NOTICE OF MEETING

PENSIONS COMMITTEE AND BOARD

Tuesday, 20th November, 2018, 7.00 pm - Civic Centre, High Road, Wood Green, N22 8LE

Members: Councillors Matt White (Chair), John Bevan (Vice-Chair), Kaushika Amin, Paul Dennison, Khaled Moyeed and Viv Ross

Co-optees/Non Voting Members: Ishmael Owarish, Keith Brown and Randy Plowright

Quorum: 3

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 14 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 - 10)**

To confirm and sign the minutes of the meeting held on 11th September 2018 as a correct record.

7. **PROPERTY INVESTMENTS (PAGES 11 - 14)**

This report provides an update to members regarding property investments following on from discussions at the previous Pensions Committee and Board (PCB) meeting.

8. **PENSIONS ADMINISTRATION REPORT (PAGES 15 - 22)**

This report presents details of potential new admission to the pension fund. The report also gives a breakdown of the amount of visits made to the Haringey pension fund website.

9. **UPDATE TO FUNDING STRATEGY STATEMENT (FSS) (PAGES 23 - 70)**

To note and agree the Funding Strategy Statement, which has been updated following the enactment of the Local Government Pension Scheme (Amendment) Regulations 2018.

10. **FORWARD PLAN (PAGES 71 - 76)**

The purpose of this report 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.

11. **RISK REGISTER - REVIEW/UPDATE (PAGES 77 - 94)**

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

12. **PENSION FUND QUARTERLY UPDATE (PAGES 95 - 112)**

To report the following in respect of the three months to 30 September 2018: Funding Level Update, Investment asset allocation, and Investment performance.

13. **LOCAL AUTHORITY PENSION FUND FORUM (LAPFF) VOTING UPDATE (PAGES 113 - 114)**

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.

14. **NEW ITEMS OF URGENT BUSINESS**

To consider any items admitted at Item 3 above.

15. 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.

16. UPDATE TO FUNDING STRATEGY STATEMENT (FSS) (PAGES 115 - 124)

As per Item 9.

17. PENSION FUND QUARTERLY UPDATE (PAGES 125 - 130)

As per Item 12.

18. NEW ITEMS OF EXEMPT URGENT BUSINESS

To consider any items admitted at Item 3 above.

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

Thursday, 08 November 2018

MINUTES OF THE MEETING OF THE PENSIONS COMMITTEE AND BOARD HELD ON THURSDAY, 13TH SEPTEMBER, 2018, 7.00 - 8.45 pm

PRESENT:

Councillors: Matt White (Chair), John Bevan (Vice-Chair), Kaushika Amin, Paul Dennison, Viv Ross, Ishmael Owarish and Keith Brown

200. 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.

201. URGENT BUSINESS

Prior to the start of the meeting, the Committee were informed that the group Wood Green Friends of the Earth sought to address them with regard to divestment. As the formal procedure rules had not been followed, the Chair sought the Committee's permission as to whether to allow the leader of the group to make representations on behalf of the group to the Committee. The Committee unanimously agreed to allow the group to address them.

Quentin Given, on behalf of Wood Green Friends of the Earth, spoke to the Committee. It was raised, that:

- The number of natural disasters were increasing and this was because of the continual usage of fossil fuel. Governments were not giving the issue the urgency nor the action it was due and the group wanted to see Haringey Council's Pension Committee and Board make a commitment to complete divestment from fossil fuel. It was noted that other Councils had made similar commitments and were moving towards alternative investments which the group claimed were performing far better;
- The group wanted the Committee to go beyond its 5% commitment to investing in renewable energy and asked it to timetable a report for the next meeting setting out the steps moving towards divestment in fossil fuel; and
- The group were mindful of the reality of the time needed to create reports and to make decisions on such issues but asked the Committee to make a decision as soon as it was able to, with regard to the issues raised above.

The Chair thanked Quentin Given for his speech and reassured the group that the Committee shared their concern on the impacts of fossil fuel. The Chair noted that it was his intention to liaise with other Pension Chairs on the issue of a unified and collective commitment to future divestment.

On behalf of Haringey Council, Thomas Skeen, Head of Pensions, addressed the Committee and Board on this topic and noted this the issue of the Fund's Equity Strategy had only recently been addressed at a previous meeting in March 2018 and there were good reasons why the changes made at this time were done. It is not good practice to make regular changes to the Fund's Equity Strategy within short time periods. This could potentially damage the fund's reputation, with participating employers questioning the decisions taken by the Committee, and might affect their contributions to the Fund. Further, the Committee had already invested £276m in a low carbon fund. With regard to when the issues raised by the group could next be timetabled, it was noted that due to time-consuming items on future agendas it was unlikely that this would happen before March 2019.

The Fund's Investment Consultant, Steve Turner, of Mercer, also addressed the Committee. The approach that Haringey Council's Pension Committee had taken over the past 4 years had been proactive in committing to a renewable energy allocation of 5%, when other Local Government Pension Schemes (LGPS) had yet to make such commitments. The Committee had to be mindful of attaining the best returns possible, and of liquidity. There was limited scope to increase the allocation to renewable energy without increasing the overall illiquidity of the fund, and it would not be appropriate to have an allocation at a level above 5%. It was important that the Committee had a broad and diversified portfolio to balance the exposure to risk.

Following discussion amongst the Committee, it was noted that:

- The above-mentioned report detailing the Fund's Equity Strategy, which was discussed during the March 2018 Pensions Committee meeting, was publicly available for viewing, however, there was an exempt appendix with Mercer's advice to the Committee which was not publicly available.
- As the changes to the Fund Equity Strategy would only have taken effect from July 2018, it was too early to see what the impact of this was. It was prudent to review and make potential investment changes after a period of 3 years, as this was the amount of time usually needed to see how funds were performing.
- The Committee had previously considered making an allocation to a sustainable equity portfolio through the London CIV in March 2018. However, when further details and figures were released, the Committee did not think this would be in the Pension Fund's interest at that time.
- The London CIV was due to announce details of its infrastructure fund and it was important to see how much exposure this gave renewable energy.
- Regarding the difficulty of timetabling a report to the committee on the issue of divestment in fossil fuel, it was noted that the Committee had to prioritise pieces of work.
- With regard to setting a roadmap for the future on this issue, it was drawn to the Committee's attention that the Forward Plan was available for consideration at every meeting to discuss what should be on future agendas.

- Members of the Committee and Board were cautious that they did not wish to see this topic become a political debate. It would be prudent for members to increase their level of understanding on the issues affecting the Fund in general before making long-lasting commitments to the Fund's Equity Strategy.

It was agreed that, given the heightened level of interest amongst members of the public and the Committee, the issue of divestment from fossil fuel should be further discussed at the March 2019 meeting of the Pensions Committee. This would allow time for officers to prepare a considered report, and allow the Committee to address priority commitments at meetings before March 2019.

202. APOLOGIES FOR ABSENCE

Apologies for absence were received from Cllr Moyeed Khaled and Randy Plowright.

203. DECLARATIONS OF INTEREST AND CONFLICTS OF INTEREST

No declarations of interest declared.

204. RECORD OF TRAINING UNDERTAKEN SINCE LAST MEETING

Cllr White, Cllr Bevan, Cllr Dennison, Cllr Ross, Cllr Amin, Keith Brown and Ishmael Owarish attended a training session delivered by the Fund's Independent Advisor, John Raisin, and the fund's investment consultants, Steve Turner and Alex Goddard, of Mercer. 13/09/2018.

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

Cllr Bevan

- LBH Pensions training, 07/2018
- LBH Pension committee, 07/2018
- SPS Credit & Private Debt Investing for Pension Funds, 30/08/2018

Clr White

- London CIV meet the managers day 16th August
- Completed 2 modules online Public Sector Tool Kit.

205. MINUTES

In discussing the minutes of the meeting held on 23rd July 2018, it was noted that a decision on whether to continue being a subscriber to the Pensions and Lifetime Savings Association (PLSA) was not necessary before March 2019, as this had been paid for up until that date. The Head of Pensions informed the Committee that advice on whether there is merit in continuing this subscription would be circulated to members before the next meeting but that this did not have to be an agenda Item. Members were invited to consider the advice to be circulated before the next meeting and ask follow up questions of the Head of Pensions.

Resolved

To approve and sign the minutes of the meeting held on 23rd July 2018 as a correct record.

206. ADMINISTRATION REPORT

This report introduced by the Pensions Manager, Janet Richards, presented details of a potential new admission to the pension fund and gave a breakdown of the amount of visits made to the Haringey pension fund website.

The Committee was informed that The Grove School would be a new school, with effect from 1 September 2018. It was noted that 23 members of the support staff who are currently members of the Local Government Pension Scheme would transfer to The Grove School and remain in the Local Government Pension Scheme. The Committee was also informed about the performance of the Haringey pension website in the months of June 2018 and July 2018, with it being noted that the average amount of users per month to the pension website was 336, viewing on average 1309 pages.

Annual Benefit Statement

Although this was not on the Agenda, the Committee were informed by the Pensions Manager that the Annual Benefit Statements, which are an annual estimate of pension benefits earned by individuals, should have been sent out before 31st August 2018 (as per the relevant legislation), however, this was not done.

It was explained that Haringey Council used a third party to send out the Annual Benefit Statements. Whilst the Council had sent these to the third party on 24th August 2018 for printing, there appeared to have been an administration level error that caused there to be a delay before the printed statements were then sent to the postal room for posting. Consequently, the statements were not sent out in time. The Council's Pensions Team became aware of the error and queried this with the third party. Upon discovery of this delay, and having investigated the error, the Pensions Team sought advice from the Pensions Regulator as to whether the issue amounted to a breach. The advice from the Pensions Regulator was that the relevant Pensions Committee should be consulted with the facts of the incident and it was for them to decide whether the incident amounted to a material breach or not. It was noted that a finding of a material breach could, depending on its severity, result in the Council being fined.

Following discussion, there were conflicting views amongst members of the Committee. It was mindful that:

- This error was outside the control of the Council, and that there appeared to have been no negative impact on the recipients of the statements;

- The Council had been proactive in investigating the issue, which had only recently occurred; and
- The Committee were reassured that the incident would not happen again and that the Council were moving towards sending out the statements online in the future, which it was believed would mean the statements would not then have to be posted.

However, it was not content that:

- This information had been presented without being included in any report, which did not give members of the public an opportunity to review the issue; and
- No formal recommendation had been prepared for the Committee to consider.

Having heard the full details of the incident, the Committee felt that they were not in a position to decide whether to report the incident as a material breach and decided that it would be appropriate for the Council's lawyers to be consulted on the issue first. Their advice should then be presented to the Committee at a future meeting for consideration. The Committee suggested that the Council should follow the recommendation of its lawyers, and if they advised the Pensions Team to report the incident as a breach, to do so before the next Pensions Committee and Board meeting.

Resolved

1. To approve the admission of The Grove School as a new employer to the Pension Fund.

2. To note that this report gives a breakdown of the amount of visits made to the Haringey pension fund website.

207. INVESTMENTS REVIEW

The Head of Pensions, Thomas Skeen, introduced this report, which gave an overview of some of the Fund's private market asset class investments – property and private equity – and highlighted where the Fund is unable to achieve the targets set out in the Fund's Investment Strategy Statement through existing committed funds. The report went on to consider potential options to remedy this.

The Committee were directed to sections 4.2 and 4.3 of the report, and it was highlighted that when the Fund made new commitments to investment, the rate at which the Fund would grow in the future it could not be anticipated. Looking at the Aviva commitment, when 5% was allocated to this back in 2016, the Fund was worth approximately £1bn. The Fund had since grown significantly, and the Aviva commitment equalled roughly 3.5% at the time of this report. This divergence had occurred in a number of the Fund's private market asset classes. Due to the Fund's overall strategic allocation being down 3.5% due to the Fund's growth, two options were suggested to bring this back up to the agreed level. Firstly, the Committee and

Board could choose to commit to invest further funds with existing fund managers to bring these amounts in line with the strategic allocation, or secondly, it could explore the possibility of further diversifying its private market portfolio by including a new mandate within the portfolio.

Property was highlighted as being a useful asset class. The Fund's Investment Consultant, Mercer, had advised that residential property often displays a strong inflation linkage, and that this could sit well within the Fund's overall property allocation. The Committee were informed that the suggested approach would be to consult London CIV to initiate discussions.

With regard to Private Equity, it was noted that this was a growth asset class that allowed the Fund to gain exposure to companies that were not available to invest in via public stock exchanges. Recommendation 4 was brought to the Committee's attention for noting as the existing allocation to Private Equity was going to be underweight on its strategic allocation.

With regard to the options for the Fund, diversification would be positive in terms of mitigating risk exposure. However, increasing the number of fund managers would create a disproportionate drain on resources. It was noted that nine fund managers was close to the average of existing funds of a similar size to Haringey. It was considered appropriate to work with other London boroughs, and consult London CIV about further investing by that route rather than by acquiring a new fund manager. The Independent Advisor to the Committee concurred with this positon.

Following discussion amongst the committee, it was noted that:

- The Chair was due to discuss with fellow Pension Committee Chairs about further investing in residential property at a meeting in October 2018.
- Property (Private Rented Sector) was not social housing.
- Further investment in the London CIV did not entail adding a new fund manager, as the CIV is essentially an existing fund manager.
- Pantheon offered a range of fund options that could be committed to relatively quickly. This was in contrast to the fact that it could take some months to discuss further investment with the London CIV.
- Initiating discussions on residential property would be the first time the Fund had sought a bespoke arrangement with London CIV, the CIV being a relatively new organisation.
- As a client of the London CIV, it would be up to the Fund to indicate what kind of potential investment vehicle they wanted the London CIV to offer. The London CIV would then look at London as a whole and decide if it was worthwhile to do the research behind the proposed investments. Help with investing in residential property could be sought from the London CIV, but they might reply that there was insufficient demand across London for this. If so, it would be up to the committee to decide what the next step would be.

Resolved

1. That the Committee and Board consider and note the contents of this report, including the verbal information and advice given by the fund's investment consultant Mercer, in the meeting.

In relation to Property:

2. That the Committee and Board agrees to invite representatives of the London Collective Investment Vehicle (CIV) to the November Pensions Committee and Board meeting in order to discuss in further detail the potential for the CIV to include a residential property investment option.

3. That the Committee and Board notes and agrees to adopt two broad principles outlined throughout this report in relation to residential property investment, namely:

- In the first instance, any new investment should be done via the London CIV
- Any new investment should be done in a diversified manner: preferably using a pooled investment vehicle approach, with an experienced specialist fund manager, and with exposure to the UK property market as a whole.

In relation to Private Equity:

4. That the Committee and Board note that the existing allocation is underweight and that the S151 Officer take action to correct this as detailed within this report.

208. FORWARD PLAN

The Head of Pensions introduced this report for noting, which identified topics that would come to the attention of the Committee in the next twelve months, and sought Members' input into future agendas. Suggestions on future training were also sought from Members.

The Committee's attention was drawn to Appendix 1, which outlined the items on the agenda of future meetings, Appendix 2, which detailed training events Members may wish to attend, and Appendix 3, which detailed the Public Sector Toolkit and the Members that had completed this.

Following discussion, the Committee noted reports in the media that individuals had been choosing to cash in on their pensions. The Committee queried whether the Council kept a record of which of its members had cashed in on their pensions and what efforts were being made to advise them that this might not be in their best interests in the long term. In response, it was acknowledged that individuals had a legal right to cash in on their pension if they wanted to, and that the only obligation of the Council was to ensure that any individuals who did so were appropriately financially advised before so. It was further noted by the Fund's Investment Consultant that this trend was occurring predominantly in the private sector, and that it was not currently an issue that the Local Government Pension Scheme was witnessing.

Resolved

The Committee noted the report and the Forward Plan.

209. RISK REGISTER

The Head of Pensions introduced this report for noting, which gave an update on the Fund's risk register and provided an opportunity for the Committee to further review the risk score allocation. The Committee were invited to note the risk register and that the area this review at the meeting is 'Administration' and 'Communication' risks.

The Committee's attention was drawn to risk number 50, "*Member's don't make an informed decision when exercising their pension options whilst employer's cannot make informed decisions when exercising their discretions leading to possible complaints against the Fund",* which had its overall risk rating increased. Although there was a communications strategy in place that provided explanatory notes and guidance to members, the number of smaller employers in the fund (such as catering and cleaning providers in schools) increased this risk of more likely occurring.

In response to the Committee, it was noted that there was a general lack of understanding with regard to pension entitlements by both employees and employers. The Council was looking to change this through their Communication Strategy.

For clarity, it was noted that the columns headed '*Probability'* on pages 39 - 42 in Appendix 1 to Agenda Item 10, should instead read '*Overall Risk Rating'*.

Resolved

1. That the Committee note the risk register.

2. That the Committee note that the area of focus for this review at the meeting is 'Administration' and 'Communication' risks.

210. QUARTERLY UPDATE REPORT

The Head of Pensions introduced this report on the quarterly performance of the Pension Fund for noting. The Local Government Pension Scheme Regulations require the Committee to review investment performance, as detailed in sections 11 and 12 of the report. The Committee's attention was drawn to Appendix 1, '*Market Background April to June 2018'*, which highlighted the advances made by Equity markets during this period.

The Committee was informed that the funding level of 79.1% as at its most recent valuation on 31 March 2016 (a net deficit of £277m) was calculated as being an indicative 89% as at 30 June 2018, corresponding to a net deficit of £175m. *(It was noted that there was a typographical error in 11.3 of the report, and that it should have read "...£175m as at 30 June 2018" and not 31 March 2018)*. This substantial decrease in the net deficit was a positive for the Fund's position.

In looking at the portfolio allocations against benchmarks set, it was noted that the property, renewable energy infrastructure and multi asset absolute return investments performed above benchmark during this quarter. The equity allocation exceeded target by 1.14%, which was due to the Fund's decision in March 2018 to allocate surplus funds being held for new investments in property and renewable energy to the fund's multi asset absolute return and multi asses credit mandates.

Following discussion amongst the Committee, it was noted that:

- Regarding the Copenhagen Infrastructure Partners investment, only recently had a small amount of the total allocated £35m been invested. It was expected that the investment would rise to the full £35m over the course of the next 2-3 years.
- Existing contributions could not be reassessed until the next valuation of the Fund. It was possible for a formal valuation to be done earlier, but this was a large piece of work that would be costly and took a significant period of time to complete.

Resolved

To note the information provided in respect of the activity in the three months to 30 June 2018.

211. NEW ITEMS OF URGENT BUSINESS

None.

212. EXCLUSION OF THE PRESS AND PUBLIC

Resolved

That the press and public be excluded from the remainder of the meeting as the items below contain exempt information, as defined under paragraph, 3 and 5, Part 1, schedule 12A of the Local Government Act 1972.

213. QUARTERLY UPDATE REPORT

Considered exempt information pertaining to the Quarterly Update Report.

CHAIR: Councillor Matt White

Signed by Chair ………………………………..

Date …………………………………

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Agenda Item 7

Report for: Pensions Committee and Board 20 November 2018

Item number:

Title: Property Investments

Report authorised by: Jon Warlow, Chief Finance Officer, (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 to members regarding property investments following on from discussions at the previous Pensions Committee and Board (PCB) meeting.

2. Cabinet Member Introduction

2.1. Not applicable.

3. Recommendations

3.1. That the PCB note this report, including any verbal information given by representatives from the London Collective Investment Vehicle (CIV) in the meeting.

4. Reason for Decision

4.1. N/A – noting item

5. Other options considered

5.1. N/A – noting item

6. Background information

6.1. Members of the PCB have previously expressed an interest in exploring the possibility of investing in residential property, in particular in property that would display high ESG credentials, and cover a broad spectrum of affordability levels.

6.2. The Fund's Investment Consultant, Mercer, have advised that residential property often displays a very strong inflation linkage, and that this could sit well within the fund's overall property allocation, provided an investment option can be sourced that will give the fund sufficiently high returns (net of fees) that help meet the fund's overall objectives, is well diversified and managed in a professional manner. They have noted that there are currently few investment options in this are available to institutional investors. Finally, they would also be comfortable with a slightly higher allocation than 2.5%, if this was funded from selling down a portion of the current property portfolio.

6.3. At the previous pensions committee and board meeting on 14 September, it was noted that the fund's current property commitments will fall short of the fund's strategic allocation to property. It was further noted that the Fund's property investments could be further diversified by including an allocation to residential property. With this in mind, it was agreed that representatives of the London CIV would be invited to the November meeting in order to discuss in further detail the potential for the CIV to include a residential property investment option. It was further agreed that two principles be adopted by the PCB in relation to residential property.

- In the first instance, any new investment should be done via the London CIV
- Any new investment should be done in a diversified manner: preferably using a pooled investment vehicle approach, with an experienced specialist fund manager, and with exposure to the UK property market as a whole

6.4. Officers have liaised with London CIV representatives to this end. London CIV officers have worked to appoint a large number of fund managers to manage subfunds for the main asset classes: equity, fixed income, and also for multi asset funds. The CIV is currently working on an infrastructure offering, which is likely to go live in 2019.

6.5. The CIV is preparing to next begin work on a property option for boroughs. Initially, the CIV will conduct a scoping survey to assess what level of demand there is for property among the London Boroughs, and which types of property investment there is demand for: e.g. commercial versus residential, UK versus global, etc. London CIV officers will give verbal updates in this meeting regarding this survey.

6.6. The approach which is taken by the CIV for property could be similar to that which has been taken for infrastructure, via engaging an outsourced manager to manage a fund of funds structure.

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. This report does not contain any issues which would have a direct financial implication, however, as a general point, 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.

Legal

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

8.3. The authority must review and if necessary revise its investment strategy from time to time and at least every 3 years, and publish a statement of any revisions. Any allocations must comply with the Pension Fund Investment Strategy Statement.

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

Equalities

8.5. There are no equalities issues arising from this report

9. Use of Appendices

9.1. Not applicable

10. Local Government (Access to Information) Act 1985

10.1. Not applicable.

Haringey LONDON

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Report for: Pensions Committee - November 2018

Item number:

Title: Pensions Administration Report

Report authorised by : Jon Warlow, Director of Finance

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

1.2. The report details the 2018 Annual Benefit Statement for Active members of the pension scheme

2. Cabinet Member Introduction

2.1. Not applicable

3. Recommendations that members:

Note

3.1. Note that the report gives a breakdown of the amount of visits made to the Haringey pension fund website.

Note and Approve

3.2. Note the late notification of active members Annual Benefit Statements due to an administration error in the external third party printers mailing process and agree that the matter should not be reported to the Pension Regulator on the basis that the breach is not a material breach.

3.3 Approve the additional one off cost of £52,000 for Licence and Implementation and £8,000 per annum for the Hosting and Support and maintenance for the upgrade to new Member Self Service. This will allow the upload of the 2019 annual benefit statements onto Member Self Service so active members can access their annual benefit statements on the scheme's website.

4. Reason for decision

<u>Annual Benefit Statements</u>

4.1. The Administrating Authority must issue Annual Benefit Statements by 31 August each year.

4.2. The Administration team produced and issued the annual benefit statements to an external printing organisation but due to an error posted the statements after 31 August.

4.3. The Haringey pension fund has a dedicated website www.haringeypensionfund.co.uk which has useful information about the pension scheme. The website allows secure access to Haringey's member self service facility which if upgraded will enable active members to view their annual benefit statement.

5. Alternative options considered

Not applicable

6. Background information:

6.1. Local Government Pension Scheme Regulations 2013, Regulation 89 states that Annual Benefit Statement must be issued each year no later than 5 months after the end of the scheme year to which it relates, ie 31st August.

6.2. The 2018 Annual Benefit Statements for active employees were calculated and prepared by the pensions team and sent to the third party printers for printing and issuing. The printers forwarded the prepared statements to their mail distribution centre for posting on 25th August. An administration error between the printers and their mail centre, meant the statements were not posted on the 25th August.

6.3. The pension team were advised by the printers that the statements were sent out in the post prior to 28th August.

6.4. On 5th September the pension team were aware that scheme members had not received their statements so the pensions team contacted the printers to confirm that the statements had been posted. The printers contacted their mail distribution centre and advised the pension team that they had discovered that due to an administration error between them and their mailing centre the statements had not been sent, but would be sent as soon as possible.

6.5. The statements were sent out by the mail centre and received by scheme members on 8th September.

6.6. The pensions team contacted the Pensions Regulator to seek advice whether this postal error by a third party should be classed as a 'Material Breach'. The Pensions Regulator stated it would be up to the Pensions Committee and Board to determine whether they thought that the breach was a 'Material Breach' and therefore needed to be reported to the Pensions Regulator.

6.7. Legal advice has been sought to determine if the breach was a material breach and is attached as Appendix 1. The advice is that the breach is not a material breach.

6.8. In order to prevent a reoccurrence of this situation as the current Member Self Service provided by our software provider, Heywood is nearing its end of life and will be withdrawn in April 2020. By providing additional funding the Fund could move to the new version of Member Self Service, with its increased security and use of the latest technology for active members we can insert the annual benefit statements on the members record which can be accessed and viewed via the pension fund website, it should also improve efficiency. The additional MSS cost would be a one off sum of £52,000 for the licence and implementation based on time and materials. The annual cost is £5,000 per annum for the additional support and maintenance and £3,000 for the hosting fee. The Committee is asked to approve the spending of this sum.

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

	users	Page views
August 2018	338	1623
September 2018	408	1757

The average amount of users per month to the pension website is 373 and they view on average 1690 pages, just over 4.5 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 Finance Officer

8.1. The costs of the pensions administration system are costs which are funded solely from the pension fund, in line with proper accounting practices and relevant legislation. Members will note the increased costs mentioned within this report.

Assistant Director of Corporate Governance

8.2. The Assistant Director for Corporate Governance has been consulted on the content of this report. Legal advice has been provided on the breach of the Regulations referred to in this report. This advice is attached at Appendix 1. The report raises no other legal issues.

9. Use of Appendices

Appendix 1 – Legal Advice regarding Annual Benefit Statement

10. Local Government (Access to Information) Act 1985

Not Applicable

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LEGAL OPINION

Background

The Pension Fund was initially informed by the printers that the active annual benefit statements were enclosed on the Saturday 25th August and posted either on the Saturday or Monday 27th (this was then amended to Tuesday 28th as Monday was a bank holiday)

The Pension Fund queried the non-arrival of the statements as the members had not received the statements by the 5th September. The Pension Fund was then advised by the printers as follows:

"We have established the reason for the delay in your mailing- when we present larger jobs to the postal supplier, we give them accompanying paperwork. For your job, we did not hand this paperwork over due to an admin failure at this side.

The postal supplier should have contacted us when we didn't present this, but instead they kept hold of the mail and did not query it.

Therefore, they have confirmed that they are going to process the mail today and therefore it should land on doormats around Monday 10th.

Please accept my apologies for this. I hope that this does not cause you any issues with statutory dates for supplying this info to your customers."

There was clearly an error on the part of the printers. The active statements arrived on the doorsteps on the 8th September.

Advice

The Pension Fund's obligation is found in Regulation 89 of The Local Government Pension Scheme Regulations 2013

Regulation 89.—(1) An administering authority must issue an annual benefit statement to each of its active, deferred, deferred pensioner and pension credit members.
(2) Subject to paragraph (3), the statement must be issued no later than five months after the end of the Scheme year to which it relates.

(3) A statement must be issued before the end of the five month period mentioned in paragraph (2) where a member makes a request in writing to the administering authority, unless that authority is unable to comply with the request because relevant data is not available.
(4) The statement for an active member must be provided in accordance with section 14 of the Public Services Pensions Act 2013(b).
(5) The relevant date is 31st March before the date that the statement is issued, or such later date as the authority may choose.

Section 14 of the Public Services Pensions Act 2013 deals with Information about benefits and is not relevant for the purpose of this advice.

The members received their statements on 8th September and there was a breach of regulation 89. The question is should the Pension Fund report the breach to the Pension Regulator?

The reporting requirements:
Section 70 of the Pensions Act 2004 imposes a reporting requirement on a trustee (amongst others) of an occupational pension scheme, where that person has reasonable cause to believe that a duty which is relevant to the administration of the scheme and imposed by legislation has not been complied with and the failure is one which is of "material significance" then he must give a written report to the Pension Regulator.

The Pension Regulator has issued guidance on reporting breaches of the law. What makes the breach of material significance depends on:

(i) The cause of the breach.
(ii) The effect of the breach.
(iii) The reaction to the breach.
(iv) The wider implications of the breach.

(i) The cause of the breach
Where the breach was caused by:

- dishonesty;
- poor governance, inadequate controls resulting in deficient administration, or slow or inappropriate decision-making practices;
- incomplete or inaccurate advice; or
- acting (or failing to act) in deliberate contravention of the law.

(ii) The effect of the breach

The Pensions Regulator's objectives are to protect the benefits of pension scheme members, to reduce the risk of calls on the Pension Protection Fund, and to promote the good administration of work-based pension schemes.
The following are likely to be of material significance to the regulator.
In relation to protecting members' benefits:

- substantially the right money is paid into the scheme at the right time;
- assets are appropriately safeguarded;
- payments out of the scheme are legitimate and timely;
- defined benefit schemes are complying with the legal requirements on scheme funding;
- trustees of occupational pension schemes are properly considering their investment policy, and investing in accordance with it;
- contributions in respect of money purchase members are correctly allocated and invested.

the breach is likely to be of material significance to the Pensions Regulator.

(iii) The reaction to the breach
The Pensions Regulator does not normally regard a breach as materially significant where the trustees or managers (or their advisers and service providers) take prompt and effective action to investigate and correct the breach and its causes, and, where appropriate, to notify any members whose benefits have been affected.
However, where, after a breach is identified, the trustees and their advisers or service providers involved:

- do not take prompt and effective action to remedy the breach and identify and tackle its cause in order to minimise risk of recurrence;
- are not pursuing corrective action to a proper conclusion; or
- fail to notify members whose benefits have been affected by the breach where it would have been appropriate to do so;

then the breach is likely to be of material significance.

(iv) The wider implications of the breach
The wider implications of a breach should be taken into account when assessing which breaches are likely to be materially significant to the exercise of the Pensions Regulator's functions. For example, a breach is likely to be of material significance where:

- the fact that the breach has occurred makes it appear more likely that other breaches will emerge in the future because the trustees (or the manager) lack the appropriate knowledge and understanding to fulfil their responsibilities; or
- other schemes may be affected, for example schemes administered by the same organisation where a system failure is to blame.

Where a breach has occurred it must be reported as soon as reasonably practicable. It is important that procedures are in place to allow reporters to make a judgement within an appropriate timescale as to whether a breach must be reported.

What is reasonably practicable depends on the circumstances. This will depend on the seriousness of the suspected breach. In cases of immediate risk to scheme assets, the payment of members' benefits, or where there is any indication of dishonesty, the Pensions Regulator does not expect reporters to seek an explanation or to assess the effectiveness of proposed remedies but only to make such immediate checks as are necessary. The more serious the potential breach and its consequences, the more urgently these necessary checks should be made.

In cases of potential dishonesty, the reporter should avoid, where possible, checks which might alert those implicated. In serious cases, reporters should consider contacting the Pensions Regulator by the quickest means possible to alert the regulator to the breach.

Although there was a breach of the Regulations the members did receive their statement albeit late. There have been no dishonesty, poor governance, inaccuracy in the information provided or deliberate breaches of the law. This was more of a clerical error. The Pension Fund has put in place remedies to ensure this breach does not happen again. I understand that for the 2019 active Annual benefit statement will be published on the member self-service portal that is accessed via by the pension website by the due date.

Conclusion.

Based on the guidance issued by the Pension Regulator the breach is not one that is materially significant and therefore the Pension Fund does not have to report it.

31/10/18
Patrick Uzice
Principal Lawyer – Property, Planning and Regeneration

Agenda Item 9

Report for: Pensions Committee and Board 20 November 2018

Item number:

Title: Update to Funding Strategy Statement (FSS)

Report authorised by: Jon Warlow, Director of Finance (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 note and agree the Funding Strategy Statement, which has been updated following the enactment of the Local Government Pension Scheme (Amendment) Regulations 2018.

2. Cabinet Member Introduction

2.1. Not applicable.

3. Recommendations

3.1. That the Committee agrees the Funding Strategy Statement (FSS), included at Appendix 1.

4. Reason for Decision

4.1. The Local Government Pension Scheme (Amendment) Regulations 2018, introduced the concept of exit credits. Employers who cease to participate as scheme employers can be due a credit payment, if it is assessed that they are leaving the fund in a surplus position – that is to say, that the assets held on behalf of that employer exceed the liabilities accrued to pay pension benefits for its employees.

4.2. The Fund is required to keep the FSS under review and to update the statement where there has been a material change from current policy. Normally the FSS is updated every three years in line with the fund's valuation. The introduction of exit credits by the new regulations necessitates an update to the current FSS in between fund valuations.

Haringey LONDON

5. Other options considered

5.1. None.

6. Background information

6.1. The Local Government Pension Scheme Regulations 2013 (“Regulations 2013”) require the fund to publish a FSS, after consultation with such persons as it considers appropriate (regulation 58 (1)). The regulations also require that the FSS is kept under review, and should policy change, that an updated FSS be published (regulation 58 (3)).

6.2. At the July 23 Pensions Committee and Board meeting, officers presented a report to the committee detailing the changes brought within the LGPS (Amendment) Regulations 2018 (“Regulations 2018”), including exit credits.

6.3. Officers have consulted with Hymans Robertson, the Fund Actuary, and the Independent Advisor to the Fund regarding the updates required to the FSS. A draft version of the FSS was agreed, and this was then circulated to all employers within the fund, for consultation. There were no responses. This draft version of the FSS is included at Appendix 1 to this report, the recommendation of this report is that this be agreed as a final version. This updated FSS is shown with ‘track-changes’, so members can see which parts of the FSS have been updated.

6.4. Hymans Robertson, the Fund’s actuary has produced a summary report on the topic of exit credits, this is appended at exempt Appendix 2 to this report.

7. Contribution to Strategic Outcomes

7.1. None.

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

Finance

8.1. The Fund is reviewing and updating its FSS to reflect the changes from the updated LGPS Regulations, to remain compliant with these. The concept of ‘exit credits’ which are introduced by these regulations are of particular importance, and could impact on the fund’s liquidity, investments and overall financial standing. The fund’s current Investment Strategy Statement includes a 74.5% allocation to liquid investments (such as pooled investment vehicles) where investments can be sold at short notice (within 1-4 weeks), without significant transaction costs or penalties, (other than the risk of selling coinciding with the timing of a market low). Any future changes to the fund's investment strategy will have to be cognisant of this new potential requirement to pay exit credits within a 3 month time frame.

8.2. Exit credits are still a relatively new concept to LGPS, so there may be further industry wide developments that come to light in coming months. Haringey officers have sought advice from relevant stakeholders in updating the fund's FSS, however they will maintain up to date knowledge on this issue, in case it becomes clear that further changes are required to the fund's policies.

Legal

8.3. The amendments to the Funding Strategy Statement dealing with "exit credit" is in line with Regulation 64 of the Regulations 2013 (as amended by Regulation 13 of Regulations 2018).

8.4. Members should note that if an exit credit is payable to an exiting employer, the administering authority must pay the amount payable to that employer within three months of the date on which that employer ceases to be a Scheme employer, or such longer time as the administering authority and the exiting employer may agree. Where the administering authority has paid an exit credit to an exiting employer, no further payments are due from the administering authority in respect of any surplus assets relating to the benefits in respect of any current or former employees of that employer.

Equalities

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

9. Use of Appendices

Appendix 1 – Draft Funding Strategy Statement
Appendix 2 – Exempt Report from Hymans Robertson LLP

10. Local Government (Access to Information) Act 1985

10.1 Not applicable.

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London Borough of Haringey Pension Fund

Funding Strategy Statement

November 2018

LONDON BOROUGH OF HARINGEY PENSION FUND

HYMANS ROBERTSON LLP

Contents

1 Introduction

1.1 What is this document?

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

The Funding Strategy Statement (FSS) has been revised following the enactment of the Local Government Pension Scheme (Amendment) Regulations 2018.

The regulations introduced the provision to repay exit credits in circumstances where an employer terminates scheme participation and the actuarial assessments results in a surplus position.

~~It~~ This revised FSS has been prepared by the Administering Authority in collaboration with the Fund's actuary, Hymans Robertson LLP, and after consultation with the Fund's employers ~~and~~, ~~i~~Investment ~~adviser~~ Consultant and Independent Advisor. It is effective from ~~1 April 2017~~. 20 November 2018

1.2 What is the London Borough of Haringey Pension Fund?

The Fund is part of the national Local Government Pension Scheme (LGPS). The LGPS was set up by the UK Government to provide retirement and death benefits for local government employees, and those employed in similar or related bodies, across the whole of the UK. The Administering Authority runs the London Borough of Haringey Fund, in effect the LGPS for the Haringey area, to make sure it:

- receives the proper amount of contributions from employees and employers, and any transfer payments;
- invests the contributions appropriately, with the aim that the Fund's assets grow over time with investment income and capital growth; and
- uses the assets to pay Fund benefits to the members (as and when they retire, for the rest of their lives), and to their dependants (as and when members die), as defined in the LGPS Regulations. Assets are also used to pay transfer values and administration costs.

The roles and responsibilities of the key parties involved in the management of the Fund are summarised in Appendix B.

1.3 Why does the Fund need a Funding Strategy Statement?

Employees' benefits are guaranteed by the LGPS Regulations, and do not change with market values or employer contributions. Investment returns will help pay for some of the benefits, but probably not all, and certainly with no guarantee. Employees' contributions are fixed in those Regulations also, at a level which covers only part of the cost of the benefits.

Therefore, employers need to pay the balance of the cost of delivering the benefits to members and their dependants.

The FSS focuses on how employer liabilities are measured, the pace at which these liabilities are funded, and how employers or pools of employers pay for their own liabilities. This statement sets out how the Administering Authority has balanced the conflicting aims of:

- affordability of employer contributions,
- transparency of processes,
- stability of employers' contributions, and
- prudence in the funding basis.

There are also regulatory requirements for an FSS, as given in Appendix A. This FSS has been prepared taking account of the revised guidance on preparing and maintaining a FSS issued by CIPFA in 2016.

The FSS is a summary of the Fund's approach to funding its liabilities, and this includes reference to the Fund's other policies; it is not an exhaustive statement of policy on all issues. The FSS forms part of a framework which includes:

- the LGPS Regulations;
- the Rates and Adjustments Certificate (confirming employer contribution rates for the next three years) which can be found in an appendix to the formal valuation report;
- actuarial factors for valuing individual transfers, early retirement costs and the costs of buying added service; and
- the Fund's Statement of Investment Principles / Investment Strategy Statement (see Section 4)

1.4 How does the Fund and this FSS affect me?

This depends who you are:

- a member of the Fund, i.e. a current or former employee, or a dependant: the Fund needs to be sure it is collecting and holding enough money so that your benefits are always paid in full;
- an employer in the Fund (or which is considering joining the Fund): you will want to know how your contributions are calculated from time to time, that these are fair by comparison to other employers in the Fund, ~~and~~ in what circumstances you might need to pay more and what happens if you cease to be an employer in the Haringey Fund. Note that the FSS applies to all employers participating in the Fund;
- an Elected Member whose council participates in the Fund: you will want to be sure that the council balances the need to hold prudent reserves for members' retirement and death benefits, with the other competing demands for council money;
- a Council Tax payer: your council seeks to strike the balance above, and also to minimise cross-subsidies between different generations of taxpayers.

1.5 What does the FSS aim to do?

The FSS sets out the objectives of the Fund's funding strategy, such as:

- to ensure the long-term solvency of the Fund, using a prudent long term view. This will ensure that sufficient funds are available to meet all members'/dependants' benefits as they fall due for payment;
- to ensure that employer contribution rates are reasonably stable where appropriate;
- to minimise the long-term cash contributions which employers need to pay to the Fund, by recognising the link between assets and liabilities and adopting an investment strategy which balances risk and return (**NB** this will also minimise the costs to be borne by Council Tax payers);
- to reflect the different characteristics of different employers in determining contribution rates. This involves the Fund having a clear and transparent funding strategy to demonstrate how each employer can best meet its own liabilities over future years; and
- to use reasonable measures to reduce the risk to other employers and ultimately to the Council Tax payer from an employer defaulting on its pension obligations.

1.6 How do I find my way around this document?

In Section 2 there is a brief introduction to some of the main principles behind funding, i.e. deciding how much an employer should contribute to the Fund from time to time.

In Section 3 we outline how the Fund calculates the contributions payable by different employers in different situations.

In Section 4 we show how the funding strategy is linked with the Fund's investment strategy.

In the Appendices we cover various issues in more detail if you are interested:

A. the regulatory background, including how and when the FSS is reviewed,

B. who is responsible for what,

C. what issues the Fund needs to monitor, and how it manages its risks,

D. some more details about the actuarial calculations required,

E. the assumptions which the Fund actuary currently makes about the future,

F. a glossary explaining the technical terms occasionally used here.

If you have any other queries please contact Thomas Skeen, Head of Pensions in the first instance at e-mail address thomas.skeen@haringey.gov.uk or on telephone number 020 8489 1341.

2 Basic Funding issues

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

2.1 How does the actuary measure the required contribution rate?

In essence this is a three-step process:

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

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

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

2.2 What is each employer's contribution rate?

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

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

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

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

2.3 What different types of employer participate in the Fund?

Historically the LGPS was intended for local authority employees only. However over the years, with the diversification and changes to delivery of local services, many more types and numbers of employers now participate. There are currently more employers in the Fund than ever before, a significant part of this being due to new academies.

In essence, participation in the LGPS is open to public sector employers providing some form of service to the local community. Whilst the majority of members will be local authority employees (and ex-employees), the majority of participating employers are those providing services in place of (or alongside) local authority services: academy schools, contractors, housing associations, charities, etc.

The LGPS Regulations define various types of employer as follows:

Scheduled bodies - councils, and other specified employers such as academies and further education establishments. These must provide access to the LGPS in respect of their employees who are not eligible to join another public sector scheme (such as the Teachers Scheme). These employers are so-called because they are specified in a schedule to the LGPS Regulations.

It is now possible for Local Education Authority schools to convert to academy status, and for other forms of school (such as Free Schools) to be established under the academies legislation. All such **academies (or Multi Academy Trusts)**, as employers of non-teaching staff, become separate new employers in the Fund. As academies are defined in the LGPS Regulations as “Scheduled Bodies”, the Administering Authority has no discretion over whether to admit them to the Fund, and the academy has no discretion whether to continue to allow its non-teaching staff to join the Fund. There has also been guidance issued by the DCLG regarding the terms of academies’ membership in LGPS Funds.

Designating employers - employers such as town and parish councils are able to participate in the LGPS via resolution (and the Fund cannot refuse them entry where the resolution is passed). These employers can designate which of their employees are eligible to join the scheme.

Other employers are able to participate in the Fund via an admission agreement, and are referred to as ‘admission bodies’. These employers are generally those with a “community of interest” with another scheme employer – **community admission bodies** (“CAB”) or those providing a service on behalf of a scheme employer – **transferee admission bodies** (“TAB”). CABs will include housing associations and charities, TABs will generally be contractors. The Fund is able to set its criteria for participation by these employers and can refuse entry if the requirements as set out in the Fund’s admissions policy are not met. (NB The terminology CAB and TAB has been dropped from recent LGPS Regulations, which instead combine both under the single term ‘admission bodies’; however, we have retained the old terminology here as we consider it to be helpful in setting funding strategies for these different employers.

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

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

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

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

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

For some employers it may be agreed to pool contributions, see 3.4.

Any costs of non ill-health early retirements must be paid by the employer, see 3.6.

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

.

2.5 How is a deficit (or surplus) calculated?

An employer's "funding level" is defined as the ratio of:

- the market value of the employer's share of assets (see Appendix D, section D5, for further details of how this is calculated), to
- the value placed by the actuary on the benefits built up to date for the employer's employees and ex-employees (the "liabilities"). The Fund actuary agrees with the Administering Authority the assumptions to be used in calculating this value.

If this is less than 100% then it means the employer has a shortfall, which is the employer's deficit; if it is more than 100% then the employer is said to be in surplus. The amount of deficit or shortfall is the difference between the asset value and the liabilities value.

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

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

2.6 How does the Fund recognise that contribution levels can affect council and employer service provision, and council tax?

The Administering Authority and the Fund actuary are acutely aware that, all other things being equal, a higher contribution required to be paid to the Fund will mean less cash available for the employer to spend on the provision of services. For instance:

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

Whilst all this is true, it should also be borne in mind that:

- The Fund provides invaluable financial security to local families, whether to those who formerly worked in the service of the local community who have now retired, or to their families after their death;
- The Fund must have the assets available to meet these retirement and death benefits, which in turn means that the various employers must each pay their own way. Lower contributions today will mean higher contributions tomorrow: deferring payments does not alter the employer's ultimate obligation to the Fund in respect of its current and former employees;
- Each employer will generally only pay for its own employees and ex-employees (and their dependants), not for those of other employers in the Fund;

- The Fund strives to maintain reasonably stable employer contribution rates where appropriate and possible. However, a recent shift in regulatory focus means that solvency within each generation is considered by the Government to be a higher priority than stability of contribution rates;
- The Fund wishes to avoid the situation where an employer falls so far behind in managing its funding shortfall that its deficit becomes unmanageable in practice: such a situation may lead to employer insolvency and the resulting deficit falling on the other Fund employers. In that situation, those employers' services would in turn suffer as a result;
- Council contributions to the Fund should be at a suitable level, to protect the interests of different generations of council tax payers. For instance, underpayment of contributions for some years will need to be balanced by overpayment in other years; the council will wish to minimise the extent to which council tax payers in one period are in effect benefitting at the expense of those paying in a different period.

Overall, therefore, there is clearly a balance to be struck between the Fund's need for maintaining prudent funding levels, and the employers' need to allocate their resources appropriately. The Fund achieves this through various techniques which affect contribution increases to various degrees (see 3.1). In deciding which of these techniques to apply to any given employer, the Administering Authority takes a view on the financial standing of the employer, i.e. its ability to meet its funding commitments and the relevant time horizon.

For instance, where the Administering Authority has reasonable confidence that an employer will be able to meet its funding commitments, then the Fund will permit options such as stabilisation (see 3.3 Note (b)), a longer time horizon relative to other employers, and/or a lower probability of achieving their funding target. Such options will temporarily produce lower contribution levels than would otherwise have applied. This is permitted in the expectation that the employer will still be able to meet its obligations for many years to come.

On the other hand, where there is doubt that an employer will be able to meet its funding commitments or withstand a significant change in its commitments, then a higher funding target, and/or a shorter deficit recovery period relative to other employers, and/or a higher probability of achieving the target may be required.

The Fund actively seeks employer input, including to its funding arrangements, through various means: see Appendix A.

3 Calculating contributions for individual Employers

3.1 General comments

A key challenge for the Administering Authority is to balance the need for stable, affordable employer contributions with the requirement to take a prudent, longer-term view of funding and ensure the solvency of the Fund. With this in mind, the Fund's three-step process identifies the key issues:

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

These and associated issues are covered in this Section.

The Administering Authority recognises that there may occasionally be particular circumstances affecting individual employers that are not easily managed within the rules and policies set out in the Funding Strategy Statement. Therefore the Administering Authority may, at its sole discretion, direct the actuary to adopt alternative funding approaches on a case by case basis for specific employers.

3.2 The effect of paying lower contributions

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

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

Employers which are permitted to use one or more of the above methods will often be paying, for a time, contributions less than required to meet their funding target, over the appropriate time horizon with the required likelihood of success. Such employers should appreciate that:

- their true long term liability (i.e. the actual eventual cost of benefits payable to their employees and ex-employees) is not affected by the pace of paying contributions;
- lower contributions in the short term will be assumed to incur a greater loss of investment returns on the deficit. Thus, deferring a certain amount of contribution may lead to higher contributions in the long-term; and
- it may take longer to reach their funding target, all other things being equal.

Overleaf (3.3) is a summary of how the main funding policies differ for different types of employer, followed by more detailed notes where necessary.

Section 3.4 onwards deals with various other funding issues which apply to all employers.

3.3 The different approaches used for different employers

Type of employer	Scheduled Bodies			Community Admission Bodies and Designating Employers		Transferee Admission Bodies
Sub-type	**Local Authority**	**Academies**	**Colleges**	**Open to new entrants**	**Closed to new entrants**	**(all)**
Funding Target Basis used	Ongoing, assumes long-term Fund participation (see Appendix E)			Ongoing, but may move to "gilts basis" - see Note (a)		Ongoing, assumes fixed contract term in the Fund (see Appendix E)
Primary rate approach	(see Appendix D – D.2)					
Stabilised contribution rate?	Yes - see Note (b)	Yes - see Note (b)	No	No	No	No
Maximum time horizon – Note (c)	20 years	20 years	20 years	20 years	Future working lifetime	Outstanding contract term
Secondary rate – Note (d)	Monetary amount	Percentage of pay	Monetary amount	Monetary amount	Monetary amount	Percentage of pay
Treatment of surplus	Covered by stabilisation arrangement	Covered by stabilisation arrangement	Preferred approach: contributions kept at Primary rate. However, reductions may be permitted by the Administering Authority			Reduce contributions by spreading the surplus over the remaining contract term, unless time horizon passes next valuation in which case limit to Primary rate
Probability of achieving target – Note (e)	70%	70%	75%	75%	80%	50%
Phasing of contribution changes	Covered by stabilisation arrangement	Covered by stabilisation arrangement	3 years	3 years	3 years	None
Review of rates – Note (f)	Administering Authority reserves the right to review contribution rates and amounts, and the level of security provided, at regular intervals between valuations					Particularly reviewed in last 3 years of contract
New employer	n/a	n/a	Note (g)	Note (h)		Notes (h) & (i)
Cessation of participation: cessation debt/exit credit ~~-~~payable	Cessation is assumed not to be generally possible, as Scheduled Bodies are legally obliged to participate in the LGPS. In the rare event of cessation occurring (machinery of Government changes for example), the cessation ~~debt~~ calculation principles applied would be as per Note (j).			Can be ceased subject to terms of admission agreement. Cessation debt/exit credit will be calculated on a basis appropriate to the circumstances of cessation – see Note (j).		Participation is assumed to expire at the end of the contract. Cessation debt/surplus ~~(if any)~~ calculated on ongoing basis~~. Awarding Authority will be liable for future deficits and contributions arising.~~ unless admission terminated

			early in which case gilts cessation basis is used.

Note (a) (Basis for CABs and Designating Employers closed to new entrants)

In the circumstances where:

- the employer is a Designating Employer, or an Admission Body but not a Transferee Admission Body, and
- the employer has no guarantor, and
- the admission agreement is likely to terminate, or the employer is likely to lose its last active member, within a timeframe considered appropriate by the Administering Authority to prompt a change in funding,

the Administering Authority may set a higher funding target (e.g. using a discount rate set equal to gilt yields) by the time the agreement terminates or the last active member leaves, in order to protect other employers in the Fund. This policy will increase regular contributions and reduce, but not entirely eliminate, the possibility of a final deficit payment being required ~~from~~ or a surplus payment being made to the employer when a cessation valuation is carried out.

The Administering Authority also reserves the right to adopt the above approach in respect of those Designating Employers and Admission Bodies with no guarantor, where the strength of covenant is considered to be weak but there is no immediate expectation that the admission agreement will cease or the Designating Employer alters its designation.

Note (b) (Stabilisation)

Stabilisation is a mechanism where employer contribution rate variations from year to year are kept within a pre-determined range, thus allowing those employers' rates to be relatively stable. In the interests of stability and affordability of employer contributions, the Administering Authority, on the advice of the Fund Actuary, believes that stabilising contributions can still be viewed as a prudent longer-term approach. However, employers whose contribution rates have been "stabilised" (and may therefore be paying less than their theoretical contribution rate) should be aware of the risks of this approach and should consider making additional payments to the Fund if possible.

This stabilisation mechanism allows short term investment market volatility to be managed so as not to cause volatility in employer contribution rates, on the basis that a long term view can be taken on net cash inflow, investment returns and strength of employer covenant.

The current stabilisation mechanism applies if:

- the employer satisfies the eligibility criteria set by the Administering Authority (see below) and;
- there are no material events which cause the employer to become ineligible, e.g. significant reductions in active membership (due to outsourcing or redundancies), or changes in the nature of the employer (perhaps due to Government restructuring), or changes in the security of the employer.

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

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

Max contribution decrease from one year to the next	-1% of pay	-2% of pay**

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

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

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

Note (c) (Maximum time horizon)

The maximum time horizon starts at the commencement of the revised contribution rate (1 April 2017 for the 2016 valuation). The Administering Authority would normally expect a reducing time horizon (i.e. the same target date) to be used at successive triennial valuations, but would reserve the right to propose alternative time horizons, for example where there were no new entrants.

Where stabilisation applies, the resulting employer contribution rate would be amended to comply with the stabilisation mechanism.

For employers with no (or very few) active members at this valuation, the deficit should be recovered by a fixed monetary amount over a prudent period to be agreed with the body or its successor.

For academies where written notice has been served terminating their funding agreement with the Department for Education, the period is reduced to the period of notice (with immediate effect).

For Community Admission Bodies without a guarantor, the period will generally be equal to the average future working lifetime of their active employee members.

Note (d) (Secondary rate)

The Administering Authority reserves the right to amend the Secondary rate between valuations and/or to require these payments in monetary terms (if they are paid in percentage of pay terms), for instance where:

- the employer is relatively mature, i.e. has a large Secondary contribution rate (e.g. above 15% of payroll), or
- there has been a significant reduction in payroll due to outsourcing or redundancy exercises, or
- the employer has closed the Fund to new entrants.

Note (e) (Probability of achieving funding target)

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

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

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

- the Fund believes the employer poses a greater funding risk than other employers,
- the employer does not have tax-raising powers;
- the employer does not have a guarantor or other sufficient security backing its funding position; and/or
- the employer is likely to cease participation in the Fund in the short or medium term.

Note (f) (Regular Reviews)

Such reviews may be triggered by significant events including but not limited to: significant reductions in payroll, altered employer circumstances, Government restructuring affecting the employer's business, or failure to pay contributions or arrange appropriate security as required by the Administering Authority.

The result of a review may be to require increased contributions (by strengthening the actuarial assumptions adopted and/or moving to monetary levels of deficit recovery contributions), and/or an increased level of security or guarantee.

Note (g) (New Academy conversions)

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

i. The new academy will be regarded as a separate employer in its own right and will not be pooled with other employers in the Fund. The only exception is where the academy is part of a Multi Academy Trust (MAT) in which case the academy's figures will be calculated as below but can be combined with those of the other academies in the MAT;

ii. The new academy's past service liabilities on conversion will be calculated based on its active Fund members on the day before conversion. For the avoidance of doubt, these liabilities will include all past service of those members, but will exclude the liabilities relating to any ex-employees of the school who have deferred or pensioner status;

iii. The new academy will be allocated an initial asset share from the ceding council's assets in the Fund. This asset share will be calculated using the estimated funding position of the ceding council at the date of academy conversion. The share will be based on the active members' funding level, having first allocated assets in the council's share to fully fund deferred and pensioner members. The asset allocation will be based on market conditions and the academy's active Fund membership on the day prior to conversion;

iv. The new academy's initial contribution rate will be calculated using market conditions, the council funding position and, membership data, all as at the day prior to conversion;

The Fund's policies on academies are subject to change in the light of any amendments to DCLG guidance. Any changes will be notified to academies, and will be reflected in a subsequent version of this FSS. In particular, policy (iv) above will be reconsidered at each valuation.

Note (h) (New Admission Bodies)

With effect from 1 October 2012, the LGPS 2012 Miscellaneous Regulations introduced mandatory new requirements for all Admission Bodies brought into the Fund from that date. Under these Regulations, all new Admission Bodies will be required to provide some form of security, such as a guarantee from the letting employer, an indemnity or a bond. The security is required to cover some or all of the following:

- the strain cost of any redundancy early retirements resulting from the premature termination of the contract;
- allowance for the risk of asset underperformance;
- allowance for the risk of a fall in gilt yields;
- allowance for the possible non-payment of employer and member contributions to the Fund; and/or
- the current deficit.

Transferee Admission Bodies: For all TABs, the security must be to the satisfaction of the Administering Authority as well as the letting employer, and will be reassessed on an annual basis. See also Note (i) below.

Community Admission Bodies: The Administering Authority will only consider requests from CABs (or other similar bodies, such as section 75 NHS partnerships) to join the Fund if they are sponsored by a Scheduled Body with tax raising powers, guaranteeing their liabilities and also providing a form of security as above.

The above approaches reduce the risk, to other employers in the Fund, of potentially having to pick up any shortfall in respect of Admission Bodies ceasing with an unpaid deficit.

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

Note (i) (New Transferee Admission Bodies)

A new TAB usually joins the Fund as a result of the letting/outsourcing of some services from an existing employer (normally a Scheduled Body such as a council or academy) to another organisation (a "contractor"). This involves the TUPE transfer of some staff from the letting employer to the contractor. Consequently, for the duration of the contract, the contractor is a new participating employer in the Fund so that the transferring employees maintain their eligibility for LGPS membership. At the end of the contract the employees revert to the letting employer or to a replacement contractor.

Ordinarily, the TAB would be set up in the Fund as a new employer with responsibility for all the accrued benefits of the transferring employees; in this case, the contractor would usually be assigned an initial asset allocation equal to the past service liability value of the employees' Fund benefits. The quid pro quo is that the contractor is then expected to ensure that its share of the Fund is also fully funded at the end of the contract: see Note (j).

Employers which "outsource" have flexibility in the way that they can deal with the pension risk potentially taken on by the contractor. In particular there are three different routes that such employers may wish to adopt. Clearly as the risk ultimately resides with the employer letting the contract, it is for them to agree the appropriate route with the contractor:

i) Pooling

Under this option the contractor is pooled with the letting employer. In this case, the contractor pays the same rate as the letting employer, which may be under a stabilisation approach.

ii) Letting employer retains pre-contract risks

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

iii) Fixed contribution rate agreed

Under this option the contractor pays a fixed contribution rate and on ~~does not pay any~~ cessation does not pay any deficit or get a refund of surplus.

The Administering Authority is willing to administer any of the above options as long as the approach is documented in the Admission Agreement as well as the transfer agreement. The Admission Agreement should ensure that some element of risk transfers to the contractor where it relates to their decisions and it is unfair to burden the letting employer with that risk. For example the contractor should typically be responsible for pension costs that arise from:

- above average pay increases, including the effect in respect of service prior to contract commencement even if the letting employer takes on responsibility for the latter under (ii) above; and
- redundancy and early retirement decisions.

Note (j) (Admission Bodies Ceasing)

Notwithstanding the provisions of the Admission Agreement, the Administering Authority may consider any of the following as triggers for the cessation of an admission agreement with any type of body:

- Last active member ceasing participation in the Fund (NB recent LGPS Regulation changes mean that the Administering Authority has the discretion to defer taking action for up to three years, so that if the employer acquires one or more active Fund members during that period then cessation is not triggered. The current Fund policy is that this is left as a discretion and may or may not be applied in any given case);
- The insolvency, winding up or liquidation of the Admission Body;
- Any breach by the Admission Body of any of its obligations under the Agreement that they have failed to remedy to the satisfaction of the Fund;
- A failure by the Admission Body to pay any sums due to the Fund within the period required by the Fund; or
- The failure by the Admission Body to renew or adjust the level of the bond or indemnity, or to confirm an appropriate alternative guarantor, as required by the Fund.

On cessation, the Administering Authority will instruct the Fund actuary to carry out a cessation valuation to determine whether there is any deficit or surplus. Where there is a deficit, payment of this amount in full would normally be sought from the Admission Body; where there is a surplus ~~it should be noted that current legislation does not permit a refund payment to the Admission Body.~~following the LGPS (Amendment) Regulations 2018 which came into effect on 14th May 2018, this will normally result in a refund payment to the Admission Body (unless a risk-sharing arrangement has been put in place – see Note (i) above).

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For non-Transferee Admission Bodies whose participation is voluntarily ended either by themselves or the Fund, or where a cessation event has been triggered, the Administering Authority must look to protect the interests of other ongoing employers. The actuary will therefore adopt an approach which, to the extent reasonably practicable, protects the other employers from the likelihood of any material loss emerging in future:

(a) Where a guarantor does not exist then, in order to protect other employers in the Fund, the cessation liabilities and final deficit will normally be calculated using a "gilts cessation basis", which is more prudent than the ongoing basis. This has no allowance for potential future investment outperformance above gilt yields, and has added allowance for future improvements in life expectancy. This could give rise to significant cessation debts being required.

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

(c) Again, depending on the nature of the guarantee, it may be possible to simply transfer the former Admission Body's liabilities and assets to the guarantor, without needing to crystallise any deficit or surplus. This approach may be adopted where the employer cannot pay the contributions due, and this is within the terms of the guarantee.

Under (a) and (c), any shortfall would usually be levied on the departing Admission Body as a single lump sum payment. If this is not possible then the Fund would spread they payment subject to there being some security in place for the employer such as a bond indemnity or guarantee.

In the event that the Fund is not able to recover the required payment in full, then the unpaid amounts fall to be shared amongst all of the other employers in the Fund. This may require an immediate revision to the Rates and Adjustments Certificate affecting other employers in the Fund, or instead be reflected in the contribution rates set at the next formal valuation following the cessation date.

As an alternative, where the ceasing Admission Body is continuing in business, the Fund at its absolute discretion reserves the right to enter into an agreement with the ceasing Admission Body. Under this agreement the Fund would accept an appropriate alternative security to be held against any deficit, and would carry out the cessation valuation on an ongoing basis: deficit recovery payments would be derived from this cessation debt. This approach would be monitored as part of each triennial valuation: the Fund reserves the right to revert to a "gilts cessation basis" and seek immediate payment of any funding shortfall identified. The Administering Authority may need to seek legal advice in such cases, as the Body would have no contributing members.

For employers that are guaranteed by a guarantor (usually the original employer or letting authority), the Fund's policy at the point of cessation is for the guarantor to subsume the residual assets, liabilities and any surplus or deficit. This is subject to the agreement of all parties involved (i.e. the Fund, the exiting employer and the guarantor) who will need to consider any separate contractual agreements that have been put in place between the exiting employer and the guarantor.

If all parties do not agree, then the surplus will be paid directly to the exiting employer normally within 3 months of cessation (despite any other agreements that may be in place); in maintaining a consistent approach the Fund will seek to recover the deficit from the exiting employer in the first instance although if not possible the

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3.4 Pooled contributions

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

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

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

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

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

3.5 Additional flexibility in return for added security

The Administering Authority may permit greater flexibility to the employer's contributions if the employer provides added security to the satisfaction of the Administering Authority.

Such flexibility includes a reduced rate of contribution, an extended time horizon, or permission to join a pool with another body (e.g. the Local Authority).

Such security may include, but is not limited to, a suitable bond, a legally-binding guarantee from an appropriate third party, or security over an employer asset of sufficient value.

The degree of flexibility given may take into account factors such as:

- the extent of the employer's deficit;
- the amount and quality of the security offered;
- the employer's financial security and business plan; and
- whether the admission agreement is likely to be open or closed to new entrants.

3.6 Non ill health early retirement costs

It is assumed that members' benefits are payable from the earliest age that the employee could retire without incurring a reduction to their benefit (and without requiring their employer's consent to retire). (**NB** the relevant age may be different for different periods of service, following the benefit changes from April 2008 and April 2014). Employers are required to pay additional contributions ('strain') wherever an employee retires before attaining this age. The actuary's funding basis makes no allowance for premature retirement except on grounds of ill-health.

Normally the additional strain contribution is payable as an immediate single lump sum and is not spread.

3.7 Ill health early retirement costs

In the event of a member's early retirement on the grounds of ill-health, a funding strain will usually arise, which can be very large. Such strains for all employers other than the Council will now be met via external insurance (see 3.8 below).

3.8 External Ill health insurance

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

3.9 Employers with no remaining active members

In general an employer ceasing in the Fund, due to the departure of the last active member, will pay a cessation debt on an appropriate basis (see 3.3, Note (j)) and consequently have no further obligation to the Fund. Thereafter it is expected that one of two situations will eventually arise:

a) The employer's asset share runs out before all its ex-employees' benefits have been paid. In this situation the other Fund employers will be required to contribute to pay all remaining benefits: this will be done by the Fund actuary apportioning the remaining liabilities on a pro-rata basis at successive formal valuations;

b) The last ex-employee or dependant dies before the employer's asset share has been fully utilised. In this situation the remaining assets would be apportioned pro-rata by the Fund's actuary to the other Fund employers.

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

3.10 Policies on bulk transfers

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

- The Fund will not pay bulk transfers greater than the lesser of (a) the asset share of the transferring employer in the Fund, and (b) the value of the past service liabilities of the transferring members;
- The Fund will not grant added benefits to members bringing in entitlements from another Fund unless the asset transfer is sufficient to meet the added liabilities; and
- The Fund may permit shortfalls to arise on bulk transfers if the Fund employer has suitable strength of covenant and commits to meeting that shortfall in an appropriate period. This may require the employer's Fund contributions to increase between valuations.

4 Funding strategy and links to investment strategy

4.1 What is the Fund's investment strategy?

The Fund has built up assets over the years, and continues to receive contribution and other income. All of this must be invested in a suitable manner, which is the investment strategy.

Investment strategy is set by the administering authority, after consultation with the employers and after taking investment advice. The precise mix, manager make up and target returns are set out in the Statement of Investment Principles (being replaced by an Investment Strategy Statement under new LGPS Regulations), which is available to members and employers.

The investment strategy is set for the long-term, but is reviewed from time to time. Normally a full review is carried out as part of each actuarial valuation, and is kept under review annually between actuarial valuations to ensure that it remains appropriate to the Fund's liability profile.

The same investment strategy is currently followed for all employers.

4.2 What is the link between funding strategy and investment strategy?

The Fund must be able to meet all benefit payments as and when they fall due. These payments will be met by contributions (resulting from the funding strategy) or asset returns and income (resulting from the investment strategy). To the extent that investment returns or income fall short, then higher cash contributions are required from employers, and vice versa

Therefore, the funding and investment strategies are inextricably linked.

4.3 How does the funding strategy reflect the Fund's investment strategy?

In the opinion of the Fund actuary, the current funding policy is consistent with the current investment strategy of the Fund. The asset outperformance assumption contained in the discount rate (see Appendix E3) is within a range that would be considered acceptable for funding purposes; it is also considered to be consistent with the requirement to take a "prudent longer-term view" of the funding of liabilities as required by the UK Government (see Appendix A1).

However, in the short term – such as the three yearly assessments at formal valuations – there is the scope for considerable volatility and there is a material chance that in the short-term and even medium term, asset returns will fall short of this target. The stability measures described in Section 3 will damp down, but not remove, the effect on employers' contributions.

The Fund does not hold a contingency reserve to protect it against the volatility of equity investments.

4.4 How does this differ for a large stable employer?

The Actuary has developed four key measures which capture the essence of the Fund's strategies, both funding and investment:

Prudence - the Fund should have a reasonable expectation of being fully funded in the long term;

Affordability – how much can employers afford;

Stewardship – the assumptions used should be sustainable in the long term, without having to resort to overly optimistic assumptions about the future to maintain an apparently healthy funding position; and

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

The key problem is that the key objectives often conflict. For example, minimising the long term cost of the scheme (i.e. keeping employer rates affordable) is best achieved by investing in higher returning assets e.g. equities. However, equities are also very volatile (i.e. go up and down fairly frequently in fairly large moves), which conflicts with the objective to have stable contribution rates.

Therefore, a balance needs to be maintained between risk and reward, which has been considered by the use of Asset Liability Modelling: this is a set of calculation techniques applied by the Fund's actuary to model the range of potential future solvency levels and contribution rates.

The Actuary was able to model the impact of these four key areas, for the purpose of setting a stabilisation approach (see 3.3 Note (b)). The modelling demonstrated that retaining the present investment strategy, coupled with constraining employer contribution rate changes as described in 3.3 Note (b), struck an appropriate balance between the above objectives. In particular the stabilisation approach currently adopted meets the need for stability of contributions without jeopardising the Administering Authority's aims of prudent stewardship of the Fund.

Whilst the current stabilisation mechanism is to remain in place until 2020, it should be noted that this will need to be reviewed following the 2019 valuation.

4.5 Does the Fund monitor its overall funding position?

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

5 Statutory reporting and comparison to other LGPS Funds

5.1 Purpose

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

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

5.2 Solvency

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

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

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

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

5.3 Long Term Cost Efficiency

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

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

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

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

Relative considerations include:

1. the implied deficit recovery period; and

2. the investment return required to achieve full funding after 20 years.

Absolute considerations include:

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

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

Appendix A – Regulatory framework

A1 Why does the Fund need an FSS?

The Department for Communities and Local Government (DCLG) has stated that the purpose of the FSS is:

*"to establish a **clear and transparent fund-specific strategy** which will identify how employers' pension liabilities are best met going forward;*

*to support the regulatory framework to maintain **as nearly constant employer contribution rates as possible**; and*

*to take a **prudent longer-term view** of funding those liabilities."*

These objectives are desirable individually, but may be mutually conflicting. As a result of Section 13 of the Public Service Pensions Act 2013, the FSS must have as the primary objective the setting of employer contributions at an appropriate level to ensure both the solvency and the long-term cost-efficiency of the Pension Fund.

The requirement to maintain and publish a FSS is contained in LGPS Regulations which are updated from time to time. In publishing the FSS the Administering Authority has to have regard to any guidance published by Chartered Institute of Public Finance and Accountancy (CIPFA) (most recently in 2016) and to its Statement of Investment Principles / Investment Strategy Statement.

This is the framework within which the Fund's actuary carries out triennial valuations to set employers' contributions and provides recommendations to the Administering Authority when other funding decisions are required, such as when employers join or leave the Fund. The FSS applies to all employers participating in the Fund.

A2 Does the Administering Authority consult anyone on the FSS?

Yes. This is required by LGPS Regulations. It is covered in more detail by the most recent CIPFA guidance, which states that the FSS must first be subject to "consultation with such persons as the authority considers appropriate", and should include "a meaningful dialogue at officer and elected member level with council tax raising authorities and with corresponding representatives of other participating employers".

In practice, for the Fund, the consultation process for this FSS was as follows:

a) A draft version of the FSS was issued to all participating employers on ~~22~~ 12 October~~February~~ 2018~~7~~ for comment;

b) Comments were requested within 14 days;

~~c) There was an Employers Forum on 28th February 2017 at which questions regarding the FSS could be raised and answered;~~

~~d)~~c) Following the end of the consultation period the FSS was updated where required, approved by Haringey Pensions Committee and Board on 20 November 2018, and then published ~~by~~on 21 November ~~1 April~~ 2018~~7~~.

A3 How is the FSS published?

The FSS is made available through the following routes:

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

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

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

~~Copies sent to investment managers and independent advisers;~~

Copies made available on request.

A4 How often is the FSS reviewed?

The FSS is reviewed in detail at least every three years as part of the triennial valuation. ~~This version is expected to remain unaltered until it is consulted upon as part of the formal process for the next valuation in 2019.~~ Normally the FSS is expected to remain unaltered until it is consulted on as part of the formal process for the next valuation. As a result, however, of the Local Government Pension Scheme (Amendment) Regulations 2018 which came into effect on 14 May 2018 it has been necessary to amend, after due consultation, the FSS.

It is possible that (usually slight) amendments may be needed within the three year period. These would be needed to reflect any regulatory changes, or alterations to the way the Fund operates (e.g. to accommodate a new class of employer). Any such amendments would be consulted upon as appropriate:

- trivial amendments would be simply notified at the next round of employer communications,
- amendments affecting only one class of employer would be consulted with those employers,
- other more significant amendments would be subject to full consultation.

In any event, changes to the FSS would need agreement by the Pensions Committee and would be included in the relevant Committee Meeting minutes.

A5 How does the FSS fit into other Fund documents?

The FSS is a summary of the Fund's approach to funding liabilities. It is not an exhaustive statement of policy on all issues, for example there are a number of separate statements published by the Fund including the Statement of Investment Principles/Investment Strategy Statement, Governance Strategy and Communications Strategy. In addition, the Fund publishes an Annual Report and Accounts with up to date information on the Fund.

These documents can be found on the web at http://www.haringeypensionfund.co.uk.

Appendix B – Responsibilities of key parties

The efficient and effective operation of the Fund needs various parties to each play their part.

B1 The Administering Authority should:-

1. operate the Fund as per the LGPS Regulations;
2. effectively manage any potential conflicts of interest arising from its dual role as Administering Authority and a Fund employer;
3. collect employer and employee contributions, and investment income and other amounts due to the Fund;
4. ensure that cash is available to meet benefit payments as and when they fall due;
5. pay from the Fund the relevant benefits and entitlements that are due;
6. invest surplus monies (i.e. contributions and other income which are not immediately needed to pay benefits) in accordance with the Fund's Statement of Investment Principles/Investment Strategy Statement (SIP/ISS) and LGPS Regulations;
7. communicate appropriately with employers so that they fully understand their obligations to the Fund;
8. take appropriate measures to safeguard the Fund against the consequences of employer default;
9. manage the valuation process in consultation with the Fund's actuary;
10. provide data and information as required by the Government Actuary's Department to carry out their statutory obligations (see Section 5);
11. prepare and maintain a FSS and a SIP/ISS, after consultation;
12. notify the Fund's actuary of material changes which could affect funding (this is covered in a separate agreement with the actuary); and
13. monitor all aspects of the fund's performance and funding and amend the FSS and SIP/ISS as necessary and appropriate.

B2 The Individual Employer should:-

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

B3 The Fund Actuary should:-

1. prepare valuations, including the setting of employers' contribution rates. This will involve agreeing assumptions with the Administering Authority, having regard to the FSS and LGPS Regulations, and targeting each employer's solvency appropriately;
2. provide data and information as required by the Government Actuary's Department to carry out their statutory obligations (see Section 5);

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

B4 Other parties:-

1. investment advisers (either internal or external) should ensure the Fund's SIP/ISS remains appropriate, and consistent with this FSS;
2. investment managers, custodians and bankers should all play their part in the effective investment (and dis-investment) of Fund assets, in line with the SIP/ISS;
3. auditors should comply with their auditing standards, ensure Fund compliance with all requirements, monitor and advise on fraud detection, and sign off annual reports and financial statements as required;
4. governance advisers may be appointed to advise the Administering Authority on efficient processes and working methods in managing the Fund;
5. legal advisers (either internal or external) should ensure the Fund's operation and management remains fully compliant with all regulations and broader local government requirements, including the Administering Authority's own procedures;
6. the Department for Communities and Local Government (assisted by the Government Actuary's Department) and the Scheme Advisory Board, should work with LGPS Funds to meet Section 13 requirements.

Appendix C – Key risks and controls

C1 Types of risk

The Administering Authority has an active risk management programme in place. The measures that it has in place to control key risks are summarised below under the following headings:

- financial;
- demographic;
- regulatory; and
- governance.

C2 Financial risks

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

Risk	Summary of Control Mechanisms
	Some investment in bonds also helps to mitigate this risk. Employers pay for their own salary awards and should be mindful of the geared effect on pension liabilities of any bias in pensionable pay rises towards longer-serving employees.
Effect of possible increase in employer's contribution rate on service delivery and admission/scheduled bodies	An explicit stabilisation mechanism has been agreed as part of the funding strategy. Other measures are also in place to limit sudden increases in contributions.
Orphaned employers give rise to added costs for the Fund	The Fund seeks a cessation debt (or security/guarantor) to minimise the risk of this happening in the future. If it occurs, the Actuary calculates the added cost spread pro-rata among all employers – (see 3.9).
Liquidity issues posed by significant cessations posed by employers in surplus funding position	Careful monitoring of funding levels at triennial valuations, and allowing contribution holidays where appropriate to ensure employers do not generate significant surplus positions Ensuring that the fund's investment strategy allows for a significant proportion of liquid investments and asset classes

C3 Demographic risks

Risk	Summary of Control Mechanisms
Pensioners living longer, thus increasing cost to Fund.	Set mortality assumptions with some allowance for future increases in life expectancy. The Fund Actuary has direct access to the experience of over 50 LGPS funds which allows early identification of changes in life expectancy that might in turn affect the assumptions underpinning the valuation.
Maturing Fund – i.e. proportion of actively contributing employees declines relative to retired employees.	Continue to monitor at each valuation, consider seeking monetary amounts rather than % of pay and consider alternative investment strategies.
Deteriorating patterns of early retirements	Employers are charged the extra cost of non ill-health retirements following each individual decision.

Risk	Summary of Control Mechanisms
	Employer ill health retirement experience is monitored, and insurance is an option.
Reductions in payroll causing insufficient deficit recovery payments	In many cases this may not be sufficient cause for concern, and will in effect be caught at the next formal valuation. However, there are protections where there is concern, as follows: Employers in the stabilisation mechanism may be brought out of that mechanism to permit appropriate contribution increases (see Note (b) to 3.3). For other employers, review of contributions is permitted in general between valuations (see Note (f) to 3.3) and may require a move in deficit contributions from a percentage of payroll to fixed monetary amounts.

C4 Regulatory risks

Risk	Summary of Control Mechanisms
Changes to national pension requirements and/or HMRC rules e.g. changes arising from public sector pensions reform.	The Administering Authority considers all consultation papers issued by the Government and comments where appropriate. The results of the most recent reforms were built into the 2013 valuation. Any changes to member contribution rates or benefit levels will be carefully communicated with members to minimise possible opt-outs or adverse actions.
Time, cost and/or reputational risks associated with any DCLG intervention triggered by the Section 13 analysis (see Section 5).	Take advice from Fund Actuary on position of Fund as at prior valuation, and consideration of proposed valuation approach relative to anticipated Section 13 analysis.
Changes by Government to particular employer participation in LGPS Funds, leading to impacts on funding and/or investment strategies.	The Administering Authority considers all consultation papers issued by the Government and comments where appropriate. Take advice from Fund Actuary on impact of changes on the Fund and amend strategy as appropriate.

C5 Governance risks

Risk	Summary of Control Mechanisms
Administering Authority unaware of structural changes in an employer's membership (e.g. large fall in employee members, large number of retirements) or not advised of an employer closing to new entrants.	The Administering Authority has a close relationship with employing bodies and communicates required standards e.g. for submission of data. The Actuary may revise the rates and Adjustments certificate to increase an employer's contributions between triennial valuations Deficit contributions may be expressed as monetary amounts.
Actuarial or investment advice is not sought, or is not heeded, or proves to be insufficient in some way	The Administering Authority maintains close contact with its specialist advisers. Advice is delivered via formal meetings involving Elected Members, and recorded appropriately. Actuarial advice is subject to professional requirements such as peer review.
Administering Authority failing to commission the Fund Actuary to carry out a termination valuation for a departing Admission Body.	The Administering Authority requires employers with Best Value contractors to inform it of forthcoming changes. Community Admission Bodies' memberships are monitored and, if active membership decreases, steps will be taken.
An employer ceasing to exist with insufficient funding or adequacy of a bond.	The Administering Authority believes that it would normally be too late to address the position if it was left to the time of departure. The risk is mitigated by: Seeking a funding guarantee from another scheme employer, or external body, where-ever possible (see Notes (h) and (j) to 3.3). Alerting the prospective employer to its obligations and encouraging it to take independent actuarial advice. Vetting prospective employers before admission. Where permitted under the regulations requiring a bond to protect the Fund from various risks. Requiring new Community Admission Bodies to have a guarantor.

Risk	Summary of Control Mechanisms
	Reviewing bond or guarantor arrangements at regular intervals (see Note (f) to 3.3). Reviewing contributions well ahead of cessation if thought appropriate (see Note (a) to 3.3).

Appendix D – The calculation of Employer contributions

In Section 2 there was a broad description of the way in which contribution rates are calculated. This Appendix considers these calculations in much more detail.

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

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

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

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

The calculations involve actuarial assumptions about future experience, and these are described in detail in Appendix E.

D1 What is the difference between calculations across the whole Fund and calculations for an individual employer?

Employer contributions are normally made up of two elements:

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

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

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

D2 How is the Primary contribution rate calculated?

The Primary element of the employer contribution rate is calculated with the aim that these contributions will meet benefit payments in respect of members' **future** service in the Fund. This is based upon the cost (in excess of members' contributions) of the benefits which employee members earn from their service each year.

The Primary rate is calculated separately for all the employers, although employers within a pool will pay the contribution rate applicable to the pool as a whole. The Primary rate is calculated such that it is projected to:

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

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

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

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

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

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

D3 How is the Secondary contribution rate calculated?

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

For the funding target, the Fund actuary agrees the assumptions to be used with the Administering Authority – see Appendix E. These assumptions are used to calculate the present value of all benefit payments expected in the future, relating to that employer's current and former employees, based on pensionable service to the valuation date only (i.e. ignoring further benefits to be built up in the future).

The Fund operates the same target funding level for all employers of 100% of its accrued liabilities valued on the ongoing basis, unless otherwise determined (see Section 3).

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

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

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

D4 What affects a given employer's valuation results?

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

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

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

D5 How is each employer's asset share calculated?

The Administering Authority does not account for each employer's assets separately. Instead, the Fund's actuary is required to apportion the assets of the whole Fund between the employers, at each triennial valuation.

This apportionment uses the income and expenditure figures provided for certain cash flows for each employer. This process adjusts for transfers of liabilities between employers participating in the Fund, but does make a number of simplifying assumptions. The split is calculated using an actuarial technique known as "analysis of surplus".

Actual investment returns achieved on the Fund between each valuation are applied proportionately across all employers, to the extent that employers in effect share the same investment strategy. Transfers of liabilities between employers within the Fund occur automatically within this process, with a sum broadly equivalent to the reserve required on the ongoing basis being exchanged between the two employers.

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

1. the actual timing of employer contributions within any financial year;
2. the effect of the premature payment of any deferred pensions on grounds of incapacity.

These effects are swept up within a miscellaneous item in the analysis of surplus, which is split between employers in proportion to their liabilities.

The methodology adopted means that there will inevitably be some difference between the asset shares calculated for individual employers and those that would have resulted had they participated in their own ring-fenced section of the Fund.

The asset apportionment is capable of verification but not to audit standard. The Administering Authority recognises the limitations in the process, but it considers that the Fund actuary's approach addresses the risks of employer cross-subsidisation to an acceptable degree.

Appendix E – Actuarial assumptions

E1 What are the actuarial assumptions?

These are expectations of future experience used to place a value on future benefit payments ("the liabilities"). Assumptions are made about the amount of benefit payable to members (the financial assumptions) and the likelihood or timing of payments (the demographic assumptions). For example, financial assumptions include investment returns, salary growth and pension increases; demographic assumptions include life expectancy, probabilities of ill-health early retirement, and proportions of member deaths giving rise to dependants' benefits.

Changes in assumptions will affect the measured funding target. However, different assumptions will not of course affect the actual benefits payable by the Fund in future.

The combination of all assumptions is described as the "basis". A more optimistic basis might involve higher assumed investment returns (discount rate), or lower assumed salary growth, pension increases or life expectancy; a more optimistic basis will give lower funding targets and lower employer costs. A more prudent basis will give higher funding targets and higher employer costs.

E2 What basis is used by the Fund?

The Fund's standard funding basis is described as the "ongoing basis", which applies to most employers in most circumstances. This is described in more detail below. It anticipates employers remaining in the Fund in the long term.

However, in certain circumstances, typically where the employer is not expected to remain in the Fund long term, a more prudent basis applies: see Note (a) to 3.3.

E3 What assumptions are made in the ongoing basis?

a) Investment return / discount rate

The key financial assumption is the anticipated return on the Fund's investments. This "discount rate" assumption makes allowance for an anticipated out-performance of Fund returns relative to long term yields on UK Government bonds ("gilts"). There is, however, no guarantee that Fund returns will out-perform gilts. The risk is greater when measured over short periods such as the three years between formal actuarial valuations, when the actual returns and assumed returns can deviate sharply.

Given the very long-term nature of the liabilities, a long term view of prospective asset returns is taken. The long term in this context would be 20 to 30 years or more.

For the purpose of the triennial funding valuation at 31 March 2016 and setting contribution rates effective from 1 April 2017, the Fund actuary has assumed that future investment returns earned by the Fund over the long term will be 1.8% per annum greater than gilt yields at the time of the valuation (this is higher than that used at the 2013 valuation – 1.6% per annum - which gives a lower funding target, all other things being equal). In the opinion of the Fund actuary, based on the current investment strategy of the Fund, this asset out-performance assumption is within a range that would be considered acceptable for the purposes of the funding valuation.

b) Salary growth

Pay for public sector employees is currently subject to restriction by the UK Government until 2020. Although this “pay freeze” does not officially apply to local government and associated employers, it has been suggested that they are likely to show similar restraint in respect of pay awards. Based on long term historical analysis of the membership in LGPS funds, and continued austerity measures, the salary increase assumption at the 2016 valuation has been set to be a blended rate combined of:

1. 1% p.a. until 31 March 2020, followed by

2. 1.0% above the retail prices index (RPI) per annum p.a. thereafter.

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

c) Pension increases

Since 2011 the consumer prices index (CPI), rather than RPI, has been the basis for increases to public sector pensions in deferment and in payment. Note that the basis of such increases is set by the Government, and is not under the control of the Fund or any employers.

As at the previous valuation, we derive our assumption for RPI from market data as the difference between the yield on long-dated fixed interest and index-linked government bonds. This is then reduced to arrive at the CPI assumption, to allow for the “formula effect” of the difference between RPI and CPI. At this valuation, we propose a reduction of 1.0% per annum. This is a larger reduction than at 2013, which will serve to reduce the funding target (all other things being equal). (Note that the reduction is applied in a geometric, not arithmetic, basis).

d) Life expectancy

The demographic assumptions are intended to be best estimates of future experience in the Fund based on past experience of LGPS funds which participate in Club Vita, the longevity analytics service used by the Fund, and endorsed by the actuary.

The longevity assumptions that have been adopted at this valuation are a bespoke set of “VitaCurves”, produced by the Club Vita’s detailed analysis, which are specifically tailored to fit the membership profile of the Fund. These curves are based on the data provided by the Fund for the purposes of this valuation.

It is acknowledged that future life expectancy and, in particular, the allowance for future improvements in life expectancy, is uncertain. There is a consensus amongst actuaries, demographers and medical experts that life expectancy is likely to improve in the future. Allowance has been made in the ongoing valuation basis for future improvements in line with the 2013 version of the Continuous Mortality Investigation model published by the Actuarial Profession and a 1.25% per annum minimum underpin to future reductions in mortality rates. This is a similar allowance for future improvements than was made in 2013.

The combined effect of the above changes from the 2013 valuation approach, is a slight reduction to the average overall life expectancies in the Fund. The approach taken is considered reasonable in light of the long term nature of the Fund and the assumed level of security underpinning members’ benefits.

e) General

The same financial assumptions are adopted for most employers, in deriving the funding target underpinning the Primary and Secondary rates: as described in (3.3), these calculated figures are translated in different ways into employer contributions, depending on the employer's circumstances.

The demographic assumptions, in particular the life expectancy assumption, in effect vary by type of member and so reflect the different membership profiles of employers.

Appendix F – Glossary

Actuarial assumptions/basis	The combined set of assumptions made by the actuary, regarding the future, to calculate the value of **the funding target**. The main assumptions will relate to the **discount rate**, salary growth, pension increases and longevity. More prudent assumptions will give a higher target value, whereas more optimistic assumptions will give a lower value.
Administering Authority	The council with statutory responsibility for running the Fund, in effect the Fund's "trustees".
Admission Bodies	Employers where there is an Admission Agreement setting out the employer's obligations. These can be Community Admission Bodies or Transferee Admission Bodies. For more details (see 2.3).
Covenant	The assessed financial strength of the employer. A strong covenant indicates a greater ability (and willingness) to pay for pension obligations in the long run. A weaker covenant means that it appears that the employer may have difficulties meeting its pension obligations in full over the longer term.
Designating Employer	Employers such as town and parish councils that are able to participate in the LGPS via resolution. These employers can designate which of their employees are eligible to join the Fund.
Discount rate	The annual rate at which future assumed cashflows (in and out of the Fund) are discounted to the present day. This is necessary to provide a **funding target** which is consistent with the present day value of the assets. A lower discount rate gives a higher target value, and vice versa. It is used in the calculation of the **Primary and Secondary rates**.
Employer	An individual participating body in the Fund, which employs (or used to employ) **members** of the Fund. Normally the assets and **funding target** values for each employer are individually tracked, together with its **Primary rate** at each **valuation**.
Funding target	The actuarially calculated present value of all pension entitlements of all **members** of the Fund, built up to date. This is compared with the present market value of Fund assets to derive the **deficit**. It is calculated on a chosen set of **actuarial assumptions**.
Gilt	A UK Government bond, ie a promise by the Government to pay interest and capital as per the terms of that particular gilt, in return for an initial payment of capital by the purchaser. Gilts can be "fixed interest", where the interest payments are level throughout the gilt's term, or "index-linked" where the interest payments vary each year in line with a specified index (usually RPI). Gilts can be bought as assets by the Fund, but their main use in funding is as an objective measure of solvency.
Guarantee / guarantor	A formal promise by a third party (the guarantor) that it will meet any pension obligations not met by a specified employer. The presence of a guarantor will mean, for instance, that the Fund can consider the employer's **covenant** to be as strong as its guarantor's.

Letting employer	An employer which outsources or transfers a part of its services and workforce to another employer (usually a contractor). The contractor will pay towards the LGPS benefits accrued by the transferring members, but ultimately the obligation to pay for these benefits will revert to the letting employer. A letting employer will usually be a local authority, but can sometimes be another type of employer such as an Academy.
LGPS	The Local Government Pension Scheme, a public sector pension arrangement put in place via Government Regulations, for workers in local government. These Regulations also dictate eligibility (particularly for Scheduled Bodies), members' contribution rates, benefit calculations and certain governance requirements. The LGPS is divided into 101 Funds which map the UK. Each LGPS Fund is autonomous to the extent not dictated by Regulations, e.g. regarding investment strategy, employer contributions and choice of advisers.
Maturity	A general term to describe a Fund (or an employer's position within a Fund) where the members are closer to retirement (or more of them already retired) and the investment time horizon is shorter. This has implications for investment strategy and, consequently, funding strategy.
Members	The individuals who have built up (and may still be building up) entitlement in the Fund. They are divided into actives (current employee members), deferreds (ex-employees who have not yet retired) and pensioners (ex-employees who have now retired, and dependants of deceased ex-employees).
Primary contribution rate	The employer contribution rate required to pay for ongoing accrual of active members' benefits (including an allowance for administrative expenses). See Appendix D for further details.
Profile	The profile of an employer's membership or liability reflects various measurements of that employer's **members**, ie current and former employees. This includes: the proportions which are active, deferred or pensioner; the average ages of each category; the varying salary or pension levels; the lengths of service of active members vs their salary levels, etc. A membership (or liability) profile might be measured for its **maturity** also.
Rates and Adjustments Certificate	A formal document required by the LGPS Regulations, which must be updated at least every three years at the conclusion of the formal **valuation**. This is completed by the actuary and confirms the contributions to be paid by each employer (or pool of employers) in the Fund for the three year period until the next valuation is completed.
Scheduled Bodies	Types of employer explicitly defined in the LGPS Regulations, whose employers must be offered membership of their local LGPS Fund. These include Councils, colleges, universities, academies, police and fire authorities etc, other than employees who have entitlement to a different public sector pension scheme (e.g. teachers, police and fire officers, university lecturers).

Secondary contribution rate	The difference between the employer's actual and **Primary contribution rates**. In broad terms, this relates to the shortfall of its asset share to its **funding target**. See Appendix D for further details.
Stabilisation	Any method used to smooth out changes in employer contributions from one year to the next. This is very broadly required by the LGPS Regulations, but in practice is particularly employed for large stable employers in the Fund. Different methods may involve: probability-based modelling of future market movements; longer deficit recovery periods; higher discount rates; or some combination of these.
Valuation	An actuarial investigation to calculate the liabilities, Primary and Secondary contribution rates for a Fund, and usually individual employers too. This is normally carried out in full every three years (last done as at 31 March 2016), but can be approximately updated at other times. The assets value is based on market values at the valuation date, and the liabilities value and contribution rates are based on long term bond market yields at that date also.

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Agenda Item 10

Report for: Pensions Committee and Board 20 November 2018

Item number:

Title: Forward Plan

Report authorised by: Jon Warlow, Director of Finance (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 and Board 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.

Pensions Committee and Board - Forward Plan **APPENDIX 1**

20 Nov 2018	21 Jan 2019	14 Mar 2019	July 2019	September 2019	November 2019	January 2020	March 2020
Standing Items							
Administration Report - Membership Update - Auto-enrolment - Schedule / Admitted Bodies	Administration Report - Membership Update - Auto-enrolment - Schedule / Admitted Bodies	Administration Report - Membership Update - Auto-enrolment - Schedule / Admitted Bodies	Administration Report - Membership Update - Auto-enrolment - Schedule / Admitted Bodies	Administration Report - Membership Update - Auto-enrolment - Schedule / Admitted Bodies	Administration Report - Membership Update - Auto-enrolment - Schedule / Admitted Bodies	Administration Report - Membership Update - Auto-enrolment - Schedule / Admitted Bodies	Administration Report - Membership Update - Auto-enrolment - Schedule / Admitted Bodies
Governance Update Report (if required)	Governance Update Report (if required)	Governance Update Report (if required)	Governance Update Report (if required)	Governance Update Report (if required)	Governance Update Report (if required)	Governance Update Report (if required)	Governance Update Report (if required)
Work/Forward Plan and Training Opportunities	Work/Forward Plan and Training Opportunities	Work/Forward Plan and Training Opportunities	Work/Forward Plan and Training Opportunities	Work/Forward Plan and Training Opportunities	Work/Forward Plan and Training Opportunities	Work/Forward Plan and Training Opportunities	Work/Forward Plan and Training Opportunities
Risk Register Review / Update (Accounting & Investments)	Risk Register Review / Update (Funding/Liability)	Risk Register Review / Update (Governance & Legal)	Risk Register Review / Update (Administration & Communication)	Risk Register Review / Update (Accounting & Investments)	Risk Register Review / Update (Funding/Liability)	Risk Register Review / Update (Governance & Legal)	Risk Register Review / Update (Administration & Communication)
Quarterly Pension Fund Performance & Investment Update		Quarterly Pension Fund Performance & Investment Update	Quarterly Pension Fund Performance & Investment Update	Quarterly Pension Fund Performance & Investment Update	Quarterly Pension Fund Performance & Investment Update		Quarterly Pension Fund Performance & Investment Update
Quarterly LAPFF Engagement Report	Quarterly LAPFF Engagement Report	Quarterly LAPFF Engagement Report	Quarterly LAPFF Engagement Report	Quarterly LAPFF Engagement Report	Quarterly LAPFF Engagement Report	Quarterly LAPFF Engagement Report	Quarterly LAPFF Engagement Report
Fund Administration and Governance							
	Review/update of Fund Conflicts of Interest Policy (if necessary)	Review/update of Investment Strategy Statement if necessary	Annual Pension Fund Accounts and Annual Report (including various statutory documents)			Review/update of Fund Conflicts of Interest Policy (if necessary)	Review/update of Internal Disputes Resolution Policy and Pensions Administration Strategy Statement
	LGPS Update from the Independent Advisor	Review/update of Internal Disputes Resolution Policy and Pensions Administration Strategy Statement					Investment Consultancy Services Contract

20 Nov 2018	21 Jan 2019	14 Mar 2019	July 2019	September 2019	November 2019	January 2020	March 2020
Investments							
Alternative Investments Follow Up report	Equity Protection Consideration	Equity Considerations					
Funding and Valuation							
Funding Strategy Statement Update Exit credits, and implications for the fund	2019 Valuation Initial Work	External Audit for Pension Fund Accounts - Planning	External Audit for Pension Fund Accounts Final Audit Report	2019 Valuation Assumptions proposal, and initial results	2019 Valuation Draft results	2019 Valuation Final Sign off	External Audit for Pension Fund Accounts Planning
		2019 Valuation Council's Results			Funding Strategy Statement Draft version Following 2019 Valuation	Funding Strategy Statement Final Version Following Results of 2019 Valuation	
					Ill Health Liability Insurance Contract		
Training							
Training & Conferences Update	Training & Conferences Update	Training & Conferences Update	Training & Conferences Update	Training & Conferences Update	Training & Conferences Update	Training & Conferences Update	Training & Conferences Update
London CIV	Hymans Robertson - 2019 Valuation Process	Tbc	Tbc	Tbc	Tbc	Tbc	Tbc

TRAINING PROGRAMME

APPENDIX 2

Date	Conference / Event	Training/Event Organiser	Cost	Location	Delegates Allowed
9 October, 14 November	Pension Basics	PLSA	£160	Virtual Training	N/A
https://www.plsa.co.uk/Education/Introductory-Pensions-Training/Pension-basics					
19 September, 11 October, 20 November	Introduction to Trusteeship Part 1 - The Theory	PLSA	£488	London	N/A
https://www.plsa.co.uk/Education/Trustee-Training/Introduction-to-Trusteeship-Part-1-The-Theory					
4 October, 21 November	Introduction to Trusteeship Part 2 - The Practice	PLSA	£488	London	N/A
https://www.plsa.co.uk/Education/Trustee-Training/Introduction-to-Trusteeship-Part-2-The-Practice					
12-Dec-18	LDI (Liability Driven Investment) Breakfast training	LGIM	Free	London	N/A
04-Oct-18	Managing the Investment Challenge	LGIM	Free	London	N/A
https://www.events-lgim.com/lgim/frontend/reg/tOtherPage.csp?pageID=79171&eventID=284					
22-Nov-18	The CIPFA Annual Pensions Conference	CIPFA	Free	London	2 Free
5-7 December	The Annual LAPFF Conference	LAPFF	Free	Bournemouth	2 Free
2-3 October	The Local Government Pensions Investment Forum	KNECT Finance	Free	London	N/A
https://finance.knect365.com/local-government-pension-investment-forum/					

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.

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APPENDIX 3

Pension Committee and Board member's Name	Public Sector Toolkit (Online)	Training Needs Analysis
Cllr Matthew White (Chair)		
Cllr John Bevan (Vice Chair)	✓	✓
Cllr Viv Ross	✓	✓
Cllr Kaushika Amin		
Cllr Paul Dennison	✓	
Cllr Khaled Moyeed		
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

Agenda Item 11

Report for:	Pensions Committee and Board 20 November 2018
Item number:	
Title:	Risk Register - Review/Update
Report authorised by:	Jon Warlow, Director of Finance (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

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

6.2. The Committee and Board approved a 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)

<u>Finance and Procurement</u>

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

<u>Legal</u>

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.

<u>Equalities</u>

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.	15

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), or other bodies, 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

Risk No	Cat Ref	Risk	Risk Ranking
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	5
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	12
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.	5
22	ACC2	Internal controls are not in place to protect against fruad/ mismanagement.	5
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.	10
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	1	5	HoP;	Jul-19

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.	5	1	5	HoP; PAM	Mar-19
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;	Ongoing

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	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**
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-19
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
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

INVESTMENTS: RISK MANAGEMENT FRAMEWORK								
Risk No	**Cat Ref**	**Risk**	**Current Controls**	**Impact**	**Proba-bility**	**Overall Risk Rating**	**Respon-sibility**	**Timescale**
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
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. 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	Jul-20
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. This is a topic that has been discussed with the PCB recently for property and private equity.	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-20

We would like to do more analysis around this within the next triennial valuation and investment strategy. We will consider including a more explicit section on this within the Investment Strategy Statement.

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 actively engages with them. The CIV is undertaking a Governance review which has yet to be implemented in full, so it is unclear exactly how Haringey members and officers will be represented within the CIV's new governance structures. The CIV has to reach consensus among its 32 funds, there is therefore a persistent risk that the full complement of mandates in the Fund may not be replicated by London CIV. However, there is acknowledgement within LGPS that more niche illiquid mandates will not transition into the pools due to the inefficiencies involved. Haringey has had a number of interactions with the CIV, in relation to fund managers, which have been largely positive. Haringey has benefited from fee savings, and has a number of investments that are either via the CIV or under the CIV's oversight.	5	3	15	HoP	Ongoing	We will review this risk following the current conversations about residential property.

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 some 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, and the outgoing Committee and Board of April 2018 wrote to the Chief Whips of both parties in relation to this. 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, but review in May 2019

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 actively engages with them. The CIV is undertaking a Governance review which has yet to be implemented in full, so it is unclear exactly how Haringey members and officers will be represented within the CIV's new governance structures. The CIV has to reach consensus among its 32 funds, there is therefore a persistent risk that the full complement of mandates in the Fund may not be replicated by London CIV. However, there is acknowledgement within LGPS that more niche illiquid mandates will not transition into the pools due to the inefficiencies involved. Haringey has had a number of interactions with the CIV, in relation to fund managers, which have been generally positive. Haringey has benefited from fee savings, and has a number of investments that are either via the CIV or under the CIV's oversight.	5	3	15	HoP	Ongoing

Agenda Item 12

Report for: Pensions Committee and Board 20 November 2018

Item number:

Title: Pension Fund Quarterly Update

Report authorised by: Jon Warlow, Director of Finance (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 30 September 2018:

- Funding Level Update
- Investment asset allocation
- Investment performance

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 30 September 2018 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 and 12 of this report provide the information to this end. Appendix 1 shows the targets which have been

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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. As appended to this report in Appendix 2

Equalities

8.5. 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.
9.2. Appendix 2: Independent Advisor's Market commentary
9.3. Confidential Appendix 3: Funding and Risk Report from the Fund Actuary

10. Local Government (Access to Information) Act 1985

10.1. Not applicable.

11. Funding Position Update

11.1. At the most recent full valuation of the fund as at 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 2018, and this showed an improvement to an 90.4% funding level: the increase being mainly attributable to investment returns. This position was an improvement from 30 June 2018 which showed 89.0%.

11.3. The 79.1% funding level as at 31 March 2016 corresponded to a net deficit of £277m, which has decreased to an indicative £152m as at 30 September 2018.

11.4. Confidential Appendix 3 shows the funding and risk report produced by the fund actuary as at 30 September 2018, giving further detail regarding this.

12. Portfolio Allocation Against Benchmark

12.1. The value of the fund increased by £34.4m million between June and September 2018. All investments performed in line with, or above their benchmark in the quarter with the exception of the fund's multi asset absolute return investment.

12.2. The equity, multi sector credit and multi asset absolute return allocations exceed their strategic allocation, these represent funds which are yet to be called upon by the funds managers for property, private equity and renewable energy which are beneath their strategic allocation.

12.3. A higher than usual cash figure was hold as at 30 September 2018, to fund a large bulk transfer for the College of Haringey, Enfield and North East London, which is anticipated to be completed on 14 November 2018.

Total Portfolio Allocation by Manager and Asset Class

Value 31.03.2018	Value 30.06.2018	Value 30.09.2018	Allocation 30.09.2018	Strategic Allocation	Variance

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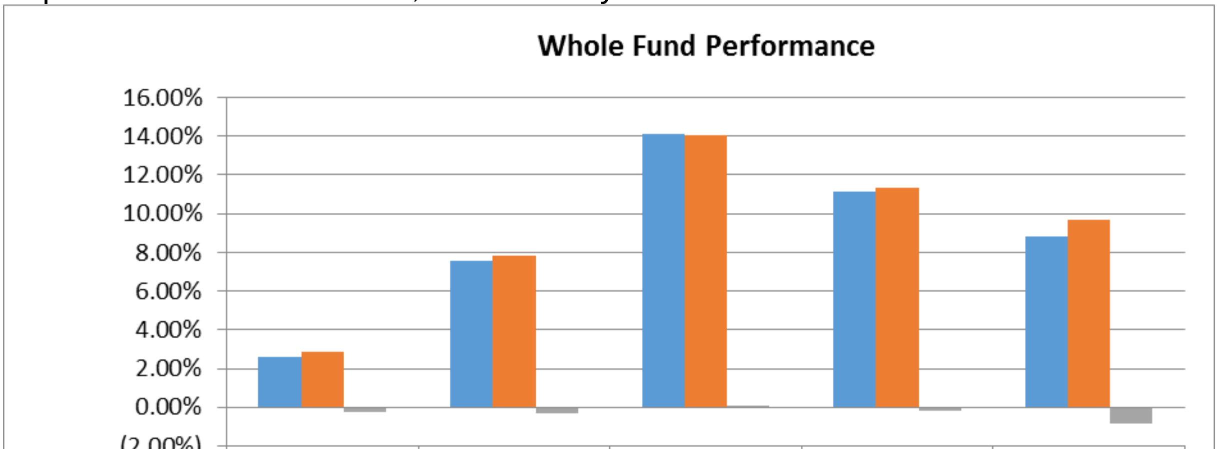
	£'000	£'000	£'000	%	%	%
Equities						
UK	91,012	82,007	0	0.00%	0.00%	0.00%
North America	129,355	120,146	0	0.00%	0.00%	0.00%
Europe	43,877	38,249	0	0.00%	0.00%	0.00%
Japan	20,981	18,217	0	0.00%	0.00%	0.00%
Asia Pacific	20,328	18,063	0	0.00%	0.00%	0.00%
Multi Factor Global	0	0	284,607	19.94%	19.20%	0.74%
Emerging Markets	104,762	90,414	95,831	6.71%	6.60%	0.11%
Global Low Carbon Tgt	302,573	275,568	291,609	20.43%	19.20%	1.23%
Total Equities	**712,888**	**642,664**	**672,047**	**47.09%**	**45.00%**	**2.09%**
Bonds						
Index Linked	**185,249**	**183,089**	**180,552**	**12.65%**	**15.00%**	**-2.35%**
Property						
Aviva	**0**	**0**	**0**	**0.00%**	**5.00%**	**-5.00%**
CBRE	**91,084**	**88,668**	**87,989**	**6.17%**	**7.50%**	**-1.33%**
Private equity						
Pantheon	**52,842**	**55,291**	**59,135**	**4.14%**	**5.00%**	**-0.86%**
Multi-Sector Credit						
CQS	**92,564**	**128,220**	**130,236**	**9.13%**	**7.00%**	**2.13%**
Multi-Asset Absolute Return						
Ruffer	**98,065**	**172,193**	**171,630**	**12.03%**	**7.50%**	**4.53%**
Infrastructure Debt						
Allianz	**37,687**	**40,688**	**41,304**	**2.89%**	**3.00%**	**-0.11%**
Renewable Energy						
CIP	**0**	**1,151**	**1,912**	**0.13%**	**2.50%**	**-2.37%**
Blackrock	**13,930**	**19,751**	**20,705**	**1.45%**	**2.50%**	**-1.05%**
Cash & NCA						
Cash	**73,216**	**61,042**	**61,676**	**4.32%**	**0.00%**	**4.32%**
Total Assets	**1,357,525**	**1,392,757**	**1,427,186**	**100.00%**	**100.00%**	**0.00%**

13. Investment Performance Update: to 30 September 2018

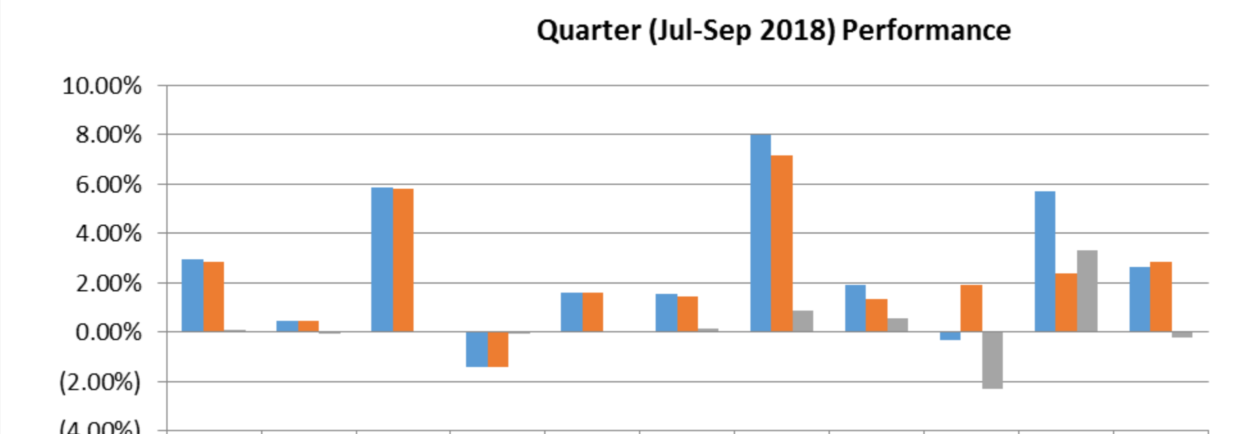
13.1. Appendix 1 provides details of the benchmarks and targets the fund managers have been set. The tables below show the performance in the quarter July to September 2018 and for one, three and 5 years for the whole of Fund.



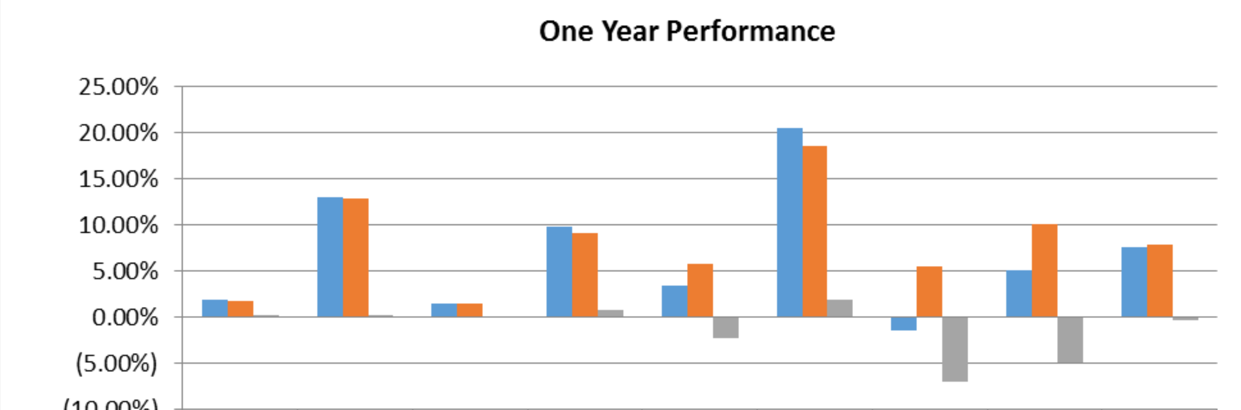
	Jul - Sep 2018	One Year	Three Years	Five Years	Since Inception
Return	2.63%	7.54%	14.08%	11.13%	8.81%
Benchmark	2.85%	7.84%	14.07%	11.32%	9.65%
(Under)/Out	(0.22%)	(0.30%)	0.01%	(0.19%)	(0.84%)

13.2. The Fund returned 2.63% in the quarter: below the benchmark of 2.85%. Almost all investments delivered positive returns over the quarter, with private equity being the best performing asset classes, with an 8.01% return.

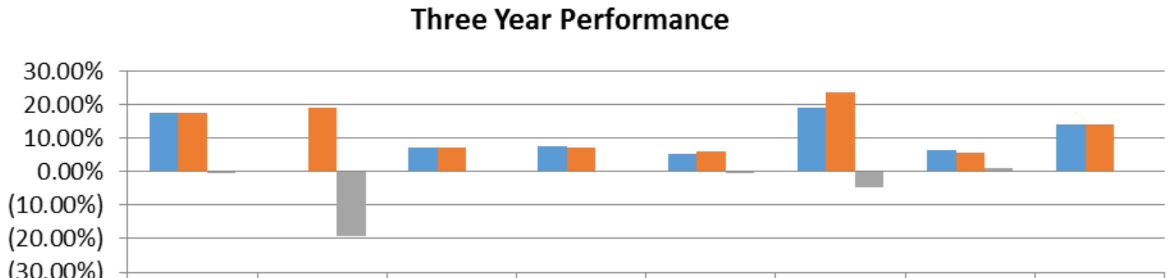
13.3. Over the last 12 months the Fund returned 7.54%, below benchmark of 7.84%. The three year performance was in line with benchmark at 14.08%, and five year performance was slightly below benchmark with performance of 11.13% versus benchmark of 11.32%. As much of the fund has historically been invested 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.



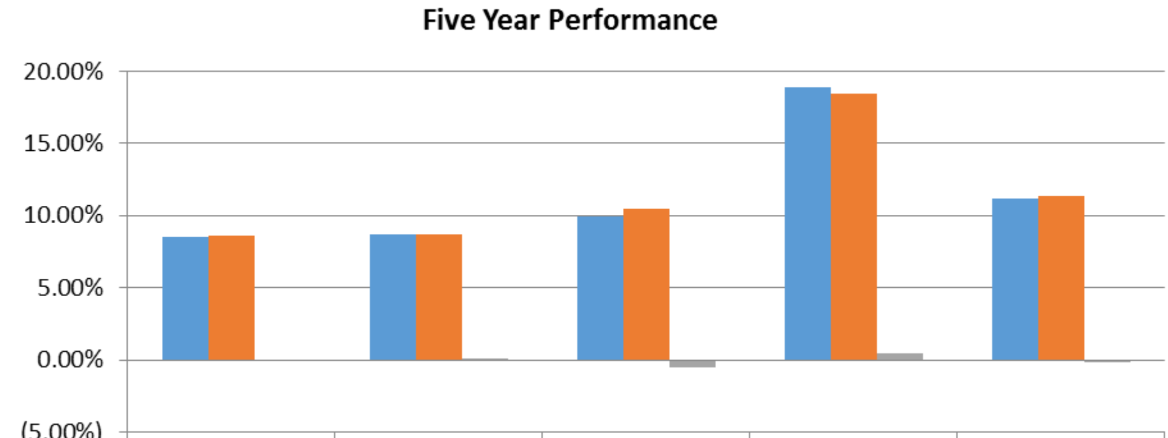
	Eq - Multi Factor Global	Eq - Emerging	Eq - Global Low Carbon Tgt	Index Linked Bonds	Property	Multi-sector Credit	Private Equity	Infrastructure	Multi-Asset Absolute Return	Renewable Energy Infrastructure	Total Fund
Fund Return	2.97%	0.47%	5.85%	(1.39%)	1.60%	1.57%	8.01%	1.90%	(0.33%)	5.73%	2.63%
Benchmark	2.85%	0.49%	5.80%	(1.38%)	1.60%	1.44%	7.14%	1.35%	1.94%	2.41%	2.85%
(Under)/out	0.12%	(0.02%)	0.05%	(0.01%)	0.00%	0.13%	0.87%	0.55%	(2.27%)	3.32%	(0.22%)



	Eq - Emerging	Eq - Global Low Carbon Tgt	Index Linked Bonds	Property	Multi-sector Credit	Private Equity	Infrastructure	Renewable Energy Infrastructure	Total Fund
Fund Return	1.83%	13.00%	1.41%	9.74%	3.44%	20.45%	(1.53%)	5.06%	7.54%
Benchmark	1.78%	12.80%	1.41%	9.02%	5.70%	18.58%	5.50%	10.00%	7.84%
(Under)/out	0.05%	0.20%	0.00%	0.72%	(2.26%)	1.87%	(7.03%)	(4.94%)	(0.30%)



	Eq - Emerging	Eq - Global Low Carbon Tgt	Index Linked Bonds	Property	Multi-sector Credit	Private Equity	Infrastructur e	Total Fund
Return	17.35%		7.24%	7.62%	5.38%	19.00%	6.36%	14.08%
Benchmark	17.46%	19.22%	7.23%	7.18%	5.89%	23.56%	5.50%	14.07%
(Under)/out	(0.11%)	(19.22%)	0.01%	0.44%	(0.51%)	(4.56%)	0.86%	0.01%

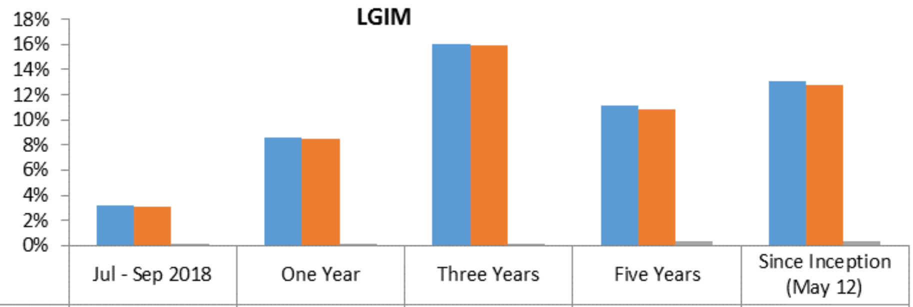


	Eq - Emerging	Index Linked Bonds	Property	Private Equity	Total Fund
Return	8.50%	8.70%	9.93%	18.89%	11.13%
Benchmark	8.60%	8.66%	10.48%	18.40%	11.32%
(Under)/out	(0.10%)	0.04%	(0.55%)	0.49%	(0.19%)

FUND MANAGER PERFORMANCE

Legal & General Investment Management (LGIM)

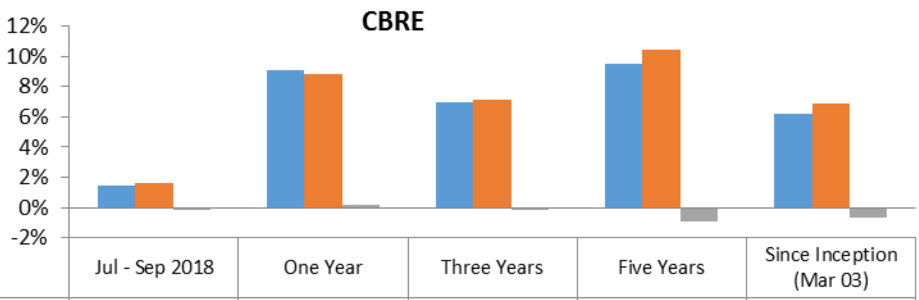
13.4. Legal and General returned 3.16% this quarter and has slightly outperformed composite benchmark of 3.08%. As these investments are passive, performance would be expected to be very closely correlated to benchmark.



	Jul - Sep 2018	One Year	Three Years	Five Years	Since Inception (May 12)
Return	3.16%	8.55%	16.04%	11.16%	13.11%
Benchmark	3.08%	8.50%	15.91%	10.81%	12.73%
(Under)/Out)	0.08%	0.05%	0.13%	0.35%	0.38%

CBRE

13.5. The manager saw a positive total return of 1.48% in the quarter, below benchmark of 1.60%. CBRE is very close to benchmark over 1 and 3 years, but lags slightly behind benchmark over 5 years, as well as since portfolio inception. This position has been steadily improving over recent quarters.



	Jul - Sep 2018	One Year	Three Years	Five Years	Since Inception (Mar 03)
Return	1.48%	9.05%	6.98%	9.55%	6.19%
Benchmark	1.60%	8.87%	7.13%	10.45%	6.89%
(Under)/Out	(0.12%)	0.18%	(0.15%)	(0.90%)	(0.70%)

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 in 2017: the effects of this will still show a lag on performance for some time to come.

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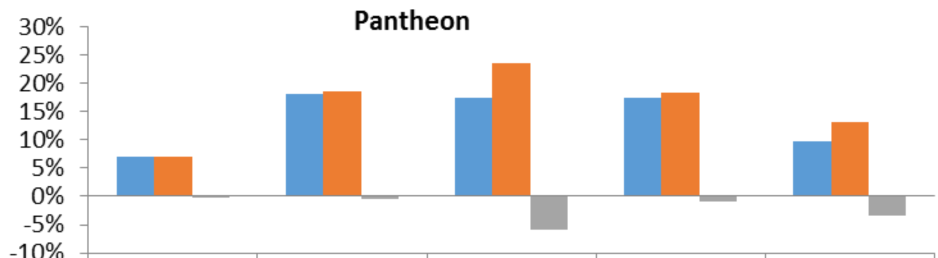
Pantheon Private Equity

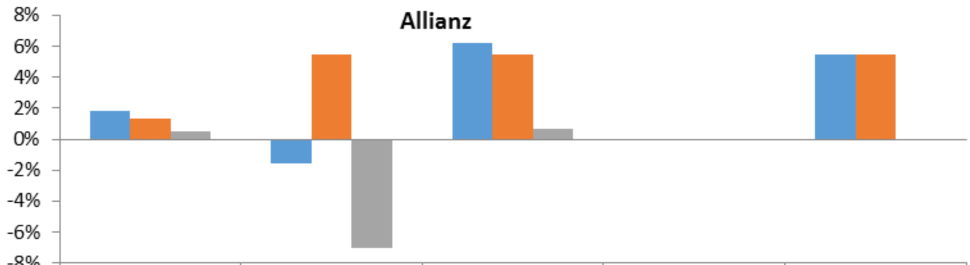
12.5 Pantheon Private Equity underperformed their benchmark by 0.07%, but performance was in excess of 7%. The manager is showing underperformance over timescales measured.



	Jul - Sep 2018	One Year	Three Years	Five Years	Since Inception (May 07)
Return	7.07%	18.03%	17.55%	17.54%	9.66%
Benchmark	7.14%	18.58%	23.56%	18.40%	13.04%
(Under)/Out	(0.07%)	(0.55%)	(6.01%)	(0.86%)	(3.38%)

Allianz Infrastructure Debt

12.6 Allianz has performed poorly compared to benchmark over the past 1 year, however, since portfolio inception the performance is very similar to benchmark of 5.5%.



	Jul - Sep 2018	One Year	Three Years	Five Years	Since Inception (Dec 14)
Return	1.86%	-1.53%	6.19%		5.45%
Benchmark	1.35%	5.50%	5.50%		5.50%
(Under)/Out	0.51%	(7.03%)	0.69%	0.00%	(0.05%)

CQS Multi Sector Credit

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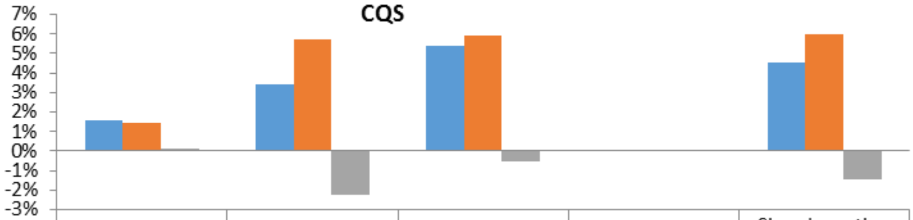
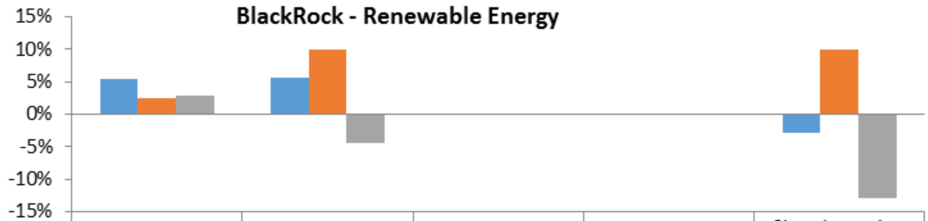
12.7 The manager outperformed their benchmark in the quarter slightly, but lags behind benchmark over other timescales.



	Jul - Sep 2018	One Year	Three Years	Five Years	Since Inception (Aug 14)
Return	1.57%	3.44%	5.38%		4.51%
Benchmark	1.44%	5.70%	5.89%		5.97%
(Under)/Out	0.13%	(2.26%)	(0.51%)	0.00%	(1.46%)

BlackRock – Renewable Energy

13.7. The manager had outperformed relative to benchmark in the quarter achieving a return of 5.36% against the benchmark of 2.41%, however the portfolio is in the very early stages, and is not fully invested, so it is too early to draw any meaningful conclusions from this at this stage.



	Jul - Sep 2018	One Year	Three Years	Five Years	Since Inception (May 17)
Return	5.36%	5.60%			-2.93%
Benchmark	2.41%	10.00%			9.98%
(Under)/Out	2.95%	(4.40%)	0.00%	0.00%	(12.91%)

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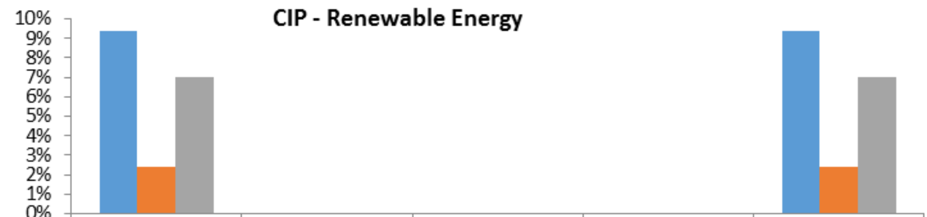
London CIV – Ruffer Multi Asset Absolute Return Strategy

13.8. The investment was originally made in December 2017. The manager delivered a performance of -0.33% over the quarter, underperforming benchmark. As the investment is still relatively new to the portfolio. The performance data to date is not sufficient to draw conclusions on the manager's performance.

	Jul - Sep 2018	One Year	Three Years	Five Years	Since Inception (Dec 17)
Return	-0.33%				0.35%
Benchmark	1.94%				6.49%
(Under)/Out	(2.27%)	0.00%	0.00%	0.00%	(6.14%)

CIP – Renewable Energy

13.9. The manager had outperformed relative to benchmark in the quarter achieving a return of 9.39% against the benchmark of 2.41%, however the portfolio is in the very early stages, and is not fully invested, so it is too early to draw any meaningful conclusions from this at this stage.



	Jul - Sep 2018	One Year	Three Years	Five Years	Since Inception (Jun 18)
Return	9.39%				9.39%
Benchmark	2.41%				2.41%
(Under)/Out	6.98%	0.00%	0.00%	0.00%	6.98%

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Appendix 1 – Strategic Asset Allocation (as at 30.09.18)

Manager	% of Total Portfolio	Mandate	Benchmark	Performance Target
Legal & General Investment Management	60.0%	Global Equities & Bonds	See overleaf	Index (passively managed)
London CIV - CQS Subfund	7.0%	Multi Sector Credit	3 month libor + 5.5% 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
London CIV - Ruffer Subfund	7.5%	Multi Asset Absolute Return	8.00% p.a.	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%**			

Asset Class	Benchmark	Legal & General Investment Management
Multi Factor Global	RAFI Multi Factor (Unhedged)	**9.6%**
Multi Factor Global	RAFI Multi Factor (Hedged)	**9.6%**
Emerging Markets	FTSE Emerging Markets Index (Unhedged)	**6.6%**
Global Low Carbon Equities	MSCI World Low Carbon Target Index (Unhedged)	**9.6%**
Global Low Carbon Equities	MSCI World Low Carbon Target Index (Hedged)	**9.6%**
Index Linked Gilts	FTA Index Linked Over 5 Years Index	**15.0%**
Total L&G		**60.0%**

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JOHN RAISIN FINANCIAL SERVICES LIMITED

Independent Advisors Report

Market Background July to September 2018

During the period July to September 2018 Equity markets, as measured by the MSCI World index, made further advances. Regionally however there were significant divergences. US Equities experienced a very positive quarter while European and Japanese Equites also advanced positively. In contrast Emerging Markets had a generally difficult Quarter and UK Equities were negative.

The US S&P index advanced from 2,718 at the end of June to 2,914 at the end of September an increase of 7% over the Quarter. On 20 September the S&P 500 recorded an all time closing high of 2,931 while on 22 August US stocks set a new record for the longest bull run – a period without a 20% fall – when it reached 3,453 days exceeding the 1990-2000 bull market.

US unemployment was which had been 4% at June fell to 3.9% in July and then to 3.7% in September its lowest level since 1969. US Core Inflation (which excludes volatile energy and food prices fell slightly over the Quarter to 2.2% in September. To quote the University of Michigan Surveys of Consumers for September 2018 *"Consumer sentiment remained at very favorable levels in September…Consumers anticipated continued growth in the economy and expected the unemployment rate to continue to slowly decline….."*

At its September 2018 meeting the US Federal Reserve raised interest rates (the target range for the federal funds rate) by 0.25% from 1.75-2.0% to 2.0-2.25% the eighth increase in the current cycle. As the Federal Reserve continues to remove the extensive monetary stimulus it put in place following the 2008 Financial Crisis the Press Release issued at the end of the September meeting excluded the phrase included in earlier releases that *"the stance of monetary policy remains accommodative."* Interest Rate forecasts issued after the meeting indicated a further rate rise in 2018, three in 2019 and another in 2020.

Eurozone Equities experienced another positive Quarter despite continuing tensions as a result of President Trump's approach to world trade and threats by the Italian Government to approve a budget strategy breaching European Union spending rules. The Eurozone seasonally adjusted unemployment rate was 8.1% in both August and September 2018 compared to 8.3% in June 2018 which was its lowest level since November 2008. Inflation as measured by the Harmonised Indices of Consumer Prices (HICP) which had been 1.3% in March 2018 and had reached 2% by June 2018 was 2.1% in September which was a continuing positive indicator for the European Central Bank (ECB) which has a policy objective of inflation below, but close to, 2% over the medium term. However, while the HICP has remained marginally over the ECB inflation target core inflation which excludes the more volatile elements of energy, food, alcohol and tobacco and is seen as a better indicator of longer term inflationary pressure remains around 1%.

ECB monetary policy remained unchanged during the Quarter. At both its meetings held in July and September 2018 the bank reaffirmed the decisions taken at its June 2018 meeting to end its net asset purchase programme (APP) at the end of December 2018 but to maintain the policy of reinvesting the principal payments from maturing securities purchased under the APP for an extended period of time after the end of the net asset purchases. The July and September meeting Press Releases also repeated the statement in the June Press release that *"the Governing Council expects the key ECB interest rates to remain at their present levels at least through the summer of 2019."*

Therefore, although the ECB has clearly indicated a "tightening" of monetary policy through ending the APP it remains "loose" in historic terms as indicated by the continuing policy decisions on the reinvestment of principal payments from maturing securities and the maintenance of extremely low interest rates.

The FTSE All Share Index fell slightly in the Quarter. Concerns over global growth and trade influenced by the increasing trade tensions and tariffs between the US and China adversely affected those UK listed stocks significantly exposed to Emerging Markets while continuing and serious Brexit concerns will not have aided the UK focused mid cap (FTSE 250) stocks.

UK unemployment which had declined to 4% in June 2018 remained at 4% in July and August 2018 its lowest rate since 1975. Inflation as measured by the Consumer Price Index (CPI) which had remained above the Bank of England's target of 2% since February 2017 was 2.4% at September 2018. At its meeting ending on 1 August 2018 the Monetary Policy Committee (MPC) voted unanimously to raise Bank Rate to 0.75%. Given in the words of Governor Mark Carney *"Employment is at a record high…..real wages are picking up…."* together with the view of the MPC that a tight labour market would continue to push up wage growth, the focus of the monetary policy now appears to be turning to restraining inflation rather than supporting employment.

At the meeting of the MPC which ended on 13 September 2018 the Committee unanimously voted to keep rates at 0.75% but indicated it would implement a gentle ongoing tightening of monetary policy as long as there was a *"smooth adjustment"* to the United Kingdom leaving the European Union. Based on statements issued by the Bank it would appear unlikely that there will be any further rate rises in 2018 but one or two in 2019 unless events post Brexit require the MPC to significantly reconsider its forward approach to monetary policy.

The Nikkei 225 equity index rose by approximately 8% during the Quarter to reach its highest level since the early 1990's. The Quarter saw Japanese companies reporting clearly positive corporate earnings. Notwithstanding these positives the Bank of Japan's "Tankan" survey of large manufacturers sentiment retreated in both the Quarters ending June and September.

In contrast to the other major Central Banks the Bank of Japan at its, July and September, Monetary Policy meetings continued to maintain its commitment to what might be described as financial crisis-era stimulus policies. The Press Release issued after the meeting ending on 31 July 2018 stated *"The Bank intends to maintain the current extremely low levels of short and long-term interest rates for an extended period of time…."* At both its July and September meetings the bank re-committed to its asset purchase programme at an official pace of around 80 trillion Yen per year. This was in the context of Japanese inflation continuing to remain well below the Bank of Japan's target of 2% despite huge monetary policy stimulus since 2013. The Japan Statistics Bureau reported that the Consumer Price Index (all items) was up 1.2% as at September 2018.

China and Asian Emerging markets had another generally negative Quarter with the continuing US-China trade tensions and strong US Dollar again having an adverse effect. The US imposed further tariffs against China leading to retaliatory measures by the Chinese government. In September President Trump announced 10% duties on about $200bn of imports from China. Two days later China responded by imposing tariffs of 5% to 10% on $60bn of American goods.

Benchmark Government Bonds, while remaining at low levels in historical terms rose during the Quarter. The 10 Year US Treasury yield rose from 2.86% to 3.06% while the UK 10 Year Gilt rose from 1.28% to 1.57% and the 10 Year German Bund increased from 0.30% to 0.46%.

Notwithstanding the further advances in the US Equity market during the Quarter and the longest US Bull run in history there are a number of factors now weighing on both US Equities and the US economy. Tighter Monetary Policy in the form of increasing interest rates will increase pressure on financial markets and companies while the US Equity market has performed noticeably better than world markets to the end of September and therefore European and Asian markets look more attractive in valuation terms. However, there are questions regarding economic growth in both the Eurozone and Emerging Markets and the potential development and effects of US trade and tariff policy.

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Agenda Item 13

Report for: Pensions Committee and Board 20 November 2018

Item number:

Title: Local Authority Pension Fund Forum (LAPFF) Voting Update

Report authorised by: Jon Warlow, Director of Finance (S151 Officer)

Lead Officer: Thomas Skeen, Head of Pensions
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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, as well as how the fund's equity manager, Legal and General Investment Management (LGIM), is detailed below.

Company	Description	LAPFF Recommendation For/Oppose	LGIM Vote For/Oppose	AGM Vote outcome
Sports Direct	Various motions, including annual report and election of board members	Oppose	Oppose (re various board members)	For (90-98%)
Ryanair	Financial Statements and Reports and Re-election of the Chairman	Oppose	Oppose (re-election of chairman)	For (99% Statements, 67% chairman)

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.

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

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