`Haringey Council

Annual Pension Fund Report and Accounts

For the year ended 31 March 2015

Registration 00329316RX

Contents

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 2015.

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

Scheme Rules

The benefits payable in respect of service from 1st April 2014 are based on career average revalued earnings and the number of years of eligible service. Pensions are increased each year in line with the Consumer Price Index. For service prior to April 2014 benefits are based on final salary and years of service. Other than in accordance with legislative requirements, there were no increases to benefits in payment in the year. The Administration report on page 17 provides details about the administration of the Scheme.

Membership

There were 5,958 active members (2014: 5,838), 8,678 (2014: 8,336) deferred members, and 7,080 (2014: 6,891) pensioners and dependents receiving benefits. More details can be found in the Membership section on page 9.

Financial position

The financial statements and notes on pages 30 to 56 show that the value of the Fund's assets increased by £146m to £1,045m as at 31 March 2015. The most significant factor in the increase in the value of the fund was the increase in the market value of investments of £146m. Investment income added £4m, with management expenses of £3 million and a net deficit of £1m resulting from benefit payments being more than contributions offset it. The value of the Fund’s investment assets has decreased by £33m (3.2%) from 31 March to 30 June 2015” that would be appreciated.

Investments

During the year the rate of return on the Fund’s investments was 16.1%. This was 0.75% below the Fund’s target for the year. More details of the investment strategy and the performance can be found in the Policy and Performance Report on page 11.

Funding position

The last formal valuation of the funding position took place as at 31st March 2013, when the funding level was 70%. Details can be found in the Funding report on page 23. The next formal valuation will be carried out as at 31st March 2016.

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Governance Arrangements

Haringey Council in its role as Administering Authority delegated responsibility for administering the Pension Scheme to the Pensions Committee during the year. Details of the individuals who served on the Pensions Committee during 2014/15 are shown below.

The terms of reference for Pensions Committee are set out in the Council's constitution. The Committee consisted of six elected Councillors, with full voting rights and three representatives. Councillors are selected by their respective political Groups and their appointment was confirmed at a meeting of the full Council. 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 during the 2014/15 year was:

Cllr Isidoros Diakides	Chair
Cllr John Bevan	Vice Chair
Cllr Patrick Berryman	
Cllr Natan Doron	
Cllr Denise Marshall	
Cllr Viv Ross	
Roger Melling	Employee representative
Michael Jones	Pensioner representative
Keith Brown	Admitted & Scheduled Bodies representative

<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 60. The objective of the statement is to make the administration and stewardship of the Pension Fund transparent and accountable to all stakeholders.

Pension Board

Regulations require that all Local Government Pension Schemes establish a pension board by 1st April 2015, whose role is to assist the Council to ensure compliance with regulations and also effective and efficient governance and administration. The Board is intended to operate alongside the Pensions Committee, with the latter retaining the decision making authority. The Council has established a Pension Board in compliance with regulations but has requested Government approval to allow the existing Pensions Committee to undertake the role of the Pension Board.

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 while Pensions Administration is part of Human Resources.

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 Scheme Administration report on page 17 sets out the key tasks of the Pensions Administration service.

The Pension Fund's internal auditors are Mazars Public Sector Internal Audit Limited. Regular audits are carried out on both Pension Fund investments and Pensions administration.

Key Officer Contacts

Chief Operating Officer (CFO from August 2015)	Tracie Evans
Assistant Director – Finance (CFO to August 2015)	Kevin Bartle
Head of Legal Services and Monitoring Officer	Bernie Ryan
Head of Finance: Treasury & Pensions	George Bruce
Pensions Manager	Janet Richards

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	Legal & General Investment Management BlackRock Investment Management CBRE Global Investors Pantheon CQS Allianz Global Investors
Custodian	Northern Trust
Investment Consultants	Mercer
Independent Adviser	John Raisin Financial Services Limited
Bankers	Barclays and 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	Mazers Public Sector Internal Audit Limited
External Auditors	Grant Thornton UK LLP

Management Report for 2013/14

Financial Performance

Two new credit mandates (multi sector credit & infrastructure debt) were added to the investment strategy during the year, reducing the target allocation to listed equity by 10% to 60%.

The investment performance during the year was positive at 16.1% with all markets in which the Fund invests providing returns in excess of 10%, with the exception of UK and European equities that returned 7-8%. The performance was slightly below target (by 0.75%) mainly due to the relative returns from property & private equity. The latter typically underperforms when markets are rising strongly due to timing of valuations.

Administrative Management Performance

On 1st April 2011, the Fund implemented a Pension Administration Strategy Statement. Details of the monitoring of the strategy are set out in the Scheme Administration report. During the financial year 2014-15 no formal action has been taken against any employers. The only breaches of the performance standards have been minor and have been dealt with informally. The timeliness of contribution payments from employers in the Fund has been monitored by Corporate Committee on a quarterly basis and issues followed up by the Fund's officers.

Total membership of the Fund increased by 651 to 21,716 between the years. The number of scheduled bodies was unchanged at 24.

Risk Management

Investment risk is a key risk which the Fund is exposed to due to the range of different types of assets the Fund has chosen to invest in. All investments are undertaken in line with the Local Government Pension Scheme (Management & Investment of Funds) Regulations 2009 and in consideration of advice from the Fund's investment adviser and from the Independent Adviser.

The Committee has set an investment strategy which involves a wide range of asset classes and geographical areas. This provides diversification which reduces the risk of low and volatile returns. Following the decision to invest the majority of the Fund on a passive basis, the risk of underperforming the benchmark has been significantly reduced.

The majority of the Pension Fund's assets are managed by external fund managers and they are required to provide audited internal controls reports regularly to the Council, which set out how they ensure the Fund's assets are safeguarded against loss and misstatement.

The Committee consider reports on investment performance, responsible investment activities and other pertinent matters relating to investments and fund managers on a quarterly basis.

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 table below shows the number of organisations with members in the Pension Fund on 31st March 2015, compared to the previous year.

	31st March 2015	**31st March 2014**
Administering Authority	1	1
Scheduled Bodies	22	22
Transferee Admission Bodies	11	7
Community Admission Bodies	3	3
Bodies no longer participating	10	10
TOTAL	**47**	**43**

The membership of the Pension Fund at 31st March 2015 compared with the previous financial year is shown in the table below:

	31st March 2015	**31st March 2014**
Active members	5,958	5,838
Deferred members	8,678	8,336
Pensioners & Dependants	7,080	6,891
TOTAL	21,716	21,065

The table above shows an overall increase in membership of 3.1% due to staff increases at academy employers and auto enrolment of new joiners.

A schedule of the membership from each of the employers is shown overleaf.

Employer	Active Members	Deferred Beneficiaries	Pensioners & Dependants
Scheduled Bodies			
Haringey Council Employees	4,415	7853	6527
Haringey Council Councillors	0	23	9
Homes for Haringey	437	215	169
College Haringey, Enfield & NE London	141	268	129
Greig City Academy	50	25	4
Fortismere School	45	25	8
John Loughborough School	1	12	6
Alexandra Park Academy	78	10	4
Woodside Academy	65	3	1
Eden Free School	11	4	0
Harris Academy Coleraine	29	0	0
Harris Academy Philip Lane	32	5	2
AET Trinity Primary	30	3	1
AET Noel Park	46	4	1
Haringey 6th Form Centre	64	6	0
St Pauls & All Hallows Infant Academy	27	1	0
St Pauls & All Hallows Junior Academy	14	2	0
St Michaels Academy	27	1	0
St Ann CE Academy	21	1	0
Holy Trinity CE Academy	14	2	0
Brook House Primary	14	1	0
Heartlands Academy	68	2	0
St Thomas More School Academy	30	1	4
Milbrook Primary School	7	0	0
Community Admission Bodies			
Alexandra Palace Trading Co Ltd	4	10	9
Haringey Age UK	1	6	16
Haringey Citizens Advice Bureau	5	1	6
Transferee Admission Bodies			
Cofely Workplace Ltd	50	18	16
Churchill Contract Services	2	1	1
Fusion Lifestyle	48	19	3
TLC Ltd	11	9	6
Urban Futures London Ltd	3	8	0
Veolia Environmental Services (UK) plc	109	24	13
Lunchtime UK [six school contracts]	21	0	1
ABM	4	0	0
Caterlink	15	0	0
Absolutely Catering	3	0	0
The Octagon	16	0	0
Bodies no longer actively participating			
CSS (Haringey) Ltd	0	26	54
Enterprise Futures London Ltd	0	38	44
Haringey Magistrates	0	20	18
Harrisons Catering	0	1	2
Initial Catering Ltd	0	1	1
Jarvis Workspace Ltd	0	22	20
Mittie Ltd	0	0	2
One Complete Solution Ltd	0	1	1
Ontime Parking Solutions	0	3	1
RM Education Ltd	0	3	0
Europa Facilities Services Ltd	0	0	1
Totals	**5,958**	**8,678**	**7,080**

Investment Policy & Performance Report

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Investment Strategy

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

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

The strategy is set out in detail in the Statement of Investment Principles, which is shown in Appendix 2 on page 65. All investments were externally managed, with the exception of a small allocation of cash used to meet benefit payments, which was held in-house.

In January 2014 a revised strategic asset allocation was agreed that reduced the allocation to listed equities by 10% (to 60%) and created two new allocations of 5% each – Infrastructure debt and multi-sector credit. The implementation of the new strategy took place during the year.

The Fund's benchmark showing target asset allocation during 2014-15 is shown below, alongside the actual allocation of the Fund's investments at 31st March 2015. The financial statements show that the Fund is invested in pooled funds and the breakdown in the table below shows the allocation of the underlying holdings.

Asset class	Benchmark %	Actual % at 31 March 2015
UK Equities	15.0	16.0
Overseas Equities	45.0	50.0
UK Index linked gilts	15.0	14.2
Multi Sector credit	5.0	4.4
Infrastructure debt	5.0	1.9
Property	10.0	9.3
Private Equity	5.0	3.8
Cash	0.0	0.4

Custodial arrangements

The Council employs Northern Trust to act as independent custodian of the Pension Fund's investments. As professional custodians, they employ a rigorous system of controls to ensure 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.

Responsible Investment

The Pension Fund believes that the adoption by companies of positive Environmental, Social and Governance principles can enhance their long term performance and increase their financial returns. These issues are of concern to the Fund because it is considered that companies who do not have regard for the social and environmental impact of their business, or who conduct their business in a way which is not sustainable over the longer term are in danger of adversely affecting the future prospects of the company, and potentially the company's long term share price.

Due to the need to prioritise fiduciary duty, the Fund does not participate in stock screening or exclusionary approaches. Instead the Fund seeks to influence the behaviour of companies through engagement. This engagement is undertaken through the following parties:

- The Fund's investment managers
- Local Authority Pension Fund Forum (LAPFF)
- National Association of Pension Funds (NAPF)

The Fund maintains membership of the LAPFF and the NAPF in order that engagement can be undertaken on its behalf.

In addition to this, all the Fund's managers are signatories to the 'United Nations Principles for Responsible Investment' initiative.

On a quarterly basis the Corporate Committee receive reports on the engagement activity undertaken on behalf of the Fund, covering environmental issues, governance and remuneration and all other responsible investment issues.

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 during the 2014/15, the asset classes they cover and their percentage of the Fund's investments on 31st March 2015 are shown in the table below (the remaining 0.4% was invested in-house in cash):

Investment Manager	Mandate	% at 31 March 2015
BlackRock Investment Management	Passive Global Equities & Bonds	52.5%
Legal & General Investment Management	Passive Global Equities & Bonds	27.8%
CBRE Global Investors	Property	9.3%
Pantheon	Private Equity	3.8%
CQS	Multi Sector Credit	4.4%
Allianz Global Investors	Infrastructure Debt	2.0%

NB: the allocations above relate to total assets. Page 41 is based on investment assets only.

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

Passive managers – target is to meet the benchmark:

Asset class	Benchmark
UK Equities	FTSE All Share
North American Equities	FT World Developed North America GBP Unhedged
European Equities	FT World Developed Europe ex UK GBP Unhedged
Japanese Equities	FT World Developed Japan GBP Unhedged
Pacific ex Japan Equities	FT World Developed Pacific ex Japan GBP Unhedged
Emerging Markets Equities	FT World Global Emerging Markets GBP Unhedged
Index Linked Gilts	FTA Index Linked Over 5 Years Index

Active managers

Investment Manager	Benchmark	Target over 3 year rolling periods
CBRE Global Investors	HSBC/APUT Balance Funds Index	+1 % (gross) of fees p.a.
Pantheon	MSCI World Index plus 3.5%	Benchmark
CQS	3 month libor +5.5%	Benchmark
Allianz Global Investors	5.5% p.a.	Benchmark

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. All figures shown are annualised performance figures over the various periods to 31st March 2015.

	1 year	3 years	5 years
Overall Pension Fund performance	16.10	11.84	9.47
Benchmark	16.85	12.33	9.92
Performance versus benchmark	(0.75)	(0.49)	(0.45)

Individual fund manager performance against the benchmarks during 2014/15 is shown in the table below. The returns for CQS and Allianz are part year only. The mandates that were in place for the full year all produced strong absolute returns. Private equity valuations are estimated and lag the changes in public equity markets, which results in underperformance when listed equities (the benchmark) rise strongly but out-perform in subsequent years when valuation movements catch up with listed markets.

Fund Manager	Mandate	Annual actual return %	Annual benchmark return %	Annual (Under)/Over Performance %
BlackRock Investment Mgt	Passive Equities & Bonds	17.42	17.32	0.10
Legal & General Investment Mgt	Passive Equities & Bonds	16.28	17.00	(0.72)
CBRE Global Investors	Property	13.74	16.69	(2.95)
Pantheon	Private Equity	14.90	23.80	(8.90)
CQS	Multi Sector Credit	2.31	1.51	0.80
Allianz	Infrastructure Debt	1.78	1.35	0.43
Total Fund Performance		**16.10**	**16.85**	**(0.75)**

Market Developments 2014-15

The ongoing reduction in Quantitative Easing by the United States Federal Reserve during the period April to October 2014 when the programme finally ended and the consequent strengthening US $, which reduced the overseas earnings of US large cap equities, failed to halt the continuing overall upward movement of US Equities. The S&P 500 was up 10% by the end of the financial year at 2068 on 31 March 2015 compared to 1872 a year earlier. While Quantitative Easing may have ended the highly stimulative monetary policy of the Federal Reserve continued with the main interest rate (the Federal Funds Rate) remaining at 0% to 0.25%.

In the Eurozone 2014-15 was a period of clear and continuing gradual recovery. Progressive monetary easing culminating in the announcement in January 2015 of a huge Quantitative Easing programme, which commenced in March and will result in 60 billion Euro a month asset purchases till at least September 2016, together with a related significant weakening of the Euro against the US $, slow but positive trends in confidence and employment combined to boost European Equity markets. Overall during the financial year the FTSE Eurofirst 300 increased by approximately 19%. By March 2015 the Eurofirst 300 was trading higher than for seven years.

The huge Quantitative Easing programme of the Bank of Japan continued and was significantly expanded during 2014-15 and together with a consequential competitive yen, lower world commodity prices and improved real pay levels resulted in an overall positive year for both the Japanese economy and equity prices. Corporate earnings were clearly positive. In October 2014 the Government Pension Investment Fund announced that it would reduce its holdings of bonds and increase its holdings of domestic (and foreign) shares giving yet more impetus to Japanese equities. The Nikkei 225 Index increased by approximately 30% during the financial year.

May 2014 saw a seismic shift in the politics of India and the expectations of markets. The Bharatiya Janata Party (BJP) led by Narendra Modi obtained an overall majority on a platform of major economic reform. The Sensex index increased by 24% over the period 1 April 2014 to 31 March 2015 fuelled by optimism following Mr Modi’s election victory and falling commodity prices.

The US Treasury 10 Year bond benchmark yield was 1.94 on 31 March 2015 0.8% lower than a year before. Low inflation, weaker than anticipated growth, and policy statements from the Federal Reserve resulted in market expectations regarding interest rate rises receding during the year.

In 2014-15 weak inflationary pressure together with the progressive loosening of ECB monetary policy supported German and other Eurozone government bonds which saw their yields very significantly compress (and therefore their value increase). The German 10 year benchmark yield reduced from 1.58% at the start of the financial year to only 0.18% on 31 March 2015 while the Italian 10 Year bond closed the year at 1.29% compared to 3.31% a year earlier.

John Raisin Financial Services Limited
Independent Advisor, 26 August 2015

Scheme Administration Report

Local Government Pension Scheme

Administration Service Delivery

Communications Policy

Pensions Administration Strategy

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 2013 and Local Government Pension Scheme (Transitional, Provision Savings and Amendment) Regulations 2014. 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 until the day before age 75. From April 2014, the benefit structure changed from a final salary scheme to career average revalued earnings based scheme, with changes to the accrual rate and to align the normal retirement date with the age at which the state pension commences.

Administration Service Delivery

The Haringey Council Pension Service is composed of two distinct arms: Fund Management and Pension Administration. Pension Administration is part of Human Resources.

The Pension Administration service is included in the HR 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, Janet Richards at the following address: Level 4, Alexandra House, 10 Station Road, Wood Green, London, N22 7LR or janet.richards@haringey.gov.uk. If the matter remains unresolved, a stage 1 appeal may be made to the Head of Human Resources and thereafter, if necessary a further appeal may be made to Bernie Ryan, Principal lawyer of the Employment, Education and Corporate Team 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 Employees guide, which can be found on the council's website (details below) or contact the Pensions Team, 4th Floor, Alexandra House, 10 Station Road, Wood Green, N22 7TR / telephone 020 8489 5916 or refer to the Council's website: www.haringey.gov.uk/pensionfund

Communications Policy

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

The current policy, which has been prepared in accordance with the LGPS regulatory requirement is attached in Appendix 3 on page 79 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 pension's 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.

Pensions Administration Strategy Statement

The Fund implemented a Pensions Administration Strategy Statement on 1st April 2011, following consultation with the employers participating in the Fund and approval by Committee.

This statement sets out the performance standards expected of the Council in its role of Administering Authority for the Fund and those expected of employers participating in the scheme. It seeks to promote good working relationships, improve efficiency and ensure quality of service and data. It sets out details of how performance will be monitored and what action might be taken in the event of persistent failure.

During the financial year 2014-15 no formal action has been taken against any employers. The only breaches of the performance standards have been minor and have been dealt with informally.

The Pensions Administration Strategy Statement can be found on the Haringey Pension Fund website
http://www.haringey.gov.uk/pensionfund#policy_statements_and_reports

Actuarial 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 2013 in a report dated 17 March 2014.

The 2013 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 2013 was £863m. Against this sum liabilities were identified of £1,232m equivalent to a funding deficit of £369m. The movement in the actuarial deficit between 2010 and the last valuation in 2013 is analysed below:

Reason for change	**£m**
Interest on deficit	(58)
Investment returns greater than expected	51
Contributions greater than cost of accrual	23
Change in demographic assumptions	(4)
Experience items	51
Change in financial assumptions	(136)
Total	(73)
Deficit brought forward	(296)
Deficit carried forward	(369)

The level of funding on an ongoing funding basis increased to 70.0% from 69.2% between the triennial actuarial valuations as at 31st March 2010 and as at 31st March 2013. The main reason for the deficit increase was the fall in government bond yields that increased the value placed on pension liabilities.

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 4 on page 81.

Following the valuation as at 31 March 2013, the actuary agreed that the Council's contribution rate should increase by 2% over a three year period from April 2004, from 22.9% of pensionable salaries to 24.9%. The actuary specified a minimum level of deficit contributions in monetary terms. The 2014/15 contribution rate was split between 6.8% for the past service adjustment to fund the deficit over 20 years and the future service rate of 17.1%.

The main assumptions used in the 2013 valuation were:

Investments	**Annual nominal rate of return %**
Discount rate	4.6

	Annual change %
Pay increases	4.3*
Price Increases (pension increases)	2.5

** Salary increased assumed to be 1% p.a. until 31st March 2016 reverting to the long term assumptions shown thereafter.*

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 and agreed in March 2014.

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 4 on page 82.

London Borough of Haringey Pension Fund ("the Fund") Actuarial Statement for 2014/15

This statement has been prepared in accordance with Regulation 57(1)(d) of the Local Government Pension Scheme Regulations 2013, and Chapter 6 of the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the UK 2014/15. It has been prepared at the request of the Administering Authority of the Fund for the purpose of complying with the aforementioned regulation.

Description of Funding Policy

The funding policy is set out in the administering authority's Funding Strategy Statement (FSS), dated January 2014. In summary, the key funding principles are as follows:

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

The FSS 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 60% chance that the Fund will return to full funding over 20 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 2013. This valuation revealed that the Fund's assets, which at 31 March 2013 were valued at £863 million, were sufficient to meet 70% of the liabilities (i.e. the present value of promised retirement benefits) accrued up to that date. The resulting deficit at the 2013 valuation was £369 million.

Individual employers' contributions for the period 1 April 2014 to 31 March 2017 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 17 March 2014.

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 2013 valuation were as follows:

Financial assumptions	31 March 2013	
	% p.a. Nominal	% p.a. Real
Discount rate	4.60%	2.10%
Pay increases	4.30%	1.80%
Price inflation/Pension increases	2.50%	-

The key demographic assumption was the allowance made for longevity. The life expectancy assumptions are based on the Fund's VitaCurves with improvements in line with the CMI_2010 model, assuming the current rate of improvements has reached a peak and will converge to long term rate of 1.25% p.a.. Based on these assumptions, the average future life expectancies at age 65 are as follows:

	Males	Females
Current Pensioners	21.9 years	24.1 years
Future Pensioners*	24.2 years	26.5 years

*Currently aged 45

Copies of the 2013 valuation report and Funding Strategy Statement are available on request from London Borough of Haringey, the administering authority to the Fund.

Experience over the period since April 2013

Real bond yields have fallen dramatically (leading to a higher liability value), but the effect of this has been only partially offset by the effect of strong asset returns. Overall funding levels are likely to have remained approximately the same, but the monetary amount of deficits will have increased over this period as both assets and liability values have increased in size.

The next actuarial valuation will be carried out as at 31 March 2016. The Funding Strategy Statement will also be reviewed at that time.

Douglas Green FFA

Fellow of the Institute and Faculty of Actuaries
For and on behalf of Hymans Robertson LLP
8 May 2015

Hymans Robertson LLP
20 Waterloo Street
Glasgow
G2 6DB

Financial Report

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.

Statement of the Chief Financial Officer

I certify that the financial statements set out in pages 30 to 56 have been prepared in accordance with the accounting policies set out above and give a true and fair view of the financial position of the Pension Fund at the reporting date and of its expenditure and income for the year ended 31st March 2015.

Tracie Evans, CPFA
Chief Operating Officer / Chief Financial Officer

September 2015

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 2014/15, 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.

Accounting Policies and Principles

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. The benefits payable in respect of service from 1st April 2014 are based on career average revalued earnings and the number of years of eligible service. Pensions are increased each year in line with the Consumer Price Index.

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, governance and investment related matters. Charges paid to HMRC in respect of scheme members breaching the Pensions Lifetime allowance are disclosed under administrative expenses.

Investment income
Interest on 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.

Income from pooled investment vehicles is normally retained within the vehicle and included within change in market value of investments.

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 for as an expense as it arises.

Investment management expenses
Fund managers' fees are based on the market values of the portfolios under management, or in the case of private equity, the value committed to funds. Fees

are either charged directly to the Fund or deducted from the value of pooled holdings, in the case of the latter an estimate of the fees is allocated to investment expenses from the change in the value of investments. All the Investment Management expenses are shown on an accruals basis. There is a provision for performance related fees for private equity, although none were charged in the year.

Financial Assets & Liabilities

Financial assets and liabilities are included in the net assets statement on a fair value basis as at the reporting date. A financial asset or liability is recognised in the net assets statement on the date the fund become party to the contractual acquisition of the asset or party to the liability. From this date any gains or losses from changes in the fair value of the asset or liability are recognised by the fund.

Investments – valuation
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
- Property held in pooled investment vehicles is valued by each fund in accordance with local market practice, for UK property this is The Royal Institute of Chartered Surveyor's Valuation Standards.

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 based on the Fund's share of the net assets in the private equity fund or limited partnership using the latest financial statements published by the respective fund managers adjusted for drawdowns paid and distributions received in the period from the date of the private equity financial statements to 31 March 2015.

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.

Cash and Cash Equivalents

Cash is represented by cash in hand and deposits with financial institutions repayable without penalty on notice of not more than 24 hours.

Cash equivalents are investments that mature in no more than a three month period from the date of acquisition and that are readily convertible to known amounts of cash with insignificant risk of change in value.

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 19 to the financial statements.

Critical Judgements Applied

There are two areas in the accounts where subjective 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 Partner of the fund using valuations provided by the underlying partnerships. The variety of valuation bases adopted and quality of management data of the underlying investments in the Partnership means that there are inherent difficulties in determining the value of these investments. Given the long term nature of the investments, amounts realised on the sale of these investments may differ from the values reflected in these financial statements and the difference may be material.

Fund Account

2014/15		Notes	2013/14
£'000			**£'000**
	Dealings with members, employers and others directly involved in the scheme		
42,518	Contributions receivable	1	39,015
3,058	Transfers In	2	2,435
(43,060)	Benefits payable	3	(40,411)
(3,722)	Payments to and on account of leavers	4	(3,283)
(1,206)	**Net additions from dealings with members**		**(2,244)**
(3,236)	**Management Expenses**	5	**(2,460)**
	Returns on Investments:		
4,210	Investment Income	6	2,577
146,243	Change in market value of investments	7	38,279
150,453	**Net returns on investments**		**40,856**
146,011	**Net increase in the fund during the year**		**36,152**
899,344	**Add: Opening net assets of the scheme**		**863,192**
1,045,355	**Closing net assets of the scheme**		**899,344**

Net Asset Statement

The Net Asset Statement sets out the assets and liabilities for the Fund as at 31 March 2015. The Fund is separately managed by the Council acting in its role as Administering Authority and its accounts are separate from the Council's.

Net Assets Statement

31/03/15		Notes	31/03/14
£'000			£'000
1,045,941	Investment assets	7	893,758
0	Investment liabilities	7	(12,606)
1,045,941			881,152
727	Current Assets	10,11	19,332
(1,313)	Current Liabilities	11,12	(1,140)
1,045,355	**Total Assets**		**899,344**

Notes to Pension Fund Account

1. Contributions Receivable

2014/15		2013/14
£'000		**£'000**
23,786	Employers' normal contributions	22,729
8,193	Employers' deficit funding contributions	6,692
1,601	Employers' other contributions	1,040
33,580		**30,461**
8,938	Members' normal contributions	8,554
42,518	**Total**	**39,015**

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 age 60, but before their normal protected retirement date.

Contributions are further analysed in the following note:

1a. Analysis of Contributions Receivable

2014/15		2013/14
£'000		**£'000**
31,094	Administering authority	28,718
9,679	Scheduled bodies	8,805
1,745	Admitted bodies	1,492
42,518	**Total**	**39,015**

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.

2. Transfers In

2014/15		2013/14
£'000		**£'000**
3,058	Individual transfers in from other schemes	2,435
3,058	**Total**	**2,435**

3. Benefits Payable

2014/15		2013/14
£'000		**£'000**
34,842	Pensions	32,824
7,107	Commutation of pensions & lump sums	7,054
1,111	Lump sum death benefits	533
43,060	**Total**	**40,411**

Benefits payable are further analysed in the following note.

3a. Analysis of Benefits Payable

2014/15		2013/14
£'000		**£'000**
40,183	Administering authority	36,471
2,582	Scheduled bodies	2,900
295	Admitted bodies	1,040
43,060	**Total**	**40,411**

4. Payments to and on account of leavers

2014/15		2013/14
£'000		**£'000**
36	Refunds of contributions	6
3,686	Individual transfers out to other schemes	3,277
3,722	**Total**	**3,283**

5. Management Expenses

2014/15		2013/14
£'000		**£'000**
686	Administration costs	664
2,413	Investment Management expenses	1,658
137	Oversight & governance costs	138
3,236	**Total**	**2,460**

Included within oversight and governance costs are audit fees of £21,000 paid to Grant Thornton UK LLP. Administration costs include £561,000 charged by the Council in respect of the use of Council staff by the Fund.

Investment management fees are based on a percentage of the assets managed or committed. There were no performance related fees in the year.

Transaction costs are disclosed in note 7.

6. Investment Income

2014/15		2013/14
£'000		**£'000**
(2)	Dividends from equities	(4)
3,758	Income from pooled investment vehicles	2,510
454	Interest on cash deposits	71
4,210	**Total**	**2,577**

7. Reconciliation of movements in Investment assets & liabilities

2014-15	Value as at 1 April 2014	Purchases at Cost & Derivative payments	Sales Proceeds & derivative receipts	Changes in market value	Value as at 31 March 2015
	£'000	£'000	£'000	£'000	£'000
Pooled Investment vehicles	888,404	91,863	(93,874)	146,330	1,032,723
Cash Deposits	5,282	11,291	(3,337)	(86)	13,150
Other Investment assets	72	52	(55)	(1)	68
Other investment liabilities	(12,606)	12,606	0	0	0
Net Investment Assets	**881,152**	**115,812**	**(97,266)**	**146,243**	**1,045,941**

2013-14	Value as at 1 April 2013	Purchases at Cost & Derivative payments	Sales Proceeds & derivative receipts	Changes in market value	Value as at 31 March 2014
	£'000	£'000	£'000	£'000	£'000
Pooled Investment vehicles	848,572	88,243	(86,803)	38,392	888,404
Cash Deposits	11,310	781	(6,698)	(111)	5,282
Other Investment assets	497	6	(429)	(2)	72
Other investment liabilities	0	0	(12,606)	0	(12,606)
Net Investment Assets	**860,379**	**89,030**	**(106,536)**	**38,279**	**881,152**

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 nil (2013/14: nil. 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.

7a. Analysis of investment assets excluding derivatives and other investment balances

31/03/15		31/03/14
£'000		£'000
	Pooled Investment Vehicles	
	Unit Trusts:	
94,058	- Property - UK	67,568
	Unitised Insurance Policies	
315,264	- UK	295,336
520,901	- Overseas	489,280
	Other managed funds	
54	- Property - Overseas	887
17,260	- Other - UK	0
85,186	- Other - Overseas	35,333
1,032,723		**888,404**
	Cash Deposits	
9,658	Sterling	4,288
3,493	Foreign Currency	994
13,150		**5,282**

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

7b. Derivative Contracts

The Pension Fund did not hold any derivative contracts as at 31 March 2015 or 31 March 2014.

7c. Investment Assets – Other Investment Balances

31/03/15 £'000		31/03/14 £'000
1	Outstanding dividend entitlements	44
67	Recoverable Taxes	28
68		**72**

7d. Investment Liabilities – Other Investment Balances

31/03/15 £'000		31/03/14 £'000
0	Unsettled investment trade purchases	(12,606)
0		**(12,606)**

7e. Analysis of Investments by fund manager

31/03/2015 £'000	%	Fund Manager	31/03/2014 £'000	%
546,809	52.279%	BlackRock Investment Mngt	535,935	60.0%
15	0.001%	Capital International	14	0.0%
289,641	27.692%	Legal & General	248,963	27.9%
96,579	9.234%	CBRE Global Investors	70,478	7.9%
20,357	1.946%	Allianz Global Investors	0	0.0%
45,750	4.374%	CQS	0	0.0%
42,868	4.099%	Pantheon	36,633	4.1%
3,922	0.375%	In house cash deposits	1,735	0.2%
1,045,941	**100.000%**	**Total**	**893,758**	**100.0%**

7f. Investments exceeding 5% of Net Assets

31/03/2015			31/03/2014	
£'000	**%**	**Name of holding**	**£'000**	**%**
142,686	13.7%	BlackRock Aquila Life UK Equity Index Fund	150,150	16.7%
213,629	20.5%	BlackRock Aquila Life US Equity Index Fund	210,961	23.5%
119,135	11.4%	BlackRock Aquila Life Over 5 Years Index Linked	98,356	10.9%
103,138	9.9%	Legal & General World Emerging Equity Index	88,730	9.9%

8a. 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 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.

31/03/15			31/03/14	
Carrying Value £'000	**Fair Value £'000**		**Carrying Value £'000**	**Fair Value £'000**
FINANCIAL ASSETS			**FINANCIAL ASSETS**	
Financial Assets at Fair Value through Profit or Loss			**Financial Assets at Fair Value through Profit or Loss**	
1,032,723	1,032,723	Pooled Investment vehicles	888,404	888,404
68	68	Other Investment Balances	72	72
1,032,791	**1,032,791**		**888,476**	**888,476**
Loans & Receivables			**Loans & Receivables**	
13,150	13,150	Cash Deposits	5,282	5,282
727	727	Debtors	4,448	4,448
0	0	Cash at Bank	14,884	14,884
13,877	**13,877**		**24,614**	**24,614**
FINANCIAL LIABILITIES			**FINANCIAL LIABILITIES**	
Financial Liabilities at Amortised Cost			**Financial Liabilities at Amortised Cost**	
(1,129)	(1,129)	Creditors	(13,746)	(13,746)
(184)	(184)	Cash overdrawn	0	0
(1,313)	**(1,313)**		**(13,746)**	**(13,746)**
1,045,355	**1,045,355**	**Net Assets**	**899,344**	**899,344**

8b. Net gains and losses on financial instruments

The table below analyses gains and losses according to financial instrument classification.

31/03/15		31/03/14
£'000		£'000
	Financial Assets	
146,330	Fair Value through profit or loss	38,392
(87)	Loans & receivables	(113)
	Financial Liabilities	
0	Fair Value through profit or loss	0
0	Financial Liabilities at Amortised Cost	0
146,243	**Total**	**38,279**

8c. Valuation of Financial Instruments Carried at Fair Value

In accordance with IFRS 7 Financial Instruments, the valuation of financial instruments has been classified into three levels according to the quality and reliability of information used to determine fair values. Criteria utilised in the instrument classifications are detailed below:

Level 1
Financial instruments at level 1 are those where the fair values are derived from unadjusted quoted prices in active markets for identical assets or liabilities. Products classified as level 1 comprise quoted equities, quoted fixed securities, quoted index linked securities, cash and short term investment debtors and creditors and pooled funds whose value is derived wholly in such investments.

Level 2
Financial instruments at level 2 are those where quoted market prices are not available; for example, where an instrument is traded in a market that is not considered to be active, or where valuation techniques are used to determine fair value and where these techniques use inputs that are based significantly on observable market data. Property is treated as level 2.

Level 3

Financial instruments at level 3 are those where at least one input that could have a significant effect on the instrument's valuation is not based on observable market data. Such instruments would include unquoted equity and debt investments, which are valued using various valuation techniques that require significant judgement in determining appropriate assumptions. Private equity and infrastructure debt are classified as level 3.

The following table provides an analysis of the financial assets of the pension fund grouped into levels 1 to 3, based on the level at which the fair value is observable. All financial liabilities are all categorised as level 1.

values at 31 March 2015	Quoted market price	Using Observable inputs	With significant unobservable inputs	
	Level 1	Level 2	Level 3	Total
	£'000	£'000	£'000	£'000
Financial assets	881,982	94,112	56,697	1,032,791
Loans and receivables	13,877			13,877
	895,859	94,112	56,697	1,046,668

values at 31 March 2014	Quoted market price	Observable inputs	unobservable inputs	
	Level 1	Level 2	Level 3	Total
	£'000	£'000	£'000	£'000
Financial assets	784,688	68,455	35,333	888,476
Loans and receivables	24,614			24,614
	809,302	68,455	35,333	913,090

9. Nature and extent of risks arising from Financial Instruments

The Pension Fund's investment objectives are to achieve a return on Fund assets, which is sufficient, over the long term, to fully meet the cost of benefits and to ensure stability of employers' contribution rates. Achieving the investment objectives requires a high allocation to growth assets in order to improve the funding level without increasing contribution rates, although this leads to a potential higher volatility of future funding levels and contribution rates.

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, which sets out the Fund's approach to investment including the management of risk. The latest version can be found in the Pension Fund Annual Report & Accounts

The majority of the Pension Fund's assets are managed by external fund managers and they are required to provide an annual audited internal controls report to the

Council which sets out how they ensure the Fund's assets are safeguarded against loss and misstatement.

The listed equity and index linked portfolio, representing approximately 75% of the fund, are managed on a passive basis to minimise the volatility of returns compared with market indices and to reduce the fees and governance requirements compared with 'active' managment.

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 pooled funds with underlying assets which can fluctuate on a daily basis as market prices change e.g. equities and bonds. To demonstrate the impact of this volatility, the table below shows the impact of potential price changes based on the observed historical volatility of asset class returns. The potential volatilities are consistent with a one standard deviation movement in the change in value of the assets over the last three years. The volatility shown for Total Assets incorporates the impact of correlation across asset classes and therefore the value on increase / decrease for the asset classes will not sum to the Total asset figure.

Price Risk

Asset Type	Value (£)	% Change	Value on Increase	Value on Decrease
UK Equities	167,209,387	10.26%	184,365,070	150,053,704
Overseas Equities	520,900,898	9.32%	569,448,862	472,352,934
UK Bonds	165,314,395	9.10%	180,358,005	150,270,785
Cash	13,218,028	0.01%	13,219,350	13,216,706
Property	94,112,377	2.69%	96,644,000	91,580,754
Alternatives	85,186,255	6.51%	90,731,880	79,640,630
Total Assets	**1,045,941,340**	**7.01%**	**1,119,261,828**	**972,620,852**

The % change for Total Assets includes the impact of correlation across asset classes

31/03/2014				
Asset Type	**Value (£)**	**% Change**	**Value on Increase**	**Value on Decrease**
UK Equities	173,136,387	12.30%	194,432,163	151,840,611
Overseas Equities	489,280,285	12.28%	549,363,904	429,196,666
UK Bonds	122,199,296	6.79%	130,496,628	113,901,964
Cash	5,353,115	0.02%	5,354,186	5,352,044
Alternatives	35,333,411	7.25%	37,895,083	32,771,739
Property	68,455,060	2.79%	70,364,956	66,545,164
Total Assets	**893,757,554**	**8.27%**	**967,671,304**	**819,843,804**

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 57% of the Fund value on 31st March 2015, equivalent to £595 million (2014: £526 million). These arise from passive pooled equities, private equity, property, multi sector credit and cash. Foreign currency exposures are not hedged.

The main non sterling currency exposures as at 31 March 2015 were US dollar (£286m). Other significant exposures arise from the Euro, a wide range of Asian and emerging market countries and the Canadian $.

There is a risk that due to exchange rate movements that the sterling equivalent value of the investments falls. The potential volatilities in the table below are consistent with a one standard deviation movement in the change in value using a currency basket desired from the fund's currency mix.

Currency Risk (by asset class)

Asset Type	Value (£)	% Change	alue on Increase	/alue on Decrease
Overseas Equities	520,900,898	6.03%	552,295,818	489,505,978
overseas property	53,967	6.03%	57,220	50,714
multi sector credit	31,023,524	6.03%	32,893,326	29,153,723
private equity	39,436,374	6.03%	41,813,221	37,059,527
cash	3,492,559	6.03%	3,703,057	3,282,061
Total	**594,907,322**	**6.03%**	**630,762,641**	**559,052,004**

31/03/2014				
Asset Type	**Value (£)**	**% Change**	**alue on Increase**	**/alue on Decrease**
Overseas Equities	489,280,285	5.67%	517,043,361	461,517,209
Overseas Property	886,573	5.67%	936,880	836,266
Private equity	35,333,411	5.67%	37,338,323	33,328,499
cash	993,671	5.67%	1,050,055	937,287
Total	**526,493,940**	**5.67%**	**556,368,618**	**496,619,262**

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 fixed income bonds. To demonstrate this risk, the table below shows the impact on income earned of a 1% increase and decrease in interest rates. For cash, the average rate earned was less than 1%, and the potential reduced income is limited to nil.

The Fund also has exposure to fixed interest bonds through the multi-sector credit and infrastructure mandates with CQS and Allianz respectively. Income earned is retained within these funds and potential changes thereto are reflected in the price risk above.

	Interest earned 2014/15 £'000	Interest if rates 1% higher £'000	Interest if rates 1% lower £'000
Cash Deposits	454	1,362	0
	454	**1,362**	**0**

	Interest earned 2013/14 £'000	Interest if rates 1% higher £'000	Interest if rates 1% lower £'000
Cash Deposits	71	210	0
	71	**210**	**0**

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 2015 and 31st March 2014. A majority of bonds are UK Government index linked. The UK Government has an AA+ credit rating.

	Market Value at 31/03/2015 £'000	AAA %	AA %	A %	BBB %	Below BBB %
Bond exposure in Pooled Investment vehicles	210,364	0.0	70.4	3.2	8.8	17.6
Total / Weighted Average	**210,364**	**0.0**	**70.4**	**3.2**	**8.8**	**17.6**

	Market Value at 31/03/2014 £'000	AAA %	AA %	A %	BBB %	Below BBB %
Bond exposure in Pooled Investment vehicles	122,200	0.0	100.0	0.0	0.0	0.0
Total / Weighted Average	**122,200**	**0.0**	**100.0**	**0.0**	**0.0**	**0.0**

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 with.

	Credit rating on 31/03/15	Exposure £'000
Northern Trust	AA-	9,228
Barclays Bank	A	762
Money Market funds	AAAm	3,160
Total		**13,150**

	Credit rating on 31/03/14	Exposure £'000
Northern Trust	AA-	3,547
Barclays Bank	A	1,735
Total		**5,282**

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. Currently the annual net cash outflow from dealing with members is low in relation to the fund value at £1.2 million and the fund is able to take advantage of the opportunity to earn additional returns from holding illiquid investments.

Maintaining a level of internally managed cash balances enables the Pension Fund to ensure liquidity is not an issue. All of the internally managed cash held on 31 March 2015 was in accounts with the main bank or custodian, 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 pooled funds whose underlying holdings are listed equities or bonds. These funds have regular, at least monthly dealing dates, which ensure it is possible to realise the investments easily if necessary. The Fund's holdings in private equity and infrastructure are expected to be realised when the underlying instruments are sold by the fund manager or reach maturity and the timing of realisation events is not within the control of the Fund. These investments represent 5% of total investments.

10. Debtors

31/03/15		31/03/14
£'000		£'000
	Local Authorities	
	Contributions due from :	
158	Administering Authority in respect of the Council	2,642
38	Administering Authority in respect of members	526
196		3,168
78	Administering Authority - other	318
78		318
	Central Government Bodies	
35	HM Revenue & Customs	10
35		10
	Other entities and individuals	
	Contributions due from :	
226	Admitted Bodies in respect of employers	75
51	Admitted Bodies in respect of members	22
112	Scheduled Bodies in respect of employers	674
23	Scheduled Bodies in respect of members	151
6	Other	30
418		952
727		**4,448**

All contributions due to the Scheme at the year end were paid within the timescales required by the Scheme Rules, with the exception of two employers, whose contributions were received late.

11. Cash at bank

31/03/15		31/03/14
£'000		£'000
(184)	Cash at bank / (Cash Overdrawn)	14,884
(184)		**14,884**

12. Creditors

31/03/15		31/03/14
£'000		£'000
	Local Authorities	
24	Administering Authority	320
	Central Government Bodies	
344	HM Revenue & Customs	321
	Other entities and individuals	
221	Unpaid benefits in respect of the Administering Authority	48
540	Fund manager and adviser fees	451
0	Other	0
1,129		**1,140**

13. Contingent assets

Five 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. There were five bonds in place on 31st March 2014.

14. Commitments

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

31/03/15		31/03/14
£'000		£'000
8,452	Pantheon - Private Equity	12,708
3,865	CBRE - Real Estate	0
28,093	Aviva - Infrastructure Debt	0
40,410	**Total**	**12,708**

The commitments relate to outstanding call payments due in relation to the private equity portfolio.

15. Related party transactions

Haringey Council
In 2014/15 the Pension Fund paid £0.518m to the Council for administration and legal services (£0.48m in 2013/14). As at 31 March 2015 a net £0.247m was due from the Council to the Fund (£3.166m in 2013/14), mainly in relation to employer and employee contributions.

Governance
During 2013/14 no council members who served on the Pensions Committee were also members of the Pension Fund. Committee members are required to declare their interests at the beginning of each Committee meeting.

Key Management Personnel
Local Authorities are exempt from the key management personnel requirements of IAS24, on the basis of the disclosures required by the Accounts and Audit (England) Regulations. This also applies to the Haringey Pension Fund. The disclosures prepared in line with the Regulations can be found in the main accounts of Haringey Council. The key management person is Mr Kevin Bartle, Chief Financial Officer, who is the “Scheme Administrator”.

There were no other material related party transactions.

16. Actuarial present value of promised retirement benefits

Annex 1 to the Financial Statements 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 in the Actuarial Position section.

17. 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 below:

2014/15	Equitable Life Assurance Society	2013/14
£		£
331,682	Value as at 6 April	343,116
2,945	Contributions received	2,919
(9,188)	Retirement benefits and charges	(28,694)
18,738	Change in market value	14,341
344,177	Value as at 5 April	**331,682**
138,639	Equitable With Profits	141,323
134,469	Equitable Deposit Account Fund	69,514
71,069	Equitable Unit Linked	120,845
344,177	Total	**331,682**
5	Number of active members	23
37	Number of members with preserved benefits	20

2014/15	Prudential Assurance	2013/14
£		£
891,664	Value as at 1 April	990,480
125,066	Contributions received	150,729
(237,091)	Retirement benefits and charges	(297,500)
65,256	Change in market value	47,956
844,895	Value as at 31 March	**891,664**
493,359	Prudential With Profits Cash accumulation	611,447
194,059	Prudential Deposit Fund	136,417
157,477	Prudential Unit Linked	143,801
844,895	Total	**891,664**
76	Number of active members	74
28	Number of members with preserved benefits	25

2014/15	Clerical and Medical	2013/14
£		**£**
35,429	Value as at 1 April	74,983
2,017	Contributions received	2,492
0	Retirement benefits and charges	(43,099)
3,414	Change in market value	1,053
40,860	Value as at 31 March	**35,429**
5,561	Clerical Medical With Profits	5,216
35,299	Clerical Medical Unit Linked	30,213
40,860	Total	**35,429**
2	Number of active members	3
3	Number of members with preserved benefits	2

20. Post Balance Sheet Events

There have been no other material post balance sheet events that would require disclosure or adjustment to these financial statements.

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 2014/15 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

Year ended	31 Mar 2015 £m	31 Mar 2014 £m
Present value of Promised Retirement Benefits	1,708	1,434

Liabilities have been projected using a roll forward approximation from the latest formal funding valuation as at 31 March 2013. I estimate this liability at 31 March 2015 comprises £734m in respect of employee members, £419m in respect of deferred pensioners and £555m in respect of pensioners. The approximation involved in the roll forward model means that the split of scheme 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.

The above figures include both vested and non-vested benefits, although the latter is assumed to have a negligible value.

It should be noted 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 that the impact of the change of assumptions to 31 March 2015 is to increase the actuarial present value by £226m.

Financial assumptions

My recommended financial assumptions are summarised below:

Year ended	31 Mar 2015 % p.a.	31 Mar 2014 % p.a.
Inflation/Pensions Increase Rate	2.40%	2.80%
Salary Increase Rate	4.30%	4.60%
Discount Rate	3.20%	4.30%

Longevity assumption

The life expectancy assumption is based on the Fund's VitaCurves with improvements in line with the CMI_2010 model, assuming the current rate of improvements has reached a peak and will converge to long term rate of 1.25% p.a.. Based on these assumptions, the average future life expectancies at age 65 are summarised below:

	Males	Females
Current Pensioners	21.9 years	24.1 years
Future Pensioners*	24.2 years	26.5 years

*Future pensioners are assumed to be currently aged 45

Please note that the assumptions are identical to those used for the previous IAS26 disclosure for the Fund.

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-April 2008 service.

Professional notes

This paper accompanies my covering report titled 'Actuarial Valuation as at 31 March 2015 for IAS19 purposes' dated 15 April 2015. 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.

Prepared by:-

Anne Cranston AFA

8 May 2015

For and on behalf of Hymans Robertson LLP

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF LONDON BOROUGH OF HARINGEY

Opinion on the pension fund financial statements

We have audited the pension fund financial statements of London Borough of Haringey for the year ended 31 March 2015 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 2014/15.

This report is made solely to the members of London Borough of Haringey 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 Audited Bodies published by the Audit Commission in March 2010. Our audit work has been undertaken so that we might state to the members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Authority and the Authority's Members as a body, for our audit work, for this report, or for the opinions we have formed.

Respective responsibilities of the Assistant Director of Finance and auditor

As explained more fully in the Statement of the Chief Financial Officer Responsibilities, the Chief Financial Officer is responsible for the preparation of the Authority's Statement of Accounts, which includes the pension fund financial statements, in accordance with proper practices as set out in the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2014/15, 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 pension fund 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 explanatory foreword to identify material inconsistencies with the audited financial statements and to identify any information that is apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired by us in the course of performing the audit. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

Opinion on the pension fund 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 2015 and the amount and disposition of the fund's assets and liabilities as at 31 March 2015, other than liabilities to pay pensions and other benefits after the end of the scheme year; and
- have been properly prepared in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2014/15 and applicable law.

Opinion on other matters

In our opinion, the information given in the explanatory foreword for the financial year for which the financial statements are prepared is consistent with the pension fund financial statements.

Emily Hill
for and on behalf of Grant Thornton UK LLP, Appointed Auditor

Grant Thornton House
Melton Street
London NW1 2EP

September 2015

Appendices

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

1 Governance Compliance Statement

2 Statement of Investment Principles

3 Communications Policy

4 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.*
<u>Haringey position</u> 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 Pensions 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 is 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 Pensions working group meets as required to consider investment issues. The meetings of the working 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 pension's 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

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 Chief Financial Officer and their staff.

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

Stock level decisions are taken by the investment managers appointed by the 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 %**		**Range %**
UK Equities		15	12-18%
Overseas Equities		45	40-50%
North America	21.7		
Europe ex UK	7.4		
Pacific ex Japan	3.4		
Japan	3.5		
Emerging Markets	9		
UK Index linked gilts		15	12-18%
Property		10	6-12%
Multi Sector Credit		5	4-6%
Private Debt		5	4-6%
Private Equity		5	4-6%
Cash		0	0-10%

The Committee's investment strategy was set following the results of the 2013 actuarial valuation of the Pension Fund and takes into consideration the value and timing of projected future benefit payments, the funding position and the range of possible future economic and financial conditions. The strategy aims to achieve the objectives set out in section three and balance the need to achieve full funding and maintain stability of contribution rates. Normally, a full review of the investment strategy is undertaken every three years following an actuarial valuation. The factors influencing the investment strategy are monitored and changes thereto may require more frequent reviews of the investment strategy.

The allocations to each asset classes will be impacted by changes in market value, income reinvested and cash investments and withdrawals. The Committee will monitor actual allocations against the ranges shown above and rebalance when considered appropriate.

In setting investment policy the Committee has discussed their investment beliefs (annex D), which inform the setting of strategy and its implementation, including manager selection.

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 investments in property, multi sector credit, private debt and private equity, which represent 25% of the strategic allocations, 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. As the Pension Fund matures, income from equity investments is available to meet expenditure.

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 are shown in the table below:

Investment Manager	Mandate	%
BlackRock Investment Management	Global Equities & Index linked Bonds	47.2
Legal & General Investment Management	Global Equities & Index Linked Bonds	27.8
CQS Investment Management	Multi Sector Credit	5
Allianz Global Investors	Private Debt	5
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 allocations above reflect the asset class benchmarks shown in section 5. Movements away from benchmarks and rebalancing are managed at asset class level for which monitoring ranges have been set.
The equity and index linked 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 other 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 Chief Financial Officer and/or their representative meet with the investment managers on an annual or more frequent basis to discuss performance.

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. In some case e.g. private equity an additional performance related fee based is also payable.

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:

- Chief Financial Officer and their staff
- Investment Consultant – Mercer
- Independent Adviser – John Raisin

The Chief Financial Officer (or their representative) attends 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. As the Pension Fund does not directly own equities, bonds or properties, custody activity is limited to controlling cash, valuation record keeping and performance analysis.

Stock Lending – The Pension Fund does not undertake any stock lending activities. However, the pooled funds operated by both Legal & General and BlackRock do engage in stock lending and the Pension Fund receives a share of the revenue generated.

Review process – This document is reviewed by the Committee on an 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
D	Investment beliefs

Annex A: Investment Managers and mandates

Manager	% of Total Portfolio	Mandate	Benchmark	Performance Target
BlackRock Investment Management	47.20%	Global Equities & Bonds	See below	Index (passively managed)
Legal & General Investment Management	27.80%	Global Equities & Bonds	See below	Index (passively managed)
CQS	5.00%	Multi Sector Credit	3 month GBP libor + 5.5% p.a.	Benchmark
Alliance	5.00%	Infrastructure Debt	5.5% p.a.	Benchmark
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 3.5%	Benchmark.
Total	**100%**			

Annex B: Global Equity & Bond Benchmarks

Asset Class	**Benchmark**	**BlackRock Investment Management**	**Legal & General Investment Management**	**Total**
UK Equities	FTSE All Share	12.40%	2.60%	15.00%
Overseas Equities		22.80%	22.20%	45.00%
North America	FT World Developed North America GBP Unhedged	17.90%	*3.80%*	21.70%
Europe ex UK	FT World Developed Europe X UK GBP Unhedged	3.10%	*4.30%*	7.40%
Pacific ex Japan	FT World Developed Pacific X Japan GBP Unhedged	1.40%	*2.00%*	3.40%
Japan	FT World Developed Japan GBP Unhedged	0.40%	*3.10%*	3.50%
Emerging Markets	FT World Global Emerging Markets GBP Unhedged	0.00%	*9.00%*	9.00%
Index Linked Gilts	FTA Index Linked Over 5 Years Index	12.00%	3.00%	15.00%
		47.20%	27.80%	75.00%

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 scheme's liabilities, the potential impact on local tax payers, the strength of the covenant for non-local authority employers, and the attitude to risk of both the administering authority and scheme employers, and these should be clearly communicated to 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.
Haringey position 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.*
Haringey position 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.*

<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.

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.

Statement of Investment Belief's

The objective of this Statement is to set out the key investment beliefs held by the Corporate Committee (the Committee) of Haringey Council. These beliefs will form the foundation of discussions, and assist decisions, regarding the structure of the Haringey Pension Fund, strategic asset allocation and the selection of investment managers.

The Investment beliefs have been prepared by the administering authority in consultation with the Independent Advisor and Investment Consultant. In forming these beliefs the Committee take into consideration the ongoing advice received from Officers and Advisors.

1) Investment Governance

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

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

c) Investment consultants, independent advisors and officers are a source of expertise and research to inform Committee decisions.

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

2) Long Term Approach

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

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

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

d) Participation in economic growth is a major source of long term equity return.

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

f) Well governed companies that manage their business in a responsible manner will produce higher returns over the long term.

3) Appropriate Investments

a) Allocations to asset classes other than equities and government bonds (e.g. corporate bonds, private equity and property) offer the Fund other forms of risk premia (e.g. additional solvency risk/illiquidity risk).

b) Diversification across asset classes and asset types will tend to reduce the volatility of the overall Fund return.

4) Management Strategies

a) Passive management provides low cost exposure to asset class returns and is especially attractive in efficient markets where there is limited evidence that active management can consistently generate returns (after additional costs) that exceed index benchmarks. Most equity markets are sufficiently efficient to prefer passive equity investments.

b) Active management will only be considered in markets in which passive approaches are either impossible or there is strong evidence that active management can add value over the long-term. Fixed income, property and alternatives are suited to active management.

c) Active managers are expensive and fees should be aligned to the value created in excess of the performance of the market.

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

e) Implementation of strategies must be consistent with the governance capabilities of the Committee.

Appendix 3: 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 pension's 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 pension's 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.

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 4: Funding Strategy Statement

London Borough of Haringey Pension Fund

Funding Strategy Statement

March 2014

Funding Strategy Statement PAGE

Appendices

1 Introduction

1.1 What is this document?

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

It has been prepared by the Administering Authority in collaboration with the Fund's actuary, Hymans Robertson LLP, and after consultation with the Fund's employers and advisers. It is effective from 1 April 2014.

1.2 What is the London Borough of Haringey Pension Fund?

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

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

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

1.3 Why does the Fund need a Funding Strategy Statement?

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

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

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

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

There are also regulatory requirements for an FSS, as given in Appendix A.

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

- the LGPS Regulations;

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

1.4 How does the Fund and this FSS affect me?

This depends who you are:

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

1.5 What does the FSS aim to do?

The FSS sets out the funding strategy objectives, which are:

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

1.6 How do I find my way around this document?

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

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

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

In the Appendices we cover various issues in more detail:

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

B. who is responsible for what,

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

D. some more details about the actuarial calculations required,

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

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

If you have any other queries please contact George Bruce, Head of Finance: Treasury & Pensions in the first instance at e-mail address george.bruce@haringey.gov.uk or on telephone number 02084893726.

2 Basic Funding issues

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

2.1 How does the actuary calculate a contribution rate?

Employer contributions are normally made up of two elements:

a) the estimated cost of future benefits being built up from year to year, referred to as the "*future service rate*"; plus

b) an adjustment for the difference between the assets built up to date and the value of past service benefits, referred to as the "*past service adjustment*". If there is a deficit the past service adjustment will be an increase in the employer's total contribution; if there is a surplus there may be a reduction in the employer's total contribution. Any past service adjustment will aim to return the employer to full funding over an appropriate period (the "deficit recovery period").

2.2 How is a deficit (or surplus) calculated?

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

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

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

A larger deficit will give rise to higher employer contributions. If a deficit is spread over a longer period then the annual employer cost is lower than if it is spread over a shorter period.

2.3 How are contribution rates calculated for different employers?

The Fund's actuary is required by the Regulations to report the *Common Contribution Rate*, for all employers collectively at each triennial valuation, combining items (a) and (b) above. This is based on actuarial assumptions about the likelihood, size and timing of benefit payments to be made from the Fund in the future, as outlined in Appendix E.

The Fund's actuary is also required to adjust the *Common Contribution Rate* for circumstances specific to each individual employer. The sorts of specific circumstances which are considered are discussed in Section 3. It is this adjusted contribution rate which the employer is actually required to pay, and the rates for all employers are shown in the Fund's Rates and Adjustments Certificate.

In effect, the *Common Contribution Rate* is a notional quantity, as it is unlikely that any employer will pay that exact rate. Separate future service rates are calculated for each employer together with individual past service adjustments according to employer-specific circumstances.

Details of the outcome of the Actuarial Valuation as at 31 March 2013 can be found in the formal valuation report dated 17 March 2014, including an analysis at Fund Level of the *Common Contribution Rate*. Further details of individual employer contribution rates can also be found in the formal report.

2.4 What else might affect the employer's contribution?

Employer covenant and likely term of membership are also considered when setting contributions: more details are given in Section 3.

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

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

If an employer is approaching the end of its participation in the Fund then its contributions may be amended appropriately, so that the assets meet (as closely as possible) the value of its liabilities in the Fund when its participation ends.

Employers' contributions are expressed as minima, with employers able to pay contributions at a higher rate. Account of the higher rate will be taken by the Fund Actuary at subsequent valuations.

2.5 What different types of employer participate in the Fund?

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

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

The LGPS Regulations define various types of employer as follows:

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

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

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

Other employers are able to participate in the Fund via an admission agreement, and are referred to as 'admission bodies'. These employers are generally those with a "community of interest" with another scheme employer – **community admission bodies** ("CAB") or those providing a service on behalf of a scheme employer – **transferee admission bodies** ("TAB"). CABs will include housing associations and charities, TABs will generally be contractors. The Fund is able to set its criteria for participation by these employers and can refuse entry if the requirements as set out in the Fund's admissions policy are not met.

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

The Administering Authority and the Fund actuary are acutely aware that, all other things being equal, a higher contribution required to be paid to the Fund will mean less cash available for the employer to spend on the provision of services. Whilst this is true, it should also be borne in mind that:

- The Fund provides invaluable financial security to local families, whether to those who formerly worked in the service of the local community who have now retired, or to their families after their death;
- The Fund must have the assets available to meet these retirement and death benefits, which in turn means that the various employers must each pay their own way. Lower contributions today will mean higher contributions tomorrow: deferring payments does not alter the employer's ultimate obligation to the Fund in respect of its current and former employees;
- Each employer will generally only pay for its own employees and ex-employees (and their dependants), not for those of other employers in the Fund;
- The Fund strives to maintain reasonably stable employer contribution rates where appropriate and possible;
- The Fund wishes to avoid the situation where an employer falls so far behind in managing its funding shortfall that its deficit becomes unmanageable in practice: such a situation may lead to employer insolvency and the resulting deficit falling on the other Fund employers. In that situation, those employers' services would in turn suffer as a result;
- Council contributions to the Fund should be at a suitable level, to protect the interests of different generations of council tax payers. For instance, underpayment of contributions for some years will need to be balanced by overpayment in other years; the council will wish to minimise the extent to which council tax payers in one period are in effect benefitting at the expense of those paying in a different period.

Overall, therefore, there is clearly a balance to be struck between the Fund's need for maintaining prudent funding levels, and the employers' need to allocate their resources appropriately. The Fund achieves this through various techniques which affect contribution increases to various degrees (see 3.1). In deciding which of these techniques to apply to any given employer, the Fund will consider a risk assessment of that employer using a knowledge base which is regularly monitored and kept up-to-date. This database will include such information as the type of employer, its membership profile and funding position, any guarantors or security provision, material changes anticipated, etc. This helps the Fund establish a picture of the financial standing of the employer, i.e. its ability to meet its long term Fund commitments.

For instance, where an employer is considered relatively low risk then the Fund will permit greater smoothing (such as stabilisation or a longer deficit recovery period relative to other employers) which will temporarily produce lower contribution levels than would otherwise have applied. This is permitted in the expectation that the employer will still be able to meet its obligations for many years to come.

On the other hand, an employer whose risk assessment indicates a less strong covenant will generally be required to pay higher contributions (for instance, with a more prudent funding basis or a shorter deficit recovery period relative to other employers). This is because of the higher probability that at some point it will fail or be unable to meet its pension contributions, with its deficit in the Fund then falling to other Fund employers.

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

3 Calculating contributions for individual Employers

3.1 General comments

A key challenge for the Administering Authority is to balance the need for stable, affordable employer contributions with the requirement to take a prudent, longer-term view of funding and ensure the solvency of the Fund. With this in mind, there are a number of methods which the Administering Authority may permit, in order to improve the stability of employer contributions. These include, where circumstances permit:-

- capping of employer contribution rate changes within a pre-determined range (“stabilisation”)
- the use of extended deficit recovery periods
- the phasing in of contribution rises or reductions
- the pooling of contributions amongst employers with similar characteristics
- the use of some form of security or guarantee to justify a lower contribution rate than would otherwise be the case.

These and associated issues are covered in this Section.

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

3.2 The effect of paying contributions below the theoretical level

Employers which are permitted to use one or more of the above methods will often be paying, for a time, contributions less than the theoretical contribution rate. Such employers should appreciate that:

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

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

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

3.3 The different approaches used for different employers

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

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

In the circumstances where:

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

the Administering Authority may vary the discount rate used to set employer contribution rate. In particular contributions may be set for an employer to achieve full funding on a more prudent basis (e.g. using a discount rate set equal to gilt yields) by the time the agreement terminates or the last active member leaves, in order to protect other employers in the Fund. This policy will increase regular contributions and reduce, but not entirely eliminate, the possibility of a final deficit payment being required from the employer when a cessation valuation is carried out.

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

Note (b) (Stabilisation)

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

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

The current stabilisation mechanism applies if:

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

On the basis of extensive modelling carried out for the 2013 valuation exercise (see Section 4), the stabilised details are as follows:

Type of employer	Council
Starting rate*	23.9% (as at 1st April 2014)
Max contribution increase	+1% of pay
Max contribution decrease	-1% of pay

*In practice, contribution rates will show the future service rate based on a percentage of pay and the past service adjustment as a monetary amount.

The stabilisation criteria and limits will be reviewed at the 31 March 2016 valuation, to take effect from 1 April 2017. This will take into account the employer's membership profiles, the issues surrounding employer security, and other relevant factors.

Note (c) (Deficit Recovery Periods)

The deficit recovery period starts at the commencement of the revised contribution rate (1 April 2014 for the 2013 valuation). The Administering Authority would normally expect the same target date for full funding to be used at successive triennial valuations, but would reserve the right to propose alternative spreading periods, for example where there were no new entrants.

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

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

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

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

Note (d) (Deficit Recovery Payments)

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

- the employer is relatively mature, i.e. has a large deficit recovery contribution rate (e.g. above 15% of payroll), in other words its payroll is a smaller proportion of its deficit than is the case for most other employers, or
- there has been a significant reduction in payroll due to outsourcing or redundancy exercises, or

- the employer has closed the Fund to new entrants.

Note (e) (Phasing in of contribution changes)

All phasing is subject to the Administering Authority being satisfied as to the strength of the employer's covenant.

Normally the Fund will require the employer to pay at least its future service rate each year.

Employers which have no active members at this valuation will not be phased.

Note (f) (Regular Reviews)

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

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

Note (g) (New Academy employers)

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

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

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

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

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

e) The academy may, if it chooses, restrict its contribution rate to be no more than 24.9% in 2014-15, 26.9% in 2015-16 and 28.9% in 2016-17. However, this does not affect the Academy's ultimate obligations to the Fund, and it remains responsible for the funding of all benefits of its employees.

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

Note (h) (New Admission Bodies)

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

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

For all new Transferee Admission Bodies, the security must be to the satisfaction of the Administering Authority as well as the letting employer, and will be reassessed on an annual basis.

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

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

Note (i) (New Transferee Admission Bodies)

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

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

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

i) Pooling

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

ii) Letting employer retains pre-contract risks

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

iii) Fixed contribution rate agreed

Under this option the contractor pays a fixed contribution rate and doesn’t pay any cessation deficit.

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

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

Note (j) (Admission Bodies Ceasing)

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

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

On cessation, the Administering Authority will instruct the Fund actuary to carry out a cessation valuation to determine whether there is any deficit or surplus. Where there is a deficit, payment of this amount in full would normally be sought from the Admission Body; where there is a surplus it should be noted that current legislation does not permit a refund payment to the Admission Body.

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

a) Where there is a guarantor for future deficits and contributions, the cessation valuation will normally be calculated using the ongoing basis as described in Appendix E;

b) Alternatively, it may be possible to simply transfer the former Admission Body's liabilities and assets to the guarantor, without needing to crystallise any deficit. This approach may be adopted where the employer cannot pay the contributions due, and this is within the terms of the guarantee;

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

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

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

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

3.4 Pooled contributions

From time to time the Administering Authority may set up pools for employers with similar characteristics. This will always be in line with its broader funding strategy. The pooling of contributions is a way of sharing experience and smoothing out the effects of costly but relatively rare events such as ill-health retirements or deaths in service.

Haringey Council may be pooled with the legacy liabilities and assets following cessation of an employer. Schools generally are also pooled with the Council, however there may be exceptions for specialist or independent schools.

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

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

3.5 Additional flexibility in return for added security

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

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

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

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

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

3.6 Non ill health early retirement costs

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

Normally the payment is payable as a single lump sum and is not spread.

3.7 Ill health early retirement costs

Admitted Bodies will usually have an 'ill health allowance'; Scheduled Bodies may have this also, depending on their agreement terms with the Administering Authority. The Fund monitors each employer's ill health experience on an ongoing basis. If the cumulative cost of ill health retirement in any financial year exceeds the allowance at the previous valuation, the employer will be charged additional contributions on the same basis as apply for non ill-health cases. Details will be included in each separate Admission Agreement.

3.8 Ill health insurance

If an employer holds satisfactory current insurance policy covering ill health early retirement strains the Administering Authority may agree to waive some or all of the ill health allowance set out in 3.7.

3.9 Employers with no remaining active members

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

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

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

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

3.10 Policies on bulk transfers

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

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

3.11 Collection of contributions

To avoid loss of income and the administration cost of late payment of contributions, employers will be required to pay employer and employee contributions by way of direct debits in favour of the pension fund.

4 Funding strategy and links to investment strategy

4.1 What is the Fund's investment strategy?

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

Investment strategy is set by the administering authority, after taking investment advice. The precise mix, manager make up and target returns are set out in the Statement of Investment Principles (SIP), which is available to members and employers.

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

The same investment strategy is currently followed for all employers.

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

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

Therefore, the funding and investment strategies are inextricably linked.

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

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

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

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

4.4 How does this differ for a large stable employer?

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

- Prudence - the Fund should have a reasonable expectation of being fully funded in the long term;
- Affordability – how much can employers afford;
- Stewardship – the assumptions used should be sustainable in the long term, without having to resort to overly optimistic assumptions about the future to maintain an apparently healthy funding position;
- Stability – employers should not see significant moves in their contribution rates from one year to the next, and this will help to provide a more stable budgeting environment.

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

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

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

Whilst the current stabilisation mechanism is to remain in place until 2017, it should be noted that this will need to be reviewed following the 2016 valuation.

4.5 Does the Fund monitor its overall funding position?

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

Appendix A – Regulatory framework

A1 Why does the Fund need an FSS?

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

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

These objectives are desirable individually, but may be mutually conflicting.

The requirement to maintain and publish a FSS is contained in LGPS Regulations which are updated from time to time. In publishing the FSS the Administering Authority has to have regard to any guidance published by Chartered Institute of Public Finance and Accountancy (CIPFA) (most recently in 2012) and to its Statement of Investment Principles.

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

A2 Does the Administering Authority consult anyone on the FSS?

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

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

a) A draft version of the FSS was issued to all participating employers in [DATE] for comment;

b) Comments were requested within [30] days;

c) Following the end of the consultation period the FSS was updated where required and then published, in [DATE].

A3 How is the FSS published?

The FSS is made available through the following routes:

- Published on the website, at [CLIENT URL];
- A copy sent by [post/e-mail] to each participating employer in the Fund;
- A copy sent to [employee/pensioner] representatives;
- A full copy [included in/linked from] the annual report and accounts of the Fund;
- Copies sent to investment managers and investment advisers;

- Copies made available on request.

A4 How often is the FSS reviewed?

The FSS is reviewed in detail at least every three years as part of the triennial valuation. This version is expected to remain unaltered until it is consulted upon as part of the formal process for the next valuation in 2016.

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

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

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

A5 How does the FSS fit into other Fund documents?

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

These documents can be found on the web at [CLIENT URL].

Appendix B – Responsibilities of key parties

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

B1 The Administering Authority should:-

- operate the Fund as per the LGPS Regulations;
- effectively manage any potential conflicts of interest arising from its dual role as Administering Authority and a Fund employer;
- collect employer and employee contributions, and investment income and other amounts due to the Fund;
- ensure that cash is available to meet benefit payments as and when they fall due;
- pay from the Fund the relevant benefits and entitlements that are due;
- invest surplus monies (i.e. contributions and other income which are not immediately needed to pay benefits) in accordance with the Fund's Statement of Investment Principles (SIP) and LGPS Regulations;
- communicate appropriately with employers so that they fully understand their obligations to the Fund;
- take appropriate measures to safeguard the Fund against the consequences of employer default;
- manage the valuation process in consultation with the Fund's actuary;
- prepare and maintain a FSS and a SIP, after consultation;
- notify the Fund's actuary of material changes which could affect funding (this is covered in a separate agreement with the actuary); and
- monitor all aspects of the fund's performance and funding and amend the FSS/SIP as necessary and appropriate.

B2 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;
- have a policy and 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; and
- notify the Administering Authority promptly of all changes to its circumstances, prospects or membership, which could affect future funding.

B3 The Fund Actuary should:-

- prepare valuations, including the setting of employers' contribution rates. This will involve agreeing assumptions with the Administering Authority, having regard to the FSS and LGPS Regulations, and targeting each employer's solvency appropriately;
- provide advice relating to new employers in the Fund, including the level and type of bonds or other forms of security (and the monitoring of these);

- prepare advice and calculations in connection with bulk transfers and individual benefit-related matters;
- assist the Administering Authority in considering possible changes to employer contributions between formal valuations, where circumstances suggest this may be necessary;
- advise on the termination of Admission Bodies' participation in the Fund; and
- fully reflect actuarial professional guidance and requirements in the advice given to the Administering Authority.

B4 Other parties:-

- council officers and investment advisers (investment consultant and independent advisor) should ensure the Fund's SIP remains appropriate, and consistent with this FSS;
- investment managers, custodians and bankers should all play their part in the effective investment (and dis-investment) of Fund assets, in line with the SIP;
- auditors should comply with their auditing standards, ensure Fund compliance with all requirements, monitor and advise on fraud detection, and sign off annual reports and financial statements as required;
- governance advice may be sought by the Administering Authority on efficient structures, processes and working methods in managing the Fund;
- legal advisers (either internal or external) should ensure the Fund's operation and management remains fully compliant with all regulations and broader local government requirements, including the Administering Authority's own procedures.

Appendix C – Key risks and controls

C1 Types of risk

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

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

C2 Financial risks

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

Risk	Summary of Control Mechanisms
	risk. Employers pay for their own salary awards and should be mindful of the geared effect on pension liabilities of any bias in pensionable pay rises towards longer-serving employees.
Effect of possible increase in employer's contribution rate on service delivery and admission/scheduled bodies	An explicit stabilisation mechanism has been agreed as part of the funding strategy. Other measures are also in place to limit sudden increases in contributions.
Orphaned employers give rise to added costs for the Fund	The Fund seeks a cessation debt (or security/guarantor) to minimise the risk of this happening in the future. If it occurs, the Actuary calculates the added cost spread pro-rata among all employers – (see 3.9).

C3 Demographic risks

Risk	Summary of Control Mechanisms
Pensioners living longer, thus increasing cost to Fund.	Set mortality assumptions with some allowance for future increases in life expectancy. The Fund Actuary has direct access to the experience of over 50 LGPS funds which allows early identification of changes in life expectancy that might in turn affect the assumptions underpinning the valuation.
Maturing Fund – i.e. proportion of actively contributing employees declines relative to retired employees.	Continue to monitor at each valuation, consider seeking monetary amounts rather than % of pay and consider alternative investment strategies.
Deteriorating patterns of early retirements	Employers are charged the extra cost of non ill-health retirements following each individual decision. Employer ill health retirement experience is monitored, and insurance is an option.
Reductions in payroll causing insufficient deficit recovery payments	In many cases this may not be sufficient cause for concern, and will in effect be caught at the next formal valuation. However, there are protections where there is concern, as follows: Employers in the stabilisation mechanism may be brought out of that mechanism to permit appropriate contribution increases (see Note (b) to 3.3). For other employers, review of contributions is

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

C4 Regulatory risks

Risk	Summary of Control Mechanisms
Changes to national pension requirements and/or HMRC rules e.g. changes arising from public sector pension's reform.	The Administering Authority considers all consultation papers issued by the Government and comments where appropriate. The results of the most recent reforms have been built into the 2013 valuation. Any changes to member contribution rates or benefit levels will be carefully communicated with members to minimise possible opt-outs or adverse actions.

C5 Governance risks

Risk	Summary of Control Mechanisms
Administering Authority unaware of structural changes in an employer's membership (e.g. large fall in employee members, large number of retirements) or not advised of an employer closing to new entrants.	The Administering Authority has a close relationship with employing bodies and communicates required standards e.g. for submission of data. The Actuary may revise the rates and Adjustments certificate to increase an employer's contributions (under Regulation 38) between triennial valuations Deficit contributions may be expressed as monetary amounts.
Actuarial or investment advice is not sought, or is not heeded, or proves to be insufficient in some way	The Administering Authority maintains close contact with its specialist advisers. Advice is delivered via formal meetings involving Elected Members, and recorded appropriately. Actuarial advice is subject to professional requirements such as peer review.
Administering Authority failing to commission the Fund Actuary to carry out a termination valuation for a departing Admission Body.	The Administering Authority requires employers with Best Value contractors to inform it of forthcoming changes. Community Admission Bodies' memberships are monitored and, if active membership decreases, steps

Risk	**Summary of Control Mechanisms**
	will be taken.
An employer ceasing to exist with insufficient funding or adequacy of a bond.	The Administering Authority believes that it would normally be too late to address the position if it was left to the time of departure. The risk is mitigated by: Seeking a funding guarantee from another scheme employer, or external body, where-ever possible (see Notes (h) and (j) to 3.3). Alerting the prospective employer to its obligations and encouraging it to take independent actuarial advice. Vetting prospective employers before admission. Where permitted under the regulations requiring a bond to protect the Fund from various risks. Requiring new Community Admission Bodies to have a guarantor. Reviewing bond or guarantor arrangements at regular intervals (see Note (f) to 3.3). Reviewing contributions well ahead of cessation if thought appropriate (see Note (a) to 3.3).

Appendix D – The calculation of Employer contributions

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

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

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

Employer contributions are normally made up of two elements:

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

b) an adjustment for the funding position of accrued benefits relative to the Fund's solvency target, "*past service adjustment*". If there is a surplus there may be a reduction in the employer's contribution rate. If there is a deficit there will be an increase in the employer's contribution rate, with the surplus or deficit spread over an appropriate period. The aim is to return the employer to full funding over that period. See Section 3 for deficit recovery periods.

The Fund's actuary is required by the regulations to report the *Common Contribution Rate*[1], for all employers collectively at each triennial valuation. It combines items (a) and (b) and is expressed as a percentage of pay; it is in effect an average rate across all employers in the Fund.

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

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 past service deficit spreading and increased employer contribution phasing periods.

D2 How is the Future Service Rate calculated?

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

The future service rate is calculated separately for all the employers, although employers within a pool will pay the contribution rate applicable to the pool as a whole. The calculation is on the "ongoing" valuation basis (see Appendix E), but where it is considered appropriate to do so the Administering Authority reserves the right to set a future service rate by reference to liabilities valued on a more prudent basis (see Section 3).

[1] See LGPS (Administration) Regulations 36(5).
[2] See LGPS (Administration) Regulations 36(7).

The approach used to calculate each 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 and Designating Employers that may have the power not to automatically admit all eligible new staff to the Fund, depending on the terms of their Admission Agreements and employment contracts.

a) Employers which admit new entrants

These rates will be derived using the "Projected Unit Method" of valuation with a one year period, i.e. only considering the cost of the next year's benefit accrual and contribution income. 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 over time.

b) Employers which do not admit new entrants

To give more long term stability to such employers' contributions, the "Attained Age" funding method is normally adopted. This measures benefit accrual and contribution income over the whole future anticipated working lifetimes of current active employee members.

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

D3 How is the Solvency / Funding Level calculated?

The Fund's actuary is required to report on the "solvency" of the whole Fund in a valuation which should be carried out at least once every three years. As part of this valuation, the actuary will calculate the solvency position of each employer.

'Solvency" is defined to be the ratio of the market value of the employer's asset share to the value placed on accrued benefits on the Fund actuary's chosen assumptions. This quantity is known as a funding level.

For the value of the employer's asset share, see D5 below.

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

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

D4 What affects a given employer's valuation results?

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

- past contributions relative to the cost of accruals of benefits;
- different liability profiles of employers (e.g. mix of members by age, gender, service vs. salary);
- the effect of any differences in the valuation basis 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 each triennial valuation.

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

D5 How is each employer's asset share calculated?

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

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

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

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

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

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

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

Appendix E – Actuarial assumptions

E1 What are the actuarial assumptions?

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

Changes in assumptions will affect the measured value of future service accrual and past service liabilities, and hence the measured value of the past service deficit. However, different assumptions will not of course affect the actual benefits payable by the Fund in future.

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

E2 What basis is used by the Fund?

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

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

E3 What assumptions are made in the ongoing basis?

a) Investment return / discount rate

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

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

For the purpose of the triennial funding valuation at 31 March 2013 and setting contribution rates effective from 1 April 2014, the Fund actuary has assumed that future investment returns earned by the Fund over the long term will be 1.6% per annum greater than gilt yields at the time of the valuation (this is the same as that used at the 2010 valuation). In the opinion of the Fund actuary, based on the current investment strategy of the Fund, this asset out-performance assumption is within a range that would be considered acceptable for the purposes of the funding valuation.

b) Salary growth

Pay for public sector employees is currently subject to restriction by the UK Government until 2016. Although this “pay freeze” does not officially apply to local government and associated employers, it has been suggested that they are likely to show similar restraint in respect of pay awards. Based on long term historical analysis of the membership in LGPS funds, the salary increase assumption at the 2013 valuation has been set to 1% above the retail prices index (RPI) per annum. This is a change from the previous valuation, which assumed a two year restriction at 1% per annum followed by longer term growth at RPI plus 1.5% per annum.

The current assumption of 1% pa above RPI in effect captures the anticipated continued short term public sector pay restrictions, with an expectation of return to real salary growth in the long term thereafter.

c) Pension increases

Since 2011 the consumer prices index (CPI), rather than RPI, has been the basis for increases to public sector pensions in deferment and in payment. This change was allowed for in the valuation calculations as at 31 March 2010. Note that the basis of such increases is set by the Government, and is not under the control of the Fund or any employers.

As at the previous valuation, we derive our assumption for RPI from market data as the difference between the yield on long-dated fixed interest and index-linked government bonds. This is then reduced to arrive at the CPI assumption, to allow for the “formula effect” of the difference between RPI and CPI. At this valuation, we propose a reduction of 0.8% per annum. This is a larger reduction than at 2010, which will serve to reduce the value placed on the Fund’s liabilities (all other things being equal).

d) Life expectancy

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

The longevity assumptions that have been adopted at this valuation are a bespoke set of “VitaCurves”, produced by the Club Vita’s detailed analysis, which are specifically tailored to fit the membership profile of the Fund. These curves are based on the data provided by the Fund for the purposes of this valuation. This is a change from the 2010 valuation, when actuarial profession standard tables were adopted.

It is acknowledged that future life expectancy and, in particular, the allowance for future improvements in life expectancy, is uncertain. There is a consensus amongst actuaries, demographers and medical experts that life expectancy is likely to improve in the future. Allowance has been made in the ongoing valuation basis for future improvements in line with “medium cohort” and a 1.25% per annum minimum underpin to future reductions in mortality rates. This is a higher allowance for future improvements than was made in 2010.

The combined effect of the above changes from the 2010 valuation approach is to maintain broadly the same life expectancies on average. The approach taken is considered reasonable in light of the long term nature of the Fund and the assumed level of security underpinning members’ benefits.

e) General

The same financial assumptions are adopted for all employers, in deriving the past service deficit and the future service rate: as described in (3.3), these calculated figures are translated in different ways into employer contributions, depending on the employer's circumstances.

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

Appendix F – Glossary

Actuarial assumptions/basis	The combined set of assumptions made by the actuary, regarding the future, to calculate the value of **liabilities**. The main assumptions will relate to the **discount rate**, salary growth, pension increases and longevity. More prudent assumptions will give a higher liability value, whereas more optimistic assumptions will give a lower value.
Administering Authority	The council with statutory responsibility for running the Fund, in effect the Fund's "trustees".
Admission Bodies	Employers which voluntarily participate in the Fund, so that their employees and ex-employees are **members**. There will be an Admission Agreement setting out the employer's obligations. For more details (see 2.5).
Common contribution rate	The Fund-wide **future service rate** plus **past service adjustment**. It should be noted that this will differ from the actual contributions payable by individual **employers**.
Covenant	The assessed financial strength of the employer. A strong covenant indicates a greater ability (and willingness) to pay for pension obligations in the long run. A weaker covenant means that it appears that the employer may have difficulties meeting its pension obligations in full over the longer term.
Deficit	The shortfall between the assets value and the **liabilities** value. This relates to assets and liabilities built up to date, and ignores the future build-up of pension (which in effect is assumed to be met by future contributions).
Deficit repair/recovery period	The target length of time over which the current **deficit** is intended to be paid off. A shorter period will give rise to a higher annual **past service adjustment** (deficit repair contribution), and vice versa.
Designating Employer	Employers such as town and parish councils that are able to participate in the LGPS via resolution. These employers can designate which of their employees are eligible to join the Fund.
Discount rate	The annual rate at which future assumed cashflows (in and out of the Fund) are discounted to the present day. This is necessary to provide a **liabilities** value which is consistent with the present day value of the assets, to calculate the **deficit**. A lower discount rate gives a higher liabilities value, and vice versa. It is similarly used in the calculation of the **future service rate** and the **common contribution rate**.
Employer	An individual participating body in the Fund, which employs (or used to employ) **members** of the Fund. Normally the assets and **liabilities** values for each employer are individually tracked, together with its **future service rate** at each **valuation**.
Funding level	The ratio of assets value to **liabilities** value: for further details (see 2.2).
Future service rate	The actuarially calculated cost of each year's build-up of pension by the current active **members**, excluding members' contributions but including Fund

	administrative expenses. This is calculated using a chosen set of **actuarial assumptions**.
Gilt	A UK Government bond, i.e. a promise by the Government to pay interest and capital as per the terms of that particular gilt, in return for an initial payment of capital by the purchaser. Gilts can be "fixed interest", where the interest payments are level throughout the gilt's term, or "index-linked" where the interest payments vary each year in line with a specified index (usually RPI). Gilts can be bought as assets by the Fund, but their main use in funding is as an objective measure of solvency.
Guarantee / guarantor	A formal promise by a third party (the guarantor) that it will meet any pension obligations not met by a specified employer. The presence of a guarantor will mean, for instance, that the Fund can consider the employer's **covenant** to be as strong as its guarantor's.
Letting employer	An employer which outsources or transfers a part of its services and workforce to another employer (usually a contractor). The contractor will pay towards the LGPS benefits accrued by the transferring members, but ultimately the obligation to pay for these benefits will revert to the letting employer. A letting employer will usually be a local authority, but can sometimes be another type of employer such as an Academy.
Liabilities	The actuarially calculated present value of all pension entitlements of all **members** of the Fund, built up to date. This is compared with the present market value of Fund assets to derive the **deficit**. It is calculated on a chosen set of **actuarial assumptions**.
LGPS	The Local Government Pension Scheme, a public sector pension arrangement put in place via Government Regulations, for workers in local government. These Regulations also dictate eligibility (particularly for Scheduled Bodies), members' contribution rates, benefit calculations and certain governance requirements. The LGPS is divided into 101 Funds which map the UK. Each LGPS Fund is autonomous to the extent not dictated by Regulations, e.g. regarding investment strategy, employer contributions and choice of advisers.
Maturity	A general term to describe a Fund (or an employer's position within a Fund) where the members are closer to retirement (or more of them already retired) and the investment time horizon is shorter. This has implications for investment strategy and, consequently, funding strategy.
Members	The individuals who have built up (and may still be building up) entitlement in the Fund. They are divided into actives (current employee members), deferreds (ex-employees who have not yet retired) and pensioners (ex-employees who have now retired, and dependants of deceased ex-employees).
Past service adjustment	The part of the employer's annual contribution which relates to past service **deficit** repair.
Pooling	Employers may be grouped together for the purpose of calculating contribution rates, so that their combined membership and asset shares are used to calculate a single contribution rate applicable to all employers in the pool. A pool may still

	require each individual employer to ultimately pay for its own share of **deficit**, or (if formally agreed) it may allow **deficits** to be passed from one employer to another. For further details of the Fund's current pooling policy (see 3.4).
Profile	The profile of an employer's membership or liability reflects various measurements of that employer's **members**, i.e. current and former employees. This includes: the proportions which are active, deferred or pensioner; the average ages of each category; the varying salary or pension levels; the lengths of service of active members vs their salary levels, etc. A membership (or liability) profile might be measured for its **maturity** also.
Rates and Adjustments Certificate	A formal document required by the LGPS Regulations, which must be updated at least every three years at the conclusion of the formal **valuation**. This is completed by the actuary and confirms the contributions to be paid by each employer (or pool of employers) in the Fund for the three year period until the next valuation is completed.
Scheduled Bodies	Types of employer explicitly defined in the LGPS Regulations, whose employers must be offered membership of their local LGPS Fund. These include Councils, colleges, universities, academies, police and fire authorities etc, other than employees who have entitlement to a different public sector pension scheme (e.g. teachers, police and fire officers, university lecturers).
Solvency	In a funding context, this usually refers to a 100% **funding level**, i.e. where the assets value equals the **liabilities** value.
Stabilisation	Any method used to smooth out changes in employer contributions from one year to the next. This is very broadly required by the LGPS Regulations, but in practice is particularly employed for large stable employers in the Fund. Different methods may involve: probability-based modelling of future market movements; longer deficit recovery periods; higher discount rates; or some combination of these.
Theoretical contribution rate	The employer's contribution rate, including both **future service rate** and **past service adjustment**, which would be calculated on the standard **actuarial basis** before any allowance for **stabilisation** or other agreed adjustment.
Valuation	An actuarial investigation to calculate the liabilities, future service contribution rate and common contribution rate for a Fund, and usually individual employers too. This is normally carried out in full every three years (last done as at 31 March 2013), but can be approximately updated at other times. The assets value is based on market values at the valuation date, and the liabilities value and contribution rates are based on long term bond market yields at that date also.