Haringey Council

APPENDIX 1

Annual Pension Fund Report and Accounts

For the year ended 31 March 2012

Registration 00329316RX

Contents

	Page
Introduction	3
Management Report	4
Governance Arrangements	5
Service Delivery	6
Pension Fund Advisers	7
Investment Report	8
Investment Strategy	9
Fund Managers	10
Investment Performance	11
Administration Report	12
Local Government Pension Scheme	13
Administration Service Delivery	14
Membership	16
Communications Policy	18
Funding Report	19
Funding Position	20
Funding Strategy Statement	22
Statement of the Fund Actuary	23
Financial Report	25
Chief Financial Officer's responsibilities	26
Basis of Preparation and Accounting Policies	27
Critical Judgements applied	29
Fund Account	30
Net Asset Statement	31
Notes to the Financial Statements	32
Annex 1 to the Financial Statements	52
Auditor's Report	54
Appendices	56
1. Governance Compliance Statement	57
2. Statement of Investment Principles – in force 2011/12	62
3. Statement of Investment Principles – current version	75
4. Communications Policy	87
5. Funding Strategy Statement	90

Introduction

Haringey Council Pension Fund presents its Annual Pension Fund Report and Accounts of the Haringey Local Government Pension Fund for the year ended 31st March 2012.

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 16. The Management report on page 4 provides information about how the scheme is run. The registration number is 00329316RX.

<u>Scheme Rules</u>
There have been no changes in the Scheme rules during the year. Other than in accordance with legislative requirements, there were no increases to benefits in payment in the year. The Administration report on page 12 provides details about the administration of the Scheme.

<u>Membership</u>
There were 6,102 active members (2011: 6,610), 7,293 (2011: 6,939) deferred members, and 6,473 (2011: 6,089) pensioners and dependents receiving benefits. More details can be found in the Membership section on page 16.

<u>Financial position</u>
The financial statements on pages 25 to 54 show that the value of the Fund's assets increased by £34m to £755m as at 31 March 2012. The most significant factor in the increase in the value of the fund was the increase in the market value of investments of £18m. A net surplus of contributions over benefits contributed £7m and investment income net of investment management expenses and taxation added a further £9m. During the year the Fund received funds totalling £4m in respect of two bulk transfers – these were in settlement of transfers of staff from the London Borough of Enfield scheme and the London Pension Fund Authority.

<u>Investments</u>
During the year the rate of return on the Fund's investments was 3.89%. This was 2.12% below the Fund's target 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.

<u>Funding position</u>
The last formal valuation of the funding position took place as at 31st March 2010, when the funding level was 69% – details can be found in the Funding report on page 19. The next formal valuation will be as at 31st March 2013.

Management Report

Governance Arrangements

Service Delivery

Pension Fund Advisers

Governance Arrangements

On 23rd May 2011, Haringey Council in its role as Administering Authority delegated responsibility for administering the Pension Scheme to the Corporate Committee. Details of the Corporate Committee which served from 23rd May 2011 are shown below.

The terms of reference for Corporate Committee are set out in the Council's constitution. The Committee consists of ten elected Councillors, with full voting rights and three representatives. Councillors are selected by their respective political Groups and their appointment was confirmed at the meeting of the full Council on 23rd May 2011. They were not appointed for a fixed term but the membership is reviewed regularly by the political groups. The three representatives were appointed by their peer groups. The membership of the Committee from 23rd May 2011 to the end of the financial year was:

Cllr George Meehan	Chair
Cllr Gmmh Rahman Khan	Vice Chair
Cllr Kaushika Amin	
Cllr Eddie Griffith	
Cllr Richard Watson	
Cllr Stuart McNamara	
Cllr Robert Gorrie	
Cllr Jim Jenks	
Cllr Monica Whyte	
Cllr Neil Williams	

Roger Melling	Employee representative
Michael Jones	Pensioner representative
Keith Brown	Admitted and Scheduled Bodies representative

Prior to 23rd May 2011, the responsibility for administering the Pension Scheme was delegated to Pensions Committee. Those who served on Pensions Committee in the year this report relates to are:

Cllr Richard Watson Chair	Cllr Jim Jenks
Cllr Charles Adje – until 7th April 2011	Cllr Anne Stennett
Cllr David Beacham	Cllr Richard Wilson
Cllr Pauline Gibson	

In addition the three current representative members served on Pensions Committee.

<u>Governance Compliance Statement</u>

The Pension Fund has published a Governance Compliance Statement in accordance with the LGPS Regulations and this is set out in Appendix 1 on page 55. 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 Finance (Corporate Resources Directorate), while Pensions Administration is part of Personnel (Assistant Chief Executive People, Organisation and Development's Service).

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

- Support to the Committee to set investment strategy and monitor investment performance;
- Managing the contracts with the Pension Fund's advisers;
- Producing the annual Pension Fund budget and Annual report and accounts; and
- 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 12 sets out the key tasks of the Pensions Administration service.

The Pension Fund's internal auditors are Deloitte & Touche Public Sector Internal Audit Limited. 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	Bernie Ryan
Assistant Director of Finance	Kevin Bartle
Head of Finance: Treasury & Pensions	Nicola Webb
Pensions Manager	Ian Benson

Pension Fund Advisers

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

Secretary to the Committee	Head of Local Democracy and Member Services
Scheme Administrator	Chief Financial Officer
Actuary	Hymans Robertson
Investment Managers	Capital International (until May 2012) Fidelity International (until May 2012) Legal & General Investment Management BlackRock Investment Management (from May 2012) CBRE Global Investors (from October 2011, formerly ING Real Estate) Pantheon
Custodian	Northern Trust
Investment Consultants	Aon Hewitt Limited
Independent Adviser	John Raisin (from 1st June 2012)
Bankers	Royal Bank of Scotland
Legal advisers	Head of Legal Services
Additional Voluntary Contribution providers	Clerical and Medical Equitable Life Assurance Society Prudential Assurance
Internal Auditors	Deloitte & Touche Public Sector Internal Audit Limited
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.

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

The strategy is set out in detail in the Statement of Investment Principles and the version in force during 2011/12 is shown in Appendix 2 on page 60. All investments were externally managed, with the exception of a small allocation of cash pending investment, which was held in-house. During 2011/12 the majority of the Fund was actively managed, with approximately 24% 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 benchmark in place during 2011/12, showing target asset allocation, which was set in 2007, is shown below alongside the actual allocation of the Fund's investments at 31st March 2012.

Asset class	Benchmark %	Actual % at 31 March 12
UK Equities	30.5	25.7
Overseas Equities	34.5	38.4
UK Gilts	7.0	0.0
UK Index linked gilts	6.0	16.2
Corporate Bonds	7.0	3.8
Property	10.0	7.0
Private Equity	5.0	3.9
Cash	0.0	5.0

A decision was taken during the year to make a medium term allocation away from the long term benchmark to UK index linked gilts and out of UK gilts and corporate bonds.

<u>Changes to investment strategy</u>

In May 2012 changes were made to the Fund's investment strategy. All the Fund's equity and bond holdings were moved to being invested on a passive basis and two of the fund managers were removed and one new one added. Appendix 3 on page 73 sets out the current version of the Statement of Investment Principles.

<u>Custodial arrangements</u>

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 the 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 fund managers in place throughout 2011/12, the asset classes they cover and their percentage of the Fund's investments are shown in the table below (the remaining 4.4% was invested in-house in cash):

Investment Manager	Mandate	% at 31 March 2012
Capital International	Global Equities & Bonds	27.1
Fidelity International	Global Equities & Bonds	33.3
Legal & General	Global Equities & Bonds (Passive)	24.4
CBRE Global Investors	Property	6.9
Pantheon	Private Equity	3.9

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 International	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)
CBRE Global Investors	HSBC/APUT Balance Funds Index	+1 % (gross) of fees p.a.
Pantheon	MSCI World Index plus 5%	+0.75% (gross) of fees p.a.

Investment Performance

The investment performance of the Pension Fund and the fund managers is regularly reviewed by Committee members. Performance reports to compare actual performance against the targets set for the fund managers are provided to and discussed by the Committee quarterly.

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

	Annual performance to 31 March 2012 (%)	Annualised performance from inception of strategy to 31 March 2012 (%)
Overall Pension Fund performance	3.89	2.48
Benchmark	4.37	4.18
Performance versus benchmark	**(0.48)**	**(1.70)**
Target	6.01	5.82
Performance versus target	**(2.12)**	**(3.34)**

This table shows that the absolute return on investments was positive during 2011/12 and since the inception of the current investment strategy on 1st April 2007. However, the performance was below benchmark and target. The Committee has undertaken a comprehensive review of investment strategy to respond to this. Changes to the strategy to invest the whole of the equity and bond elements of the Fund on a passive basis were implemented in May 2012.

Individual fund manager performance against the targets set during 2011/12 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 International	Equities	(1.42)	0.71	(2.13)
	Bonds	20.80	22.23	(1.43)
Fidelity International	Equities	(0.44)	1.08	(1.52)
	Bonds	17.87	18.99	(1.12)
Legal & General	Global Equities	0.41	0.45	(0.04)
	UK Equities	1.51	1.39	0.12
CBRE Global Investors	Property	1.40	6.72	(5.32)
Total Fund Performance		**3.89**	**6.01**	(2.12)

Administration Report

Local Government Pension Scheme

Administration Service Delivery

Membership

Communications Policy

Local Government Pension Scheme

The Haringey Pension Fund is part of the Local Government Pension Scheme (LGPS), which 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. Haringey Pension Fund 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. There were no changes to scheme benefits during the 2011/12 financial year.

The Independent Public Service Pensions Commission reported to the UK Government in March 2011 with a series of recommendations which will impact on the Local Government Pension Scheme. Consultation on changes to the LGPS is expected to commence during 2012.

Administration Service Delivery

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.

<u>Internal Dispute Resolution Procedure</u>
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 or ian.benson@haringey.gov.uk. If the matter remains unresolved, a stage 1 appeal may be made to Steve Davies, Head of Human Resources, steve.davies@haringey.gov.uk and thereafter, if necessary a further appeal may be made to Bernie Ryan, Head of Legal Services at Level 5, River Park House, 225 High Road, Wood Green, London, N22 8HQ or bernie.ryan@haringey.gov.uk.

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 Haringey Pension Fund's details are registered with the tracing agency.

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 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 who were actively participating in the Pension Fund on 31st March 2012.

Organisation name	Type of employer
Haringey Council	Administering Authority
Homes for Haringey	Scheduled Body
College of Haringey, Enfield & North East London	Scheduled Body
Greig City Academy	Scheduled Body
Fortismere School	Scheduled Body
John Loughborough School	Scheduled Body
Alexandra Park Academy	Scheduled Body
Woodside Academy	Scheduled Body
Eden Free School	Scheduled Body
Alexandra Palace Trading Co Ltd	Community Admission Body
Haringey Age Concern	Community Admission Body
Haringey Citizens Advice Bureau	Community Admission Body
Churchill Contract Services	Transferee Admission Body
ESSL	Transferee Admission Body
RM Education Ltd	Transferee Admission Body
TLC Ltd	Transferee Admission Body
Urban Futures London Ltd	Transferee Admission Body
Veolia Environmental Services (UK) plc	Transferee Admission Body

The membership of the Pension Fund at 31st March 2012 compared with the previous financial year is shown in the table below:

	31st March 2012	31st March 2011
Active members	6,102	6,610
Deferred members	7,293	6,939
Pensioners & Dependants	6,473	6,089
TOTAL	19,868	19,638

The table above shows an increase an overall increase in membership of 1.2%, however the active membership has reduced by 7.7%. Offsetting this was an increase of 5.1% in Deferred members and a 6.3% increase in pensioners & dependants.

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	5,026	6,760	6,081
Haringey Council Councillors	21	8	3
Homes for Haringey	524	125	96
College Haringey, Enfield & NE London	171	195	109
Greig City Academy	38	16	3
Fortismere School	32	10	5
John Loughborough School	9	2	1
Alexandra Park Academy	54	3	0
Woodside Academy	57	0	0
Eden Free School	3	0	0
Community Admission Bodies			
Alexandra Palace Trading Co Ltd	3	11	8
Haringey Age Concern	2	3	16
Haringey Citizens Advice Bureau	8	1	3
Transferee Admission Bodies			
Churchill Contract Services	4	0	0
ESSL	1	0	0
RM Education Ltd	1	2	0
TLC Ltd	18	7	2
Urban Futures London Ltd	4	7	0
Veolia Environmental Services (UK) plc	126	14	7
Bodies no longer actively participating			
CSS (Haringey) Ltd	0	36	47
Enterprise Futures London Ltd	0	40	45
Haringey Magistrates	0	21	22
Harrisons Catering	0	1	2
Initial Catering Ltd	0	1	1
Jarvis Workspace Ltd	0	26	18
Mittie Ltd	0	0	2
One Complete Solution Ltd	0	1	1
Ontime Parking Solutions	0	3	1
Totals	**6,102**	**7,293**	**6,473**

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 4 on page 85 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.

Funding Report

Funding Position

Funding Strategy Statement

Statement of the Fund Actuary

Funding Position

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

The most recent triennial actuarial valuation of the Fund was carried out as at 31 March 2010 in a report dated 31 March 2011.

The 2010 valuation was carried out in accordance with the Fund's Funding Strategy Statement and Guidelines GN9: Funding Defined Benefits – Presentation of Actuarial Advice published by the Board for Actuarial Standards. 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 2010 was £664m. Against this sum liabilities were identified of £960m equivalent to a funding deficit of £296m. The movement in the actuarial deficit between 2007 and the last valuation in 2010 is analysed below:

Reason for change	**£m**
Interest on deficit	(32)
Investment returns lower than expected	(123)
Change in demographic assumptions	(25)
Experience items	63
Change in financial assumptions	(1)
Total	(118)
Deficit brought forward	(178)
Deficit carried forward	(296)

The level of funding on an ongoing funding basis reduced from 77.7 per cent to 69.2 per cent between the triennial actuarial valuations as at 31st March 2007 and as at 31st March 2010. The main reason for the reduction in the funding level was the lower than expected investment returns following the falls in world stock markets during the three years.

The funding objective of the Fund 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. Further information about the principles for achieving full funding is set out in the Funding Strategy Statement in Appendix 5 on page 88.

Following the valuation as at 31 March 2010, the actuary agreed that the Council's contribution rate could remain at the 2010/11 rate of 22.9 per cent of pensionable salaries for the following three financial years. The 2011/12 contribution rate was split between 5.8 per cent for the past service adjustment to fund the deficit over 20 years and the future service rate of 17.1 per cent.

The main assumptions used in the 2010 valuation were:

Investments	**Annual nominal rate of return %**
Equities	6.1
Bonds	4.5

	Annual change %
Pay increases	5.3*
Price Increases (pension increases)	3.3

**Assumed to be 5.3% in the long term, however an increase of 1% was assumed for 2010/11 and 2011/12.*

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 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 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 current statement was reviewed during 2010/11 and agreed in February 2011.

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 help employers recognise and manage pension liabilities as they accrue;
- 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 5 on page 88.

Statement of the Fund Actuary

This statement has been prepared in accordance with Regulation 34(1)(d) of the Local Government Pension Scheme (Administration) Regulations 2008, and Chapter 6 of the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the UK 2011/12.

Description of Funding Policy

The funding policy is set out in the London Borough of Haringey Pension Fund Funding Strategy Statement (FSS), dated 31 March 2011. The key funding principles are set out on page 22.

The Funding Strategy Statement sets out how the administering authority seeks to balance the conflicting aims of securing the solvency of the Fund and keeping employer contributions stable.

For employers whose covenant was considered by the Administering Authority to be sufficiently strong, contributions have been stabilised below the theoretical rate required to return their portion of the Fund to full funding over 20 years if the valuation assumptions are borne out. Asset-liability modelling has been carried out which demonstrate that if these contribution rates are paid and future contribution changes are constrained as set out in the FSS, there is still a better than 50% chance that the Fund will return to full funding over 24 years.

Funding Position as at the last formal funding valuation

The most recent actuarial valuation carried out under Regulation 36 of the Local Government Pension Scheme (Administration) Regulations 2008 was as at 31 March 2010. This valuation revealed that the Fund's assets, which at 31 March 2010 were valued at £664 million, were sufficient to meet 69.2% of the liabilities (i.e. the present value of promised retirement benefits) accrued up to that date. The resulting deficit at the 2010 valuation was £296 million.

Individual employers' contributions for the period 1 April 2011 to 31 March 2014 were set in accordance with the Fund's funding policy as set out in its FSS.

Principal Actuarial Assumptions and Method used to value the liabilities

Full details of the methods and assumptions used are described in the valuation report dated 31 March 2011.

Method

The liabilities were assessed using an accrued benefits method which takes into account pensionable membership up to the valuation date and makes an allowance for expected future salary growth to retirement or expected earlier date of leaving pensionable membership.

Assumptions

A market-related approach was taken to valuing the liabilities, for consistency with the valuation of the Fund assets at their market value.

The key financial assumptions adopted for the 2010 valuation were as set out overleaf:

Financial assumptions	31 March 2010	
	% p.a. Nominal	% p.a. Real
Discount rate	6.1%	2.8%
Pay increases *	5.3%	2.0%
Price inflation/Pension increases	3.3%	-

** plus an allowance for promotional pay increases. Short term pay growth was assumed to be 1% p.a. for 2010/11 and 2011/12, reverting to 5.3% p.a. thereafter.*

The key demographic assumption was the allowance made for longevity. The baseline longevity assumptions adopted at this valuation were in line with standard SAPS mortality tables, and included improvements based on medium cohort projections and a 1% p.a. underpin effective from 2007. Based on these assumptions, the average future life expectancies at age 65 are as follows:

	Males	Females
Current Pensioners	21.9 years	24.7 years
Future Pensioners	23.3 years	26.1 years

Copies of the 2010 valuation report and Funding Strategy Statement are available on request from Haringey Council, administering authority to the Fund.

<u>Experience over the period since April 2010</u>

The funding level is likely to have worsened since 31 March 2010. The reasons for this are:

i. Total investment returns were slightly below the long term assumption made at the 2010 valuation; and
ii. There has been a significant fall in Government bond yields (meaning that the nominal discount rate has decreased). This has been partially offset by a decrease in the market's expectation for long term inflation (resulting in a decrease in the pension increase assumption) but overall there has been an increase in the real discount rate (the nominal discount rate net of inflation). This will have led to an increase in the value placed on the liabilities.

The next actuarial valuation will be carried out as at 31 March 2013. The Funding Strategy Statement will also be reviewed at that time.

Bryan T Chalmers
Fellow of the Institute and Faculty of Actuaries
For and on behalf of Hymans Robertson LLP
March 2012

Financial Report

Chief Financial Officer's Responsibilities

Basis of Preparation & Accounting Policies

Fund Account

Net Asset Statement

Note to the Financial Statements

Annex 1 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 the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom.

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 2011/12, which is based on International Financial Reporting Standards and having regard to the Financial Reports of Pension Schemes – A Statement of Recommended Practice. The principal accounting policies of the Fund 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. Employers' capital cost payments are also accounted for on an accruals basis relating to the period in which the liability arises.

Benefits
Benefits are shown on an accruals basis relating to the date on which they become 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, which is recoverable, 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. Distributions from equity and bond pooled funds are recognised on the date of payment. Distributions from property unit trusts are shown on an accruals basis by reference to the ex-dividend date.

Taxation
The Fund is exempt from UK income tax on interest received and capital gains tax on the proceeds of investments sold. Income from overseas investments suffers withholding tax in the country of origin, unless exemption is permitted. Irrecoverable tax is accounted fro as an expense as it arises.

Derivative contracts
In relation to income from 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. The Pension Fund holds no other types of derivative contract.

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; and
- 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.

There are no published price quotations available to determine the fair value of the Fund's private equity holdings. The value of these holdings is therefore assessed by the Private Equity Fund Manager on a fair value basis as determined at 31st December 2011 adjusted for drawdowns paid and distributions received in the period 1st January 2012 to 31st March 2012.

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.

Actuarial Present Value of Promised Retirement Benefits
The actuarial present value of promised retirement benefits is assessed on a triennial basis by the scheme actuary and a roll forward approximation is applied in the intervening years. This is done in accordance with the requirements of IAS19 and relevant actuarial standards. As permitted under IAS26, the Fund has opted to disclose the actuarial present value of promised retirement benefits as an annex to the financial statements.

Additional Voluntary Contributions ("AVCs")
Members of the Fund 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 20 to the financial statements.

Critical Judgements applied

There are two areas in the accounts where critical judgements are applied which are materially significant to the accounts:

Actuarial present value of promised retirement benefits – the figure of net liability to pay pensions is based on a significant number of assumptions including the discount rate, mortality rates and expected returns on fund assets. The Pension Fund's qualified actuary calculates this figure to ensure the risk of misstatement is minimised. The liability is calculated on a three yearly basis with annual updates in the intervening years. The Actuary has advised that this has provided a reasonable estimate of the actuarial present value of promised retirement benefits.

Private Equity valuations – the value of the Fund's private equity holdings is calculated by the General Partners of the fund on the basis of their Valuation Policy, which follows best practice in the industry. However as there is no active market for these holdings, there is an element of professional judgement involved in the valuation of these holdings.

Fund Account

2010/11		Notes	2011/12
£'000			£'000
	Dealings with members, employers and others directly involved in the scheme		
45,581	Contributions receivable	1	44,481
6,034	Transfers In	2	9,072
(32,218)	Benefits payable	3	(42,001)
(7,688)	Payments to and on account of leavers	4	(4,232)
(680)	Administrative Expenses	5	(651)
11,029	**Net additions from dealings with members**		**6,669**
	Returns on Investments:		
11,604	Investment Income	6	12,365
37,955	Change in market value of investments	9	18,389
(122)	Taxes on Income	7	(94)
(3,200)	Investment management expenses	8	(3,333)
46,237	**Net returns on investments**		**27,327**
57,266	**Net increase in the fund during the year**		**33,996**
663,686	**Add: Opening net assets of the scheme**		**720,952**
720,952	**Closing net assets of the scheme**		**754,948**

Net Asset Statement

31/03/11		Notes	31/03/12
£'000			£'000
719,333	Investment assets	9	754,512
(1,366)	Investment liabilities	9	(2,680)
717,967			751,832
3,908	Current Assets	12,13	4,025
(923)	Current Liabilities	13,14	(909)
720,952	Total Assets		754,948

Notes to the Financial Statements

1. Contributions receivable

2010/11		2011/12
£'000		£'000
22,704	Employers' normal contributions	23,959
11,436	Employers' deficit funding contributions	6,979
852	Employers' other contributions	4,179
34,992		**35,117**
10,589	Members' normal contributions	9,364
45,581	**Total**	**44,481**

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.

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:

2010/11		2011/12
£'000		£'000
38,235	Administering authority	36,455
5,955	Scheduled bodies	6,765
1,391	Admitted bodies	1,261
45,581	**Total**	**44,481**

Haringey Council is the administering authority. Scheduled bodies are public bodies required by law to participate in the LGPS. Admitted bodies are in the LGPS either because services have been outsourced or because they have sufficient links with the Council to be regarded as having a community interest. See the membership section on page 16 for further information.

2. Transfers in

2010/11 £'000		2011/12 £'000
6,034	Individual transfers in from other schemes	4,980
0	Bulk transfers in from other schemes	4,092
6,034	Total	9,072

3. Benefits payable

2010/11 £'000		2011/12 £'000
25,347	Pensions	28,525
5,989	Commutation of pensions & lump sum retirement benefits	12,956
882	Lump sum death benefits	520
32,218	Total	42,001

Benefits payable are further analysed as follows:

2010/11 £'000		2011/12 £'000
29,237	Administering authority	37,719
1,879	Scheduled bodies	3,308
1,102	Admitted bodies	974
32,218	Total	42,001

4. Payments to and on account of leavers

2010/11 £'000		2011/12 £'000
1	Refunds of contributions	1
7,687	Individual transfers out to other schemes	4,231
7,688	Total	4,232

5. Administrative expenses

2010/11 £'000		2011/12 £'000
569	Administration and processing	572
111	Legal and professional fees	79
680	Total	651

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

6. Investment income

2010/11 £'000		2011/12 £'000
509	Interest from fixed interest securities	77
3,323	Dividends from equities	4,136
271	Income from index-linked securities	569
6,989	Income from pooled investment vehicles	7,215
512	Interest on cash deposits	368
11,604	Total	12,365

7. Taxes on income

2010/11 £'000		2011/12 £'000
122	Irrecoverable withholding tax on investment income	94
122	Total	94

8. Investment management expenses

2010/11		2011/12
£'000		£'000
3,035	Fund managers fees	3,150
86	Custodian fees	86
48	Investment consultant fees	80
11	Independent adviser fees	1
20	Other	16
3,200	Total	3,333

Other includes legal and subscription charges relating to investment management.

9. Reconciliation of movements in Investment assets & liabilities

2011/12	Value as at 1 April 2011	Purchases at Cost & Derivative payments	Sales Proceeds & derivative receipts	Changes in market value	Value as at 31 March 2012
	£'000	£'000	£'000	£'000	£'000
Fixed Interest securities	10,453	0	(10,834)	381	0
Equities	133,811	51,790	(50,258)	(3,890)	131,453
Index-linked securities	16,844	41,490	(12,825)	7,807	53,316
Pooled Investment vehicles	489,752	255,234	(229,528)	14,127	529,585
Derivative Contracts	0	58	(87)	28	(1)
	650,860	348,572	(303,532)	18,453	714,353
Cash Deposits	66,637	1,627	(29,510)	(70)	38,684
Other Investment Balances	470	(875)	(806)	6	(1,205)
	67,107	752	(30,316)	(64)	37,479
Net Investment Assets	717,967	349,324	(333,848)	18,389	751,832

2010/11

	Value as at 1 April 2010	Purchases at Cost & Derivative payments	Sales Proceeds & derivative receipts	Changes in market value	Value as at 31 March 2011
	£'000	£'000	£'000	£'000	£'000
Fixed Interest securities	16,335	34,153	(40,573)	538	10,453
Equities	122,067	57,664	(53,449)	7,529	133,811
Index-linked securities	17,508	4,171	(5,579)	744	16,844
Pooled Investment vehicles	469,010	106,140	(114,536)	29,138	489,752
Derivative Contracts	38	216	(267)	13	0
	624,958	202,344	(214,404)	37,962	650,860
Cash Deposits	36,199	30,469	0	(31)	66,637
Other Investment Balances	1,359	679	(1,592)	24	470
	37,558	31,148	(1,592)	(7)	67,107
Net Investment Assets	662,516	233,492	(215,996)	37,955	717,967

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.

Transaction costs are included in the cost of purchases and sales proceeds. Transaction costs include costs charged directly to the Fund such as fees, commissions, stamp duty and other fees. Transaction costs incurred during the year amounted to £132k (2010/11: £149k). 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 Fund.

9a. Analysis of investment assets excluding derivatives and Other Investment Balances

31/03/11 £'000		31/03/12 £'000
	Fixed Interest Securities	
10,453	UK Public Sector quoted	0
0	UK Corporate quoted	0
10,453		0
	Equities	
36,493	UK quoted	34,109
97,318	Overseas quoted	97,344
133,811		131,453
	Index Linked Securities	
16,074	UK Public sector quoted	53,316
770	UK Other quoted	0
16,844		53,316
	Pooled Investment Vehicles	
	Unit Trusts:	
43,569	- Property - UK	46,989
13,463	- Other - UK	0
16,371	- Other - Overseas	14,088
	Unitised Insurance Policies	
118,326	- UK	120,109
30,275	- Overseas	63,629
	Other managed funds	
6,855	- Property - Overseas	5,571
121,753	- Other - UK	136,589
139,140	- Other - Overseas	142,610
489,752		529,585
	Cash Deposits	
66,590	Sterling	38,384
47	Foreign Currency	300
66,637		38,684

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

9b. Derivative contracts

31/03/11		31/03/12
£'000		£'000
	Forward Foreign exchange:	
47	Pending forward foreign exchange purchases (asset)	128
(47)	Pending forward foreign exchange sales (liability)	(129)
0	Total	(1)

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

Settlement	Currency bought	Local Value	Currency sold	Local Value	Asset value	Liability value
		000		000	£'000	£'000
Up to one month	JPY	2,366	GBP	(18)	18	(18)
Up to one month	GBP	10	EUR	(12)	10	(10)
Up to one month	AUD	88	GBP	(57)	57	(58)
Up to one month	USD	69	GBP	(43)	43	(43)
					128	(129)
Net forward currency contracts at 31st March 2012						(1)

The Pension Fund investment managers use forward foreign exchange contracts to reduce currency risk when undertaking investment transactions in foreign currencies. The table above shows these are short term contracts matched to the settlement of investment transactions.

In addition to forward foreign exchange contracts, the Pension Fund investment managers are permitted to use certain other derivatives in managing their portfolios, including warrants, futures, convertible securities and swaps. The use of all these derivatives is in line with the investment management agreements in place between the Fund and the investment managers. The Pension Fund did not hold any derivative contracts, other than forward foreign exchange contracts, as at 31 March 2012 or 31 March 2011.

9c. Investment Assets – Other Investment Balances

31/03/11 £'000		31/03/12 £'000
858	Outstanding dividend entitlements	1,193
63	Interest receivable	11
536	Outstanding trade sales proceeds	62
332	Pending foreign exchange purchases - spot deals	80
1,789		1,346

9d. Investment Liabilities – Other Investment Balances

31/03/11 £'000		31/03/12 £'000
(334)	Pending foreign exchange sales - spot deals	(80)
(985)	Unsettled investment trade purchases	(2,471)
(1,319)		(2,551)
470	Net Total	(1,205)

9e. Analysis of Investments by fund manager

31/03/2011 £'000	31/03/2011 %	Fund Manager	31/03/2012 £'000	31/03/2012 %
196,192	27.3	Capital International	203,301	27.1
236,673	32.9	Fidelity International	250,142	33.3
148,601	20.7	Legal & General	183,738	24.4
50,741	7.1	CBRE Global Investors	52,060	6.9
24,281	3.4	Pantheon	29,485	3.9
61,479	8.6	In house cash deposits	33,106	4.4
717,967	100.0	Total	751,832	100.0

9f. Investments exceeding 5% of Net Assets

31/03/2011			31/03/2012	
£'000	%	Name of holding	£'000	%
118,326	16.5%	Legal & General UK Equity Index	120,110	15.9%
N/A	N/A	Legal & General World Equity Index	63,629	8.4%
N/A	N/A	Fidelity Institutional Index Linked Bond Fund	68,671	9.1%
38,558	5.4%	Fidelity Institutional Exempt America	41,029	5.4%
38,724	5.4%	Fidelity UK Institutional UK Equities	38,889	5.2%
41,499	5.8%	Fidelity UK Institutional Long Corporate Bond Fund	N/A	N/A
37,241	5.2%	Fidelity Institutional Europe ex UK	N/A	N/A

10a. Classification of Financial Instruments

The majority of the Fund's financial assets and liabilities are classified as "fair value through profit and loss". This means that the assets can be exchanged between parties at a market price. The Accounting Policies on page 27 describe how fair value is measured. Assets which have fixed payments and are not quoted in an active market are classified as "Loans and Receivables". The only financial assets in this class held by the Fund are cash deposits and debtors. Creditors to the Fund are classified as financial liabilities at amortised cost because they are not held for trading. No assets or liabilities have been reclassified.

31/03/11 Carrying Value £'000	31/03/11 Fair Value £'000		31/03/12 Carrying Value £'000	31/03/12 Fair Value £'000
		FINANCIAL ASSETS		
		Financial Assets at Fair Value through Profit or Loss		
10,470	10,453	Fixed Interest securities	0	0
115,061	133,811	Equities	119,711	131,453
15,711	16,844	Index-linked securities	45,294	53,316
383,657	489,752	Pooled Investment vehicles	417,211	529,585
47	47	Derivative Contracts	128	128
1,791	1,789	Other Investment Balances	1,347	1,346
526,737	652,696		583,691	715,828
		Loans & Receivables		
66,637	66,637	Cash Deposits	38,684	38,684
3,907	3,907	Debtors	4,025	4,025
1	1	Cash at Bank	0	0
70,545	70,545		42,709	42,709
		FINANCIAL LIABILITIES		
		Financial Liabilities at Fair Value through Profit or Loss		
(47)	(47)	Derivative Contracts	(129)	(129)
(1,319)	(1,319)	Other Investment Balances	(2,727)	(2,551)
(1,366)	(1,366)		(2,856)	(2,680)
		Financial Liabilities at Amortised Cost		
(923)	(923)	Creditors	(891)	(891)
0	0	Cash overdrawn	(18)	(18)
(923)	(923)		(909)	(909)
594,993	720,952	Net Assets	622,635	754,948

10b. Net gains and losses on financial instruments
The table below analyses gains and losses according to financial instrument classification.

31/03/11		31/03/12
£'000		£'000
Financial Assets		
36,414	Fair Value through profit or loss	18,429
(31)	Loans & receivables	(70)
Financial Liabilities		
1,572	Fair Value through profit or loss	30
0	Financial Liabilities at Amortised Cost	0
37,955	Total	18,389

11. Nature and extent of risks arising from Financial Instruments
The Pension Fund's investment objective is to achieve a return on Fund assets, which is sufficient, over the long term, to meet the funding objectives. The Pension Fund's investment strategy has an inherent degree of risk which is taken in order to achieve this objective.

a) Management of risk
The Pension Fund is invested in a range of different types of asset – equities, bonds, property, private equity and cash. This is done in line with the Local Government Pension Scheme (Management & Investment of Funds) Regulations 2009, which require pension funds to invest any monies not immediately required to pay benefits. These regulations require the formulation of a Statement of Investment Principles (see Appendix 2 for the version in force during 2011/12 and Appendix 3 for the current version), which sets out the Fund's approach to investment including the management of risk.

The majority of the Pension Fund's assets are managed by external fund managers and they are required to provide an audited internal controls report regularly to the Council which sets out how they ensure the Fund's assets are managed in accordance with the Investment Management Agreement the Council has signed with each fund manager.

b) Market price risk
The key risk for the Pension Fund is market risk, which is the risk that the value of the investments fluctuates due to changes in market prices. The majority of the Fund is invested in assets which can fluctuate on a daily basis as market prices change e.g. equities and bonds. The Fund's investments increased in value during 2011/12 by £34m, equivalent to around 4.7%. To demonstrate the impact of this volatility, the table below shows the impact a 10% movement up and down in market prices would have had on the portfolio in 2011/12 and for the previous year.

	Market Value at 31/03/12 £'000	% change	Value on increase £'000	Value on decrease £'000
Fixed Interest securities	0	10%	0	0
Equities	131,453	10%	144,598	118,308
Index-linked securities	53,316	10%	58,648	47,984
Pooled Investment vehicles	529,585	10%	582,544	476,627
Derivative Contracts	(1)	0%	(1)	(1)
Cash Deposits	38,684	0%	38,684	38,684
Other Investment Balances	(1,205)	0%	(1,205)	(1,205)
Net Investment Assets	751,832		823,268	680,397

	Market Value at 31/03/11 £'000	% change	Value on increase £'000	Value on decrease £'000
Fixed Interest securities	10,453	10%	11,498	9,407
Equities	133,811	10%	147,192	120,430
Index-linked securities	16,844	10%	18,528	15,159
Pooled Investment vehicles	489,752	10%	538,728	440,777
Derivative Contracts	0	0%	0	0
Cash Deposits	66,637	0%	66,637	66,637
Other Investment Balances	470	0%	470	470
Net Investment Assets	717,967		783,053	652,880

A number of controls have been put in place to minimise this risk. A key method to reduce risk is to diversify the Pension Fund's investments. This is achieved through the setting of a benchmark, which incorporates a wide range of asset classes and geographical areas. A range of investment managers have been appointed to further diversify the Pension Fund's investments and lower risk. In addition to diversification, parameters have been set for the investment managers to work within to ensure that the risk of volatility and deviation from the benchmark are within controlled levels.

Investment values and performance of the fund managers is measured on a quarterly basis through reporting to Corporate Committee.

c) Exchange rate risk
The Pension Fund holds assets in currencies other than sterling, which made up 43% of the Fund value on 31st March 2012. There is a risk that due to exchange rate movements that the sterling equivalent value of the investments falls. The table below shows the impact a 10% movement up and down of the pound against foreign currencies would have had on the portfolio in 2011/12 and for the previous year.

	Market Value at 31/03/12 £'000	% change	Value on increase £'000	Value on decrease £'000
Overseas Equities	97,344	10%	107,078	87,610
Overseas exposure in Pooled Investment vehicles	225,898	10%	248,488	203,308
Foreign Currency	300	10%	330	270
Total	323,542		355,896	291,188

	Market Value at 31/03/11 £'000	% change	Value on increase £'000	Value on decrease £'000
Overseas Equities	97,318	10%	107,050	87,586
Overseas exposure in Pooled Investment vehicles	192,641	10%	211,905	173,377
Foreign Currency	47	10%	52	42
Total	290,006		319,007	261,005

The external fund managers are required to consider the potential impact of currency movements when selecting investments. The cash balances managed internally are only permitted to be in sterling.

d) Interest Rate risk
Movements in interest rates affect the income earned by the Fund and can have an impact on the value of net assets, in particular bonds. To demonstrate this risk, the table below shows the impact on income earned of a 1% increase and decrease in interest rates.

	Interest earned 2011/12 £'000	Interest if rates 1% higher £'000	Interest if rates 1% lower £'000
Fixed Interest securities	77	181	0
Index-linked securities	569	1,041	97
Fixed Interest exposure in Pooled Investment vehicles	2,063	3,015	1,110
Cash Deposits	368	864	9
	3,077	5,101	1,216

	Interest earned 2010/11 £'000	Interest if rates 1% higher £'000	Interest if rates 1% lower £'000
Fixed Interest securities	509	643	375
Index-linked securities	271	442	99
Fixed Interest exposure in Pooled Investment vehicles	3,254	4,056	2,451
Cash Deposits	512	1,095	59
	4,546	6,236	2,984

e) Credit risk and counterparty risk

Credit risk is the risk a counterparty fails to fulfil a transaction it has committed to entering into. This risk is particularly relevant to the Council's bond and cash investments.

The Investment Management Agreements the Council has signed with the external fund managers set out limits on the types of bonds the fund managers can purchase for the Fund in order to limit the possibility of default. The table below shows the split of the bond investments by credit rating at 31st March 2012 and 31st March 2011.

	Market Value at 31/03/2012 £'000	AAA %	AA %	A %	BBB %	Below BBB %
Index-linked securities	53,316	100.0	0.0	0.0	0.0	0.0
Bond exposure in Pooled Investment vehicles	97,700	70.0	3.5	13.3	10.2	3.0
Total / Weighted Average	151,016	80.6	2.3	8.6	6.6	1.9

	Market Value at 31/03/2011 £'000	AAA %	AA %	A %	BBB %	Below BBB %
Fixed Interest securities	10,453	100.0	0.0	0.0	0.0	0.0
Index-linked securities	16,844	100.0	0.0	0.0	0.0	0.0
Bond exposure in Pooled Investment vehicles	83,029	49.5	5.7	20.9	19.1	4.8
Total / Weighted Average	**110,326**	**62.0**	**4.3**	**15.7**	**14.4**	**3.6**

The cash that the Council manages internally on behalf of the Pension Fund is invested in line with the Council's Treasury Management Strategy, which sets out very strict limits on the counterparties which can be used and the amounts that can be invested with them. The amount of cash held by fund managers is kept to a minimum and when held for a period of time is invested in the custodian bank's AAAm rated money market fund. The table below details the credit ratings of the institutions the cash was held.

	Credit rating on 31/03/12	Exposure £'000
Debt Management Office	N/A	15,570
Northern Trust	AA-	107
Money Market Funds	AAAm	23,007
Total		**38,684**

	Credit rating on 31/03/11	Exposure £'000
Barclays Bank	AA-	9,760
Lloyds TSB	A+	14,255
Nationwide Building Society	A+	10,090
Royal Bank of Scotland	A+	5,960
Money Market Funds	AAAm	26,572
Total		**66,637**

The limits for both bonds and cash are kept under constant review to be able to respond quickly to changes in the creditworthiness of counterparties which may increase risk.

f) Liquidity risk

Liquidity risk is the risk that monies are not available to meet the Pension Fund's obligation to pay pension benefits on time.

Maintaining a level of internally managed cash balances enables the Pension Fund to ensure liquidity is not an issue. 53% of the internally managed cash held on 31st March 2012 was in instant access money market funds, ensuring cash is available as required. Monitoring of the cashflow position daily assists with maintaining this position.

The majority of the Council's non cash investments are in publicly listed stock exchanges, which ensure it is possible to realise the investments easily if necessary.

12. Debtors

31/03/11		31/03/12
£'000		£'000
	Local Authorities	
	Contributions due from :	
2,367	Administering Authority in respect of the Council	2,457
704	Administering Authority in respect of members	587
3,071		3,044
0	Administering Authority - other	26
0		26
	Central Government Bodies	
0	HM Revenue & Customs	39
0		39
	Other entities and individuals	
	Contributions due from :	
60	Admitted Bodies in respect of employers	80
19	Admitted Bodies in respect of members	20
323	Scheduled Bodies in respect of employers	430
136	Scheduled Bodies in respect of members	155
229	Other - Reimbursement of Fund management expenses	228
69	Other	3
836		916
3,907		4,025

All contributions due to the Fund were paid in full. All were paid within the timescales required by the Scheme Rules, with the exception of three employers, whose contributions were received late.

13. Cash at bank

31/03/11		31/03/12
£'000		£'000
1	Cash at bank / (Cash Overdrawn)	(18)
1		(18)

14. Creditors

31/03/11		31/03/12
£'000		£'000
	Central Government Bodies	
264	HM Revenue & Customs	283
	Other entities and individuals	
188	Unpaid benefits in respect of the Administering Authority	164
437	Fund manager and adviser fees	437
34	Other	7
923		891

15. Contingent assets

Four admitted bodies in the London Borough of Haringey Pension Fund hold bonds to protect the Fund against the possibility of being unable to meet their pension obligations. The bonds would only be payable to the Fund in the event of default on the part of the admitted body. This position was the same at 31st March 2011.

16. Contingent liabilities

The Fund had the following outstanding commitments to invest at the balance sheet date:

31/03/11		31/03/12
£'000		£'000
27,330	Pantheon - Private Equity	21,400
1,152	CBRE Global Investors - Property	852
28,482	Total	22,252

The commitments relate to outstanding call payments due in relation to the private equity and property portfolios.

17. Related party transactions

In 2011/12 the Pension Fund paid £0.502m to the Council for administration and legal services (£0.535m in 2010/11). As at 31 March 2012 £3.07m was due from the Council to the fund (£3.045m in 2010/11), mainly in relation to employer and employee contributions.

During 2011/12 seven council members who served on the Pensions Committee or the Corporate Committee were also members of the Pension Fund. Committee members are required to declare their interests at the beginning of each Committee meeting.

There were no other material related party transactions.

18. Actuarial present value of promised retirement benefits

Annex 1 to the Financial Statements on page 52 is a report from the Fund's Actuary setting out this information.

The figures included in this note are for the purpose of accounting under International Accounting Standard 19 only. It is the results of the formal funding valuation that are used to determine the funding strategy and employer contribution rates for the Pension Fund. Details of the results of the formal funding valuation can be found on page 20.

19. Post Balance Sheet Event

Since 31st March 2012, all the Fund's equity and bond holdings have been moved to being invested on a passive basis. As a result of this, two of the fund managers have been removed and one new one added. This change is deemed to be a non-adjusting post balance sheet event.

20. 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 and 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:

2010/11	Equitable Life Assurance Society	2011/12
£		£
443,881	Value as at 6 April	453,980
7,506	Contributions received	7,636
(17,565)	Retirement benefits and charges	(132,212)
20,158	Change in market value	3,741
453,980	Value as at 5 April	333,145
219,211	Equitable With Profits	165,288
95,843	Equitable Deposit Account Fund	69,191
138,926	Equitable Unit Linked	98,666
453,980	Total	333,145
40	Number of active members	26
24	Number of members with preserved benefits	23

2010/11	Prudential Assurance	2011/12
£		£
925,642	Value as at 1 April	1,117,023
471,953	Contributions received	217,025
(324,563)	Retirement benefits and charges	(299,646)
43,991	Change in market value	61,248
1,117,023	Value as at 31 March	1,095,650
718,139	Prudential With Profits Cash accumulation	718,643
26,526	Prudential Deposit Fund	53,656
372,358	Prudential Unit Linked	323,351
1,117,023	Total	1,095,650
96	Number of active members	84
17	Number of members with preserved benefits	19

2010/11	Clerical and Medical	2011/12
£		£
45,420	Value as at 1 April	56,901
7,665	Contributions received	5,279
3,816	Change in market value	4,555
56,901	Value as at 31 March	66,735
4,215	Clerical Medical With Profits	4,593
52,686	Clerical Medical Unit Linked	62,142
56,901	Total	66,735
4	Number of active members	4
2	Number of members with preserved benefits	2

Annex 1 to the Financial Statements

As referred to in note 18 to the Financial Statements, the following actuarial report has been provided by Hymans Robertson.

Pension Fund Accounts Reporting Requirement

Introduction
CIPFA's Code of Practice on Local Authority Accounting 2011/12 requires administering authorities of LGPS funds that prepare pension fund accounts to disclose what IAS26 refers to as the actuarial present value of promised retirement benefits.

The actuarial present value of promised retirement benefits is to be calculated similarly to the defined benefit obligation under IAS19. There are three options for its disclosure in pension fund accounts:

- showing the figure in the Net Assets Statement, in which case it requires the statement to disclose the resulting surplus or deficit;
- as a note to the accounts; or
- by reference to this information in an accompanying actuarial report.

If an actuarial valuation has not been prepared at the date of the financial statements, IAS26 requires the most recent valuation to be used as a base and the date of the valuation disclosed. The valuation should be carried out using assumptions in line with IAS19 and not the Pension Fund's funding assumptions.

I have been instructed by the Administering Authority to provide the necessary information for the London Borough of Haringey Pension Fund which is in the remainder of this note.

Balance Sheet

31/03/11		31/03/12
£'000		£'000
1,065,000	Present Value of Promised Retirement Benefits	1,186,000
1,065,000	Total	1,186,000

Liabilities have been projected using a roll forward approximation from the latest formal funding valuation as at 31st March 2010. I estimate this liability at 31st March 2012 comprises £554m in respect of employee members, £262m in respect of deferred pensioners and £370m in respect of pensioners. The approximation involved in the roll forward model means that the split of Fund liabilities between the three classes of member may not be reliable. However, I am satisfied the aggregate liability is a reasonable estimate of the actuarial present value of benefit promises. I have not made any allowance for unfunded benefits.

It should be noted that the above figures are appropriate for the Administering Authority only for preparation of the accounts of the Pension Fund. They should not be used for any other purpose (i.e. comparing against liability measures on a funding basis or a cessation basis).

Assumptions
The assumptions used are those adopted for the Administering Authority's IAS19 report as required by the Code of Practice. These are given below. I estimate the impact of the change of assumptions to 31st March 2012 is to increase the actuarial present value by £27m.

Financial Assumptions
My recommended financial assumptions are summarised below:

31/03/11		31/03/12
% p.a.		% p.a.
2.8%	Inflation / Pension Increase Rate	2.5%
5.1% *	Salary Increase Rate	4.8%**
5.5%	Discount Rate	4.8%

** Salary increases are 1% p.a. nominal for the year to 31 March 2012, reverting to the long term rate thereafter*
*** Salary increases are 1% p.a. nominal for the three years to 31 March 2015, reverting to the long term rate thereafter*

Longevity Assumption
The life expectancy assumption is based on the standard SAPS tables with improvements from 2007 in line with the Medium Cohort and a 1% per annum underpin. Based on these assumptions, the average future life expectancies at age 65 are summarised below:

	Males	Females
Current Pensioners	21.9 years	24.7 years
Future Pensioners (assumed to be currently aged 45)	23.3 years	26.1 years

This assumption is the same as at 31st March 2011.

Commutation Assumption
An allowance is included for future retirements to elect to take 50% of the maximum additional tax-free cash up to HMRC limits for pre April 2008 service and 75% of the maximum tax-free cash for post 2008 service.

Professional Notes
This paper accompanies my covering report titled "Actuarial Valuation as at 31st March 2012 for the purposes of International Accounting Standard 19 dated April 2012". The covering report identifies the appropriate reliances and limitations for the use of the figures in this paper together with further details regarding the professional requirements and assumptions. This report is available from the Administering Authority on request.

Douglas Green FFA
For and on behalf of Hymans Robertson LLP
22nd May 2012.

Auditor's Report

Independent Auditor's Report to the Members of London Borough of Haringey Pension Fund

Opinion on the pension fund accounting statements

We have audited the pension fund financial statements for the year ended 31 March 2012 under the Audit Commission Act 1998. The pension fund financial statements comprise the Fund Account, the Net Assets Statement and the related notes. The financial reporting framework that has been applied in their preparation is applicable law and the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2011/12.

This report is made solely to the members of London Borough of Haringey Pension Fund in accordance with Part II of the Audit Commission Act 1998 and for no other purpose, as set out in paragraph 48 of the Statement of Responsibilities of Auditors and of Audited Bodies published by the Audit Commission in March 2010. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than London Borough of Haringey Pension Fund and the Corporate Committee as a body, for our audit work, for this report, or for the opinions we have formed.

Respective responsibilities of the Chief Financial Officer and auditor

As explained more fully in the Statement of the Chief Financial Officer's Responsibilities, the Chief Financial Officer is responsible for the preparation of the pension fund's financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

Scope of the audit of the financial statements

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the fund's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the Chief Financial Officer; and the overall presentation of the financial statements. In addition, we read all the financial and non-financial information in the annual report to identify material inconsistencies with the audited financial statements. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

Opinion on financial statements

In our opinion the pension fund's financial statements:

- give a true and fair view of the financial transactions of the pension fund during the year ended 31 March 2012 and the amount and disposition of the fund's assets and liabilities as at 31 March 2012, other than liabilities to pay pensions and other benefits after the end of the scheme year; and
- have been prepared properly in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2011/12.

Opinion on other matters
In our opinion, the information given in the annual report for the financial year for which the financial statements are prepared is consistent with the accounting statements.

Matters on which we report by exception
We report to you if, in our opinion the governance compliance statement does not reflect compliance with the Local Government Pension Scheme (Administration) Regulations 2008 and related guidance. We have nothing to report in this respect.

Paul Dossett
Senior Statutory Auditor
For and on behalf of Grant Thornton UK LLP
Statutory Auditor, Chartered Accountants
London

Appendices

<u>Current approved versions of key policy statements</u>

1 Governance Compliance Statement

2 Statement of Investment Principles – in force during 2011/12

3 Statement of Investment Principles – current version – approved 15th May 2012

4 Communications Policy

5 Funding Strategy Statement

Appendix 1: Governance Compliance Statement

1 Introduction

This Governance Compliance Statement document sets out how governance of the Pension Fund operates in Haringey. It is prepared in accordance with Regulation 31 of the Local Government Pension Scheme (Administration) Regulations 2008 and the associated statutory guidance issued by the Department for Communities and Local Government.

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

2 Council delegation

Haringey Council, in its role as Administering Authority, has delegated responsibility for administering the Local Government Pension Scheme to the Corporate Committee. The terms of reference for the Committee were adopted by the Council on 23rd May 2011, are included in the Council's constitution and are set out in the section below:

3 Terms of reference

The terms of reference for Corporate Committee in relation to Pensions Administering Authority functions are set out below:

"Exercising all the Council's functions as "Administering Authority" and being responsible for the management and monitoring of the Council's Pension Fund and the approval all relevant policies and statements. This includes:

(A) Selection, appointment and performance monitoring of investment managers, AVC scheme providers, custodians and other specialist external advisers;

(B) Formulation of investment, socially responsible investment and governance policies and maintaining a statement of investment principles;

(C) Monitoring the Pension Fund Budget including Fund expenditure and actuarial valuations; and

(D) Agreeing the admission and terms of admission of other bodies into the Council's Pension Scheme."

4 Membership of Committee

The Committee's membership is made up of ten elected members of Haringey Council and three members representing Scheduled & Admitted Bodies, Active Members and Pensioners.

5 Compliance with statutory guidance

The Council is fully compliant with the statutory guidance issued by the Department for Communities and Local Government in 2008. Annex 1 details this compliance in each area of the guidance.

Annex 1: Compliance with Statutory Guidance

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.*

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.*

c) *That where a secondary committee or panel has been established, the structure ensures effective communication across both levels.*

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.*

Haringey position

Fully compliant.

The terms of reference for Corporate Committee in respect of Pensions are clear that administration of benefits and strategic management of fund assets are part of the remit. In addition to elected members, there are three representative members on the Committee representing Scheduled & Admitted Bodies, Active members and Pensioners. The investment working group is a sub-group of the main Committee, so all members attend both working group meetings and the main Committee, which ensures all issues are communicated.

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 advisers (on an ad-hoc basis).

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.*

Haringey position Fully compliant. In addition to elected members, there are three representative members on the Committee representing Scheduled & Admitted Bodies, Active members and Pensioners. Independent and expert advisers attend as required by the Committee. All representative members of the Committee have access to all papers, meetings and training on an equal footing with elected members.
C. Selection and role of lay members
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.
Haringey position Fully compliant. The terms of reference for the Committee sets out the role and function of the Committee in relation to Pensions. This is supplemented by induction training offered to all new members of the Committee.
D. Voting
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.
Haringey position Fully compliant. The policy regarding voting rights is clearly set out and only elected members of the Committee are permitted to vote. Representative members are able to participate fully in all discussions of the Committee and the nature of the decisions are such that the majority have been reached by consensus, rather than voting.

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.* 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.*
Haringey position Fully compliant. There is a clear policy on reimbursement of expenses for elected members of the Committee. All members of the Committee have equal access to training.
F. Meetings (frequency/quorum)
a) *That an administering authority's main committee or committees meet at least quarterly.* 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.* 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.*
Haringey position Fully compliant. The Committee meets four times a year and the investment sub-group meets as required to consider investment issues. The meetings of the sub-group are synchronised with the main committee to ensure issues are reported back on a timely basis.

G. Access
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.
Haringey position Fully compliant. All members of the Committee have equal access to all papers, documents and advice.
H. Scope
That administering authorities have taken steps to bring wider scheme issues within the scope of their governance arrangements.
Haringey position Fully compliant. The Committee's terms of reference include the wide range of pensions issues – investment, funding, administration, admission and budgeting.
I. Publicity
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.
Haringey position Fully compliant. The Governance Compliance Statement is circulated to all employers in the Pension Fund and published on the Council's website.

Appendix 2: Statement of Investment Principles – version in force during 2011/12

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 had delegated this responsibility to the Pensions Committee during 2010/11 and to Corporate Committee from May 2011. Both referred to as "the Committee" throughout this document.

The 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 Director of Corporate Resources 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 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; and
- 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 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 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 12
UK Equities	30.5	25.7
Overseas Equities	34.5	38.4
UK Gilts	7.0	0.0
UK Index linked gilts	6.0	16.2
Corporate Bonds	7.0	3.8
Property	10.0	7.0
Private Equity	5.0	3.9
Cash	0.0	5.0

The Committee has 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 (OEICs), 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 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 2012 is shown in the table below:

Investment Manager	Mandate	% at 31 Mar 2012
Capital International	Global Equities & Bonds	27.1
Fidelity International	Global Equities & Bonds	33.3
Legal & General (Passive)	Global Equities & Bonds	24.4
CBRE Global Investors	Property	6.9
Pantheon	Private Equity	3.9
In House	Cash	4.4

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 Annex A. Through this outperformance it is expected that the investment return in the long term will be in excess of the actuary's assumption.

Annex 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 Director of Corporate Resources 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 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 Committee has two sources of advice independent of the investment managers used by the Pension Fund:

- Director of Corporate Resources and their staff
- Investment Consultant – currently the Pension Fund use Aon Hewitt

The Director of Corporate Resources (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 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 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 all of these principles. The detail of the principles is set out in Annex 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 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.

Annexes

A Investment managers and value of assets held

B Investment managers' customised benchmarks

C Asset Allocations and tolerances

D Compliance with Myners principles

Annex A: Investment Managers and Value of Assets Held as at 31st March 2012

Manager	Value £m	% of Total Portfolio	Mandate	Benchmark	Performance Target
Capital International: Global Equities	149.6	20.0	Global Equity	Customised (Annex B(1))	+2.0% gross of fees p.a over a rolling 3 yr period
Capital International: Bonds	53.8	7.1	Bonds	Customised (Annex B(2))	+1.0% gross of fees p.a over a rolling 3 yr period
Fidelity International: Global Equities	152.4	20.3	Global Equity	Customised (Annex B(3))	+1.7% gross of fees p.a over a rolling 3 yr period
Fidelity International: Bonds	97.7	13.0	Bonds	Customised (Annex B(4))	+0.6% gross of fees p.a over a rolling 3 yr period
Legal & General: UK Equities	120.1	16.0	UK Equities	FTSE All Share	Index (passively managed)
Legal & General: Global Equities	63.6	8.4	Global Equity	FTSE AW World Index	Index (passively managed)
CBRE Global Investors	52.0	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	29.5	3.9	Private Equity	MSCI World Index plus 5%	+ 0.75% gross of fees p.a.
Cash	33.1	4.4	N/A	N/A	N/A
Total	**751.8**	**100**			

Annex B: Customised Benchmarks at 31st March 2012

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 International – 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 International - 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

Annex C: Asset Allocation & tolerances at 31st March 2012

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	8	0	0
North America	25 (+/-10)	0	25.4 (+/-4)	0	0	49	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	8	0	0
Pacific Basin	6 (+/-2.5)	0	6 (+/-2.5)	0	0	9	0	0
Emerging Markets	7 (+/-7)	0	6.7 (+/-2)	0	0	7	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 2012.

Annex 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.*

<u>Haringey position</u>

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

2. Clear Objectives

An overall investment objective(s) should be set out for the fund that takes account of the Fund'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 Fund employers, and these should be clearly communicated to advisers and investment managers.

<u>Haringey position</u>

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.
<u>Haringey position</u> The Committee's 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 advisers. *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.*
<u>Haringey position</u> The 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 regularly. The Committee undertakes an annual assessment of their own effectiveness and reports this in the Pension Fund 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.*

<u>Haringey position</u>

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 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.*

<u>Haringey position</u>

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.

Appendix 3: Statement of Investment Principles – current version approved 15th May 2012

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 Corporate Committee.

The 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 Director of Corporate Resources 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 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; and
- 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 single insurance contract limit The Committee has exercised its right to increase its limit for a single insurance contract limit 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	25%
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.	25%
Any single insurance contract	35%*

* This limit is at the higher limit of the range (25-35%) laid down in the regulations.

5 Types of investments

The 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 Fund's revised strategic benchmark is shown in the table overleaf.

Asset class	Benchmark %	
UK Equities		17.5
Overseas Equities		52.5
North America	25.3	
Europe ex UK	8.6	
Pacific ex Japan	4.0	
Japan	4.1	
Emerging Markets	10.5	
UK Index linked gilts		15.0
Property		10.0
Private Equity		5.0
Cash		0.0

The Committee has decided to invest the majority of the Pension Fund investments in passively managed equity and bond funds to remove the risk of underperformance and ensure benchmark performance at a low cost.

Due to the size of the portfolios allocated to the investment managers, the investments are generally held in pooled funds, which are more cost effective for the Fund.

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 has sufficient regular cash receipts to cover benefit payments 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 Committee has appointed a number of external investment managers to implement its investment strategy. The current investment managers and the percentage of the Pension Fund they currently manage is shown in the table below:

Investment Manager	Mandate	%
BlackRock Investment Management	Global Equities & Bonds	55.7
Legal & General Investment Management	Global Equities & Bonds	29.3
CBRE Global Investors	Property	10
Pantheon	Private Equity	5

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

The equity and bond investment managers are expected to perform in line with their benchmarks, as they are investing on behalf of the Fund on a passive basis. The detail of their benchmarks is set out in Annex B. The property and private equity investment managers are expected to meet the targets set above the benchmarks detailed in Annex A over the long term.

The investment managers' performance is assessed on a quarterly basis, with independent performance data provided by the Pension Fund's global custodian Northern Trust. The Director of Corporate Resources 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 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.

There will always be a balance of cash used to manage benefit payments invested in-house and there may be occasions when the Committee decide to invest in cash on a short term basis. These investments will be placed in line with the Treasury Management Strategy Statement in place at the time.

7 Advice

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

- Director of Corporate Resources and their staff
- Investment Consultant – currently the Pension Fund use Aon Hewitt
- Independent Adviser

The Director of Corporate Resources (or their representative) attend all Committee meetings to support the Committee to scrutinise both the performance of the investment managers and the investment consultant. The Investment Consultant and Independent Adviser attend 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. As the majority of the Fund is invested on a passive basis, risk of underperforming the benchmark has been significantly reduced.

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

9 Responsible ownership

The 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 Committee. All investment managers are expected to vote in respect of all 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 all of these principles. The detail of the principles is set out in Annex 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 regularly.

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

Review process – This document is reviewed by the 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.

Annexes

A	Investment managers and mandates
B	Global Equity & Bond benchmarks
C	Compliance with Myners principles

Annex A: Investment Managers and mandates

Manager	% of Total Portfolio	Mandate	Benchmark	Performance Target
BlackRock Investment Management	55.7%	Global Equities & Bonds	See below	Index (passively managed)
Legal & General Investment Management	29.3%	Global Equities & Bonds	See below	Index (passively managed)
CBRE Global Investors	10%	Property	IPD UK Pooled Property Funds All Balanced Index	+1% gross of fees p.a. over a rolling 5 yr period
Pantheon Private Equity	5%	Private Equity	MSCI World Index plus 5%	+ 0.75% gross of fees p.a.
Total	**100%**			

Annex B: Global Equity & Bond Benchmarks

Asset Class	Benchmark	BlackRock Investment Management	Legal & General Investment Management	Total
UK Equities	FTSE All Share	14.9%	2.6%	17.5%
Overseas Equities		28.8%	23.7%	52.5%
North America	FT World Developed North America GBP Unhedged	*21.5%*	*3.8%*	*25.3%*
Europe ex UK	FT World Developed Europe X UK GBP Unhedged	*4.3%*	*4.3%*	*8.6%*
Pacific ex Japan	FT World Developed Pacific X Japan GBP Unhedged	*2.0%*	*2.0%*	*4.0%*
Japan	FT World Developed Japan GBP Unhedged	*1.0%*	*3.1%*	*4.1%*
Emerging Markets	FT World Global Emerging Markets GBP Unhedged	*0.0%*	*10.5%*	*10.5%*
Index Linked Gilts	FTA Index Linked Over 5 Years Index	12.0%	3.0%	15.0%
		55.7%	29.3%	85.0%

Annex C: 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 Committee to ensure they have the necessary knowledge to make decisions and challenge the advice they receive.

2. Clear Objectives

An overall investment objective(s) should be set out for the fund that takes account of the Fund'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 Fund employers, and these should be clearly communicated to advisers 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.
<u>Haringey position</u> The Committee's 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 advisers. *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.*
<u>Haringey position</u> The 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 regularly. The Committee undertakes an assessment of their own effectiveness on a regular basis.

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 Committee and reported to scheme members through the annual report to scheme members.

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.

Appendix 4: 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.

Members of the scheme:

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. Harinet

iv. Pensions web page www.haringey.gov.uk/pensionfund

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, Statement of Investment Principles, the Funding Strategy Statement and the Communications Policy
- Annual Reports and Pensions Bulletins
- Notice of events
- Contact List for Pensions Team
- Cost calculator for purchase of additional pension
- Links to other useful sites including the scheme regulations and the national LGPS website

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. Payslips in April and May of each year and thereafter if net pay varies by £1

iii. Annual newsletter to Pensioner Members

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

v. Formal notice of significant proposals to change the scheme

vi. Life certificates to Pensioners living abroad.

C. Medium of communication

i. Telephone and e-mail

ii. Hard copy dispatches

iii. Annual Open Day for all fund members and employing bodies

iv. Workshops / Employee Briefings

v. Face to face meetings

D. Timing

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

ii. A summary Annual Report on the Fund is published annually prior to the Annual Open Day.

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.

v. The Deferred members newsletter is published in June each year and coincides with the distribution of the deferred members Annual Benefit Statements.

<u>Representatives of scheme members</u>

A. Points of Contact

i. The Corporate Industrial Relations Group

ii. Council and Staff Joint Consultative Committee

iii. Corporate Committee

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. Ad-hoc informal 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 and 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 and IAS19 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 Haringey Council 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. 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.

Appendix 5: Funding Strategy Statement

1. Introduction

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

It has been prepared by the Administering Authority in collaboration with the Fund's actuary, Hymans Robertson LLP, and after consultation with the Fund's employers and investment adviser. This revised version replaces the previous Funding Strategy Statement and is effective from 31 March 2011.

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 pay for their own liabilities.
The FSS forms part of a framework that includes:

- the Local Government Pension Scheme Administration Regulations 2008 (regulations 35, 36 and 38 are particularly relevant);
- the Rates and Adjustments Certificate, which can be found appended to this statement in Annex A and 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.

The key requirements relating to the FSS are that:

- After consultation with all relevant interested parties involved with the Fund, the administering authority will prepare and publish their funding strategy.
- In preparing the FSS the administering authority must have regard to :
  - FSS guidance produced by CIPFA
  - It's Statement of Investment Principles published under Regulation 12 of the Local Government Pension Scheme (Management & Investment of Funds) Regulations 2009
- The FSS must be revised and published whenever there is a material change in either the policy on the matters set out in the FSS or the Statement of Investment Principles.

The Fund's actuary must have regard to the FSS as part of the fund valuation process.

1.2 Reviews of FSS

The FSS is reviewed in detail at least every three years in conjunction with triennial valuations being carried out, with the next full review due to be completed by 31 March 2014. 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. Whilst the position of individual employers must be reflected in the statement, it must remain a single strategy for the Administering Authority to implement and maintain.
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 across a range of employers participating in the Fund.

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 Fund 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 help employers recognise and manage pension liabilities as they accrue;
- 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* (see regulation 36(4) of the Local Government Pension Scheme (Administration) Regulations 2008), 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.

The Fund's actuary is also required to adjust the Common Contribution Rate for circumstances which are deemed "peculiar" to an individual employer (see regulation 36(7) of the Local Government Pension Scheme (Administration) Regulations 2008). 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.
In effect, the *Common Contribution Rate* is a notional quantity. Separate future service rates are calculated for each employer together with individual past service adjustments according to employer-specific spreading and phasing periods. For some employers if may be agreed to pool contributions, see Section 3.7.8.

Annex A contains a breakdown of each employer's contributions following the 2010 valuation for the financial years 2011/12, 2012/13 and 2013/14. It also identifies if 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 for all employers in the Fund. The on-going funding basis assumes employers in the Fund are an on-going concern and is described in the next section. 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. The time horizon of the funding target may vary by employer depending on the expected duration of their participation in the Fund. 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 in the ongoing valuation basis for future improvements in line with "medium cohort" and a 1% minimum underpin to future reductions in mortality rates.

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. 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 2010 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. The long term in this context would be 20 to 30 years or more. In the opinion of the Fund Actuary, based on the current investment strategy of the Fund, an asset out-performance assumption (AOA) of 1.6% p.a. is within a range that would be considered acceptable for the purposes of the funding valuation.

Pay for public sector employees will be frozen by Government until 2012, with a flat increase of £250 being applied to all those earning less than £21,000 p.a. Although this "pay freeze" does not officially apply to local government employers, it has been suggested that they are expected to show similar restraint in respect of pay awards. Based on an analysis of the membership in LGPS funds, the average expected increase in pensionable pay across all employees should be around 1% p.a. for the next two years. Therefore the salary increase assumption at the 2010 valuation has been set to 1% p.a. for 2010/11 and 2011/12 for all employers. After this point, the assumption will revert back to RPI plus 1.5% p.a, as adopted for the previous valuation, although this will be subject to monitoring by the actuary to the Fund.

The Chancellor of the Exchequer announced in his Emergency Budget on 22 June 2010 that the consumer prices index (CPI) rather than the retail prices index (RPI) will be the basis for future increases to public sector pensions in payment and in deferment. This proposed change has been allowed for in the valuation calculations as at 31 March 2010.

At the 2007 valuation, the assumption for RPI was derived from market data as the difference between the yield on long-dated fixed interest and index-linked government bonds. At this valuation, we propose to adjust this market-derived rate downwards by 0.5% p.a. to allow for the "formula effect" of the difference between RPI and CPI. Basing pension increases on CPI rather than RPI will serve to reduce the value placed on the Fund's liabilities.

The demographic assumptions vary by type of member and so reflect the different membership profiles of employers. 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 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. This method calculates the contribution rate which meets the cost of benefits accruing in the year after the valuation date.

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 method anticipates the ageing of the membership and, for a closed employer, would lead to a stable total contribution rate if the assumptions are borne out in practice. 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 2007 and 2010 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 Solvency issues and target funding levels

In setting employer contribution rates, the Administering Authority must balance the aims of stability and affordability with the requirement to take a prudent, longer-term view of funding and ensure the solvency of the Fund. The more secure the employer, the more emphasis can be placed on stability of employer contributions without jeopardising the Administering Authority's commitment to prudent stewardship of the Fund. For the most secure, long term employers an explicit stabilisation overlay based on a risk-based, stochastic valuation approach is used (see para 3.7.2).

For less secure and shorter term employers (principally, but not exclusively, the admission bodies) it is generally not possible to achieve the same degree of stability in employer contribution rates without compromising on prudent stewardship. However, other measures such as re-lengthening deficits recovery periods, phasing in of employer contribution increases or pooling help achieve a greater degree of stability of employer contributions than would otherwise be the case. Further, in cases where employers provide additional security to the Fund, the Administering Authority may, at its discretion, be prepared to agree to employer contributions below the theoretical rate derived from the valuation results.

The Administering Authority's policies in respect of the use of these approaches are set out in the remainder of 3.7 and in 3.8 below.

3.7.2 *Stabilisation*

For the most secure, long term employers there is an explicit stabilisation overlay. The stabilisation mechanism analyses a number of metrics over the long-term including the evolution of the funding level to check the likelihood of achieving the solvency of the Fund over the longer-term under a variety of contribution strategies. This analysis enables the Administering Authority to reduce the effect of short term investment market volatility on the contribution rates of eligible employers.

Stabilisation overlay rules and eligibility

Under the stabilisation overlay, variations in the employer contribution rate from year to year are kept within a pre-determined range so that eligible employers' contribution rates can remain relatively stable. Only precepting employers are eligible for stabilisation.

The stabilisation overlay rules for eligible employers are

- No increases for the period 1 April 2011 to 31 March 2014; and
- Maximum change of 1% p.a. thereafter.

Notes:

1) Increases and reductions apply over the three year period between valuations;
2) Increases and reductions are relative to rates certified at the previous valuation.

Circumstances in which eligibility for stabilisation will be reviewed

- The Administering Authority may review an employer's eligibility for stabilisation at any time in the event of significant changes in the employer's membership (due for example to redundancies or outsourcing) or if there is a significant change in the Administering Authority's assessment of an employer's security.

- Stabilisation rules and eligibility may be reviewed at any time in the event of changes to scheme benefits. Changes in scheme benefits may arise because of changes in regulations or other events that have a material impact (such as the change with effect from April 2011 from RPI to CPI for increases to pensions in payment).

- The stabilisation rules and eligibility criteria will be reviewed no later than at the 31 March 2013 valuation, with any changes in contribution strategy taking effect from 1 April 2014. The review will take into account factors including, but not necessarily restricted to, market conditions (the long-term risk-based analysis will be recalibrated to market conditions as at 31 March 2013), the Administering Authority's assessment of employer's security and the maturity of each employer's membership profile.

Setting the parameters of the stabilisation overlay

The parameters for the stabilisation overlay have been determined by carrying out an asset liability modelling exercise. This allows for the future uncertainty in investment returns, interest rates and inflation using a stochastic modelling technique. The actuary tested the contribution stabilisation rules to ensure that they were compatible with the current investment strategy. He has advised the Administering Authority that the stabilisation overlay for secure long term secure employers satisfies the requirement for the funding strategy to take a prudent longer-term view based on a reasonably prudent ongoing funding basis.

3.7.3 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.
Scheduled Bodies	A period to be agreed with each employer depending on the strength of their covenant, but not exceeding 20 years.
Community Admission Bodies with funding guarantees	A period to be agreed with each employer depending on the terms of the guarantee, but not exceeding 20 years.
Transferee Admission Bodies	The period from the start of the revised contributions to the end of the employer's contract.
All other types of employer	A period to be agreed with each employer depending on the strength of their covenant; this will generally be 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 2011 for 2010 valuation).

3.7.4 *Deficit Recovery Payments*

For employers where stabilisation is not being applied, the deficit recovery payments for each employer covering the three year period until the next valuation will usually be set as a percentage of salaries. However, the Administering Authority reserves the right to amend these rates between valuations and/or to require these payments in monetary terms instead, for instance where:

- the employer is an admitted body with a relatively large deficit recovery contribution rate, or
- there has been a significant reduction in payroll due to outsourcing or redundancy exercises, or
- the employer has closed the Fund to new entrants.

3.7.5 *Surplus Spreading Periods*

For any employer deemed to be in surplus, the approach is to maintain contributions at no less than the assessed future service level. At the Administering Authority's discretion however, employers may be permitted to reduce their contributions below the cost of accruing benefits, by spreading the surplus element over the maximum periods shown above for deficits in calculating their minimum contributions. However if they take the full benefit of their surplus re-payments then their ability to withstand future adverse shocks in the 2013 valuation will be diminished. Employers should consider carefully whether or not to take the full benefit of their current surplus.

3.7.6 *Phasing in of Contribution Rises*

Transferee Admission Bodies are not eligible for phasing in of contribution rises. Other employers may opt to phase in contribution rises over a three year period providing they pay a minimum of the future service rate.

3.7.7 *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.

3.7.8 *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 2007 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. Therefore, deferring paying contributions will lead to higher contributions in the long-term (depending on the actual financial and demographic performance of the Fund relative to the valuation assumptions).

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.

3.7.9 Pooled Contributions

The Administering Authority currently allows Haringey Council to pool the legacy liabilities and assets that remain when an employer leaves the Fund. The Administering Authority will consider the arguments for pooling on a case by case basis, but in general does not permit the pooling of contribution rates.

3.7.10 Regular Reviews

The Administering Authority reserves the right to review contribution rates and amounts and the level of security provided, at regular intervals. These intervals may be annual, in the case of Admission Bodies and/or in the last few years of the employer's contract. Such reviews may be triggered by significant reductions in payroll, altered employer circumstances, Government restructuring affecting the employer's business or failure to pay contributions or arrange appropriate security as required by the Administering Authority.

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

3.8 <u>Admission Bodies ceasing</u>

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.

The Fund, however, considers any of the following as triggers for the termination of an admission agreement:

- Last active member ceasing participation in the LGPS;
- The insolvency, winding up or liquidation of the admission body;
- Any breach by the Admission Body of any of its obligations under the agreement that they have failed to remedy to the satisfaction of the Fund;
- A failure by the admission body to pay any sums due to the Fund within the period required by the Fund; or
- The failure by the admission body to renew or adjust the level of the bond or indemnity or to confirm appropriate alternative guarantor as required by the Fund.

In addition either party can voluntarily terminate the admission agreement by giving the appropriate period of notice as set out in the admission agreement to the other party (or parties in the case of a Transferee Admission Body).

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. In order to protect other employers in the Fund, the cessation liabilities and final deficit will normally be calculated using a "gilts cessation basis" with no allowance for potential future investment outperformance and with an allowance for further future improvements in life expectancy. This approach results in a higher value being placed on the liabilities than would be the case under a valuation on the ongoing funding basis and could give rise to significant payments being required.

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

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

As an alternative to (b) above where the ceasing Admission Body is continuing in business, the Fund, at its absolute discretion, reserves the right to enter into an agreement with the ceasing Admission Body to accept an appropriate alternative security to be held against any funding deficit and to carry out the cessation valuation on an ongoing valuation basis. This approach would be monitored as part of each triennial valuation and the Fund reserves the right to revert to a "gilts cessation basis" and seek immediate payment of any funding shortfall identified.

In the event that the Fund is not able to recover the required payment in full directly from the Admission Body or from any bond or indemnity or guarantor, then:

a. In the case of Transferee Admission Bodies the awarding authority will be liable. At its absolute discretion, the Administering Authority may agree to recover any outstanding amounts via an increase in the awarding authority's contribution rate over an agreed period.

b. In the case of admission bodies that are not Transferee Admission Bodies and have no guarantor, the unpaid amounts fall to be shared amongst all of the employers in the Fund. This will normally be reflected in contribution rates set at the formal valuation following the cessation date.

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 the grounds of ill-health. All employers 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. Employers must make these additional contributions as a one off payment to the Fund immediately on awarding the early retirement.

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 retirements 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.

3.9.3 Ill health insurance

Employers have the ability to insure ill health early retirement strains through a policy that can currently be arranged with Legal & General. Where this insurance is effected:

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

3.10 New admitted bodies

The Fund requires the following from any potential Admission Bodies wishing to join the Fund.

Transferee Admission Bodies will be required to have a guarantee from the transferring scheduled body and also provide a bond if requested by the Administering Authority. The bond is required to cover the following:

- the strain cost of any redundancy early retirements resulting from the premature termination of the employer's contract

- allowance for the risk of asset underperformance
- allowance for the risk of a fall in gilt yields
- allowance for unpaid contributions

The employer may also be required to include their current deficit within the bond amount. The bond will be reassessed on an annual basis.
When the Administering Authority considers requests from Community Admission Bodies to join the Fund, they will be seeking sponsorship for the Body from a scheduled body with tax raising powers guaranteeing their liabilities and also if appropriate a bond.

This reduces the risk to the Fund of potentially having to pick up any shortfall in respect of Admission Bodies.

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 2010, the proportion held in equities and property was 72% 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 Administering Authority's strategy recognises the relatively immature liabilities of the Fund and the secure nature of most employers' covenants.

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 key financial assumption is the anticipated return on the Fund's investments. The investment return assumption makes allowance for anticipated returns from equities in excess of bonds. There is, however, no guarantee that equities will out-perform bonds. 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. It is therefore normally appropriate to restrict the degree of change to employers' contributions at triennial valuation dates. In the opinion of the Fund actuary, the current funding policy is consistent with the current investment strategy of the Fund, the asset outperformance assumption is within a range that would be considered acceptable for the purposes of the funding valuation and consistent with the requirement to take a "prudent longer-term view" of the funding of liabilities (see para 2.1). The same financial assumptions are adopted for all employers which fund on the ongoing basis. However, low risk financial assumptions are adopted for all employers which fund on the low risk basis.

However, in the short term – such as the three yearly assessments at formal valuations – there is the scope for considerable volatility and asset returns may fall short of this target. The stability measures described in Section 5 will damp down, but not remove, the effect on employers' contributions.

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

4.3 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.

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 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 a Fund-specific benchmark following receipt of professional investment advice.*
Fall in risk-free returns on Government bonds, leading to rise in value placed on liabilities	*Inter-valuation monitoring, as above.*
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.*

5.3 Demographic Risks

Risk	Summary of Control Mechanisms
Ill-health retirements significantly more than anticipated.	*Monitoring of each employer's ill-health experience on an ongoing basis. The employer may be charged additional contributions if this exceeds the ill-health assumptions built in.*
Pensioners living longer.	*Set mortality assumptions with some allowance for future increases in life expectancy.* *Fund actuary monitors combined experience of around 50 funds to look for early warnings of lower pension amounts ceasing than assumed in funding.*
Deteriorating patterns of early retirements.	*Employers are charged the extra capital cost of non ill health retirements following each individual decision.* *Employer ill health retirement experience is monitored.*
Maturing Fund i.e. proportion of actively contributing employees declines relative to retired employees.	*Continue to monitor at each valuation, consider seeking monetary amounts rather than percentage of pay and consider alternative investment strategies.*

5.4 Regulatory

Risk	Summary of Control Mechanisms
Changes to regulations, e.g. more favourable benefits package, potential new entrants to scheme, e.g. part-time employees	*The Administering Authority is alert to the potential creation of additional liabilities and administrative difficulties for employers and itself.*

Changes to national pension requirements and/or HM Revenue and Customs rules e.g. effect of abolition of earnings cap for post 1989 entrants from April 2006, abolition of 85 year rule and new 2008 scheme	*The Administering Authority considers all consultation papers issued by the CLG and comments where appropriate.* *The Administering Authority will consult employers where it considers that it is appropriate*

5.5 Governance

Risk	Summary of Control Mechanisms
Administering Authority unaware of structural changes in an employer's membership (e.g. large fall in employee members, large number of retirements). Administering Authority not advised of an employer closing to new entrants.	*The Actuary may be instructed to consider revising the rates and Adjustments certificate to increase an employer's contributions (under Regulation 38) between triennial valuations* *Deficit contributions are expressed as monetary amounts and percentages (see Annex A).*
Administering Authority failing to commission the Fund Actuary to carry out a termination valuation for a departing Admission Body and losing the opportunity to call in a debt.	*The Administering Authority requires employers with Best Value contractors to inform it of forthcoming changes.* *It also operates a diary system to alert it to the forthcoming termination of Best Value Admission Agreements.*
An employer ceasing to exist with insufficient funding or adequacy of a bond.	*The Administering Authority believes that it would normally be too late to address the position if it was left to the time of departure.* *The risk is mitigated by:* • *Seeking a funding guarantee from another scheme employer, or external body, wherever possible.* • *Alerting the prospective employer to its obligations and encouraging it to take independent actuarial advice.* • *Vetting prospective employers before admission.* • *Where permitted under the regulations requiring a bond to protect the Fund from the extra cost of early retirements on redundancy if the employer failed.*

Annex A – Employers' Contributions

Following the 2010 valuation, the minimum employer contributions shown in the Rates and Adjustment certificate attached to the 2010 valuation report are based on the deficit recovery periods and phasing periods shown in the table below.

Employer name	Contributions paid in 2010/11	Minimum Contributions for the Year Ending		
		31 March 2012	31 March 2013	31 March 2014
Haringey Council	22.9%	22.9%	22.9%	22.9%
Age Concern Haringey	33.8%	22.6% plus £32,000	33.8%	33.8%
College of Enfield and North East London	19.9%	17.2% plus £303,000	17.2% plus £468,000	17.2% plus £662,000
Haringey Citizens Advice Bureaux	19.6%	21.7% plus £22,000	21.7% plus £22,000	21.7% plus £23,000
Alexandra Palace Trading Co Ltd	18.7%	23.0% plus £41,000	23.0% plus £41,000	23.0% plus £43,000
Urban Futures London Ltd	17.4%	19.5% plus £28,000	19.5% plus £29,000	19.5% plus £30,000
Greig City Academy	13.0%	16.8% plus £8,000	16.8% plus £8,000	16.8% plus £8,000
Homes for Haringey	15.4%	18.3% plus £69,000	18.3% plus £70,000	18.3% plus £74,000
John Loughborough	17.2%	18.9%	18.9%	18.9%
TLC at Coopercroft	19.0%	25.4%	25.4%	25.4%
Fortismere School	18.1%	19.2% plus £25,000	19.2% plus £25,000	19.2% plus £27,000
RM Education PLC	12.3%	17.6%	17.6%	17.6%
Ontime Parking Solutions	21.4%	22.1%	22.1%	22.1%
ESSL	28.0%	24.6%	24.6%	24.6%

Annex B – Responsibilities of Key Parties

The Administering Authority should:

- collect employer and employee contributions;
- invest surplus monies in accordance with the regulations;
- ensure that cash is available to meet liabilities as and when they fall due;
- manage the valuation process in consultation with the fund's actuary;
- prepare and maintain a Funding Strategy Statement and Statement of Investment Principles, both after proper consultation with interested parties;
- monitor all aspects of the fund's performance and funding and amend Funding Strategy Statement and Statement of Investment Principles as necessary;
- prepare annual accounts and get these audited, control cash flow and administration costs.

The Individual Employer should:

- deduct contributions from employees' pay correctly;
- pay all contributions, including their own as determined by the actuary, promptly by the due date;
- exercise discretions within the regulatory framework;
- make additional contributions in accordance with agreed arrangements in respect of, for example, augmentation of scheme benefits, early retirement strain, excess ill-health early retirements if appropriate;
- notify the administering authority promptly of all changes to membership or, as may be proposed, which affect future funding.

The Fund actuary should:

- prepare valuations including the setting of employers' contribution rates after agreeing assumptions with the Administering Authority and having regard to the Funding Strategy Statement;
- prepare advice and calculations in connection with bulk transfers and individual benefit-related matters.

The Committee should:

- carry out statutory functions relating to local government pensions under regulations made under Sections 7, 12 and 24 of the Superannuation Act 1972. Broadly this enables them to oversee the general framework within which the Fund is managed
- monitor investment and administration performance
- carry out regular reviews of investments and investment strategy
- determine and keep under constant review, an overall asset allocation policy for the Fund, including appointment and termination of fund managers
- consider appropriate professional advice on all matters with a material impact on the Fund
- approve significant internal decisions and documents for the scheme including the valuation, Annual Report and Accounts and the FSS, and
- determine and keep under constant review, all policies and strategies of the Fund.