Haringey Council

DRAFT Annual Pension Fund Report and Accounts

For the year ended 31 March 2010

Scheme Registration 00329316RX

Contents

Introduction

Haringey Council Pensions Committee presents its Annual Pension Fund Report and Accounts of the Haringey Local Government Pension Fund for the year ended 31 March 2010.

The Local Government Pension Scheme is a defined benefit Pension Scheme and was established on 1st April 1965. The Scheme is a Registered Pension Scheme under Chapter 2 of Part IV of the Finance Act 2004, and is contracted-out of the State Second Pension (S2P). It is a national scheme run locally by councils nominated as "Administering Authorities".

Haringey Council is the Administering Authority in the Haringey area and runs the Scheme to provide retirement benefits to all eligible employees of Haringey Council and other eligible organisations in the Haringey area. More detail about these organisations can be found in the Membership section on page 17. The Management report on page 4 provides information about how the scheme is run. The Scheme registration number is 00329316RX.

Scheme Rules

There have been no changes in the Scheme rules during the year. Otherwise than in accordance with legislative requirements, there were no increases to benefits in payment in the year. The Administration report on page 13 provides details about the administration of the Scheme.

Membership

There were 6,787 active (2009: 6,820), 6,586 (2009: 6,122) deferred members, and 5,892 (2009: 5,771) pensioners and dependents receiving benefits. More details can be found in the Membership section on page 17

Financial position

The financial statements on pages 26 to 43 show that the value of the Scheme's assets increased by £176.4m to £663.9m as at 31 March 2010. The increase in the value of the fund was mainly due to an increase in the market value of investments of £151.5m. A net surplus of contributions over benefits contributed £16.4m and investment income net of investment management expenses and taxation added a further £8.4m.

Investments

During the year the rate of return on the Fund's investments was 34.9%. This was 3.1% below the Fund's benchmark for the year. The actions being taken as a result of this and more details of the performance can be found in the Investment Report on page 8.

Funding position

The last formal valuation of the funding position took place as at 31st March 2007, when the funding level was 78% – details can be found in the Funding report. The next formal valuation will be as at 31st March 2010.

Management Report

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Pensions Committee

Haringey Council in its role as Administering Authority has delegated responsibility for administering the Scheme to the Pensions Committee. The terms of reference for the Committee were adopted by Council in May 2007 and are included in the Council's Constitution.

The Committee generally consists of seven elected Councillors, with full voting rights and three representatives. Councillors are selected by their respective political Groups, and their appointment is confirmed at the next meeting of the full Council. They are not appointed for a fixed term but the membership is reviewed regularly by the political groups. In February 2010, due to a change in the political makeup of the Council, there were eight elected Councillors on the Committee. The three representatives are appointed by their peer groups and generally serve for a period of one year. Those serving on the Pensions Committee during 2009/10 were:

Cllr Catherine Harris	Chair appointed 18 May 2009
Cllr Gmmh Rahman Khan	Chair to 18 May 2009
Cllr Sheik G L Thompson	Vice chair to 22 February 2010
Cllr Charles Adje	to 18 May 2009
Cllr Dhiren Basu	to 18 May 2009
Cllr David Beacham	throughout 2009/10
Cllr Ed Butcher	to 18 May 2009
Cllr Matt Cooke	appointed 20 July 2009
Cllr Bob Harris	appointed 18 May 2009 to 20 July 2009
Cllr Emma Jones	appointed 22 February 2010
Cllr Toni Mallett	appointed 18 May 2009
Cllr Monica Whyte	appointed 22 February 2010
Cllr Richard Wilson	throughout 2009/10
Cllr David Winskill	appointed 18 May 2009

David Fishman	Pensioner representative to 23 July 2009
David Corran	Pensioner representative - appointed 23 July 2009
Roger Melling	Employee representative
Earl Ramharacksingh	Admitted and Scheduled Bodies representative

Committee meetings are generally held 6 times a year.

Governance Compliance Statement

The Pensions Committee has published a Governance Compliance Statement in accordance with the LGPS Regulations and this is set out in Appendix 1. The objective of the statement is to make the administration and stewardship of the Pension Fund transparent and accountable to all stakeholders.

Service Delivery

Haringey Council Pension Service is composed of two distinct arms: Fund Management and Pension Administration. These two functions are run from two business units in Haringey Council; Fund Management is part of Corporate Finance (Corporate Resources Directorate), while Pensions Administration is part of Personnel (Assistant Chief Executive People, Organisation and Development's Service).

Corporate Finance is responsible for Fund Management work. Key tasks include:

- Support to the Pensions Committee to set investment strategy and monitor investment performance;
- Managing the contracts with the Pension Fund's advisors;
- Producing the annual Pension Fund budget and Annual report and accounts;
- Maintaining the key governance statements the Pension Fund is required to publish (the current versions can be found in the Appendices).

The Administration report on page 13 sets out the key tasks of the Pensions Administration service.

The Pension Fund's internal auditors are Deloitte & Touche. Regular audits are carried out on both Pension Fund investments and Pensions administration.

<u>Key Officer contacts</u>

Director of Corporate Resources	Julie Parker
Head of Legal Services and Monitoring Officer	John Suddaby
Head of Corporate Finance	Kevin Bartle
Head of Finance: Treasury & Pensions	Nicola Webb
Pensions Manager	Ian Benson

Pension Fund Advisors

The Pension Fund retains a number of advisors to provide specialist advice and services. The contracts with these advisors are reviewed on a regular basis. A list of all advisors is provided below:

Secretary to the Committee	Head of Local Democracy and Member Services
Scheme Administrator	Director of Corporate Resources
Actuary	Hymans Robertson
Investment Managers	Alliance Bernstein (until June 2009) Capital International Fidelity ING Legal & General Pantheon
Custodian	Northern Trust
Investment Consultants	Hewitt Associates Limited
Independent Advisor to the Pensions Committee	Howard Jones
Bankers	Royal Bank of Scotland
Legal advisors	Head of Legal Services
Additional Voluntary Contribution providers	Clerical and Medical Equitable Life Assurance Society Prudential Assurance
Internal Auditors	Deloitte & Touche
External Auditors	Grant Thornton UK LLP

Investment Report

Investment Strategy

Fund Managers

Investment Performance

Investment Strategy

The Pension Fund's investment strategy is formulated within the parameters of the Local Government Pension Scheme (Management and Investment of Funds) Regulations 2009.

Pensions Committee is responsible for setting investment strategy with the aid of independent advice from the Pension Fund's advisors. Day to day investment decisions are delegated to fund managers.

The strategy is set out in detail in the Statement of Investment Principles, which is shown in Appendix 2 of this report. All investments are externally managed, with the exception of a small allocation of cash pending investment, which is held in-house. The majority of the Fund is currently actively managed, with approximately 21% passively managed. Passive management is investing in line with a benchmark; active management involves taking positions away from the benchmark to achieve a higher return.

The current benchmark, showing target asset allocation, which was set in 2007, is shown below alongside the actual allocation at 31st March 2010.

Asset class	**Benchmark %**	**Actual % at 31 March 10**
UK Equities	30.5	27.3
Overseas Equities	34.5	35.8
UK Gilts	7.0	4.4
UK Index linked gilts	6.0	6.0
Corporate Bonds	7.0	11.9
Property	10.0	6.9
Private Equity	5.0	2.0
Cash	0.0	5.7

The allocation to cash is being held pending appropriate opportunities in investment in property and private equity. There have been few opportunities in the last 12 months due to the global downturn.

Custodial arrangements
The Council employs Northern Trust to act as independent custodian of the Pension Fund's investments. As professional custodians, they employ a rigorous system of controls to ensure safekeeping of assets entrusted to them. The custodian is responsible for the settlement of all day-to-day investment transactions, collection of investment income, and the safe custody of the Pension Fund's investments.

Fund Managers

The Pension Fund has appointed external fund managers to undertake day to day management of the Fund's investments. Each fund manager is appointed with a mandate covering a defined asset class or classes with a target set that relates to a benchmark covering the asset class or classes they are managing. The current fund managers, the asset classes they cover and their percentage of the Fund are shown in the table below (the remaining 5.3% is invested in-house in cash):

Investment Manager	**Mandate**	**% at 31 March 10**
Capital International	Global Equities & Bonds	31.7
Fidelity Pensions Management	Global Equities & Bonds	33.5
Legal & General	Global Equities & Bonds (Passive)	20.6
ING Real Estate	Property	6.9
Pantheon	Private Equity	2.0

The benchmarks and targets set for the fund managers are detailed below:

Investment Manager	**Benchmark**	**Target over 3 year rolling periods**
Capital International	Customised Global Equities	+2% (gross) of fees p.a.
	Customised Bonds	+1% (gross) of fees p.a.
Fidelity Pensions Management	Customised Global Equities	+1.7%(gross) of fees p.a.
	Customised Bonds	+0.6% (gross) of fees p.a.
Legal & General	FT World for global equity mandate	Benchmark (passively managed)
	FTSE All Share for UK equity mandate	Benchmark (passively managed)
ING Real Estate	HSBC/APUT Balance Funds Index	+1 % (gross) of fees p.a.
Pantheon	MSCI World Index + 5%	+0.75% (gross) of fees p.a.

The only change to fund managers during 2009/10 occurred in June 2009 when funds were removed from Alliance Bernstein and placed with Legal & General on a passive basis following concerns about the underperformance demonstrated by Alliance Bernstein.

Investment Performance

The investment performance of the Pension Fund and the fund managers is regularly reviewed by the Pensions Committee. Active equity and bond fund managers attend Pensions Committee twice a year and the property and private equity fund managers once a year. The Passive fund manager attends as required. Performance reports to compare actual performance against the targets set for the fund managers are provided to and discussed by Pensions Committee quarterly.

The overall Pension Fund performance is summarised in the table below:

	Annual performance to 31 March 2010 %	**3 year annualised performance to 31 March 2010 %**
Overall Pension Fund performance	34.88	0.22
Benchmark	37.95	2.75
Performance versus benchmark	**(3.07)**	**(2.53)**
Target	39.59	4.39
Performance versus target	**(4.71)**	**(4.17)**

This table shows that during 2009/10 the absolute return on investments was positive reversing the trend in the last 2 years. This increase was due to global markets positive expectations of recovery in economies around the world following the recessions seen by many in 2008. This has resulted in an annual return of 0.22% over the last 3 years.

The performance achieved by the fund managers continues to be below the target set for the fund managers to achieve. This has been of concern to the Pensions Committee and they have met with the fund managers regularly throughout the year to challenge them and to understand the reasons for the underperformance.

The Pensions Committee took action early in 2009/10 to remove Alliance Bernstein, the lowest performing manager, and moved the assets in June 2009 to a passive manager, Legal & General. During the coming year the Committee will be undertaking a complete review of the investment strategy of the Pension Fund.

Individual fund manager performance against the targets set during 2009/10 is shown in the table below. Although the private equity returns are reflected in the overall Pension Fund return, separate performance figures for Pantheon are not shown because, due to the nature of private equity, they are not meaningful in the early years of investment.

Fund Manager	**Mandate**	**Annual actual return %**	**Annual target return %**	**Annual (Under)/Over Performance %**
Capital	Equities	46.30	50.47	(4.17)
	Bonds	12.38	12.38	0
Fidelity	Equities	46.96	49.77	(2.81)
	Bonds	20.56	14.70	5.86
Legal & General	Global Equities	38.75*	38.89*	(0.14)*
	UK Equities	35.19*	35.05*	0.14*
ING Real Estate	Property	10.10	11.64	(1.54)
Pantheon	Private Equity	n/a	n/a	n/a
Total Fund Performance		**34.88**	**39.59**	(4.71)

* Legal & General only started managing assets for the Pension Fund in June 2009, so a full year of investment return is not available, therefore the figures shown represent the return since they started.

The table below shows the top ten equity shares held by the Fund on 31st March 2010.

	Company	**Market value £k**	**% of total equities**	**% of Net Assets**
1	B.P	2,763	2.26	0.42
2	Lloyds Banking Group	2,694	2.21	0.41
3	Shell	2,566	2.11	0.39
4	Vodafone	2,476	2.03	0.37
5	SMC Corp	1,797	1.48	0.27
6	Barclays	1,761	1.44	0.27
7	Roche	1,583	1.30	0.24
8	HSBC	1,544	1.26	0.23
9	E.on	1,514	1.24	0.23
10	NTT Docomo	1,405	1.15	0.21

Administration Report

Local Government Pension Scheme

Administration service delivery

Membership

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Local Government Pension Scheme

The Haringey Pension Fund is part of the Local Government Pension Scheme (LGPS), and as such is dependent upon direction and legislation enacted by the Communities and Local Government Department (CLG) of Central Government.

The LGPS is a statutory scheme with defined benefits based on membership and final pay and guaranteed by law. The benefits are set out in the Local Government Pension Scheme (Benefits, Membership and Contributions) Regulations 2007. The Haringey Pensions Committee cannot make changes to the scheme, and may only exercise such discretions as are prescribed by the LGPS regulations.

Membership is open to the non-teaching employees of the Administering Authority, all scheduled bodies and certain admitted bodies and Councillor Members until the day before age 75.

Administration service delivery

As discussed earlier, the Haringey Council Pension Service is composed of two distinct arms: Fund Management and Pension Administration. Pensions Administration is part of Personnel (Assistant Chief Executive People, Organisation and Development's Service).

The Pension Administration service is included in the Personnel business plan which makes links to the Council's aims and objectives. The Pensions team calculates and pays pension benefits, maintains a database of members and is responsible for the interpretation and implementation of the Local Government Pension Scheme regulations and related legislation.

The service operates in accordance with their professional standards and within the regulations laid down by the Local Government Pension Scheme.

Internal Dispute Resolution Procedure
Members of pension schemes have statutory rights to ensure that complaints, queries and problems concerning pension rights are properly resolved.

To facilitate this process, an Internal Disputes Resolution Procedure has been established. In the first instance, members are expected to take up matters with the Pensions Manager, Ian Benson at the following address: Level 4, Alexandra House, 10 Station Road, Wood Green, London, N22 7LR. If the matter remains unresolved, a stage 1 appeal may be made to Steve Davies, Head of Human Resources and thereafter, if necessary a further appeal may be made to David Burn, Senior Lawyer, Legal Services.

If the problem remains unresolved, members then have the facility to refer the matter to The Pensions Advisory Service (TPAS) which has a network of pension advisers who will try to resolve problems before they are referred on to the Pensions Ombudsman. However, the TPAS service may be invoked at any stage of the appeal process. Both TPAS and the Pensions Ombudsman can be contacted at:
11 Belgrave Road
London
SW1V 1RB

The statutory body responsible for the regulation of pension schemes in the United Kingdom is The Pensions Regulator and can be contacted at the following address:
The Pensions Regulator
Napier House
Trafalgar Place
Brighton
BN1 4DW

A central tracing agency exists to help individuals keep track of deferred pension entitlements from previous employers' pension schemes. An application for a search can be submitted to:
Pension Tracing Service
The Pension Service
Whitley Road
Newcastle upon Tyne
NE98 1BA

The Scheme has registered its details.

Further information
For information about the Scheme generally, further information about resolving disputes, or an individual's entitlement to benefit, please refer to the member's booklet issued to all members of the Scheme or contact the Pensions Team, 4th Floor, Alexandra House, 10 Station Road, Wood Green, N22 7TR / telephone 020 8489 5919 or refer to the Council's website: www.haringey.gov.uk/pensionfund

Membership

Haringey Council is the Administering Authority for the Haringey Pension Fund and it's eligible staff are members of the scheme. In addition the Pension Fund has a number of other organisations participating in the Fund.

A scheduled body is a public body which is required by law to participate in the LGPS. Each scheduled employer is listed in the LGPS regulations.

A transferee admission body is an employer permitted to participate in the LGPS. This might be a non profit making body carrying out work that is similar in nature to a public service like local government or it might be a private company to which a service or assets have been outsourced.

A community admission body is an organisation providing a public service in the UK otherwise than for gain. The organisation is expected to have sufficient links with the Council such that it is regarded as having a community interest.

The list below shows the organisations currently actively participating in the Pension Fund.

Organisation name	**Type of employer**
Haringey Council	Administering Authority
Homes for Haringey	Scheduled Body
College of North East London (CONEL)	Scheduled Body
Greig City Academy	Scheduled Body
Fortismere School	Scheduled Body
John Loughborough School	Scheduled Body
Alexandra Palace Trading Co Ltd	Community Admission Body
Haringey Age Concern	Community Admission Body
Haringey Citizens Advice Bureau	Community Admission Body
Enterprise Futures London Ltd	Transferee Admission Body
Europa	Transferee Admission Body
Ontime Parking Solutions	Transferee Admission Body
RM Education Ltd	Transferee Admission Body
TLC Ltd	Transferee Admission Body
Urban Futures London Ltd	Transferee Admission Body

The membership of the Pension Fund at 31st March 2010 compared with the previous financial year is shown in the table below:

	31st March 2010	**31st March 2009**
Active members	6,787	6,820
Deferred members	6,586	6,122
Pensioners & Dependants	5,892	5,771
TOTAL	19,265	18,713

The table on the previous page shows an increase in all categories of membership and an overall 2.9% increase. The number of active members as a proportion of total membership has reduced slightly to 35.2%.

A schedule of the membership from each of the employers is shown below. There are employers in addition to the table above – this is because there are a number of employers who no longer have active members and do not actively participate in the Pension Fund, but the Fund is responsible for paying their pensioners.

Employer	Active Members	Deferred Beneficiaries	Pensioners & Dependants
Scheduled Bodies			
Haringey Council Employees	5,729	6,158	5,592
Haringey Council Councillors	22	6	0
Homes for Haringey	575	83	61
College of North East London	216	166	81
Greig City Academy	36	12	2
Fortismere School	33	6	2
John Loughborough School	9	1	0
Community Admission Bodies			
Alexandra Palace Trading Co Ltd	6	9	7
Haringey Age Concern	3	3	18
Haringey Citizens Advice Bureau	11	0	1
Transferee Admission Bodies			
Enterprise Futures London Ltd	111	37	37
Europa	1	0	0
Ontime Parking Solutions	4	0	0
RM Education Ltd	4	0	0
TLC Ltd	22	6	2
Urban Futures London Ltd	5	6	0
Bodies no longer actively participating			
CSS (Haringey) Ltd	0	38	48
Haringey Magistrates	0	23	20
Harrisons Catering	0	2	1
Initial Catering Ltd	0	1	1
Jarvis Workspace Ltd	0	28	16
Mitte Ltd	0	0	2
One Complete Solution Ltd	0	1	1
Totals	**6,787**	**6,586**	**5,892**

Communications Policy

Effective communication between the Administering Authority, the scheme members, and the employers within the Fund is essential to the proper management of the Local Government Pension Scheme on a transparent and accountable basis.

The current policy, which has been prepared in accordance with the LGPS regulatory requirement is attached in Appendix 3 and sets out the policy framework within which the Pension Fund communicates with:

- Members of the scheme;
- Representatives of scheme members;
- Employing bodies; and,
- Prospective scheme members.

It identifies the format, frequency and method of distributing information and publicity. It also outlines the processes for promoting the scheme to prospective members and employing bodies.

The Communications Policy includes the provision of a pensions page on the Haringey website www.haringey.gov.uk/pensionfund This facility enables staff to access information about the Local Government Pension Scheme in their own home with families and partners who may also have an interest in the benefits of the scheme. In addition, for new staff, a DVD on the New Look Local government Scheme is used as part of the staff induction process. The DVD is also available on-line on Haringey Council's intranet and the Pensions Web page.

Funding Report

Funding position

Funding Strategy Statement

Statement of the Fund's Actuary

Funding position

The Pension Fund is independently valued every three years by a firm of actuaries to assess the adequacy of the Scheme's assets to meet its long term obligations.

The most recent triennial actuarial valuation of the Scheme was carried out as at 31 March 2007 in a report dated 20 March 2008.

The 2007 valuation was carried out in accordance with the Fund's Funding Strategy Statement and Guidelines GN9: Retirement Benefits Schemes – Actuarial reports published by the Institute of Actuaries. The valuation method used was the projected unit method. The resulting contribution rates reflected the cost of providing year by year accrual of benefits for the active members and the level of funding for each employer's past service liabilities.

The market value of the Fund at the time of the last triennial valuation as at 31 March 2007 was £620m. Against this sum liabilities were identified of £798m equivalent to a funding deficit of £178m. The movement in the actuarial deficit between 2004 and the last valuation in 2007 is analysed below:

Reason for change

	£m
Interest on deficit	(37)
Investment returns higher than expected	99
Change in demographic assumptions	(24)
Experience items	37
Change in financial assumptions	(71)
Total	4
(Deficit) brought forward	(182)
(Deficit) carried forward	(178)

The level of funding on an ongoing funding basis increased from 69 per cent to 77.7 per cent between the triennial actuarial valuations as at 31st March 2004 and as at 31st March 2007. The main reasons for the increase in the funding level were an improvement in investment earnings and value, and planned stepped increases in employer's contributions since the 2004 valuation.

The funding objective of the Scheme is to be fully funded. As this objective had not been achieved at the last valuation date it was agreed with the actuary that the past service deficit would be recovered over a period not exceeding 20 years. This maximum recovery period is considered prudent for a statutory body with tax raising powers. It was agreed that Best Value

Admission Bodies' deficits should however be recovered over the remaining period of the employer's contract and the deficits of other bodies be recovered over the expected future working lifetime of the scheme members.

Following the valuation as at 31 March 2007, the actuary agreed that the Council's contribution rate could remain at the 2007/08 rate of 22.9 per cent of pensionable salaries for the following three financial years. The 2009/10 contribution rate is split between 8.8 per cent for the past service adjustment to fund the deficit over 20 years and the future service rate of 14.1 per cent.

The actuary undertook an interim actuarial valuation as at 31st March 2009. This found that the funding level had reduced to 53 per cent. This deterioration in the funding level was largely because investment performance was lower than expectations due to the global economic slowdown. The actuary did not propose to revise the minimum level of employer contribution rates as a result of this funding update even though the position had worsened significantly and in fact there is no power in the LGPS regulations to increase employer's contributions between triennial valuations due to market conditions (other than for admitted bodies whose admission agreement is to terminate imminently).

The need for any changes to the contribution rate will be fully assessed as part of the triennial valuation as at 31 March 2010. Results will be available by early 2011.

The main assumptions used in the 2007 valuation were:

Investments	**Annual nominal rate of return %**
Equities	6.5
Bonds	4.9
	Annual change %
Pay increases	4.7
Retail Price Increases (pension increases)	3.2

Funding Strategy Statement

The Local Government Pension Scheme Regulations require Local Government Pension Funds to prepare, publish and maintain a Funding Strategy Statement in accordance with guidance issued by CIPFA.

The purposes of a Funding Strategy Statement according to government are:

- to establish a clear and transparent fund-specific strategy which will identify how employers' pension liabilities are best met going forward;
- to support the regulatory framework to maintain as nearly constant employer contribution rates as possible; and,
- to take a prudent longer-term view of funding those liabilities.

The Funding Strategy Statement is reviewed in detail every three years in alongside the triennial valuation. It is reviewed in collaboration with the Pension Fund's actuary, and after consultation with the Pension Fund's employers and investment advisers.

The objectives of the Funding policy set out in the Statement are:

- to ensure the long-term solvency of the Fund (and of the share of the Fund notionally allocated to individual employers);
- to ensure that sufficient funds are available to meet all benefits as they fall due for payment;
- not to restrain unnecessarily the investment strategy of the Fund so that the Administering Authority can seek to maximise investment returns (and hence minimise the cost of the benefits) for an appropriate level of risk;
- to minimise the degree of short-term change in the level of each employer's contributions where the Administering Authority considers it reasonable to do so;
- to use reasonable measures to reduce the risk to other employers and ultimately to the Council Tax payer from an employer defaulting on its pension obligations;
- to address the different characteristics of the disparate employers or groups of employers to the extent that this is practical and cost-effective; and
- to maintain the affordability of the Fund to employers as far as is reasonable over the longer term.

The policy is shown in full in Appendix 4.

Statement by the Pension Fund Actuary

As required by Regulation 77 of the Local Government Pension Scheme Regulations 1997, an actuarial valuation of the assets and liabilities of the London Borough of Haringey Pension Fund ("the Fund") was carried out as at 31 March 2007.

Security of prospective rights
In my opinion, the resources of the Fund are likely in the normal course of events to meet the liabilities of the Fund as required by the Regulations. In giving this opinion, I have assumed that the following amounts will be paid to the Fund:

- Contributions by the members in accordance with the Local Government Pension Scheme Regulations 1997, then in accordance with the Local Government Pension Scheme (Benefits, Membership and Contributions) Regulations 2007; and
- Contributions by employers in accordance with the Rates and Adjustments Certificate dated March 2005 for the year ending 31 March 2008. Thereafter, for the three years commencing 1 April 2008, as specified in our Rates and Adjustments certificate dated 20 March 2008.

The Local Government Pension Scheme is a statutory scheme i.e. members' benefits are as set out in the Local Government Pension Scheme Regulations 1997 and Local Government Pension Scheme (Benefits, Membership and Contributions) Regulations 2007.

This statement should be read in that context.

Summary of methods and assumptions used
Full details of the method and assumptions are described in our valuation report dated 20 March 2008. The valuation was carried out in accordance with the Funding Strategy Statement.

Copies of these documents are available on request from the London Borough of Haringey, administering authority to the Fund.

My opinion on the security of the prospective rights is based on:

- the projected unit valuation method where there is an expectation that new employees will be allowed to join an employer; or
- the attained age valuation method for employers who were closed to new entrants.

These methods assess the cost of benefits accruing to existing members during:

- the year following the valuation; or
- the remaining working lifetime, respectively

allowing for future salary increases and for members to leave or retire in line with our assumptions. The resulting contribution rate is adjusted to allow for any difference in the value of accrued liabilities and the market value of assets.

Since I have taken assets into account at their market value, it is appropriate for me to take my lead from the market when setting the financial assumptions used to value the ongoing liabilities. This ensures the compatibility of the asset and liability valuation bases.

The key financial assumptions adopted for this valuation are as follows:

Financial Assumptions	**March 2007**	
	% p.a. Nominal	**% p.a. Real**
Discount Rate	6.1%	2.8%
Pay Increases	4.7%	1.5%
Price Inflation / Pension Increases	3.2%	-

The 2007 valuation revealed that the Fund's assets had a market value at 31 March 2007 of £620 million. These assets were sufficient to meet approximately 78% of the liabilities accrued up to that date.

Individual employers' contributions have been set in accordance with the Fund's Funding Strategy Statement. The deficits for each individual employer are being spread over a period up to a maximum of 20 years.

<u>Experience since April 2007</u>
Market conditions since the previous formal valuation have been unfavourable. In particular, assets have significantly underperformed relative to the assumptions set at the valuation and the outlook for price inflation has worsened causing the funding level to deteriorate.

This is likely to cause upward pressure on the level of employer contributions following the next formal valuation of the Fund as at 31 March 2010. The employer contribution rates and Funding Strategy Statement will be reviewed as part of the valuation which will be reported in March 2011.

Bryan T Chalmers FFA

17 May 2010

For and on behalf of Hymans Robertson LLP

Financial Report

Chief Financial Officer's Responsibilities

Basis of Preparation & Accounting policies

Fund Account

Net Assets Statement

Note to the Financial Statements

Auditor's Report

The Chief Financial Officer's Responsibilities

The financial statements are the responsibility of the Chief Financial Officer. Pension scheme regulations require that audited financial statements for each Scheme year are made available to Scheme members, beneficiaries and certain other parties, which:

- show a true and fair view of the financial transactions of the Scheme during the Scheme year and of the amount and disposition at the end of that year of the assets and liabilities, other than liabilities to pay pensions and benefits after the end of the Scheme year, in accordance with applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice), and

- contain the information specified in the Local Government Pension Scheme Regulations 2007 (as amended), including a statement whether the financial statements have been prepared in accordance with the Statement of Recommended Practice 'Financial Reports of Pension Schemes'.

The Chief Financial Officer has supervised the preparation of the financial statements and has, agreed suitable accounting policies, to be applied consistently, making any estimates and judgments on a prudent and reasonable basis.

The Chief Financial Officer is also responsible for making available certain other information about the Scheme in the form of an Annual Report.

The Chief Financial Officer is responsible for ensuring that records are kept in respect of contributions received in respect of any active member of the Scheme and for monitoring whether contributions are made to the Scheme by the Administering Authority and other participating bodies by the due dates.

The Chief Financial Officer is responsible for the maintenance and integrity of the financial information of the Scheme included on the Authority's website. Legislation in the United Kingdom governing the preparation and dissemination of the financial statements may differ from legislation in other jurisdictions.

The Chief Financial Officer also has a general responsibility for ensuring that adequate accounting records are kept and for taking such steps as are reasonably open to them to safeguard the assets of the Scheme and to prevent and detect fraud and other irregularities, including the maintenance of an appropriate system of internal control.

Basis of Preparation

The financial statements have been prepared in accordance with the Local Government Pension Scheme Regulations 2007 (as amended) and with the guidelines set out in the Code of Practice on Local Authority Accounting in the United Kingdom: A Statement of Recommended Practice 2009, and having regard to the Statement of Recommended Practice: Financial Reports of Pension Schemes (revised May 2007).

The principal accounting policies of the Scheme are set out below. The policies have remained unchanged from the previous year except where indicated.

Accounting policies

Contributions
Employer and employee contributions are included on an accruals basis relating to wages and salaries payable for the financial year.

Benefits
Benefits are shown on an accruals basis relating to the date on which they became payable.

Transfers in and out
Transfers in and out are accounted for on a cash basis whenever the transfer value is paid or received.

Administrative expenses
Administrative expenses are shown on an accruals basis. A proportion of relevant Council officers' time, including related on-costs, has been charged to the Fund on the basis of actual time spent on scheme administration and investment related matters.

Investment Income
Dividends are shown on an accruals basis by reference to the ex-dividend date. Withholding tax is accrued on the same basis as the income to which it relates.

Interest on fixed interest investments, index linked securities, cash and short term deposits is accounted for on an accruals basis.

Derivative contracts
Income from derivatives contracts is recognised as follows:
- Futures contracts - All realised and unrealised gains and losses are included within change in market value. All interest receivable is accrued on a daily basis;

- Forward foreign exchange contracts - All realised and unrealised gains and losses are included within change in market value. All interest receivable is accrued on a daily basis.

Investment Management Expenses

Fund managers fees are based on the market values of the portfolios under management. Where managers invest in in-house investment vehicles e.g. unit trusts where management fees are covered in the price of the units, the market value of such holdings are deducted from the portfolio value before calculating chargeable fees. All the Investment Management expenses are shown on an accruals basis.

Investments – market values

Investments are stated at fair value on the final working day of the financial year as follows:

- Listed securities are stated at bid value.

- Unquoted securities are stated at the estimate of fair value provided by the investment manager.

- Units in managed funds and pooled investment vehicles are stated at bid value.

Derivatives are valued at fair value as follows:

- Futures contracts are valued at the relevant exchange prices at the accounting date.
- Forward foreign exchange contracts are valued by establishing the gain or loss that would arise on closing out the contract at the accounting date by entering into an equal and opposite contract on that date.

The value of Private equity holdings is assessed by the Private Equity Fund Manager on a fair value basis as determined at 31st December 2009.

The valuation of foreign equities is calculated by using the overseas bid price current at the relevant date and the exchange rate for the appropriate currency at the time to express the value as a sterling equivalent.

Additional voluntary contributions ("AVCs")

Members of the Scheme are able to make AVCs in addition to their normal contributions. The related assets are invested separately from the main fund, and in accordance with the Local Government Pension Scheme (Management and Investment of Funds) Regulations 2009, are not accounted for within the financial statements. If on retirement members opt to enhance their Scheme benefits using their AVC funds, the amounts returned to the Scheme by the AVC providers are disclosed within transfers-in.

Further details about the AVC arrangements are disclosed in note 14 to the financial statements.

Fund Account

	Note	2009/10 £'000	2008/09 £'000
Contributions and benefits			
Contributions receivable	1	(45,866)	(44,239)
Transfers in	2	(7,003)	(2,562)
Other income		0	(0)
		(52,869)	(46,801)
Benefits payable	3	29,405	28,846
Payments to and on account of leavers	4	6,328	6,612
Administrative expenses	5	725	673
		36,458	36,131
Net additions from dealings with members		**(16,411)**	**(10,670)**
Returns on investments			
Investment income	6	(12,148)	(18,339)
Change in market value of investments	8	(151,501)	142,861
Taxation	7	152	197
Investment management expenses	9	3,549	3,541
Net returns on investments		**(159,948)**	**128,260**
Net (increase)decrease in the fund during the year		**(176,359)**	**117,590**
Net assets brought forward as at 1 April		(487,513)	(605,103)
Net assets carried forward as at 31 March		**(663,872)**	**(487,513)**

Net Asset Statement

	Note	2009/10 £000	2008/09 £000
Investment assets	8	662,702	482,291
Current assets	10	1,638	5,916
Current liabilities	11	(468)	(694)
		1,170	**5,222**
Net assets as at 31 March		**663,872**	**487,513**

The financial statements summarise the transactions of the Scheme and deal with the net assets at the disposal of the Pensions Committee. They do not take account of obligations to pay pensions and benefits which fall due after the end of the Scheme year. The actuarial position of the Scheme, which does take account of such obligations is dealt with in the Statement from the Actuary on pages 24-25, and these financial statements should be read in conjunction with it.

Director of Corporate Resources

Notes to the Financial Statements

1. Contributions receivable

	2009/10 £'000	2008/09 £'000
Employers' normal contributions	23,024	22,164*
Employers' deficit funding contributions	11,481	10,917*
Employers' other contributions	759	900
Members' normal contributions	10,602	10,258
	45,866	**44,239**

** re-stated*

Employers' deficit funding contributions include lump sum payments and the deficit element of the employers' contribution rate. In addition, payments resulting from cessation valuations are also included. The figures for 2008/09 have been re-stated to follow this definition.

Employers' other contributions relate to capital cost payments and cover the cost to the Fund of members awarded early retirement before age 60, or otherwise after 60, but before their normal protected retirement age. Contributions are further analysed as follows:

	2009/10 £'000	2008/09 £'000
Administering authority	38,315	37,717
Scheduled bodies	6,170	5,375
Admitted bodies	1,381	1,147
	45,866	**44,239**

2. Transfers in

	2009/10 £'000	2008/09 £'000
Individual transfers from other schemes	7,003	2,562
	7,003	**2,562**

3. Benefits payable

	2009/10 £'000	2008/09 £'000
Pensions	24,484	23,603
Commutations and lump sum retirement benefits	4,243	4,195
Lump sum death benefits	678	1,048
	29,405	**28,846**

Benefits payable are further analysed as follows:

	2009/10 £'000	2008/09 £'000
Administering authority	27,152	26,410
Scheduled bodies	1,345	1,470
Admitted bodies	908	966
	29,405	**28,846**

4. Payments to and on account of leavers

	2009/10 £'000	2008/09 £'000
Refunds to members leaving service	4	9
Group transfers to other schemes	0	2,439
Individual transfers to other schemes	6,324	4,164
	6,328	**6,612**

Group transfers in 2008/09 relate to the transfer of Magistrates Court staff to the London Pensions Fund Authority (LPFA) scheme.

5. Administrative expenses

	2009/10 £'000	2008/09 £'000
Administration and processing	610	630
Legal and professional fees	115	43
	725	**673**

Other than costs disclosed, all administrative costs of running the Scheme are borne by the Administering Authority.

6. Investment income

	2009/10 £'000	2008/09 £'000
Income from fixed interest securities	758	535
Dividends from equities	4,534	9,141
Income from index-linked securities	298	143
Income from pooled investment vehicles	6,249	6,743
Interest on cash deposits	309	1,777
	12,148	**18,339**

7. Taxation

	2009/10 £'000	2008/09 £'000
Irrecoverable with-holding tax on investment income	152	197
	152	**197**

3. Investments

	Value at 1 April 2009	Purchases at cost and derivative payments	Sales proceeds and derivative receipts	Net security movements	Changes in market value	Value at 31 March 2010
	£'000	**£'000**	**£'000**	**£'000**	**£'000**	**£'000**
Fixed interest securities	18,665	37,202	(38,691)	(60)	(781)	16,335
Equities	171,166	76,390	(72,384)	(97,703)	44,598	122,067
Index-linked securities	14,273	25,522	(23,720)	0	1,433	17,508
Pooled investment vehicles	243,513	137,241	(114,738)	99,327	103,853	469,196
Derivative contracts	0	0	(22)	0	60	38
	447,617	**276,355**	**(249,555)**	**1,564**	**149,163**	**625,144**
Cash deposits	31,852	11,430	(7,116)	0	33	36,199
Other investment balances	2,822	2,939	(4,413)	0	11	1,359
	482,291	**290,724**	**(261,084)**	**1,564**	**149,207**	**662,702**

The changes in market value during the year comprise all increases and decreases in the market value of investments held at any time during the year, including profits and losses realised on sales of investments during the year.

The net security movements have resulted from the change from Alliance Bernstein who managed a segregated portfolio of equities to Legal and General who are managing pooled investment vehicles.

Transaction costs are included in the cost of purchases and sales proceeds. Transaction costs include costs charged directly to the Scheme such as fees, commissions, stamp duty and other fees. Transaction costs incurred during the year amounted to £322k (2008/09: £469k). In addition to the transaction costs disclosed above, indirect costs are incurred through the bid-offer spread on investments within pooled investment vehicles. The amount of indirect costs is not separately provided to the Scheme.

The following investments (other than UK government securities) each exceed 5% of the total value of the net assets of the Scheme:

Legal & General UK Equity Index £108,674,400 (16.4%)

Fidelity UK Institutional Long Corporate Bond Fund £38,716,326 (5.8%)

Fidelity UK Institutional UK Equities £36,041,879 (5.4%)

Fidelity Institutional Exempt America £35,311,086 (5.3%)

Fidelity Institutional Europe Ex UK £33,938,421 (5.1%)

Investments held at the year end are further analysed as follows:

Fixed interest securities

	2009/10 £'000	2008/09 £'000
United Kingdom public sector quoted	16,335	18,612
United Kingdom corporate quoted	0	53
	16,335	**18,665**

Equities

	2009/10 £'000	2008/09 £'000
United Kingdom quoted	36,338	87,800
United Kingdom unquoted		0
Overseas quoted	85,663	83,180
Overseas unquoted	66	186
	122,067	**171,166**

Index-linked securities

	2009/10 £'000	2008/09 £'000
United Kingdom Public Sector quoted	16,774	13,018
United Kingdom Other quoted	734	1,123
Overseas Other quoted	0	132
	17,508	**14,273**

Pooled investment vehicles

	2009/10 £'000	2008/09 £'000
Unit trusts:		
- Property-UK	37,849	24,674
- Other-UK	32,202	26,422
- Other-Overseas	19,375	11,083
Unitised Insurance Policies:		
- UK	108,674	0
- Overseas	27,988	0
Other managed funds:		
- Property-Overseas	7,665	7,779
- Other - UK	113,523	88,393
- Other- Overseas	121,920	85,162
	469,196	**243,513**

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

Derivative contracts

	2009/10 £'000	2008/09 £'000
Forward foreign exchange	38	(4)
Futures-Foreign Equities exchange traded	0	4
	38	**0**

A summary of the forward foreign exchange contracts is set out below:

Currency	Bought £000	Sold £000	Net Asset £000
British Pound Sterling	1,098	(476)	622
Euro	441	0	441
Japanese Yen	30	(1,031)	(1,001)
South African Rand	0	(24)	(24)
	1,569	(1,531)	38

The Pension Fund managers are permitted to use certain derivatives in managing their portfolios, including warrants, futures, convertible securities and swaps. As at 31 March 2010 no Futures contracts were held (the economic value of Futures contracts held at 31 March 2009 was £155k and the outstanding margin settlement was £4k). The Pension Fund did not hold any options as at 31 March 2010 or 31 March 2009.

Cash deposits

	2009/10 £,000	2008/09 £'000
Sterling	36,196	30,790
Foreign currency	3	1,062
	36,199	**31,852**

Other investment balances

	2009/10 £'000	2008/09 £'000
Outstanding dividend entitlements	851	1,586
Interest received/receivable	250	1,007
Outstanding sales proceeds	1,448	3,889
Unsettled investment purchases	(1,190)	(3,660)
	1,359	**2,822**

9. Investment Management Expenses

	2009/10 £'000	2008/09 £'000
Fund managers fees	3,319	3,265
Custodian fees	113	139
Independent Advisor fees	17	15
Investment advisor fees	53	85
Other	47	37
	3,549	**3,541**

10. Current assets

	2009/10 £'000	2008/09 £'000
Contributions due from:		
Administering Authority in respect of the Council	177	91
Admitted Bodies in respect of the employers	51	55
Scheduled Bodies in respect of the employers	107	71
Contributions due from:		
Administering Authority in respect of members	24	25
Admitted Bodies in respect of members	16	25
Scheduled Bodies in respect of members	35	15
Cash balances	818	5,489
Reimbursement of Advisor Fees	0	8
Reimbursement of Fund management expenses (Fidelity)	203	137
Other (Prepayments)	207	
	1,638	**5,916**

All contributions due to the Scheme relate to the month of March and were paid in full to the Scheme within the timescales required by the Scheme Rules.

11. Current liabilities

	2009/10 £000	2008/09 £000
Unpaid benefits in respect of the Administering Authority	27	289
Fund manager and advisor fees	419	405
Other	22	0
	468	**694**

12. Contingent assets

There were no contingent assets at 31 March 2010 or at 31 March 2009.

13. Related party transactions

In 2009/10 the Pension Fund paid £0.61m to the Council for administration (£0.63m in 2008/09). As at 31 March 2010 £0.997m was due from the Council to the fund (£10.125m in 2008/09). During 2009/10 ten council members who served on the Pensions Committee were also members of the Pension Fund. There were no other material related party transactions.

14. Additional voluntary contributions ("AVCs")

Separately invested AVCs are held with the Equitable Life Assurance Society, Prudential Assurance, and Clerical Medical in a combination of With Profits, Unit Linked or Building Society accounts, securing additional benefits on a money purchase basis for those members electing to pay additional voluntary contributions.

Movements by provider are summarised overleaf:

Equitable Life Assurance Society

	2009/10 £	2008/09 £
Value as at 6 April	424,130	474,753
Contributions received	7,276	9,046
Retirement benefits and charges	(30,382)	(40,550)
Change in market value	42,857	(19,119)
Value at 5 April	**443,881**	**424,130**
Equitable with-profits	227,308	230,420
Equitable Building Society Pension Fund	92,949	90,328
Equitable unit-linked	123,624	103,382
Total	**443,881**	**424,130**
Number of active members	40	43
Number of members with preserved benefits	27	28

Prudential Assurance

	2009/10 £	2008/09 £
Value as at 1 April	741,571	743,097
Contributions received	194,885	177,475
Retirement benefits and charges	(93,504)	(133,330)
Change in market value	82,690	(45,671)
Value at 31 March	**925,642**	**741,571**
Prudential with-profits cash accumulation	565,166	490,936
Prudential Deposit Fund	8,713	14,749
Prudential unit-linked	351,763	235,886
Total	**925,642**	**741,571**
Number of active members	102	97
Number of members with preserved benefits	20	16

Clerical and Medical

	2009/10 £	2008/09 £
Value as at 1 April	29,660	29,866
Contributions received	6,442	5,948
Change in market value	9,318	(6,154)
Value at 31 March	**45,420**	**29,660**
Clerical Medical with-profits	3,589	3,459
Clerical Medical unit -linked	41,831	26,201
Total	**45,420**	**29,660**
Number of active members	3	2
Number of members with preserved benefits	2	2

Auditor's Report

This Annual Report and Accounts is in draft and is still subject to audit.

Appendices

Governance Compliance Statement

Statement of Investment Principles

Communications Policy

Funding Strategy Statement

Governance Compliance Statement

The objective of the Governance Compliance Statement is to make the administration and stewardship of the scheme more transparent and accountable to the stakeholders.

Principle A – Structure

a)	The management of the administration of benefits and strategic management of fund assets clearly rests with the main committee established by the appointing council.	Fully Compliant
b)	That representatives of participating LGPS employers, admitted bodies and scheme members (including pensioner and deferred members) are members of either the main or secondary committee established to underpin the work of the main committee.	Fully compliant
c)	C. That where a secondary committee or panel has been established, the structure ensures effective communication across both levels.	Not applicable
d)	D. That where a secondary committee or panel has been established, at least one seat on the main committee is allocated for a member from the secondary committee or panel.	Not applicable

Pensions Committee includes an employee representative, a pensioner representative and an admitted/ scheduled bodies representative. These representatives are non-voting members of the Committee. We also hold an Annual General meeting (AGM).

Bi-annually a meeting is held with admitted and scheduled bodies that is chaired by the Chair of Pensions Committee to cover key issues. e.g. actuarial valuation results where the Actuary is invited to attend.

Pensions Committee has full responsibility for these functions and meets six times per annum.

Principle B – Representation

a)	That all key stakeholders are afforded the opportunity to be represented within the main or secondary committee structure. These include :- i) employing authorities (including non-scheme employers, e.g, admitted bodies); ii) scheme members (including deferred and pensioner scheme members), iii) independent professional observers, and iv) expert advisors (on an ad-hoc basis).	Fully compliant
b)	That where lay members sit on a main or secondary committee, they are treated equally in terms of access to papers and meetings, training and are given full opportunity to contribute to the decision making process, with or without voting rights.	Fully compliant

Pensions Committee includes an employee representative, a pensioner representative and a representative of the admitted and scheduled bodies.

Pensions Committee is attended by an Independent Advisor to support the Committee in their role.

An Annual general meeting (AGM) has been held for the past five years and all stakeholders are invited to attend the meeting.

The representative members of Pensions Committee receive all non-exempt papers and attend the Committee other than for exempt matters. Equal access is given to training and they also have a full opportunity to contribute to the decision making process but without voting rights.

Principle C – Selection and role of lay members

a)	That committee or panel members are made fully aware of the status, role and function they are required to perform on either a main or secondary committee.	Fully compliant

The above requirement is met by ensuring that proper training is received at regular intervals. Where technical pensions matters are discussed at Committee meetings proper explanation is given in the report and by the external Investment Advisors when introducing their reports. All members of Pensions Committee are given the same opportunities for training.

Principle D – Voting

a)	The policy of individual administering authorities on voting rights is clear and transparent, including the justification for not extending voting rights to each body or group represented on main LGPS committees.	Fully compliant

The policy regarding voting rights is clearly set out. Only elected members of Pensions Committee are permitted to vote.

Principle E – Training, Facility time, Expenses

a)	That in relation to the way in which statutory and related decisions are taken by the administering authority, there is a clear policy on training, facility time and reimbursement of expenses in respect of members involved in the decision-making process.	Fully compliant
b)	That where such a policy exists, it applies equally to all members of committees, sub-committees, advisory panels or any other form of secondary forum.	Fully compliant

Clear policy is to ensure that there is regular and comprehensive access to training. The representative members on Pensions Committee have equal access.

Principle F – Meetings (frequency/quorum)

a)	That an administering authority's main committee or committees meet at least quarterly.	Fully compliant
b)	That an administering authority's secondary committee or panel meet at least twice a year and is synchronised with the dates when the main committee sits.	Not applicable
c)	That administering authorities who do not include lay members in their formal governance arrangements, provide a forum outside of those arrangements by which the interests of key stakeholders can be represented.	Fully compliant

Pensions Committee meets six times per annum plus special meetings as required. As disclosed above the Committee has representatives of the following groups on the Committee: employees, pensioners and admitted and scheduled bodies. In addition an Annual general meeting (AGM) has been held for the past five years and all stakeholders are invited to attend the meeting.

Principle G – Access

a)	That subject to any rules in the Council's constitution, all members of main and secondary committees or panels have equal access to committee papers, documents and advice that falls to be considered at meetings of the main committee.	Fully compliant

Equal access is given. This will be applied for additional stakeholder representatives that will sit on pensions Committee as soon as possible.

Principle H – Scope

a)	That administering authorities have taken steps to bring wider scheme issues within the scope of their governance arrangements.	Fully compliant

Wider scheme issues are also part of the Council's governance arrangements. Some pensions matters are dealt with by General Purposes Committee regarding determining the Council's policies as Employing Authority and determining the terms of release of Chief and Deputy Chief Officers aged 50 or over and made redundant or retired early with a claim on the pension scheme.

Principle I – Publicity

a)	That administering authorities have published details of their governance arrangements in such a way that stakeholders with an interest in the way in which the scheme is governed, can express an interest in wanting to be part of those arrangements.	Fully compliant

The current Governance Policy Statement has been properly shared with stakeholders; it has been approved by Pensions Committee, copied to the admitted and scheduled bodies, and is published on the Haringey pensions website.

Statement of Investment Principles

1 Introduction

This Statement of Investment Principles document sets out the principles governing the Haringey Council Pension Fund's decisions about the investment of Pension Fund money. It is prepared in accordance with Regulation 12 of the Local Government Pension Scheme (Management and Investment of Funds) Regulations 2009.

2 Governance and decision making

Haringey Council is the Administering Authority for the Local Government Pension Scheme in the London Borough of Haringey area and as such is responsible for the investment of Pension Fund money. The Council has delegated this responsibility to the Pensions Committee.

The Pensions Committee is responsible for setting the investment strategy for the Pension Fund, appointing fund managers to implement it and monitoring the performance of the strategy. The Committee retains an independent adviser and the services of an investment consultancy company, in addition to the advice it receives from the Chief Financial Officer and their staff.

Further information on the governance of the Pension Fund can be found in the Governance Compliance Statement on the website www.haringey.gov.uk/pensionfund

Stock level decisions are taken by the investment managers appointed by the Pensions Committee to implement the agreed investment strategy. These decisions are taken within the parameters set out for each manager – more detail is provided in section 6 below.

3 Objectives of the Pension Fund

The primary objective of the Pension Fund is:

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

The investment objective of the Pension Fund is:

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

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

The key funding objectives that relate to investment strategy are summarised below and more detail about them and how they will be achieved can be found in the Pension Fund's Funding Strategy Statement on the website www.haringey.gov.uk/pensionfund

- To ensure the long-term solvency of the Fund;
- To ensure that sufficient funds are available to meet all benefits as they fall due for payment;
- Not to restrain unnecessarily the investment strategy of the Fund so that the Administering Authority can seek to maximise investment returns (and hence minimise the cost of the benefits) for an appropriate level of risk.

This Statement of Investment Principles describes how the Haringey Council Pension Fund seeks to meet its objectives.

4 Investment Parameters

The investment strategy of the Pension Fund must operate within the parameters set out in the Local Government Pension Scheme (Management and Investment of Funds) Regulations 2009 ("the regulations"). The regulations state that the Pension Fund must invest any monies not needed immediately to make payments.

The regulations also state that the Pension Fund must have regard to the suitability and range of investments used and take proper advice in determining its investment strategy. These issues are covered in more detail in sections 5-7 below.

The limits within which the Pension Fund operates are shown overleaf. All the limits are the lowest set by Schedule 1 to the regulations with the exception of the two related to Open Ended Investment Companies (OEICs). OEICs are like unit trusts where investors own units of a range of underlying investments. The Pensions Committee has exercised its right to increase its limit for OEICs within the range set by the regulations. This was done, after taking proper advice, in order to maximise the diversification and performance of the Fund's assets while minimising the costs to the Pension Fund.

Type of Investment	Limit
Any single sub-underwriting contract	1%
All contributions to any single partnership	2%
All contributions to partnerships	5%
The sum of all loans (except a Government loan) and all deposits with local authorities	10%
All investments in unlisted securities of companies	10%
Any single holding (except unit trusts & UK gilts)	10%
All deposits with any single institution	10%
All sub-underwriting contracts	15%
All investments in units or shares of the investments subject to the trusts of unit trust scheme managed by any one body	25%
All investments in open ended investment companies where the collective investment schemes constituted by the companies are managed by one body	35%*
All investments in unit or other shares of the investments subject to the trusts of unit trust schemes and all investments in open-ended investment companies where the unit trust schemes and the collective investment schemes are constituted by those companies are managed by any one body.	35%*
Any single insurance contract	25%

* These limits are at the higher limit of the range (25-35%) laid down in the regulations.

5 Types of investments

The Pensions Committee has determined an overall asset allocation for the Pension Fund to meet the objectives within the parameters set out in section 4 above and to comply with the regulations. The Committee have considered the suitability of different investments and the need to diversify the investments to reduce risk.

The target asset allocation is shown in the table overleaf, alongside the current asset mix.

Asset class	Benchmark %	Actual % at 31 Mar 10
UK Equities	30.5	27.3
Overseas Equities	34.5	35.8
UK Gilts	7.0	4.4
UK Index linked gilts	6.0	6.0
Corporate Bonds	7.0	11.9
Property	10.0	6.9
Private Equity	5.0	2.0
Cash	0.0	5.7

The Committee have decided to invest the majority of the Pension Fund investments in actively managed portfolios in order to generate out performance to meet the objectives of the Pension Fund. The only exception is when a manager underperforms, the Committee may decide to place monies in a passively managed portfolio pending further review.

Due to the size of the portfolios allocated to the investment managers, many holdings are in Open Ended Investment Companies, rather than separate individual holdings. Investment managers use OEICs rather than unit trusts because they can act as an umbrella fund and allow them to add sub-funds without going through another registration process with the FSA. The reason for this is to achieve diversification of holdings at minimum cost.

The majority of the investment types the Committee have decided to invest in are quickly realisable if required, as they are quoted on major markets. The only exceptions to this are property and private equity, which are long term less liquid investments not designed to be realised early. At the present time the Pension Fund generates regular cash surpluses to invest and does not need to realise investments quickly.

The asset allocation and associated benchmark is expected to produce a return in excess of the investment return assumed in the actuarial valuation over the long term.

6 Investment Management arrangements

The Pensions Committee has appointed a number of external investment managers to implement its investment strategy. As discussed in section 5 above, the majority of the investment managers are active managers. The current exception is Legal & General, who are managing on a passive basis. The current investment managers and the percentage of the Pension Fund they managed at 31st March 2010 is shown in the table below:

Investment Manager	**Mandate**	**% at 31 Mar 10**
Capital International	Global Equities & Bonds	31.7
Fidelity Pensions Management	Global Equities & Bonds	33.5
Legal & General (Passive)	Global Equities & Bonds	20.6
ING Real Estate	Property	6.9
Pantheon	Private Equity	2.0
In House	Cash(pending investment)	5.3

A range of investment managers have been appointed to diversify the Pension Fund and so reduce the risk of poor performance.

The investment managers are expected to outperform their benchmarks in line with the targets set and detailed in Appendix A. Through this outperformance it is expected that the investment return in the long term will be in excess of the actuary's assumption.

Appendix B sets out the parameters within which the investment managers are required to operate to ensure that the risk of the Pension Fund's investments moving away from the benchmark is limited.

The investment managers' performance is assessed on a quarterly basis, when independent performance data is provided by the Pension Fund's global custodian Northern Trust. The Chief Financial Officer and/or their representative meet with the bond and equity investment managers on a quarterly basis to discuss performance. Meetings are held with the property and private equity investment managers on a semi-annual basis reflecting the longer term nature of these investments.

The equity and bond investment managers attend formal meetings with the Pensions Committee twice a year and the property and private equity investment managers once a year to explain their performance and answer questions from the Committee.

The investment managers are paid fees relating to the value of the funds they are managing on the Pension Fund's behalf, or in the case of private equity on the amount committed.

7 Advice

The regulations set out the requirement for the Pension Fund to obtain proper advice at reasonable intervals. The Pensions Committee have three sources of advice independent of the investment managers used by the Pension Fund:

- Chief Financial Officer and their staff
- Investment Consultant – currently the Pension Fund use Hewitts
- Independent adviser to the Committee

The Chief Financial Officer (or their representative) and the independent adviser attend all Committee meetings to support the Committee to scrutinise both the performance of the investment managers and the investment consultant. The Investment Consultant attends Committee meetings as required.

8 Risk

The Pension Fund's investment strategy has an inherent degree of risk which has to be taken in order to achieve the rate of return required. The Pension Fund has put in place a number of controls in order to minimise the level of risk taken.

The benchmark the Committee has set involves a wide range of asset classes and geographical areas. This diversification reduces the risk of low returns.

The parameters set for the investment managers to work within ensure that the risk of volatility and deviation from the benchmark the Committee has set is within controlled levels.

Appointing a range of investment managers ensures that the risk of underperformance is reduced through diversification.

9 Responsible ownership

The Pensions Committee has agreed a responsible investment policy, which can be found on the website www.haringey.gov.uk/pensionfund

The Pension Fund believes the adoption by companies of positive Environmental, Social and Governance principles can enhance their long term performance and increase their financial returns. The

Pension Fund has demonstrated this by adopting the United Nations Principles for Responsible Investment and by being a member of the Local Authority Pension Fund Forum, which undertakes engagement activity with companies on behalf of its members.

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

10 Compliance with Myners Principles

The regulations require Local Government Pension Funds to state in their Statement of Investment Principles the extent to which the Fund's investment policy complies with published guidance on the Myners Principles. The Myners principles are a set of principles on investment decision making for occupational pension schemes. The Pension Fund complies with the majority of these principles. The detail of the principles is set out in Appendix D.

11 Additional Voluntary Contributions (AVCs)

The Pension Fund is required to provide scheme members with the opportunity to invest additional voluntary contributions. These are invested separately from the Pension Fund's other assets and the scheme members take the investment risk.

AVCs are invested with Prudential Assurance, Clerical & Medical and Equitable Life. Scheme members can choose which company to invest with (except Equitable Life, which is not open to new members) and select from a range of policies to suit their appetite for risk.

12 Other issues

Custody – The Pension Fund's assets are held by an independent global custodian, Northern Trust. The performance and fees for their contract are reviewed on an annual basis.

Stock Lending – The Pension Fund does not undertake any stock lending activities.

Review process – This document is reviewed by the Pensions Committee on annual basis and whenever any major change to the investment strategy is undertaken to ensure it remains up to date.

Publication – This document is published on the Haringey Council Pension Fund website www.haringey.gov.uk/pensionfund and forms part of the Pension Fund Annual Report.

Appendices

A	Investment managers and value of assets held
B	Investment managers' customised benchmarks
C	Asset Allocations and tolerances
D	Compliance with Myners principles

APPENDIX A: Investment Managers and Value of Assets Held as at 31st March 2010

Manager	Value £m	% of Total Portfolio	Mandate	Benchmark	Performance Target
Capital International: Global Equities	139.7	21.0	Global Equity	Customised (Appendix B1)	+2.0% gross of fees p.a over a rolling 3 yr period
Capital International: Bonds	70.9	10.7	Bonds	Customised (Appendix B2)	+1.0% gross of fees p.a over a rolling 3 yr period
Fidelity Pensions Management: Global Equities	144.9	21.8	Global Equity	Customised (Appendix B3)	+1.7% gross of fees p.a over a rolling 3 yr period
Fidelity Pensions Management: Bonds	77.5	11.7	Bonds	Customised (Appendix B4)	+0.6% gross of fees p.a over a rolling 3 yr period
Legal & General: UK Equities	108.7	16.4	UK Equities	FTSE All Share	Index (passively managed)
Legal & General: Global Equities	27.9	4.2	Global Equity	FTSE AW World Index	Index (passively managed)
ING Real Estate	45.8	6.9	Property	IPD UK Pooled Property Funds All Balanced Index	+1% gross of fees p.a. over a rolling 5 yr period
Pantheon Private Equity	13.1	2.0	Private Equity	MSCI World Index +5%	+ 0.75% gross of fees p.a.
Cash (pending investment)	35.4	5.3	N/A	N/A	N/A
Total	**663.9**	**100**			

APPENDIX B: Customised Benchmarks

Asset Class	Asset Description	Benchmark
1. Capital International - Global Equities	UK	FTSE All Share
	North America	FTSE AW Developed North America
	Europe –Ex UK	FTSE AW Developed Europe (ex UK)
	Japan	FTSE AW Developed Japan
	Pacific(Ex Japan)	MSCI Pacific (ex Japan)
	Emerging Markets	MSCI Emerging Markets
2. Capital International - Bonds	UK Gilts	FTSE All Stock over 15 year gilts
	Corporate Bonds	Merrill Lynch Sterling non gilt all maturities
	Index Linked	FTSE Index linked (over 5 years)
3. Fidelity Pensions Management – Global Equities	UK	FTSE All Share Index
	US	S&P 500
	Europe –Ex UK	MSCI Europe ex UK Index
	Japan	Topix Index
	Pacific(Ex Japan)	MSCI Pacfic ex Japan index
	Emerging Markets	MSCI Emerging Markets Index
4. Fidelity Pensions Management - Bonds	UK Gilts	FTSE All Stock over 5 year gilts
	Corporate Bonds	Merrill Lynch Euro Sterling over 10 years
	Index Linked	FT British Government Index Linked > 5 years

APPENDIX C: Asset Allocation & tolerances

Manager Asset Allocation (tolerance)	Capital (Global Equities) %	Capital (Bonds) %	Fidelity (Global Equities) %	Fidelity (Bonds) %	Legal & General (UK Equities) %	Legal & General (Global Equities)* %	Pantheon %	ING %
Equities								
UK	25 (+/-10)	0	25.3 (+/-10)	0	100	9	0	0
North America	25 (+/-10)	0	25.4 (+/-4)	0	0	48	0	0
Europe(ex UK)	24 (+/-10)	0	23.9 (+/-4)	0	0	19	0	0
Japan	13 (+/-5)	0	12.7 (+/-3.5)	0	0	9	0	0
Pacific Basin	6 (+/-2.5)	0	6 (+/-2.5)	0	0	10	0	0
Emerging Markets	7 (+/-7)	0	6.7 (+/-2)	0	0	5	0	0
Private Equity	0	0	0	0	0	0	100	0
Bonds								
UK Gilts	0	30 (+/-20)	0	20 (+/-15)	0	0	0	0
Corporate Bonds	0	20 (+/-20)	0	50 (+/-15)	0	0	0	0
Index Linked	0	50 (+/-20)	0	30 (+/-10)	0	0	0	0
Property	0	0	0	0	0	0	0	100

* Legal and General do not manage against a fixed weight benchmark unlike the other managers. They manage against an index and the percentages in each asset class vary over time. The percentages shown are those at 31st March 2010

APPENDIX D: Compliance with Myners Principles

1. Effective Decision Making

Administering authorities should ensure that:

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

Haringey position

Haringey offers regular training to all members of the Pensions Committee to ensure they have the necessary knowledge to make decisions. The independent adviser assists the Committee members with challenging the advice and information they receive.

2. Clear Objectives

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

Haringey position

The Pension Fund sets out an investment objective in section 2 of this Statement of Investment Principles, which reflects the current deficit position of the Pension Fund and the desire to return to full funding with a minimum impact on the local tax payer. The Statement of Investment Principles is provided to all the Pension Fund's advisers and investment managers whenever it is updated.

3. Risk and Liabilities
In setting and reviewing their investment strategy, administering authorities should take account of the form and structure of liabilities. These include the implications for local tax payers, the strength of the covenant for participating employers, the risk of their default and longevity risk.
Haringey position The Pensions Committee investment strategy was set following the results of the last formal valuation of the Pension Fund, which incorporated these issues.
4. Performance Assessment
Arrangements should be in place for the formal measurement of performance of the investments, investment managers and advisors. *Administering authorities should also periodically make a formal assessment of their own effectiveness as a decision making body and report on this to scheme members.*
Haringey position The Pensions Committee reviews the performance of Pension Fund investments on a quarterly basis and meets with investment managers at least once a year. Contracts with advisers are reviewed at least annually. Development area Develop a mechanism for the Pensions Committee to formally assess its own effectiveness and report on this in the Annual Report.

5. Responsible ownership

Administering authorities should:

- *adopt or ensure their investment managers adopt, the Institutional Shareholders' Committee Statement of Principles on the responsibilities of shareholders and agents*
- *include a statement of their policy on responsible ownership in the statement of investment principles*
- *report periodically to scheme members on the discharge of such responsibilities.*

Haringey position

The Pension Fund's fund managers have adopted or are committed to the Institutional Shareholders' Committee Statement of Principles.

The Pension Fund includes a statement of their policy on responsible ownership in section 9 of this Statement of Investment Principles. This is monitored on a quarterly basis through the Pensions Committee and reported to scheme members through the annual report to scheme members and the Annual General Meeting.

6.Transparency and reporting

Administering authorities should:

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

Haringey position

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

Communications Policy

Local Government Pension Scheme Regulations 1997 (as amended) Reg. 106B
Policy Statement on Communications with Members and Employing Bodies

Effective communication between Haringey Council, the scheme members, and the employers within the fund is essential to the proper management of the LGPS on a transparent and accountable basis.

This document sets out a policy framework within which the Council will communicate with:-

- Members of the scheme
- Representatives of members
- Employing bodies and
- Prospective members

It identifies the format, frequency and method of distributing information and publicity. It also outlines the processes for promoting the scheme to prospective members and employing bodies.

<u>Members of the scheme</u>:

A. Points of Contacts:

i. Admin Team for day-to-day contact and visits. The Pension Team operate an open door policy for visitors such that pre booked appointments are not required.

ii. Ad hoc briefings and workshops

iii. Pre retirement courses

iv. Harinet

A pensions page is maintained on Harinet which provides :-

- Guides to the LGPS including Pension Sharing on Divorce, Increasing Pension Benefits and the Appeals Process
- Policy Statements on the use of the Council's Discretionary Powers, Investment Principles. The Financial Strategy Statement and the Communications Strategy will be included when the final draft is approved
- Annual Reports and Pensions Bulletins
- Notice of events
- Contact List for Pensions Team
- Links to other useful sites including the Local Government Pensions Committee (LGPC) the ODPM and the on-line scheme regulations.

The information held on the Harinet pensions page is reviewed and updated on a regular basis.

B. Levels of Communication:

i. General day to day administration of the scheme

ii. Monthly payslips and annual newsletter to Pensioner Members

iii. Statutory notices and statements e.g : individual notices regarding entry to the scheme or hours changes and Annual Benefits Statements

iv. Formal notice of significant proposals to change the scheme

v. Life certificates to Pensioners living abroad.

C. Medium of communication

i. Telephone and e-mail

ii. Hard copy dispatches

iii. Annual General Meeting for all fund members and employing bodies

iv. Workshops/ Employee Briefings

v. Face to face meetings

D. Timing

i. General policy is to issues statutory notifications and statements within the prescribed limits and to respond to written enquiries within 10 working days.

ii. An Annual Report on the Fund is published annually prior to the Pension Fund Annual General Meeting.

iii. Pension Bulletins on items of significance are issued as the need arises.

iv. The Pensions Newsletter is published in April of each year to coincide with pensions increase awards.

Representatives of members

A. Points of Contact

i. The Corporate Industrial Relations Group

ii. Council and Staff Joint Consultative Committee

iii. Pensions Panel.

iv. Face to face meetings or issues raised in correspondence or by telephone.

v. Ad hoc presentations to Trade Union Officers and work place representatives.

B. Levels of communication

i. Consultation on proposed scheme changes and significant policy issues on the use of employer discretions.

ii. Joint meetings with staff affected by TUPE transfers

iii. Response to employee complaints or queries via their representatives.

iv. Semi- formal meetings to brief employee representatives on scheme changes or to explain existing scheme rules.

C. Medium of communication

i. Telephone and e-mail

ii. Hard copy dispatches

iii. Group meetings at Officer level

iv. Committee meetings at Elected Member level

v. Face to face meetings

D. Timing

Formal meetings are dictated by pre determined dates. Informal meetings as an when required.

Employers

A. Points of contact:

Day to day contact falls into three categories:-

i. Pensions team for day to day administration

ii. Pay Support (where the Council provides a payroll service)

iii. Finance for FRS 17 disclosure and funding issues.

B. Levels of Communication:

i. General day to day administration of the scheme

ii. Formal notification of discussion documents and consultation papers

iii. Employer briefings on issues affecting the scheme including an Employers Guide to the LGPS

iv. Pre and post fund valuation meetings.

C. Medium of communication

i. Telephone and e-mail

ii. Site visits

iii. Hard copy dispatches

iv. Annual General Meeting

D. Timing

The general policy is to keep employers informed of issues as they arise or are expected to arise in good time for the appropriate action to be taken or comments considered.

Prospective Members and promoting the LGPS

i. All new starters are issued with a leaflet Pensions Choice as part of their new starter packs. This gives a brief outline of the scheme benefits and the alternative choices available.

ii. All new starters attend an induction course where they are reminded of the right to join the scheme

iii. An Annual Benefits Statement is issued which includes a forecast of State Scheme benefits. This ensures that members appreciate the value of being a scheme member which they can share with colleagues.

iv. Regular promotions of the Additional Voluntary Contributions Scheme are held in conjunction with the Council's AVC providers. These events are open to all staff and act to attract non members to the LGPS.

v. All staff and elected members are invited to attend the Pension Fund AGM at which Pension Officers are present to answer individual questions about the LGPS for prospective and existing scheme members.

Funding Strategy Statement

1. Introduction

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

It has been revised by the Administering Authority in collaboration with the Fund's actuary, Hymans Robertson LLP, and after consultation with the Fund's employers and investment adviser. This revised version replaces the previous FSS and is effective from 31 March 2008.

1.1 Regulatory Framework

Scheme members' accrued benefits are guaranteed by statute. Members' contributions are fixed in the Regulations at a level that covers only part of the cost of accruing benefits. Employers currently pay the balance of the cost of delivering the benefits to members. The FSS focuses on the pace at which these liabilities are funded and, insofar as is practical, the measures to ensure that employers, or pools of employers, pay for their own liabilities.
The FSS forms part of a framework that includes:

- the Local Government Pension Scheme Regulations 1997 (regulations 76A and 77 are particularly relevant);
- the Rates and Adjustments Certificate, which can be found appended to the Fund actuary's triennial valuation report;
- actuarial factors for valuing early retirement costs and the cost of buying extra service; and
- the Statement of Investment Principles.

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

1.2 Reviews of FSS

The FSS is reviewed in detail at least every three years ahead of triennial valuations being carried out, with the next full review due to be completed by 31 March 2011. More frequently, Annex A is updated to reflect any changes to employers.
The FSS is a summary of the Fund's approach to funding liabilities. It is not an exhaustive statement of policy on all issues. If you have any queries please contact Nicola Webb in the first instance at nicola.webb@haringey.gov.uk or on 020-8489-3726.

2. Purpose

2.1 Purpose of FSS

The Department for Communities and Local Government (CLG) 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. This statement sets out how the Administering Authority has balanced the conflicting aims of affordability of contributions, transparency of processes, stability of employers' contributions, and prudence in the funding basis.

2.2 Purpose of the Fund

The Fund is a vehicle by which scheme benefits are delivered. The Fund:

- receives contributions, transfer payments and investment income;

- pays scheme benefits, transfer values and administration costs.

One of the objectives of a funded scheme is to reduce the variability of pension costs over time for employers compared with an unfunded (pay-as-you-go) alternative.
The roles and responsibilities of the key parties involved in the management of the pension scheme are summarised in Annex B.

2.3 Aims of the Funding Policy

The objectives of the Fund's funding policy include the following:

- to ensure the long-term solvency of the Fund (and of the share of the Fund notionally allocated to individual employers);

- to ensure that sufficient funds are available to meet all benefits as they fall due for payment;

- not to restrain unnecessarily the investment strategy of the Fund so that the Administering Authority can seek to maximise investment returns (and hence minimise the cost of the benefits) for an appropriate level of risk;

- to minimise the degree of short-term change in the level of each employer's contributions where the Administering Authority considers it reasonable to do so;

- to use reasonable measures to reduce the risk to other employers and ultimately to the Council Tax payer from an employer defaulting on its pension obligations;

- to address the different characteristics of the disparate employers or groups of employers to the extent that this is practical and cost-effective; and

- to maintain the affordability of the Fund to employers as far as is reasonable over the longer term.

3. Solvency Issues and Target Funding Levels

3.1 Derivation of Employer Contributions

Employer contributions are normally made up of two elements:

a) the estimated cost of future benefits being accrued, referred to as the "*future service rate*"; plus

b) an adjustment for the funding position (or "solvency") of accrued benefits relative to the Fund's solvency target, "*past service adjustment*". If there is a surplus there may be a contribution reduction; if a deficit a contribution addition, with the surplus or deficit spread over an appropriate period.

The Fund's actuary is required by the regulations to report the *Common Contribution Rate*[1], for all employers collectively at each triennial valuation. It combines items (a) and (b) and is expressed as a percentage of pay. For the purpose of calculating the Common Contribution Rate, the surplus or deficit under (b) is currently spread over a period of 20 years of all the employers' scheme members.

The Fund's actuary is also required to adjust the Common Contribution Rate for circumstances which are deemed "peculiar" to an individual employer[2]. It is the adjusted contribution rate which employers are actually required to pay. The sorts of peculiar factors which are considered are discussed in Section 3.5.

[1] See Regulation 77(4)
[2] See Regulation 77(6)

In effect, the *Common Contribution Rate* is a notional quantity. Separate future service rates are calculated for each employer or pool together with individual past service adjustments according to employer (or pool)-specific spreading and phasing periods.

Annex A contains a breakdown of each employer's contributions following the 2007 valuation for the financial years 2008/09, 2009/10 and 2010/11. It includes a reconciliation of each employer's rate with the *Common Contribution Rate*. It also identifies which employers' contributions have been pooled with others.

Any costs of early retirements other than on the grounds of ill-health must be paid as lump sum payments at the time of the employer's decision in addition to the contributions described above (or by instalments shortly after the decision).

Employers' contributions are expressed as minima, with employers able to pay regular contributions at a higher rate. Employers should agree with the Administering Authority before making one-off capital payments.

3.2 Solvency and Target Funding Levels

The Fund's actuary is required to report on the "solvency" of the whole fund at least every three years.

"Solvency" for ongoing employers is defined to be the ratio of the market value of assets to the value placed on accrued benefits on the Fund actuary's *ongoing funding basis*. This quantity is known as a funding level.

The ongoing funding basis is that used for each triennial valuation and the Fund actuary agrees the financial and demographic assumptions to be used for each such valuation with the Administering Authority.

The Fund operates the same target funding level for all ongoing employers of 100% of its accrued liabilities valued on the ongoing basis. Please refer to paragraph 3.8 for the treatment of departing employers.

3.3 Ongoing Funding Basis

The demographic assumptions are intended to be best estimates of future experience in the Fund based on past experiences of LGPS funds advised by the Fund Actuary. It is acknowledged that future life expectancy and in particular, the allowance for future improvements in mortality, is uncertain. Allowance has been made for improvements in line with PMA/PFA92 series projections up to calendar year 2017 for non-pensioners and 2033 for pensioners with age ratings applied to fit past LGPS experience. Employers are aware that their contributions are likely to increase in future if longevity exceeds the funding assumptions.

The approach taken is considered reasonable in light of the long term nature of the Fund and the assumed statutory guarantee underpinning members' benefits. The demographic assumptions vary by type of member and so reflect the different profiles of employers.

The key financial assumption is the anticipated return on the Fund's investments. The investment return assumption makes allowance for anticipated returns from the Fund's assets in excess of gilts or even match the return on gilts. There is, however, no guarantee that assets 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.

In light of the statutory requirement for the Actuary to consider the stability of employer contributions, it is therefore normally appropriate to restrict the degree of change to employers' contributions at triennial valuation dates.

Given the very long-term nature of the liabilities, a long term view of prospective returns from equities is taken. For the 2007 valuation, it is assumed that the Fund's investments will deliver an average real additional return of 1.6% a year in excess of the return available from investing in index-linked government bonds at the time of the valuation. Based on the asset allocation of the Fund as at 31 March 2007, this is equivalent to taking credit for excess returns on equities of 2% p.a. over and above the gross redemptions yield on index-linked gilts on the valuation date and for excess returns of 0.4% p.a. on the non-equity assets.

The same financial assumptions are adopted for all ongoing employers. All employers have the same asset allocation.

3.4 Future Service Contribution Rates

The future service element of the employer contribution rate is calculated on the ongoing valuation basis, with the aim of ensuring that there are sufficient assets built up to meet future benefit payments in respect of future service. The future service rate has been calculated separately for all the employers, although employers within a pool will pay the contribution rate applicable to the pool as a whole.

The approach used to calculate the employer's future service contribution rate depends on whether or not new entrants are being admitted.

Employers should note that it is only Admission Bodies that may have the power not to admit automatically all eligible new staff to the Fund, depending on the terms of their Admission Agreements and employment contracts.

3.4.1 Employers that admit new entrants

The employer's future service rate will be based upon the cost (in excess of members' contributions) of the benefits which employee members earn from their service each year. Technically these rates will be derived using the *Projected Unit Method* with a one year control period.

If future experience is in line with assumptions, and the employer's membership profile remains stable, this rate should be broadly stable over time. If the membership of employees matures (e.g. because of lower recruitment) the rate would rise.

3.4.2 Employers that do not admit new entrants

Certain Admission Bodies have closed the scheme to new entrants. This is expected to lead to the average age of employee members increasing over time and hence, all other things being equal, the future service rate is expected to increase as the membership ages.

To give more long term stability to such employers' contributions, the *Attained Age* funding method is normally adopted. This will limit the degree of future contribution rises by paying higher rates at the outset.

Both funding methods are described in the Actuary's report on the valuation.

Both future service rates will include an allowance for expenses of administration to the extent that they are borne by the Fund and include an allowance for benefits payable on death in service and ill health retirement.

3.5 Adjustments for Individual Employers

Adjustments to individual employer contribution rates are applied both through the calculation of employer-specific future service contribution rates and the calculation of the employer's funding position.

The combined effect of these adjustments for individual employers applied by the Fund actuary relate to:

- past contributions relative to the cost of accruals of benefits;
- different liability profiles of employers (e.g. mix of members by age, gender, part-time/full-time, manual/non manual);
- the effect of any changes to the valuation basis from the one used in the previous valuation, on the value placed on the employer's liabilities;
- any different deficit/surplus spreading periods or phasing of contribution changes;
- the difference between actual and assumed rises in pensionable pay;
- the difference between actual and assumed increases to pensions in payment and deferred pensions;
- the difference between actual and assumed retirements on grounds of ill-health from active status;
- the difference between actual and assumed amounts of pension ceasing on death;
- the additional costs of any non ill-health retirements relative to any extra payments made;

over the period between the 2004 and 2007 valuations and each subsequent triennial valuation period.

Actual investment returns achieved on the Fund between each valuation are applied proportionately across all employers.

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 occurring in the period since the last formal valuation, including, but not limited to:

- the actual timing of employer contributions within any financial year; and

- 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.

3.6 Asset Share Calculations for Individual Employers

The Administering Authority does not account for each employer's assets separately. The Fund's actuary is required to apportion the assets of the whole Fund between the employers (or pool of employers) at each triennial valuation using the income and expenditure figures provided for certain cash flows for each employer or pool of employers. This process adjusts for transfers of liabilities between employers participating in the Fund, but does make a number of simplifying assumptions. The split is calculated using an actuarial technique known as "analysis of surplus". The 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 having regard to the extra administration cost of building in new protections, it considers that the Fund actuary's approach addresses the risks of employer cross-subsidisation to an acceptable degree.

3.7 Stability of Employer Contributions

3.7.1 Deficit Recovery Periods

The Administering Authority normally targets the recovery of any deficit over a period not exceeding 20 years. However, these are subject to the maximum lengths set out in the table below unless otherwise agreed by the Administering Authority and the Fund's actuary.

Type of Employer	*Maximum* Length of Deficit Recovery Period
Statutory bodies with tax raising powers	A period to be agreed with each employer not exceeding 20 years
Community Admission Bodies with funding guarantees	A period to be agreed with each employer subject to a maximum of the future working lifetime.
Best Value Admission Bodies	The period from the start of the revised contributions to the end of the employer's contract.
Community Admission Bodies that are closed to new entrants e.g. Bus Companies, whose admission agreements continue after last active member retires	A period equivalent to the expected future working lifetime of the remaining scheme members allowing for expected leavers, subject to not less than 9 years.
All other types of employer	A period equivalent to the expected future working lifetime of the remaining scheme members

This *maximum* period (unless otherwise agreed by the Administering Authority and the Fund's actuary) is used in calculating each employer's *minimum* contributions. Employers may opt to pay higher regular contributions than these minimum rates.

The deficit recovery period starts at the commencement of the revised contribution rate (1 April 2008 for 2007 valuation). The Administering Authority would normally expect the same period to be used at successive triennial valuations, but would reserve the right to propose alternative spreading periods, for example, to improve the stability of contributions.

3.7.2 *Surplus Spreading Periods*

Any employers deemed to be in surplus may be permitted to reduce their contributions below the cost of accruing benefits, by spreading the surplus element over the maximum periods shown above (unless otherwise agreed by the Administering Authority and the Fund's actuary) for deficits in calculating their minimum contributions.

However, to help meet the stability requirement, employers may prefer not to take such reductions.

3.7.3 *Phasing in of Contribution Rises*

Best Value Admission Bodies are not eligible for phasing in of contribution rises. Other employers may opt to phase in contribution rises as follows:

- for employers contributing at or above its future service rate in 2007/08, phasing in the rise in employer contributions over a period of three years;
- for employers contributing at less than its future service rate in 2007/08, phasing in the rise in contribution rises over a period of three years.

3.7.4 *Phasing in of Contribution Reductions*

Any contribution reductions will be phased in over three years for all employers except Transferee Admission Bodies who can take the reduction with immediate effect.

3.7.5 *The Effect of Opting for Longer Spreading or Phasing-In*

Employers which are permitted and elect to use a longer deficit spreading period than was used at the 2004 valuation, or to phase-in contribution changes, will be assumed to incur a greater loss of investment returns on the deficit by opting to defer repayment. Thus, deferring paying contributions will lead to higher contributions in the long-term.

However any adjustment is expressed for different employers the overriding principle is that the discounted value of the contribution adjustment adopted for each employer will be equivalent to the employer's deficit

3.7.6 Pooled Contributions

The Administering Authority allows Haringey Council to pool the legacy liabilities and assets that remain when an employer leaves the Fund. Otherwise, the Administering Authority does not permit the pooling of contribution rates.

3.8 Admission Bodies ceasing

Admission Agreements for Best Value contractors are assumed to expire at the end of the contract.
Admission Agreements for other employers are generally assumed to be open-ended and to continue until the last pensioner dies.

Contributions, expressed as capital payments, can continue to be levied after all the employees have retired. These Admission Agreements can however be terminated at any point.

If an Admission Body's admission agreement is terminated, the Administering Authority instructs the Fund actuary to carry out a special valuation to determine whether there is any deficit.
The assumptions adopted to value the departing employer's liabilities for this valuation will depend upon the circumstances. For example:

(a) For Transferee Admission Bodies, the assumptions would be those used for an ongoing valuation to be consistent with those used to calculate the initial transfer of assets to accompany the active member liabilities transferred.

(b) For non-Transferee Admission Bodies that elect to voluntarily terminate their participation, the Administering Authority must look to protect the interests of other ongoing employers and will require the actuary to adopt valuation assumptions which, to the extent reasonably practicable, protect the other employers from the likelihood of any material loss emerging in future. This could give rise to significant payments being required.

(c) For Admission Bodies with guarantors, it is possible that any deficit could be transferred to the guarantor in which case it may be possible to simply transfer the former Admission Bodies members and assets to the guarantor, without needing to crystallise any deficit.

Under (a) and (b), any shortfall would be levied on the departing Admission Body as a capital payment.

3.9 Early Retirement Costs

3.9.1 Non Ill Health retirements

The actuary's funding basis makes no allowance for premature retirement except on grounds of ill-health. All employers, irrespective of whether or not they are pooled, are required to pay additional contributions wherever an employee retires "early" (see below) with no reduction to their benefit or receives an enhanced pension on retirement.

It is assumed that members' benefits on age retirement 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. Members receiving their pension unreduced before this age other than on ill-health grounds are deemed to have retired "early".

The additional costs of premature retirement are calculated by reference to these ages.

3.9.2 *Ill health monitoring*

The Fund monitors each employer's ill health experience on an ongoing basis. If the cumulative number of ill health retirement in any financial year exceeds the allowance at the previous valuation, the employer will be charged additional contributions on the same basis as applies for non ill-health cases.

4. Links to Investment Strategy

Funding and investment strategy are inextricably linked. Investment strategy is set by the administering authority, after consultation with the employers and after taking investment advice.

4.1 Investment Strategy

The investment strategy currently being pursued is described in the Fund's Statement of Investment Principles.

The investment strategy is set for the long-term, but is reviewed from time to time, normally every three years, to ensure that it remains appropriate to the Fund's liability profile. The Administering Authority has adopted a benchmark, which sets the proportion of assets to be invested in key asset classes such as equities, bonds and property. As at 31 March 2004, the proportion held in equities and property was 75.4% of the total Fund assets.

The investment strategy of lowest risk would be one which provides cash-flows which replicate the expected benefit cash-flows (i.e. the liabilities). Equity investment would not be consistent with this.

The Fund's benchmark includes a significant holding in equities in the pursuit of long-term higher returns than from a liability matching strategy.

The same investment strategy is currently followed for all employers. The Administering Authority does not currently have the facility to operate different investment strategies for different employers.

4.2 Consistency with Funding Basis

The funding policy currently adopts an asset out-performance assumption of 1.6% p.a. over and above the redemption yield on index-linked gilts. The Fund's investment strategy is detailed in our SIP. The Fund's Actuary considers that the funding basis does

conform to the requirements to take a "prudent longer-term" approach to funding.
The Administering Authority is aware that, in the short term – such as the three yearly assessments at formal valuations – the proportion of the Fund invested in equities brings the possibility of considerable volatility and there is a material chance that in the short-term and even medium term, asset returns will fall short of the out-performance target. The stability measures described in Section 3 will dampen 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.

4.3 Balance between risk and reward

Prior to implementing its current investment strategy, the Administering Authority considered the balance between risk and reward by altering the level of investment in potentially higher yielding, but more volatile, asset classes like equities. This process was informed by the use of Asset-Liability techniques to model the range of potential future solvency levels and contribution rates.

4.4 Inter-valuation Monitoring of Funding Position

The Administering Authority monitors investment performance relative to the growth in the liabilities by means of annual interim valuations. If appropriate, investigations will also be made into the individual employer funding positions.

5. Key Risks & Controls

5.1 Types of Risk

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

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

5.2 Financial Risks

Risk	Summary of Control Mechanisms
Fund assets fail to deliver returns in line with the anticipated returns underpinning valuation of liabilities over the long-term	*Only anticipate long-term return on a relatively prudent basis to reduce risk of under-performing.* *Analyse progress at three yearly valuations for all employers.* *Annual interim valuations.*
Inappropriate long-term investment strategy	*Set Fund-specific benchmark, informed by Asset-Liability modelling of liabilities.*
Fall in risk-free returns on Government bonds, leading to rise in value placed on liabilities	*Inter-valuation monitoring, as above.* *Some investment in bonds helps to mitigate this risk.*
Active investment manager under-performance relative to benchmark	*Short term (quarterly) investment monitoring analyses market performance and active managers relative to their index benchmark and target.*
Pay and price inflation significantly more than anticipated	*The focus of the actuarial valuation process is on real returns on assets, net of price and pay increases.* *Inter-valuation monitoring, as above, gives early warning.* *Some investment in index linked bonds also helps to mitigate this risk.* *Employers pay for their own salary awards and are reminded of the geared effect on pension liabilities of any bias in pensionable pay rises towards longer-serving employees.*

Risk	Summary of Control Mechanisms
Effect of possible increase in employer's contribution rate on service delivery and admission/scheduled bodies	*Seek feedback from employers on scope to absorb short-term contribution rises.* *Mitigate impact through deficit spreading and phasing in of contribution rises.*