NOTICE OF MEETING

PENSIONS COMMITTEE AND BOARD

Thursday, 18th January, 2018, 7.00 pm - Civic Centre, High Road, Wood Green, N22 8LE

Members: Councillors Clare Bull (Chair), John Bevan (Vice-Chair), Mark Blake, Liz McShane, Viv Ross and Noah Tucker

Co-optees/Non Voting Members: Ishmael Owarish, 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 Urgent Business will be dealt with under item 16 below. New items of exempt business will be dealt with at Item 21 below.)

4. DECLARATIONS OF INTEREST AND CONFLICTS OF INTEREST

A member with a disclosable pecuniary interest or a prejudicial interest in a matter who attends a meeting of the authority at which the matter is considered:

(i) must disclose the interest at the start of the meeting or when the interest becomes apparent, and
(ii) may not participate in any discussion or vote on the matter and must withdraw from the meeting room.

A member who discloses at a meeting a disclosable pecuniary interest which is not registered in the Register of Members' Interests or the subject of a pending notification must notify the Monitoring Officer of the interest within 28 days of the disclosure.

Disclosable pecuniary interests, personal interests and prejudicial interests are defined at Paragraphs 5-7 and Appendix A of the Members' Code of Conduct

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

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

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

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

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

5. RECORD OF TRAINING UNDERTAKEN SINCE LAST MEETING

Note from the Assistant Director of Corporate Governance and Monitoring Officer
When considering the items below, the Committee will be operating in its capacity as 'Administering Authority'. When the Committee is operating in its capacity as an Administering Authority, Members must have due regard to their duty as quasi-trustees to act in the best interest of the Pension Fund above all other considerations.

6. MINUTES (PAGES 1 - 6)

To consider the minutes of the meeting of the Committee and Board held on 21 November 2017 and confirm these as a correct record.

7. ADMINISTRATION REPORT (PAGES 7 - 10)

Report of the Chief Financial & S151Officer to update the Committee and Board on Pensions administration matters.

8. PENSIONS ADMINISTRATION ARRANGEMENTS (PAGES 11 - 20)

Report of the Chief Financial & S151Officer presenting the results and recommendations from a review of the Pensions service current resourcing levels, including benchmarking of these against other London Boroughs.

9. WORK/FORWARD PLAN (PAGES 21 - 26)

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.

10. RISK REGISTER REVIEW/UPDATE (PAGES 27 - 46)

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.

11. QUARTERLY PENSION FUND PERFORMANCE & INVESTMENT UPDATE (PAGES 47 - 62)

Report of the Chief Finance Officer & S151 Officer to report the following in respect of the three months to 30th September 2017:

- Funding Level Update
- Investment asset allocation
- Investment performance
- Investment Update

12. LAPFF VOTING UPDATE (PAGES 63 - 64)

Report of the Chief Financial & S151 Officer to provide an update on voting activities on behalf of the Fund.

13. INVESTMENT CONSULTANCY SERVICES CONTRACT (PAGES 65 - 70)

Report of the Chief Finance Officer & S151 Officer seeking approval for a contract extension to the current investment consultancy services for the period 22 January 2018 – 31 March 2018.

14. INVESTMENT CONSIDERATIONS - RESIDENTIAL REAL ESTATE (PAGES 71 - 80)

Report of the Chief Financial & S151 Officer presenting details of the potential to invest in residential real estate which potentially has high ESG credentials, including consideration of initiatives undertaken by other Local Authorities.

15. GOVERNANCE REPORT (PAGES 81 - 84)

Report of the Chief Financial & S151Officer to provide an update to Committee and Board:

- on progress toward compliance with Scheme Advisory Board (SAB) key performance indicators;
- to highlight areas where improvement is still needed in order to achieve full compliance.
- on progress with the governance review of the London CIV.

16. NEW ITEMS OF URGENT BUSINESS

To consider any items admitted at Item 3 above.

17. EXCLUSION OF THE PRESS AND PUBLIC

That the press and public be excluded from the meeting for consideration of the following items as they contain exempt information as defined in Section 100a of the Local Government Act 1972 (as amended by Section 12A of the Local Government Act 1985); paragraph 3; namely information relating to the business or financial affairs of any individual, including the authority holding that information.

18. INVESTMENT CONSULTANCY SERVICES CONTRACT (PAGES 85 - 86)

As per item 13.

19. INVESTMENT CONSIDERATIONS - RESIDENTIAL REAL ESTATE (PAGES 87 - 98)

As per item 14.

20. GOVERNANCE REPORT (PAGES 99 - 154)

As per item 15.

21. NEW ITEMS OF EXEMPT URGENT BUSINESS

To consider any items admitted at Item 3 above.

Susan John
Tel – 020 84892615
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Email: susan.john@haringey.gov.uk

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

Wednesday, 10 January 2018

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MINUTES OF THE MEETING OF THE PENSIONS COMMITTEE AND BOARD HELD ON TUESDAY, 21ST NOVEMBER, 2017, 7.00 pm

PRESENT:

Councillors: Clare Bull (Chair), John Bevan (Vice-Chair), Viv Ross, Noah Tucker, Keith Brown and Ishmael Owarish

129. 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.

130. APOLOGIES FOR ABSENCE

Apologies for absence were received from Cllr McShane.

131. URGENT BUSINESS

There were no items of urgent business

132. DECLARATIONS OF INTEREST AND CONFLICTS OF INTEREST

There were no declarations of interest.

133. RECORD OF TRAINING UNDERTAKEN SINCE LAST MEETING

Cllr Bevan, Cllr Ross, Cllr Tucker, Keith Brown and Ishmael Owarish had attended a training session delivered by Bridges Fund Management entitled an ‘Introduction to Sustainable and Impact Investing’.

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

Cllr Bevan:
- London CIV Low Carbon Workshop 19/09/17
- AON Flexible retirement from DB schemes 03/10/17
- The 15th Annual Local Government Pension Investment Forum 11/10/17
- Local Authority Pension Fund Forum 17/10/17
- Schroders Trustee Training 20/10/17
- IPE Pensions Real Assets 24/10/17
- RBC ESG Survey Results Launch 31/10/17

- MACQUARIE Are investors really rewarded for considering ESG issues 02/11/17
- P&LSA Local Authority Forum 07/11/17
- Schroders Trustee Training 10/11/17

Cllr Ross:
- The Pensions Regulator: Module 7 ‘Funding your DB scheme’ 16/11/17
- London Fraud Forum: PENSION SCAMS: regulation and the customer journey 22/11/17
- Aon Hewitt: Trustee Effectiveness Webinar 21/11/17

134. MINUTES

RESOLVED

That the minutes of the meeting held 14 September 2017 be approved as a correct record.

135. ADMINISTRATION REPORT

The Committee received a report on administrative issues related to the Haringey Pension Scheme and discussed the details of this report. The Committee considered the amount of transfers in and out of the pension fund and the number of late payment of contributions there had been since April 2017. While discussing the amount of visits that the Haringey pension website had received over the last 6 months the Committee commented on the positive results and it was agreed that staff would be regularly reminded to visit the site.

Action: Pensions Manager

RESOLVED

That the Committee & Board note the contents of this report in respect of the administration of the pension fund.

136. PERFORMANCE REVIEW - ADDITIONAL VOLUNTARY CONTRIBUTION PROVIDERS

The Head of Pensions explained that this report was being presented in response to the request of the Committee & Board to review the funds Additional Voluntary Contributions (AVC). The Committee considered the review report conducted by Mercer and the recommendations included. It was noted that officers of the fund could not give financial advice to members but could communicate the options available. It was suggested that this could be communicated to members via pop up on the e-payslips site.

Action: Head of Pensions and Pensions Manager

Cllr Ross declared an interest at this point of the meeting in relation to Equitable Life as he holds a pension with that fund.

RESOLVED

That the Committee and Board agree to:

- Open up further funds with Prudential that are not focussed on annuity purchase on retirement, i.e. funds that allow members to withdraw some or all of their AVC Fund as cash at retirement.
- Officers conducting a communication exercise with AVC members to remind them of the options available to them, in particular when they may have the option to transfer funds between providers or products, to options which may prove more beneficial to them.
- Officers encouraging the appointed AVC providers to conduct communication exercises with Haringey staff to inform them of the AVC options available to them, i.e. via information sessions for staff to attend.

137. RISK REGISTER REVIEW / UPDATE

The Committee and Board considered the report on the Fund's risk register, introduced by Thomas Skeen, Head of Pensions.

The Committee discussed risk 49 relating to the London CIV and its investment strategy. It was agreed that considering the ongoing changes and reviews taking place at the CIV it would be best to add this topic as an agenda item at the next meeting to allow for a wider discussion.

Action: Head of Pensions

The Chair addressed risk 2 and notified the Committee that all members who had not completed the Pensions Regulators Public Service Toolkit had received an email reminding them to do this.

RESOLVED

- That the Committee note the risk register.
- That the Committee note the area of focus for this review at the meeting is 'Administration' and 'Communication' risks.

138. WORK/FORWARD PLAN

The Committee and Board considered the quarterly report on the forward plan, as introduced by Thomas Skeen, Head of Pensions.

Cllr Bevan advised the Committee that he would be attending the LAPFF Annual Conference in Bournemouth.

RESOLVED

That the Committee note the update on member training attached at Appendix 3.

139. GOVERNANCE UPDATE REPORT

The Committee & Board considered the Governance report update and noted that the Fund had improved 3 points since the last meeting with a score of 48 out of 59 in terms of achievement of KPI's in the SAB model. The Head of Pensions gave an overview of the KPI's where the Fund scored zero and gave explanation for each of these.

RESOLVED

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

140. QUARTERLY PENSION FUND PERFORMANCE & INVESTMENT UPDATE

The Committee and Board noted the quarterly Pension Fund update report, as introduced by Thomas Skeen, Head of Pensions. The indicative funding position as at 30/6/17 had remained stable at 85% from the position reported for the period up to 31 March 2017.

RESOLVED

That the Committee & Board note the information provided in respect of the activity in the three months to 30th June 2017.

141. QUARTERLY LAPFF ENGAGEMENT REPORT

The Committee and Board considered the quarterly LAPFF engagement report, as introduced by Thomas Skeen, Head of Pensions.

RESOLVED

The Committee note this report.

142. MULTI ASSET ABSOLUTE RETURN INVESTMENT UPDATE AND UPDATE TO INVESTMENT STRATEGY STATEMENT

The Head of Pensions presented the report as an update for information purposes following the Committee & Boards approval to decrease the funds investment strategy allocation to listed equity by 7.5%.

It was highlighted that the fund was a Tier 1 signatory to the Financial Reporting Council UK Stewardship Code and the Committee & Board considered the formal statement of compliance that had been prepared.

RESOLVED

That the Committee & Board:

- Note the contents of the report

- Note the selection of the Ruffer sub fund (via the London CIV) as the fund's multi asset absolute return manager
- Approve the updated Investment Strategy Statement attached as Appendix 1.

143. NEW ITEMS OF URGENT BUSINESS

There were no new items of exempt urgent business.

CHAIR: Councillor Clare Bull

Signed by Chair ………………………………..

Date …………………………………

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Agenda Item 7

Report for: Pensions Committee January 2018

Item number: **7**

Title: Pensions Administration Report

Report authorised by : Clive Heaphy, Chief Financial Officer

Lead Officer: Janet Richards **–** Pensions Manager,

☏ 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 provides an update on the auto enrolment process for eligible employees to the pension fund.

1.2. The report also gives a breakdown of the amount of visits made to the Haringey pension fund website.

2. Cabinet Member Introduction

2.1. Not applicable

3. Recommendations that members:

3.1. Note the contents of this report in respect of the administration of the pension fund

4. Reason for decision

4.1. Not applicable

5. Alternative options considered

Not applicable

6. Background information:

6.1. Auto enrolment –Transitional delay

6.1.1. The Local Government Pension Scheme is a qualifying pension scheme and meets the Governments standards under the automatic enrolment provisions of the Pensions Act 2008. The Council must continue to maintain membership of the LGPS and ensure that the scheme continues to meet certain government standards

6.1.2. Automatic enrolment for Haringey Council employees first took place on 1 March 2013. Employers are required to reenrol eligible employees who are not in the pension scheme every three years. Re enrolment took place on 1 April 2016.

6.1.3. Haringey Council applied the transitional delay notice. This notice postponed automatic enrolment for those employees eligible to be bought into the scheme as at 1 March 2013 until 1 October 2017. Eligible jobholders to which the transitional delay applied were notified that they still had the right to opt into the pension scheme.

6.1.4. Following the end of the transitional delay on 1 October 2017, 349 eligible employees were bought onto the Local Government Pension Scheme. The following table shows the number opted out as at November 2017.

Number of eligible employees bought into the LGPS on 1 October 2017	Opted out of the scheme	% opted out
349	79	22.6%

6.2. The visits to the Haringey website www.haringeypensionfund.co.uk for the last two months are as follows

	users	Page views
October 2017	423	2058
November 2017	337	1382

The average amount of users per month during this period to the pension website is 380 and they viewed on average 1720 pages, nearly 5 pages for each user.

7. Contribution to strategic outcomes

Not applicable

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

Chief Financial Officer

The opting in of 270 Haringey employees into the scheme (net) will have a positive impact on the cashflow movements for the fund as the whole, boosting employer and employee income paid across to the fund monthly.   As with most LGPS funds, Haringey fund is now mature: employer and employee contributions are less than the value of benefits paid from the fund each month. As further auto enrolment exercises are completed in the future, this will partially help to alleviate the cashflow position of the fund, but they will not bring the fund back to a cashflow positive position. Due to the fund's maturity, cashflow movements are now a key feature in the fund's investment strategy, and a number of cash yielding assets have been selected in recent years with this in mind.

There are no further direct financial implications arising from the content of this report.

Assistant Director of Corporate Governance

9. Use of Appendices

10. Local Government (Access to Information) Act 1985

Not Applicable

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Report for: Pensions Committee and Board 18 January 2018

Item number: **8**

Title: Pensions Administration Arrangements

Report authorised by: Clive Heaphy, CFO and S151 Officer

Lead Officer: Thomas Skeen, Head of Pensions
Janet Richards, Pensions Manager
thomas.skeen@haringey.gov.uk 020 8489 1341
janet.richards@haringey.gov.uk 020 8489 3824

Ward(s) affected: N/A

Report for Key/ Non Key Decision: Non Key decision

1. Describe the issue under consideration

1.1. The Pensions service has completed a review of its current resourcing levels, including benchmarking of these against other London Boroughs. The results and recommendations arising from this are presented in this report.

2. Cabinet Member Introduction

2.1. Not applicable.

3. Recommendations

3.1. That the Pensions Committee and Board agree to the creation of two additional Pensions Officer posts within the pensions administration team, based on the findings of the review of resourcing presented in this report.

4. Reason for Decision

4.1. Under section 5 of the Public Service Pensions Act 2013, Haringey Pensions Committee and Board is responsible for assisting Haringey Council in its capacity as Administering Authority in relation to ‘securing compliance with the scheme regulations and other legislation relating to the governance and administration of the scheme’.

4.2. In September 2017, the CIPFA Pensions Panel wrote to S151 Officers of Administering Authorities to remind them *‘of their responsibilities regarding the resourcing requirement for Local Government Pension Scheme (LGPS) Funds’.* This letter noted that after the past seven years of austerity, the CIPFA Pensions Panel has:*'become increasingly concerned that in some instances this may now be impacting on the effective administration of the scheme.'* The letter goes on to note that *'Following the 2016 Triennial Valuation the four actuarial firms identified major concerns with the quality of data being submitted by funds and this has been followed up recently by The Pensions Regulator'.* This letter is appended to this report as Appendix 1.

4.3. In light of this, and due to current staffing pressures, the Pensions Service has reviewed the resourcing levels in the team currently, via carrying out benchmarking exercises and assessing various metrics to identify where workloads have increased or decreased over time. The results of this work is presented later in this report.

5. Other options considered

5.1. Around half of Local Government Pension Schemes operate models where pensions administration is partially or fully outsourced to third parties. Benchmarking previously undertaken by officers has led to the conclusion that outsourcing would be less cost effective than managing the function through in house provision. Officers also must note that they have concerns about quality issues when it comes to outsourcing pensions administration, based on their experience and those of colleagues in other authorities. This is therefore not an option that is pursued.

6. Background information

<u>Introduction</u>

6.1. The pensions administration team operate within a complex legislative framework: there have been three separate LGPS schemes with completely different governing regulations and benefit entitlements, after major changes were made to the scheme nationally in both 2008 and 2014. The majority of members of Haringey Fund have service accrued in two of the schemes, and a significant proportion of members have benefits accrued under all three different schemes. It is the duty of the pensions administration team to interpret and apply the LGPS regulations as they are written to ensure that individuals who are members of the scheme receive the correct pensions benefits owed to them under statue.

6.2. Besides the change in legislation there have been a number of other significant new regulatory requirements which have impacted the team in recent years, such as the introduction of annual benefit statements, auto enrolment exercise, the Local Pension Boards created by the Public Service Pensions Act 2013, and increased reporting to the Pensions Regulator. One other change which has had a large impact on the team has been increasing numbers of new scheme employers admitted to the pension fund, with the move towards Academy School creation, and increased levels of outsourcing within LGPS employers.

Reviews of Current Arrangements

6.3. Recent audits of the pensions administration team's work has not indicated any significant cause for concern with the team's current performance: internal and external audit reports have been generally positive with the exception of some fairly minor recommendations:

- In late 2016 the Pensions Administration Service received a substantial assurance rating from the Council's internal auditor: Mazars (this is the second highest rating).
- In the most recent external audit for 2016/17 completed by the Council's auditor BDO, there were no issues raised regarding pension benefit payments after the auditor completed spot checks of these. However one issue was raised regarding the timeliness of payments of contributions from some of the fund employers. The Pensions Service has noted that this is an area of resource gap within the team. The number of employers in the Fund has increased has increased by over 400% over the last 6 years, after the national move to academy conversions, and outsourcing exercises for school cleaning and catering services.

6.4. It is pleasing to note that no issues have been raised regarding Haringey Pension Fund's data quality in the above audit exercises, as this is a recurring problem in LGPS, and something which is addressed in the appended CIPFA letter to S151 Officers.

Benchmarking Work

6.5. Officers have sought to investigate the levels of resourcing within the team in two ways:

- Firstly, by comparing the numbers of administration team posts to other similar LGPS Funds.
- Secondly, by comparing specific metrics or activities that the team has completed and how these have varied over a six year period.

6.6. All LGPS Funds complete a national statistical return for the Department of Communities and Local Government each year: 'The SF3 Return'. The results of this are published annually for all funds at the below website. Amongst other things within this return, all funds report their membership totals, and the numbers of staff they employ for pensions administration duties.
https://www.gov.uk/government/collections/local-government-pension-scheme

6.7. Officers have used the results from this return to examine what the average number of pensions administration Full Time Equivalents (FTE) are within London Boroughs who operate their pensions administration service in house. Those funds who have outsourced their pensions administration functions will report that they employ no staff for pensions administration duties: therefore these funds are not meaningful comparators.

6.8. London Borough Pension Funds vary significantly in size, therefore in order for this analysis to be meaningful, officers have compared the numbers of FTEs per 1,000 pension fund members. The results of this benchmarking are shown below:

Borough	Number of Admin FTEs reported on SF3 return	Fund Membership Total	Admin FTE per 1,000 members
Borough 1	4	17,796	0.225
Borough 2	5	17,653	0.283
Borough 3	4	12,985	0.308
Haringey	7	22,444	0.312
Borough 4	7	21,833	0.321
Borough 5	8	24,188	0.331
Borough 6	6	18,113	0.331
Borough 7	7	20,890	0.335
Borough 8	6	17,334	0.346
Borough 9	7	19,490	0.359
Borough 10	8	20,859	0.384
Borough 11	11	22,667	0.485
Borough 12	9	18,514	0.486
Borough 13	10	15,138	0.661
Borough 14	18	25,008	0.720
Borough 15	10	13,442	0.744
		Average:	**0.414**

6.9. The table above demonstrates that Haringey has the fourth lowest ratio of administration staff to fund membership out of the London Boroughs who operate pensions administration in house. There are three boroughs who have more than double Haringey's ratio of administration staff to fund members.

6.10. The table above demonstrates that the average ratio of pensions administration staff to fund members is 0.414 FTEs for every 1,000 fund members. Haringey would have to have **9.3 FTEs** in the pensions administration team to be in line with the London average.

6.11. Since the statistical return above was completed there have been further changes in the pensions administration team, and the current staffing levels are **6.6 FTEs.**

6.12. Officers have further examined different metrics and activity levels and how these have changed over the period 2010/11 – 2016/17. These are presented in the table below:

Pension Fund Metric or Activity:	2010/11	2016/17	Increase or Decrease
Active Members	6,610	6,167	-6.7%

Haringey
LONDON

Deferred Members	6,939	8,769	26.4%
Pensioner/dependent Members	6,089	7,503	23.2%
Scheme employers	14	72	414.3%
Retirements	228	452	98.2%
Transfers in	111	46	-58.6%
Transfers out	86	47	-45.3%
Death Grants	73	68	-6.8%
Refunds	1	104	10300.0%
Capital Cost Payments	50	127	154.0%
Pension Admin FTEs	6.0	6.6	10.0%

6.13. The results shown above are as expected: active membership of the fund has fallen slightly following the period of local authority austerity measures, as have transfers in and out of the fund. The majority of indicators above have risen: the numbers of deferred and pensioner members of the fund, levels of retirements, and refunds have jumped significantly due to the auto enrolment exercises that are now mandated.

6.14. Numbers of employers participating in the scheme has grown from 14 employers in 2010/11 to 72 in 2016/17: an increase of 414%. This is one of the most significant changes that has occurred nationally in LGPS in the last decade. With each additional employer there comes a significant administration burden.

6.15. The level of staffing in the pensions administration team has increased 10% since 2010/11, however for most areas that the team are responsible for, activity levels have increased significantly in excess of 10%.

Conclusions

6.16. It is clearly a good practice to regularly review resourcing levels in all teams. Although the pensions administration team has had no major failings to date, this is not in itself a reason to maintain the status quo unquestioningly. As this report documents throughout, the workload of the team has increased significantly in recent years, and benchmarking clearly demonstrates that the Fund is operating with a smaller than average team. An inappropriately lean staffing structure exposes the Fund, (and its employers and members), to the risks of an under resourced team: reliance on an inappropriately small pool of key individuals, and succession planning risk. These risks should not be underestimated: one mistakenly overpaid pension could leave the fund with an additional liability stretching into the thousands of pounds over a member of the scheme’s lifetime. When you extrapolate this type of error across a membership set of over 22,444 individuals, it is clear to see exactly how large the financial penalties could be, should standards begin to slip with the pensions administration team.

6.17. With this in mind, officers believe that additional resource for the team is necessary and appropriate. Officers are recommending that two additional Pensions Officer posts are created within the team, taking the total headcount to **8.6 FTEs**. This would bring the headcount in the team to a level that is still below the London average, however officers are minded to implement this change initially, and to then review the situation going forward.

6.18. These posts would share the job description and grading of existing pensions officer posts and would have an initial anticipated annual cost of no more than £37,433 per annum for each post, this sum is based on the starting increment for a pensions officer post and includes basic pay, employers pension contributions and employers National Insurance. All costs will be funded by the pension fund, there will be no cost pressure created for the Council.

6.19. Further to this, officers are minded to consider filling one of the posts with an apprenticeship: this is thought to be a good option for succession planning within the team, and of course is highly beneficial for the individuals completing the apprenticeship.

7. Comments of the Independent Advisor to the Fund

7.1. This report proposes the establishment of two additional Pensions Officer posts within the Pensions Administration team. The Officer recommendation is based on both consideration of the legislative and regulatory framework and also analysis of workloads and comparisons with other London Boroughs.

7.2. Effective Pensions Administration is crucial. The LGPS exists to provide retirement (any other benefits as laid down in the LGPS Regulations) to individual employees and their dependents. Accurate records are key to ensuring that individual members receive the correct benefits at the correct time. Accurate records are also needed to ensure accurate Actuarial Valuations. Poor/inaccurate member data results in the Actuary having to make assumptions which will tend to increase Employer contributions compared with those which would be set in the light of quality member data.

7.3. The Officers comment, at Section 6.2, on the increasing number of Employers in the Pension Fund. This is a trend which is likely to continue. Continuing severe restrictions on public sector finances coupled with increasing demand for public services will further put pressure on Employers in the LGPS (from Councils to Further/Higher Education establishments to individual Academy schools) to set up arms length companies or contract out services both of which increase the number of Employers in a LGPS Fund thereby adding to the workload of the Pensions Administration team

7.4. From 25 May 2018, the General Data Protection Regulation (GDPR) will replace the Data Protection Act 1998. The GDPR requirements are more onerous than current legislation in many areas, including higher fines for serious breaches. The introduction of the GDPR in 2018 will increase both the workload and responsibilities of the Pensions Administration team.

7.5. Significant additional scrutiny of LGPS Pensions Administration has been introduced since April 2015 when the Pensions Regulator became responsible for the oversight of Pensions Administration in the LGPS and other major public service pension schemes. In April 2015, the Pensions Regulator issued its Code of Practice No 14 “Governance and Administration of Public Service Pension Schemes.” This brings together various relevant legislative and regulatory requirements and sets out the Pensions Regulator’s expectations in respect of a number of key areas including internal controls, record keeping, maintaining/monitoring contributions and communication with members.

7.6. The Pensions Regulator began its involvement in Public Service Pension Schemes with an emphasis on education and enablement. The Pensions Regulator’s approach has, however, now moved on to include active enforcement as shown by the recent fine issued to the London Borough of Barnet. In addition, the Pensions Regulator continues to engage with the London Borough of Barnet in respect of their Pension Fund’s future governance and administration.

7.7. Having considered the Officer report together with relevant legislation, regulation and guidance; and applying my own knowledge and experience of Pensions Administration and Actuarial issues (obtained both as an Officer responsible for this function and as a Consultant who has undertaken reviews of Governance/Pensions Administration for a number of LGPS Funds) I am of the view that the proposed two additional posts is the minimum increase that could reasonably be proposed. I would also strongly endorse the comment in Section 6.17 that Officers review the workload/staffing situation going forward.

7.8. A Pensions Committee (acting in the role of the Administering authority) is responsible for decision making in respect of all aspects the activities of the pensions function including Pensions Administration. The Pensions Committee therefore has the function of facilitating and enabling effective Pensions Administration. A Pensions Board has amongst its roles (under Regulation 106 of the LGPS Regulations 2013 (as Amended)) that of “assisting “ the Administering Authority *“to secure compliance with…… legislation relating to the governance and administration of the Scheme….. any requirements imposed by the Pensions Regulator in relation to the Scheme”* and *“to ensure the effective and efficient governance and administration of the Scheme.”* Given that the Haringey Fund has been authorised by the Secretary of State to combine the Pensions Committee and Board this body is under a particular obligation to ensure that there is sufficient resourcing to enable the Pensions Administration team to provide an effective service to all individual members and Employers in the Haringey Pension Fund.

8. Contribution to Strategic Outcomes

8.1. None.

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

Finance and Procurement

9.1. All pensions administration staffing costs are borne solely by the Pension Fund, therefore additional costs or savings made within this team has no direct impact upon the General Fund.

9.2. The Pension Fund liability is the single largest item on Haringey Council's balance sheet, as is the case for most Local Authorities. Haringey has a statutory duty as an LGPS administering authority to maintain records of individuals' membership of the scheme, including their pension benefit entitlements, and ensure that the correct pension benefits are paid once individuals do retire. By doing this, the Council ensures that this liability for future pensions benefits is properly managed, measured and controlled, hence the importance of having an appropriately sized and experienced set of staff in the pensions administration team. This is clearly vital activity, for reasons noted throughout this report. The recommendation to create two additional Pensions Officer posts is therefore supported.

Legal

9.3. The Assistant Director for Corporate Governance has been consulted on the content of this report and there are no legal issues.

Equalities

9.4 There are no equalities issues arising from this report

10. Use of Appendices

10.1. Appendix 1 – Letter from CIPFA

11. Local Government (Access to Information) Act 1985

11.1. Not applicable.

Haringey LONDON

Dear Colleague,

LGPS Resource Requirements

During this period of prolonged austerity there is continuous pressure to drive down costs and local government pension schemes have not been able to avoid this pressure. The CIPFA Pension Panel has become increasingly concerned that in some instances this may now be impacting on the effective administration of the scheme. The Panel acknowledges that a number of Funds and Pools have worked hard to protect schemes during this difficult period.

I am therefore taking the opportunity to write on behalf of the CIPFA Pensions Panel to remind all Section 151 Officers of their responsibilities regarding the resourcing requirement for Local Government Pension Scheme (LGPS) Funds. The pension liability is the biggest single risk on the balance sheet of most local authorities, and the responsibility for this risk lies with individual employers in respect of both the historic and current costs.

You will no doubt be aware of the current asset pooling initiatives which are placing significant demands on existing pension staff and the Panel is concerned that this is having a negative impact on the level of resources available to deliver the statutory functions of pension funds. The LGPS is already facing a number of challenges including managing an ever increasing number of employing bodies in the scheme and also the ongoing implementation of the 2014 CARE Scheme. Following the 2016 Triennial Valuation the four actuarial firms identified major concerns with the quality of data being submitted by funds and this has been followed up recently by The Pensions Regulator who has noted the issues around data quality and will be focusing upon this area in the coming year.

We are all aware of the challenges around resources during this period of austerity and pension funds as with all other services should be as efficient as possible. However, the current pressures and increased complexity facing the LGPS require an increase in resources to ensure that the huge challenge of establishing asset pools as well as the increasing administrative requirements do not create an unmanageable risk.

In 2014 CIPFA issued a supplement to its Role of the CFO Publication covering the Role of the CFO in the Local Government Pension Scheme setting out the requirements and standards expected of the CFO. CIPFA also collaborated with AON Hewitt to produce **Guidance on Investment Pooling Governance Principles for Administering Authorities.** The fiduciary responsibility for a pension fund will not change following asset pooling and all stakeholders should ensure that in addition to the work going on to establish asset pools it is equally important that the funds put in place sound governance arrangements to manage the relationship with these pools.

The level of scrutiny on LGPS Funds has never been higher both from internal sources such as Local Pension Boards but particularly from external sources such as The Pensions Regulator, Pensions Ombudsmen and the national press. It is therefore essential that funds have the necessary capacity to meet these challenges otherwise there is a significant risk of censure and the subsequent reputational damage at local and national level. CIPFA would expect funds to be taking the necessary advice and comparing its costs and service delivery (through benchmarking and other analysis) to ensure they are in line with the rest of the LGPS and achieving the standards expected by their members.

CIPFA's Pension Panel aims to support all those involved in delivery of the LGPS and has produced a range of Guidance to assist practitioners and will continue to do so. The Panel is always keen to hear the views of its members with regard to pensions and works closely with Treasurer Societies as required.

Kind Regards,

Mike Ellsmore

Mike Ellsmore
Chair CIPFA Pensions Panel

CIPFA The Chartered Institute of Public Finance & Accountancy

Report for: Pensions Committee and Board 18 January 2018

Item number: **9**

Title: Forward Plan

Report authorised by: Clive Heaphy, CFO and S151 Officer

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.

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

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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, investments 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.

Pension Committee - Forward Plan **APPENDIX 1**

Meeting Date Item No	18 Jan 2018	15 Mar 2018
Standing Items		
7	Administration Report - Membership Update - Auto-enrolment - Schedule / Admitted Bodies	Administration Report - Membership Update - Auto-enrolment - Schedule / Admitted Bodies
8	Governance Update Report - SAB Update - Governance Checklist update	Governance Update Report - SAB Update - Governance Checklist update
9	Work/Forward Plan	Work/Forward Plan
10	Risk Register Review / Update (Accounting & Investments)	Risk Register Review / Update (Funding/Liability)
11	Quarterly Pension Fund Performance & Investment Update	Quarterly Pension Fund Performance & Investment Update
12	Quarterly LAPFF Engagement Report	Quarterly LAPFF Engagement Report
Fund Administration & Governance		
13	Administration Arrangements	Review/update of Investment Strategy Statement if necessary
14	Investment Consultancy Services Contract	Fund Administrations Policy

Meeting Date Item No	18 Jan 2018	15 Mar 2018
		Review/update of Internal Disputes Resolution Policy and Pensions Administration Strategy Statement
Investments		
15	Investment Considerations (Residential Real Estate)	Fund Managers Internal Control Report
Funding & Valuation		
Training		
1	Training & Conferences Update	Training & Conferences Update
2	Tbc	Tbc

TRAINING PROGRAMME

APPENDIX 2

Date	Conference / Event	Training/Event Organiser	Cost	Location	Delegates Allowed
27-Feb-18	Members Pension Boards Seminar	CIPFA	£125	London	N/A
http://www.cipfa.org/training/m/members-local-pension-board-spring-seminar-20180226-london					
27-Jun-18	LGPS Pension Boards three Years on	CIPFA	£175	London	N/A
http://www.cipfa.org/training/l/lgps-local-pension-boards--three-years-on-20180627					
15-Feb-18	INTRODUCTION TO TRUSTEESHIP - Day 1	PLSA	tbc	London	N/A
https://www.plsa.co.uk/Events/Calendar-of-events/Event-Detail/eventDateId/527					
16-Mar-18	INTRODUCTION TO TRUSTEESHIP - Day 2	PLSA	tbc	London	N/A
https://www.plsa.co.uk/Events/Calendar-of-events/Event-Detail/eventDateId/551					
16-Mar-18	INTRODUCTION TO TRUSTEESHIP - Day 2	PLSA	tbc	London	N/A
https://www.plsa.co.uk/Events/Calendar-of-events/Event-Detail/eventDateId/551					
21/5/18 - 23/5/18	Local Authority Conference	PLSA	tbc	Gloucestershire	N/A
https://www.plsa.co.uk/Events/Local-Authority-Conference					

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

Emal: 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 Liz McShane	×	✓
Cllr Noah Tucker	×	×
Keith Brown	✓	✓
Ishmael Owarish	×	✓
Randy Plowright	×	✓

Link to the public sector toolkit:
http://www.thepensionsregulator.gov.uk/public-service-schemes/learn-about-managing-public-service-schemes.aspx#s16691

Report for: Pensions Committee and Board 18 January 2018

Item number: **10**

Title: Risk Register - Review/Update

Report authorised by: Clive Heaphy, CFO and S151 Officer

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 'Investment' 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 and Board establish and operate internal controls. These must be adequate for the purpose of securing that the scheme is administered and managed

Haringey LONDON

in accordance with the scheme rules and in accordance with the requirements of the law.

6.2. The Committee and Board approved the latest full version of the risk register on 20 September 2016 and from each meeting after this date different areas of the register have been reviewed and agreed so that the risk register always remains current.

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.

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Risk Register - Haringey Pension Fund

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

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

Risk Register - Haringey Pension Fund

Risk No	Cat Ref	Risk	Risk Ranking
		GOVERNANCE	
12	GOV12	Weak process and policies around communicating with a scheme members and employers means that decisions are not available for scrutiny.	3
13	GOV13	Lack of engagement from employers/members means that communicating decisions becomes a "tick box" exercise and accountability is not real.	9
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.	10
		LEGISLATION	
18	LEG1	Failure to adhere to LGPS legislation (including regulations, order from the Secretary of State and any updates from The Pension Regulator) leading to financial or reputational damage	10
19	LEG2	Lack of access to appropriate legislation, best practice or guidance could lead to the Fund acting illegally.	5
20	LEG3	Lack of skills or resource to understand complex regulatory changes or understand their impact.	8

Risk No	Cat Ref	Risk	Risk Ranking
		COMMUNICATION	
50	COM1	Members don't make an informed decision when exercising their pension options whilst employers cannot make informed decisions when exercising their discretions leading to possible complaints and appeals against the Fund	8
51	COM2	Communication is overcomplicated and technical leading to a lack of engagement and understanding by the user (including members and employers).	6
52	COM3	Employer doesn't understand or carry out their legal responsibilities under relevant legislation.	12
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.	12

Risk Register - Haringey Pension Fund

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

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

Risk Register - Haringey Pension Fund

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

Risk No	Cat Ref	Risk	Risk Ranking

Colour	Risk Level
	Low
	Moderate
	High
	Very High

Risk Register - Haringey Pension Fund

ACCOUNTING: RISK MANAGEMENT FRAMEWORK								
Risk No	**Cat Ref**	**Risk**	**Current Controls**	**Impact**	**Proba-bility**	**Overall Risk Rating**	**Respon-sibility**	**Timescale**
21	ACC1	The Pension Fund Statement of Accounts does not represent a true and fair view of the Fund's financing and assets.	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. Attendance at Pensions Officers Group Meetings, Based on latest Code of Practice, robust in year (quarterly) monitoring / reconciliation processes. Draft Statement of Accounts and working papers reviewed by the Head of Pensions and the Chief Accountant.	5	2	10	HoP; HoCP	Jul-18

ACCOUNTING: RISK MANAGEMENT FRAMEWORK									
Risk No	Cat Ref	Risk	Current Controls	Impact	Proba-bility	Overall Risk Rating	Respon-sibility	Timescale	
22	ACC2	Internal controls are not in place to protect against fruad/ mismanagement.	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. The plan is designed on a risk basis, so that areas of high risk will be subject to more frequent internal audits. Pensions feed into the process by identifying areas where improvements are required. Recommendations from internal audits of processes and controls are implemented in a timely manner to reduce or remove identified risks.	4	2	8	HoP; PAM	Mar-18	
23	ACC3	The Fund does not have in place a robust internal monitoring and reconciliation process leading to incorrect figures in the accounts.	A checklist of all daily, weekly, monthly and quarterly reconciliations is maintained to ensure that all tasks are completed in a timely manner. All reconciliaitons are independently reviewed and signed off by a second officer. Full reconciliation and interim accountants are prepared on a quarterly basis.	4	2	8	HoP;	Dec-18	Quarterly

Risk Register - Haringey Pension Fund

ACCOUNTING: RISK MANAGEMENT FRAMEWORK								
Risk No	**Cat Ref**	**Risk**	**Current Controls**	**Impact**	**Proba-bility**	**Overall Risk Rating**	**Respon-sibility**	**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.	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. Further reconciliation undertaken between the custodian and investment managers' records. All adjustments (including unrealised profits) will be posted into the general ledger so that accounts can be reported created directly from SAP.	5	2	10	HoP	Jun-18

Risk Register - Haringey Pension Fund

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

ACCOUNTING: RISK MANAGEMENT FRAMEWORK									
Risk No	**Cat Ref**	**Risk**	**Current Controls**	**Impact**	**Proba-bility**	**Overall Risk Rating**	**Respon-sibility**	**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.	Employers are sent all employers a contribution form at the start of each year and confirm the correct rates to be paid. 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. Employers making late payment are reported to the JCB on a quarterly basis.	5	1	5	PAM; HoP	Ongoing
27	ACC7	The fund fails to recover adhoc /miscellaneous income adding to the deficit.	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. All income recoverable, including witholding taxes on investments are itemised in the custodian reports. We will monitor the recovery and timing of this to ensure the maximum amount is recovered in a timely manner.	4	2	8	HoP;	Ongoing

ACCOUNTING: RISK MANAGEMENT FRAMEWORK								
Risk No	**Cat Ref**	**Risk**	**Current Controls**	**Impact**	**Proba-bility**	**Overall Risk Rating**	**Respon-sibility**	**Timescale**
28	ACC8	Transfers out increase significantly as members transfer to DC funds to access cash through new pension freedoms.	Levels of transfers out initially anticipated have not materialised in relation to transfers to DC Funds. However transfers out from employers exiting the fund and bulk transfers will have some impact on the fund. This is not anticipated to case material change to the Fund's cashflow however. Auto Enrollment and periodically promoting the benefits of the LGPS and the flexibility now offered following the revisions to the LGPS in 2014, will help to counter this.	4	3	12	PAM; HoP	Ongoing

INVESTMENTS: RISK MANAGEMENT FRAMEWORK								
Risk No	**Cat Ref**	**Risk**	**Current Controls**	**Impact**	**Proba-bility**	**Overall Risk Rating**	**Respon-sibility**	**Timescale**
39	INV1	That the assumptions underlying the Investment and Funding Strategies are inconsistent.	The Investment and Funding Strategy Statements are reviewed regularly and discussed at Pensions Committee and Board meeting. These Strategies are presented to the committee annually as part of the process of approving the Fund Annual Report. There is close liaison between the Fund's actuary and strategic investment adviser.	5	2	10	HoP	Jul-18
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. Good contract management is key here as the Fund relies on external parties to be appointed for these purposes.	5	1	5	HoP	Ongoing

INVESTMENTS: RISK MANAGEMENT FRAMEWORK									
Risk No	**Cat Ref**	**Risk**	**Current Controls**	**Impact**	**Proba-bility**	**Overall Risk Rating**	**Respon-sibility**	**Timescale**
41	INV3	Incorrect understanding of employer characteristics e.g. strength of covenant.	Actuarial and Investment advice provided by qualified professionals and subject to peer review to ensure that it is fit for purpose. 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. This is also incorporated into the Funding Strategy Statement.	5	2	10	HoP	Ongoing for new employers but March 2020 for the next triennial valuation
42	INV4	The Fund doesn't take expert advice when determining Investment Strategy.	The Fund currently utilises the services of Mercer as the Investment Consultant to the Fund.	5	1	5	HoP; PCB	Ongoing
43	INV5	Strategic investment advice received from Investment Consultants is either incorrect or inappropriate for Fund.	The Fund employs the services of an investment consultant, Mercer, but has also engaged an independent advisor to challenge/confirm investment/investment strategy decisions. This model ensures that advice is subject to peer review to ensure that it is fit for purpose.	5	2	10	PCB; PCB	Ongoing

INVESTMENTS: RISK MANAGEMENT FRAMEWORK								
Risk No	Cat Ref	Risk	Current Controls	Impact	Proba-bility	Overall Risk Rating	Respon-sibility	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.	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. Expert professional advice provided by Investment Consultant supporting manager selection exercise. It is a requirement of the Fund that all Investment Managers are FCA registered. Where necessary specialist search managers will be engaged to assist investment manager selection. 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.	5	2	10	PCB;	Ongoing

INVESTMENTS: RISK MANAGEMENT FRAMEWORK								
Risk No	**Cat Ref**	**Risk**	**Current Controls**	**Impact**	**Proba-bility**	**Overall Risk Rating**	**Respon-sibility**	**Timescale**
45	INV7	Relevant information relating to investments is not communicated to the Committee in accordance with the Fund's Governance arrangements.	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 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.	4	1	4	HoP; CC	Ongoing
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.	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.	5	2	10	HoP; PCB	Mar-18

INVESTMENTS: RISK MANAGEMENT FRAMEWORK								
Risk No	**Cat Ref**	**Risk**	**Current Controls**	**Impact**	**Proba-bility**	**Overall Risk Rating**	**Respon-sibility**	**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 inbalance 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	Ongoing
48	INV10	No modelling of liabilities and cash flow is undertaken.	Annual cash flow monitoring at Fund level undertaken by Head of 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-18

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

RED RATED RISKS								
Risk No	**Cat Ref**	**Risk**	**Controls/Mitigations**	**Impact**	**Proba-bility**	Overall Risk Rating	**Respon-sibility**	**Timescale**
2	GOV2	Frequent and/or extensive turnover of committee members causing a loss of technical and operational knowledge about the Fund and an inexperienced Committee/Board.	The nature of Council appointees to the Fund means that there is likely to be annual turnover of appointments to the Pensions Committee. However, Full Council through Democratic Services has been made aware of the consequences of constant turnover of Pensions Committee members. A comprehensive training programme that is in line with CIPFA guideine/The Pension Regulator has been developed and is continously reviewed/updated. Training needs analyses undertaken annually to identify knowledge gaps and training programme adapted accordingly New members required to complete The Pensions Regulators public service toolkit modules as a minimum requirement. All members are encouraged to attend training events (internal/external) to ensure all have adequate knowledge to perform duties as trustees of the Fund.	4	4	16	PCB; HoP	Ongoing
49	INV11	The risk that the investment strategy adopted by London CIV through fund manager appointments does not fully meet the needs of the Fund.	The Fund is a founding member of London CIV and is an active participant at all levels (Executive and Officer) of London CIV. Specifically, the Fund has representation at the Investment Advisory Committee and Officer's business meetings where strategies and fund manager appointments that align with the Fund's investment strategy are promoted. However, because the CIV has to reach consensus among its 33 members, there is a risk that the full complement of mandates in the Fund may not be replicated by London CIV.	5	5	25	HoP	Ongoing

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Agenda Item 11

Report for: Pensions Committee and Board 18 January 2018

Item number: **11**

Title: Pension Fund Quarterly Update

Report authorised by: Clive Heaphy, Chief Finance Officer (S151 Officer)

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 30th September 2017:
- Funding Level Update
- 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 30th September 2017 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 and Board to review investment performance and sections 11, 12 and 13 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 and Board 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 CFO (S151 Officer) has been consulted on this report and there is no direct financial impact from the contents of this report.

Legal Services Comments

8.2. The Council as administering authority for the Haringey Pension Fund must periodically review the suitability of its investment portfolio to ensure that returns, risk and volatility are all appropriately managed and are consistent with its overall investment strategy.

8.3. All monies must be invested in accordance with the Investment Strategy and members of the Committee should keep this duty in mind when considering this report and take proper advice on the matter.

Comments of the Independent Advisor

8.4. The Quarter July to September 2017 saw yet further advances in Equity markets across the world. Despite severe tensions between the United States and North Korea markets continued to be supported by favourable monetary policy approaches by the world's major Central Banks and were buoyed by positive business and economic indicators in the United States, Europe, Japan and Emerging Markets.

8.5. The US S&P 500 index reached yet further record highs during the Quarter supported by generally good economic news including positive corporate results/earnings, increased investment by businesses, moderate expansion in household spending and an unemployment rate for September 2017 of 4.2% the lowest since before the beginning of the financial crisis which began in 2007. US markets were also supported hopes of a major reduction in the Corporate Tax rate.

8.6. Economic indicators indicated a continued and broad based recovery in the Eurozone. Second Quarter 2017 GDP figures (released in August 2017) indicated a broader rather than German led recovery with Spain, France and the Netherlands all performing increasingly positively. Eurozone unemployment fell to 8.9% in September 2017 its lowest level since early

2009. European equities experienced another clearly positive Quarter between July and September 2017.

8.7. Japanese equity markets (as demonstrated by the Nikkei 225 index) had a positive Quarter. Japanese companies reported solid earnings with corporate profits improving. The domestic economy appeared strong, for example, with positive consumer spending. The announcement of a snap general election by Prime Minister Shinzo Abe also had a positive effect on markets. Emerging Markets, and in particular Latin America, were also positive supported by both corporate earnings and economic fundamentals. Lower interest rates and higher commodity prices benefitted Latin American equities.

8.8. UK equities also experienced a positive Quarter despite continued uncertainty (and confusion) over “Brexit.” The UK economy evidenced some weakness in both consumer and business sentiment but the official unemployment rate remained low at 4.3% (for July to September, seasonally adjusted). Inflation (as measured by the official version of the Consumer Price Index) was 2.8% in September 2017 which is clearly above the Government’s inflation target of 2%.

8.9. As in the previous (April to June) Quarter the main (10 year) Government bond yields (US, UK, Germany and Japan) changed little over the July to September Quarter. The yield on the 2-year UK Gilt (which is sensitive to interest rate expectations) ended the Quarter on 30 September at 0.47% (compared to 0.36% at 30 June). A clear increase in yield occurred following the release on 14 September 2017 of the Minutes of the September meeting of the Bank of England’s Monetary Policy Committee which included the statement “…..some withdrawal of monetary stimulus is likely to be appropriate over the coming months in order to return inflation sustainably to target.” thus clearly indicating a likely future increase in interest rates. Such an increase did subsequently occur when at its meeting on 1 November 2017 the Monetary Policy Committee voted 7 to 2 to increase the Base rate by 0.25% to 0.5%.

8.10. The United States Federal Reserve, the world’s most important Central Bank, tightened Monetary Policy at its September meeting and indicated further moderate tightening going forward. At its meeting held on 19-20 September 2017 the Federal Open Markets Committee tightened US Monetary policy by voting to no longer reinvest all principal payments from its bond and debt holdings. This was a fundamental decision as in contrast to the last ten years of huge expansion the Balance Sheet of the Federal Reserve will now in the words of its Chair, Janet Yellen, “decline gradually and predictably” (quoted from transcript of Chair Yellen’s press conference 20 September 2017).

8.11. While the July and September meetings of the Federal Reserves’ Federal Open Markets Committee maintained the Target Range for the Federal Funds Rate (in effect the US Official Interest Rate) at 1 to 1.25% official press releases issued following the meetings held on both 25-26 July and 19-20 September stated that “the Committee expects that economic conditions will evolve in a manner that will warrant gradual increases in the federal funds rate." This comment was proved justified when the Federal Open Markets Committee increased the Federal Funds rate by another 0.25% at its meeting of 12-13 December 2017. Notwithstanding this further "tightening" of Monetary Policy by the US Federal Reserve its monetary stance remains "loose" in historic terms.

8.12. With regard to the Haringey Fund there was a 2.6% increase in the value of the Fund of £34m over the Quarter from £1,310m to £1,344m. More importantly the indicative Funding level at 30 September 2017, as calculated by the Fund Actuary, has improved to 86.5% compared with 85.2% at 30 June 2017. The indicative Funding level of 86.5% represents a clear improvement since the last full Actuarial Valuation (as at 31 March 2017) when the Funding level was 79.1%. A detailed commentary on the performance of the Fund during the July to September 2017 Quarter is provided in the Officer commentary at Section 13 of this report.

8.13. As stated at Section 15 of this report Aviva have yet to request any of the £50m funding for Long Lease Property approved by the former Pensions Committee at its meeting on 11 April 2016. Therefore, the Head of Pensions and Independent Advisor have agreed that they should seek a meeting with Aviva to discuss the present situation and Aviva's expectations as to when they will call for funding.

Equalities

8.14. 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. Funding Position Update

11.1. At the most recent valuation 31 March 2016, the Fund had a funding position of 79.1% - meaning that the fund's investment assets were sufficient to pay 79.1% of the pension benefits accrued at that date.

11.2. The Fund's Actuary, Hymans Robertson LLP, has calculated an indicative funding position update for 30 September 2017, and this showed an improvement to an 86.5% funding level: the increase being mainly attributable to investment returns. This position was improved slightly from 30 June 2017 at 85.2%.

11.3. The 79.1% funding level as at 31 March 2016 corresponded to a net deficit of £277m, which has decreased to £206m as at 30 September 2017 when the indicative funding level was 86.5%.

12. Portfolio Allocation Against Benchmark

12.1. The value of the fund increased by £34.5m million between June and September 2017. The equity, private equity, and multi asset credit portfolios performed above benchmark, whereas the infrastructure debt, property and renewable energy portfolios were below benchmark.

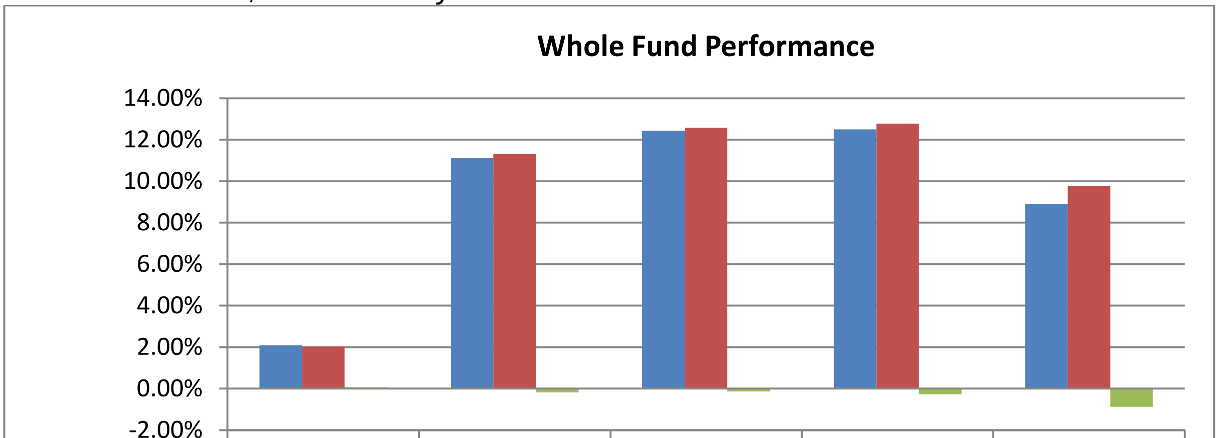
12.2. The equity allocation exceeds target by 10.62%. This is due in part to a strongly performing year for equities meaning that this portion of the portfolio has grown disproportionately compared to other asset classes. The infrastructure debt and private equity, portfolios continue to be funded as the managers make capital calls when suitable assets become available for acquisition. As these, and the new property and renewable energy mandates are funded, the equity portfolio will fall back in line with the strategic allocation, however it should be noted that this may take several years to fully complete.

Total Portfolio Allocation by Manager and Asset Class

	Value 31.03.2017 £'000	Value 30.06.2017 £'000	Value 30.09.2017 £'000	Allocation 30.09.2017 %	Strategic Allocation %	Variance %
Equities						
UK	151,526	139,345	107,047	7.96%	6.60%	1.36%
North America	222,584	200,198	156,434	11.64%	9.60%	2.04%
Europe	74,404	71,219	52,912	3.94%	3.20%	0.74%
Japan	32,146	33,378	24,845	1.85%	1.50%	0.35%
Asia Pacific	33,853	31,981	24,041	1.79%	1.50%	0.29%
Emerging Markets	138,965	123,444	120,292	8.95%	7.80%	1.15%
Global Low Carbon Tgt	214,432	235,450	363,086	27.01%	22.30%	4.71%
Total Equities	**867,910**	**835,015**	**848,657**	**63.12%**	**52.50%**	**10.62%**
Bonds						
Index Linked	**183,837**	**179,349**	**177,922**	**13.23%**	**15.00%**	**-1.77%**
Property						
Aviva				**0.00%**	**5.00%**	**-5.00%**
CBRE	**90,845**	**97,405**	**94,556**	**7.03%**	**7.50%**	**-0.47%**
Private equity						
Pantheon	**54,278**	**53,139**	**54,416**	**4.05%**	**5.00%**	**-0.95%**
Multi-Sector Credit						
CQS	**50,467**	**89,727**	**91,088**	**6.78%**	**7.00%**	**-0.22%**
Infrastructure Debt						
Allianz	**27,814**	**36,038**	**35,918**	**2.67%**	**3.00%**	**-0.33%**
Renewable Energy						
CIP	**0**	**0**	**0**	**0.00%**	**2.50%**	**-2.50%**
Blackrock	**0**	**5,985**	**8,248**	**0.61%**	**2.50%**	**-1.89%**
Cash & NCA						
Cash	**33,942**	**13,280**	**33,637**	**2.50%**	**0.00%**	**2.50%**
Total Assets	**1,309,093**	**1,309,938**	**1,344,442**	**100%**	**100%**	**0.00%**

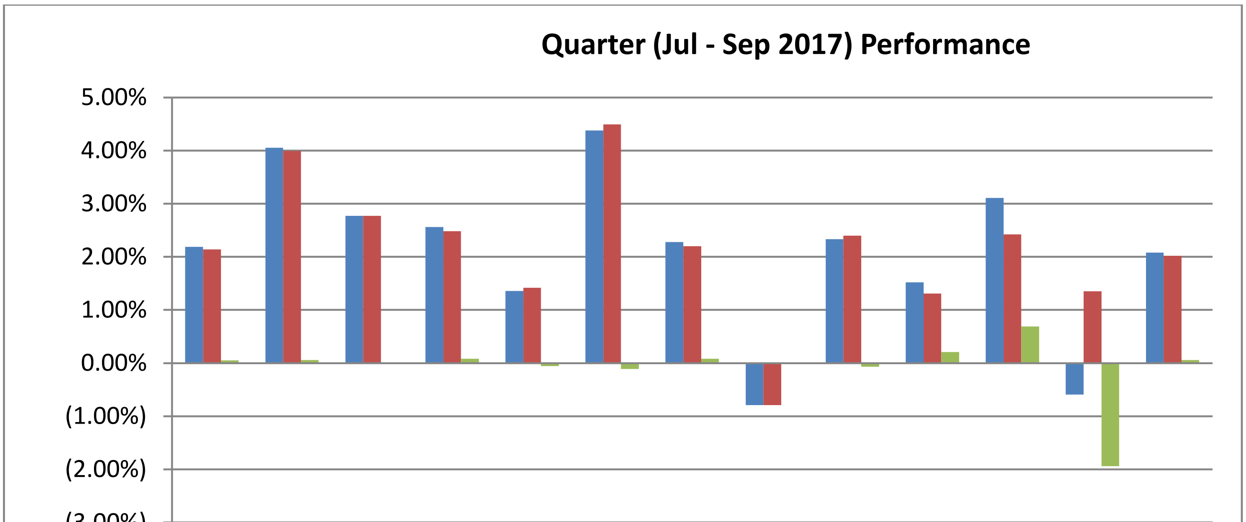
13. Investment Performance Update: to 30th September 2017

13.1. Appendix 1 provides details of the benchmarks and targets the fund managers have been set. The tables below show the performance in the quarter July to September 2017 and for one, three and 5 years for the whole of Fund.



	Jul 17 - Sep 17	One Year	Three Years	Five Years	Since Inception
Return	2.08%	11.11%	12.43%	12.50%	8.90%
Benchmark	2.02%	11.30%	12.57%	12.78%	9.78%
(Under)/Out	0.06%	(0.19%)	(0.14%)	(0.28%)	(0.88%)

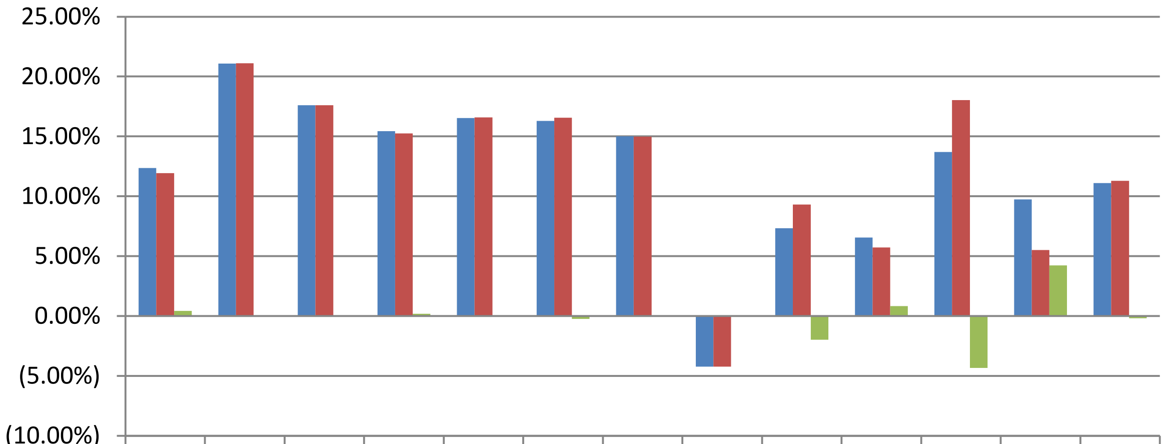
13.2. The Fund returned 2.08% in the quarter: roughly in line with the benchmark of 2.02%. Emerging Market and European equities showed the strongest performance over the quarter with returns of over 3%. The Private Equity portfolio also had a return in excess of 3% in the quarter.



	Eq - UK	Eq - Europe	Eq - North America	Eq - Japan	Eq - Asia ex Japan	Eq - Emerging	Eq - Global Low Carbon Tgt	Index Linked Bonds	Property	Multi-sector Credit	Private Equity	Infrastructure	Total Fund
Fund Return	2.19%	4.05%	2.77%	2.56%	1.36%	4.38%	2.28%	(0.79%)	2.33%	1.52%	3.11%	(0.59%)	2.08%
Benchmark	2.14%	3.99%	2.77%	2.48%	1.42%	4.49%	2.20%	(0.79%)	2.40%	1.31%	2.42%	1.35%	2.02%
(Under)/out	0.05%	0.06%	0.00%	0.08%	(0.06%)	(0.11%)	0.08%	0.00%	(0.07%)	0.21%	0.69%	(1.94%)	0.06%

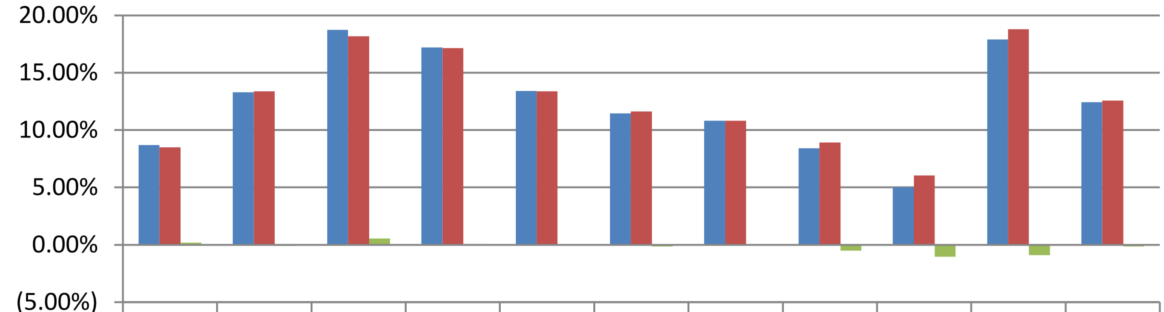
13.3. Over the last 12 months the Fund returned 11.11% and underperformed benchmark of 11.30% by 0.19%. Three and five year underperformance is 0.14% and 0.28% respectively. As much of the fund is invested passively, one would expect returns to be largely in line with benchmark. The Fund has benefitted from its overweight position in equities over the past five years.

One Year Performance



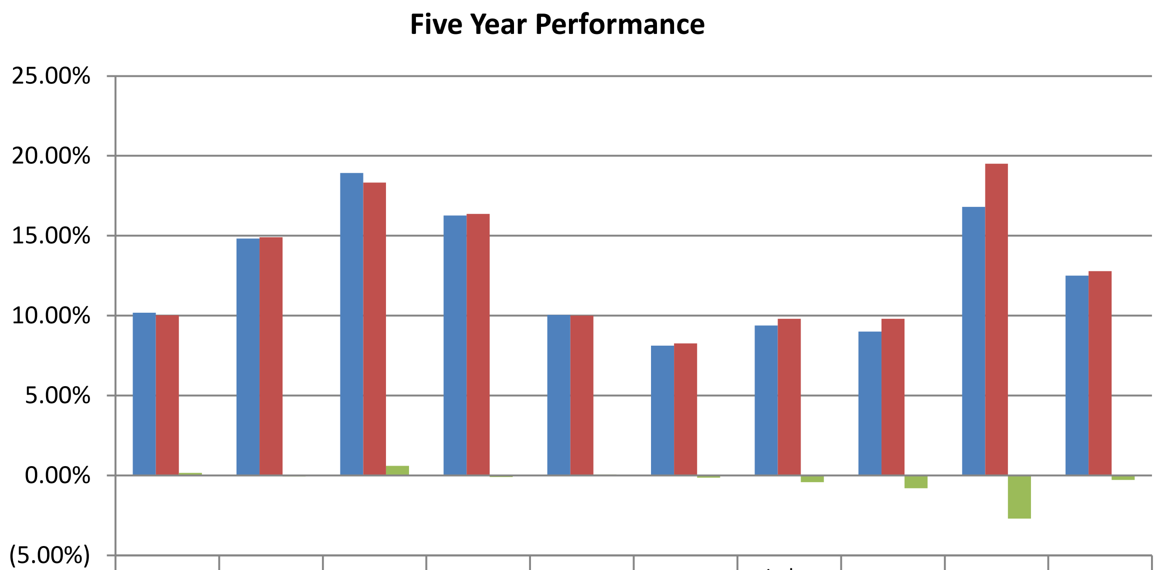
	Eq - UK	Eq - Europe	Eq - North America	Eq - Japan	Eq - Asia ex Japan	Eq - Emerging	Eq - Global Low Carbon Tgt	Index Linked Bonds	Property	Multi-sector Credit	Private Equity	Infrastructure	Total Fund
Fund Return	12.36%	21.08%	17.60%	15.43%	16.54%	16.30%	15.00%	(4.23%)	7.33%	6.56%	13.71%	9.74%	11.11%
Benchmark	11.94%	21.12%	17.61%	15.25%	16.59%	16.55%	14.99%	(4.23%)	9.31%	5.72%	18.04%	5.50%	11.30%
(Under)/out	0.42%	(0.04%)	(0.01%)	0.18%	(0.05%)	(0.25%)	0.01%	0.00%	(1.98%)	0.84%	(4.33%)	4.24%	(0.19%)

Three Year Performance



	Eq - UK	Eq - Europe	Eq - North America	Eq - Japan	Eq - Asia ex Japan	Eq - Emerging	Index Linked Bonds	Property	Multi-sector Credit	Private Equity	Total Fund
Return	8.70%	13.30%	18.73%	17.19%	13.42%	11.46%	10.81%	8.41%	5.01%	17.89%	12.43%
Benchmark	8.51%	13.38%	18.17%	17.13%	13.37%	11.62%	10.81%	8.91%	6.05%	18.80%	12.57%
(Under)/out	0.19%	(0.08%)	0.56%	0.06%	0.05%	(0.16%)	0.00%	(0.50%)	(1.04%)	(0.91%)	(0.14%)

Haringey LONDON

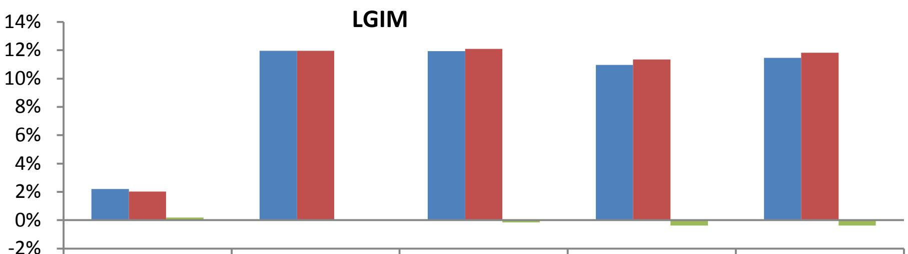


	Eq - UK	Eq - Europe	Eq - North America	Eq - Japan	Eq - Asia ex Japan	Eq - Emerging	Index Linked Bonds	Property	Private Equity	Total Fund
Return	10.18%	14.83%	18.93%	16.26%	10.05%	8.12%	9.39%	9.00%	16.81%	12.50%
Benchmark	10.02%	14.90%	18.33%	16.36%	10.00%	8.26%	9.81%	9.81%	19.51%	12.78%
(Under)/out	0.16%	(0.07%)	0.60%	(0.10%)	0.05%	(0.14%)	(0.42%)	(0.81%)	(2.70%)	(0.28%)

FUND MANAGER PERFORMANCE

<u>Legal & General Investment Management (LGIM)</u>

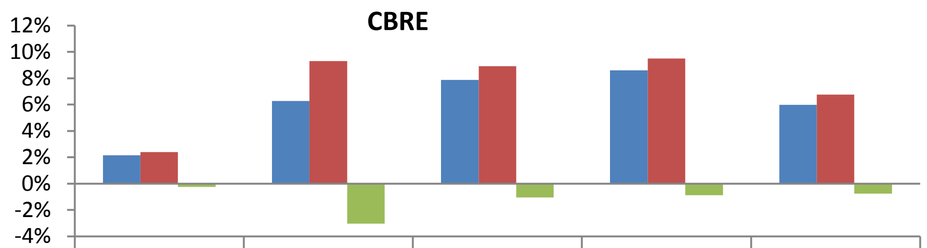
13.4. Legal and General returned 2.20% this quarter and slightly outperformed composite benchmark of 2.02%.



	Jul 17 - Sep 17	One Year	Three Years	Five Years	Since Inception (May 12)
Return	2.20%	11.96%	11.93%	10.97%	11.46%
Benchmark	2.02%	11.97%	12.09%	11.35%	11.83%
(Under)/Out)	0.18%	(0.01%)	(0.16%)	(0.38%)	(0.37%)

CBRE

13.5 The manager saw a positive total return of 2.16% in the quarter but underperformed benchmark of 2.40%. CBRE lags behind benchmark over 1, 3, and 5 years too, as well as since portfolio inception: however this position is improving.

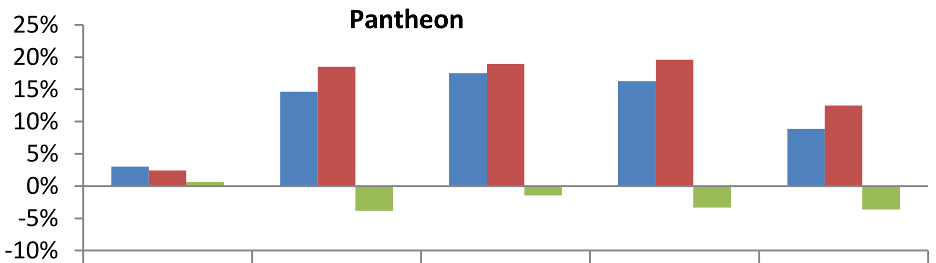


	Jul 17 - Sep 17	One Year	Three Years	Five Years	Since Inception (Mar 03)
Return	2.16%	6.27%	7.87%	8.60%	5.99%
Benchmark	2.40%	9.31%	8.91%	9.49%	6.76%
(Under)/Out	(0.24%)	(3.04%)	(1.04%)	(0.89%)	(0.77%)

13.6 The relative performance of the property portfolio was affected by two European funds that suffered significant loss, the final holdings in which were sold earlier in 2017: the effects of this will still show a lag on performance for some time to come.

Pantheon Private Equity

13.7 Pantheon Private Equity outperformed their benchmark by 0.62%. Over all other time horizons measured below the manager is showing a negative return compared to benchmark, however, in absolute terms, returns of over 15% over the past five years have added significantly to the fund's asset base and overall performance metric.

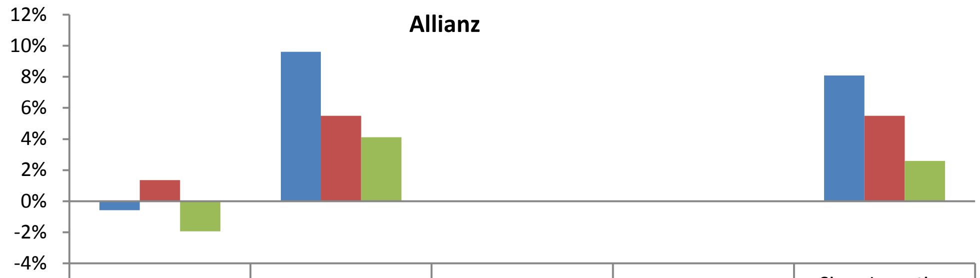


	Jul 17 - Sep 17	One Year	Three Years	Five Years	Since Inception (May 07)
Return	3.04%	14.63%	17.48%	16.26%	8.88%
Benchmark	2.42%	18.47%	18.94%	19.60%	12.51%
(Under)/Out	0.62%	(3.84%)	(1.46%)	(3.34%)	(3.63%)

Haringey LONDON

Allianz Infrastructure Debt

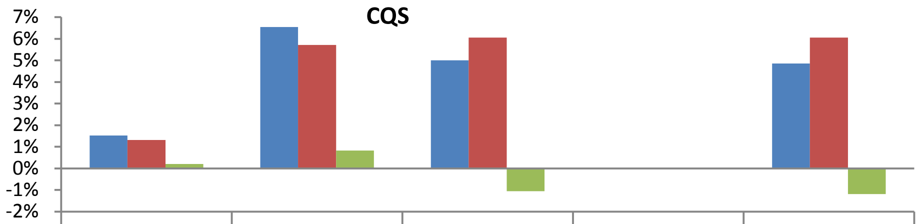
13.8 Allianz has returned -1.94% against benchmark in the quarter. However, the manager is still significantly ahead of benchmark in the one year period and since inception.



	Jul 17 - Sep 17	One Year	Three Years	Five Years	Since Inception (Dec 14)
Return	-0.59%	9.61%			8.10%
Benchmark	1.35%	5.50%			5.50%
(Under)/Out	(1.94%)	4.11%	0.00%	0.00%	2.60%

CQS Multi Sector Credit

13.9 The manager had a slight outperformance relative to benchmark in the quarter achieving a return of 1.52% against the benchmark of 1.31%. Over the past 12 months the manager is ahead of benchmark by 0.82%, but since portfolio inception they lag behind benchmark by 1.19%. This position is improving however.

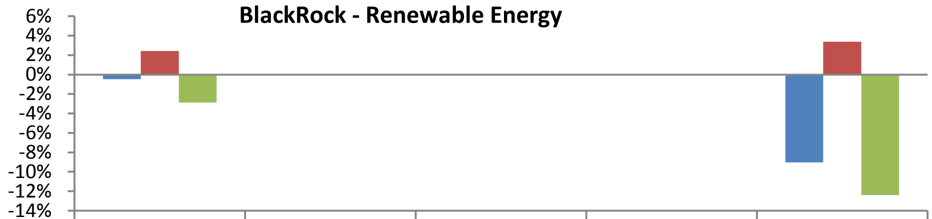


	Jul 17 - Sep 17	One Year	Three Years	Five Years	Since Inception (Aug 14)
Return	1.52%	6.54%	5.00%		4.86%
Benchmark	1.31%	5.72%	6.05%		6.05%
(Under)/Out	0.21%	0.82%	(1.05%)	0.00%	(1.19%)

BlackRock – Renewable Energy

13.10 The manager underperformed relative to benchmark in the quarter achieving a return of -0.47% against the benchmark of 2.41%. Over the past 12 months the manager is behind benchmark by 2.88%, however since portfolio inception they lag behind benchmark by 12.40%.

Haringey LONDON



	Jul 17 - Sep 17	One Year	Three Years	Five Years	Since Inception (May 17)
Return	-0.47%				-9.03%
Benchmark	2.41%				3.37%
(Under)/Out	(2.88%)	0.00%	0.00%	0.00%	(12.40%)

<u>Investment Related Update</u>

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. Ten sub funds have currently been set up, with more expected to follow shortly for a range of fixed income products. The CIV now has offerings in a number of global equity and multi asset or diversified growth fund products.

14.3. In September 2017, the Fund appointed its first manager via the London CIV: Ruffer to manage a multi asset absolute return strategy, comprising 7.5% of the Haringey Fund's total assets or £100m. This investment was completed in December 2017, and will be shown on the next quarterly update report covering the quarter to December 2017.

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 from the initial range of 6-9 months that was pitched to the Committee during the selection

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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 £270m of committed funds ahead of LB Haringey in the queue. Aviva have confirmed that funding commitment from LB Haringey will likely be drawn down in Q1 or Q2 of 2018. However, officers note that this is the same position that has been reported for nearly a year now, and the timing regarding the likely drawdown keeps slipping forward. Consequently, the Head of Pensions and Independent Advisor have agreed that they should now seek a meeting with Aviva to seek to further understand the situation.

Appendix 1 – Strategic Asset Allocation (as at 30.09.17)

Manager	% of Total Portfolio	Mandate	Benchmark	Performance Target
Legal & General Investment Management	67.5%	Global Equities & Bonds	See overleaf	Index (passively managed)
CQS	7.0%	Multi Sector Credit	3 month LIBOR + 5.0% p.a.	Benchmark
Allianz	3.0%	Infrastructure Debt	5.5% p.a.	Benchmark
CBRE Global Investors	7.5%	Property	IPD UK Pooled Property Funds All Balanced Index	+1% gross of fees p.a. over a rolling 5 yr period
Pantheon Private Equity	5.0%	Private Equity	MSCI World Index plus 3.5%	Benchmark
Aviva	5.0%	Long Lease Property	50% FTSE Actuaries 5-15 Year Gilt Index 50% FTSE 15 Years + Gilt Index*	+1.50% p.a. over the medium to long term
Copenhagen Investment Partners	2.5%	Renewable Energy	10.0% p.a.	Benchmark
Blackrock	2.5%	Renewable Energy	10.0% p.a.	Benchmark
Total	**100.0%**			

* 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).

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Asset Class	Benchmark	Legal & General Investment Management
UK Equities	FTSE All Share	6.60%
North America	FT World Developed North America Index (Unhedged)	4.80%
North America	FT World Developed North America Index (Hedged)	4.80%
Europe ex UK	FT World Developed Europe ex-UK Index (Unhedged)	1.60%
Europe ex UK	FT World Developed Europe ex-UK Index (Hedged)	1.60%
Pacific ex Japan	FTSE Developed Asia Pacific (ex-Japan) Index (Unhedged)	0.75%
Pacific ex Japan	FTSE Developed Asia Pacific (ex-Japan) Index (Hedged)	0.75%
Japan	FTSE Japan Index (Unhedged)	0.75%
Japan	FTSE Japan Index (Hedged)	0.75%
Emerging Markets	FTSE Emerging Markets Index (Unhedged)	7.80%
Global Low Carbon Equities	MSCI World Low Carbon Target Index (Unhedged)	11.15%
Global Low Carbon Equities	MSCI World Low Carbon Target Index (Hedged)	11.15%
Index Linked Gilts	FTA Index Linked Over 5 Years Index	15.00%
Total L&G		**67.50%**

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Agenda Item 12

Report for:	Pensions Committee and Board 18 January 2018
Item number:	**12**
Title:	Local Authority Pension Fund Forum (LAPFF) Voting Update
Report authorised by:	Clive Heaphy, CFO and S151 Officer
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 and Board has 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.

Company	Description	AGM Date	LAPFF Recommendation For/Oppose	LGIM Vote For/Oppose	AGM Vote outcome and overall Percentage of votes
JD Wetherspoon	Remuneration policy	09/11/2017	For	Oppose	For (95%)
Sports Direct	Share Schemes and Payment to John Ashley	30/11/2017	Oppose	Oppose	Oppose (68%)

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. None

10. Local Government (Access to Information) Act 1985

10.1. Not applicable.

Report for: Pensions Committee and Board 18 January 2018

Item number:

Title: Investment Consultancy Services Contract

Report authorised by: Clive Heaphy, CFO and S151 Officer

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 (Pensions Committee)

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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 must take proper advice in relation to investment of the fund's assets: this is done via procuring the services of an external specialist firm: the fund's investment consultant. The incumbent provider is Mercer Ltd. who has advised the fund for four years.

1.2. The current contract for investment consultancy services with Mercer will expire on 21 January 2018, this contract was extended at the Pensions Committee and Board meeting of 1 February 2017.

1.3. This report requests:

1.3.1. That the Committee and Board approves a contract extension pursuant to Contract Standing Order (CSO) 10.02.1 to the current contract with Mercer for the period 22 January 2018 – 31 March 2018 (the end of the financial year).

1.3.2. That the Committee and Board grant delegated authority to the Chief Finance Officer (S151 Officer) to enter into a new two year contract for investment consultancy services, (with possible extension for one further year). This contract award will be made following a procurement exercise carried out by officers, using the National LGPS Framework which is hosted by Norfolk County Council. The Framework Agreement is fully compliant with EU procurement processes.

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2. Cabinet Member Introduction

2.1. Pensions Committee

3. Recommendations

3.1. That the Pensions Committee and Board approve an extension of the current contract with Mercer Ltd. with no further expenditure anticipated to be incurred over the course of the extension to bridge the period to the end of the financial year, i.e. the period 22 January 2018 – 31 March 2018.

3.2. That the Pensions Committee and Board grant delegated authority to the Chief Finance Officer (S151 Officer), to appoint a provider for investment consultancy services to the fund, following a procurement process which will be carried out by officers with the involvement of the Independent Advisor to the Fund. This appointment will be done in accordance with CSOs 3.03 and 9.07.1(d) for the Council to enter into a contract for an initial 2 year term (1 April 2018 – 31 March 2020) at an estimated value of £190k with an option for a further extension of 1 year for a further estimated value of £95k (subject to indexation).

3.3. That the Committee and Board nominate, if it deems appropriate to do so, representatives, to attend the interview and presentation stage of the procurement process.

4. Reason for Decision

4.1. The existing contract for investment consultancy services expires on 21 January 2018. The Fund must take proper advice on investment matters as Administering Authority for Haringey LGPS Fund.

4.2. Procurement exercises are the method that the Council uses to ensure that value for money is maintained when seeking supplies and services contracts from third parties. The LGPS investment environment is changing radically over the next few years with the introduction of pooling, therefore, Officers feel that the best value can be delivered by testing the market at fairly regular intervals in coming years. Hence, it is recommended that this contract would be awarded for a period of 2 years only, with an end date of 31 March 2020. (The option for a one year contract extension will only be utilised in extraordinary circumstances).

4.3. Norfolk County Council has set up a National Framework for Investment Consultancy Services for the use of LGPS Funds. There are eight firms signed up to this framework:

- Aon Hewitt

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- Deloitte
- Hymans Robertson LLP
- JLT
- KPMG
- Mercer Ltd
- PricewaterhouseCoopers LLP
- Redington Ltd

Officers are proposing to carry out a mini competition in order to appoint one of the firms above, and Invitation To Tender (ITT) will be sent to all eight firms inviting them to tender for the contract with Haringey.

4.4. The procurement exercise will consist of two stages. The first stage will assess written submissions from all firms to assess ‘price’, and ‘quality’. The three firms who score most highly at this stage will then be called to the second stage of the procurement. This second stage will consist of a presentation and interview where ‘service fit’ will be assessed. It is proposed that Officers undertake the scoring process with the involvement of the Independent Advisor who has previous experience of participating in procurement processes to appoint Investment Consultants to LGPS Funds, and as is the usual practice for procurements for Haringey Pension Fund. The Committee and Board could nominate representatives to attend this meeting on Friday 16 February 2018 if they think this appropriate.

5. Other options considered

5.1. The fund must appoint an investment consultant to ensure it is able to access proper investment advice in order to fulfil its duty as Administering Authority for Haringey LGPS Fund. Therefore, not appointing an investment consultant would be an inappropriate course of action.

5.2. The framework hosted by Norfolk County Council is used extensively by LGPS funds. The framework increases transparency when it comes to fees, and comparability between firms. Officers therefore feel that the use of the framework presents best value for the fund. It was therefore thought best to use the framework agreement to conduct the procurement exercise.

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. The pension fund maintains a separate bank account for the payment of pension fund related costs, such as those for investment consultancy services. This

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is a required practice for LGPS funds under Regulation 6 of the LGPS (Management and Investment of Funds Regulations) 2016.

6.2. The contract will be procured by a call off from a Framework Agreement set up by Norfolk County Council for Investment Management Consultancy Services as permitted by CSO 7.01.b). There are three lots on this particular framework agreement, Haringey is calling off from Lot 1 on the framework which is for Investment Consultancy services.

6.3. There is a one-off cost to access the Norfolk County Council framework of £5,500.00. This fee is indicative of the costs they incurred in setting up the framework which other public bodies can benefit from.

6.4. Officers will invite the eight firms signed up to the framework to participate in a mini competition to tender for the contract with Haringey.

6.5. By inviting members of the Committee and Board to attend the presentation and interview stage of the mini competition, members of the Committee and Board would be able to have oversight of the process, and meet the firms tendering for the contract.

6.6. The contract will be priced by activity, and the pricing structure for each provider on the framework is fixed so that the prices for all LGPS funds calling off the framework for this specific provider are the same. Officers estimate that the likely spend over the course of the 2 year period will be in the region of £190k, with an additional £95k likely to be incurred if the option for a 1 year extension is taken up (subject to indexation).

7. Contribution to Strategic Outcomes

7.1. None.

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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 Fund must take proper investment advice in relation to the fund's assets, therefore appointing an investment consultant is necessary.

Procurement

8.3. Procurement supports the extension of the current contract with Mercer for the period 22 January 2018 – 31 March 2018 as per CSO 10. 01.1.a. There is not anticipated to be any spend during the contract extension period. The approval of this extension is imperative for business continuity.

8.4. This extension will allow service to engage in a procurement exercise in line with CSO 7.01b which allows contracting with a supplier from a framework after conducting further competition. Procurement endorses this action.

Legal

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

8.6. The legal comments in paragraph 8.6 contain exempt information, these are included in the attached exempt report.

8.7. Paragraph 3.2 of the report is recommending that delegated authority be granted to the Chief Finance Officer to award a contract for investment consultancy services.

8.8. As the value of the contract is estimated to be above the EU threshold for goods and services (£181,302), it would normally be subject to EU tendering. However, the report is recommending that the contract should be procured by way of a call off from a National LGPS Framework Agreement set up by Norfolk County Council (NCC). Under the Public Contract Regulations 2015 ("PCRs") as well the Council's Contract Standing Orders (see CSO 7.01a) the Council may avoid an EU tender and instead procure goods or services by way of a call off from a framework agreement set up by another contracting authority in compliance with EU procedures. The Service has confirmed that the Council is entitled to use the National LGPS Framework Agreement, which has been set up in a compliant manner.

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8.9. Subject to paragraph 8.6, the Assistant Director of Corporate Governance sees no legal reasons preventing the Pensions Committee and Board from approving the recommendations in paragraph 3 of the report.

Equalities

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

9. Use of Appendices

9.1. N/A

10. Local Government (Access to Information) Act 1985

10.1. N/A

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Report for: Pensions Committee and Board 18 January 2018

Item number: **14**

Title: Investment Considerations – Residential Real Estate

Report authorised by: Clive Heaphy, CFO and S151 Officer

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 (Pensions Committee)

1. Describe the issue under consideration

1.1. Haringey Pensions Committee and Board has previously requested that officers prepare a report examining the potential to invest in residential real estate which potentially has high ESG credentials, including consideration of initiatives undertaken by other Local Authorities.

2. Cabinet Member Introduction

2.1. Pensions Committee

3. Recommendations

3.1. That the Pensions Committee and Board note the contents of this report, including the comments of the Independent Advisor and the appended report from Mercer;

3.2. If the Pensions Committee and Board wishes to pursue residential real estate as an asset class any further, that they agree to write to the London CIV, to formally request that they give due consideration to the inclusion of residential real estate in the CIV's business plan: specifically residential real estate with high ESG credentials.

4. Reason for Decision

4.1. As this report details in later sections, the only investment option that is realistically workable for a Fund of Haringey's size and resources, would be through a pooled investment vehicle with a specialist fund manager. In line with the pooling agenda, the most sensible course of action here would be to approach the London CIV formally, and request that this is an area they consider adding to their business plan. The London CIV business plan includes the various asset classes that they intend to bring onto their platform in coming years.

5. Other options considered

5.1. Broadly, there are two options when it comes to making a pension fund investment:

- Direct Investment
- Delegated Investment (through a fund manager)

<u>Direct Investment</u>

5.2. Direct Investment requires in house specialist resourcing for a particular investment sector. A relatively large team is required in order to complete investments successfully, with specialist skills, the ability to stay abreast of all sector developments, regulatory changes and to complete appropriate due diligence on all investments completed, and then manage/monitor investments going forward.

5.3. With the exception of cash investments, this is an investment approach that has historically only been adopted by a very small number of LGPS Funds. The size of individual LGPS Funds, and the requirement for a properly diversified investment portfolio means that having in house specialist teams would be an inefficient and extremely costly approach for the vast majority of funds. However, with the advent of the pooling agenda, this approach could become more viable if in house specialist teams are set up within the LGPS pools (rather than the funds themselves), and collaboration will mean that the costs of these teams are spread throughout pool investors.

5.4. Along with the majority of LGPS funds, Haringey has never used a direct approach for investment to date. The pension fund investment and accounting team has two individuals, who also dedicate part of their time managing other council services.

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Delegated Investment

5.5. Haringey's pension fund is 100% invested via a 'delegated' approach – by employing sector specialist fund managers for different sectors and asset classes, thus allowing the fund to enjoy the benefits of a properly diversified investment portfolio.

5.6. This is the most common approach within LGPS, however officers note that there are a very small number of funds who manage equity investment in house. These funds are primarily large metropolitan area Funds, such as Greater Manchester and Merseyside, with investment teams of over 20 individuals, and with assets under management of around or over £10bn. One of the most significant hurdles to overcome in this area would be the recruitment and retention of suitably qualified staff: public sector pay levels do not compare favourably to private sector fund manager counterparts.

5.7. It is clear that all investments which Haringey Pension Fund makes must continue to be via the 'delegated' route: engaging qualified fund managers with specific sector specialism to ensure the best outcomes are sought for the fund, and its members.

6. Background information

6.1. Members of the Pensions Committee and Board have previously requested that officers prepare a report to the committee examining what scope there is (if any) to invest in residential real estate such as social housing, including the potential to invest locally, and what initiatives have been completed by other Local Authorities.

The need for diversification

6.2. One of the key considerations for LGPS Funds is the requirement to properly diversify the investments held by the fund. This is done via setting out the strategy to be adopted in the Investment Strategy Statement. Diversification reduces the risk of losses that the fund could incur by exposure to one particular asset class or geographic region.

6.3. For asset classes such as equity and fixed income, where investment is split across a significant number of investment holdings, allocations can be significant portions (over 50%) of a fund's total investments. For alternative asset classes such as private equity, real estate or infrastructure, allocations are significantly lower: normally no more than 10% per allocation. This is normally due to the far lower number of individual investment holdings for these asset classes, higher levels of illiquidity and higher levels of price volatility. To contextualise this based on Haringey's current investments: the current global equity portfolio constitutes 45% of total investments, and is spread across share holdings in thousands of individual companies. The fund's infrastructure debt allocation constitutes 3% of total investments, and this is spread across just five individual infrastructure projects.

6.4. In order to achieve proper diversification and protect the interests of fund members and employers, any potential new investment in a specialist area of the real estate market would need very careful consideration to ensure that it was suitable for the Fund's investment requirements. Areas that are associated with potentially higher levels of risk (both actual and perceived risks) should be limited to relatively small allocations, in the order of, say, no more than 1% of total fund assets, subject to further review of an actual investment opportunity. This leads to no overreliance on the performance of a single asset, and no undue risk caused by underperformance of a single asset.

6.5. This is a relatively small amount: other funds with larger investment portfolios can clearly invest larger amounts in single assets and maintain the same proportionate level of risk.

The impact of investment performance on employer contributions

6.6. Every three years, the fund is valued, and employer contributions are set for the next three year period for all participating employers. For the majority of Haringey employers, staffing costs (including employer's pension contributions), make up a significant proportion of their annual revenue budgets. To give an idea of the magnitude of this, Haringey Council paid employer contributions of £26.8m to the fund in 2016/17.

6.7. A downturn in the performance of the fund's assets is likely to have a direct impact on the valuation of the fund, and contribution rates that employers must pay. Therefore, if the fund invested in assets which did not perform well over the next three year period, employer contribution rates would very likely rise: thus creating budget pressures for the Council, schools in the borough and other smaller community and private sector organisations who participate in the fund. For example, a 10% absolute value increase in employer contributions for Haringey Council would result in a £2.68m budget pressure for the Council. Academy Schools and smaller community bodies may be particularly adversely affected by increased Employer contributions.

6.8. It is therefore important that all investment decisions are made with investment performance and characteristics as the key principal drivers. Environmental, social and corporate governance (ESG) considerations are however, a vital secondary consideration.

The risks surrounding local investment by pension funds

6.9. LGPS funds are usually administered by London Boroughs, County Councils or Metropolitan Authorities. These local authorities who act as ‘Administering Authorities’ for LGPS funds suffer a direct link between their revenue budget health and the economic prospects within their geographic area. LAs increasingly depend on economic growth to generate revenue budget resource in order to provide public services for their residents, through business rate collections and council tax receipts. An LA which is experiencing a local economic downturn will suffer from reduced tax receipts, and the associated budget pressures.

6.10. Were LGPS funds to invest heavily in local assets, this would magnify some of these revenue budget risks. Investment in local assets in a poorly economically performing area would likely lead to losses which the pension fund would incur. All else being equal, these losses would be expected to impact on the pension fund’s valuation, which could then in turn increase the employer contributions required of the administering authority and other employers. The authority would then be in a position whereby it faced twofold budget pressures: increasing pension fund contributions, and reducing tax receipts. Tying the economic fortunes of both a pension fund and the authority that administers it to one small geographic area is not a diversified approach to investment, and has the potential to be disastrous for an administering authority. For this very reason, local investment by LGPS funds is an extremely uncommon practice.

6.11. There are also significant reputational risks posed by LGPS funds investing locally. Investment in residential real estate must be handled extremely sensitively: should any fund invest in residential real estate and suffer some form of asset underperformance, or poor performance in asset management such as tenant servicing/relations, this is likely to produce a highly emotive public reaction which should not be underestimated.

Private Rented Sector (PRS)

6.12. Officers are aware of a very small number of professional fund managers who invest in, and even have specific funds dedicated to PRS investment. This is mentioned in the report of Mercer which is appended. This was not a topic that the Committee and Board raised initially, however this is clearly an area of residential real estate investment which could be investigated further if the Committee and Board wish.

Projects completed by other LGPS Funds

6.13. One London Borough has historically made a commitment to investment in social housing. However, although this commitment was made several years ago, the fund has not to date completed any actual investments. This commitment was not intended to be invested locally within the borough.

6.14. One County Council Pension Fund has made an investment in residential property within a town in their County. The fund entered into a joint venture with a housing association, funding 70% of a £8m development of 40 properties. The fund in question has a 0.3% allocation to this investment in its Investment Strategy Statement. However, it should be noted that this is a private rented sector investment, and not a scheme whereby rents would be discounted from market rates.

6.15. One large metropolitan pension fund covering several LAs outside London has invested £25m in a joint venture with one of the ten unitary LAs who is an employer in the fund, this equates to roughly 0.1% of total assets of the fund in question This venture aims to stimulate new home building and provide residential property across several sites within the metropolitan area. Having examined publicly available documents, officers have found that this scheme offers a mixture of outright purchase and rental property: however all rentals are at market rates.

6.16. One further County Council Pension Fund has invested £20m in a Real Estate Investment Trust (REIT or a form of pooled investment vehicle) joining a number of other private investors and charities. The manager of this vehicle does not develop or manage social housing directly, but purchases assets which it then leases back to other registered providers on long term leases with rents linked to inflation. The portfolio in this fund is weighted towards specialist social housing, such as supported living property. The investment is not within the Fund's local area, but across the UK, and constitutes around 0.4% of total fund assets.

6.17. Another County Council has invested a sum of £300m with a residential property company which aims to provider affordable housing across the UK. The company does this largely through shared ownership schemes, including schemes where non-new build properties are purchased through shared ownership and pay inflation linked rent on the unpurchased share of the property. The investment is not geographically constrained within the County. This LGPS Fund has total investment assets of around £8bn.

6.18. Outside of London there has clearly been some but limited activity in residential real estate investment, including a very small number of cases where a Pension Fund has invested in housing in the area the Pension Fund covers. This is likely, in part, to be influenced by the size and resource of LGPS funds outside London, and the disparity in property prices within and outside London.

Conclusion

6.19. Any new investment completed by Haringey fund must be done based on sound investment advice received from the fund's investment consultant, who would assess how a new investment class would impact on the fund's overall risk and liability profile.

6.20. As is documented throughout this report, due to the need for diversification and the risks of investing locally, if Haringey does consider investment in residential real estate in the future, this should be through a pooled investment vehicle where the fund can gain exposure to a number of individual assets. A specialist fund manager should be engaged to manage the investment.

6.21. Due to this requirement to act collaboratively with other investors, the London CIV appears to be the best way to pursue residential real estate investment. It is therefore recommended that the Committee and Board formally write to the London CIV if they do wish to pursue investigations into this asset class.

7. Comments of the Independent Advisor

7.1. I would suggest that the Committee and Board very carefully consider both the information provided by and observations of the Officers contained in this report and their recommendations. I would also suggest that very careful consideration is given to the report on Social Housing Investment provided by the Fund's appointed Investment Advisor, under the LGPS (Management and Investment of Funds) Regulations 2016, Mercer.

7.2. Investment in Residential Real Estate including investment in the geographic area covered by the Pension Fund, which might include direct investment, is permitted under the LGPS (Management and Investment of Funds) Regulations 2016 and associated Statutory Guidance. This could potentially include social housing. The fact that an investment is permitted does not however mean that it should be pursued.

7.3. The Statutory Guidance of July 2017 which accompanies the 2016 Investment Regulations includes the following statements "Although schemes should make the pursuit of a financial return their predominant concern, they may also take purely non-financial considerations into account provided that doing so would not involve significant risk of financial detriment to the scheme….." and

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"Investments that deliver social impact as well as a financial return are often described as "social investments"…… some part of the financial return may be forgone 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 the concern for social impact, and there is no risk of significant financial detriment to the fund." The first point to note is that financial return must, under the 2016 Investment Regulations, remain the "predominant concern." While social impact can be taken into account it must not result in "risk of significant financial detriment to the fund."

7.4. As already stated the Pension Fund must make any investment decision primarily on financial grounds. Therefore, it would be improper to seek to invest in Social Housing or any form of Residential Real Estate simply to assist the Council in its role as a Housing Authority or primarily for any other housing related purpose.

7.5. While direct investment by the Haringey Fund in Residential Real Estate within the Borough is possible it raises a number of potentially complex issues/risks including possible serious investment and reputational risk. In particular, the Haringey Fund, like all London Borough Funds, lacks both the staffing resources and expertise to plan, execute and manage/monitor any form of direct Residential Real Estate investment whether or not in the form of social housing. Direct investing by the Haringey Pension Fund, in Residential Real Estate, whether within or outside the Borough, is not practical.

7.6. Delegated investment in Residential Real Estate, by an asset management firm, solely in Haringey is, I believe, not a realistic option when compared to investing across the whole of urban England or even the South East or Greater London. Any reputable asset manager, who has the capacity to effectively deliver Residential Real Estate (and there are few asset managers who have this capability) would almost certainly consider the opportunity to constrained and risky on geographical grounds alone as Haringey is geographically a very small area compared even to Greater London. The few asset managers who offer Residential Real Estate (primarily private residential for "professionals") do so on a wide geographic basis that will include not only various parts of London but urban areas of the south and major conurbations in the midlands/north of England.

7.7. A number of London Boroughs and LGPS Funds outside London have recently invested in the Private Rental Sector (PRS) but these have been with (a very few) asset managers PRS products which invest in geographic locations they deem suitable without reference to individual investors. This type of housing is aimed typically at young professionals with good incomes who in previous times would very likely have become owner occupiers. These products are therefore neither local investment or social impact products.

7.8. In conclusion I strongly support and concur with the Officer recommendations and in particular that if the Pensions Committee and Board wishes to pursue Residential Real Estate they write to the London CIV to request the inclusion of Residential Real Estate in the CIV's business plan and specifically that this be Residential Real Estate with high ESG credentials.

8. Contribution to Strategic Outcomes

8.1. None.

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

<u>Finance</u>

9.1. The appended report from Mercer highlights the difficulty of finding investments of suitable scale and likely returns in this area. Whilst commitment to ESG issues is clearly an important key consideration for Haringey Pension Fund, the overriding aim of the fund's investment strategy must be to improve the funding position with the aim of reaching fully funded status, whilst maintaining stability of employer contributions. Any changes to the Fund's investment strategy must be consistent with these principles.

9.2. Before any new fund managers or asset classes are introduced to the pension fund, proper due diligence will be undertaken, and sound professional advice will be sought. Officers will ensure that the Pensions Committee and Board receive adequate and appropriate training on any new investment techniques or asset classes prior to these being undertaken by the pension fund.

9.3. The report from officers and the paper from Mercer are intended for informational purposes and do not recommend specific investment related actions to be taken at this stage.

9.4. With the fiduciary duty in mind, it is important to note, that the Committee and Board must make purely rational decisions in relation to the investment of the fund – i.e. all decisions must benefit the members and employers in the fund. Investment returns have a direct impact upon the affordability of the participating in Haringey Fund for employers, and nationally can impact upon affordability for members if employee contribution rates are raised, (as has been the case in recent years). Investing in an asset class which has lower than expected returns compared to other asset classes and which exposes the fund to additional levels of risk would clearly be imprudent, and could be subject to legal challenge on the grounds of irrational decision making.

Legal

9.5. The authority must invest the funds in accordance with the Investment Strategy. The Investment Strategy must in accordance with Regulation 7 of the The Local Government Pension Scheme (Management and Investment of Funds) Regulations 2016 set out the maximum percentage of the total value of all investments of fund money that it will invest in particular investments or classes of investment. Members are reminded of their fiduciary duty to the Pension Fund and its members i.e. the members must act in good faith for the benefit for the Pension Fund and its members. The members have a duty to exercise reasonable care, skill and diligence. In making a decision on the recommendations set out in this report members should take in to account the advice of the professional advisors set out in this report and provided at the meeting.

Equalities

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

10. Use of Appendices

10.1. Confidential Appendix 1 - Mercer

11. Local Government (Access to Information) Act 1985

11.1. N/A

Agenda Item 15

Report for: Pensions Committee and Board 18 January 2018

Item number: **15**

Title: Governance Report

Report authorised by: Clive Heaphy, CFO and S151 Officer

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 and Board:
- on progress toward compliance with Scheme Advisory Board (SAB) key performance indicators;
- to highlight areas where improvement is still needed in order to achieve full compliance.
- on progress with the governance review of the London CIV.

2. Cabinet Member Introduction

2.1. Not applicable.

3. Recommendations

3.1. The Committee and Board should note progress since the last report to the Committee and Board on performance against SAB's key indicators.

3.2. The Committee and Board should note the findings of the governance review of the London CIV which has recently been conducted, which are appended to this report.

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 The Pensions Regulator when it believes action is necessary.

6.2. 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's achievement of KPIs in the SAB model remains steady at 48 out of 59 – an 81% achievement rate.

6.4. The London CIV commissioned a governance review which took place during the autumn of 2017. The final review which was undertaken by Willis Towers Watson is appended to this report for the Committee and Board's information.

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
9.2. Appendix 2: Confidential London CIV Governance Review Confidential

10. Local Government (Access to Information) Act 1985

10.1. Not applicable.

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