senior

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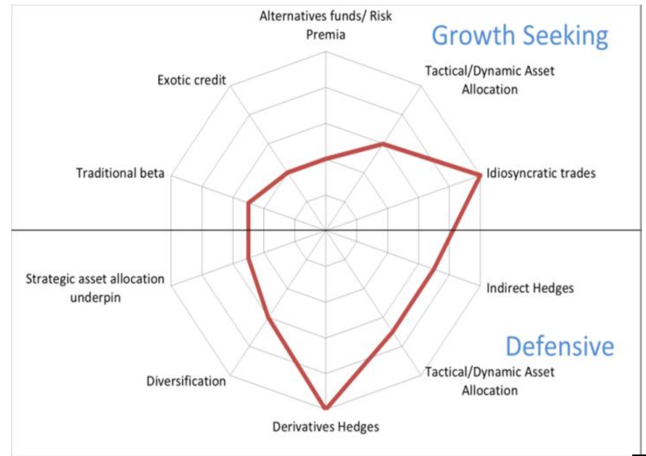
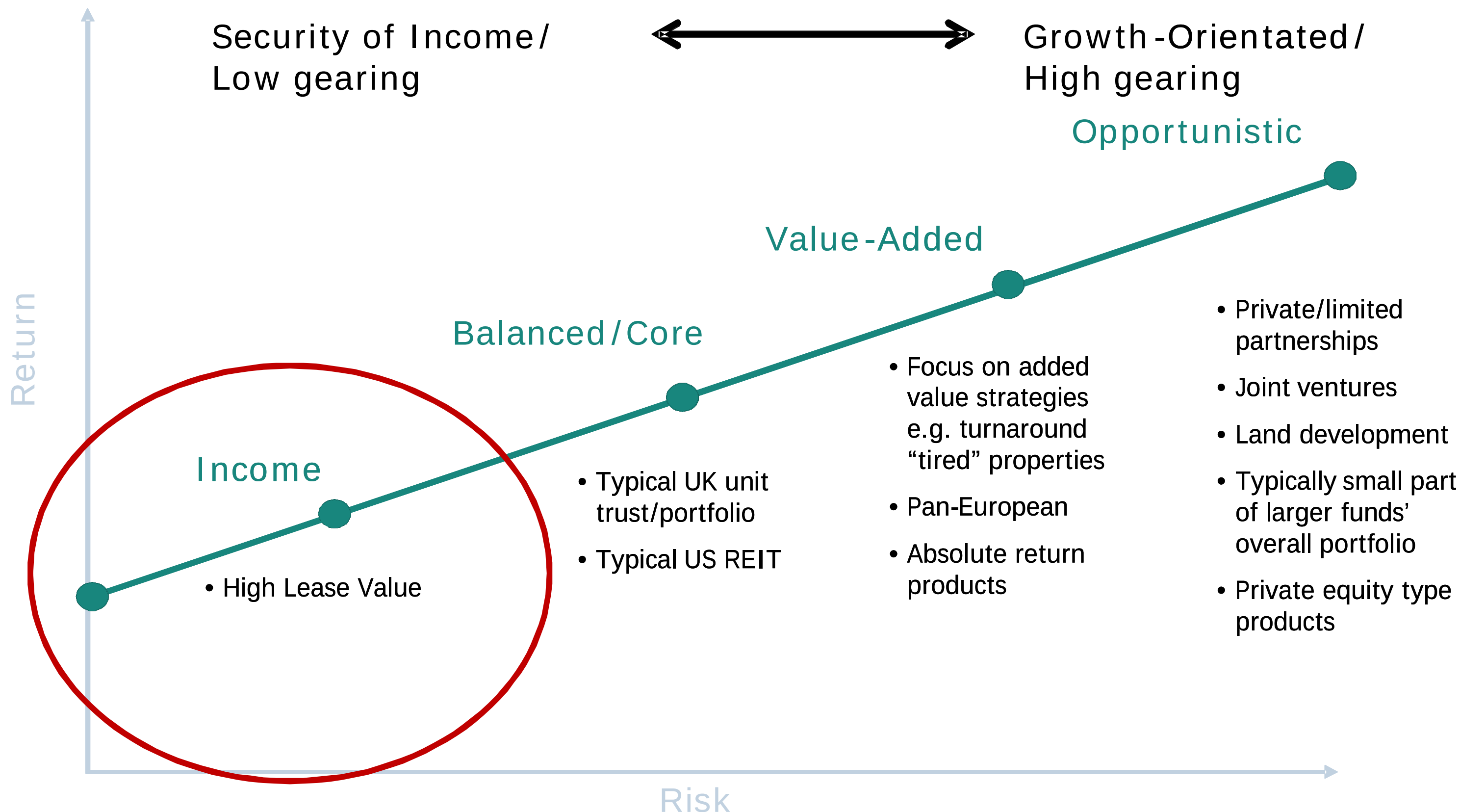
IDIOSYNCRATIC DIVERSIFIED GROWTH FUND
SAMPLE CHARACTERISTICS

Investment thesis	The strategy consists of 20-30 individual trade ideas each with a 2-3 year investment horizon. The portfolio is structured using in-house funds, direct stock and bond investments, and significant use of derivatives. Trades can be in any asset class (and some ideas will span asset classes), with frequent use of derivatives to enable them to isolate specific opportunities.
Expected return	3 month Sterling LIBOR plus 5% on a rolling 3-year annualised basis (gross of fees)
Expected volatility	Less than half global equity volatility (measured by MSCI World) over a rolling 3-year period
Standard fee rate	0.7% p.a.
Liquidity	Daily dealing
Use of derivatives and leverage	Significant use of derivatives to achieve the preferred risk reward profile for each trade and to enable them to isolate specific opportunities. The fund's own measure of economic leverage (please note that this is not financial leverage and is different to the regulatory definition of leverage) will generally be somewhere between 100% and 350%.



HLV PROPERTY
LOW RISK, INCOME ORIENTED

- Lower end of property risk/return spectrum.
- Focus on properties with stable income component, long contracted lease agreements and high quality tenant.



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MULTI-ASSET CREDIT
IMPORTANCE OF ASSET ALLOCATION

2005	2006	2007	2008	2009	2010	2011	2012	2013	2014
EM HC Sov 10.25	US HY CCC (Distressed) 18.60	EM LC Sov 18.11	EM LC Sov -5.22	US HY CCC (Distressed) 96.79	US HY CCC (Distressed) 18.42	EM HC Sov 7.35	European HY 27.45	Global CB 18.18	EM HC Sov 7.43
European HY 6.80	Global CB 17.94	Global CB 11.26	Global Corporates -8.63	European HY 76.35	EM LC Sov 15.68	ABS 6.95	US HY CCC (Distressed) 20.27	US HY CCC (Distressed) 12.96	European HY 5.35
EM LC Sov 6.27	EM LC Sov 15.22	Global Corporates 6.73	EM HC Sov -12.03	Loans 51.62	European HY 14.72	US HY BB-B 5.43	EM HC Sov 17.44	European HY 10.05	US HY BB-B 3.47
Loans 5.06	US HY BB-B 10.68	ABS 6.43	ABS -14.78	Multi-Asset 46.79	US HY BB-B 14.50	Global Corporates 4.32	EM LC Sov 16.76	US HY BB-B 6.31	Global Corporates 3.15
Multi-Asset 3.91	Multi-Asset 9.98	EM HC Sov 6.16	US HY BB-B -23.71	US HY BB-B 46.14	EM HC Sov 12.24	Multi-Asset 2.18	US HY BB-B 14.71	Multi-Asset 5.65	ABS 2.19
US HY BB-B 3.33	EM HC Sov 9.86	Multi-Asset 3.71	Multi-Asset -23.81	Global CB 41.37	Multi-Asset 12.00	Loans 1.51	Multi-Asset 13.84	Loans 5.34	Multi-Asset 1.93
Global CB 0.06	ABS 9.50	US HY BB-B 2.72	Loans -29.05	EM HC Sov 29.82	Global CB 11.76	US HY CCC (Distressed) -1.40	Global CB 13.30	ABS 1.37	Global CB 1.71
US HY CCC (Distressed) -0.56	European HY 8.90	Loans 2.08	Global CB -31.67	EM LC Sov 21.98	Loans 10.13	EM LC Sov -1.75	Global Corporates 11.18	Global Corporates 0.35	Loans 1.60
ABS -1.51	Global Corporates 7.23	US HY CCC (Distressed) 0.42	European HY -33.53	ABS 21.27	ABS 6.35	European HY -2.55	Loans 9.60	EM HC Sov -5.25	US HY CCC (Distressed) -2.57
Global Corporates -3.56	Loans 6.74	European HY -2.09	US HY CCC (Distressed) -38.30	Global Corporates 19.18	Global Corporates 5.83	Global CB -7.03	ABS 8.58	EM LC Sov -8.98	EM LC Sov -5.72

EM LC Sov: JP Morgan GBI EM GD, EM HC Sov: JP Morgan EMBI GD, European HY: BofA Merrill Lynch European High Yield, US HY BB-B:BofA Merrill Lynch US High Yield BB-B, US HY CCC (Distressed):BofA Merrill Lynch US High Yield CCC, Global Corporates:Barclays Global Aggregate Corporate, ABS:Barclays Global Aggregate Securitized Asset Backed, Loans:S&P Leverage Loans, Global CB:UBS Global Convertibles

Multi-Asset Credit: static allocations comprising: JP Morgan GBI EM GD 5%, JP Morgan EMBI GD 5%, BoA Merrill Lynch US High Yield BB-B 30%, BoA Merrill Lynch European High Yield 10%, BoA Merrill Lynch US High Yield CCC 5%, , Barclays Global Aggregate Securitized Asset Backed 7.5%, S&P Leverage Loans 27.5%, Citigroup US 6 month T-Bill 5%, UBS Global Convertibles 5%

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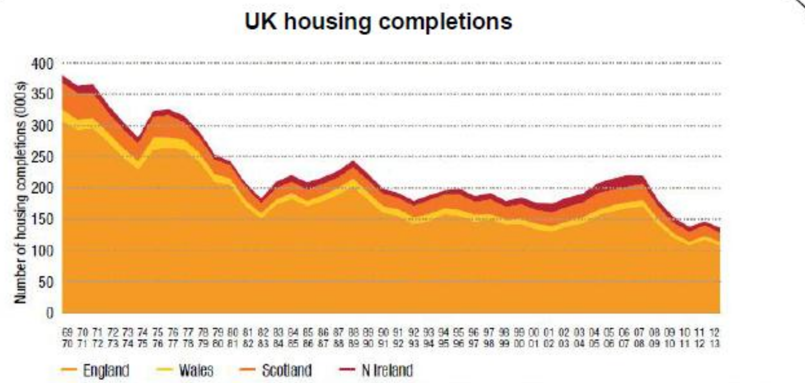
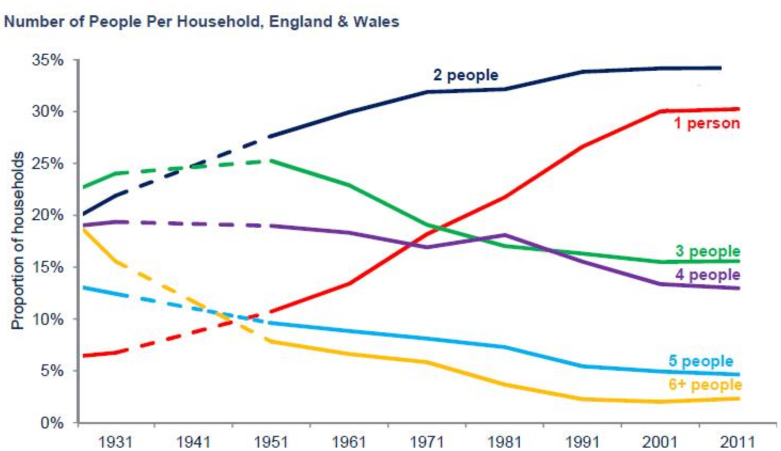
A diversified approach to sub-investment grade credit investing produces better risk-adjusted returns over the medium to long term than an allocation to any individual ‘sleeve’

RESIDENTIAL PROPERTY
SUPPLY AND DEMAND DYNAMICS

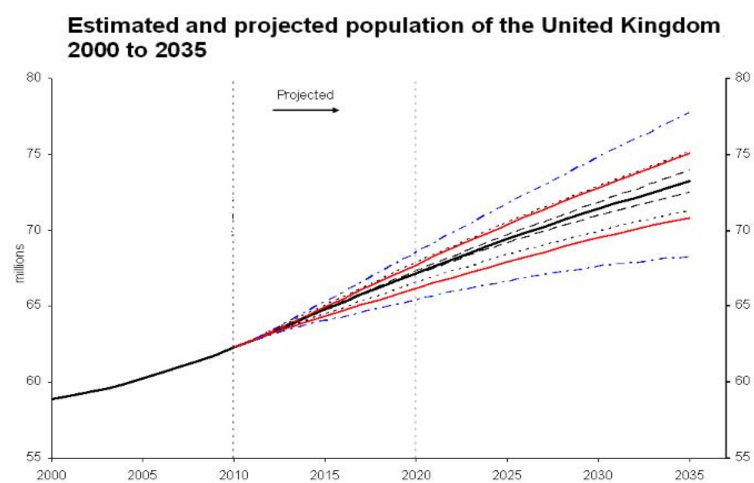
- Housing completions have been falling since the 1960's
- The population has been growing (third fastest in Europe)
- People are living in different ways



Source: DCLG



Source: Savills



Source: ONS

CAPITAL MARKET ASSUMPTIONS

MERCER **UK CAPITAL MARKET ASSUMPTIONS**
30 June 2015

The table shows our central capital market assumptions for a 10 year period beginning 30 June 2015 (31 March values are shown for comparison).
It should be noted that:

- Asset class returns in the model are not normally distributed. So the 'mean variance' statistics in this paper do not fully define the return distribution.
- Expected returns and volatilities over time horizons other than 10 years will differ.
- Returns are shown relative to cash. In our model expected (Arithmetic Mean) cash returns will be equal to fixed interest gilt returns over any given holding period. The 10 year gilt spot yield at 30 June 2015 was 2.2% p.a. (1.7% p.a. at 31 March).

Changes over the quarter

This quarter, the gilt and sterling corporate bond volatilities have increased slightly, reflecting the increase in UK interest rate volatility over the course of the year. Expected returns for sterling corporate bonds have increased slightly due to credit spread widening over the quarter.

Asset Class	30/06/2015			31/03/2015		
	Excess return over cash		Absolute	Excess return over cash		Absolute
	Arithmetic Mean (% p.a.)	Median (% p.a.)	Standard deviation (% p.a.)	Arithmetic Mean (% p.a.)	Median (% p.a.)	Standard deviation (% p.a.)
Fixed interest gilts (all stocks)	-	-0.3	3.9	-	-0.2	3.8
Fixed interest gilts (>15 years)	-	-0.8	9.2	-	-0.6	8.6
Index-linked gilts (> 5 years)	-0.3	-0.8	8.7	-0.3	-0.8	8.4
Sterling non-gilts (all stocks)	0.9	0.8	3.8	0.8	0.7	3.6
Sterling non-gilts (>10 years)	0.9	0.4	6.3	0.7	0.4	6.0
Dev'd Global Equity (Hedged)	4.5	3.4	17.4	4.5	3.4	17.2
Emerging Market Equity	6.1	2.8	29.4	6.1	2.8	29.4
Small Cap Equity (Unhedged)	5.8	3.6	22.8	5.8	3.6	22.8
Defensive Equity (Hedged)	3.9	3.2	14.0	3.8	3.2	13.9
Conventional Property	3.0	2.0	14.8	3.0	1.9	14.6
High Lease-to-Value Property	1.8	1.5	8.2	1.8	1.5	8.1
Hedge Funds	2.3	2.1	8.2	2.3	2.1	8.1
High Yield Debt (Hedged)	2.6	2.3	9.3	2.6	2.3	9.3
Emerging Market Debt (LC)	3.4	2.2	13.7	3.3	2.1	13.5
Infrastructure Unlisted Equity	4.2	3.1	15.5	4.2	3.1	15.6
Private Debt	4.1	4.2	11.6	4.0	4.2	11.7
Private Equity	6.8	3.6	24.4	6.7	3.7	24.3

MAKE
TOMORROW,
TODAY

Haringey Council

Report for:	Pensions Committee 10th September 2015	**Item number**	

Title:	London Collective Investment Vehicle

Report authorised by :	Assistant Director – Finance

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

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

1. Describe the issue under consideration

1.1 The London CIV has been established to facilitate the collective management of London LGPS investments. Almost all the London Boroughs, including Haringey, have contributed £50,000 towards the set up costs. This note updates the Committee on progress to make the CIV operational, including share capital requirements and future options to utilise the CIV.

2. Cabinet Member Introduction

2.1 Not applicable.

3. Recommendations

3.1 That the Committee:

(a) note the progress in establishing the London CIV, and

(b) delegate authority to the Chief Financial Officer in consultation with the Chair of the Pensions Committee to purchase share capital of the

Haringey Council

London CIV to meet the requirements for FCA (Financial Conduct Authority) authorisation up to a maximum of £150,000.

4. Other options considered

4.1 At this stage no decision to invest through the CIV is required. The Committee will subsequently be able to opt to use the CIV to manage part of the Fund's investments. The impact of not providing share capital is discussed below.

5. Background information

5.1 The Committee has previously agreed (September 2013 & November 2014) to support the establishment of a London collective Investment Vehicle ("CIV") that will take on, where a London Fund specifically delegates this function, responsibility for the identification of investment managers and the negotiation of fees. The CIV will not be involved in strategy or the design of mandates i.e. active v passive, but once these decisions are made by individual Funds will assume the role of appointing and monitoring investment managers if the Committee decides to delegate these functions to the CIV. The aims of the CIV are to save fees through scale discounts and to improve appointments for those funds that retain active management. All but one or two London boroughs have supported the CIV to date. The boroughs have each agreed to pay £75,000 towards set up costs, of which £50,000 has been called.

5.2 Over the last nine months the CIV has made significant progress with its governance arrangements. An interim Board and a CEO have been appointed. Service providers have also been appointed and applications made to Regulatory authorities (FCA) to acquire the right to manage investments. The Committee Chair will be representing Haringey at future CIV meetings.

5.5 The CIV has also been in discussion with fund managers on fee levels and has concluded that initially it will be in a position to take on assets managed by four investment managers - Legal & General, BlackRock, Allianz (active equity) and Baillie Gifford (DGF). The choice of managers has been based on the number of London appointments and the ability to negotiate reduced fees. It is anticipated that the CIV will be able to assume the management of assets from late 2015.

5.6 There are two decisions that the Committee will have to make. These are (1) does the Committee wish to use the CIV to manage Haringey's investments, and (2) are we willing to advance share capital. These are separate decisions.

Haringey Council

5.7 The decision to use the CIV to manage assets will not be a once only choice. Initially, one of the Fund's managers, L&G will be available through the CIV, but possibly only for passive equities, which represent 60% of our investments. Other fund managers and asset classes will be made available at a later date.

5.8 The Committee has just agreed reduce fees with L&G and transferred BlackRock's assets to L&G. Although the CIV has not disclosed the fee levels it has negotiated, it is believed that these are higher than the new Haringey rates. For this reason we are not seeking any immediate authority to use the CIV until there is clarity of fees and management arrangements e.g. impact on reporting and manager meetings.

5.9 The CIV has requested that each borough pass a resolution delegating decisions to use the CIV to an officer in discussion with the Chair of the Committee. In light of Haringey circumstances (the proportion of the Fund's assets held by L&G and the low likelihood of initial fee savings), we are not seeking a delegation and prefer that any transfer is first discussed by the Committee.

Share Capital

5.10 As the CIV nears the time that it will obtain regulatory approval from the FCA there is a requirement for regulatory capital to be placed in the CIV, without which the CIV would not receive authorisation. This is likely to be in the region of £150,000 for each London Borough that participates in the CIV. However, it needs to be emphasised that this is not a cost in the same way as the previous sums to set up the CIV, instead this will be treated as an investment. However, there will be restrictions on withdrawing the capital and should the CIV incur losses (as with any corporate) the capital will be reduced. It is recommended that the Committee approve the provision of share capital to the London CIV and delegate the final decision to purchase share capital to the Chief Financial Officer acting after consultation with the Chair of the Pensions Committee. The Statement of Investment Principles will be amended to make reference to the CIV investment.

5.11 If the Committee decide not to provide share capital this may impact on our ability to utilise the CIV in future. If a number of funds do not invest, the viability of the CIV may be questionable. We will ensure that sufficient capital has been pledged to the CIV before completing any share capital purchase.

Budget Announcement

Haringey Council

5.12 The Government previously consulted (summer 2013) on ways to reduce LGPS costs at a time when consultation of funds was being advocated. In the summer 2015 Budget, the Chancellor announced that the Government "will work with Local Government Pension Scheme administering authorities to ensure that they pool investments to significantly reduce costs, while maintaining overall investment performance".

5.13 It is anticipated that each local authority will be required to demonstrate the actions it is taking to reduce costs with strong encouragement or coercion to pool assets. Haringey will be able to demonstrate its equity fee savings but will also have to consider ways to reduce costs for the other asset classes. Depending on the language of the consultations (expected in the autumn), the Committee may have little option but to use the London CIV or a similar alternative.

6. Comments of the Chief Financial Officer and financial Implications

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

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

6.3 Providing share capital to the London CIV retains the option of future use, and possible fee savings and responses to Government directions.

7. Assistant Director of Corporate Governance and Legal Implications

Haringey Council

7.1 The Council has the power as administering authority to the Haringey Pension Fund to invest fund monies as set out in Local Government Pension Scheme (Management and Investment Funds) Regulations 2009 and a duty to review the performance of its investment managers and the investments made.

7.2 All investments must comply with the Council's published investment policy and the asset allocation must be in accordance with the investment strategy.

7.3 Members are being asked to authorise the purchase of shares in the CIV up to a sum of £150,000. Depending on the type of vehicle that is set up, the Fund potential liability and loss may be limited to the number of shares acquired and the value of those shares. Before acquiring the shares there are a number of issues that will need to be address including (but not limited to) what kind of vehicle it would be, control, decision making, what interest this Council would have, its relationship with this Council, the policies under which the CIV will operate, how the Council will review the performance, the costs and risks.

8. Comments of the Independent Advisor

8.1 The London CIV offers potential, though not yet proven, opportunities for the Fund to reduce fees and delegate the day to day monitoring of some of the Fund's investments.

8.2 Following the Chancellor's announcement in the July 2015 Budget that the Government "will work with Local Government Pension Scheme administering authorities to ensure that they pool investments to significantly reduce costs, while maintaining overall investment performance" there is no real doubt that LGPS Funds will, in the future, be required to work together collectively in terms of investment.

8.3 The comments in 8.1 and particularly in 8.2 above support the recommendations made by the Officers in this report.

8.4 It must however be emphasised that purchasing share capital in the London CIV does not oblige the Fund to utilise any particular service or product offered by the London CIV.

8.5 It should also be noted that there are other LGPS collaborative vehicles presently under development/ under possible consideration which the Haringey Fund could potentially utilise in future to manage some or all of its investments.

9. Equalities and Community Cohesion Comments

Haringey Council

9.1 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.

10. Head of Procurement Comments

9.1 Not applicable

11. Use of Appendices

11.1 None

12. Local Government (Access to Information) Act 1985

12.1 Not applicable.

Agenda Item 13

Haringey Council

Report for:	Pensions Committee 10th September 2015	**Item number**	

Title:	The role of the Pensions Regulator in LGPS

Report authorised by :	Assistant Director – Finance

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 Pensions Regulator has published a code of practice titled “Governance and administration of public service pension schemes”. This note discussed the implications of the code of practice and proposed actions to ensure that the Council and Fund operates in accordance with best practice.

2. Cabinet Member Introduction

2.1 Not applicable.

3. Recommendations

3.1 The Committee is invited to agree with the proposed actions required and set out in paragraph 5.4 to comply with the Regulator’s Code of Practice.

4. Other options considered

4.1 None. Compliance with the code is best practice.

5. Background information

5.1 The Pensions Regulator (Regulator) was established to regulate pension schemes, initially in the private sector where its role included the enhancement of governance standards and the protection of scheme

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members. The establishment of the Regulator followed a number of employer insolvencies in which fund member entitlements were reduced.

5.2 The Public Service Pensions Act 2013 extended the regulatory oversight of the Regulator within LGPS. The code of practice sets out the legal requirements for public service pension schemes together with practical guidance and standards of conduct expected.

5.3 The note from the Independent Advisor (appendix 1) summarises the Regulator's expectations on the quality of governance in respect of a range of issues including Pensions Administration (for example record keeping, collecting contributions, providing information to members of the Pension Scheme, internal dispute resolution). The Fund and individual Employers must ensure that they adhere to their legal obligations and the expected standards the Pensions Regulator has set out. Although compliance with the code of practice in its entirety is not a legal requirement, departures from the code may well result in challenge and examination by the Regulator.

5.4 In light of the requirements of the code it is recommended that the following actions are taken:

a) Internal controls around key processes of the fund are set out in a single document and that key risks and mitigating controls are documented and discussed annually by the Committee.

b) A report on the performance of the administration function e.g. collection of contributions, payment of benefits and responses to scheme members enquires is presented to the Committee on a quarterly basis. Also included would be the operation of the internal disputes resolution procedures and breaches of the law.

c) Internal Audit is requested to review the operation of the internal controls and the identification of key risks and provide annual reports to the Committee.

d) Annually, the Committee review training undertaken and agree training plans for the next 12 months in light of the requirements of the code.

e) A listing is maintained of laws, regulations and scheme documentation that the committee should be familiar.

f) Preparation of a conflicts policy and procedure, which includes identifying, monitoring and managing potential conflicts of interest.

g) A report is prepared on events that may require notification to the Regulator e.g. late payment of contributions, failures to provide information to scheme members etc.

h) An Annual Governance review is undertaken by a suitably qualified person.

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i) All employers in the London Borough of Haringey Fund are sent a copy of the Code of Practice.

5.5 The above steps are seen as essential to meet the governance and administration requirements as set out in the code of practice.

5.6 The quality of record keeping in connection with scheme member transactions is a major area of concern to the Regulator as this can lead to paying members incorrect benefits. There is a requirement in the code that schemes should continually review their membership data and carry out a data review exercise at least annually. This should include an assessment of the accuracy and completeness of the member information data held. Schemes should ensure that member records are reconciled with information held by the employer. These are substantial tasks and some thought is required as how to proceed.

5.7 It is proposed that implementation of these actions be completed by March 2016.

5.8 A copy of the code is available to the Committee via the author of the report.

6. Comments of the Chief Finance Officer & financial implications

6.1 Addressing the requirements of the code in a timely fashion will be better than having the requirements imposed at short notice.

7. Assistant Director of Corporate Governance comments and Legal Implications

7.1 The Assistant Director of Corporate Governance has been consulted on the content of this report. The recommendation would enhance the administering authority's duty to manage and administer the Scheme.

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- Note from the independent advisor.

12 Local Government (Access to Information) Act 1985

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12.1 Not applicable.

Appendix 1

JOHN RAISIN FINANCIAL SERVICES LIMITED

London Borough of Haringey Pension Fund

The role and approach of the Pensions Regulator to the Local Government Pension Scheme

A paper by the Independent Advisor
August 2015

Background

Section 17 and Schedule 4 of the Public Service Pensions Act 2013 extended the role of the Pensions Regulator to include public sector pension schemes including the Local Government Pension Scheme (LGPS) from 1 April 2015.

With regard to the LGPS the Pensions Regulator now has responsibilities in relation to governance and particularly administration. However, the Pensions Regulator's role has not been extended to funding and investment issues within the LGPS which remain wholly the responsibility of the Secretary of State for Communities and Local Government.

Schedule 4 of the Public Service Pensions Act 2013 requires the Pensions Regulator to issue a Code of Practice or Codes of Practice in respect of certain specified matters. In response to this requirement the Pensions Regulator in December 2013 issued Draft Code of Practice No 14 ***"Governance and administration of public service pension schemes."*** Following consultation a slightly revised version of Draft Code No 14 came into effect as Code No 14 from 1 April 2015. This Code of Practice is applicable both to the Pension Fund and the individual Employers within the Fund.

In June 2015 the Pensions Regulator issued (following a consultation during February and March 2015) its approach to compliance and enforcement in relation to public service pension schemes entitled ***"Compliance and enforcement policy for public service pension schemes."*** This indicates that the Pensions Regulator's primary focus will be on educating and enabling Schemes to improve standards and comply with legal requirements. However the Regulator is clear that statutory based enforcement action will be taken against Schemes if necessary.

This paper will now look in some more detail at Code of Practice No 14 and the Pensions Regulator's approach to compliance and enforcement for public service pension schemes.

Code of Practice No 14 *"Governance and administration of public service pension schemes"*

Code of Practice No 14 covers the following issues:

Governing your scheme

- Knowledge and understanding required by pension board members
- Conflicts of interest and representation
- Publishing information about schemes

Managing risks

- Internal Controls

Administration

- Scheme record-keeping
- Maintaining contributions
- Providing information to members

Resolving issues

- Internal dispute resolution
- Reporting breaches of the law

The issues covered and requirements of Code No 14 are extensive. The Code extends to over 60 pages in length. Although effective record keeping, maintaining contributions, providing information to members and internal dispute resolution were already legal requirements for both LGPS Funds and Employers Code No 14 brings these requirements together in one document and also provides practical guidance and sets expected standards.

Paragraph 12 of Code of Practice No 14 states that the Code is *"particularly directed"* at Scheme Managers (which in the case of the London Borough of Haringey Fund is the Pensions Committee and its Officers) and members of Pension Boards. Given the contents of the Code it is therefore very important that Members of the Pensions Committee and its Officers are clearly aware of its contents. As Paragraph 8 of the Code states *"The regulator is required to issue one or more codes of practice covering specific matters relating to public service pension schemes. This code of practice sets out the legal requirements for public service pension schemes in respect of those specific matters. It contains practical guidance and sets out standards of conduct and practice expected of those who exercise functions in relation to those legal requirements."*

It is also crucial that all Employers within the London Borough of Haringey Fund are aware of and comply with the legal requirements and standards of practice covered by the Code. As Paragraph 15 states *“the role and actions of employers can be critical in enabling scheme managers to meet certain legal requirements.”* For example the role of Employers in Scheme record keeping, ensuring employee and employer contributions are correctly paid to the Fund and in the Internal Dispute Resolution Procedure (IDRP) are crucial. Failures by an Employer to fulfill legal requirements and follow the expected standards within the Code may result in that Employer (rather than the Pension Fund) being subject to legal enforcement action by the Pensions Regulator. Therefore the Fund needs to bring Code of Practice No 14 to the attention of all Employers within the Fund.

It is a statutory requirement under Schedule 4 of the Public Service Pensions Act 2013 and Section 248A of the Pensions Act 2004 (As amended) that members of Pension Boards have “knowledge and understanding” of pensions law and be “conversant” with the Scheme Regulations and Fund documents. If the Secretary of State approves a combined Pensions Committee and Board for the Haringey Fund the statutory “knowledge and understanding” and “conversant” requirements will apply to all members of the combined Committee and Board. It will be necessary for members of the combined body to undertake and maintain broad based training and for the Fund to be able to evidence that individual members have attended suitable training.

Paragraphs 34 to 60 of Code of Practice No 14 cover the issue of Knowledge and Understanding required by Pension Board Members in detail. The Code of Practice is clear that Pension Board Members will require a broad range of “knowledge and understanding.” This includes the Scheme Regulations which in the case of the Local Government Pension Scheme (LGPS) are the various LGPS Regulations together with policies and documents within those Regulations adopted by individual Funds such risk assessment/management policies, administration policies including record-keeping, communication policies/documents, funding and investment policies. Pension Board Members must also have knowledge and understanding of the wider law as it relates to pensions. Paragraphs 47 to 54 of the Code make it clear that knowledge and understanding must be of a sufficient depth to enable Members to effectively carry out their role. Paragraph 60 states that *“Schemes should keep appropriate records of learning activities of individual pension board members and the board as a whole….”*

The Code provides practical guidance and sets expected standards of practice in relation to legal requirements. The practical guidance sections of the Code are not intended to prescribe the process for every scenario. They do however provide principles, examples and benchmarks against which the Pension Fund and individual Employers can consider whether or not they are reasonably complying with their duties and obligations. For example, as illustrated below, the Code sets out clear expectations in respect of Managing Risks/Internal Control and Scheme record keeping.

Code of Practice No 14 is clear as to the necessity for both an effective Risk assessment and management approach and for the establishment and operation of effective Internal Controls (Paragraphs 100 to 120). The Code states (Paragraph 106) that *"Before implementing an internal control framework, schemes should carry out a risk assessment."* and (Paragraph 108) *"Once schemes have identified risks, they should record them in a risk register and review them regularly."* Internal Controls are defined at Paragraph 102 as

- *arrangements and procedures to be followed in the administration and management of the scheme*

- *systems and arrangements for monitoring that administration and management, and*

- *arrangements and procedures to be followed for the safe custody and security of the assets of the scheme*

As Paragraph 104 states "*Good internal controls are an important characteristic of a well-run scheme and one of the main components of the scheme manager's role in securing the effective governance and administration of the scheme."*

The maintenance of complete and accurate records is a major concern of the Pensions Regulator as demonstrated by Paragraphs 122 to 146 of Code of Practice No 14. For example Paragraph 124 states *"Failure to maintain complete and accurate records and put in place effective internal controls to achieve this can affect the ability of schemes to carry out basic functions."* Paragraph 138 states *"Schemes should continually review their data and carry out a data review exercise at least annually. This should include an assessment of the accuracy and completeness of the member information data held."* Employers as well as the Fund have a crucial role in ensuring the accuracy of member records (see for example Paragraphs 128,129 and 130) and *"Schemes should ensure that member records are reconciled with information held by the employer…."* (Paragraph 142).

Employers must pay both employer and employee contributions to the Fund in accordance with the Law and Regulations. The Fund must monitor payments and investigate any payment failures by Employers. Ultimately as stated in Paragraph 173) the Fund must report "*payment failures which are likely to be of material significance to the regulator…."* (see Paragraphs 147 to 186 for guidance on collecting employee and employer contributions). Guidance on the provision of information to individual members, including time limits, is covered in Paragraphs 187 to 211 of Code of Practice No 14. In the LGPS both individual Employers and the Fund have a role in Internal Dispute Resolution. This crucial issue is covered in Sections 213 to 240 of the Code.

Although adhering to the Code is not a statutory requirement it does set out many legal requirements and should the Pensions Regulator identify or become aware of a situation where requirements are being breached it will use the Code as a reference document when determining what action to take. Furthermore under Section 90(5) of the Pensions Act 2004 Codes of Practice issued by the Pensions Regulator are admissible in evidence in any legal proceedings *"and must be taken into account"* in its determination if the court or tribunal considers it relevant to any issue arising in the proceedings. Section 90(6) states that *"legal proceedings"* includes cases considered by the Pensions Ombudsman. This is particularly important as the final appeal against a decision of either the Fund or an individual Employer is normally to the Pensions Ombudsman.

Compliance and enforcement policy for public service pension schemes

The document entitled ***"Compliance and enforcement policy for public service pension schemes."*** issued by the Pensions Regulator in June 2015 sets out the Regulator's proposed approach to compliance and enforcement in relation to public service pension schemes. In this document the Regulator states that its primary focus will be on educating and enabling Schemes to improve standards and comply with legal requirements. The Regulator indicates that initially they will focus on:

- Promoting Code of Practice No 14 and educational tools
- Undertaking surveys to understand the extent to which expected standards and practices are been met
- Undertaking thematic reviews, focusing on key risk areas
- Engaging with Schemes to understand how they are addressing poor standards and non-compliance through the development of improvement plans.

Although the Pensions Regulator is clear that education and enabling is core to their approach it *"regards failures to address poor standards and non-compliance with the law as unacceptable."* Should a Fund or Employer materially fail to comply with their legal obligations the Regulator may take enforcement action. This may range from statutory compliance notices and monetary penalties, to criminal prosecution.

The Pensions Regulator will apply a risk based approach to compliance and has indicated that it will focus on risks in the following areas:

- Knowledge and Understanding
- Conflicts of interest

- Internal Controls (which includes risk management)
- Records
- Member communication
- Dealing with internal disputes

As will be observed the areas the Pensions Regulator has indicated it will focus on correspond to issues covered in Code of Practice No 14. This further highlights the need for the Fund and all Employers to be aware of and adhere to the requirements and guidance within Code No 14.

Conclusion

Code of Practice No14 ***"Governance and administration of public service pension schemes"*** and the Pensions Regulator's policy regarding its approach to compliance and enforcement in relation to public service pension schemes demonstrate the importance of and high standards of practice required from both LGPS Pension Funds and individual Employers.

It is therefore vital that all those involved in the governance and administration of the Pension Fund, in any capacity, are clearly aware of Code of Practice No 14 and the Pensions Regulator's approach to compliance and enforcement, including legal enforcement action if education and enabling should prove ineffective.

Both the London Borough of Haringey Fund and individual Employers must ensure they adhere to their legal obligations and the expected standards the Pensions Regulator has set out.

John Raisin

18 August 2015

Agenda Item 14

Haringey Council

Report for:	Pensions Committee 10th September 2015	**Item number**	

Title:	Application for a Combined Pension Committee and Board

Report authorised by :	Kevin Bartle, Assistant Director – Finance

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 update the Pensions Committee on progress of the application to operate a Combined Pensions Committee and Board.

1.2 Officials at the DCLG have informed the Council that the minister has been asked to approve the application.

2. Cabinet Member Introduction

2.1 Not applicable.

3. Recommendations

3.1 The Committee is invited to note progress of the application.

4. Other options considered

4.1 The Committee has previously considered three options before confirming at the July meeting that the preference was for a combined Committee and Board.

4.2 A stand alone Pension Board was established by Full Council on 23rd March 2015 in order to comply with the legal deadline of 1st April 2015. The Board has not met nor has its membership been appointed.

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5. Background information

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

5.2 The Committee having discussed the role of the Board and fit with the functions of the Committee submitted an application in January 2015 to the Government to amend the terms of reference of the Pensions Committee to include the functions of the Board. The Committee reconfirmed this decision at the July 2015 meeting.

5.3 Following discussion with the DCLG a revised terms of reference for the combined Committee and Board has been prepared. Officials at the DCLG have recommended to the Minister that approval be given to combine the functions of the Board with the existing Pensions Committee in accordance with section 106(2) of the regulations. Unfortunately, the Minister will not be able to consider this recommendation until 7th September at the earliest.

5.4 The terms of reference of the combined Committee and Board are attached (appendix 1). These will need to be ratified by Full Council.

5.5 It would be possible to convene a standalone Board meeting pending the Ministers decision, but this is considered unnecessary.

5.6 There are concerns that Haringey is out of line with all but one other local authority in seeking a combined Committee and Board. It is recommended that a Governance Review is undertaken next summer to determine if using the combined structure has enabled Haringey to meet the requirements of regulations and best practice.

6. Comments of the Chief Financial Officer and financial Implications

6.1 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.

7. Assistant Director of Corporate Governance comments and Legal Implications

7.1 The Assistant Director of Corporate Governance has been consulted on the contents of this report and comments as follows.

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7.2 Section 5 of the Public Service Pensions Act 2013 requires the establishment through regulations of a local pension board with responsibility of assisting the scheme manager in (a) securing compliance with the Local Government Pension Scheme Regulations 2013 (as amended) and any legislation relating to the governance and administration of the LGPS (b) securing compliance with requirements imposed by the Pensions Regulator, and (c) ensuring the effective and efficient governance and administration of the LGPS and any connected scheme.

7.3 The role of scheme manager is delegated to the Council's Pensions Committee and the Local Government Pension Scheme Regulations 2013 require the establishment of local pension boards by 1 April 2015. The Council complied with this requirement by establishing its Pension Board at Full Council on 23rd March 2015.

7.4 Where the scheme manager is a committee of the Council the Local Pension Board may be the same Committee (i.e. a joint Board) if approval in writing has been obtained from the Secretary of State. That approval may be given subject to such conditions as the Secretary of State thinks fit.

7.5 If the board is a free standing body and Section 101 of the Local Government Act 1972 (arrangements for discharge of functions by local authorities) and section 102 of the 1972 Act (appointment of committees) will not apply to the Board if the Council establishes a joint Board it is a Committee of the Council.

7.6 Whilst Secretary of State approval has been sought for a combined Pensions Committee and Board, this would present the legal and practical difficulties of the body effectively scrutinising itself. The view of the Assistant Director of Corporate Governance is that in governance terms the preferred option would be to keep the Pension Committee and Pension Board separate, as under the current arrangements. If the Secretary of state approval was to be granted, then the above mentioned difficulties would have to be addressed.

8. Comments from the Independent advisor

8.1 The preference of the London Borough of Haringey as an Administering Authority within the Local Government Pension Scheme is to establish a joint Pensions Committee and Board which is permitted under Regulation 106(2) of the Local Government Pension Scheme (Amendment) (Governance) Regulations 2015 subject to written approval from the Secretary of State. However as this report has

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previously indicated the DCLG has not yet responded to the Council's application for a joint arrangement.

8.2 As agreed with the Fund Officers the Independent Advisor will provide training for either the standalone Pension Board or, if approved and established, the Combined Pensions Committee and Board.

9. Equalities and Community Cohesion Comments

9.1 There are no equalities issues arising from this report.

10. Head of Procurement Comments

10.1 Not applicable

11. Policy Implications

11.1 None.

12. Use of Appendices

12.1 Draft revised terms of reference.

13. Local Government (Access to Information) Act 1985

13.1 Not applicable.

Draft Terms of Reference for the Joint Pension Committee and Board of LB Haringey

1) Introduction

1.1 The purpose of this document is to set out the terms of reference for the Joint Pension Committee and Board of the London Borough of Haringey Pension Fund ("the Committee & Board) as required by the Public Service Pensions Act 2013 ("the Act") and the Local Government Pension Scheme Regulations 2013 ("the Regulations").

1.2 The Scheme Manager for the purposes of the Public Sector Pensions Act 2013 is London Borough of Haringey ("LB Haringey"). Its functions as administering authority are discharged in accordance with the Council's Constitution by this Committee.

2) Responsibilities of the Committee & Board

2.1 The role of the Committee & Board is:

(a) To exercise the functions which are stated not to be the responsibility of The Executive in Regulation 2 and Schedule 1 paragraph H of The Local Authorities (Functions and Responsibilities) (England) Regulations 2000 (as amended) and in any Statute or subordinate legislation further amending these Regulations relating to those matters concerning the Local Government Pension Scheme. The Committee & Board's functions are those of the "Administering Authority" under the Pensions legislation.

(b) 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 of all relevant policies and statements. This includes:

(i) Selection, appointment and performance monitoring of investment managers, AVC scheme providers, custodians and other specialist external advisers;
(ii) Formulation of investment, socially responsible investment and governance policies and maintaining a statement of investment principles and funding strategy statement;
(iii) Determining the allocation of investments between each asset class;
(iv) Reviewing specialist external advisers performance;
(v) Publicising statements and policy documents as required by legislation, government directives and best practice.

(c) To monitor and as appropriate to decide upon Pensions Administration issues.

(d) Monitoring the Pension Fund Budget including Fund expenditure and actuarial valuations; and to receive the Pension Fund Budget annually.

(e) To agree to the admission of bodies into the Council's Pension scheme.

(f) To receive actuarial valuations.

(g) To ensure that members receive appropriate training to undertake their responsibilities.

(h) To approve the Annual Accounts of the Local Government Pension Scheme and consider recommendations from the Auditor.

(i) To secure compliance with:

i) the Regulations,

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

iii) any requirements imposed by the Pensions Regulator in relation to the Scheme and any connected scheme, and

(k) To ensure the effective and efficient governance and administration of the Scheme and any connected scheme.

3) Membership

3.1 The Committee & Board shall consist of 10 members and be constituted as follows:

Employer Representative

Two representatives from scheduled and admitted employers, other than LB Haringey, whose councillors are ineligible as employer or employee representatives.

Employee Representatives

Two scheme membership representatives, one being appointed by local trade unions and the other selected from scheme member nominations.

Other

Six Councillors appointed by the administering authority.

3.2 The Chair of the Committee & Board will be one of the Council representatives.

3.3 The Chair will ensure that meetings are properly conducted, decision making is clear and professional advice is followed. The decision of the Chair on all points of procedure and order shall be final. The Chair will monitor the performance and attendance of Committee & Board members and if appropriate make recommendation to terminate appointments in accordance with section 4 below.

3.4 All members of the Committee & Board will have equal voting rights. The Chair will have a casting vote.

3.5 The Committee & Board may co-opt no more than two persons to advise and support them. Co-optees are not Committee & Board members and do not have voting rights.

4) Appointment of Committee & Board Members

4.1 The employer representatives will be nominated by employers other than the Council. If there are more than two nominations a panel consisting of the Chair of the Committee & Board and CFO to the Council will select a candidate.

4.2 The active scheme member representative will be the appointed jointly by trade unions who represent working scheme members.

4.3 The pensioner and deferred member representative will be selected through an open invitation to apply. If there is more than one nomination a panel consisting of the Chair of the Committee & Board and CFO to the Council will select a candidate.

4.4 The administering authority will appoint six ‘other’ members of the Committee.

4.5 Prospective members of the Committee & Board will be required to demonstrate to the Chair of the Committee & Board that they have the capacity to represent other employers and employees (as appropriate) and that they do not have a conflict of interest. The decision of the Chair will be final.

4.6 Each employer and employer representative will serve for a period of four years and will be eligible to be re-appointed in accordance with the above processes, subject to compliance with the conditions of appointment. Other members will be appointed and replaced by the administering authority.

4.7 Each Committee & Board member should endeavour to attend all meetings during the year. No substitutes shall be permitted for employer and employee representatives. Employer and employee representatives will remain as members of the Committee & Board during their appointed term of office unless in the opinion of the administering authority they are not adequately performing their role (including non attendance at two consecutive meetings), they become incapable of acting, they cease to represent their constituency, they resign or a replacement member is nominated by their relevant nominating body. If an appointment is terminated a new appointment process will commence for the remainder of the term.

4.8 Other than by ceasing to be eligible as set out above, a Committee & Board member may only be removed from office during a term of appointment by Full Council.

5) Quorum & Voting

5.1 The Committee & Board shall have a formal quorum of five comprising at least three Council and two employer or employee representatives. Advisers and co-opted persons do not count towards the quorum. All decisions will be by majority of votes, with the Chair having a casting vote when the votes are initially tied unless stated otherwise in these terms, although it is expected that the Committee & Board will, as far as possible, reach a consensus.

6) Meetings

6.1 The Committee & Board shall meet sufficiently regularly to discharge its duties and responsibilities. There will be a least four meetings a year, with additional meetings if the Committee & Board so agrees.

6.2 Notice of all meetings will be provided to Committee & Board Members at least 30 days in advance, unless agreed otherwise by Committee & Board Members.

6.3 The agenda for each meeting will be agreed by the Chair and all papers will be circulated to Members at least one week prior to the date of the meeting.

6.4 A formal record of Committee & Board proceedings will be maintained. Following the approval of the minutes by the Chair, they shall be circulated to all members.

6.5 The Committee & Board has the power to set up working groups on whatever terms that it determines and will prepare terms of reference for these entities.

7) Standards of Conduct and Conflicts of Interest

7.1 All members of the Committee & Board, Councillors and others, are expected to act at all times within these terms of reference and in accordance with the Members' Code of Conduct. In accordance with section 108 of the Regulations Board members must not have a financial or other interest that could prejudice them in carrying out their duties. This does not include a financial or other interest arising merely by virtue of membership of the LGPS.

7.2 Each Committee & Board member must provide the Council with such information as is reasonably required for the purpose of demonstrating that there is no conflict of interest.

8) Budget and Business Plan

8.1 The Committee & Board will prepare a Business Plan and Budget each year.

9) Committee & Board Review Process

9.1 The Committee & Board will undertake each year a formal review process to assess how well it and the members are performing with a view to seeking continuous improvement in performance.

10) Advisers to the Committee & Board

10.1 The Committee & Board may be supported in its role and responsibilities through the appointment of advisers, in addition to the Independent member and shall, subject to any applicable regulation and legislation from time to time in force, consult with such advisers on such terms as it shall see fit to help better perform its duties including:

- Officers from the Council's Finance, HR, Legal and other teams as needed;
- The independent Advisor;
- The Fund's Actuary;
- The Fund's Investment Managers and Custodian;
- The Fund's Investment Consultant; and
- Any other appointed advisers.

10.2 Remuneration to advisors appointed by the Committee & Board must be in accordance with the Budget.

10.3 The Committee & Board shall ensure that the performances of the advisers are reviewed on a regular basis.

11) Knowledge and Skills

11.1 Every member of the Committee & Board must be conversant with –

1 The rules of the LGPS.

2 Any document recording policy about the administration of the LGPS which is for the time being adopted by the LB Haringey Pension Fund.

11.2 It is for individual Committee & Board members to be satisfied that they have the appropriate degree of knowledge and understanding to enable them to properly exercise their functions.

11.3 Committee & Board members are required to be able to demonstrate their knowledge and understanding and to keep these up to date and to maintain a written record of relevant training and development.

11.4 The Council will provide a training programme, which all Committee & Board members must attend. Training undertaken will be reported at each meeting.

12) Expense Reimbursement, remuneration and allowances

12.1 Remuneration for Employee and Employer Representatives who are not Councillors will be limited to a refund of actual expenses incurred in attending meetings and training. Remuneration for Councillors will be in line with Council policy.

12.2 The expenses of the Committee & Board are a part of the costs of administrating the Pension Fund.

13) Publication of Committee & Board information

13.1 The Council will publish up to date information on the Council's website including:

- The names and information of the Committee & Board members.
- The Committee & Board's terms of reference.
- Papers, agendas and minutes of meetings.

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Haringey Council

Report for:	Pensions Committee 10th September 2015	**Item number**	

Title:	Work Plan & Meeting Reflections

Report authorised by :	Assistant Director – Finance

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 twelve months and to seek Members input into future agenda's. Suggestions on future training are also requested.

1.2 The Committee is invited to reflect on the conduct of the meeting and identify any areas for improvement.

2. Cabinet Member Introduction

2.1 Not applicable.

3. Recommendations

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

4. Other options considered

4.1 None.

5. Background information

Haringey Council

5.1 It is best practice for a Pension Fund to maintain a work plan. This plan sets out the key activities anticipated in the coming twelve months in the areas of governance, members/employers, investment and accounting. The Committee is invited to consider whether it wishes to amend agenda items.

Member Training

6.1 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. If the DCLG approves a combined Pensions Committee and Board for the Haringey Fund Members of this combined body will, in accordance with the Public Service Pensions Act 2013, be under a statutory obligation to acquire knowledge and understanding of pensions law and be conversant with the LGPS Scheme Regulations and Fund documents. Further information on this issue is contained in the Independent Advisor's paper on the role and approach of the Pensions Regulator which is also on the Agenda of this meeting of the Pensions Committee.

6.2 Training is normally held prior to each meetings focusing on supporting agenda items, general pension topics or matters of interest to members e.g. voting and engagement. In the past, additional training days / evenings have been organised with presentations from the independent advisor, actuary, investment consultant and officers. The following training programme is proposed:

10th September

LGPS roles and responsibilities, including legislative framework (part 1) (Independent Advisor).

13th October

Introduction to new asset classes (Mercer)
Presentation from Fund Manager

22nd October

LGPS roles and responsibilities, including legislative framework (part 2) (Independent Advisor)
Asset allocation (Schroders)

14 January 2016

Actuarial valuation (Hymans Robertson)
Good Governance – dealings with members (tbc)

April 2016

Corporate Engagement (L&G)
Web site demonstration

Haringey Council

July 2016

Corporate Engagement (LAPFF)

6.3 There are very many external training opportunities, mostly offered free to Committee members, run by event organisers, fund advisors, NAPF, CIPFA etc. Members are asked to discuss with officers their training preferences in order that appropriate suggestions can be made.

6.4 The Pensions Regulator offers a free on line training programme called the trustee toolkit. Although aimed at private sector schemes, most of the content applies to LGPS and is recommended. It can be found at:

https://trusteetoolkit.thepensionsregulator.gov.uk/

The Pensions Regulator has also developed a “Public Service Toolkit” which is concerned with issues covered in the Regulator’s Code of Practice No 14. This may be accessed via:

http://www.thepensionsregulator.gov.uk/public-service-schemes.aspx

7. Comments of the Chief Finance Officer & financial implications

7.1 There are no financial implications arising from this report.

8. Assistant Director of Corporate Governance comments and Legal Implications

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

9. Equalities and Community Cohesion Comments

9.1 Not applicable.

10. Head of Procurement Comments

10.1 Not applicable.

11. Policy Implications

11.1 None.

12. Use of Appendices

Appendix 1- future agenda’s

Haringey Council

13 Local Government (Access to Information) Act 1985

13.1 Not applicable.

Pension Committee - Meeting Plan

	Jan-16	Apr-16	Jul-16	Sep-16
Governance		External Audit Plan	Governance Review	Accounts & Auditors report
	Work Plan & Meeting Reflections	Work Plan & Meeting Reflections	Work Plan & Meeting Reflections	Work Plan & Meeting Reflections
	DCLG Consultation on the future of Collaboration and Investment in the LGPS	Internal Audit Report		
	Conflicts of Interest Policy	Progress on compliance with TPR Code of Practice		
Investment	Quarterly Report - val & perf	Quarterly Report - val & perf	Quarterly Report - val & perf	Quarterly Report - val & perf
	CIV - Transfer of assets	Allianz Presentation	CBRE Presentation	
	Investment Strategy Update	Annual review of SIP	Investment Strategy Update	Investment Strategy Update
	Social & Impact Investments		Presentation from WM State Street	
Funding	Tri-annual valuation - introduction and timetable	Annual Valuation Update		
	Review of Funding Strategy Statement			
Administration	Administration Report	Administration Report	Administration Report	Administration Report
Training	Actuarial Valuation	Corporate Engagement (L&G)	Corporate Engagement (LAPFF)	
		Web site demonstration		

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