NOTICE OF MEETING

PENSIONS COMMITTEE AND BOARD

Tuesday, 22nd November, 2016, 7.00 pm - Civic Centre, High Road, Wood Green, N22 8LE

Council Members: Councillors Clare Bull, Gina Adamou*, John Bevan, Mark Blake, Gideon Bull* and Viv Ross
(*membership subject to change at Full Council, 21 November 2016)

Employer / Employee Members: Keith Brown, Randy Plowright and 2 x vacancies

Quorum: 3 Council Members and 2 Employer / Employee Members

Please note, at 6.30pm there will be a training session on the London CIV for all members of the Committee and Board.

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

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 unrestricted Urgent Business will be dealt with under item 16 below, new items of exempt urgent business will be dealt with under item 21 below).

4. DECLARATIONS OF INTEREST AND CONFLICTS 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.

The Public Service Pensions Act 2013 defines a conflict of interest as a financial or other interest which is likely to prejudice a person's exercise of functions. Therefore, a conflict of interest may arise when an individual:

i) has a responsibility or duty in relation to the management of, or provision of advice to, the LBHPF, and

ii) at the same time, has:
- a separate personal interest (financial or otherwise) or
- another responsibility in relation to that matter,

giving rise to a possible conflict with their first responsibility. An interest could also arise due to a family member or close colleague having a specific responsibility or interest in a matter.

At the commencement of the meeting, the Chair will ask all Members of the Committee and Board to declare any new potential conflicts and these will be recorded in the minutes of the meeting and the Fund's Register of Conflicts of Interest. Any individual who considers that they or another individual has a potential or actual conflict of interest which relates to an item of business at a meeting, must advise the Chair prior to the meeting, where possible, or state this clearly at the meeting at the earliest possible opportunity.

5. RECORD OF TRAINING UNDERTAKEN SINCE LAST MEETING

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.

6. MINUTES (PAGES 1 - 8)

To approve the minutes of the meeting held on 20 September 2016 as a correct record.

7. PENSIONS ADMINISTRATION REPORT

Report of the Assistant Director, Shared Services Centre, to provide the Committee and Board with an update on pensions administration matters.

TO FOLLOW

8. TRIENNIAL VALUATION 2016 - INITIAL RESULTS (PAGES 9 - 26)

Report of the Chief Operating Officer to consider the draft actuarial valuation as at 31^{st} March 2016, including the methodology and assumption used by the actuary.

9. FUNDING STRATEGY STATEMENT (PAGES 27 - 72)

Report of the Chief Operating Officer to consider the draft Funding Strategy Statement attached at appendix 1of this report and agree to the statement being circulated for consultation with the participating employers. A final report will be presented to the March 2017 meeting together with the actuarial valuation report as at 31^{st} March 2016.

10. FRAMEWORK AGREEMENT FOR ACTUARIAL SERVICES (PAGES 73 - 76)

Report of the Chief Operating Officer to request approval to utilise the National LGPS Framework Agreement to purchase actuarial services.

11. QUARTERLY PENSION FUND PERFORMANCE AND INVESTMENT UPDATE (PAGES 77 - 90)

Report of the Chief Operating Officer to report the following in respect of the three months to 30th September 2016:

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

- Funding level update

12. GOVERNANCE UPDATE REPORT (PAGES 91 - 106)

Report of the Chief Operating Officer provide an update to Committee:

- on progress toward compliance with Scheme Advisory Board key performance indicators;
- to highlight areas where improvement is still needed in order to achieve full compliance;
- to provide an update on progress toward implementing the recommendations from the Governance Review that was undertaken by the Independent Advisor to the Fund.

13. QUARTERLY LAPFF ENGAGEMENT REPORT (PAGES 107 - 120)

Report of the Chief Operating Officer to provide an update on voting activities on behalf of the Fund.

14. RISK REGISTER REVIEW / UPDATE (PAGES 121 - 140)

Report of the Chief Operating Officer to provide an update on the Fund's risk register and an opportunity for the Committee to further review the risk score allocation.

15. FORWARD PLAN (PAGES 141 - 148)

Report of the Chief Operating Officer 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. Suggestions on future training are also requested.

16. NEW ITEMS OF URGENT BUSINESS

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 in Section 100a of the Local Government Act 1972, paragraph 3; information relating to the business or financial affairs of any person, including the authority holding that information.

18. EXEMPT MINUTES (PAGES 149 - 152)

To approve the exempt minutes of the meeting held on 20th September 2016 as a correct record.

19. RENEWABLES MANAGERS SELECTION PROCESS (PAGES 153 - 208)

Report of the Chief Operating Officer.

20. ILL HEALTH LIABILITY INSURANCE (PAGES 209 - 216)

Report of the Chief Operating Officer to provide information on the potential impact of Ill Health Early Retirement cost on Haringey Pension Fund and how this liability could be mitigated by taking out Ill Health Liability Insurance (IHLI) and also to highlight three possible options to adopt as to the level of IHLI that should be adopted by the Fund; Whole Fund, Partial Fund or Employer Choice.

21. EXEMPT ITEMS OF URGENT BUSINESS

To consider any exempt items of urgent business as admitted under agenda item 3.

Helen Chapman – Principal Committee Co-ordinator
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Bernie Ryan
Assistant Director – Corporate Governance and Monitoring Officer
River Park House, 225 High Road, Wood Green, N22 8HQ

Monday, 14 November 2016

MINUTES OF THE MEETING OF THE PENSIONS COMMITTEE AND BOARD HELD ON TUESDAY, 20TH SEPTEMBER, 2016, 7.00 - 9.10pm

PRESENT:

Cllr Clare Bull, Cllr John Bevan, Cllr Mark Blake, Cllr Viv Ross, Keith Brown and Randy Plowright

1. FILMING AT MEETINGS

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

2. APOLOGIES FOR ABSENCE

Apologies for absence were received from Cllr Adamou and Cllr G Bull.

3. URGENT BUSINESS

There were no new items of urgent business. Agenda items 8, 9 and 18 had been circulated to Members in advance of the meeting but after the initial pack, due to work on finalising these reports not being completed in time for the statutory deadline for publication of the agenda.

4. DECLARATIONS OF INTEREST

There were no declarations of interest.

5. RECORD OF TRAINING UNDERTAKEN SINCE LAST MEETING

Cllr Bevan identified that he had undertaken the following training since the last meeting:

- P&LSA pensions EU exit issues briefing 14/07
- SPS Optimizing Value from Bond Investments for Pension Funds 01/09
- Retirement Quality Mark launch event 13/09

All Members of the Committee and Board were reminded to complete and return the Training Needs Analysis form which had been circulated to them, and also that it was compulsory for all Members to complete the online training from the Pensions Regulator by 31st October 2016, details of which had been circulated prior to the meeting.

6. MINUTES

The Committee noted that all actions arising from the minutes of the Pensions Committee held on 11 July 2016 had been completed. In respect of the report on benchmarks and comparable performance of fund managers, it was noted that this had missed the deadline for this meeting, but would be on the agenda for the next meeting of the Committee and Board.

In response to a question on the guidance provided by the Government on pooling in relation to the passive mandate and life funds (Minute 133), John Raisin, Independent Advisor, and Oladapo Shonola, Head of Treasury and Pensions, advised that it had originally been proposed to transfer these into the CIV, but, in light of the costs that such transfers would incur, the new guidance established that these funds would remain where they were. They would, however, still be counted towards the CIV's assets.

RESOLVED

That the unrestricted minutes of the Pensions Committee held on 11 July 2016 be approved as a correct record and signed by the Chair.

7. PENSIONS ADMINISTRATION REPORT

The Committee considered the Pensions Administration report, presented by Janet Richards, Pensions Manager.

In response to a question from the Committee regarding the late payment of contributions, it was reported that for this quarter the main reason for late payment of contributions was the bank holiday. It was noted that the Council was in contact with Cooperscroft Homes to bring their payment date forward to ensure that these were received in time.

The Committee noted that 54 scheme members had signed up to access their records via the Pension Self Service site, and asked whether consideration should be given to promoting this service further, so that more staff were aware of this facility. It was suggested that promoting this facility via staff payslips could be explored.

RESOLVED

i) That the Committee note that the pensions website www.haringeypensionfund.co.uk has had 1037 users accessing 4819 pages on the website during the four month period between 1 April 2016 to 31 July 2016.

ii) That the Committee note that current members and deferred members of the Haringey Council pension scheme accessing the website www.haringeypensionfund.co.uk can sign up to the member Pension Self Service site. Members of the fund can access the site and view their own personal information held on the pension administration system. Members can also calculate benefits and access a copy of their annual benefit statement. 54 members have signed up to access their records.

iii) That the Committee note that in April 2016, 137 Members were re-enrolled into the pension scheme on the re-enrolment date. 76 of those members opted out of the pension scheme ie 55.4%.

iv) That the Committee note that there are currently 50 members ie 0.8% of active employees paying additional pension contributions into one of the pension fund's Additional Voluntary Contribution (AVC) schemes administered by either Prudential, Clerical Medical or Equitable Life. The pension scheme allows members to pay additional contributions in the pension scheme to purchase added years or added pension in the pension fund. 32 members of the scheme are currently buying added years or added pension.

v) That the Committee note the content of the communication relating to the update published by the Local Government Pension Scheme Advisory Board to their 1 August meeting.

8. ANNUAL PENSION FUND REPORT AND ACCOUNTS

The Committee considered the report on the audited Pension Fund Annual Report and Accounts for 2015/16 and the Annual Governance Report of the external auditors, BDO, which covered their annual audit of the Pension Fund accounts. The report was introduced by Leigh Lloyd-Thomas, BDO, who set out the findings of the audit; he confirmed that none of the findings exceeded the level such as to have a material effect on the accounts and that the auditors were therefore able to issue an opinion that the accounts were a true and fair reflection of the financial position of the Pension Fund.

The Committee asked about the reason for the discrepancies found between the contributions received in the pension fund bank account and the total contributions per Haringey Council payroll and it was reported that this was being investigated. In respect of the fair value of investments (infrastructure and private equity), and the finding that the final valuations from fund managers amounted to £212k lower than that included in the accounts, the Committee felt that this appeared to be a significant discrepancy and asked why this was not felt to have a material impact on the accounts. The Head of Treasury and Pensions advised that due to timing issues, only interim valuations were available when the statement of accounts was prepared; it was therefore not unexpected that there would be a discrepancy in the figures when the final valuations were issued. Mr Lloyd-Thomas advised that, in the event that funds totalling this amount were considered to be missing then it would be treated differently, however in this case the cause of the discrepancy was recognised as an issue arising from changes in estimated values. Officers noted that in any event the Council had accepted the recommendation arising from the audit.

In respect of the audit recommendation relating to investment management expenses, the Committee noted that this would probably be less of an issue for the Haringey Pension Fund, due to the high level of passively-managed funds. Officers confirmed, however, that they would make reasonable endeavours to obtain this information from the fund managers where it was relevant.

With regard to the audit recommendation relating to pension liability assumptions, Mr Lloyd-Thomas advised that their only query had been around the estimated life-expectancy for females not yet retired, however on the whole the actuarial assumptions had been felt to be reasonable. Douglas Green, Hymans Robertson, advised that a full analysis of the actuarial assumptions would be provided by the actuary when the triennial valuation was presented to the Committee. The Committee questioned the salary increase rate set out in the report, as this seemed high – Mr Green advised that this had been set in 2013 as a very long-term estimate, but was likely to be revised downwards for the valuation being undertaken this year.

The Committee asked whether the new EU arrangements for internal dispute resolution would have an impact on the procedure as set out on page 21 of the Pension Fund Annual Report. The Head of Pensions and Treasury and the Independent Advisor advised that they did not believe that this would have an impact, but that this was something that they would look into.

Action: Head of Treasury and Pensions

In response to a question from the Committee, it was confirmed that both figures relating to bond exposure in pooled investment vehicles on page 49 of the Annual Report should read 210,364 and that this would be corrected in the final version of the report.

Action: Head of Treasury and Pensions

RESOLVED

i) That the Committee note the contents of the report and verbal updates provided at the meeting by BDO.

ii) That the Committee approve the Pension Fund Annual Report and Accounts for 2015/16.

iii) That the Chair and Chief Operating Officer be authorised to sign the letter of representation to the Auditor.

9. ILL HEALTH LIABILITY INSURANCE REPORT

The Committee considered the report on ill-health liability insurance, presented by the Head of Treasury and Pensions, which set out information on the potential impact of Ill-Health Early Retirement (IHER) on Haringey Pension Fund and how this liability could be mitigated by taking out Ill Health Liability Insurance (IHLI). Douglas Green, Hymans Robertson, added that in addition to mitigating risk, the premium rate quoted as 0.9% was less than the amount allowed for in the contribution rate and would therefore not have an impact on the overall level of contribution paid by employers within the scheme.

In response to a question from the Committee regarding why this had not been considered previously, Mr Green advised that until relatively recently the only employers in the Local Government Pension Scheme were large employers such as councils who were able to absorb the costs of ill-health retirement, whereas in recent years many smaller employers had joined the Scheme. It was also noted that contribution rates had been much lower in previous years. In response to a question from the Committee as to whether the employers in the Haringey Pension Fund had been consulted regarding this, the Head of Treasury and Pensions advised that one employer had been in contact with the Council on this issue and had made their own arrangements for such insurance, but that the other employers had not been consulted as taking out such insurance would ultimately be of benefit to them. It was agreed, however, that all employers should be notified of any decision to take out ill-health liability insurance as a courtesy.

The Committee expressed concern regarding the cost to the fund of taking out such insurance, in response to which Mr Green advised that he estimated that the actual cost to the fund of having no ill-health liability would be more than the estimated £1.1m insurance premium cost. While it was acknowledged that Hymans Robertson had a financial interest in promoting this insurance product and that the Committee needed to be aware of that, the Head of Treasury and Pensions advised that the recommendation in the report was an officer decision, based on the recent situation with Age UK Haringey. It was noted that when an employer within the fund was unable to continue to operate on account of its pensions liabilities, that cost had to be met by the other employers in the Fund and the purpose of this insurance was prevent this. The Independent Advisor also noted that the Council would benefit as much from insurance being in place as the smaller employers in the Fund.

RESOLVED

That a decision on this matter be deferred to the next meeting of the Committee and Board, and for information to be provided on the actual cost to the Fund of ill-health retirement in previous years, in order to make an informed decision.

10. PENSION FUND QUARTERLY UPDATE

The Committee considered the Pension Fund quarterly update report, presented by the Head of Treasury and Pensions. The comments of the Independent Advisor relating to the report were also circulated for the Committee’s consideration, along with the project plan for the renewable energy manager search. In relation to the fund managers’ performance, Alex Goddard, Mercer, advised the Committee that Allianz’s performance for August (subsequent to the period covered by the report) was significantly improved. The Independent Advisor added that Allianz had been waiting to identify appropriate opportunities for investment, and that a six-month extension to the original deadline for drawing down the funds for investment had been agreed. The Committee asked whether there was any merit in looking at interim investments until Allianz were in a position to draw down the funds; it was agreed that Mercer would look into the associated costs and any potential liquidity issues that may arise as a consequence, although it was noted that Allianz had indicated that they were confident that they would be in a position to draw down soon.

ACTION: Head of Treasury and Pensions / Mercer

The Committee asked about the reported increase in administrative expenses compared with the previous year; it was reported that this may be due to the timing of internal recharges, however the Head of Treasury and Pensions would look into this and report back.

ACTION: Head of Treasury and Pensions

The Committee noted that it was proposed that a report including a recommendation for the appointment of a renewable energy fund manager be brought to the meeting of the Committee and Board in November 2016 for decision.

The Independent Advisor gave an overview of his comments on the quarterly update report, which covered market activity following the EU referendum in June 2016 and noted that overall it would be the approach of the major Central Banks which would have a greater impact on markets than the referendum outcome. The Committee asked whether, in the current economic climate, it would be worth the Committee and Board considering investment in non-directional funds. Mercer advised that many Pension Funds were looking at ways of increasing their flexibility at present, and agreed that the options relating to non-directional funds would be included in their report to the next meeting on potential investment options, which would also include information around currency hedging and whether this was something the Fund might wish to consider.

RESOLVED

That the information provided in respect of the activity in the three months to 30th June 2016 be noted.

11. FORWARD PLAN

The Committee considered the report on the forward plan for issues to be covered by the Committee and Board over the next twelve months, and suggestions for future training. Subsequent to the earlier decision to defer a decision on ill-health liability insurance, it was noted that this would be added to the forward plan for the November meeting, along with the report on investment options.

In response to interest from the Committee in the Understanding and Managing Currency Risk webinar that had been held on 14 September, it was agreed that the Head of Treasury and Pensions would provide Members with information on similar courses.

ACTION: Head of Treasury and Pensions

RESOLVED

That the content of the report be noted.

12. RISK REGISTER REVIEW/UPDATE

The Committee considered the report on the Fund's risk register, as presented by the Head of Treasury and Pensions. It was noted that sections of the register would thereafter be reviewed on a quarterly basis by the Committee and Board.

With regards to risk number 26 (ACC6), the Committee questioned the statement that overpayments could not be refunded; it was clarified that overpayments made in error by individual scheme members could be refunded and that this referred only to overpayments by employers within the scheme. The Committee questioned the statement "The Council has in place a relatively secure system…" in relation to risk number 36 (ADM8); assurance was provided that the system in place was robust and that the use of the word relative in this context was not correct.

The Committee asked about risk number 38 (ADM10) in respect of a lack of succession planning, which currently had a high risk ranking alongside it. The Head of Treasury and Pensions advised that a recruitment exercise was currently taking place to address this risk, and would reduce the associated risk ranking once complete.

The Committee and Board felt overall that the risk register was comprehensive.

RESOLVED

i) That the Committee and Board approve the updated risk register for the Haringey Pension Fund.

ii) That the Committee and Board agree that the Haringey Pension Fund risk register be reviewed at quarterly Pensions Committee and Board meetings as set out in the forward plan.

13. LOCAL AUTHORITY PENSION FUND FORUM (LAPFF) VOTING PROCESS AND QUARTERLY ENGAGEMENT REPORT

The Committee considered the report on the Local Authority Pension Fund Forum (LAPFF) voting process and quarterly engagement update, presented by the Head of Treasury and Pensions. In response to a question from the Committee and Board, it was confirmed that the quarterly reports to the Committee and Board would include details of the voting alerts issued by the LAPFF.

Cllr Bevan advised that he had made enquiries regarding the LAPFF voting alerts, and had received a response indicating that the voting alerts issued by the LAPFF covered only a small percentage of the Fund's total proxy voting recommendations. Cllr Bevan circulated the correspondence relating to this matter to the Committee and Board for reference. The Committee and Board had covered voting arrangements in greater detail during the training session on the functions of the Custodian in advance of the meeting, and indicated that they were comfortable with the process as detailed in the report..

RESOLVED

That the Committee and Board note the content of the report.

14. SCHEME ADVISORY BOARD (SAB) COMPLIANCE

The Committee and Board considered the report on progress toward compliance with Scheme Advisory Board (SAB) key performance indicators, highlighting areas where improvement was still needed in order to achieve full compliance. It was noted that this would be a standing item on the agenda for the Committee and Board meetings in order to continue to monitor this area of activity. The Committee and Board noted that the previous score for SAB compliance was 25 out of a possible maximum of 59, and that this had now increased to 37.

RESOLVED

That the Committee and Board note progress since the last report to Committee on performance against Scheme Advisory Board's key indicators.

15. NEW ITEMS OF UNRESTRICTED URGENT BUSINESS

There were no new items of urgent business.

16. EXCLUSION OF THE PRESS AND PUBLIC

RESOLVED

That the press and public be excluded from the meeting for the following items as they contained 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).

17. EXEMPT MINUTES

RESOLVED

That the exempt minutes of the meeting of the Pensions Committee held on 11 July 2016 be approved and signed by the Chair as a correct record.

18. REVIEW OF FUND GOVERNANCE

The Committee considered the report outlining the Independent Advisor's review of fund governance and agreed the recommendations therein.

19. NEW ITEMS OF EXEMPT URGENT BUSINESS

There were no new items of exempt urgent business.

The meeting closed at 9.10pm.

CHAIR:

Signed by Chair ………………………………..
Date …………………………………

Report for: Pensions Committee 22nd November 2016

Item number: **8**

Title: 2016 Triennial Valuation – Initial Results

Report authorised by: Tracie Evans, Chief Operating Officer (COO)

Lead Officer: Oladapo Shonola, Head of Finance - Treasury & Pensions
oladapo.shonola@haringey.gov.uk 02084893726

Ward(s) affected: N/A

Report for Key/ Non Key Decision: Non Key decision

1. Describe the issue under consideration

1.1. To consider the draft actuarial valuation report as at 31st March 2016, including the methodology and assumption used by the actuary.

2. Cabinet Member Introduction

2.1. Not applicable.

3. Recommendations

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

3.2. That the Committee note the draft results of the triennial valuation of the Fund.

4. Reason for Decision

4.1. The Council is required by law to undertake an actuarial valuation of the Fund's assets and liabilities. The Pensions Committee under delegated authority should agree the underlying assumptions of the valuation with the actuary.

5. Other options considered

5.1. None.

6. Background information

Haringey LONDON

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

7. Contribution to Strategic Outcomes

7.1. None.

8. Statutory Officers comments (Chief Finance Officer (including procurement), Assistant Director of Corporate Governance, Equalities)

<u>Finance and Procurement</u>

8.1. The result of the actuarial valuation is a snapshot of the funding position of the Pension Fund. The funding level has increased from 70% to 79% with favourable investment returns and a positive Fund experience against expectation contributing to a reduction in overall deficit by £89m.

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

<u>Legal</u>

8.3. The Council as administering authority is required under Regulation 62 of the Local Government Pension Scheme Regulations 2013 to obtain: (a) an actuarial valuation of the assets and liabilities of each of its pension funds as at 31st March 2016 and on 31st March in every third year afterwards; (b) a report by an actuary in respect of the valuation; and (c) a rates and adjustments certificate prepared by an actuary.

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

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

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

<u>Equalities</u>

Haringey LONDON

8.3. There are no equalities issues arising from this report.

9. Use of Appendices

9.1. Appendix 1 – Draft Triennial Valuation Results (March 2016)
Appendix 2 – Employer Risk Profile (Anonymised)

10. Local Government (Access to Information) Act 1985

10.1. Not applicable.

11. Actuarial Valuation

Introduction

11.1. The Council has appointed Douglas Green of Hymans Robertson as Scheme Actuary. Hymans are required to carry out an actuarial valuation of the fund every three years to determine the funding level (comparison of assets with the value of promised future benefits) and the future contribution levels payable by the Council and other employers. The ongoing valuation is calculated as at 31st March 2016. Scheme benefits and the contributions payable by employees are determined by the Government.

11.2. The Actuary will be attending the meeting to present the initial valuation results. The report is for the fund as a whole and does not discuss individual employer rates.

11.3. The attention of the Committee is drawn to an analysis of employer (details have been anonymised) risk profiles that is attached at Appendix 2 to this report. The strength of an employer's covenant can be directly linked to how quickly the Fund should require that employer to repay any deficits it has accrued. Therefore, this analysis will be used to inform the recovery period recommended for the employers in the Fund once individual employer results are ready.

Whole Fund Initial Results

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

- The funding level has improved marginally from 70.0% to 79%.
- In monetary terms the deficit has reduced by £89m to £280m from £369m at March 2013.

11.4. Page 6 of the actuarial report analyses the change in the deficit. The main reason for the reduced deficit is the better than expected performance of the markets/return on investments and membership experience being better in terms of financial impact on the Fund.

Haringey LONDON

11.5. It is noticeable from page 6, that the outcomes for the valuation assumptions that are controllable by the Council (investment returns, retirements & salary increases) have positively impacted the results, where as the assumptions that are outside the Council's control (gilt yields and inflation during the valuation period) have had a negative impact on the results. For the first time in recent times, mortality rate has trended downwards – this has had a slight positive impact on Fund liabilities.

Future Contribution Rates

11.6. The Actuary determines contribution rates separately and specifically for each employer, including the Council. In 2016, the Council paid 17.1% of payroll for future service rate contribution. Other employers, pay rates ranged between 18.7% and 27.2% and in most cases also paid annual lump sums to cover past service deficits. The Council will pay £8.6m in 2016/17 to cover past service deficit. The employer risk profile analysis will assist the actuary in determining the appropriate recovery period and consequently contribution rate for each of the employer in the Fund.

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

Next Steps

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

December 2016

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

Carry out any additional contribution rate modelling.

Finalise Funding Strategy Statement ("FSS").

March 2017

Present final Actuarial report including schedule of contributions from April 2017 to March 2020 together with the FSS to the Pensions Committee.

2016 Formal Funding Valuation
Initial Results

London Borough of Haringey Pension Fund

Douglas Green

For and on behalf of Hymans Robertson LLP

2 November 2016

Executive Summary

Initial results

The initial draft whole fund results of the valuation are set out below based on your proposed funding basis: The results at the 2013 formal valuation are shown for comparison.

Valuation Date	31 March 2013	31 March 2016
Past Service Liabilities	**(£m)**	**(£m)**
Employees	427	397
Deferred Pensioners	293	343
Pensioners	513	585
Total Liabilities	**1,232**	**1,325**
Assets	**863**	**1,046**
Surplus / (Deficit)	**(369)**	**(280)**
Funding Level	**70%**	**79%**

Assumptions

The key financial and demographic assumptions proposed for the 2016 valuation are set out below:

	31 March 2013	31 March 2016
Financial		
Discount rate	4.6%	4.0%
Benefit increases	2.5%	2.1%
Salary increases	4.3%	2.8%
Demographic		
Baseline Longevity	Club Vita	Club Vita
Future Improvements	CMI2010, Peaked, 1.25% p.a. long term	CMI2013, Peaked, 1.25% p.a. long term

Solvency

The funding level on your proposed funding basis has improved from 70% in 2013 to 79% in 2016. Additionally, the funding deficit has decreased. The main reasons for the change in the funding level over the period were better than anticipated investment returns, reduced allowance for future salary and benefit increases, and positive membership experience. These factors have more than offset increases in the value placed on the liabilities due to the lower discount rate used.

Contribution rates

Every employer has their own tailored funding plan and valuation results will vary depending on their own membership, funding plan and experience since the last valuation (or since they joined the Fund). The change in the financial assumptions will put upward pressure on the cost of future service, however positive investment performance and membership experience should reduce contributions needed to repay the deficit. The total contribution rate will be calculated for each employer separately and will depend on the employer's time period in the Fund and their risk categorisation. This will mean changes in the contribution rate will vary by employer as we develop more bespoke funding strategies.

Next steps

The purpose of this report is to present the initial whole fund solvency results and summarise the experience over the intervaluation period. This report is useful to identify any areas of potential risk that the Fund may want to consider and explore possible avenues of risk mitigation during the valuation process.

The next milestone in the valuation process is preparation of the draft individual employer results.

Contents

1. Introduction

We have been commissioned by Haringey Council ("the Administering Authority") to carry out a full actuarial valuation of the London Borough of Haringey Pension Fund ("the Fund") as at 31 March 2016 as required under Regulation 62 of the Local Government Pension Scheme Regulations 2013 ("the Regulations"). This report has been prepared to communicate the initial results of the 2016 valuation at whole fund level. It sets out the following:

- an analysis of Fund experience over the valuation period;
- your proposed funding assumptions;
- whole Fund valuation results; and
- analysis to help inform the Fund's understanding of its risk exposure.

This report is addressed to Haringey Council in its role as Administering Authority to the London Borough of Haringey Pension Fund. It should not be shared with any third parties without our prior written consent. Where consent is given, the report should be supplied in full including any related reliances and limitations.

Please note that Hymans Robertson LLP accept no liability to any third parties. The reliances and limitations in the body and appendices of this report apply equally to all users of this report.

2. Intervaluation Experience

Since the previous valuation, various events have taken place which affect the funding position of the Fund.

Investment returns	Expected	Actual	Difference	Impact
Over 3 year period	14.4%	22.3%	7.9%	Positive
Annual	4.6%	6.9%	2.3%	Positive

Assumption/measure	2013	2016	Difference	Impact
Long-dated gilt yields (p.a.)	3.0%	2.2%	(0.8%)	Negative
Expected inflation	3.3%	3.2%	(0.1%)	Positive

Investment returns

The Fund has experienced better than anticipated investment returns. The return in excess of the 2013 valuation discount rate serves to 'pay back' a greater portion of the deficit than expected (all other things being equal). Therefore, all other things being equal, this improves the funding position and reduces the reliance on contributions to repair funding deficits.

Gilts and inflation

There has been a significant drop in gilt yields over the inter-valuation period which is reflected in a reduction in anticipated investment returns and therefore a reduction in the discount rate used to place a value on the liabilities. This increases the liabilities and puts upwards pressure on employer contribution rates.

Long term expectations for Retail Prices Inflation (RPI) have fallen slightly since 2013. This will offset some of the increases caused by the fall in gilt yields.

Fund expenses

The Fund's expenses (in relation to non-investment activities) over the last 3 years have totalled £2.5m. This figure is equivalent to 0.6% when expressed as a percentage of pensionable pay which is slightly higher than at the last valuation (0.5%). Unless otherwise instructed, we propose to make allowance for the Fund's expenses by adding an allowance of 0.6% of pay to employer contribution rates payable from 1 April 2017.

Membership experience

The areas of membership experience that have had the greatest effect on the results of the valuation are set out below:

	Expected	Actual	Difference	Impact
Pre-retirement experience				
Early leavers (no.of lives)	2,192	1,959	(233)	Positive
Ill-health retirements* (no.of lives)	97	15	(82)	Positive
Salary increases (p.a.)	4.9%	2.5%	(2.4%)	Positive
Post-retirement experience				
Benefit increases (p.a.)	2.5%	1.3%	(1.2%)	Positive
Pensions ceasing (£m)	2.6	1.8	(0.8)	Negative

**Tier1 and Tier 2 ill-health retirements only*

The impact of fewer members withdrawing than expected depends on the age and liability distribution of withdrawing members. Although in number terms there were fewer withdrawals than expected, the impact on the funding position was positive for the Fund, as there were more leavers than expected at older ages (where members will have greater liabilities).

Membership experience overall has been positive in funding terms over the intervaluation period. The most significant items of experience to note are:

- Salary increases have been less than assumed;
- Benefit increases (actual CPI) have been less than assumed;

- There have been fewer ill-health early retirements than assumed;

Regulatory experience

The Fund is subject to risks beyond its control. In particular, since 2013:

- A new benefit structure has come into force;
- Funds have come under greater scrutiny from the Government Actuary's Department, the Scheme Advisory Board and the Department for Communities and Local Government (DCLG); and
- Cost controls may alter member benefits (but will have no effect on the 2016 valuation).

3. Data and Assumptions

Data

We have relied on the data provided by the Administering Authority when carrying out our calculations. The accuracy of our results is limited by the quality of the data provided. We have carried out validations on the data provided to ensure it is fit for the purpose of the valuation. Further details can be found in our paper entitled "Data report for 2016 valuation", dated November 2016. We believe the membership data is of a good standard and is fit for the purposes of this valuation.

Financial assumptions

Your proposed financial assumptions are set out below, along with the assumptions adopted for the 2013 formal valuation:

Financial assumptions	31 March 2013	31 March 2016
Discount rate		
Return on long-dated gilts	3.0%	2.2%
Asset Outperformance Assumption	1.6%**	1.8%***
Discount rate	**4.6%**	**4.0%**
Benefit increases		
Retail Prices Inflation (RPI)	3.3%	3.2%
Assumed RPI/CPI* gap	(0.8%)**	(1.0%)***
Benefit increase assumption (CPI)	**2.5%**	**2.1%**
Salary increases		
Retail Prices Inflation (RPI)	3.3%	3.2%
Increases in excess of RPI	1.0%**	(0.4%)***
Salary increase assumption	**4.3%**	**2.8%**

** Consumer Prices Index*

*** Arithmetic addition*

**** Geometric addition*

Longevity assumptions

Your proposed longevity assumptions result in the following typical future life expectancies from age 65 (figures for 2013 shown for comparison):

	31 March 2013	31 March 2016
Male		
Pensioners	21.9 years	21.8 years
Non-pensioners	24.2 years	23.8 years
Female		
Pensioners	24.4 years	24.1 years
Non-pensioners	26.5 years	26.0 years

Non-pensioners are assumed to be aged 45 at 31 March 2016

Additional assumptions

Retirement age pattern

We have adopted the retirement age pattern assumption as specified by the Scheme Advisory Board for preparing Key Performance Indicators. Further details about this assumption are available on request.

50/50 option

Following analysis of both the Fund's actual take up rate, and national statistics, the Fund has assumed that 5% of members will take up the 50/50 option in the future. This is a reduction from the 10% assumption at 2013, and will increase the liabilities, all other things being equal.

Other assumptions

All other assumptions have been updated to reflect the latest experience of LGPS funds. Further details regarding the assumptions adopted can be found in notes 6 and 7 of the '2016 valuation toolkit'.

4. Initial Results - Solvency

The solvency of the Fund as at 31 March 2016 based on your proposed assumptions is set out below. The results at the 2013 formal valuation are shown for comparison.

Valuation Date	31 March 2013	31 March 2016
Past Service Liabilities	**(£m)**	**(£m)**
Employees	427	397
Deferred Pensioners	293	343
Pensioners	513	585
Total Liabilities	**1,232**	**1,325**
Assets	**863**	**1,046**
Surplus / (Deficit)	**(369)**	**(280)**
Funding Level	**70%**	**79%**

We have valued the benefits defined under the Regulations based on the assumptions outlined earlier. These results are sensitive to the underlying financial and demographic assumptions as well as the quality of the underlying data.

Liabilities

The liabilities have grown substantially since 2013 mainly as a result of the change in the financial assumptions. The change in the net discount rate (essentially the difference between the discount rate and the assumed rates of increase of salaries, deferred pension revaluation or pensions in payment) results in a higher value being placed on the liabilities.

Assets

The assets have also grown substantially over the inter-valuation period. This is a result of much better than assumed asset returns. This strong investment return has only more than offset the increase in liabilities.

Funding level/deficit

The overall result has been an improvement in the reported funding level of the Fund alongside a reduction in the funding deficit.

Analysis of change in solvency

The table below illustrates the various factors that have led to the change in funding position between the 2013 and 2016 valuations.

Analysis		(£m)
Surplus / (deficit) at 31 March 2013		**(369)**
Interest on surplus / (deficit)	(53)	
Investment returns greater than expected	67	
Contributions greater than cost of accrual	13	
Membership experience over the period	63	
Change in demographic assumptions	6	
Change in base mortality assumption	18	
Change in financial assumptions	(19)	
Impact of LGPS 50/50 take up	(6)	
Other experience items	1	
Surplus / (deficit) at 31 March 2016		**(280)**

Comment on employers

Every employer is valued separately based on their own membership data as a part of the valuation and their change in funding position will therefore vary compared to that of the whole fund.

5. Initial Results – Contributions

Changes to terminology

The Regulations have introduced new terminology in respect of contribution rates. We have set out our interpretation of these terms below based on CIPFA guidance on preparing a Funding Strategy Statement.

Primary Contribution Rate

This refers to the cost of new benefits being earned by members. This was previously referred to as the Future Service Rate.

Secondary Contribution Rate

This refers to the contributions required to repair an employer's deficit (surplus). This was previously referred to as Deficit Recovery Contributions.

Common Contribution Rate

The Regulations no longer require the reporting of the Common (Whole Fund) Contribution Rate. This has been replaced by Whole Fund Primary and Secondary Contribution Rates calculated as the payroll weighted average of the Primary and Secondary Contribution Rates for employer. These rates will be calculated and disclosed in the final valuation report.

Typical employer results

The fall in the net discount rate will place upwards pressure on primary contribution rates. Employer deficit results are more difficult to predict due to the variable changes in funding levels. Therefore, we anticipate for most employers that there will be upward but manageable pressure on employer contribution rates for the majority of employers in the Fund.

Employer categorisation

Every employer in the Fund is different. For instance, they have different funding levels, sources of funds for paying contributions, covenants, maturity profiles, and timeframes for their participation in the Fund.

As a result, when setting contribution rates, employers are categorised based on their individual characteristics in order to build a credible funding plan that fits their own needs while recognising the risk they pose the Fund and other participating employers.

Setting credible funding plans

Set a funding target

For the vast majority of employers, the target is to be fully funded on the Fund's ongoing funding assumptions. There may be instances where alternative assumptions are used such as where an employer is approaching cessation.

Choosing an appropriate time horizon

Once a target has been chosen, the time employers are given to reach that target needs to be determined. For long-term secure employers, this is up to 20 years. For employers that pose a greater risk to the Fund, this may be much shorter. In general, a shorter time horizon results in more volatile contributions compared to employers with longer time horizons.

Probability of reaching the target

The final stage involves determining the probability required for each employer to reach its funding target within its time horizon. In general, higher probabilities of success are achieved by paying higher contributions and relying less on volatile investment returns. The probability required of each employer is largely based on each employer's assessed covenant. For instance, a lower probability of success (e.g. 66%) may be required for a secure body as they may be considered to be able to pay higher contributions (or current rates for longer) should they not reach their funding target over their time horizon.

6. Risk Analysis

The valuation results depend critically on the actuarial assumptions that are made about the future of the Fund. If all of the assumptions made at this valuation were exactly borne out in practice then the results presented in this document would represent the true cost of providing benefits from the Fund as it currently stands at 31 March 2016.

However, no one can predict the future with certainty and future experience will not exactly match all of our assumptions. The future therefore presents a variety of risks to the Fund which should be **identified** and, where possible, the financial significance should be **quantified**. Thereafter the Fund can assess how (or if) these risks can then be **controlled** or **mitigated** and put in place **monitoring** to assess whether any mitigation is actually working.

Financial risks

The two main areas of financial risk of interest to your Fund are the investment performance and level of benefit increases. To help understand the impact of these two factors being different from assumed, we have shown the effects on the solvency measure of varying the discount rate (investment performance) and benefit increase assumptions below. (All figures in £m)

		Benefit Increases			
		1.9%	2.1%	2.3%	
Discount Rates	4.2%	(203) 84%	(241) 81%	(280) 79%	(Deficit) Funding Level
	4.0%	(240) 81%	(280) 79%	(320) 77%	(Deficit) Funding Level
	3.8%	(279) 79%	(320) 77%	(361) 74%	(Deficit) Funding Level

The above analysis focuses on financial risk to the solvency level. Our approach to setting contribution rates at the 2016 valuation seeks to recognise the uncertainty around future investment returns and benefit increases. Further information about this method will be present with the employer results.

Demographic assumptions

The main area of demographic risk is people living longer than expected. We have shown below the high level impact of people living longer than currently expected by using a more prudent assumption for future longevity improvements. The more prudent assumption assumes that the rate of future improvements continues to increase ('non-peaked'). The valuation assumption assumes that the rate of future improvements have peaked.

	Peaked improvements	Non-peaked improvements
(Deficit)	(280)	(312)
Funding Level	79%	77%

Other risks to consider

There are other risk factors which would have an impact on the funding position. Examples of these include the level of ill health retirements, withdrawals from the scheme and take up of the 50:50 option. These are probably unlikely to change in such a way that would rank them as amongst the highest risks facing the Fund and therefore we have not sought to provide further quantification of their risk.

Other events

Since carrying out the valuation, the United Kingdom held a referendum on its participation as a full member of the European Union. The result was a mandate to leave the European Union. At this time, it is difficult to predict the long term effect of this possible course of action. We have made no allowance for the referendum result in preparing this report

7. Next Steps

The purpose of this report is to present the initial whole fund solvency results and summarise the experience over the intervaluation period. This report is useful to identify any areas of potential risk that the Fund may want to consider and explore possible avenues of risk mitigation during the valuation process.

The next steps in the process are as follows.

- All parties to ***understand the whole fund results*** and the assumptions on which they are based, discuss any questions or issues before moving on to the next stage of the valuation process. This includes the Fund ***identifying any areas of risk*** that it is concerned about and wishes to explore further and understand how the risk can be identified, quantified, mitigated and monitored.
- Once all parties are happy with the whole fund results, we will quantify the ***valuation results for each individual employer*** that participates in the Fund. When we present you with these results, we will set out the contribution rates that each employer should pay for the next three years from 1 April 2017 based on the funding principles previously discussed.
- For some employers, the contribution rate that they should pay in principle may be different to what they will actually pay in practice. Any deviation will be based on their own circumstances and a range of factors including (amongst other things) their perceived security, whether they are going to be pooled with other employers or any budgetary constraints that they may be bound by. We expect there to be a consultation period where you gather together all of these issues and ***come back to us with a set of final agreed contribution rates for each employer.***
- We understand that you may require additional input from us before agreeing the final contribution rates. Some employers may accept their proposed contribution rates quite readily whilst others may want to explore their options. You may want us to look at the viability of ***different contribution strategies*** that are proposed by individual employers.
- Once a set of final contribution rates have been agreed for all employers, we will provide you with a ***final valuation report*** which will clearly set out the final valuation results and will meet all the relevant regulatory requirements. Included in this report will be the Certificate of Rates and Adjustments, which will certify the minimum contribution rates to be paid by each employer for the three year period beginning on 1 April 2017. This final valuation report must be provided to you no later than 31 March 2017.

Appendix – Reliances and limitations

This document has been requested by and is provided to Haringey Council in its capacity as Administering Authority to the London Borough of Haringey Pension Fund. It has been prepared by Hymans Robertson LLP to support a discussion on funding strategy with the Fund as part of the 2016 funding valuation.

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

Reliances and limitations

This document has been prepared for the purpose of communicating the initial results of the 2016 valuation at whole fund level. Nothing contained within it affects any member's benefits. Furthermore, none of the figures should be used for accounting purposes (e.g. under FRS102 or IAS19) or for any other purpose (e.g. a termination valuation).

The valuation results are wholly dependent on the data provided to us and the assumptions that we use in our calculations. We have previously issued a separate report confirming that the data provided is fit for the purposes of this valuation and have commented on our perception of the quality of the data provided. The data used in our calculations is as per our report dated November 2016.

It is possible that as part of our ongoing discussions you may find that there is additional information you should provide us with. In a similar way, you may feel that one or more of the assumptions is no longer not suitable for the Fund and you may wish to explore the use of alternatives. Until both of these areas are definitively agreed by all relevant parties, the results in this document will remain "initial" and could be subject to change before the final valuation report is signed off.

This document is a "component report" of the eventual final aggregate valuation report due to be completed by 31 March 2017.

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

The figures in this report are based on our understanding of the benefit structure of the LGPS as at 31 March 2016.

Actuarial Standards

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

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

[1] Technical Actuarial Standards (TASs) are issued by the Financial Reporting Council (FRC) and set standards for certain items of actuarial work.

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London Borough of Haringey Pension Fund

	2013 valuation Funding Level (%)	Risk Score	Net Cashflow Position as % of 2013 valuation Assets	Risk Score	Closed to New Entrants	Risk Score	Change in active membership	Risk Score	Number of Active members at November 2015	Risk Score	% of Active Membership	Risk Score	Type of Body	Risk Score	Total Risk Score
Green parameter	>90%		>3%		N		>-25%		>50		>50%		Scheduled, ABs with Guarantor		
Amber parameter	70%-90%		-1%- 3%		N/A		-40% to -25%		10-50		25%-50%		Academy, Resolution		
Red parameter	<70%		<-1%		Y		<-40%		<10		<25%		AB - No Guarantor		
Risk Weighting Score	**0,5,15**		**0,10,20**		**0,5**		**0,5,10**		**0,5,10**		**0,5,10**		**0,10,30**		
Employer 1		15	-0.7%	10		0		0		0		10		0	**35**
Employer 2	75.2%	5		0		0		0		0		10		0	**15**
Employer 3	87.6%	5		0		0		0		0		0		0	**5**
Employer 4		0		0		0		0		0		0		0	**0**
Employer 5	81.4%	5		0		0		0	45	5		0		0	**10**
Employer 6	73.9%	5		0		0		0		0		0	Academy	10	**15**
Employer 7	80.8%	5		0		0		0		0		0	Academy	10	**15**
Employer 8		0		0		0		0	13	5		0	Academy	10	**15**
Employer 9	75.8%	5		0		0		0	34	5		0	Academy	10	**20**
Employer 10	81.3%	5	1.0%	10		0		0	34	5		0	Academy	10	**30**
Employer 11	75.5%	5		0		0		0	31	5		0	Academy	10	**20**
Employer 12	75.5%	5		0		0		0	47	5		0	Academy	10	**20**
Employer 13		15	2.2%	10		0		0		0		0	Academy	10	**35**
Employer 14	71.0%	5		0		0		0	21	5		0	Academy	10	**20**
Employer 15	75.7%	5		0		0		0	14	5		0	Academy	10	**20**
Employer 16		15		0		0		0	25	5		0	Academy	10	**30**
Employer 17	73.7%	5		0		0		0	16	5		0	Academy	10	**20**
Employer 18	84.4%	5	2.6%	10		0		0	14	5		0	Academy	10	**30**
Employer 19		0		0		0		0	14	5		0	Academy	10	**15**
Employer 20		15	1.5%	10		0		0	30	5		0	Academy	10	**40**
Employer 21	78.8%	5		0		5	-33%	5		10		10		0	**35**
Employer 22		0	3.0%	10		5		10		10		5		0	**40**
Employer 23		0		0		5		0		0		0		0	**5**
Employer 24		0		0		5	-33%	5		10		5		0	**25**
Employer 25		0	2.7%	10		5	-37%	5	43	5		0		0	**25**
Employer 26		0		0		5		10	48	5		0		0	**20**
Employer 27		0		0		5		0		10		10		0	**25**
Employer 28		0	1.7%	10		0		0		10		10		0	**30**
Employer 29		15		20		5		10		10		10		30	**100**
Employer 30	86.4%	5	1.7%	10		5	-29%	5		10		5		30	**70**
Employer 31	87.0%	5	0.3%	10		5		0		10		10		30	**70**
Employer 32		0		0		0		0		10		10	Resolution	10	**30**

This is an anonymised version of the employer risk profiling report that was issued on 5 February 2016. This report should be read in conjunction with the report entitled Employer Funding Profiling Exercise Covering Report.

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Agenda Item 9

Report for: Pensions Committee 22nd November 2016

Item number: **9**

Title: Funding Strategy Statement (FSS)

Report authorised by: Tracie Evans, Chief Operating Officer (COO)

Lead Officer: Oladapo Shonola, Head of Finance - Treasury & Pensions
oladapo.shonola@haringey.gov.uk 02084893726

Ward(s) affected: N/A

Report for Key/ Non Key Decision: Non Key decision

1. Describe the issue under consideration

1.1. To consider the draft Funding Strategy Statement attached at appendix 1of this report and agree to the statement being circulated for consultation with the participating employers. A final report will be presented to the March 2017 meeting together with the actuarial valuation report as at 31st March 2016.

2. Cabinet Member Introduction

2.1. Not applicable.

3. Recommendations

3.1. To agree that the draft Funding Strategy Statement is circulated for consultation with pension scheme employers subject to any further changes agreed at this meeting.

4. Reason for Decision

4.1. The Fund is required to keep the FSS under review and to update the statement where there has been a material departure from current policy. CIPFA guidance on reviewing and update of the FSS makes clear that Funds should consult with appropriate stakeholders when updating the FSS.

5. Other options considered

5.1. None.

6. Background information

Haringey LONDON

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

7. Contribution to Strategic Outcomes

7.1. None.

8. Statutory Officers comments (Chief Finance Officer (including procurement), Assistant Director of Corporate Governance, Equalities)

<u>Finance and Procurement</u>

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

<u>Legal</u>

8.2. The Fund must keep the funding strategy statement under review and, after consultation with such persons as it considers appropriate, make such revisions as are appropriate following a material change in its policy set out in the statement, and if revisions are made.

8.3. In reviewing the funding strategy statement the Fund must have regards to the guidance set out in the document published in March 2004 by CIPFA, the Chartered Institute of Public Finance and Accountancy and called “CIPFA Pensions Panel Guidance on Preparing and Maintaining a Funding Strategy Statement and the statement of investment principles published by the administering authority under regulation 12 of the Local Government Pension Scheme (Management and Investment of Funds) Regulations 2009 (members should note that this Regulation is due to be replaced by Regulation 7 in the proposed new Local Government Pension Scheme (Management and Investment of Funds) Regulations 2016) which is at the moment being consulted on.

<u>Equalities</u>

8.4. There are no equalities issues arising from this report.

9. Use of Appendices

9.1. Appendix 1 – Draft Funding Strategy Statement

10. Local Government (Access to Information) Act 1985

10.1. Not applicable.

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London Borough of Haringey Pension Fund

DRAFT Funding Strategy Statement

November 2016

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Appendices

1 Introduction

1.1 What is this document?

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

It has been prepared by the Administering Authority in collaboration with the Fund's actuary, Hymans Robertson LLP, and after consultation with the Fund's employers and investment adviser. It is effective from 1 April 2017.

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; and
- 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 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;
- the Fund's policies on admissions, cessations and bulk transfers;
- actuarial factors for valuing individual transfers, early retirement costs and the costs of buying added service; and
- the Fund's Statement of Investment Principles / Investment Strategy Statement (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 whose council participates in the Fund: 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 objectives of the Fund's funding strategy, such as:

- 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 if you are interested:

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 Oladapo Shonola, Head of Finance – Treasury & Pensions in the first instance at e-mail address oladapo.shonola@haringey.gov.uk or on telephone number 020 8489 3726.

2 Basic Funding issues

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

2.1 How does the actuary measure the required contribution rate?

In essence this is a three-step process:

1. Calculate the ultimate funding target for that employer, i.e. the ideal amount of assets it should hold in order to be able to pay all its members' benefits. See Appendix E for more details of what assumptions we make to determine that funding target;

2. Determine the time horizon over which the employer should aim to achieve that funding target. See the table in 3.3 and Note (c) for more details;

3. Calculate the employer contribution rate such that it has at least a given probability of achieving that funding target over that time horizon, allowing for different likelihoods of various possible economic outcomes over that time horizon. See 2.3 below, and the table in 3.3 Note (e) for more details.

2.2 What is each employer's contribution rate?

This is described in more detail in Appendix D. Employer contributions are normally made up of two elements:

a) the estimated cost of benefits being built up each year, after deducting the members' own contributions and including administration expenses. This is referred to as the "*Primary rate*", and is expressed as a percentage of members' pensionable pay; plus

b) an adjustment for the difference between the Primary rate above, and the actual contribution the employer needs to pay, referred to as the "*Secondary rate*". In broad terms, payment of the Secondary rate will aim to return the employer to full funding over an appropriate period (the "time horizon"). The Secondary rate may be expressed as a percentage of pay and/or a monetary amount in each year.

The rates for all employers are shown in the Fund's Rates and Adjustments Certificate, which forms part of the formal Actuarial Valuation Report. Employers' contributions are expressed as minima, with employers able to pay contributions at a higher rate. Account of any higher rate will be taken by the Fund actuary at subsequent valuations, i.e. will be reflected as a credit when next calculating the employer's contributions.

2.3 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 - councils, 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 (or Multi Academy Trusts)**, 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. (NB The terminology CAB and TAB has been dropped from recent LGPS Regulations, which instead combine both under the single term ‘admission bodies’; however, we have retained the old terminology here as we consider it to be helpful in setting funding strategies for these different employers.

2.4 How does the measured contribution rate vary for different employers?

All three steps above are considered when setting contributions (more details are given in Section 3 and Appendix D).

1. The **funding target** is based on a set of assumptions about the future, (e.g. investment returns, inflation, pensioners’ life expectancies). However, if an employer is approaching the end of its participation in the Fund then its funding target may be set on a more prudent basis, so that its liabilities are less likely to be spread among other employers after its cessation;

2. The **time horizon** required is, in broad terms, the period over which any deficit is to be recovered. A shorter period will lead to higher contributions, and vice versa (all other things being equal). Employers may be given a lower time horizon if they have a less permanent anticipated membership, or do not have tax-raising powers to increase contributions if investment returns under-perform; and

3. The **probability of achieving** the funding target over that time horizon will be dependent on the Fund’s view of the strength of employer covenant and its funding profile. Where an employer is considered to be weaker, or potentially ceasing from the Fund, then the required probability will be set higher, which in turn will increase the required contributions (and vice versa).

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.

Costs of ill-health early retirements are covered in 3.7 and 3.8.

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2.5 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 (see Appendix D, section D5, for further details of how this is calculated), 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.

It is important to note that the deficit/surplus and funding level are only measurements at a particular point in time, on a particular set of assumptions about the future. Whilst we recognise that various parties will take an interest in these measures, for most employers the key issue is how likely it is that their contributions will be sufficient to pay for their members' benefits (when added to their existing asset share and anticipated investment returns).

In short, deficits and funding levels are short term measures, whereas contribution-setting is a longer term issue.

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. For instance:

- Higher Pension Fund contributions may result in reduced council spending, which in turn could affect the resources available for council services, and/or greater pressure on council tax levels;
- Contributions which Academies pay to the Fund will therefore not be available to pay for providing education; and
- Other employers will provide various services to the local community, perhaps through housing associations, charitable work, or contracting council services. If they are required to pay more in pension contributions to the LGPS then this may affect their ability to provide the local services at a reasonable cost.

Whilst all 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. However, a recent shift in regulatory focus means that solvency within each generation is considered by the Government to be a higher priority than stability of contribution rates;

- 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 Administering Authority takes a view on the financial standing of the employer, i.e. its ability to meet its funding commitments and the relevant time horizon.

The Administering Authority 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.

For instance, where the Administering Authority has reasonable confidence that an employer will be able to meet its funding commitments, then the Fund will permit options such as stabilisation (see 3.3 Note (b)), a longer time horizon relative to other employers, and/or a lower probability of achieving their funding target. Such options 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, where there is doubt that an employer will be able to meet its funding commitments or withstand a significant change in its commitments, then a higher funding target, and/or a shorter deficit recovery period relative to other employers, and/or a higher probability of achieving the target may be required.

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, the Fund's three-step process identifies the key issues:

1. What is a suitably (but not overly) prudent funding target?
2. How long should the employer be permitted to reach that target? This should be realistic but not so long that the funding target is in danger of never actually being achieved.
3. What probability is required to reach that funding target? This will always be less than 100% as we cannot be certain of future market movements. Higher probability "bars" can be used for employers where the Fund wishes to reduce the risk that the employer ceases leaving a deficit to be picked up by other employers.

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 lower contributions

In limited circumstances the Administering Authority may permit employers to pay contributions at a lower level than is assessed for the employer using the three step process above. At their absolute discretion the Administering Authority may:

- extend the time horizon for targeting full funding;
- adjust the required probability of meeting the funding target;
- permit an employer to participate in the Fund's stabilisation mechanisms;
- permit extended phasing in of contribution rises or reductions;
- pool contributions amongst employers with similar characteristics; and/or
- accept some form of security or guarantee in lieu of a higher contribution rate than would otherwise be the case.

Employers which are permitted to use one or more of the above methods will often be paying, for a time, contributions less than required to meet their funding target, over the appropriate time horizon with the required likelihood of success. 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 pace of paying contributions;
- 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 may lead to higher contributions in the long-term; and
- it may take longer to reach their funding target, 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 Authority**	**Academies**	**Colleges**	**Open to new entrants**	**Closed to new entrants**	**(all)**
Funding Target 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)
Primary rate approach	(see Appendix D – D.2)					
Stabilised contribution rate?	Yes - see Note (b)	Yes - see Note (b)	No	No	No	No
Maximum time horizon – Note (c)	[20 years]	[20 years]	[20 years]	[20 years]	[20 years]	Outstanding contract term
Secondary rate – 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 Primary rate. However, reductions may be permitted by the Administering Authority			Reduce contributions by spreading the surplus over the remaining contract term
Probability of achieving target – Note (e)	[70%]	[70%]	[75%]	[75%]	[80%]	[50%]
Phasing of contribution changes	Covered by stabilisation arrangement	Covered by stabilisation arrangement	3 years	3 years	3 years	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	n/a	Note (g)	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 set a higher funding target (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), or changes in the security of the employer.

On the basis of extensive modelling carried out for the 2016 valuation exercise (see Section 4), the stabilised details are as follows:

Type of employer	Council	Academies
Starting rate*	24.9% (2016/17 rate)	28.9% (2016/2017 rate)
Max contribution increase from one year to the next	+1% of pay	+2% of pay
Max contribution decrease from one year to the next	-1% of pay	-2% of pay

*In practice the contribution rate will be split such that part is subject to a minimum monetary amount.

The stabilisation criteria and limits will be reviewed at the 31 March 2019 valuation, to take effect from 1 April 2020. However the Administering Authority reserves the right to review the stabilisation criteria and limits at any time before then, on the basis of membership and/or employer changes as described above.

Note (c) (Maximum time horizon)

The maximum time horizon starts at the commencement of the revised contribution rate (1 April 2017 for the 2016 valuation). The Administering Authority would normally expect a reducing time horizon (i.e. the same target date) to be used at successive triennial valuations, but would reserve the right to propose alternative time horizons, 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) (Secondary rate)

The Administering Authority reserves the right to amend the Secondary rate 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 Secondary contribution rate (e.g. above 15% of payroll), 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) (Probability of achieving funding target)

Each employer has its funding target calculated, and a relevant time horizon over which to reach that target. Contributions are set such that, combined with the employer's current asset share and anticipated market movements over the time horizon, the funding target is achieved with a given minimum probability. A higher required probability bar will give rise to higher required contributions, and vice versa.

The way in which contributions are set using these three steps, and relevant economic projections, is described in further detail in Appendix D.

Different probabilities are set for different employers depending on their nature and circumstances: in broad terms, a higher probability will apply due to one or more of the following:

- the Fund believes the employer poses a greater funding risk than other employers,
- the employer does not have tax-raising powers;
- the employer does not have a guarantor or other sufficient security backing its funding position; and/or

- the employer is likely to cease participation in the Fund in the short or medium term.

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 conversions)

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

i. 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;

ii. 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;

iii. 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;

iv. 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;

v. As an alternative to (iv), the academy will have the option to elect to pay contributions at a fixed rate of [TO BE CONFIRMED]. However, this election will not alter its asset or liability allocation as per (ii) and (iii) above. Ultimately, all academies remain responsible for their own allocated deficit.

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 (iv) and (v) 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; and/or
- the current deficit.

Transferee Admission Bodies: For all TABs, 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. See also Note (i) below.

Community Admission Bodies: The Administering Authority will only consider requests from CABs (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 a council or 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) <u>Pooling</u>

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 may be under a stabilisation approach.

ii) <u>Letting employer retains pre-contract risks</u>

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 does not 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; and
- 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 (NB recent LGPS Regulation changes mean that the Administering Authority has the discretion to defer taking action for up to three years, so that if the employer acquires one or more active Fund members during that period then cessation is not triggered. The current Fund policy is that this is left as a discretion and may or may not be applied in any given case);
- 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 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.

(b) Where there is a guarantor for future deficits and contributions, the details of the guarantee will be considered prior to the cessation valuation being carried out. In some cases the guarantor is simply guarantor of last resort and therefore the cessation valuation will be carried out consistently with the approach taken had there been no guarantor in place. Alternatively, where the guarantor is not simply guarantor of last resort, the cessation may be calculated using the ongoing basis as described in Appendix E;

(c) Again, depending on the nature of the guarantee, 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.

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 spread they payment subject to there being some security in place for the employer such as a bond indemnity or guarantee.

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, with the advice of the Actuary, the Administering Authority may set up pools for employers with similar or complementary characteristics. This will always be in line with its broader funding strategy. The current pools in place within the Fund are as follows:

- Non-academy schools are generally pooled with Haringey Council, however there may be exceptions for specialist or independent schools.
- Haringey Council may be pooled with the legacy liabilities and assets of ceased employers.
- Smaller Transferee Admission Bodies may be pooled with the letting employer, provided all parties (particularly the letting employer) agree.

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

Employers who are permitted to enter (or remain in) a pool at the 2016 valuation will not normally be advised of their individual contribution rate unless agreed by the Administering Authority.

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

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 time horizon, 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; and
- 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 additional strain contribution is payable as an immediate single lump sum and is not spread.

3.7 Ill health early retirement costs

In the event of a member's early retirement on the grounds of ill-health, a funding strain will usually arise, which can be very large. Such strains are currently met by each employer, although individual employers may elect to take external insurance (see 3.8 below).

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 External Ill health insurance

If an employer provides satisfactory evidence to the Administering Authority of a current external insurance policy covering ill health early retirement strains, then:

- the employer's contribution to the Fund each year is reduced by the amount of that year's insurance premium, so that the total contribution is unchanged, and
- there is no need for monitoring of allowances.

The employer must keep the Administering Authority notified of any changes in the insurance policy's coverage or premium terms, or if the policy is ceased.

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 Fund.

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

The Fund has a separate written policy which covers bulk transfer payments into, out of and within the Fund. 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; and
- 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 Fund.

Where an employer makes a late payment, the administering authority reserve the right to recover administration cost from such an employer to mitigate costs incurred to ensure employer's account is brought up to date. A charge of £50 will be levied in the first instance and £100 for further offences in the same financial year.

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 consultation with the employers and after taking investment advice. The precise mix, manager make up and target returns are set out in the Statement of Investment Principles (being replaced by an Investment Strategy Statement under new LGPS Regulations), 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 as part of 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 Appendix 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 Appendix 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; and

Stability – employers should not see significant moves in their contribution rates from one year to the next, to help provide a more stable budgeting environment.

The key problem 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 2020, it should be noted that this will need to be reviewed following the 2019 valuation.

4.5 Does the Fund monitor its overall funding position?

The Administering Authority monitors the relative funding position, i.e. changes in the relationship between asset values and the liabilities value, annually. It reports this to the regular Pensions Committee meetings, and also to employers through newsletters and Employers Forums.

5 Statutory reporting and comparison to other LGPS Funds

5.1 Purpose

Under Section 13(4)(c) of the Public Service Pensions Act 2013 ("Section 13"), the Government Actuary's Department must, following each triennial actuarial valuation, report to the Department of Communities & Local Government (DCLG) on each of the LGPS Funds in England & Wales. This report will cover whether, for each Fund, the rate of employer contributions are set at an appropriate level to ensure both the solvency and the long term cost efficiency of the Fund.

This additional DCLG oversight may have an impact on the strategy for setting contribution rates at future valuations.

5.2 Solvency

For the purposes of Section 13, the rate of employer contributions shall be deemed to have been set at an appropriate level to ensure solvency if:

(a) the rate of employer contributions is set to target a funding level for the Fund of 100%, over an appropriate time period and using appropriate actuarial assumptions (where appropriateness is considered in both absolute and relative terms in comparison with other funds); and either

(b) employers collectively have the financial capacity to increase employer contributions, and/or the Fund is able to realise contingent assets should future circumstances require, in order to continue to target a funding level of 100%; or

(c) there is an appropriate plan in place should there be, or if there is expected in future to be, a material reduction in the capacity of fund employers to increase contributions as might be needed.

5.3 Long Term Cost Efficiency

The rate of employer contributions shall be deemed to have been set at an appropriate level to ensure long term cost efficiency if:

i. the rate of employer contributions is sufficient to make provision for the cost of current benefit accrual,

ii. with an appropriate adjustment to that rate for any surplus or deficit in the Fund.

In assessing whether the above condition is met, DCLG may have regard to various absolute and relative considerations. A relative consideration is primarily concerned with comparing LGPS pension funds with other LGPS pension funds. An absolute consideration is primarily concerned with comparing Funds with a given objective benchmark.

Relative considerations include:

1. the implied deficit recovery period; and
2. the investment return required to achieve full funding after 20 years.

Absolute considerations include:

1. the extent to which the contributions payable are sufficient to cover the cost of current benefit accrual and the interest cost on any deficit;
2. how the required investment return under “relative considerations” above compares to the estimated future return being targeted by the Fund’s current investment strategy;
3. the extent to which contributions actually paid have been in line with the expected contributions based on the extant rates and adjustment certificate; and
4. the extent to which any new deficit recovery plan can be directly reconciled with, and can be demonstrated to be a continuation of, any previous deficit recovery plan, after allowing for actual Fund experience.

DCLG may assess and compare these metrics on a suitable standardised market-related basis, for example where the local funds’ actuarial bases do not make comparisons straightforward.

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 2016) and to its Statement of Investment Principles / Investment Strategy Statement.

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) There was an Employers Forum on [DATE] at which questions regarding the FSS could be raised and answered;

d) 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 [FUND URL];

A copy sent by [post/e-mail] to each participating employer in the Fund;

A copy sent to [employee/pensioner] representatives;

A summary issued to all Fund members;

A full copy [included in/linked from] the annual report and accounts of the Fund;

Copies sent to investment managers and independent 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 2019.

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 Pensions 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/Investment Strategy Statement, 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 [FUND 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:-

1. operate the Fund as per the LGPS Regulations;
2. effectively manage any potential conflicts of interest arising from its dual role as Administering Authority and a Fund employer;
3. collect employer and employee contributions, and investment income and other amounts due to the Fund;
4. ensure that cash is available to meet benefit payments as and when they fall due;
5. pay from the Fund the relevant benefits and entitlements that are due;
6. 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/Investment Strategy Statement (SIP/ISS) and LGPS Regulations;
7. communicate appropriately with employers so that they fully understand their obligations to the Fund;
8. take appropriate measures to safeguard the Fund against the consequences of employer default;
9. manage the valuation process in consultation with the Fund's actuary;
10. provide data and information as required by the Government Actuary's Department to carry out their statutory obligations (see Section 5);
11. prepare and maintain a FSS and a SIP/ISS, after consultation;
12. notify the Fund's actuary of material changes which could affect funding (this is covered in a separate agreement with the actuary); and
13. monitor all aspects of the fund's performance and funding and amend the FSS and SIP/ISS as necessary and appropriate.

B2 The Individual Employer should:-

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

B3 The Fund Actuary should:-

1. 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;
2. provide data and information as required by the Government Actuary's Department to carry out their statutory obligations (see Section 5);

3. 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);
4. prepare advice and calculations in connection with bulk transfers and individual benefit-related matters;
5. assist the Administering Authority in considering possible changes to employer contributions between formal valuations, where circumstances suggest this may be necessary;
6. advise on the termination of employers' participation in the Fund; and
7. fully reflect actuarial professional guidance and requirements in the advice given to the Administering Authority.

B4 Other parties:-

1. investment advisers (either internal or external) should ensure the Fund's SIP/ISS remains appropriate, and consistent with this FSS;
2. 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/ISS;
3. 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;
4. governance advisers may be appointed to advise the Administering Authority on efficient processes and working methods in managing the Fund;
5. 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;
6. the Department for Communities and Local Government (assisted by the Government Actuary's Department) and the Scheme Advisory Board, should work with LGPS Funds to meet Section 13 requirements.

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 the valuation of liabilities over the long-term.	Only anticipate long-term returns 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 pensions reform.	The Administering Authority considers all consultation papers issued by the Government and comments where appropriate. The results of the most recent reforms were 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.
Time, cost and/or reputational risks associated with any DCLG intervention triggered by the Section 13 analysis (see Section 5).	Take advice from Fund Actuary on position of Fund as at prior valuation, and consideration of proposed valuation approach relative to anticipated Section 13 analysis.
Changes by Government to particular employer participation in LGPS Funds, leading to impacts on funding and/or investment strategies.	The Administering Authority considers all consultation papers issued by the Government and comments where appropriate. Take advice from Fund Actuary on impact of changes on the Fund and amend strategy as appropriate.

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 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	The Administering Authority maintains close contact with its specialist advisers.

Risk	Summary of Control Mechanisms
some way	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 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.

All three steps above are considered when setting contributions (more details are given in Section 3 and Appendix D:

1. The **funding target** is based on a set of assumptions about the future, eg investment returns, inflation, pensioners' life expectancies. However, if an employer is approaching the end of its participation in the Fund then it's funding target may be set on a more prudent basis, so that it's liabilities are less likely to be spread among other employers after it's cessation of participation;

2. The **time horizon** required is, in broad terms, the period over which any deficit is to be recovered. A shorter period will lead to higher contributions, and vice versa (all other things being equal). Employers may be given a lower time horizon if they have a less permanent anticipated membership, or do not have tax-raising powers to increase contributions if investment returns under-perform;

3. The required **probability of achieving** the funding target over that time horizon will be dependent on the Fund's view of the strength of employer covenant and its funding profile. Where an employer is considered to be weaker, or potentially ceasing from the Fund, then the required probability will be set higher, which in turn will increase the required contributions (and vice versa).

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 ongoing benefits being accrued, referred to as the "Primary contribution rate" (see D2 below); plus

b) an adjustment for the difference between the Primary rate above, and the actual contribution the employer needs to pay, referred to as the "Secondary contribution rate" (see D3 below).

The contribution rate for each employer is measured as above, appropriate for each employer's funding position and membership. The whole Fund position, including that used in reporting to DCLG (see section 5), is calculated in effect as the sum of all the individual employer rates. DCLG currently only regulates at whole Fund level, without monitoring individual employer positions.

D2 How is the Primary contribution rate calculated?

The Primary 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 Primary 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 Primary rate is calculated such that it is projected to:

1. meet the required funding target for all future years' accrual of benefits*, excluding any accrued assets,

2. within the determined time horizon (see note 3.3 Note (c) for further details),

3. with a sufficiently high probability, as set by the Fund's strategy for the category of employer (see 3.3 Note (e) for further details).

* The projection is for the current active membership where the employer no longer admits new entrants, or additionally allows for new entrants where this is appropriate.

The projections are carried out using an economic modeller developed by the Fund's actuary Hymans Robertson: this allows for a wide range of outcomes as regards key factors such as asset returns (based on the Fund's investment strategy), inflation, and bond yields. The measured contributions are calculated such that the proportion of outcomes meeting the employer's funding target (by the end of the time horizon) is equal to the required probability.

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

D3 How is the Secondary contribution rate calculated?

The combined Primary and Secondary rates aim to achieve the employer's funding target, within the appropriate time horizon, with the relevant degree of probability.

For the funding target, 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).

The Secondary rate is calculated as the balance over and above the Primary rate, such that the total is projected to:

1. meet the required funding target relating to combined past and future service benefit accrual, including accrued asset share (see D5 below)
2. within the determined time horizon (see 3.3 Note (c) for further details)
3. with a sufficiently high probability, as set by the Fund's strategy for the category of employer (see 3.3 Note (e) for further details).

The projections are carried out using an economic modeller developed by the Fund Actuary Hymans Robertson: this allows for a wide range of outcomes as regards key factors such as asset returns (based on the Fund's investment strategy), inflation, and bond yields. The measured contributions are calculated such that the proportion of outcomes with at least 100% solvency (by the end of the time horizon) is equal to the required probability.

D4 What affects a given employer's valuation results?

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

1. past contributions relative to the cost of accruals of benefits;
2. different liability profiles of employers (e.g. mix of members by age, gender, service vs. salary);
3. the effect of any differences in the funding target, i.e. the valuation basis used to value the employer's liabilities;
4. any different time horizons;

5. the difference between actual and assumed rises in pensionable pay;
6. the difference between actual and assumed increases to pensions in payment and deferred pensions;
7. the difference between actual and assumed retirements on grounds of ill-health from active status;
8. the difference between actual and assumed amounts of pension ceasing on death;
9. the additional costs of any non ill-health retirements relative to any extra payments made; and/or
10. differences in the required probability of achieving the funding target.

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".

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.

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

1. the actual timing of employer contributions within any financial year;
2. 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 funding target. 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 funding targets and lower employer costs. A more prudent basis will give higher funding targets 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 2016 and setting contribution rates effective from 1 April 2017, the Fund actuary has assumed that future investment returns earned by the Fund over the long term will be 1.8% per annum greater than gilt yields at the time of the valuation (this is higher than that used at the 2013 valuation – 1.6% per annum - which gives a lower funding target, all other things being equal). 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 2020. 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, and continued austerity measures, the salary increase assumption at the 2016 valuation has been set to be a blended rate combined of:

1. 1% p.a. until 31 March 2020, followed by
2. 1.0% above the retail prices index (RPI) per annum p.a. thereafter.

This gives a single blended rate of RPI less 0.4%, and is a change from the previous valuation, which assumed a flat assumption of RPI plus 1.0% per annum. The change has led to a reduction in the funding target (all other things being equal).

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. 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 1.0% per annum. This is a larger reduction than at 2013, which will serve to reduce the funding target (all other things being equal). (Note that the reduction is applied in a geometric, not arithmetic, basis).

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.

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 the 2013 version of the Continuous Mortality Investigation model published by the Actuarial Profession and a 1.25% per annum minimum underpin to future reductions in mortality rates. This is a similar allowance for future improvements than was made in 2013.

The combined effect of the above changes from the 2013 valuation approach, is a slight reduction to the average overall life expectancies in the Fund. 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 most employers, in deriving the funding target underpinning the Primary and Secondary rates: 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 **the funding target**. The main assumptions will relate to the **discount rate**, salary growth, pension increases and longevity. More prudent assumptions will give a higher target 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 where there is an Admission Agreement setting out the employer's obligations. These can be Community Admission Bodies or Transferee Admission Bodies. For more details (see 2.3).
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.
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 **funding target** which is consistent with the present day value of the assets. A lower discount rate gives a higher target value, and vice versa. It is used in the calculation of the **Primary and Secondary rates**.
Employer	An individual participating body in the Fund, which employs (or used to employ) **members** of the Fund. Normally the assets and **funding target** values for each employer are individually tracked, together with its **Primary rate** at each **valuation**.
Funding target	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**.
Gilt	A UK Government bond, ie 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.
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).
Primary contribution rate	The employer contribution rate required to pay for ongoing accrual of active members' benefits (including an allowance for administrative expenses). See Appendix D for further details.
Profile	The profile of an employer's membership or liability reflects various measurements of that employer's **members**, ie 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).
Secondary contribution rate	The difference between the employer's actual and **Primary contribution rates**. In broad terms, this relates to the shortfall of its asset share to its **funding target**. See

Appendix D for further details.

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.

Valuation An actuarial investigation to calculate the liabilities, Primary and Secondary contribution rates for a Fund, and usually individual employers too. This is normally carried out in full every three years (last done as at 31 March 2016), 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.

Report for: Pensions Committee 22nd November 2016

Item number: **10**

Title: National LGPS Framework Agreement to Procure Pension Fund Actuarial Services

Report authorised by: Tracie Evans, Chief Operating Officer (COO)

Lead Officer: Oladapo Shonola, Head of Finance - Treasury & Pensions
oladapo.shonola@haringey.gov.uk 02084893726

Ward(s) affected: N/A

Report for Key/ Non Key Decision: Non Key decision

1. Describe the issue under consideration

1.1. This report requests approval to utilise the National LGPS Framework Agreement to purchase actuarial services.

2. Cabinet Member Introduction

2.1. Not applicable.

3. Recommendations

3.1. That the Committee agree that the COO, under delegated authority, approve a three month extension to the current actuarial services contract – this will extend the contract to 30 May 2017.

3.2. That the Committee agree that the Pension Fund enter into a National LGPS Framework agreement set up by Norfolk County Council to procure an actuary to provide actuarial services for the Fund from 1 June 2017.

4. Reason for Decision

4.1. The existing framework agreement for actuarial services expires on the 27 February 2017. Owing to the fact that the Fund is required by statute to retain the services of a professional actuary, the Fund would have needed to have, in place, a new contract for actuarial services from 1 March 2017.

5. Other options considered

5.1. None.

6. Background information

6.1. The Fund entered into a framework agreement with Hymans Robertson on 1 March 2013 for four years. This agreement expires on 27 February 2017, so a new appointment will be required as all LGPS are required to procure and have in place professional actuarial services.

6.2. Furthermore, ongoing triennial valuation work is not likely to have been completed before the expiry date (27 February 2017) of the existing contract, so a three month extension is required to ensure that the actuary can complete the 2016 triennial valuation work. This will extend the life of the existing contract to 30 May 2017.

6.3. The National LGPS Framework agreement was put in place by a consortium of public sector organisations led by Norfolk County Council. The framework was tendered under OJEU compliant tender process for a framework agreement for Pension Fund actuarial services and can therefore be used by all local government pension schemes.

6.4. Framework agreements are widely used in the public sector and increasingly in the LGPS. It is particularly good for the LGPS as the services that need to be delivered can, in most cases, be clearly defined and are similar across all schemes. These agreements also save on time and cost as it allows the procurement of services without having to undertake a full OJEU tender.

6.5. The new framework agreed in July 2016, has four actuaries to select from. For the appointment of a new actuary for the Pension Fund, it is proposed that the Scheme undertakes a mini competition process between the four actuaries appointed to the Framework and report back to the Committee in May 2017 with a recommendation for appointment from 1 June 2017.

6.6. It is proposed that the independent advisor be part of the evaluation panel along with officers of the Council as the administering authority.

7. Contribution to Strategic Outcomes

7.1. None.

8. Statutory Officers comments (Chief Finance Officer (including procurement), Assistant Director of Corporate Governance, Equalities)

Finance and Procurement

8.1. The use of a framework agreement will save time and financial resources while at the same time ensuring that the procurement of pension fund actuarial services is compliant with OJEU requirements. There is a charge of £3,000 to use the framework to cover the cost of setting up the framework.

8.2. The framework would allow the Pension Fund to enter into a contract with an actuary up to 30 April 2021, covering the actuarial valuation that will take place in 2019 (comes into effect on 1 April 2020). The terms and conditions under the framework would allow the Council to terminate the contract on a no fault basis with three months notice. The value of the contract over the contract period is estimated at £360,000.

Legal

8.3. The Fund is required to have an actuary to provide it with actuarial services. The procurement would fall within the provisions of the Public Contracts Regulations 2015 (as amended). By procuring through the framework the administering authority can shorten the procurement process but must comply with the requirements of the framework. The procurement will be limited to those contractors on the framework and the price bands agreed (if any).

Equalities

8.4. There are no equalities issues arising from this report.

9. Use of Appendices

9.1. None.

10. Local Government (Access to Information) Act 1985

10.1. Not applicable.

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Report for: Pensions Committee 22nd November 2016

Item number: **11**

Title: Pension Fund Quarterly Update

Report authorised by: Tracie Evans, Chief Operating Officer (COO)

Lead Officer: Oladapo Shonola, Head of Finance - Treasury & Pensions
oladapo.shonola@haringey.gov.uk 02084893726

Ward(s) affected: N/A

Report for Key/ Non Key Decision: Non Key decision

1. Describe the issue under consideration

1.1. To report the following in respect of the three months to 30th September 2016:

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

2. Cabinet Member Introduction

2.1 Not applicable.

3. Recommendations

3.1 That the information provided in respect of the activity in the three months to 30th September 2016 is noted.

4. Reason for Decision

4.1. N/A

5. Other options considered

5.1. None

6. Background information

Haringey LONDON

6.1. This update report is produced on a quarterly basis. The Local Government Pension Scheme Regulations require the Committee to review investment performance on a quarterly basis and sections 11 and 12 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.

7. Contribution to Strategic Outcomes

7.1. Not applicable

8. Statutory Officers comments (Chief Operating Officer (including procurement), Assistant Director of Corporate Governance, Equalities)

Finance and Procurement

8.1. The Chief Operating Officer has been consulted on this report and there is no financial impact from the recommendations in this report.

Legal Services Comments

8.2. 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;

8.3. 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;

8.4. 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;

8.5. All monies must be invested in accordance with the Funding Strategy Statement and 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.

Comments of the Independent Advisor

8.6. The total value of the Fund at 30th September 2016 was £1,199m. At 30th June 2016 the total value of the Fund was £1,112m compared to £1,046m at 31st March 2016. The value of the Fund has seen gradual and continuous increase over the last several quarters.

8.7. The overall performance of the Fund over the last Quarter, Year and Three Years is close to benchmark (see section 12.1). A major contributor to this is the recent steady performance of stock markets globally. As a significant proportion of the Fund is invested in passive funds, the Fund assets have experienced similar growth to that of the markets.

8.8. The inclusion of European investments within the property portfolio which have performed extremely poorly (currently having nil value compared to a purchase cost of £9.7m) continue to present a challenge and adversely impact longer term performance.

Equalities

8.10 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.

9. Use of Appendices

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

10. Local Government (Access to Information) Act 1985

10.1. Not applicable.

11. Portfolio Allocation Against Benchmark

11.1. The value of the fund increased by £87m million between July and September 2016. All asset class in the portfolio other than private equities overperformed or in line with benchmark in the quarter. In particular, equities had a strong quarter with North America contributing the most to gains. However, the asset class with the strongest performance for the quarter was index linked gilts with returns of approximately 11%.

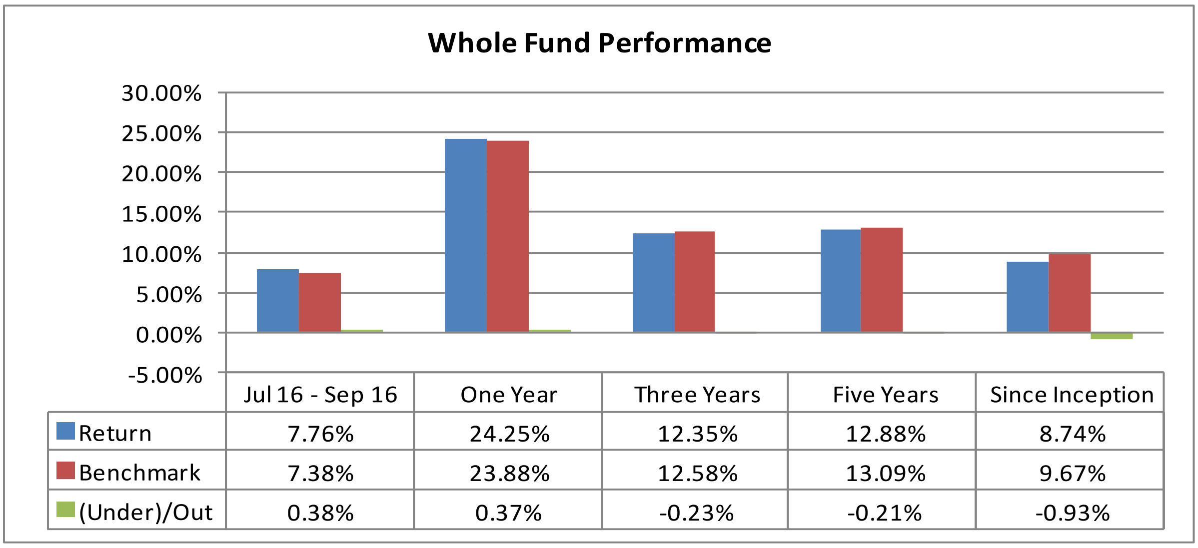
11.2. The equity allocation exceeds target by 4.7%. This is mostly due to the unfunded Allianz mandate. The infrastructure debt investment manager has requested for an extension to July 2017 which the Fund has agreed to.

Total Portfolio Allocation by Manager and Asset Class

	Value 31.03.2106 £'000	Value 30.06.2106 £'000	Value 30.09.2106 £'000	Allocation 30.09.2016 %	Strategic Allocation %	Variance %
Equities						
UK	159,980	148,912	152,324	12.70%	11.67%	1.03%
North America	240,625	239,705	221,135	18.44%	16.90%	1.54%
Europe	79,122	73,496	74,110	6.18%	5.73%	0.45%
Japan	38,568	37,138	36,085	3.01%	2.70%	0.31%
Asia Pacific	39,174	36,665	34,629	2.89%	2.67%	0.22%
Emerging Markets	102,482	112,686	125,268	10.44%	7.00%	3.44%
Global Low Carbon Tgt	0	65,538	132,804	11.07%	13.33%	-2.26%
Total Equities	**659,951**	**714,140**	**776,355**	**64.73%**	**60.00%**	**4.73%**
Bonds						
Index Linked	**150,667**	**167,547**	**185,904**	**15.50%**	**15.00%**	**0.50%**
Property						
CBRE	**111,024**	**101,352**	**99,939**	**8.33%**	**10.00%**	**-1.67%**
Private equity						
Pantheon	**44,110**	**45,649**	**47,129**	**3.93%**	**5.00%**	**-1.07%**
Multi-Sector Credit						
CQS	**46,529**	**47,451**	**48,899**	**4.08%**	**5.00%**	**-0.92%**
Infrastructure Debt						
Allianz	**21,621**	**22,457**	**24,773**	**2.07%**	**5.00%**	**-2.93%**
Cash & NCA						
Cash	**11,665**	**13,645**	**16,396**	**1.37%**	**0.00%**	**1.37%**
Total Assets	**1,045,567**	**1,112,241**	**1,199,395**	**100%**	**100%**	**0.00%**

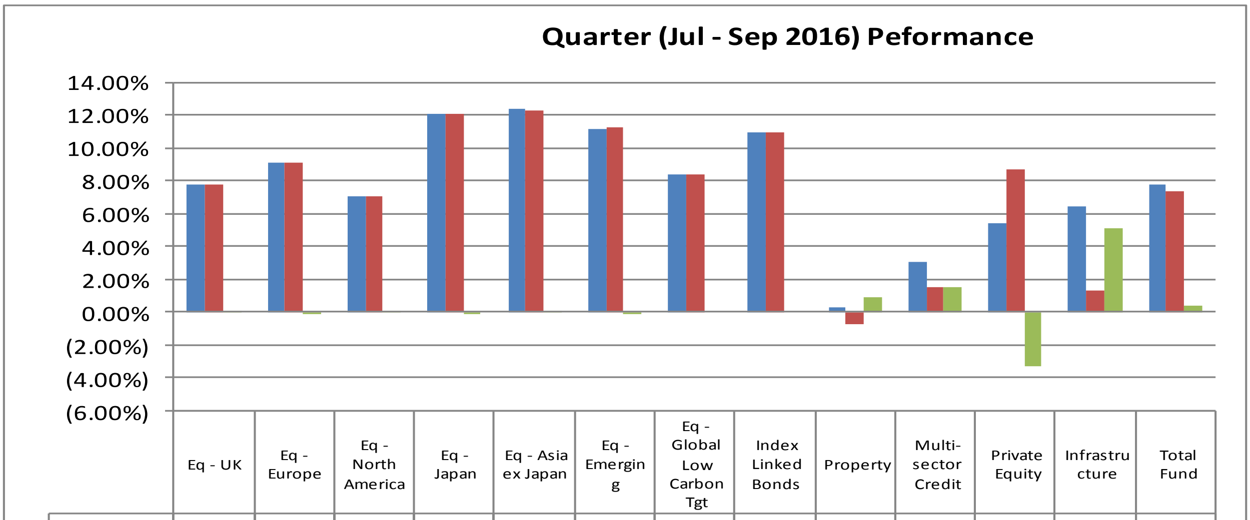
12. Investment Performance Update: to 30th September 2015

12.1. Appendix 1 provides details of the benchmarks and targets the fund managers have been set. The tables below show the performance in the quarter July to September 2016 and for one, three and 5 years for the whole of Fund.



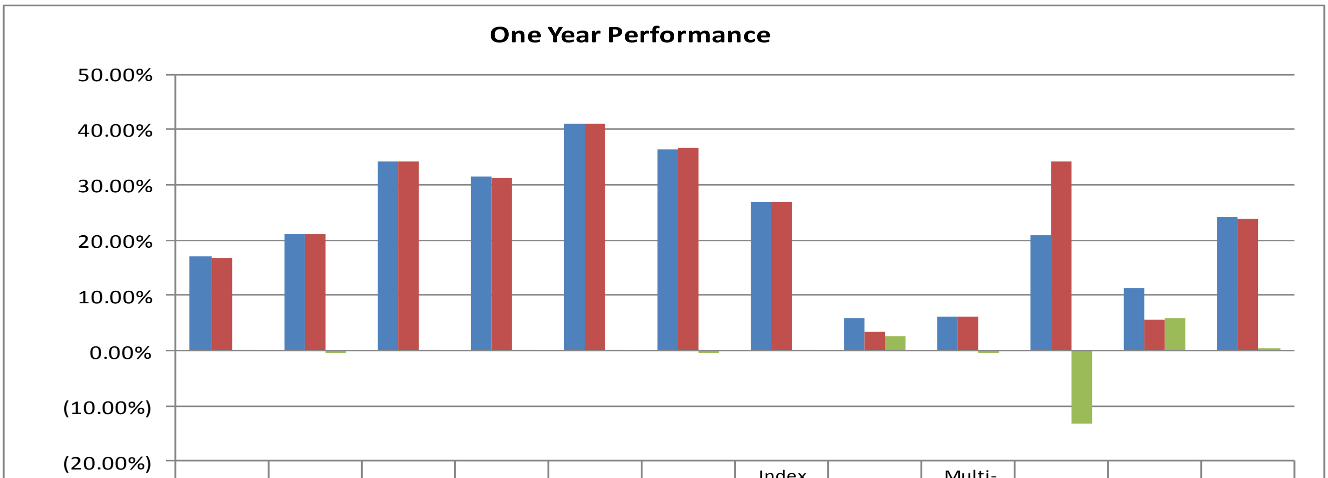
	Jul 16 - Sep 16	One Year	Three Years	Five Years	Since Inception
Return	7.76%	24.25%	12.35%	12.88%	8.74%
Benchmark	7.38%	23.88%	12.58%	13.09%	9.67%
(Under)/Out	0.38%	0.37%	-0.23%	-0.21%	-0.93%

12.2. Driven by strong returns in equities, the Fund returned 7.76% in the quarter and has over-performed benchmark of 7.38% by 0.38%. All asset classes delivered positive returns in the quarter. In terms of regional performance, Asia (ex Japan), Japan and emerging markets were the strongest performers in equities achieving returns of 12.3%, 12% and 11.1% respectively. Index linked gilts and infrastructure debt also had strong quarters, achieving returns of 10.96% and 6.5% respectively.



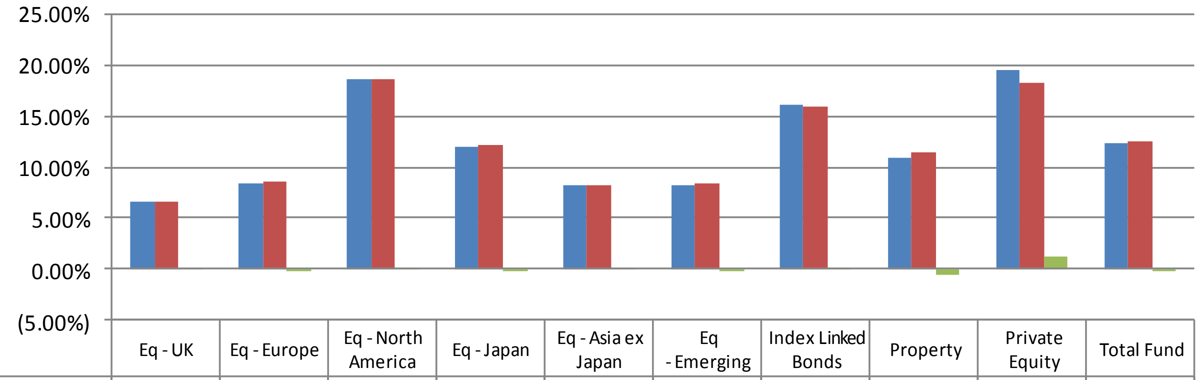
	Eq - UK	Eq - Europe	Eq - North America	Eq - Japan	Eq - Asia ex Japan	Eq - Emergin g	Eq - Global Low Carbon Tgt	Index Linked Bonds	Property	Multi-sector Credit	Private Equity	Infrastru cture	Total Fund
Fund Return	7.81%	9.10%	7.08%	12.04%	12.37%	11.16%	8.35%	10.96%	0.25%	3.05%	5.45%	6.49%	7.76%
Benchmark	7.78%	9.11%	7.07%	12.10%	12.31%	11.24%	8.35%	10.96%	(0.70%)	1.52%	8.70%	1.35%	7.38%
(Under)/out	0.03%	(0.01%)	0.01%	(0.06%)	0.06%	(0.08%)	0.00%	0.00%	0.95%	1.53%	(3.25%)	5.14%	0.38%

12.3. Over the last 12 months the Fund returned 24.25% and overperformed benchmark of 23.88% by 0.37%. Three and five year performance show underperformance of 0.23% and 0.21% respectively. Overall the Fund has benefitted from its overweight position in equities over the past five years.



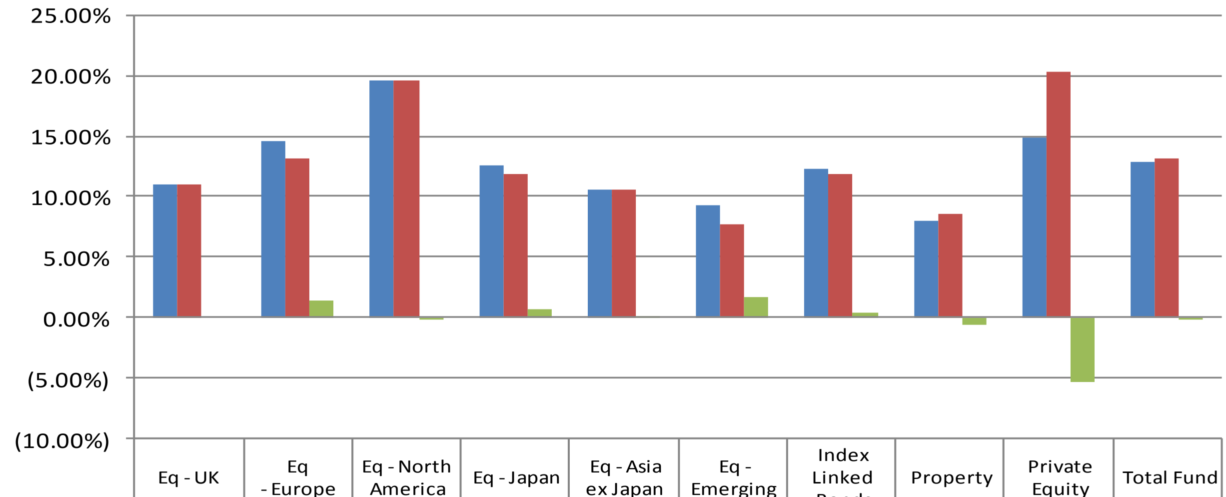
	Eq - UK	Eq - Europe	Eq - North America	Eq - Japan	Eq - Asia ex Japan	Eq - Emerging	Index Linked Bonds	Property	Multi-sector Credit	Private Equity	Infrastruc ture	Total Fund
Fund Return	16.94%	21.07%	34.15%	31.40%	41.16%	36.46%	26.98%	5.82%	6.18%	20.93%	11.34%	24.25%
Benchmark	16.82%	21.30%	34.13%	31.30%	41.08%	36.61%	26.95%	3.31%	6.23%	34.28%	5.50%	23.88%
(Under)/out	0.12%	-0.23%	0.02%	0.10%	0.08%	-0.15%	0.03%	2.51%	-0.05%	-13.35%	5.84%	0.37%

Three Year Performance



	Eq - UK	Eq - Europe	Eq - North America	Eq - Japan	Eq - Asia ex Japan	Eq - Emerging	Index Linked Bonds	Property	Private Equity	Total Fund
Return	6.62%	8.44%	18.64%	12.01%	8.22%	8.29%	16.04%	10.88%	19.46%	12.35%
Benchmark	6.59%	8.59%	18.54%	12.17%	8.13%	8.40%	15.97%	11.37%	18.31%	12.58%
(Under)/out	0.03%	-0.15%	0.10%	-0.16%	0.09%	-0.11%	0.07%	-0.49%	1.15%	-0.23%

Five Year Performance

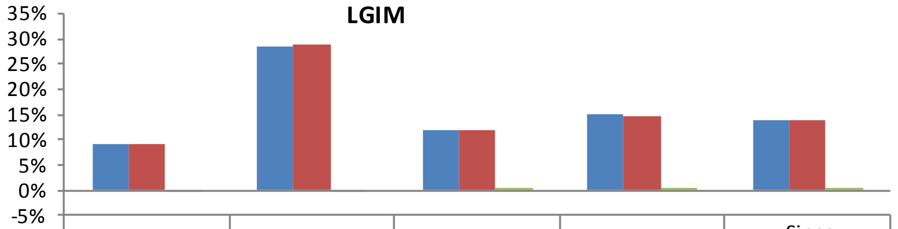


	Eq - UK	Eq - Europe	Eq - North America	Eq - Japan	Eq - Asia ex Japan	Eq - Emerging	Index Linked Bonds	Property	Private Equity	Total Fund
Return	11.05%	14.60%	19.57%	12.64%	10.61%	9.33%	12.26%	7.95%	14.90%	12.88%
Benchmark	11.05%	13.22%	19.64%	11.91%	10.57%	7.64%	11.80%	8.60%	20.31%	13.09%
(Under)/out	0.00%	1.38%	-0.07%	0.73%	0.04%	1.69%	0.46%	-0.65%	-5.41%	-0.21%

FUND MANAGER PERFORMANCE

Legal & General Investment Management (LGIM)

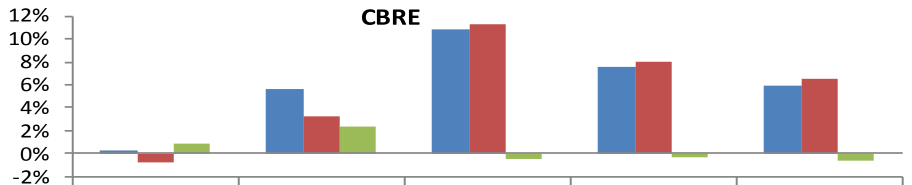
12.3. Legal and General returned 9.14% this quarter and has slightly underperformed composite benchmark of 9.19% by 0.05%. The Fund underperformed benchmark in emerging markets and Japan – both regions outperformed the average relative performance for equities overall. Looking beyond a year, LGIM is slightly ahead of benchmark returning 11.8% in year 3; 14.9% in 5 years and 13.9% since inception. The fund manager's performance is comparable to benchmark as expected.



	Jul 16 - Sep 16	One Year	Three Years	Five Years	Since Inception (May 12)
Return	9.14%	28.59%	11.79%	14.89%	13.91%
Benchmark	9.19%	28.71%	11.70%	14.65%	13.70%
(Under)/Out)	(0.05%)	(0.12%)	0.09%	0.24%	0.21%

CBRE

12.4. The manager saw a positive total return of 0.24% in the quarter and over-performed benchmark of -0.70% by 0.94%. Although, one year performance is ahead of benchmark, CBRE lags benchmark in the medium to longer term. Since inception the manager has underperformed benchmark by 0.69%.



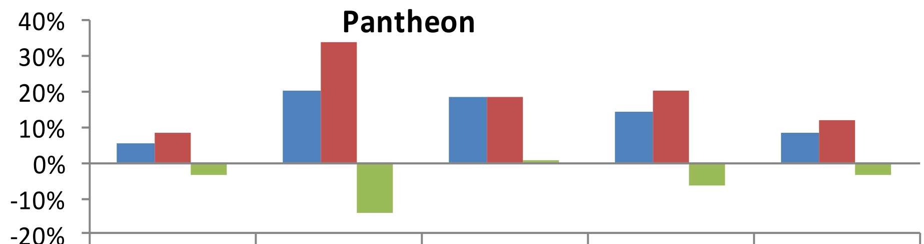
	Jul 16 - Sep 16	One Year	Three Years	Five Years	Since Inception (Mar 03)
Return	0.24%	5.64%	10.83%	7.64%	5.97%
Benchmark	-0.70%	3.31%	11.36%	7.95%	6.57%
(Under)/Out	0.94%	2.33%	(0.53%)	(0.31%)	(0.60%)

12.5. The relative performance of the property portfolio has been affected by two European funds that have suffered significant loss. With an aggregate purchase cost of £9.7 million, they are now valued at close to nil - a virtual total loss. Both funds are invested in highly leverage non prime property (German residential and Italian office / retain). The underlying holdings suffered during the Euro crisis and the impact has been magnified on unit holders by high levels of debt in each fund. Both funds are being rationalised which may offer an exit opportunity, but with little recovered value.

12.6. Adjusting for the European investment would put the manager significantly ahead of benchmark in terms of performance. However, the portfolio is expected to lag the benchmark for many years until the impact of the two European funds is diluted sufficiently with several years of outperformance.

Pantheon Private Equity

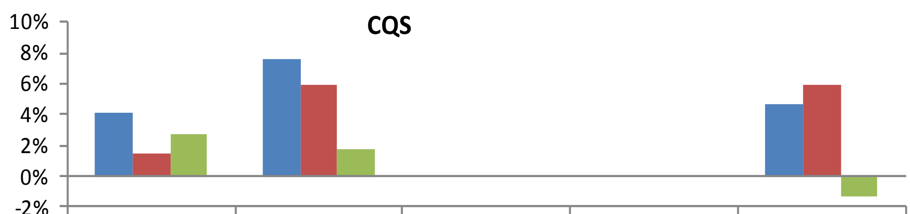
12.8. Pantheon Private Equity achieved positive returns of 5.33% in the quarter which underperformed by 3.37% relative to benchmark. The manager has performed in line with benchmark in the 3 year period, but lags benchmark in other time periods.



	Jul 16 - Sep 16	One Year	Three Years	Five Years	Since Inception (May 07)
Return	5.33%	20.06%	18.37%	14.17%	8.28%
Benchmark	8.70%	34.28%	18.31%	20.31%	11.89%
(Under)/Out	(3.37%)	(14.22%)	0.06%	(6.14%)	(3.61%)

CQS Multi Sector Credit

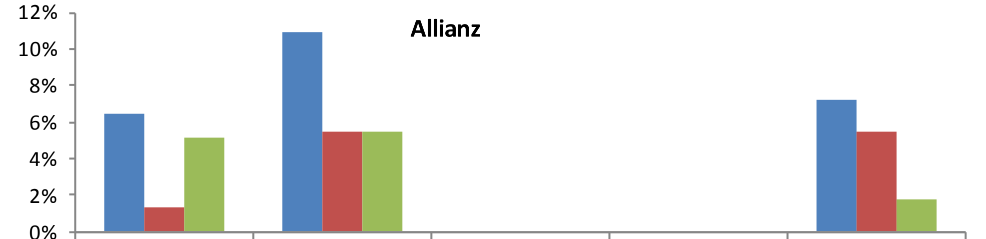
12.9. The manager significantly over-performed relative to benchmark in the quarter achieving a return of 4.14% against the benchmark of 1.44%. Stronger performances over the past 12 months means that the manager is ahead of benchmark in this period by 1.75% and closed the relative underperformance to benchmark since inception to -1.31% from -3.61%from last quarter.



	Jul 16 - Sep 16	One Year	Three Years	Five Years	Since Inception (Aug 14)
Return	4.14%	7.62%		0	4.61%
Benchmark	1.44%	5.87%		0	5.91%
(Under)/Out	2.70%	1.75%		0.00%	(1.30%)

Allianz Infrastructure Debt

12.10. Allianz has returned 6.46% against benchmark of 1.35% giving an over-performance of 5.11% in the quarter. The manager is now significantly ahead of benchmark in the one year period and turned a performance deficit relative to benchmark since inception into a 1.75% overperformance in one quarter.



	Jul 16 - Sep 16	One Year	Three Years	Five Years	Since Inception (Dec 14)
Return	6.46%	10.94%		0	7.25%
Benchmark	1.35%	5.50%		0	5.50%
(Under)/Out	5.11%	5.44%		0.00%	1.75%

13. Budget Management – Quarter Ending 30th September 2016

13.9. The Fund is entering a period of maturity, where benefits payable will be more than contributions received – this is reflected in the latest actual spend to date in 2016/17. Consequently, as the Fund further matures, it will be necessary to increase liquid asset holdings to ensure that the Fund is always able to meets its obligations to retired members.

13.10. The Funding Strategy is currently being revised to reflect the need for more investment in cash yielding assets, such as is being targeted for the renewable energy mandate, to provide greater liquidity in the Fund in order to prevent liquidation of assets to pay benefits.

13.11. The below table sets how income and expenditure compare between this the current period and the same period in last financial year. Please note that investment income shown in the below table solely relates to the property mandate as income from other asset classes are re-invested and shown within the overall fund asset value.

Cost Comparison Qtr 2 2015 v Qtr 2 2016

	Prior Year 2015-16 £'000	Reporting Period 2016-17 £'000	Change in expenditure £'000
Contributions & Benefit related expenditure			
Income			
Employee Contributions	3,770	3,799	29
Employer Contributions	13,762	14,029	267
Transfer Values in	884	904	20
Total Income	18,416	18,732	316
Expenditure			
Pensions & Benefits	-21,867	-22,193	-326
Transfer Values Paid	-1,214	-1,648	-434
Administrative Expenses	-298	-468	-170
Total Expenditure	-23,379	-24,309	-930
Net of Contributions & Benefits	-4,963	-5,577	-614
Returns on investment			
Net Investment Income	1,017	1,033	16
Investment Management Expenses	-154	-483	-329
Net Return on Investment	863	550	-313
Total	**-4,100**	**-5,027**	**-927**

13.12. There is an increase of £927k in net expenditure up to Sep 2016 compared to the same time last year. A significant element of this amount, which is 'transfer out of the Fund' is outside of the Fund's control. Other increases relate to a rise in benefits paid relating to an increase in the number of pensioners in the Fund compared to this time last year. Also, investment management expenses are being paid more promptly this year hence the £329k variance between the periods on this category of expenditure – full year investment management expenses is projected to be in line with the prior year.

Investment Related Update

14. Pooling (London CIV)

14.1. The Fund was one of the early investors in the London CIV (LCIV). As previously notified the Fund has achieved fee savings in the region of £130k based as a result of being part of the LCIV.

14.2. The LCIV continues with its programme of opening sub funds and recruiting fund managers to operate these sub funds. In setting up the single manager sub funds, LCIV will prioritise commonality of mandates among its members;

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quantum of assets under management; and conviction of funds in the manager. To this end, the procurement of active global equities managers is currently being undertaken. The process is expected to conclude in December 2016 with first sub funds opening by April 2017. Haringey is not expected for now to invest in any of these funds given Committee's decision that strategic allocation to equities should be passive.

14.3. LCIV is also currently undertaking its annual business planning and has indicated that service charges will rise significantly to reflect the increased work of the operator and to ensure that the operator meets FCA regulatory requirement around fund management and ensure that adequate resources are in place to deliver value to members of LCIV.

15. Aviva Long Lease Property Mandate

15.1. The Committee at its meeting on 11 April 2016 approved the investment of £50m in the Aviva Long Lease Property Fund. Following submission and completion of the 'know your client' due diligence process by Aviva, the fund has now been approved by the trustees of the Fund to join the queue of investors waiting to invest in the Fund.

15.2. Members may recall that the waiting time to invest had moved out to 9-12 months from initial range of 6-9 months that was pitched to the Committee during the selection process. Although, Aviva's deal pipe is strong with the team working on "a lot of deals", the pace of decision making within counterparties that Aviva are dealing with has slowed down the investment process. Currently, there is £390m of committed funds ahead of LB Haringey in the queue. However, Aviva have confirmed that funding commitment from LB Haringey will likely be drawn down in 12 months.

16. Low Carbon Index Update

16.1. The Committee agreed at its meeting of 14 January 2016 to shift one third of its equities portfolio or approximately 20% of total fund assets to low carbon target. Committee also agreed that the switch should be implemented in tranches to mitigate the risk of unfavourable market timing on oil prices.

16.2. The first tranche of asset switching worth approximately £60m was completed on 3 May 2016 at a cost of £51k (0.086%). The transfer of the second tranche of assets was executed on 1st August 2016 at a cost £25k (0.042%).

16.3. The third switch was executed on 1 November 2016. Initial estimates shows that the cost of the switch will be around £39k (0.07%). This completes the switch and allocation to the low carbon index by the Fund. The revised strategic allocation is reflected in appendix 1 to this report.

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Appendix 1

Manager	% of Total Portfolio	Mandate	Benchmark	Performance Target
Legal & General Investment Management	75.00%	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%**			

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Asset Class	Benchmark	Legal & General Investment Management
UK Equities	FTSE All Share	**10.00%**
North America	FT World Developed North America GBP Unhedged	14.50%
Europe ex UK	FT World Developed Europe X UK GBP Unhedged	4.90%
Pacific ex Japan	FT World Developed Pacific X Japan GBP Unhedged	2.30%
Japan	FT World Developed Japan GBP Unhedged	2.30%
Emerging Markets	FT World Global Emerging Markets GBP Unhedged	6.00%
Global Low Carbon Target	MS World Low Carbon Target Index	20.00%
Total Overseas Equity	**FTA Index Linked Over 5 Years Index**	**50.00%**
Index Linked Gilts	**FTA Index Linked Over 5 Years Index**	**15.00%**
Total L&G		**75.00%**

Agenda Item 12

Report for: Pensions Committee 22nd November 2016

Item number: **12**

Title: Governance Report

Report authorised by: Tracie Evans, Chief Operating Officer (COO)

Lead Officer: Oladapo Shonola, Head of Finance - Treasury & Pensions
oladapo.shonola@haringey.gov.uk 02084893726

Ward(s) affected: N/A

Report for Key/ Non Key Decision: Non Key decision

1. Describe the issue under consideration

1.1. The purpose of the paper is provide an update to Committee:

- on progress toward compliance with Scheme Advisory Board key performance indicators;
- to highlight areas where improvement is still needed in order to achieve full compliance.
- To provide an update on progress toward implementing the recommendations from the Governance Review that was undertaken by the Independent Advisor to the Fund.

2. Cabinet Member Introduction

2.1. Not applicable.

3. Recommendations

3.1. The Committee should note progress since the last report to Committee on performance against Scheme Advisory Board's key indicators and recommendations from the governance review.

4. Reason for Decision

4.1. None.

5. Other options considered

5.1. None

6. Background information

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6.1. The SAB was set up by Government to advise the DCLG on LGPS matters and provide guidance to administering authorities on good pensions practice. The SAB is not a regulator such as The Pensions Regulator and has no powers to direct or intervene in the affairs of the pension fund. However, it will publicise poor practice and it has the ability to notify DCLG or TPR when it believes action is necessary.

6.2. The Scheme Advisory Board (SAB) has developed a number of key performance indicators to assist pension funds identify areas of weakness and how to improve fund's management and administration across all LGPS.

6.3. The Fund scored 27 out of a possible maximum of 59 when assessed against SAB key performance indicators in September. The Fund continues to meet more KPIs in the SAB model. The Fund's score is now 42 – 71% achievement rate.

6.4. The areas of improvement that have led to an increased score have been highlighted in the report.

6.5. A summary of recommendations from the governance review undertaken by the independent advisor is set out in appendix 2 and 3.

7. Contribution to Strategic Outcomes

7.1. Not applicable

8. Statutory Officers comments (Chief Finance Officer (including procurement), Assistant Director of Corporate Governance, Equalities)

Finance and Procurement

8.1. There are no financial implications arising from this report.

Legal Services Comments

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

Equalities

8.3. None applicable.

9. Use of Appendices

9.1. Appendix 1: Scheme Advisory Board Performance Indicators
Appendix 2: Governance Review – Follow Up Action Required
Appendix 3: Governance Review – No Further Action Required

10. Local Government (Access to Information) Act 1985

10.1. Not applicable.

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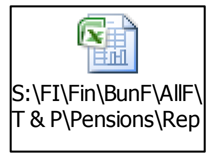
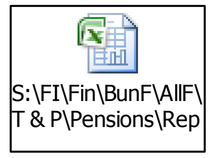
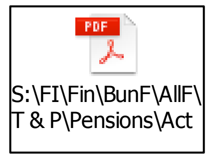
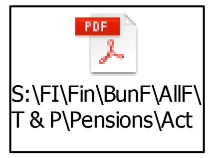
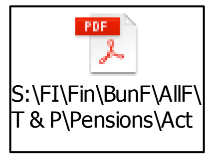
No	Key Indicator	Examples of Levels of Concern	Examples of good practice for high performing fund	Evidence and Comments	Fund Score	Previous Score	Maximum Score
1	**Risk management**	No or only partial and / or unclear risk register with no or poorly specified or un-implemented mitigation actions over time leading to increased fund risk. No evidence of risk register being:	Comprehensive risk register covering the key risks (in accordance with current CIPFA guidance) with prioritisation, robust mitigation actions, defined deadlines, with action tracking completion.				
		a) Prioritised	a) risks prioritised on a RAG red, amber, green or by a scoring methodology	The risk register has been approved by Committee.	1	1	1
		b) annually reviewed by Pensions Committee	b) completed actions signed off by Pensions Committee after at least an annual update.	The risk register is being reviewed at every meeting of the Board/Committee.	1	1	1
		c) annually reviewed by internal or external audit	c) annual review by internal and external audit	Internal audit review the risk register and use it to identify areas of the Scheme to be included in the annual audit plan.	0	0	1
		d) used to reduce high risk	d) less than three priority / red risks	The current risk register does not include any very high risk areas.	1	1	1
		e) available for public scrutiny	e) Public disclosure of a summary version published on fund website or in fund annual report.	An abridged version of the risk register will be included in the Fund's annual report.	1	1	1
			Score1 point for each one		**4**	**4**	**5**
2	**Funding level and contributions**	a) Decreased funding level (calculated on a standardised and consistent basis) and / or in bottom decile of LGPS over the last three triennial valuations on a standardised like for like basis.	a) Funding level rising and getting closer to 100% funded (or above) over the last three triennial valuations on a standardised like for like basis. Funding % - 91 to 100 = score +5, 80-90= +4, 70-70= +3, 60-69 = +2, less than 59 = +1	For fund as a whole? For council at the last two reported funding levels of 69% and 70%. Funding levels constant.	3	2	5
		b) No or minimal employer funding risk assessment and monitoring and not reported to Pensions Committee.	b) Employer funding risk assessment and monitoring reports to Pension Committee.	An employer profiling exercise has been undertaken where each employer in the Fund are measured against set criteria and risk scored in order to determine the level of risk they pose to the Fund. This assessment has been made available to the Actuary and will be presented to Committee in November.	1	1	1
		c) Total actual contributions received in the last 6 years less than that assumed and certified in last two triennial valuations.	c) Total actual contributions received in the last 6 years less than that assumed and certified in last two triennial valuations.	The Fund has contributed in line with assumptions made in the last two triennial valuations.	1	1	1
		d) Net inward cash flow less than benefit outgoings so need for any unplanned or forced sale of assets	d) Net inward cash flow less than benefit outgoings.	Overall, the Fund is cashflow negative as cash inflow is less than outflow.	0	0	1
			Score - 1 point for each		**5**	**4**	**8**











No	Key Indicator	Examples of Levels of Concern	Examples of good practice for high performing fund	Evidence and Comments	Fund Score	Previous Score	Maximum Score
3	**Deficit Recovery**	a) No or opaque deficit recovery plan.	a) transparent deficit recovery plans for tax raising and non-tax raising bodies	A schedule is produced for each employer indicating the deficit recovery period. The deficit recovery plan is clearly set out in the triennial valuation for Haringey Council, the only tax raising body in the Haringey Pension Fund.	1	1	1
		b) lengthening implied deficit recovery period for contributions	b) implied deficit recovery period reducing at each valuation.	Stable at 20 years.	0	0	1
		c) Implied deficit recovery periods > 25 years for last three valuations.	c) Implied deficit recovery period is less than 15 years for last three valuations.	20 year deficit recovery plan.	0	0	1
			Score 1 point for each.		**1**	**1**	**3**
4	**Investment returns**	a) required future investment returns as calculated by the actuary are consistent with and aligned to the investment strategy so higher likelihood of the fund meeting its funding strategy.	a) required future investment returns as calculated by the actuary are consistent with and aligned to the investment strategy so higher likelihood of the fund meeting its funding strategy.	The actuary uses the investment strategy to determine that there is a prudent probability of the deficit being eliminated.	1	1	1
		b) Actual investment returns consistently exceed actuarially required returns.	b) Actual investment returns consistently exceed actuarially required returns.	The 3, 5 and since inception average returns at 31 Dec 2015 of 9.63%, 7.70% and 7.82% exceed those assumed in the actuarial valuation.	1	1	1
			Score 1 point for each.		**2**	**2**	**2**
5	**Pension Committee member competence**	Appointees unclear of statutory role and unable to clearly articulate the funds funding and investment objectives.	Appointees understand their statutory role and are able to clearly articulate the funds funding and investment objectives.	Board members are required to complete the tPR's public service toolkit tutorial. Completion of the tutorial indicates sufficient knowledge abou the role of a scheme board member.			1
		No evidence of:					
		a) different employer types and no or minimal scheme member representation.	a) representatives on Committee of different employer and employee types.	The Joint Pensions Committee and Board has employer and employee representatives members with full and equal voting rights.	1	1	1
		b) No training needs analysis or training strategy or training log or use of CIPFA LGPS training framework	b) annual training plan recorded against CIPFA's knowledge and understanding framework.	The Committee has approved a training policy framework that requires each member to complete a training needs analysis form which will be used to develop individual training programmes for all scheme board members	1	1	1
		c) No training recover disclosure	c) annual training records disclosed in the annual accounts.	Member training records are disclosed in the 2015-16 draft fund annual report and accounts	1	1	1

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No	Key Indicator	Examples of Levels of Concern	Examples of good practice for high performing fund	Evidence and Comments	Fund Score	Previous Score	Maximum Score
		d) Self assessment	d) annual self - assessment of training undertaken and identification of future needs.	The Committee is in the process of assessing individual training needs of its members. This will be completed by December 2016.	0	0	1
			Score 1 point for each.		**3**	**3**	**5**
6	**Administering authority staff accountability, leadership, experience and training**	a) No or only part time Head of Fund and or only part time officers	a) Experienced Head of Fund with full time dedicated officers with at least three years experience.	Yes. The Head of Pension has over 3 years experience managing pension funds and has a team of staff that are wholly dedicated to the Scheme/Fund. It expected that a permanent Head of Pensions will be in post by the end of 2016.	1	1	1
		b) No or little induction or no on-going training provision or experience recorded on the adoption of CIPFA LGPD knowledge and understanding framework.	b) staff undertake regular CIPFA LGPS TKU or other CPD training recorded across all LGPS skills (governance, benefits administration, funding, investments and communications)	Training undertaken via seminars and also using TPR on line training.	1	1	1
			Score 1 point for each.		**2**	**2**	**2**
7	**Statutory Governance standards and principles (as per DCLG and TPR Codes)**	Several key areas of non-compliance with:					
		a) DCLG LGPS Statutory Guidance	a) Full Compliance with DCLG LGPS statutory guidance	To be confirmed.	1	0	1
		b)TPR Guidance and codes	b) Full compliance with TPR guidance and codes for public sector pension schemes.	Although progress toward compliance with tPR Code of Practice has been made, the Fund is not yet fully compliant. The November meeting of joint Board and Committee will receive a comprehensive update on where the Fund is in terms of compliance.September meeting.	0	0	1
		c) No, little or poor key decision taking records and no or poor self, or scheme employers or scheme members assessment of overall fund effectiveness.	c) Meet or exceed other LGPS best practice on recording all key decision taking and annual self, scheme employers, scheme members assessment of effectiveness.	The Haringey Pension Fund Committee/Board has not undertaken any self assessment exercises so far. This will be included in Fund's work programme.	0	0	1
			Score 1 point for each.		**1**	**0**	**3**
8	**Quality and accessibility of information and statutory statements, strategies, policies (governance, FSS, SIP, Communications, admin authority and employer discretion policies)**	a) Statutory publications not all in place or published on fund web site or updated in accordance with regulatory requirements and due timelines.	a) Statutory publications all in place and published on fund web site and updated in accordance with regulatory requirements and due timelines.	All provided for loading on to the Hymans' sponsored member web site	1	1	1

http://www.haringeypensio

No	Key Indicator	Examples of Levels of Concern	Examples of good practice for high performing fund	Evidence and Comments	Fund Score	Previous Score	Maximum Score
		b) Fund and employers discretions not published.	b) Fund and employers discretions published.	The Council's discretions policy is published. Those for other employers are their responsibility.	1	1	1
		c) Do not seek to meet any recognised 'Plain English' or e-publishing standards.	c) Meet 'Plain English' or and or other recognised e-publishing standards.	The content of the Pension Fund website has been tested readability and above 60 scores well on 'plain english' using the	1	1	1
			Score 1 point for each.		**3**	**3**	**3**
9	**Adoption and report compliance with Investment Governance Principles (IGP) (was Myners Principles) and voluntary adoption / signatory to FRC Stewardship Code and UNPRI**	No or un-explained non-compliance and /or support of					
		a) IGP	a) 100% compliance with IGP	The Fund is fully compliant with IGP.	1	1	1
		b)UK Stewardship Code	b) adoption and public reporting of compliance against the FRC UK stewardship Code.	The Fund has not adopted the FRC UK Stewardship Code.	0	0	1
		c)UN PRI	c) External managers or fund are PRI signatories.	All managers are PRI signatories	1	1	1
			Score 1 point for each.		**2**	**2**	**3**
						3	
10	**Historic investment returns (last 1,3, 5) and total investment costs compared to other LGPS funds.**	a) overall fund investment returns (net of fees) for last 1,3 and 5 years bottom two quintiles.	a) overall fund management returns (net of fees) or last 1,3 and 5 years. Top quarter score 5 points. 2nd quarter 3 points, 3rd quarter 0 points and 4th quarter -3 points.	Using CEM Benchmarking latest data, the Fund posted above average performances in the last 3 years - it is estimated that the Fund i sin the 2nd quartile in terms of performance	3	3	5
		b)Retain fund managers under performing their benchmarks for two triennial valuation cycles.	b) Greater than 75% of fund managers deliver target performance over rolling three years periods. Score 1 point.	As at Sep 2016, only 2 out of three of the Fund's current managers with a history of 3 years of managing the fund's assets is performing to or above target. The other two managers are outperforming benchmark over one year.	1	0	1
		c) Fund does not benchmark its fund managers and total investment costs relative to other LGPS funds.	c) Fund benchmarks its fund manager and total investment costs. Score 1 point	Annual comparison reported to Committee as part of the annual accounts.	1	1	1
			Score 1 point for each.		**5**	**4**	**7**
11	**Annual report and audited accounts**	a) Do not fully meet some regulatory requirements or CIPFA LGPS guidance.	a) Meet all regulatory requirements and CIPFA LGPS guidance.	Yes	1	1	1
		b) Not published in Admin Authority Accounts by 1st October.	b) Published in Admin Authority Accounts by 1st October.	Yes	1	1	1

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No	Key Indicator	Examples of Levels of Concern	Examples of good practice for high performing fund	Evidence and Comments	Fund Score	Previous Score	Maximum Score
		c) Published on SAB website after 1st November	c) Published on SAB website before 1st November	Yes	1	0	1
			Score 1 point for each		**3**	**2**	**3**
12	**Scheme membership data**	a) Common data does not meet TPR standards.	a) Greater than 99% of common data meets TPR quality and due date standards.	To be confirmed	0	0	1
		b) Conditional data do not meet the TPR standards. No plans in place to rectify this.	b) Greater than 95% of conditional data meets the TPR quality and due date standards. Plans in place to improve this.	To be confirmed	0	0	1
			score 1 point for each.		**0**	**0**	**2**
13	**Pension queries, pension payments and annual benefit statements**	a) No or poor website with no scheme member or employer access.	a) Good website with interactive scheme member and employer access.	Haringey utilise a Hymans hosted web site	1	1	1
		b) ABS do not meet regulatory requirements or due timelines for issuance.	b) ABS meets or exceeds regulatory requirements and due timelines for issuance.	The Scheme had some issues getting out the Annual Benefit Statements for active members last. We are working to ensure that the difficulties experienced in 2015 do not re-occur in 2016.	1	0	1
			Score 1 point for each.		**2**	**1**	**2**
14	**Cost efficient administration and overall value for money fund management.**	a) In bottom quartile with high total admin costs pa per member (based on CIPFA or other benchmarking tool).	a) In top quartile with low total admin costs pa per member (based on CIPFA or other benchmarking tool).	Using the CEM benchmarking analysis, the Haringey Scheme is in the top quartile for cost of administering the Scheme	1	1	1
		b) Not in any national or regional frameworks for any externally procured services or collective investments.	b) Lead or actively participates in collaborative working and collective LGPS procurement, shared services or CIV.	The Fund utilised the Norfolk Framework to appoint the current fund actuary and is an active member of London CIV.	1	1	1
			Score one point for each.		**2**	**2**	**2**
15	**Handling of formal complaints and IDRPs**	a) Any Pensions Ombudsman determinations and any appeals or fines were against the action of the fund (not employers)	No stage 2 IDRPs and no Pensions Ombudsman finding against the fund's actions in the last three years.	There were no IDRPs on Pension Ombudsman finding against the Funds actions in the last three years.	1	1	1
			Score one point for each.		**1**	**1**	**1**
16	**Fraud Prevention**	No or minimal systems / programme or plan or mechanism in place to:					
		a) Prevent fraud	a) Fraud prevention programme in place.	The Fund has an internal control system in place to combat fraud. This includes regular reconcilation of done on members list to ensure there are no duplicates.	1	1	1
		b) detect fraud	b) Use external monthly, quarterly or annual mortality screening services.	Monthly screening used	1	1	1

http://www.haringeypensionfund.co.uk/

1059F286.msg

http://londonciv.org.uk/investors

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No	Key Indicator	Examples of Levels of Concern	Examples of good practice for high performing fund	Evidence and Comments	Fund Score	Previous Score	Maximum Score
		c) detect pension overpayment due to unreported deaths.	c) Pariticpate in bi-annual fraud initiatives.	The Council participates in the bi-annual national fraud initiative.	1	**1**	1
			Score one point for each.		**3**	**3**	**3**
17	**Internal and external audit**	a) No annual internal audit or qualified internal and external audit opinions.	a) Unqualified annual internal audit report with no or only low priority management action.	Full assurance in most recent internal audit reports.	1	1	1
		b) Urgent management action recommended on high / serious risk.	b) Unqualified annual external audit report with no or only low priority management action.	No recommendations in last external audit report.	1	1	1
		c) Only moderate or low level of assurance and a number of high priority action recommendations.	c) Full or substantial assurance against all key audit areas with no high risk recommendation.	Full assurance in most recent internal audit reports.	1	1	1
			Score one point for each.		**3**	**3**	**3**
18	**Quality assurance**	No evidence of:					
		a) quality management system	a) Fund has formal quality management external certification.	no.	0	0	1
		b) externally reviewed publications.	b) Crystal Mark for plain English for publications.	Text from the Pension Fund website has been subjected to a 'plain english' test - the text achieved a reasonable score.	1	1	1
		c) externally approved website accessibility	c) Externally approved web site accessibility.	Yes	1	1	1
		d) any awards	d) pensions & investment recognition awards.	The Fund has not entered into any competitions.	0	0	1
			Score one point for each.		**2**	**2**	**4**
					42	37	59
				Level of Compliance	71%		

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	GOVERNANCE REVIEW - FOLLOW UP ACTION REQUIRED				
Ref No.	**Recommendation**	**Action**	**Responsibility**	**Deadline**	**Duplicated**
1	A revised Governance Compliance Statement is prepared, consulted upon and approved by the combined Pensions Committee and Board, as soon as practical, to reflect the arrangements for the exercise of the functions of the Administering Authority and Pensions Board arising from the replacement of the former Pensions Committee by the combined Pensions Committee and Board	The review and updating of the Fund's Governance Compliance Statement has been programmed into the Fund's work plan for the municipal year.	Head of Pensions	**Sep-17**	No
2	The Training and Conferences update report to be presented to the combined Pensions Committee and Board at its meeting on 22 November 2016 specifically include coverage of the completion by members of the Pensions Regulator's on-line "Public Service Toolkit" and also the application of the Training Needs Analysis forms completed by the members of the combined Committee and Board	The training and conferences report now includes a report on completion by members of The Pension Regulator's on-line Public Service Toolkit and receipt of completed Training Needs Analysis forms.	Head of Pensions	**Jan-17**	No
5	A comprehensive Medium Term Business Plan (MTFP) incorporating an Annual Plan and including a Medium Term and detailed Annual Budget, is considered and approved annually by the Pensions Committee and Board and formally monitored by the Committee and Board on a quarterly basis	An MTFP is being prepared and will be presented to the March 2017 meeting of the Committee for approval.	Head of Pensions	Mar-17	No

Ref No.	GOVERNANCE REVIEW - FOLLOW UP ACTION REQUIRED Recommendation	Action	Responsibility	Deadline	Duplicated
11	The “Compliance with Myners Principles” section of the Statement of Investment Principles is revised so that against each of the Principles the explanation commences with either of three phrases “Compliant,” “Partially Compliant,” or “Not Compliant and the explanations in respect of compliance with each of the revised Myners Principles be extended so as to provide a fuller explanation of compliance or otherwise	The Myners compliance statement will be revised to clearly indicate whether the Fund is compliant or not.	Head of Pensions	**Sep-17**	No
12	A revised Statement of Investment Principles which reflects the changes to the Fund’s Investment Strategy agreed in January 2016 is prepared and approved as soon as practical	A revised Statement of Investment Principles will be presented and approved by the Committee/Board by March 2017.	Head of Pensions	**Mar-17**	No
13	The Policy Statement on Communications with Scheme Members and Employers be reviewed with a view to updating it	Review of Communications Policy is on the work plan.	Pensions Manager	**Jan-17**	No
14	The Quarterly Reports on the performance of the Pensions Administration function include consideration of quality and performance issues including information on the adherence to the requirements of Code of Practice No 14 by both the Pension Fund and individual Employers within the Fund	The Committee receives a report on pensions administration at each of its meetings. This report will be reviewed to include more qualitative information, especially around compliance with the requirements of TPR CoP No 14.	Head of Pensions	**Mar-17**	No
15	The Quarterly Pensions Administration report should also include monitoring of a broad range of Performance Standards in terms of processing issues relating to individual members of the Fund	See comments at 14.	Head of Pensions	**Mar-17**	No

	GOVERNANCE REVIEW - FOLLOW UP ACTION REQUIRED				
Ref No.	**Recommendation**	**Action**	**Responsibility**	**Deadline**	**Duplicated**
16	The Officers prepare a draft Pension Administration Strategy under Regulation 59 of the LGPS Regulations 2013 (As amended) for approval by the Pensions Committee and Board after due consultation	An approved pension adminstration strategy is in place. The current version will be reviewed and presented for approval by the Committee.	Pensions Manager	**Jan-17**	No
17	That consideration is given to the Fund levying a charge on both LEA and Academy schools that do not use the Council's payroll	This is still under review. A report will be presented to Committee in January 2017.	Pensions Manager	**Mar-17**	No

	GOVERNANCE REVIEW - DUPLICATE/NO FURTHER ACTION REQUIRED				
Ref No.	**Recommendation**	**Action**	**Responsibility**	**Deadline**	**Duplicated**
3	Each meeting of the combined Pensions Committee and Board commences with an item ***"Declarations of Interest and Conflicts of Interest*** " rather than simply **"Declarations of Interest"**	Declaration of conflicts of interest now included as a standing item on the agenda of Committee meetings.	Clerk of the Committee	**Completed - No Further Action Required**	No
4	Given the legal requirements in relation to Conflicts of Interest/potential Conflicts of Interest and Reporting Breaches of the Law a training session covering these two issues, with particular reference to the relevant policies adopted by the former Pensions Committee, is arranged and presented to the members of the combined Pensions Committee and Board as soon as practical	Members receive training on conflicts of interest. The Committee recently considered in detail a report on breaches of the law in July and have also completed the online training for breaches of the law.	Head of Pensions	**Completed - No Further Action Required**	No
6	The Officers implement and utilise a Risk management cycle in accordance with the approach and detail provided on pages 6 to 8 of the CIPFA Publication ***"****Managing Risk in the Local Government Pension Scheme"* (November 2012). This should include a consideration by the Officers of all areas of Risk and potential risk on a quarterly basis	The Committee/Board already manage risk on a cyclical basis, so that each area of risk will be considered once a year.	Head of Pensions	**Completed - No Further Action Required**	Yes
7	As part of the ongoing review of the Risk Register it should be ensured that each of the seven areas of Risk in the relevant CIPFA guidance is actively considered	Based on current work plan/ programme each area of risk will be considered by the Committee.	Head of Pensions	**Completed - No Further Action Required**	Yes

	GOVERNANCE REVIEW - DUPLICATE/NO FURTHER ACTION REQUIRED				
Ref No.	**Recommendation**	**Action**	**Responsibility**	**Deadline**	**Duplicated**
8	The Pension Fund have a separate and specific Annual Internal Audit Plan (which includes a focus on Pension Administration issues) and that the combined Pensions Committee and Board receive this Plan, the findings and recommendations of individual Audits, and also an Annual Report from Internal Audit	To liaise with the Head of Audit & Risk Management to create an Annual Audit Plan for the Pension Fund.	Head of Pensions	**N/A**	Yes
9	The Fund liaise with the Actuary as soon as practical to seek to ensure that the Funding Strategy Statement prepared in conjunction with the 2016 Actuarial Valuation is fully compliant with the 2016 CIPFA guidance on the preparation of the FSS and facilitates a Valuation which is likely to meet the tests of Compliance, Consistency, Solvency and Long Term Cost Efficiency as applied by the Government Actuary's Department to the 2016 Actuarial Valuation of the Haringey Pension Fund	The FSS and valuation is compliant.	Head of Pensions	**Completed - No Further Action Required**	No
10	In order to enhance the ongoing monitoring of the Funding Level and inform Investment Strategy decisions the Fund consider whether to request more regular Funding Updates (Interim Valuations) from the Fund Actuary	The Fund invests on a long term basis. Also, the FSS is reviewed at each valuation. This is sufficient for the purposes of the Haringey Fund.	Head of Pensions	**Completed - No Further Action Required**	No

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Agenda Item 13

Report for: Pensions Committee 22nd November 2016

Item number: **13**

Title: Local Authority Pension Fund Forum (LAPFF) Voting Process and Quarterly Engagement Report (Jul – Sep 2016)

Report authorised by: Tracie Evans, Chief Operating Officer (COO)

Lead Officer: Oladapo Shonola, Head of Finance - Treasury & Pensions
oladapo.shonola@haringey.gov.uk 020 8489 3726

Ward(s) affected: N/A

Report for Key/ Non Key Decision: Non Key decision

1. Describe the issue under consideration

1.1. The Fund is a member of the LAPFF and the Committee had previously agreed that the Fund should cast its votes at investor meetings in line with LAPFF voting recommendations. This report provides an update on voting activities on behalf of the Fund.

1.2. The LAPFF engagement report for the period July to September 2016 is also attached at appendix 2 of this report.

2. Cabinet Member Introduction

2.1. Not applicable.

3. Recommendations

3.1. That the Committee note this report along with the latest quarterly engagement report (Jul – Sep 2016) issued by LAPFF.

4. Reason for Decision

4.1. None.

5. Other options considered

5.1. None.

6. Background information

Haringey LONDON

6.1. The LAPFF Quarterly Engagement Report for the period July to September 2016 is attached at appendix 2.

6.2. The voting alert received from LAPFF and outcome of votes is detailed below.

6.3. For further context, LGIM issued a position statement on Sports Direct which is attached at Appendix 1.

Target of Resolution	Resolution	Fund Manager	Date of Vote	How Vote to be Cast	Outcome of Vote
Sports Direct	Recommendation to vote in favour of independent human capital assessment resolution	LGIM	07 Sep 2016	FOR	FOR

7. Contribution to Strategic Outcomes

7.1. None.

8. Statutory Officers comments (Chief Finance Officer (including procurement), Assistant Director of Corporate Governance, Equalities)

Finance and Procurement

8.1. There are no further finance or procurement comments arising from this report.

Legal

8.2. The Assistant Director of Governance was consulted on the content of this report. There are no legal issues directly arising from this report.

Equalities

8.3. There are no equalities issues arising from this report.

9. Use of Appendices

9.1. Appendix 1 – LGIM's Position Statement on Sports Direct
Appendix 2 – LAPFF Quarterly Engagement Report (Jul – Sep 2016)

10. Local Government (Access to Information) Act 1985

10.1. Not applicable.

Position statement:

LGIM's Voting Intentions at Sports Direct International AGM, 7th September 2016

Legal & General Investment Management takes seriously our stewardship obligations in helping to bring positive change to the companies in which our clients invest. We use our position as a large shareholder to influence and promote best practice. We held 545 company meetings in 2015. Voting is an important tool for escalating issues which have not been resolved through our engagement activities. We believe the market will react positively if Sports Direct takes active steps to improve its governance and working practices.

How has LGIM been engaging with Sports Direct?

LGIM has been proactively engaging with Sports Direct on its governance, social and risk structures and transparency on these issues since the company listed in 2007. Due to our continuing concerns since this time, we have escalated our engagement with the company by collaborating with other investors and voting against management.

During our engagement we have met extensively with the Chairman, the Senior Independent Director, other board members and management team, both privately and collaboratively with other shareholders. We have also engaged with other major stakeholders.

We are announcing LGIM's voting intentions in advance of the forthcoming AGM of the Company. It is exceptional for LGIM to need to escalate our concerns to this degree; and demonstrates the long-standing and severe nature of our concerns. We also lend support to the statement from the Investor Forum on Sports Direct calling for an independent review of overall governance practices, which was published today, and can confirm our participation in the collective engagement.

How is LGIM voting at the forthcoming AGM?

Due to the reasons set out in this position statement, we will be escalating our concerns at this year's AGM and voting as follows:

- For the third consecutive year we will be **voting against the re-election of the Chairman**. We first voted against the Chairman in 2014 when the share price performance was still strong and were trading around £7.00. Today they are around £3.08.

- We have concluded that Sports Direct needs a stronger body of independent non-executive directors to ensure the business is run in the interests of all shareholders. For this reason we will be **voting against the re-election of all non-executive directors.**

- We believe that the Shareholder Requisitioned Resolution lends support to our escalation process as their management of human capital is also a concern for LGIM. Therefore **LGIM will support the shareholder requisitioned resolution.**

LGIM believes that clients should ask their other managers to be active and to send a strong signal to the company to call for change. In 2015 8.3% of shareholders, including LGIM, voted against the re-election of the Chairman.

Legal & General INVESTMENT MANAGEMENT

What are LGIMs primary concerns?

LGIM has a number of concerns with Sports Direct, many of which we have been raising since our first discussions with the company.

Governance

LGIM has been calling for a refreshment of non-executive board members in order to strengthen and expand the expertise and skill-sets to advise management and provide appropriate oversight on behalf of all shareholders. There have been no new non-executive board appointments to Sports Direct in the last five years.

The company has demonstrated historically a lack of succession planning for key management positions.

For example, Sports Direct operated without a Finance Director for around 18 months. We raised our concerns first with the Chairman privately and then collectively with other investors throughout 2014 and 2015. On each occasion we stressed the need for the introduction of a credible external appointment.

The company also did not have a permanent company secretary to assist the board. A company secretary is an essential role, as they ensure the board receives the information required to make the best decisions on behalf of all shareholders. The company has now informed shareholders that an internal employee was appointed as full time company secretary in 2015.

However, we have concerns over the appointment processes for these two crucial positions.

Related party contracts and conflicts of interest is also a growing issue.

We had historic concerns with remuneration and had a number of meetings with the Chairman both privately and collectively. We questioned the need for the proposed scheme and voted against.

Social

There is a lack of transparency regarding Sports Directs supply chain, health and safety policies and working conditions. This makes it difficult for investors and other stakeholders to assess risks.

Sports Direct is one of the few UK retailers not to sign the Bangladesh Accord on Fire and Safety. We have been raising this in our discussions with the Chairman. The revelation that most of the company's 2000 workers were operating under zero hour contracts was a concern. We raised this with the Senior Independent Director as we wanted the company to re-consider their strategy on this. LGIM have yet to see a significant shift in the number of people on zero hour contracts.

Strategy

Sports Direct has purchased a number of stakes in various listed companies – mostly through derivative positions. Shareholders have a lack of understanding over financing arrangements and the strategic intentions of management in relation to these transactions. This issue has been repeatedly raised on each of our meetings with the Company. We believe that the process still lacks transparency and is questionable and a best practice approach should be adopted by the Company.

Related Documents

Investor Forum Statement on Sports Direct, available on the Investor Forum website:
http://www.investorforum.org.uk/#!news-1/fow87

Q2 ESG impact report to clients

2015 Active Ownership Report

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Legal & General INVESTMENT MANAGEMENT

Local Authority Pension Fund Forum

The Local Authority Pension Fund Forum (LAPFF) exists to promote the long-term investment interests of member funds and beneficiaries, and to maximise their influence as shareholders whilst promoting the highest standards of corporate governance and corporate responsibility at investee companies. Formed in 1990, LAPFF brings together a diverse range of 71 public sector pension funds in the UK with combined assets of over £175 billion.

QUARTERLY ENGAGEMENT REPORT

JULY TO SEPTEMBER 2016

Report launch on why a 2˚c business model is less risky than 'business-as-usual' for oil companies

National Grid publishes scope three emissions after LAPFF's request

LAPFF work with UNITE starts to pay off at Sports Direct

National Express meets with LAPFF after contentious AGM

Achievements

LAPFF and Carbon Tracker (CTI) launch of 'Engaging for a Low Carbon Transition'

Cllr Kieran Quinn and Mark Campanale of Carbon Tracker

In July, LAPFF and Carbon Tracker Initiative launched the report *'Engaging for a Low Carbon Transition'* which sets out how a 2˚C business model can be less risky than 'business-as-usual' for oil and gas companies. The LAPFF chair, Cllr Quinn, welcomed over sixty attendees and introduced the report author, Paul Spedding, who set out how to determine the degree to which investments are 'two-degree' compliant and the implications for shareholder value. The report gives very practical 'hands-on' guidance on how to respond to 'shibboleths' encountered in engagement with company representatives.

National Grid publishes scope three emissions upon LAPFF's request

In 2014, LAPFF attended the National Grid AGM and raised the issue of the Company reporting its Scope 3 emissions, mainly those associated with sold products, ie gas and electricity in the US. At the time, National Grid said this was an interesting question that no other investor had inquired about. LAPFF inquired about this again at the 2015 AGM and was told that the Company would likely publish this data within the year. By the 2016 AGM, National Grid had published Scope 3 emissions data in the annual report. This data is important information to understand the full extent of a company's global emissions, so this development is an important step forward.

nationalgrid

LAPFF work with UNITE starts to pay off at Sports Direct

LAPFF was one of a number of shareholders and shareholder groups supporting a UNITE-backed resolution at the Sports Direct AGM that called for an independent review of the Company's human capital management strategy. The AGM received a lot of media coverage, and LAPFF's Executive Committee member, Jane Firth, spoke about the Forum's support for the independent human capital assessment for Channel Five, BBC TV and Radio Five Live. At the AGM, most investors focused on replacing Keith Hellawell as Chair, but in the aftermath, the focus has been on the shareholder resolution. The latest development is a promise from Sports Direct that it will replace its lawyers, RPC, as the party to conduct the next independent review of workplace practices and corporate governance. It remains to be seen whether this promise is kept and the review is actually independent, but oversight of employee management seems to be moving in a better direction.

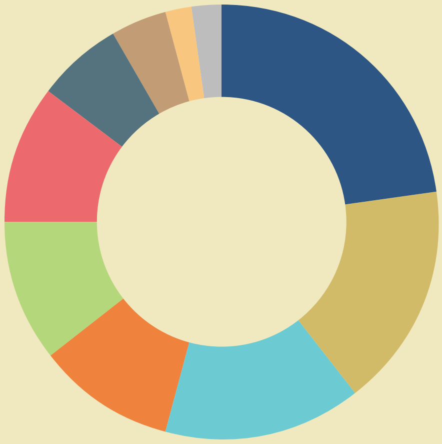
Jane Firth spoke about the Forum's support for the independent human capital assessment for Channel Five, BBC TV and Radio Five Live

National Express meets with LAPFF after contentious AGM

For the last three years, LAPFF has either supported shareholder resolutions with National Express requesting an independent assessment of labour conditions in the Company's US subsidiary, Durham School Services, or individual LAPFF funds have co-filed this resolution. When the Company refused to accept the resolution on this year's AGM ballot, there was some frustration on the part of LAPFF and the unions. This development comes alongside a US Federal Court decision that found a union organising campaign in Santa Rosa, Florida to have been legitimate. National Express has now said it will accept this ruling and will bargain collectively with the union at the Santa Rosa site. A number of similar rulings have been made against the Company in the past couple of months. LAPFF subsequently met with the Company to discuss these issues.

Company Engagement

ENGAGEMENT TOPICS



Governance (general)	**11**
Board composition	**8**
Climate change	**7**
Employment standards	**5**
Remuneration	**5**
Human rights	**5**
Other	**3**
Environmental risk	**2**
Supply chain management	**1**
Campaign (general)	**1**

PEOPLE AND INVESTMENT VALUE AND EMPLOYMENT STANDARDS

In addition to hosting the AGM, **Sports Direct**'s Deputy Executive Chairman, Mike Ashley, led a walk-through of the Company's Shirebrook facility for press and investors. Participants got to see the warehouse floor and the controversial security check workers go through to enter and exit the warehouse. Mr Ashley continually emphasised the size of the facility and how hard it is to manage such a large operation. Mr Ashley and the Sports Direct Board then hosted a meeting with investors to answer further questions. At one point, both the Chairman, Keith Hellawell, and Mr Ashley left the room for an extended period without explaining why they had left. At the end of the session, a Sports Direct employee stood up to sing the praises of the Company. Overall, the day had a very contrived feel.

Following the **SSE** AGM, LAPFF also met with Helen Mahy, a non-executive director and SSE's Director of Sustainability, Rachel McEwen, to discuss the company's human capital management approach. SSE has been cited in a number of circles for having a good approach to human capital management. Unlike most other companies, it has also developed a methodology to quantify how much value SSE staff contributes to the business. This methodology suggests that SSE's staff is its second largest asset – behind windfarms. Based on the insightful conversation, LAPFF has invited Ms McEwen to speak at the LAPFF conference.

LAPFF also continued with its engagement to promote women on boards, having meetings with **Weir Group, Tullow Oil** and **Telecom Plus**. Weir Group showed itself to be a leader in the field, with very proactive approaches to managing diversity and a critical approach to Chairs who stand in the way of this. Tullow Oil and Telecom Plus candidly discussed some of the challenges they face in achieving a more diverse board and workforce but Tullow Oil, in particular, was very open to further engagement to seek to improve in this area.

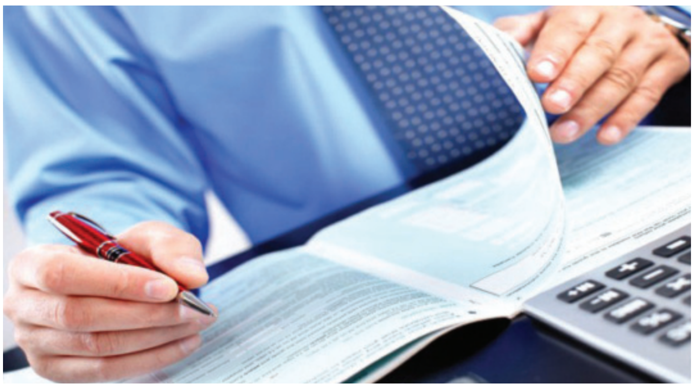
LAPFF also proposed that the Investor Group of the 30% Club submit a letter to the FT calling for increased action with companies on reaching more gender diverse boards and praising Halfords in this regard. Published in early August, it was followed by a response from Sir Philip Hampton and Dame Helen Alexander, Chair and Vice Chair of the 'Women on Boards Review' supporting the Investor Group's efforts to promote stronger diversity at companies and calling for other stakeholders to join the action.

In total, LAPFF attended eight AGMs this quarter – **Sainsbury, BT, British Land, SSE, Vodafone, National Grid, Vedanta** and **Sports Direct**. At least four of these, Sainsbury, BT, SSE and Vedanta, have led to further engagements with the companies. It remains to be seen whether Sports Direct keeps its promise to engage with LAPFF, given at the 2016 AGM, after many years of the Forum being unable to secure a meeting with board members. Cllr Richard Greening asked about Vedanta's human rights practices at the AGM. While the Company has a poor human rights record, it has shown a willingness to engage with LAPFF on this topic.

Given that the above AGMs took place just after the Brexit vote, there were a number of Brexit-related questions asked of the respective company boards. The issue of free movement of workers was raised on a number of occasions by companies. For example, at the BT AGM the Chairman expressed his worry that a restriction on this movement would affect the Company's talent base and ability to execute its contracts on behalf of customers.

RELIABLE ACCOUNTS

LAPFF was in the media in September for its latest round of letters to the FTSE350 on reliable accounting, which urged FTSE350 Chairs to disregard the Financial Reporting Council (FRC)'s guidance on accounting standards. A Freedom Of Information request revealed that although the FRC had made public efforts to suggest that the UK Government concurred with the FRC position, it hadn't. These letters were covered extensively by national press.



HOLDINGS-BASED ENGAGEMENT

Following attendance at the Unilever AGM, Cllr Doug McMurdo of the LAPFF Executive met with Andrew Stephen and Clare Cavana of **Unilever** to discuss the Company's business model and Sustainable Living Plan. Unilever has been held up in many quarters as a leader in integrating environmental, social and governance issues into its business model and strategy. This meeting led to a further meeting on tax and LAPFF looks to have progressed in establishing an engagement relationship with Unilever.

©www.unilever.com

M&A engagement gets underway with Rentokil
LAPFF has recently issued a report setting out issues investors should consider in evaluating companies' approaches to mergers and acquisitions. Using elements of the approach set out in the guide, Cllr Toby Simon met with representatives of Rentokil Initial, which has a reputation for doing mergers and acquisitions well, in order to learn from best practice and to assess performance in line with LAPFF guidance. Feedback from Rentokil was extremely positive, and LAPFF will look to engage with other companies to test the guide further.

TAX

LAPFF, with consultant, Richard Murphy, met **Sainsbury** to hear about the Company's approach to tax risk and governance. Mr Murphy's assessment is that it would not take much for Sainsbury to qualify for the FairTax Mark. The Company's policy statement and reporting on tax havens is good, but there could be further reporting on country-by-country tax disclosure, and on how the Company ensures it has not engaged in tax avoidance. LAPFF Executive member, Cllr Doug McMurdo, also went with Mr Murphy to meet Janine Juggins of **Unilever** about tax.

In addition to the company meetings on tax, on the back of its own letter to the company, LAPFF has co-signed a letter with other investors to **Alphabet**, parent company to Google, requesting further disclosure about its tax practices. Google has faced a number of legal challenges to the amount of tax it pays in various countries.

PEOPLE PAY AND INVESTMENT VALUE

In the run-up to binding votes on remuneration policy at most companies' 2017 AGMs, LAPFF has maintained a focus on executive pay policies and how companies apply them in practice.

In 2015, much of LAPFF's engagement with **BP** focused on the five elements of the Company's strategic resilience to climate change. One of these, remuneration, has surfaced as a big issue for BP during 2016, and following Ian Greenwood's attendance at the BP AGM and media comments on the Company's approach to remuneration, LAPFF held a meeting with BP Chair, Carl Svanberg, to discuss concerns. Whilst it is clear that a large portion of the remuneration this year was attributed to pension contributions, LAPFF stressed that BP's disclosure should improve so that the composition of pay was more transparent for shareholders to analyse. Mr Greenwood also encouraged BP to do more to 'stress test' its pay before finalising it, to assess how shareholders will react, particularly in a difficult financial environment where workers are being made redundant.

At the **British Land** AGM, Cllr Doug McMurdo noted that the existing remuneration policy, allows for granting of a high level of awards and a longer notice period on recruitment. He asked the Chair if the Company did not consider the quality of British Land's brand and internal culture should be sufficient to attract high calibre candidates without such inducements. The Chair noted the wish to keep flexibility in being able to attract and recruit staff in senior positions, and that the company should be able to compensate an individual for loss where they have to forego pay at a previous employer.

ENERGY, CARBON AND ENVIRONMENTAL RISK MANAGEMENT

Collaborative engagement with oil & gas, integrated mining and utility companies has continued through the 'Aiming for A' investor group with LAPFF separately also meeting with **BP** and **Anglo American** in the last quarter. The utility, **SSE**, is one of the largest UK emitters, and Cllr Cameron Rose attended the AGM to ask about the Company's approach to carbon capture and storage (CCS) in light of the government's failure to fund further efforts around this technology. The Company was disappointed with the government's position but still sees CCS as a technology to consider in future.

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Cllr Toby Simon met with Anglo American following attendance at the Company's AGM and to follow up on elements of the strategic resilience shareholder resolution. Cllr Simon met with Anglo Chairman, Sir John Parker, as well as Head of Social Performance and Engagement, Jon Samuel, and Investor Relations Manager, Ed Kite. Anglo has had a difficult time over the last year, first seeing its share price drop precipitously then rise significantly just prior to the Company's AGM. Anglo has been in the process of disposing assets and re-organising the business, so it was interesting to discuss these developments as well as how sustainability concerns were being considered while this structural overhaul continues.

©twicopy.org/cameronrose/

Cllr Cameron Rose asking about connecting renewables to the grid and Brexit at National Grid's AGM

At the **National Grid** AGM, Cllr Cameron Rose noted the Company's statement that the biggest impact it could make to the environment was by connecting low carbon and renewable energy to the network and asked what were the biggest challenges faced in doing this. The CEO, John Pettigrew commented on how the network needs to operate which will be very different from how it has been done in the last 50 years. It will entail encouraging demand-side response and also starting to introduce fast frequency and battery responses. He also noted that the company is working much more closely in the distribution networks with providers of renewables, particularly solar and wind with 9 gwatts of additional generation.

In an initiative coordinated by the Investor Network on Climate Risk, LAPFF joined other investors in writing to the US Securities and Exchange Commission (SEC) relating to improving reporting of material sustainability risks in issuers' SEC filings. In particular it flagged up the 2010 guidance on climate change-related disclosure, on which very few comment letters have been issued by the SEC and no enforcement actions taken for failure to meet these requirements.

NETWORKS AND EVENTS

Some of the events and meetings attended by LAPFF representatives during the quarter:

Labour Party Fringe meeting: 'Has Banker Bashing Gone Too Far?'. Speakers included Cllr Kieran Quinn (Chair, LAPFF), Dominic Lindley (New City Agenda), Mike Kane MP, formerly Treasury Select Committee and Joanne Segars Chief Executive PLSA.

Carbon Tracker/LAPFF Report launch: An economic and financial justification for moving away from investment in oil was presented. LAPFF representatives also attended a CTI event where the risk implications for fossil fuel demand were explored.

Presentation to East Sussex Pension Committee: LAPFF representatives heard a petition on fossil fuel divestment put to the Committee and spoke about LAPFF's recent work on carbon management, executive remuneration, tax and human capital management.

Omnia Strategy on gender pay reporting: A LAPFF representative participated in this round-table co-chaired by Cherie Blair of Omnia and Ann Francke of the Chartered Management Institute to evaluate the new gender pay reporting rules and what they mean for business.

Client Earth/ShareAction Fiduciary Duty Event: Speakers considered how pension fund trustees can take into account financial and non-financial factors in their investment decisions.

Sports Direct briefing: TUSO and UNITE held a briefing for investors to explain the human capital shareholder resolution that garnered 53% support from independent shareholders at the AGM.

Board Intelligence Seminar: Participants discussed the FRC's research into culture with the Chartered Institute of Internal Auditors.

ShareAction Air Pollution and Pharmaceuticals events: Discussions took place on air pollution as a problem from both health and economic perspectives, with associated climate change implications and on the unsustainable business model of global pharmaceutical companies highlighted by poor pricing strategies.

MEDIA COVERAGE

Quarter Highlight: A Russian piece about LAPFF's concern with IFRS and the FRC's guidance - http://gaap.ru/news/151262/, with English translation

Sports Direct
Channel Five interview with Jane Firth, https://www.youtube.com/watch?v=XtTQJGp8qo8

Five Live interview with Jane Firth at 1h 10min, http://www.bbc.co.uk/programmes/b07rkgmz

Yahoo Finance, Investor group rebukes Sports Direct, wants review of management (25 Aug 2016)

International Business Times, Sports Direct's working practices called into question by shareholders' group (24 Aug 2016)

LocalGov, Council pension fund supports working practices review of Sports Direct (24 Aug 2016)

The Guardian, Sports Direct faces more pressure over working practices review (23 Aug 2016)

Accounting standards
CCH Daily, Pension funds group slams FRC dividends advice as 'defective' (6 Sep 2016)

Accountancy Age, LAPFF urges FTSE 350 companies to disregard the FRC (2 Sep 2016)

The Times, Pension schemes attack accountancy watchdog (1 Sep 2016)

Economia, LAPFF steps up row with FRC over true and fair (1 Sep 2016)

BBC News, Adopt Swedish-style shareholder committee on pay, says MP (1 Sep 2016)

IPE, LAPFF urges FTSE 350 firms to disregard 'defective' accounting advice (1 Sep 2016)

Carbon Management
LAPFF/Carbon Tracker report, Engaging for a Low Carbon Transition

IPE, Report offers hope for energy companies (8 Aug 2016)

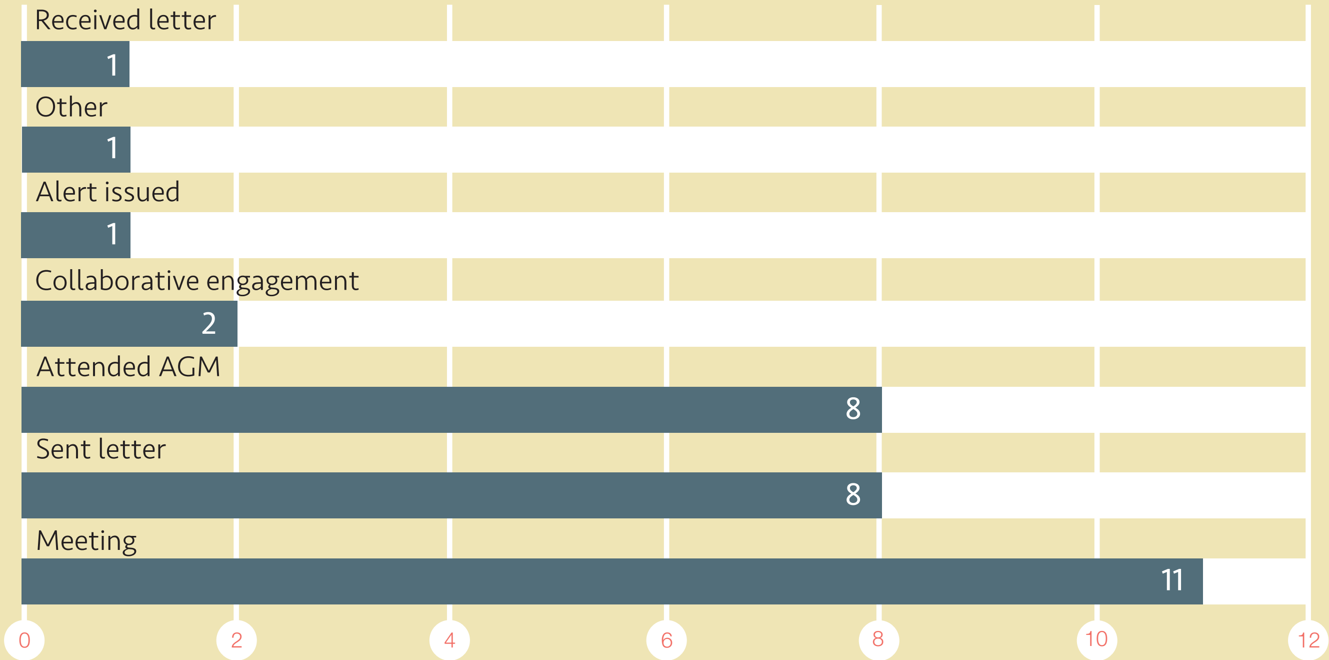
COMPANY PROGRESS REPORT

21 Companies engaged over the quarter

Q3 2016 ENGAGEMENT DATA

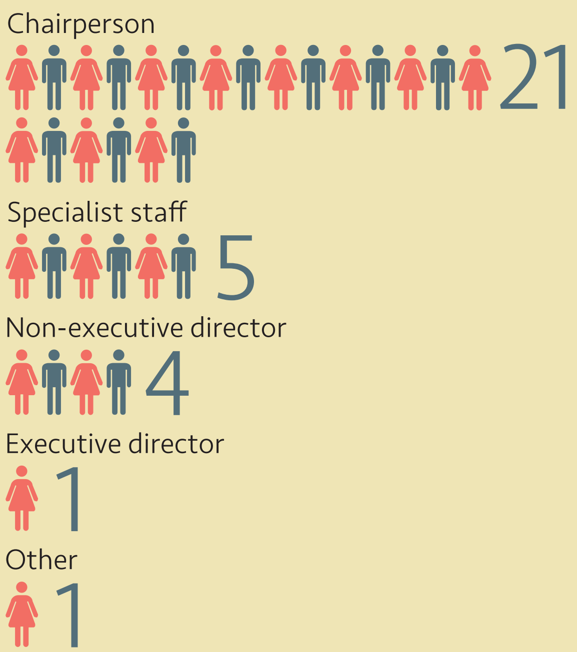
	Company	Topics	Activity	Outcome
1	Anglo American	Climate Change/ Governance (General)	Meeting	Change in Process
2	BP	Remuneration	Meeting	Meeting
3	British Land	Remuneration	AGM	Dialogue
4	BT	Governance (General)	AGM	Dialogue
5	Euromoney Institutional Investor	Board Composition	Sent letter	Awaiting Response
6	G4S	Human Rights/Governance	Collaborative Engagement	Dialogue
7	Google	Governance	Sent Letter	Awaiting Response
8	M&S	Climate Change/Supply Chain	Meeting	Dialogue
9	National Express	Employment Standards	Meeting	Small Improvement
10	National Grid	Climate Change	AGM	Substantial Improvement
11	Rentokil	M&A/ Governance	Meeting	Satisfactory Outcome
12	Rolls-Royce	Governance/Environment	Sent Letter	Meeting Set
13	Sainsbury	Tax/ Governance	Meeting	Small Improvement
14	Sports Direct	Employment Standards	Alert Issued/ AGM	Moderate Improvement
15	SSE	Climate Change/Employment	AGM	Dialogue
16	Telecom Plus	Board Composition/ Climate Change	Meeting	Small Improvement
17	The Weir Group	Board Composition/ Remuneration	Meeting	Satisfactory Outcome
18	Tullow Oil	Board Composition	Sent Letter	Engagement Completed
19	Unilever	Human Rights/Tax	Meetings	Small Improvement/ Dialogue
20	Vedanta	Human Rights	AGM	Dialogue
21	Vodafone	Governance (General)	AGM	Dialogue

COMPANY ENGAGEMENT ACTIVITIES



COMPANY DOMICILES

POSITION ENGAGED



OUTCOMES

LOCAL AUTHORITY PENSION FUND FORUM MEMBERS

- Avon Pension Fund
- Barking and Dagenham (London Borough of)
- Bedfordshire Pension Fund
- Cambridgeshire Pension Fund
- Camden (London Borough of)
- Cardiff and Vale of Glamorgan Pension Fund
- Cheshire Pension Fund
- City and County of Swansea Pension Fund
- City of London Corporation
- Clwyd Pension Fund
- Croydon (London Borough of)
- Cumbria Pension Scheme
- Derbyshire County Council
- Devon County Council
- Dorset County Pension Fund
- Dyfed Pension Fund
- Ealing (London Borough of)
- East Riding of Yorkshire Council
- East Sussex Pension Fund
- Enfield (London Borough of)
- Falkirk Council
- Gloucestershire Pension Fund
- Greater Gwent Fund
- Greater Manchester Pension Fund
- Greenwich Pension Fund
- Gwynedd Pension Fund
- Hackney (London Borough of)
- Haringey (London Borough of)
- Harrow (London Borough of)
- Hertfordshire County Council Pension Fund
- Hounslow (London Borough of)
- Islington (London Borough of)
- Lambeth (London Borough of)
- Lancashire County Pension Fund
- Lewisham (London Borough of)
- Lincolnshire County Council
- London Pension Fund Authority
- Lothian Pension Fund
- Merseyside Pension Fund
- Newham (London Borough of)
- Norfolk Pension Fund
- North East Scotland Pension Fund
- North Yorkshire County Council Pension Fund
- Northamptonshire County Council
- NILGOSC
- Nottinghamshire County Council
- Powys County Council Pension Fund
- Redbridge (London Borough of)
- Rhondda Cynon Taf
- Sheffield City Region Combined Authority
- Shropshire Council
- Somerset County Council
- South Yorkshire Pensions Authority
- Southwark (London Borough of)
- Staffordshire Pension Fund
- Strathclyde Pension Fund
- Suffolk County Council Pension Fund
- Surrey County Council
- Sutton (London Borough of)
- Teesside Pension Fund
- The Environment Agency Pension Fund
- Tower Hamlets (London Borough of)
- Tyne and Wear Pension Fund
- Waltham Forest (London Borough of)
- Wandsworth (London Borough of)
- Warwickshire Pension Fund
- West Midlands ITA Pension Fund
- West Midlands Pension Fund
- West Yorkshire Pension Fund
- Wiltshire County Council
- Worcestershire County Council

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Report for: Pensions Committee 22nd November 2016

Item number: **14**

Title: Risk Register - Review/Update

Report authorised by: Tracie Evans, Chief Operating Officer (COO)

Lead Officer: Oladapo Shonola, Head of Finance - Treasury & Pensions
oladapo.shonola@haringey.gov.uk 02084893726

Ward(s) affected: N/A

Report for Key/ Non Key Decision: Non Key decision

1. Describe the issue under consideration

1.1. This paper provides an update on the Fund's risk register and an opportunity for the Committee to further review the risk score allocation.

2. Cabinet Member Introduction

2.1. Not applicable.

3. Recommendations

3.1. That the Committee note the risk register and the newly identified risk that has been added to the register.

3.2. That the Committee note the area of focus for this review at the meeting is 'governance' and 'legislation' risks.

4. Reason for Decision

4.1. None

5. Other options considered

5.1. None

6. Background information

6.1. The Pensions Regulator requires that the Committee establish and operate internal controls. These must be adequate for the purpose of securing that the scheme is administered and managed in accordance with the scheme rules and in accordance with the requirements of the law.

6.2. The Committee approved the latest version of the risk register on 20 September 2016 and agreed that an area of the register will be reviewed in subsequent meetings.

6.3. An abridged version of the full register is attached. This highlights the areas to be considered for this Committee meeting in line with the Committee's agreed work plan for regular review of the risk register. Red rated risks are highlighted separately along with one new risk that has been identified since the last iteration of the risk register that was presented to Committee.

7. Contribution to Strategic Outcomes

7.1. None.

8. Statutory Officers comments (Chief Finance Officer (including procurement), Assistant Director of Corporate Governance, Equalities)

Finance and Procurement

8.1. The Chief Finance Officer confirms that there are no financial implications directly arising from this report.

Legal

8.2. 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 administer and manage the Scheme and is in line with the Pension Regulator's Code of Practice.

Equalities

8.3. There are no equalities issues arising from this report.

9. Use of Appendices

9.1. Appendix 1 – Haringey Pension Fund Risk Register (Abridged Version)

10. Local Government (Access to Information) Act 1985

10.1. Not applicable.

Risk Register - Haringey Pension Fund

Risk No	Cat Ref	Risk	Risk Ranking
GOVERNANCE			
1	GOV1	Pension Fund Objectives are not defined and agreed leading to lack of focus of strategy to facilitate the aims of the LGPS.	3
2	GOV2	Frequent and/or extensive turnover of committee members causing a loss of technical and operational knowledge about the Fund and an inexperienced Committee/Board.	16
3	GOV3	Members have insufficient knowledge of regulations, guidance and best practice to make good decisions.	12
4	GOV4	Member non-attendance at training events.	8
5	GOV5	Officers lack the knowledge and skills required to effectively advise elected members and/or carry out administrative duties.	4
6	GOV6	Committee members have undisclosed conflicts of interest.	3
7	GOV7	The Committee's decision making process is too rigid to allow for the making of expedient decisions leading to an inability to respond to problems and/or to exploit opportunities.	4
8	GOV8	Known risks not monitored leading to adverse financial, reputational or resource impact.	4
9	GOV9	Failure to recognise new Risks and/or opportunities.	4
10	GOV10	Weak procurement process leads to legal challenge or failure to secure the best value for the value when procuring new services.	5
11	GOV11	Failure to review existing contracts means that opportunities are not exploited.	8

Risk No	Cat Ref	Risk	Risk Ranking
INVESTMENTS			
39	INV1	That the assumptions underlying the Investment and Funding Strategies are inconsistent.	10
40	INV2	That Fund liabilities are not correctly understood and as a consequence assets are not allocated appropriately.	5
41	INV3	Incorrect understanding of employer characteristics e.g. strength of covenant.	10
42	INV4	The Fund doesn't take expert advice when determining Investment Strategy.	5
43	INV5	Strategic investment advice received from Investment Consultants is either incorrect or inappropriate for Fund.	10
44	INV6	Investment Manager Risk - this includes both the risk that the wrong manager is appointed and /or that the manager doesn't follow the investment approach set out in the Investment Management agreement.	10
45	INV7	Relevant information relating to investments is not communicated to the Committee in accordance with the Fund's Governance arrangements.	4
46	INV8	The risks associated with the Fund’s assets are not understood resulting in the Fund taking either too much or too little risk to achieve its funding objective.	10
47	INV9	Actual asset allocations move away from strategic benchmark.	12
48	INV10	No modelling of liabilities and cash flow is undertaken.	5
49	INV11	The risk that the investment strategy adopted by London CIV through fund manager appointments does not fully meet the needs of the Fund.	25

Risk Register - Haringey Pension Fund

Risk No	Cat Ref	Risk	Risk Ranking
		GOVERNANCE	
12	GOV12	Weak process and policies around communicating with a scheme members and employers means that decisions are not available for scrutiny.	3
13	GOV13	Lack of engagement from employers/members means that communicating decisions becomes a "tick box" exercise and accountability is not real.	6
14	GOV14	Failure to comply with legislation and regulations leads to illegal actions/decisions resulting in financial loss and / or reputational damage	5
15	GOV15	Failure to comply with guidance issued by The Pensions Regulator (TPR) and Scheme Advisory Board (SAB) resulting in reputational damage.	10
16	GOV16	Pension fund asset pooling restricts Haringey Pension Fund's ability to fully implement a desired mandate	10
17	GOV17	The Fund adopts and follows ill-suited investment strategy.	15
		LEGISLATION	
18	LEG1	Failure to adhere to LGPS legislation (including regulations, order from the Secretary of State and any updates from The Pension Regulator) leading to financial or reputational damage	10
19	LEG2	Lack of access to appropriate legislation, best practice or guidance could lead to the Fund acting illegally.	5
20	LEG3	Lack of skills or resource to understand complex regulatory changes or understand their impact.	8

Risk No	Cat Ref	Risk	Risk Ranking
		COMMUNICATION	
50	COM1	Members don't make an informed decision when exercising their pension options whilst employers cannot make informed decisions when exercising their discretions leading to possible complaints and appeals against the Fund	8
51	COM2	Communication is overcomplicated and technical leading to a lack of engagement and understanding by the user (including members and employers).	6
52	COM3	Employer doesn't understand or carry out their legal responsibilities under relevant legislation.	8
53	COM4	Apathy from members and employers if communication is irrelevant or lacks impact leading to uninformed users.	9
54	COM5	Employers don't meet their statutory requirements leading to possible reporting of breaches to the Pension Regulator.	8
55	COM6	Lack of information from Employers impacts on the administration of the Fund, places strain on the partnership between Fund and Employer.	4

Risk Register - Haringey Pension Fund

Risk No	Cat Ref	Risk	Risk Ranking
ACCOUNTING			
21	ACC1	The Pension Fund Statement of Accounts does not represent a true and fair view of the Fund's financing and assets.	10
22	ACC2	Internal controls are not in place to protect against fruad/ mismanagement.	8
23	ACC3	The Fund does not have in place a robust internal monitoring and reconciliation process leading to incorrect figures in the accounts.	8
24	ACC4	Market value of assets recorded in the Statement of Accounts is incorrect leading to a material misstatement and potentially a qualified audit opinion.	10
25	ACC5	Inadequate monitoring of income (contributions) leading to cash flow problems.	4
26	ACC6	Rate of contributions from employers' in the Fund is not in line with what is specified in actuarial ratings and adjustment certificate potentially leading to an increased funding deficit or surplus.	5
27	ACC7	The fund fails to recover adhoc /miscellaneous income adding to the deficit.	8
28	ACC8	Transfers out increase significantly as members transfer to DC funds to access cash through new pension freedoms.	12

Risk No	Cat Ref	Risk	Risk Ranking
FUNDING/LIABILITY			
56	FLI1	Funding Strategy and Investment considered in isolation by Officers, Committee and their separate actuarial and investment advisors	10
57	FLI2	Inappropriate Funding Strategy set at Fund and employer level despite being considered in conjunction with Investment Strategy.	10
58	FLI3	Inappropriate Investment and Funding Strategy set that increases risk of future contribution rate increases.	10
59	FLI4	Processes not in place to capture or failure to correctly understand changes to risk characteristics of employers and adapting investment/funding strategies.	10
60	FLI5	Processes not in place to capture or review when an employer may be leaving the LGPS.	5
61	FLI6	Processes not in place to capture or review funding levels as employer approaches exiting the LGPS.	10
62	FLI7	Investment strategy is static, inflexible and does not meet employers and the Fund's objectives.	5
63	FLI8	Process not in place to ensure new employers admitted to the scheme have appropriate guarantor or bond in place.	4
64	FLI9	Level of bond not reviewed in light of change in employers pension liabilities.	8
65	FLI10	Processes not in place to capture or review covenant of individual employers.	8
66	FLI11	Processes not in place to capture and understand changes in key issues that drive changes to pension liabilities.	5

Risk Register - Haringey Pension Fund

Risk No	Cat Ref	Risk	Risk Ranking
ADMINISTRATION			
29	ADM1	Failure to act within the appropriate legislative and policy framework could lead to illegal actions by the Fund and also complaints against the Fund.	10
30	ADM2	Pension structure is inappropriate to deliver a first class service	15
31	ADM3	Insufficiently trained or experienced staff leading to knowledge gaps	12
32	ADM4	Failure of pension administration system resulting in loss of records and incorrect pension benefits being paid or delays to payment.	5
33	ADM5	Failure to pay pension benefits accurately leading to under or over payments.	8
34	ADM6	Failure of pension payroll system resulting in pensioners not being paid in a timely manner.	8
35	ADM7	Not dealing properly with complaints leading to escalation that ends ultimately with the ombudsman	8
36	ADM8	Data protection procedures non-existent or insufficient leading to poor security for member data	10
37	ADM9	Loss of funds through fraud or misappropriation by officers leading to negative impact on reputation of the Fund as well as financial loss.	5
38	ADM10	Officers do not have appropriate skills and knowledge to perform their roles resulting in the service not being provided in line with best practice and legal requirements. Succession planning is not in place leading to reduction of knowledge when an officer leaves.	10

Risk No	Cat Ref	Risk	Risk Ranking

Colour	Risk Level
	Low
	Moderate
	High
	Very High

Risk Register - Haringey Pension Fund

GOVERNANCE: RISK MANAGEMENT FRAMEWORK								
Risk No	**Cat Ref**	**Risk**	**Controls/Mitigations**	**Impact**	**Proba-bility**	Overall Risk Rating	**Respon-sibility**	**Timescale**
1	GOV1	Pension Fund Objectives are not defined and agreed leading to lack of focus of strategy to facilitate the aims of the LGPS.	Objectives defined in the Funding Strategy Statement and approved by the Pensions Committee. The Committee has approved a mission statement which summarises the overarching objectives of the Fund.	3	1	3	PCB	Dec-16

Risk Register - Haringey Pension Fund

GOVERNANCE: RISK MANAGEMENT FRAMEWORK								
Risk No	**Cat Ref**	**Risk**	**Controls/Mitigations**	**Impact**	**Proba-bility**	Overall Risk Rating	**Respon-sibility**	**Timescale**
2	GOV2	Frequent and/or extensive turnover of committee members causing a loss of technical and operational knowledge about the Fund and an inexperienced Committee/Board.	The nature of Council appointees to the Fund means that there is likely to be annual turnover of appointments to the Pensions Committee. However, Full Council through Democratic Services has been made aware of the consequences of constant turnover of Pensions Committee members. A comprehensive training programme that is in line with CIPFA guideine/The Pension Regulator has been developed and is continously reviewed/updated. Training needs analyses undertaken annually to identify knowledge gaps and training programme adapted accordingly New members required to complete The Pensions Regulators public service toolkit modules as a minimum requirement. All members are encouraged to attend training events (internal/external) to ensure all have adequate knowledge to perform duties as trustees of the Fund.	4	4	16	PCB; HoP	Dec-16

Risk Register - Haringey Pension Fund

Risk No	Cat Ref	Risk	Controls/Mitigations	Impact	Proba-bility	Overall Risk Rating	Respon-sibility	Timescale
GOVERNANCE: RISK MANAGEMENT FRAMEWORK								
3	GOV3	Members have insufficient knowledge of regulations, guidance and best practice to make good decisions.	Training needs analyses undertaken annually to identify knowledge gaps and training programme adapted as required. New members are required to complete The Pensions Regulators public service toolkit modules as a minimum requirement. All members are encouraged to attend training events (internal/external) to ensure all have adequate knowledge to perform duties as trustees of the Fund. Officers and advisers (statutory, independent, actuarial) are always present at meetings to provide guidance and assist Members through decision making process.	4	3	12		
4	GOV4	Member non-attendance at training events.	A record of training events attended is a standing agenda item. The importance of attending training events is highlighted to all members at the annual introductory training event. The Committee also runs a series of internal training events which preceed or are included on the Committee meeting agenda. Member training is reported as part of the Annual Fund report.	4	2	8	PCB	Quarterly

Risk Register - Haringey Pension Fund

GOVERNANCE: RISK MANAGEMENT FRAMEWORK								
Risk No	**Cat Ref**	**Risk**	**Controls/Mitigations**	**Impact**	**Proba-bility**	Overall Risk Rating	**Respon-sibility**	**Timescale**
5	GOV5	Officers lack the knowledge and skills required to effectively advise elected members and/or carry out administrative duties.	Job descriptions are used at recruitment to appoint officers with relevant skills and experience. The recruitment process would have identified key knowledge/skills that the successful applicant would need to demonstrate that they possess before being offered a role. Training and improvement plans are in place for all officers as part of the Council's performance appraisal programme.	4	1	4	HoCP	Dec-16
6	GOV6	Committee members have undisclosed conflicts of interest.	Declaration of conflict of interest is a standing item on the agenda. All members of the Committee are required to complete an annual declaration of interest form.	3	1	3	PCB	Quarterly
7	GOV7	The Committee's decision making process is too rigid to allow for the making of expedient decisions leading to an inability to respond to problems and/or to exploit opportunities.	There are five Committee/Board meetings scheduled for 2015/16 municipal year. Where urgent decisions are required this can be done either by organising an additional meeting outside the scheduled meetings or canvassing opinions and votes electronically following dissemination of relevant information to Members.	4	1	4	PCB	Annually
8	GOV8	Known risks not monitored leading to adverse financial, reputational or resource impact.	The Committee has agreed to have the risk register on the agenda for all future meetings including a review of all high risk items and a periodic review of risks by category of risk.	4	1	4	PCB	Quarterly

Risk Register - Haringey Pension Fund

GOVERNANCE: RISK MANAGEMENT FRAMEWORK								
Risk No	**Cat Ref**	**Risk**	**Controls/Mitigations**	**Impact**	**Proba-bility**	Overall Risk Rating	**Respon-sibility**	**Timescale**
9	GOV9	Failure to recognise new Risks and/or opportunities.	Quarterly Committee/management meeting to identify new risks/opportunities. Attendance at regional and national forums to keep abreast of current issues and their potential impact impact on the Fund.	4	1	4	HoP; PCB	Quarterly
10	GOV10	Weak procurement process leads to legal challenge or failure to secure the best value for the value when procuring new services.	All procurement carried out in line with the Council's procurement rules and guidance. Expert legal and procurement advice sought where appropriate.	5	1	5	HoP	Periodically
11	GOV11	Failure to review existing contracts means that opportunities are not exploited.	The Pension Fund reviews contracts annually to ensure that the Fund receive good value. This include soft market testing where applicable to access opportunities that may benefit the Fund.	4	2	8	HoP; PAM	Annually
12	GOV12	Weak process and policies around communicating with a scheme members and employers means that decisions are not available for scrutiny.	All Committee/Board minutes to be published within 10 days. Publication of an pension fund annual report on the Council's and Fund websites.	3	1	3	PAM	Quarterly
13	GOV13	Lack of engagement from employers/members means that communicating decisions becomes a "tick box" exercise and accountability is not real.	The Communications Strategy sets out how the Fund will engage with all stakeholders. Employees and employers are represented on the Fund's Committee/Board with voting rights	3	2	6	PAM	Annually

Risk Register - Haringey Pension Fund

Risk No	Cat Ref	Risk	Controls/Mitigations	Impact	Proba-bility	Overall Risk Rating	Respon-sibility	Timescale
GOVERNANCE: RISK MANAGEMENT FRAMEWORK								
14	GOV14	Failure to comply with legislation and regulations leads to illegal actions/decisions resulting in financial loss and / or reputational damage	Officers maintain knowledge of legal framework for routine decisions. The Council's legal team is involved in reviewing Committee papers and other legal documents. The Fund has engaged a team of experts (Independent Advisor, Actuary, Investment Consultant) that are highly degree of experience and knowledge about the LGPS and pension fund investments.	5	1	5	HoP; PCB	Quarterly
15	GOV15	Failure to comply with guidance issued by The Pensions Regulator (TPR) and Scheme Advisory Board (SAB) resulting in reputational damage.	Guidance (included updates) issued by TPR and SAB is reported to the Committee with gaps identified and clear timetables to address weaknesses agreed.	5	2	10	HoP	Jan-17

Risk Register - Haringey Pension Fund

GOVERNANCE: RISK MANAGEMENT FRAMEWORK								
Risk No	**Cat Ref**	**Risk**	**Controls/Mitigations**	**Impact**	**Proba-bility**	Overall Risk Rating	**Respon-sibility**	**Timescale**
16	GOV16	Pension fund asset pooling restricts Haringey Pension Fund's ability to fully implement a desired mandate	The London CIV is planning to have as wide a range of mandates as possible and also that there will be a choice of manager for each mandate/asset class. The London CIV is planning to appoint investment managers to all asset classes that the Fund is currently invested in. The Fund will be able to retain mandates not currently appointed to by the London CIV and may invest in other pools if they have a desired mandate. The Fund has a seat on the Investment and Advisory Committee of the London CIV. One of the functions of this body is to recommend implementation of mandates. The Secretary of State has stated that where transfer of assets result in significant loss to a Fund, then the assets should be retained under existing arrangements - this may provide an opportunity for the Fund to pursue a strategy that is dissimilar to the London CIV.	5	2	10	HoP	Mar-17

Risk Register - Haringey Pension Fund

GOVERNANCE: RISK MANAGEMENT FRAMEWORK								
Risk No	**Cat Ref**	**Risk**	**Controls/Mitigations**	**Impact**	**Proba-bility**	Overall Risk Rating	**Respon-sibility**	**Timescale**
17	GOV17	The Fund adopts and follows ill-suited investment strategy.	The Investment Strategy is in accordance with LGPS investment regulations and it takes into consideration the Funds liabilities and funding levels among other things. The Investment Strategy is documented, reviewed and approved by the Pensions Committee/Board.	5	3	15	HoP	Mar-17

Risk Register - Haringey Pension Fund

LEGISLATION: RISK MANAGEMENT FRAMEWORK								
Risk No	**Cat Ref**	**Risk**	**Current Controls**	**Impact**	**Proba-bility**	**Overall Risk Rating**	**Respon-sibility**	**Timescale**
18	LEG1	Failure to adhere to LGPS legislation (including regulations, order from the Secretary of State and any updates from The Pension Regulator) leading to financial or reputational damage	Officers maintain knowledge of the LGPS legal framework for routine decisions. Use of tools available on the TPR website including the Public Service Toolkit and Scheme Advisory Board Model. The Council's legal team is involved in reviewing Committee papers and other legal documents. The Fund has engaged a team of experts (Independent Advisor, Actuary, Investment Consultant) that are highly degree of experience and knowledge about the LGPS and pension fund investments.	5	2	10	HoP: PAM; PCB	Quarterly
19	LEG2	Lack of access to appropriate legislation, best practice or guidance could lead to the Fund acting illegally.	Access to LGA material, use of specialist advisors, membership on national and regional forums and attending training presentation on impact and implementation of new legislation. Collaborative working with other Funds to assess requirement and impact of new legislation.	5	1	5	HoP; PAM	Quarterly

Risk Register - Haringey Pension Fund

LEGISLATION: RISK MANAGEMENT FRAMEWORK								
Risk No	**Cat Ref**	**Risk**	**Current Controls**	**Impact**	**Proba-bility**	**Overall Risk Rating**	**Respon-sibility**	**Timescale**
20	LEG3	Lack of skills or resource to understand complex regulatory changes or understand their impact.	The Pension Team is being restructured to ensure appropriately skilled staff are recruited and to ensure that there is a concentration of knowledge between the pensions administration and investment teams.	4	2	8	HoCP; HoP; PAM	Dec-16

RED RATED RISKS								
Risk No	**Cat Ref**	**Risk**	**Controls/Mitigations**	**Impact**	**Proba-bility**	Overall Risk Rating	**Respon-sibility**	**Timescale**
2	GOV2	Frequent and/or extensive turnover of committee members causing a loss of technical and operational knowledge about the Fund and an inexperienced Committee/Board.	The nature of Council appointees to the Fund means that there is likely to be annual turnover of appointments to the Pensions Committee. However, Full Council through Democratic Services has been made aware of the consequences of constant turnover of Pensions Committee members. A comprehensive training programme that is in line with CIPFA guideine/The Pension Regulator has been developed and is continously reviewed/updated. Training needs analyses undertaken annually to identify knowledge gaps and training programme adapted accordingly New members required to complete The Pensions Regulators public service toolkit modules as a minimum requirement. All members are encouraged to attend training events (internal/external) to ensure all have adequate knowledge to perform duties as trustees of the Fund.	4	4	16	PCB; HoP	Ongoing

17	GOV17	The Fund adopts and follows ill-suited investment strategy.	The Investment Strategy is in accordance with LGPS investment regulations and it takes into consideration the Funds liabilities and funding levels among other things. The Investment Strategy is documented, reviewed and approved by the Pensions Committee/Board.	5	3	15	HoP	Mar-17
30	ADM2	Pension structure is inappropriate to deliver a first class service	New structure implemented from October 2016. Impact to be monitored by Head of Pensions. This risk will be reassessed once the restructuring of the pensions team has been completed and some time has passed for the structure to be embedded.	5	3	15	HoCF	Apr-17

ADDITIONS: RISK MANAGEMENT FRAMEWORK								
Risk No	**Cat Ref**	**Risk**	**Controls/Mitigations**	**Impact**	**Proba-bility**	Overall Risk Rating	**Respon-sibility**	**Timescale**
49	INV11	The risk that the investment strategy adopted by London CIV through fund manager appointments does not fully meet the needs of the Fund.	The Fund is a founding member of London CIV and is an active participant at all levels (Executive and Officer) of London CIV. Specifically, the Fund has representation at the Investment Advisory Committee and Officer's business meetings where strategies and fund manager appointments that align with the Fund's investment strategy are promoted. However, because the CIV has to reach consensus among its 33 members, there is a risk that the full complement of mandates in the Fund may not be replicated by London CIV.	5	5	25	HoP	Apr-17

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Agenda Item 15

Report for: Pensions Committee 22nd November 2016

Item number: **15**

Title: Forward Plan

Report authorised by: Tracie Evans, Chief Operating Officer (COO)

Lead Officer: Oladapo Shonola, Head of Finance - Treasury & Pensions
oladapo.shonola@haringey.gov.uk 02084893726

Ward(s) affected: N/A

Report for Key/ Non Key Decision: 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 agendas. 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 and to note the update on member training attached at Appendix 3.

4. Reason for Decision

4.1. Not applicable.

5. Other options considered

5.1. None

Haringey LONDON

6. Background information

6.1. 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 future agenda items as set out in the work plan.

6.2. Members will recall that the governance review exercise that was undertaken by the Independent Adviser to the Fund recommended that the Committee should be provided with an update on member training. This information is provided in Appendix 3 of the report.

7. Contribution to Strategic Outcomes

7.1. Not applicable

8. Statutory Officers comments (Chief Finance Officer (including procurement), Assistant Director of Corporate Governance, Equalities)

Finance and Procurement

8.1. There are no financial implications arising from this report.

Legal Services Comments

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

Equalities

8.3. None applicable.

9. Use of Appendices

9.1. Appendix 1: Forward Plan
9.2. Appendix 2: Training Plan.
9.3. Appendix 3: Update on TPR Public Service Toolkit/Training Needs Analysis

10. Local Government (Access to Information) Act 1985

10.1. Not applicable.

Pension Committee - Forward Plan **APPENDIX 1**

Meeting Date Item No	22 Nov 2016	19 Jan 2017	16 Mar 2017	Jul 2017 (Date TBC)	Sep 2017 (Date TBC)
Standing Items					
1	Administration Report - Membership Update - Auto-enrolment - Schedule / Admitted Bodies	Administration Report - Membership Update - Auto-enrolment - Schedule / Admitted Bodies	Administration Report - Membership Update - Auto-enrolment - Schedule / Admitted Bodies	Administration Report - Membership Update - Auto-enrolment - Schedule / Admitted Bodies	Administration Report - Membership Update - Auto-enrolment - Schedule / Admitted Bodies
2	Governance Update Report - SAB Update - Governance Checklist update	Governance Update Report - SAB Update - Governance Checklist update	Governance Update Report - SAB Update - Governance Checklist update	Governance Update Report - SAB Update - Governance Checklist update	Governance Update Report - SAB Update - Governance Checklist update
3	Work/Forward Plan	Work/Forward Plan	Work/Forward Plan	Work/Forward Plan	Work/Forward Plan
4	Risk Register Review / Update **(Governance & Legal)**	Risk Register Review / Update **(Administration & Communication)**	Risk Register Review / Update **(Accounting & Investments)**	Risk Register Review / Update **(Funding/Liability)**	Risk Register Review / Update **(Governance & Legal)**
5	Quarterly Pension Fund Performance & Investment Update	Quarterly Pension Fund Performance & Investment Update	Quarterly Pension Fund Performance & Investment Update	Quarterly Pension Fund Performance & Investment Update	Quarterly Pension Fund Performance & Investment Update
6	Quarterly LAPFF Engagement Report	Quarterly LAPFF Engagement Report	Quarterly LAPFF Engagement Report	Quarterly LAPFF Engagement Report	Quarterly LAPFF Engagement Report
Fund Administration & Governance					
7	Pension Fund Annual Report (Final - For Publication)	Discretion Policy Statement	Fund Administration Benchmarking	Draft - AnnualPension Fund Accounts	Final - AnnualPension Fund Accounts
8	Review of Internal Dispute Resolution Policy	Pension Fund Administration Strategy	Conflict of Interest (Declaratoin 7 Annual Report)	Review - Training Policy Framework	Reporting Breaches (Annual Report)
9	Framework Agreeemnt for Actuarial Services	Communication Policy	Fund Business Plan & Budget	Reporting Breaches (Annual Report)	

Meeting Date Item No	22 Nov 2016	19 Jan 2017	16 Mar 2017	Jul 2017 (Date TBC)	Sep 2017 (Date TBC)
10			Review and approval of Medium Term Financial Plan		
Investments					
11	Renewable Energy Managers Selection	Review of Investment Strategy / Benchmark	Fund Managers Internal Control Report		
12	Review CQS Benchmark	Performance Review - Additional Voluntary Contribution Providers			
Funding & Valuation					
13	Triennial Valuation - Draft Results	Triennial valuation - Final Results / Contribution Rates	External Audit Plan for Statement of Accounts	External Audit Plan for Statement of Accounts	
14	Funding Strategy Statement	Draft - Investment Strategy (Regulation 7 of the LGPS (Managment of Investment Funds) 2016	Final - Investment Strategy (Regulation 7 of the LGPS (Managment of Investment Funds) 2016		
Training					
15	Training & Conferences Update	Training & Conferences Update	Training & Conferences Update	Training & Conferences Update	Training & Conferences Update
16	Member Training - Presentation by London CIV	Member Training - Knowledge & Skills Training - Hymans	Member Training - Infrastructure / Infrasture Debt (Allianz)	Introduction to LGPS and Trustee Responsibilities	Introduction to LGPS and Trustee Responsibilities

TRAINING PROGRAMME **APPENDIX 2**

Date	Conference / Event	Training/Event Organiser	Cost	Location	Delegates Allowed
22-Nov-16	Actuarial Valuation presentation – results comparator/considerations	Hymans Roberston	Free	London	N/A
28-Nov-17	LGPS Pension Board Seminar	Pension & Lifetime Savings Association (PLSA)	£450	London	N/A
05-Dec-17	Trustee Conference	Pension & Lifetime Savings Association (PLSA)	Free	London	N/A
07-Dec-17	LAPFF 21st Annual Conference **(3 Days)**	Local Authority Pension Fund Forum (LAPFF)	£500	Bournemouth	N/A
31-Jan-17	LAPFF AGM and Business meeting	Local Authority Pension Fund Forum (LAPFF)	Free	London	N/A
23-Mar-17	Introduction to Defined Benefit Scheme - Running A DB Scheme	Eversheds	£499	Leeds	N/A
01-May-17	Local Authority Conference	Pension & Lifetime Savings Association (PLSA)	TBC	Gloucestershir e	N/A
29-Jun-17	Introduction to Defined Benefit Scheme - Running A DB Scheme	Eversheds	£499	Manchester	N/A
29-Jun-17	(Two Day) LGPS Trustees' Conference	Local Government Association	£250		N/A

Other Training Opportunities					
Date	**Conference / Event**	**Training/Event Organiser**	**Cost**		**Delegates Allowed**
www.thepensionsregulator.go v.uk	The Pension Regulator's Pension Education Port	The Pension Regulator	Free - Online		N/A
http://www.lgpsregs.org/	LGPS Regulation and Guidance	LGPS Regulation and Guidance	Free - Online		N/A
http://www.lgps2014.org/	LGPS Members Website	LGPS	Free - Online		N/A
www.local.gov.uk	Local Government Association (LGA) Website	LGA	Free - Online		N/A

Please contact Oladapo Shonola, Head of Finance - Treasury & Pensions, if you wish to attend any of these courses.

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Emal: oladapo.shonola@haringey.gov.uk

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APPENDIX 3

Trustee's Name	Public Sector Toolkit	Training Needs Analysis
Cllr Clare Bull (Chair)	✓	✓
Cllr John Bevan (Vice Chair)	✓	✓
Cllr Mark Blake	×	×
Cllr Viv Ross	✓	×
Keith Brown		✓
Randy Plowright	×	×

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