

NOTICE OF MEETING

PENSIONS COMMITTEE AND BOARD

**Monday, 27th March, 2017, 7.00 pm - Civic Centre, High Road,
Wood Green, London N22 8LE**

Please note that prior to the meeting, starting at 6pm, there will be training for all Committee and Board Members on Infrastructure Debt.

Council Members: Councillors Clare Bull, Gideon Bull, John Bevan, Mark Blake, Viv Ross and Noah Tucker

Employer/Employee Members: Keith Brown and Randy Plowright

Quorum: 3 Council Members and 2 Employer/Employee Members

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 20 below, new items of exempt urgent business will be dealt with under agenda item 25 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 LBHPPF, 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 - 10)

To confirm the minutes of the meeting of the Pensions Committee and Board held on 9th February 2017 as a correct record.

7. PENSION FUND AUDIT PLAN - YEAR TO 31ST MARCH 2017 (PAGES 11 - 34)

Report of the Chief Operating Officer to present the audit plan prepared by the external auditors, BDO, for the audit of the Pension Fund accounts 2016/17 for the Committee's consideration.

8. PENSIONS ADMINISTRATION REPORT (PAGES 35 - 50)

Report of the Chief Operating Officer to present details of a new admission to the pension fund, and the results of the Pensions Regulator self assessment tool for schemes.

9. GOVERNANCE REPORT (PAGES 51 - 62)

Report of the Chief Operating Officer to 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 and to provide an update on progress toward implementing the recommendations from the Governance Review that was undertaken by the Independent Advisor to the Fund.

10. FORWARD PLAN (PAGES 63 - 70)

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.

11. RISK REGISTER - REVIEW / UPDATE (PAGES 71 - 90)

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.

12. PENSION FUND QUARTERLY UPDATE (PAGES 91 - 104)

Report of the Chief Operating Officer to report the following in respect of the three months to 31st December 2016:

- Investment asset allocation
- Investment performance
- Investment Update

13. QUARTERLY LAPFF ENGAGEMENT REPORT (PAGES 105 - 108)

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

14. CONFLICTS OF INTEREST POLICY (PAGES 109 - 124)

Report of the Chief Operating Officer to introduce the proposed Conflict of Interest Policy.

15. 2016 TRIENNIAL VALUATION - FINAL RESULTS, AND DRAFT FUNDING STRATEGY STATEMENT (FSS) (PAGES 125 - 210)

Report of the Chief Operating Officer for the Committee and Board to note the final actuarial valuation report as at 31st March 2016, including the methodology and assumption used by the actuary, and to note and agree the Funding Strategy Statement, which has been updated, in line with the 2016 triennial valuation.

16. DRAFT INVESTMENT STRATEGY STATEMENT (PAGES 211 - 238)

Report of the Chief Operating Officer to consider the draft Investment Strategy Statement prepared for the fund. The Investment Strategy Statement is a new statutory document for LGPS funds, as required by Regulation 7 of the Local Government Pension Scheme (Management and Investment of Funds) Regulations 2016.

17. FUND ADMINISTRATION SYSTEM CONTRACT (PAGES 239 - 244)

Report of the Chief Operating Officer to request approval to award a contract for the Pensions Administration System for a period of 5 years commencing 21 April 2017.

18. CURRENCY HEDGING IMPLEMENTATION PLAN (PAGES 245 - 248)

Report of the Chief Operating Officer to bring back a finalised implementation plan for the Committee's approval, further to the agreement at the February 9th Pensions Committee and Board meeting that the committee will implement currency hedging on 50% of the Fund's developed market overseas exposure.

19. REVIEW OF FUND INVESTMENT STRATEGY (PAGES 249 - 252)

Review of the Chief Operating Officer to bring back a report from Mercer highlighting possible changes to the fund's investment strategy, further to the decision at the 9th February meeting of the Pensions Committee and Board to commission a review of the pension fund's investment strategy.

20. NEW ITEMS OF URGENT BUSINESS

To consider any new items of unrestricted urgent business admitted under agenda item 2.

21. 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 it contains exempt information, as defined under Paragraph 3, Part 1, Schedule 12A of the Local Government Act 1972.

22. FUND ADMINISTRATION SYSTEM CONTRACT (PAGES 253 - 256)

To consider exempt information pertaining to agenda item 17.

23. CURRENCY HEDGING IMPLEMENTATION PLAN (PAGES 257 - 266)

To consider exempt information pertaining to agenda item 18.

24. REVIEW OF FUND INVESTMENT STRATEGY (PAGES 267 - 308)

To consider exempt information pertaining to agenda item 19.

25. NEW ITEMS OF EXEMPT URGENT BUSINESS

To consider any new items of exempt urgent business admitted under agenda item 2 above.

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Friday, 17 March 2017

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MINUTES OF THE MEETING OF THE PENSIONS COMMITTEE AND BOARD HELD ON THURSDAY, 9TH FEBRUARY, 2017

PRESENT:

Councillors: Clare Bull, John Bevan, Viv Ross, Keith Brown, Plowright and Tucker

41. 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.

42. APOLOGIES FOR ABSENCE

Apologies for absence were received from Cllr M Blake and Cllr G Bull.

43. URGENT BUSINESS

There were no items of urgent business.

44. DECLARATIONS OF INTEREST AND CONFLICTS OF INTEREST

There were no declarations of interest.

45. RECORD OF TRAINING UNDERTAKEN SINCE LAST MEETING

Cllr Bevan, Cllr Ross, Cllr Tucker, Keith Brown and Randy Plowright had attended a training session on Non-Directional Investments in advance of the meeting.

Further notification of training received prior to the meeting had been submitted as follows:

Cllr C Bull: Local Authorities Pension Fund Forum AGM 31/01/17

Cllr Bevan: BlackRock Charities Annual Conference 22/11/16
Macquarie, Infrastructure debt, a smart LDI alternative 06/12/16
Local Authorities Pension Fund Forum Annual Conference 7-9/12/16
SPS Annual Bond Investment Strategies 10/01/17
PIA "Fees and Cost Transparency in a Low Return Environment" A look at both explicit and implicit fees and charges 25/01/17
Local Authority Pension Fund Forum AGM 31/01/17
SPS Investment Strategies to Address Current and Forthcoming Challenges Conference 09/02/17

Cllr Ross: Hayfin Capital Management Ltd and Ares Management Ltd: Direct Lending training
Insurance Linked Securities

46. MINUTES

Update on actions

Minute 25: Minutes – confirmed that an email to PIRC had been drafted as agreed, for clearance by the Chair prior to issuing.

Minute 26: Pensions Administration Report – an update on the Pensions Regulator's online self-assessment exercise would be presented to the March meeting of the Committee and Board.

Minute 27: Triennial Valuation 2016 – confirmed that the amendment agreed to the wording of the report had been made.

Minute 28: Funding Strategy Statement – a report on the FSS would be presented to the March meeting of the Committee and Board.

Minute 30: Quarterly Pension Fund Performance and Investment Update – noted that the move to a third of equities in the Low Carbon Index had not yet been actioned by the Fund Manager. A report on the possible rebalancing of the Fund portfolio, in particular looking at currency hedging, was on the agenda for this meeting. The Age UK settlement was awaited – this had been expected before Christmas 2016 and was being chased.

RESOLVED

That the minutes of the meeting held on 21 November 2016 be approved as a correct record and signed by the Chair.

47. PENSIONS ADMINISTRATION REPORT

The Committee and Board considered the Pensions Administration report, presented by Janet Richards, Pensions Manager. The report asked the Committee and Board to note the update draft Pensions Administration Strategy prior to consultation with the employers, and to approve the amended Internal Disputes Resolution Procedure.

In response to a question from the Committee regarding whether the Council was complying with the summary of communication, as set out in appendix 1 to the draft Pensions Administration Strategy Statement, it was confirmed that an Employers Forum was scheduled for 28th February 2017, communication with employers was now via a newsletter as set out, scheme members were issued an annual benefit statement and pensioners also received a newsletter. It was confirmed that the annual benefits statements had been issued on deadline this year, and the Committee and Board welcomed this achievement.

The Committee asked about the difference between costs recovered in cases of ill health and in all other cases, as set out at the bottom of appendix 6 to the draft Strategy Statement on early retirement costs recharged to the scheme employer. It was confirmed that ill health was usually recovered over a period of time as an additional cost to employer contributions, whereas in all other cases costs were required to be paid to the fund by the employer immediately.

The Committee asked whether appendix 11 to the draft Strategy Statement was affected by the recent court ruling in respect of pensions rights for cohabiting partners – it was confirmed that the Council was not affected by this ruling, as the Council’s policy did not require the completion of a form in order to nominate a cohabiting partner. The Committee noted that the draft Strategy Statement as currently worded gave the implication that completion of a form was necessary, and it was suggested that the wording of the introductory paragraph to this appendix be amended to make it clear that members were encouraged to complete the nomination form, but this was not mandatory.

Action: Pensions Manager

RESOLVED

- i) That the Committee and Board note the updated draft Pensions Administration Strategy Statement to go out to consultation with stakeholders, with the amended wording relating to members being encouraged to complete a nomination form in relation to cohabiting partners but clarifying that this was not mandatory.
- ii) That the Committee and Board approve the updated Pensions Internal Disputes Resolution Procedure, which notes that the new ‘stage one’ adjudicator is the Head of Human Resources Operations.

48. GOVERNANCE UPDATE REPORT

The Committee and Board considered the Governance Update report, presented by Oladapo Shonola, Head of Finance – Treasury and Pensions. The Committee noted that the Fund’s compliance with the Scheme Advisory Board’s KPIs had increased to 40 out of 59, with the increase in funding level and timely publication of benefits statements having contributed to this increased score. It was noted that in relation to the recommendations arising from the Governance Review, number 12, the preparation and approval of the Fund’s Statement of Investment Principles, was on the agenda for this meeting and would therefore be removed as completed once approved.

In response to a question regarding achieving the full score of 59 out of 59, it was reported that it may not be possible to achieve the maximum score, due to the nature of some of the KPIs, e.g. in respect of the KPI for reducing the number of years for the repayment of the deficit, it was unlikely that this would be achievable, given the wider pressures on the General Fund. Those actions that were achievable, however, were being worked on.

The Committee and Board noted that the timely issuing of the annual benefits statements this year was a significant achievement, and that congratulations were due to Council officers and employers for delivering this; the issuing of this information in a timely manner had been a major issue for a number of Funds.

RESOLVED

That the content of the report be noted.

49. WORK/FORWARD PLAN

The Committee and Board considered the report on the Forward Plan, as introduced by Oladapo Shonola, Head of Finance – Treasury and Pensions. It was noted that there had been no changes to the Committee and Board’s forward plan since the previous report and that the dates of the meetings for the coming municipal year were still to be confirmed.

The Vice-Chair advised the Committee and Board about the LAPFF mentoring scheme for anyone involved in the governance of Pension Funds, and it was agreed that details of this would be circulated to the Committee and Board.

Action: Clerk

It was agreed that details of the Schrodgers Trustee training sessions on 21 October and 11 November 2017 would be added to the training programme, and it was suggested that these would be useful for any incoming Committee and Board Members in particular. It was also confirmed that the Council would provide in-house introductory training for any new members of the Committee and Board, as well as continuing to encourage all Committee and Board members to attend as wide a range of training as they could.

Action: Head of Finance – Treasury and Pensions / Head of Pensions

RESOLVED

That the content of the report be noted and the training programme be updated to include details of the Schrodgers Trustee training sessions.

50. RISK REGISTER REVIEW / UPDATE

The Committee and Board considered the report on the Risk Register, as introduced by Oladapo Shonola, Head of Finance – Treasury and Pensions. The areas for focus at this meeting were pensions administration and communications, and it was noted that there was only one ‘red’ risk within these categories, in relation to the structure of the pensions team. The Committee was advised that the appointment of Thomas Skeen as the new Head of Pensions would help to address this risk status, as would the transfer of the Pensions Administration team to report into the new Head of Pensions rather than the Shared Service Centre.

In relation to the overall summary, the Committee and Board asked why the London CIV failing to meet the needs of the Fund was categorised as a ‘red’ risk. It was reported that the CIV needed to meet the needs of the Fund as Haringey would be

required to use the CIV in future and it was therefore in the Fund's interests for it to be fit for purpose; currently the CIV had significant progress still to make. It was felt that it was right for this to be flagged as a 'red' risk at present.

The Committee also noted the 'red' risk around the turnover of Committee and Board membership. The Chair advised that she would be discussing this issue with the new Head of Pensions, looking at additional ways of supporting members of the Committee and Board, and at the recruitment and retention of non-Councillor Members.

In response to a question from the Committee, it was confirmed that there had been no reduction in staffing numbers as a result of the restructure of the Pensions team and that the new structure should help to support the work of the team. It was confirmed that this risk would be reviewed once the new structure was fully implemented and it was hoped that the level of the risk could be downgraded.

RESOLVED

That the content of the report be noted.

51. QUARTERLY LAPFF ENGAGEMENT REPORT

The Committee and Board considered the Quarterly LAPFF Engagement Report, as presented by Oladapo Shonola, Head of Finance – Treasury and Pensions.

In relation to the voting alert issued for the Sports Direct EGM as set out in the report, the Committee and Board noted that the Fund held shares in Sports Direct as the result of its investment in indexed funds, and that the nature of funds of this type meant that there was no way to disinvest from individual holdings which may be of concern to the Committee and Board members. Concern was expressed at the potential reputational risk to the Fund arising from certain holdings, although it was noted that there were significant financial costs associated with different models of investing that provided greater control of the individual companies invested in, and that it was a requirement for the Committee and Board to act in the financial interest of the Fund as its primary consideration. The Fund had previously experienced under-performance in relation to active fund management, prior to its decision to move to index linked, passive equity holdings. It was noted that the legislation was very clear that the primary consideration for Funds had to be financial, but that other considerations (such as social and ethical impacts) could be taken into account, subsidiary to financial consideration.

The Chair noted that these were issues that the Committee and Board were concerned with, and that the decision to move into the Low Carbon Index had been an example of a decision made in order to address wider concerns, while protecting financial return. The Committee and Board also expressed an interest in exploring investment options with a positive social impact, such as the recent Pension Fund investment in social housing projects agreed by Islington. It was suggested that there was scope for the Committee and Board to give further consideration to alternative models of investment as part of a training session, both in terms of ways of

addressing concerns about individual holdings, and potential ways of investing to deliver positive social impact.

John Raisin, independent advisor to the Fund, proposed that a report on the guidance around such issues be brought back to the next meeting for consideration.

It was noted that membership of the LAPFF was a way of mitigating against some of the reputational risks associated with certain holdings, and that engagement with companies via the LAPFF could be a more effective means of influencing behaviour than divestment. The Committee requested that voting alerts issued by the LAPFF be circulated to the Committee and Board, along with confirmation that these had been acted on, and it was agreed that this would be undertaken.

Action: Head of Finance – Treasury and Pensions / Head of Pensions

RESOLVED

That the content of the report be noted.

52. FUND INVESTMENT/ACTUARIAL SERVICES CONTRACTS CONSULTANT EXTENSION

Representatives from Mercer left the room for discussion of this item.

The Committee considered the report on the proposed Fund Investment and Actuarial Services Contract Extensions, as introduced by Oladapo Shonola, Head of Finance - Treasury and Pensions.

In response to a question from the Committee as to how the Fund evaluated the value for money provided by the Investment Consultants, officers advised that their performance was evaluated against the contract that was tendered. Officers had also reviewed the way in which the Fund's strategy had developed during the course of the contract, and the savings and returns realised on the basis of the advice provided.

It was reported that the new tender exercise would commence in August or September 2017 for the Investment Consultancy Contract – a report on the procurement process would be brought to the Committee for approval. A report would be brought to the July 2017 meeting regarding the actuarial services contract.

RESOLVED

That the Committee and Board agree that the COO, under delegated authority, authorise:

- i) The extension of the Pension Fund's Investment Consultancy contract by one year to the 21st January 2018; and
- ii) The extension of the actuarial services contract to 31st July 2017.

53. DRAFT STATEMENT OF INVESTMENT PRINCIPLES

The Committee and Board considered the report on the draft Statement of Investment Principles, introduced by Oladapo Shonola, Head of Finance – Treasury and Pensions. The document had been updated to reflect changes to the investment strategy agreed by the Committee and Board in previous meetings. It was reported that it was helpful to agree the draft SIP at this stage, as this would inform the Fund's Investment Strategy Statement, which was to be reported to the Committee and Board at its next meeting.

RESOLVED

That the Committee and Board approve the draft Statement of Investment Principles, attached at Appendix 1 to the report.

54. REVIEW CQS (MULTI-SECTOR CREDIT) BENCHMARK

The Committee and Board considered the report on the review of the CQS (Multi-Sector Credit) benchmark, introduced by Oladapo Shonola, Head of Finance – Treasury and Pensions, and Steve Turner, Mercer. Mr Turner advised that, since the report had been drafted, CQS performance for 2016 had been 7.2%, an over-performance against target. Looking at average performance since fund inception, it was confirmed that CQS had performed completely in line with a target of cash plus 5%, which was the recommended revised target.

The Committee noted that the date set out in the 'reason for decision' section of the report should be amended to read 11th July 2016, and not 2017 as currently stated.

John Raisin, independent advisor to the Fund, endorsed the recommendation of the report on the basis that CQS were a positive contributor to the Fund, and provided the Committee and Board with some further information on Multi-Sector Credit as an asset class.

RESOLVED

That the Committee note the report and approve the new target for the multi sector credit manager, CQS, as LIBOR + 5%.

55. REVIEW OF INVESTMENT STRATEGY - NON-DIRECTIONAL INVESTMENT

The Committee and Board considered the report on the review of the Investment Strategy – Non-Directional Investment, presented by Steve Turner, Mercer. The report noted the significant positive contribution recently made to the Fund by currency, and set out options for locking in some of those gains by currency hedging, as well as wider considerations around possible changes to the investment strategy as had been covered in the training session prior to the meeting. Officers endorsed the findings of the Mercer recommendation in respect of currency hedging as a means of reducing the risk to the Fund.

In response to a question from the Committee regarding the costs associated with amending the investment strategy, it was noted that some of the recommendations for currency hedging would have a slightly higher management cost, and there was also be one-off transaction costs associated with moving funds, however the overall recommendation was that these changes would be beneficial to the Fund. Further to the report having been produced, it was reported that the option of a hedged Low Carbon Index fund was now available, and this was felt to be of interest to the Committee and Board. In response to a question from the Committee, it was confirmed that it would be an easy process to introduce currency hedging, and also to withdraw from it if economic circumstances were to change – authority could be delegated by the Committee and Board to enable the COO, in consultation with the Chair, to implement changes to the strategy within certain parameters, in order to enable the Fund to respond quickly to changing circumstances if necessary.

It was agreed that a report would be brought to the next Committee setting out detailed proposals for the introduction of currency hedging and setting out the parameters within which the COO, in consultation with the Chair of the Committee and Board, could act to change the currency hedging allocation.

The Committee and Board agreed that a report on strategy review should be presented to the next meeting, with a focus on the key issues of inflation protection against liabilities, and the reduction of the direct equity allocation, with a move to multi-asset strategies. It was noted that any changes to the investment strategy would need to be made quickly so that moves could be implemented before the change in the status of the Fund as of 31 December 2017, which would prevent the Fund from taking strategic asset allocation decisions, and it was therefore important for the Committee and Board to take any such decisions at the earliest opportunity.

In response to a question from the Committee and Board regarding the investment decision made by Islington with regards to social housing, the Chief Operating Officer agreed to meet with interested Members outside the meeting to discuss this product in further detail, and would also bring an update on this matter back to the Committee and Board.

Action: Chief Operating Officer

RESOLVED

- i) That the Committee note the content of the report and attached appendices.
- ii) That a report on strategy review be brought back to the next meeting of the Committee and Board for consideration, focussing on the key areas of inflation protection against liabilities and introducing multi-asset strategies, with an associated reduction in direct equity allocation.
- iii) That the Committee agree in principle to the introduction of a 50% currency hedge ratio, with a further report to be brought back to the next meeting of the Committee and Board setting out the final recommended allocation and parameters within which the COO would be delegated to act in consultation with the Chair of the Committee and Board to change the allocation.

56. NEW ITEMS OF URGENT BUSINESS

There were no new items of urgent business.

57. DATE OF NEXT MEETING

16 March 2017, 7pm.

58. EXCLUSION OF THE PRESS AND PUBLIC

RESOLVED

That the press and public be excluded for the following items on the agenda.

59. EXEMPT MINUTES

RESOLVED

That the exempt minutes of the meeting held on 21 November 2016 be approved as a correct record and signed by the Chair.

60. RENEWABLE ENERGY MANAGER SELECTION

The Committee and Board considered the update on the progress of the appointment of the Renewable Energy Manager, introduced by Oladapo Shonola, Head of Finance – Treasury and Pensions.

The Committee noted that the commitment amount as set out on page 4 of the attached letter was inaccurate and should read £35m, on the basis of a 50/50 split between the two managers.

RESOLVED

That the Committee and Board note the content of the s36 suitability letter from bfinance dated 11 January and attached at Appendix 1 to the report.

61. NEW ITEMS OF EXEMPT URGENT BUSINESS

There were no new items of urgent business.

The Chair noted that this was the final meeting of the Committee and Board that Oladapo Shonola would be attending. The Committee and Board members expressed their thanks to Oladapo Shonola for all of his support to the work of the Fund over the past year and wished him well for the future.

The meeting closed at 8.45pm.

CHAIR:

Signed by Chair

Date

Report for: Pensions Committee 27th March 2017

Item number: 7

Title: Pension Fund Audit Plan – year to 31st March 2017

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

Lead Officer: Thomas Skeen, Head of Pensions
thomas.skeen@haringey.gov.uk 020 8489 1341

Ward(s) affected: N/A

Report for Key/
Non Key Decision: Non Key decision

1. Describe the issue under consideration

1.1 This report presents the audit plan prepared by the external auditors, BDO, for the audit of the Pension Fund accounts 2016/17 for the Committee's consideration.

2. Cabinet Member Introduction

2.1 Not applicable.

3. Recommendations

3.1 That the 2016/17 Audit Plan prepared by BDO be agreed.

4. Reason for Decision

4.1 The pension fund is required to produce annual accounts and have these audited.

5. Other options considered

5.1 None.

6. Background information

6.1 The audit plan will be presented by Kerry Barnes the Audit Manager from BDO.

- 6.2 The plan sets out the approach the auditors will take, the key issues, timescales, staffing and fee for the audit. The key pages in Appendix 1 are:

Page 2 – BDO team

Page 3 – timetable

Page 4 – audit scope and objectives

Page 5, and 16-17 – Materiality Limits

Page 6 – Audit Strategy

Pages 7 to 13 - Key audit risks

Page 15 - Fees

- 6.3 Officers will provide the auditors with all necessary information during the audit which will take place during June. BDO will then report back to the Pension Committee in September on their findings and any recommendations.

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 The BDO fee of £21,000 for the 2016/17 audit is same as the two prior years.

Legal

8.2 The Assistant Director of Corporate Governance has been consulted on the content of this report. The audit is in line with the Council's duty as administering authority for the Haringey Pension Fund.

Equalities

8.3 There are no equalities issues arising from this report.

9. Use of Appendices

9.1 Appendix 1 – BDO Audit Plan

10. Local Government (Access to Information) Act 1985

10.1 Not applicable.

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LONDON BOROUGH OF HARINGEY PENSION FUND

AUDIT PLAN TO THE PENSIONS COMMITTEE AND BOARD
Audit for the year ending 31 March 2017

13 March 2017

CONTENTS

INTRODUCTION	1
YOUR BDO TEAM	2
ENGAGEMENT TIMETABLE	3
AUDIT SCOPE AND OBJECTIVES.....	4
MATERIALITY	5
OVERALL AUDIT STRATEGY	6
KEY AUDIT RISKS AND OTHER MATTERS	7
INDEPENDENCE	14
FEES.....	15
APPENDIX I: MATERIALITY.....	16

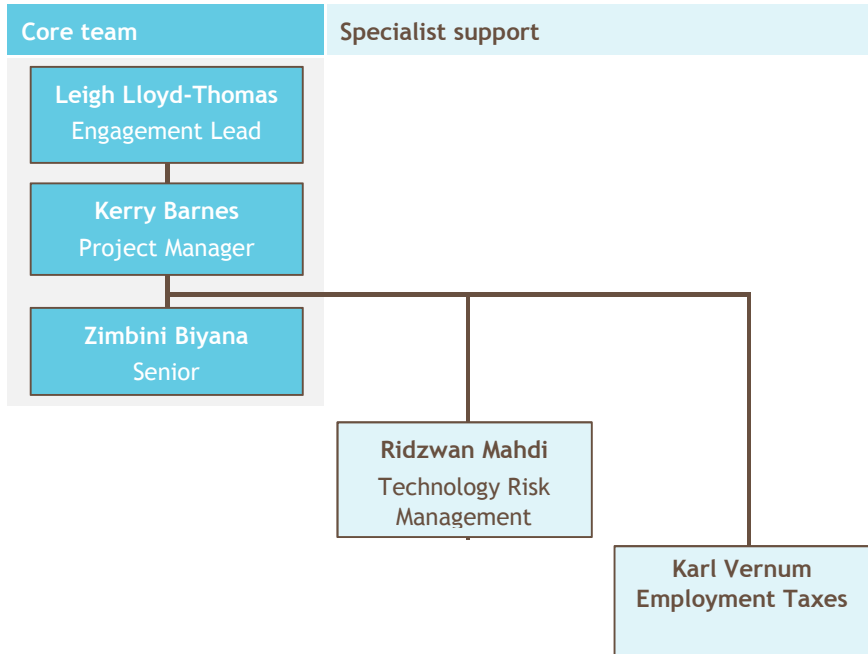
INTRODUCTION

PURPOSE AND USE OF OUR REPORT

The purpose of this report is to highlight and explain the key issues which we believe to be relevant to the audit of the financial statements of the pension fund for the year ending 31 March 2017. It forms a key part of our communication strategy with you, a strategy which is designed to promote effective two-way communication throughout the audit process. Planning is an iterative process and our plans, reflected in this report, will be reviewed and updated as our audit progresses.

This report has been prepared solely for the use of the Pensions Committee and Board. In preparing this report, we do not accept or assume responsibility for any other purpose, or to any other person, except when expressly agreed by our prior written consent. If others choose to rely on the contents of this report, they do so entirely at their own risk.

YOUR BDO TEAM



Name	Contact details	Key responsibilities
Leigh Lloyd-Thomas Engagement Lead	Tel: 020 7893 2616 leigh.lloyd-thomas@bdo.co.uk	Oversee the audit and sign the audit report
Kerry Barnes Project Manager	Tel: 020 7893 3837 kerry.l.barnes@bdo.co.uk	Management of the audit
Zimbini Biyana Senior	Tel: 01473 320 700 zimbini.biyana@bdo.co.uk	Day to day supervision of the on-site audit
Ridzwan Mahdi Technology Risk Assistant Manager	Tel: 020 7893 3126 ridzwan .x.mahdi@bdo.co.uk	Manage IT review for audit purposes
Karl Venum Employment Tax Manager	Tel: 020 7893 3549 karl.vernum@bdo.co.uk	Manage employment tax review for audit purposes

Leigh Lloyd-Thomas is the engagement lead and has the primary responsibility to ensure that the appropriate audit opinion is given on the financial statements.

In meeting this responsibility, he will ensure that the audit has resulted in obtaining sufficient and appropriate evidence to provide reasonable, but not absolute, assurance that the financial statements are free from material misstatement, whether due to fraud or error.

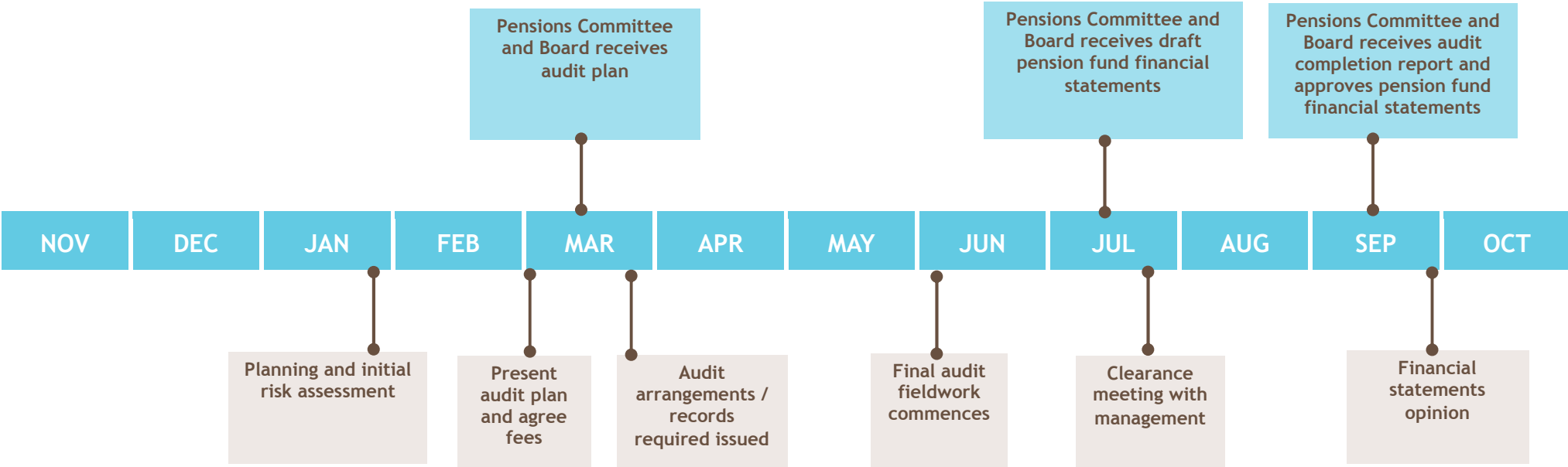
He is responsible for the overall quality of the engagement.

ENGAGEMENT TIMETABLE

TIMETABLE

The timeline below identifies the key dates and anticipated meetings for the production and approval of the audited financial statements.

← CONTINUOUS COMMUNICATIONS →



AUDIT SCOPE AND OBJECTIVES

SCOPE AND OBJECTIVES

Our audit scope covers the audit in accordance with the NAO Code of Audit Practice, International Standards on Auditing (UK and Ireland) and other guidance issued by the NAO.

To form an opinion on whether:

FINANCIAL STATEMENTS		OTHER INFORMATION	ADDITIONAL REQUIREMENTS
1 The financial statements give a true and fair view of the financial transactions of the pension fund for the period, and the amount and disposition at the period end of the assets and liabilities, other than liabilities to pay pensions and benefits after the period end.	2 The financial statements have been prepared properly in accordance with the relevant accounting and reporting framework as set out in legislation, applicable accounting standards or other direction.	3 Other information published together with the audited financial statements is consistent with the financial statements.	4 Review the pension fund annual report and report on the consistency of the pension fund financial statements within the annual report with the pension fund financial statements in the statement of accounts.

MATERIALITY

MATERIALITY

	MATERIALITY	CLEARLY TRIVIAL THRESHOLD
Pension fund overall materiality	£10,000,000	£200,000
Specific materiality for other financial statement areas:		
- Fund account	£2,100,000	£42,000

Please see Appendix I for detailed definitions of materiality and triviality.

Planning materiality for the pension fund financial statements will initially be based on 1% of net assets. Specific materiality (at a lower level) may be considered appropriate for certain financial statement areas and we set materiality for the fund account at 5% of contributions receivable.

At this stage, these figures are based on the prior year net asset amounts and contributions receivable. This will be revisited when the draft financial statements are received for audit.

The clearly trivial amount is based on 2% of the materiality level.

OVERALL AUDIT STRATEGY

We will perform a risk based audit on the pension fund financial statements

This enables us to focus our work on key audit areas.

Our starting point is to document our understanding of the pension fund and the specific risks it faces. We discussed the changes to the fund, such as scheme regulations, and management's own view of potential audit risk during our planning visit in order to gain an understanding of the activities and to determine which risks impact on our audit. We will continue to update this assessment throughout the audit.

We also confirm our understanding of the accounting systems in order to ensure their adequacy as a basis for the preparation of the financial statements and that proper accounting records have been maintained.

We then carry out our audit procedures in response to audit risks.

Risks and planned audit responses

Under International Standard on Auditing 315 "Identifying and assessing the risks of material misstatement through understanding the entity and its environment", we are required to consider significant risks that require special audit attention.

In assessing a risk as significant, we exclude the effects of identified controls related to the risk. The ISA requires us at least to consider:

- Whether the risk is a risk of fraud
- Whether the risk is related to recent significant economic, accounting or other developments and, therefore, requires specific attention
- The complexity of transactions
- Whether the risk involves significant transactions with related parties
- The degree of subjectivity in the measurement of financial information related to the risk, especially those measurements involving a wide range of measurement uncertainty
- Whether the risk involves significant transactions that are outside the normal course of business for the entity, or that otherwise appear to be unusual.

Internal audit

We will ensure that we maximise the benefit of the overall audit effort carried out by internal audit and ourselves, whilst retaining the necessary independence of view.

We understand that internal audit reviews have been undertaken across a range of accounting systems and governance subjects. We will consider these reports as part of our audit and whether to place any reliance on internal audit work as evidence of the soundness of the control environment.

Management assessment of fraud

We have discussed with management its assessment of the risk that the financial statements may be materially misstated due to fraud and the processes for identifying and responding to the risks of fraud.

Management believe that the risk of material misstatement due to fraud in the pension fund financial statements is low. Potential fraud could include failure to receive all contributions due from employers or paying for fictitious pensioners or continuing to pay pensions to deceased pensioners. Management consider that controls in operation would prevent or detect material fraud in these areas. We are informed by management that there have not been any cases of significant or material fraud to their knowledge.

The Pension Committee and Board has oversight of management's processes for identifying and responding to the risks of fraud in the entity and the internal control that management has established to mitigate these risks. This is discharged through the reviews undertaken by internal audit.

To corroborate the responses to our inquiries of management, please let us know if there are any other actual, suspected or alleged instances of fraud of which you are aware.

KEY AUDIT RISKS AND OTHER MATTERS

Key: ■ Significant risk ■ Normal risk

AUDIT RISK AREAS - FINANCIAL STATEMENTS

RISK	DESCRIPTION	PLANNED AUDIT RESPONSE	EXTERNAL DATA TO BE USED TO CORROBORATE AUDIT EVIDENCE
Management override	<p>The primary responsibility for the detection of fraud rests with management. Their role in the detection of fraud is an extension of their role in preventing fraudulent activity. They are responsible for establishing a sound system of internal control designed to support the achievement of the fund's policies, aims and objectives and to manage the risks facing the fund; this includes the risk of fraud.</p> <p>Under auditing standards, there is a presumed significant risk of management override of the system of internal controls.</p>	<p>We will:</p> <ul style="list-style-type: none"> • Test the appropriateness of journal entries recorded in the general ledger and other adjustments made in the preparation of the financial statements • Review accounting estimates for biases and evaluate whether the circumstances producing the bias, if any, represent a risk of material misstatement due to fraud • Obtain an understanding of the business rationale for significant transactions that are outside the normal course of business for the entity or that otherwise appear to be unusual. 	Not applicable.
Contributions receivable (normal and augmented)	<p>Employers are required to deducted amounts from employee pay based on tiered pay rates and to make employer contributions in accordance with rates agreed with the actuary. Augmented contributions are also required against pension strain for early retirements.</p> <p>There is a risk that employers may not be calculating contributions correctly or paying over the full amount due to the pension fund.</p>	<p>We will perform an examination, on a test basis, of evidence relevant to the amounts of normal contributions receivable to the fund including checking to employer payroll records, where relevant.</p> <p>We will review contributions receivable and ensure that income is recognised in the correct accounting period where the employer is making payments in the following month.</p> <p>We will perform tests over augmented contributions due from employers for pension strain costs.</p> <p>We will carry out audit procedures to review contributions income in accordance with the Actuary's Rates and Adjustments Certificate, including specified increased rates to cover the minimum contributions to be paid as set out in the Certificate.</p>	<p>We will check a sample of contributions receivable from the Council to the Council's payroll records to ensure that the correct amounts have been paid by the employee and employer.</p> <p>For other significant admitted and scheduled bodies, we will select a sample of bodies each year and either (a) agree amounts to the employer payroll or (b) request confirmation from that organisation that the correct amounts have been paid to the pension fund for selected employees.</p>

KEY AUDIT RISKS AND OTHER MATTERS

Continued

AUDIT RISK AREAS - FINANCIAL STATEMENTS

RISK	DESCRIPTION	PLANNED AUDIT RESPONSE	EXTERNAL DATA TO BE USED TO CORROBORATE AUDIT EVIDENCE
<p>Fair value of investments (infrastructure and private equity)</p>	<p>The investment portfolio includes unquoted infrastructure and private equity holdings valued by the General Partner or fund manager using valuations obtained from the underlying partnerships.</p> <p>In some cases, the valuations may be provided at dates that are not coterminous with the pension fund's year end and need to be updated to reflect cash transactions (additional contributions or distributions received) since the latest available valuations.</p> <p>There is a risk that investments valuations may not be appropriately adjusted to include additional contributions or distributions at the year end.</p>	<p>We will obtain direct confirmation of investment valuations from the General Partner or fund manager and request copies, where applicable, of the audited financial statements of the underlying partnerships (and member allocations).</p> <p>Where the financial statement date supporting the valuation is not coterminous with the pension fund's year end, we will confirm that appropriate adjustments have been made to the valuations in respect of additional contributions and distributions with the funds.</p> <p>We will obtain independent assurance reports over the controls operated by both the fund managers and custodian for valuations and existence of underlying investments in the funds.</p>	<p>Direct confirmation of the fund valuation and audited financial statements, where applicable, for the underlying partnerships.</p> <p>Assurance report on the operating effectiveness of internal controls within each of the fund manager organisation as well as the custodian.</p>
<p>Fair value of investments (other)</p>	<p>The fair value of other funds (principally unit trusts and pooled investments held through unitised insurance policies) is provided by individual fund managers and reviewed by the Custodian (Northern Trust), and reported on a quarterly basis.</p> <p>There is a risk that investments may not be appropriately valued and correctly recorded in the financial statements.</p>	<p>We will obtain direct confirmation of investment valuations from the fund managers and agree independent valuations, where available, provided by the custodian.</p> <p>We will obtain independent assurance reports over the controls operated by both the fund managers and custodian for valuations and existence of underlying investments in the funds.</p>	<p>Direct confirmation of investment valuations from fund managers and, where appropriate, from the custodian.</p> <p>Assurance report on the operating effectiveness of internal controls within each of the fund manager and the custodian.</p>

KEY AUDIT RISKS AND OTHER MATTERS

Continued

AUDIT RISK AREAS - FINANCIAL STATEMENTS

RISK	DESCRIPTION	PLANNED AUDIT RESPONSE	EXTERNAL DATA TO BE USED TO CORROBORATE AUDIT EVIDENCE
Fair value hierarchy disclosures	<p>The IFRS 13 scope exclusion for fair value investment disclosures for IAS 26: <i>Accounting and reporting by retirement benefit plan</i> has been removed and IFRS 13 fair value measurement disclosures apply to in scope investments in 2016/17.</p> <p>This will require enhanced disclosures around the fair value hierarchy of investments, and in particular those disclosed as a 'level 3.' These types of valuations are subject to a significant level of assumption and estimation and valuations may not be based on observable market data. Information from the custodian, fund manager and /or other parties involved in valuing the investments will need to be required in order to disclose the information needed by IFRS 13.</p> <p>There is a risk that the pension fund may not be able to obtain the information needed in order to make the required IFRS 13 fair value investment disclosures in the financial statements.</p>	<p>We will review the fair value hierarchy disclosures and ensure that investment valuations have been correctly classified as a level 1, 2 or 3 in accordance with guidance issued by PRAG/Investment Association: <i>Practical Guidance on Investment Disclosures 2016</i>.</p> <p>Where investment valuations have been classified as level 3 we will ensure that the assumptions and estimation techniques used to value the investments have been disclosed and are consistent with information provided by either the custodian, fund manager and/or other parties that are responsible for valuing the investments.</p>	Not applicable.

KEY AUDIT RISKS AND OTHER MATTERS

Continued

AUDIT RISK AREAS - FINANCIAL STATEMENTS

RISK	DESCRIPTION	PLANNED AUDIT RESPONSE	EXTERNAL DATA TO BE USED TO CORROBORATE AUDIT EVIDENCE
Investment management expenses	<p>Local Government Pension Fund Accounts are required to disclose investment management expenses.</p> <p>Management expenses included in the pension fund accounts represents the fee for the service provided by and any performance related fees in relation to the fund manager. However, fund managers do not ordinarily provide information on any 'hidden' fees included in investing contributions. These fees are deducted when the investment is made by the fund manager and hence is included in the change in market value of investments.</p> <p>The Financial Conduct Authority criticised the investment management industry for not reporting charges to investors sufficiently clearly. In particular, it criticised the annual management charge as failing 'to provide investors with a clear, combined figure for charges'.</p> <p>CIPFA has issued guidance on obtaining and separately presenting these additional charges in the fund accounts. While not mandatory to report these costs separately, there is a clear expectation that LGPS fund accounts do observe this guidance.</p> <p>CIPFA intends to make this a mandatory disclosure requirement from 2017/18.</p> <p>We consider there to be a risk in the presentation of investment management expenses in the fund accounts where these 'hidden' fees are not identified and separately reported.</p>	<p>We will review the arrangements put in place by management to identify all relevant investment management fees, and responses provided by fund managers, to ensure that the true costs are disclosed appropriately in the fund accounts.</p>	<p>Not applicable.</p>

KEY AUDIT RISKS AND OTHER MATTERS

Continued

AUDIT RISK AREAS - FINANCIAL STATEMENTS

RISK	DESCRIPTION	PLANNED AUDIT RESPONSE	EXTERNAL DATA TO BE USED TO CORROBORATE AUDIT EVIDENCE
Remuneration of key management personnel disclosure	<p>The 2016/17 CIPFA Code requires that amounts incurred by the pension fund for the provision of key management personnel services that are provided by a separate management entity shall be disclosed.</p> <p>Key management personnel include officers employed by the Council therefore a percentage of their remuneration will be required to be disclosed to reflect the cost charged to the pension fund.</p> <p>We consider there to be a risk in the presentation of key management personnel services are provided by a separate management entity (the Council).</p>	<p>We will review the service level agreement between the pension fund and Council and ensure that costs relating to the provision of key management personnel services are accurately disclosed.</p>	<p>Not applicable.</p>
Consideration of related party transactions	<p>We consider if the disclosures in the financial statements concerning related party transactions are complete, accurate and in line with the requirements of the accounting standards.</p>	<p>We will document the related party transactions identification procedures in place and review relevant information concerning any such identified transactions.</p> <p>We will discuss with management and review members' and Senior Management declarations to ensure that there are no potential related party transactions which have not been disclosed. This is something we will require you to include in your management representation letter to us.</p>	<p>Companies House searches for undisclosed interests.</p>

KEY AUDIT RISKS AND OTHER MATTERS

Continued

AUDIT RISK AREAS - FINANCIAL STATEMENTS

RISK	DESCRIPTION	PLANNED AUDIT RESPONSE	EXTERNAL DATA TO BE USED TO CORROBORATE AUDIT EVIDENCE
Benefits payable	<p>Benefits payable may not be correct based on accrued benefits of members or may not be calculated in accordance with the scheme regulations.</p> <p>Payment to wrong or non-existent members will result in loss of assets and risk of reputational damage.</p>	<p>For members leaving the scheme and deferring their pension and members becoming entitled to receive pension during the year, we will check a sample of calculations of pension entitlement. We will check the correct application of annual pension uplift for members in receipt of benefits.</p> <p>We will check a sample of pensioners in receipt of pensions to underlying records to confirm the existence of the member and also review the results of the checks undertaken by ATMOS on the existence of pensioners.</p> <p>We will review the results of the latest National Fraud Initiative data matching exercise of members in receipt of benefits with the records of deceased persons and what actions have been taken to resolve potential matches.</p> <p>Payments are cross checked to movements in the membership statistics.</p>	Not applicable.
Membership disclosure	<p>Membership information including the number of current contributors, deferred beneficiaries and pensioners by employer is required to be disclosed.</p> <p>There is a risk that the membership database may not be accurate and up to date to support this disclosure.</p>	<p>We will obtain membership records and review the controls over the maintenance of these records. We will undertake sample testing of existing and movements of members to transactions recorded in the fund account.</p>	Not applicable.

KEY AUDIT RISKS AND OTHER MATTERS

Continued

AUDIT RISK AREAS - FINANCIAL STATEMENTS

RISK	DESCRIPTION	PLANNED AUDIT RESPONSE	EXTERNAL DATA TO BE USED TO CORROBORATE AUDIT EVIDENCE
Pension liability assumptions	<p>An actuarial estimate of the pension fund liability to pay future pensions is calculated by an independent firm of actuaries with specialist knowledge and experience. The estimate is based on a roll-forward of data from the previous triennial valuation, updated where necessary, and has regard to local factors such as mortality rates and expected pay rises along with other assumptions around inflation when calculating the liability.</p> <p>There is a risk that the membership data and cash flows provided to the actuary as at 31 March may not be correct, or the valuation uses inappropriate assumptions to value the liability.</p>	<p>We will review the controls in place to ensure that the data provided from the fund to the actuary is complete and accurate.</p> <p>We will review the reasonableness of the assumptions used in the calculation against other local government pension fund actuaries and other observable data.</p> <p>We will agree the disclosure to the information provided by the actuary.</p>	<p>We will use the PwC consulting actuary report for the review of the methodology of the actuary and reasonableness of the assumptions.</p>

INDEPENDENCE

INDEPENDENCE

Under Auditing and Ethical Standards, we are required as auditors to confirm our independence to ‘those charged with governance’. In our opinion, and as confirmed by you, we consider that for these purposes it is appropriate to designate the Pensions Committee and Board as those charged with governance.

Our internal procedures are designed to ensure that all partners and professional staff are aware of relationships that may be considered to have a bearing on our objectivity and independence as auditors. The principal statements of policies are set out in our firm-wide guidance. In addition, we have embedded the requirements of the Standards in our methodologies, tools and internal training programmes. The procedures require that engagement leads are made aware of any matters which may reasonably be thought to bear on the firm’s independence and the objectivity of the engagement lead and the audit staff. This document considers such matters in the context of our audit for the period ended 31 March 2017.

Our appointment by the Audit Commission (and confirmed by Public Sector Audit Appointments Limited) covers both the Council and pension fund. We do not consider this to be a threat to our independence and objectivity.

We have not identified any potential threats to our independence as auditors. We have confirmed that we have not provided any non-audit services.

We confirm that the firm complies with the Financial Reporting Council’s Ethical Standards for Auditors and, in our professional judgement, is independent and objective within the meaning of those Standards.

In our professional judgement the policies and safeguards in place ensure that we are independent within the meaning of all regulatory and professional requirements and that the objectivity of the audit engagement partner and audit staff is not impaired. These policies include partner and manager rotation. The table below sets out the length of involvement of key members of the audit team and the planned year of rotation.

Should you have any comments or queries regarding this confirmation we would welcome their discussion in more detail.

ENGAGEMENT TEAM ROTATION

SENIOR TEAM MEMBERS	NUMBER OF YEARS INVOLVED
---------------------	--------------------------

Leigh Lloyd-Thomas - Engagement lead	2
--------------------------------------	---

Kerry Barnes - Project manager	1
--------------------------------	---

ENGAGEMENT QUALITY CONTROL REVIEWER

NUMBER OF YEARS INVOLVED

2

FEES

FEES SUMMARY

Our proposed fees, excluding VAT, for the year ending 31 March 2017 are:

	2016/17	2015/16
	£	£
Code audit fee (pension fund)	21,000	21,00
Fees for audit related services	-	-
Fees for non-audit services	-	-
TOTAL FEES	21,000	21,000

Fee invoices have been raised in two equal instalments in July 2016 and January 2017.

Our fee is based on the following assumptions

The complete draft financial statements and supporting work papers will be prepared to a standard suitable for audit. All balances will be reconciled to underlying accounting records.

Key dates will be met, including receipt of draft accounts and working papers prior to commencement of the final audit fieldwork.

We will receive only one draft of the pension fund financial statements prior to receiving the final versions for signing.

Within reason, personnel we require to hold discussions with will be available during the period of our on-site work (we will set up meetings with key staff in advance).

APPENDIX I: MATERIALITY

CONCEPT AND DEFINITION

- The concept of materiality is fundamental to the preparation of the financial statements and the audit process and applies not only to monetary misstatements but also to disclosure requirements and adherence to appropriate accounting principles and statutory requirements.
- We apply the concept of materiality both in planning and performing our audit, and in evaluating the effect of misstatements. For planning, we consider materiality to be the magnitude by which misstatements, including omissions, could influence the economic decisions of reasonable users that are taken on the basis of the financial statements. In order to reduce to an appropriately low level the probability that any misstatements exceed materiality, we use a lower materiality level, performance materiality, to determine the extent of testing needed. Importantly, misstatements below these levels will not necessarily be evaluated as immaterial as we also take account of the nature of identified misstatements, and the particular circumstances of their occurrence, when evaluating their effect on the financial statements as a whole.
- Materiality therefore has qualitative as well as quantitative aspects and an item may be considered material, irrespective of its size, if it has an impact on (for example):
 - Narrative disclosure e.g. accounting policies, going concern
 - Instances when greater precision is required (e.g. related party transactions disclosures).
- International Standards on Auditing (UK & Ireland) also allow the auditor to set a lower level of materiality for particular classes of transaction, account balances or disclosures for which misstatements of lesser amounts than materiality for the financial statements as a whole could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements.

CALCULATION AND DETERMINATION

- We have determined materiality based on professional judgement in the context of our knowledge of the pension fund, including consideration of factors such as sector developments, financial stability and reporting requirements for the financial statements.
- We determine materiality in order to:
 - Assist in establishing the scope of our audit engagement and audit tests
 - Calculate sample sizes
 - Assist in evaluating the effect of known and likely misstatements on the financial statements.

APPENDIX I: MATERIALITY


Continued

REASSESSMENT OF MATERIALITY

- We will reconsider materiality if, during the course of our audit engagement, we become aware of facts and circumstances that would have caused us to make a different determination of planning materiality if we had been aware.
- Further, when we have performed all our tests and are ready to evaluate the results of those tests (including any misstatements we detected) we will reconsider whether materiality combined with the nature, timing and extent of our auditing procedures, provided a sufficient audit scope. If we conclude that our audit scope was sufficient, we will use materiality to evaluate whether uncorrected misstatements (individually or in aggregate) are material.
- You should be aware that any misstatements that we identify during our audit, both corrected and uncorrected errors, might result in additional audit procedures being necessary.

UNADJUSTED ERRORS

- In accordance with auditing standards, we will communicate to the Pensions Committee and Board all uncorrected misstatements identified during our audit, other than those which we believe are 'clearly trivial'.
- Clearly trivial is defined as matters which will be of a wholly different (smaller) order of magnitude than the materiality thresholds used in the audit, and will be matters that are clearly inconsequential, whether taken individually or in aggregate.
- We will obtain written representations from the Pensions Committee and Board confirming that in their opinion these uncorrected misstatements are immaterial, both individually and in aggregate and that, in the context of the financial statements taken as a whole, no adjustments are required.
- There are a number of areas where we would strongly recommend/request any misstatements identified during the audit process being adjusted. These include:
 - Clear cut errors whose correction would cause non-compliance with statutory requirements, management remuneration, other contractual obligations or governmental regulations that we consider are significant.
 - Other misstatements that we believe are material or clearly wrong.



The matters raised in our report prepared in connection with the audit are those we believe should be brought to your attention. They do not purport to be a complete record of all matters arising. This report is prepared solely for the use of the organisation and should not be relied upon by any other person, except where expressly agreed by our prior written consent. No responsibility to any third party is accepted.

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Report for: Pensions Committee 27th March 2017

Item number: 8

Title: Pensions Administration Report

Report

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

Lead Officer: Janet Richards – Pensions Manager,
Thomas Skeen – Head of Pensions

☎ 020 8489 3824

✉ janet.richards@haringey.gov.uk

Ward(s) affected: Not applicable

Report for Key/

Non Key Decision: Not applicable

1. Describe the issue under consideration

1.1. This report presents details of a new admission to the pension fund, and the results of the Pensions Regulator self assessment tool for schemes.

2. Cabinet Member Introduction

2.1. Not applicable

3. Recommendations that members:

3.1. Note the results of The Pensions Regulator Self Assessment Tool for LGPS schemes attached in Appendix 1.

3.2. Approve the admission of Ategi Ltd as a new employer to the Pension Fund, subject to their securing a bond to indemnify the pension fund against any future potential liabilities that could arise.

4. Reason for decision

The Pensions Regulator Self Assessment Tool

4.1. Members of the Pensions Committee and Board requested that officers complete The Pensions Regulator self assessment tool and bring the results of this back to a future meeting.

New Admission Body to the Fund

4.2. The Council has tendered its Shared Lives service and the successful bidder was Ategi Ltd. It is proposed that Ategi Ltd be admitted to the Haringey Pension Scheme as an

Admission Body in relation to the provision of the Shared Lives service, subject to Ategi Ltd entering into an admission agreement with the Council so that those eligible employees can remain within the Haringey Pension Fund.

4.3. That an admission agreement satisfactory to the Council, be entered into - in respect of the service contract and that the agreement is a closed agreement, as such that new members can not be admitted.

4.4. Under the LGPS, if a body is an admission body as defined by the Regulations; the administering authority enter into an admission agreement with that admitted body. The admitted body's employees which have transferred over and providing the service will be eligible for membership of the Scheme if designated under the terms of the agreement. An admitted body will provide a service in connection with the exercise of a function of a Scheme employer as a result of the transfer of the service or assets by means of a contract or another arrangement.

5. Alternative options considered

Not applicable

6. Background information:

6.1. The Council has tendered its Shared Lives service, which will transfer to Ategi Ltd on 1 April 2017. Four staff will be tupe transferred; they are all members of the LGPS. The admission agreement will be closed and only the tupe transferred staff can participate in the LGPS. The contract length is 5 years. Staff are required to work no less than 50% of their time on the contract. The actuary has calculated that Ategi will pay a rate of 32.6% for employers pension contributions.

6.2. The admission to Haringey Pension Fund will be conditional upon Ategi Ltd securing a bond which will indemnify the Pension Fund should Ategi fail to pay across any amounts due to the pension fund over the course of the contract.

7. Contribution to strategic outcomes

Not applicable

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

Chief Finance Officer

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

Assistant Director of Corporate Governance

8.2. The Haringey Pension Fund is obliged to admit Ategi Limited if they meet the requirements of Schedule 2 (Part 3) of the LGPS Regulations 2013. The Admission Agreement is being finalised and is to be a closed agreement.

9. Use of Appendices

Appendix 1 - The Pensions Regulator Self Assessment Tool

10. Local Government (Access to Information) Act 1985

Not Applicable

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Results

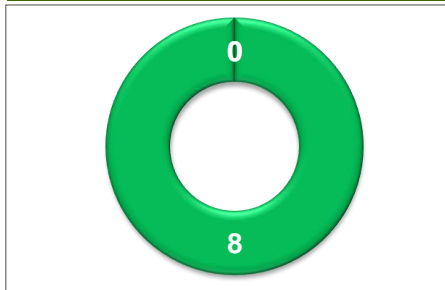
Using this report

In this report we have provided an indicative risk rating for each answer you selected, alongside some guidance and links to additional information. This report does not provide an assessment of compliance with the law – it indicates areas that might be of particular concern and where you may wish to focus. You should seek legal advice where required.

To minimise the risk of non-compliance with the law, you should conduct a comprehensive review of your scheme against the requirements set out in the legislation and the guidance provided in our code of practice. Statistics refer to findings from TPR's 2015 survey into the Governance and Administration of Public Service Schemes.

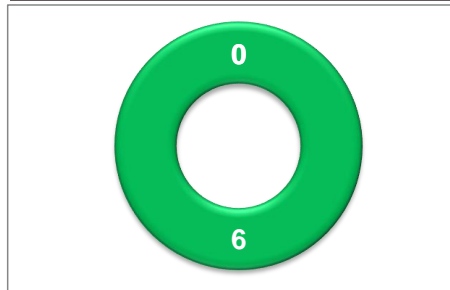
A summary of your results

Governing your scheme



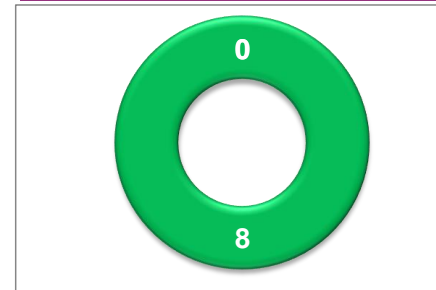
Percentage of questions answered: **100%**

Managing risks and issues



Percentage of questions answered: **100%**

Administration



Percentage of questions answered: **100%**

Results - Governing your scheme

Question 1 - Have you clearly defined and recorded the roles and responsibilities of the pension board?		
Your Answer:	Yes	Green
Feedback:	<p>You should keep roles and responsibilities under review, in particular considering any changes to scheme regulations or working arrangements (eg where certain functions are delegated by the scheme manager). Roles and responsibilities should be made clear during the board member appointment process, so they are clear about what is expected of them and what the role entails.</p> <p>You should also ensure these are communicated and understood by relevant parties such as the administrator, members or in the case of local government pension schemes, the pension committee, eg by publishing them alongside other pension board information.</p>	
Question 2 - Have you published information about the pension board and ensured it is kept up to date?		
Your Answer:	Yes – we publish information to legal requirements	Green
Feedback:	<p>Our code of practice sets out examples of information beyond the legal requirements we might expect to see published in a well-run scheme, such as the board's terms of reference. Publishing additional information provides greater transparency to members and other parties about the management of the scheme.</p> <p>You should monitor all published data on an ongoing basis to ensure it remains accurate and complete. You should also ensure that any information published is suitably accessible – it should be available to all scheme members and all staff who are eligible to be automatically enrolled into the scheme without them needing to ask for it. Further information is on our website.</p>	
Useful Links:	<p>Code of Practice 14: Publishing information about schemes</p> <p>Website: Publishing scheme information</p>	

Question 3 - Do you have policies and arrangements in place to help pension board members acquire and retain the requisite knowledge and understanding?

Your Answer:	Yes	Green
Feedback:	<p>Clearly defined policies and arrangements can help board members meet their legal obligations around knowledge and understanding. Four in five public service schemes have put such arrangements in place.</p> <p>You should keep your processes under regular review to ensure they remain effective and fit for purpose.</p>	
Useful Links:	Code of Practice 14: Knowledge and understanding required by pension board members	

Question 4 - Do you use the following for your pension board?

a) Training Plans

Your Answer:	Yes	Green
Feedback:	<p>Board members should regularly review their skills, knowledge and competencies to identify gaps and weaknesses, and should invest sufficient time in their learning and development.</p> <p>Many schemes use pension board training plans to help board members acquire and retain knowledge and understanding. If you don't already do so, you may wish to consider the use of individual training plans as the training needed may vary according to each member's role and expertise. Further information is in our code and our quick guide to personal development.</p>	

b) Individual training needs analysis		
Your Answer:	Yes	Green
Feedback:	<p>Using individual training needs analysis can help board members identify specific individual training needs.</p> <p>Training is an important part of the pension board members' role and they should invest sufficient time in their learning and development alongside their other responsibilities and duties. Board members should keep their skills, knowledge and competencies under regular review to identify gaps and weaknesses for further training.</p>	
c) Training log		
Your Answer:	Yes	Green
Feedback:	<p>Many schemes use training logs to help board members track their learning. They help you demonstrate steps you have taken to comply with legal requirements.</p> <p>You should regularly review the training log to ensure that risks associated with knowledge gaps are being mitigated. Board members should keep their skills, knowledge and competencies under regular review to identify gaps and weaknesses for further training.</p>	
Useful Links:	<p>Code of Practice 14: Knowledge and understanding required by pension board members</p> <p>Quick guide to personal development</p> <p>Template: Assessing your Learning Needs</p>	

Question 5 - Do you have a conflicts policy and procedure for pension board members?		
Your Answer:	Yes	Green
Feedback:	<p>Nine in ten public service schemes have put conflicts policies and procedures in place for board members. These help identify, monitor and manage any interests that have the potential to become conflicts.</p> <p>You should review the policy and procedures regularly to ensure they remain fit for purpose.</p>	
Useful Links:	Code of Practice 14: Conflicts of interest and representation	

Question 6 - Do you have a register of interests (or equivalent)?		
Your Answer:	Yes	Green
Feedback:	<p>A register is a simple and effective way of recording and monitoring interests.</p> <p>Conflicts should be included as an opening agenda item at pension board meetings and you should capture decisions about how to manage potential conflicts. The register of interests should be circulated to the pension board for ongoing review and published, for example on a scheme's website.</p>	
Useful Links:	Code of Practice 14: Conflicts of interest and representation	

Results - Managing risks and issues

Question 1 - Do you have procedures in place for assessing and managing risk?		
Your Answer:	Yes	Green
Feedback:	<p>You should review your processes regularly to ensure they remain effective and fit for purpose. Seven in ten public service schemes aim to review the effectiveness of their risk management and internal controls systems at least annually. Our code provides practical guidance on risk management to consider in your review.</p>	
Useful Links:	<p>Code of Practice 14: Managing risks Checklist: Internal Controls</p>	
Question 2 - Do you have a risk register?		
Your Answer:	Yes	Green
Feedback:	<p>You should review risks regularly. Three in five public service schemes assess risks at least every quarter.</p> <p>The risk register, and any other internal controls you put in place, should be kept under review to ensure that they remain effective and fit for purpose.</p>	
Useful Links:	<p>Code of Practice 14: Managing risks Example Risk Register</p>	

Question 3 - Where you have outsourced services, do you ensure that providers demonstrate that they have internal controls in place?

Your Answer:	Yes	Green
Feedback:	<p>You should review the effectiveness of your internal controls regularly, including those of your outsourced service providers.</p> <p>You should ensure that you receive sufficient assurance from providers on the services they provide – it should be sufficiently detailed and comprehensive for you to properly assess the effectiveness of their internal controls. Our code provides further guidance on internal controls.</p>	
Useful Links:	Code of Practice 14: Managing risks	

Question 4 - Do you have a service level agreement, or equivalent, in place with your scheme administrators, whether in house or outsourced?

Your Answer:	Yes	Green
Feedback:	<p>The administration of the scheme is where a larger proportion of the scheme manager's duties are carried out – it is vital that you pay attention to the way your scheme is administered.</p> <p>You should ask the administrator to attend relevant meetings, as this will help you better understand the administration function and identify improvements.</p> <p>You should regularly monitor the performance of your administrator against documented targets and take steps to address areas of poor performance.</p>	
Useful Links:	Code of Practice 14: Managing risks	

Question 5 - Are your internal dispute resolution arrangements clearly communicated to members and others?

Your Answer:	Yes	Green
Feedback:	<p>You should consider using a variety of ways to communicate your arrangements to members, for example in joining booklets, benefit letters or decision letters. Schemes should also make their arrangements accessible to potential applicants, for example by publishing them on a scheme website, as some public service schemes do.</p> <p>You should ensure that the effectiveness of the arrangements is assessed regularly. Further information on internal dispute resolution is available in our code.</p>	
Useful Links:	Code of Practice 14: Internal dispute resolution	

Question 6 - Do you have procedures in place to identify, assess and report breaches of the law?

Your Answer:	Yes	Green
Feedback:	<p>You should review your procedures regularly so they remain effective and fit for purpose. Some pension boards have made breach monitoring a standing agenda item, where they review all breaches (whether significantly material or not) to track progress and ensure issues are addressed.</p> <p>If a breach does occur and you think it is of material significance to us, you should report it to us as soon as possible. Don't wait for the issue to be resolved. Our code details information you should include in a report.</p>	
Useful Links:	Code of Practice 14: Reporting breaches of the law	

Results - Administration

Question 1 - Do you have a process in place to ensure that information is provided to TPR as required (eg through the scheme return)?		
Your Answer:	Yes	Green
Feedback:	<p>You must provide us with certain information and keep this information up to date, and complete a scheme return when asked.</p> <p>To help you meet your legal obligations, you should provide us with a 'scheme contact' via our online portal Exchange and make sure this information is kept up to date in light of role changes. Larger schemes may wish to provide several people with access to Exchange.</p>	
Useful Links:	Website: Reporting requirements Exchange	

Question 2 - Do you have processes in place to monitor scheme records for all membership types on an ongoing basis and ensure they are accurate and complete?		
Your Answer:	Yes	Green
Feedback:	<p>Processes should cover all membership types and you should review your these regularly to ensure they remain effective and fit for purpose. Guidance can be found in our code and on our website.</p>	
Useful Links:	Code of Practice 14: Scheme record-keeping Website: Types of records to keep	

Question 3 - Do you have controls in place to ensure that your employer(s) provides timely, accurate and complete data?

Your Answer:	Yes	Green
Feedback:	<p>Receiving good data from your employer(s) is key to your ability to maintain accurate scheme records. Though nine in ten public service schemes require employers to provide timely, accurate and complete data, schemes have reported that a significant proportion of employers do not provide this as a matter of course. This can create significant record-keeping issues, even in single employer schemes.</p> <p>You should work with employers to ensure that scheme and employer processes are effective and fit for purpose. Our guide to issuing annual benefit statements highlights examples of best practice for communicating and working with employers.</p>	
Useful Links:	Code of Practice 14: Scheme record-keeping Quick guide to issuing annual benefit statements	

Question 4 - When did you last carry out a data review exercise?

Your Answer:	Within the last year	Green
Feedback:	<p>You should continue to carry out a data review at least annually. Data records should be additionally reviewed and cleansed when you change administrator or administration system/platform.</p> <p>Further information on record-keeping can be found in our code and on our website.</p>	
Useful Links:	Code of Practice 14: Scheme record-keeping Website: Types of records to keep	

Question 5 - Where you have identified poor quality or missing data, do you have an improvement plan to address issues?

Your Answer:	Yes	Green
Feedback:	Your plan should have specific data improvement measures that you can monitor and an end date within a reasonable timeframe when the scheme will have complete and accurate data.	

Question 6 - Do you have processes in place for monitoring scheme contributions, resolving issues and assessing whether to report payment failures to TPR?

Your Answer:	Yes	Green
Feedback:	You should review your processes regularly to ensure they remain effective and fit for purpose. Guidance can be found in our code and our Managing contributions checklist.	
Useful Links:	Code of practice 14: Maintaining contributions Checklist: Managing contributions	

Question 7 - Have you reviewed your processes for issuing annual benefit statements to ensure they are fit for purpose?

Your Answer:	Yes	Green
Feedback:	<p>You should proactively address issues that arose in the previous year and ensure remedial work is completed before the next cycle. You should also consider reporting on the lessons learnt, for example to the pension board, employers or members.</p> <p>Some best practice examples to consider for future reviews are included in our guide to issuing annual benefit statements.</p>	
Useful Links:	Quick guide to issuing annual benefit statements	

Question 8 - Have you taken steps to ensure that member communications are clear, accurate and easily accessible?

Your Answer:	Yes	Green
Feedback:	<p>You should regularly review your member communications to ensure members are able to engage with their pension savings. You can find out about members' information needs and their views on your communications in a number of ways - by speaking to employee representatives on the pension boards, listening in on calls to the administrator, undertaking member surveys or even organising focus groups.</p>	

Report for: Pensions Committee 27th March 2017

Item number: 9

Title: Governance Report

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

Lead Officer: Thomas Skeen, Head of Pensions
thomas.skeen@haringey.gov.uk 020 8489 1341

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

- 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 continues to improve in terms of achievement of KPIs in the SAB model with a score is of 41 out of 59 – a 69% 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.

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

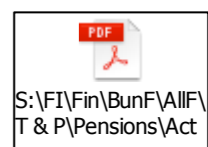
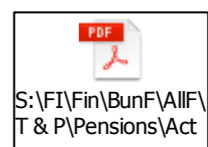
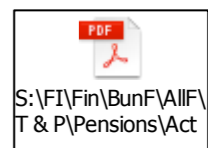
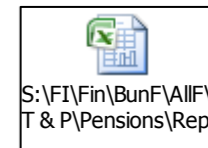
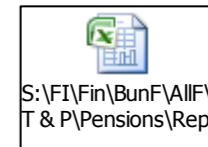
- 9.1. Appendix 1: Scheme Advisory Board Performance Indicators
- Appendix 2: Governance Review – Follow Up Action Required

10. Local Government (Access to Information) Act 1985

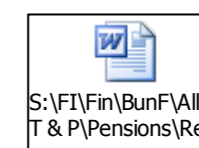
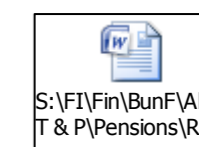
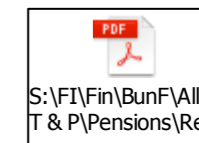
- 10.1. Not applicable.

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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, 70-79= +3, 60-69 = +2, less than 59 = +1	The 2016 Valuation has shown an improved funding level of 79%.	3	3	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 was made available to the Actuary and presented to Committee in November 2016.	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	5	8

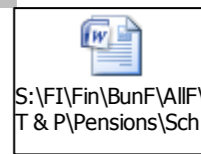


No	Key Indicator	Examples of Levels of Concern	Examples of good practice for high performing fund	Evidence and Comments	Fund Score	Previous Score	Maximum Score
3	Deficit Recovery	a) No or opaque deficit recovery plan.	a) transparent deficit recovery plans for tax raising and non-tax raising bodies	A 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.	Returns exceeded those 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 about the role of a scheme board member.	0	0	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

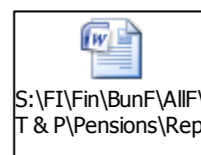


No	Key Indicator	Examples of Levels of Concern	Examples of good practice for high performing fund	Evidence and Comments	Fund Score	Previous Score	Maximum Score
		d) Self assessment	d) annual self - assessment of training undertaken and identification of future needs.	The Committee is in the process of 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.	There is a full time permanent Head of Pensions who is experienced in dealing with LGPS funds. There is a new structure in place with a dedicated Pensions Senior Accountant. The Head of Pensions is a fully qualified CIPFA accountant.	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 a variety of sources: e.g. Regular CIPFA conferences, CIV seminars, and ensuring compliance with CIPFA Continuing Professional Development requirements.	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.	0	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.	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.		0	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
		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

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) 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 is in 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 Dec 2016, 2 out of 3 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 2 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
		c) Published on SAB website after 1st November	c) Published on SAB website before 1st November	Yes	1	1	1
			Score 1 point for each		3	3	3



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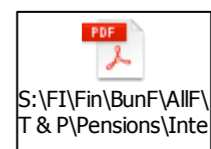


No	Key Indicator	Examples of Levels of Concern	Examples of good practice for high performing fund	Evidence and Comments	Fund Score	Previous Score	Maximum Score
12	Scheme membership data	a) Common data does not meet TPR standards.	a) Greater than 99% of common data meets TPR quality and due date standards.	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.	All Annual Benefits Statements were sent out by the 31st August statutory deadline in 2016.	1	1	1
		Score 1 point for each.			2	2	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 IDRPCs	a) Any Pensions Ombudsman determinations and any appeals or fines were against the action of the fund (not employers)	No stage 2 IDRPCs and no Pensions Ombudsman finding against the fund's actions in the last three years.	There were no IDRPCs 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 reconciliation 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
		c) detect pension overpayment due to unreported deaths.	c) Pariticipate 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		
	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

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



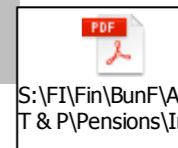
<http://londonciv.org.uk/investors>



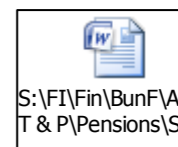
No	Key Indicator	Examples of Levels of Concern	Examples of good practice for high performing fund	Evidence and Comments	Fund Score	Previous Score	Maximum Score
17		b) Urgent management action recommended on high / serious risk.	b) Unqualified annual external audit report with no or only low priority 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.		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
					41	40	59

Level of Compliance

69%



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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. A training report will be presented at the July 2017 committee, this is an annual and ongoing process.	Head of Pensions	Jul-17	No
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

GOVERNANCE REVIEW - FOLLOW UP ACTION REQUIRED					
Ref No.	Recommendation	Action	Responsibility	Deadline	Duplicated
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	Mar-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	Jul-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	Jul-17	No

Report for: Pensions Committee 27th March 2017

Item number: 10

Title: Forward Plan

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

Lead Officer: Thomas Skeen, Head of Pensions
thomas.skeen@haringey.gov.uk 020 8489 1341

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

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 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.

Meeting Date Item No	27 Mar 2017	Jul 2017 (Date TBC)	Sep 2017 (Date TBC)	Nov 2017 (Date TBC)
Standing Items				
1	Administration Report - Membership Update - Auto-enrolment - Schedule / Admitted Bodies - TPR CoP No. 14 requirements	Administration Report - Membership Update - Auto-enrolment - Schedule / Admitted Bodies - Communications Policy Update	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
3	Work/Forward Plan	Work/Forward Plan	Work/Forward Plan	Work/Forward Plan
4	Risk Register Review / Update (Accounting & Investments)	Risk Register Review / Update (Funding/Liability)	Risk Register Review / Update (Governance & Legal)	Risk Register Review / Update (Administration & Communication)
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
6	Quarterly LAPFF Engagement Report	Quarterly LAPFF Engagement Report	Quarterly LAPFF Engagement Report	Quarterly LAPFF Engagement Report
Fund Administration & Governance				
7	Fund Administration System Contract	Draft - Annual Pension Fund Accounts and Annual Report	Final - Annual Pension Fund Accounts and Annual Report	Final - Annual Pension Fund Accounts and Annual Report (if necessary)
8	Conflict of Interest (Declaration 7 Annual Report)	Review - Training Policy Framework	Reporting Breaches (Annual Report)	Review of Internal Dispute Resolutio Policy

Meeting Date Item No	27 Mar 2017	Jul 2017 (Date TBC)	Sep 2017 (Date TBC)	Nov 2017 (Date TBC)
		Actuarial Services Contract	Investment Consultancy Services Contract	
			Annual Review of the Fund's Governance and compliance statement	
Investments				
9	Currency Hedging Implementation Plan	Fund Managers Internal Control Report		
10	Review of Fund's Investment Strategy	Performance Review - Additional Voluntary Contribution Providers		
Funding & Valuation				
11	Triennial valuation - Final Results / Contribution Rates and Funding Strategy Statement	External Audit Plan for Statement of Accounts	External Audit for Pension Fund Accounts	
12	Final - Investment Strategy Statement (Regulation 7 of the LGPS (Management of Investment Funds) 2016			
13	External Audit Plan for Statement of Accounts			
Training				
1	Training & Conferences Update	Training & Conferences Update	Training & Conferences Update	Training & Conferences Update

Meeting Date Item No	27 Mar 2017	Jul 2017 (Date TBC)	Sep 2017 (Date TBC)	Nov 2017 (Date TBC)
2	Member Training - Infrastructure / Infrastructure Debt (Allianz)	Introduction to LGPS and Trustee Responsibilities	Introduction to LGPS and Trustee Responsibilities	Tbc

TRAINING PROGRAMME

APPENDIX 2

Date	Conference / Event	Training/Event Organiser	Cost	Location	Delegates Allowed
21-Apr-17	Pension Trustee Training	Schroders	Free	London	N/A
01-May-17	Local Authority Conference	Pension & Lifetime Savings Association (PLSA)	TBC	Gloucestershire	N/A
07-Jun-17	UK Institutional Investor Forum	Markets Group	Free	London	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	Bournemouth	N/A

Other Training Opportunities					
Date	Conference / Event	Training/Event Organiser	Cost		Delegates Allowed
	Mentoring Programme for members/officers	LAPFF	Free		N/A
www.thepensionsregulator.gov.uk	The Pension Regulator's Pension Education Portal	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 Thomas Skeen, Head of Pensions, if you wish to attend any of these courses.

Tel No: 020 8489 1341

Email: thomas.skeen@haringey.gov.uk

APPENDIX 3

Pension Committee and Board member's Name	Public Sector Toolkit (Online)	Training Needs Analysis
Cllr Clare Bull (Chair)	✓	✓
Cllr John Bevan (Vice Chair)	✓	✓
Cllr Mark Blake	✗	✗
Cllr Viv Ross	✓	✗
Cllr Gideon Bull		
Cllr Noah Tucker		
Keith Brown		✓
Randy Plowright	✗	✗

Link to the public sector toolkit:

<http://www.thepensionsregulator.gov.uk/public-service-schemes/learn-about-managing-public-ser>

[vice-schemes.aspx#s16691](#)

Report for: Pensions Committee 27th March 2017

Item number: 11

Title: Risk Register - Review/Update
Report
authorised by: Tracie Evans, Chief Operating Officer (COO)

Lead Officer: Thomas Skeen, Head of Pensions
thomas.skeen@haringey.gov.uk 020 8489 1341

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.
- 3.2. That the Committee note the area of focus for this review at the meeting is 'Accounting' and 'Investments' 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.

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
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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

Risk No	Cat Ref	Risk	Risk Ranking
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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

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 Register - Haringey Pension Fund

Risk No	Cat Ref	Risk	Risk Ranking
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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 fraud/ 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
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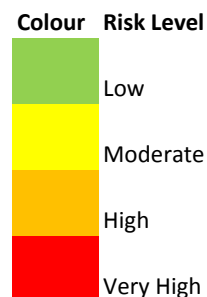
FUNDING/LIABILITY			
56	FLI1	Funding Strategy and Investment considered in isolation by Officers, Committee and their separate actuarial and investment advisors	10
57	FLI2	Inappropriate Funding Strategy set at Fund and employer level despite being considered in conjunction with Investment Strategy.	10
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
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Risk No	Cat Ref	Risk	Risk Ranking
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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 Register - Haringey Pension Fund

ACCOUNTING: RISK MANAGEMENT FRAMEWORK								
Risk No	Cat Ref	Risk	Current Controls	Impact	Probability	Overall Risk Rating	Responsibility	Timescale
21	ACC1	The Pension Fund Statement of Accounts does not represent a true and fair view of the Fund's financing and assets.	<p>Qualified Accountant to produce the accounts using the most up to date Statement of Recognised Practice, Accounting Code of Practice, Disclosure Checklist and other relevant CIPFA training materials/publications.</p> <p>Attendance at Pensions Officers Group Meetings, Based on latest Code of Practice, robust in year (quarterly) monitoring / reconciliation processes.</p> <p>Draft Statement of Accounts and working papers reviewed by the Head of Pensions and the Chief Accountant.</p>	5	2	10	HoP; HoCP	Jul-17

Risk Register - Haringey Pension Fund

ACCOUNTING: RISK MANAGEMENT FRAMEWORK								
Risk No	Cat Ref	Risk	Current Controls	Impact	Probability	Overall Risk Rating	Responsibility	Timescale
22	ACC2	Internal controls are not in place to protect against fraud/ mismanagement.	<p>The Internal Audit plan includes dedicated hours for pensions to the review of internal controls in relation to the management and accounting of the Pension Fund.</p> <p>The plan is designed on a risk basis, so that areas of high risk will be subject to more frequent internal audits.</p> <p>Pensions feed into the process by identifying areas where improvements are required.</p> <p>Recommendations from internal audits of processes and controls are implemented in a timely manner to reduce or remove identified risks.</p>	4	2	8	HoP; PAM	Mar-17
23	ACC3	The Fund does not have in place a robust internal monitoring and reconciliation process leading to incorrect figures in the accounts.	<p>A checklist of all daily, weekly, monthly and quarterly reconciliations is maintained to ensure that all tasks are completed in a timely manner.</p> <p>All reconciliations are independently reviewed and signed off by a second officer.</p> <p>Full reconciliation and interim accountants are prepared on a quarterly basis.</p>	4	2	8	HoP;	Dec-17

Risk Register - Haringey Pension Fund

ACCOUNTING: RISK MANAGEMENT FRAMEWORK								
Risk No	Cat Ref	Risk	Current Controls	Impact	Probability	Overall Risk Rating	Responsibility	Timescale
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.	<p>Reconciliation undertaken between the book cost and market values to the custodians book of records recieved quarterly, reports can be run off online portal - Passport.</p> <p>Further reconciliation undertaken between the custodian and investment managers' records.</p> <p>All adjustments (including unrealised profits) will be posted into the general ledger so that accounts can be reported created directly from SAP.</p>	5	2	10	HoP	Jun-17

Risk Register - Haringey Pension Fund

ACCOUNTING: RISK MANAGEMENT FRAMEWORK								
Risk No	Cat Ref	Risk	Current Controls	Impact	Probability	Overall Risk Rating	Responsibility	Timescale
25	ACC5	Inadequate monitoring of income (contributions) leading to cash flow problems.	<p>Approximately 70% of total income to the Fund comes from contributions by the Council.</p> <p>Payment of contributions from employers is monitored on a monthly basis; including a full reconciliation between amount expected receipt and actual receipt.</p> <p>Late payers are identified and reported to the JCB as part of quarterly pensions administration report.</p> <p>Late payers tend to be small employers in the scheme and such amounts will not have a significant impact on Fund's cashflow.</p> <p>Where non-payment relates to a large employer swift action is taken to chase payment.</p>	4	1	4	PAM; HoP	Dec-17

Risk Register - Haringey Pension Fund

ACCOUNTING: RISK MANAGEMENT FRAMEWORK								
Risk No	Cat Ref	Risk	Current Controls	Impact	Probability	Overall Risk Rating	Responsibility	Timescale
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.	<p>Employers are sent all employers a contribution form at the start of each year and confirm the correct rates to be paid.</p> <p>Payment is monitored against expected payment quarterly. Where there are discrepancies, the employer is expected to make immediate payment to make up the shortfall - overpayments cannot be refunded.</p> <p>Employers making late payment are reported to the JCB on a quarterly basis.</p>	5	1	5	PAM; HoP	Dec-17
27	ACC7	The fund fails to recover adhoc /miscellaneous income adding to the deficit.	<p>All expenditure incurred by the fund on behalf of employers is recharged. Invoices are itemised and all recoverable items are identified and charged back to the relevant employer.</p> <p>All income recoverable, including withholding taxes on investments are itemised in the custodian reports.</p> <p>We will monitor the recovery and timing of this to ensure the maximum amount is recovered in a timely manner.</p>	4	2	8	HoP;	Dec-17

Risk Register - Haringey Pension Fund

ACCOUNTING: RISK MANAGEMENT FRAMEWORK								
Risk No	Cat Ref	Risk	Current Controls	Impact	Probability	Overall Risk Rating	Responsibility	Timescale
28	ACC8	Transfers out increase significantly as members transfer to DC funds to access cash through new pension freedoms.	<p>Monitor numbers and values of transfers out being processed and report to JCB on annual basis.</p> <p>Periodically promote the benefits of the LGPS and the flexibility now offered following the revisions to the LGPS in 2014.</p>	4	3	12	PAM; HoP	Mar-17

INVESTMENTS: RISK MANAGEMENT FRAMEWORK

Risk No	Cat Ref	Risk	Current Controls	Impact	Probability	Overall Risk Rating	Responsibility	Timescale
39	INV1	That the assumptions underlying the Investment and Funding Strategies are inconsistent.	<p>The Investment and Fund Strategies are reviewed and discussed at Pensions Committee.</p> <p>These Strategies are presented to Pensions Committee annually as part of the process of approving the Fund Annual Report.</p> <p>Close liaison between the Fund's actuary and strategic investment adviser.</p>	5	2	10	HoP	Mar-17
40	INV2	That Fund liabilities are not correctly understood and as a consequence assets are not allocated appropriately.	Actuarial and Investment advice provided by qualified professionals and subject to peer review to ensure that it is fit for purpose.	5	1	5	HoP	Mar-17
41	INV3	Incorrect understanding of employer characteristics e.g. strength of covenant.	<p>Actuarial and Investment advice provided by qualified professionals and subject to peer review to ensure that it is fit for purpose.</p> <p>A strength of covenant analysis is undertaken by the Fund along with employer profiling to assist the Fund to understand all employers in the Scheme. The actuary uses this information when contribution rates are being set triennially.</p>	5	2	10	HoP	Mar-17

INVESTMENTS: RISK MANAGEMENT FRAMEWORK								
Risk No	Cat Ref	Risk	Current Controls	Impact	Proba- bility	Overall Risk Rating	Respon- sibility	Timescale
42	INV4	The Fund doesn't take expert advice when determining Investment Strategy.	The Fund currently utilises the services of Mercer as Strategic Investment adviser to the Fund. Furthermore, the Fund employs the services of an independent consultant to assist with decisions around investments and investment strategy.	5	1	5	HoP; PCB	Mar-17
43	INV5	Strategic investment advice received from Investment Consultants is either incorrect or inappropriate for Fund.	The Fund employs the services of an statutory investment adviser, Mercers, but has also engaged an independent consultant to challenge/confirm investment/investment strategy decisions. This model ensures that Investment advice is subject to peer review to ensure that it is fit for purpose.	5	2	10	PCB; PCB	Mar-17

INVESTMENTS: RISK MANAGEMENT FRAMEWORK

Risk No	Cat Ref	Risk	Current Controls	Impact	Probability	Overall Risk Rating	Responsibility	Timescale
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.	<p>Rigorous selection process in place to ensure that Fund appoints only the best investment managers based on available information during tendering of a new mandate.</p> <p>Expert professional advice provided by Investment/Independent Consultant supporting manager selection exercise. It is a requirement of the Fund that all Investment Managers are FSA registered.</p> <p>Where necessary specialist search managers will be engaged to assist investment manager selection.</p> <p>The Funds Custodian provides a manager performance monitoring service. The performance of all investment managers is also formally monitored and reported on a quarterly basis to Investment Sub-Committee.</p>	5	2	10	PCB;	Dec-17

INVESTMENTS: RISK MANAGEMENT FRAMEWORK

Risk No	Cat Ref	Risk	Current Controls	Impact	Probability	Overall Risk Rating	Responsibility	Timescale
45	INV7	Relevant information relating to investments is not communicated to the Committee in accordance with the Fund's Governance arrangements.	<p>The Pensions Committee receives formal quarterly reports on both the overall performance of the Fund and individual investment managers. Included within this report is a manager monitoring section prepared by the Head of Pensions</p> <p>Where appropriate members may be asked to utilise electronic decision making, such as, email to allow the Committee to make timely/urgent decisions relating to investment of fund assets.</p>	4	1	4	HoP; CC	Mar-17
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.	<p>Full Investment Strategy review undertaken by Investment Consultant on triennial basis after triennial valuation with Annual/Ad-hoc Strategy reviews undertaken in intervening years to ensure the Strategy is still appropriate to achieve long term funding objectives.</p>	5	2	10	HoP; PCB	Mar-17

INVESTMENTS: RISK MANAGEMENT FRAMEWORK								
Risk No	Cat Ref	Risk	Current Controls	Impact	Probability	Overall Risk Rating	Responsibility	Timescale
47	INV9	Actual asset allocations move away from strategic benchmark.	Asset Allocations formally reviewed as part of quarterly report to Pensions Committee and necessary action will be taken to correct imbalance that is over and above the tolerance threshold . LGIM, the equity investor is able to affect a rebalancing of the Fund's assets to benchmark and has been tasked to do so on an ongoing basis.	4	3	12	HoP	Mar-17
48	INV10	No modelling of liabilities and cash flow is undertaken.	Annual cash flow monitoring at Fund level undertaken by Head of Finance - Treasury & Pensions and utilised to inform Investment Strategy to ensure that the Fund is always able to meet its liabilities as they fall due.	5	1	5	HoP	Mar-17

INVESTMENTS: RISK MANAGEMENT FRAMEWORK

Risk No	Cat Ref	Risk	Current Controls	Impact	Probability	Overall Risk Rating	Responsibility	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.	<p>The Fund is a founding member of London CIV and is an active participant at all levels (Executive and Officer) of London CIV.</p> <p>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.</p> <p>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.</p>	5	5	25	HoP	Apr-17

RED RATED RISKS

Risk No	Cat Ref	Risk	Controls/Mitigations	Impact	Probability	Overall Risk Rating	Responsibility	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.	<p>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.</p> <p>A comprehensive training programme that is in line with CIPFA guideline/The Pension Regulator has been developed and is continuously reviewed/updated.</p> <p>Training needs analyses undertaken annually to identify knowledge gaps and training programme adapted accordingly</p> <p>New members required to complete The Pensions Regulators public service toolkit modules as a minimum requirement.</p> <p>All members are encouraged to attend training events (internal/external) to ensure all have adequate knowledge to perform duties as trustees of the Fund.</p>	4	4	16	PCB; HoP	Ongoing

17	GOV17	The Fund adopts and follows ill-suited investment strategy.	<p>The Investment Strategy is in accordance with LGPS investment regulations and it takes into consideration the Funds liabilities and funding levels among other things.</p> <p>The Investment Strategy is documented, reviewed and approved by the Pensions Committee/Board.</p>	5	3	15	HoP	Mar-17
30	ADM2	Pension structure is inappropriate to deliver a first class service	<p>New structure implemented from October 2016. Impact to be monitored by Head of Pensions.</p> <p>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.</p>	5	3	15	HoCF	Apr-17

Report for: Pensions Committee 27th March 2017

Item number: 12

Title: Pension Fund Quarterly Update

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

Lead Officer: Thomas Skeen, Head of Pensions
thomas.skeen@haringey.gov.uk 020 8489 1341

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 31st December 2016:
- Investment asset allocation
 - Investment performance
 - Investment 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 31st December 2016 is noted.

4. Reason for Decision

- 4.1. N/A

5. Other options considered

- 5.1. None

6. Background information

- 6.1. This update report is produced on a quarterly basis. The Local Government Pension Scheme Regulations require the Committee to review investment

performance and sections 11 and 12 of this report 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 direct 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 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 Statement of Investment Principles/Investment Strategy Statement 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 31 December 2016 was £1,248m. At 30 September 2016 the total value of the Fund was £1,199m compared to £1,112m at 30 June, £1,046M at 31 March 2016 and £1,022M at 31 December 2015. Therefore the value of the Fund increased by 22% during the calendar year 2016.

8.7. The final Quarter of 2016 (October to December) saw the election of Donald Trump as President of the United States on 8 November 2016. This was unexpected by most investors. Mr Trump's promises of corporate tax cuts, significant business deregulation and infrastructure spending has clearly excited markets following his election as exemplified by the approximate 10% increase in the main US Listed Equity Index (the S and P 500) between 8 November 2016 and 28 February 2017. Whether these promises can be/are delivered together with their long-term consequences and the extent to which President Trump erects "trade barriers" will doubtless be a significant factor in determining how both US and indeed world Listed Equity and credit markets perform in 2017 and going forward.

8.8. Supported by continuing improvements in core economic data including strong employment figures and inflation moving closer to the target of 2% the United States Federal Reserve (Central Bank) increased the Federal Funds Rate (the main interest rate) by 0.25% on 14 December 2016. This followed the previous 0.25% increase of 16 December 2015 but was only the second rate increase in a decade. This further rate increase together with indications, by the Chair of the Federal Reserve, of further rate rises in 2017 clearly indicates the period of "ultra loose Monetary Policy" seen since the Financial Crisis of 2008, and which has supported financial markets for almost a decade, is coming to an end. This together with the election of President Trump clearly suggests United States and beyond is entering a new financial/investment environment.

Equalities

8.9. 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 £49m million between October and December 2016. The equity, fixed income and multi asset credit portfolios performed largely in line with benchmark, whereas the infrastructure debt portfolio performed well above benchmark. The private equity and property portfolios performed below benchmark.

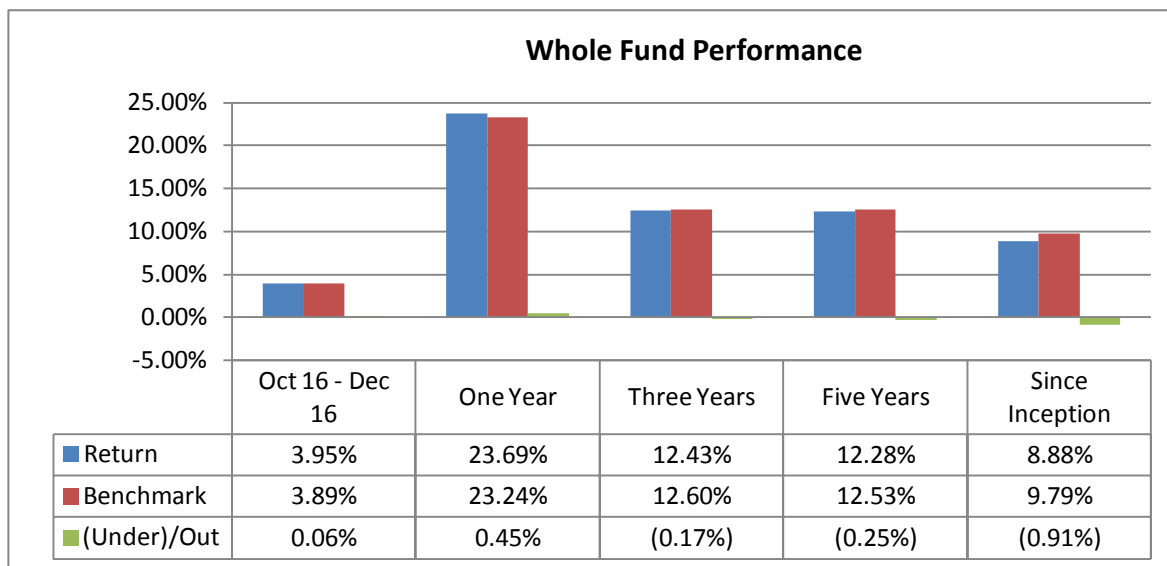
11.2. The equity allocation exceeds target by 13.19%. This is due in part to a strongly performing quarter for equities meaning that this portion of the portfolio grew disproportionately compared to other asset classes. The infrastructure debt investment manager has requested for an extension to July 2017 which the Fund has agreed to, they have also requested a further capital call for February 2017 which should increase the size of this portfolio. As the new property and renewable energy mandates are funded, the equity portfolio will fall back in line with the strategic allocation.

Total Portfolio Allocation by Manager and Asset Class

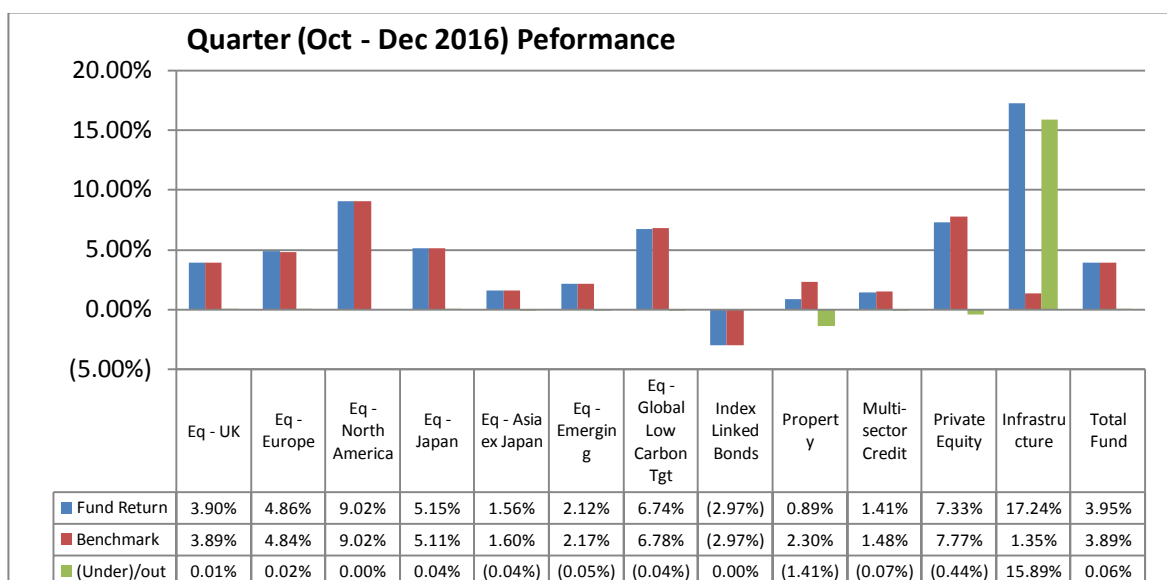
	Value	Value	Value	Value	Allocation	Strategic	Variance
	31.03.2016	30.06.2016	30.09.2016	31.12.2016	31.12.2016	Allocation	
	£'000	£'000	£'000	£'000	%	%	%
Equities							
UK	159,980	148,912	152,324	145,449	11.65%	8.80%	2.85%
North America	240,625	239,705	221,135	212,480	17.02%	12.60%	4.42%
Europe	79,122	73,496	74,110	69,369	5.56%	4.30%	1.26%
Japan	38,568	37,138	36,085	31,047	2.49%	2.00%	0.49%
Asia Pacific	39,174	36,665	34,629	30,371	2.43%	2.00%	0.43%
Emerging Markets	102,482	112,686	125,268	127,925	10.25%	7.90%	2.35%
Global Low Carbon Tgt	0	65,538	132,804	203,226	16.28%	14.90%	1.38%
Total Equities	659,951	714,140	776,355	819,867	65.69%	52.50%	13.19%
Bonds							
Index Linked	150,667	167,547	185,904	180,381	14.45%	15.00%	-0.55%
Property							
Aviva	0	0	0	0	0.00%	5.00%	-5.00%
CBRE	111,024	101,352	99,939	91,590	7.34%	7.50%	-0.16%
Private equity							
Pantheon	44,110	45,649	47,129	52,801	4.23%	5.00%	-0.77%
Multi-Sector Credit							
CQS	46,529	47,451	48,899	49,589	3.97%	5.00%	-1.03%
Infrastructure Debt							
Allianz	21,621	22,457	24,773	29,266	2.34%	5.00%	-2.66%
Renewable Energy							
CIP	0	0	0	0	0.00%	2.50%	-2.50%
Blackrock	0	0	0	0	0.00%	2.50%	-2.50%
Cash & NCA							
Cash	11,665	13,645	16,396	24,657	1.98%	0.00%	1.98%
Total Assets	1,045,567	1,112,241	1,199,395	1,248,151	100%	100%	0.00%

12. Investment Performance Update: to 31st December 2016

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 October to December 2016 and for one, three and 5 years for the whole of Fund.

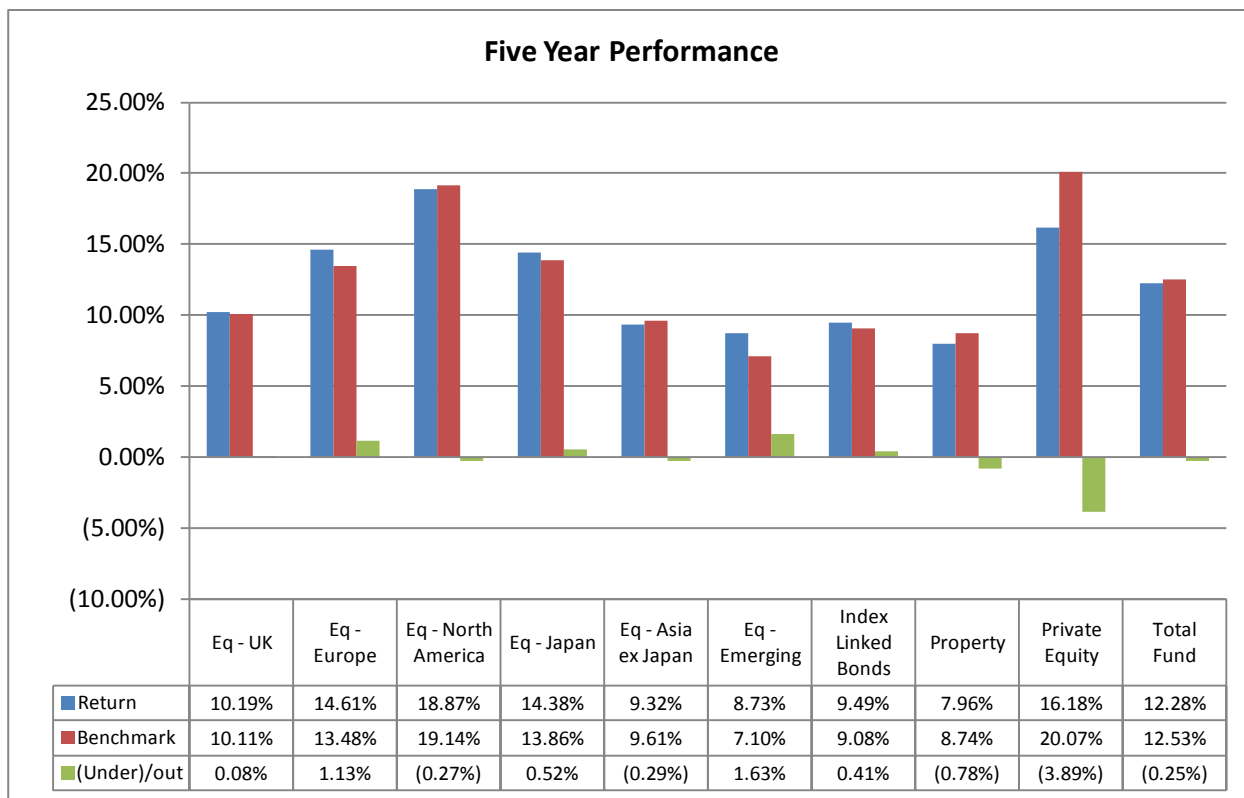


12.2. Driven by solid equity returns, the Fund returned 3.95% in the quarter and has over-performed benchmark of 3.89% by 0.06%. In terms of regional performance, North America was the strongest performer in equities achieving returns of 9.02%. Infrastructure debt and private equity also performed well, achieving returns of 17.24% and 7.33% respectively. Index linked gilts was the worst performing category at -2.97%, although it should be noted that this followed a quarter of exceptionally high performance of nearly 11%.



12.3. Over the last 12 months the Fund returned 23.69% and overperformed benchmark of 23.24% by 0.45%. Three and five year performance show underperformance of 0.16% and 0.25% respectively. Overall the Fund has benefitted from its overweight position in equities over the past five years.

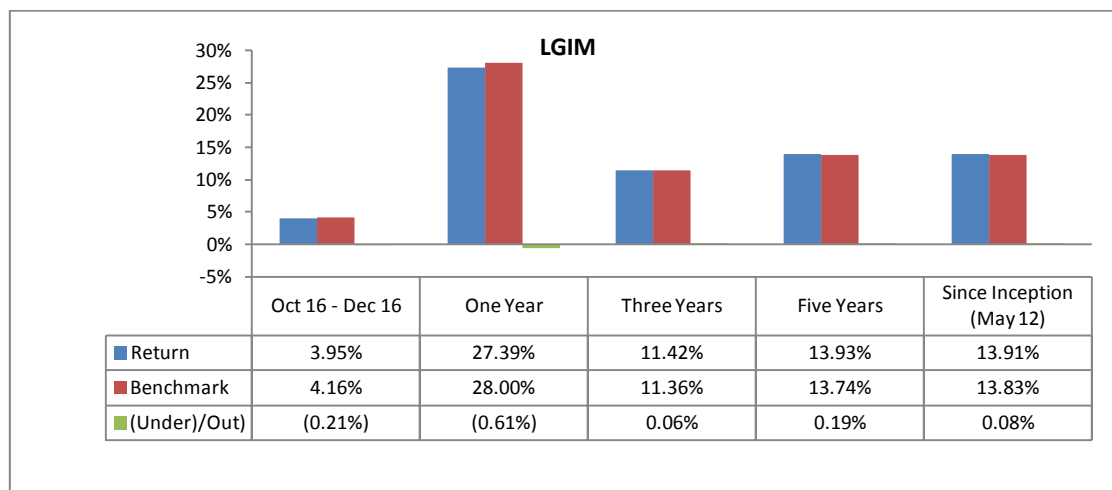




FUND MANAGER PERFORMANCE

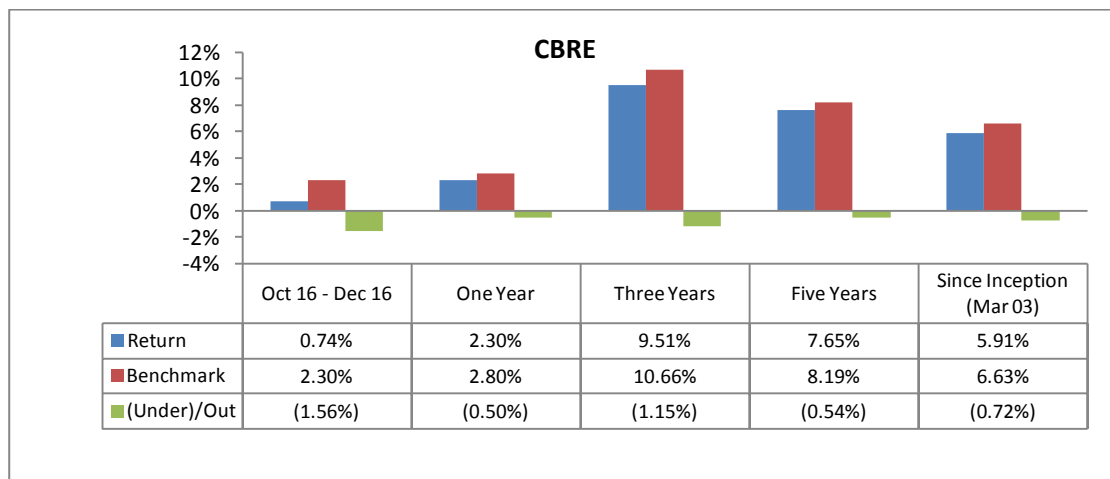
Legal & General Investment Management (LGIM)

12.4. Legal and General returned 3.95% this quarter and has slightly underperformed composite benchmark of 4.16% by 0.21%. The Fund underperformed benchmark in Asia (excluding Japan) and emerging. Looking beyond a year, LGIM is slightly ahead of benchmark returning 11.42% over 3 years; 13.93% over 5 years and 14.00% since inception. The fund manager's performance is comparable to benchmark as expected.



CBRE

12.5 The manager saw a positive total return of 0.74% in the quarter and underperformed benchmark of 2.30% by 1.56%. CBRE lags behind benchmark over 1, 3, and 5 years, as well as since portfolio inception: however this underperformance is less than 1.00% in most cases.

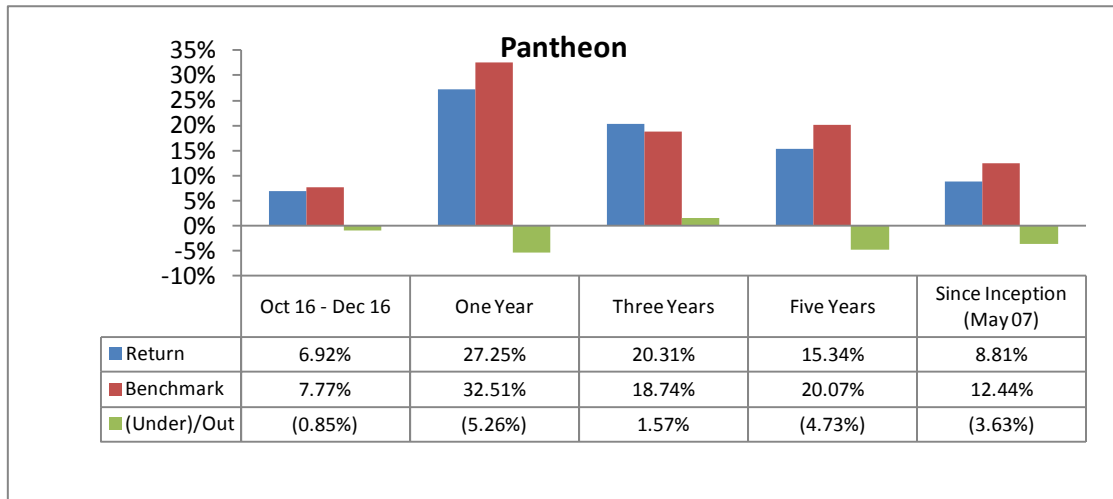


12.6 The relative performance of the property portfolio has been affected by two European funds that have suffered significant loss. With an aggregate purchase cost of £9.7 million, they are now valued at close to nil - a virtual total loss. Both funds are invested in highly leverage non prime property (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.

12.7 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.

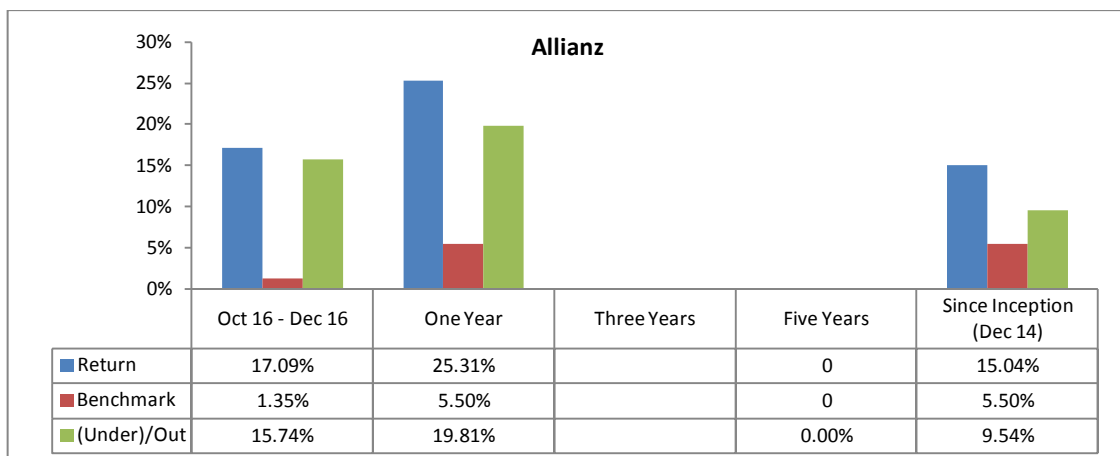
Pantheon Private Equity

12.8. Pantheon Private Equity underperformed their benchmark by 0.85%, despite having positive returns of 6.92%. Over a 3 year period the manager’s performance has been positive compared to benchmark, however over the 1 and 5 year ranges and since portfolio inception performance lags behind benchmark.



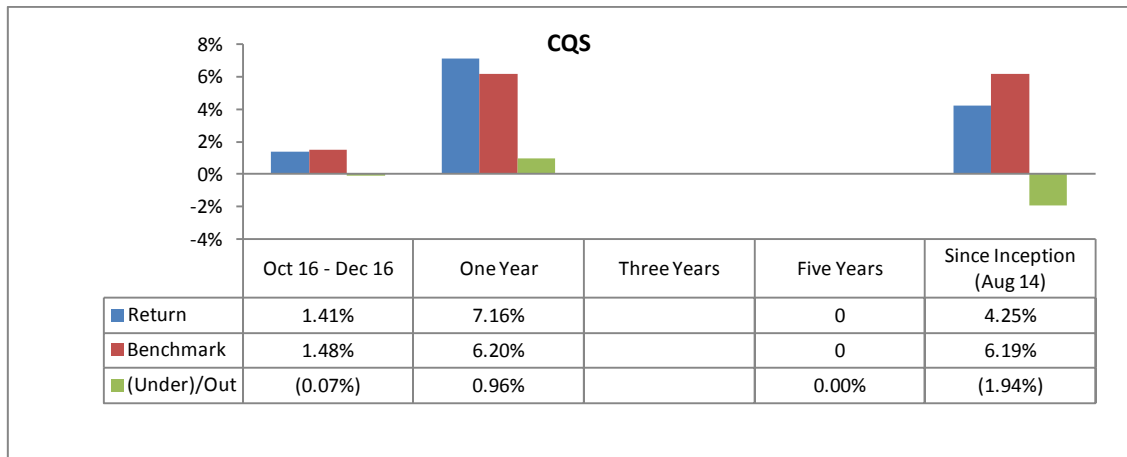
Allianz Infrastructure Debt

12.9. Allianz has returned 17.09% against benchmark of 1.35% giving an over-performance of 15.74% in the quarter. The manager is now significantly ahead of benchmark in the one year period and since inception.



CQS Multi Sector Credit

12.10 The manager had a slight under-performance relative to benchmark in the quarter achieving a return of 1.41% against the benchmark of 1.48%. Over the past 12 months means the manager is ahead of benchmark by 0.96%, however since portfolio inception they lag behind benchmark by 1.94%. It should be noted however that this is a cash linked benchmark and returns have clearly been positive, in absolute terms, during the last Quarter and the last year.



13. Budget Management – Quarter Ending 31st December 2016

- 13.1. The Fund is entering a period of increasing 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 cash yielding assets to ensure that the Fund is always able to meet its obligations to retired members.
- 13.2. 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.
- 13.3. The below table sets how the fund's contributions and benefits income and expenditure compare between the current period and the same period in last financial year.

Cost Comparison Qtr 3 2015 v Qtr 3 2016

	Prior Year 2015-16 £'000	Reporting Period 2016-17 £'000	Change in expenditure £'000
Contributions & Benefit related expenditure			
Income			
Employee Contributions	6,649	6,753	104
Employer Contributions	24,249	25,307	1,058
Transfer Values in	1,451	2,113	662
Total Income	32,349	34,173	1,824
Expenditure			
Pensions & Benefits	-33,580	-33,561	19
Transfer Values Paid	-2,109	-3,058	-949
Administrative Expenses	-665	-650	15
Total Expenditure	-36,354	-37,269	-915
Net of Contributions & Benefits	-4,005	-3,096	909

13.4. There is a decrease of £909k in net expenditure up to Dec 2016 compared to the same time last year. Whilst expenditure on pensions benefits has remained largely similar, the income from employers and employees has increased, as have transfers into the fund. In the longer term, however, the excess of benefits payable over contributions received is expected to increase.

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; quantum of assets under management; and conviction of funds in the manager. To this end, the procurement of active global equities managers and multi asset managers is currently being undertaken. Six sub funds have currently been set up. 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 has also undertaken its annual business planning and the 2017/18 budget was approved in 2017/18. LCIV has indicated that all London Funds will have to contribute a £25k service charge, plus approximately £75k in development funding costs. This reflects 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 £325m 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 at the end of 2017.

16. Low Carbon Index Update

16.1. The Committee agreed at its meeting of 14 January 2016 to move one third of its equities portfolio or approximately 20% (at that date) 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.

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, the cost of the switch was £39k (0.07%). This completed the switch and allocation to the low carbon index by the Fund. The revised strategic allocation is reflected in appendix 1 to this report.

Appendix 1 – Strategic Asset Allocation

Manager	% of Total Portfolio	Mandate	Benchmark	Performance Target
Legal & General Investment Management	67.5%	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	8%	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
Aviva	5%	Long Lease Property	Investment has not yet taken place with these fund managers	
Copenhagen Investment Partners	2.5%	Renewable Energy		
Blackrock	2.5%	Renewable Energy		
Total	100%			

*will change to LIBOR + 5.0% per annum from 1st April 2017 as agreed in the February 9th 2017 Pensions Committee Meeting

Asset Class	Benchmark	Legal & General Investment Management
UK Equities	FTSE All Share	8.80%
North America	FT World Developed North America GBP Unhedged	12.60%
Europe ex UK	FT World Developed Europe X UK GBP Unhedged	4.30%
Pacific ex Japan	FT World Developed Pacific X Japan GBP Unhedged	2.00%
Japan	FT World Developed Japan GBP Unhedged	2.00%
Emerging Markets	FT World Global Emerging Markets GBP Unhedged	7.90%
Global Low Carbon Target	MS World Low Carbon Target Index	14.90%
Total Overseas Equity	FTA Index Linked Over 5 Years Index	43.70%
Index Linked Gilts	FTA Index Linked Over 5 Years Index	15.00%
Total L&G		67.50%

Report for: Pensions Committee 27th March 2017

Item number: 13

Title: Local Authority Pension Fund Forum (LAPFF) Update
Report authorised by: Tracie Evans, Chief Operating Officer (COO)

Lead Officer: Thomas Skeen, Head of Pensions
thomas.skeen@haringey.gov.uk 020 8489 1341

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.

2. Cabinet Member Introduction

2.1. Not applicable.

3. Recommendations

3.1. That the Committee note this report.

4. Reason for Decision

4.1. None.

5. Other options considered

5.1. None.

6. Background information

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

6.2. LGIM voted in line with the LAPFF recommendation.

Target of Resolution	Resolution	Fund Manager	Date of Vote	LAPFF RECOMMENDATION	MANAGER VOTE	Outcome of Vote
Euromoney	To re-elect John Botts (chair of nominations committee) as a non executive director	LGIM	26 Jan 2017	OPPOSE	OPPOSE	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 – LAPFF Voting Alert Euromoney.

10. Local Government (Access to Information) Act 1985

10.1. Not applicable.

By virtue of paragraph(s) 3 of Part 1 of Schedule 12A
of the Local Government Act 1972.

Document is exempt

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Report for: Pensions Committee 27th March 2017

Item number: 14

Title: Conflicts of Interest Policy

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

Lead Officer: Thomas Skeen, Head of Pensions
thomas.skeen@haringey.gov.uk 020 8489 1341

Ward(s) affected: N/A

**Report for Key/
Non Key Decision:** Non Key decision

1. Describe the issue under consideration

1.1 This report introduces the proposed Conflict of Interest Policy.

2. Cabinet Member Introduction

2.1 Not applicable.

3. Recommendations

3.1 The Committee adopt the Conflicts of Interest Policy at Appendix 1.

4. Other options considered

4.1 N/A.

5. Background information

5.1 From April 2015 certain public sector pension schemes must be governed and administered under the Public Service Pensions Act 2013. Therefore managers and Pensions Committee members must comply with a number of legal requirements. One of the requirements is ensure that no individual has a Conflict of Interest.

5.2 A Conflicts of Interest Policy has been established to guide Pensions Committee members, officers and advisers. Along with other constitutional documents, including the various Codes of Conduct, it aims to ensure that they do not act improperly or create a perception that they may have acted improperly. It is an aid to good governance,

encouraging transparency and minimising the risk of any matter prejudicing decision making or management of the Fund

- 5.3 A copy of the Conflict of Interest Policy can be found at Appendix 1.
- 5.4 A copy of this policy will be sent to all Pensions Committee members, senior Managers and advisors, who will then complete 'Conflicts of Interest Declaration Form. This is a process that is repeated annually.
- 5.5 A Register of Interests has been established and will be updated when required. It will be available for inspections before all meetings of the Board, and any material interests will be disclosed on the annual report.

6. Comments of the Chief Financial Officer and financial implications

- 6.1 There are no financial considerations.

7. Comments of the Assistant Director of Corporate Governance

- 7.1 The Assistant Director of Corporate Governance has been consulted in the preparation of this report, and makes the following comments.
- 7.2 The Assistant Director of Corporate Governance supports the recommendation made in the report, as a key tool in ensuring good governance in decision making.
- 7.3 The Act defines "conflict of interest", relation to a person, as a financial or other interest which is likely to prejudice the person's exercise of functions as a member of the board (but does not include a financial or other interest arising merely by virtue of membership of the scheme or any connected scheme). The policy follows guidance issued by the LGPS, and contains the 3 minimum aspects to what a policy should contain, namely:
- examples of scenarios giving rise to conflicts of interest
 - examples of scenarios how conflicts may arise specifically in relation to a member of the Board;
 - how to deal with such conflicts when they arise

8. Equalities and Community Cohesion Comments

- 8.1 There are no equalities issues arising from this report.

9. Head of Procurement Comments

- 9.1 Not applicable.

10. Policy Implications

10.1 None applicable.

11. Use of Appendices

11.1 Appendix 1: Conflicts of Interest Policy and Declaration of Interests Form.

12. Local Government (Access to Information) Act 1985

12.1 Not applicable.

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London Borough of Haringey Pension Fund Conflicts of Interest Policy

1. Introduction

- 1.1 Conflicts of interest have always existed for those with Local Government Pension Scheme (LGPS) administering authority responsibilities as well as for advisers to LGPS funds. This simply reflects the fact that many of those managing or advising LGPS funds will have a variety of other roles and responsibilities, for example as a member of the scheme, as an Elected Member of an employer participating in the LGPS or as an adviser to more than one LGPS administering authority. In addition, they may have an individual personal, business or other interest which might conflict, or be perceived to conflict, with their role managing or advising LGPS funds.
- 1.2 It is generally accepted that LGPS administering authorities have both fiduciary and public law duties to act in the best interests of both the scheme beneficiaries and participating employers. This, however, does not preclude those involved in the management of the fund from having other roles or responsibilities which may result in an actual or potential conflict of interest. Accordingly, it is good practice to document within a policy, such as this, how any such conflicts or potential conflicts are to be managed.
- 1.3 This is the Conflicts of Interest Policy of the London Borough of Haringey Pension Fund (LBHPF), which is managed by London Borough of Haringey (LBH). The Policy details how actual and potential conflicts of interest are identified and managed by those involved in the management and governance of the LBHPF whether directly or in an advisory capacity.
- 1.4 This Conflicts of Interest Policy is established to guide the Pensions Committee (and Board), officers and advisers. Along with other constitutional documents, including the various Codes of Conduct, it aims to ensure that they do not act improperly or create a perception that they may have acted improperly. It is an aid to good governance, encouraging transparency and minimising the risk of any matter prejudicing decision making or management of the Fund otherwise.

2. Aims and Objectives

- 2.1 In relation to the governance of the Fund, the Administering Authority's objectives are to ensure that:
 - All members of the Pensions Committee (and Board) and staff charged with the financial administration and decision-making with regard to the Fund are fully equipped with the knowledge and skills to discharge the duties and responsibilities allocated to them.
 - The Fund is open in all its dealings and readily provides information to interested parties.
 - All relevant legislation is understood and complied with.
 - The Fund is at the forefront of best practice for LGPS funds.

- All Conflicts of Interest are managed appropriately.

The identification and management of potential and actual conflicts of interest is therefore integral to the Administering Authority achieving its governance objectives.

3. Application of this policy

- 3.1 This Conflicts of Interest Policy applies to all Pensions Committee (and Board) members including employee and employer representatives, whether voting members or not. It applies to all staff supporting the LBHPF.
- 3.2 This Policy and the issue of conflicts of interest in general must be considered in light of each individual's role, whether this is a management, advisory or assisting role.
- 3.3 The Head of Pensions will monitor potential conflicts for less senior officers involved in the daily management of the Pension Fund and highlight this Policy to them as appropriate.
- 3.4 This Policy also applies to all advisers and suppliers to the Fund, in relation to their role in advising or supplying the Fund.
- 3.5 In this Policy, reference to advisers includes all advisers, suppliers and other parties providing advice and services to the Administering Authority in relation to pension fund matters. This includes but is not limited to actuaries, investment consultants, independent advisers, fund managers, lawyers, custodians and AVC providers. Where an advisory appointment is with a firm rather than an individual, reference to "advisers" is to the lead adviser(s) responsible for the delivery of advice and services to the Administering Authority rather than the firm as a whole.
- 3.6 In accepting any role covered by this Policy, those individuals agree that they must:
- acknowledge any potential conflict of interest they may have;
 - be open with the Administering Authority on any conflicts of interest they may have;
 - adopt practical solutions to managing those conflicts; and
 - plan ahead and agree with the Administering Authority how they will manage any conflicts of interest which arise in future.

The procedures outlined later in this policy provide a framework for each individual to meet these requirements.

4. Legislative and related context

- 4.1 There are a number of requirements relating to the management of potential or actual conflicts of interest for those involved in LGPS funds which are included in legislation or guidance. These are summarised in Appendix 1.

5. Other administering Authority Requirements

5.1 Individuals to whom this policy applies may also be required to adhere to other requirements in relation to conflicts of interest. This includes:

- Pensions Committee (and Board) members who are required to adhere to the LBH Members' Code of Conduct.
- Employees who are required to adhere to the LBH Staff Code of Conduct.
- Advisers who are expected to have their own policies or protocols.

Further information is provided in Appendix 2.

6. What is a Conflict or potential Conflict and how will it be managed?

6.1 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:

- has a responsibility or duty in relation to the management of, or provision of advice to, the LBHPPF, and
- 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. Some examples of potential conflicts are included in Appendix 3.

6.2 LBH encourages a culture of openness and transparency and encourages individuals to be vigilant; have a clear understanding of their role and the circumstances in which they may have a conflict of interest, and of how potential conflicts should be managed.

6.3 LBH will evaluate the nature of any dual interests or responsibilities that are highlighted and assess the impact on Pension Fund operations and good governance were an actual conflict of interest to materialise.

Ways in which conflicts of interest may be managed include:

- the individual concerned abstaining from discussion, decision-making or providing advice relating to the relevant issue.
- the individual being excluded from the meeting(s) and any related correspondence or material in connection with the relevant issue.
- a working group or sub-committee being established, excluding the individual concerned, to consider the matter outside of the formal meeting (where the terms of reference permit this to happen).

Provided that the Administering Authority (having taken any professional advice deemed to be required) is satisfied that the method of management is satisfactory, LBH shall endeavour to avoid the need for an individual to resign due to a conflict of interest. However, where the conflict is considered to be so fundamental it cannot be effectively

managed, or where a Pension Board member has an actual conflict of interest as defined in the Public Service Pensions Act 2013, the individual will be required to resign from their role.

7. Responsibility

7.1 The Administering Authority for the LBHPF must be satisfied that conflicts of interest are appropriately managed. For this purpose, the Assistant Director Corporate Governance is the designated individual for ensuring the procedure outlined below is adhered to. However, it is the responsibility of each individual covered by this Policy to identify any potential instances where their personal, financial, business or other interests might come into conflict with their pension fund duties.

8. Operational procedures

8.1 Declaration at Appointment

8.1.1 On appointment to their role or on the commencement of this Policy if later, all individuals will be provided with a copy of this Policy and be required to complete a Declaration of Interest form. See Appendix 4. The information contained in this declaration will be collated into the Pension Fund's Register of Conflicts of Interest.

8.2 Declaration at Meetings

8.2.1 At the commencement of any Pensions Committee (and Board) or other formal meeting where pension fund matters are to be discussed, the Chair will ask all those present who are covered by this Policy to declare any new potential conflicts.

8.2.2 These will be recorded in the Fund's Register of Conflicts of Interest. In addition, the latest version of the register will be made available to the Chair of every meeting prior to that meeting.

8.2.3 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. The Chair should then decide whether the conflicted or potentially conflicted individual needs to leave the meeting during the discussion on the relevant matter or to withdraw from voting on the matter.

8.2.4 If such a conflict is identified outside of a meeting the notification must be made to the Assistant Director Corporate Governance and where it relates to the business of any meeting, also to the Chair of that meeting. The Assistant Director Corporate Governance, in consultation with the Chair where relevant, will consider any necessary action to manage the potential or actual conflict.

8.2.5 Where information relating to any potential or actual conflict has been provided, the Assistant Director Corporate Governance may seek such professional advice as he or she thinks fit on how to address any identified conflicts.

8.2.6 Any such potential or actual conflicts of interest and the action taken must be recorded in the Fund's Register of Conflicts of Interest.

8.3 Annual Declaration

8.3.1 Every 12 months all individuals will complete a new Declaration of Interest confirming that their information contained in the Register is correct or highlighting any changes that need to be made to the declaration.

8.4 Conduct at Meetings

8.4.1 There may be circumstances when a representative of employers or members wishes to provide a specific point of view on behalf of an employer (or group of employers) or member (or group of members). The Administering Authority requires that any individual wishing to speak from an employer's or member's viewpoint must state this clearly, e.g. at a Pensions Committee (and Board) meeting, and that this will be recorded in the minutes.

9. Operational procedures for advisers

9.1 Although this policy applies to all of the key advisers, the operational procedures outlined in 8.1 and 8.3 above relating to completing declarations do not apply to advisers. Instead all advisers must:

- be provided with a copy of this Policy on appointment and whenever it is updated
- adhere to the principles of this Policy
- provide, on request, information as to how they will manage and monitor actual or potential conflicts of interests relating to the provision of advice or services to LBH as Administering Authority
- notify the Assistant Director Corporate Governance immediately should a potential or actual conflict of interest arise.

All potential or actual conflicts notified by advisers will be recorded in the Fund's Register of Conflicts of Interest.

10. Monitoring and reporting

10.1 The Fund's Register of Conflicts of Interest may be viewed by any interested party by appointment during normal business hours. In addition information relating to conflicts of interest will be published in the Fund's Annual Report and Accounts.

10.2 In order to identify whether the objectives of this Policy are being met the administering authority will review the Register of Conflicts of Interest on an annual basis and consider whether there has been any potential or actual conflicts of interest that were not declared at the earliest opportunity.

11. Key Risks

11.1 The key risks to the delivery of this Policy are outlined below all of which could result in an actual conflict of interest arising and not being properly managed. Head of Pensions will monitor these and other key risks and consider how to respond to them, taking advice from the Assistant Director Corporate Governance as appropriate.

The key risks are:

- Insufficient training or poor understanding in relation to individuals' roles on pension fund matters.
- Insufficient training or failure to communicate the requirements of this Policy.
- Absence of the individual nominated to manage the operational aspects of this Policy and no one deputising or failure of that individual to carry out the operational aspects in accordance with this Policy.
- Failure by the Chair of the Pensions Committee (and Board) to take appropriate action when a conflict is highlighted at a meeting.

12. Costs

- 12.1 All costs related to the operation and implementation of this Policy will be met directly by LBHPF. However, no payments will be made to any individuals in relation to any time spent or expenses incurred in the disclosure or management of any potential or actual conflicts of interest under this Policy.

Legislation, Regulation and Guidance on Conflicts of Interest

The requirements in relation to the management of potential or actual conflicts of interest for those involved in LGPS funds are contained in various elements of legislation and guidance.

The Public Service Pensions Act 2013

Section 5 of this Act requires that the scheme manager (in the case of the LGPS, this is the administering authority) must be satisfied that a local pension board member does not have a conflict of interest at the point of appointment and from time to time thereafter. It also requires local pension board members (or nominated members) to provide reasonable information to the scheme manager for this purpose. Haringey Pensions Committee and Board carries out the functions of the local pension board.

The Act defines a conflict of interest as “a financial or other interest which is likely to prejudice the person’s exercise of functions as a member of the board (but does not include a financial or other interest arising merely by virtue of membership of the scheme or any connected scheme).” Further, the Act requires that scheme managers must have regard to any such guidance that the national scheme advisory board issue.

The Local Government Pension Scheme Regulations 2013

Regulation 108 of these Regulations applies the requirements of the Public Service Pensions Act (as outlined above) to the LGPS, placing a duty on each administering authority to satisfy itself that local pension board members do not have conflicts of interest on appointment or whilst they are members of the board. It also requires those pension board members to provide reasonable information to the administering authority in this regard.

Regulation 109 states that each administering authority must have regard to guidance issued by the Secretary of State in relation to local pension boards. Further, regulation 110 provides that the national scheme advisory board has a function of providing advice to administering authorities and local pension boards. The shadow LGPS national scheme advisory board has issued guidance relating to the creation of local pension boards including a section on conflicts of interest. This Conflicts of Interest Policy has been developed having regard to that guidance. The guidance can be viewed at:

<http://www.lgpsboard.org/index.php/board-publications/board-guidance>

The Pensions Act 2004

The Public Service Pensions Act 2013 added a number of provisions to the Pensions Act 2004 related to the governance of public service pension schemes and, in particular, conflicts of interest.

Section 90A requires the Pensions Regulator to issue a code of practice relating to conflicts of interest for pension board members. The Pensions Regulator has issued such a code and this Conflicts of Interest Policy has been developed having regard to that code. The code can be viewed at <http://www.thepensionsregulator.gov.uk/public-service-schemes/pension-board-conflicts-of-interest-and-representation.aspx>

Further, under section 13, the Pensions Regulator can issue an improvement notice (i.e. a notice requiring steps to be taken to rectify a situation) where it is considered that the requirements relating to conflicts of interest for Pension Board members are not being adhered to.

The Localism Act 2011

Chapter 7 of this Act requires councillors to comply with the code of conduct of their local authority and that code of conduct must be consistent with the Seven Principles of Public Life (set out below). In addition the Act requires that the code of conduct must include provisions requiring the disclosure and registration of pecuniary interests and interests other than pecuniary interests.

The Seven Principles of Public Life

Otherwise known as the 'Nolan Principles', the seven principles of public life apply to anyone who works as a public office-holder. This includes people who are elected or appointed to public office, nationally and locally, and all staff in:

- the civil service
- local government
- the police
- the courts and probation services
- non-departmental public bodies
- health, education, social and care services

The principles also apply to all those in other sectors that deliver public services. Many of the principles are integral to the successful implementation of this Policy. The principles are as follows:

- selflessness
- integrity
- objectivity
- accountability
- openness
- honesty
- leadership.

Advisers' Professional Standards

Many advisers will be required to meet professional standards relating to the management of conflicts of interest, for example, the Fund Actuary will be bound by the requirements of the Institute and Faculty of Actuaries. Information about these requirements can be viewed at:

www.actuaries.org.uk/regulation/pages/conflicts_of_interest

Any Protocol or other document entered into between an adviser and the Administering Authority in relation to conflicts of interest, whether as a requirement of a professional body or otherwise, should be read in conjunction with this Policy.

Other Administering Authority Requirements

In addition to the requirements of this Policy, Pensions Committee (and Board) members and co-opted members (including non-voting co-opted members) are required to adhere to the LBH Members' Code of Conduct or the LBH Code of Conduct for Staff.

Pensions Committee (and Board) Members

In addition to the requirements of this Policy, Pensions Committee (and Board) members are required to adhere to the Terms of Reference of the Pensions Committee (and Board).

Employees

In addition to the requirements of this Policy, officers of LBH are required to adhere to the LBH Code of Conduct for Staff.

Advisers

The Administering Authority appoints its own advisers. There may be circumstances where these advisers are asked to give advice to LBH or other scheme employers, or even to scheme members or member representatives such as the Trades Unions, in relation to pension matters.

Similarly, an adviser may also be appointed to another administering authority which is involved in a transaction involving the LBHPF and on which advice is required. An adviser can only continue to advise the Administering Authority and another party where there is no conflict of interest in doing so.

Where the Pension Board decides to appoint an adviser, this can be the same person, or organisation as is appointed to advise the Investment advisory Panel or joint advisory Group or Fund officers as long as there is no conflict of interest between the two roles.

The key advisers are all expected to have their own policies or protocols on how conflicts of interest will be managed in their relationships with their clients, and these must be shared with the Fund.

Examples of potential Conflicts of Interest

- a) An elected member on the Pensions Committee (and Board) is asked to provide views on a funding strategy which could result in an increase in the employer contributions required from the employer he or she represents.
- b) A member of the Pensions Committee (and Board) is on the board of a Fund Manager that is being considered for appointment.
- c) An officer of the Fund or member of the Pensions Committee (and Board) accepts a dinner invitation from a service provider who has submitted a bid as part of a tender process.
- d) An employer representative on the Pensions Committee (and Board) is employed by a company to which the administering authority has outsourced its pension administration services and the Pensions Committee (and Board) is reviewing the standards of service provided by that company.
- e) The person appointed to consider internal disputes is asked to review a case relating to a close friend or relative.
- f) An employer representative employed by the administering authority and appointed to the Pensions (and Board) to represent employers generally could be conflicted if he or she only acts in the interests of the administering authority, rather than those of all participating employers. Equally, a member representative, who is also a trade union representative, appointed to the Pension Committee (and Board) to represent the entire scheme membership could be conflicted if he or she only acts in the interests of their union and union membership, rather than all scheme members.
- g) A Fund adviser is party to the development of a strategy which could result in additional work for their firm, for example, providing assistance with monitoring the covenant of employers.
- h) An employer representative has access to information by virtue of his or her employment, which could influence or inform the considerations or decisions of the Pensions Committee (and Board). He or she has to consider whether to share this information in light of their duty of confidentiality to their employer. Their knowledge of this information will put them in a position of conflict if it is likely to prejudice their ability to carry out their functions as a member of the Pensions Committee (and Board).

London Borough of Haringey Pension Fund

Declaration of Interests relating to the management of London Borough of Haringey Pension Fund

I, [insert full name], am:

- an officer involved in the management
- Pensions Committee (and Board) Member

of London Borough of Haringey Pensions Committee (and Board) and I set out below under the appropriate headings my interests, which I am required to declare under LB Haringey Pension Fund Conflicts of Interest Policy. I have put “none” where I have no such interests under any heading.

Responsibilities or other interests that could result in a conflict of interest (please list and continue overleaf if necessary):

A) Relating to me

B) Relating to family members or close colleagues

Undertaking:

I declare that I understand my responsibilities under the LB Haringey Pension Fund Conflicts of Interest Policy. I undertake to notify the Head of Pensions of any changes in the information set out above.

Signed

Date

Name

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Report for: Pensions Committee 27th March 2017

Item number: 15

Title: 2016 Triennial Valuation – Final Results, and draft Funding Strategy Statement (FSS)

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

Lead Officer: Thomas Skeen, Head of Pensions
thomas.skeen@haringey.gov.uk 020 8489 1341

Ward(s) affected: N/A

Report for Key/
Non Key Decision: Non Key decision

1. Describe the issue under consideration

- 1.1. To note the final actuarial valuation report as at 31st March 2016, including the methodology and assumption used by the actuary.
- 1.2. To note and agree the Funding Strategy Statement, which has been updated, in line with the 2016 triennial valuation. The draft FSS has been circulated to employers of the fund for consultation purposes.

2. Cabinet Member Introduction

- 2.1. Not applicable.

3. Recommendations

- 3.1. That the Committee note the final results of the triennial valuation of the Fund.
- 3.2. That the Committee agrees the Funding Strategy Statement.

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 has agreed the underlying assumptions of the valuation with the actuary at the 22nd November 2016 meeting. The final valuation results are now presented.

4.2. 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

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.

6.2. 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 triennial 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. Consultation has been carried out by officers.

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 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.

Legal

- 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. 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. In reviewing the funding strategy statement the Fund must have regards to the guidance set out in the document published by the Chartered Institute of Public Finance and Accountancy on “Preparing and Maintaining a Funding Strategy Statement in the LGPS (2016 Edition)” and the investment strategy formulated under Regulation 7 of the Local Government Pension Scheme (Management and Investment of Funds) Regulations 2016).

Equalities

- 8.7. There are no equalities issues arising from this report.

9. Use of Appendices

- Appendix 1 – Triennial Valuation Results (March 2016)
- Appendix 2 – 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

2016 Actuarial Valuation

Valuation Report

March 2017

Douglas Green

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



Hymans Robertson LLP has carried out an actuarial valuation of the London Borough of Haringey Pension Fund (“the Fund”) as at 31 March 2016, details of which are set out in the report dated 6 March 2017 (“the Report”), addressed to the Administering Authority of the Fund, London Borough of Haringey (“the Client”). The Report was prepared for the sole use and benefit of our Client and not for any other party; and Hymans Robertson LLP makes no representation or warranties to any third party as to the accuracy or completeness of the Report.

The Report was not prepared for any third party and it will not address the particular interests or concerns of any such third party. The Report is intended to advise our Client on the past service funding position of the Fund at 31 March 2016 and employer contribution rates from 1 April 2017, and should not be considered a substitute for specific advice in relation to other individual circumstances.

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

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Contents

	Page
1 Executive summary	4
2 Introduction	5
3 Valuation Approach	6
4 Assumptions	8
5 Results	11
5 Risk Assessment	14
6 Related issues	17
7 Reliances and limitations	19
Appendix A: About the pension fund	20
Appendix B: Summary of the Fund's benefits	21
Appendix C: Risk based approach to setting contribution rates	27
Appendix D: Data	29
Appendix E: Assumptions	31
Appendix F: Technical appendix for contribution rate modelling	35
Appendix G: Events since valuation date	38
Appendix H: Rates and adjustments certificate	39

Executive summary

We have carried out an actuarial valuation of the London Borough of Haringey Pension Fund ('the Fund') as at 31 March 2016. The results are presented in this report and are briefly summarised below.

Funding position

The table below summarises the funding position of the Fund as at 31 March 2016 in respect of benefits earned by members up to this date (along with a comparison at the last formal valuation at 31 March 2013).

	31 March 2013	31 March 2016
Past Service Position	(£m)	(£m)
Past Service Liabilities	1,232	1,323
Market Value of Assets	863	1,046
Surplus / (Deficit)	(369)	(277)
Funding Level	70%	79%

The improvement in funding position between 2013 and 2016 is mainly due to strong investment performance over the inter-valuation period. The liabilities have also increased due to a reduction in the future expected investment return, although this has been partially been offset by lower than expected pay and benefit growth (both over the inter-valuation period and continuing in the long term).

Contribution rates

The table below summarises the whole fund Primary and Secondary Contribution rates at this triennial valuation. These rates are the payroll weighted average of the underlying individual employer primary and the total of employer secondary rates expressed as a monetary amount, calculated in accordance with the Regulations and CIPFA guidance.

Primary rate (%)	Secondary rate (£)		
1 April 2017 - 31 March 2020	2017/18	2018/19	2019/20
17.6%	£9,252,000	£8,612,000	£9,554,000

The Primary rate above includes an allowance for administration expenses of 0.6% of pay. The employee average contribution rate is 6.5% of pay.

At the previous formal valuation at 31 March 2013, a different regulatory regime was in force. Therefore a contribution rate that is directly comparative to the rates above is not provided.

Broadly, contributions required to be made by employers in respect of new benefits earned by members (the primary contribution rate) have increased as future expected investment returns have fallen. Changes to employer contributions targeted to fund the deficit have been variable across employers.

The minimum contributions to be paid by each employer from 1 April 2017 to 31 March 2020 are shown in the Rates and Adjustment Certificate in **Appendix H**.

1 Introduction

We have carried out an actuarial valuation of the London Borough of Haringey Pension Fund (“the Fund”) as at 31 March 2016 under Regulation 62 of The Local Government Pension Scheme Regulations 2013 (“the Regulations”). The purpose of the valuation is to assess the value of the assets and liabilities of the Fund as at 31 March 2016 and to calculate the required rate of employers’ contributions to the Fund for the period from 1 April 2017 to 31 March 2020.

Valuation Report

This report records the high level outcomes of the actuarial valuation as at 31 March 2016. The valuation report is prepared by the actuary to the Fund and is addressed to London Borough of Haringey as the Administering Authority to the Fund.

Component reports

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

- Correspondence relating to data including the Data Report dated March 2017;
- The Initial Results report (dated 2 November 2016) which outlined the whole fund results;
- The formal agreement by the Administering Authority of the actuarial assumptions used in this document, at a meeting dated 22 November 2016;
- The contribution modelling carried out for employers, as detailed in our report and presentation to the Administering Authority of 29 November 2016;
- The Funding Strategy Statement, confirming the different contribution rate setting approaches for different types of employer or in different circumstances.

2 Valuation Approach

The valuation is a planning exercise for the Fund, to assess the monies needed to meet the benefits owed to its members as they fall due. As part of the valuation process the Fund reviews its funding strategy to ensure that an appropriate contribution plan and investment strategy is in place.

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

Setting the funding strategy for an open defined benefit pension fund such as London Borough of Haringey Pension Fund is complex. Firstly, the time period is very long; benefits earned in the LGPS today will be paid out over a period of the next 80 years or more and it remains open to new joiners and accrual of benefits. Secondly, the LGPS remains a defined benefit scheme so there are significant uncertainties in the final cost of the benefits to be paid. Finally, in order to reduce employer costs, London Borough of Haringey Pension Fund invests in a return seeking investment strategy which can result in high levels of asset volatility.

Such a valuation can only ever be an estimate – as the future cannot be predicted with certainty. However, as actuaries, we can use our understanding of the Fund and the factors that affect it to set the pace of funding in conjunction with the Administering Authority. The pace of this funding can vary according to the level of prudence that is built into the valuation method and assumptions.

The valuation approach adopted recognises the uncertainties and risks posed to funding by the factors discussed above and follows the process outlined below.

- Step 1: The Fund sets a funding target (or funding basis) which defines the target amount of assets to be held to meet the future cashflows. The assumptions underlying the funding target are discussed further in the next section. A measurement is made at the valuation date to compare the assets held with the funding target.
- Step 2: The Fund sets the time horizon over which the funding target is to be reached
- Step 3: The Fund sets contributions that give a sufficiently high likelihood of meeting the funding target over the set time horizon. More detail on this risk based approach to setting contribution rates can be found in **Appendix C**.

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

Past service

The principal measurement here is the comparison of the funding position at the valuation date against the funding target. The market value of the Fund's assets as at the valuation date are compared against the value placed on the Fund's liabilities in today's terms (calculated using a market-based approach). By maintaining a link to the market in both cases, this helps ensure that the assets and liabilities are valued in a consistent manner. Our calculation of the Fund's liabilities also explicitly allows for expected future pay and pension increases. The assumptions used in the assessment of the funding position at the valuation date are detailed in the next section.

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

Funding plans are set to eliminate any deficit (or surplus) over the set time horizon and therefore get back to a funding level of 100%. To do so, additional contributions may be required to be paid into the Fund; these contributions are known as the “secondary rate”.

Future service

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

The primary rates for employers are determined with the aim of meeting the funding target in respect of these new benefits at the end of the set time horizon with an appropriate likelihood of success. The primary rate will depend on the profile of the membership (amongst other factors). For example, the rate is higher for older members as there is less time to earn investment returns before the member’s pension comes into payment.

The methodology for calculating the primary rate will also depend on whether an employer is open or closed to new entrants. A closed employer will have a higher rate as we must allow for the consequent gradual ageing of the workforce.

For the reasons outlined above regarding the uncertainty of the future, there is no guarantee that the amount paid for the primary rate will be sufficient to meet the cost of the benefits that accrue. Similarly, there is no guarantee that the secondary contributions will result in a 100% funding level at the end of the time horizon. Further discussion of this uncertainty is set out in **Appendix C**.

3 Assumptions

Due to the long term nature of the Fund, assumptions about the future are required to place a value of the benefits earned to date (past service) and the cost of benefits that will be earned in the future (future service).

Broadly speaking, our assumptions fall into two categories when projecting and placing a value on the future benefit payments and accrual – financial and demographic.

Demographic assumptions typically try to forecast **when** benefits will come into payment and what form these will take. For example, when members will retire (e.g. at their normal retirement age or earlier), how long they will then survive and whether a dependant's pension will be paid. In this valuation of the Fund, we use a single agreed set of demographic assumptions which is set out below and in more detail in **Appendix E**.

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

For measuring the funding position, the liabilities of the Fund are reported on a single constant set of financial assumptions about the future, based on financial market data as at 31 March 2016.

However, when we assess the required employer contributions to meet the funding target, we use a model that calculates the contributions required under 5000 different possible future economic scenarios. Under these 5000 different economic scenarios, key financial assumptions about pension increases and Fund investment returns vary across a wide range. More information about these types of assumptions is set out in **Appendix F**.

Financial assumptions

Discount rate

In order to place a current value on the future benefit payments from the Fund, an assumption about future investment returns is required in order to "discount" future benefit payments back to the valuation date. In setting the discount rate the Fund is determining the extent to which it relies on future investment returns required to meet benefit payments in excess of the monies already held at the valuation date.

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

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

There has been a downward shift in the expected returns on many asset classes held by the Fund since the 2013 valuation. Following modelling, analysis and discussion reported in the AOA paper dated 3 March 2016 the Fund is satisfied that an AOA of 1.8% p.a. is a prudent assumption for the purposes of this valuation.

Price inflation / pension increases

Pension (both in payment and deferment) benefit increases and the revaluation of career-average earnings are in line with Consumer Price Index (CPI) inflation. As there continues to be no deep market for CPI linked financial instruments, the Fund derives the expected level of future CPI with reference to the Retail Price Index (RPI).

Due to further analysis of the CPI since 2013, the Fund expects the average long term difference between RPI and CPI to be 1.0% p.a. compared with 0.8% p.a. at the 2013 valuation.

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

Salary increases

Due to the change to a CARE scheme from 2014, there is now a closed group of membership in the Fund with benefits linked to final salary.

The Fund have set a salary growth assumption of RPI -0.4%. This reflects both short term pay constraints and the belief that general economic growth and hence pay growth may be at a lower level than historically experienced for a prolonged period of time.

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

A summary of the financial assumptions underpinning the target funding basis and adopted during the assessment of the liabilities of the Fund as at 31 March 2016 (alongside those adopted at the last valuation for comparison) are shown below.

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

Demographic assumptions

Longevity

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

		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

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

Other demographic assumptions

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

Details of the other demographic assumptions adopted by the Fund are set out in **Appendix E**.

Further comments on the assumptions

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

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

Taken as a whole, we believe that our proposed assumptions are more prudent than the best estimate.

The actuarial assumptions underlying the Scheme Advisory Board's Key Performance Indicators are viewed as best estimate. Using these best estimate assumptions, the assessed funding position as at 31 March 2016 would have been 94%.

Assets

We have taken the assets of the Fund into account at their (bid value) as informed to us by the Administering Authority. We have also included an allowance for the expected future payments in respect of early retirement strain and augmentation costs granted prior to the valuation date in the value of assets, for consistency with the liabilities and with the previous valuation. We have calculated the total value of these expected future payments to be £0 at 31 March 2016.

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

4 Results

The Administering Authority has prepared a Funding Strategy Statement which sets out its funding objectives for the Fund. In broad terms, the main valuation objectives are to hold sufficient assets in the Fund to meet the assessed cost of members' accrued benefits on the target funding basis ("the Funding Objective") and to set employer contributions which ensure both the long term solvency and the long term cost efficiency of the Fund ("the Contribution Objective").

Funding Position Relative to Funding Target

In assessing the extent to which the Funding Objective was met at the valuation date, we have used the actuarial assumptions described in the previous section of this report for the target funding basis and the funding method also earlier described. The table below compares the value of the assets and liabilities at 31 March 2016. The 31 March 2013 results are also shown for reference.

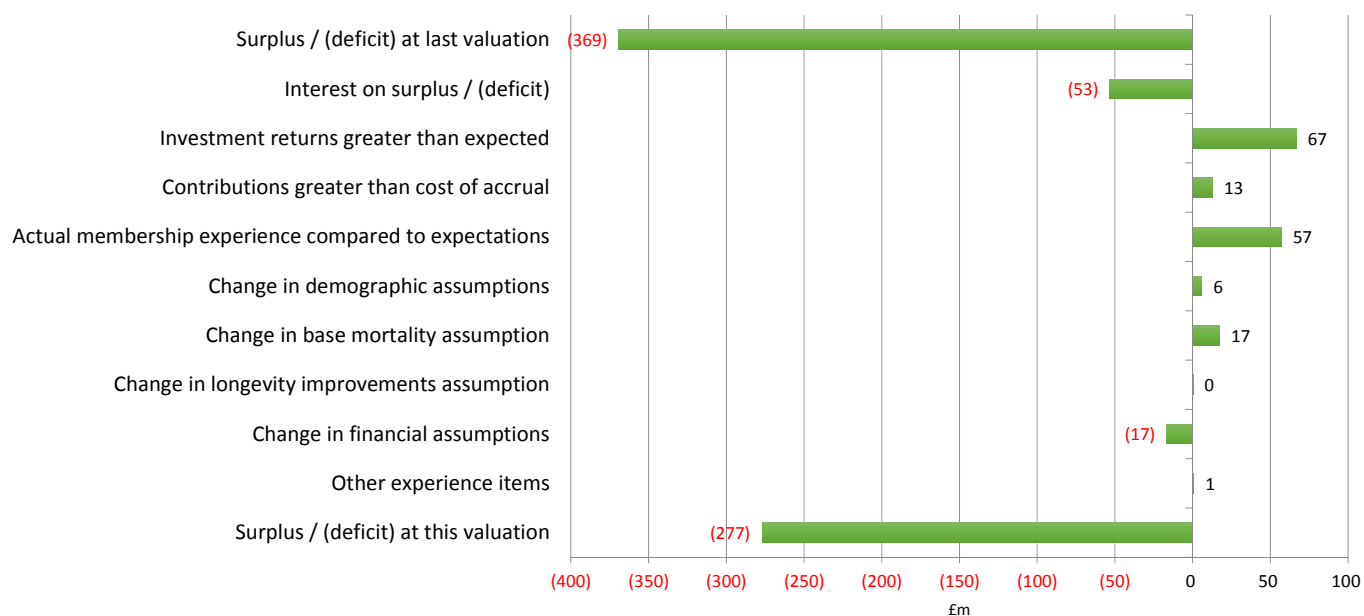
A funding level of 100% would correspond to the Funding Objective being met at the valuation date.

Valuation Date	31 March 2013	31 March 2016
Past Service Liabilities	(£m)	(£m)
Employees	427	397
Deferred Pensioners	293	343
Pensioners	513	583
Total Liabilities	1,232	1,323
Assets	863	1,046
Surplus / (Deficit)	(369)	(277)
Funding Level	70%	79%

The Funding Objective was not met: there was a shortfall of assets relative to the assessed cost of members' benefits on the target funding basis of £277m.

Summary of changes to the funding position

The chart below illustrates the factors that caused the changes in the funding position between 31 March 2013 and 31 March 2016:



Further comments on some of the items in this chart:

- There is an interest cost of £53m. This is broadly three years of compound interest at 4.6% p.a. applied to the previous valuation deficit of £369m (and can be thought of as the investment return that would have been achieved on the extra assets the Fund would have held if fully funded).
- Investment returns being higher than expected since 2013 lead to a gain of £67m. This is roughly the difference between the actual three-year return (22.3%) and expected three-year return (14.4%) applied to the whole fund assets from the previous valuation of £863m, with a further allowance made for cashflows during the period.
- The membership experience of the Fund has differed compared to the assumptions made at the 2013 valuation. The table below summarises the significant factors that underlie these differences:

	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

- Fewer members than expected opted into the 50:50 section of the Scheme. This increased the deficit by £6.1m.
- The impact of the change in demographic assumptions has been a gain of around £6m.
- The change in mortality assumptions (baseline and improvements) has given rise to a gain of £18m.
- The change in financial conditions since the previous valuation has led to a loss of £17m. This is due to a decrease in the real discount rate between 2013 and 2016. The estimated impact of this is a loss of around £143m. This has partially been offset by the increase to 1.0% p.a. of the assumed gap between RPI and CPI and a reduction in the expected future salary growth for benefits linked to final salary (an estimated gain of £126m).
- Other experience items, such as changes in the membership data, have served to decrease the deficit at this valuation by around £0.8m.

Employer Contribution Rates

The Contribution Objective is achieved by setting employer contributions which are likely to be sufficient to meet both the cost of new benefits accruing and to address any funding deficit relative to the funding target over the agreed time horizon. A secondary objective is to maintain where possible relatively stable employer contribution rates.

For each employer in the Fund, to meet the Contribution Objective, a primary contribution rate has been calculated in order to fund the cost of new benefits accruing in the Fund. Additionally, if required, a secondary contribution rate has also been calculated to target a fully funded position within the employer's set time horizon. These rates have been assessed using a financial model that assesses the funding outcome for the employer under 5000 different possible future economic scenarios where the key financial assumptions about pension increases and investment returns vary. The employer contribution rates have been set to achieve the funding target over the agreed time horizon and with the appropriate likelihood of success. The time horizon and the likelihood parameters vary by employer according to each employer's characteristics. These parameters are set out in the Funding Strategy

Statement and have been communicated to employers. More information about the methodology used to calculate the contribution rates is set out in **Appendix C**.

The employer contributions payable from 1 April 2017 are given in **Appendix H**, and these have been devised in line with the Funding Strategy Statement: see **section 6**.

The table below summarises the whole fund Primary and Secondary Contribution rates at this valuation. These rates are the payroll weighted average of the underlying individual employer primary and secondary rates, calculated in accordance with the Regulations and CIPFA guidance.

Primary rate (%)	Secondary rate (£)			
	1 April 2017 - 31 March 2020	2017/18	2018/19	2019/20
17.6%	£9,252,000	£8,612,000	£9,554,000	

The Primary rate above includes an allowance for administration expenses of 0.6% of pay. The employee average contribution rate is 6.5% of pay.

Note that the employee contribution rate includes any additional contributions being paid by employees as at 31 March 2016 into the Fund.

The table below shows the Fund ‘Common Contribution rate’ as at 31 March 2013 for information purposes. **Although note that the change in regulatory regime and guidance on contribution rates means that a direct comparison to the whole fund rate at 2016 is not appropriate.**

Contribution Rates	31 March 2013 (% of pay)
Employer future service rate (incl. expenses)	20.4%
Past Service Adjustment	15.1%
Total employer contribution rate (incl. expenses)	35.5%
Employee contribution rate	6.6%
Expenses	0.5%

5 Risk Assessment

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

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

- The main risks to the financial health of the Fund should be **identified**.
- Where possible, the financial significance of these risks should be **quantified**.
- Consideration should be given as to how these risks can then be **controlled** or **mitigated**.
- These risks should then be **monitored** to assess whether any mitigation is actually working.

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

Set out below is a brief assessment of the main risks and their effect on the valuation past service funding position results.

Sensitivity of past service funding position results to changes in assumptions

The table below gives an indication of the sensitivity of the funding position to small changes in two of the main financial assumptions used:

Benefit Increases & CARE Revaluation					
	(£m)	1.9%	2.1%	2.3%	
Discount Rates	4.2%	1,240	1,279	1,318	Liabilities
		1,046	1,046	1,046	Assets
		(195)	(233)	(272)	(Deficit)
		84%	82%	79%	Funding Level
	4.0%	1,283	1,323	1,363	Liabilities
		1,046	1,046	1,046	Assets
		(238)	(277)	(318)	(Deficit)
		81%	79%	77%	Funding Level
	3.8%	1,328	1,369	1,411	Liabilities
		1,046	1,046	1,046	Assets
		(282)	(323)	(365)	(Deficit)
		79%	76%	74%	Funding Level

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

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

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

The table below shows how the valuation results at 31 March 2016 are affected by adopting different longevity assumptions.

	Peaked improvements	Non-peaked improvements
	(£m)	(£m)
Liabilities	1,323	1,355
Assets	1,046	1,046
(Deficit)	(277)	(309)
Funding Level	79%	77%

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

This is not an exhaustive list of the assumptions used in the valuation. For example, changes to the assumed level of withdrawals and ill health retirements will also have an effect on the valuation results.

Note that the tables show the effect of changes to each assumption in isolation. In reality, it is perfectly possible for the experience of the Fund to deviate from more than one of our assumptions simultaneously and so the precise effect on the funding position is therefore more complex. Furthermore, the range of assumptions shown here is by no means exhaustive and should not be considered as the limits of how extreme experience could actually be.

Sensitivity of contribution rates to changes in assumptions

The employer contribution rates are dependent on a number of factors including the membership profile, current financial conditions, the outlook for future financial conditions, and demographic trends such as longevity. Changes in each of these factors can have a material impact on the contribution rates (both primary and secondary rates). We have not sought to quantify the impact of differences in the assumptions because of the complex interactions between them.

Investment risk

The Fund holds some of its assets in return seeking assets such as equities to help reduce employers’ costs. However, these types of investments can result in high levels of asset volatility. Therefore, there is a risk that future investment returns are below expectations and the funding target is not met. This will require additional contributions from employers to fund any deficit.

Whilst the Fund takes steps to ensure that the level of investment risk is managed and monitored via strategy reviews and performance monitoring, it can never be fully mitigated.

Regulatory risk

One further risk to consider is the possibility of future changes to Regulations that could materially affect the benefits that members become entitled to. It is difficult to predict the nature of any such changes but it is not inconceivable that they could affect not just the cost of benefits earned after the change but could also have a retrospective effect on the past service position.

Managing the risks

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

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

- Set aside a specific reserve to act as a cushion against adverse future experience (possibly by selecting a set of actuarial assumptions that are deliberately more prudent).

- Take steps internally to monitor the decisions taken by members (e.g. 50:50 scheme take-up, commutation) and employers (e.g. relating to early / ill health retirements or salary increases) in a bid to curtail any adverse impact on the Fund.
- Pooling certain employers together at the valuation and then setting a single (pooled) contribution rate that they will all pay. This can help to stabilise contribution rates (at the expense of cross-subsidy between the employers in the pool during the period between valuations).
- Carrying out a review of the future security of the Fund's employers (i.e. assessing the strength of employer covenants) and ultimately their ability to continue to pay contributions or make good future funding deficits.
- Carry out a bespoke analysis of the longevity of Fund members and monitor how this changes over time, so that the longevity assumptions at the valuation provide as close a fit as possible to the particular experience of the Fund.
- Undertake an asset-liability modelling exercise that investigates the effect on the Fund of possible investment scenarios that may arise in the future. An assessment can then be made as to whether long term, secure employers in the Fund can stabilise their future contribution rates (thus introducing more certainty into their future budgets) without jeopardising the long-term health of the Fund.
- Purchasing ill health liability insurance to mitigate the risk of an ill health retirement impacting on solvency and funding level of an individual employer where appropriate.
- Monitoring different employer characteristics in order to build up a picture of the risks posed. Examples include membership movements, cash flow positions and employer events such as cessations.
- Regularly reviewing the Fund's membership data to ensure it is complete, up to date and accurate.

6 Related issues

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

- the Funding Strategy Statement, which in particular highlights how different types of employer in different circumstances have their contributions calculated;
- the **Statement of Investment Principles [Or Investment Strategy Statement from 1 April 2017 if ready]** (e.g. the discount rate must be consistent with the Fund's asset strategy);
- the general governance of the Fund, such as meetings of the joint Pensions Committee and Board, decisions delegated to officers, the Fund's business plan, etc;
- the Fund's risk register;
- the information the Fund holds about the participating employers.

Further recommendations

Valuation frequency

Under the provisions of the LGPS regulations, the next formal valuation of the Fund is due to be carried out as at 31 March 2019. In light of the uncertainty of future financial conditions, we recommend that the financial position of the Fund (and for individual employers in some cases) is monitored by means of interim funding reviews in the period up to this next formal valuation. This will give early warning of changes to funding positions and possible revisions to funding plans.

Investment strategy and risk management

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

New employers joining the Fund

Any new employers or admission bodies joining the Fund should be referred to the Fund Actuary for individual calculation as to the required level of contribution. Depending on the number of transferring members the ceding employer's rate may also need to be reviewed.

Additional payments

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

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

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

Cessations and bulk transfers

Any employer who ceases to participate in the Fund should be referred to us in accordance with Regulation 64 of the Regulations.

Any bulk movement of scheme members:

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

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

DRAFT

7 Reliances and limitations

Scope

This document has been requested by and is provided to London Borough of Haringey in its capacity as Administering Authority to the London Borough of Haringey Pension Fund. It has been prepared by Hymans Robertson LLP to fulfil the statutory obligations in accordance with regulation 62 of the Regulations. 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 under Regulation 64).

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

The results of the valuation are dependent on the quality of the data provided to us by the Administering Authority for the specific purpose of this valuation. We have issued a separate report confirming that the data provided is fit for the purposes of this valuation and have commented on the quality of the data provided. The data used in our calculations is as per our report dated March 2017. However, if any material issues with the data provided are identified at a later date, then the results stated in this report may change.

Actuarial Standards

The following Technical Actuarial Standards¹ are applicable in relation to this report and have been complied with where material:

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

Douglas Green

Fellow of the Institute and Faculty of Actuaries

For and on behalf of Hymans Robertson LLP

6 March 2017

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

Appendix A: About the pension fund

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

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

Defined benefit pension scheme

In a defined benefit scheme such as this, the nature of retirement benefits that members are entitled to is known in advance. For example, it is known that members will receive a pension on retirement that is linked to their salary (final salary and/or career average) and pensionable service (for service before 1 April 2014) according to a pre-determined formula.

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

Liabilities

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

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

Assets

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

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

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

The long-term nature of the Fund

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

In order to assist with these decisions, the Regulations require the Administering Authority to obtain a formal valuation of the Fund every three years. Along with the Funding Strategy Statement, this valuation will help determine the funding objectives that will apply from 1 April 2017.

Appendix B: Summary of the Fund's benefits

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

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

Provision	Benefit Structure To 31 March 2008	Benefit Structure From 1 April 2008	Benefit Structure From 1 April 2014
Period of scheme membership	Total years and days of service during which a member contributes to the Fund. (e.g. transfers from other pension arrangements, augmentation, or from April 2008 the award of additional pension). For part time members, the membership is proportionate with regard to their contractual hours and a full time equivalent). Additional periods may be granted dependent on member circumstances.		N/A
Normal retirement benefits at NRA	<p>Annual Retirement Pension - 1/80th of final pay for each year of scheme membership.</p> <p>Lump Sum Retirement Grant - 3/80th of final pay for each year of scheme membership.</p>	<p>Scheme membership from 1 April 2008:</p> <p>Annual Retirement Pension - 1/60th of final pay for each year of scheme membership.</p> <p>Lump Sum Retirement Grant – none except by commutation of pension.</p>	<p>Scheme membership from 1 April 2014:</p> <p>Annual Retirement Pension - 1/49th of pensionable pay (or assumed pensionable pay) for each year of scheme membership revalued to NRA in line with CPI.</p> <p>Lump Sum Retirement Grant - none except by commutation of pension.</p>
Option to increase retirement lump sum benefit	In addition to the standard retirement grant any lump sum is to be provided by commutation of pension (within overriding HMRC limits). The terms for the conversion of pension in to lump sum is £12 of lump sum for every £1 of annual pension surrendered.	No automatic lump sum. Any lump sum is to be provided by commutation of pension (within overriding HMRC limits). The terms for the conversion of pension in to lump sum is £12 of lump sum for every £1 of annual pension surrendered.	No automatic lump sum. Any lump sum is to be provided by commutation of pension (within overriding HMRC limits). The terms for the conversion of pension in to lump sum is £12 of lump sum for every £1 of annual pension surrendered.
Voluntary early retirement benefits (non ill-health)	On retirement after age 60, subject to reduction on account of early payment in some circumstances (in accordance with ERA protections).		On retirement after age 55, subject to reduction on account of early payment in some circumstances (in accordance with ERA protections).
Employer's consent early retirement benefits (non ill-health)	<p>On retirement after age 55 with employer's consent.</p> <p>Benefits paid on redundancy or efficiency grounds are paid with no actuarial reduction.</p> <p>Otherwise, benefits are subject to reduction on account of early payment, unless this is waived by the employer.</p>		<p>Benefits paid on redundancy or efficiency grounds are paid with no actuarial reduction.</p> <p>Employer's consent is no longer required for a member to retire from age 55. However, benefits are subject to reduction on account of early payment, unless this is waived by the employer.</p>

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

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

Provision	Benefit Structure To 31 March 2008	Benefit Structure From 1 April 2008	Benefit Structure From 1 April 2014
Death in service	<p>A lump sum of two times final pay; plus</p> <p>A spouse's or civil partner's pension of one half of the ill-health retirement pension that would have been paid to the scheme member if he had retired on the day of death (generally post 1 April 1972 service for widowers' pension and post 6 April 1988 for civil partners); plus</p> <p>Children's pensions may also be payable.</p>	<p>A lump sum of three times final pay; plus</p> <p>A spouse's, civil partner's or cohabiting partner's pension payable at a rate of 1/160th of the member's total (augmented to age 65) membership (generally post 1 April 1972 service for widowers' pension and post 6 April 1988 for civil partners and nominated cohabiting partners), multiplied by final pay; plus</p> <p>Children's pensions may also be payable.</p>	
Leaving service options	<p>If the member has completed three months' or more scheme membership, deferred benefits with calculation and payment conditions similar to general retirement provisions; or</p> <p>A transfer payment to either a new employer's scheme or a suitable insurance policy, equivalent in value to the deferred pension; or</p> <p>If the member has completed less than three months' scheme membership, a return of the member's contributions with interest, less a State Scheme premium deduction and less tax at the rate of 20%.</p>		<p>If the member has completed two years or more scheme membership, deferred benefits with calculation and payment conditions similar to general retirement provisions; or</p> <p>A transfer payment to either a new employer's scheme or a suitable insurance policy, equivalent in value to the deferred pension; or</p> <p>If the member has completed less than two years scheme membership, a return of the member's contributions with interest, less a State Scheme premium deduction and less tax at the rate of 20%.</p>
State pension scheme	<p>From 6th of April 2016, the Fund will no longer be contracted out of the State Second Pension. Until that date, the benefits payable to each member were guaranteed to be not less than those required to enable the Fund to be contracted-out.</p>		
Assumed pensionable pay	N/A		<p>This applies in cases of reduced contractual pay (CPP) resulting from sickness, child related and reserve forces absence, whereby the amount added to the CPP is the assumed pensionable pay rather than the reduced rate of pay actually received.</p>
50/50 option	N/A		<p>Optional arrangement allowing 50% of main benefits to be accrued on a 50% employee contribution rate.</p>

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

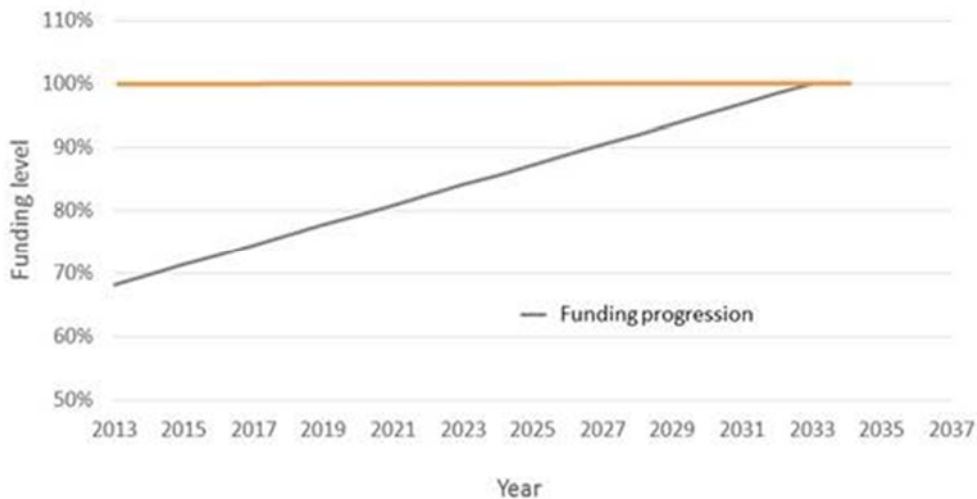
Discretionary benefits

The LGPS Regulations give employers a number of discretionary powers. The effect on benefits or contributions as a result of the use of these provisions as currently contained within the Local Government Pension Scheme Regulations has been allowed for in this valuation to the extent that this is reflected in the membership data provided. No allowance has been made for the future use of discretionary powers that will be contained within the scheme from 1 April 2017.

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Appendix C: Risk based approach to setting contribution rates

At previous valuations we have set contribution rates by calculating them using a single set of assumptions about the future economic conditions (a 'deterministic' method). By using this deterministic method, there is an implicit assumption that the future will follow expectations (i.e. the financial assumptions used in the calculation) and the employer will return to full funding via one 'journey'. This approach is summarised in the illustrative chart below.



However, pension funding is uncertain as:

- the Fund's assets are invested in volatile financial markets and therefore they go up and down in value; and
- the pension benefits are linked to inflation which again can go up and down in value over time.

One single set of assumptions are very unlikely to actually match what happens, and therefore, the funding plan originally set out will not evolve in line with the single journey shown above. The actual evolution of the funding position could be one of many different 'journeys', and a sample of these are given below.



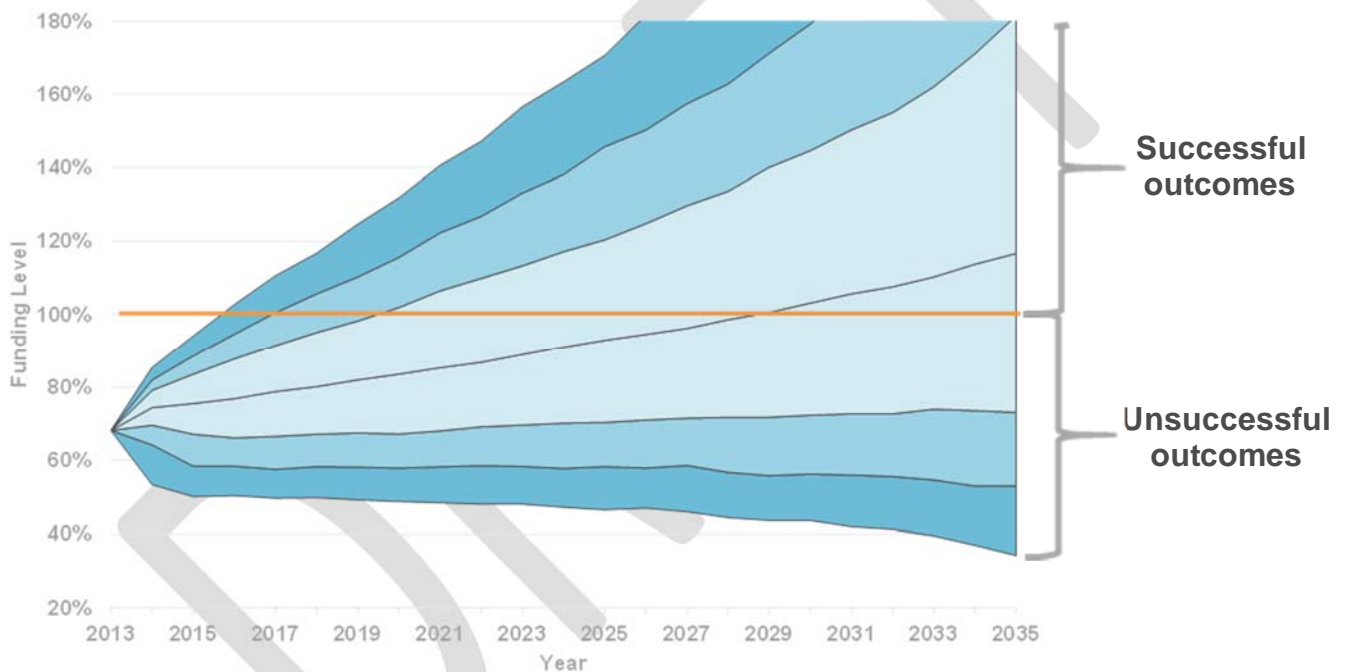
The inherent uncertainty in pension funding creates a risk that a funding plan will not be a success i.e. the funding target will not be reached over the agreed time period.

This risk can never be fully mitigated whilst invested in volatile assets and providing inflation linked benefits, however the main disadvantage of the traditional deterministic method is that it does not allow the Fund, employer, regulators or actuary to assess and understand the risk associated with the proposed funding plan and the likelihood of its success, or otherwise.

Risk Based Approach

At this valuation, we have adopted a 'risk based' approach when setting contribution rates. This approach considers thousands of simulations (or 'journeys') to be projected of how each employer's assets and liabilities may evolve over the future until we have a distribution of funding outcomes (ratio of assets to liabilities). Each simulation represents a different possible journey of how the assets and liabilities could evolve and they will vary due to assumptions about investment returns, inflation and other financial factors. Further technical detail about the methodology underlying these projections is set out in **Appendix F**.

Once we have a sufficient number of outcomes to form a statistically credible distribution (we use 5,000 outcomes), we can examine what level of contribution rate gives an appropriate likelihood of meeting an employer's funding target (usually a 100% funding level) within the agreed timeframe ('time horizon') (i.e. a sufficient number of successful outcomes). The picture below shows a sample distribution of outcomes for an employer.



Having this 'funnel' of outcomes allows the Fund to understand the likelihood of the actual outcome being higher or lower than a certain level. For example, there is 2/3rds chance the funding level will be somewhere within the light shaded area, and there is a 1 in 100 chance that the funding level will be outside the funnel altogether. Using this 'probability distribution', we then set a contribution rate that leads to a certain amount of funding outcomes being successful (e.g. 2/3rds).

Further detail on the likelihoods used in employer's funding plans is set out in the Fund's Funding Strategy Statement.

Appendix D: Data

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

Membership data – whole fund

Employee members

	31 March 2013		31 March 2016		
	Number	Pensionable Pay* (£000)	Number	Pensionable Pay* (£000)	CARE Pot (£000)
Total employee membership	5,500	126,020	6,134	137,340	4,926

*actual pay (not full-time equivalent)

Deferred pensioners

	31 March 2013		31 March 2016	
	Number	Deferred pension (£000)	Number	Deferred pension (£000)
Total deferred membership	8,258	15,924	9,096	18,633

The figures above also include any “frozen refunds” and “undecided leavers” members at the valuation date.

Current pensioners, spouses and children

	31 March 2013		31 March 2016	
	Number	Pension (£000)	Number	Pension (£000)
Members	5,656	29,956	6,186	34,040
Dependants	963	2,372	1,010	2,869
Children	91	122	82	137
Total pensioner members	6,710	32,451	7,278	37,046

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

Membership Profile	Average Age (years)		FWL (years)	
	2013	2016	2013	2016
Employees (CARE)	-	49.9	9.8	9.1
Employees (Final Salary)	51.3	52.7		
Deferred Pensioners	51.3	52.4	-	-
Pensioners	66.3	67.4	-	-

The average ages are weighted by liability.

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

Assets at 31 March 2016

A summary of the Fund's assets provided by the Administering Authority (excluding members' money-purchase Additional Voluntary Contributions) as at 31 March 2016 and 31 March 2013 is as follows:

Asset class	31 March 2013 (Market Value) (£m)	Allocation %	31 March 2016 (Market Value) (£m)	Allocation %
UK equities	215	25%	160	15%
UK fixed interest gilts	0	0%	0	0%
UK corporate bonds	0	0%	22	2%
UK index-linked gilts	128	15%	151	14%
Overseas equities	458	53%	543	52%
Overseas bonds	0	0%	47	4%
Property	48	6%	101	10%
Cash and net current assets	15	2%	23	2%
Total	863	100%	1,046	100%

Note that, for the purposes of determining the funding position at 31 March 2016, the asset value we have used also includes the present value of expected future early retirement strain payments (amounting to £0 m).

Accounting data – revenue account for the three years to 31 March 2016

Consolidated accounts (£000)	Year to			Total
	31 March 2014	31 March 2015	31 March 2016	
Income				
Employer - normal contributions	29,421	31,979	33,235	94,635
Employer - additional contributions	0	0	0	0
Employer - early retirement and augmentation strain contributions	1,040	1,601	1,491	4,131
Employee - normal contributions	8,468	8,867	9,056	26,391
Employee - additional contributions	86	71	69	227
Transfers In Received (including group and individual)	2,435	3,058	1,741	7,234
Other Income	0	0	0	0
Total Income	41,450	45,576	45,592	132,618
Expenditure				
Gross Retirement Pensions	32,824	34,842	36,388	104,053
Lump Sum Retirement Benefits	7,054	7,107	7,107	21,269
Death in Service Lump sum	533	1,111	827	2,471
Death in Deferment Lump Sum	0	0	0	0
Death in Retirement Lump Sum	0	0	0	0
Gross Refund of Contributions	6	36	73	115
Transfers out (including bulk and individual)	3,277	3,686	3,717	10,680
Fees and Expenses	801	824	897	2,522
Total Expenditure	44,495	47,606	49,008	141,110
Net Cashflow	-3,046	-2,030	-3,416	-8,492
Assets at start of year	863,192	899,345	1,045,355	863,192
Net cashflow	-3,046	-2,030	-3,416	-8,492
Change in value	39,198	148,040	4,338	191,577
Assets at end of year	899,345	1,045,355	1,046,277	1,046,277
Approximate rate of return on assets	4.5%	16.5%	0.4%	22.3%

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

Appendix E: Assumptions

Financial assumptions

Financial assumptions	31 March 2013 (% p.a.)	31 March 2016 (% p.a.)
Discount rate	4.6%	4.0%
Price inflation	2.5%	2.1%
Pay increases*	4.3%	2.8%
Pension increases:		
pension in excess of GMP	2.5%	2.1%
post-88 GMP	2.5%	2.1%
pre-88 GMP	0.0%	0.0%
Revaluation of deferred pension	2.5%	2.1%
Revaluation of accrued CARE pension	2.5%	2.1%
Expenses	0.5%	0.6%

*An allowance is also made for promotional pay increases (see table below).

Mortality assumptions

Longevity assumptions	31 March 2016
Longevity - baseline	Vita
Longevity - improvements	
CMI Model version used	CMI_2013
Starting rates	CMI calibration based on data from Club Vita using the latest available data as at January 2014.
Long term rate of improvement	Period effects: 1.25% p.a. for men and women. Cohort effects: 0% p.a. for men and for women.
Period of convergence	Period effects: CMI model core values i.e. 10 years for ages 50 and below and 5 years for those aged 95 and above, with linear transition to 20 years for those aged between 60 and 80. Cohort effects: CMI core i.e. 40 years for those born in 1950 or later declining linearly to 5 years for those born in 1915 or earlier.
Proportion of convergence remaining at mid point	50%

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

We have used a longevity improvement assumption based on the industry standard projection model calibrated with information from our longevity experts in Club Vita. The starting point for the improvements has been based on observed death rates in the Club Vita data bank over the period up to 2012.

We have used the 2013 version of the Continuous Mortality Investigation (CMI) longevity improvements model, instead of the more recent 2015 version, as we do not believe the increased mortality experience factored into the

2015 model is the start of a new trend. We believe it is more appropriate to use the 2013 version of the model for the 2016 valuation.

In the short term we have assumed that the improvements in life expectancy observed up to 2010 will start to tail off immediately, resulting in life expectancy increasing less rapidly than has been seen over the last decade or two. This could be described as assuming that improvements have 'peaked'.

In the longer term we have assumed that increases in life expectancy will stabilise at a rate of increase of 0.9 years per decade for men and women. This is equivalent to assuming that longer term mortality rates will fall at a rate of 1.25% p.a. for men and women.

However, we have assumed that above age 90 improvements in mortality are hard to achieve, and so the long term rate of improvement declines between ages 90 and 120 so that no improvements are seen at ages 120 and over. The initial rate of mortality is assumed to decline steadily above age 98.

Other demographic valuation assumptions

Retirements in normal health	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.
Retirements in ill health	Allowance has been made for ill-health retirements before Normal Pension Age (see table below).
Withdrawals	Allowance has been made for withdrawals from service (see table below).
Family details	A varying proportion of members are assumed to be married (or have an adult dependant) at retirement or on earlier death. For example, at age 60 this is assumed to be 90% for males and 85% for females. Husbands are assumed to be 3 years older than wives.
Commutation	50% of future retirements elect to exchange pension for additional tax free cash up to HMRC limits for service to 1 April 2008 (equivalent 75% for service from 1 April 2008).
50:50 option	5.0% of members (uniformly distributed across the age, service and salary range) will choose the 50:50 option.

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

age leaves service within the following twelve months. The abbreviations FT and PT refer to full-time and part-time respectively.

Death in Service tables:

Age	Deaths per 1000 active members per annum	
	Female	Male
20	0.12	0.21
25	0.12	0.21
30	0.18	0.26
35	0.30	0.30
40	0.48	0.51
45	0.77	0.85
50	1.13	1.36
55	1.49	2.13
60	1.90	3.83
65	2.44	6.38

III Health Early Retirements tables

Tier 1

Age	Incidence per 1000 active members per annum			
	IH Tier 1 Female FT	IH Tier 1 Female PT	IH Tier 1 Male FT	IH Tier 1 Male PT
20	0.00	0.00	0.00	0.00
25	0.12	0.09	0.00	0.00
30	0.16	0.12	0.00	0.00
35	0.32	0.24	0.12	0.09
40	0.48	0.36	0.20	0.15
45	0.65	0.48	0.44	0.33
50	1.21	0.91	1.13	0.85
55	4.48	3.36	4.42	3.32
60	9.51	7.14	7.78	5.84
65	17.09	12.82	14.78	11.09

Tier 2

Age	Incidence per 1000 active members per annum			
	IH Tier 2 Female FT	IH Tier 2 Female PT	IH Tier 2 Male FT	IH Tier 2 Male PT
20	0.00	0.00	0.00	0.00
25	0.10	0.07	0.00	0.00
30	0.13	0.10	0.00	0.00
35	0.26	0.19	0.10	0.07
40	0.39	0.29	0.16	0.12
45	0.51	0.39	0.35	0.27
50	1.22	0.92	1.14	0.85
55	2.60	1.95	2.56	1.92
60	2.69	2.01	2.20	1.65
65	0.00	0.00	0.00	0.00

Withdrawal

Withdrawals per 1000 active members per annum				
Age	Female FT	Female PT	Male FT	Male PT
20	151.58	252.63	219.73	439.47
25	101.99	169.97	145.14	290.28
30	85.50	142.46	102.98	205.93
35	73.79	122.91	80.46	160.88
40	61.42	102.26	64.78	129.48
45	57.31	95.41	60.85	121.60
50	48.32	80.35	50.16	100.12
55	36.05	60.02	39.50	78.88
60	29.06	48.31	35.20	70.28
65	0.00	0.00	0.00	0.00

Promotional salary scale

Age	Promotional Salary Scale
20	105
25	117
30	131
35	144
40	150
45	157
50	162
55	162
60	162
65	162

Appendix F: Technical appendix for contribution rate modelling

This appendix is provided for readers seeking to understand the technical methodology used in assessing the employer contribution rates.

In order to assess the likelihood of the employer's section of the Fund achieving full funding we have carried out stochastic asset liability modelling (ALM) that takes into account the main characteristics and features of each employer's share of the Fund's assets and liabilities. For stabilised employers a full ALM, known as comPASS has been used. For other employers a simplified ALM, known as TARGET has been used. Please refer to the Funding Strategy Statement to determine which method has been applied for each employer.

The following sections provide more detail on the background to the modelling.

Cash flows

In projecting forward the evolution of each employer's section of the Fund, we have used anticipated future benefit cashflows. These cashflows have been generated using the membership data provided for the formal valuation as at 31 March 2016, the demographic and financial assumptions used for the valuation and make an allowance for future new joiners to the Fund (if any employer is open to new entrants).

For comPASS we have estimated future service benefit cash flows and projected salary roll for new entrants (where appropriate) after the valuation date such that payroll remains constant in real terms (i.e. full replacement) unless otherwise stated. There is a distribution of new entrants introduced at ages between 25 and 65, and the average age of the new entrants is assumed to be 40 years. All new entrants are assumed to join and then leave service at SPA, which is a much simplified set of assumptions compared with the modelling of existing members. The base mortality table used for the new entrants is an average of mortality across the LGPS and is not specific to the Fund, which is another simplification compared to the modelling of existing members. TARGET uses a similar but simplified approach to generating new entrants. Nonetheless, we believe that these assumptions are reasonable for the purposes of the modelling given the highly significant uncertainty associated with the level of new entrants.

We do not allow for any variation in actual experience away from the demographic assumptions underlying the cashflows. Variations in demographic assumptions (and experience relative to those assumptions) can result in significant changes to the funding level and contribution rates. We allow for variations in inflation (RPI or CPI as appropriate), inflation expectations (RPI or CPI as appropriate), interest rates, yield curves and asset class returns. Cashflows into and out of the Fund are projected forward in annual increments and are assumed to occur in the middle of each financial year (April to March). Investment strategies are assumed to be rebalanced annually.

Asset liability model (comPASS)

These cashflows, and the employer's assets, are projected forward using stochastic projections of asset returns and economic factors such as inflation and bond yields. These projections are provided by the Economic Scenario Service (ESS), our (proprietary) stochastic asset model, which is discussed in more detail below.

In the modelling we have assumed that the Fund will undergo valuations every three years and a contribution rate will be set that will come into force one year after the simulated valuation date. For 'stabilised' contributions, the rate at which the contribution changes is capped and floored. There is no guarantee that such capping or flooring will be appropriate in future; this assumption has been made so as to illustrate the likely impact of practical steps that may be taken to limit changes in contribution rates over time.

Unless stated otherwise, we have assumed that all contributions are made and not varied throughout the period of projection irrespective of the funding position. In practice the contributions are likely to vary especially if the funding level changes significantly.

Investment strategy is also likely to change with significant changes in funding level, but we have not considered the impact of this.

In allowing for the simulated economic scenarios, we have used suitable approximations for updating the projected cashflows. The nature of the approximations is such that the major financial and investment risks can be broadly quantified. However, a more detailed analysis would be required to understand fully the implications and appropriate implementation of a very low risk or 'cash flow matched' strategy.

We would emphasise that the returns that could be achieved by investing in any of the asset classes will depend on the exact timing of any investment/disinvestment. In addition, there will be costs associated with buying or selling these assets. The model implicitly assumes that all returns are net of costs and that investment/disinvestment and rebalancing are achieved without market impact and without any attempt to 'time' entry or exit.

Asset liability model (TARGET)

TARGET uses a similar, but simplified, modelling approach to that used for compASS.

Contribution rates are inputs to the model and are assumed not to vary throughout the period of projection, with no valuation every three years or setting of 'stabilised' contribution rates.

In allowing for the simulated economic scenarios, we have used more approximate methods for updating the projected cash flows. The nature of the approximations is such that the major financial and investment risks can be broadly quantified.

When projecting forward the assets, we have modelled a proxy for the Fund's investment strategy by simplifying their current benchmark into growth (UK equity) and non-growth (index-linked gilts) allocations, and then adjusting the volatility of the resultant portfolio results to approximately reflect the diversification benefit of the Fund's investment strategy.

Economic Scenario Service

The distributions of outcomes depend significantly on the Economic Scenario Service (ESS), our (proprietary) stochastic asset model. This type of model is known as an economic scenario generator and uses probability distributions to project a range of possible outcomes for the future behaviour of asset returns and economic variables. Some of the parameters of the model are dependent on the current state of financial markets and are updated each month (for example, the current level of equity market volatility) while other more subjective parameters do not change with different calibrations of the model.

Key subjective assumptions are the average excess equity return over the risk free asset (tending to approximately 3% p.a. as the investment horizon is increased), the volatility of equity returns (approximately 18% p.a. over the long term) and the level and volatility of yields, credit spreads, inflation and expected (breakeven) inflation, which affect the projected value placed on the liabilities and bond returns. The market for CPI linked instruments is not well developed and our model for expected CPI in particular may be subject to additional model uncertainty as a consequence. The output of the model is also affected by other more subtle effects, such as the correlations between economic and financial variables.

Our expectation (i.e. the average outcome) is that long term real interest rates will gradually rise from their current low levels. Higher long-term yields in the future will mean a lower value placed on liabilities and therefore our median projection will show, all other things being equal, an improvement in the current funding position (because of the mismatch between assets and liabilities). The mean reversion in yields also affects expected bond returns.

While the model allows for the possibility of scenarios that would be extreme by historical standards, including very significant downturns in equity markets, large systemic and structural dislocations are not captured by the model. Such events are unknowable in effect, magnitude and nature, meaning that the most extreme possibilities are not necessarily captured within the distributions of results.

Expected Rate of Returns and Volatilities

The following figures have been calculated using 5,000 simulations of the Economic Scenario Service, calibrated using market data as at 31 March 2016. All returns are shown net of fees. Percentiles refer to percentiles of the 5,000 simulations and are the annualised total returns over 5, 10 and 20 years, except for the yields which refer to the (simulated) yields in force at that time horizon. Only a subset of the asset classes are shown below.

The current calibration of the model indicates that a period of outward yield movement is expected. For example, over the next 20 years our model expects the 17 year maturity annualised real (nominal) interest rate to rise from -1.0% (2.2%) to 0.8% (4.0%).

	Annualised total returns											17 year real yield	17 year yield	
	Index Linked Gilts (long dated)	UK Equity	Overseas Equity	Private Equity	Property	Senior Loans	Diversified Credit	Absolute Return Bonds (near zero duration)	Diversified Alternatives	Hedge Funds	Inflation			
5 Years	16th %ile	-2.9%	-3.7%	-5.6%	-7.2%	-3.8%	-0.8%	0.2%	-2.6%	-2.0%	-3.7%	1.2%	-1.6%	1.7%
	50th %ile	0.5%	4.5%	4.1%	5.3%	2.0%	2.2%	2.3%	2.0%	2.6%	2.1%	2.6%	-0.7%	3.0%
	84th %ile	4.1%	12.7%	14.3%	19.4%	8.3%	5.3%	4.5%	6.8%	7.5%	8.2%	4.2%	0.2%	4.5%
10 Years	16th %ile	-1.8%	-1.1%	-2.6%	-3.4%	-1.8%	0.7%	1.3%	-0.8%	-0.1%	-1.3%	1.4%	-1.5%	1.9%
	50th %ile	0.3%	5.0%	4.6%	5.9%	2.8%	3.1%	3.0%	2.6%	3.4%	3.0%	2.8%	-0.3%	3.5%
	84th %ile	2.7%	11.1%	12.1%	16.0%	7.5%	5.6%	4.7%	6.2%	7.2%	7.5%	4.5%	0.9%	5.5%
20 Years	16th %ile	-1.0%	1.3%	0.2%	0.3%	0.1%	2.1%	2.4%	1.0%	1.8%	0.7%	1.7%	-0.7%	2.3%
	50th %ile	0.5%	5.9%	5.6%	7.0%	3.7%	4.2%	4.0%	3.6%	4.5%	4.1%	3.0%	0.8%	4.0%
	84th %ile	2.2%	10.7%	11.2%	14.0%	7.6%	6.5%	5.8%	6.5%	7.5%	7.8%	4.4%	2.3%	6.3%
Dispersion (1 yr)		9%	16%	19%	29%	14%	6%	6%	10%	10%	12%	1%		

Appendix G: Events since valuation date

Post-valuation events

These valuation results are in effect a snapshot of the Fund as at 31 March 2016. Since that date, various events have had an effect on the financial position of the Fund. Whilst we have not explicitly altered the valuation results to allow for these events, a short discussion of these “post-valuation events” can still be beneficial in understanding the variability of pension funding.

In the period from the valuation date to early March 2017, the Fund asset returns have been significantly better than expected. However, global expectations for future asset returns have fallen in light of events such as the Brexit vote. Both events have roughly cancelled each other out in terms of the impact on the funding position. However, the day to day volatility is significant

Overall, employer contributions continue to be subject to upwards pressure as a result of post-valuation events.

It should be noted that the above is for information only: the figures in this report have all been prepared using membership data, audited asset information and market-based assumptions all as at 31 March 2016. In particular, we do not propose amending any of the contribution rates listed in the Rates & Adjustments Certificate on the basis of these market changes, and all employer contribution rates are based on valuation date market conditions. In addition, these rates are finalised within a risk-measured framework as laid out in the Fund’s Funding Strategy Statement (FSS). We do not propose altering the FSS or valuation calculations to include allowance for post-valuation date market changes since a long term view has been taken.

Other events

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

Appendix H: Rates and adjustments certificate

In accordance with regulation 62(4) of the Regulations we have made an assessment of the contributions that should be paid into the Fund by participating employers for the period 1 April 2017 to 31 March 2020 in order to maintain the solvency of the Fund.

The method and assumptions used to calculate the contributions set out in the Rates and Adjustments certificate are detailed in the Funding Strategy Statement dated March 2017 and our report on the actuarial valuation dated March 2017.

The required minimum contribution rates are set out below.

Employer code	Employer/Pool name	Contributions currently in payment 2016/17		Minimum Contributions for the Year Ending					
				31 March 2018		31 March 2019		31 March 2020	
				Primary rate	Secondary rate	Primary rate	Secondary rate	Primary rate	Secondary rate
1	Haringey Council (Pool)	24.9%	£0	17.1%	£8,616,000	17.1%	£8,616,000	17.1%	£10,174,000
5	College of Haringey, Enfield and North East London	20.7%	£448,000	18.3%	£424,000	18.3%	£310,000	18.3%	£190,000
7	Haringey Citizens Advice Bureaux	25.4%	£59,000	33.0%	£50,000	33.0%	£53,000	33.0%	£55,000
8	Alexandra Palace Trading Co Ltd	27.2%	£48,000	35.0%	£71,000	35.0%	£103,000	35.0%	£136,000
11	Urban Futures London Ltd	21.6%	£25,000	21.7%	-3.9%	21.7%	-3.9%	21.7%	-3.9%
13	Greig City Academy	18.9%	£16,000	16.9%	1.1%	16.9%	0.0%	16.9%	0.0%
18	Homes for Haringey	24.9%	£0	18.6%	4.2%	18.6%	2.1%	18.6%	0.0%
20	Cooperscroft Care Home Ltd.	26.6%	£0	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
22	Fortismere School	20.4%	£0	17.7%	3.9%	17.7%	2.0%	17.7%	0.0%
27	Veolia Environmental Services Ltd	26.4%	£0	26.3%	-24.7%	26.3%	-24.7%	26.3%	-24.7%
28	Alexandra Park School	22.3%	£0	17.6%	6.1%	17.6%	4.1%	17.6%	2.1%
29	Woodside Academy	20.0%	£0	16.7%	3.1%	16.7%	1.1%	16.7%	0.0%
30	Eden Free School	19.4%	£0	17.7%	0.0%	17.7%	0.0%	17.7%	0.0%
31	Churchill Cleaning	22.9%	£0	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
32	Harris Primary Academy Coleraine park	21.6%	£0	16.0%	4.9%	16.0%	2.9%	16.0%	0.9%
33	Harris Primary Academy Philip Lane	21.3%	£0	17.0%	4.3%	17.0%	2.3%	17.0%	0.3%
34	AET Trinity School	22.2%	£0	17.8%	6.1%	17.8%	4.1%	17.8%	2.1%
35	AET Noel Park Primary School	20.8%	£0	17.0%	4.1%	17.0%	2.1%	17.0%	0.1%
36	Fusion Lifestyle	22.1%	£0	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
37	Cofely Workspace Limited	24.6%	£0	26.6%	-24.4%	26.6%	-24.4%	26.6%	-24.4%
38	Haringey Sixth Form Centre	18.7%	£0	17.3%	2.2%	17.3%	0.2%	17.3%	0.0%
39	St Pauls & All Hallows CofE Infants	23.2%	£0	18.0%	3.2%	18.0%	1.2%	18.0%	0.0%
40	St Pauls & All Hallows CofE Junior	23.2%	£0	18.1%	3.1%	18.1%	1.1%	18.1%	0.0%
41	St Michaels CofE	23.2%	£0	17.9%	3.3%	17.9%	1.3%	17.9%	0.0%
42	St Annes CofE	23.2%	£0	15.9%	5.3%	15.9%	3.3%	15.9%	1.3%
43	Holy Trinity CE Primary School	23.2%	£0	16.7%	4.5%	16.7%	2.5%	16.7%	0.5%
44	Brook House Primary School	16.2%	£0	15.7%	0.0%	15.7%	0.0%	15.7%	0.0%
45	St Thomas More RC Academy	22.3%	£0	17.9%	7.1%	17.9%	5.1%	17.9%	3.1%
46	Heartlands High School	20.6%	£0	14.9%	3.7%	14.9%	1.7%	14.9%	0.0%
47	Millbrook Park Primary School	23.2%	£0	16.2%	5.0%	16.2%	3.0%	16.2%	1.0%
48	Harris Academy Tottenham	23.9%	£0	13.1%	8.8%	13.1%	6.8%	13.1%	4.8%
49	Lunchtime St Gildas School	22.3%	£0	24.0%	-9.7%	24.0%	-9.7%	24.0%	-9.7%
50	Lunchtime St Francis De Sales	22.7%	£0	25.5%	-17.0%	25.5%	-17.0%	25.5%	-17.0%
51	Lunchtime St Marys School	28.7%	£0	29.1%	-24.1%	29.1%	-24.1%	29.1%	-24.1%
52	Lunchtime St Pauls School	24.7%	£0	25.7%	-8.4%	25.7%	-8.4%	25.7%	-8.4%
53	Lunchtime Ferry Lane School	29.5%	£0	28.8%	-12.4%	28.8%	-12.4%	28.8%	-12.4%
54	Lunchtime Bounds Green School	24.9%	£0	24.6%	-9.0%	24.6%	-9.0%	24.6%	-9.0%
55	ABM Weston Park	27.6%	£0	28.3%	-27.8%	28.3%	-27.8%	28.3%	-27.8%
56	ABM Muswell Hill	33.2%	£0	28.3%	-25.3%	28.3%	-25.3%	28.3%	-25.3%
58	Caterlink Bruce Grove	30.2%	£0	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
59	ISS - Crowland School	26.7%	£0	29.2%	-17.2%	29.2%	-17.2%	29.2%	-17.2%
60	Superclean Services - Willows School	26.7%	£0	22.3%	0.0%	22.3%	0.0%	22.3%	0.0%
61	The Octagon	18.8%	£0	17.6%	0.0%	17.6%	0.0%	17.6%	0.0%
62	Absolutely Catering Rokesly	28.3%	£0	26.2%	-13.5%	26.2%	-13.5%	26.2%	-13.5%
63	Caterlink Holy Trinity	25.8%	£0	23.4%	-11.5%	23.4%	-11.5%	23.4%	-11.5%
65	Caterlink St Michaels	27.0%	£0	26.9%	-5.2%	26.9%	-5.2%	26.9%	-5.2%
66	Caterlink St Pauls	28.8%	£0	26.9%	-12.8%	26.9%	-12.8%	26.9%	-12.8%
67	Tottenham UTC	23.9%	£0	16.3%	5.6%	16.3%	3.6%	16.3%	1.6%
68	Lunchtime Seven Sisters	30.4%	£0	27.4%	-21.5%	27.4%	-21.5%	27.4%	-21.5%
69	Lunchtime Welbourne	26.5%	£0	27.4%	-10.3%	27.4%	-10.3%	27.4%	-10.3%
70	Lunchtime Earlsmead	30.5%	£0	28.0%	-23.0%	28.0%	-23.0%	28.0%	-23.0%
71	Amey Community Limited	28.5%	£0	26.1%	-24.5%	26.1%	-24.5%	26.1%	-24.5%

Employer code	Employer/Pool name	Contributions currently in payment 2016/17		Minimum Contributions for the Year Ending					
				31 March 2018		31 March 2019		31 March 2020	
				Primary rate	Secondary rate	Primary rate	Secondary rate	Primary rate	Secondary rate
72	K M Cleaning	36.4%	£0	5.0%	0.0%	5.0%	0.0%	5.0%	0.0%
73	Pabulum (Lea Valley Primary Schhol)	26.3%	£0	25.4%	0.0%	25.4%	0.0%	25.4%	0.0%
74	Pabulum (St John Vianney School)	22.5%	£0	25.6%	0.0%	25.6%	0.0%	25.6%	0.0%
75	Pabulum (St Martin de Porres School)	29.8%	£0	27.6%	0.0%	27.6%	0.0%	27.6%	0.0%
76	Pabulum (South Harringay School)	27.7%	£0	27.2%	0.0%	27.2%	0.0%	27.2%	0.0%
77	Pabulum (Earlham School)	38.2%	£0	35.0%	0.0%	35.0%	0.0%	35.0%	0.0%
78	Pabulum (Belmont School)	26.9%	£0	30.5%	0.0%	30.5%	0.0%	30.5%	0.0%
79	Pabulum (Tetherdown School)	31.4%	£0	31.0%	0.0%	31.0%	0.0%	31.0%	0.0%
80	Pabulum (Alexandra Primary School)	24.2%	£0	25.8%	0.0%	25.8%	0.0%	25.8%	0.0%
81	Pabulum (St Peter in Chains School)	26.5%	£0	29.9%	0.0%	29.9%	0.0%	29.9%	0.0%

Signature:

Date: 6 March 2017

Name: Douglas Green

Qualification: Fellow of the Institute and
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London Borough of Haringey Pension Fund

Funding Strategy Statement

March 2017

Contents

DRAFT Funding Strategy Statement

PAGE

1	Introduction	1
2	Basic Funding issues	4
3	Calculating contributions for individual Employers	8
4	Funding strategy and links to investment strategy	19
5	Statutory reporting and comparison to other LGPS Funds	21

Appendices

Appendix A – Regulatory framework	23
Appendix B – Responsibilities of key parties	25
Appendix C – Key risks and controls	27
Appendix D – The calculation of Employer contributions	31
Appendix E – Actuarial assumptions	34
Appendix F – Glossary	37

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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](#). This FSS has been prepared taking account of the revised guidance on preparing and maintaining a FSS issued by CIPFA in 2016.

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:

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

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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 Thomas Skeen, Head of Pensions in the first instance at e-mail address thomas.skeen@haringey.gov.uk or on telephone number 020 8489 1341.

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.

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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 – **transfree 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;

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- 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.

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.

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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	Future working lifetime	Outstanding contract term
Secondary rate – Note (d)	Monetary amount	Percentage of pay	Monetary amount	Monetary amount	Monetary amount	Percentage of pay
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, unless time horizon passes next valuation in which case limit to Primary rate
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 (i) .		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.

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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**

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*In practice the Council contribution rate will be held at the current level for 2 years, followed by a 1.5% increase in 2019-20.

**Reductions in contribution rate will be limited such that the Academy is paying at least the Primary rate.

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;

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- 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;

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, policy (iv) above will be reconsidered at each valuation.

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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.

At the Administering Authority's discretion, where the employer is not able to provide an appropriate bond or security, the Fund may accept the Admission Body on the basis that it pays a premium reflecting the added risk being borne by the Awarding Authority or Fund. This premium will typically be 5% of pensionable pay.

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) Pooling

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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) Letting employer retains pre-contract risks

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

iii) Fixed contribution rate agreed

Under this option the contractor pays a fixed contribution rate and 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:

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- (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.

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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 for all employers other than the Council will now be met via external insurance (see [3.8](#) below).

3.8 External ill health insurance

All employers other than the Council are covered by an external insurance policy covering ill health early retirement strains. In effect, the premiums are covered by the employer's contribution to the Fund each year.

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;

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- 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 employers.

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

3.10 Policies on bulk transfers

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

- The Fund will not pay bulk transfers greater than the lesser of (a) the asset share of the transferring employer in the Fund, and (b) the value of the past service liabilities of the transferring members;
- The Fund will not grant added benefits to members bringing in entitlements from another Fund unless the asset transfer is sufficient to meet the added liabilities; 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.

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.

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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.

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.

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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. As a result of Section 13 of the Public Service Pensions Act 2013, the FSS must have as the primary objective the setting of employer contributions at an appropriate level to ensure both the solvency and the long-term cost-efficiency of the Pension Fund.

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 on 22 February 2017 for comment;
- b) Comments were requested within 14 days;
- c) There was an Employers Forum on 28th February 2017 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 by 1 April 2017.

A3 How is the FSS published?

The FSS is made available through the following routes:

Published on the website, at <http://www.haringeypensionfund.co.uk>;

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

A full copy included in or linked from the annual report and accounts of the Fund;

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

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](#));

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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.

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

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Risk	Summary of Control Mechanisms
	<p>risk.</p> <p>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.</p>
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	<p>The Fund seeks a cessation debt (or security/guarantor) to minimise the risk of this happening in the future.</p> <p>If it occurs, the Actuary calculates the added cost spread pro-rata among all employers – (see 3.9).</p>

C3 Demographic risks

Risk	Summary of Control Mechanisms
Pensioners living longer, thus increasing cost to Fund.	<p>Set mortality assumptions with some allowance for future increases in life expectancy.</p> <p>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.</p>
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	<p>Employers are charged the extra cost of non ill-health retirements following each individual decision.</p> <p>Employer ill health retirement experience is monitored, and insurance is an option.</p>
Reductions in payroll causing insufficient deficit recovery payments	<p>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:</p> <p>Employers in the stabilisation mechanism may be brought out of that mechanism to permit appropriate contribution increases (see Note (b) to 3.3).</p>

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

C4 Regulatory risks

Risk	Summary of Control Mechanisms
Changes to national pension requirements and/or HMRC rules e.g. changes arising from public sector pensions reform.	<p>The Administering Authority considers all consultation papers issued by the Government and comments where appropriate.</p> <p>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.</p>
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.	<p>The Administering Authority considers all consultation papers issued by the Government and comments where appropriate.</p> <p>Take advice from Fund Actuary on impact of changes on the Fund and amend strategy as appropriate.</p>

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.	<p>The Administering Authority has a close relationship with employing bodies and communicates required standards e.g. for submission of data.</p> <p>The Actuary may revise the rates and Adjustments certificate to increase an employer's contributions between triennial valuations</p> <p>Deficit contributions may be expressed as monetary amounts.</p>
Actuarial or investment advice is not sought, or	The Administering Authority maintains close contact

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Risk	Summary of Control Mechanisms
is not heeded, or proves to be insufficient in some way	<p>with its specialist advisers.</p> <p>Advice is delivered via formal meetings involving Elected Members, and recorded appropriately.</p> <p>Actuarial advice is subject to professional requirements such as peer review.</p>
Administering Authority failing to commission the Fund Actuary to carry out a termination valuation for a departing Admission Body.	<p>The Administering Authority requires employers with Best Value contractors to inform it of forthcoming changes.</p> <p>Community Admission Bodies' memberships are monitored and, if active membership decreases, steps will be taken.</p>
An employer ceasing to exist with insufficient funding or adequacy of a bond.	<p>The Administering Authority believes that it would normally be too late to address the position if it was left to the time of departure.</p> <p>The risk is mitigated by:</p> <p>Seeking a funding guarantee from another scheme employer, or external body, where-ever possible (see Notes (h) and (j) to 3.3).</p> <p>Alerting the prospective employer to its obligations and encouraging it to take independent actuarial advice.</p> <p>Vetting prospective employers before admission.</p> <p>Where permitted under the regulations requiring a bond to protect the Fund from various risks.</p> <p>Requiring new Community Admission Bodies to have a guarantor.</p> <p>Reviewing bond or guarantor arrangements at regular intervals (see Note (f) to 3.3).</p> <p>Reviewing contributions well ahead of cessation if thought appropriate (see Note (a) to 3.3).</p>

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),

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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;

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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.

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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.

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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.

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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

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[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.

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Report for: Pensions Committee 27th March 2017

Item number: 16

Title: Draft Investment Strategy Statement

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

Lead Officer: Thomas Skeen, Head of Pensions
thomas.skeen@haringey.gov.uk 020 8489 1341

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 Investment Strategy Statement prepared for the fund. The Investment Strategy Statement is a new statutory document for LGPS funds, as required by Regulation 7 of the Local Government Pension Scheme (Management and Investment of Funds) Regulations 2016.

2. Cabinet Member Introduction

- 2.1. Not applicable.

3. Recommendations

- 3.1. That the Committee note the contents of Appendix 1: a summary of the changes to the Local Government Pension Scheme investment regulations, prepared by the fund's Independent Advisor: John Raisin Financial Services Limited.
- 3.2. That the Committee note, and approve the draft Investment Strategy Statement attached as Appendix 2 of this report.
- 3.3. That the Committee agrees to the Fund committing to becoming a signatory to the Financial Reporting Council (FRC) UK Stewardship Code.

4. Reason for Decision

- 4.1. In accordance with Regulation 7(6) of the Local Government Pension Scheme (Management and Investment of Funds) Regulations 2016,

each LGPS Fund must publish its (new) Investment Strategy Statement by 1 April 2017.

4.2. The UK Stewardship Code aims 'to enhance the quality of engagement between investors and companies to help improve long-term risk-adjusted returns to shareholders'. There is no cost associated with being a signatory, and many LGPS funds have already signed up to the Code.

4.3. The guidance issued by the Department of Communities and Local Government: 'Preparing and Maintaining an Investment Strategy Statement' states that 'Administering authorities should become Signatories to the Code and state how they implement the seven principles'.

5. Other options considered

5.1. None.

6. Background information

6.1. The Local Government Pension Scheme (Management and Investment of Funds) Regulation 2009 came into effect on 1st January 2010. One of the requirements of the Regulation is that pension funds must prepare, maintain and publish a statement of the principles governing its decisions about the investment of fund money. Haringey Pension Committee last reviewed and approved the Statement of Investment Principles in the committee meeting on 9 February 2017.

6.2. Under the new Local Government Pension Scheme (Management and Investment of Funds) Regulations 2016, the Statement of Investment Principles has been replaced by the Investment Strategy Statement.

6.3. The Investment Strategy Statement must be reviewed and revised by the Council as administering authority when any material changes take place such as changes to the types of investment held or the balance between the types of investments in the Fund.

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 Investment Strategy Statement details the decision by Committee on how the Funds resources will be invested. The Strategy set has been prepared to maximise returns of Fund's assets within acceptable risk parameters and also to facilitate a reduction in the burden of deficit funding that employers in the Fund are liable for.
- 8.2. The performance of the Fund's strategy is monitored through a quarterly report that is presented to Committee. Recent performances have been good and generally either in line with or exceeded target.

Legal

- 8.3. Under Regulation 7(6) of the Local Government Pension Scheme (Management and Investment of Funds) Regulation 2016 the administering authority is required to publish its first investment strategy statement by 1 April 2017. The investment strategy must include those matters set out in Regulation 7(2).

Equalities

There are no equalities issues arising from this report.

9. Use of Appendices

- 9.1. Appendix 1 - Summary of the changes to the Local Government Pension Scheme investment regulations, John Raisin Financial Services Limited.
- 9.2. Appendix 2 – Draft Investment Strategy Statement

10. Local Government (Access to Information) Act 1985

Not applicable.

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JOHN RAISIN FINANCIAL SERVICES LIMITED

London Borough of Haringey Pension Fund

The Local Government Pension Scheme
Investment Regulations 2016

A paper by the Independent Advisor
February 2017

Background

On 1 November 2016, ***The Local Government Pension Scheme (Management and Investment of Funds) Regulations 2016*** (the LGPS Investment Regulations 2016) came into force. This paper examines and explains the background to the Regulations, their contents and implications.

In November 2015, the Government had issued a Consultation proposing reform of the LGPS Investment Regulations. This Consultation proposed a number of significant changes including:

- Revoking and replacing the Local Government Pension Scheme (Management and Investment of Funds) Regulations 2009 (as Amended)
- Removing Schedule 1 to the 2009 Regulations which placed % based restrictions on the nature of investments LGPS Funds could make and replacing this with a “*prudential person*” approach similar to that which applies to private sector Defined Benefit Pension Schemes. Under the proposed revised approach, it would be a matter for each LGPS Fund to determine the mix and balance of its investments taking risk into account
- Further deregulation particularly in relation to the appointment and review of external Investment Managers
- The replacement of the existing requirement for each LGPS Fund to define its investment strategy in a Statement of Investment Principles (SIP) with a requirement to prepare and approve an Investment Strategy Statement (ISS)
- A requirement for each LGPS Fund to define its approach to Investment Pooling (part of draft Regulation 7)

- A proposed power for the Secretary of State (draft Regulation 8) to issue directions to an LGPS Fund in relation to investment matters where the Secretary of State had determined that the Fund had failed to have regard to the requirements of regulation and guidance

The Consultation also included a specific question seeking views on the use of derivatives. The extent to which/circumstances in which LGPS Funds could utilise derivatives had been unclear under the 2009 Investment Regulations.

Government response to the Consultation

In September 2016, the Government responded to the Consultation by issuing three documents. These were the 2016 Investment Regulations, Statutory Guidance to accompany the new Regulations and the formal response to the Consultation.

- ***The Local Government Pension Scheme (Management and Investment of Funds) Regulations 2016*** which were laid before Parliament on 23 September 2016 and came into effect on 1 November 2016 were very closely based on the Draft Regulations issued in November 2015. These include the introduction of a “*prudential person*” approach to LGPS investment and also a clearly positive emphasis on both Environmental, Social and Governance (ESG), and Stewardship considerations. The Regulations confirm the Government’s intention to proceed with Investment Pooling and the introduction of a power of intervention (Directions) by the Secretary of State in specified circumstances
- The Statutory Guidance entitled ***Local Government Pension Scheme Guidance on Preparing and Maintaining an Investment Strategy Statement*** provides guidance for LGPS Funds in preparing their Investment Strategy Statement in accordance with Regulation 7 of the 2016 Investment Regulations. Guidance is given in respect of each of the six component parts of Regulation 7. This Statutory Guidance also provides context and clarification in respect of the issuing of Directions by the Secretary of State to an individual LGPS Fund under Regulation 8 of the 2016 Investment Regulations. Based on the Guidance such a Direction would only be issued if a Fund was in clear breach of the Regulations or Statutory Guidance and after careful consultation including with the relevant Fund.
- The ***Government response to the Consultation*** of November 2015.

The LGPS Investment Regulations 2016

There are 12 individual Regulations in the LGPS Investment Regulations 2016. Significant changes as compared to the LGPS Investment Regulations 2009 (As Amended) relate to:

Definition of Investment

Regulation 3 of the 2016 Regulations provides a revised definition of “*investment*.” Overall the definition of “*investment*” in the 2016 Regulations is less complex than that in the 2009 Regulations. The new Regulations remove the previous uncertainty around the use of derivative instruments. Unlike the 2009 Regulations the 2016 Regulations specifically list “*derivatives*” as a permissible investment.

Investment Strategy Statement (which includes Asset Allocation decisions, Investment Pooling, ESG and Stewardship considerations)

Regulation 7 of the 2016 Regulations introduces the requirement for each LGPS Fund to formulate an **Investment Strategy Statement (ISS)**. This document replaces the Statement of Investment Principles (SIP) required under the 2009 Regulations.

As proposed in the November 2015 Consultation the limits in respect of % allocations to particular investments contained in Schedule 1 of the 2009 Investment Regulations are not carried forward to the 2016 Regulations. LGPS Funds now have the freedom to implement a “*prudential person*” approach to their Investment Strategy approach. They must however comply with Regulation 7 of the 2016 Investment Regulations and Guidance issued by the Secretary of State. Such Guidance was issued in September 2016 and may subsequently be revised.

Regulation 7(2) states: *The authority’s investment strategy must include –*

- a) a requirement to invest fund money in a wide variety of investments;*
- b) the authority’s assessment of the suitability of particular investments and types of investments;*
- c) the authority’s approach to risk, including the ways in which risks are to be assessed and managed;*
- d) the authority’s approach to pooling investments, including the use of collective investment vehicles and shared services;*

- e) *the authority's policy on how social, environmental and corporate governance considerations are taken into account in the selection, non-selection, retention and realisation of investments; and*
- f) *the authority's policy on the exercise of the rights (including voting rights) attaching to investments.*

The Guidance issued by the Secretary of State in September 2016 includes six pages of Guidance in relation to the preparation of the ISS under Regulation 7(2).

The 2016 Investment Regulations and Guidance provide the freedom to LGPS Funds to invest in such assets as they consider appropriate through the removal of Schedule 1 to the 2009 Investment Regulations. The Regulations and Guidance also encourage LGPS Funds to carefully and proactively consider their strategic asset allocations. Whereas the 2009 Regulations merely required the SIP to cover *"the types of investments to be held"* Regulation 7(2)(a) of the 2016 Regulations state that a Fund's ISS must include *"a requirement to invest fund money in a wide variety of investments"*

The Guidance of September 2016 clearly encourages LGPS Fund's to adopt a genuinely diversified investment strategy and to avoid over reliance on any particular asset class and refers to a wide range of potential asset classes. It is however stated that *"this guidance does not purport to prescribe the specific asset classes over which fund monies must be diversified. This remains a decision for the individual administering authorities to make. Administering authorities are expected to be able to demonstrate that those responsible for making investment decisions have taken and acted on proper advice and that diversification decisions have been taken in the best long term interest of scheme beneficiaries."*

In clear contrast to the 2009 Regulations the 2016 Regulations positively promote an Environmental, Social and Governance (ESG) approach. Regulation 7(2)(e) states a Fund's investment strategy must include *"the authority's policy on how social, environmental and corporate governance considerations are taken into account in the selection, non-selection, retention and realisation of investments."* The 2009 Regulations had a very different emphasis stating that the SIP must cover *"the extent (if at all) to which social, environmental or ethical considerations are taken into account in the selection, retention and realisation of investments."*

The Guidance of September 2016 further positively promotes an ESG emphasis and includes the following statement *"The law is generally clear that schemes should consider any factors that are financially material to the performance of their investments, including social, environmental and corporate governance factors..."* Furthermore the guidance states *"Although schemes should make the pursuit of a financial return their predominant concern, they may also take purely non-financial considerations into account provided in doing so would not involve significant risk of financial detriment to the scheme and where they have good reason to think that scheme members would support their decision."*

The September 2016 Guidance also positively promotes social impact investing including the statement *“.....some part of the financial return may be foregone in order to generate the social impact. These investments will also be compatible with the prudent approach providing administering authorities have good reason to think scheme members share their concern for social impact, and there is no risk of significant financial detriment to the fund.”*

In relation to ESG issues the Guidance states *“the Government has made it clear that using pension policies to pursue boycotts, disinvestment and sanctions against foreign nations and UK defence industries are inappropriate, other than where formal legal sanctions, embargoes and restrictions have been put in place by the Government.”* This proposal which was contained in the Consultation of November 2015 resulted in a large response to the Consultation. 98% of the 23,516 responses received were from members of the public primarily in response to this proposal. The Guidance on *“...boycotts, disinvestment and sanctions...”* is however extremely unlikely to have any impact on the investment strategy of any individual LGPS Fund as the pursuit of a financial return is the primary criteria against which investment decisions must be made. The primacy of the financial return criteria has always been known to and abided by in the case of LGPS Funds and therefore it would seem unnecessary for the Government to have included the paragraph on boycotts, disinvestments and sanctions in the Guidance of September 2016.

In contrast to the 2009 Investment Regulations the 2016 Regulations by virtue of Regulation 7(2)(f) (in the words of the Guidance document) *“requires every administering authority to formulate a policy that reflects their stewardship responsibilities.”* The Guidance positively promotes active stewardship stating *“Stewardship aims to promote the long term success of companies.... Stewardship activities include monitoring and engaging with companies.... Engagement by administering authorities is purposeful....”* The Guidance further states that *“authorities are encouraged to consider the best way to engage with companies to promote their long term success.....”*

Notably the Guidance states that individual LGPS Funds *“should”* become signatories to the UK Stewardship Code *“and state how they implement the seven principles and guidance of the Code, which apply on a “comply or explain” basis”*. This Code which was issued by the Financial Reporting Council in July 2010 and revised in September 2012 aims to enhance the quality of engagement between investors and companies. This also represents a significant development as (based on research undertaken by the author of this paper) no more than 16 out of the 89 Administering Authorities in England and Wales had become signatories to the Code prior to the DCLG issuing its Guidance of September 2016. Furthermore the Guidance states LGPS Funds *“Should publish a report of voting activity as part of their pension fund annual report....”*

Regulation 7(2)(d) and the associated Guidance incorporate the requirement for LGPS Funds to delegate, in due course, the implementation of their Investment Strategy to an Investment Pool approved by the Government in accordance with criteria agreed by the Government. The Guidance requires each Fund to submit to the Scheme Advisory Board *“an annual report on the progress of asset transfers”* to their chosen Investment Pool.

In accordance with Regulation 7(6) each LGPS Fund must publish its (new) Investment Strategy Statement by 1 April 2017.

Directions by the Secretary of State

Regulation 8 provides that the Secretary of State may issue a Direction in relation to a LGPS Fund’s investment functions if (s)he *“is satisfied that the authority is failing to act in accordance with guidance issued under regulation 7(1).”* The Guidance of September 2016 both provides an explanation for the introduction of Regulation 8 and makes it clear that the power of intervention would only be used where, after due consultation and consideration, it is clear the Investment Regulations/Statutory Guidance have been breached. The Guidance states *“In relaxing the regulatory framework for scheme investments, administering authorities will be expected to make their investment decisions within a prudential framework with less central prescription. It is important therefore that the regulations include a safeguard to ensure that this less prescriptive approach is used appropriately and in the best long term interests of scheme beneficiaries and taxpayers.”*

The Guidance then states *“Where there is evidence to suggest that an authority is acting unreasonably, it may be appropriate for the Secretary of State to consider intervention, but only where this is justified and where the relevant parties have been consulted. Regulation 8 includes a number of safeguards, including full consultation with the relevant authority, to ensure that the proposed power is used appropriately, proportionately and only where justified by the evidence.”*

The Guidance also states that *“The Secretary of State’s power of intervention does not interfere with the duty of elected members under general public law principles to make investment decisions in the best long-term interest of scheme beneficiaries and taxpayers.”*

Based on the wording of Regulation 8 and the Guidance the power of intervention is definitely a reserve power which would not normally be utilised. A clear example of where it might however be applied is where a LGPS Fund refused to actively engage in Investment Pooling.

Investment Managers

The 2009 Investment Regulations contained four regulations relating to Investment Managers. These covered in detail their definition, choice, terms of appointment and review. In contrast Regulation 9 of the 2016 Investment Regulations alone covers the issue of Investment Managers. This represents a clear deregulation and granting of freedoms and flexibilities to individual LGPS Funds. Rather than the detailed prescriptive approach of the 2009 Regulations the new Regulation 9 simply requires that the Fund *“must reasonably believe that the investment manager’s ability in and practical experience of financial matters make that investment manager suitably qualified to make investment decisions for it”* and that the *“authority must take proper advice in relation to the appointment and the terms on which the appointment is made.”*

Transitional Provisions

Regulation 12(2) of the 2016 Regulations states that the requirements in relation to the maintenance of a Statement of Investment Principles and the restrictions on investment under Schedule 1 to the 2009 Investment Regulations *“continue to have effect”* until the Authority publishes its Investment Strategy Statement in accordance with (new) Regulation 7.

Conclusion

The 2016 LGPS Investment Regulations provide greater flexibilities and freedoms to LGPS Funds in terms of both their Investment Strategy and the appointment of Investment Managers (prior to Investment Pooling). The new Regulations place a clear emphasis on both ESG and Stewardship activity by the LGPS. The new Regulations put in place the regulatory framework for Investment Pooling in the LGPS. Although the new Regulations introduce an explicit power of intervention by the Secretary of State this is in the context of a less restrictive regulatory approach and clear guidelines/criteria which mean that such intervention would be rare and occur only where there was both a clear breach of the Regulations and after due consultation and consideration.

John Raisin

10 February 2017

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LONDON BOROUGH OF HARINGEY PENSION FUND

INVESTMENT STRATEGY STATEMENT [DRAFT]

1. Introduction

Haringey Council is the Administering Authority for the Local Government Pension Scheme in the London Borough of Haringey area and as such is responsible for the investment of the Pension Fund's ("the Fund") assets. The Council has delegated this responsibility to the Pensions Committee and Board (henceforth referred to as "the Committee").

The Committee is responsible for setting the investment strategy for the Fund, appointing fund managers to implement it and monitoring the performance of the strategy. The Committee retains an independent adviser and the services of an investment Consulting firm, in addition to the advice it receives from the Chief Financial Officer and other Officers.

Stock level decisions are taken by the investment managers appointed by the Fund to implement the agreed investment strategy. These decisions are taken within the parameters set out for each manager – more details are provided in Appendix B.

The Local Government Pension Scheme (Management and Investment of Funds) Regulations 2016 requires administering authorities to formulate and to publish a statement of its investment strategy, in accordance with guidance issued from time to time by the Secretary of State.

The Investment Strategy Statement will be an important governance tool for the Fund, as well providing transparency in relation to how the Fund's investments are managed. It will be kept under review and revised from time to time in order to reflect any changes in policy.

The Committee complies with the requirements of the Myners Review of Institutional Investment, which can be found in Appendix A, alongside a review of the Fund's compliance with the principles.

Key Investment Beliefs

The key investment beliefs held by the Committee form the foundation of discussions, and assist decisions, regarding the structure of the Fund's investment policy

The Fund's key investment beliefs are set out below:

(i) Investment Governance

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

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

Investment Consultants, Independent Advisors and Officers are a source of expertise and research to inform Committee decisions.

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

(ii) Long Term Approach

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

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

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

Participation in economic growth is a major source of long term equity returns.

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

Well governed companies that manage their businesses in a responsible manner will likely produce higher returns over the long term.

(iii) Appropriate Investments

Allocations to asset classes other than equities and government bonds (e.g. multi-sector credit, private equity, infrastructure and property) offer the Fund access to other forms of risk premia and provide diversification.

Diversification across asset classes and asset types is expected to reduce the volatility of the

overall Fund return.

(iv) Management Strategies

Passive management provides low cost exposure to asset class returns and is especially attractive in efficient markets, where there is limited evidence that active management can consistently generate returns (after additional costs) that exceed index benchmarks. The Committee takes the view that most equity markets are sufficiently efficient to prefer passive equity investment.

Active management will be considered in markets in which passive approaches are either impossible or where there is strong evidence that active management can add value over the long-term (for example Property and alternative investments such as Private Equity) and which are therefore suited to active management.

Active management is more expensive than passive management, and fees should be aligned to the value created in excess of the performance of the market.

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

Implementation of strategies should be consistent with the governance capabilities of the Committee.

Objectives

The primary objective of the Fund is:

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

The investment objective of the Fund is:

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

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

This statement will be reviewed by the Committee at least triennially, or more frequently should any significant change occur.

2. Investment strategy and the process for ensuring suitability of investments

The Fund's benchmark investment strategy, along with an overview of the role each asset is expected to perform is set out in the following table:

Asset class	Allocation (%)	Allowable ranges (%)	Role(s) within the strategy
Listed Equities	52.5		Aim to generate returns in excess of inflation, through exposure to the shares of domestic and overseas companies.
UK Equities	8.8	+/- 3.0	
Overseas Market Capitalisation Equities	28.8	+/-5.0	
Global Low Carbon Equities	14.9	+/- 3.0	
Private Equity	5.0	_*	Aim to generate returns in excess of inflation, through exposure to companies that are not publicly traded, whilst providing some diversification away from listed equities and bonds.
Property	12.5	_*	Aim to generate returns in excess of inflation through exposure to UK and overseas property markets, through both income and capital appreciation, whilst providing some diversification away from equities and bonds.
Conventional Property	7.5	+/- 2.5	Traditional "core" property.
Long Lease Property	5.0	+/- 2.5	Long Lease Property is a lower risk approach compared to conventional property and focuses on delivering returns by harvesting long-term, secure contractual income that will increase over time through a combination of fixed and inflation related increases.
Infrastructure Debt	5.0	_*	A low risk asset producing returns by investing in senior debt secured on infrastructure assets
Renewable Energy Infrastructure	5.0	_*	Aims to generate returns in excess of inflation, through exposure to a diversified mix of renewable energy infrastructure sectors whilst providing some diversification away from listed equities and bonds.

Multi-Sector Credit	5.0	+/- 1.0	Provides diversified exposure to global credit markets to capture both income and capital appreciation of underlying markets and securities.
UK Index-Linked Gilts	15.0	+/-3%	Expected to produce an income stream with an explicit linkage to inflation, and interest rate sensitivity, which is expected to mitigate the impact to some extent of changes in interest rates and inflation expectation on the Fund's funding position.
Total	100.0		

* Given the illiquid nature of these asset classes, there is no formal tolerance range in place. However, the Committee will closely monitor the position of the Fund over time, including these asset classes.

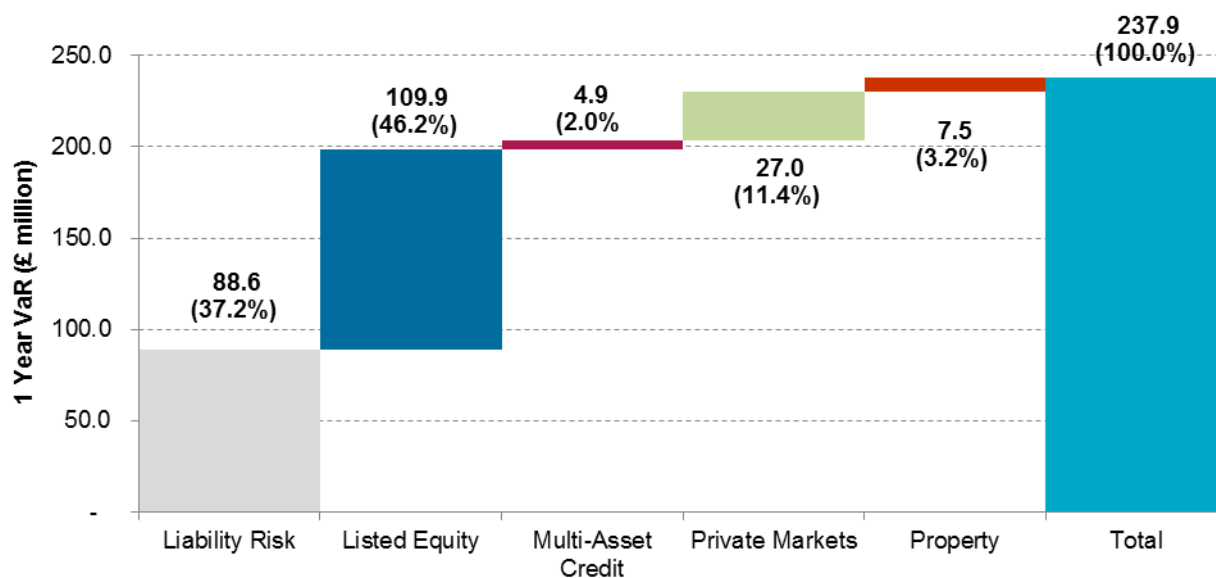
Note: Full details of the asset allocation of the Fund, including the investment managers and their respective performance benchmarks, are included in Appendix B.

3. Risk measurement and management

There are a number of risks to which any investment is exposed. The Fund's investment strategy has an inherent degree of risk which has to be taken in order to achieve the rate of return required to meet its funding objectives. The Fund has put in place a number of controls in order to manage the level of risk taken.

The benchmark the Committee has set involves a wide range of asset classes and geographical areas. This diversification aims to reduce the risk of low or negative returns to an acceptable level. As noted above, the Committee believes that active management of investments is appropriate in some asset classes, but not all. Active management introduces the risk of relative underperformance of an investment compared to its benchmark or wider market returns for that asset class. As the majority of the Fund's assets (all equities and index-linked gilts) are invested on a passive basis, the risk of underperforming the benchmark has been significantly reduced.

The following graph provides an indication of the main sources of investment risk (estimated by Mercer) relative to how the Fund's liabilities are currently valued (this is an estimate as at March 2016 and will change over time). The graph shows risk, as measured by a one year "value at risk" measure at the 5% level - in other words, if we consider a downside scenario which has a 1 in 20 chance of occurring, this would be the impact on the deficit relative to our "best estimate" of what the deficit would be in one years' time.



The following risks are recognised and considered by the Committee:

Valuation risk: the Actuarial Valuation assumes that the Fund generates an expected return equal to or in excess of the Fund's discount rate. An important risk to which the Fund is exposed is that the return is not achieved, either due to unexpected increases in the value placed on the liabilities, or if the assets do not perform as expected. This risk is reduced by the diversified investment strategy the Fund employs, through the alignment of the investment strategy with funding requirements through regular reviews, and through regular monitoring.

Longevity risk: this is the risk that the members of the Fund live longer than expected under the Actuarial Valuation assumptions. This risk is captured within the Actuarial Valuation report which is conducted at least triennially and monitored by the Committee, but any increase in longevity will only be realised over the long term.

Sponsor Covenant risk: the financial capacity and willingness of the sponsoring employers to support the Fund is a key consideration of the Committee and is reviewed on a regular basis.

Diversification risk: the Committee recognises the risks that may arise from the lack of diversification of investments. Subject to managing the risk from a mismatch of assets and liabilities, the Committee aims to ensure that the asset allocation policy results in an adequately diversified portfolio.

Liquidity risk: the Committee recognises that there is liquidity risk in holding assets that are not readily marketable and realisable. Given the Fund's long term investment horizon, the Committee believes that a degree of liquidity risk is acceptable, given the potential return. The majority of the Fund's assets are realisable at short notice.

Manager risk: the Fund's assets are invested with a number of managers to provide appropriate diversification.

Regulatory and political risk: across all of the Fund's investments, there is the potential for adverse regulatory or political change. Regulatory risk arises from investing in a market environment where the

regulatory regime may change. This may be compounded by political risk in those environments subject to unstable regimes. The Committee will attempt to invest in a manner which considers the impact of any such regulatory or political change should such a change occur.

Exchange rate risk: this risk arises from unhedged currency exposure on investments overseas. The Committee has agreed to hedge 50% of the overseas equity exposure (excluding Emerging Markets) to protect the sterling value of these investments and to reduce the volatility that arises from movements in exchange rates. Currency hedging on other assets is considered on a case of case, as appropriate.

Cashflow risk: the Fund's cashflow position is carefully monitored on a regular basis. As appropriate, positive and negative cashflows are used to help rebalance the investment policy closer into line with the target. Over time, it is expected that the size of pensioner cashflows will increase as the Fund matures and greater consideration will need to be given to raising assets to meet outgoings. The Committee recognises that this can present additional risks, particularly if there is a requirement to sell assets at inopportune times.

Governance: members of the Committee participate in regular training sessions. The Committee is aware that poor governance and, in, particular, high turnover of members may prove detrimental to the investment strategy, fund administration, liability management and corporate governance, and seek to minimise turnover where possible.

Environmental, Social and Governance: the Committee wishes to have an active influence on issues of environmental, social or governance (ESG) concern with companies in which the Fund is a shareholder. It will seek to codify its approach with Fund Managers and will use the services of specialist agencies as necessary to identify issues of concern. The Committee requires the Fund Managers to take into account the implications of substantial "extra-financial" considerations, e.g., ESG or reputational issues that could bring a particular investment decision into the public arena.

The full ESG policy of the Fund is outlined in Section 5.

4. Approach to asset pooling

The Fund has formally agreed to join the London Collective Investment Vehicle (CIV) as part of the Government's pooling agenda. The London CIV has been operational for some time and is in the process of opening a range of sub-funds covering liquid asset classes, with less liquid asset classes to follow.

The Fund will consider transitioning liquid assets (as appropriate) into the London CIV when there are suitable investment strategies that meet the asset allocation and investment strategy available on the London CIV platform.

The Fund's illiquid assets (e.g. Property, Private Equity and Infrastructure related) are expected to remain outside of the London CIV pool. The cost of exiting these strategies would have a negative financial impact on the Fund. These will be held as legacy assets until such time as they mature and proceeds re-invest through the pool assuming it has appropriate strategies available or until the Fund changes asset allocation and makes a decision not to reinvest. The Committee will regularly review the assets that it has determined should be held outside the London CIV, at least every three years, to ensure that this decision continues to demonstrate value for money.

5. Social, environmental and corporate governance policy

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

In addition, the Fund has demonstrated this by allocating one-third of its equity portfolio (excluding Emerging Markets) to a passive fund that tracks the MSCI World Low Carbon Target Index. This index aims to reduce exposure to companies with the highest carbon footprints, relative to a market capitalisation benchmark. Further, the Fund has made commitments expected to be equivalent to c. 5% of assets to two Renewable Energy mandates. These mandates will invest in infrastructure assets that are linked to the production of different forms of Renewable Energy (e.g. Wind, Solar, Tidal power). This further demonstrates the commitment of the Fund to Environmental principles. The Fund believes that further reduction in exposure to fossil fuel industries will reduce risk and secure stronger returns for the fund over the long term.

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

The Committee has member and other stakeholder representatives who actively engage with stakeholders to ensure the Fund is aware and can respond effectively to stakeholder concerns.

Investments that deliver social impact as well as a financial return are often described as “social investments”. Social investment includes a wide spectrum of investment opportunities. The Fund is consistent in the application of risk and return requirements when evaluating all investment opportunities including those that address societal challenges but generate competitive financial returns with an acceptable risk / return profile in line with the investment strategy.

The Fund does not exclude investments in order to pursue boycotts, divestment and sanctions against foreign nations and UK defence industries, other than where formal legal sanctions, embargoes and restrictions have been put in place by the Government.

6. Policy of the exercise of rights (including voting rights) attaching to investments

The Fund believes that active Stewardship can promote the long term success of companies for the benefit of stakeholders including investors.

Stewardship Code Statement

The Fund has committed to becoming a Signatory to the UK Stewardship Code and will prepare a formal statement of compliance. An interim statement in relation to the Seven Principles of the UK Stewardship Code is provided below:

Principle 1: Institutional investors should publicly disclose their policy on how they will discharge their stewardship responsibilities.

The Fund takes its responsibilities as a shareholder seriously and has made a commitment to the informed exercise of its ownership rights.

Principle 2: Institutional investors should have a robust policy on managing conflicts of interest in relation to stewardship and this policy should be publicly disclosed.

The Fund expects its investment managers to have effective policies addressing potential conflicts of interest. In respect of conflicts of interest within the Fund, Committee members are required to make declarations of interest prior to committee meetings.

Principle 3: Institutional investors should monitor their investee companies.

Day-to-day responsibility for managing the Fund's equity holdings is delegated to our appointed investment managers and the Fund expects them to monitor companies, intervene where necessary, and report back regularly on activity undertaken.

Principle 4: Institutional investors should establish clear guidelines on when and how they will escalate their activities as a method of protecting and enhancing shareholder value.

Responsibility for day-to-day interaction with companies is delegated to the Fund's investment managers, including the escalation of engagement when necessary. On occasion, the Fund may itself choose to escalate activity; this will typically be through our membership of the Local Authority Pension Fund Forum (LAPFF). When this occurs, the Committee will typically take a minuted vote on the decision whether to participate in the proposed activity.

Principle 5: Institutional investors should be willing to act collectively with other investors where appropriate.

The Fund seeks to work collaboratively with other institutional shareholders in order to maximise the influence that it can have on individual companies. This is achieved through our LAPFF membership, together with initiatives proposed by our investment managers or other advisors.

Principle 6: Institutional investors should have a clear policy on voting and disclosure of voting activity.

The Fund invests via pooled funds and is therefore subject to the underlying investment managers' policies. The Fund expects its investment managers to exercise all votes associated with the Fund's equity holdings where practicable. The Fund encourages its investment managers to publicly disclose their voting records. The Fund also looks to fulfil its responsibilities regarding shareholder voting through its membership of LAPFF.

Generally, the Fund expects its investment managers to support resolutions that are consistent with the UK Corporate Governance Code and represent best practice. In overseas markets, the Committee expects the managers to take account of local best practice principles.

Where resolutions or issues fall short of the expected standards, the Committee expects managers will either abstain or vote against, depending on the individual circumstances of the company and the issues presented. The Committee expects the investment managers to report on their voting activities on a regular basis and the Fund's Officers consider whether each manager's actions and engagement activities have been appropriate and in keeping with the Fund's policy.

The policy is reviewed at least annually in order to take account of regulatory developments and timely or controversial issues may be discussed at Committee meetings.

Principle 7: Institutional investors should report periodically on their stewardship and voting activities.

The Fund expects its underlying investment managers to report regularly to both the Officers and the Committee with respect to voting and engagement activities, including examples of company engagement, progress on engagement over time and collaborative activities. The Fund encourages its investment managers to publicly report on their stewardship activities. The Fund will report on its stewardship activity to the Committee on an annual basis.

Advice Taken

In constructing this statement, the Committee has taken advice from a representative of the Fund's professional investment advisor (Mercer Limited), an independent advisor (John Raisin Financial Services Limited), and the Borough's Chief Financial Officer (and other Officers).

Appendix A - Myners Investment Principles – Compliance Statement

Principle 1: Effective Decision-making

Administering authorities should ensure that:

- decisions are taken by persons or organisations with the skills, knowledge, advice and resources necessary to make them effectively and monitor their implementation; and
- those persons or organisations have sufficient expertise to be able to evaluate and challenge the advice they receive, and manage conflicts of interest.

Haringey Position

Haringey offers regular training to all members of the Committee to ensure they have the necessary knowledge to make decisions and challenge the advice they receive.

Principle 2: Clear Objectives

An overall investment objective should be set out for the fund that takes account of the scheme's liabilities, the potential impact on local taxpayers, the strength of the covenant for non-local authority employers, and the attitude to risk of both the administering authority and scheme employers, and these should be clearly communicated to advisors and investment managers.

Haringey Position

The Fund sets out an investment objective in this statement, which reflects the financial requirements of the agreed funding policy and the desire to return to full funding over the long-term, in combination with an acceptable level of contributions.

Principle 3: Risk and liabilities

In setting and reviewing their investment strategy, administering authorities should take account of the form and structure of liabilities. These include the implications for the local taxpayers, the strength of the covenant for participating employers, the risk of their default and longevity risk.

Haringey Position

The Fund's investment strategy was set following the results of the last formal Actuarial Valuation, which incorporated these issues. The investment strategy has since been revised to seek to further improve risk adjusted returns.

Principle 4: Performance assessment

Arrangements should be in place for the formal measurement of performance of the investments, investment managers and advisors.

Administering authorities should also periodically make a formal assessment of their own effectiveness as a decision-making body and report on this to scheme members.

Haringey Position

The Committee reviews the performance of Fund investments on a quarterly basis and meets with investment managers (via Officers) at least once a year. Contracts with advisers are reviewed regularly. The Committee undertakes an assessment of its own effectiveness on a regular basis.

Principle 5: Responsible ownership

Administering authorities should:

- Adopt, or ensure their investment managers adopt, the Financial Reporting Council (FRC) UK Stewardship Code on the responsibilities of shareholders and agents
- Include a statement of their policy on responsible ownership in the statement of investment principles.
- Report periodically to scheme members on the discharge of such responsibilities.

Haringey Position

The Fund's investment managers have adopted or are committed to the UK Stewardship Code.

The Fund includes a statement of its policy on responsible ownership in this statement. This is reported to members at least annually through the annual report.

Principle 6: Transparency and reporting

Administering authorities should:

- Act in a transparent manner, communicating with stakeholders on issues relating to their management of investments, its governance and risks, including performance against stated objectives
- Provide regular communication to scheme members in the form they consider most appropriate

Haringey Position

The Fund communicates with its stakeholders through the publication of policy statements and an Annual Report on its website. The Fund communicates regularly with its members and the communication policy statement provides information about how this is done.

Appendix B – Investment Manager Performance Targets and Benchmarks

Manager	Portfolio		Benchmark	Performance Target
LGIM	Global Equities and Index-Linked Gilts	67.5	See Appendix C	Index (passively managed)
Pantheon Private Equity	Private Equity	5.0	MSCI World Index	+ 3.5% p.a.
CBRE Global Investors	Conventional Property	7.5	IPD UK Pooled Property Funds All Balanced Index	+1% p.a. gross of fees over a rolling 5 year period
Aviva Investors	Long Lease Property	5.0	50% FTSE Actuaries 5-15 Year Gilt Index 50% FTSE 15 Years + Gilt Index*	+1.50% p.a. over the medium to long term
Allianz	Infrastructure Debt	5.0	5.5% p.a.	Benchmark
BlackRock	Renewable Energy Infrastructure	2.5	n/a	8.0% p.a. Hurdle Rate/Preferred Return
Copenhagen Infrastructure Partners (CIP)	Renewable Energy Infrastructure	2.5	n/a	6.5% p.a. Hurdle Rate/Preferred Return
CQS	Multi Sector Credit	5.0	3 month GBP LIBOR	+ 4.5% p.a.

* The Fund invests in the Aviva Lime Property Fund, which invests in a diversified portfolio of UK Real Estate assets with long leases and strong covenants. The official performance objective is to outperform the composite benchmark in the table above by 1.5% over the medium to long term. In practice, the shorter term performance of the benchmark has the scope to perform very differently to the underlying property assets. Over shorter periods (less than 5 years), the Officers will assess the performance of this part of the portfolio on a total return basis, whereby around 60% to 80% of this is expected to be derived from rental income (with capital appreciation being the balance).

Appendix C – Global Equity and Bond Benchmarks

The table below outlines details on the Fund's passive managed investments, held with LGIM. This allocation comprises all of the Fund's listed equity and index linked gilt exposure. The aim of these passively managed funds is to track the performance of the respective indices within a lower level of tracking deviation (gross of fees) over rolling 3-year periods.

Asset Class	Benchmark	Allocation (% total Fund assets)
UK Equities	FTSE All Share	8.8%
Overseas Market Capitalisation Equities		28.8%
North America	FT World Developed North America Index (Unhedged)	12.7%
Europe ex UK	FT World Developed Europe ex-UK Index (Unhedged)	4.3%
Pacific ex Japan	FTSE Developed Asia Pacific (ex-Japan) Index	2.0%
Japan	FTSE Japan Index (Unhedged)	2.0%
Emerging Markets	FTSE Emerging Markets Index (Unhedged)	7.8%
Global Low Carbon Equities	MSCI World Low Carbon Target Index	14.9%
Index Linked Gilts	FTA Index Linked Over 5 Years Index	15.0%
Total		67.50%

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Report for: Pensions Committee 27th March 2017

Item number: 17

Title: Pensions Administration System Contract

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

Lead Officer: Thomas Skeen, Head of Pensions
thomas.skeen@haringey.gov.uk 020 8489 1341

Ward(s) affected: N/A

**Report for Key/
Non Key Decision:** Key decision (Pensions Committee)

1. Describe the issue under consideration

- 1.1. In order for Haringey (the Council) to carry out its functions as an Administering Authority under the Local Government Pension Scheme (LGPS), the Council uses an IT system called 'Altair' provided by an external contractor "AquilaHeywood Ltd".
- 1.2. The Altair system holds details of all of the approximately 22,000 members of Haringey pension fund. The system calculates benefits due to current pensioners, records details of the contributions made by all active scheme members, and holds the details of all deferred pensioners who will claim their pensions when they reach retirement age.
- 1.3. The current three year contract for the pensions administration system will expire on 20 April 2017.
- 1.4. This report requests approval to award a contract for the Pensions Administration System for a period of 5 years commencing 21 April 2017. The procurement process for this procurement exercise has been to use an existing Framework Agreement, set up by Northumberland County Council for Pensions Administration Systems. The Framework Agreement is fully compliant with EU procurement processes. The framework is a single supplier framework with AquilaHeywood Ltd as the appointed supplier.

2. Cabinet Member Introduction

- 2.1. Pensions Committee

3. Recommendations

- 3.1. That the Pensions Committee approve for the Council to enter into a five year contract with AquilaHeywood for Pensions Administration Systems, commencing 21 April 2017 to 20 April 2022 in accordance with Contract Standing Order (CSO) 3.01b.
- 3.2. The contract will be procured by a call off from a Framework Agreement set up by Northumberland County Council for pensions Administration systems as permitted by CSO 7.01b
- 3.3. The cost of the proposed contract would be £132k per annum (subject to indexation), and the total for 5 years is £659k (subject to indexation).

4. Reason for Decision

- 4.1. The existing contract for the pensions administration system expires on 20 April 2017.
- 4.2. The Council is the Administering Authority for Haringey Local Government Pension Fund, which has approximately 22,000 members and 40 different employers. Having a contract in place for a pensions administration system is necessary in order for the Council to fulfil its various duties as an LGPS Administering Authority. Modern ways of working mean that maintaining a specific IT package for the pensions administration team is crucial for business delivery.
- 4.3. Without a pensions administration system in place, the council would not be able to carry out core functions of pensions administration, such as issuing annual benefit statements, and ensuring that new retirees receive the correct benefit payments when they retire.
- 4.4. Officers feel that the current contractual agreements with AquilaHeywood have been successful, performance over the three year life of the current contract has been good.
- 4.5. Officers carried out benchmarking to compare the administration costs reported in the annual pension fund accounts for six London boroughs: Haringey, and five neighbouring boroughs. Administration costs reported in the pension fund annual reports include all aspects of administration, including staffing costs, and pensions administration system costs. This exercise was therefore intended to help evaluate the overall cost of pensions administration service delivery. The benchmarking exercise concluded that Haringey had the

lowest administration cost per scheme member of the group, and indeed, this was 32% lower than the average of all six boroughs.

- 4.6. It is felt that the current service delivery model for pensions administration, including use of the Altair system, offers value for the money for Haringey, and on this basis, that a continuation of the relationship with AquilaHeywood is the best available option.
- 4.7. Details of the price negotiated with AquilaHeywood are given in confidential appendix 1, this is in line with the rules of the framework agreement. The cost of the proposed contract would be £132k per annum (subject to indexation).
- 4.8. The current three year contract which ends in April 2017 had first year costs of £244k and costs of £128k in years two and three: an average cost of £167k per annum. On this basis the new contract quotation delivers further value for money for the pension fund.

5. Other options considered

- 5.1. As part of the benchmarking exercise conducted by officers, it was noted that two of the other boroughs examined used alternative suppliers to AquilaHeywood. Both of these boroughs had higher administration costs per scheme member, and indeed they were higher on average than those clients of AquilaHeywood. One of the boroughs using an alternative supplier had administration costs per scheme member that were 62% higher than Haringey's.
- 5.2. Currently, AquilaHeywood provide pensions administration systems to approximately 80% of Local Government Pension Funds in England and Wales. This means that the comparator providers are few in number, and those that do exist have less substantial experience in this market.
- 5.3. Officers considered conducting a full procurement exercise, to invite quotations from a number of suppliers, however they concluded that there were limited levels of competition in this market, and that other suppliers may well be more expensive than the current arrangements. Hence, a full procurement exercise would be unlikely to drive out further value from the contractual arrangement.

6. Background information

- 6.1. All costs of the contract will be met fully by the pension fund, i.e. there will be no direct cost implications for the Council.

- 6.2. The most recent internal audit of Haringey's pensions administration service gave an audit opinion of 'substantial assurance': this gives an indication that the current service delivery model including the use of Altair is working satisfactorily.
- 6.3. There is a one off costs to access the Northumberland County Council framework for pensions administration systems of £1,000.00. This fee is indicative of the costs they incurred in setting up the framework which other public bodies can benefit from.

7. Contribution to Strategic Outcomes

- 7.1. None.

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

Finance

- 8.1. The chief finance officer has been consulted over the contents of the report and confirms that the annual costs can be legitimately charged to the pension fund.
- 8.2. The proposed cost of the new contract is in fact lower than the average cost per year of the previous three year contract.
- 8.3. The report highlights that there is currently little competition in this field so significant time and effort could be undertaken for potentially little realistic chance of driving out further value.

Procurement

- 8.4. The Pensions Service have carried out a benchmarking exercise (4.5) and have concluded that the current cost of the whole administration service with the incumbent supplier is 32% less (on average than the six neighbouring Boroughs). The procurement approach via an approved Framework Agreement has achieved a further reduction in price (27%). CSO's 3.01 and 7.01b have been complied with. Procurement endorses this award.

Legal

- 8.5. The Assistant Director notes the contents of the report.

- 8.6. The contract which this report relates to will be procured from a framework for pension administration systems established by Northumberland County Council (the “Framework”).
- 8.7. The Framework is available for use by all UK Contracting Authorities including local authorities.
- 8.8. The Service has confirmed that the procurement has been conducted in accordance with the rules of the Framework.
- 8.9. In the interests of transparency the Council endeavours to publish contracts valued in excess of £500,000 on the Forward Plan. This was not possible in this instance.
- 8.10. The Assistant Director of Corporate Governance sees no legal reasons preventing the Pensions Committee from approving the recommendations in the report.

Equalities

- 8.11. There are no equalities issues arising from this report.

9. Use of Appendices

- 9.1. Confidential Appendix 1 – Details of Quotation

10. Local Government (Access to Information) Act 1985

- 10.1. Not applicable.

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Report for: Pensions Committee 27th March 2017

Item number: 18

Title: Currency Hedging Implementation

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

Lead Officer: Thomas Skeen, Head of Pensions
thomas.skeen@haringey.gov.uk 020 8489 1341

Ward(s) affected: N/A

**Report for Key/
Non Key Decision:** Non Key decision

1. Describe the issue under consideration

- 1.1. At the February 9th 2017 Pensions Committee meeting, it was agreed that the committee will implement currency hedging on 50% of the Fund's developed market overseas exposure.
- 1.2. This report brings back a finalised implementation plan for the Committee's approval.

2. Cabinet Member Introduction

- 2.1. Not applicable.

3. Recommendations

- 3.1. That the Committee note and agree to the content of Appendix 1 – a currency hedging implementation plan from Mercer, the Fund's Investment Consultant. The plan is the hedge 50% of the Fund's exposure to developed market overseas equity in three tranches over a 2 month period. This utilises the existing relationship with Legal and General Investment Management, to ensure that costs are kept to a minimum.
- 3.2. That the Committee gives delegated authority approval to the Chief Operating Officer to speed up the currency hedging implementation, should Sterling fall to the 'trigger rate' of 1.20 compared to the US dollar, (a historic low not breached since 1985).

4. Reason for Decision

- 4.1. The Fund has benefited from the decline in sterling against the US dollar and other currencies. Currency hedging has been agreed by the committee to bank some of the gains made by the fund in the past 12 months due to the fall in sterling against other major currencies.
- 4.2. Legal and General Investment Management (LGIM) could monitor currency movements for the fund and speed up the currency hedging switches, should the trigger rate of 1.20 be breached: however this will be more costly than if officers monitor this position in house, (currency rate information is readily, publicly available). It is therefore proposed that officers, acting under delegated authority, will initiate this speed up in the currency hedging process should the trigger rate of 1.20 be breached.

5. Other options considered

- 5.1. None

6. Background information

- 6.1. One of the key roles of the Committee is setting of the Fund's asset allocation strategy. This sets out the desired allocation to various asset classes such as equities, bonds, property, etc. Different asset classes have different expected outcomes in terms of future returns, but together should provide the asset outperformance level required to enable the Fund to meet its future obligations to scheme members.
- 6.2. The current strategy has a high allocation to equities, property etc, whose values have a strong correlation to economic growth, the Committee is focused on funding the promised benefits primarily from investments returns while seeking to stabilise employer contributions. The Committee is required to keep the strategy under review considering the impact of funding levels and market conditions.
- 6.3. It is estimated that the Fund has gained up to £140m in value as a result of the fall in the value of Sterling against all major currencies since the Brexit vote. Sterling is at a historic low against other major currencies, so it is likely that it will start to appreciate at some point in the future: this will erode gains that the fund's investment assets have made in the past 12 months.
- 6.4. As the uncertainty around the implementation of Brexit clears and investors confidence in the economic growth of the UK gradually returns, Sterling will likely start to recover some of the losses incurred in the post Brexit vote period.
- 6.5. Additionally, the award of a renewable energy mandate, both of which are non-Sterling denominated during commitment/investment period

(up to 5 years), further highlights the need to have some form of protection should Sterling start to appreciate in value.

- 6.6. It is estimated that the proposed hedging strategy set out in Appendix 1 will cost the fund approximately £68k in additional fees per annum (based on asset values as at 31/12/17). This compares very favourably to the £140m of gains the fund has made since the depreciation of sterling following the Brexit vote.
- 6.7. One off transaction costs for the currency hedging switch are estimated to be in the region of £35k.

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 Fund has benefitted from a period of significant growth in equities and index linked gilts due mainly to its overweight position in equities. It has also benefited from the fall in sterling versus other major currencies. The currency hedging implementation will partially insure the fund against the risk of sterling once again rising against other currencies and thus eroding gains made in the Fund's investment portfolio.

Legal

8.3 Under Regulation 11 of the of the Local Government Pension Scheme (Management and Investment Funds) Regulations 2009 the administering authority must formulate a policy for the investment of its fund money and invest in accordance with that policy and the authority can vary its investment.

8.4 Members must in agreeing the currency hedging strategy set out in this report do so in accordance with the Fund's policy, investment statement and the funding strategy.

8.5 Members should note that Regulation 11 will no longer be effective when the authority first publishes its investment strategy statement under Regulation 7 of the Local Government Pension Scheme (Management and Investment of Funds) Regulations 2016.

Equalities

8.6 There are no equalities issues arising from this report.

9. Use of Appendices

9.1. Confidential Appendix 1 – Currency Hedging Implementation

10. Local Government (Access to Information) Act 1985

10.1. Not applicable.

Report for: Pensions Committee 27th March 2017

Item number: 19

Title: Investment Strategy Review

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

Lead Officer: Thomas Skeen, Head of Pensions
thomas.skeen@haringey.gov.uk 020 8489 1341

Ward(s) affected: N/A

**Report for Key/
Non Key Decision:** Non Key decision

1. Describe the issue under consideration

- 1.1. At the 9 February Pensions Committee meeting, the committee agreed to commission a review of the pension fund's investment strategy, which would be conducted by the fund's Investment Consultant: Mercer.
- 1.2. This report brings back a report from Mercer highlighting possible changes to the fund's investment strategy, which committee members are encouraged to debate and consider in the committee meeting.

2. Cabinet Member Introduction

- 2.1. Not applicable.

3. Recommendations

- 3.1. That the committee consider the proposals outlined by Mercer in Confidential Appendix 1.
- 3.2. That the Committee considers whether further diversification of Fund assets is required at this stage and, if so, whether to implement any of the proposals outlined in Mercer's report.
- 3.3. The committee may decide to defer a formal decision to a future Committee meeting, and may request that training be arranged on any of the topics proposed in Mercer's report.
- 3.4. It is recommended that the Committee receives training on any new asset classes prior to investment.

4. Reason for Decision

- 4.1. Mercer has modelled a number of different options for the fund's investment strategy, as requested at the Committee meeting of 9 February.

5. Other options considered

- 5.1. None

6. Background information

- 6.1. The most important investment role for the Committee is the setting of an asset allocation strategy. This is the desired allocation to the various asset classes e.g. equities, bonds, property, cash etc. Different asset allocations will have different expected outcomes in terms of future returns and also the predictability of returns.
- 6.2. In setting the current strategy that has a high allocation to equities, whose values have a strong correlation with economic growth, the Committee is focused on funding the promised benefits primarily from investments returns while seeking to minimise / stabilise employer contributions. The Committee is required to keep the strategy under review considering the impact of funding levels and market conditions.
- 6.3. Mercer's report proposes a number of potential changes to the fund's investment strategy. The report discusses some topics that the Committee may be unfamiliar with. The Committee will need to be comfortable with any asset class before consideration is given to investing.

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

- 8.2. The proposal to review the strategic allocations in light of the triennial valuation and high reliance on listed equities is supported.

Legal

- 8.3 The Council as administering authority for the Haringey Pension Fund has the power to invest fund monies as set out in Local Government Pension Scheme (Management & Investment Funds) Regulations 2016.

- 8.4 Any changes to the allocations must comply with the Pension Fund Investment Strategy Statement (the first of which must be published by 1 April 2017). This report recommends that training be provided about the different asset classes prior to any decision being made about asset allocations. There are no legal implications in respect of the recommendation.

Equalities

- 8.5 There are no equalities issues arising from this report

9. Use of Appendices

- 9.1. Confidential Appendix 1 – Investment Strategy Review

10. Local Government (Access to Information) Act 1985

- 10.1. Not applicable.

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