PENSIONS COMMITTEE

Monday, 11th September, 2017

at 6.30 pm

Room 102, Hackney Town Hall, Mare Street, London E8 1EA

Membership

Members:

Councillor Robert Chapman (Chair)
Councillor Michael Desmond (Vice-Chair)
Councillor Feryal Demirci
Councillor Geoff Taylor
Councillor Kam Adams
Councillor Patrick Moule
Councillor Abraham Jacobson

Co-optees:

Jonathan Malins-Smith

Tim Shields
Chief Executive

Contact:
Rabiya Khatun
Governance Services
Tel: 020 8356 6279
Email: Rabiya.khatun@hackney.gov.uk

The press and public are welcome to attend this meeting

Hackney

AGENDA
Monday, 11th September, 2017

ORDER OF BUSINESS

Item No	Title	Page No
1	Apologies for absence	
2	Declaration of Interest - Members to declare as appropriate	
3	Consideration of the non-exempt minutes of the previous meeting	1 - 6
4	Training - Accounting and Audit	7 - 10
5	Pensions Fund - Quarterly Update	11 - 28
6	Pension Fund Report and Accounts	29 - 262
7	Implementaton of MiFID II	263 - 292
8	Administering Authority Training Policy	293 - 306
9	Annual Report of the Pensions Committee	307 - 320
10	TPR Code of Practice compliance	321 - 352

11	**Exclusion of Press and Public** Proposed resolution: THAT the press and public be excluded from the proceedings of the Pensions Committee meeting during consideration of Exempt items on the agenda on the grounds that it is likely, in the view of the nature of the business to be transacted, that were members of the public to be present, there would be disclosure of exempt information as defined in Schedule 12A to the Local Government Act 1972 as amended. **Wards Affected** / **Contact Officer** ☎	
12	**Consideration of the exempt minutes of the previous meeting**	353 - 356
13	**Active global equity proposal**	357 - 380
14	**Any other business which in the opinion of the Chair is urgent**	

ACCESS AND INFORMATION

Location

Hackney Town Hall is on Mare Street, bordered by Wilton Way and Reading Lane, almost directly opposite Hackney Picturehouse.

Trains – Hackney Central Station (London Overground) **–** Turn right on leaving the station, turn right again at the traffic lights into Mare Street, walk 200 metres and look for the Hackney Town Hall, almost next to The Empire immediately after Wilton Way.

Buses 30, 48, 55, 106, 236, 254, 277, 394, D6 and W15.

Facilities

There are public toilets available, with wheelchair access, on the ground floor of the Town Hall.

Induction loop facilities are available in Committee Rooms and the Council Chamber

Access for people with mobility difficulties can be obtained through the ramp on the side to the main Town Hall entrance.

Copies of the Agenda

The Hackney website contains a full database of meeting agendas, reports and minutes. Log on at: www.hackney.gov.uk

Paper copies are also available from Governance Services whose contact details are shown on the front of the agenda.

Council & Democracy- www.hackney.gov.uk

The Council & Democracy section of the Hackney Council website contains details about the democratic process at Hackney, including:

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RIGHTS OF PRESS AND PUBLIC TO REPORT ON MEETINGS

Where a meeting of the Council and its committees are open to the public, the press and public are welcome to report on meetings of the Council and its committees, through any audio, visual or written methods and may use digital and social media providing they do not disturb the conduct of the meeting and providing that the person reporting or providing the commentary is present at the meeting.

Those wishing to film, photograph or audio record a meeting are asked to notify the Council's Monitoring Officer by noon on the day of the meeting, if possible, or any time prior to the start of the meeting or notify the Chair at the start of the meeting.

The Monitoring Officer, or the Chair of the meeting, may designate a set area from which all recording must take place at a meeting.

The Council will endeavour to provide reasonable space and seating to view, hear and record the meeting. If those intending to record a meeting require any other reasonable facilities, notice should be given to the Monitoring Officer in advance of the meeting and will only be provided if practicable to do so.

The Chair shall have discretion to regulate the behaviour of all those present recording a meeting in the interests of the efficient conduct of the meeting. Anyone acting in a disruptive manner may be required by the Chair to cease recording or may be excluded from the meeting. Disruptive behaviour may include: moving from any designated recording area; causing excessive noise; intrusive lighting; interrupting the meeting; or filming members of the public who have asked not to be filmed.

All those visually recording a meeting are requested to only focus on recording councillors, officers and the public who are directly involved in the conduct of the meeting. The Chair of the meeting will ask any members of the public present if they have objections to being visually recorded. Those visually recording a meeting are asked to respect the wishes of those who do not wish to be filmed or photographed. Failure by someone recording a meeting to respect the wishes of those who do not wish to be filmed and photographed may result in the Chair instructing them to cease recording or in their exclusion from the meeting.

If a meeting passes a motion to exclude the press and public then in order to consider confidential or exempt information, all recording must cease and all recording equipment must be removed from the meeting room. The press and public are not permitted to use any means which might enable them to see or hear the proceedings whilst they are excluded from a meeting and confidential or exempt information is under consideration.

Providing oral commentary during a meeting is not permitted.

ADVICE TO MEMBERS ON DECLARING INTERESTS

Hackney Council's Code of Conduct applies to **all** Members of the Council, the Mayor and co-opted Members.

This note is intended to provide general guidance for Members on declaring interests. However, you may need to obtain specific advice on whether you have an interest in a particular matter. If you need advice, you can contact:

- The Director of Legal, Services;
- The Legal Adviser to the committee; or
- Governance Services.

If at all possible, you should try to identify any potential interest you may have before the meeting so that you and the person you ask for advice can fully consider all the circumstances before reaching a conclusion on what action you should take.

1. Do you have a disclosable pecuniary interest in any matter on the agenda or which is being considered at the meeting?

You will have a disclosable pecuniary interest in a matter if it:

i. relates to an interest that you have already registered in Parts A and C of the Register of Pecuniary Interests of you or your spouse/civil partner, or anyone living with you as if they were your spouse/civil partner;

ii. relates to an interest that should be registered in Parts A and C of the Register of Pecuniary Interests of your spouse/civil partner, or anyone living with you as if they were your spouse/civil partner, but you have not yet done so; or

iii. affects your well-being or financial position or that of your spouse/civil partner, or anyone living with you as if they were your spouse/civil partner.

2. If you have a disclosable pecuniary interest in an item on the agenda you must:

i. Declare the existence and nature of the interest (in relation to the relevant agenda item) as soon as it becomes apparent to you (subject to the rules regarding sensitive interests).

ii. You must leave the room when the item in which you have an interest is being discussed. You cannot stay in the meeting room or public gallery whilst discussion of the item takes place and you cannot vote on the matter. In addition, you must not seek to improperly influence the decision.

iii. If you have, however, obtained dispensation from the Monitoring Officer or Standards Committee you may remain in the room and participate in the meeting. If dispensation has been granted it will stipulate the extent of your involvement, such as whether you can only be present to make representations, provide evidence or whether you are able to fully participate and vote on the matter in which you have a pecuniary interest.

3. Do you have any other non-pecuniary interest on any matter on the agenda which is being considered at the meeting?

You will have 'other non-pecuniary interest' in a matter if:

i. It relates to an external body that you have been appointed to as a Member or in another capacity; or

ii. It relates to an organisation or individual which you have actively engaged in supporting.

4. If you have other non-pecuniary interest in an item on the agenda you must:

i. Declare the existence and nature of the interest (in relation to the relevant agenda item) as soon as it becomes apparent to you.

ii. You may remain in the room, participate in any discussion or vote provided that contractual, financial, consent, permission or licence matters are not under consideration relating to the item in which you have an interest.

iii. If you have an interest in a contractual, financial, consent, permission or licence matter under consideration, you must leave the room unless you have obtained a dispensation from the Monitoring Officer or Standards Committee. You cannot stay in the room or public gallery whilst discussion of the item takes place and you cannot vote on the matter. In addition, you must not seek to improperly influence the decision. Where members of the public are allowed to make representations, or to give evidence or answer questions about the matter you may, with the permission of the meeting, speak on a matter then leave the room. Once you have finished making your representation, you must leave the room whilst the matter is being discussed.

iv. If you have been granted dispensation, in accordance with the Council's dispensation procedure you may remain in the room. If dispensation has been granted it will stipulate the extent of your involvement, such as whether you can only be present to make representations, provide evidence or whether you are able to fully participate and vote on the matter in which you have a non pecuniary interest.

Further Information

Advice can be obtained from Suki Binjal, Interim Director of Legal on 020 8356 6234 or email suki.binjal@hackney.gov.uk

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Hackney

MINUTES OF A MEETING OF THE PENSIONS COMMITTEE

TUESDAY, 27TH JUNE, 2017

Councillors Present:	**Councillor Robert Chapman in the Chair** **Cllr Kam Adams, Cllr Feryal Demirci, Cllr Michael Desmond (Vice-Chair) and Cllr Patrick Moule**
Apologies:	**Councillor Geoff Taylor**
Officers in Attendance:	**Rachel Cowburn, Ian Williams, Michael Honeysett, Stephen Rix, Julie Stacey**
Also in Attendance:	**Jonathan Malins-Smith, Nick Chadwick, Andrew Johnson Hymans Robertson, Michael Ferguson, AON**

1 APOLOGIES FOR ABSENCE

Councillor Taylor

Councillor Kam Adams for lateness and Jonathan Malins-Smith for lateness

1 DECLARATIONS OF INTEREST - MEMBERS TO DECLARE AS APPROPRIATE

Councillor Chapman declared a non-pecuniary interest as a receiving member of the LGPS and Councillors Desmond and Demirci declared a non-pecuniary interest as deferred members of the LGPS. Councillor Desmond declared a non-pecuniary interest as a Governor of Brook House 6th form College.

3 CONSIDERATION OF THE MINUTES OF THE PREVIOUS MEETINGS

RESOLVED that the minutes of the previous meeting held on 29 March 2017 were agreed as a correct record.

RESOLVED that the minutes of the previous meeting held on 25 April 2017 were agreed as a correct record.

RESOLVED that the minutes of the extraordinary meeting held on 25 May 2017 were agreed as a correct record subject to the amendment that Jonathan Malins-Smith was present at that meeting.

4 CO-OPTED MEMBERS OF PENSIONS COMMITTEE

Jonathan Malins-Smith asked for a role description for the co-optee position. Rachel Cowburn said that the Pensions Committee terms of reference were being reviewed and a co-optee role description could form part of the review.

The Pensions Committee **RESOLVED** to

- re-appoint Jonathan Malins-Smith as Co-optee Member; Scheme Member Representative of the Pensions Committee for the 2017/2018 municipal year.
- Note the position regarding the nomination of Co-optee member; Employer Representative of the Pensions committee; and
- Note the current position regarding the membership of the Pensions Board.

5 TRAINING (LONGEVITY AND FUNDING RISK)

The Pensions Committee **resolved** to take item 5 and 5a on the agenda together.

Rachel Cowburn introduced the item and Nick Chadwick from Hymans Robertson introduced the training session and the report.

Jonathan Malins-Smith queried the percentage of unknown information in the charts. Andrew Johnson said this was as a result of not having postcode data.

Rachel Cowburn said that there had been a significant change in membership from manual to office based workers as well as a larger proportion of female workers and this was likely to have affected where the pension liabilities lay.

Councillor Moule asked what impact the end of final salary provisions had. Rachel Cowburn said that the move from final salary schemes to the CARE system was beneficial to lower paid members so the disparity evened out.

Andrew Johnson said that the current methodology wouldn't work as well in 20 years' time and this would need to be reviewed to take account of the changes in the pension scheme.

Ian Williams also said it was important to recognise that the contribution rates over the last 10-15 years have changed significantly and the contribution ratios were now very different.

The Pensions Committee **RESOLVED**

- To note the report

a LONGEVITY UPDATE - CLUB VITA

The Pensions Committee **RESOLVED**

- To note the report

6 PASSIVE EQUITY - TRANSITION APPROACH

The Pensions Committee **RESOLVED**

That the press and public be excluded from the proceedings of the Pensions committee during consideration of Exempt items on the agenda on the grounds that it is likely, in the view of the nature of the business to be transacted that were members of the public to be present, there would be disclosure of exempt information as defined in Schedule 12A to the Local Government Act 1972 as amended.

The Pensions Committee resolved

- To agree the recommendations.

7 PENSION FUND CASHFLOW

The Pensions Committee **resolved** to take item 7 on the agenda after item 4.

Andrew Johnson from Hymans Robertson introduced the report. Many Schemes were in a negative cash position but this was not an issue for the LBH fund. However, it was always prudent to monitor the situation.

Councillor Desmond queried how the Fund's stress tests were undertaken, given the volatile economic climate, and how stringent were they. Andrew Johnson said that the stress tests formed part of the valuation process which was stringent.

Councillor Chapman asked how likely the risk was of a rapid reduction in the numbers being part of the Fund. Ian Williams said it was important to remember who was in the Fund. Schools made up a high proportion of the Fund and costs pressures here would mean a reduction in Fund numbers. There had also been a reduction in LBH workforce and this reduction had to be modelled in to the Fund cashflow as did any future pay increases.

The Pensions Committee **RESOLVED**

- To note the report

8 QUARTERLY REPORT UPDATE

Rachel Cowburn introduced the report. There had been a slight improvement in the funding position. In respect of the governance arrangements, an audit by AON on the administration arrangements for LGPS in 2014 highlighted both the positive and negative. Some providers had struggled to provide data by the requested deadlines. It was hoped that the move to iTrent, the new payroll system, would help with improvements.

The tender decision for the third party administrators had resulted in the reappointment of Equiniti.

The Pensions Committee **RESOLVED**

- To note the report

9 STEWARDSHIP FRAMEWORK - ENGAGEMENT OVERLAY OPTIONS

Rachel Cowburn introduced the report. The Local Authority Pension Fund Forum (LAPFF) appointed their own voting overlay provider and CIV had agreed. This was in line with Hackney Fund's voting policy.

Councillor Chapman commented that ethical governance was an important issue.

The Pensions Committee **RESOLVED**

- To approve the use of National Frameworks Stewardship Framework to procure an engagement overlay service, pending further work by officers to establish the Fund's requirements and most appropriate service model.

10 GOVERNANCE - SELF ASSESSMENT REPORT JUNE 2017

Rachel Cowburn introduced the report. The self-assessment survey was still open and it would be useful to have a wider response. Councillor Chapman encouraged those Committee members who had not completed it yet to do so.

Rachel Cowburn informed the Committee that the website was being updated which would allow faster and easier access to key documents.

The Pensions Committee **RESOLVED**

- To note the report

11 PENSION FUND ADMINISTRATION - ANNUAL REPORT

Rachel Cowburn introduced the report. She said that the move to the new payroll provider should free up our administrators' time to enable them to look at other things.

Jonathan Malins-Smith queried the increase in cases received by the administrators. Rachel Cowburn said that this was as a result of data provision and the introduction of the automatic enrolment system. Staff members joined for a short period and then opted out.

Councillor Desmond asked what provisions were in place to deal with Fund members' affairs should they be afflicted with dementia and did Power of Attorney have to be put in place. Julie Stacey said that often a Power of Attorney had been put in place but if not then Equiniti could send a form to the next of kin to complete and also the Department of Works and Pensions had a similar form which Equiniti could accept.

The Pensions Committee **RESOLVED**

- To note the report

12 PENSION FUND BUSINESS PLAN 2017-20

Rachel Cowburn introduced the report. Councillor Chapman asked for an update on CIV. Rachel Cowburn said that officers stayed in touch with CIV as the opening of new active equity sub-funds would still have an impact. Officers had made it clear with the Pool the direction of travel.

Jonathan Malins-Smith asked how many Fund members used the self-service option. Julie Stacey said that it was possible to undertake a variety of actions on the new system such as obtaining quotes but that passwords and access needed to be updated.

The Pensions Committee **RESOLVED**

- To approve the Business Plan for the Pension Fund for 2017-20
- Approve the draft work plan for the Pensions Committee for the Financial Year 2017-2018.

13 EMPLOYER DATA AUDIT

The Pensions Committee **resolved**

- To note the report

That the press and public be excluded from the proceedings of the Pensions Committee during consideration of Exempt items on the agenda on the grounds that it is likely, in the view of the nature of the business to be transacted that were members of the public to be present, there would be disclosure of exempt information as defined in Schedule 12A to the Local Government Act 1972 as amended.

14 PENSION FUND GOVERNANCE POLICY AND COMPLIANCE STATEMENT

Rachel Cowburn introduced the report. The scheme of delegation had changed to reflect changes in job titles and structure.

The Pensions Committee **RESOLVED**

- To approve the draft Pension Fund Governance Policy and Compliance Statement and agree that officers may now proceed with the consultation with the Fund's employers and Hackney Council union officials
- Approve the Scheme of Delegation which is included as appendix B of the attached draft statement.

2 ANY OTHER BUSINESS WHICH IN THE OPINION OF THE CHAIR IS URGENT

16 EXCLUSION OF THE PRESS AND PUBLIC

The Pensions Committee **RESOLVED**

That the press and public be excluded from the proceedings of the Pensions Committee during consideration of Exempt items on the agenda on the grounds that it is likely, in the view of the nature of the business to be transacted that were members of the public to be present, there would be disclosure of exempt information as defined in Schedule 12A to the Local Government Act 1972 as amended.

Hackney

REPORT OF THE GROUP DIRECTOR OF FINANCE AND CORPORATE RESOURCES		
Training – Pension Fund Accounts and Audit **Pensions Committee** **19th September 2017**	**Classification** **PUBLIC** **Ward(s) affected** **ALL**	**Enclosures** **None** **AGENDA ITEM NO.**

1. INTRODUCTION

1.1 This report introduces the presentation of a training session for Members on the Pension Fund accounts and audit process, to assist them in meeting the standards set out in the CIPFA Knowledge and Skills Framework and in the Fund's training policy.

2. RECOMMENDATIONS

2.1 The Pensions Committee is recommended to note the report.

3. RELATED DECISIONS

- Pensions Committee 11th September 2017 – Pension Fund Report and Accounts
- Pensions Committee 14th January 2015 – Training Policy

4. COMMENTS OF THE GROUP DIRECTOR OF FINANCE & CORPORATE RESOURCES

4.1 Management of the Pension Fund is complex and varied, covering areas including investment, administration, governance and financial management. It is therefore essential that members of both the Pensions Committee and Pension Board are provided with training, to ensure that they are able to meet the various duties placed upon them. The cost of such training is immaterial in the context of the Pension Fund; many of the training sessions are provided free of charge or at minimal cost.

4.2 An understanding of the accounting treatment applied to the Pension Fund is essential for Committee Members, to ensure that they understand their responsibilities with regard to review and sign off of the Fund accounts. A similar level of understanding is required by the Pensions Board to ensure that they are able to discharge their governance obligations.

5. COMMENTS OF THE DIRECTOR, LEGAL

5.1 Each member of the Pension Board is required by Section 248a of the Pensions Act 2004 (as amended by the Public Service Pensions Act 2013) to obtain *'a degree of knowledge and understanding…appropriate for the purposes of enabling the individual properly to exercise the functions of a member of the pension board.'* This includes the rules of the scheme, any policy documents concerning its administration and relevant law relating to pensions. These requirements are considered by The Pensions Regulator in its 'Code of Practice No 14: Governance and Administration of Public Service Pension Schemes (2015)' to include accounting policies relating to the Scheme.

5.2 Knowledge and skills requirements for the Pensions Committee are set out in CIPFA's Code of Practice on Public Sector Pensions Finance Knowledge and Skills. Although not statutory, this guidance provides a framework for both Administering Authorities and individual Committee Members to assess their level of understanding and determine any training needs.

5.3 There are no immediate legal implications arising from this report.

6. BACKGROUND/TEXT OF THE REPORT

6.1 The Hackney Pension Fund has adopted the key recommendations of the CIPFA Code of Practice on Public Sector Pension Finance Knowledge and Skills. As such, training for Pensions Committee members is organised in line with the areas of knowledge set out in the Code; these include a section on Pensions Accounting and Auditing Standards.

6.2 It is intended that Pension Board Members should also attend the training session if possible to help ensure that they meet the Knowledge and Understanding requirements set out by the Pensions Act 2004 and The Pensions Regulator's Code of Practice. CIPFA has produced a Technical Knowledge and Skills framework designed for Local Pension Boards, which sets out suggested training requirements for Members. The requirements are very similar to those set out in the Code of Practice on Public Sector Pension Finance Knowledge and Skills.

6.3 The training session will therefore provide members with a broad overview of the regulatory requirements for the Pension Fund accounts and audit. It will cover:

- Accounting policies in accordance with the Code of Practice
- Sources of income, contributions, transfers, income from investments
- Expenditure – payment of benefits, lump sums, death benefits, administration costs, disclosure of investment management costs
- Basis of valuation of assets
- Value of promised retirement benefits in accordance with IAS19
- Role of audit
- Budget monitoring

Ian Williams
Group Director of Finance & Corporate Resources

Report Originating Officers: Rachel Cowburn ☎020-8356 2630
Financial considerations: Michael Honeysett ☎020-8356 3332
Legal comments: Stephen Rix ☎020-8356 6122

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REPORT OF THE GROUP DIRECTOR, FINANCE & CORPORATE RESOURCES		
Pension Fund – Quarterly Update **Pensions Committee** **27th June 2017**	**Classification** **PUBLIC** **Ward(s) affected** **ALL**	**Enclosures** **None**

1. INTRODUCTION

1.1 This report is an update on key quarterly performance measures, including an update on the funding position, investment performance, engagement and corporate governance, budget monitoring, administration performance and reporting of breaches.

2. RECOMMENDATIONS

2.1 The Pensions Committee is recommended to note the report.

3. RELATED DECISIONS

- Pensions Committee 29th March 2017 – Approval of Pension Fund Budget 2017/18
- Pensions Committee 29th March 2017 – Approval of 2016 Actuarial Valuation and Funding Strategy Statement

4. COMMENTS OF THE GROUP DIRECTOR OF FINANCE & CORPORATE RESOURCES

4.1 The Pensions Committee act as quasi-trustees of the London Borough of Hackney Pension Fund and as such, has responsibility for all aspects of the Pension Fund. Quarterly monitoring of the key financial variables which impact the Fund is crucial to ensuring good governance.

4.2 Monitoring the performance of the Fund and its investment managers is essential to ensure that managers are achieving performance against set benchmarks and targets. Performance of the Fund's assets will continue to have a significant influence on the valuation of the scheme's assets going forward. The investment performance of the Fund is a key factor in the actuarial valuation process and therefore directly impacts on the contributions that the Council is required to make into the Pension Scheme.

4.3 The Committee's responsibilities include setting a budget for the Pension Fund and monitoring financial performance against the budget. Quarterly monitoring of the budget helps to ensure that the Committee is kept informed of the progress of the Fund and can provide the Committee with early warning signals of cashflow issues and cost overruns.

4.4 Reporting on administration is included within the quarterly update for Committee as best practice governance. Monitoring of key administration targets and ensuring that the administration functions are carried out effectively will help to minimise costs and ensure that the Fund is achieving value for money.

4.5 Whilst there are no direct immediate impacts from the information contained in this report, quarterly monitoring of key aspects of the Pension Fund helps to provide assurance to the Committee of the overall financial performance of the Fund and enables the Committee to make informed decisions about the management of the Fund.

5. COMMENTS OF THE DIRECTOR, LEGAL

5.1 The Pensions Committee, under the Council's Constitution, has delegated responsibility to manage all aspects of the Pension Fund.

5.2 The Local Government Pension Scheme Regulations 2013, Regulation 62, requires an Administering Authority to obtain an actuarial valuation of its fund every 3 years. The last valuation was carried out as at 31st March 2016, with the next due in 2019. There is no requirement for the Administering Authority to undertake interim valuations, although it has the ability to do so. Nevertheless, given the volatility of the financial markets it is a matter of good governance and best practice to monitor funding levels between formal valuations to ensure that all necessary steps can be taken in advance of any valuation.

5.3 The Council must monitor the performance of the pension fund in order to comply with its various obligations under the Local Government Pension Scheme Regulations. Those obligations include monitoring performance of investment managers and obtaining advice about investments. Ultimately the Council is required to include a report about the financial performance of the Fund in each year in the Annual Report. The monitoring of performance of the Fund is integral to the functions conferred on the Pensions Committee by the Constitution. The consideration of the present report is consistent with these obligations.

5.4 The Committee's terms of reference provide the responsibility for setting an annual budget for the operation of the Pension Fund and for monitoring income and expenditure against the budget. In considering the draft budget the Committee must be clear that the financial assumptions on which the budget is based are sound and realistic. It must also satisfy itself that the budget is robust enough to accommodate the potential pressures outlined in the report whilst ensuring that the Fund is managed as efficiently as possible to maximise the benefits to members of the Scheme.

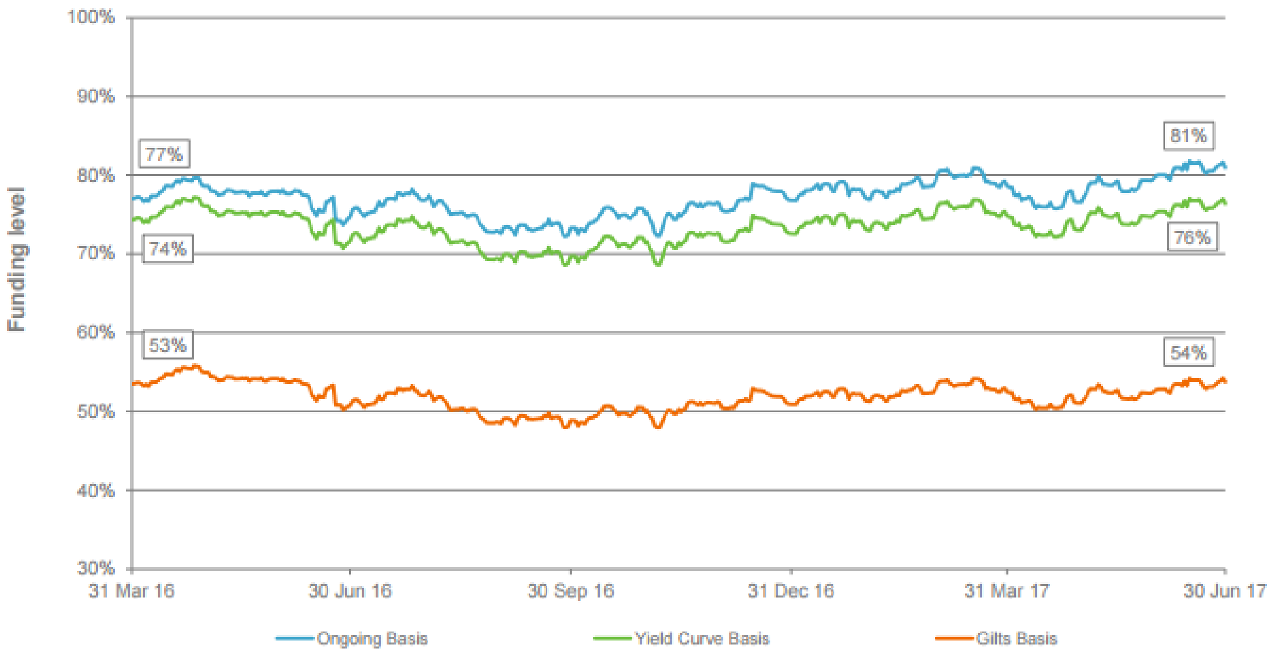
5.5 There are no immediate legal implications arising from this report.

6. FUNDING POSITION BASED ON 2016 TRIENNIAL VALUATION

6.1 The Fund's actuary, Hymans Robertson, provides a quarterly update on the funding position of the Fund illustrating how the overall position has changed since the last actuarial valuation. The actuarial valuation as at 31st March 2016 set the contribution rates which have been applied from 1st April 2017. As at the end of June 2017, the funding level was 81% compared to 77% as at the end of March 2016.

6.2 The chart below highlights the funding position as at 31st March 2016 (77%) compared to 30th June 2017 (81%) showing a slight decrease in the funding position at the start of the period, followed by recovery, then an increase towards the end.

Progression of Funding Level from 31st March 2016 to 30th June 2017



6.3 The funding level of 81% at 30th June 2017 is based on the position of the Fund having assets of £1,435m and liabilities of £1,770m, i.e. for every £1 of liabilities the Fund has the equivalent of 81p of assets. It should be noted that the monetary deficit remains high, but has reduced from £350m in March 2016 to £337m in June 2017, a decrease of £13m. The liabilities are a summation of all the pension payments which have been accrued up to the valuation date in respect of all scheme members, pensioners, deferred members and active members. These will be paid over the remaining lifetime of all members, which could stretch out beyond 60 years. The actuary then calculates the contributions which would be required in order for the Fund to meet its liabilities in respect of benefits accruing and to recover any deficit which has arisen.

7. GOVERNANCE UPDATE

7.1 The introduction of asset pooling for LGPS funds has resulted in a need for constitutional change in administering authorities, to ensure that the new asset pools are properly recognised within the governance structure of funds. An important part of these changes is updating Pensions Committee Terms of Reference, to ensure that the ongoing role of Committee members in asset allocation is recognised and to set out their new role in representing individual funds within the pools.

7.2 This Committee includes a paper setting out for discussion with the Committee the proposed changes to its Terms of Reference. Whilst the proposed changes will need to be approved by Full Council, they have been brought before the Committee for consultation to ensure that the Committee have a full understanding of the changes and are satisfied that it can continue to function effectively as the decision making body for the Pension Fund.

7.3 The proposed changes also include a section updating the appointments procedure for co-opted scheme member and employer representatives on the Committee, to bring the process more into line with that used for the Pension Board representatives. More detail on the full set of changes in included within the dedicated paper.

7.4 Following on from ongoing concerns over the quality of data received from Employers, the Fund has this month been required to submit a report to the Pensions Regulator with regards to its Annual Benefit Statements. Whilst all deferred statements have been sent out on time, 5000 statements for active members are due to be sent around 4th September, leaving approximately 2200 outstanding. The Fund is working with EQ to put together a plan for these statements, and will be submitting a further formal update to the Regulator.

7.5 Once again, this issue has resulted from the failure of the Fund's main employer, the Council, to provide satisfactory year end data. The Fund had planned for this contingency, and was able to use monthly data to produce the majority of active member statements; however, the additional work required to use this data and ongoing issues with the quality of monthly data received has resulted in the delay in sending out statements. Further information on the breach and the Fund's report to the Regulator can be found in the 'Reporting Breaches' section.

8. INVESTMENT UPDATE

8.1 Asset Allocation Q1 2017/18

The following table sets out the Fund's asset allocation as at 30th June 2017 against the target allocation. The valuations have been provided by the Scheme's investment managers

Manager	Mandate	Asset Allocation £	Asset Allocation %	Target Allocation %	Relative %
UBS	UK Equity	329,669,300	24.2	25.0	-0.8
Lazard	Global Equities	222,870,658	16.3	15.5	0.8
Wellington	Global Value	225,299,289	16.5	15.5	1.0
RBC	Global Emerging Markets Equities	73,666,691	5.4	4.5	0.9
Total Equities		**851,505,938**	**62.5**	**60.5**	**2.0**
BMO	Fixed Income	228,424,123	16.8	17.0	-0.2
Columbia Threadneedle	Property	112,517,301	8.3	10.0	0.1
Columbia Threadneedle	Low Carbon Property	24,873,376	1.8		
Invesco	Multi-Asset	57,367,133	4.2	5.0	-0.8
GMO	Multi-Asset	88,602,244	6.5	7.5	-1.0
Total Fund		**1,363,290,116**	**100.0**	**100.0**	-

Note: Numbers may not sum due to rounding

8.2 Performance summary

The following table sets out the performance of the Scheme's investment mandates as at 30th June 2017 against their respective benchmarks. Details of the performance benchmarks for each mandate are set out in Appendix 1.

The table also shows the total Scheme performance against benchmark as calculated by Hymans Robertson. The performance and benchmark numbers have been provided by the Scheme's investment managers.

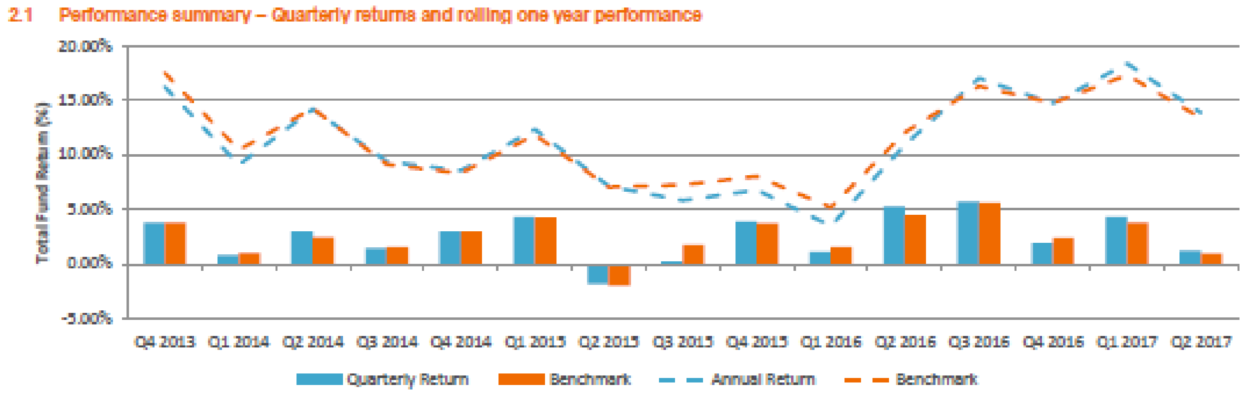
		Wellington Global Eq	Lazard Global Eq	UBS UK Eq	RBC EM Eq	Columbia Threadneedle Property	Columbia Threadneedle LCW	BMO Fixed Income	GMO Multi asset	Invesco Multi asset	Total Scheme
Q2 17 (%)	Fund	1.0	2.2	1.4	2.2	1.5	2.3	-0.4	2.1	1.3	1.3
	Benchmark	1.4	1.4	1.4	2.3	2.3	2.3	-0.9	0.3	0.1	1.0
	Relative	-0.4	0.8	0.0	-0.1	-0.8	0.0	0.5	1.8	1.2	0.3
12 month (%)	Fund	20.9	15.6	18.2	23.0	3.6	2.9	5.3	8.4	6.3	13.5
	Benchmark	21.1	21.1	18.1	27.4	6.0	6.0	3.6	1.3	0.4	13.6
	Relative	-0.2	-4.5	0.1	-3.4	-2.3	-2.9	1.6	7.0	5.9	-0.1
3 years (% p.a.)	Fund	10.3	9.8	7.4	n/a	9.7	n/a	8.7	0.4	n/a	8.4
	Benchmark	11.6	11.6	7.4		9.5		8.6	0.7		8.7
	Relative	-1.1	1.6	0.0		0.2		0.1	-0.3		-0.3
Since Inception (% p.a.)	Fund	9.4	8.8	8.7	34.3	6.7	4.6	7.0	3.3	5.3	
	Benchmark	9.8	9.8	8.6	37.1	5.9	6.0[1]	6.5	1.1	0.5	
	Relative	-0.4	-0.9	0.1	-2.0	0.8	-1.3	0.5	2.2	4.8	
Since inception dates		April 2010	April 2010	August 2003	December 2015	March 2004	May 2016	September 2003	September 2012	December 2015	

Note: Long term returns Calculated by rolling up historic quarterly returns and includes contribution of all current and historical mandates over the period.

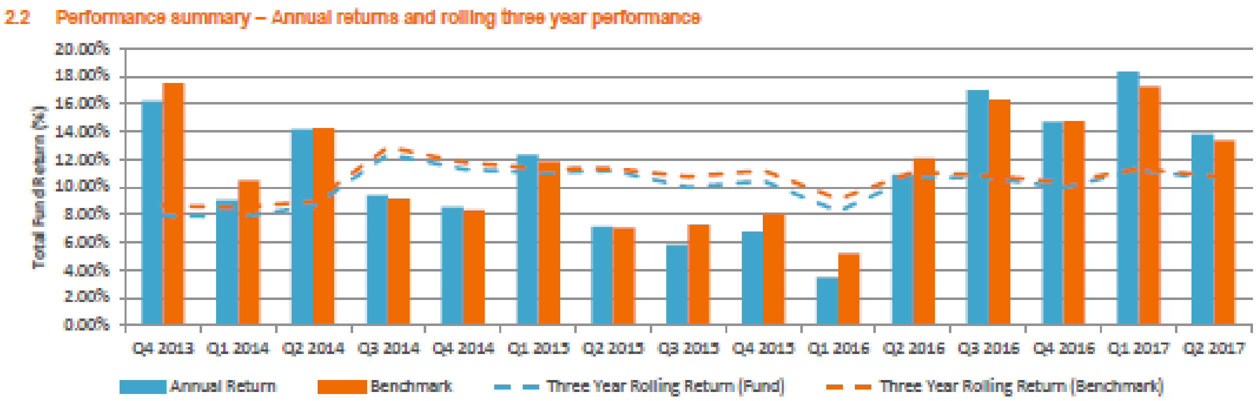
[1] The benchmark only measures performance quarterly, therefore the benchmark return is shown from June 2016.

8.3 The tables below show quarterly and annual returns, together with rolling 1 and 3 year performance respectively

Performance Summary – Quarterly returns and rolling one year performance



Performance Summary – Annual returns and rolling three year performance



8.4 Performance analysis

The table below represents the manager performance over the quarter and illustrates Stock Selection contributions from each of the Fund's managers and the impact from over/underweight positions relative to benchmark/target weighting (Asset Allocation).

Manager	Asset Class	Benchmark	Market Value £'000 30 Jun	Weight % 30 Jun	Target %	Fund Return %	Benchmark Return %	Asset Allocation	Stock Selection
UBS	UK Equities	FTSE All Share	329,669	24.2%	25.0%	1.4	1.4	0.00	0.00
Lazard	Global Equities	MSCI AC World (50% hedged)	222,871	16.3%	15.5%	2.2	1.4	0.00	0.13
Wellington	Global Equities	MSCI AC World (50% hedged)	225,299	16.5%	15.5%	1.0	1.4	0.00	-0.07
RBC	Global Emerging Market Equities	MSCI Emerging Markets	73,667	5.4%	4.5%	2.2	2.3	0.01	-0.01
Total Equities			**851,606**	**62.6%**	**60.5%**	**1.8**	**1.6**	**0.01**	**0.05**
BMO	Bonds	Bonds Composite [1]	228,424	16.8%	17.0%	-0.4	-0.9	0.00	0.09
Threadneedle	Property	IPD UK Quarterly All Balanced Property Index	112,517	8.3%	8.2%	1.5	2.3	0.00	-0.06
Threadneedle	Low Carbon Property	IPD UK Quarterly All Balanced Property Index	24,873	1.8%	1.8%	2.3	2.3	0.00	0.00
Invesco	Targeted Return	£LIBOR 3M	57,367	4.2%	5.0%	1.3	0.1	0.01	0.05
GMO	Absolute Return	OECD CPI G7 (GBP)	88,602	6.5%	7.5%	2.1	0.3	0.01	0.12
Total Scheme			**1,363,290.118**	**100**	**100**	**1.3**	**1.0**	**0.03**	**0.24**

1. BMO benchmark is 37.5% FTA Govt All stocks; 37.5% ML £ Non-Gilt All Stocks Index; 25% FTA Govt IL >5yrs
Note: We do not have the details of the cash held in the trustee bank account. As a result, the effective asset allocation may differ from that shown in the table above.

Positives

- Outperformance from Lazard, Invesco, GMO and BMO.
- Overweight to equities.

Negatives

- Underperformance from Wellington and Threadneedle Property

The table below represents the manager performance over the **12 months to 30th June 2017** and illustrates Stock Selection contributions from each of the Fund's managers and the impact from over/underweight positions relative to benchmark/target weighting (Asset Allocation).

Manager	Asset Class	Benchmark	Market Value £'000 30 Jun	Weight % 30 Jun	Target %	Fund Return %	Benchmark Return %	Asset Allocation	Stock Selection
UBS	UK Equities	FTSE All Share	329,669	24.2%	25.0%	18.2	18.1	-0.06	0.02
Lazard	Global Equities	MSCI AC World (50% hedged)	222,871	16.3%	15.5%	15.6	21.1	0.05	-0.74
Wellington	Global Equities	MSCI AC World (50% hedged)	225,299	16.5%	15.5%	20.9	21.1	0.01	-0.03
RBC	Global Emerging Market Equities	MSCI Emerging Markets	73,667	5.4%	4.5%	23.0	27.4	0.07	-0.17
Total Equities			**851,506**	**62.5%**	**60.5%**	**18.8**	**20.3**	**0.07**	**-0.82**
BMO	Bonds	Bonds Composite [1]	228,424	16.8%	17.0%	5.3	3.6	-0.11	0.30
Threadneedle	Property	IPD UK Quarterly All Balanced Property Index	112,517	8.3%	8.2%	3.6	6.0	-0.06	-0.20
Threadneedle	Low Carbon Property	IPD UK Quarterly All Balanced Property Index	24,873	1.8%	1.8%	2.9	6.0	0.06	-0.02
Invesco	Targeted Return	£LIBOR 3M	57,367	4.2%	5.0%	6.3	0.4	0.05	0.27
GMO	Absolute Return	OECD CPI G7 (GBP)	88,602	6.5%	7.5%	8.4	1.3	0.07	0.48
Total Scheme			**1,363,290**	**100**	**100**	**13.4**	**13.6**	**0.08**	**-0.10**

1. BMO benchmark is 37.5% FTA Govt All stocks; 37.5% ML £ Non-Gilt All Stocks Index; 25% FTA Govt IL >5yrs

Note: We do not have the details of the cash held in the trustee bank account. As a result, the effective asset allocation may differ from that shown in the table above.

Positives:

- Outperformance from BMO, Invesco and GMO.
- Overweight to equities for the majority of the 12 month period to 30 June 2017.

Negatives:

- Underperformance from Lazard, RBC and both Threadneedle property funds

The table below represents the manager performance over the **3 years to 30th June 2017** and illustrates Stock Selection contributions from each of the Fund's managers and the impact from over/underweight positions relative to benchmark/target weighting (Asset Allocation).

Manager	Asset Class	Benchmark	Market Value £'000 31 Mar	Weight % 31 Mar	Target %	Fund Return %	Benchmark Return %	Asset Allocation	Stock Selection
UBS	UK Equities	FTSE All Share	325,051	24.2%	25.0%	7.7	7.7	0.02	0.00
Lazard	Global Equities	MSCI AC World (50% hedged)	218,008	16.2%	15.5%	10.5	12.3	0.03	-0.30
Wellington	Global Equities	MSCI AC World (50% hedged)	223,087	16.6%	15.5%	14.5	12.3	0.04	0.38
RBC	Global Emerging Market Equities	MSCI Emerging Markets	72,133	5.4%	4.5%	n/a	n/a	0.04	-0.01
Total Equities			**838,279**	**62.3%**	**60.5%**	**10.7**	**10.4**	**0.13**	**0.06**
BMO	Bonds	Bonds Composite [1]	229,321	17.0%	17.0%	9.5	9.5	0.04	0.01
Threadneedle	Property	IPD UK Quarterly All Balanced Property Index	110,486	8.2%	8.5%	10.9	10.2	-0.11	0.08
Threadneedle	LCW	IPD UK Quarterly All Balanced Property Index	24,373	1.8%	1.5%	n/a	n/a	0.00	-0.02
Invesco	Targeted Return	£LIBOR 3M	56,655	4.2%	5.0%	n/a	n/a	0.03	0.07
GMO	Absolute Return	OECD CPI G7 (GBP)	86,762	6.4%	7.5%	0.7	0.9	0.10	-0.01
Total Scheme			**1,345,876**	**100**	**100**	**9.7**	**9.3**	**0.20**	**0.19**

1. BMO benchmark is 37.5% FTA Govt All stocks; 37.5% ML £ Non-Gilt All Stocks Index; 25% FTA Govt IL >5yrs

2. Asset Allocation and Stock Selection for RBC and Invesco mandates are the 12 month period to 31 December 2016.

Positives

- Outperformance from Wellington, Threadneedle Property.
- Overweight to equities for the majority of the 3 year period to 31st March 2017.

Negatives

- Underperformance from Lazard.
- Underweight to Threadneedle Property for the majority of the 3 year period to March 2017.

9. BUDGET MONITORING

9.1 The Pension Fund budget for 2017/18 was approved by Pensions Committee at its 29th March 2017 meeting. The paper presented set out rolling forecast budgets to 2018-19, which predict an ongoing cash flow positive position for the Fund. The budget is shown in the table below.

9.2 Full reporting against this budget will be provided at the next meeting. The Fund is currently moving to a new company setup within the Council's accounting system which, when set up, will permit more detailed in year reporting.

Description	2016/17 Outturn £'000	2017/18 Budget £'000	2018/19 Budget £'000	Comments
Member Income				
Employers' Contribution	67,162	59,387	57,849	Future forecasts based on 2016/17 forecast with an assumption that employer contributions will reduce in line with the Council's proposed reduced rates. Active membership numbers are assumed to reduce by 1% pa, with an assumed 1% pa pay rise. Budget to be revised and realigned with

				2016/17 outturn.
Employees' Contribution	12,155	12,293	12,416	See Above
Transfers In	4,719	3,560	3,560	16-17 forecast figure used to forecast - the level of transfers in is outside the Fund's control
Member Income Total	84,036	75,239	73,824	
Member Expenditure				
Pensions	(41,807)	(42,904)	(44,637)	Future forecasts based on 2016/17 forecast. A Pensions Increase rate of 1% has been applied for 2017/18, with 2% applied for each of the following years. A year on year increase in the number of pensioners of 2% has been applied across the 3 year period
Lump Sum Commutations and Death Grants	(13,547)	(13,736)	(14,291)	Uses assumptions as above, but challenging to forecast as this is outside the Fund's control.
Refund of Contributions	(201)	-6,633	-6,633	Adjusted for CPI as per above with a 1% uplift for 2017/18, followed by 2% pa thereafter
Transfers Out	(5,632)	(178)	(182)	2016/17 forecast used for following 3 years. Transfers out are challenging to estimate as they are outside the Fund's control.
Member Expenditure Total	(61,187)	(63,451)	(65,743)	
Net Member Surplus	22,849	11,788	8,081	
Management Expenses				
Administration, Investment Management and Governance & Oversight	(5,869)	(4,922)	(5,008)	Forecast based on 2016/17 forecast, with a 1% uplift for 2017/18, followed by 2% pa thereafter. Budget to be revised and realigned with the final outturn.
Net Administration Expenditure	(5,869)	(4,922)	(5,008)	
Surplus from Operations	16,980	6,866	3,073	
Investment Income/Expenditure				
Investment Income	14,423	13,105	13,105	Investment income expected to remain constant across the period. Budget to be revised in line with 2017 outturn
Net Investment Income/Expenditure	14,423	13,105	13,105	
Cash Flow before Investment Performance	31,403	19,971	16,178	

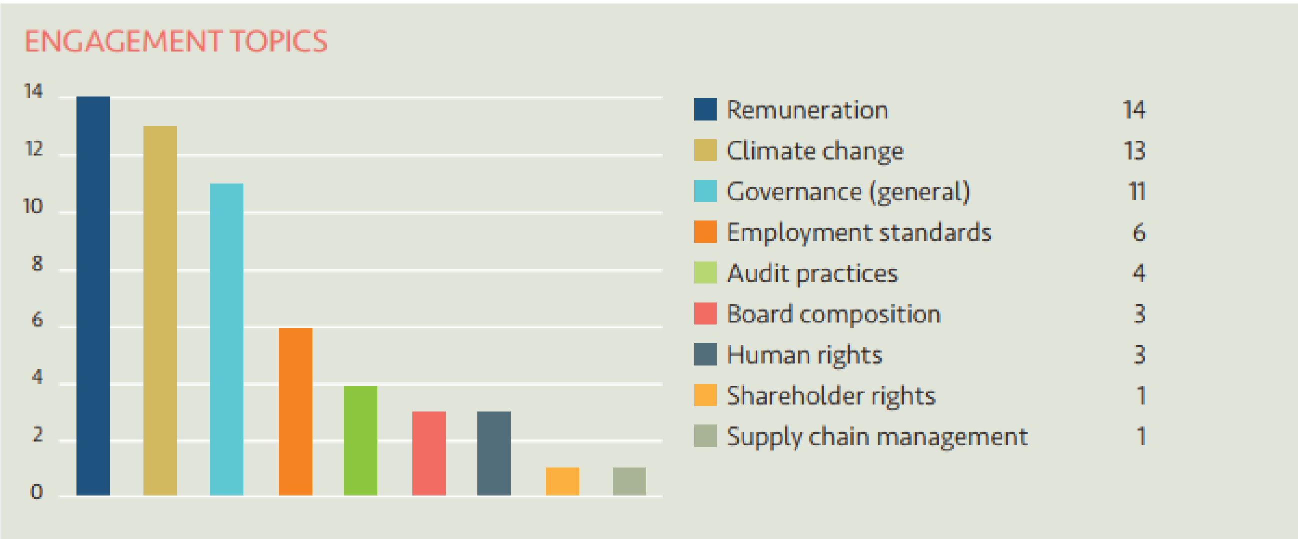
10. ENGAGEMENT AND CORPORATE GOVERNANCE

10.1 The Pensions Committee has looked to increase the level of engagement with the underlying companies in which it invests. This includes taking a more proactive role in encouraging managers to take into consideration the voting recommendations of the Local Authority Pension Fund Forum (LAPFF). This section of the quarterly report therefore provides the Committee with an update on the work of the LAPFF and also voting recommendations and how managers have responded. In addition the update will include key topical issues concerning environmental and social governance issues in order to provide scope for discussion on these key issues.

10.2 A further special strategy meeting of the Pensions Committee took place at the end of January 2016 to consider the Fund's approach to fossil fuel investment. The outcome of this meeting was a series of resolutions around future workstreams designed to help the Fund fully understand its carbon footprint and the risks this poses and, over the longer term, promote decarbonisation of the portfolio through positive investment in low carbon or clean energy funds.

10.3 A key element of the planned work programme was a carbon footprinting exercise – the results of this were delivered at the 19th September Committee meeting, and it has since been used to inform a carbon reduction commitment contained within the Investment Strategy Statement (ISS). With the ISS now approved, work has begun on implementation of the commitments to consider low carbon options for a proportion of the Fund's passive equity investments, and to look at potential options for active global equity. This Committee's agenda includes a paper making recommendations around the Fund's approach to active equity investment.

10.4 The table below shows LAPFF's engagement activities over the quarter, listed by company, area of interest and engagement activity. LAPFF members conducted 56 engagements over the quarter; Key topics of engagement included governance, climate change, employment standards and remuneration.



10.6 During the quarter, LAPFF issued a number of voting alerts recommending members back shareholder resolutions on climate change disclosure at US energy firms: PPL, Chevron and Exxon Mobil.

10.7 The alerts follow the signing of the Paris Agreement under which countries agreed to limit the global average temperature rise to below 2 degrees Celsius. The objective of the resolutions have been that companies undertake analysis and produce publically-available reports on the impact that a 2 degree scenario is likely to have on their business and shareholder value. Some resolutions, such as that to Chevron, have also called on energy firms to report on how they can transition to a low carbon economy.

10.8 The resolutions are in line with LAPFF's policy position to press companies to use scenarios to provide forward-looking analysis, and that companies should be positioning themselves for a low carbon future by disclosing strategic business transition plans. Similar resolutions last year received the backing of a large number of shareholders. And this year, following the first climate change resolution to be passed at a US oil and gas company (Occidental), the resolutions at Exxon and PPL both received the majority backing of shareholders.

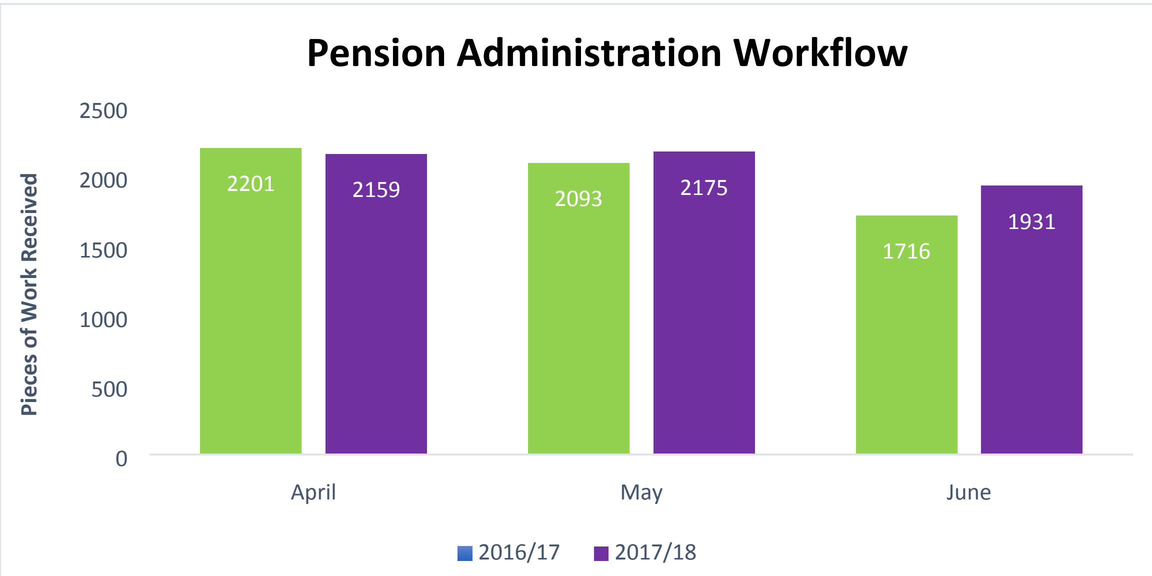
10.8 The Fund holds Exxon through its mandate with Lazard, who voted in line with the Forum's recommendation.

11. PENSION ADMINISTRATION

11.1 Pension Administration Management Performance

The case load for the administrators during Q1 2017/18 has increased slightly in comparison to the same period in 2016/17. A total of 6,265 new cases were received during the current quarter, compared to 6,010 during Q1 in 2016/17

A comparison of the workflow for the administrators between Q1 2016/17 and the reporting quarter is set out below:-

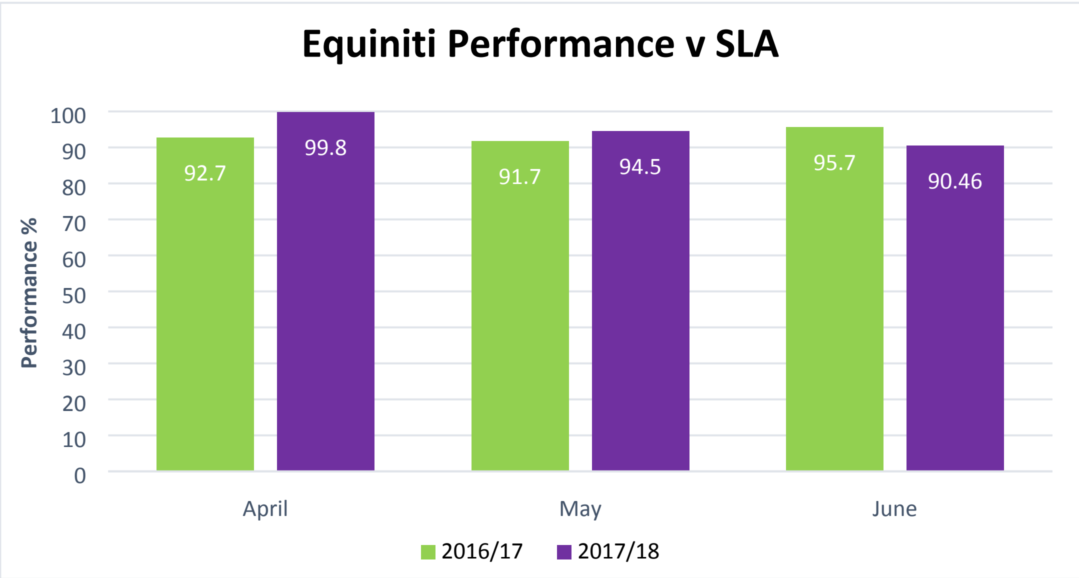


The average number of pieces of work received per month during Q1 2017/18 was 2,088 compared to an average of 2,003 received during the same period in 2016/17.

Much of this workload has been done manually as there is still no suitable working interface from the Council's payroll system that Equiniti can use to update member records automatically. Extra queries have also been raised during the months of April and May with the Fund employers as part of the data verification exercise, in order to ensure more accurate data is available for the annual benefit statements.

The performance of the pension administrators is monitored by the Financial Services Section at Hackney on a monthly basis. Performance against the service level agreement (SLA) was an average of 95% for Q1 2017/18 compared to 93.4% for the same period in the previous year.

The administrator's performance against the SLA for Q1 2016/17 and Q1 of the reporting period 2017/18 is set out below:



It should be noted that the gradual decline in the administrators' performance for the first quarter of 2017/18 is attributed to the increased level of manual work-around that continues to be done to member records. The majority of the additional work is due to the continued lack of an interface from the Council's payroll provider that is fit for purpose and also the complexities of the CARE scheme. The Council is the largest employer in the Fund and has the majority of the work.

The performance is particularly low in the month of June due to the administrators concentrating efforts on the employers annual data returns that must be checked and verified. Any data queries are then raised with the employers, and member records updated accordingly. Extra data cleanse work is being undertaken by the administrators as the data is required for the annual benefit statements this year.

The lack of accurate and timely data continues to cause major issues at Equiniti, however, with the introduction of the new Payroll system which commenced in July 2017, it is hoped that the extra work that has been undertaken to date will decrease due to more accurate data provided from interface reports run by Payroll. As such, no further concerns or issues were raised in regard to the SLA's.

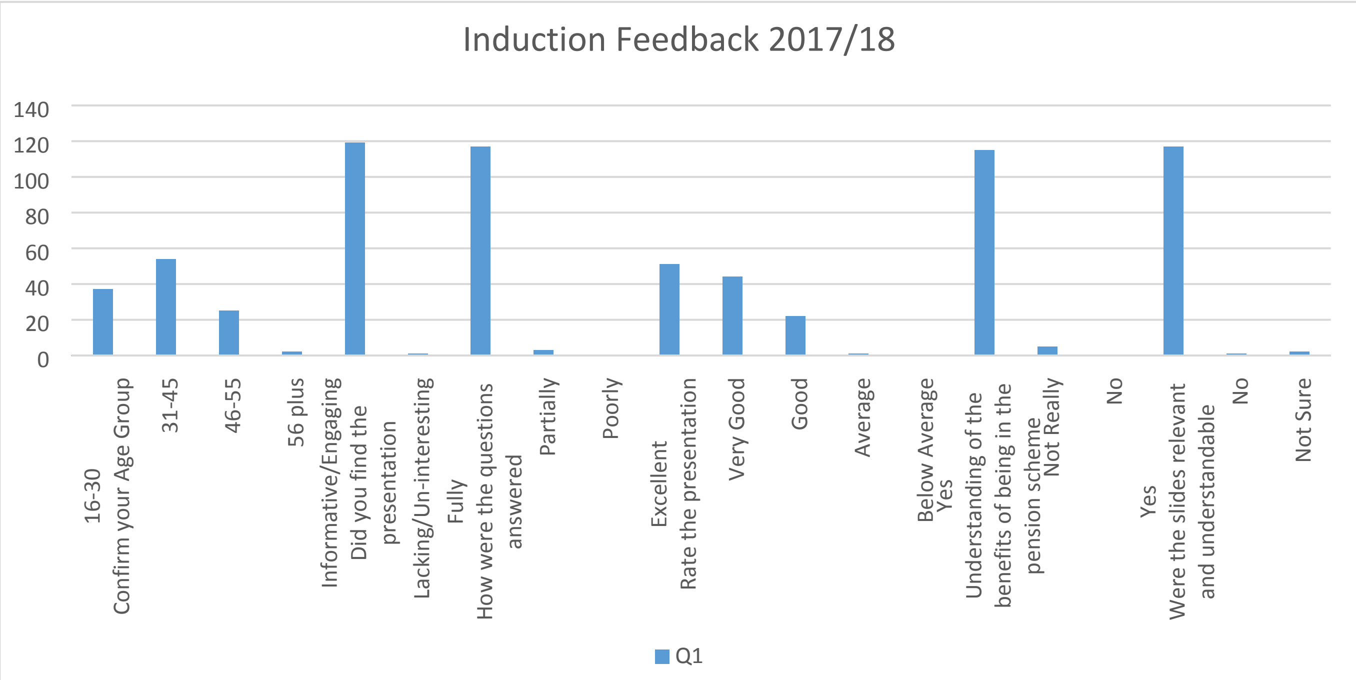
11.2 **New Starters and Opt Outs**

	Total Membership at End of Quarter	Total Opt Outs For Quarter
Q1 2016/17	7,543	135
Q1 2017/18	7,661	101

The opt outs in Q1 2017/18 are significantly lower compared to Q1 2016/17, but the trend remains that, on average, around 100 employees choose to opt out of the scheme each quarter. There were 118 more active members at the end of Q1 2017/18 than there were in the same quarter of 2016/17.

11.3 **Scheme Administration**

The Financial Services in-house pension team facilitated at weekly induction sessions for 120 new employees during the reporting period. These sessions continue to receive very positive feedback with respondents rating the presentations as ‘Very Good’ or ‘Excellent’. And 96% of those who attended the sessions, have said they now have a greater understanding of the benefits of being in the scheme



11.4 **Ill Health Pension Benefits.**

The release of ill health benefits fall into 2 main categories, being those for deferred and active members. The Financial Services in-house pension team process all requests for the release of deferred member’s benefits on the grounds of ill health, as well as assisting the Council's Human Resources team with the process for the release of active member's benefits on the grounds of ill health.

Deferred member's ill health benefits are released for life and are based on the benefits accrued to the date of leaving employment, with the addition of pension increase, but they are not enhanced by the previous employer.

Active members' ill health pensions are released on one of three tiers:

- Tier 1 - the pension benefits are fully enhanced to the member's normal retirement date and is typically only paid to those with very serious health conditions or life limiting health problems – paid for life, no review

- Tier 2 – the pension benefits are enhanced by 25% of the years left to the member's normal retirement date - paid for life, no review

- Tier 3 - the pension benefits accrued to date of leaving employment - paid for a maximum of 3 years and a review is undertaken once the pension has been in payment for 18months.

For tier 3, a scheme member's prognosis is that whilst they are unable to fulfil their current role on medical grounds to retirement, they may be capable of undertaking some form of employment in the relatively near future. However should the members' health deteriorate further, there is provision under the regulations for their benefits to be uplifted from tier 3 to tier 2, if the former employer agrees that their health condition meets the qualifying criteria for the increase.

The chart below sets out the number of ill-health cases that have been processed during Q1 of 2017/18, compared to the same period in the previous year.

DEFERRED MEMBER'S ILL HEALTH RETIREMENT CASES					
	CASES RECEIVED	SUCCESSFUL	UNSUCCESSFUL	ONGOING	WITHDRAWN
Q1 2016/17	6	1	1	4	0
Q1 2017/18	3	1	0	2	0

ACTIVE MEMBER'S ILL HEALTH RETIREMENT CASES					
	NUMBER OF CASES	BENEFITS RELEASED ON TIER 1	BENEFITS RELEASED ON TIER 2	BENEFITS RELEASED ON TIER 3	UNSUCCESSFUL
Q1 2016/17	0	0	0	0	0
Q1 2017/18	1	0	0	1	0

11.5 Internal Disputes Resolution Procedure (IDRP)

This is the procedure used by the Fund for dealing with appeals from members both active and deferred. The majority of the appeals are in regard to either disputes around scheme membership or the non-release of ill health benefits. The process is in 2 stages:-

- Stage 1 IDRP's are reviewed and determinations made by a senior technical specialist at the Fund's pension administrators, Equiniti.

- Stage 2 IDRP's are determined by the Group Director, Finance & Corporate Resources taking external specialist technical advice from the Fund's benefits consultants.

The following case was concluded in the 1st quarter 2017/2018:

Stage 1

Active member not awarded ill health retirement benefits by the employer.
Member appealed employer's decision.
Stage 1 review advised employer that due process had been correctly followed and full consideration was applied when reviewing the evidence.
The appeal was not upheld.

11.6 **Other work undertaken in Q1 2017/18**

Third Party Administration

Following the recent procurement exercise for Third Party Pension Administrators using the National LGPS Framework, the Pensions Committee met on 25 April 2017 and approved the award of the contract to Equiniti, the previous holders of the contract. Service specifications and detailed contract negotiations are currently taking place and will be finalised before the new contract commencement date of 1 January 2018.

Redundancy Exercise for Schools

As well as the usual redundancy estimate requests that are received by the in-house pensions team, Q1 of 2017/18, saw an increase of request coming from a number of Schools within Hackney. A total of 170 redundancy estimates, some with pension release, for support staff (not teachers) have been received, calculated and returned to the requesting Schools. The reduction in grants and support to the education sector is forcing schools to consider this type of cost saving exercise in order to reduce the burden on their budgets.

Additional Voluntary Contributions (AVC)

In May 2017, the pension team working with the Prudential, who are the Councils approved AVC provider offered a number of pension seminars to provide information to staff on the additional savings options available. The seminars were open to everyone who wanted to know more about their pensions and not just those who were approaching retirement. A total of 115 members of staff attended, over 2 days of presentations. The Prudential also met with 20 members of staff on an individual basis, to discuss their options and provide information with regards to contributing to an AVC fund.

Newsletters

The Pensions Team produced their 3rd quarterly Newsletter, which is issued to both Employers and Schools/Academies within the London Borough of Hackney Pension Fund. The newsletter provides an update on subjects relevant to LGPS and other topical matters relating to the pensions world. In this addition, the topics ranged from an update to the Exit Payment Cap and also website links to a guide produced by the Pensions and Lifetime Savings Association (PLSA) and Equiniti regarding the benefits of keeping and maintaining good quality data.

12. REPORTING BREACHES

12.1 The Fund has this month been required to submit a report to the Pensions Regulator with regards to its Annual Benefit Statements. Whilst all deferred statements have been sent out on time, 5000 statements for active members are due to be sent around 4th September, leaving approximately 2200 outstanding. The Fund is working with EQ to put together a plan for these statements, and will be submitting a further formal update to the Regulator. It is expected that the outstanding statements will be sent out by mid-October; however, officers are currently working with Equiniti to put a formal target in place.

12.2 Once again, this issue has resulted from the failure of the Fund's main employer, the Council, to provide satisfactory year end data. The Fund had planned for this contingency, and was able to use monthly data to produce the majority of active member statements; however, the additional work required to use this data and ongoing issues with the quality of monthly data received has resulted in the delay in sending out statements.

12.3 Although the situation has improved compared to previous years, this is the third year running that the Fund has been required to submit a report to the Regulator concerning this issue. This issue has been raised at the highest level of the Council; accurate membership data is of increasing importance since the introduction of the CARE scheme, and it is critical that the problems with the Council's membership data submissions are resolved. Officers of the Fund continue to work as part of the project team implementing the Council's new payroll system, iTrent, and transitioning towards business as usual. Whilst there have been some early difficulties, the template reports being produced are of substantially higher quality than previously.

13. FUTURE TRAINING EVENTS

- 10th October 2017 - LGPS Trustee Training – Fundamentals Day 1 – London
- 15th November 2017 - LGPS Trustee Training – Fundamentals Day 2 – London
- 13th December 2017 - LGPS Trustee Training – Fundamentals Day 3 – London

Comprehensive training suitable for both new and existing Pension Committee and Board Members. Can be booked via the LGA website (https://www.local.gov.uk/events?topic%5B5652%5D=5652&from=&to=&region=All) or via officers.

Ian Williams
Group Director of Finance & Corporate Resources

Report Originating Officers: Rachel Cowburn ☎020-8356 2630
Financial considerations: Michael Honeysett ☎020-8356 3332
Legal comments: Stephen Rix ☎020-8356 6122

Hackney

REPORT OF THE GROUP DIRECTOR OF FINANCE AND CORPORATE RESOURCES		
Pension Fund Annual Report and Accounts 2016/17 **Pensions Committee** **11th September 2017**	**Classification** **Public** **Ward(s) affected** **ALL**	**Enclosures** **One** **AGENDA ITEM NO.**

1. INTRODUCTION

1.1 This report introduces the post audit Annual Report and Accounts of the London Borough of Hackney Pension Fund for the year ended 31st March 2017, which are attached.

2. RECOMMENDATIONS

2.1 The Committee is recommended to:

- Approve the Pension Fund Annual Report and Accounts
- Approve publication and distribution to interested parties

3. RELATED DECISIONS

- Pensions Committee 19th September 2016 – Pension Fund Annual Report & Accounts 2016/17.
- Pensions Committee 29th March 2017 – Pension Fund Audit Arrangements 2016/17

4. COMMENTS OF THE GROUP DIRECTOR OF FINANCE & CORPORATE RESOURCES

4.1 The Pension Fund Annual Report and Accounts sets out the financial position of the Pension Fund as at 31st March 2017 and acts as the basis for understanding the financial wellbeing of the Pension Fund. It enables Members to manage and monitor the Scheme effectively, helping to ensure that they are able to fully understand the financial implications of the decisions they make.

5. COMMENTS OF THE DIRECTOR, LEGAL SERVICESS

5.1 Pursuant to the Local Government Pension Scheme (Administration) Regulations 2013 (“The Regulations”), the Council, in its capacity as the administering authority for the pension fund, is obliged to prepare a pension fund annual report. The report must be published by 1 December following the year end and must be prepared in line with the Regulations and with regard to guidance published by the Secretary of State. The requirements specified in the Regulations are set out in paragraph 6.4 of this report.

5.2 The Council's Constitution makes it the responsibility of the Pensions Committee to receive and approve the Annual Report prior to publication.

5.3 There are no immediate legal implications arising from this report.

6. BACKGROUND/TEXT OF THE REPORT

6.1 This is the first time the 2016/17 draft Annual Report and Accounts has been presented to the Pensions Committee. At the time of writing the Pension Fund audit is complete and it is anticipated that the version being presented in these papers will be the final version of Pension Fund Report and Accounts 2016/17 prior to publication. Any further amendments made between the time of writing and the meeting date will be outlined to the Committee at the meeting. The Report and Accounts are attached as an appendix to this report.

6.3 Once formally adopted the Pension Fund Report and Accounts will be circulated to employers in the Pension Fund with a copy sent to the Department of Communities and Local Government.

6.4 The Local Government Pension Scheme Regulations 2013 lay down the following requirements in respect of the Pension Fund Annual Report:

Regulation 57. —(1) An administering authority must, in relation to each year beginning on 1st April 2014 and each subsequent year, prepare a document ("the pension fund annual report") which contains—

(a) a report about the management and financial performance during the year of each of the pension funds maintained by the authority;

(b) a report explaining the authority's investment policy for each of those funds and reviewing the performance during the year of the investments of each fund;

(c) a report of the arrangements made during the year for the administration of each of those funds;

(d) for each of those funds, a statement by the actuary who carried out the most recent valuation of the assets and liabilities of the fund in accordance with regulation 62 (actuarial valuations of pension funds), of the level of funding disclosed by that valuation;

(e) the current version of the statement under regulation 55 (governance compliance statement);

(f) for each of the funds, the fund account and net asset statement with supporting notes and disclosures prepared in accordance with proper practices;

(g) an annual report dealing with—

(i) the extent to which the authority and the Scheme employers in relation to which it is the administering authority have achieved any levels of performance set out in a pension administration strategy in accordance with regulation 59 (pension administration strategy), and

(ii) such other matters arising from a pension administration strategy as it considers appropriate;

(h) the current version of the statement referred to in regulation 58 (funding strategy statement);

(i) the current version of the investment strategy under regulation 7 (investment strategy statement) of the Local Government Pension Scheme (Management and Investment of Funds) Regulations 2016

(j) the current version of the statement under regulation 61 (statements of policy concerning communications with members and Scheme employers); and

(k) any other material which the authority considers appropriate.

(2) The authority must publish the pension fund annual report on or before 1st December following the Scheme year end.

(3) In preparing and publishing the pension fund annual report, the authority must have regard to guidance given by the Secretary of State.

Ian Williams
Group Director, Corporate Finance & Resources

Report Originating Officers: Rachel Cowburn ☎020-8356 2630
Financial considerations: Michael Honeysett, ☎020-8356 3332
Legal Comments: Stephen Rix, ☎020-8356 6122

List of Appendices
Appendix 1 – Pension Fund Annual Report and Accounts 2016/17

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London Borough of Hackney Pension Fund

Report and Accounts 2016-17

CONTENTS

CHAIR'S FOREWORD - CLLR ROBERT CHAPMAN ---1
HIGHLIGHTS 2016-17 ---3
PENSIONS COMMITTEE ---4
PENSION BOARD ---5
STAFF, ADVISERS & INVESTMENT MANAGERS---6
GOVERNANCE AND OVERSIGHT REVIEW ---11
LONDON BOROUGH OF HACKNEY PENSION BOARD ANNUAL REPORT 2016/17 ---15
KNOWLEDGE AND SKILLS POLICY STATEMENT---19
SCHEME DETAILS---23
ADMINISTRATION AND FINANCE REVIEW---32
RISK MANAGEMENT REVIEW ---44
INVESTMENT REVIEW---47
ACTUARIAL REVIEW ---55
REPORT OF THE FUND ACTUARY ---57
AUDIT OPINION---60
STATEMENT OF RESPONSIBILITIES ---62
STATEMENT OF ACCOUNTS 2016/17 ---63
INVESTMENT STRATEGY STATEMENT ---100
FUNDING STRATEGY STATEMENT ---113
GOVERNANCE POLICY AND COMPLIANCE STATEMENT ---154
COMMUNICATION POLICY STATEMENT ---170
PENSION ADMINISTRATION STRATEGY ---187
CONTACT DETAILS ---227

Chair's Foreword - Cllr Robert Chapman

It is my pleasure, as Chair of the Pensions Committee, to introduce the London Borough of Hackney Pension Fund Annual Report and Accounts for 2016/17. The Pensions Committee is responsible for the management of all aspects of the Pension Fund, including investment, administration and governance of the Fund.

2016/17 has been another eventful year for the wider Local Government Pension Scheme (LGPS) as well as for the Hackney Fund. Asset pooling remains high on the agenda and the Hackney Fund's investment pool of choice, the London CIV, has continued to develop, increasing the number of sub-funds available to include a wider range of equity and multi-asset strategies. The Fund has been heavily involved in the establishment of the CIV and is represented on various committees by both members and officers. Although the Fund did not transfer assets to the platform during the year, plans are now in place to move assets during 2017/18, following a full investment strategy review.

During the year, the Committee approved the Fund's 2016 actuarial valuation, which saw the funding level improve from 70% to 77%, with the monetary deficit reducing to £349m from £406m. The improvement in the funding level is pleasing to note, and has permitted a decrease in the Council's contribution rate from 36.9% to 34.9% for 2017/18, with further incremental reductions planned over the following two years.

Responsible Investment remained an important area of focus for the Committee during 2016/17. Understanding and managing the risks posed to the Fund by climate change has been a priority; in January, the Committee approved a target for the Fund to reduce its exposure to future fossil fuel emissions by 50% over 6 years. In setting its new investment strategy, the Committee has considered how best to meet this target in line with the move to asset pooling; a number of proposals are now being considered for implementation over the medium term.

2016/17 also saw the introduction of a new set of investment regulations for the LGPS. Introduced to provide Funds with greater flexibility and to help facilitate the asset pooling process, the new regulations required the replacement of the Fund's previous Statement of Investment Principles with the new, broader, Investment Strategy Statement (ISS). Following the 2016 valuation, the Fund carried out a full review of its investment strategy and has incorporated this into its ISS, providing an overview of planned changes. The most significant of these has been the Committee's decision to reduce the Fund's equity exposure in favour of multi asset credit, in light of the improved funding level and recent increases in equity valuations.

Looking to investment more generally, 2016/17 has been a very positive year for the Fund, with its value increasing by 18.7%% to £1,391m. Most of the gains have resulted from the Fund's allocation to equity markets, with a weak pound boosting returns from global equities, as well as the performance of the FTSE Allshare with its heavy exposure to foreign currency revenues. Performance across other asset classes has also been largely positive, with property, which suffered following the Brexit vote, the only significant weak point. The Fund introduced one new investment mandate during the year, investing £25m in Threadneedle's 'Low Carbon Workplace' property fund.

The Fund has continued its collaborative work through the National LGPS Frameworks project, which continues to deliver efficiency savings for both the Hackney Fund and the wider LGPS. Having been a founder member of a number of previous frameworks, Hackney continued its involvement by acting as a founder on the new Third Party Administration services framework. The Fund commenced competitive call off from the Framework towards the end of the financial year, and reappointed Equiniti as its administrator early in 2017/18. Administration is becoming an increasing challenge for the LGPS thanks to cost pressures and the greater complexity of the scheme; the new administration contract represents an opportunity for the Fund to ensure that its administration service keeps pace with the numerous changes within the sector and helps to improve the quality of data held.

I would like to take this opportunity of expressing my personal appreciation for the hard work and commitment to the Pension Fund that the rest of the Committee Members have put in, given the considerable challenges that we face in managing a £1.4 billion Pension Fund during a period of considerable upheaval for both the LGPS and the wider economy. I would also like to thank the hard work put in by our specialist advisors, the Group Director of Finance and Corporate Resources and his staff over the past year.

Councillor Robert Chapman

Highlights 2016-17

2016/17 saw the approval of the Fund's 2016 valuation, with the funding level improving to 77%, up from 70% in 2013. The monetary value of the deficit reduced from from £406m to £349m. The Fund remains strongly cash flow positive with contributions and transfers in outstripping benefits paid and transfers out by £22.8 million plus a further net inflow from investments of £14.4 million. This is an area in which the Pensions Committee maintains strong oversight given the maturity profile of the Fund and the ongoing austerity programme affecting public services. Active membership of the Fund continues to grow for the present, helping to maintain the strong cash flow position.

In conjunction with the actuarial valuation, the Fund also conducted a full Investment Strategy review. This fed into the Investment Strategy Statement (ISS), introduced by the new LGPS investment regulations, which set out the Fund's plans for its Investment Strategy over the next 3 years, as well addressing how the Fund plans to work with the London Collective Investment Vehicle (London CIV) to pool its assets. Fund has been involved with the CIV since its inception as a voluntary project and remains heavily involved, with representation from both Members and officers on various committees and working groups.

Looking to other forms of collaboration, the Fund remains an active participant in National LGPS Frameworks project, helping to ensure that effective procurement arrangements are available to all LGPS funds. During the year, the Fund has been heavily involved in the development of the Third Party Administration Framework, both acting as a founder member during the initial setup and, towards the end of the year, making use of the framework for its administration procurement.

As outlined in the investment report, this has been a positive, albeit turbulent, year in investment terms. The Fund ended the year valued at £1,391m, compared to £1,172m in 2015/16. Performance was positive across most asset classes, with the significant allocation to global equity markets the key driver of the Fund's strong investment performance. The Fund introduced one new investment mandate during the year, investing £25m in Threadneedle's 'Low Carbon Workplace' property fund, in line with the proposals agreed by the Committee in 2015/16 to help measure and manage the risks faced by the Fund from climate change.

Implementation of the 2015/16 climate change recommendations continues apace, with the Committee approving as part of the ISS a commitment to reduce the Fund's exposure to fossil fuel reserves by 50% over 6 years. The Fund is now working with the London CIV on proposals for implementation of its investment strategy that will help to meet this commitment, whilst maintaining a focus on fiduciary duty and ensuring that the investment horizons of the Fund remain appropriately broad.

Pensions Committee

The London Borough of Hackney Pension Fund is part of the Local Government Pension Scheme (LGPS). The LGPS is governed by statute with the LGPS falling under the remit of the Department for Communities and Local Government Department (DCLG).

The London Borough of Hackney is the Administering Authority for the London Borough of Hackney Pension Fund. The Pensions Committee has delegated responsibility for the management of the Fund and oversees the general framework within which the Fund is managed and agrees the policies under which the Fund will operate. The Group Director of Finance and Corporate Resources has delegated authority for the day to day running of the Fund.

The Pensions Committee during 2016/17 was made up of 6 Councillor Members and a Scheme Member Representative.

Pension Committee Members

Councillor Robert Chapman
Chair

Councillor Michael Desmond
Vice Chair

Councillor Geoff Taylor

Councillor Feryal Demirci

Councillor Kam Adams

Councillor Patrick Moule

Jonathan Malins-Smith

Scheme Member Representative

<u>Contact details for the Pensions Committee:</u>-
Pensions Committee
Hackney Town Hall, Mare Street,
London, E8 1EA

Pension Board

The Pension Board was established from 1st April 2015 under the provisions of the Local Government Pension Scheme Regulations (2013).

The Pension Board during 2016/17 was made up of 4 members – 2 scheme member representatives and 2 employer representatives.

Pension Board Members

Samantha Lloyd

Scheme member representative

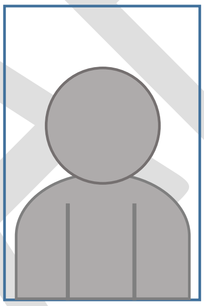
(Chair of the Board)

Kay Brown

Employer Member Representative

Michael Hartney

Scheme Member Representative



Henry Colthurst

Employer Member Representative

<u>Contact details for the Pension Board:</u>-
Pension Board
Financial Services
4th Floor, Hackney Service Centre
1 Hillman Street
London
E8 1DY

Staff, Advisers & Investment Managers

The management and administration of the Pension Fund as at 31st March 2017 was delegated to the Group Director of Finance and Corporate Resources with the Financial Services Section within the Finance and Resources Directorate, having responsibility for the day-to-day management of the Fund.

London Borough of Hackney Responsible Officers

Ian Williams - *Group Director of Finance and Corporate Resources*

Finance & Resources
Hackney Town Hall, Mare Street
London, E8 1EA

Michael Honeysett – *Director, Financial Management*

Financial Management
Finance & Resources
Hackney Service Centre, 1 Hillman Street
London, E8 1DY

Rachel Cowburn – *Head of Pension Fund Investments, Financial Services*

Financial Services Section
Finance & Resources
Hackney Service Centre, 1 Hillman Street
London, E8 1DY

Julie Stacey – *Head of Pensions Administration, Financial Services*

Financial Services Section
Finance & Resources
Hackney Service Centre, 1 Hillman Street
London, E8 1DY

Pradeep Waddon – *Group Accountant, Financial Services*

Financial Services Section
Finance & Resources
Hackney Service Centre, 1 Hillman Street
London, E8 1DY

Auditors - KPMG

KPMG
15 Canada Square
London
E14 5GL

Consulting Actuary – Hymans Robertson

Geoff Nathan
Actuarial Consultant
Hymans Robertson LLP
20 Waterloo Street, Glasgow G2 6DB

AVC Provider – Prudential

Prudential AVC Customer Services
Lancing
BN15 8GB

Investment Consultant to the Fund – Hymans Robertson

Andrew Johnston
Senior Investment Consultant
Hymans Robertson LLP
20 Waterloo Street, Glasgow

Benefits & Governance Consultant to the Fund – AON

Karen McWilliam
Head of Public Sector Benefits Consultancy
Aon Hewitt
The Aon Centre, 122 Leadenhall Street
EC3V 4AN

Legal Advisers

Legal Services
London Borough of Hackney
2 Hillman Street
Hackney
E8 1FB

Pension Administration Services - Equiniti

London Borough of Hackney Pension Fund
Equiniti
Russell Way
Crawley
West Sussex
RH10 1UH

Lloyds Bank

Lloyds Bank PLC
25 Gresham Street
London
EC2V 7HN

Custodial Services – HSBC

HSBC Bank Plc
8 Canada Square
London E14 5HQ

Investment Managers

Global Equities
Lazard Asset Management Ltd
50 Stratton Street
London
W1J 8LL

Global Equities
Wellington Management International Ltd
Cardinal Place
80 Victoria Street
London
SW1 5JL

UK Equities
UBS Global Asset Management (UK) Ltd
5 Broadgate
London
EC2M 2QS

Fixed Interest
BMO Global Asset Management
8th Floor, Exchange House
Primrose Street
London
EC2A 2NY

Property
Threadneedle Investments Ltd
Cannon Place
78 Cannon Street
London
EC4N 6AG

Real Return

GMO UK Ltd
1 London Bridge
London
SE1 9BG

Emerging Markets

RBC Global Asset Management
Riverbank House
2 Swan Lane
London
EC4R 3BF

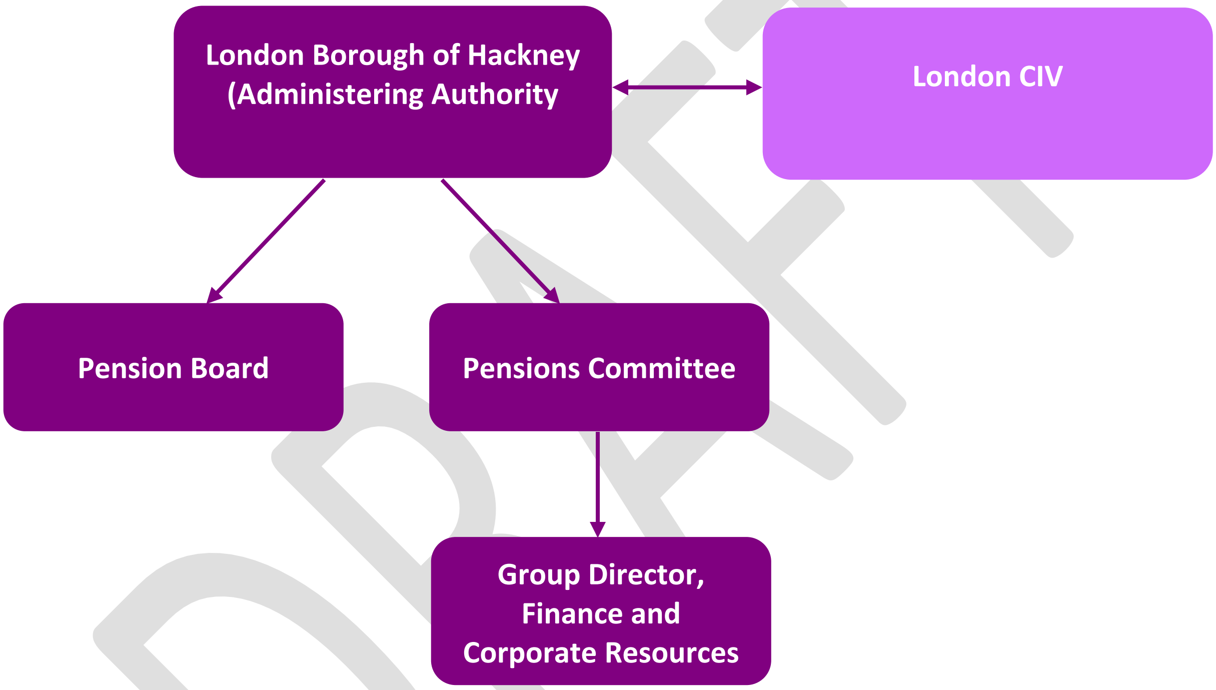
Multi Asset

Invesco Perpetual
Perpetual Park Drive
Henley-on-Thames
Oxfordshire
RG9 1HH

Governance and Oversight Review

Governance of the Pension Fund

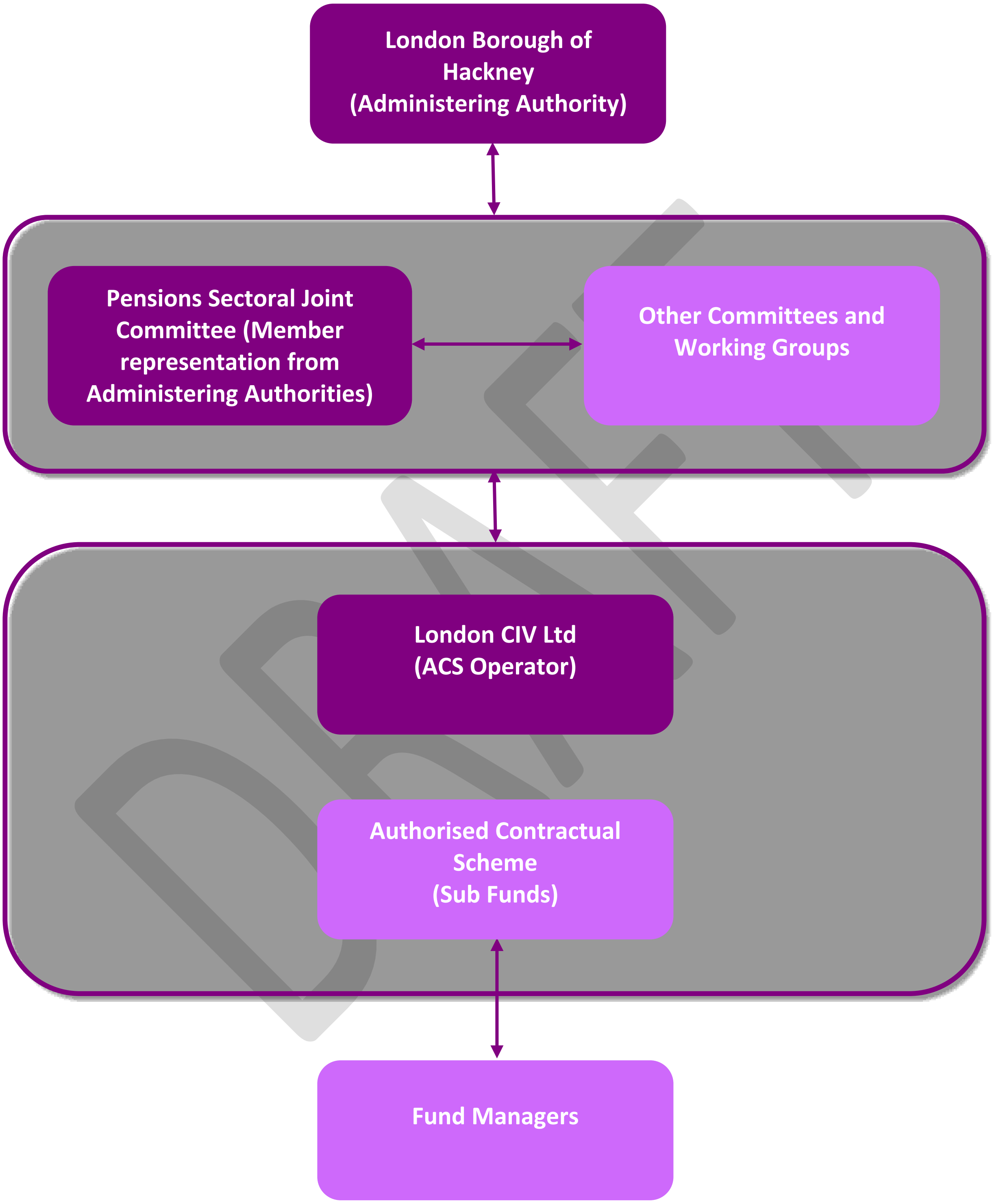
The London Borough of Hackney, as the Administering Authority of the Pension Fund, has delegated responsibility for the management of the Pension Fund to the Pensions Committee. In line with the Local Government Pension Scheme (LGPS) Regulations 2013, the Pension Board assists the Authority in ensuring compliance with the regulations and helps oversee the work of the Pensions Committee and how the Fund is administered. The Fund's governance structure for the 2016/17 financial year is depicted in the chart below.



The Fund is a participating scheme in the London Collective Investment Vehicle (London CIV). The London CIV has been operational for some time and has opened a range of equity and multi-asset sub funds, with other asset classes to follow. Whilst the Fund does not currently invest any assets via the platform, the CIV will, over the medium term, take on elements of the investment management process currently managed by the Fund.

The governance structure of the CIV has been designed to ensure that there are both formal and informal routes to engage with all the Authorities as both shareholders and investors. This is achieved through a combination of the London Councils' Sectoral Joint Committee ("LCSJC"), comprising nominated Member representatives from the London Local Authorities (in most cases the Pensions Committee Chair), and the Investment Advisory Committee ("IAC") formed from nominated borough officers, which includes both London Local Authority Treasurers and Pension Officers from a number of Authorities. The Fund is currently represented within the governance structure of the CIV by its Chair of Committee on the LCSJC and by the Authority's Treasurer and a Pension Officer on the IAC.
At the company level for the London CIV, it is the Board of Directors that is responsible for decision making within the company, which will include the decisions to appoint and remove investment managers

The Fund’s relationship with the London CIV and its governance structure is set out in the diagram below:



Pensions Committee

Attendance

The Pensions Committee holds 4 regular business meetings per year and up to 2 additional strategy meetings. The table below sets out the schedule of Pensions Committee meetings during the last financial year and attendance at those meetings by members of the Committee.

Committee Members Attendance 2016/17									
	27th June		19th September		6th December (strategy)	24th January		29th March	
	Meeting	Training	Meeting	Training	Meeting	Meeting	Training	Meeting	Training
Cllr Robert Chapman (Chair)	P	P	P	P	P	P	P	P	P
Cllr Michael Desmond (Vice Chair)	P	P	P	P	P	P	P	P	P
Cllr Kam Adams	P	P	P	P	P	P	P	P	P
Cllr Feryal Demirci	A	A	A	A	A	P	P	P	P
Cllr Patrick Moule	P	P	A	A	P	P	P	P	A
Cllr Geoff Taylor	P	P	P	P	P	P	P	P	P
Co-Opted Members									
Jonathan Malins-Smith	A	A	P	P	P	P	P	P	P
P = Present									
A = Absent									

Training

Training was provided to the Committee with a dedicated time slot at the Committee meetings. The topics covered in the training programme for the Committee in 2016/17 were provided in line with the CIPFA Knowledge and Skills Framework to help ensure that the Committee are able to achieve high levels of the specialist knowledge required of them. Topics covered during the financial year were:

- Active and Passive Investment Approaches (KSF 4, KSF 5)
- Actuarial Valuations (KSF 6)
- Strategic Asset Allocation (as part of strategy meeting) (KSF 4)
- Pensions Legislation and Governance (KSF 1)
- Financial Markets and Product Knowledge (KSF 5)

Members are also encouraged to attend relevant external training opportunities as set out in the Fund's training policy. Events attended during 2016/17 included:

- the Local Authority Pension Fund Forum (LAPFF) Conference
- London CIV Conference
- Pensions and Lifetime Savings Association (PLSA) Conference

Pension Board

Attendance

The Pension Board holds 2 regular business meetings per year. The table below sets out the schedule of Pension Board meetings during the last financial year and attendance at those meetings by members of the Board.

Pension Board Members Attendance 2016/17 at PB		
	2nd December	20th March
Samantha Lloyd (Chair)	P	P
Kay Brown	P	P
Henry Colthurst	A (appointments in progress)	A
Michael Hartney	A (appointments in progress)	A
P = Present		
A = Absent		

Training

At present, Pension Board members are also asked to attend Committee to ensure they can participate in the training. However, to ensure that suitable training is fully accessible to all Board members, Board meetings from 2017/18 onwards will include a regular training session at the start of the meeting. As 3 of the 4 Board members were newly appointed during 2016/17, a comprehensive training workshop is currently being planned.

Governance Issues – Management of Conflict of Interest

Prior to the commencement of meetings, Committee and Board members are required to make declarations of interest both in relation to membership of the Local Government Pension Scheme and relationship to any employer bodies within the Pension Fund. Further declarations are required as and when agenda items arise where a member may have a conflict of interest. The Head of Pension Fund Investments maintains a record of the Conflicts of Interest which covers both Pensions Committee and Pension Board Members as well as officers closely connected with the Fund.

A legal officer is present at the Committee meetings to provide guidance on legal matters and is also required to comment on other items where there could be conflicts of interest.

London Borough of Hackney Pension Board Annual Report 2016/17

Introduction

This is the annual report of the London Borough of Hackney Pension Fund's Pension Board (HPB) based on the financial year from 1 April 2016 to 31 March 2017.

Establishment and Membership of the Hackney Pension Fund's Pension Board

The Public Service Pensions Act (PSPA) 2013 introduced a number of changes to public service pension schemes, including a number of key changes impacting on the governance of public service pension schemes. One of the key changes was the requirement for each Administering Authority in the LGPS to create a local Pension Board.

The Act states that the role of the Pension Board is to assist the Administering Authority with securing compliance with regulations and with requirements imposed by the Pensions Regulator, as well as assisting in ensuring effective and efficient governance and administration of the Scheme. This has generally been interpreted as the Pension Board having an oversight role but not a decision making role.

Each LGPS Administering Authority was required to establish their local Pension Board no later than 1 April 2015, and the HPB was established by the London Borough of Hackney on 25 February 2015. Since its establishment, the Board has met twice in each calendar year, as set out in its Terms of Reference.

The current membership of the HPB is as follows:

- 2 Scheme Member Representatives (Samantha Lloyd (Chair of the Board) and Michael Hartney)
- 2 Employer Representatives (Kay Brown (LB Hackney) and Henry Colthurst (Mossbourne Academy Trust))

Three of the Board's members (Michael Hartney, Kay Brown and Henry Colthurst) were appointed during 2016/17, following an extensive recruitment process involving interviews with potential candidates.

Meetings, training and attendance

The HPB has met twice during 2016/17, with meetings held in December 2016 and March 2017. The first meeting was attended by 2 representatives, as the Council was concluding the appointment process for the remaining 2 positions on the Board. The second was attended by all 4 representatives. Both meetings were supported by the Council's Governance Services team and also attended by Pension Fund officers.

The members of the HPB have committed to following the requirements of the Hackney Pension Fund's Training Policy. In addition, we are invited to attend Pensions Committee meetings (the decision making committee for the Pension Fund) and their training events, in order to further our understanding of the Hackney Pension Fund and its operation.

The following summarises the training events HPB members have completed during the year:

- CIPFA – Local Pension Boards, Members Seminar – 27th February 2017

The London Borough of Hackney is currently planning further training for all HPB members. Additionally, to ensure training is easily accessible to all Board members, a short training session will be held at the start of each Board meeting.

What have we done during 2016/17?

Given the significant changes to the membership of the Board during 2016/17, a significant portion of the December 2016 meeting was focussed on considering how the Board would operate. This included a consideration of the Terms of Reference, Conflicts of Interest Policy and the Reporting Breaches Procedure. Each Board meeting includes a consideration of the most recent Pensions Committee as a standing item; from 2017/18, a training session will also be included as a regular item. The first meeting of each financial year also sets out the work plan for that year.

In addition to these regular items, the Board has also:

- Reviewed the Hackney Pension Fund's compliance with the Pension Regulator's Code of Practice (this is one of the specific areas of responsibility for Pension Boards). Overall the Fund was generally compliant with the Code, with a couple of exceptions, where further work was required to ensure compliance. One notable exception at the December 2016 meeting related to the number of representatives appointed to the Board, as the Council had not at that stage completed the appointment process for the new Board members. This had been resolved by the time of the March 2017 meeting. The other notable exception related to the provision of annual benefit statements, which was considered in some detail at both meetings.
- Reviewed the Pension Fund risk register, considering the various risks to which the Fund is exposed. The Board highlighted issues around membership data and the upcoming changes to data protection legislation as potentially having significant impact on the governance and administration of the Fund.
- Received an update on the GMP reconciliation project being carried out by Equiniti. This project is part of the review of State Pensions, whereby the Government is ceasing to hold GMP information for scheme members on their systems. Accordingly all pension scheme providers who have been contracted out of the state scheme need to ensure their GMP records are accurate by reconciling them with those held by HMRC by 2018. The Board considered progress on the reconciliation exercise to date, and discussed issues to be taken into consideration by the Fund as it embarks on Phase 2 of the exercise. The Board highlighted the need to monitor and control costs associated with the exercise, and to ensure that sufficient investment was being made in IT to ensure cases are processed efficiently.

- Reviewed progress on the implementation of iTrent, the Council's new payroll system, and considered the impact this might have on the provision of membership data to the Fund. The Board emphasised the importance of accurate data and sought confirmation that the project was sufficiently resourced to ensure that the provision of LGPS membership data was not side-lined. The Board also considered how the end of the previous payroll contract with Northgate HR might impact the provision of 2016/17 year end data, and suggested how the Fund could liaise with the Council to minimise the associated risks.
- Considered the process being used by the Fund for the procurement of third party pension's administration services. The Board reviewed the planned procurement process and use of the National LGPS Framework for Third Party Administration. The potential for, and importance of, improvements to the quality of membership data was highlighted.

What will we do in the future (in particular in 2017/18)?

Now that the HPB is once again fully resourced, with a full complement of members, the Board wishes to ensure that it is actively driving the agenda for the Fund and highlighting areas for improvement. At its next meeting in October 2017, the HPB will be setting its work plan for 2017/18, which is likely to include areas such as the following:

- Progress on the Fund's GMP reconciliation exercise
- The implementation of the Fund's new third party administration contract with Equiniti, and the impact and effectiveness of the planned service improvements
- The impact of Brexit and how the Fund responds to that
- The ongoing relationship between the Fund and the London CIV, and how the Fund can ensure good governance in the move to a pooled structure.
- The ongoing work of the Pensions Committee.
- The impact of the 2018 changes to data protection legislation
- Consideration of the success of the 2016 valuation (particularly in the area of employer engagement and the quality of data), and the potential value of carrying out an interim valuation.
- Ongoing consideration of the Fund's adherence to The Pension Regulator's Code of Practice
- Ongoing consideration of the Fund's data quality issues, including the implementation of the London Borough of Hackney's new payroll provider and planned improvements to business processes
- Progress on planned improvements to the Fund's website and digital offering to its members and employers.

Other observations and general comments

Generally speaking, we are pleased with the work completed in the Board's second year of operation. The Board has faced particular challenges in its first 2 years, most notably the need to replace and train 3 of its 4 members during this time. We are pleased to note that the Board now has a full complement of members and is once again fully compliant with relevant legislation and its Terms of Reference.

Further in depth training is planned for both the Board and the Pensions Committee for 2017/18, and we hope to be able to demonstrate an increasing depth of breadth of relevant knowledge and understanding. We have a good working relationship with the Pensions Committee and the Fund's officers, and are grateful for the way they have all embraced our involvement.

Overall our impression is that the Hackney Pension Fund is a well-managed Fund, and demonstrates good governance in a number of areas. We recognise that there are areas for the Pensions Committee and Fund officers (and the Board) to work on; most notably improvements in membership data quality ahead of the 2019 valuation. With a new payroll provider appointed for the Council (the Fund's main employer) and a new administration contract with Equiniti in place for the Fund, it is anticipated that business processes in this area are likely to change significantly over the coming months, and it is crucial for the Fund to capitalise on this opportunity. It should also be noted that the wider LGPS environment in which the Fund operates continues to change rapidly, presenting both challenges and opportunities. However, we are confident that the governance structure of the Fund is such that these changes can be effectively monitored and managed.

Samantha Lloyd, Board Chair

Knowledge and Skills Policy Statement

CIPFA Code of Practice on Public Sector Pensions – Finance Knowledge and Skills

This organisation adopts the key recommendations of the Code of Practice on Public Sector Pensions Finance Knowledge and Skills.

This organisation recognises that effective financial administration, scheme governance and decision-making can only be achieved where those involved have the requisite knowledge and skills.

Accordingly this organisation will ensure that it has formal and comprehensive objectives, policies and practices, strategies and reporting arrangements for the effective acquisition and retention of the relevant public sector pension scheme finance knowledge and skills for those in the organisation responsible for financial administration, scheme governance and decision-making.

These policies and practices will be guided by reference to a comprehensive framework of knowledge and skills requirements such as that set down in the CIPFA Pensions Finance Knowledge and Skills Frameworks.

This organisation will report on an annual basis how these policies have been put into practice throughout the financial year.

This organisation has delegated responsibility for the implementation of the requirements of the CIPFA Code of Practice to the Group Director, Finance and Corporate Resources, who will act in accordance with the organisation's policy statement, and where they are a CIPFA member with CIPFA Standards of Professional Practice.

This organisation recognises the importance of ensuring that it has the necessary resources to discharge its pension administration responsibilities and that all staff and members charged with the financial administration, governance and decision-making with regard to the pension scheme are fully equipped with the knowledge and skills to discharge the duties and responsibilities allocated to them.

It therefore seeks to utilise individuals who are both capable and experienced and it will provide and/or arrange training for staff and members of the pensions decision making and governance bodies, to enable them to acquire and maintain an appropriate level of expertise, knowledge and skills.

2016/17 Reporting on Knowledge and Skills Framework

How the Frameworks have been applied

The Pensions Committee has delegated responsibility for managing all aspects of the London Borough of Hackney Pension Fund. The Pensions Committee reviews and agrees a training plan on an annual basis at the first meeting of the Municipal Year. The training plan is developed taking into consideration the needs of the Committee to both enhance existing knowledge and skills and to develop new areas of understanding. Pensions, and in particular investments, are constantly evolving and therefore in order for the Committee to be effective, they need to ensure that their knowledge is current. The Committee has had a long standing commitment to engage in a training programme and to ensure that training is accessible to all members of the Committee including co-opted members and members of the Pension Board. Training is therefore provided as matter of course at all regular quarterly Committee meetings and is carried out prior to the main business agenda items. This ensures that training is accessible to all Committee members and key officers involved in the Pension Fund.

Pension Board members are also asked to attend Committee to ensure they can participate in the training. However, to ensure that suitable training is fully accessible to all Board members, Board meetings from 2017/18 onwards will also include a regular training session at the start of the meeting.

Attendance at other training courses and conferences occurs on an ad-hoc basis to meet additional training needs.

Assessment of Training Needs

As the decision-making body for the Pension Fund, the Pensions Committee are committed to ensuring that they have the appropriate levels of knowledge and skill to be able to engage in effective decision making

The issue of the Knowledge and Skills Framework in 2010 set out a matrix of six relevant areas of knowledge for members of decision making bodies, namely:

1. Pensions Legislative and Governance Context.
2. Pensions Accounting and Auditing Standards.
3. Financial Services Procurement and Relationship Management.
4. Investment Performance and Risk Management.
5. Financial Markets and Products Knowledge.
6. Actuarial Methods, Standards and Practices.

The Local Pension Boards Knowledge and Skills Framework, published in 2015, follows broadly similar principles. ‘Pensions Legislative and Governance Context’ is included as two categories; ‘pensions Legislation’ and ‘Public Sector Pensions Governance’, whilst the guidance also adds ‘Pensions Administration as an additional topic.

In October 2016, CIPFA published guidance entitled 'Investment Pooling Governance Principles for LGPS Administering Authorities'. This guidance builds on the existing Knowledge and Skills framework, adding additional competencies relating to asset pooling to each of the categories.

The Fund's training programme is designed around the guidance set out above, and around feedback from the 'Self-assessment and assessment of advisors survey' sent to the Committee at the start of each financial year. From 2017/18, a similar survey will be sent to the Pension Board to ensure their training needs are captured in sufficient detail.

The programme for 2016/17 concentrated on the decisions for the Committee over the year, with a particular focus on the 2016 valuation and subsequent review of the Fund's Investment Strategy. The first training session of the financial year covered active versus passive equity investment, to ensure that the Committee had a sound understanding of the benefits and drawbacks of each approach. Further specific training was delivered at the September meeting around the triennial valuation process, to give the Committee an understanding of the key factors underpinning the valuation outcome. Further training on the valuation process and its influence on the Investment Strategy review was delivered at the Fund's December strategy meeting.

Training at the Committee's January meeting focused on the legislative and governance framework in which the Fund operates, whilst the final session of the year considered broader knowledge of financial products, ahead of the Committee's final approval of the Fund's new Investment Strategy. The dedicated training programme for 2016/17 was also supplemented by additional information contained within the main agenda items.

Training Delivered against identified training needs

An outline of both the specific and supplemental training undertaken by the Committee during the year is shown in the table below:

Dedicated Training	Date
Active versus passive equity investment (KSF4)	27/06/2016
Actuarial Valuation (KSF6)	19/09/2016
Asset Liability Modelling (KSF6, KSF4)	06/12/2016
Pensions Legislation and Governance (KSF1)	24/01/2017
Financial Markets and Product Knowledge (KSF5)	29/03/2017

Supplemental Training	Date
Pensions Administration	27/06/2016
Investment Pooling – Legislative and Governance Context (KSF1)	27/06/2016
TPR Code Compliance (KSF1)	19/09/2016
Pension Fund Report and Accounts (KSF2)	19/09/2016
Section 13 GAD Reporting (KSF6)	19/09/2016
Investment Pooling Update (KSF1, KSF5)	24/01/2017
Pension Fund Risk Register (KSF1, KSF4)	24/01/2017
Third Party Administration Procurement (KSF3)	24/01/2017
Actuarial Valuation Final Report (KSF6)	29/03/2017
Investment Strategy Statement (KSF4)	29/03/2017
Strategy Meeting Supplemental Training	**Date**
Investment Strategy (KSF4, KSF5)	06/12/2016
Asset Liability Modelling (KSF6, KSF4)	06/12/2016
Third Party Administration – Procurement (KSF3)	06/12/2016

Attendance at Committee meetings and training sessions is monitored by officers and a record of attendance is included within the above Governance & Oversight Review for 2016/17.

A full training programme has been scheduled for 2017/18 and includes a wide range of topics, focussing particularly on areas where the Committee is required to make longer term strategic decisions in the best interests of the Fund.

Training Policy

The Pensions Committee formally approved a Training Policy at its Committee meeting in March 2015 which sets out its commitment to ensuring that Members of the Pensions Committee, Pension Board and senior officers with responsibility for managing the Pension Fund should undergo a rigorous training programme. The Training Policy has been created to provide a formal framework and greater transparency on the training regime in accordance with the national requirements. It is intended to aid existing and future Pensions Committee members, Pension Board members and senior officers in their personal development and performance in their individual roles, providing a structure which will ensure that the Pension Fund is managed by individuals with the appropriate level of knowledge and skills.

Scheme Details

Overview of the Scheme

The London Borough of Hackney Pension Fund is part of the Local Government Pension Scheme (LGPS) and is governed by Statute. The main regulations governing the operation of the scheme during the year were the Superannuation Act 1972 and the Local Government Pension Scheme Regulations 2013. The Local Government Pension Scheme Regulations 2013 introduced the 2014 LGPS, changing the benefits structure from a final salary to career average revalued earning (CARE) scheme. The fund's approach to investment is regulated through the Local Government Pension Scheme (Management and Investment of Funds) Regulations 2009.

The London Borough of Hackney is the Administering Authority for the Pension Fund and pensions and entitlement to benefits are fully protected in law. Membership of the Scheme is open to all employees of the Council including school employees with the exception of teachers (who have their own pension scheme). Other employers are admitted to the Pension Fund and depending on their status their employees may also be able to participate in the LGPS. Employee contributions are determined by central government and are between 5.5% and 12.5% of pensionable pay. Employer rates are set by the Fund actuary every 3 years following a valuation of the assets and liabilities of the Fund, with the next valuation due to take place covering year end as at 31 March 2019.

The conditions of the Local Government Pension Scheme (LGPS) Regulations set out in clear terms the benefits that are payable to Scheme members. As such, member benefits are underwritten by statute and members are therefore not reliant on investment performance for their pension benefits. The contributions payable by Scheme members are also defined in the Regulations. Employing Authorities are required to pay contributions into the Scheme in order to meet the cost of funding employee benefits and as such, are required to meet any shortfall in funding the pension liabilities of Scheme members.

The Pension Scheme applying during the financial year 2016/17 was a defined benefit career average revalued earnings scheme which aligns LGPS retirement age with an individual's state pension age. The key benefits of the scheme are outlined below:

- Pension benefits based on a 1/49th accrual basis for each year of pensionable service with benefits calculated on the career average pay revalued annually in line with inflation.
- Pre-2014 benefits guaranteed with a final salary link for any benefits earnt prior to 1 April 2014.
- Option to pay 50% of the contribution rate to accrue 50% of the benefits.
- Option to convert some pension to lump sum on retirement on a 1:12 ratio.
- Life assurance cover 3x member final pay applicable from the day of joining scheme.

- Pensions for dependents: - spouses, civil partners and eligible co-habiting partners and eligible children.
- An entitlement to have pension paid early on medical grounds.
- Pensions increase annually in line with the cost of living.

It should be noted that the above is not an exhaustive list and that certain conditions have to be met for an individual to be entitled to the benefits outlined.

The above benefit structure came into effect on 1 April 2014 and saw the start of significant changes to the public sector pension schemes, with most other schemes introducing their changes a year later on 1 April 2015. The previous LGPS introduced in 2008 was a defined benefit final salary scheme and was in operation until 31 March 2014, although it should be recognised that a large number of scheme members will have benefits accrued under both schemes and indeed some under the pre-2008 scheme. The key benefits under the 2008 scheme are outlined below:

- A guaranteed pension based on final pay and length of time in the scheme and an accrual rate of $1/60^{th}$ per annum.
- Tax free lump sum on benefit accumulated prior to 1 April 2008 and option to convert some of the pension into tax free lump sum on post 1 April 2008 service.
- Life assurance cover 3x member final pay applicable from the day of joining scheme.
- Pensions for spouses/civil and co-habiting partners and children.
- An entitlement to have pension paid early on medical grounds.
- Pensions increase annually in line with the CPI.

Employers in the Pension Fund

There were 36 employers with active scheme members in the Pension Fund during the financial year 2016/17, including the London Borough of Hackney itself. During the year 7 new employers were admitted, whilst 2 previous employers ceased. Employers in the Fund fall into either 'Scheduled body' or 'Admitted body' status.

The following Table outlines the membership profile for all of the employers' in the Fund.

Membership Profile as at 31st March 2017

Employer Name	Active	Deferred Benefit	Pensioner	Total	%
London Borough of Hackney	7,221	7,532	5,926	20,679	88.77
Mossbourne Federation (Academy Trust)					
Mossbourne Community Academy	73	76	2	151	0.65%
Mossbourne Parkside Academy	32	2	-	34	0.15%
Mossbourne Victoria Park Academy	21	3	-	24	0.10%
Mossbourne Riverside Academy	5	-	-	5	0.02%
Petchey Academy	68	122	3	193	0.83%
Bridge Academy	59	61	1	121	0.52%
City Academy	52	37	1	90	0.39%
Skinners	48	31	-	79	0.34%
Brooke House 6th Form College	46	61	11	118	0.51%
Clapton Girls Academy	38	23	2	63	0.27%
Northwold Academy	35	-	2	37	0.16%
Hackney New School	28	1	-	29	0.12%
Mouchel Babcock Education Services	20	5	3	28	0.12%
Greenwich Leisure Ltd	14	-	2	16	0.07%
Renaisi	9	37	10	56	0.24%
Mulalley	8	-	-	8	0.03%
Fit for Sport - Gayhurst	7	-	-	7	0.03%
PJ Naylor - Daubeney	5	-	2	7	0.03%
PJ Naylor - Baden Powell	2	-	-	2	0.01%
PJ Naylor - Gainsborough	1	-	-	1	0.00%
Birkin Cleaning Services - Randal Cremer	5	-	-	5	0.02%
Caterlink	4	-	1	5	0.02%
G4S	4	-	-	4	0.02%
Family Mosaic	3	4	-	7	0.03%
RM Education Plc	2	4	-	6	0.03%
Turners Cleaning Co	2	-	-	2	0.01%
SND Cleaning Services - Our Lady & St Josephs	2	-	-	2	0.01%
SND Cleaning Services - Holmleigh	1	-	-	1	0.00%
SND Cleaning Services - Whitmore	1	-	-	1	0.00%
Birkin Cleaning Services	2	-	-	2	0.01%
Manor House Development Trust	1	1	-	2	0.01%
Family Solutions	1	-	3	4	0.02%
Outward	1	-	-	1	0.00%
Fit For Sport	1	-	-	1	0.00%
Pride Catering Partnership	1	-	-	1	0.00%
Ceased Employers	-	1,031	472	1,503	6.45%
Total	**7,823**	**9,031**	**6,441**	**23,295**	

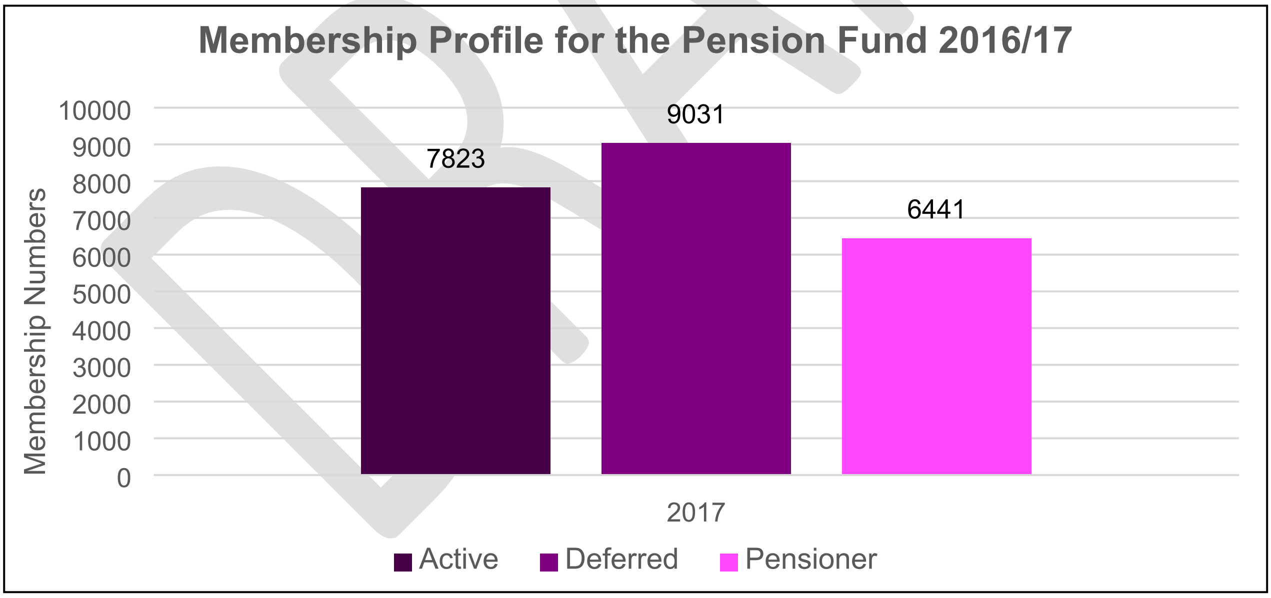
Active Membership in the Fund

The breakdown of the active membership (i.e. those contributing to the Pension Scheme) of the Pension Fund by type of employer as at 31 March 2017 is shown alongside, with the Council being the largest employer in the Fund by a considerable margin.

General Scheme Membership

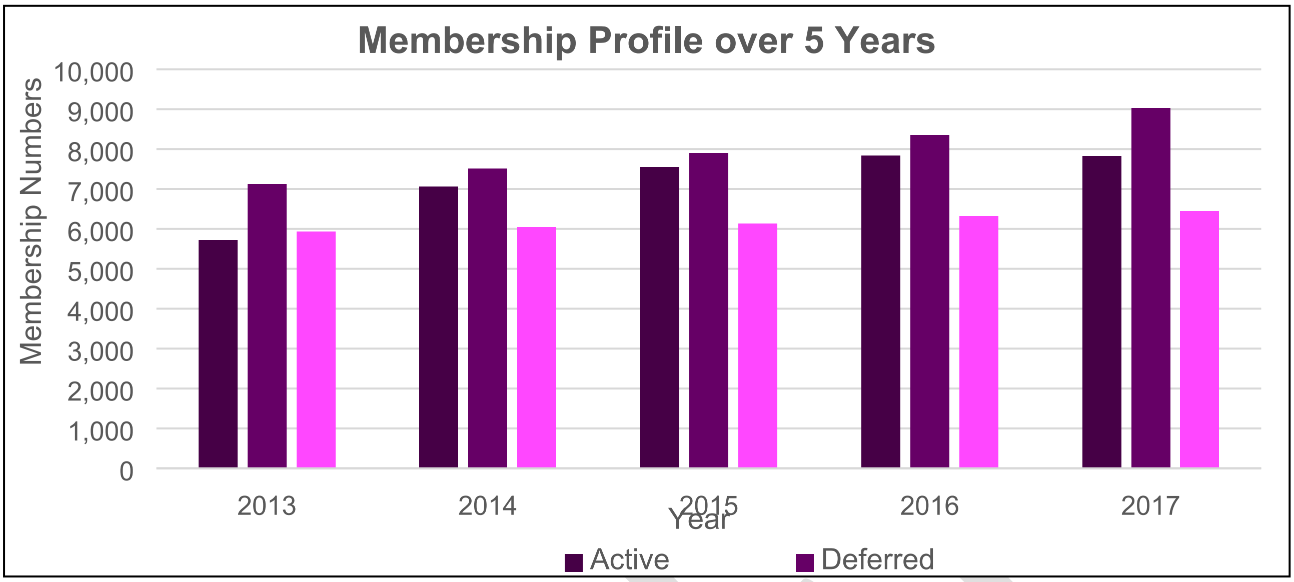
Membership of the Scheme is split between the active members (still employed and contributing to the Scheme), deferred members (no longer active but with accrued benefits to be held until either retirement, or transfer to a new employer's scheme) and pensioner members, comprising both former employees who are now drawing their pension benefits and the dependents of former employees.

The membership of the Scheme analysed over the relevant membership profile is shown below.



As can be seen from the following chart, active membership has slightly declined over the last financial year, with an 8.2% increase in deferred memberships and 1.9% increase in pensioners. Active membership decreased by 20 members, however overall membership has increased year on year, with a 3.5% increase over the year to 23,295 scheme members.

The membership of the Scheme analysed over the last five years is shown below.

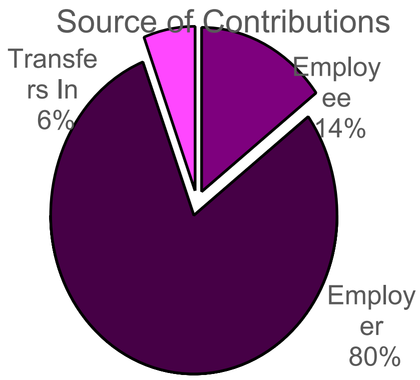


The number of scheme members over the last five years is as follows: 18,769 in 2012-13, 20,614 in 2013-14, 21,581 in 2014-15, 22,510 in 2015-16 and 23,295 in 2016-17. The chart shows overall membership over the last five years has continued to rise each year:

Contributions and Benefits

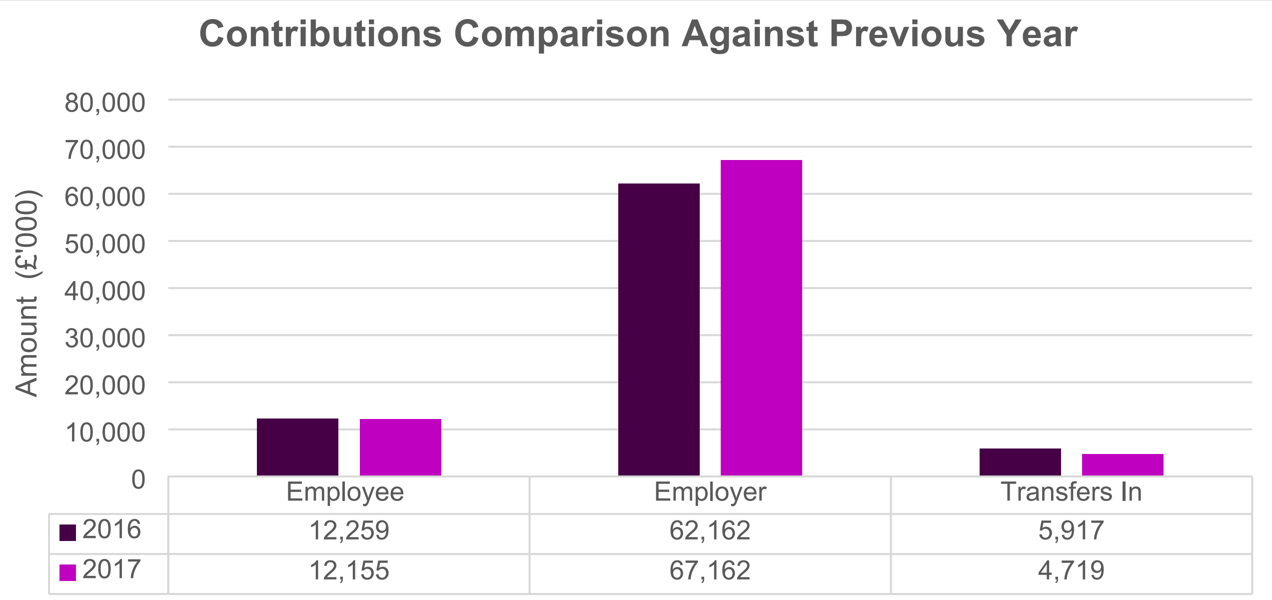
Contributions

Total contributions (including transfers) into the Fund during 2016/17 amounted to £84.0 million compared to £80.3 million for the comparable period 2015/16. Contributions paid by employees are set by statute and during 2016/17 were in a range of 5.5% up to 12.5% dependent on pensionable pay. Employer contribution rates are set by the Fund actuary and for the year 2016/17, the rates that applied were set from the 2013 valuation.



As can be seen from the chart the largest source of contributions remains: employers - on behalf of employees and former employees, and amounted to 80% of contribution income during the financial year.

The chart below shows the actual sums being contributed by the employee and employer and the value of transfers-in during the 2016/17 financial year along with comparators for the previous financial year.



	Employee	Employer	Transfers In
2016	12,259	62,162	5,917
2017	12,155	67,162	4,719

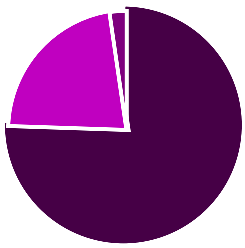
The table below outlines the contributions for all of the employers as well as their status within the Fund:

Contributions by Employer for the year to 31 March 2017

Employer	Status	Members £'000	Employers £'000	Total £'000
London Borough of Hackney	Scheduled	(11,298)	(61,514)	(72,812)
Hackney Homes	Scheduled	-	(2,827)	(2,827)
Mossbourne Federation (Academy Trust):				
Mossbourne Community Academy	Scheduled	(111)	(290)	(401)
Mossbourne Parkside Academy	Scheduled	(25)	(122)	(147)
Mossbourne Victoria Park Academy	Scheduled	(23)	(73)	(96)
Mossbourne Riverside Academy	Scheduled	(4)	(26)	(30)
Clapton Girls Academy	Scheduled	(76)	(329)	(405)
Petchey Academy	Scheduled	(101)	(262)	(363)
Bridge Academy	Scheduled	(97)	(238)	(335)
Brooke House 6th Form College	Scheduled	(74)	(256)	(330)
Skinners	Scheduled	(72)	(230)	(302)
City Academy	Scheduled	(67)	(161)	(228)
Northwold Academy	Scheduled	(26)	(147)	(173)
Hackney New School (Secondary)	Scheduled	(24)	(79)	(103)
Hackney New School (Primary)	Scheduled	(5)	(17)	(22)
Mouchel Babcock Education	Admitted	(47)	(166)	(213)
Greenwich Leisure Ltd	Admitted	(19)	(111)	(130)
Renaisi	Admitted	(22)	(75)	(97)
Mulalley	Admitted	(21)	(63)	(84)
G4S	Admitted	(6)	(26)	(32)
RM Education	Admitted	(6)	(23)	(29)
Manor House Development	Admitted	(7)	(18)	(25)
Family Mosaic	Admitted	(5)	(16)	(21)
Family Solutions	Admitted	(2)	(19)	(21)
Caterlink	Admitted	(3)	(15)	(18)
PJ Naylor - Gainsborough	Admitted	(2)	(9)	(11)
PJ Naylor - Daubeney	Admitted	(2)	(9)	(11)
Fit For Sport	Admitted	(2)	(8)	(10)
Outward	Admitted	(2)	(7)	(9)
SND Cleaning - Our Lady at St Josephs	Admitted	(1)	(6)	(7)
Birkin Cleaning Services - Randal Cremer	Admitted	(1)	(4)	(5)
SND Cleaning - Whitmore	Admitted	(1)	(3)	(4)
PJ Naylor - Baden Powell	Admitted	(1)	(3)	(4)
SND Cleaning - Holmleigh	Admitted	(1)	(3)	(4)
Turners Cleaning Co	Admitted	(1)	(3)	(4)
Birkin Cleaning Services	Admitted	-	(3)	(3)
Pride Catering	Admitted	-	(1)	(1)
BBCS 2	Admitted	-	-	-
Total Contributions		**(12,155)**	**(67,162)**	**(79,317)**

Benefits

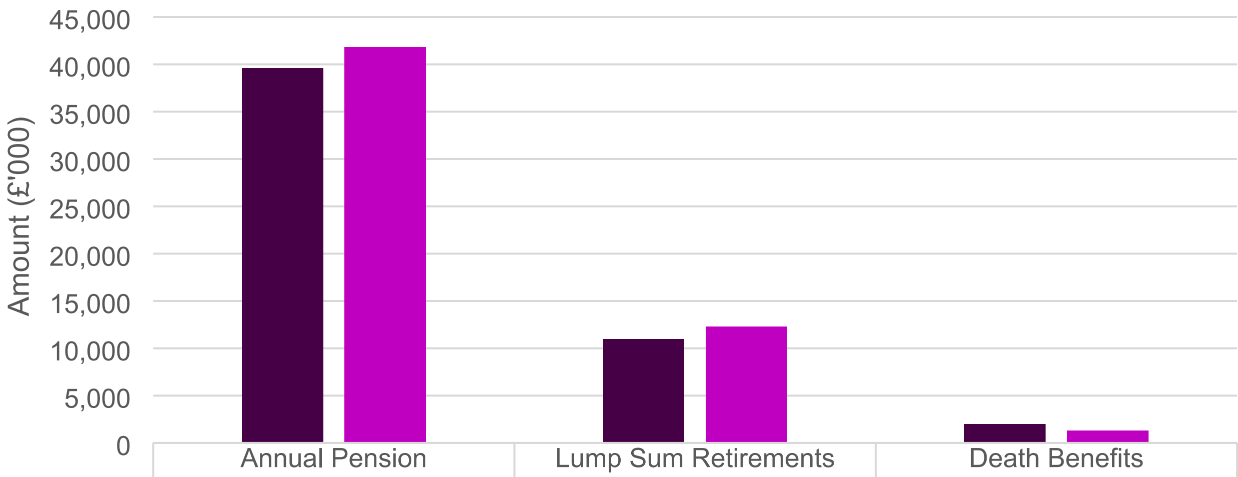
Benefits Paid Out in 2016/17



The benefits paid out from the Fund comprise annual pensions, lump sum payments on retiring and, where applicable, death in service payments, whereby lump sums equivalent to 3x final salary are paid out to nominated beneficiaries. Total benefits paid out during 2016/17 amounted to £55.4 million compared to £52.5 million for the year 2015/16.

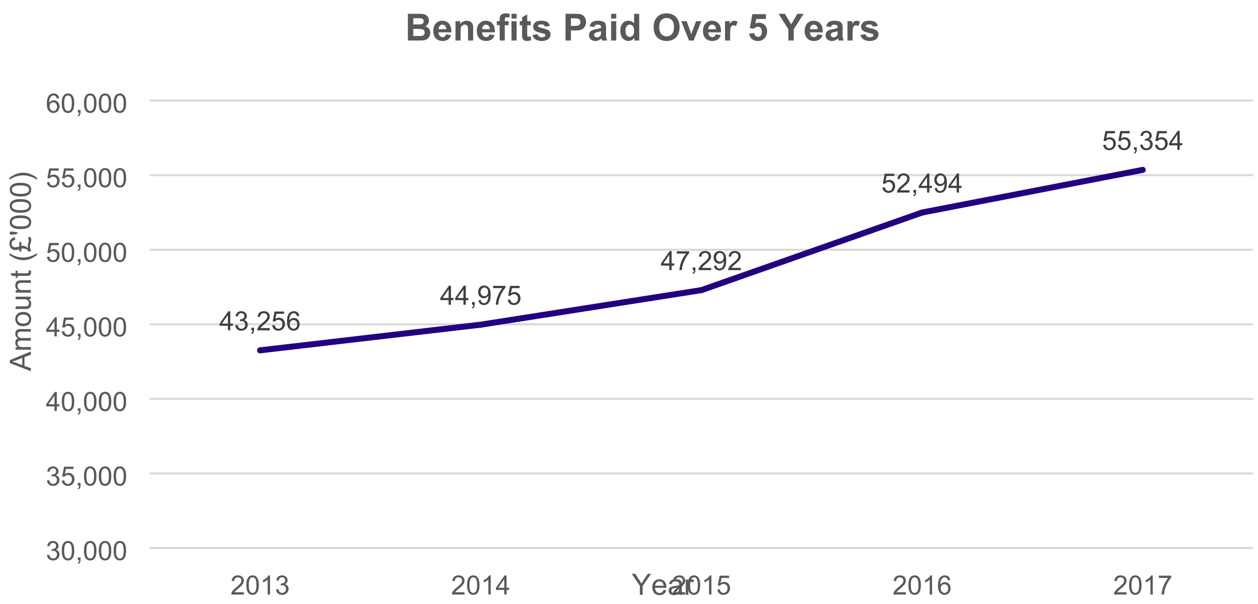
Looking at the year-on-year increases, annual pension payments increased by 5.64%, reflecting a slight increase in the number of retirements. Lump sum payments increased, by 12.2% over the year whereas Lump sum death benefits decreased by 35.8%.

Benefits Paid Out in 2016/17 compared to Previous Years



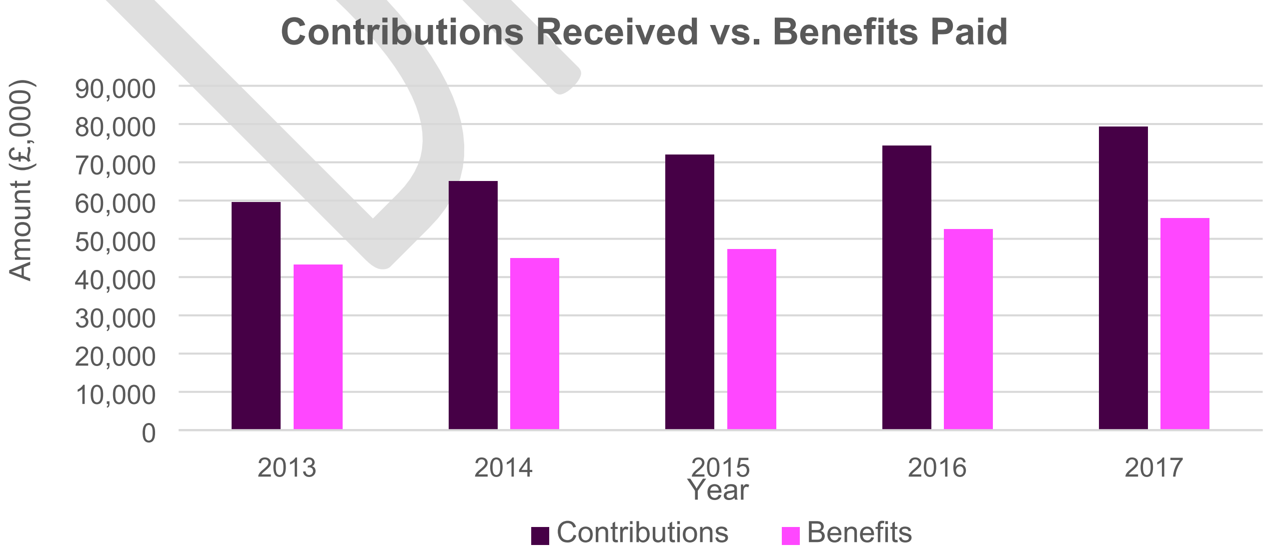
	Annual Pension	Lump Sum Retirements	Death Benefits
2016	39,576	10,941	1,977
2017	41,807	12,276	1,271

Pension benefits being paid out of the Fund have increased steadily over the last five years from £43 million in 2012/13 to £55m in 2016/17. This is in part due to the fact that LGPS pension benefits rise each year in line with inflation more than a reflection of any significant increase in pensioner numbers, which have remained relatively static over the period. The chart below highlights how benefit payments have been increasing for the Fund over the five year period.



In addition the Fund has also paid refunds to members who have opted out of the Scheme which is permissible under the regulations of the Scheme and made transfers to other schemes by way of individual transfers and group transfers. For 2016/17 the total value of payments to and on account of leavers was £5.3 million, compared to £5.2 million (2015/16).

Contributions (excluding transfers) paid into the Fund continue to exceed the sums paid out in benefits each year, making the Fund strongly cash flow positive. The chart below provides readers with the comparison of contributions paid in to the Fund over the last 5 years compared to the levels of benefits paid out. As the Scheme matures, there is likely to be a narrowing of the gap over time. The Pensions Committee continues to monitor the cash flow position on a regular basis.



Administration and Finance Review

Scheme Administration

The contract for pension administration and pension payroll was managed externally during the year by the Fund' s pension administrators, Equiniti Pension Solutions, with the contract being overseen by the Financial Services Section based at London Borough of Hackney. The contract commenced on 1 April 2009 and was extended for a further 3 years on 1 April 2014 until 31 March 2017. However, a short term contract extension to 31 December 2017 has been agreed with the Council' s Legal department and Equiniti in order to allow sufficient time for an orderly transition to a new administrator if necessary, and for the Council to complete the transition of the payroll contract to a new provider in July 2017.

The costs of administering the Fund are relatively small compared to the overall value for the Fund. The cost in 2016/17 was £539k, compared to £570k in 2015/16. Administration costs include the internal staff costs involved in administering the Pension Scheme, the external administrator costs and the Pension Fund audit fee.

The administrators have a website available for members, employers and non-members to find information pertaining to the LGPS including a members self service area, the address of which is http://hackney.xpmemberservices.com/Home.aspx . The members' area has an electronic version of the scheme guide providing details of the benefits of the scheme, pension membership forms, a series of FAQs, a glossary of terms and relevant news items. The employers' area provides all of the above, and also copies of the Pension Fund Report & Accounts, Statement of Investment Principals (SIP), Funding Strategy Statement (FSS), Communications Policy and the Pension Administration Policy (PAS) as well as a link to the Committee' s reports.

The Fund has a procedure for dealing with disputes from members both active and deferred called the Internal Disputes Resolution Procedure (IDRP). These are mainly in regard to either their scheme membership or the non-release of ill-health benefits. The process for members is at Stage 1, to first appeal to the Specified Person appointed by the Fund who will assess the case to ensure due process has been followed. Should the member still be dissatisfied after this, they can then appeal to the Administering Authority (Stage 2), who will appoint a Specified Person who will again assess the case and make a determination. If the member remains dissatisfied, they can then appeal to the Pension Ombudsman (Stage 3), who will then make the final determination on the case. The findings of the Ombudsman are legal and binding and no further action can be taken by the individual.

The number of completed IDRP cases in the year was 3. The analysis is as follows:-

Case Type	Resolution
Ill Health – Active release at Tier 3, 1 appeal for release at Tier 1	Upheld
Ill Health – Active release at Tier 3, 2 appeals for release at Tier 2	Not upheld

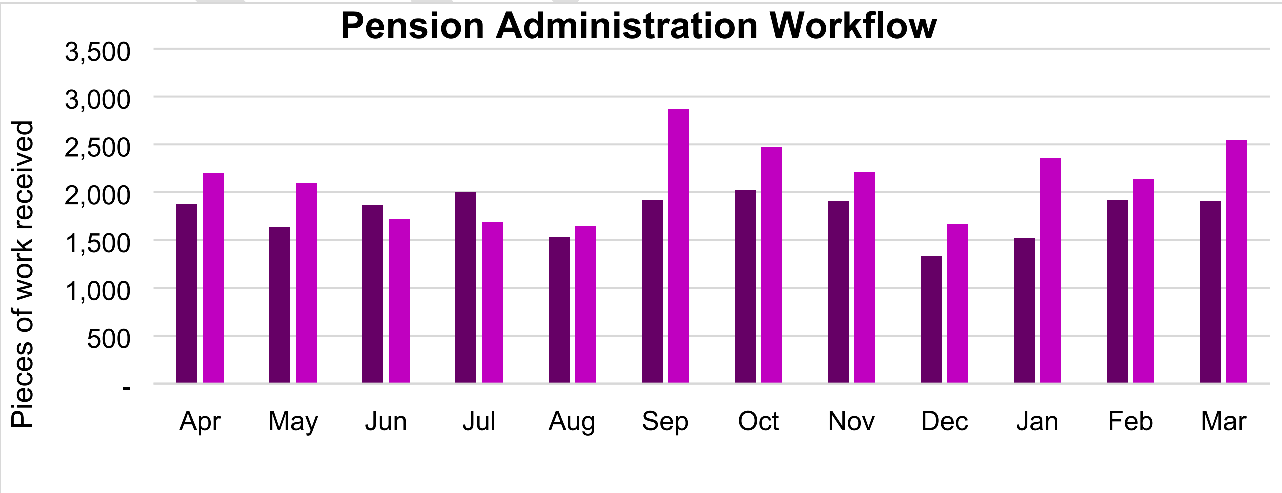
Administration Management Performance

The pension administrators saw the workflow increase to 25,689 during the year, an increase of 5,455 from last year's case load of 20,234. There were a total of 4 complaints in the reporting year, which equates to 0.02% of the total workload.

Below is the number and trend of the top case types the administrators have dealt with in the year 2016/17:-

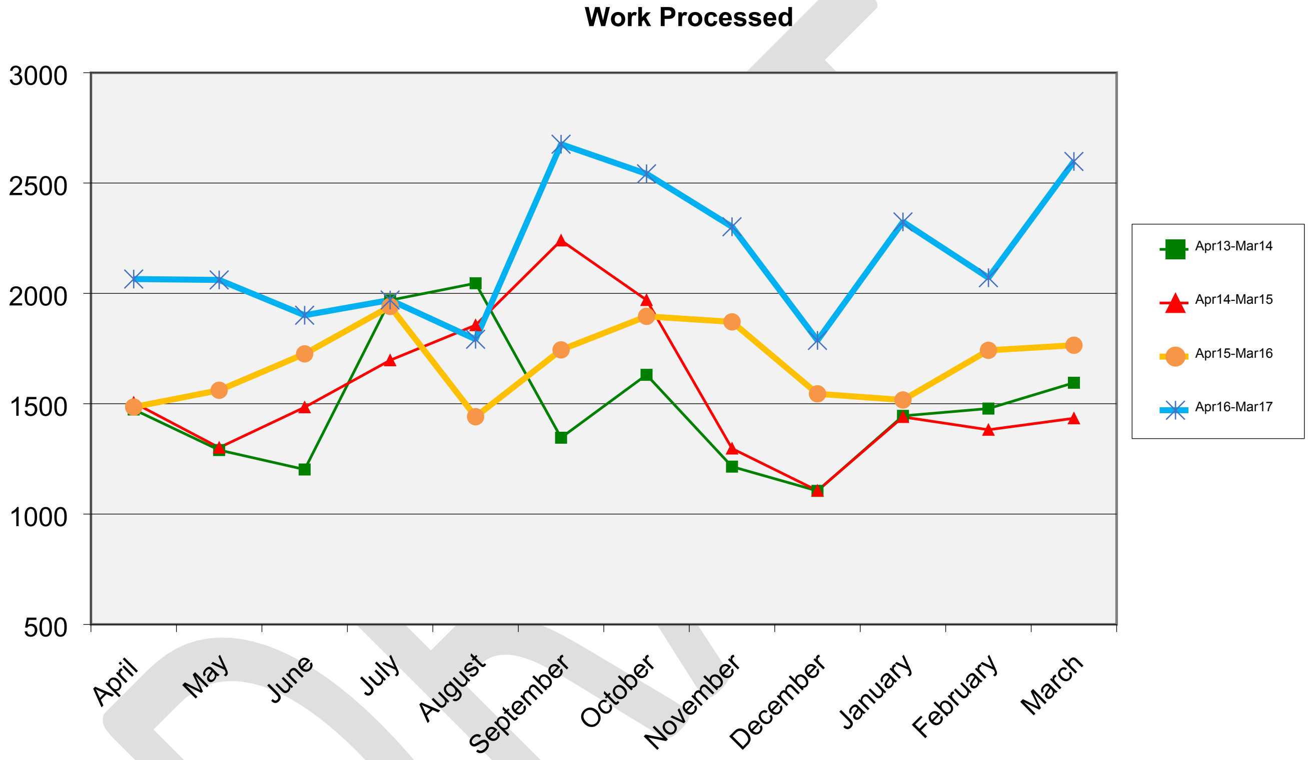
Case Type	Number in Year
Death Notifications	309
Leavers including opt outs	3,499
New Entrants	1,861
Transfer In	50
Transfer Out	99
Retirement Quote	589
Retirement Finalisations	434
GMP	296
Divorce	27

Over the last year the total cases received by the administrators has increased significantly from 20,234 cases in 2015/16 to 25,689 in 2016/17. The average number of cases received monthly has increased from 1,786 in the previous year, to 2,141 in 2016/17. The number of cases for 2016/17 in comparison to 2015/16 is shown in the chart below:-



The increase has been primarily due to the continued lack of a payroll monthly interface from the Council, the largest employer, which means all starters, leavers and change notifications having to be processed manually. The cases peaking in September 2016 was due the extra data cleanse and verification needed to ensure member records were as accurate as possible before the remainder of the annual benefit statements were issued in December 2016.

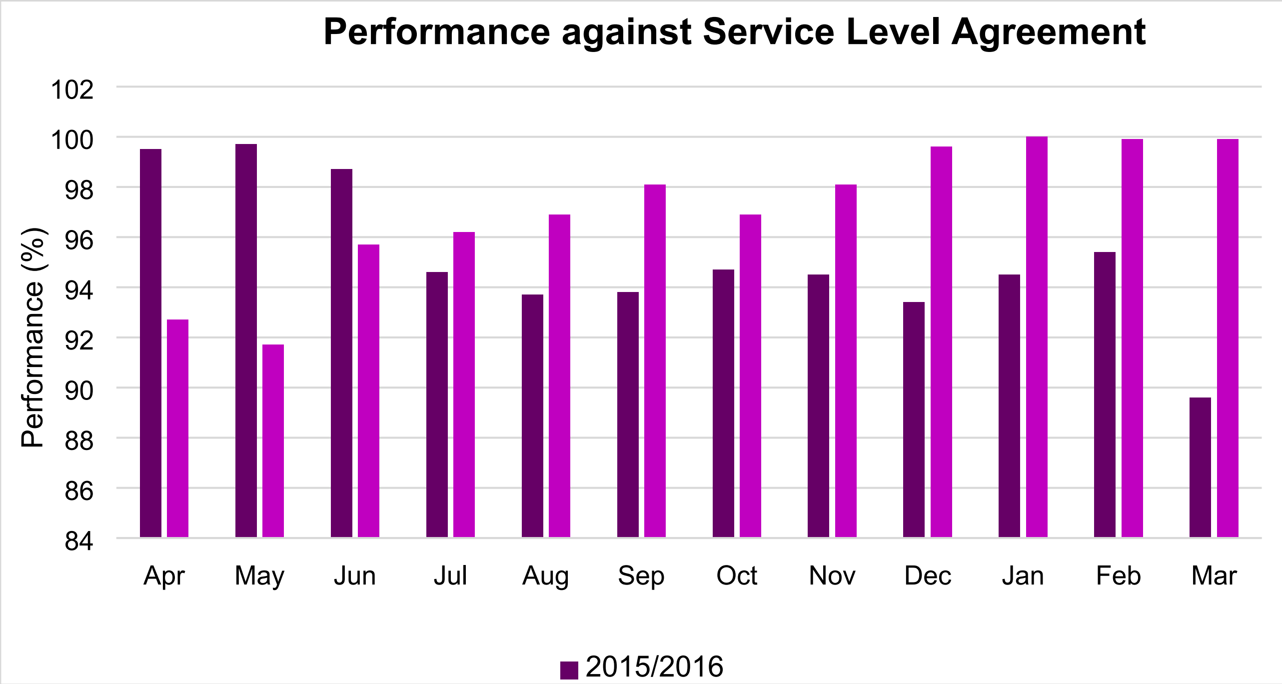
The number of work items completed on a monthly basis averages 2,139 over the year and a comparison of completed items from 2013/14 (green line) to 2016/2017 (blue line) date is shown in the chart below:



The lack in quality data received from employers, particularly the Council, and their payroll providers, continues to have a significant impact on workloads with data cleansing and validation being a priority not only for the annual benefit statements but also the triennial valuation. Considerable problems still remain with the Council's payroll system and as a year-end file was not provided, extrapolated data from monthly returns was used to try and get member records updated sufficiently to produce annual benefit statements.

As the year-end file was not provided, the Fund was not able to comply with its regulatory duty of providing annual benefit statements to all of its members by the end of August 2016. However, all deferred benefit statements were issued in time along with approx. 4,000 active statements where data was accurate. Following further data cleansing, the remainder of the active statements, approx. 3,200, were issued on 22 December 2016 with the addition of a 'health warning' requesting members check their statement for accuracy. The lack of year-end data from the Council being the largest employer in the Fund, impacted on issuing the majority of the statements within the regulatory timescale and therefore the Fund breached the scheme regulations. In doing so, the Council was obliged to report itself to tPR, setting out what had happened and the steps it had taken to correct the issue. No further action was taken by tPR.

The performance of the pension administrators is monitored by the Financial Services Section at Hackney on a monthly basis. Performance under the pension administration contract when compared to the service level agreement was an average of 97.1% for the year as a whole, a fraction up on the previous year of 95.1%. Service levels are included within the Pensions Administration Strategy document.



In addition to dealing with the day-to-day administration cases, Equiniti have also undertaken the following work on behalf of the Fund:

- All monthly payrolls balanced and reconciled.
- The year-end payroll process has been completed for both the monthly payrolls including the application of the pension increase, reconciliation of the payrolls, production of P60s and reporting to HMRC.
- Compendia year end update of pension increase (PI), Lifetime Allowance and Annual Allowance and earnings and contribution histories was completed.
- A Scheme Event report has been submitted to HMRC.
- National Fraud Initiative exercise has been undertaken.
- All benefit, payroll and AVC payments have been made.
- Additional administration levies were issued to employers who had not complied with the Pension Administration Strategy
- A voluntary redundancy exercise has been completed

- An audit by AON was carried out and correction made

- LGPS training - for pension administration team at Equiniti to ensure continued development

- Triannual Valuation – extensive work undertaken for the triannual valuation

- Re-enrolment - auto enrolment re-staging date of 1 July 2016, work undertaken to re-enrol 799 into the LGPS

- Work has completed on the year-end accounts.

- All monthly ledger reconciliations completed.

- All bank account reconciliations completed.

- All contributions have been received.

- Pension Increase was applied to all pensions in payment.

- Certificates of Continued Entitlement (life certificates) - were issued to the total pensioner population of 6,309. This revealed 7 deaths that had not been previously notified to the administrators and 12 people who require power of attorney as they could no longer manage their own affairs.

- FRS17 data was issued to the actuary for 16 employers.

- Data was issued to Club Vita for longevity studies.

- Cessation valuations – 3 were submitted to the Actuary.

- Annual Benefits Statements for year ending March 2016, were issued in batches - September 2016 & December 2016 to:

Actives	6,447
Deferred	7,398

- Overpayment of pension - identified overpayments to a value of £28,876.05. These were as a result of late death notifications. To date £8,675.98 has been recovered.

The total scheme membership, analysed by age, as at 31 March 2017 is shown below:

Age	Active	Undecided Leaver	Deferred	Pensioner
1-5	0	0	0	2
6-10	0	0	0	10
11-15	0	0	0	21
16 - 20	96	0	3	35
21 - 25	460	146	92	26
26 - 30	837	128	380	3
31 - 35	940	85	769	0
36 - 40	998	53	854	4
41 - 45	997	46	927	14
46 - 50	1065	37	1416	46
51 - 55	1191	15	1954	132
56 - 60	822	18	1523	484
61 - 65	346	2	491	1215
66 - 70	62	0	69	1287
71 - 75	9	0	17	1053
76 - 80	0	0	4	878
81 - 85	0	0	0	654
86 - 90	0	0	2	402
91 - 95	0	0	0	157
96 - 100	0	0	0	18
100+	0	0	0	0
Total	**7,823**	**530**	**8,501**	**6,441**

Pension Administration Strategy (PAS)

The Local Government Pension Scheme (Administration) Regulations 2008 gave Administering Authorities the discretion to issue a Pension Administration Strategy document. The provisions in respect of the Pension Administration Strategy were carried forward into the 2013 Regulations.

The Pension Administration Strategy (PAS) is reviewed and updated on an annual basis, or as and when regulations change. The updated PAS 2016/17 was applied during the last financial year.

In addition, a number of training sessions have been run for employers and individual schools on how to complete paperwork and the background to the LGPS regulations to enhance overall understanding and administration flows.

Through a rolling programme of training, site visits and seminars, the Liaison Officer-Pensions, has continued to enhance the relationship between employers, payrolls and the administrators which has helped to promote a better understanding amongst employers of what their responsibilities are towards the Fund and their own employees. Particular attention has been paid to ensuring that schools are aware of their responsibilities towards employees during the year.

Dedicated one-to-one sessions for scheme members continue to be popular and help to clarify any issues concerning their personal situation in regard to their pension benefits. The in-house Pensions team have worked hard to explain the provisions of Scheme to both employers and scheme members. The Team have presented at weekly induction sessions for new starters and these have been rated highly by attendees, with 94% leaving the sessions having a better understanding of the scheme and its benefits.

Ill-Health Retirements

During the last financial year, there were a number of ill-health retirements agreed by employers for both active members and deferred members as set out in the table below:

Ill Health Retirements April 2016 to March 2017			
Deferred to Ill Health	Active to Tier 1	Active to Tier 2	Active to Tier 3
6	3	0	0

Of the Tier 3 ill-health pensions in payment, only 2 case reviewed at 18mths were uplifted to a Tier 2.

Monitoring of Employers

Employee and Employer contributions must be received by the 19th of the month following deduction from payroll. These are then reconciled against pensionable remuneration and contribution rates that apply to individual employers.

During 2016/17, the Fund sought to recoup additional administration costs from several employers and schools not complying with the Pensions Administration Strategy. Where there are instances of non-compliance, additional administration costs are recouped directly from those employers and schools concerned in regard to data irregularities, late payment of contributions or late submissions of data during the year. Contribution collections are subject to rigorous monitoring and the pursuit of correct payments and supporting documentation remains of paramount importance to the administrators.

The table below details the number of employers on a monthly basis who have not provided either their contributions or supporting paperwork by the 19th of the month following deduction from payroll. Some, not all of the employers, would have been subject to additional administrations charges throughout the year:-

Month	Description
April 2016	All Employers submitted HK221 supporting data and contribution payments on time
May 2016	8 Employers were late submit HK221 supporting data and 2 of those were also late in submitting contribution payments on time
June 2016	2 Employers were late in submitting HK221 supporting data and a further 3 were also late in submitting contribution payments on time
July 2016	2 Employers were late in submitting contribution payments on time
August 2016	2 Employers were late in submitting HK221 supporting data, 5 were late in submitting contribution payments on time
September 2016	2 Employers were late in submitting HK221 supporting data, 3 were late in submitting contribution payments on time
October 2016	8 Employers were late in submitting HK221 supporting data, 5 of which were also late in submitting contribution payments on time
November 2016	9 Employers were late in submitting HK221 supporting data, 5 of which were also late in submitting contribution payments on time
December 2016	2 Employers were late in submitting HK221 supporting data, 4 were also late in submitting contribution payments on time
January 2017	2 Employers were late in submitting HK221 supporting data, and a further 2 were late in submitting contribution payments on time
February 2017	5 Employers were late in submitting HK221 supporting data, and a further 4 were late in submitting contribution payments on time
March 2017	4 Employers were late in submitting contribution payments on time

A continuous programme of improving the relationships between employers, payroll providers and Equiniti, the scheme administrators, has assisted in ensuring employers' are aware of the importance of correct reporting and the timely submission of data.

Changes introduced by the Public Service Pensions Act 2013, have meant that from the 1 April 2015, the Pensions Regulator assumed responsibility for setting standards of governance and administration in public service pension schemes, together with increased regulatory oversight.

As part of the Pension Regulator' s new governance and administration framework, a new Public Service Code of Practice was introduced to provide practical guidance and standards of conduct and practice, to help maintain and improve the governance and administration of pension schemes. The Code is directed at Scheme Managers (Funds) and the local Pension Boards. The role of each local Pension Board is to help ensure their scheme complies with governance and administration requirements as defined by the Code.

Therefore going forward, the Pensions Regulator will be assessing standards of schemes on an annual basis and have closer scrutiny of the accuracy of the data held by pension schemes. The emphasis for the Fund will therefore remain on building relationships with employers and ensuring that the data supplied in respect of employees is accurate.

As detailed above, the March 2016 annual benefit statements could not be issued to all member's within the regulatory timescales due to poor quality and the non-receipt of data from employers in the Fund. This resulted in the Council having to report itself to the tPR for non-compliance on 2 occasions:

- August 2016 - failing to issue all active and deferred benefit statements by 31 August. However, all statements for deferred members were issued by the deadline, along with approximately 4,000 statements for active members. The remaining 3,200 statements would be issued by 31 October.
  - ➢ tPR did not impose a fine providing statements issued by agreed extended deadline.

- October 2016 - failing to issue all active and deferred benefit statements by 31 October, after extended deadline had been agreed with the Regulator. Committed to issuing the outstanding statements by 31 December 2016.
  - ➢ tPR did not impose a fine providing statements issued by agreed deadline.

As reported, the remaining annual benefit statements for year end March 2016 were issued on 22 December 2016.

Budget Review

The Pensions Committee agrees the budget for the Pension Fund on an annual basis and monitors progress quarterly, taking into consideration anticipated income and expenditure for the forthcoming year along with a comparison to the forecast set in the previous year. The budget includes a forecast of the expected level of employee and employer contributions and estimated transfer values, although the latter is difficult with the forecast being dependent to a large extent on staff turnover and individual decisions on whether to transfer benefits into the Hackney Pension Fund. Member expenditure forecasts are based on anticipated pension increases and will also include an estimate for transfers out of the Fund.

The contribution figures presented in this budget update for the current financial year reflect higher levels of member income than budgeted. Employer and employee contributions are both significantly over budget, at £62.8m and £12.2m respectively, whilst the difference is reduced by lower than expected levels of transfers in. A major driver behind the variance is that active membership numbers have continued to rise, whilst the budget predicted a 5% year on year reduction. Additionally, the cessation of Hackney Homes as an employer and TUPE of its staff to the Council has resulted in the higher Council rate being paid for these members. Staff received a 1.0% pay rise from 1st April 2016, just below the budgeted figure of 1.1%. With the exception of the Hackney Homes cessation and TUPE, contribution rates paid are largely unchanged since 2014/15 and have therefore had only a small impact on member income relative to last year.

At £41.6m, the forecast for pensions paid is slightly above the budgeted level of £40.2m. No Pensions Increase was payable for 2016/17, so increasing pensioner numbers have been the main driver of increases to pensions in payment.

Lump sum commutations and death grants are above the budgeted amount, at £13.3m compared to £11.0m; however, these are outside of the Fund’s control and cannot be accurately forecasted. At £6.6m, transfers out are forecasted to be somewhat higher than the £4.7m budgeted. The budget was doubled for 2015/16 as a result of the Government’s Freedom and Choice agenda; however, the expected increase in transfers out did not materialise. Given the low level of enquiries received during 2016/17, the increase does not appear to have resulted from Freedom and Choice.

Forecast Administration costs are slightly below budget for 2016/17, at £764k compared to a budget of £789k. , Expenditure on Oversight and Governance is under budget at £366k compared to a budget of £425k. This reflects reduced consultancy costs relative to 2015/16, largely as a result of significant one-off costs, such as the audit of Equiniti’s implementation of LGPS2014, charged during 2015/16.

Forecast Investment expenses are notably higher than budgeted at £3.7m compared a budgeted value of £2.5m. The bulk of this increase has resulted from an adjustment to the budget to ensure that fee estimates are included within the budget for managers who do not invoice directly. Whilst these are recorded in the accounts they have not previously been incorporated into budgeted figures. Investment income is lower than forecast at £13.1m compared to £14.3m; however, investment income for the final quarter is challenging to forecast.

The Table below sets out the budget, set at the start of the financial year 2016/17, and the Outturn for the year and includes a brief analysis of the reasons for the differences between the budget and the outturn.

2016/17 Budget and Outturn	2016/17 Budget £'000	2016/17 Outturn £'000	2016/17 Variance %	Comments
Member Income				
Employers' Contribution	56,590	67,162	18.7	Significantly higher than forecast; predicted reduction in active membership did not materialise, and deficit contributions higher than forecast. Addressed through forecasting in March 2017 report.
Employees' Contribution	11,767	12,155	4.1	Higher than forecast; predicted reduction in active membership did not materialise
Transfers In	4,871	4,719	(3.1)	Within tolerance - dependent on member decisions
Member Income Total	**73,228**	**84,036**	**14.8**	
Member Expenditure				
Pensions	(40,239)	(41,807)	3.9	Within tolerance
Lump Sum Commutations and Death Grants	(11,057)	(13,547)	22.5	Difficult to forecast, as dependent on individual circumstances
Refund of Contributions	(176)	(201)	14.2	Dependent on member decisions – refunds have increased steadily since the introduction of the 2 year vesting period
Transfers Out	(4,717)	(5,632)	19.4	Difficult to forecast, as dependent on member decisions. A group transfer to SFIS (£498k) had a significant impact
Member Expenditure Total	**(56,189)**	**(61,187)**	**8.9**	
Net Member Surplus	**17,039**	**22,849**	**34.1**	
Management Expenses				
Administration, Investment Management and Governance & Oversight	(3,807)	(5,869)	54.2	Higher than forecast, largely due to increased investment management costs. This has been driven largely by a significant increase in assets under management. Future forecasts will also take into account non-invoiced fees (e.g. perf fees and transaction costs), as these are included in the accounts
Net Administration Expenditure	**(3,807)**	**(5,869)**	**54.2**	
Surplus from Operations	**13,232**	**16,980**	**28.3**	
Investment Income/Expenditure				
Investment Income	14,338	14,423	0.6	Within tolerance
Net Investment Income/Expenditure	**14,338**	**14,423**	**0.6**	
Cash Flow before Investment Performance	**27,570**	**31,403**	**13.9**	

The Pensions Committee has reviewed the budget for 2017/18, which forecasts a cash flow surplus for the year of £6.9 million before investment income, leaving the Fund cash flow positive, albeit not as strongly as previously. Taking investment income into account, the surplus is expected to be around £20.0m million. The budget was based on forecast amounts for 2016/17, and will be adjusted as required to take account of significant changes in the 2016/17 outturn or the assumptions underlying the forecasts. The outturn for 2016/17 compared to the budget for 2017/18 and 2018/19 is shown in the table below:

Description	2016/17 Outturn £'000	2017/18 Budget £'000	2018/19 Budget £'000	Comments
Member Income				
Employers' Contribution	67,162	59,387	57,849	Future forecasts based on 2016/17 forecast with an assumption that employer contributions will reduce in line with the Council's proposed reduced rates. Active membership numbers are assumed to reduce by 1% pa, with an assumed 1% pa pay rise. Budget to be revised and realigned with 2016/17 outturn.
Employees' Contribution	12,155	12,293	12,416	See Above
Transfers In	4,719	3,560	3,560	16-17 forecast figure used to forecast - the level of transfers in is outside the Fund's control
Member Income Total	**84,036**	**75,239**	**73,824**	
Member Expenditure				
Pensions	(41,807)	(42,904)	(44,637)	Future forecasts based on 2016/17 forecast. A Pensions Increase rate of 1% has been applied for 2017/18, with 2% applied for each of the following years. A year on year increase in the number of pensioners of 2% has been applied across the 3 year period
Lump Sum Commutations and Death Grants	(13,547)	(13,736)	(14,291)	Uses assumptions as above, but challenging to forecast as this is outside the Fund's control.
Refund of Contributions	(201)	(6,633)	(6,633)	Adjusted for CPI as per above with a 1% uplift for 2017/18, followed by 2% pa thereafter
Transfers Out	(5,632)	(178)	(182)	2016/17 forecast used for following 3 years. Transfers out are challenging to estimate as they are outside the Fund's control.
Member Expenditure Total	**(61,187)**	**(63,451)**	**(65,743)**	
Net Member Surplus	**22,849**	**11,788**	**8,081**	
Management Expenses				
Administration, Investment Management and Governance & Oversight	(5,869)	(4,922)	(5,008)	Forecast based on 2016/17 forecast, with a 1% uplift for 2017/18, followed by 2% pa thereafter. Budget to be revised and realigned with the final outturn.
Net Administration Expenditure	**(5,869)**	**(4,922)**	**(5,008)**	
Surplus from Operations	**16,980**	**6,866**	**3,073**	
Investment Income/Expenditure				
Investment Income	14,423	13,105	13,105	Investment income expected to remain constant across the period. Budget to be revised in line with 2017 outturn
Net Investment Income/Expenditure	**14,423**	**13,105**	**13,105**	
Cash Flow before Investment Performance	**31,403**	**19,971**	**16,178**	

Risk Management Review

Risk Register

Risk management forms a key part of Pension Fund Governance and is part of the ongoing decision making process for the Committee. The benefits of successful risk management are clear for the Fund; improved financial performance, better delivery of services, and improved Fund governance and compliance.

There are four general approaches to treating risk: avoid, reduce, transfer or accept.

- Avoidance of risk – not undertaking the activity that is likely to trigger the risk.
- Reducing the risk – controlling the likelihood of the risk occurring, or controlling the impact of the consequences if the risk does occur.
- Transferring the risk – handing the risk on elsewhere, either totally or in part – e.g. through insurance.
- Accepting the risk – acknowledging that the ability to take effective action against some risks may be limited or that the cost of taking action may be disproportionate to the potential benefits gained.

The types of risk that the Fund is exposed to fall into the following broad categories:

- Financial – these relate to investment related risks including market, currency, credit and interest rate risks, these are outlined in detail in the Statement of Accounts.
- Strategic – failure to meet strategic objectives such as performance targets, Funding Strategy Statement objectives, etc.
- Regulatory – regulatory changes impacting on the Fund, or failure to comply with legislation or meet statutory deadlines.
- Reputational – poor service damaging the reputation of the Fund.
- Operational – data maintenance, service delivery targets.
- Contractual – 3rd party providers, failure to deliver, effective management of contracts.
- Communication – failure to keep all stakeholders notified of things that affect them, be they employers, scheme members or contractors.

The Risk Register for the Pension Fund sets out the nature of the individual risks for the Fund with an assessment of level of risk. Risks fall into the following categories:

- High risk (red) – need for early action intervention where possible.
- Medium risk (amber) – action is required in the near future.
- Low risk (green) – willing to accept this level of risk or requires action to improve over the longer term.

The Pensions Committee reviews the Pension Fund Risk Register and the controls that it has in place to determine if there is any need to re-categorise existing risks or to add new, previously unidentified risks, with the most recent formal review having taken place at the Committee meeting held in January 2017.

The key risks identified following the latest review are:

- increasing longevity;
- asset/liability mismatch;
- poor investment performance;
- poor membership data;
- regulatory changes and compliance
- failure to manage costs;
- funding risks;
- investment pooling

The Committee recognises that whilst the above high risks relate primarily to external risk, measures are in place to monitor and manage these risks. These include:

- Monitoring longevity and ongoing discussions with the Fund actuary on how best to manage the impact on the Fund from people living longer. Changes brought in with the 2014 CARE Scheme also mean that retirement ages will increase in line with the state pension age going forward.
- Monitoring regulatory changes and compliance with the release of Government guidance closely, in particular that relating to investment pooling
- Quarterly monitoring of investment performance, funding and budget monitoring and regular reviews of asset allocation to ensure that it remains appropriate for the Fund taking into account the appropriate investment advice from the Pension Fund's investment consultant.
- Contract monitoring and performance reviews.
- Working closely with employers to ensure that membership data is accurately and timely updated as required, this is particularly important with the introduction of the Career Average Scheme where the annual salary needs to be accurately recorded to ensure that any inflation linking is calculated correctly.
- The Fund has worked and continues to work closely in collaboration with other London funds on the development of the London Collective Investment Vehicle. It also continues to work with other LGPS funds to develop national procurement frameworks for the LGPS. All this is designed to help deliver major efficiency savings for the Fund over time.
- It is difficult to assess the impact of wider pension reforms, but the Fund continues to monitor its cash flow and where appropriate works closely with the Fund actuary to understand the impact of such wider reforms on the Fund.
- The Fund will in future years be required to deliver an earlier set of accounts and is currently looking at ways to enhance monthly reporting to ensure it is able to meet this challenge.

Within the Statement of Accounts, there is a detailed analysis of the extent of risks arising from financial instruments, quantifying the impact of a range of investment risks, including market risk, interest rate risk, currency risk, credit risk and liquidity risk. This provides readers of the accounts with an overview of the impact of market movements in terms of both increases and decreases under the scenarios where standard deviations apply.

It is recognised that whilst the Fund's Risk Register is reviewed annually, it is day-to-day risk management that remains key to understanding and controlling risks for the Pension Fund.

Investment Review

Market Review

2016/17 was an eventful year in financial markets. Central banks played a key role, with monetary policy remaining a significant influence on asset prices. Volatility was also a significant factor, with large swings in asset prices increasingly underpinned by non-market forces, such as political uncertainty.

Q1 saw markets surprised by the UK's vote for Brexit. Markets had stabilised following several weeks of uncertainty, with common consensus being that Remain would win, preserving the status quo. Following several weeks of uncertainty, markets appeared to have stabilised, resulting in a dramatic reaction given the market consensus that Remain would win. UK and European markets initially slumped, with yields falling to historic lows for US Treasuries, German Bunds and UK Gilts. Sterling fell to a 31-year low against the Dollar, with the Euro also down relative to the Dollar and Yen. This was exacerbated by the strengthening of the dollar, as markets priced in expectations for the Federal Reserve to raise US interest rates.

Q2 began with a loosening of monetary policy in the UK, as the Bank of England cut rates to 0.25% and expanded its asset purchase scheme by £60bn, to a total of £435bn. The scale of the stimulus package surprised markets, boosting equities and driving down yields still further. Europe was also boosted by the possibility of further monetary policy action by the ECB, given ongoing low inflation. Economic data from the US was mixed, with the start of the US presidential debates unsettling markets.

The strong performance of equity markets seen in Q2 continued into Q3, with economic data suggesting accelerating inflation and economic growth. US markets were initially kept somewhat in check by uncertainty over the election outcome, but Trump's victory, and anticipation of his economic programme, provided a further boost. It also triggered a sharp shift in interest rate expectations, triggering a sell-off in global bond markets which spilled over to bond proxy sections of equity markets. The predicted rate rise happened as expected, with the Federal Reserve raising rates by 0.25%.

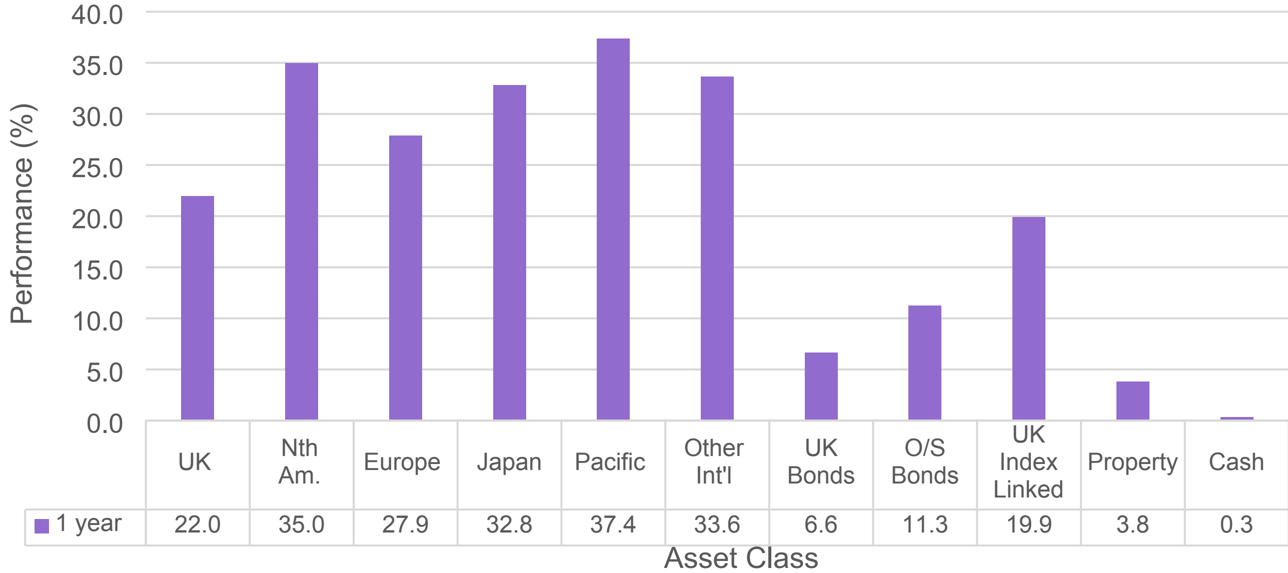
In Europe, bond yields initially rose in line with the improved inflation outlook; however, towards the end of the quarter, the ECB broadened its bond buying programme resulting in another drop. Equities benefitted with the expansion of the QE programme, whilst the Euro fell against the dollar. In the UK, the continued devaluation of Sterling benefitted UK equities, with their heavy dependence on dollar revenues.

Q4 saw a strong start to the year for global equity markets; however, growing doubts about Trump's ability to push through his proposed economic programme resulted in outflows from US equity markets to the benefit of Europe. Whilst the Federal Reserve delivered on a widely anticipated increase in interest rates in March, its accompanying statement was less hawkish than expected. In the UK, the Bank of England maintained interest rates at 0.25, but noted the impact that the weak pound had had on inflation.

Market Performance

The following table shows the returns on various markets over the last financial year:

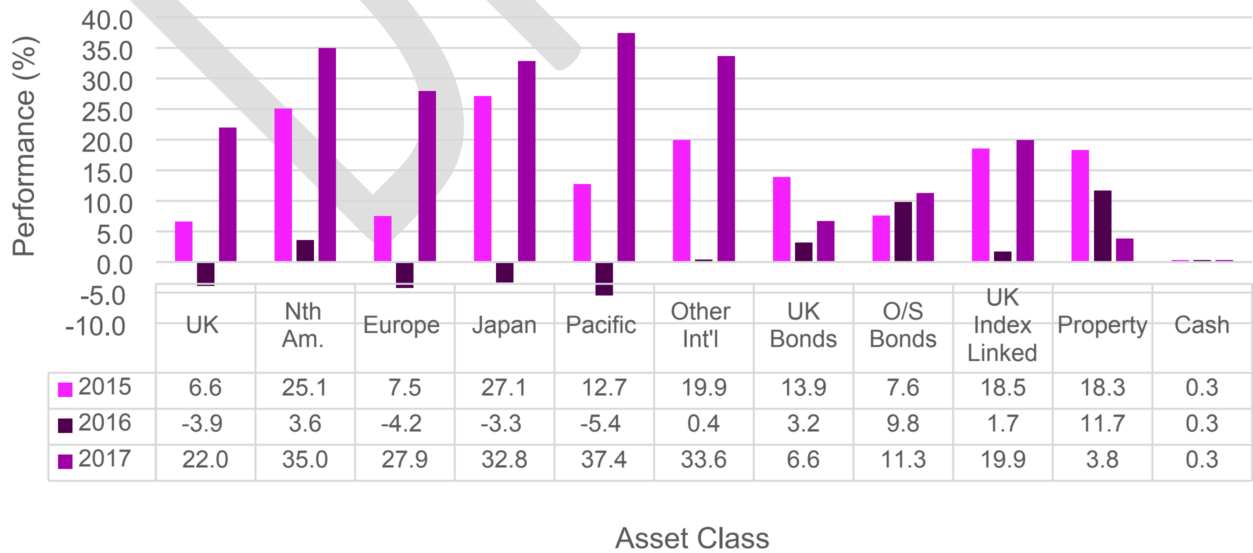
Investment Markets 2016/17



	UK	Nth Am.	Europe	Japan	Pacific	Other Int'l	UK Bonds	O/S Bonds	UK Index Linked	Property	Cash
1 year	22.0	35.0	27.9	32.8	37.4	33.6	6.6	11.3	19.9	3.8	0.3

The chart below shows the market performance over the last 3 years, highlighting strong returns across equity markets over the year, in marked contrast to 2015/16. Bonds delivered modest returns, with the performance of UK linkers picking up as inflation rose following Sterling's drop in value. Property struggled, particularly in the wake of the Brexit vote, whilst the low returns on cash reflect the ongoing low interest rate environment.

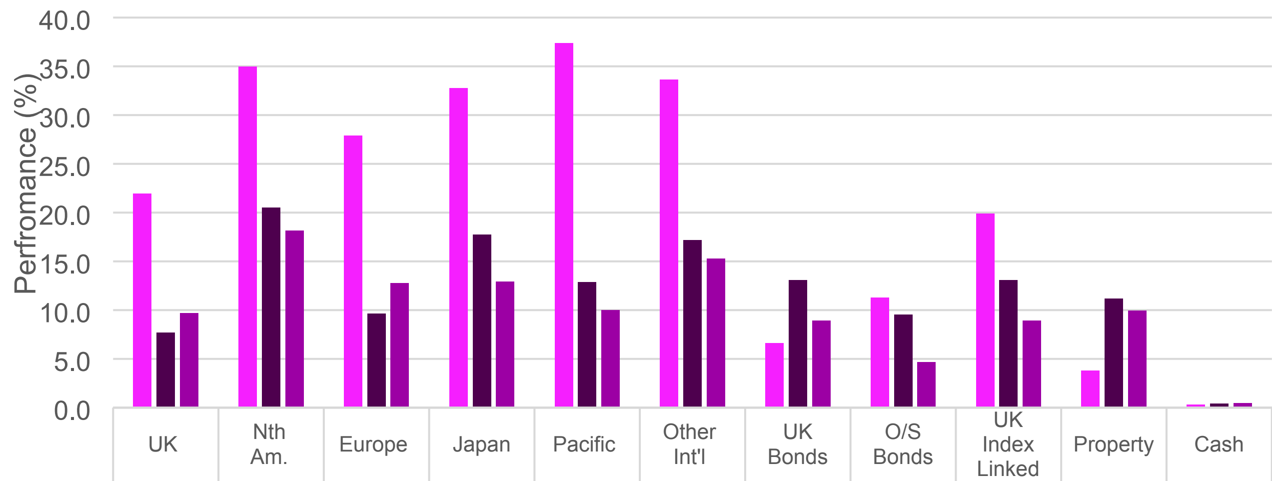
Market Performance over Three Years



	UK	Nth Am.	Europe	Japan	Pacific	Other Int'l	UK Bonds	O/S Bonds	UK Index Linked	Property	Cash
2015	6.6	25.1	7.5	27.1	12.7	19.9	13.9	7.6	18.5	18.3	0.3
2016	-3.9	3.6	-4.2	-3.3	-5.4	0.4	3.2	9.8	1.7	11.7	0.3
2017	22.0	35.0	27.9	32.8	37.4	33.6	6.6	11.3	19.9	3.8	0.3

Looking at the annualised market returns overs 1, 3 and 5 years highlights the tentative nature of the economic recovery over the medium term, boosted by extremely strong returns for equities over the past year. UK bonds struggled relative to previous years, as did property, whilst annualised returns on cash fell even further as 'lower for longer' interest rates dipped lower still.

Market Performance Annualised Over Five Years



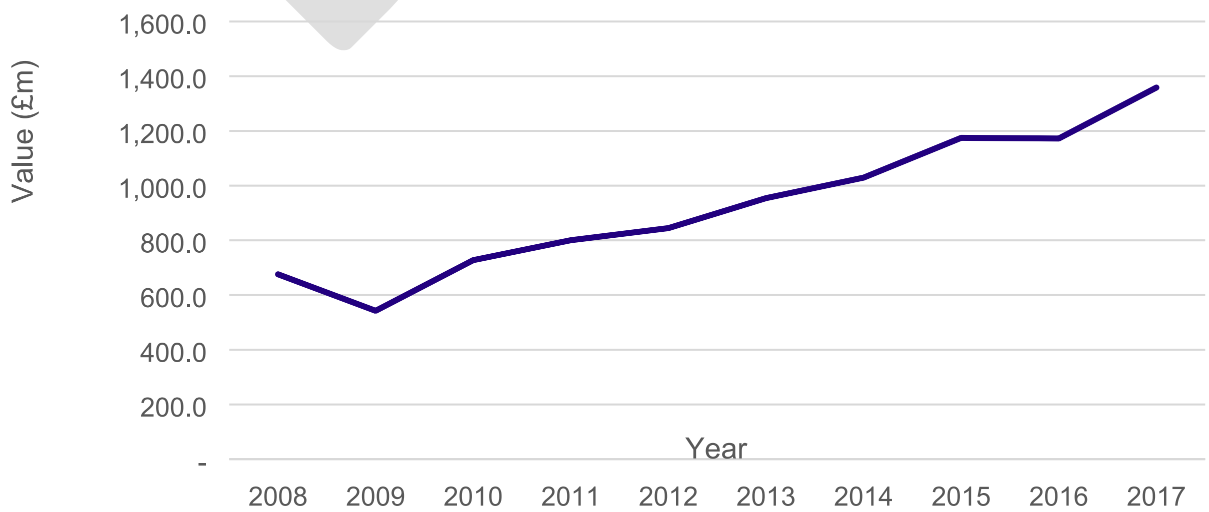
	UK	Nth Am.	Europe	Japan	Pacific	Other Int'l	UK Bonds	O/S Bonds	UK Index Linked	Property	Cash
1 year	22.0	35.0	27.9	32.8	37.4	33.6	6.6	11.3	19.9	3.8	0.3
3 years	7.7	20.5	9.6	17.8	12.9	17.2	13.1	9.6	13.1	11.2	0.4
5 years	9.7	18.2	12.8	13.0	10.0	15.3	8.9	4.7	8.9	10.0	0.5

Fund Value

Following a positive, if at times turbulent, year in investment markets, the value of the Fund has increased significantly. At the end of March 2017, the value of the Pension Fund's assets totalled £1,391.0 million compared to £1,172.3 million as at 31 March 2016, representing an increase over the year of 18.66%

The graph below shows the progress of the Fund's assets over the last ten years as at the 31st March in each year.

Fund Value over 10 Years as at 31st March 2017



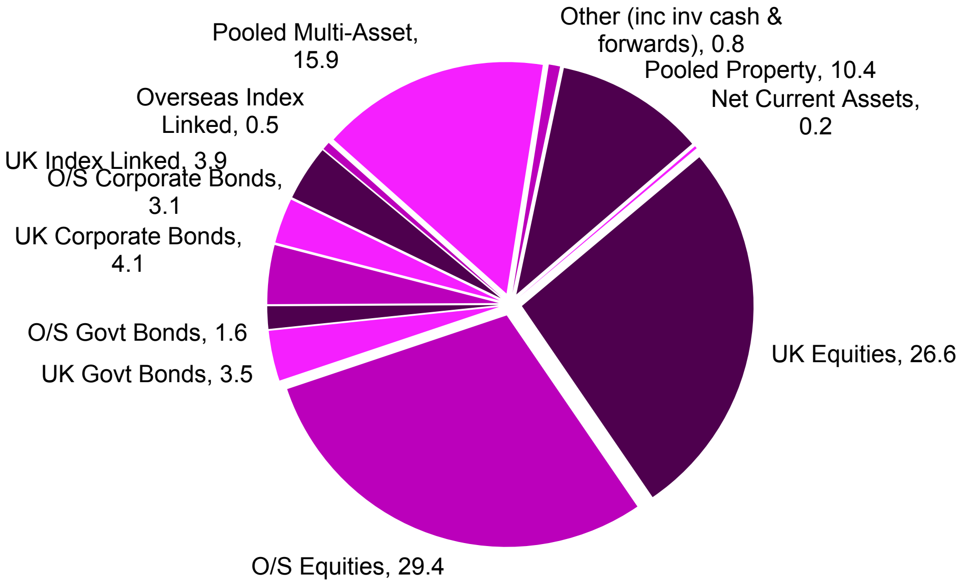
Investment Management

The management of the Fund's assets is determined by the Local Government Pension Scheme (Management and Investment of Funds) Regulations 2016. The Regulations require pension fund administering authorities to formulate an Investment Strategy Statement, in accordance with guidance issued by the Secretary of State.

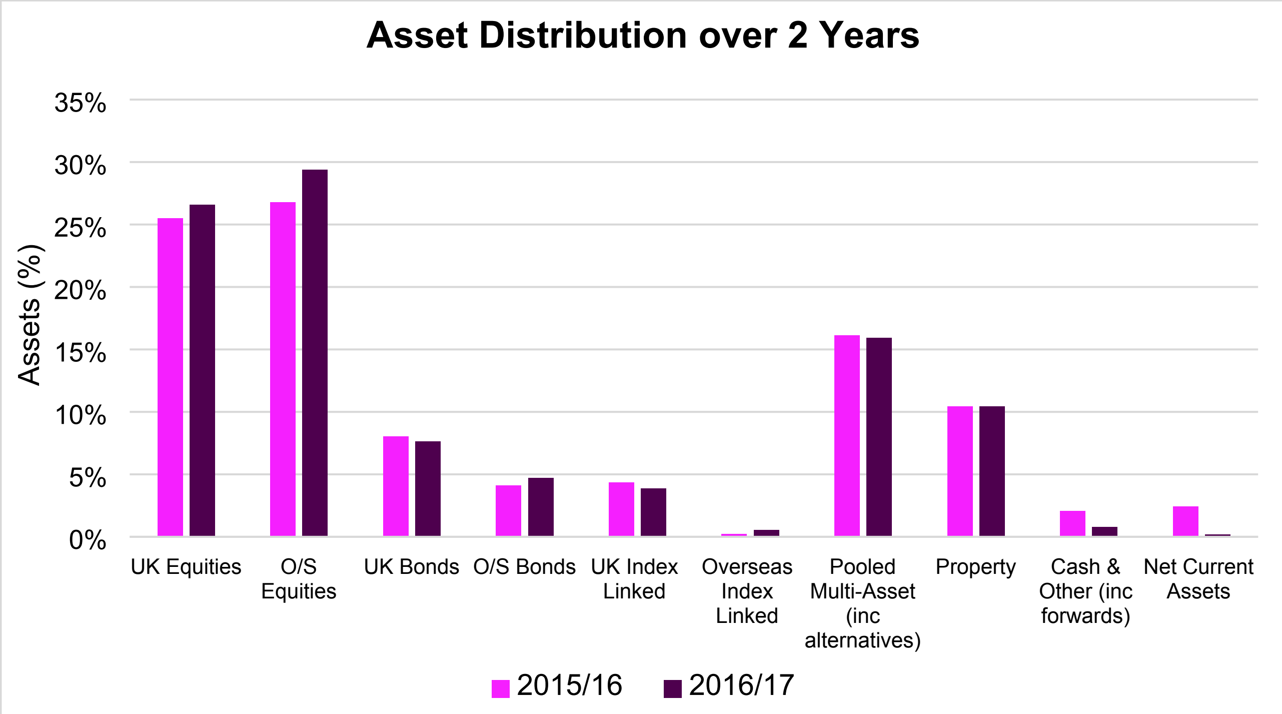
The Statement must include:
(a) a requirement to invest fund money in a wide variety of investments;
(b) the authority's assessment of the suitability of particular investments and types of investments;
(c) the authority's approach to risk, including the ways in which risks are to be assessed and managed;
(d) the authority's approach to pooling investments, including the use of collective investment vehicles and shared services;
(e) the authority's policy on how social, environmental and corporate governance considerations are taken into account in the selection, non-selection, retention and realisation of investments; and
(f) the authority's policy on the exercise of the rights (including voting rights) attaching to investments.

The allocation to the various asset classes broken down by percentage as at the end of 2016/17 is as outlined below:

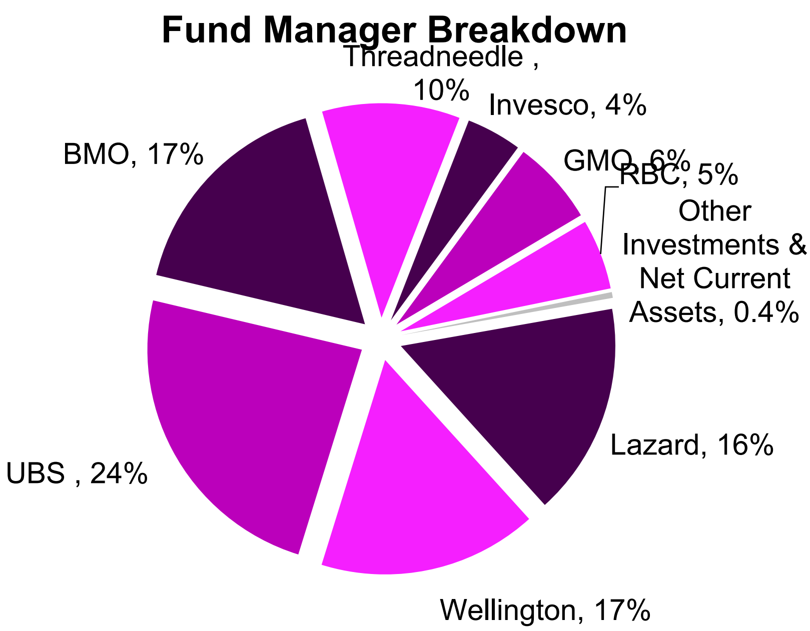
Asset Breakdown per %



The following chart sets out how the distribution across the various asset classes has moved between the end of the previous March 2016 and current March 2017 financial years.



The Fund had eight external managers and the breakdown between managers is set out in the chart below:



The Fund has four equity managers split between: one passive UK fund manager (UBS with 24% of the Fund under management), two active global equity managers (Lazard Asset Management with 16% and Wellington Investment Management with 17% of the Fund as at 31 March 2017) and an active emerging markets equity manager (RBC, with 5% of the Fund) Fixed interest investments were managed by BMO with 17% of the Fund and property via a Unit Trust with Threadneedle amounting to 10% of the Fund. Absolute return strategies were managed by GMO and Invesco with 6% and 4% of the Fund respectively. Other investments (including futures) and net current assets represent the remaining 0.4% of the Fund's assets.

The list of Fund Managers and the proportions of assets under management are shown below with comparisons against the prior year:

Fund Manager	Value £'000 2015/16	% of total fund 2015/16	Value £'000 2016/17	% of total fund 2016/17
Lazard (Global Equities)	177,433	15.51%	218,273	16.07%
Wellington (Global Equities)	177,637	15.53%	224,195	16.50%
UBS (UK Equity Index)	267,994	23.43%	324,760	23.90%
BMO (Fixed Interest)	203,201	17.76%	228,767	16.84%
Threadneedle (Property)	122,542	10.71%	141,118	10.39%
Invesco (Multi- Asset)	53,921	4.71%	56,655	4.17%
GMO (Global Real Return)	81,435	7.12%	86,762	6.39%
RBC (Emerging Markets)	53,869	4.71%	72,133	5.31%
Net Current Assets & Other Investments	5,813	0.51%	5,928	0.44%
Total	**1,143,845**	**100.00%**	**1,358,592**	**100.00%**

Top Ten Holdings by Market Value as at 31 March 2017

The top individual holdings by market value are shown in the table below:

Holdings	£'000
ICF ICE Long Gilt Future June 2017	19,009
F And C Instl Long Dated Corp Bd Fd Class 4 Acc	16,631
UK Treasury 4.25% 07/12/2046	11,189
UK Treasury 4.5% 07/09/2034	8,398
UK Treasury Gilt 0.125% IL 22/11/2065	7,940
Microsoft Com NPV	6,920
Cisco Systems Com USD0.001	6,789
Irish Treasury 1% 15/05/2026	5,989
UK Treasury 1.125% IL 22/11/2037	5,877
Allergan Plc USD0.0033	5,867
Total	**94,609**

The above table excludes pooled investments, the top five of which are shown in the table below:

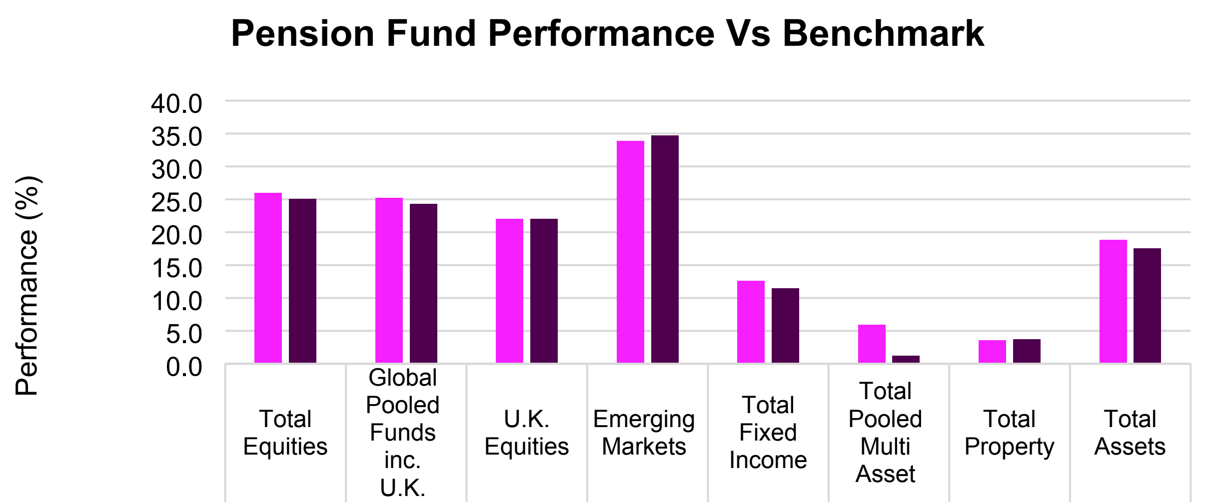
Holdings	£'000
UBS Life UK Equity Tracker A	324,760
TPN Property A	116,745
GMO Funds PLC Global Real Return UCITS Fund A GBP	86,762
Invesco Perp Gbl Targeted Returns Pension Class 7	56,655
RBC (Lux) Emerg Markets Equity Fd Class O GBP Acc	39,887
Total	**624,810**

Performance of Fund

The investment strategy and performance of the Fund is reported on a quarterly basis to the Pensions Committee. Fund managers present to the Committee when requested by the Chair, whilst officers of the Fund meet with individual managers on a more regular basis. The investment performance of the Fund is measured by Hymans Robertson against a customised benchmark.

Over the year to 31st March 2017, the Fund outperformed its customised benchmark by 1.4%. Performance against benchmark was positive for the Fund's equity portfolio, which returned 25.9%, compared to 25.0% for the benchmark. Other contributors to the overall outperformance included the Fund's pooled multi asset holdings, which rebounded strongly following a disappointing 2015/16, and the fixed income portfolio, which benefitted from greater freedom around the use of derivatives. Detractors from performance included the Fund's emerging markets allocation and pooled property holding. Whilst emerging markets were the strongest performer in absolute terms, returning 33.9% over the year, the Fund underperformed its benchmark as a result of its underweight to value stocks. Property underperformed marginally over the year, returning 3.6% compared with 3.7% for the benchmark.

The Fund’s performance against the different asset classes is shown in the table below:



	Total Equities	Global Pooled Funds inc. U.K.	U.K. Equities	Emerging Markets	Total Fixed Income	Total Pooled Multi Asset	Total Property	Total Assets
LBH	25.9	25.2	22.0	33.9	12.6	6.0	3.6	18.9
Benchmark	25.0	24.3	22.0	34.7	11.5	1.2	3.7	17.5

Investment Management Expenses

Investment management expenses for the year to 31 March 2017 were £4.59 million (including £0.97 million in transaction costs and performance fees), which represents an increase of £0.71m on 2015/16. The majority of this increase has been driven by an increase in ad valorem fees as a result of the increase in asset values over the year. Investment management expenses cover the fees charged by the Fund’s individual investment managers and the Fund’s custodian.

Actuarial Review

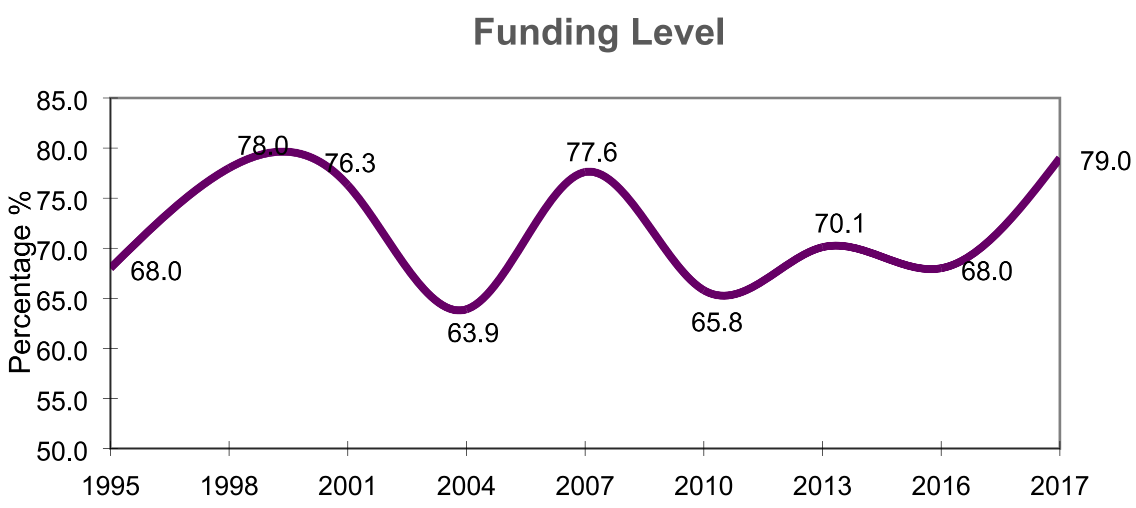
Background

The primary objective of the Pension Fund is to provide for members' pensions and lump sum benefits on their retirement or for their dependants' benefits on death before or after retirement, on a defined benefit basis. The Fund has to ensure that any surplus contributions and investment income are invested to provide returns to help meet future liabilities. An actuarial valuation of the Fund is carried out every three years taking into account the current and future pension liabilities of the Fund, the expected contributions into the Fund, and the expected investment returns on assets held. Other factors taken into account include pay inflation, pension increases and mortality rates.

Actuarial Valuation

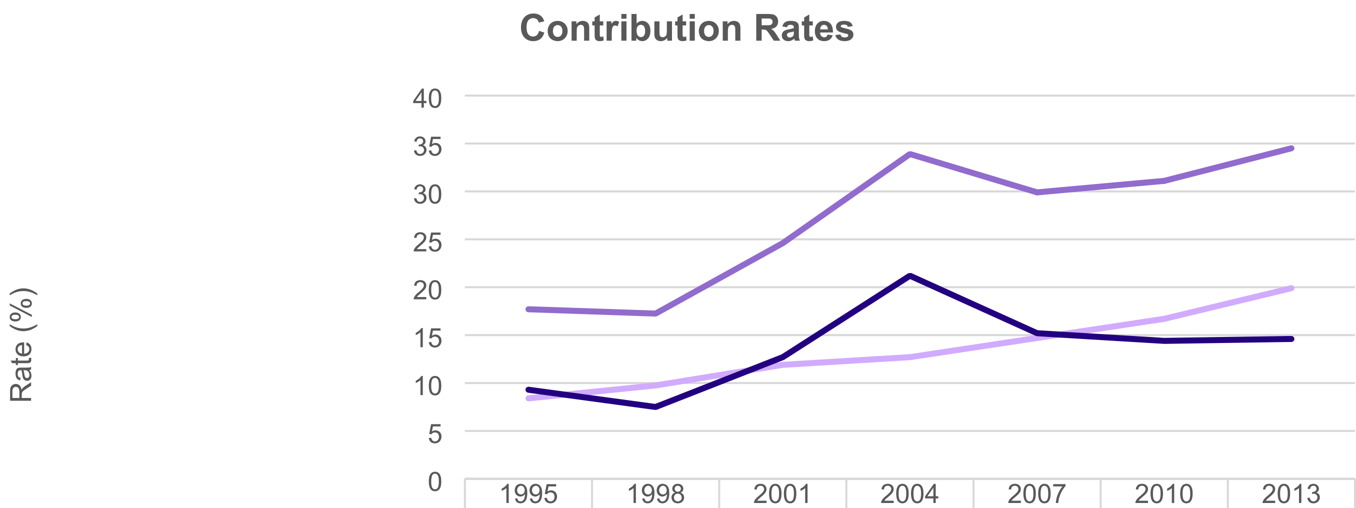
The Fund actuary, Hymans Robertson, undertook a valuation of the Pension Fund as at the 31 March 2016, which showed an improvement in the funding position, from 70.1% to 77.0%, since the last valuation in 2013. The most significant drivers behind this improvement were contributions greater than the cost of accrual and actual membership experience (e.g. with regards to salary and benefit increases) compared to expectations. The monetary deficit value decreased over the period from £406m to £349m.

Over the longer term the Fund is targeting a funding level of 100% and has set out its strategy for achieving this in the Funding Strategy Statement included within this Report and Accounts. The Funding Strategy Statement (pages 113 to 153) was approved by the Pensions Committee in March 2017. The Fund's historic long-term funding picture is shown in the graph below and includes an estimated position as at 31 March 2017:



The triennial valuation also determines contribution rates for the Fund. Whilst the most recent valuation was carried out as at 31 March 2016, the contribution rates applying during 2016/17 were those calculated at the 2013 valuation. New rates calculated at the 2016 valuation are in force from 1 April 2017.

The 2013 valuation, which applied during the year, assessed the Common Contribution Rate for the Fund as being 34.5%. Of that, 19.9% represented the future service cost for meeting the pensions of current employees and 14.6% of the cost of meeting the historic service deficit. These figures are for the Fund as a whole and individual employer rates can vary significantly from the overall Fund level. Individual contribution rates payable by employers are set out in the Rates and Adjustment Certificate. A chart showing how the Common Contribution Rate, future service rate and historic service cost has changed over the last seven valuations is shown in the graph below. It should be noted that a different regulatory regime came into force for the 2016 valuation. ‘Primary’ and ‘Secondary’ rates replaced those shown above, and are not directly comparable.



	1995	1998	2001	2004	2007	2010	2013
Common Contribution Rate	17.7	17.25	24.6	33.9	29.9	31.1	34.5
Future Service Rate	8.4	9.75	11.9	12.7	14.7	16.7	19.9
Deficit Funding Rate	9.3	7.5	12.7	21.2	15.2	14.4	14.6

The employer contribution rate for the Council, the largest employer in the Fund was 36.9% for the year ending 31 March 2017.

The next actuarial valuation will be based as at 31 March 2019

A summary of the assumptions used in the actuarial valuation is included in the actuary’s report in the following pages and a full copy of the valuation can be found on the Pension Fund website; http://hackney.xpmemberservices.com/Home.aspx. Alternatively a copy can be obtained from the Financial Services Section, 4th Floor, Hackney Service Centre, 1 Hillman Street, London, E8 1DY

Report of the Fund Actuary

London Borough of Hackney Pension Fund ("the Fund")

Introduction

CIPFA's Code of Practice on Local Authority Accounting 2016/17 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. I have been instructed by the Administering Authority to provide the necessary information for the London Borough of Hackney Pension Fund ("the Fund").
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 the 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 Fund's funding assumptions.

Present Value of Promised Retirement Benefits

Year ended	31 Mar 2017 £m	31 Mar 2016 £m
Active members	795	682
Deferred members	622	458
Pensioners	745	549
Present value of Promised Retirement Benefits	2,162	1,689

The promised retirement benefits at 31 March 2017 (2016) have been projected using a roll forward approximation from the latest formal funding valuation as at 31 March 2016 (2013). The approximation involved in the roll forward model means that the split of benefits between the three classes of member may not be reliable. However, I am satisfied that the total figure is a reasonable estimate of the actuarial present value of benefit promises.

The above figures include both vested and non-vested benefits, although the latter is assumed to have a negligible value. Further, I have not made any allowance for unfunded benefits.

It should be noted the above figures are appropriate for the Administering Authority only for preparation of the pension fund accounts. 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 and are different as at 31 March 2017 and 31 March 2016. I estimate that the impact of the change in financial assumptions to 31 March 2017 is to increase the actuarial present value by £377m. I estimate that the impact of the change in demographic and longevity assumptions is to decrease the actuarial present value by £29m.

Financial assumptions

Year ended	31 Mar 2017 % p.a.	31 Mar 2016 % p.a.
Inflation/Pensions Increase Rate	2.4%	2.2%
Salary Increase Rate	3.6%	4.2%
Discount Rate	2.6%	3.5%

Longevity assumption

Life expectancy is based on the Fund's VitaCurves with improvements in line with the CMI 2013 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	22.2 years	24.2 years
Future Pensioners (assumed to be aged 45 at the latest formal valuation)	23.6 years	25.7 years

Please note that the longevity assumptions have changed since 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.

Sensitivity Analysis

CIPFA guidance requires the disclosure of the sensitivity of the results to the methods and assumptions used. The sensitivities regarding the principal assumptions used to measure the liabilities are set out below:

Change in assumptions for the year ended 31st March 2017	Approximate % increase to liabilities	Approximate monetary amount (£m)
0.5% p.a. increase in the Pension Increase Rate	8%	182
0.5% p.a. increase in the Salary Increase Rate	3%	58
0.5% p.a. decrease in the Real Discount Rate	11%	245

The principal demographic assumption is the longevity assumption. For sensitivity purposes, I estimate that a 1 year increase in life expectancy would approximately increase the liabilities by around 3-5%.

Professional notes

This paper accompanies my covering report titled 'Actuarial Valuation as at 31 March 2017 for accounting purposes'. 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:-

Geoff Nathan FFA
25th April 2017
For and on behalf of Hymans Robertson LLP

Audit Opinion

Independent auditor's report to the members of the London Borough of Hackney on the pension fund financial statements published with the Pension Fund Annual Report and Accounts

We have examined the pension fund financial statements for the year ended 31 March 2016 on pages 63 to 100.

Respective responsibilities of the Chief Financial Officer (Group Director of Finance & Corporate Resources) and auditor

As explained more fully in the Statement of the Chief Financial Officer's Responsibilities, the Chief Financial Officer is responsible for the preparation of the pension fund financial statements in accordance with applicable law and the Code of Practice on Local Authority Accounting in the United Kingdom 2016/17.

Our responsibility is to report to you our opinion on the consistency of the pension fund financial statements included in the Pension Fund Annual Report and Accounts with the pension fund financial statements included in the annual published statement of accounts of the London Borough of Hackney, and their compliance with applicable law and the Code of Practice on Local Authority Accounting in the United Kingdom 2016/17.

In addition, we read the information given in the Pension Fund Annual Report and Accounts to identify material inconsistencies with the pension fund financial statements. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

Our report on the administering authority's annual published statement of accounts describes the basis of our opinion on those financial statements.

Opinion

In our opinion, the pension fund financial statements are consistent with the pension fund financial statements included in the annual published statement of accounts of the London Borough of Hackney for the year ended 31 March 2016 and comply with applicable law and the Code of Practice on Local Authority Accounting in the United Kingdom 2016/17.

Matters on which we are required to report by exception

The Code of Audit Practice requires us to report to you if:

- the information given in the Pension Fund Annual Report and Accounts for the financial year for which the financial statements are prepared is not consistent with the financial statements; or
- any matters relating to the pension fund have been reported in the public interest under section 24 of the Local Audit and Accountability Act 2014 in the course of, or at the conclusion of, the audit.

We have nothing to report in respect of these matters.

Andrew Sayers
for and on behalf of KPMG LLP, Statutory Auditor

Chartered Accountants
15 Canada Square, London, E14 5GL
30 September 2016

Statement of Responsibilities

The London Borough of Hackney as Administering Authority of the London Borough of Hackney Pension Fund is required to:

- Make arrangements for the proper administration of its financial affairs and to secure that one of its Officers has the responsibility for the administration of those affairs. In this Council, that Officer is the Group Director, Finance and Corporate Resources.
- Manage its affairs to secure economic, efficient and effective use of resources and safeguard its assets.
- Approve the Statement of Accounts.

Responsibilities of the Group Director, Finance & Corporate Resources

The Group Director, Finance and Corporate Resources is responsible for the preparation of the Pension Fund Statement of Accounts in accordance with proper practices as set out in CIPFA's Code of Practice on Local Authority Accounting in the United Kingdom ("the Code of Practice").

In preparing this Statement of Accounts, the Group Director, Finance and Corporate Resources has:

- selected suitable accounting policies and then applied them consistently;
- made judgements and estimates that were reasonable and prudent; and
- complied with the Code of Practice, except where otherwise stated.

The Group Director, Finance and Corporate Resources has:

- kept proper accounting records which were up to date; and
- taken reasonable steps for the prevention and detection of fraud and other irregularities.

Responsible Financial Officer's Certificate:

I certify that the Accounts set out on pages 63 - 98 have been prepared in accordance with proper practices and present fairly the transactions of the London Borough of Hackney Pension Fund during the year ended 31 March 2017 and financial position of the Fund at that date of its assets and liabilities, other than liabilities to pay pensions and benefits accruing after the year end.

Ian Williams, CPFA
Group Director, Finance and Corporate Resources

Statement of Accounts 2016/17

The Pension Fund Account

2015/16 £'000		Notes	2016/17 £'000
	Dealings with members, employers and others directly involved in the Scheme		
(74,421)	Contributions	7	(79,317)
(5,917)	Transfers in from other pension funds	8	(4,719)
(80,338)			(84,036)
52,494	Benefits	9	55,354
5,164	Payments to and on account of leavers	10	5,335
0	Group Transfers out to other Pension Schemes	10	498
57,658			61,187
(22,680)	**Net (additions)/withdrawals from dealings with members**		**(22,849)**
5,256	**Management Expenses**	11	**5,869**
	Returns on investments		
(14,751)	Investment income	12	(14,423)
34,576	(Profit) and losses on disposal of investments and changes in the market value of investments	13c	(187,447)
117	Taxes on Income		54
19,942	**Net returns on investments**		**(201,816)**
2,518	**Net (increase)/decrease in the Fund during the year**		**(218,796)**
1,174,801	**Opening net assets of the Scheme**		**1,172,283**
1,172,283	**Closing net assets of the Scheme**		**1,391,079**

The Net Assets Statement for the year ended 31 March 2017

2015/16 £'000		Notes	2016/17 £'000
1,125,075	Investment Assets	13a	1,350,383
150	Long-Term Investment		150
21,444	Cash Deposits	13a	11,096
1,146,669			**1,361,629**
(2,824)	Investment Liabilities	13a	**(3,037)**
1,143,845	**Net Value of Investment Assets**	13a	**1,358,592**
30,612	Current Assets	18	35,343
(2,174)	Current Liabilities	19	(2,856)
28,438			**32,487**
1,172,283	**Net Assets of the Fund available to fund benefits at the period end**		**1,391,079**

NOTES TO THE ACCOUNTS

1. DESCRIPTION OF THE FUND

The Hackney Pension Fund ('the Fund') is part of the Local Government Pension Scheme and is administered by the London Borough of Hackney.

The following description of the Fund is a summary only. For more detail, reference should be made to the Hackney Pension Fund Annual Report 2016/17, the Pension Fund website http://hackney.xpmemberservices.com/Home.aspx and the underlying statutory powers underpinning the Scheme, namely the Public Service Pensions Act 2013 and the Local Government Pension Scheme (LGPS) Regulations.

a) General

The Fund is governed by the Public Service Pensions Act 2013. The Fund is administered with the following secondary legislation:

- The Local Government Pension Scheme Regulations 2013 (as amended).
- The Local Government Pension Scheme (Transitional Provisions, Savings and Amendment) Regulations 2014 (as amended).
- The Local Government Pension Scheme (Management and Investment of Funds) Regulation 2016.

It is a contributory defined benefit pension scheme administered by the London Borough of Hackney ("the Council") to provide pensions and other benefits for pensionable employees of the London Borough of Hackney and for the employees of admitted and scheduled bodies eligible to participate in the Fund. Teachers, police officers and firefighters are not included as they come within other national pension schemes.

The London Borough of Hackney has delegated responsibility for the management of the Pension Fund to the Pensions Committee with the Group Director of Finance and Corporate Resources being given delegated authority for the day to day operations of the Fund.

b) Membership

All local government employees (except casual employees, teachers and those eligible to be members of the NHS Pension Scheme) are automatically entered into the Scheme. However membership of the LGPS is voluntary and employees are free to choose whether to opt out, remain in the Scheme or make their own personal arrangements outside the Scheme.

Organisations participating in the Hackney Pension Fund include:

- Scheduled bodies, which include the local authority and similar aligned bodies whose staff are automatically entitled to be members of the Fund. It also includes Academy and Free School non-teaching staff.

Admitted bodies, which are other organisations that participate in the Fund under an admission agreement between the Fund and the relevant organisation. Admitted bodies include voluntary, charitable and similar bodies or private contractors undertaking a local authority function following outsourcing to the private sector. As at 31 March 2017 there are 36 active employer organisations within the Fund, including the London Borough of Hackney.

London Borough of Hackney Pension Fund	31 March 2017	31 March 2016
Number of Employers with active members	36	31
Number of Employees in scheme		
Council	7221	6,431
Scheduled bodies	505	1,323
Admitted bodies	97	89
Total	**7823**	**7,843**
Number of pensioners		
Council	5926	5,847
Scheduled bodies	22	222
Admitted bodies	21	18
Ceased Employers	472	234
Total	**6441**	**6,321**
Deferred members		
Council	7532	6,893
Scheduled bodies	417	534
Admitted bodies	51	55
Ceased Employers	1031	864
Total	**9031**	**8,346**

During the year Birkin RC, PJ Naylor, PJ Naylor Baden Powell, Pride Catering Partnership, SND Our Lady & St. Josephs, SND Whitmore, Sport Gayhurst were admitted as new employers to the Fund.

c) Funding

Benefits are funded by contributions and investment earnings. Contributions are made by active members of the Fund in accordance with the LGPS Regulations 2013 and range from 5.5% to 12.5% of pensionable pay for the financial year ending 31 March 2017. Employee contributions are matched by employers' contributions which are set based on the triennial actuarial funding valuations. The last such valuation was at 31 March 2016 with the next valuation due to take place at 31 March 2019. Current employer contribution rates can be found in the Statement to the Rates and Adjustments Certificate in the Hackney Pension Fund Annual Report and Accounts 2016/17 or within the Actuarial valuation on the Pension Fund Website:- http://hackney.xpmemberservices.com/Home.aspx

d) Benefits

Prior to 1 April 2014, pension benefits under LGPS are based on final pensionable pay and length of service, summarised below:

	Service pre 1 April 2008	Service post 31 March 2008	Service post 31 March 2014
Pension	Each year worked is worth 1/80 x final pensionable salary.	Each year worked is worth 1/60 x final pensionable salary.	Each year worked is worth 1/49 Career Average Revalued Earnings Salary
Lump Sum	Automatic lump sum of 3 x pensionable salary.	No automatic lump sum.	No automatic lump sum.
	In addition, part of the annual pension can be exchanged for a one-off tax-free cash payment. A lump sum of £12 is paid for each £1 of pension given up.	Part of the annual pension can be exchanged for a one-off tax-free cash payment. A lump sum of £12 is paid for each £1 of pension given up.	Part of the annual pension can be exchanged for a one-off tax-free cash payment. A lump sum of £12 is paid for each £1 of pension given up.

There are a range of other benefits provided under the Scheme including early retirement, disability pensions and death benefits. For more details please refer to the scheme guides which can be found at http://hackney.xpmemberservices.com/.

Benefits are index-linked in order to keep pace with inflation. In June 2010, the government announced that the method of indexation would change from the Retail Prices Index to the Consumer Prices Index. This change took effect from 1 April 2011.

e) LGPS 2014

April 2014, saw the implementation of LGPS 2014, a new Career Average Revalued Earnings (CARE) Scheme, based on a 1/49th accrual rate with retirement ages now linked to an individual member's state pension age. On average, contribution rates for employees have remained at 6.5%, however the contribution bands have widened and are now 5.5% to 12.5% at the top end. The new Scheme has also introduced the option for flexibility over contributions, i.e. a lower contribution for lower benefits, referred to as the 50/50 Scheme. It has not been possible to quantify the impact of these changes, although they have been designed to bring the future service costs of the Scheme down.

2. BASIS OF PREPARATION

The Statement of Accounts summarises the Fund's transactions for the 2016/17 financial year and its position at year-end as at 31 March 2017. The accounts have been prepared in accordance with the *Code of Practice on Local Authority Accounting in the United Kingdom 2016/17* which is based upon International Financial Reporting Standards (IFRS), as amended for the UK public sector.

The accounts summarise the transactions of the Fund and report on the net assets available to pay pension benefits. The accounts do not take account of obligations to pay pensions and benefits which fall due after the end of the financial year. The actuarial present value of promised retirement benefits, valued on an International Accounting Standard (IAS 19) basis, is disclosed in Note 17 of these accounts.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Fund Account – revenue recognition

a) Contributions income

Normal contributions, both from members and employers, are accounted for on an accruals basis (at the percentage rate recommended by the Fund actuary) in the payroll period to which they relate.

Employer deficit funding contributions are accounted for on the due dates on which they are payable under the schedule of contributions set by the scheme actuary or on receipt if earlier than the due date.

Employer's augmentation contributions and pension strain contributions are accounted for in the period in which the liability arises. Any amounts due in-year but unpaid will be classed as a current financial asset.

b) Transfers to and from schemes

Transfer values represent the amounts received and paid during the year for members who have either joined or left the Fund during the financial year and are calculated in accordance with the Local Government Pension Scheme Regulations (see Notes 8 and 10).

Individual transfers in/out are accounted for when received/paid, which is normally when the member liability is accepted or discharged.

Transfers in from members wishing to use the proceeds of their additional voluntary contributions to purchase scheme benefits are accounted for on a receipts basis and are included in Transfers In (see Note 8).

Bulk (group) transfers are accounted for on an accruals basis in accordance with the terms of the transfer agreement.

c) Investment income

i) Interest income

Interest income is recognised in the Fund account as it accrues, using the effective interest rate of the financial instrument as at the date of acquisition or origination.
Income includes the amortisation of any discount or premium, transaction costs (where material) or other differences between the initial carrying amount of the instrument and its amount at maturity calculated on an effective interest rate basis.

ii) Dividend income

Dividend income is recognised on the date the shares are quoted ex-dividend. Any amount not received by the end of the reporting year is disclosed in the Net Assets Statement as a current financial asset.

iii) Distributions from pooled funds

Distributions from pooled funds are recognised at the date of issue. Any amount not received by the end of the reporting year is disclosed in the Net Assets Statement as a current financial asset.

iv) Movement in the net market value of investments

- Changes in the net market value of investments are recognised as unrealised profits/losses during the year.
- Realised profit/losses are recognised upon the sale of investments during the year.

Fund account – expense items

d) Benefits payable

Pensions and lump-sum benefits payable include those known to be due at the end of the financial year. Any amounts due but unpaid are disclosed in the Net Assets Statement as current liabilities.

e) Taxation

The Fund is a registered public service scheme under section 1(1) of Schedule 36 of the Finance Act 2004 and as such is exempt from UK income tax on interest received and from 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. Irrevocable tax is accounted for as a fund expense as it arises. All income and expenditure in the Statement of Accounts is net of VAT, where recoverable.

f) Management expenses

The Council discloses its pension fund management expenses in accordance with the CIPFA guidance: *Accounting for Local Government Pension Scheme Management Expenses*

i) Administrative expenses

All administrative expenses are accounted for on an accruals basis. Relevant staff costs and associated management, accommodation and other overheads are apportioned to this activity and charged as expenses to the Fund.

ii) Oversight and governance costs

All oversight and governance expenses are accounted for on an accruals basis. All staff costs associated with governance and oversight are charged direct to the fund. Associated management, accommodation and other overheads are apportioned to this activity and charged as expenses to the fund. The cost of obtaining investment advice from external consultants is included in oversight and governance charges.

iii) Investment management expenses

All investment management expenses are accounted for on an accruals basis.

Fees of the external investment managers and custodian are agreed in the respective mandates governing their appointments. Broadly, these are based on the market value of the investments under their management and therefore increase or decrease as the value of these investments change.

Where an investment manager's fee note has not been received by the balance sheet date, an estimate based upon the market value of their mandate as at the end of the year is used for inclusion in the fund account. In 2016/17, there were no fees based on such estimates (2015/16: no fees estimated). A similar procedure is used for custodian fees, and in 2016/17 there were no fees payable (2015/16: no fees estimated).

Net Assets Statement

g) Financial assets

Financial assets are included in the Net Assets Statement on a fair value basis as at the reporting date. A financial asset is recognised in the Net Assets Statement on the date the Fund becomes party to the contractual acquisition of the asset. From this date any gains or losses arising from changes in the fair value of the asset are recognised in the Fund account.

The values of investments as shown in the Net Assets Statement have been determined as follows:

i) Market-quoted investments

The value of an investment for which there is a readily available market price is determined by the bid market price ruling on the final day of the accounting period.

ii) Fixed interest securities

Fixed interest securities are recorded at net market value based on their current yields.

iii) Unquoted investments

The fair value of investments for which market quotations are not readily available is determined as follows:

- Valuations of de-listed securities are based on the last sale price prior to delisting, or where subject to liquidation, the amount the Council expects to receive on wind-up, less estimated realisation costs.

- Investments in unquoted pooled funds are valued based on the Fund's share of the net asset value or a single price advised by the fund manager. The valuation of these pools or directly held securities is undertaken by the investment manager or responsible entity and advised as a unit or security price. The valuation standards followed in these valuations adhere to industry guidelines or to standards set by the constituent documents of the pool or the management agreement.

- The Fund has no holdings in private equity funds or unquoted listed partnerships.

iv) Pooled investment vehicles
Pooled investment vehicles are valued at closing bid price if both bid and offer prices are published; or if single priced, at the closing single price. In the case of pooled investment vehicles that are accumulation funds, change in market value also includes income which is reinvested in the fund, net of applicable withholding tax.

v) Limited partnerships, freehold and leasehold property
The Fund has no holdings in limited partnerships, freehold and leasehold property.

h) Foreign currency transactions

Dividends, interest and purchases and sales of investments in foreign currencies have been accounted for at the spot market rates at the date of transaction. End-of-year spot market exchange rates are used to value cash balances in foreign currency bank accounts, market values of overseas investments and purchases and sales outstanding at the end of the reporting period.

i) Derivatives

The Fund uses derivative financial instruments to manage its exposure to specific risks arising from its investment activities. The Fund does not hold derivatives for speculative purposes.

Derivative contract assets are measured at fair value through bid prices and liabilities at fair value through offer prices. Changes in the fair value of derivative contracts are included in any change in the market value.

The future value of forward currency contracts is based on market forward exchange rates at the year-end date and determined as the gain or loss that would arise if the outstanding contract were matched at the year-end with an equal and opposite contract.

j) Cash and cash equivalents

Cash comprises of cash-in-hand and deposits payable on demand and includes amounts held by the Fund's external managers.

Cash equivalents are short term, highly liquid investments that are readily convertible to known amounts of cash that are subject to minimal risk of changes in value.

k) Financial liabilities

The Fund recognises financial liabilities at fair value as at the reporting date. A financial liability is recognised in the Net Assets Statement on the date the Fund becomes party to the liability. From this date any gains or losses arising from changes in fair value of the liability are recognised by the Fund.

l) 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 in accordance with the requirements of IAS 19 and relevant actuarial standards.

As permitted under the Code, the Fund has opted to disclose the actuarial present value of promised retirement benefits by way of a note only (Note 17).

m) Additional Voluntary Contributions (AVCs)

The Hackney Pension Fund provides an Additional Voluntary Contributions (AVC) Scheme for its members, the assets of which are invested separately from those of the pension fund. The Fund has appointed Prudential as its AVC approved provider. AVCs are paid by members to the AVC provider and are used specifically for providing additional benefits for individual contributors. Each AVC contributor receives an annual statement showing the amount held in their account and the movements in the year.

AVCs are not included in the accounts in accordance with section 4(1) (b) of the Local Government Pension Scheme (Management and Investment of Funds) Regulations 2016 but are disclosed as a note only (Note 20).

4. CRITICAL JUDGEMENTS IN APPLYING ACCOUNTING POLICIES

In applying the accounting policies set out in Note 3, the Fund has had to make certain judgements about complex transactions or those involving uncertainty about future events. The critical judgements made are as follows:

Pension fund liability

The Pension Fund liability is calculated every three years by the appointed actuary, with annual updates in the intervening years. The methodology used is in line with accepted guidelines and in accordance with IAS 19. Assumptions underpinning the valuations are agreed with the actuary and are summarised in Note 16. This estimate is subject to significant variances based on changes to the underlying assumptions.

Valuation of Financial instruments carried at fair value – Level 2

Financial instruments at Level 2 are those where quoted market investments 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.

5. ASSUMPTIONS MADE ABOUT THE FUTURE AND OTHER MAJOR SOURCES OF ESTIMATION UNCERTAINTY

The preparation of financial statements requires management to make judgements, estimates and assumptions that affect the amounts reported for assets and liabilities at the balance sheet date and the amounts reported for the revenues and expenses during the year. Estimates and assumptions are made taking into account historical experience, current trends and other relevant factors. However, the nature of estimation means that the actual outcomes could differ from the assumptions and estimates.

The items in Statement of Accounts 2016-17 for which there is a significant risk of material adjustment in the forthcoming financial years are as follows:

Change in assumptions at 31 March 2017	Approximate % increase to Employer Liability	Approximate monetary amount (£'000)
0.5% decrease in 'real discount rate'	10%	197,171
0.5% increase in the 'salary increase rate'	1%	24,585
0.5% increase in the 'pension increase rate'	8%	170,008

- In order to quantify the impact of a change in the financial assumptions used, we have calculated and compared the value of scheme liabilities as at 31 March 2017 on varying basis. The approach taken is consistent with that adopted to derive the IAS 19 figures provided in this report.
- The principal demographic assumption is the longevity (i.e. member life expectancy). For sensitivity purposes, it has been estimated that a one year increase in life expectancy would approximately increase the Employer's Defined Benefit Obligation by around 3-5%.
- In practice the actual cost of a one year increase in life expectancy will depend on the structure of the revised assumption (i.e. if improvements to survival rates predominantly apply at younger or older ages).
- Please note that the above figures have been derived based on the membership profile of the Employer as at the date of the most recent actuarial valuation.

6. EVENTS AFTER THE BALANCE SHEET DATE

There have been no events since 31 March 2017 and up to the date when these accounts were authorised, which require any adjustments to these accounts.

7. CONTRIBUTIONS RECEIVABLE

By Category	2016/17 £'000	2015/16 £'000
Employers' Contributions split by:		
Normal Funding	(35,479)	(36,990)
Deficit Funding	(31,683)	(25,172)
Members' Contributions	(12,155)	(12,259)
Total	**(79,317)**	**(74,421)**

By Employer	2016/17 £'000	2015/16 £'000
London Borough of Hackney	(75,639)	(61,893)
Scheduled Bodies	(2,984)	(11,765)
Admitted Bodies	(694)	(763)
Total	**(79,317)**	**(74,421)**

8. TRANSFERS IN

	2016/17 £'000	2015/16 £'000
Group Transfers	-	
Individual Transfers	(4,719)	(5,917)
Total	**(4,719)**	(5,917)

9. BENEFITS PAYABLE

By Category	2016/17 £'000	2015/16 £'000
Pensions	41,807	39,576
Commutation and Lump Sum Retirement Benefits	12,276	10,941
Lump Sum Death Benefits	1,271	1,977
Total	**55,354**	**52,494**

By Employer	2016/17 £'000	2015/16 £'000
London Borough of Hackney	49,952	46,334
Scheduled Bodies	2,725	3,575
Admitted Bodies	2,677	2,585
Total	**55,354**	**52,494**

10. PAYMENTS TO AND ON ACCOUNT OF LEAVERS

	2016/17 £'000	2015/16 £'000
Refunds to Members leaving service	201	166
Payments for Members joining state scheme	-	-
Group Transfers	498	-
Individual Transfers	5,134	4,998
Total	**5,833**	**5,164**

11. MANAGEMENT EXPENSES

	2016/17 £'000	2015/16 £'000
Administrative Costs	539	570
Investment Management Expenses*	4590	3,882
Oversight and Governance Costs	740	804
Total	**5,869**	**5,256**

The investment management expenses disclosed above include £129k (15/16: £121k) in respect of performance-related fees paid/payable to the Fund's investment managers' and transaction costs of £837k (in 15/16: £790k) was netted off against the Net Asset Value. Audit Fees of £21k (in 2016-17 and 2015-16) were incurred and are included in Oversight and Governance Costs in the above table.

Investment Management Expenses*	2016/17 £'000	2015/16 £'000
Management Fees	4554	3,844
Custody and Banking Fees	36	38
Total	**4,590**	**3,882**

12. INVESTMENT INCOME

	2016/17 £'000	2015/16 £'000
Fixed Interest Securities	(4,554)	(4,601)
Equity Dividends	(9,192)	(9,583)
Index Linked Securities	(406)	(434)
Pooled Investment Income	0	0
Interest on Cash Deposits	(61)	(80)
Other Income	(210)	(53)
Total	**(14,423)**	**(14,751)**

2016-17 Investment Income is inclusive of withholding tax £54k compared to £117k in 2015-16.

13. INVESTMENTS

The Fund's investments are held in a wide range of assets to ensure diversification, and to optimise returns whilst having regard to the management of risk. The movement in asset classes over the year is largely a reflection of the relative performance of those assets.

a. Analysis of Investments

A breakdown of investments held by the Fund's external managers across the various asset classes is below:

Investment type		Market value 31 March 2017 £'000	Market value 31 March 2016 £'000
Investment Assets:			
Fixed Interest Securities	UK		
	Public Sector - quoted	47,464	43,158
	Corporate - quoted	39,018	35,354
	Overseas		
	Public Sector – quoted	21,246	12,012
	Corporate - quoted	42,605	35,982
		150,333	**126,506**
Index Linked Securities	UK		
	Public Sector - quoted	52,272	50,813
	Corporate - quoted	-	-
	Overseas		
	Public Sector – quoted	7,398	2,449
	Corporate - quoted	-	-
		59,670	**53,262**
Equities	UK - quoted	36,833	30,960
	Overseas - quoted	396,124	313,977
		432,957	**344,937**
Pooled Investments	Corporate Fixed Interest	16,631	15,421
	UK Equities Index Tracker	324,732	267,966
	Global Multi-Asset	56,655	53,921
	Global Emerging Market Equities	72,132	53,869
	Global Real Return	86,762	81,435
	Property	141,118	122,541
		698,030	**595,153**
Other Investments	Derivative Contracts: Forward Currency	3,945	691
	Futures	351	0
	Cash deposits	11,096	21,444
	Other Investment balances	5,247	4,676
		20,639	**26,811**
Total investment assets		**1,361,629**	**1,146,669**
Investment Liabilities:			
Derivative Contracts: Forward Currency		(14)	(824)
Futures		(103)	0
Other investment balances		(2,920)	(2,000)
Total investment liabilities		**(3,037)**	**(2,824)**
Net Investment Assets		**1,358,592**	**1,143,845**

b. Investments analysed by fund managers

As at 31 March 2017 the Fund's investments are managed by eight principal Investment Managers according to defined benchmarks which are set out in the Statement of Investment Principals (SIP). The following is a breakdown of the investments between the Investment Managers.

Fund Manager	Value £'000	% of total fund	Value £'000	% of total fund
	2016/17	2016/17	2015/16	2015/16
Lazard (Global Equities)	218,273	16.1%	177,433	15.5%
Wellington (Global Equities)	224,195	16.5%	177,637	15.5%
UBS (UK Equity Index)	324,760	23.9%	267,994	23.4%
F&C (Fixed Interest)	228,767	16.8%	203,201	17.8%
Threadneedle (Property)	141,118	10.4%	122,542	10.7%
GMO (Global Real Return)	86,762	6.4%	81,435	7.1%
RBC (Global Emerging Markets Equities)	72,133	5.3%	53,869	4.7%
Invesco (Global Multi Asset)*	56,655	4.2%	53,921	4.7%
Other Net Investments	5,928	0.4%	5,813	0.5%
Total	**1,358,592**	**100%**	**1,143,845**	**100%**

c. Reconciliation of movements in investments and derivatives

For each asset class, the opening position is reconciled with closing position as set out in the tables below.

Investment type	Market Value 1/04/2016	Purchases during the year and derivative payments	Sales during the year and derivative receipts	Change in Market Value during the year	Market Value 31/03/2017
	£'000	£'000	£'000	£'000	£'000
Fixed Interest Securities	126,506	209,041	(192,814)	7,600	150,333
Index Linked Securities	53,262	51,138	(55,445)	10,715	59,670
Equities	344,937	109,618	(120,122)	98,523	432,956
Pooled Investment Vehicles	595,153	30,815	(16,615)	88,678	698,031
Derivative Contracts					
Forward Currency Contracts	(133)	41,462	(16,016)	(21,381)	3,931
Futures	0	1,753	(2,971)	1,467	249
	1,119,725	**443,826**	**(403,983)**	**185,602**	**1,345,170**
Other Investment balances:					
Cash Deposits	21,444			(149)	11,096
Receivable for Sales	1,745				1,898
Investment Income due	2,931				3,349
Payable for Purchases	(2,000)				(2,920)
Net Investment Assets	**1,143,845**			**185,453**	**1,358,592**

The change in market value of £185,453k is £1,994k lower than the change in market value on the Fund Account of £187,447k. The difference is caused by indirect management fees of £1,994k.

Investment type	Market Value 1/04/2015 Restated	Purchases during the year and derivative payments	Sales during the year and derivative receipts	Change in Market Value during the year	Market Value 31/03/2016
	£'000	£'000	£'000	£'000	£'000
Fixed Interest Securities	127,022	184,332	(182,632)	(2,216)	126,506
Index Linked Securities	48,326	18,021	(14,029)	944	53,262
Equities	430,455	106,978	(161,510)	(30,986)	344,937
Pooled Investment Vehicles	522,252	100,926	(31,048)	3,023	595,153
Derivative Contracts					
Forward Currency Contracts	(2,402)	24,318	(15,228)	(6,821)	(133)
Futures	-				
	1,125,653	**434,575**	**(404,447)**	**(36,056)**	**1,119,725**
Other Investment Balances:					
Cash Deposits	18,218			(66)	21,444
Receivable for Sales	1,336			-	1,745
Investment Income due	3,025			-	2,931
Payable for Purchases	(1,439)			-	(2,000)
Net Investment Assets	**1,146,793**			**(36,122)**	**1,143,845**

Direct transaction costs (i.e. fees, commissions, stamp duty and other fees) associated with purchases and sales of investments were £0.82 million (£0.79 million in 2015/16) and are included in the cost of purchases and in sale proceeds.

Derivative payments and receipts correspond to the sterling equivalent amount of forward foreign exchange and futures contracts settled during the year. Further disclosure regarding derivative contracts can be found below.

d. Objectives and policies for holding derivatives

Most of the holding in derivatives is to hedge liabilities or hedge exposures to reduce risk to the Fund. Derivatives may also be used to gain exposure to an asset class more efficiently than holding the underlying asset. The use of derivatives is managed in line with the investment management agreement agreed between the Fund and the various investment managers.

Forward currency contracts

In order to maintain appropriate diversification and to take advantage of overseas investment returns, a significant proportion of the Fund's quoted equity portfolio is in overseas stock markets. Consequently the Fund has a passive currency programme in place managed by the custodian HSBC (pertaining to Lazard) and the investment fund Wellington. The purpose of both Mandates is to reduce the Fund's exposure to fluctuations in exchange rates.
Forward foreign exchange contracts are disclosed in the accounts at fair value which is the gain or loss that would arise from closing out the contract at the balance sheet date by entering into an equal and opposite contract at that date. A breakdown of forward contracts held by the Fund as at 31 March 2017 is given below. All forward contracts held by fund managers are exchange traded.

Open forward currency contracts

Settlement	Currency Bought	Local Value	Currency Sold	Local Value	Fair Value
		£'000		**£'000**	**£'000**
Assets					
Up to one month	GBP	988	AUD	(1,609)	7
	GBP	4,352	USD	(5,430)	12
	GBP	4,356	USD	(5,430)	16
	GBP	2,629	NZD	(4,666)	24
	GBP	11,207	EUR	(12,980)	98
	GBP	11,207	EUR	(12,980)	98
One to six months	GBP	7,285	EUR	(8,347)	130
	GBP	67,209	USD	(82,155)	1,652
	GBP	5,231	JPY	(726,000)	14
	GBP	11,528	EUR	(13,265)	160
	GBP	67,945	USD	(82,964)	1,731
	GBP	97,800	GBP	(701)	2
Total Assets					**3,945**
Liabilities					
Up to one month	GBP				
	GBP				
One to six months	GBP	4,620	JPY	(644,763)	(14)
	GBP				
	GBP				
	GBP				
	GBP				
Total Liabilities					**(14)**
Net Forward Contracts 2016/17					**3,931**

Settlement	Currency Bought	Local Value £'000	Currency Sold	Local Value £'000	Fair Value £'000
Assets					
Up to one month	GBP	4,889	USD	(6,984)	31
	GBP	4,942	USD	(7,056)	33
	GBP				
	GBP	8,105	JPY	(1,297,400)	57
		49,437	USD	(70,255)	570
Total Assets					**691**
Liabilities					
Up to one month	GBP				
	GBP	7,404	EUR	(9,434)	(81)
	GBP	7,266	EUR	(9,255)	(77)
	GBP				
	GBP	49,691	USD	(72,070)	(437)
		8,144	JPY	(1,312,945)	(1)
One to six months	GBP	6,518	EUR	(8,347)	(114)
	GBP	8,028	EUR	(10,220)	(92)
	GBP	884	EUR	(1,140)	(22)
Total Liabilities					**(824)**
Net Forward Contracts 2015/16					**(133)**

e. Investments exceeding 5% of net assets

The following pooled investments represent more than 5% of the net assets of the fund:

Security	Market Value 31 March 2017 £'000	% of total fund	Market Value 31 March 2016 £'000	% of total Fund
UBS UK Equities Index Tracker Fund	324,760	23.99%	267,994	23.53%
Threadneedle Property Fund	116,745	8.62%	122,542	10.76%
GMO (Global Real Return)	86,762	6.41%	81,435	7.15%

f. Stock Lending

The Fund did not undertake any direct stock lending activity during the year, but acknowledges that within pooled investments fund managers may participate in this activity.

14. FINANCIAL INSTRUMENTS

a. Classification of financial instruments

Accounting policies describe how different asset classes of financial instruments are measured, and how income and expenses, including fair value gains and losses, are recognised. The following table analyses the carrying amounts of financial assets and liabilities by category. No financial assets were reclassified during the accounting period.

	2016/2017			2015/2016		
Investment type	**Designated as Fair Value through Profit & Loss**	**Loans & Receivables**	**Financial Liabilities at amortised costs**	**Designated as Fair Value through Profit & Loss**	**Loans & Receivables**	**Financial Liabilities at amortised costs**
	£'000	**£'000**	**£'000**	**£'000**	**£'000**	**£'000**
Financial Assets						
Fixed Interest Securities	150,333	-	-	126,506	-	-
Index Linked Securities	59,670	-	-	53,262	-	-
Equities	432,957	-	-	344,937	-	-
Pooled Investments	698,030	-	-	595,153	-	-
Derivative Contracts	4,296	-	-	691	-	-
Cash	-	38,134	-	-	43,716	-
Other Investment Balances	5,247	-	-	4,676	-	-
Debtors	-	8,305	-	-	8,340	-
	1,350,533	46,439	-	1,125,225	52,056	-
Financial Liabilities						
Derivative Contracts	(117)	-	-	(824)	-	-
Other Investment Balances	(2,920)	-	-	(2,000)	-	-
Creditors	-	-	(2,856)	-	-	(2,174)
	(3,037)	-	(2,856)	(2,824)	-	(2,174)
Total	**1,347,497**	**46,439**	**(2,856)**	**1,122,401**	**52,056**	**(2,174)**
Grand Total		**1,139,079**			**1,172,283**	

b. Net gains and losses on financial instruments

The majority of the financial assets and liabilities are classed at fair value. The following table summarises the net gains and losses as profit or losses associated with, the disposal of and changes in, the market value of investments and recognised within the Pension Fund account as 'Returns on Investments'.

	31 March 2017	31 March 2016
	£'000	
Fair Value through Profit and Loss	185,453	(36,122)
Loans and Receivables	-	-
Financial Liabilities measured at amortised cost	-	-
Total	**185,453**	**(36,122)**

c. Fair Value of financial instruments and liabilities

The following table summarises the carrying values of the financial assets and financial liabilities by class of instrument compared with their fair values. The fair value may differ from the carrying value where an investment is in an asset that is not traded such as a local authority company, however in most instances the carrying value will equate to the fair value.

	31 March 2017		31 March 2016	
	Carrying Value	Fair Value	Carrying Value	Fair Value
	£'000	£'000	£'000	£'000
Financial Assets				
Fair Value through Profit and Loss	1,350,533	1,350,533	1,125,225	1,125,225
Loans and Receivables	46,439	46,439	52,056	52,056
Total Financial Assets	**1,396,972**	**1,396,972**	**1,177,281**	**1,177,281**
Financial Liabilities				
Fair Value through Profit and Loss	(3,037)	(3,037)	(2,824)	(2,824)
Financial Liabilities measured at amortised cost	(2,856)	(2,856)	(2,174)	(2,174)
Total Financial Liabilities	**(5,893)**	**(5,893)**	**(4,998)**	**(4,998)**
Grand Total	**1,391,079**		**1,172,283**	

d. Valuation of Financial instruments carried at fair value

The valuation of financial instruments has been classified into three levels, according to the quality and reliability of information used to determine fair values.

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 and unit trusts. Listed investments are shown at bid prices. The bid value of the investment is based on the bid market quotation of the relevant stock exchange.

Level 2

Financial instruments at Level 2 are those where quoted market investments 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.

Level 3

Financial instruments at Level 3 are those where are at least one input that could have a significant effect on the instrument's valuation is not based on observable data. Such instruments would include unquoted equity investments (such as private equity) and hedge fund of funds, which are valued using various valuation techniques that require significant judgement in determining appropriate assumptions.

The following table provides an analysis of the financial assets and liabilities of the pension fund grouped into Levels 1 to 3, based on the level at which the fair value is observable.

	Quoted market price	Using observable inputs	With significant unobservable inputs
Values at 31 March 2017	**Level 1 £'000**	**Level 2 £'000**	**Level 3 £'000**
Financial Assets			
Fair Value through Profit and Loss	438,174	912,205	154
Loans & Receivables	46,439		-
Total Financial Assets	**484,614**	**912,205**	**154**
Financial Liabilities			
Fair Value through Profit and Loss	(3,037)		-
Financial Liabilities measured at amortised cost		(2,856)	-
Total Financial Liabilities	**(3,037)**	**(2,856)**	**-**
Net Financial Assets	**481,576**	**909,348**	**154**

	Quoted market price	Using observable inputs	With significant unobservable inputs
Values at 31 March 2016	**Level 1 £'000**	**Level 2 £'000**	**Level 3 £'000**
Financial Assets			
Fair Value through Profit and Loss	402,875	722,350	-
Loans & Receivables	52,056	-	-
Total Financial Assets	**454,931**	**722,350**	**-**
Financial Liabilities			
Fair Value through Profit and Loss	(2,824)	-	-
Financial Liabilities measured at amortised cost	-	(2,174)	-
Total financial liabilities	**(2,824)**	**(2,174)**	**-**
Net Financial Assets	**452,107**	**720,176**	**-**

15. NATURE AND EXTENT OF RISKS ARISING FROM FINANCIAL INSTRUMENTS

Risk and Risk Management

The Fund's primary long term risk is that the Fund's assets will be insufficient to meet its liabilities, in other words, the promised benefits payable to members. The Fund maintains positions in a variety of financial instruments, as dictated by the Statement of Investment Principles (SIP) with the aim of minimising the risk of an overall reduction in the value of the Fund and to maximise the opportunity for gains across the whole fund portfolio.

Consequently the Fund is exposed to credit and liquidity risk, as well as market risk including foreign exchange and interest rate risk. A policy of diversification for its asset classes and investment managers helps the Fund to lower risk arising from financial instruments. Benchmarks for asset allocation and targets against which investment managers are expected to perform are further measures put in place to manage risk.

The management of risk is a key objective of the Fund and is part of the ongoing decision making process for the Pensions Committee. Risk management policies, such as the Risk Register for the Pension Fund, identify and analyse the risks faced by the Council's pensions operations. Measures to control and manage risks are also included within the risk register. Policies and the Risk Register are reviewed by Pensions Committee and also by Officers on a frequent basis.

a) Market Risk

Market risk is the risk that the fair value of future cash flows of a financial instrument will fluctuate because of changes in market prices. Market risk includes interest rate risk, foreign exchange risk and other price risk. The Fund holds a variety of investments which expose it to market risk and details of the Fund's investment portfolio are set out in Note 13.

The Fund manages exposure to market risk in the following main areas:

- Regularly reviewing the pension fund investment strategy.
- Regular monitoring of asset allocation and investment performance.
- A policy of security and manager diversification.

On a daily basis Investment Managers will manage market risk in line with policies and procedures put in place in the Investment Manager Agreement and ensure the agreed limit on maximum exposure to any one issuer or any class of asset is not breached.

Other Price Risk

Other price risk is the risk that the value of the instrument will fluctuate as a result of changes in market prices (other than those arising from interest rate risk or currency risk).

Price risk is managed by constructing a diversified portfolio of investments traded in various markets. The Pensions Committee regularly reviews its asset allocation policy and seeks to diversify the assets that it holds. Diversification helps to ensure that the Fund has a balance of investments which offer different levels of risk and return. Pooled Funds are used where these represent the most efficient means of investing in an asset class. The breakdown between managers and asset class can be seen in Note 13.

Other Price Risk – Sensitivity Analysis

Potential price changes are determined based on the observed historical volatility of asset class returns. ‘Riskier’ assets such as equities will display greater potential volatility than bonds as an example, so the overall outcome will depend largely on the funds’ asset allocations.

Asset class	1 year expected volatility (%)	% of Fund
UK Equities	15.8	26.6
Global Equities (ex UK)	18.4	29.4
Emerging Market Equities	22.0	5.3
Property	14.2	10.4
Corporate Bonds (short term)	4.3	2.1
Corporate Bonds (medium term)	10.1	2.9
Corporate Bonds (long term)	12.3	0.9
UK Fixed Gilts (medium term)	9.5	0.9
UK Fixed Gilts (long term)	12.5	2.7
UK Index Linked Gilts (medium term)	7.1	1.2
UK Index Linked Gilts (long term)	9.0	2.2
Cash	0.0	4.9
Diversified Growth Fund	12.5	10.6
Total fund volatility	**10.5**	**100**

The volatilities for each asset class and correlations used to create the total fund volatility have been estimated using standard deviations of 5,000 simulated one-year total returns using HRAM, the economic scenario generator maintained by Hymans Robertson LLP. The overall fund volatility has been calculated based on the asset valuations provided by the Fund’s custodian, HSBC, and market values (bid) provided by the Administering Authority, as at 31 March 2017. The calibration of the model is based on a combination of historical data, economic theory and expert opinion. Liability values are not taken into account in calculating the volatilities.

31 March 2017	£'000	Percentage change %	Value on Increase £'000	Value on Decrease £'000
Net Investment Assets	1,358,592	10.5	1,501,244	1,215,940
	1,358,592	**10.5**	**1,501,244**	**1,215,940**

31 March 2016	£'000	Percentage change %	Value on Increase £'000	Value on Decrease £'000
Net Investment Assets	1,143,845	11.6	1,276,530	1,011,158
Total assets available to pay benefits	**1,143,845**	**11.6**	**1,276,530**	**1,011,158**

The calculations assume that these changes occur immediately. In practice any changes will occur over time and the actual funding level will therefore also be affected by a number of factors including further benefit accruals, contributions and differences between expected and actual investment returns. The calculations assume that all other factors and assumptions, in particular exchange rates, remain unchanged.

Interest Rate Risk

The Fund invests in financial assets for the primary purpose of obtaining a return on investments. These investments are subject to interest rate risks, which represent the risk that the fair value of future cash flows of a financial instrument will fluctuate because of changes in market interest rates.

The Fund's interest rate risk is routinely monitored by the Council and its investment advisors in accordance with the Fund's risk management strategy, including monitoring the exposure to interest rates and assessment of actual interest rates against the relevant benchmark. Investment Managers will also manage interest rate risk in line with policies and procedures put in place in the Investment Manager Agreements. Pension Fund cash held by the Administering Authority is invested in accordance with the Pension Fund's Treasury Management Strategy as agreed by the Pensions Committee.

The Fund's direct exposure to interest rate movement as at 31 March 2016 and 31 March 2017 is set out below. These disclosures present interest rate risk based on the underlying financial assets at fair value:

Asset Type	Balance at 31 March 2017 £'000	Balance at 31 March 2016 £'000
Cash Deposits	11,096	21,444
Cash Balances	27,039	22,272
Fixed Interest Securities	166,963	141,927
Total	**205,098**	**185,643**

Interest Rate Risk – Sensitivity Analysis

The Council recognises that interest rates can vary and can affect both income to the Fund and the value of the net assets available to pay benefits. A 100 basis points (bps) movement in interest rates is consistent with the level of sensitivity applied as part of the Fund's risk management strategy.

The analysis that follows assumes that all other variables, in particular exchange rates, remain constant, and shows the effects in the year on the net assets available to pay benefits of a +/- 100 bps change in interest rates:-

Asset Type	Carrying amount as at 31 March 2017	Change in year in the net assets available to pay benefits	
		+100 bps	-100 bps
	£'000		£'000
Cash & Cash Equivalents	11,096	111	(111)
Cash Balances	27,039	270	(270)
Fixed Interest Securities*	166,963	(21,438)	21,438
Total	**205,098**	**(21,057)**	**21,057**

* Based on a bond duration period of 12.84 years

Asset Type	Carrying amount as at 31 March 2016	Change in year in the net assets available to pay benefits	
		+100 bps	-100 bps
	£'000		£'000
Cash & Cash Equivalents	21,444	214	(214)
Cash Balances	22,272	223	(223)
Fixed Interest Securities	141,927	(18,167)	18,167
Total	**185,643**	**(17,730)**	**17,730**

Note that an increase in the interest rates results in a decrease in the value of the bond portfolio and vice versa. Unlike for cash and its equivalents the change is due both to the impact of the duration (between 12-13 years) period of the bonds and the inverse relationship between bond prices and interest rates.

Currency Risk

The Pension Fund may invest in financial instruments and transact in denominated currencies other than its functional currency (£UK). As a result the Fund is exposed to risks that the exchange rate of its currency relative to other foreign currencies may change in a manner that has an adverse impact on the portion of the Fund's assets or liabilities denominated in currencies other than sterling.

Investment Managers will manage foreign exchange risk by the means of passive hedging and enter into forward currency contracts to protect assets which have exposure to currencies other than sterling (further details are in Note 13).

The following table summarises the Fund's fair value exposure to assets denominated in currencies other than pound sterling as at 31 March 2017 and as at the previous period end:

Currency Exposure – asset type	Asset Value as at 31 March 2017	Asset Value as at 31 March 2016
	£'000	£'000
Equities	397,461	314,301
Fixed Interest Securities	27,006	22,122
Indexed Linked Securities	4,802	2,449
Pooled Investment Vehicle	0	3,502
Cash and Deposits	1,579	1,204
Total	**430,848**	**343,578**

Currency Rate Risk – Sensitivity Analysis

Following analysis of historical data in consultation with the Fund's investment consultant, the estimated volatility for individual currency was assessed and used for the following sensitivity analysis.

31 March 2017		Potential Change v GBP	Value on increase	Value on decrease
	£'000	%	£'000	£'000
Currency Exposure	430,848	10	473,933	387,763
Total change in assets			**43,085**	**(43,085)**

31 March 2016		Potential Change v GBP	Value on increase	Value on decrease
	£'000	%	£'000	£'000
Currency Exposure	343,578	10	377,936	309,220
Total change in assets			**34,358**	**(34,358)**

This analysis assumes that all other variables, in particular interest rates, remain constant and that these changes occur immediately. In practice any changes will occur over time.

b) Credit Risk

Credit risk is the risk that the counterparty to a financial instrument will fail to discharge an obligation or commitment that it has entered into with the Fund. The market value of investments generally reflect an assessment of credit risk in their pricing and consequently the risk of loss is implicitly provided for in the carrying value of the Fund's financial assets and liabilities.

The Pension Fund reviews its exposure to credit and counterparty risk through its external Investment Managers by reviewing the Managers' annual internal control reports. This ensures that Managers exercise reasonable care and due diligence in their activities for the Pension Fund, such as in the selection and use of brokers, clearing houses, counterparties and other appointees with whom transactions on behalf of the Fund take place.

A counterparty rating is one measure of credit risk. The carrying amounts of investment assets best represent the maximum credit risk exposure at the Net Asset Statement date.

A majority of the assets of the Fund are held by the Fund's custodian, HSBC Global Services. Bankruptcy or insolvency of the custodian may cause the Fund's rights with respect to securities held by the custodian to be delayed or limited. Cash not forming part of the investment assets is held in the Fund's current accounts with Lloyds Bank.

The Pensions Committee and senior officers monitor this risk by keeping under review the credit rating and financial positions of the custodian and banks the Fund uses.

Any excess cash from the Fund's bank accounts is invested in accordance with the Pension Fund's Treasury Management Strategy, prepared in accordance with the CIPFA Prudential Code and CIPFA Treasury Management Code of Practice. The Treasury Management Strategy sets out the criteria for investing and selecting investment counterparties and details the approach to managing risk for the Fund's exposure. In addition, excess cash held with the custodian is swept into a liquidity fund to provide further diversification.

The Fund's holdings under the arrangements described above were held with the following:

Summary	Rating (Fitch)	Balance at 31 March 2017	Balance at 31 March 2016
		£'000	£'000
Cash (Current Assets)			
Lloyds Plc	A+	27,039	22,272
Cash Deposits (Investment Assets)			
Cash held outside fund managers and custodian			
Money Market Funds (Various)	AAA	4,617	4,614
Cash held by fund managers and custodian			
Cash	AA-	6,479	16,830
Call Accounts (Various)	AA- to A		-
Money Market Funds**	AAA		-
Total		**38,134**	**43,716**

** No Money Market Fund deposits are held by the custodian HSBC.

c) Liquidity Risk

Liquidity risk corresponds to the pension fund's ability to meet its financial obligations when they come due with sufficient and readily available cash resources.

The Fund's investments are substantially made up of listed securities which are considered readily realisable as they are listed on major security exchanges. The Fund has no holdings in private equity, infrastructure or direct property which can be considered 'illiquid'.

The Fund maintains investments in cash and cash equivalents outside of the investment assets held by the custodian that are highly liquid and can be used for payables and expenses such as pension payments, transfers out, etc. The Fund's cash position is monitored on a daily basis by both the pension administrator and the Financial Services team.

Management prepares periodic cash flow forecasts to understand and manage the timing of the Fund's cash flows. The Pensions Committee in collaboration with the Fund's actuary regularly review the Funding Strategy which considers the results of the triennial valuations to ensure the long-term solvency of the Fund as a whole, and that sufficient funds are available to meet all benefits as they fall due for payment. This ensures that sufficient cash reserves are available to meet forecasted cash outflows.

16. FUNDING ARRANGEMENTS

The actuarial valuation of the Pension Fund is carried out every three years, in line with the Local Government Pension Scheme. The purpose is to set employer contribution rates for the forthcoming triennial period. This is carried out by an independent actuary appointed by the Fund and the last valuation took place as at 31 March 2016. The next valuation will take place as at 31 March 2019.

The contribution rates are set at a level sufficient to meet the cost of future benefits accruing and to eliminate, over a period of time, the deficit arising from past service. The valuation is carried out in accordance with the Fund's Funding Strategy Statement (FSS) a copy of which can be found on the Pension Fund website http://hackney.xpmemberservices.com/ and a copy is also included in the Pension Fund Annual Report and Accounts (pages TBC).

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

- To ensure the long-term solvency of the Fund as a whole and the solvency of each of the notional sub-funds allocated to the 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 with consideration to the effect on the operation of their business where the Administering Authority considers this appropriate.
- 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 ceasing participation or 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.
- To maintain the affordability of the Fund to employers as far as is reasonable over the longer term.

The 2016 valuation was based on a market value of the Fund's assets as at 31 March 2016, which amounted to £1172 million and revealed a pension deficit of £349 million, representing a funding level of 77.1% of the pension liability.

The valuation takes account of the amount of current and future pension liabilities of the Fund, the expected contributions received by the Fund and the expected rate of investment returns held by the Fund. Other factors which influence the valuation and are taken into account by the actuary include anticipated pay, pension inflation, and mortality rates. The rates payable by the London Borough of Hackney and other participating scheduled and admission bodies vary from the contribution rate for the Fund as a whole according to the employer's individual circumstances. The whole fund primary contribution rate applying from 1 April 2017 until 31 March 2020 and based on the 2016 valuation report:

Year	Employer Contribution rate
2017/2018	15.8%
2018/2019	15.8%
2019/2020	15.8%

The Fund's actuary, Hymans Robertson, has calculated the contribution rate using the Projected Unit Method. This assesses the cost of benefits (as a percentage of pay) accruing to existing members during the year following the valuation, allowing for future salary increases. Additional monetary amounts are payable in respect of the past service deficit as follows:

Year	Deficit contribution amount (£000)
2017/2018	36,295
2018/2019	36,051
2019/2020	35,542

The principal 2016 valuation report assumptions which informed the contributions payable from 1 April 2017 were:

Financial Assumptions based on 2013 Valuation Report

Assumption	Rate	Explanation
Investment return (discount rate)	3.85%	Based on 25-Year bond returns extrapolated to reflect the duration of the Fund's liabilities
Inflation	2.1% – CPI	
Salary increases*	3.3%	1.2% pa over CPI
Pension increases	In line with CPI	Assumed to be 1.0% less than RPI

*plus an allowance for promotional pay increases. The long term assumption for salary increases is RPI plus 0.2% p.a which translates to CPI plus 1.2% p.a.

Mortality Assumptions

Future life expectancy based on the actuary's fund-specific mortality review was:

Mortality assumptions at age 65	Male	Female
Current pensioners	22.2	24.2
Future pensioners (assumed current age 45)	23.6	25.7

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.

17. ACTUARIAL PRESENT VALUE OF PROMISED RETIREMENT BENEFITS

In addition to the triennial funding valuation, the Fund's actuary also undertakes a valuation of pension fund liabilities on an IAS 19 basis every year, using the same base data as the funding valuation rolled forward to the current financial year. This figure is used for statutory accounting purposes and differs from the assumptions and calculations contained in the triennial Actuarial Valuation (see Note 16), which is used to determine the contribution rates payable by employers. This is because IAS 19 stipulates a discount rate rather than a rate which reflects market values.

The actuarial present value of promised retirement benefits at the accounting date, calculated in line with IAS 19 assumptions, is estimated to be £2,162 million (£1,689 million in 2015/16). The Fund accounts do not take account of liabilities to pay pensions and other benefits in the future.

The financial assumptions used for the IAS 19 2017 valuation have been revised from the 2016 valuation report as set out in the table below:

Assumption	2017	2016
Pension increase rate assumption	2.4%	2.2%
Salary increase rate*	3.6%	4.2%
Discount rate	2.6%	3.5%
Inflation rate based on CPI**		2.2%

* Also includes an additional allowance for promotional pay increases

** CPI is based on RPI less 1.0% at 31 March 2017

18. CURRENT ASSETS

The following is an analysis of the **non-investment** debtor and cash balances carried on the Net Asset Statement.

	31 March 2017 £'000	31 March 2016 £'000
Debtors:		
Contributions due	6,162	5,865
Sundry debtors	2,143	2,475
Cash Balances	27,039	22,272
Total	**35,343**	**30,612**

Analysis of Debtors

	31 March 2017 £'000	31 March 2016 £'000
Central Government Bodies	130	177
Other Local Authorities	8114	8,028
NHS Bodies	-	-
Public Corporations and Trading Funds	-	-
Other Entities and Individuals	61	135
Total	**8,305**	**8,340**

19. CURRENT LIABILITIES

The following is an analysis of the non-investment creditors balance carried on the Net Asset Statement.

Creditors	31 March 2017 £'000	31 March 2016 £'000
Benefits Payable	(437)	(16)
Sundry Creditors	(2,419)	(2,158)
Total	**(2,856)**	**(2,174)**

Analysis of Creditors

	31 March 2017	31 March 2016
	£'000	£'000
Central Government Bodies	(521)	(514)
Other Local Authorities	(356)	(278)
NHS Bodies		-
Public Corporations and Trading Funds		-
Other Entities and Individuals	(1,980)	(1,382)
Total	**(2,856)**	**(2,174)**

20. ADDITIONAL VOLUNTARY CONTRIBUTIONS

The Fund provides an AVC scheme for its contributors, the assets of which are invested separately from the Fund, in accordance with regulation 4(1) (b) of the Local Government Pension Scheme (Management and Investment of Funds) Regulations 2016. The scheme provider is Prudential, where the sums saved are used to secure additional benefits on a money purchase basis for those contributors electing to pay additional voluntary contributions.

The total value of sums invested in the AVC funds as at 31 March 2017 was £5.2 million (£5.8 million as at 31 March 2016). Contributions received into the AVC facility during the year amounted to £0.17 million (£0.22 million in 2015/16). The efficiency and effectiveness of the provider is monitored on a periodic basis to assess performance.

21. RELATED PARTY TRANSACTIONS

London Borough of Hackney

The Fund is administered by the London Borough of Hackney. The Council is also the single largest employer of members of the pension fund and contributed £58.88 million to the Fund in 2016/17 (2015/16: £52.22 million). Consequently there is a strong relationship between the Council and the Pension Fund.

The Council incurred costs of £0.36 million in 2016/17 (£0.28 million in 2015/16) in relation to administration of the Fund and was consequently reimbursed by the Fund for these expenses. Part of the Pension Fund cash holdings are invested on the money markets by the treasury management operations of the London Borough of Hackney in line with the Treasury Management Strategy.

Governance

The following Pensions Committee Members were also deferred members of the Local Government Pension Scheme (LGPS) during the year; Cllr Robert Chapman (Chair), Cllr Feryal Demirci, and Cllr Geoff Taylor.

Jonathan Malins-Smith, Scheme Member Representative, is also a deferred member of the Pension Scheme.

22. KEY MANAGEMENT PERSONNEL

Several employees of the London Borough of Hackney hold key positions in the financial management of the Fund. As at 31 March 2017 these employees included:

Ian Williams — **Group Director of Finance and Corporate Resources**
Michael Honeysett — **Director, Financial Management**
Rachel Cowburn — **Head of Pension Investments**
Julie Stacey — **Head of Pensions Administration**
Pradeep Waddon — **Group Accountant, Financial Services**

All of these employees are also members of the pension scheme. The financial value of their relationship with the Fund (in accordance with IAS 24) is set out below:

	31 March 2017 £'000	31 March 2016 £'000
Short term benefits	154	116
Long term/post-retirement benefits	30	23
Total	**184**	**139**

The disclosures required by Regulation 7(2)-(4) of the Accounts and Audit (England) Regulations can be found in the main accounts of the London Borough of Hackney.

23. CONTINGENT ASSETS, LIABILITIES AND CONTRACTUAL COMMITMENTS

The Pension Fund has no material contingent assets, liabilities or contractual commitments.

24. IMPAIRMENT LOSSES

During 2016/17 there were no impairment losses to recognise (2015/16: £0k) for possible non-recovery of pension overpayments.

London Borough of Hackney

Pension Fund

Investment Strategy Statement

Hackney

Investment Strategy Statement

1. Introduction

The London Borough of Hackney is the Administering Authority for the London Borough of Hackney Pension Fund. The Pensions Committee ("the Committee") is the body with delegated powers to administer the Fund. The Committee, comprised of elected representatives of Hackney Council and a non-voting scheme member representative, recognise that they have fiduciary duties and responsibilities towards beneficiaries, employers and local taxpayers that are analogous to those holding the office of Trustee in the private sector. The Committee takes expert professional financial advice to assist it with managing the Fund.

The Investment Strategy Statement (ISS) has been prepared by the Committee having taken advice from the Fund's investment adviser, Hymans Robertson LLP.

The ISS, which was approved by the Committee on 29th March 2017 is subject to periodic review at least every three years and without delay after any significant change in investment policy. The Fund in preparing and reviewing its Investment Strategy Statement will consult with interested stakeholders including, but not limited to Fund employers, investment managers, Local Pension Board, advisers to the Fund and other parties that it deems appropriate to consult with.

The Committee seeks to invest in accordance with the ISS any Fund money that is not needed immediately to make payments from the Fund. The ISS should be read in conjunction with the Fund's Funding Strategy Statement (in force from 1st April 2017).

2. Background to the Fund

2.1 The Legal Requirements

The Local Government Pension Scheme (Management and Investment of Funds) (Amendment) Regulations 2016 require pension fund administering authorities to formulate an Investment Strategy Statement, in accordance with guidance issued by the Secretary of State.

The Statement must include:

(a) a requirement to invest fund money in a wide variety of investments;
(b) the authority's assessment of the suitability of particular investments and types of investments;
(c) the authority's approach to risk, including the ways in which risks are to be assessed and managed;
(d) the authority's approach to pooling investments, including the use of collective investment vehicles and shared services;
(e) the authority's policy on how social, environmental and corporate governance considerations are taken into account in the selection, non-selection, retention and realisation of investments; and

(f) the authority's policy on the exercise of the rights (including voting rights) attaching to investments.

2.2 The Scheme

The Pension Scheme for the London Borough of Hackney is a Career Average Revalued Earnings (CARE) defined benefit scheme. Benefits are determined by a range of statutory provisions. The main regulations governing the operation of the scheme are the Local Government Pension Scheme Regulations 2013.

The Local Government Pension Scheme (LGPS) Regulations 2013 set out in clear terms the benefits that are payable to Scheme members. The benefits offered to those members are therefore guaranteed by law; members are not reliant on investment performance for their pensions in retirement, the contributions payable by Scheme members are also defined in the Regulations. Employing Authorities are required to pay contributions into the Scheme to meet the cost of funding employee benefits and are required to meet any shortfall in funding the pension liabilities of Scheme members. If, therefore, the Pension Fund's investments do not perform as well as expected, any shortfall must be met from Council Tax, other public funds and by other employers participating in the Fund, and not by reducing the amount of pension benefits paid or by increasing employees' contributions.

Pension benefits for individuals are increased each year in line with movements in the Consumer Prices Index (CPI).

3. The suitability of particular investments and types of investments

3.1 Fund Objectives

The primary objective of the Fund is to provide pension and lump sum benefits for members on their retirement and/or benefits on death, before or after retirement, for their dependants, on a defined benefit basis. This funding position will be reviewed at each triennial actuarial valuation, or more frequently as required.

The Committee aims to fund the Fund in such a manner that, in normal market conditions, all accrued benefits are fully covered by the value of the Fund's assets and that an appropriate level of contributions is agreed by the employer to meet the cost of future benefits accruing. For employee members, benefits will be based on service completed but will take account of future salary and/or inflation increases.

The Committee has translated its objectives into a suitable strategic asset allocation benchmark for the Fund. This benchmark is consistent with the Committee's views on the appropriate balance between generating a satisfactory long-term return on investments whilst taking account of market volatility and risk and the nature of the Fund's liabilities.

It is intended that the Fund's investment strategy will be reviewed at least every three years following actuarial valuations of the Fund. The Fund has used asset liability modelling (ALM) carried out by Hymans Robertson to help set an investment strategy.

The ALM approach projects forward the potential future development of asset and liability values, using stochastic modelling to model over 5000 different scenarios. This gives a distribution of outcomes which is then used to assess the probability of meeting the funding objective over a given time horizon for a number of different investment strategies. The tail risks of each strategy are assessed by considering the worst 5% of funding outcomes associated with each.

This approach helps to ensure that the investment strategy takes due account of the maturity profile of the Fund (in terms of the relative proportions of liabilities in respect of pensioners, deferred and active members), together with the level of disclosed surplus or deficit (relative to the funding bases used).

In addition, the Committee monitors investment strategy on an ongoing basis, focusing on factors including, but not limited to:

- Suitability given the Fund's level of funding and liability profile
- The level of expected risk
- Outlook for asset returns
- The Committee also monitors the Fund's actual allocation on a regular basis to ensure it does not notably deviate from the target allocation

4. Investment of money in a wide variety of investments

4.1 Asset Classes

The Fund may invest in quoted and unquoted securities of UK and overseas markets including equities and fixed interest and index linked bonds, cash, property and commodities either directly or through pooled funds. The Fund may also make use of contracts for differences and other derivatives either directly or in pooled funds investing in these products for the purpose of efficient portfolio management or to hedge specific risks.

The Committee reviews the nature of Fund investments on a regular basis, with particular reference to suitability and diversification. The Committee seeks and considers written advice from a suitably qualified person in undertaking such a review. If, at any time, investment in a security or product not previously known to the Committee is proposed, appropriate advice is sought and considered to ensure its suitability and diversification.

The Fund's investment strategy as reflected in its holdings at 1st April 2017 is set out below in table 4.2.1. The table also includes the maximum percentage of total Fund value that it will invest in these asset classes. In line with the Regulations, the authority's investment strategy does not permit more than 5% of the total value of all investments of fund money to be invested in entities which are connected with that authority within the meaning of section 212 of the Local Government and Public Involvement in Health Act 2007.

The Fund's target investment strategy is set out in table 4.2.2. The Fund intends to implement its target strategy gradually and aims to do so in collaboration with the London CIV.

4.2.1 Current Fund Allocation

Asset class	Target allocation %	Control Range %
UK equities	25%	23% - 27%
Global equities	31%	28% - 34%
Global Emerging Market equities	4.5%	3.5% - 5.5%
Total equities	60.5%	54.5% - 66.5%
Property	10%	9% - 11%
Multi-asset	12.5%	10% - 15%
Bonds	17%	15% - 19%
Total	100	

4.2.2 Target Fund Allocation (following 2016 Investment Strategy Review)

Asset class	Target allocation %
UK equities	10%
Global equities	36%
Global Emerging Market equities	4.5%
Total equities	50.5%
Property	10%
Multi-asset	12.5%
Bonds	17%
Multi asset credit	10%
Total	100

4.3 Managers

The Committee has appointed a number of investment managers all of whom are authorised under the Financial Services and Markets Act 2000 to undertake investment business.

The Committee, after seeking appropriate investment advice, has agreed specific benchmarks with each manager so that, in aggregate they are consistent with the overall asset allocation for the Fund. The Fund's investment managers will hold a mix of investments which reflects their views relative to their respective benchmarks. Within each major market and asset class, the managers will maintain diversified portfolios through direct investment or pooled vehicles. The manager of the passive funds in which the Fund invests holds a mix of investments within each pooled fund that reflects that of their respective benchmark indices

5. Restrictions on investment

The Regulations have removed the previous restrictions that applied under the Local Government Pension Scheme (Management and Investment of Funds) Regulations 2009. The Fund has agreed a number of its own restrictions as set out in the table below. All other investment restrictions will be negotiated with fund managers or the London CIV, subject to the Fund receiving appropriate investment and/or legal advice.

5.1 Investment Restrictions

Type of investment	Maximum investment by the Fund % of assets
1. Contributions invested in any single partnership	5%
2. Contributions invested in partnerships	30%
3. Cash deposits	10%
4. Investment with any single manager strategy either directly or via the London CIV (excluding investments in passive index tracking strategies)	15%
5. Total investment in illiquid assets	30%

6. The approach to risk, including the ways in which risks are to be measured and managed

The Committee is aware that the Fund has a need to take risk (e.g. investing in growth assets) to help it achieve its funding objectives. It has an active risk management programme in place that aims to help it identify the risks being taken and put in place processes to manage, measure, monitor and (where possible) mitigate the risks being taken. One of the Committee's overarching beliefs is to only to take as much investment risk as is necessary.

The principal risks affecting the Fund are set out below, we also discuss the Fund's approach to managing these risks and the contingency plans that are in place:

6.1 Funding risks

- Financial mismatch – The risk that Fund assets fail to grow in line with the developing cost of meeting the liabilities.
- Inflation risk. The risk that price and pay inflation is significantly more than anticipated, increasing the value of pension benefits accrued by active and deferred members of the Fund as well as increasing the value of pensions in payment.
- Changing demographics –The risk that longevity improves and other demographic factors change, increasing the cost of Fund benefits.
- Systemic risk - The possibility of an interlinked and simultaneous failure of several asset classes and/or investment managers, possibly compounded by financial 'contagion', resulting in an increase in the cost of meeting the Fund's liabilities.

The Committee measures and manages financial mismatch in two ways. As indicated above, the Committee has set a strategic asset allocation benchmark for the Fund. This benchmark was set taking into account asset liability modelling which focused on probability of success and level of downside risk. This analysis will be formally revisited as part of the 2019 valuation process, but may be repeated prior to that date if required.

The Committee assesses risk relative to the strategic benchmark by monitoring the Fund's asset allocation and investment returns relative to the benchmark. The Committee also assesses risk relative to liabilities by monitoring the delivery of benchmark returns relative to liabilities.

The Committee seeks to mitigate systemic risk through a diversified portfolio but it is not possible to make specific provision for all possible eventualities that may arise under this heading.

A detailed schedule of the funding risks to which the Fund is exposed is set out in the Funding Strategy Statement.

6.2 Asset risks

- Concentration - The risk that a significant allocation to any single asset category and its underperformance relative to expectation would result in difficulties in achieving funding objectives.
- Illiquidity - The risk that the Fund cannot meet its immediate liabilities because it has insufficient liquid assets.
- Currency risk – The risk that the currency of the Fund's assets underperforms relative to Sterling (i.e. the currency of the liabilities).
- Environmental, social and governance ("ESG") – The risk that ESG related factors reduce the Fund's ability to generate long-term returns.
- Manager underperformance - The failure by the fund managers to achieve the rate of investment return assumed in setting their mandates.

The Committee measures and manages asset risks as follows.

The Fund's strategic asset allocation benchmark invests in a diversified range of asset classes. The Committee has put in place rebalancing arrangements to ensure the Fund's "actual allocation" does not deviate substantially from its target. The Fund invests in a range of investment mandates each of which has a defined objective, performance benchmark and manager process which, taken in aggregate, help reduce the Fund's asset concentration risk.

Illiquidity risk is managed by investing across a range of assets, including liquid quoted equities and bonds, as well as property. The majority of the Fund's assets are realisable at short notice. Whilst the Fund does have a small allocation to less liquid assets, the degree of liquidity risk within the portfolio is acceptable given the Fund's long term investment horizon.

The Fund invests in a range of overseas markets which provides a diversified approach to currency markets. The Fund currently maintains a 50% hedge to USD, EUR and JPY exposures within its active global equity mandates. This has been reviewed as part of the recent strategy review but no change is currently planned.

Details of the Fund's approach to managing ESG risks is set out later in this document.

The Committee has considered the risk of underperformance by any single investment manager and have attempted to reduce this risk by appointing more than one manager and having a proportion of the Scheme's assets managed on a passive basis. The Committee assess the Fund's managers' performance on a regular basis, and will take steps, including potentially replacing one or more of their managers, if underperformance persists.

6.3 Other provider risk

- Transition risk - The risk of incurring unexpected costs in relation to the transition of assets among managers. When carrying out significant transitions, the Committee seeks suitable professional advice.
- Custody risk - The risk of losing economic rights to Fund assets, when held in custody or when being traded.
- Credit default - The possibility of default of a counterparty in meeting its obligations.
- Stock-lending – The possibility of default and loss of economic rights to Fund assets. The Fund does not currently engage in stock-lending but may consider doing so in the future.

The Committee monitors and manages risks in these areas through a process of regular scrutiny of its providers, and audit of the operations they conduct for the Fund, or has delegated such monitoring and management of risk to the appointed investment managers as appropriate (e.g. custody risk in relation to pooled funds). The Committee has the power to replace a provider should serious concerns exist.

7. The approach to pooling investments, including the use of collective investment vehicles and shared services

The Fund is a participating scheme in the London Collective Investment Vehicle (London CIV). The London CIV has been operational for some time and is in the process of opening a range of sub-funds covering liquid asset classes, with less liquid asset classes to follow. The proposed structure and basis on which the London CIV will operate was set out in the July 2016 submission to Government.

7.1 Assets to be invested in the Pool

The Fund will transition liquid assets into the London CIV when there are suitable investment strategies that meet the asset allocation and investment strategy available on the London CIV platform. An indicative timetable for investing through the Pool was set out in the July 2016 submission to Government; the Fund anticipates being able to transition some of the liquid assets across in advance of April 2018. The key criteria for assessment of Pool solutions will be as follows:

- That the Pool enables access to an appropriate solution that meets the objectives and benchmark criteria set by the Fund
- That there is a clear financial benefit to the Fund in investing in the solution offered by the Pool, should a change of provider be necessary.

At the time of preparing this statement the Fund has no assets invested through the Pool The Fund currently holds 23.4% (£297.6m) of its assets in life funds and intends to retain these outside of the London CIV in accordance with government guidance on the retention of life funds outside pools for the time being. The Fund agrees for the London CIV to monitor the passive funds as part of the broader pool

At the time of writing, the Fund holds 1.53% (£19.5m) of the Fund in illiquid assets and these will remain outside of the London CIV pool. The cost of exiting these strategies early would have a negative financial impact on the Fund. These will be held as legacy assets until such time as they mature and proceeds re-invest through the pool assuming it has appropriate strategies available or until the Fund changes asset allocation and makes a decision to disinvest.

At the time of preparing this statement the Fund has therefore elected not to invest the following assets via the London CIV:

Asset class	Manager	% of Fund assets	Benchmark and performance objectives	Reason for not investing via the XYZ Pool
Property	Threadneedle – Low Carbon Workplace Fund	1.53% (£19.5m)	IPD Quarterly index total return – office sector. Targets outperformance of the benchmark by 1% over rolling 3 year periods.	Units do not become redeemable until 5 years from the date of issue. Investment is via a Jersey unit trust – whilst it could be held within an ACS structure, the transfer of the property assets would incur significant stamp duty. The Fund has invested in the LCW fund in 2 tranches (May 2016 and October 2016).
Property	Threadneedle - TPEN	8.41% (£106.8m)	IPD Quarterly index total return Targets outperformance of the benchmark by 1% over rolling 3 year periods.	Investment is via a unit linked life vehicle which cannot be transferred to the ACS structure. No suitable alternative currently exists through the London CIV, and the Fund wishes to maintain its strategic allocation to property.

Asset class	Manager	% of Fund assets	Benchmark and performance objectives	Reason for not investing via the XYZ Pool
UK equities	UBS	23.4% (£297.6m)	Index fund tracking the FTSE All share	Passively managed via a life fund and therefore covered by Government guidance on the retention of Life funds outside the pool for the present.
Fixed Income	BMO	17.6% (£224.0m)	Outperform a customised benchmark (37.5 FTA Govt All Stocks; 37.5% ML £ Non-Gilt All Stocks Index; 25% FTA Govt IL >5yrs) by 1% over a rolling 3yr period	No suitable alternative currently available through the London CIV; the Fund wishes to maintain its strategic allocation to fixed income.

Any assets not currently invested in the Pool will be reviewed at least every three years to determine whether the rationale remains appropriate, and whether it continues to demonstrate value for money. The next such review will take place no later than 2019

7.2 Structure and governance of the London CIV

The July 2016 submission to Government of the London CIV provided a statement addressing the structure and governance of the Pool, the mechanisms by which the Fund can hold the Pool to account and the services that will be shared or jointly procured.

The submission to Government set out the structure and governance of the Pool as follows: London LGPS CIV Limited ("London CIV") is fully authorised by the FCA as an Alternative Investment Fund Manager (AIFM) with permission to operate a UK based Authorised Contractual Scheme fund (ACS Fund). FCA firm registered as London LGPS CIV Ltd, Reference Number 710618.

Approval for the structure has been signed off by the 32 participating London Authorities The governance structure of the CIV has been designed to ensure that there are both formal and informal routes to engage with all the Authorities as both shareholders and investors. This is achieved through a combination of the London Councils' Sectoral Joint Committee ("LCSJC"), comprising nominated Member representatives from the London Local Authorities (in most cases the Pensions Committee Chair), and the Investment Advisory Committee ("IAC") formed from nominated borough officers, which includes both London Local Authority Treasurers and Pension Officers from a number of Authorities. At the time of writing, the Fund is represented within the governance structure of the CIV by its Chair of Committee on the LCSJC and by the Authority's Treasurer and a Pension Officer on the IAC.

At the company level for London CIV, it is the Board of Directors that is responsible for decision making within the company, which will include the decisions to appoint and remove investment managers

8. How social, environmental or corporate governance considerations are taken into account in the selection, non-selection, retention and realisation of investments

The Fund invests on the basis of financial risk and return, having considered a full range of factors, including environmental, social, and corporate governance (ESG) factors where these present financial risks to the delivery of portfolio objectives and therefore impact on the sustainability of the Fund's returns.
The Fund therefore requires its investment managers to integrate all material financial factors, including ESG considerations, into their investment analysis and decision-making for all fund investments.

The Fund's Investment Managers (and specifically the London Collective Investment Vehicle through which the Fund will increasingly invest) are also expected to undertake appropriate monitoring of current investments with regard to their policies and practices on all issues which could present a material financial risk to the long-term performance of the fund, including ESG factors. The Fund monitors this activity on an ongoing basis with the aim of maximising its impact and effectiveness.

Where appropriate, the Committee considers how it wishes to approach specific ESG factors in the context of its role in asset allocation and investment strategy setting. Taking into account the ratification in October 2016 of the Paris Agreement, the Committee considers that significant exposure to fossil fuel reserves within the Fund's portfolio could pose a material financial risk. In summer 2016, Trucost were commissioned to produce a Carbon Risk Audit for the Fund, quantifying the Fund's exposure through its equity portfolio to fossil fuel reserves and power generation and where the greatest risks lie.

Having taken into account the risks associated with exposure to fossil fuel reserves, the Committee has approved a target to:

- Reduce the Fund's relative exposure to future emissions from fossil fuel reserves (measured in $MtCO_2e$ – million tonnes of CO_2 emissions) by 50% over 2 valuation cycles (6 years)

- Measure the reduction relative to the Fund's position as at July 2016 (7.11MtCO_2e) and adjusted for Assets Under Management (£AUM)

The target will be periodically reviewed to ensure that it remains consistent with the risks associated with investment in carbon assets and with the Committee's fiduciary duties.

The Committee considers exposure to carbon risk in the context of its role in asset allocation and investment strategy setting. Consideration has therefore been given in setting the Fund's Investment Strategy to how this objective can be achieved within a pooled investment structure and the Committee, having taken professional advice, will work with the London CIV to ensure that suitable strategies are made available.

Where necessary, the Fund will also engage with its Investment Managers or the London CIV to address specific areas of carbon risk. The Fund expects its investment managers to integrate financially material ESG factors into their investment analysis and decision making and may engage with managers and the London CIV to ensure that the strategies it invests in remain appropriate for its needs. However, the Fund does not at this time operate a blanket exclusion policy in respect of specific sectors or companies.

At the present time the Committee does not take into account non-financial factors when selecting, retaining, or realising its investments. The Committee reviews its approach to non-financial factors periodically, taking into account relevant legislation and the Law Commission's guidance on when such factors may be considered. Additionally, the Committee monitors legislative and other developments with regards to this subject and will review its approach in the event of material changes.

The Fund does not exclude investments in order to pursue boycotts, divestment and sanctions against foreign nations and UK defence industries, other than where formal legal sanctions, embargoes and restrictions have been put in place by the Government.

The Fund does not at the time of preparing this statement hold any assets which it deems to be social investments; however, this ISS places no specific restrictions on the Fund in respect of such investments beyond those of suitability within the Investment Strategy as a whole and compatibility with the Committee's fiduciary duties. In considering any such investment in the future, the Committee will have regard to the Guidance issued by the Secretary of State and to the Law Commission's guidance on financial and non-financial factors.

9. The exercise of rights (including voting rights) attaching to investments

The Fund is committed to being a long term steward of the assets in which it invests and aims to promote the highest standards of governance and corporate responsibility in the companies in which it invests. It expects this approach to protect and enhance the value of the Fund in the long term. In making investment decisions, the Fund seeks and receives proper advice from internal and external advisers with the requisite knowledge and skills. In addition the Pensions Committee undertakes training on a regular basis, including training and information sessions on matters of social, environmental and corporate governance.

The Fund has a commitment to actively exercising the ownership rights attached to its investments reflecting the Fund's conviction that responsible asset owners should maintain oversight of the companies in which they ultimately invest. It recognises that the companies' activities impact upon not only their customers and clients, but more widely upon their employees and other stakeholders and also wider society.

It therefore expects its managers to follow good practice and use their influence as major institutional investors and long-term stewards of capital to promote good practice in the investee companies and markets to which the Fund is exposed. Effective monitoring and identification of ESG issues can enable engagement with boards and management of investee companies to seek resolution of potential problems at an early stage. Where collaboration is likely to be the most effective mechanism for encouraging issues to be addressed, leading to greater influence and improved outcomes for shareholders and more broadly, the Fund expects its investment managers to participate in joint action with other institutional investors as permitted by relevant legal and regulatory codes.

The Fund through its participation in the London CIV will work closely with other LGPS Funds in London to enhance the level of engagement both with external managers and the underlying companies in which invests. Additionally, the Fund is a member of the Local Authority Pension Fund Forum (LAPFF), through which it joins with other LGPS Funds to magnify its voice and maximise the influence of investors as asset owners

The Committee has formally agreed to adhere to the Stewardship Code as published by the Financial Reporting Council. The Committee expects both the London CIV and any directly appointed fund managers to also comply with the Stewardship Code and this is monitored on an annual basis. A copy of the Fund's statement of compliance with the Stewardship code can be found on the Fund's website. At the FRC's most recent review, the fund was rated as a Tier 2; however, the Fund is currently making improvements to its approach and intends to re-submit its statement for review by the FRC in the hope of achieving a Tier 1.

As part of its compliance with the Stewardship Code the Fund has adopted a set of Voting Intention Guidelines. The Fund has delegated responsibility for voting rights to the Fund's external investment managers and expects them to vote in accordance with these guidelines, which can be found on the Fund's website.

Future investments through the London CIV will be covered by the voting policy of the CIV which has been agreed by the Pensions Sectoral Joint Committee. Voting for investments on the CIV will therefore be delegated to the external managers and monitored on a quarterly basis. The CIV will arrange for managers to vote in accordance with voting alerts issued by the Local Authority Pension Fund Forum as far as practically possible to do so and will hold managers to account where they have not voted in accordance with the LAPFF directions.

The Fund will incorporate a report of voting activity as part of its Pension Fund Annual report which is published on the Pension Fund website

London Borough of Hackney Pension Fund

Funding Strategy Statement

Hackney

1 Introduction

1.1 *What is this document?*

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

It has been prepared by the Administering Authority in collaboration with the Fund's actuary, Hymans Robertson LLP, and after consultation with the Fund's employers and investment adviser. It is effective from 1st April 2017.

1.2 *What is the LBH 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 LBH Fund, in effect the LGPS for the Hackney area, to make sure it:

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

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

1.3 *Why does the Fund need a Funding Strategy Statement?*

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

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

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

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

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

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

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

1.4 *How does the Fund and this FSS affect me?*

This depends on 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 whose council participates in the Fund: you will want to be sure that the council balances the need to hold prudent reserves for members' retirement and death benefits, with the other competing demands for council money;
- a Council Tax payer: your council seeks to strike the balance above, and also to minimise cross-subsidies between different generations of taxpayers.

1.5 *What does the FSS aim to do?*

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

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

1.6 *How do I find my way around this document?*

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

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

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

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

a) the regulatory background, including how and when the FSS is reviewed,

b) who is responsible for what,

c) what issues the Fund needs to monitor, and how it manages its risks,

d) some more details about the actuarial calculations required,

e) the assumptions which the Fund actuary currently makes about the future,

f) a glossary explaining the technical terms occasionally used here.

If you have any other queries please contact Rachel Cowburn, Head of Pension Fund Investments in the first instance at Rachel.cowburn@hackney.gov.uk or on telephone number 0208 356 2630.

2 Basic Funding issues

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

2.1 *How does the actuary measure the required contribution rate?*

In essence this is a three-step process:

- Calculate the ultimate funding target for that employer, i.e. the ideal amount of assets it should hold in order to be able to pay all its members' benefits. See Appendix E for more details of what assumptions we make to determine that funding target;
- Determine the time horizon over which the employer should aim to achieve that funding target. See the table in 3.3 and Note (c) for more details;
- Calculate the employer contribution rate such that it has at least a given probability of achieving that funding target over that time horizon, allowing for different likelihoods of various possible economic outcomes over that time horizon. See 2.3 below, and the table in 3.3 Note (e) for more details.

2.2 *What is each employer's contribution rate?*

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

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

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

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

2.3 *What different types of employer participate in the Fund?*

Historically the LGPS was intended for local authority employees only. However over the years, with the diversification and changes to delivery of local services, many more types and numbers of employers now participate.
In essence, participation in the LGPS is open to public sector employers providing some form of service to the local community. Whilst the majority of members will be local authority employees (and ex-employees), the majority of participating employers are those providing services in place of (or alongside) local authority services: academy schools, contractors, housing associations, charities, etc.

The LGPS Regulations define various types of employer as follows:

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

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

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

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

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

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

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

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

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

For some employers it may be agreed to pool contributions, see 3.4.
Any costs of non-ill-health early retirements must be paid by the employer, see 3.6.
Costs of ill-health early retirements are covered in 3.7 and 3.8.

2.5 *How is a deficit (or surplus) calculated?*

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

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

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

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

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

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

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

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

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

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

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

The Administering Authority 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.

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

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

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

3 Calculating contributions for individual Employers

3.1 General comments

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

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

These and associated issues are covered in this Section.

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

3.2 The effect of paying lower contributions

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

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

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

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

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

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

3.3 *The different approaches used for different employers*

Type of employer	Scheduled Bodies			Community Admission Bodies and Designating Employers		Transferee Admission Bodies
Sub-type	Local Authorities	Academies	Colleges	Open to new entrants	Closed to new entrants	(all)
Funding Target Basis used	Ongoing, assumes long-term Fund participation (see Appendix E)			Ongoing, but may move to "gilts basis" - see Note (a)		Ongoing, assumes fixed contract term in the Fund (see Appendix E)
Primary rate approach	(see Appendix D – D.2)					
Stabilised contribution rate?	Yes - see Note (b)	No	No	No	No	No
Maximum time horizon – **Note (c)**	20 years	15 years	10 years	15 years	15 years	Outstanding contract term
Secondary rate – **Note (d)**	% of payroll or monetary amount	% of payroll or monetary amount	% of payroll or monetary amount	% of payroll or monetary amount	Monetary amount	% of payroll or monetary amount
Treatment of surplus	Covered by stabilisation arrangement	Reductions will be permitted by the Admin Authority by spreading the surplus over a 3 year period or by stepped decreases.	Preferred approach: contributions kept at Primary rate. However, reductions may be permitted by the Admin. Authority			Reduce contributions by spreading the surplus over the remaining contract term

Probability of achieving target – **Note (e)**	66%	66%	66%	75%	75%	70%
Phasing of contribution changes	Covered by stabilisation arrangement	3 years	3 years	3 years	3 years	None
Review of rates – **Note (f)**	Administering Authority reserves the right to review contribution rates and amounts, and the level of security provided, at regular intervals between valuations					Particularly reviewed in last 3 years of contract
New employer	n/a	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 set a higher funding target (e.g. using a discount rate set equal to gilt yields) by the time the agreement terminates or the last active member leaves, in order to protect other employers in the Fund. This policy will increase regular contributions and reduce, but not entirely eliminate, the possibility of a final deficit payment being required from the employer when a cessation valuation is carried out.

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

Note (b) (Stabilisation)

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

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

The current stabilisation mechanism applies if:

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

The Fund currently has a strong net cash inflow and can therefore take a medium to long term view on determining employer contribution rates to meet future liabilities through operating a fund with an investment strategy that reflects this long term view. It allows short term investment markets volatility to be managed so as not to cause volatility in employer contribution rates.

On the basis of extensive modelling carried out for the 2016 valuation exercise (see Section 4), Hackney Council will steadily reduce contributions from the 36.9% of pay currently in payment in 2016/17 to 33.0% of pay, over each year from 1 April 2017 to 31 March 2020.

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

Note (c) (Maximum time horizon)

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

Note (d) (Secondary rate)

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

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

Note (e) (Probability of achieving funding target)

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

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

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

- the Fund believes the employer poses a greater funding risk than other employers,

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

Note (f) (Regular Reviews)

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

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

Note (g) (New Academy conversions)

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

i. The new academy will be regarded as a separate employer in its own right and will not be pooled with other employers in the Fund. The only exception is where the academy is part of a Multi Academy Trust (MAT) in which case the academy's figures will be calculated as below but can be combined with those of the other academies in the MAT;
ii. The new academy's past service liabilities on conversion will be calculated based on its active Fund members on the day before conversion. For the avoidance of doubt, these liabilities will include all past service of those members, but will exclude the liabilities relating to any ex-employees of the school who have deferred or pensioner status;
iii. The new academy will be allocated an initial asset share from the ceding council's assets in the Fund. This asset share will be calculated using the estimated funding position of the ceding council at the date of academy conversion. The share will be based on the active members' funding level, having first allocated assets in the council's share to fully fund deferred and pensioner members. The asset allocation will be based on market conditions and the academy's active Fund membership on the day prior to conversion;
iv. The new academy's initial contribution rate will be calculated using market conditions, the council funding position and membership data, all as at the day prior to conversion;
v. As an alternative to (iv), the academy will have the option to elect to pay contributions initially in line with the ceding LEA instead. However, this election will not alter its asset or liability allocation as per (ii) and (iii) above. Ultimately, all academies remain responsible for their own allocated deficit.

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 (iv) and (v) above will be reconsidered at each valuation.

Note that other than in exceptional circumstances, an Academy that is less than 100% funded at the formal valuation would not usually be allowed a decrease to their contribution rate.

Note (h) (New Admission Bodies)

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

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

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

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

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

Note (i) (New Transferee Admission Bodies)

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

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

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

i) Pooling

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

ii) Letting employer retains pre-contract risks

Under this option the letting employer would retain responsibility for assets and liabilities in respect of service accrued prior to the contract commencement date. The contractor would be responsible for the future liabilities that accrue in respect of transferred staff. The contractor's contribution rate could vary from one valuation to the next. It would be liable for any deficit 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 does not 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; and
- redundancy and early retirement decisions.

Note (j) (Admission Bodies Ceasing)

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

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

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

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

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

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

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

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

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

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

Note (k) (Phasing in of contribution changes)

All phasing is subject to the Administering Authority being satisfied as to the strength of the employer's covenant. Transferee Admission Bodies are not eligible for phasing in contribution rates but other employers may opt to phase in contribution rises or reductions. Employers which have no active members at this valuation will not be phased.

3.4 Pooled contributions

From time to time, with the advice of the Actuary, the Administering Authority may set up pools for employers with similar or complementary characteristics. This will always be in line with its broader funding strategy.

With the advice of the Actuary the Administering Authority allows smaller employers of similar types to pool their contributions as 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.

Community Admission Bodies that are deemed by the Administering Authority to have closed to new entrants are not usually permitted to participate in a pool.

Transferee Admission Bodies are usually also ineligible for pooling.

Smaller admitted bodies may be pooled with the letting employer, provided all parties (particularly the letting employer) agree. The Administering Authority may allow smaller employers to pool their contributions as 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. The Administering Authority may specify the maximum number of active members to participate in a pool.

3.5 Additional flexibility in return for added security

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

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

Such security may include, but is not limited to, a suitable bond, a legally-binding guarantee from an appropriate third party, or security over an employer asset of sufficient value.
The degree of flexibility given may take into account factors such as:

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

3.6 *Non ill health early retirement costs*

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

Employers must make these additional contributions as a one off payment to the fund immediately on awarding the early retirement. The exception to this rule are statutory bodies with tax raising powers, where, depending on the circumstances, the Administering Authority may at its absolute discretion agree to spread the payment over a period not exceeding 5 years. If this is agreed, interest will be charged, using factors provided by the actuary. In any event the spread period cannot exceed the period to the member's normal retirement date if this is shorter than 5 years.

3.7 *Ill health early retirement costs*

In the event of a member's early retirement on the grounds of ill-health, a funding strain will usually arise, which can be very large. Such strains are currently met by each employer, although individual employers may elect to take external insurance (see 3.8 below).

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 *External Ill health insurance*

If an employer provides satisfactory evidence to the Administering Authority of a current external insurance policy covering ill health early retirement strains, then:

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

The employer must keep the Administering Authority notified of any changes in the insurance policy's coverage or premium terms, or if the policy is ceased.

3.9 Employers with no remaining active members

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

a) The employer's asset share runs out before all its ex-employees' benefits have been paid. In this situation the other Fund employers will be required to contribute to pay all remaining benefits: this will be done by the Fund actuary apportioning the remaining liabilities on a pro-rata basis at successive formal valuations;
b) The last ex-employee or dependant dies before the employer's asset share has been fully utilised. In this situation the remaining assets would be apportioned pro-rata by the Fund's actuary to the other Fund employers.
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 bulk transfer payment into, out of and within the Fund, will be treated on its own merits, but in general:

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

4 Funding strategy and links to investment strategy

4.1 What is the Fund's investment strategy?

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

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

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

The same investment strategy is currently followed for all employers.

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

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

Therefore, the funding and investment strategies are inextricably linked.

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

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

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

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

4.4 *How does this differ for a large stable employer?*

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

- Prudence - the Fund should have a reasonable expectation of being fully funded in the long term;
- Affordability – how much can employers afford;
- Stewardship – the assumptions used should be sustainable in the long term, without having to resort to overly optimistic assumptions about the future to maintain an apparently healthy funding position; and

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

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

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

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

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

4.5 Does the Fund monitor its overall funding position?

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

5 Statutory reporting and comparison to other LGPS Funds

5.1 Purpose

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

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

5.2 *Solvency*

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

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

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

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

5.3 *Long Term Cost Efficiency*

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

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

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

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

Relative considerations include:

1. the implied deficit recovery period; and
2. the investment return required to achieve full funding after 20 years.

Absolute considerations include:

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

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

Appendix A – Regulatory framework

A1 Why does the Fund need an FSS?

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

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

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

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

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

A2 Does the Administering Authority consult anyone on the FSS?

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

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

a) A draft version of the FSS was issued to all participating employers in January 2017 for comment;
b) Comments were requested within 30 days;
c) There was an Employers Forum in February 2017 at which questions regarding the FSS could be raised and answered;
d) Following the end of the consultation period the FSS was updated where required and then published, in March 2017.

A3 How is the FSS published?

The FSS is made available through the following routes:

- Published on the website, at http://hackney.xpmemberservices.com/Library/Pension-Fund-and-Investment.aspx;
- A copy sent by e-mail to each participating employer in the Fund;

- A full copy included in the annual report and accounts of the Fund;
- Copies sent to investment managers and independent advisers;
- Copies made available on request.

A4 How often is the FSS reviewed?

The FSS is reviewed in detail at least every three years as part of the triennial valuation. This version is expected to remain unaltered until it is consulted upon as part of the formal process for the next valuation in 2019.

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

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

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

A5 How does the FSS fit into other Fund documents?

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

These documents can be found on the web at http://hackney.xpmemberservices.com/Library/Pension-Fund-and-Investment.aspx

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/Investment Strategy Statement (SIP/ISS) 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;
- provide data and information as required by the Government Actuary's Department to carry out their statutory obligations (see Section 5);
- prepare and maintain a FSS and a SIP/ISS, 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 and SIP/ISS 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 data and information as required by the Government Actuary's Department to carry out their statutory obligations (see Section 5);
- 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 employers' participation in the Fund; and
- fully reflect actuarial professional guidance and requirements in the advice given to the Administering Authority.

B4 Other parties:-

- investment advisers (either internal or external) should ensure the Fund's SIP/ISS 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/ISS;
- 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 advisers may be appointed to advise the Administering Authority on efficient 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;
- the Department for Communities and Local Government (assisted by the Government Actuary's Department) and the Scheme Advisory Board, should work with LGPS Funds to meet Section 13 requirements.

Appendix C – Key risks and controls

C1 Types of risk

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

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

C2 Financial risks

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

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

C4 *Regulatory risks*

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

C5 *Governance risks*

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

Risk	Summary of Control Mechanisms
	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.

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

1. The **funding target** is based on a set of assumptions about the future, e.g. investment returns, inflation, pensioners' life expectancies. However, if an employer is approaching the end of its participation in the Fund then its funding target may be set on a more prudent basis, so that its liabilities are less likely to be spread among other employers after its cessation of participation;
2. The **time horizon** required is, in broad terms, the period over which any deficit is to be recovered. A shorter period will lead to higher contributions, and vice versa (all other things being equal). Employers may be given a lower time horizon if they have a less permanent anticipated membership, or do not have tax-raising powers to increase contributions if investment returns under-perform;
3. The required **probability of achieving** the funding target over that time horizon will be dependent on the Fund's view of the strength of employer covenant and its funding profile. Where an employer is considered to be weaker, or potentially ceasing from the Fund, then the required probability will be set higher, which in turn will increase the required contributions (and vice versa).

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

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

Employer contributions are normally made up of two elements:

a) the estimated cost of ongoing benefits being accrued, referred to as the "Primary contribution rate" (see D2 below); plus
b) an adjustment for the difference between the Primary rate above, and the actual contribution the employer needs to pay, referred to as the "Secondary contribution rate" (see D3 below).

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

D2 How is the Primary contribution rate calculated?

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

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

1. meet the required funding target for all future years' accrual of benefits*, excluding any accrued assets,
2. within the determined time horizon (see note 3.3 Note (c) for further details),
3. with a sufficiently high probability, as set by the Fund's strategy for the category of employer (see 3.3 Note (e) for further details).

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

The projections are carried out using an economic modeller developed by the Fund's actuary Hymans Robertson: this allows for a wide range of outcomes as regards key factors such as asset returns (based on the Fund's investment strategy), inflation, and bond yields. The measured contributions are calculated such that the proportion of outcomes meeting the employer's funding target (by the end of the time horizon) is equal to the required probability. The approach includes expenses of administration to the extent that they are borne by the Fund, and includes allowances for benefits payable on death in service and on ill health retirement.

D3 How is the Secondary contribution rate calculated?

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

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

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

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

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

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

D4 *What affects a given employer's valuation results?*

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

1. past contributions relative to the cost of accruals of benefits;
2. different liability profiles of employers (e.g. mix of members by age, gender, service vs. salary);
3. the effect of any differences in the funding target, i.e. the valuation basis used to value the employer's liabilities;
4. any different time horizons;
5. the difference between actual and assumed rises in pensionable pay;
6. the difference between actual and assumed increases to pensions in payment and deferred pensions;
7. the difference between actual and assumed retirements on grounds of ill-health from active status;
8. the difference between actual and assumed amounts of pension ceasing on death;
9. the additional costs of any non-ill-health retirements relative to any extra payments made; and/or
10. differences in the required probability of achieving the funding target.

D5 How is each employer's asset share calculated?

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

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

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

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

- 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 funding target. However, different assumptions will not of course affect the actual benefits payable by the Fund in future.
The combination of all assumptions is described as the "basis". A more optimistic basis might involve higher assumed investment returns (discount rate), or lower assumed salary growth, pension increases or life expectancy; a more optimistic basis will give lower funding targets and lower employer costs. A more prudent basis will give higher funding targets and higher employer costs.

E2 What basis is used by the Fund?

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

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

E3 What assumptions are made in the ongoing basis?

a) Investment return / discount rate

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

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

For the purpose of the triennial funding valuation at 31 March 2016 and setting contribution rates effective from 1 April 2017, the Fund actuary has assumed that future investment returns earned by the Fund over the long term will be 1.65% per annum greater than gilt yields at the time of the valuation (this is higher than the assumed rate of 1.45% used at the 2013 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 2020. Although this "pay freeze" does not officially apply to local government and associated employers, it has been suggested that they are likely to show similar restraint in respect of pay awards. Based on long term historical analysis of the membership in LGPS funds, and continued austerity measures, the salary increase assumption at the 2016 valuation has been set to be a blended rate combined of:

1. 1% p.a. until 31 March 2020, followed by
2. 1% above the retail prices index (RPI) per annum p.a. thereafter.

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

c) Pension increases

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

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

d) Life expectancy

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

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

It is acknowledged that future life expectancy and, in particular, the allowance for future improvements in life expectancy, is uncertain. There is a consensus amongst actuaries, demographers and medical experts that life expectancy is likely to improve in the future. Allowance has been made in the ongoing valuation basis for future improvements in line with the 2013 version of the Continuous Mortality Investigation model published by the Actuarial Profession and a 1.25% per annum minimum underpin to future reductions in mortality rates. This is a similar allowance for future improvements that was made in 2013. The approach taken is considered reasonable in light of the long term nature of the Fund and the assumed level of security underpinning members' benefits.

e) General

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

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

Appendix F – Glossary

Actuarial assumptions/basis	The combined set of assumptions made by the actuary, regarding the future, to calculate the value of **the funding target**. The main assumptions will relate to the **discount rate**, salary growth, pension increases and longevity. More prudent assumptions will give a higher target value, whereas more optimistic assumptions will give a lower value.
Administering Authority	The council with statutory responsibility for running the Fund, in effect the Fund's "trustees".
Admission Bodies	Employers where there is an Admission Agreement setting out the employer's obligations. These can be Community Admission Bodies or Transferee Admission Bodies. For more details (see 2.3).
Covenant	The assessed financial strength of the employer. A strong covenant indicates a greater ability (and willingness) to pay for pension obligations in the long run. A weaker covenant means that it appears that the employer may have difficulties meeting its pension obligations in full over the longer term.
Designating Employer	Employers such as town and parish councils that are able to participate in the LGPS via resolution. These employers can designate which of their employees are eligible to join the Fund.
Discount rate	The annual rate at which future assumed cash flows (in and out of the Fund) are discounted to the present day. This is necessary to provide a **funding target** which is consistent with the present day value of the assets. A lower discount rate gives a higher target value, and vice versa. It is used in the calculation of the **Primary and Secondary rates**.
Employer	An individual participating body in the Fund, which employs (or used to employ) **members** of the Fund. Normally the assets and **funding target** values for each employer are individually tracked, together with its **Primary rate** at each **valuation**.
Funding target	The actuarially calculated present value of all pension entitlements of all **members** of the Fund, built up to date. This is compared with the present market value of Fund assets to derive the **deficit**. It is calculated on a chosen set of **actuarial assumptions**.
Gilt	A UK Government bond, 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.
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), deferred (ex-employees who have not yet retired) and pensioners (ex-employees who have now retired, and dependants of deceased ex-employees).
Primary contribution rate	The employer contribution rate required to pay for ongoing accrual of active members' benefits (including an allowance for administrative expenses). See Appendix D for further details.
Profile	The profile of an employer's membership or liability reflects various measurements of that employer's **members**, 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).
Secondary contribution rate	The difference between the employer's actual and **Primary contribution rates**. In broad terms, this relates to the shortfall of its asset share to its **funding target**. See Appendix D for further details.
Stabilisation	Any method used to smooth out changes in employer contributions from one year to the next. This is very broadly required by the LGPS Regulations, but in practice is particularly employed for large stable employers in the Fund. Different methods may involve: probability-based modelling of future market movements; longer deficit recovery periods; higher discount rates; or some combination of these.
Valuation	An actuarial investigation to calculate the liabilities and contribution

rates for a Fund, and usually individual employers too. This is normally carried out in full every three years (last done as at 31 March 2016), but can be approximately updated at other times. The assets value is based on market values at the valuation date, and the liabilities value and contribution rates are based on long term bond market yields at that date also.

London Borough of Hackney Pension Fund

Governance Policy and Compliance Statement

Governance Policy and Compliance Statement– Administering Authority

The London Borough of Hackney Council is the Administering Authority of the London Borough of Hackney Pension Fund and administers the Local Government Pension Scheme on behalf of participating employers.

Regulation 55 of the Local Government Pension Scheme Regulations 2013 requires Local Government Pension Scheme (LGPS) Administering Authorities to publish a Governance Compliance Statement setting out information relating to how the Administering Authority delegates its functions under those regulations and whether it complies with guidance given by the Secretary of State for Communities and Local Government. It also requires the Authority to keep the statement under review, to make revisions as appropriate and, where such revisions are made, to publish a revised statement.

Aims and Objectives

Hackney Council recognises the significance of its role as Administering Authority to the London Borough of Hackney Pension Fund on behalf of its stakeholders, which include:

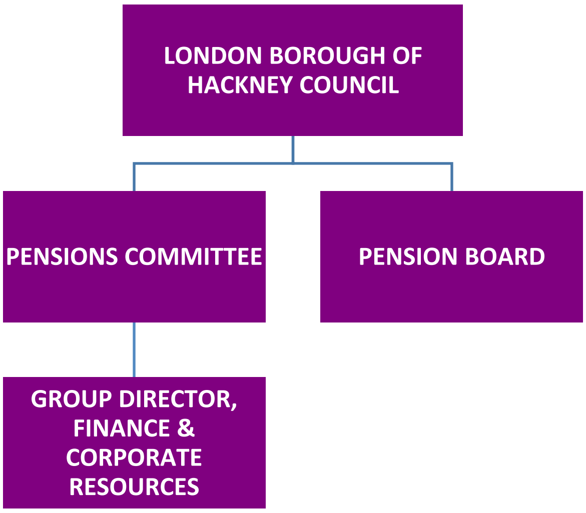
- around 22,000 current and former members of the Fund, and their dependants
- over 20 employers within the Hackney Council area or with close links to Hackney Council
- local taxpayers within the London Borough of Hackney.

In relation to the governance of the Fund, our objectives are to ensure that:

- all staff, Pensions Committee and Pension Board Members charged with financial administration, decision-making or oversight with regards to the Fund are fully equipped with the knowledge and skills to discharge the duties and responsibilities allocated to them
- the Fund is aware that good governance means an organisation is open in its dealings and readily provides information to interested parties
- all relevant legislation is understood and complied with
- the Fund aims to be at the forefront of best practice for LGPS funds
- the Fund manages Conflicts of Interest appropriately

Structure

The Constitution of the Council sets out how the Council operates, how decisions are made, the procedures which are followed to ensure that those decisions are efficient and transparent and that those who made the decisions are accountable to local people. The Constitution sets out the framework under which the Pension Fund is to be administered. This framework is depicted in the diagram below.



Terms of Reference for the Pensions Committee

The Constitution allows for the appointment of a Pensions Committee which has responsibility for the discharge of all non-executive functions assigned to it. The following are the terms of reference for the Pensions Committee:

1. To act as Trustees of the Council's Pension Fund, consider pension matters and meet the obligations and duties of the Council under the Superannuation Act 1972, the Public Service Pensions Act 2013, and the various pension legislation.
2. To make arrangements for the appointment of and to appoint suitably qualified pension fund administrators, actuaries, advisers, investment managers and custodians and periodically to review those arrangements.
3. To formulate and publish a Statement of Investment Principles.
4. To set the overall strategic objectives for the Pension Fund, having taken appropriate expert advice, and to develop a medium term plan to deliver the objectives.
5. To determine the strategic asset allocation policy, the mandates to be given to the investment managers and the performance measures to be set for them.
6. To make arrangements for the triennial actuarial valuation, to monitor liabilities and to undertake any asset/liability and other relevant studies as required.
7. To monitor the performance and effectiveness of the investment managers and their compliance with the Statement of Investment Principles.
8. To set an annual budget for the operation of the Pension Fund and to monitor income and expenditure against budget.
9. To receive and approve an Annual Report on the activities of the Fund prior to publication.
10. To make arrangements to keep members of the Pension Fund informed of performance and developments relating to the Pension Fund on an annual basis.
11. To keep the terms of reference under review.
12. To determine all matters relating to admission body issues.
13. To focus on strategic and investment related matters at two Pensions Committee meetings.
14. To review the Pension Fund’s policy and strategy documents on a regular basis and review performance against the Fund’s objectives within the business plan
15. To maintain an overview of pensions training for Members.

In addition the Pensions Committee will also co-opt a non-voting employer representative and a non-voting scheme member representative.

Membership of the Pensions Committee

The Council decides the composition and makes appointments to the Pensions Committee. Currently the membership of the Pensions Committee is a minimum of 5 elected Members from Hackney Council on a politically proportionate basis. The Pensions Committee will elect a Chair and Vice Chair. All Hackney Council elected Members have voting rights on the Committee; two voting members of the Committee are required to deem the meeting quorate.

In addition the membership includes two co-opted non-voting members representing employer and scheme member interests. Although the co-opted representatives do not have voting rights they are treated as equal members of the Committee and have access to all Committee advisers, officers, meetings and training as if they were Council Members and have the opportunity to contribute to the decision making process. Voting rights are restricted to elected Members as they are deemed to be fulfilling the role of Trustees of the Pension Fund with all the legal responsibilities that this entails. It was therefore not felt to be appropriate to apply the same legal definition to the lay members of the Committee; hence their role as non-voting members.

Members of the Pensions Committee, including co-opted members, are required to declare any interests that they have in relation to the Pension Fund or items on the agenda at the commencement of the meeting.

The Fund is aware that good governance means an organisation is open in its dealings and readily provides information to interested parties; meetings are open to members of the public who are welcome to attend. However, there may be occasions when members of the public are excluded from meetings; this will be the case when it is likely in view of the nature of the business to be transacted or the nature of the proceedings that confidential information would be disclosed.

Meetings

The Pensions Committee shall meet at least four times a year in the ordinary course of business and additional meetings may be arranged as required to facilitate its work. Work for the year will be agreed with the Committee and will include dedicated training sessions for Committee members.

Agendas for meetings will be agreed with the Chair and will be circulated with supporting papers to all members of the Committee, Officers of the Council as appropriate and the Fund’s Investment Advisor and Benefits Consultant.

The Council will give at least five clear working days’ notice of any meeting by posting details of the meeting at the Hackney Town Hall and on the Council’s website. The Council will make copies of the agenda and reports open to the public available for inspection at least five clear working days before the meeting. If an item is added to the agenda later, the revised agenda will be open to inspection from the time the item was added to the agenda. The reason for lateness will be specified in the report.
There may on occasions be items which may be exempt from the agenda, reports and minutes of the meetings when it is likely in view of the nature of the business to be transacted or the nature of the proceedings that confidential information would be disclosed. Items which are most likely to be excluded are issues where to disclose information would

contravene an individual's privacy or where there are financial interests which may be compromised as a result of disclosure for example discussions surrounding contracts.

The Council will make available copies of the minutes of the meeting and records of decisions taken for six years after a meeting. Minutes of meetings and records of decisions are available for inspection on the Council's website www.hackney.gov.uk.

Other Delegations of Powers

The Pensions Committee act as quasi trustees and oversee the management of the Pension Fund. As quasi trustees the Committee have a clear fiduciary duty in the performance of their functions; they must ensure that the Fund is managed in accordance with the regulations and to do so prudently and impartially and to ensure the best possible outcomes for the Pension Fund, its participating employers, local taxpayers and Scheme members. Whilst trustees can delegate some of their powers, they cannot delegate their responsibilities as trustees. Appendix C outlines the areas that the Pensions Committee has currently delegated though these may be added to from time to time.

Under the Council's Constitution delegated powers have been given to the Group Director, Finance & Corporate Resources in relation to all other pension fund matters, in addition to his role as Chief Financial Officer (often called S151 Officer). As Chief Financial Officer he is responsible for the preparation of the Pension Fund Annual Report & Accounts and ensuring the proper financial administration of the Fund. As appropriate the Group Director, Finance & Corporate Resources will delegate aspects of the role to other officers of the Council including the Director, Financial Management, the Head of Pensions Administration and the Head of Pension Fund Investments and to professional advisors within the scope of the LGPS Regulations.

Pension Board

With effect from 1 April 2015, each Administering Authority is required to establish a local Pension Board to assist them with

- securing compliance with the LGPS Regulations and any other legislation relating to the governance and administration of the Scheme, and requirements imposed in relation to the LGPS by the Pensions Regulator
- ensuring the effective and efficient governance and administration of the Pension Fund

Such Pension Boards are not local authority committees; as such the Constitution of Hackney Council does not apply to the Pension Board unless it is expressly referred to in the Board's terms of reference. The Hackney Pension Board established by Hackney Council and the full terms of reference of the Board can be found within the Council's Constitution. The key points are summarised below.

Role of the Pension Board

The Council has charged the Pension Board with providing oversight of the matters outlined above. The Pension Board, however, is not a decision making body in relation to the management of the Pension Fund. The Pension Fund's management powers and responsibilities which have been delegated by the Council to the Pensions Committee or otherwise remain solely the powers and responsibilities of the Council and Committee, including but not limited to the setting and delivery of the Fund's strategies, the allocation of the Fund's assets and the appointment of contractors and advisors as required.

Membership of the Pension Board

The Pension Board consists of either 4 or 5 members as follows:

- Two Employer Representatives, one of which must be from Hackney Council
- Two Scheme Member Representatives, one of which must be a member of the London Borough of Hackney Pension Fund
- One Independent Member (non-voting) to act as chair of the Pension Board, which is an optional position that may be utilised if it is considered that the other members of the Board do not have the requisite knowledge and skills to undertake this position at the time of appointment.

The members of the Board are appointed by an Appointments Panel which consists of:

- the Lead Member for Finance
- the Group Director, Finance and Corporate Resources
- the Director, Financial Management
- the Director, Legal

Pension Board members, (excluding any Independent Member), have individual voting rights but it is expected the Pension Board will as far as possible reach a consensus.

A meeting of the Pension Board is only quorate when two of the four Employer and Scheme Member Representatives are present. If the Board has an Independent Member they must also be present.

Members of the Pension Board are required to declare any interests that they have in relation to the Pension Fund or items on the agenda at the commencement of the meeting.

Meetings

The Pension Board meets at least twice a year in the ordinary course of business and additional meetings may be arranged as required to facilitate its work.

The Pension Board will be treated in the same way as a Committee of Hackney Council and, as such, members of the public may attend and papers will be made public in the same was as described above for the Pension Committee.

Policy Documents

In addition to the foregoing, there are a number of other documents which are relevant to the Governance and management of the Pension Fund. Brief details of these are listed below and the full copies of all documents can either be found on the Pension Fund Website http://hackney.xpmemberservices.com, by emailing the Financial Services Department pensions@hackney.gov.uk or by writing to the address given at the end of this document.

Funding Strategy Statement

The Funding Strategy Statement forms part of the framework for the funding and management of the Pension Fund. It sets out how the Fund will approach its liabilities and contains a schedule of the minimum contribution rates that are required of individual employers within the Fund. The Funding Strategy Statement (FSS) is drawn up by the Administering Authority in collaboration with the Fund's actuary and after consultation with the Fund's employers. The FSS forms part of a broader framework which covers the Pension Fund and applies to all employers participating in the Fund. The FSS represents a summary of the Fund's approach to funding the liabilities of the Pension Fund

Investment Strategy Statement

The Local Government Pension Scheme (Management and Investment of Funds) (Amendment) Regulations 2016 require pension fund administering authorities to formulate an investment strategy which must be in accordance with guidance issued by the Secretary of State

The Investment Strategy Statement required by the regulations must include:-

- a) A requirement to invest money in a wide variety of investments;
- b) The authority's assessment of the suitability of particular investments and types of investments;
- c) The authority's approach to risk, including the ways in which risks are to be measured and managed;
- d) The authority's approach to pooling investments, including the use of collective investment vehicles and shared services;
- e) The authority's policy on how social, environmental or corporate governance considerations are taken into account in the selection, non-selection, retention and realisation of investments; and
- f) The authority's policy on the exercise of rights (including voting rights) attaching to investments.

The Investment Strategy Statement must also set out the maximum percentage of the total value of all investments of fund money that it will invest in particular investments or classes of investment.

Governance Compliance Statement

This sets out the Pension Fund's compliance with the Secretary of State's Statutory Guidance on Governance in the LGPS. This is attached as Appendix A and shows where the Fund is compliant or not compliant with best practice and the reasons why it may not be compliant.

Training Policy

Hackney Council has a Training Policy which has been put in place to assist the Fund in achieving its governance objectives and all Pensions Committee members, Pension Board members and senior officers are expected to continually demonstrate their own personal commitment to training and to ensuring that the governance objectives are met.

To assist in achieving these objectives, the London Borough of Hackney Pension Fund aims to comply with:

- the CIPFA Knowledge and Skills Frameworks and
- the knowledge and skills elements of the Public Service Pensions Act 2013 and the Pensions Regulator's (TPR) Code of Practice for Public Service Schemes

as well as any other LGPS specific guidance relating to the knowledge and skills of Pensions Committee members, Pension Board members or pension fund officers which may be issued from time to time.

Members of the Pensions Committee, Pension Board and officers involved in the management of the Fund will receive training to ensure that they meet the aims of the Training Policy with training schedules drawn up and reviewed on at least an annual basis.

Annual Report and Accounts

As part of the financial standing orders it is the duty of the Chief Financial Officer to ensure that record keeping and accounts are maintained by the Pension Fund. The Pension Fund accounts are produced in accordance with CIPFA's Code of Practice on Local Authority Accounting, which transposes various IFRS requirements for the public sector. The financial statements summarise the transactions of the Scheme and deal with the net assets of the Scheme. The statement of accounts is reviewed by the Pensions Committee and the Audit Committee and incorporated in the Statement of Accounts for the Council. Full copies of the Report and Accounts are distributed to employers in the Fund and other interested parties and a copy placed on the website http://hackney.xpmemberservices.com. A briefing note prepared from the annual report and accounts of the pension fund is distributed to scheme members annually.

Communication Policy

This document sets out the communications policy of the administering authority and sets out the strategy for ensuring that all interested parties are kept informed of developments in the Pension Fund. This helps to ensure transparency and an effective communication process for all interested parties. A copy of the policy can be found on the Pensions website http://hackney.xpmemberservices.com

Discretions Policies

Under the Local Government Pension Scheme regulations, the Administering Authority has a level of discretion in relation to a number of areas. The Administering Authority reviews these policies as appropriate and will notify interested parties of any significant changes. Employing Authorities are also required to set out their discretions policies in respect of areas under the Regulations where they have a discretionary power. Copies of both the Administering Authority and the London Borough of Hackney's Employing Authority Discretions can be found on the website http://hackney.xpmemberservices.com

Pension Administration Strategy and Employer Guide

In order to assist with the management and efficient running of the Pension Fund, the Pension Administration Strategy and Employer Guide encompassing administrative procedures and responsibilities for the Pension Fund for both the Administering Authority and Employing Authorities has been distributed to employers within the Fund following consultation and can be found on the website http://hackney.xpmemberservices.com. This represents part of the process for ensuring the ongoing efficient management of the Fund and maintenance of accurate data and forms part of the overall governance procedures for the Fund.

Approval, Review and Consultation

This Governance Policy and Statement was approved at the London Borough of Hackney Pensions Committee meeting on 27th June 2017 following consultation with all the participating employers in the Fund and other interested parties. It will be formally reviewed and updated at least every year or sooner if the governance arrangements or other matters included within it merit reconsideration.

Contact Information

Further information on the London Borough of Hackney Pension Fund can be found as shown below:

London Borough of Hackney Pension Fund
Financial Services
4th Floor, Hackney Service Centre
1 Hillman Street
London E8 1DY

Telephone: 020 8356 3565
Email: pensions@hackney.gov.uk (Governance)
hackney.pensions@equiniti.com (Administration)
Website: http://hackney.xpmemberservices.com
Hackney Council Website: www.hackney.gov.uk (Minutes, Agendas, etc.)

Appendix A

Governance Best Practice – Compliance Statement

Regulation 55 of the Local Government Pension Scheme Regulations 2013 requires Local Government Pension Scheme (LGPS) Administering Authorities to measure their governance arrangements against the standards set out in the Statutory Guidance issued by the Secretary of State for Communities and Local Government.

The following compliance statement has been approved by the Pensions Committee. This sets out where the Pension Fund is compliant with the guidance and where it is not compliant provides an explanation for non-compliance.

Structure

a. The management of the administration of benefits and strategic management of fund assets clearly rests with the main committee established by the appointing council. *Fully compliant – Council Constitution delegates responsibility for the Pension Fund to the Pension Committee in respect of these matters.*

b. That representatives of participating LGPS employers, admitted bodies and scheme members (including pensioner and deferred members) are members of either the main or secondary committee established to underpin the work of the main committee. *Fully compliant – Employer and Scheme member representatives are appointed to the Pension Committee.*

c) That where a secondary committee or panel has been established, the structure ensures effective communication across both levels. *Fully Compliant – no secondary committee.*
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. *Fully Compliant – no secondary committee.*

	Not Compliant*				Fully Compliant
a)					✓
b)					✓
c)					✓
d)					✓

* Please use this space to explain the reason for non-compliance: N/A

Please use this space if you wish to add anything to explain or expand on the ratings given above:
Decision taken by Committee not to hold a secondary committee and that employer and scheme member representatives may participate at main Committee.

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) where appropriate, independent professional observers; and
iv) expert advisers (on an ad-hoc basis).

Fully Compliant – (i) Employing authorities are represented by an employer representative with responsibility for representing the interests of all employers participating in the Fund. (ii) Scheme members are represented by an individual with responsibility for representing the interest of all Scheme members. (iii) At this stage the Pensions Committee has determined that there is no requirement for an independent professional observer. (iv) Expert advisers – investment consultant participates at all meetings of the Committee and other expert advisors are invited to attend as and when required.

b) That where lay members sit on a main or secondary committee, they are treated equally in terms of access to advisers and meetings, training and are given full opportunity to contribute to the decision making process, with or without voting rights. *Fully Compliant – All members are sent Committee papers ahead of meetings, are invited to training and are able to fully contribute to the decision making process.*

	Not Compliant*				Fully Compliant
a)					✓
b)					✓

* Please use this space to explain the reason for non-compliance : N/A

Please use this space if you wish to add anything to explain or expand on the ratings given above: (i) & (ii) Co-opted members of the Pensions Committee have been charged with representing the interests of the groups that they have been co-opted onto the Committee for.

Selection and role of lay members

a) That committee or panel members are made fully aware of the status, role and function they are required to perform on either a main or secondary committee. *Fully Compliant – see Governance Policy*
b) That at the start of any meeting, committee members are invited to declare any financial or pecuniary interest related to specific matters on the agenda. *Fully Compliant – Members of the Committee declare interests at the start of each meeting.*

	Not Compliant*				Fully Compliant
a)					✓
b)					✓

* Please use this space to explain the reason for non-compliance: N/A

Please use this space if you wish to add anything to explain or expand on the ratings given above: N/A

Voting

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

	Not Compliant*				Fully Compliant
a)					✓

* Please use this space to explain the reason for non-compliance: N/A

Please use this space if you wish to add anything to explain or expand on the ratings given above:
Whilst the co-opted employer and scheme member representatives do not have voting rights, they are encouraged to fully participate in the meetings and decision making process.

Training/Facility time/Expenses

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

	Not Compliant*				Fully Compliant
a)					✓
b)					✓
c)					✓

* Please use this space to explain the reason for non-compliance : N/A

Please use this space if you wish to add anything to explain or expand on the ratings given above:
Please see the Fund's Training Policy.

Meetings (frequency/quorum)

a) That an administering authority's main committee or committees meet at least quarterly. *Fully Compliant.*
b) That an administering authority's secondary committee or panel meet at least twice a year and is synchronised with the dates when the main committee sits. *Fully Compliant – only main Committee.*
c) That an administering authority that does not include lay members in their formal governance arrangements must provide a forum outside of those arrangements by which the interests of key stakeholders can be represented. *Fully compliant – Employer and scheme member interests are represented at the main Pensions Committee.*

	Not Compliant*				Fully Compliant
a)					✓

b)					✓
c)					✓

* Please use this space to explain the reason for non-compliance: N/A

Please use this space if you wish to add anything to explain or expand on the ratings given above:

Access

a) That subject to any rules in the council's constitution, all members of main and secondary committees or panels have equal access to committee papers, documents and advice that falls to be considered at meetings of the main committee. *Fully Compliant – Committee papers are despatched 5 clear working days prior to a Committee meeting.*

	Not Compliant*				Fully Compliant
a)					✓

* Please use this space to explain the reason for non-compliance: N/A

Please use this space if you wish to add anything to explain or expand on the ratings given above: N/A

Scope

a) That administering authorities have taken steps to bring wider scheme issues within the scope of their governance arrangements. *Fully Compliant – The Committee reviews all aspects of Pension Fund management.*

	Not Compliant*				Fully Compliant
a)					✓

* Please use this space to explain the reason for non-compliance: N/A

Please use this space if you wish to add anything to explain or expand on the ratings given above : N/A

Publicity

a) That administering authorities have published details of their governance arrangements in such a way that stakeholders with an interest in the way in which the scheme is governed, can express an interest in wanting to be part of those arrangements. *Fully Compliant – Governance Policy and Compliance Statement published in full in the Pension Fund Annual Report & Accounts and on the Pensions website http://hackney.xpmemberservices.com*

	Not Compliant*				Fully Compliant
a)					✓

* Please use this space to explain the reason for non-compliance: N/A

Please use this space if you wish to add anything to explain or expand on the ratings given above:

Appendix B

Delegation of Functions to Officers by Pensions Committee – June 2017

Key:
PC – Pensions Committee
GDFCR – Group Director, Finance & Corporate Resources
DFM – Director, Financial Management
HPA – Head of Pensions Administration
HPFI – Head of Pension Fund Investments
IC – Investment Consultant
FA – Fund Actuary
Advisers – Investment, actuarial and/or benefits consultants as appropriate

Function delegated to PC	**Further Delegation to Officer(s)**	**Delegated Officer(s)**	**Communication and Monitoring of Use of Delegation**
To formulate & publish a Statement of Investment Principals and to monitor performance and effectiveness of investment managers	Implementation of strategic allocation including use of both rebalancing and conditional ranges	HPFI (having regard to ongoing advice of the GDFCR, DFM and advisers and in consultation with the Chair of PC)	High level monitoring at PC with more detailed monitoring by HPFI and GDFCR
To set the overall strategic objectives for the Pension Fund, having taken appropriate expert advice and develop a medium term plan to deliver the objectives	Implementation of the agreed Flightpath triggers	DFM, HPFI and GDFCR (having regard to ongoing advice of the FA and IC)	High level monitoring at PC with more detailed monitoring by HPFI and GDFCR
To determine the strategic asset allocation policy, the investment strategies to be selected and the performance measures to be set for them.	To consider investment strategies and to recommend these for consideration by PC	DFM, HPFI and GDFCR (having regards to ongoing advice of advisers)	High level monitoring at PC with more detailed monitoring by advisers
Selection, appointment and dismissal of the Fund's suppliers, including actuary, benefits consultants, investment consultants, global custodian and pension funds administrator.	Ongoing monitoring of suppliers	HPFI/HPA and GDFCR (having regard to ongoing advice of advisers) and subject to ratification by PC	High level monitoring at PC with more detailed monitoring by advisers

Function delegated to PC	Further Delegation to Officer(s)	Delegated Officer(s)	Communication and Monitoring of Use of Delegation
	Selection, appointment and termination of suppliers following approval by PC	DFM, HPFI/HPA and GDFCR (having regard to ongoing advice of advisers) and subject to ratification by PC	Notified to PC via ratification process.
To determine all matters relating to admission body issues.	Agreeing the terms and payment of bulk transfers into and out of the Fund where there is a bulk transfer of staff from the Fund. Making decisions relating to employers joining and leaving the Fund and compliance with the Regulations and policies. This includes which employers are entitled to join the Fund, any requirements relating to their entry, ongoing monitoring and the basis for leaving the Fund where the employer.	DFM, HPFI/HPA and GDFCR after taking appropriate advice from the FA.	Ongoing reporting to PC for noting
To review the Pension Fund's policy and strategy documents on a regular cycle and review performance against the Fund's objectives within the business plan	Changes to Administering Authority discretionary policies necessitated by changes to regulations - authority to amend the policies to reflect the requirements of such new regulations, subject to those decisions having no significant financial implications.	GDFCR and the Director, Legal	Copy of policy to be circulated to PC members once approved.
Agreeing the Administering Authority responses to consultations on LGPS matters and other matters where they may impact on the Fund or its stakeholders.	Agreeing the Administering Authority responses where the consultation timescale does not provide sufficient time for a draft response to be approved by PC.	HPFI/HPA, DFM and GDFCR, subject to agreement with Chairman and Deputy Chairman (or either, if only one available in timescale)	PC advised of consultation via e-mail (if not already raised previously at PC) to provide opportunity for other views to be fed in. Copy of consultation response provided at following PC for noting.

Function delegated to PC	**Further Delegation to Officer(s)**	**Delegated Officer(s)**	**Communication and Monitoring of Use of Delegation**
To maintain an overview of pensions training for Members - overall responsibility for the Fund's Knowledge and Skills Policy for all Pension Fund Committee members and for all officers of the Fund, including determining the Fund’s knowledge and skills framework, identifying training requirements, developing training plans and monitoring compliance with the policy.	Implementation of the requirements of the CIPFA Code of Practice[1]	GDFCR and DFM	Regular reports provided to PC and included in Annual Report and Accounts.
The Committee may delegate a limited range of its functions to one or more officers of the Authority. The Pension Fund Committee will be responsible for outlining expectations in relation to reporting progress of delegated functions back to the Pension Fund Committee.	Other urgent matters as they arise	HPFI/HPA, DFM and GDFCR, subject to agreement with Chairman and Deputy Chairman (or either, if only one is available in timescale)	PC advised of need for delegation via e-mail as soon as the delegation is necessary. Result of delegation to be reported for noting to following PC.
	Other non-urgent matters as they arise	Decided on a case by case basis	As agreed at PC and subject to monitoring agreed at that time.

CIPFA Code of Practice recommends each administering authority delegates responsibility for implementation to a senior officer.

[1] **CIPFA Code of Practice recommends each administering authority delegates responsibility for implementation to a senior officer.**

London Borough of Hackney Pension Fund

Communication Policy Statement

Hackney

Communications Policy Statement

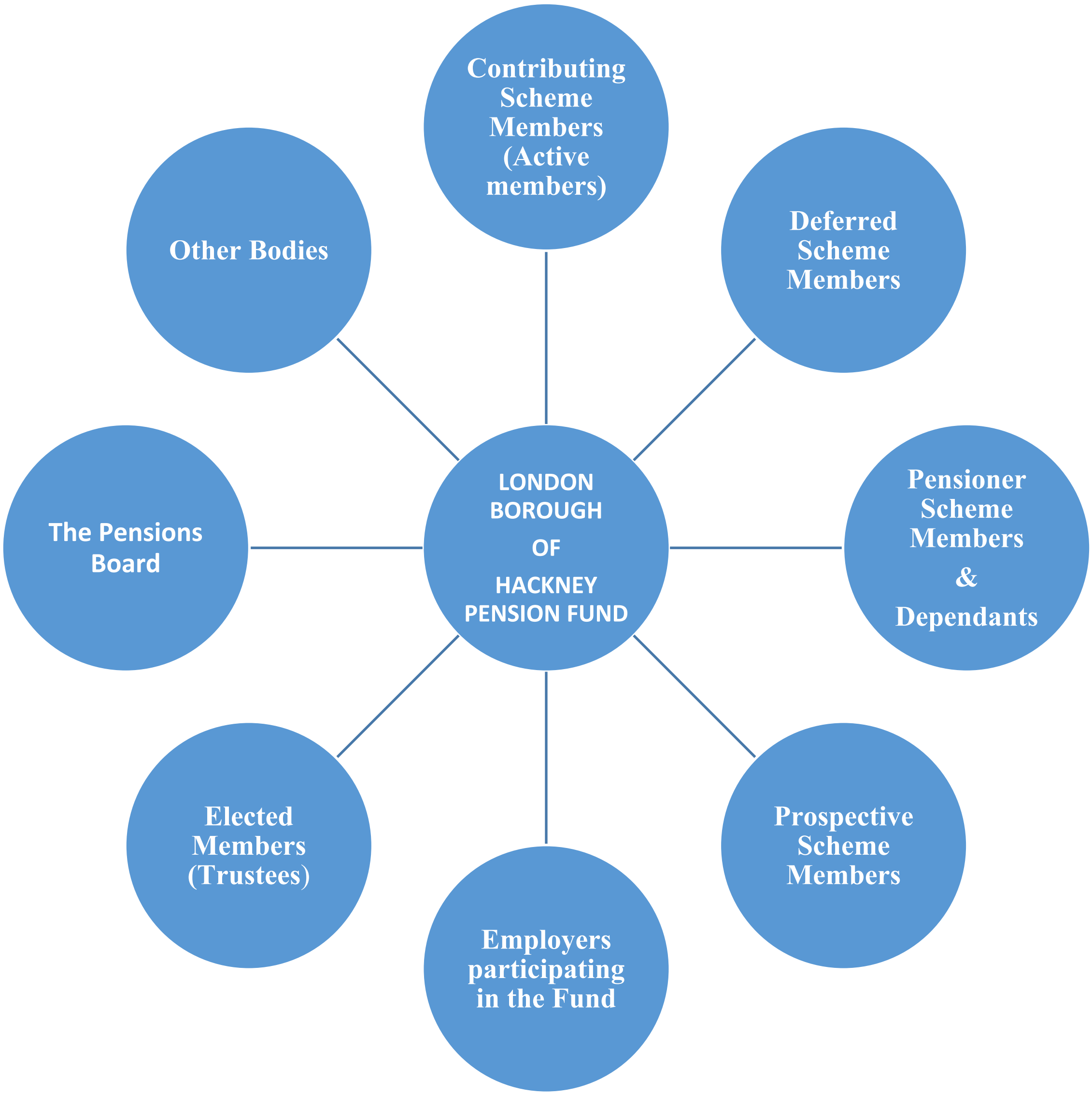
Legislative background

This document sets out the Communications Policy of the Administering Authority of the London Borough of Hackney Pension Fund as required under the Local Government Pension Scheme Regulations (2013), Regulation 61.

The Public Service Pensions Act 2013 also introduced a framework for the governance and administration of public sector service pension schemes and provided an extended regulatory oversight of the LGPS to the Pensions Regulator. The Regulator's Code of Practice No14 has detailed guidance on providing good quality communications to members and others, with reference to the Occupational & Personal Pensions Scheme (Disclosure of Information) Regulations 2013 and HM Treasury Directions 2014 on Information about Benefits.

Objectives

The aim of this communications strategy is to make sure that all stakeholders are kept informed of developments within the Pension Fund. We want to ensure transparency and an effective communication process will help to maintain the efficient running of the Scheme. Regulations require each Administering Authority to prepare, maintain and publish a statement setting out their policy on communicating with the following stakeholders and organisations:



Communications Methodology

The administering authority has at its disposal a wide range of options for communicating with the diverse groups that it needs to serve. The method of communication will vary depending on what needs to be communicated and to whom. The methods used by the Administering Authority to communicate with all interested parties are detailed below.

General Communications

We use a range of methods to communicate including a variety of paper-based and electronic means. The Fund has a dedicated Pensions website: **hackney.xpmemberservices.com** and the use of a secure portal 'Sharefile' for employers to upload confidential information.

We will accept some communications electronically and will respond electronically where possible. For security reasons, we will not use email for communicating sensitive information or where it is necessary to verify the address or identity of the sender

- **Pension Scheme Administrators** – The Fund's administrators, Equiniti, will assist with the overall administration of the scheme to ensure the smooth operation of the administrative function.

  They can be contacted via the helpline number - 01293 603085 or by email:-

  - for Members of the scheme – **hackney.pensions@equiniti.com**
  - for Administration staff – **hackney.employers@equiniti.com**

- **Website** – Communication in the form of a dedicated Pension Fund website is available which contains a wide range of information for not only scheme members but also scheme employers and other interested parties. The website can be accessed via **hackney.xpmemberservices.com**. The website contains copies of scheme guides, newsletters and other relevant information pertaining to the LGPS

- **Policy Documents** – These are available for all stakeholders to access either on the website at **hackney.xpmemberservices.com**, in hard copy or electronically on application. Copies of all policy documents are held within the Financial Services Section, Finance and Resources Directorate.

- **Posters** – These will be designed to help those who are both members and non-members of the LGPS, to understand the full range of benefits when participating in the scheme, and providing guidance on how to obtain more information and also how to join the scheme.

- **Council Intranet** – Updates on the scheme and any other relevant news in regards to LGPS is available through communication updates via the Council intranet, which is the Fund's largest employer.

Branding

As the pension fund is administered by Equiniti, all literature and communications will include a combination of the branding of the London Borough of Hackney, Hackney Pensions and Equiniti.

Data Protection Statement

To protect any personal information held on computer, the London Borough of Hackney Pension Fund and the pension administrators, Equiniti, are registered under the Data Protection Act 1998. This allows members to check that their details held are accurate.

The Fund may, if it chooses, pass certain details to a third party, if the third party is carrying out an administrative function of the Fund, for example, the Fund's AVC provider. Members who wish to apply to access their data on Data Protection grounds should contact the pension administrators, Equiniti, on 01293 603085 or by email hackney.pensions@equiniti.com

National Fraud Initiative (NFI)

This authority is under a duty to protect the public fund it administers, and to this end may use information for the prevention and detection of fraud. This includes our participation in the Government's National Fraud Initiative (NFI), and it may also share information with other bodies responsible for auditing, or administering public funds, solely for the purposes of preventing and/or detecting fraud.

Policy on Communicating with Contributing (active) Scheme Members, Deferred and Pensioner Members

All members of the Scheme (active, deferred and pensioner members) will be kept informed about their benefits, developments in the Scheme and any changes to the scheme of a regulatory or operational nature. This includes consultation with representative groups as required.

- **Scheme Guides** – There are scheme guides available for members setting out the conditions of membership and main scheme benefits that apply under the Local Government Pension Scheme (LGPS). A copy of these will be provided to new employees of the scheme and at other times on request. The scheme guides can also be found on the Pension Fund website at **hackney.xpmemberservices.com** which is available for any member to access.

- **Member Self-Service** – Via the Fund's website, all scheme members can securely access their pension details held on the pension administrator's database. This facility allows scheme members to check their personal details and advise the administrators of any changes. It also has the ability for scheme members to produce an estimate of their potential LGPS benefits due to them at retirement. Pensioner members will be able to view payslips and P60's and their address details.

- **Annual Benefit Statements** – Active and deferred scheme members are entitled to an annual benefit statement detailing the benefits that they might expect at retirement. These are issued annually and would normally be issued within 5 months of the financial year end (31st March). These contain vital information for scheme members and enable individuals to make informed choices about their retirement options.

- **Pension Surgeries** – based at Hackney Service Centre, 1 Hillman Street, London, E8 1DY. Pension Officers can be contacted by email **pensions@hackney.gov.uk** or alternatively contact by telephone 020 8356 2521/2507/4266, for members (active, deferred and pensioners) to make an appointment to discuss their benefits, retirement issues and the options available in the Scheme.

- **Pension Roadshows/Presentations** – Roadshows and presentations are used to target specific topics or when major scheme changes occur, enabling all members of the LGPS to have access to information. General meetings and presentations will be held at intervals to communicate the benefits and options available to scheme members and prospective members.

- **Pre-retirement seminars –** Presentations on the scheme and benefit choices at pre-retirement seminars that are facilitated by the London Borough of Hackney Human Resources Department, to help scheme members approaching retirement prepare for the financial and lifestyle changes retirement brings.

- **Newsletters** – These will be sent to scheme members to communicate changes in regulations, developments in the fund and to inform members of changes in policy. The exact timing and nature of these newsletters will vary depending on what developments are taking place. However if there are regulatory changes which are likely to impact on individuals benefits or scheme membership in any significant way, then newsletters will be sent to members in sufficient time for them to be able to act upon that information. An annual accounts newsletter is sent to all scheme members providing information on the state of the fund, performance of the fund and any major changes which have taken place during the year.

- **Pensioner Payslips –** All pensioners receive a payslip each month along with their P60 at the end of the year. Electronic payslips are also available to those registered for self-service.

- **Pension Increase notifications –** The notification of the annual increase to pensioner benefits is sent out to every member in receipt of a pension each April.

- **Certificates of Continued Entitlement to Pensions (Life Certificates) –** The Fund will undertake an annual exercise, conducted through correspondence, in order to establish the continued existence of the following pensioners:

    - All pensioners living abroad (outside the UK).
    - Those over the age of 80
    - Those pensioners receiving pension benefits by cheque
    - Those retired on ill health grounds.

  This exercise will also be undertaken every 3 years to establish the continued existence of ALL members in receipt of a pension.

- **Pension Fund Report and Accounts Summary** – This provides a summary of the Pension Fund during the financial year and will be distributed annually to all scheme members

Policy on Communicating with Prospective Scheme Members

We will make information available to all prospective scheme members, new employees and prospective employees. All new employees will be contractually enrolled into the LGPS where their employer is a scheduled body or a contractor has an open admission agreement, the terms of which are to enrol new members and will receive information regarding the scheme. They can still choose to opt-out should they choose to do so.

- **Initial Contact** - All permanent new members of staff are contractually enrolled into the LGPS, where the employer is a scheduled body or open admission agreement contractor. Each new member is sent a welcome letter statutory notice by the pension administrators confirming their membership of the LGPS along with a scheme guide.

- **Induction seminars** – Presentation on the scheme and its benefits at the weekly induction seminars for all new employees of the Council, which are facilitated by HR, providing prospective new members of the scheme information in order for them to make an informed decision in regard to membership of the scheme. Induction seminars are also provided for other employers on request.

- **Liaison Officer, Pensions** – based at Hackney Service Centre, 1 Hillman Street, London E8 1DY, the Liaison Officer, Pensions is easily contactable by email: pensions@hackney.gov.uk telephone 020 8356 6802, or letter. It is also possible to arrange a one-to-one meeting to discuss the benefits and options available to prospective members.

- **Scheme Guides** – There are scheme guides available for prospective members setting out the conditions of membership and main scheme benefits that apply under the Local Government Pension Scheme (LGPS). A copy of these will be provided electronically to new employees and prospective members of the scheme, and at other times, on request. The scheme guides can also be found on the Pension Fund website hackney.xpmemberservices.com which is available for any member to access.

Policy on Communicating with Employers participating in the Fund

We will keep employers in the Pension Fund informed about developments in the Scheme and consult on changes to the Scheme as required. Potential scheme employers will also have access to information about the Pension Fund to ensure that they are fully informed in their relationship with the Fund.

- **Employer Guide** – This is a guide for scheme employers outlining the details of the scheme and the administrative arrangements for the scheme. This has been distributed to all employers in the scheme and all new employers will receive copies. Training on procedures in relation to the employer guide is also available upon request.

- **Employer Seminars/Meetings** – Annual employer forums are held to update employers of relevant current issues, policy changes and investment updates. Further seminars/meetings will be held as appropriate to communicate changes in policy within the Scheme or to discuss major issues affecting all employers such as the triennial actuarial review. Individual meetings with separate employers will be held annually or as required. Employers will also be notified in writing of any changes which affect them or the way that the scheme is administered.

- **Email –** Periodic emails are sent to keep scheme employers up to date with topical pension matters, and payroll issues that may have an effect on pensions, including articles from LGA Circulars and Bulletins, and any relevant external training courses they may wish to attend

- **Quarterly Newsletter –** A quarterly newsletter is sent to all Employers and Schools to ensure that the scheme employers are aware of current issues, policy changes and amendments to pension matters that affect themselves and/or their members

- **Secure Portal** – The Fund has a secure portal 'Sharefile' which facilitates the transfer of sensitive information and data between the Fund and Employers electronically. Access rights are strictly controlled by the pension administrators, Equiniti.

- **Website** – The website has a dedicated area for Scheme Employers and is used to access detailed information on procedures which must be followed to administer the LGPS and holds a wide range of information in regard to Employer Guides, pension forms, newsletters and policies. The website can be accessed via **hackney.xpmemberservices.com**.

- **Pensions Administration Strategy (PAS) –** The administration strategy sets out the roles and responsibilities of the Administering Authority (the London Borough of Hackney), the third party administrator and employers in the Pension Fund and can be found on the website at: **hackney.xpmemberservices.com**. It sets out the service level agreement and targets which all are expected to meet.

- **Employer Training –** The Fund offers all Scheme Employers training on the LGPS and their role in the administration of the scheme. This covers the full range of administrative and regulatory duties under the scheme regulations.

- **Annual Report and Accounts** – This contains details of the Pension Fund during the financial year, income and expenditure as well as other related details. This is a detailed and lengthy document and will therefore not be routinely distributed, except to employers participating in the Fund or on request. The full document will be published on the website at **hackney.xpmemberservices.com** .

Policy on Communicating with Elected Members

Information will be provided to Council Members in order for them to be able to fulfil their duties under the role of administering authority.

- **Access to Pensions Committee** – The Pensions Committee is the Committee which has delegated power to review, administer and monitor the Pension Fund. The Committee meets a minimum of four times a year or more frequently, as required. Meetings are open to members of the public, although there may be occasions when members of the public are excluded due to the confidential nature of matters under discussion.

- **Committee Reports** – Reports to Pensions Committee and to other Committees as necessary, for example Corporate Committee and Council, ensures that Council Members are kept informed of developments in relation to Pension Fund issues and the impact that these can have on overall Council policies and procedures. These are published on the Council's website. The agenda, reports and minutes of the meetings are available on the Council's website at **http://www.hackney.gov.uk/l-mayor-cabinet-councillors.htm**

- **Training –** Committee Member training is a standing agenda item and the Committee liaise with Officers on training needed and received on an on-going basis each year. They are also kept informed of any relevant external training course

- **Presentations** – Officers and advisers to the Fund deliver presentations on investment and administration matters to the Committee

Policy on Communicating with the Pensions Board

The Pension Board will meet at least twice a year in the ordinary course of business and additional meetings may be arranged as required to facilitate its work.

- **Reports to The Pensions Board** - The Pension Board will be treated in the same way as a Committee of Hackney Council and, as such, members of the public may attend and papers will be made public in the same was as described above for the Pension Committee.

- **Training –** The Pension Board will be provided with, and be required to undertake, appropriate training, either provided internally by Officers or externally.

Policy on Communicating with Other Bodies

There are a number of other interested parties with whom we will communicate with as required, this includes:

- **The Department for Communities and Local Government (DCLG)** – regular contact with DCLG as regulator of the scheme, participating and responding to consultations as required.

- **Trade Unions –** we will work with relevant trade unions to ensure the Scheme is understood by all interested parties. Efforts will be made to ensure all pension related issues are communicated effectively with the trade unions.

- **Employer Representatives** - we will work with relevant employer representative bodies to ensure that the Fund's views are represented to employer groups.

- **Pension Fund Investment Managers, Advisers and Actuaries** –

    - Regular meetings with the Fund Managers who invest funds on behalf of the Fund.
    - Regular meetings with Investment Advisers who provide help and advice on the asset allocation and investments of the Fund
    - Regular meetings with the Fund Actuary to discuss funding levels, employer contributions and valuation of the assets and liabilities of the Fund

- **Pension Fund Custodian** – The Fund's Custodian is HSBC, who ensures the safekeeping of the Funds investment transactions and all related share certificates.

- **AVC Provider** – Additional Voluntary Contributions (AVC) are a way to top up your pension benefits, and in some instances provide tax free lump sum depending on the policy, and are held and invested separately from the LGPS. The Funds preferred AVC provider is Prudential

- **Pensions and Lifetime Savings Association (PLSA) (previously known as NAPF)** – The Fund is a member of PLSA, which provides an opportunity for administering authorities to discuss issues of common interest and share best practice.

- **Local Authority Pension Fund Forum (LAPFF)** – The Fund is a member of LAPFF which was established to help local authority funds share information and ideas about socially responsible investing.

- **London Pension Officers Group (LPOG) & London Pension Officers Forum (LPOF) –** the Fund is a member of these voluntary groups. Meetings are held on a quarterly basis to share information and ensure standardised interpretation of LGPS regulations and best practice.

- **Requests for Information (FOI)** - Requests for information either under the Freedom of Information Act or otherwise, will be dealt with as openly and swiftly as allowed providing that such information does not breach confidentiality.

- **Consultations** – There are occasions when the administering authority will consult with interested parties either as a result of potential changes to the regulations governing the LGPS or specific policy changes relating to the London Borough of Hackney Pension Scheme. In these instances, the most effective way of communicating with interested parties is to hold a period of consultation, during which, they are given the opportunity to respond to specific changes. Interested parties and representative groups will be approached to provide feedback to the policy changes before amendments are enacted.

- **Minority Groups** – It is recognised that there may be occasions when some minority groups may not be able to access all the information available to others. The Pension Fund will try to ensure that information is available to the widest possible audience and as such will try to ensure that minority groups do have access to information. This is however a developing area, but feedback on how to promote better access for all minority groups is welcome.

Communication Material

The table below shows the Fund communications along with their publication frequency and the format in which they are available to their intended audience.

Communication Material	Paper form	Electronic form	Website	Frequency	Intended Audience (active, deferred, pensioner, prospective members, employers or ALL)
Annual Benefit Statements	✓	✓	✗	Annually	Active, Deferred
Annual Newsletter	✓	✓	✓	Annually	ALL
Pension Updates	✓	✓	✓	When details available	Active, Prospective, Employers
Ad hoc Newsletters	✓	✓	✓	As required	ALL
Newsletter	✗	✓	✓	Quarterly	Employers (& schools)
Payslips	✓	✓	✗	Monthly	Pensioners
Notice of Pension Increase (PI)	✓	✗	✓	Annually (April)	Pensioners
Scheme Updates/Changes workshop	✓	✓	✗	As required	Active members/Employers (& schools)
Scheme Guides	✓	✓	✓	When requested	ALL
Induction Sessions	✓	✓	✗	Weekly	Prospective
Pre-Retirement Seminars	✗	✓	✗	As required	Active
Employer Forum	✗	✓	✓	Annually	Employers
Pensions Administration Strategy (PAS)	✓	✓	✓	Annually (April)	Employers (& schools)
Communication Material	Paper form	Electronic form	Website	Frequency	Intended Audience (active, deferred, pensioner, prospective members, employers

					or ALL)
Pension Committee	✓	✓	✓	4 to 6 meetings per financial year	ALL
Pension Board	✓	✓	✓	2 meetings per financial year	ALL
Communications Policy Statement	✓	✓	✓	Annually (April)	ALL
Full Report & Accounts	✓	✓	✓	Annually (November)	ALL
Summary Report & Accounts	✓	✓	✓	Annually	Active, Deferred, Pensioner
Statement of Investment Principles	✓	✓	✓	Annually (April)	ALL
Ad-Hoc Queries	✓	✓	✗	Within set timescales	ALL

Feedback

The Fund welcomes comments and feedback from scheme members, scheme employers, prospective members and other interested parties. The mechanisms for feedback include consultation periods, direct communication with the scheme administrators and direct communication with the Financial Services Section which oversees all aspects of the Pension Fund. Contact details are provided below for the relevant departments.

General administrative queries relating to pension scheme membership issues should be addressed to:

London Borough of Hackney Pensions

Equiniti Pension Solutions

Russell Way

Crawley

West Sussex

RH10 1UH

Tel No: 01293 603085

To contact them by email -

- for members of the scheme - **hackney.pensions@equiniti.com**

- for Administration staff – **hackney.employers@equiniti.com**

For other queries and feedback issues:

Financial Services Section

Finance and Resources Directorate

4th Floor Hackney Service Centre

1 Hillman Street

London

E8 1DY

Email: **pensions@hackney.gov.uk**

Review of the Communications Policy

This policy document will be reviewed annually and updated as required when there are significant changes to be made and, if appropriate, will be consulted upon with the relevant stakeholders.

Local Government Pension Scheme Regulations 2013

Below is the relevant extract from the Local Government Pension Scheme Regulations 2013, Regulation 61, which sets out the requirements of the Communications Policy for LGPS Funds

Statements of policy concerning communications with members and Scheme employers

61. (1) An administering authority must prepare, maintain and publish a written statement setting out its policy concerning communications with—

(a) members;

(b) representatives of members;

(c) prospective members; and

(d) Scheme employers.

(2) In particular the statement must set out its policy on—

(a) the provision of information and publicity about the Scheme to members, representatives of members and Scheme employers;

(b) the format, frequency and method of distributing such information or publicity; and

(c) the promotion of the Scheme to prospective members and their employers.

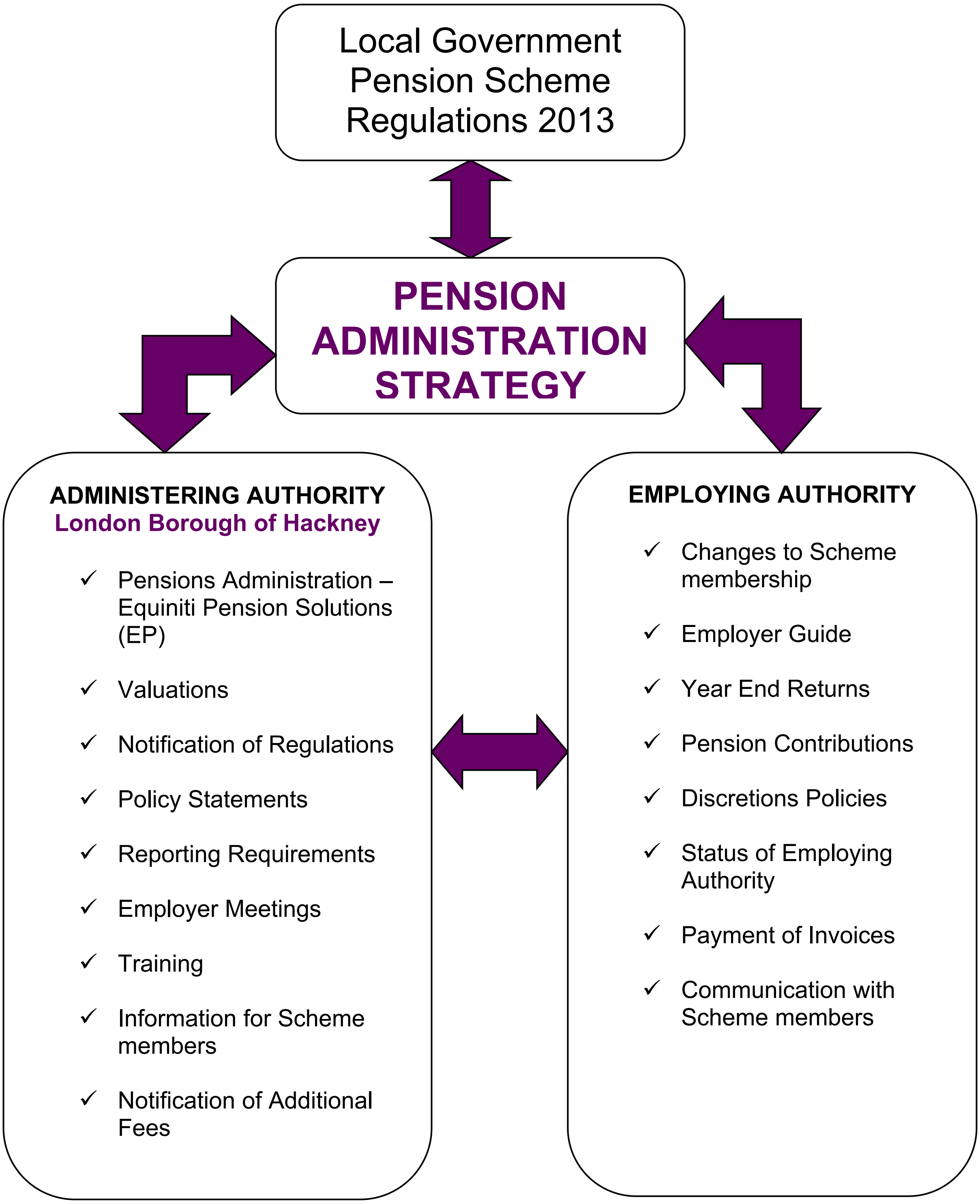
(3) The statement must be revised and published by the administering authority following a material change in their policy on any of the matters referred to in paragraph (2).

London Borough of Hackney Pension Fund

Pension Administration Strategy

INTRODUCTION

This is the Administration Strategy Statement of the London Borough of Hackney Pension Fund (the Fund) in relation to the Local Government Pension Scheme (LGPS – the Scheme), which is administered by the London Borough of Hackney (LBH) and Equiniti Pension Solutions (EP). Below is a diagram showing the roles and responsibilities of the parties in the administration of the scheme



Aims

The aim of this Pension Administration Strategy is to set out the quality and performance standards expected of the Fund and its scheme employers. The Administration Strategy will assist in clarifying the roles and responsibilities of both the Administering Authority and the Employing Authorities, i.e. those employers who participate in the Pension Fund.

In addition, there are approximately 70 local authority schools that operationally are part of the London Borough of Hackney, but use separate payroll providers. Unless specifically mentioned otherwise, all references in this strategy to employers apply to these local authority schools, and they are required to provide information as if they are separate employers.

Effective and efficient administration of the pension fund is beneficial to all stakeholders in the Pension Fund, the Administering Authority, employers and scheme members. The following are some of the benefits to be had from having efficient pension scheme administration; the list is by no means exhaustive and is not in order of importance.

For the Administering Authority, effective administration means:

- It can fulfil its obligations under the regulations for administering the pension scheme
- Lower costs, improved use of resources
- Easier and swifter provision of services to employers and scheme members
- Improved communication between Administering Authority, employers and scheme members
- Improved monitoring of performance
- Clean data enabling faster and more accurate monitoring of the Pension Fund by the Fund actuaries
- Improved decision making in relation to policies and investments

For Employing Authorities, effective administration means:

- Greater understanding of the Pension Fund and its impact upon them as an employer
- Lower costs
- Improved communication
- Employee satisfaction
- Improved decision making for budgeting
- Fulfilling its obligations as an Employing Authority under the LGPS regulations

For Scheme members, efficient administration means:

- Accurate records of their pension benefits
- Earlier issuance of annual benefit statements
- Faster responses to their pension record queries
- Faster access to benefits at retirement
- Improved communications
- Enhanced understanding of the pension scheme and the benefits of being a member

Setting out the expectations of the Administering Authority and Employing Authorities will help to ensure that both parties are aware of their roles and responsibilities in relation to the administration of the pension scheme. Both employer and administrator are dependent on the other for effectual communication and accurate flows of information without which the pension scheme cannot be administered effectively. The scheme members are reliant on both the employer and the administrator to ensure that their pension records are accurate and that they are well informed.

The Pension Administration Strategy is not meant to supersede existing procedures or policies but to complement them. The Admission Agreement or Protocol sets out some basic requirements of both the Administering Authority and the employer and the Employer Guide sets out in detail how to carry out day to day administration of the Pension Fund within the employer's site.

Implementation

The Administration Strategy is effective from 1 April 2017.

Regulatory basis

The Scheme is a statutory scheme, established by an Act of Parliament. The following regulations governing the Scheme are shown below:

- Local Government Pension Scheme (Benefits, Membership and Contributions) Regulations 2007 (as amended)
- Local Government Pension Scheme (Administration) Regulations 2008 (as amended)
- Local Government Pension Scheme (Transitional Provisions) Regulations 2008 (as amended)
- Local Government Pension Scheme Regulations 2013 (as amended)
- Local Government Pension Scheme (Transitional Provisions and savings) Regulations 2013

Regulation 59(1) of the Local Government Pension Scheme Regulations 2013, enables a Local Government Pension Scheme Fund to prepare a written statement of the authority's policies ("its pension administration strategy") as one of the tools which can help in delivering a high quality administration service to its scheme members and other interested parties.

In addition, Regulation 59(2)e of the 2013 regulations, allows a fund to recover additional costs from a scheme employer where, in its opinion, they are directly related to the poor performance of that scheme employer. Where this situation arises the fund is required to give written notice to the scheme employer, setting out the reasons for believing that additional costs should be recovered, the amount of the additional costs, together with the basis on which the additional amount has been calculated.

ADMINISTRATION IN THE LONDON BOROUGH OF HACKNEY

Responsibility

The London Borough of Hackney has delegated responsibility for the management of the Pension Fund to the Pension Committee. The Pension Committee will monitor the implementation of this Administration Strategy on an annual basis.

In addition the Pensions Board, will assist and advise the Administering Authority in ensuring compliance with the Regulations and will receive reports on the Administration Strategy and its effectiveness.

Objective

The Fund's objective in relation to administration is to deliver an efficient, quality and value for money service to its scheme employers and scheme members. Operationally the administration of the Fund is partly outsourced to Equiniti Pension Solutions and partly carried out by Council staff.

The Council and Equiniti Pension Solutions staff work together to provide a seamless service to scheme employers and scheme members.

Communications

The Fund has published a Communication Strategy Statement, which describes the way the Fund communicates with:-

- scheme members
- members representatives
- prospective members
- scheme employers
- other stakeholders/interested parties

The latest version of the Communication Strategy Statement can be obtained from the Fund website: - http://hackney.xpmemberservices.com

The table below summarises the current methods the Fund uses to communicate:

Website http://hackney.xpmemberservices.com	Information about the Fund, the LGPS, administrative procedures, policies and forms for use
Newsletters	Annual newsletter and additional newsletters issued as may be necessary to highlight new issues and forthcoming events
Employer meetings	Held annually to provide Employers with a forum to address the Fund's staff and advisers
Helplines:- Equiniti Pension Solutions London Borough of Hackney Pensions Team	 01293 603085 020 8356 2521
E-mail addresses: For the Equiniti Pension Solutions team: Hackney.pensions@equinitipaymaster.com For the London Borough of Hackney team: pensions@hackney.gov.uk	To answer day to day questions about administering the Scheme
Individual Employer meetings	Offered to Employers who need advice about how to carry out the day to day administration of the Scheme
Annual Benefit Statements	Sent to active and deferred scheme members
Individual Scheme member meetings	1-2-1 meetings available with a member of the Pensions team as required
Pension Presentations	Presentations to staff, managers, new employees, etc. on pension related matters

Training and Engagement

The objectives of the Fund have always been to keep stakeholders informed of new developments by sending emails and newsletters, and by providing training, forums and workshops for Employers when new Regulations are implemented or are under consideration. Additionally training is offered on an ongoing basis to new scheme employers or relevant new HR/Payroll staff.

It is important that Employers ensure that their staff have the right level of skills and knowledge to support any changes, starting with a sound foundation of existing regulations and administrative processes. There is an ongoing need to continuously maintain the quality of member records and the administrative processes by improving the quality of information received from Employers.

The aims of this approach are therefore:-

- To maintain a high standard of customer service for members and Employers
- To ensure that relevant staff within each Employer have sufficient knowledge and skills to effectively discharge administrative processes
- To ensure that Employers are fully aware of the risks involved in poor administration and maintenance of member pension records and if they fail to discharge of their discretionary functions
- To provide ongoing training on relevant employer responsibilities
- To support the implementation of new technology within the Fund to enable self-service for the Employer and streamlined administration

To achieve this, the Fund will:-

- Work with Employers' Human Resources, Payroll and other staff to help develop relevant skills and knowledge by providing appropriate assistance, guidance and training
- Organise workshops and forums for Employers to debate new issues as they emerge

This strategy will ensure that Employers have a common understanding of their obligations under the Local Government Pension Scheme, and that administrative processes are designed to maximise efficiency and effectively manage risk.

The Fund will provide training for Employers' relevant staff, to build up and maintain a level of professional expertise which will enable Employers to deliver information required by the Fund to efficiently administer the Scheme.

PERFORMANCE STANDARDS

The Scheme prescribes that certain decisions be taken by either the Fund or the scheme employer, in relation to the rights and entitlements of individual scheme members. In order to meet these obligations in a timely and accurate manner, and also to comply with overriding disclosure requirements, the Fund has agreed levels of performance between itself and scheme employers which are set out below:

Overriding legislation

Scheme employers will, as a minimum, comply with overriding legislation, including:

- Local Government Pension Scheme Regulations
- Pensions Acts 2004 & 2011 and associated disclosure legislation
- Public Service Pensions Act 2013 and associated record keeping legislation
- Freedom of Information Act 2000
- Equality Act 2010
- Data Protection Act 2003
- Finance Act 2013
- Relevant Health and Safety legislation
- Any other legislation that may apply at current time

Internal quality standards

The Fund and scheme employers will ensure that all functions and tasks are carried out to agreed quality standards. In this respect the standards to be met are:

- compliance with all requirements set out in the Employers' Guide
- all information required by the Fund to be provided in the required format and/or on the appropriate forms referred to in the Employers' Guide which are accessible from the Fund website at http://hackney.xpmemberservices.com
- information to be legible and accurate
- communications to be in a plain language style
- information provided to be checked for accuracy by an appropriately qualified member of staff
- information provided to be authorised by an appropriate officer
- actions carried out, or information provided, within the timescales set out in this Administration Strategy.

Timeliness

Overriding legislation dictates minimum standards that pension schemes should meet in providing certain pieces of information to the various parties associated with the Scheme. The Scheme itself sets out a number of requirements for the Fund and scheme employers to provide information to each other, scheme members and prospective scheme members, dependants, other pension arrangements or other regulatory bodies. The following sections on responsibilities set out the locally agreed timescales for these requirements.

FUND RESPONSIBILITIES

The London Borough of Hackney is the Administering Authority of the London Borough of Hackney Pension Fund and has delegated powers to the Pensions Committee to oversee the management of the Pension Fund. The role of the Administering Authority is to administer the Pension Fund and act as a quasi-trustee body for the management of the Pension Fund.

The Pensions Board comprising equal numbers of employer and scheme member representatives will assist the Administering Authority in ensuring compliance with the regulations and in particular as this affects the administration of the Pension Fund and will therefore review the effectiveness of the Fund's Pension Administration Strategy on an annual basis.

This section outlines the key responsibilities of the Fund and the performance standards scheme employers and scheme members should expect. It is focussed on the key activities which scheme employers and scheme members are involved in and should not be viewed as a complete list of all activities. It includes the performance standards that the Administering Authority has agreed with the pension administrators, Equiniti Pension Solutions (EP).

Administering Authority - Fund Administration

This section details the functions which relate to the whole Fund, rather than individual scheme members' benefits.

Function/Task	Performance Target
Publish and keep under review the Fund's **Administration Strategy**.	Consult with employers following any significant revisions to the Administration Strategy Notify employers of agreed Strategy within 2 months of being agreed by the Pensions Committee
Publish and keep up to date the **scheme guide and Employers' Guide.**	30 working days from any significant revision.
Publish and keep up to date all **forms** required for completion by scheme members, prospective scheme members or scheme employers.	30 working days from any significant revision.
Upon receipt of accurate information on the appropriate form, the provision of 1 **estimate** per employee, per year, in relation to retirement of an active member due to age, redundancy, efficiency or flexible retirement	20 working days from date of receipt of estimate request (refer Monitoring Performance & Compliance – page 21)
Function/Task	**Performance Target**

Host a **meeting** for all scheme employers.	Annually
Organise **training** sessions for scheme employers.	Upon request from scheme employers, or as required.
Notify scheme employers and scheme members of **changes** to the scheme rules.	Within two months of the change(s) coming into effect.
Notify a scheme employer of issues relating to the scheme employer's **unsatisfactory performance.**	As soon as a performance issue becomes apparent.
Notify a scheme employer of decisions to recover **additional costs** associated with the scheme employer's unsatisfactory performance (including any interest that may be due).	Within 10 working days of scheme employer's failure to improve performance, as agreed.
Issue **annual benefit statements** to active and deferred members as at 31 March each year.	To be issued no later than five months after the end of the Scheme year to which it relates.
Issue formal **valuation** results (including individual employer details).	10 working days from receipt of results from the Fund's actuary (but in any event no later than 31 March following the valuation date).
Carry out **interim valuation** exercises on cessation of admission agreements or a scheme employer ceasing participation in the Fund.	Upon each cessation or occasion where a scheme employer ceases participation on the Fund.
Arrange for calculation of **FRS17/IAS19** valuations for employers as required	Within 10 working days from receipt of results from the Fund's actuary
Arrange for the setting up of separate **admission agreement**, where required (including the allocation of assets and notification to the Secretary of State).	Within 3 months of agreement to set up
Publish, and keep under review, the Fund's **Governance Policy and Compliance Statement.**	Within 30 working days of policy being agreed by the Pensions Committee.
Publish and keep under review the Fund's **Funding Strategy Statement.**	To be reviewed at each triennial valuation, following consultation with scheme employers and the Fund's actuary. Revised statement to be published at the same time as the final valuation report is issued.

Publish the Fund's **Annual Report and Accounts** and any report from the auditor.	By 30 September following the year end or following the issue of the auditor's opinion

Function/Task	Performance Target
Publish and keep under review the Fund's **Communications Policy Statement**.	Within 30 working days of policy being agreed by the Pensions Committee
Publish and keep under review the Fund's **Statement of Investment Principles**.	Within 30 working days of policy being agreed by the Pensions Committee
Publish and keep under review the **Administering Authority Discretions Policies**	Within 30 working days of policy being agreed by the Pensions Committee
Agree with integrated bodies (e.g. maintained & VA schools) the arrangements with regards to **statutory auto-enrolment communications** for each 3 year auto-enrolment cycle, and provide written confirmation of those arrangements.	No less than 6 weeks prior to the staging date

Third Party Administration Service

Provider - Equiniti Pension Solutions

EQUINITI

Service Standards Agreement

The following provisions apply to the operation of the Service Standards in relation to Services provided: -

- All Service Standards are quoted in Working Days unless otherwise indicated.
- All Service Standards are net of any third party action and from receipt of correct data/information.

Category	Task	Actions	Service Standards
Calculations Active Members Cont'd….	Retirement of Active member due to redundancy	Provision of retirement quotation. Finalisation of retirement and issue of tax-free cash sum	10 days from receipt of request for quotation. 5 days from receipt of complete data
	Late retirement of active member	Provision of retirement quotation. Finalisation of retirement and issue of tax-free cash sum	10 days from receipt of request for quotation 5 days from receipt of complete data
Deferred Members	Early Retirement of Deferred member	Provision of early retirement quotation. Finalisation of retirement and issue of tax-free cash sum.	10 days from receipt of request for quotation. 5 days from receipt of complete data
	Normal Retirement of Deferred Member	Provision of a provisional statement of retirement benefits Provision of final statement of benefits Finalisation of retirement and issue of tax-free cash lump sum.	3 months prior to member's NRD 10 days from receipt of request for quotation 5 days from receipt of complete data
	Ill health retirement of Deferred Member	Provision of Ill health retirement quotation. Finalisation of retirement and issue of tax-free cash	10 days from receipt of confirmation that retirement has been approved and is to proceed. 5 days from receipt of complete data

		sum	
	Late Retirement of a Deferred Member	Provision of retirement quotation. Finalisation of retirement and issue of tax-free cash sum	10 days from receipt of request for quotation. 5 days from receipt of complete data
Ad Hoc Quotations	Ad-hoc quotation requests	Provision of quotation as requested	10 days from receipt of request for quotation

Category	Task	Actions	Service Standards
Calculations – Active Members	Refund of Contributions	Provide a statement of contributions and a refund cheque	10 days from receipt of complete data
	Deferred Benefits	Provide a statement of deferred benefits.	10 days from receipt of complete data
	Early retirement of active member	Provision of early retirement quotation. Finalisation of retirement and issue of tax-free cash sum.	10 days from receipt of request for quotation. 5 days from receipt of complete data.
	Ill health retirement of active member	Provision of Ill health retirement quotation. Finalisation of retirement and issue of tax-free cash sum	10 days from receipt of request for quotation. 5 days from receipt of confirmation that retirement has been approved and is to proceed.
	Normal Retirement of Active member	Provision of a provisional statement of retirement benefits Provision of final statement of benefits. Finalisation of retirement and issue of tax-free cash sum	3 months prior to member's NRD 10 days from receipt of complete data. 5 days from receipt of complete data.

Category	Task	Actions	Service Standards
Transfer Values	Transfer In Quotation	Obtain transfer details. Calculate and provide quotation to member.	10 days from receipt of request for quotation 20 days from receipt of complete data
	Acceptance of Transfer In	Request Transfer Value. Establish benefits and record.	5 days from receipt of confirmation that TV is to go ahead 10 days from receipt of transfer cheque
	Transfer Out Quotation	Provision of details of Transfer Value available to member	10 days from receipt of request for quotation
	Payment of Transfer Value	Provision of payment for transfer value to nominated recipient	5 days from receipt of confirmation that the transfer value is to be paid
	Divorce proceedings	Earmarking Order received, Pension sharing Order	5 days from receipt of order
Deaths	Active Member – Death in Service	Calculation of death benefits. Establishment of beneficiaries. Payment of death benefits as directed.	5 days from receipt of notification of death 1 day from instruction to pay
	Deferred Member – Death in Deferment	Calculation of death benefits. Establishment of beneficiaries. Payment of death benefits as directed.	5 days from receipt of notification of death 1 day from instruction to pay
	Pensioner – Death in Retirement	Calculation of death benefits. Establishment of beneficiaries. Payment of death benefits as directed.	5 days from receipt of notification of death 1 day from instruction to pay
	Death of Spouse	Calculation of death benefits. Establishment of beneficiaries. Payment of death benefits as directed.	5 days from receipt of notification of death 1 day from instruction to pay
Category	Task	Actions	Service Standards

Data	Maintenance of database	Amendment of member records and issue of acknowledgement	10 days from receipt of notification of change to data.
	Cheque Receipt	Acknowledgement of receipt of cheque	1 day from receipt of cheque
	New Entrant	Addition of new member to database. Issue of letter of acknowledgement.	10 days from receipt of completed application form.
	Annual Pension increases	Calculation of increases Notification to pensioners	For implementation on scheduled payment date Not more than one month before scheduled payment date.
AVCs	AVC Set Up	Establishment of AVC record on database. Notification sent to Payroll dept.	10 days from receipt of completed application form.
	AVC Quotation	Provision of an AVC quotation	10 days from receipt of complete data
Valuation	Production of various information	Supply of valuation information to the Actuary.	As agreed with the Client and Actuary.
FRS17/IAS19 Valuations	Production of various information	Supply of valuation information to the Actuary.	As agreed with the Client and Actuary.
Payroll	Payments	Issue BACS payments to pensioners designated bank accounts	To be received in the designated bank account on the due pay date
		Issue payslips to pensioners' home addresses	To be issued second class post via the Royal Mail so as to be expected to be received at the pensioners' home address on the due pay date
		Undertake relevant investigation for returned payments and action to Pensioner Record and inform Administration when relevant	Within 10 working days of receipt

Category	Task	Actions	Service Standards
Payroll cont.…	Payments cont.….	Payment of PAYE to HMRC	To be received electronically by the Collection Office by the 22nd of the month following deduction.
		Pay statutory/voluntary deductions to relevant recipients.	To be issued within one week of the pay date
	Record Amendments	Establish new pensioner record	By first available payment date following date of notification
		General amendments to pensioner records in accordance with instructions provided	By next available payment date
	Enquiries	Respond to pensioner enquiries in writing Respond to third party enquiries in writing	Within 10 working days of receipt Within 10 working days of receipt
	Year-end	Issue P60s to pensioners Issue P35/P14 year-end returns to HMRC	By 31st May following tax year end By 19th May following tax year end
	Legislation and Regulations	PAYE regulations	All regulations and legislation regarding PAYE will be complied with
	Pension Verification Process	One verification exercise per year to include life certificates, NFI, or any other method which may be agreed	As agreed with the Council

SCHEME EMPLOYER RESPONSIBILITIES

This section outlines the responsibilities of all scheme employers in the Fund and the performance standards scheme employers are expected to meet to enable the Fund to deliver an efficient, quality and value for money service.

External providers

Scheme employers must ensure that appropriate record-keeping is maintained and where they outsource their payroll, HR or pension administration functions to a third party, the legal responsibility for the provision of pension data to the Administering Authority or the third party pension administrator, lies with the Scheme employer and not the third party.

Any external service providers with responsibility for carrying out any functions relating to the administration of the Local Government Pension Scheme must be made are aware of the standards that are to be met.

Scheme employers must therefore ensure, as part of any contract entered into with a third party, that the third party has sufficiently robust processes in place to fulfil the statutory duties of the Scheme and the performance levels set out in the Pension Administration Strategy.

All information must be provided in the format prescribed by the Fund and within the prescribed timescales. Information and guidance is provided in the Employers' Guide which is available from the funds web site http://hackney.xpmemberservices.com

Employer Responsibilities/Functions

This section details the functions which relate to employers responsibilities and tasks:

Function/Task	Performance Target
Confirm a **nominated representative** to receive information from the Fund and to take responsibility for disseminating it within the organisation. Ensure the Fund is kept up to date with any change to the nominated representative.	30 working days of employer joining fund or change to nominated representative.
Formulate, publish and update (as necessary) an **Employer Discretions Policy** in relation to all areas where the employer may exercise a discretion within the LGPS Regulations. A copy of the Employer Discretions Policy must be provided to the Fund.	Within 30 working days of policy being agreed the employer. **Failure to provide the Fund with a copy of your policies could impact on the release/payment of individuals' benefits**.
Respond to **enquiries** from the Fund	10 working days from receipt of enquiry.
Attend administration **training** provided on admission to the Fund.	On agreed date

Pay over employer and employee **contributions** to the Fund and **provide schedule of payments in the format stipulated by the Fund.**	Cleared funds to be received by 19th calendar day of month after deduction.
NOTE **Late payment of pension contributions** by Scheme employers is a serious offence and the Pensions Regulator or the Pensions Ombudsman has significant powers of sanction. Scheme managers must report payment failures which are likely to be of material significance to the Pensions Regulator within a reasonable period, in the case of employee contributions; and as soon as reasonably practicable in the case of employer contributions The Pensions Regulator can impose fines of up to £50,000 for each instance of persistent offence. Recent changes to the Pensions Act have made it easier to prosecute employers for late payment of contributions. **Any fines imposed on the Fund by the Regulator, which is deemed to be the fault of an Employer, will be passed on to that Employer**	
Implement **changes to employer contribution** rates as instructed by the Fund. Note - Employer contributions are expressed as a percentage of pensionable pay and are payable at such rate(s) as may be advised by London Borough of Hackney Pension Fund following the completion of each triennial actuarial valuation of the pension fund.	At date specified on the actuarial advice received by the Fund.
Provide **year end information** required by the Fund **in the format stipulated in the instructions issued to the nominated representative in March each year**.	By 30 April following the year end.
To provide any **additional information** that may be requested by the Fund for the production of the annual benefit statements in each year	By the timescale stated by the Fund at the time of the request
To ensure all **errors highlighted** by the Fund from the contribution information and year end information, are responded to and the **corrective action** is taken promptly.	By the timescale stated by the Fund at the time of the request

Function/Task	Performance Target
Ensure that any staff who are not already scheme members are assessed for **Auto-enrolment** according to their age and earnings.	Assessment to be made according to pay periods (e.g. staff paid monthly should be monitored on a monthly basis)
Ensure that any staff who are not scheme members are **auto-enrolled within statutory deadlines** if they become an Eligible Jobholder and none of the statutory exceptions apply.	With effect from the employee's auto-enrolment date
Where employers are providing their own Automatic Enrolment communications, they must ensure that any **staff affected by AE (including new starters)** are provided with the necessary **AE information within statutory deadlines**	Within 6 weeks of the date they become eligible for automatic enrolment
Where auto-enrolment (AE) communications are provided by the Fund, employers must provide **AE data sufficient** to permit the production of the necessary staff letters **within statutory deadlines.**	Within 5 working days of the payroll date
Contact the Fund if **considering contracting out services** which will involve a **TUPE transfer** of staff to another organisation.	At the very beginning of the tender process so that important pension information can be provided for inclusion in the tender documentation.
Work with the Fund to arrange for an **admission agreement** to be put in place when contracting out a service and assist in ensuring it is complied with.	Agreement to be in place by the time the service is contracted out.
Distribute any **information** provided by the Fund to scheme members/potential scheme members	Within 15 days of its receipt or on joining the scheme
Provide new/prospective scheme members with a **starter form and a scheme guide** (or refer them to the Fund website).	5 working days of commencement of employment or change in contractual conditions.
Payment of **additional fund payments** in relation to early payment of benefits from ill health, flexible retirement, redundancy or business efficiency retirement, where a strain cost applies	Within 30 working days of receipt of invoice from the Fund.

Ensure payment of **additional costs** to the Fund associated with the poor performance of the scheme employer.	Within 30 working days of receipt of invoice from the Fund.

Scheme Administration

This section details the employer responsibilities and tasks which relate to scheme member benefits from the Scheme.

Function/Task	Performance Target
To ensure that **all** employees subject to **automatic or contractual enrolment** are brought in to the Scheme from their employment start date. Complete a starter form for each new employee admitted to the pension scheme and ensure that the employee completes their element of the process. Where there is **more than one contract** of employment with the same employer, each contract must have its own starter form as **each employment and pension membership must be maintained separately under the Regulations.**	Within 15 working days of employee start date.
Arrange for the correct deduction of employee contributions from a scheme member's **actual pensionable pay** (including overtime) on becoming a scheme member.	Immediately on joining the scheme, opting in or change in circumstances.
Ensure **correct employee contribution rate** is applied in accordance with the LGPS contribution bandings	Immediately upon commencing scheme membership and in line with the employer's policy and as a minimum in each April payroll thereafter.
To apply the correct employee contribution rate according to the scheme the member is in – **either 50/50 or the main scheme (100/100).** To reassess employee contribution rate in line with employer's policy on adjusting employee contribution rates and notify the employee of their change in rate.	Review as per policy and notification within 10 working days of change in rate.
After receipt of the appropriate forms, commence deduction of **Additional Pension Contributions (APC)** or amend such deductions, as appropriate.	Month following election to pay contributions or notification received from the Fund

<table>
<tr><th>Function/Task</th><th>Performance Target</th></tr>
<tr><td>After receipt of the appropriate forms, cease deduction of Additional Regular Contributions (ARC) or Additional Pension Contributions (APC).</td><td>Immediately following receipt of election form from scheme member.</td></tr>
<tr><td>Arrange for the deduction of AVCs via your payroll provider and the payment over of contributions to the approved AVC provider(s)</td><td>Commence deduction of AVCs in month following the month of election

Pay over contributions to the AVC provider(s) by the 19th of the month following the month of election.</td></tr>
<tr><td colspan="2">NOTE

Monthly AVC deductions should be paid directly to the AVC provider (Prudential) as soon as the payrolls are processed. A schedule must be sent with the payment, giving details of all contributions paid over to Prudential which must reach Prudential by the 19th day of the month following the month they were deducted.

Scheme managers must report payment failures which are likely to be of material significance to the Pensions Regulator within a reasonable period, in the case of employee contributions; and as soon as reasonably practicable in the case of employer contributions

Failure to do so is in breach of legislation and may be reported to the Pensions Regulator. Any fines imposed on the Fund by the Regulator, which is deemed to be the fault of an Employer, will be passed on to that Employer</td></tr>
<tr><td>Refund via your own payroll provider, any employee contributions that have been deducted in error.</td><td>Month following month of incorrect deduction.</td></tr>
<tr><td>Using the appropriate form, notify the Fund when any employees opt out of the scheme within 3 months of their start date.

Cease deduction of employee contributions where a scheme member opts to leave the Scheme.</td><td>Month following month of election, or such later date specified by the scheme member.</td></tr>
<tr><td>Refund employee contributions, via your own payroll provider, where the member has opted out of the Scheme within 3 months and does not have previous LGPS membership.</td><td>Month following month of election to opt out.</td></tr>
</table>

Using the appropriate form, provide the Fund with details of all contractual changes to scheme members **conditions of service**: e.g. • contractual hours • actual pay – including overtime • remuneration changes due to promotion or regrading • honorariums • contribution rate • election to join 50/50 section of the scheme • election, or move, into the main scheme (100/100)	Within 20 working days of change.
Using the appropriate form, notify the Fund of material changes in employees' **personal circumstances**: e.g. • marital or civil partnership status • change of name • national insurance number	Immediately following notification by the scheme member of a change in circumstances
Function/Task	**Performance Target**

Using the appropriate forms, notify the Fund of any **periods of reduced pay or nil pay** as a result of:
• sickness
• injury
• or relevant child related leave –
  - ordinary maternity, paternity or adoption leave
  - paid shared parental leave
  - any additional maternity or adoption leave
 	
then **Assumed Pensionable Pay (APP) MUST** be applied for pension purposes. Both employee and employer contributions must be deducted against the amount of APP.
 	
Employers must notify the Fund of the date the reduction is effect from for sickness or injury OR the date from which the relevant child related leave began.
	Within 20 working days of notice from employee.

Using the appropriate forms, notify the Fund of any **periods of reduced pay or nil pay** as a result of:	Within 20 working days of notice from employee.

• unpaid additional maternity, paternity or adoption leave • unpaid shared parental leave taken at the end of the relevant child related leave, as Assumed Pensionable Pay (APP) does **NOT** apply. **This is treated as unpaid leave.**	
Using the appropriate forms, notify the Fund of any **periods of reduced pay or nil pay** as a result of: • authorised/unauthorised unpaid leave of absence (sabbatical etc.) • industrial action as Assumed Pensionable Pay (APP) does **NOT** apply. **This is treated as unpaid leave**.	Within 20 working days of notice from employee.
Using the appropriate form, notify the Fund when a scheme member **leaves your employment** – this must include an accurate assessment of their final pay.	Within 15 working days of month end of leaving.

Function/Task	Performance Target
Using the appropriate form, notify the Fund when a scheme member is **due to retire,** including an accurate assessment of their final pay. You must also provide the authorisation form, stating the reason for retirement, signed by the employer as agreement to meet any associated costs with the retirement.	Within 15 working days **before** retirement date.
Notify the Fund immediately of the **death** of a scheme member, or when a member is suffering from a **potentially terminal illness**, as this will enable the Fund to ensure next of kin details are held and any benefits due are paid in accordance with the members' wishes, if appropriate.	As soon as practicable, but within 5 working days.
Appoint an **independent medical practitioner** qualified in occupational health medicine, in order to consider all **ill health retirement applications** and agree appointment of such with the Fund	Within one month of commencing participation in the scheme or date of resignation of existing medical adviser

To **determine,** based in medical opinion from your independent medical practitioner and assistance from the Administering Authority, whether **ill health retirement benefits are to be awarded** and to determine **which tier of benefits are to be paid e.g. Tier 1, 2 or 3.** Once determination has been made, to submit all relevant paperwork to the Fund in order for the pension benefits to be put into payment.	Within one month of the final determination being made. Refer to page 25 where assistance is required
To keep a **record of all Tier 3 ill health retirements**, to undertake a **review** once the pension has been in payment for **18mths** to assess if the former employee is gainfully employed and to notify the Fund to cease payments, and to arrange subsequent appointments with the independent medical practitioner qualified in occupational health medicine, to assess whether an **increase in benefits** is applicable.	Notify the Fund as soon as the process is completed in accordance with the LGPS regulations, and to provide all necessary paperwork for the Fund to either continue or cease payments or to increase the level of benefits to be paid. Refer to page 25 where assistance is required

MONITORING PERFORMANCE AND COMPLIANCE

Ensuring compliance with the Scheme regulations and this Administration Strategy is the responsibility of the Fund **and** Scheme Employers. We will work closely with all Scheme employers to ensure compliance with all statutory requirements, whether they are specifically referenced in the LGPS Regulations, in overriding legislation or in this Administration Strategy.

This section describes the ways in which performance and compliance will be monitored.

The Pension Board, the National Scheme Advisory Board & the Pensions Regulator (tPR)

The Public Service Pensions Act 2013 established the requirement for local Pension Boards in the LGPS with responsibility for assisting the Administering Authority in relation to the following:

- Securing compliance with the scheme regulations
- Ensuring the effective and efficient governance and administration of the scheme
- Securing compliance with the requirements imposed in relation to the LGPS by the Pensions Regulator; and
- Such other matters as the LGPS regulations may specify.

As a result the Local Pension Board of the London Borough of Hackney Pension Fund was established from 1 April 2015. A key aim of the Pension Board is to raise the standard of management and administration of public service pension schemes and to achieve more effective representation of employer and employee interests in that process.

In addition, the Pensions Regulator's remit was extended to include the public sector, and a national Scheme Advisory Board was created. The Administering Authority and scheme employers are expected to fully comply with any guidance produced by the Scheme Advisory Board and the Pensions Regulator. Any recommendations made by any of these entities will be considered by the Administering Authority, and where appropriate duly implemented (following discussions with employers where necessary).

Audit

The Fund is subject to an annual external audit of the accounts and, by extension the processes employed in calculating the figures for the accounts, by KPMG. The key findings of their work are presented to the Pensions Committee in an Annual Governance Report and the Fund is set an action plan of recommendations to implement.

In addition the Fund is subject to internal audits by the Council of its processes and internal controls. Any subsequent recommendations made are considered by the Fund and where appropriate duly implemented (following discussions with scheme employers where necessary).

Performance monitoring

The Fund monitors Equiniti Pension Solutions' performance against the contract with them and the agreed Service Level Agreement. Monitoring occurs on a monthly basis and Equiniti Pension Solutions are asked to explain variations from agreed Service Level Agreement targets.

Feedback from employers

Employers who wish to provide feedback on the performance of the Fund against the standards in this Administration Strategy should e-mail comments to the following address: pensions@hackney.gov.uk . This will be acknowledged within 5 working days and an investigation of the matter will then be undertaken. Following the investigation a response will be provided to the scheme employer within 15 working days of the initial acknowledgment.

Annual report on the strategy

The Scheme regulations require the Fund to undertake a formal review of performance against the Administration Strategy on an annual basis. This report details the performance of the pension administrators and the Fund's Employers. It is presented to Pensions Committee, Pensions Board and is included within the Pension Fund Annual Report and Accounts.

Provision of Retirement Estimates

Upon receipt of accurate information on the appropriate form, provision of an estimate will be on the basis of 1 estimate per employee, per year, in relation to an active member retiring due to age, redundancy, efficiency or flexible retirement.

Any further requests in excess of the above will lead to a charge being levied against the requesting employer of £50 per estimate.

ROLE OF THE PENSIONS REGULATOR (tPR)

The Pensions Regulator

Background

Section 17 and Schedule 4 of the Public Service Pensions Act 2013 extended the role of the Pensions Regulator to include public sector pension schemes including the Local Government Pension Scheme (LGPS) from 1 April 2015. With regard to the LGPS, the Pensions Regulator now has responsibilities in relation to governance and particularly administration.

Schedule 4 of the Public Service Pensions Act 2013 requires the Pensions Regulator to issue a Code of Practice or Codes of Practice in respect of certain specified matters. In response to this requirement, the Pensions Regulator Code of Practice No 14 ***"Governance and administration of public service pension schemes"*** which came into effect from 1 April 2015.

This Code of Practice is applicable both to the Pension Fund and the individual Employers within the Fund.

Code of Practice No 14

Governance and Administration of Public Service Pension Schemes

Code of Practice No 14 covers the following:-

Governing your scheme

Knowledge and understanding required by pension board members
Conflicts of interest and representation
Publishing information about schemes

Managing risks

Internal Controls

Administration

Scheme record-keeping
Maintaining contributions
Providing information to members

Resolving issues

Internal dispute resolution
Reporting breaches of the law

It is crucial that all Employers within the London Borough of Hackney Pension Fund are aware of, and comply with, the legal requirements and standards covered in the Code.

Failures by an Employer to fulfil legal requirements and follow the expected standards within the Code may result in that Employer (rather than the Pension Fund) being subject to legal enforcement action by the Pensions Regulator.

Sections that have particular relevance for Employers in the Fund are Administration and Resolving Issues

Administration
Scheme record-keeping
Key points

- The Scheme should work with employers to ensure they understand what information they're required to provide and when they need to do this.

- The Scheme should work with participating employers to seek to ensure they understand the key events and information they need to provide, and have processes in place to provide timely and accurate data.

- If an employer fails to provide the required information (meaning that they and/or the Scheme Manager may not be complying with legal requirements), the Scheme should consider whether to report the breach to the Pensions Regulator (tPR).

Schemes require participating employers to provide them with timely and accurate data in order for the scheme manager to be able to fulfil their legal obligations. Schemes should seek to ensure that employers understand the main events which require information about members to be passed from the employer to the scheme and/or another employer, such as when an employee:

- joins or leaves the scheme
- changes their rate of contributions
- changes their name, address or salary
- changes their member status, and
- transfers employment between scheme employers.

If any Employer fails persistently to act according to the procedures set out in this Pension Administration Strategy, meaning that they and/or the Fund may not be complying with legal requirements, the Fund will assess whether there has been a relevant breach and take action as necessary to report breaches of the law to the Regulator under Section 70 of the Pensions Act 2004.

Maintaining contributions
Reporting payment failures

The Scheme must report payment failures that are likely to be of 'material significance' to the Pensions Regulator (tPR) as soon as possible – usually within 10 working days.

A late payment is likely to be of material significance where it was caused by:

- the employer not being willing or able to pay contributions
- possible dishonesty or misuse of assets or contributions
- fraudulent evasion of the duty to pay contributions
- the employer having inadequate procedures or systems in place to ensure the correct and timely payment of contributions due, for example where there are repetitive and regular payment failures,
- contributions having been outstanding for more than 90 days

If any Employer has 5 or more repetitive or regular payment failures in any one financial year, the Fund will deem this as being of 'material significance' and in-line with its legal responsibilities, report this to the Pensions Regulator (tPR). The Employer may then be subject to legal enforcement action by the Pensions Regulator.

Resolving issues

Internal dispute resolution (IDRP)

Where a person with an interest in the scheme isn't satisfied with any matter relating to the scheme, they have the right to ask for that matter to be reviewed.

A person has an interest in the scheme if they:

- are a member or surviving non-dependant beneficiary of a deceased member of the scheme
- are a widow, widower, surviving civil partner or surviving dependant of a deceased member of the scheme
- are a prospective member of the scheme
- have ceased to be a member, beneficiary or prospective member or
- claim to be in one of the categories mentioned above and the dispute relates to whether they are such a person.

The Fund has a clear internal disputes resolution procedure (IDRP) set out for members of the LGPS which can be found on the Pension Fund's website http://hackney.xpmemberservices.com. Scheme employers are however, required to nominate an adjudicator to deal with disputes at Stage 1 of the process.

Scheme employers are asked to supply the details of their Stage 1 adjudicator as part of their discretionary policy statement and should advise the Fund immediately of changes made in this regard.

Where a Scheme employer is in dispute with a decision or action taken by the Fund, the Fund will in the first instance attempt to resolve the matter internally and may seek an independent senior mediator from within London Borough of Hackney as the Administering Authority to make a final determination. Should this prove to be unsuccessful, a suitable, mutually agreeable and independent third party shall be appointed to determine the outcome of the matter.

POLICY ON THE RECOVERY OF ADDITIONAL ADMINISTRATION COSTS FROM EMPLOYERS

The Scheme regulations provide pension funds with the ability to recover from a scheme employer any additional costs associated with the administration of the Scheme incurred as a result of the unsatisfactory level of performance of that Scheme Employer.

Where a fund wishes to recover any such additional costs they must give written notice stating:

- The reasons in their opinion that the Scheme Employer's unsatisfactory level of performance contributed to the additional cost
- The amount of the additional cost incurred
- The basis on how the additional cost was calculated
- The provisions of the Administration Strategy relevant to the decision to give notice.

Circumstances where costs might be recovered

It is the policy of the Fund to recover additional costs incurred in the administration of the Scheme as a direct result of the unsatisfactory level of performance of any scheme employer (including the Council) or third party service provider. This includes the payment of fees levied against the scheme employer.

The circumstances where such additional costs will be recovered from the scheme employer are:

- persistent failure to provide relevant information to the Fund, scheme member or other interested party in accordance with specified performance targets in this Administration Strategy (either as a result of timeliness of delivery or accuracy/quality of information)

- failure to pass relevant information to the scheme member or potential members, either due to poor quality of information or not meeting the agreed timescales outlined in the performance targets in this Administration Strategy

- failure to deduct and pay over correct employee and employer contributions to the Fund within the stated timescales

- instances where the performance of the scheme employer results in fines being levied against the Fund by the Pension Regulator (tPR), Pensions Ombudsman or other regulatory body.

For the avoidance of doubt, “accuracy/quality” in this Strategy is defined as when we have received a completed form, or transfer of information, with no gaps in mandatory areas and with no information which is either contradictory or which we need to query.

Approach to be taken by the Fund

The Fund will seek, at the earliest opportunity, to work closely with scheme employers in identifying any areas of unsatisfactory performance, provide the necessary training and put in place appropriate processes to improve the level of service delivery in the future. Consideration for seeking additional administration costs where persistent failure occurs and no improvement is demonstrated by a scheme employer would be seen as a failure and will only be taken once the steps described below are taken to resolve the situation:

1. Write to the scheme employer, setting out area(s) of concern and offer training.

2. If no improvement is seen within one month of the training or no response is received to the initial letter, the scheme employer will be asked to attend a meeting with representatives of the Fund to discuss area(s) of concern and to agree an action plan to address them. Where appropriate, the originating employer will be informed and expected to work with the Fund to resolve the issues.

3. If no improvement is seen within one month or a scheme employer is unwilling to attend a meeting to resolve the issue, the Fund will issue a formal written notice, setting out the area(s) of concern that have been identified, the steps taken to resolve those area(s) and notice that the additional costs will now be reclaimed.

4. An invoice will then be issued to the scheme employer clearly setting out the calculations of any loss resulting to the Fund, or additional cost, taking account of time and resources in resolving the specific area(s) of unsatisfactory performance, in accordance with the fee scale set out in this document.

5. An annual report will be presented to the Pensions Committee meeting detailing any fees levied against scheme employers and outstanding payments.

Fees for additional administration

The table below sets out the fees which the Fund will levy on a scheme employer whose performance falls short of the standards set out in this document. Each task is referenced to the Employer Responsibilities section. Charging is a last resort and the approach outlined above will be followed before a fee is levied.

Employer Responsibility	Charge
Monthly Contributions - Late payment of **employee and employer** contributions to the administrators **by the 19th calendar day of month following deduction**	£65 plus interest*, calculated on a daily basis until contributions received.
Monthly Contributions – Non-provision of the correct schedule of payments **in the format stipulated by the Fund,** accompanying the contributions **by the 19th calendar day of month following deduction**	£65 per occasion
NOTE - Any fines imposed on the Fund by the Pensions Regulator, in relation to employer, employee and AVC contributions which is deemed to be the fault of the Employer, will be passed on to that Employer	Re-charge amount to be paid within 30 days of receipt
Change Notifications – failure to notify the administrators of any change to a members working hours, leave of absence with permission (maternity, paternity, career break) or leave of absence without permission (strike, absent without permission) – **within 20 days of the change in circumstance.**	£65 per form, per occasion
Year End Data – failure to provide year end data **by 30th April** following the year end or the non-provision of year end information **or** the **accuracy/quality** of the year end data **is poor** requiring additional data cleansing *For the avoidance of doubt **"accuracy/quality"** in this Strategy is defined as when we have received a completed form or transfer of information with no gaps in mandatory areas and with no information which is either contradictory or which we need to query*	Initial fee of £300 then a fee of £150 for every month the information remains outstanding
Employer Responsibility	**Charge**
Year End Data Queries – failure to respond to the administrators requests for information to resolve data queries within the prescribed timescale	Initial fee of £65 per occasion, then a fee of £35 for each month the information requested remains outstanding
New Starter(s) - failure to notify the administrators of new starter(s) and the late or non-provision of starter form(s) – **within 15 days of employee joining the scheme**	Initial fee of £65 per form, then a fee of £35 per form for each month the form(s) remains outstanding

Automatic Enrolment (AE) – failure to provide the administrators full details of staff affected by Automatic Enrolment on a monthly basis - **within 6 weeks of the date they become eligible for automatic enrolment** **NOTE** - Any fines imposed on the Fund by the Pensions Regulator due to failure to provided information for Auto enrolment process, which is deemed to be the fault of the Employer, will be passed on to that Employer	Initial fee of £100 then a fee of £50 for every month the information remains outstanding Re-charge amount to be paid within 30 days of receipt
Leaver(s) – failure to notify the administrators of any leaver(s) and the late or non-provision of leaver form(s) including an accurate assessment of final pay – **within 15 days of employee leaving the scheme or employment**	Initial fee of £65 per form, then a fee of £35 per form for each month the form(s) remains outstanding
Retirees – failure to notify the administrators when a scheme member is due to retire **15 working days before** the retirement date - including an accurate assessment of final pay and authorisation of reason for retirement.	Initial fee of £65 per form, then a fee of £35 per form for each month the form(s) remains outstanding
Late payment of pension benefits - as a result of the employers failure to notify the administrators of a scheme members retirement, interest becomes payable on any lump sum paid. The administrators will recharge the total amount of interest paid to the employer	*Interest is calculated in accordance with regulation 44 of the LGPS Administration Regulations 2008

*Interest will be charged in accordance with regulation 44 of the LGPS Administration regulations, which states interest should be charged at Bank of England Base Rate plus 1%.

EMPLOYER CONTRIBUTION RATES / ADDITIONAL EMPLOYER ASSISTANCE & ASSOCIATED COSTS

Employers Contribution Rates

Employers' contribution rates are not fixed. Employers are required to pay whatever is necessary to ensure that the portion of the fund relating to their organisation is sufficient to meet its liabilities.

The London Borough of Hackney has an actuarial valuation undertaken every 3 years by the Fund's actuary. The actuary balances the fund’s assets and liabilities in respect of each employer, and assesses the appropriate contribution rate for each employer to be applied for the subsequent 3 years.

Additional Employer Assistance & Associated Costs

The cost of running the London Borough of Hackney Pension Fund is charged directly to the Fund, and the actuary takes these costs into account in assessing the employers' contribution rates.

If an employer wishes the London Borough of Hackney to carry out work not attributable to pension's administration they will be charged directly for the cost of that work.

The following functions have been designated Employer Functions – this means that they are outside of the normal scope of pension administration responsibilities for the Fund but the Administering Authority is willing to assist employers with these services.

They will be subject to a charge depending on the level of work required and whether external suppliers have to be engaged such as the Fund's Actuary, Occupational Health, etc.

Function/Task	Description & Associated cost
Redundancy & Severance Efficiency Payments Flexible Retirements	Information, guidance, calculations and the preparation of associated paperwork for employee signature and payroll instructions
Ill health retirements - Tier 3 awards.	Monitor and review tier 3 ill health awards to cessation, liaise with Occupational Health Services, and provide support at the IHRP meetings to determine cessation of benefits or a potential uplift in benefits Cost – as charged by the Occupational Health Service used for each case
Injury payments	Calculation and payment of injury awards
FRS17/IAS19	Provision of data required for FRS17/IAS19 calculations to the Actuary, plus any chargeable Actuary time Cost – as invoiced from the Actuary + any chargeable Actuary time as invoiced plus standard administration charge £100
Admission Agreements	Setting up and amendment of admission agreements for Contractors/new Employers admitted to the Fund
Cessation & Interim Valuations	Provision of data required for interim and/provision of data required for interim and/or cessation valuations Cost – as invoiced from the Actuary + any chargeable Actuary time as invoiced

Academy Conversions	Any work related this requiring input from the Administering Authority
Legal Work & non-standard actuarial work	Any work in relation to this requiring input from the Administering Authority – e.g. contract review on outsourcing, employer policies, TUPE & future pension provision etc. Cost – as invoiced from the Actuary + any chargeable Actuary time as invoiced

SERVICE AND COMMUNICATION IMPROVEMENT PLANNING

As set out earlier in this Administration Strategy, the Fund's objective in relation to administration is to deliver an efficient, quality and value for money service to its scheme employers and scheme members. This can only be achieved through continuously reviewing and improving the service. Communication between the Fund and scheme employers is key to providing the service and is therefore an important aspect of service improvement planning.

Equiniti Pension Solutions and the Council's in-house staff work together on a programme of continuous improvement to the service.

The monitoring of the performance standards set out in this document will inform the programme going forward and feedback from scheme employers on the service and the way in which the Fund communicates is welcomed in developing plans. Feedback should be e-mailed to: pensions@hackney.gov.uk.

The Fund will take responsibility for improving the service and determining the balance between implementing service improvements and the goal of providing a value for money service for the Fund.

Employers will be informed of any changes to the service provision which affect the way they interact with the Fund.

CONSULTATION AND REVIEW PROCESS

In preparing this Administration Strategy the Fund has consulted with all the scheme employers with active contributors in the Fund. The strategy will be reviewed every 2 years and more frequently if there are changes to the Scheme regulations or requirements. All scheme employers will be consulted before any changes are made to this document.

The latest version of this document can be accessed from the Fund website http://hackney.xpmemberservices.com

LOCAL GOVERNMENT PENSION SCHEME REGULATIONS 2013

The Regulations in relation to the **Pension Administration Strategy are contained in the Local Government Pension Scheme Regulations 2013, and are set out below:**

Pension administration strategy

59. (1) An administering authority may prepare a written statement of the authority's policies in relation to such of the matters mentioned in paragraph (2) as it considers appropriate ("its pension administration strategy") and, where it does so, paragraphs (3) to (7) apply.

(2) The matters are—

(a) procedures for liaison and communication with Scheme employers in relation to which it is the administering authority ("its Scheme employers");

(b) the establishment of levels of performance which the administering authority and its Scheme employers are expected to achieve in carrying out their Scheme functions by—

(i) the setting of performance targets,

(ii) the making of agreements about levels of performance and associated matters, or

(iii) such other means as the administering authority considers appropriate;

(c) procedures which aim to secure that the administering authority and its Scheme employers comply with statutory requirements in respect of those functions and with any agreement about levels of performance;

(d) procedures for improving the communication by the administering authority and its Scheme employers to each other of information relating to those functions;

(e) the circumstances in which the administering authority may consider giving written notice to any of its Scheme employers under regulation 70 (additional costs arising from Scheme employer's level of performance) on account of that employer's unsatisfactory performance in carrying out its Scheme functions when measured against levels of performance established under sub-paragraph (b);

(f) the publication by the administering authority of annual reports dealing with—

(i) the extent to which that authority and its Scheme employers have achieved the levels of performance established under sub-paragraph (b), and

(ii) such other matters arising from its pension administration strategy as it considers appropriate; and

(g) such other matters as appear to the administering authority after consulting its Scheme employers and such other persons as it considers appropriate, to be suitable for inclusion in that strategy.

(3) An administering authority must—

(a) keep its pension administration strategy under review; and

(b) make such revisions as are appropriate following a material change in its policies in relation to any of the matters contained in the strategy.

(4) In preparing or reviewing and making revisions to its pension administration strategy, an administering authority must consult its Scheme employers and such other persons as it considers appropriate.

(5) An administering authority must publish—

(a) its pension administration strategy; and

(b) where revisions are made to it, the strategy as revised.

(6) Where an administering authority publishes its pension administration strategy, or that strategy as revised, it must send a copy of it to each of its Scheme employers and to the Secretary of State as soon as is reasonably practicable.

(7) An administering authority and its Scheme employers must have regard to the pension administration strategy when carrying out their functions under these Regulations.

(8) In this regulation references to the functions of an administering authority include, where applicable, its functions as a Scheme employer

Payment by Scheme employers to administering authorities

69.—(1) Every Scheme employer must pay to the appropriate administering authority on or before such dates falling at intervals of not more than 12 months as the appropriate administering authority may determine—

(a) all amounts received from time to time from employees under regulations 9 to 14 and 16(contributions);

(b) any charge payable under regulation 68 (employer's further payments) of which it has been notified by the administering authority during the interval;

(c) a contribution towards the cost of the administration of the fund; and

(d) any amount specified in a notice given in accordance with regulation 70 (additional costs arising from Scheme employer's level of performance).

(2) But—

(a) a Scheme employer must pay the amounts mentioned in paragraph (1)(a) within the prescribed period referred to in section 49(8) of the Pensions Act 1995**(41)**; and

(b) paragraph (1)(c) does not apply where the cost of the administration of the fund is paid out of the fund under regulation 4(5) of the Local Government Pensions Scheme (Management and Investment of Funds) Regulations 2009 (management of pension fund)**(42)**.

(3) Every payment under paragraph (1)(a) must be accompanied by a statement showing—

(a) the total pensionable pay received by members during the period covered by the statement whilst regulations 9 (contributions) applied (including the assumed pensionable pay members were treated as receiving during that period),

(b) the total employee contributions deducted from the pensionable pay referred to in sub-paragraph (a),

(c) the total pensionable pay received by members during the period covered by the statement whilst regulation 10 applied (including the assumed pensionable pay members were treated as receiving during that period),

(d) the total employee contributions deducted from pensionable pay referred to in sub-paragraph (c),

(e) the total employer contributions in respect of the pensionable pay referred to in sub-paragraphs (a) and (c),

(f) the total additional pension contributions paid by members under regulation 16 (additional pension contributions) during the period covered by the statement, and

(g) the total additional pension contributions paid by the employer under regulation 16(additional pension contributions) during the period covered by the statement.

(4) An administering authority may direct that the information mentioned in paragraph (3) shall be given to the authority in such form, and at such intervals (not exceeding 12 months) as it specifies in the direction.

(5) If an amount payable under paragraph (1)(c) or (d) cannot be settled by agreement, it must be determined by the Secretary of State.

Additional costs arising from Scheme employer's level of performance

70. (1) This regulation applies where, in the opinion of an administering authority, it has incurred additional costs which should be recovered from a Scheme employer because of that employer's level of performance in carrying out its functions under these Regulations.

(2) The administering authority may give written notice to the Scheme employer stating—

(a) the administering authority's reasons for forming the opinion mentioned in paragraph (1);

(b)the amount the authority has determined the Scheme employer should pay under regulation 69(1)(d) (payments by Scheme employers to administering authorities) in respect of those costs and the basis on which the specified amount is calculated; and (c)where the administering authority has prepared a pension administration strategy under regulation 59, the provisions of the strategy which are relevant to the decision to give the notice and to the matters in sub-paragraphs (a) or (b).

Contact Details

For further information on pension issues please contact:

Financial Services
Finance and Resources Directorate
4th Floor, Hackney Service Centre
1 Hillman Street
London
E8 1DY

Email: pensions@hackney.gov.uk
Telephone: 020 8356 2521

For further information on investment issues please contact:

Financial Services
Finance and Resources Directorate
4th Floor, Hackney Service Centre
1 Hillman Street
London
E8 1DY

Email: pension.investments@hackney.gov.uk
Telephone: 020 8356 2630

For pension benefit and administration issues please contact:

London Borough of Hackney Pensions
Equiniti
Russell Way
Crawley
West Sussex
RH10 1UH

Email: hackney.pensions@equiniti.com
Telephone: 012 9360 3085

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Hackney

REPORT OF THE GROUP DIRECTOR, FINANCE & CORPORATE RESOURCES		
Implementation of the Markets in Financial Instruments Directive (MiFID II) **Pensions Committee** **11th September 2017**	**Classification** **PUBLIC** **Ward(s) affected** **ALL**	**Enclosures** **FIVE**

1. INTRODUCTION

1.1 This report outlines the impact of the implementation of the Markets in Financial Instrument Directive 2014/65 ("MiFID II") and in particular the risk to the administering authority of becoming a retail client on 3rd January 2018. The report recommends that the committee agree that elections for professional client status should be made on behalf of the authority immediately.

2. RECOMMENDATIONS

2.1 The Pensions Committee is recommended to:

- Note the potential impact on investment strategy of becoming a retail client with effect from 3rd January 2018
- Agree to the immediate commencement of applications for elected professional client status with all relevant institutions to ensure it can continue to implement an effective investment strategy.
- Acknowledge and agree to forego the protections available to retail clients (detailed in Appendix 1)
- Delegate responsibility to the Group Director, Finance and Corporate Resources for the purposes of completing applications and determining the basis of each application as either full or single service.

3. RELATED DECISIONS

- Pensions Committee 18th November 2015 – MiFID II – Impact on LGPS and Local Authorities

4. COMMENTS OF THE GROUP DIRECTOR, FINANCE & CORPORATE RESOURCES

4.1 The implementation of MiFID II on 3rd January 2018 will change the status of the London Borough of Hackney Pension Fund from that of 'per se professional' client to that of a retail client, unless it is opted up by the investment firms with which it deals to 'elective professional client' status

4.2 Failure to achieve 'elective professional client; status by 3rd January 2018 would severely restrict the range of financial institutions and instruments available to the

Fund, potentially hampering its ability to implement a suitable investment strategy. This could have significant long term implications for the financial health of both the Fund and the Council as the main employer within it.

4.3 In extreme cases, the failure to 'opt up' by 3rd January 2018 could resort in the Fund being a forced seller of assets, if managers are unable or unwilling to deal with the Fund as a retail client.

5. COMMENTS OF THE DIRECTOR, LEGAL

5.1 The introduction of the Markets in Financial Instrument Directive 2014/65 ("MiFID II") from 3rd January 2018 will see a change in the status of the London Borough of Hackney Pension Fund from a per se professional to a retail client

6. BACKGROUND TO THE REPORT

6.1 Under the current UK regime, local authorities are automatically categorised as 'per se professional' clients in respect of non-MiFID scope business and are categorised as 'per se professional' clients for MiFID scope business if they satisfy the MiFID Large Undertakings test. This is currently the case for the London Borough of Hackney. Local authorities that do not satisfy the Large Undertakings test may opt up to elective professional client status if they fulfil certain 'opt-up criteria'.

6.2 Following the introduction of the Markets in Financial Instrument Directive 2014/65 ("MiFID II") from 3 January 2018, firms will no longer be able to categorise a local public authority or a municipality that (in either case) does not manage public debt ("local authority") as a 'per se professional client' or elective eligible counterparty (ECP) for both MiFID and non-MiFID scope business. Instead, all local authorities must be classified as "retail clients" unless they are opted up by firms to an 'elective professional client' status. Where a local authority acts as the administering authority for an LGPS Fund, as is the case with Hackney, firms are required to classify the authority's Pension Fund and Treasury management functions separately.

6.3 Furthermore, the FCA has exercised its discretion to adopt gold-plated opt-up criteria for the purposes of the quantitative opt-up criteria, which local authority clients must satisfy in order for firms to reclassify them as an elective professional client.

7. POTENTIAL IMPACT

7.1 A move to retail client status would mean that all financial services firms like banks, brokers, advisers and fund managers would be required to treat the London Borough of Hackney Pension Fund the same way they do non-professional individuals and small businesses. This would include a raft of protections ensuring that investment products are suitable for the Fund's needs, and that all the risks and features have been fully explained. This would provide a higher standard of protection for the Fund but would also involve more work and potential cost for both the firm and the Fund, for the purpose of proving to the regulator that all such requirements have been met.

7.2 Such protections would also come at the price of the Fund potentially being unable to access the wide range of assets needed to implement an effective, diversified investment strategy; as retail status would significantly restrict the range of financial institutions and instruments available. Many institutions currently servicing the LGPS are not authorised to deal with retail clients and may not wish to undergo the required changes to resources and permissions in order to do so.

7.3 Even if an institution secures the ability to deal with retail clients, the range of instruments it could make available to the Fund would be limited to those defined under Financial Conduct Authority (FCA) rules as 'non-complex' which would exclude many of the asset classes currently included in LGPS fund portfolios. In many cases managers would no longer be able to even discuss ('promote') certain asset classes and vehicles with the authority as a retail client.

8. ELECTION FOR PROFESSIONAL CLIENT STATUS

8.1 MiFID II allows for retail clients which meet certain conditions to elect to be treated as professional clients (to 'opt up'). There are two tests which must be met by the client when being assessed by a financial institution: the quantitative and the qualitative test.

8.2 The Local Government Pension Scheme Advisory Board (SAB) and the Local Government Association (LGA) along with the Department of Communities and Local Government (DCLG) and the Investment Association (IA) have successfully lobbied the FCA to make the test better fitted to the unique situation of local authorities.

8.3 The new tests recognise the status of LGPS administering authorities as providing a 'pass' for the quantitative test while the qualitative test can now be performed on the authority as a collective rather than an individual. A summary of and extracts from the FCA policy statement which sets out these new tests is attached at Appendix 2

8.4 The election to professional status must be completed with all financial institutions prior to the change of status on 3rd January 2018. Failure to do so by local authorities would result in the financial institution having to take 'appropriate action' which could include a termination of the relationship at a significant financial risk to the authority.

8.5 The SAB and the LGA have worked with industry representative bodies including the IA, the British Venture Capital Association (BVCA) and others to develop a standard opt-up process with letter and information templates. This process should enable a consistent approach to assessment and prevent authorities from having to submit a variety of information in different formats.

8.6 A flowchart of the process is attached at Appendix 3 and the letter and information templates are attached at Appendices 4 and 5.

8.7 Applications can be made in respect of either all of the services offered by the institution (even if not already being accessed) or a particular service only. A local authority may wish to do the latter where the institution offers a wide range of complex instruments which the authority does not currently use and there is no intention to use the institution again once the current relationship has come to an end, for example, if the next procurement is achieved via the LGPS pool. It is recommended that officers determine the most appropriate basis of the application, either via full or single service.

8.8 Authorities are not required to renew elections on a regular basis but will be required to review the information provided in the opt-up process and notify all institutions of any changes in circumstances which could affect their status, for example, if the membership of the committee changed significantly resulting in a loss of experience, or if the relationship with the authority's investment advisor was terminated.

9. LGPS POOLS

9.1 LGPS pools will be professional investors in their own right so will not need to opt up with the external institutions they use. Local authorities will however need to opt up with their LGPS pool in order to access the full range of services and sub-funds on offer.

9.2 In some circumstances, in particular where the pool only offers access to fund structures such as ACS, the pool could use 'safe harbour' provisions resulting from local authorities continuing to be named as professional investors in both the Financial Promotion Order (the "FPO") or in the Financial Services and Markets Act 2000 (Promotion of Collective Investment Schemes) (Exemptions) Order (the "PCISO"). These provisions would enable the promotion and potential sale of units in fund structures to local authorities as retail investors.

9.3 Elections to professional status will be needed for every financial institution that the authority uses outside of the pool, both existing and new, together with a continuing review of all elections. If all new purchases are made via fund structures within the pool then no new elections will be required, only an ongoing review of the elections made with the pool and any legacy external institutions, the number of which would reduce as assets are liquidated and cash transferred.

NEXT STEPS

10.1 To continue to effectively implement the authority's investment strategy after 3rd January 2018, applications for election to be treated as a professional clients should be submitted to all financial institutions with whom the authority has an existing or potential relationship in relation to the investment of the pension fund.

10.2 This process should commence as soon as possible in order to ensure completion in good time and avoids the need for appropriate action to be taken by institutions in relation to the authority's pension fund investments.

10.3 The Group Director, Finance and Corporate Resources should be granted the necessary delegation to make applications on the authority's behalf and to determine the nature of the application on either full or single service basis.

Ian Williams
Group Director, Finance and Corporate Resources

Report Originating Officer: Rachel Cowburn ☎020-8356 2630
Financial considerations: Michael Honeysett ☎020-8356 3332
Legal comments: Stephen Rix ☎020-8356 6122

Attachments

Appendix 1 – Retail client protections
Appendix 2 – Summary of FCA policy statement
Appendix 3 – Opt up process flowchart
Appendix 4 – Opt up letter template
Appendix 5 – Opt up information template

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Warnings - loss of protections as a Professional Client

Professional Clients are entitled to fewer protections under the UK and EU regulatory regimes than is otherwise the case for Retail Clients. This document contains, for information purposes only, a summary of the protections that you will lose if you request and agree to be treated as a Professional Client.

1. **Communicating with clients, including financial promotions**

   As a Professional Client the simplicity and frequency in which the firm communicates with you may be different to the way in which they would communicate with a Retail Client. They will ensure however that our communication remains fair, clear and not misleading.

2. **Information about the firm, its services and remuneration**

   The type of information that the firm provides to Retail Clients about itself, its services and its products and how it is remunerated differs to what the firm provides to Professional Clients. In particular,

   (A) The firm is obliged to provide information on these areas to all clients but the granularity, medium and timing of such provision may be less specific for clients that are not Retail Clients; and

   (B) there are particular restrictions on the remuneration structure for staff providing services to Retail Clients which may not be applicable in respect of staff providing services to Professional Clients;

   (C) the information which the firm provides in relation to costs and charges for its services and/or products may not be as comprehensive for Professional Clients as it would be for Retail Clients, for example, they are required when offering packaged products and services to provide additional information to Retail Clients on the risks and components making up that package; and

   (D) when handling orders on behalf of Retail Clients, the firm has an obligation to inform them about any material difficulties in carrying out the orders; this obligation may not apply in respect of Professional Clients.

3. **Suitability**

   In the course of providing advice or in the course of providing discretionary management services, when assessing suitability for Professional Clients, the firm is entitled to assume that in relation to the products, transactions and services for which you have been so classified, that you have the necessary level of experience and knowledge to understand the risks involved in the management of your investments. The firm will assess this information separately for Retail Clients and would be required to provide Retail Clients with a suitability report.

4. **Appropriateness**

   For transactions where the firm does not provide you with investment advice or discretionary management services (such as an execution-only trade), it may be required to assess whether the transaction is appropriate. In respect of a Retail Client, there is a specified test for ascertaining whether the client has the requisite investment knowledge and experience to understand the risks associated with the relevant transaction. However, in respect of a Professional Client, the firm is entitled to assume that they have the necessary level of experience, knowledge and expertise to understand the risks involved in a transaction in products and services for which they are classified as a Professional Client.

5. **Dealing**

A range of factors may be considered for Professional Clients in order to achieve best execution (price is an important factor but the relative importance of other different factors, such as speed, costs and fees may vary). In contrast, when undertaking transactions for Retail Clients, the total consideration, representing the price of the financial instrument and the costs relating to execution, must be the overriding factor in any execution.

6. **Reporting information to clients**

For transactions where the firm does not provide discretionary management services (such as an execution-only transactions), the timeframe for our providing confirmation that an order has been carried out is more rigorous for Retail Clients' orders than Professional Clients' orders.

7. **Client reporting**

Investment firms that hold a retail client account that includes positions in leveraged financial instruments or contingent liability transactions shall inform the Retail Client, where the initial value of each instrument depreciates by 10% and thereafter at multiples of 10%. These reports do not have to be produced for Professional Clients.

8. **Financial Ombudsman Service**

The services of the Financial Ombudsman Service may not be available to you as a Professional Client.

9. **Investor compensation**

Eligibility for compensation from the Financial Services Compensation Scheme is not contingent on your categorisation but on how your organisation is constituted. Hence, depending on how you are constituted you may not have access to the Financial Services Compensation Scheme.

10. **Exclusion of liability**

The FCA rules restrict the firm's ability to exclude or restrict any duty of liability which the firm owes to Retail Clients more strictly than in respect of Professional Clients.

11. **Trading obligation**

In respect of shares admitted to trading on a regulated market or traded on a trading venue, the firm may, in relation to the investments of Retail Clients, only arrange for such trades to be carried out on a regulated market, a multilateral trading facility, a systematic internaliser or a third-country trading venue. This is a restriction which may not apply in respect of trading carried out for Professional Clients.

12. **Transfer of financial collateral arrangements**

As a Professional Client, the firm may conclude title transfer financial collateral arrangements with you for the purpose of securing or covering your present or future, actual or contingent or prospective obligations, which would not be possible for Retail Clients.

13. **Client money**

The requirements under the client money rules in the FCA Handbook (CASS) are more prescriptive and provide more protection in respect of Retail Clients than in respect of Professional Clients.

It should be noted that at all times you will have the right to request a different client categorisation and that you will be responsible for keeping the firm informed of any change that could affect your categorisation as a Professional Client.

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FCA Markets in Financial Instruments Directive II Implementation – Policy Statement II

The matters relating to the reclassification of local and public authorities as retail are covered in Chapter 8 pages 64 to 74 of the full document https://www.fca.org.uk/publication/policy/ps17-14.pdf

Highlights (see highlighted sections following for context)

1. Firms may take a collective view of the expertise, experience and knowledge of committee members, taking into account any assistance from authority officers and external advisers where it contributes to the expertise, experience and knowledge of those making the decisions

2. Governance and advice arrangements supporting those individuals can inform and contribute to the firm’s assessment

3. Adherence to CIPFA Codes or undertaking other relevant training or qualifications may assist in demonstrating knowledge and expertise as part of the qualitative test

4. Rules will add a fourth criterion that the client is subject to the LGPS Regulation for their pension administration business. Local authorities must continue to meet the size requirement, as well as one of the two previous criteria or the new fourth criterion

5. Compliance with the LGPS Regulations, including taking proper advice, will contribute to the assessment of knowledge and expertise of the local authority client when making decisions

6. Retain the 10 transactions on average per quarter test as one of the four available criteria for enabling a local authority body to opt up.

7. Firms may reasonably assess that a professional treasury manager has worked in the financial sector for at least one year, if their role provides knowledge of the provision of services envisaged

8. Changed the portfolio size threshold to £10m

9. Proposed transitional arrangements that would allow investment firms to re-assess the categorisation of local authority clients between the 3 July 2017 implementation deadline and 3 January 2018 are being taken forward

Page 67 Our response on the qualitative test

MiFID II requires the qualitative test to be applied to local authorities seeking to opt-up to professional client status, with the test itself unchanged from MiFID. It is important that an investment firm is confident that a client can demonstrate their expertise, experience and knowledge such that the firm has gained a reasonable assurance that the client is capable of making investment decisions and understanding the nature of risks involved in the context of the transactions or services envisioned.

COBS 3.5.4 requires that the qualitative test should be carried out for the person authorised to carry out transactions on behalf of the legal entity. ‘Person’ in this context may be a single person or a group of persons. We understand that the persons within a local authority who invest on behalf of pension funds are elected officials acting as part of a pensions committee. In those circumstances, firms may take a collective view of the expertise, experience and knowledge of committee members, taking into account any assistance from authority officers and external advisers where it contributes to the expertise, experience and knowledge of those making the decisions. We also understand that typically the person(s) within local authorities who invest the treasury reserves of those authorities are likely to be officers of the authorities, who are delegated authority from elected members and act under an agreed budget and strategy.

Given different governance arrangements, we cannot be prescriptive, but we would stress the importance of firms exercising judgement and ensuring that they understand the arrangements of the local authority and the clear purpose of this test. It remains a test of the individual, or respectively the individuals who are ultimately making the investment decisions, but governance and advice arrangements supporting those individuals can inform and contribute to the firm's assessment.

We agree that adherence to CIPFA Codes or undertaking other relevant training or qualifications may assist in demonstrating knowledge and expertise as part of the qualitative test.

Page 68 Our response on the quantitative test – approach for Local Government Pension Schemes (LGPS)

We recognise that local authority pension schemes are established within the framework of the LGPS Regulations and are subject to the oversight of the Pensions Regulator, as well as the broader public policy in MiFID II, such as ensuring that local authority pension schemes receive appropriate investment services, and that they understand the costs and risks involved with such service.

Some expressed concerns about interpreting the quantitative criteria in light of the common governance of local authority pension scheme administration, and recognise that the drafting of our proposed rules was not sufficient to achieve our policy intention of allowing all local authorities administering LGPS pension funds to have the ability to successfully opt up. Therefore, our rules will add a fourth criterion that the client is subject to the LGPS Regulation for their pension administration business. Local authorities must continue to meet the size requirement, as well as one of the two previous criteria or the new fourth criterion. This will assist all local authority pension fund administrators who wish to opt-up to meet the quantitative test, but maintain the need for local authorities to qualitatively demonstrate their sophistication to become professional clients. We agree with views that compliance with the LGPS Regulations, including taking proper advice, will contribute to the assessment of knowledge and expertise of the local authority client when making decisions.

Page 69 Our response on the quantitative test – undertaking 10 transactions on average per quarter

We accept that some local authorities will not be able to meet this part of the quantitative test (particularly when investing pension funds). However, it continues to be our view that regular and recent experience of carrying out relevant transactions remains a useful proxy for assessing sophistication. We have received no arguments against this view, and so confirm that we will retain this test as one of the four available criteria for enabling a local authority body to opt up.

While theoretically this criterion could be 'gamed' by firms and clients by churning portfolios, we believe it is an unlikely course of action for local authorities who are accountable to the electorate and have specific statutory duties requiring prudent management of their financial affairs. In future, we could scrutinise any firm who appeared to be recommending this course of action to its client and question whether the firm was acting in the client's best interest and whether the firm believed that an artificially higher number of trades contributed to the expertise, experience and knowledge of their client.

Page 70 Our response on the quantitative test – employment in the financial sector for at least 1 year in a professional position

We accept we could be clearer about who this test is applied to, while ensuring it can be applied flexibly to different governance arrangements. We also recognise that employment in the financial sector is a criterion that can only apply to a natural person.

In response, we have amended the proposed drafting in COBS 3.5.3BR(b)(ii) to note that 'the person authorised to carry out transactions on behalf of the client works or has worked in the financial sector for at least one year in a professional position, which requires knowledge of the provision of services envisaged'. This should allow local authorities to delegate authority to make investment decisions on their behalf to professional staff with at least one year's experience. We recognise that this redrafted criterion may not be useful for assessing the collective decision making involved in investing local authority pension funds. However, we think this will be less problematic given our new fourth criterion aimed at LGPS administering authorities.

We do not interpret the term 'financial sector' in a limited way for the purposes of COBS 3.5.3BR(2)(b)(ii), and firms may reasonably assess that a professional treasury manager has worked in the financial sector for at least one year, if their role provides knowledge of the provision of services envisaged. This meets the purpose of the test, to ensure the person acting on behalf of a client has the expertise, experience and knowledge necessary in relation to the investment or service being sold and the risks involved.

Page 71 Our response on the quantitative test – portfolio size threshold

We have changed the portfolio size threshold to £10m. This follows further data and case studies provided by local authorities, Department for Communities and Local Government (DCLG) new data, and wider CP responses.

We believe £10m is closer to our policy goal of restricting the ability of the smallest, and by implication the least sophisticated, local authorities (town and parish councils, and the smallest county and district councils) to opt-up, but giving larger ones the ability to do so more readily, (provided they meet the other criteria).

Based on the number of local authorities we estimated were investing in MiFID scope instruments and understanding the quoted portfolio size in the DCLG dataset for 2014/15, in CP16/29 we estimated that 63 additional local authorities would not be able to opt-up to professional client status for the purposes of engaging in MiFID business as a result of our consulted upon policy.

At a £15m portfolio size threshold, this increased to 78 additional local authorities which would not be able to opt-up to professional client status for the purposes of engaging in MiFID business when we used the new 2015/16 DCLG dataset.

Applying the £10m threshold to data over the following years:

2014/15 – 27 local authorities would not be able to opt-up to professional client status; and the estimated one-off costs for investment firms would decrease from £1.7m to £0.8m and on-going costs from £0.8m to £0.3m.
2015/16 – 42 local authorities would not be able to opt-up, and the one-off costs for investment firms would decrease from £2.0m to £1.1m, and on-going costs would reduce from £0.9m to £0.5m.47

While a local authority's ability to borrow extra funds to 'game' this requirement may be possible, it is questionable whether local authorities would be able to justify this approach while at the same time making budgets and investment strategies available for public scrutiny.

Page 74 Our response on transitional arrangements

MiFID II gives us very limited discretion with regard to transitional arrangements for applying these rules in respect of local authorities and provides no ability to extend the deadline for compliance with this requirement beyond 3 January 2018. We consulted in CP16/43 on proposed transitional arrangements that would allow investment firms to re-assess the categorisation of local authority clients between the 3 July 2017 implementation deadline and 3 January 2018. These proposals are being taken forward (see Chapter 24). However, firms will not be expected to re-consider categorisation of existing clients other than local authorities, where MiFID II rules are the same as existing MiFID rules transposed at COBS 3.

Otherwise, we have made further consequential drafting changes to transitional provisions at COBS TP 1 that were added when MiFID was implemented in 2007, but that are no longer carried across into MiFID II.

More generally, COBS 3.5.8G notes that professional clients have the responsibility to keep investment firms informed about any changes that affect their current categorisation. Further, at COBS 3.5.9R, if the firm becomes aware that the client no longer fulfils the initial conditions that made the client eligible to be an elective professional client, it must take "appropriate action". Neither MiFID II, nor our rules specify what 'appropriate action' is, which will depend on the facts of the case and what would be in the client's best interest. Firms must exercise judgement and consider what would be in the best interests of the client. For example, if a client no longer meets the quantitative test to opt up to professional client status, a firm may decide it is appropriate to cease providing investment services but to do so in a way that minimises losses to the client.

UK Local Authority Client Opt-Up Process

STAGES	TIMELINE	GUIDANCE
Preparatory Stage Finalise standard opt-up process	End July 2017	(i) Finalise industry standard quantitative and qualitative questionnaire; (ii) Finalise request and consent letter from Local Authority to be opted-up; and (iii) Finalise response letter from investment firms agreeing to the opt-up.
Stage 1 Local authorities to complete letter and questionnaire and send to investment firms	August – September 2017	Local authorities to complete and send investment firms: (i) request and consent letter to be opted-up to professional client status; and (ii) completed quantitative and qualitative questionnaire (to allow investment firms to satisfy themselves that the local authority passes the qualitative test).
Stage 2 Investment Firms to validate the information and run the client status assessment	September – October 2017	Investment firms to validate information received from local authorities to determine information is (i) sufficient; and (ii) appropriate. Assess the information received by the local authority and confirm that it: (i) has provided the request and consent letter to be treated as a professional client; and (ii) passes (i) the quantitative test and (ii) the qualitative test Log and store the local authority information and the results of the internal assessment.
Stage 3 Dispatch the confirmation letter to LA clients confirming professional client status	October 2017	If a local authority has provided the request and consent letter and has satisfied the requirements for both: (i) the quantitative test; and (ii) the qualitative test, send a letter confirming the classification of the client as a professional client.
Stage 4 Client re-categorisation	3 January 2018	Once the steps above are complete, as of 3 January 2018, the firm may continue to treat the local authority as a professional client.

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Letter requesting categorisation as an elective professional client

[ON [AUTHORITY] HEADED PAPER]

[Manager name]

[Manager address]

[Date]

Dear **[●]**

Request to be treated as a professional investor

I am writing to you ahead of the implementation in the UK of the Markets in Financial Instruments Directive (2014/65/EU) (MiFID II). I have been authorised by NAME OF AUTHORITY (the "Local Authority") to inform you that, in its capacity as an administering authority of a local government pension scheme, it wishes to be treated as a professional client for the purpose of:

(a) any and all investment service(s) which it receives from you (the "Services"); and/or

(b) the promotion to us of, and investment in, any and all fund(s) managed or advised by you (the "Fund Promotions/Investments").

We understand you are required to categorise all of your clients as either professional clients or retail clients and that you currently categorise the Local Authority as a Professional Client ("Professional Client"). However as of 3 January 2018, under new rules deriving from MiFID II, you will be obliged to re-categorise the Local Authority as a Retail Client ("Retail Client") as regards receiving Services from you and/or as regards existing fund investments and any future Fund Promotions/Investments, unless you are satisfied you can otherwise treat the Local Authority as an elective Professional Client and opt-up the Local Authority to this particular client status.

I confirm and acknowledge that the Local Authority is aware that, being categorised as a Professional Client, it will not benefit from the protections and investor compensation rights set out in more detail in Schedule 1. In doing so, I confirm that the Local Authority has reviewed and considered the loss of these protections and rights very carefully and has, if it felt so appropriate, taken advice from legal, financial or other advisors.

I wish to inform you that the Local Authority wishes to be categorised as a Professional Client for the purposes of the Services and/or Fund Promotions/Investments, as applicable in its capacity as an administrating authority of the Local Government Pension Scheme.

Prior to re-categorising the Local Authority, as a Professional Client, I understand that you will be required to assess the Local Authority on certain quantitative and qualitative grounds. In order to facilitate this assessment, please find attached a completed questionnaire for your review and consideration.

Subject to you being reasonably assured that, as of 3 January 2018, the Local Authority satisfies the necessary quantitative and qualitative grounds and may be categorised as an elective Professional Client, the Local Authority confirms the following:

(a) its request to be categorised as a Professional Client, in its capacity as an administrating authority of the Local Government Pension Scheme, in relation to the Services and/or Fund Promotions/Investments.

(b) all information provided to you by us (for the purposes of facilitating your assessment of the Local Authority's request to be categorised as a Professional Client) is true, accurate and complete.

(c) the Local Authority understands the contents of Schedule 1 which contains summaries of the protections and investor compensation rights, if any, that the Local Authority will lose once it is categorised as a Professional Client. Please note that I can confirm that the Local Authority is fully aware of the consequences of losing such protections and still wishes to apply to be categorised as Professional Client in respect of the Services and/or Fund Promotions/Investments.

(d) the Local Authority has had sufficient time to consider the implications of categorisation as a Professional Client and has separately taken any legal, financial or other advice that it deems appropriate.

(e) the Local Authority will inform you of any change that could affect its categorisation as a Professional Client. I also confirm that the Local Authority understands its responsibility to ask you for a higher level of protection if it is unable to properly assess or manage the risks involved with the investments comprised within the portfolio management mandates which you have been appointed to manage.

(f) I acknowledge the Local Authority understands that you shall be permitted, in your sole discretion and without providing any reason, to re-categorise the client as a Retail client or cease to provide the Services or otherwise carry out any fund promotion to us or allow future investment in funds by us.

If you have any questions regarding this application please contact **[name]** on **[number]** or alternatively e-mail us at **[email address]**.

Yours sincerely,

………………………………………………

[insert name and position] [Authority]

Schedule 1

Warnings - loss of protections for the Local Authority if categorised as a Professional Client

Professional Clients are entitled to fewer protections under the UK and EU regulatory regimes than is otherwise the case for Retail Clients. This Schedule contains, for information purposes only, a summary of the protections lost when requesting and agreeing to be treated as a Professional Client.

Part 1 – Loss of protections as a Professional Client when receiving Services

1. **Communicating with clients, including financial promotions**

   As a Professional Client the simplicity and frequency in which firms communicate with you may be different to the way in which we would communicate with a Retail Client. Firms will ensure however that their communication remains fair, clear and not misleading.

2. **Information about the firm, its services and remuneration**

   The type of information that a firm provides to Retail Clients about itself, its services and products and how it is remunerated differs to what it provides to Professional Clients. In particular,

   (A) It is obliged to provide information on these areas to all clients but the granularity, medium and timing of such provision may be less specific for clients that are not Retail Clients;

   (B) the information which it provides in relation to costs and charges for its services and/or products may not be as comprehensive for Professional Clients as it would be for Retail Clients, for example, it is required when offering packaged products and services to provide additional information to Retail Clients on the risks and components making up that package; and

   (C) when handling orders on behalf of Retail Clients, it has an obligation to inform them about any material difficulties in carrying out the orders; this obligation may not apply in respect of Professional Clients.

3. **Suitability**

   In the course of providing advice or in the course of providing portfolio management services, when assessing suitability for Professional Clients, a firm is entitled to assume that, in relation to the products, transactions and services for which Professional Clients have been so classified, that they have the necessary level of experience and knowledge to understand the risks involved in the management of their investments. Firms cannot make such an assumption in the case of Retail Clients and must assess this information separately. Firms would be required to provide Retail Clients with a suitability report, where they provide investment advice.

4. **Appropriateness**

   For transactions where a firm does not provide investment advice or portfolio management services (such as an execution-only trade), a firm may be required to assess whether the transaction is appropriate for the client in question. In respect of a Retail Client, there is a specified test for ascertaining whether the client has the requisite investment knowledge and experience to understand the risks associated with the relevant transaction. However, in respect of a Professional Client, a firm is entitled to assume that they have the necessary level of experience, knowledge and expertise to understand the risks involved in a transaction in products and services for which they are classified as a Professional Client.

5. **Dealing**

A range of factors may be considered for Professional Clients in order to achieve best execution (price is an important factor but the relative importance of other different factors, such as speed, costs and fees may vary). In contrast, when undertaking transactions for Retail Clients, the total consideration, representing the price of the financial instrument and the costs relating to execution, must be the overriding factor in determining best execution.

6. **Reporting information to clients**

For transactions where a firm does not provide portfolio management services (such as an execution-only transactions), the timeframe for providing confirmation that an order has been carried out is more rigorous for Retail Clients' orders than Professional Clients' orders.

7. **Client reporting**

Firms that manage a retail portfolio that includes positions in leveraged financial instruments or contingent liability transactions shall inform the Retail Client, where the initial value of each instrument depreciates by 10% and thereafter at multiples of 10%. These reports do not have to be produced for Professional Clients.

8. **Financial Ombudsman Service**

The services of the Financial Ombudsman Service may not be available to you as a Professional Client.

9. **Investor compensation**

Eligibility for compensation from the Financial Services Compensation Scheme is not contingent on your categorisation but on how your organisation is constituted. Your rights (if any) to make a claim under the Financial Services Compensation Scheme in the UK will not be affected by being categorised as a Professional Client.

10. **Exclusion of liability**

A firms' ability to exclude or restrict any duty of liability owed to clients is narrower under the FCA rules in the case of Retail Clients than in respect of Professional Clients.

11. **Trading obligation**

In respect of shares admitted to trading on a regulated market or traded on a trading venue, a firm may, in relation to the investments of Retail Clients, only arrange for such trades to be carried out on a regulated market, a multilateral trading facility, a systematic internaliser or a third-country trading venue. This is a restriction which may not apply in respect of trading carried out for Professional Clients.

12. **Transfer of financial collateral arrangements**

As a Professional Client, a firm may conclude title transfer financial collateral arrangements for the purpose of securing or covering your present or future, actual or contingent or prospective obligations, which would not be possible for Retail Clients.

13. **Client money**

The requirements under the client money rules in the FCA Handbook (CASS) are more prescriptive and provide more protection in respect of Retail Clients than in respect of Professional Clients.

Part 2 – Loss of protections for the Local Authority as a potential investor if categorised as a Professional Client for the purposes of Fund Promotions

1. **Fund promotion**

   It is generally not permitted for firms to market alternative investment funds (AIFs) to investors who are Retail Clients (although there are certain limited exceptions to this rule). As a Professional Client, firms will (subject to complying with applicable marketing rules) be generally permitted to market shares or units in AIFs to you, without being subject to this restriction.

2. **Non-mainstream pooled investments**

   For the purposes of the UK regulatory regime, AIFs typically fall within the definition of an "unregulated collective investment scheme". The UK regulator considers unregulated collective investment schemes to be a high-risk investment, which are not generally suitable investments for Retail Clients. As such, firms are not permitted to promote investments in unregulated collective investment schemes to Retail Clients (although there are certain limited exceptions to this rule). As a Professional Client, firms will be generally permitted to promote an investment in unregulated collective investment schemes to you, without being subject to this restriction (and without making any assessment of whether the investment would be suitable or appropriate for you).

3. **Communicating with clients, including financial promotions**

   Detailed rules govern generally the form and content of financial promotions which are issued to investors who are Retail Clients. However, these detailed form and content rules apply less rigorously where a promotion is issued only to investors who are Professional Clients. As a Professional Client, firms will be generally permitted to issue promotions to you which do not satisfy the detailed form and content rules for Retail Clients. Firms must ensure however that communications remains fair, clear and not misleading.

4. **Financial Ombudsman**

   The services of the Financial Ombudsman Service may not be available to you as a Professional Client

5. **Investor compensation**

   Eligibility for compensation from the Financial Services Compensation Scheme is not contingent on your categorisation but on how your organisation is constituted. Your rights (if any) to make a claim under the Financial Services Compensation Scheme in the UK will not be affected by being categorised as a Professional Client.

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Elective Professional Client - Status Assessment

NAME OF LOCAL AUTHORITY:____
CAPACITY: **As administering authority of the local government pension scheme**
NAME OF OFFICIAL COMPLETING QUESTIONNAIRE:______________________________
DATE:___________________

QUANTITATIVE TEST

Answer questions (a) - (d) below. Please ensure that the detail forming the basis of the determination is recorded.

Please answer question (a) with a "Yes" / "No" answer	
(a) Does the size of the local authority's financial instruments portfolio (including both cash deposits and financial instruments) for the purposes of its administration of a local government pension scheme **exceed GBP 10,000,000**? Portfolio size_______ as at date: ………………………………………………….	☐ Yes ☐ No
(b) Is the local authority an 'administering authority' of the Local Government Pension Scheme within the meaning of the version of Schedule 3 of The Local Government Pension Scheme Regulations 2013 or, (in relation to Scotland) within the meaning of the version of Schedule 3 of The Local Government Pension Scheme (Scotland) Regulations 2014 in force at 1 January 2018, and is acting in that capacity?	☐ Yes ☐ No
If the answer is "Yes" to question (b) above, it is not necessary to carry out the assessment in question (c) or question (d) and the answer "N/A" can be given in both cases	
(c) Has the local authority carried out transactions (in significant size) on the relevant market, at an average frequency of at least **10 per quarter** for the **previous four quarters** (i.e. at least 40 investments on the relevant market in the last year)? Transaction total: ……………………………………………………………………...	☐ Yes ☐ No ☐ N/A
(d) Does the person authorised to carry out transactions on behalf of the local authority work or has that person worked in the financial sector for at least one year in a professional position, which requires knowledge of the provision of services envisaged? Details of role: …………………………………………………………………………	☐ Yes ☐ No ☐ N/A

QUALITATIVE TEST

The "qualitative test" requires a firm to undertake an assessment of the **expertise, experience and knowledge** of the local authority, in order for the firm to be reasonably assured, in light of the nature of the transactions or services envisaged, that the local authority is capable of **making its own investment decisions** and **understanding the risks involved**[1].

In order for a firm to undertake the assessment required for the purposes of the qualitative test, certain information must be received from local authorities. Local authorities should provide answers to the questions set out below in as comprehensive a fashion as possible. The responses received from the local authority client should be considered and assessed internally by the firm.

TO BE COMPLETED BY THE LOCAL AUTHORITY CLIENT

Section 1: Decision making body for pension investing within your authority

Please complete the following section in relation to the decision making body within the authority.

1.	Please indicate which <u>one</u> of the models below is used for investment decisions in the administering authority.

a	All decisions delegated to committee or sub-committee. (*Please tick whether you have enclosed or provided a link to the minute giving the officer completing this document the necessary authorisation to do so*)	YES NO Enclosed Link	☐ ☐ ☐ ☐
b	Decisions delegated to committee or sub- committee with partial delegation to an officer or officers. (*Please tick whether you have enclosed or provided a link to the minute giving the officer completing this application the necessary authorisation to do so*)	YES NO Enclosed Link	☐ ☐ ☐ ☐
c	All decisions delegated to an officer or officers.	YES NO	☐ ☐
d	Other	YES NO	☐ ☐

2.	Please enclose or provide a link to the relevant scheme of delegations, which confirm details of the model elected above.	Enclosed Link	☐ ☐

3.	If you have selected model "d - other" above, please use the box below to describe the composition of the decision making model giving details of the parties and their functions. Details should include information on how the decision making body is constructed, constituted and periodically reviewed.

[1] COBS 3.5.3R (1)

Section 2: Expertise, experience and knowledge

Please answer the following questions in relation to the members of the committee or sub-committee (*not officers, investment advisors or consultants*) which makes investment decisions of behalf of the authority.

If you answered (c) to Section 1 Question 1, please move to Section 3.

1	Are members provided with a written brief on joining the committee? (*Please tick whether you have enclosed or provided a link to a copy of an example of the briefing*)	YES NO Enclosed Link	☐ ☐ ☐ ☐
2	Are members provided with training on investment matters? (*Please tick whether you have enclosed or provided a link to examples of the training offered to members in the last 12 months*)	YES NO Enclosed Link	☐ ☐ ☐ ☐
	Please indicate the total number of hours of training offered and delivered to the committee over the last 12 months.	hours offered hours delivered	
3	Is the attendance of members at training monitored and recorded?	YES NO	☐ ☐
4	Please state the average number of hours of training committee members have attended over the last 12 months.	hours	
5	Please state the average number of hours at investment conferences that committee members have attended over the last 12 months.	hours	
6	Are members required to complete a self-assessment with regard to their knowledge of investments? (*Please tick whether you have enclosed or provided a link to details of the self-assessment tool used*)	YES NO Enclosed Link	☐ ☐ ☐ ☐
7	Please state the number of years served on the committee (or other such investment committees) on average for each member	years	
8	Please provide any other information which may assist with the assessment of the knowledge, experience and expertise of the committee or sub-committee - (such as the average number of years of independent investment experience by members).		

Section 3: Investment history and strategy

1	Please complete the following questions in relation to the authority's history and current strategy with regard to investments which are acquired through an investment manager's investment mandate or invested in directly (e.g. funds).

Asset class or investment vehicle	Number of years held	Currently Held
Fixed interest securities	0 ☐ 1-3 ☐ 4-5 ☐ 5+ ☐	YES ☐ NO ☐
Index-linked securities	0 ☐ 1-3 ☐ 4-5 ☐ 5+ ☐	YES ☐ NO ☐
Listed equities	0 ☐ 1-3 ☐ 4-5 ☐ 5+ ☐	YES ☐ NO ☐
Pooled investment vehicles (PIVs) – authorised funds (e.g. UCITS, NURS, PAIFs)	0 ☐ 1-3 ☐ 4-5 ☐ 5+ ☐	YES ☐ NO ☐
Pooled investment vehicles (PIVs) – unauthorised (e.g. investment trusts, close-ended real estate funds, hedge funds)	0 ☐ 1-3 ☐ 4-5 ☐ 5+ ☐	YES ☐ NO ☐
Property PIVs	0 ☐ 1-3 ☐ 4-5 ☐ 5+ ☐	YES ☐ NO ☐
Private equity funds	0 ☐ 1-3 ☐ 4-5 ☐ 5+ ☐	YES ☐ NO ☐
Property	0 ☐ 1-3 ☐ 4-5 ☐ 5+ ☐	YES ☐ NO ☐
Exchange traded derivatives (ETDs)	0 ☐ 1-3 ☐ 4-5 ☐ 5+ ☐	YES ☐ NO ☐
Over-the-counter derivatives (OTCs)	0 ☐ 1-3 ☐ 4-5 ☐ 5+ ☐	YES ☐ NO ☐
Commodities	0 ☐ 1-3 ☐ 4-5 ☐ 5+ ☐	YES ☐ NO ☐
Cash deposits	0 ☐ 1-3 ☐ 4-5 ☐ 5+ ☐	YES ☐ NO ☐
Commercial paper	0 ☐ 1-3 ☐ 4-5 ☐ 5+ ☐	YES ☐ NO ☐
Floating rate notes	0 ☐ 1-3 ☐ 4-5 ☐ 5+ ☐	YES ☐ NO ☐
Money market funds	0 ☐ 1-3 ☐ 4-5 ☐ 5+ ☐	YES ☐ NO ☐
Other asset classes or investment vehicles where the authority has experience (Please give details below)		
	1-3 ☐ 4-5 ☐ 5+ ☐	YES ☐ NO ☐
	1-3 ☐ 4-5 ☐ 5+ ☐	YES ☐ NO ☐
	1-3 ☐ 4-5 ☐ 5+ ☐	YES ☐ NO ☐
	1-3 ☐ 4-5 ☐ 5+ ☐	YES ☐ NO ☐

2	Please tick whether you have enclosed or provided a link to the most recent version of the authority's Investment Strategy Statement.	Enclosed Link	☐ ☐
3	Has the authority taken the appropriate advice, as required by regulation, in preparing its Investment Strategy Statement?	YES NO	☐ ☐

Section 4: Understanding risks

Please answer the following questions in relation to the members of the committee or sub-committee or officers (*not investment advisors or consultants*) making investment decisions of behalf of the authority.

1	Does the authority have a risk framework and/or risk management policy in place in relation to investments? (*Please tick whether you have enclosed or provided a link to a details of the framework/policy*)	YES NO Enclosed Link	☐ ☐ ☐ ☐
2	Was external advice taken with regard to the preparation, monitoring and review of the framework/policy?	YES NO	☐ ☐
	If yes, please provide the name of the advisor:		
3	Is the risk framework/policy reviewed on a regular basis?	YES NO	☐ ☐
	If YES please state the frequency of the review.		
	(*Please tick whether you have enclosed or provided a link to details of the last review*)	Enclosed Link	☐ ☐
4	Are those directly involved in decision making provided with training on risk management, including focused training on understanding the risks involved with investments? (*Please tick whether you have enclosed or provided a link to examples of the training offered in the last 12 months*)	YES NO Enclosed Link	☐ ☐ ☐ ☐
5	Are those directly involved in decision making required to complete a self-assessment with regard to their understanding of risk management? (*Please tick whether you have enclosed or provided a link to details of the self-assessment tool used*)	YES NO Enclosed Link	☐ ☐ ☐ ☐

Section 5: Support for investment decisions taken by committee/sub-committee of the authority

Please answer the following questions in relation to those officers, advisors or consultants who directly contribute to assisting the committee/sub-committee of the authority take investment decisions or those officers who have delegated decision making powers.

In Section 1 Question 1, if you answered:

- Model a - please complete Question 1 below
- Model b - please complete Questions 1 and 2 below
- Model c - please complete Question 2 below
- Model d - please complete the below questions as appropriate

1.	For each officer providing support to the committee or sub-committee please provide the following information.

Job title	Relevant qualifications	Years experience in role[2]

2.	For each officer with delegated investment powers please provide the following information (these may be the same officers as above).

Job title	Limit on asset classes or investment vehicles	Limit on delegation (£m)

3	Does the authority have a written succession plan in place to manage key person risk in relation to the above officers? (*Please tick whether you have enclosed or provided a link to details of the succession plan*)	YES NO Enclosed Link	☐ ☐ ☐ ☐

4.	For each individual investment advisor used by the authority please provide the following information *only to be completed where these individual investment advisors are engaged on an independent basis and not acting on behalf of an entity listed in point 5 below)*.

Name	Relevant qualifications	Years experience in role[3]

[2] Or similar role which would provide knowledge of the provision of the services envisaged, which may have been carried out at a different organisation.

[3] Or similar role which would provide knowledge of the provision of the services envisaged.

5.	For each investment advisory firm used by the authority please provide the following information.

Name of firm	**Details of FCA authorisation**	**Years employed by authority**

6.	For each individual investment consultant used by the authority please provide the following information (*only to be completed where these consultants are engaged on an independent basis and not acting on behalf of an entity listed in point 7 below)*.

Name	**Relevant qualifications**	**Years experience in role[4]**

7.	For each investment consultancy firm used by the authority please provide the following information.

Name of firm	**Details of FCA authorisation**	**Years employed by authority**

8.	Please confirm whether the officer, investment advisor firm/individual, investment consultancy firm/individual, is aware of the reliance being placed on it for the purposes of the client categorisation of Local Authorities.	YES ☐ NO ☐

[4] Or similar role which would provide knowledge of the provision of the services envisaged.

Section 6 General questions

1.	In the last three years has the authority been censured for a material breach of Local Government investment regulations in force from time to time or any other related legislation governing investment? (*If yes please tick whether you have enclosed or provided a link to a details of the breach*)	YES NO Enclosed Link	☐ ☐ ☐ ☐

2.	Please use the box below to provide any further information which may be useful in the support of your application.

Hackney

REPORT OF THE GROUP DIRECTOR, FINANCE AND CORPORATE RESOURCES		
Training Policy **Pensions Committee** **11th September 2017**	**Classification** **PUBLIC** **Ward(s) affected** **ALL**	**Enclosures** **One** **AGENDA ITEM NO.**

1. INTRODUCTION

1.1 In January 2015, Members of the Pensions Committee approved the Fund's first formal training policy, following the introduction of expanded knowledge and skills requirements for LGPS Pensions Committee Members, Pension Board members and officers. New guidance from Chartered Institute of Public Finance and Accountancy (CIPFA), new legislation and the Pension Regulator's (tPR) role in overseeing the administration and governance of the scheme all increased the requirements around knowledge and skills in the LGPS and the introduction of a formal training policy helped to ensure that the Fund was meeting these requirements.

1.2 This report proposes that the Pensions Committee agree an updated Training Policy for the London Borough of Hackney Pension Fund, which will apply to Pensions Committee members, Pension Board members and senior officers responsible for managing the Fund. The policy has been updated to reflect guidance for administering authorities on governance principles for investment pooling, issued by Aon Hewitt on behalf of the CIPFA Pensions Panel.

2. RECOMMENDATIONS

2.1 The Pensions Committee is recommended to:

- Approve the updated London Borough of Hackney Pension Fund Training Policy which is attached at Appendix 1

  and that

- Each Committee Member, Board Member and senior officer to adhere to the Training Policy and maintain the required level of knowledge and skills

3. RELATED DECISIONS

- Pensions Committee (23rd March 2016) – Updated Training Policy
- Pensions Committee (13th January 2016) & Pensions Board (26th January 2016) – TPR Code of Compliance
- Pensions Committee (31st March 2015) – Governance Compliance Statement
- Pensions Committee (14th January 2015) – Approval of Training Policy

4. COMMENTS OF THE GROUP DIRECTOR, FINANCE & CORPORATE RESOURCES

4.1 The responsibilities for the Pension Fund are complex and varied covering the whole spectrum of investments, administration and financial management. Training across all aspects of the Pension Fund and understanding the factors that impact it help those charged with governance to make effective decisions, including having an understanding of the financial impact of such decisions.

4.2 Having a formally approved and transparent training policy in place is good practice and helps ensure those persons charged with governance and management of the Pension Fund understand what is expected of them. The costs associated with delivering this Policy are immaterial compared with the potential costs of failing to ensure that the Fund is properly managed. Additionally, many of the training sessions are provided free of charge or at minimal cost.

5. COMMENTS OF THE DIRECTOR, LEGAL

5.1 The Council has established a Pensions Committee to act as the trustee of the Council's pension fund in accordance with legislation. The Committee is responsible for monitoring performance of the fund, setting and reviewing strategic objectives and appointing administrators, advisers, investment managers and custodians.

5.2 The functions of the Pensions Committee are contained within part 3 of the Councils' Constitution. To maintain an overview of pensions training for its' Members, the Pensions Board Members and senior officers is part of this Committee's role.

5.3 All other legal implications have been incorporated within the body of this report.

6. BACKGROUND/TEXT OF THE REPORT

National Requirements

6.1 In recent years CIPFA has placed much greater focus on the requirement for appropriate knowledge and skills in the management of LGPS Funds and has issued a range of guidance on the subject. The Pensions Committee has been a keen supporter of ensuring that training forms part of the Committee's role and receives a training session at each Committee meeting in advance of the main business meeting.

6.2 The Public Service Pensions Act 2013 (PSPA) required each administering authority in the LGPS to introduce a Pension Board by 1 April 2015. All Board members are legally required to have knowledge and understanding of pension scheme matters at a level that will allow them to properly exercise the functions of their role.

6.3 Both the Pensions Committee and the Pensions Board have reviewed and approved the Code of Compliance from the Pensions Regulator, which carries a specific section on the Knowledge and Understanding, and it is worth including as a reminder the requirements set out there:

1. Are there policies and arrangements in place to support Pension Board members in acquiring and retaining knowledge and understanding?

2. Has a person been designated to take responsibility for ensuring the framework is developed and implemented?
3. Is the Fund providing assistance to pension board members to determine the degree of knowledge and understanding required?
4. Are the roles and responsibilities of Pension Boards and members of Pension Board clearly set out in scheme documentation?
5. Are Pension Board members aware of their legal responsibility in terms of knowledge and understanding?
6. Have all Pension Board members got access to copies of the scheme rules and relevant Fund documentation?
7. Is there an up-to-date list of the Fund specific documents with which Pension Board members need to be conversant in?
8. Are all Pension Board members investing sufficient time in their learning and development?
9. Does the Fund offer pre-appointment training for new Pension Board members or mentoring by existing members?
10. Is there a process in place for regularly assessing the Pension Board members' level of knowledge and understanding is sufficient for their role, responsibilities and duties?
11. Are records of learning activities being maintained?
12. Have the Pension Board members completed the Pension Regulator's toolkit for training on the Code of Practice number 14?

6.4 A large proportion of the requirements are covered by the updated Training Policy attached as an appendix to this report. Evidence of training is included within the Pension Fund Report and Accounts for both Pensions Committee and Pensions Board, in training records maintained by the Financial Services section and in the annual self-assessment questionnaire which Pensions Committee and Pensions Board members are asked to complete annually.

6.5 In July 2015 CIPFA launched technical guidance for Local Pension Board members by extending the knowledge and skills frameworks already in place. The updated Framework details the knowledge and skills required by Pension Board members to enable them to properly exercise their functions under Section 248a of the Pensions Act 2004, as amended by the Public Service Pensions Act 2013.

6.6 The Framework covers eight areas of knowledge and skills identified as the core requirements (which includes all those covered in the existing Committee and officers frameworks):

- Pensions legislation
- Public sector pensions governance
- Pension accounting and auditing standards
- Pensions administration
- Financial services procurement and relationship management

- Investment performance and risk management
- Financial markets and products knowledge
- Actuarial methods, standards and practice

6.7 CIPFA guidance released in October 2016 updates these principles for a pooled investment environment, providing guidance for administering authorities on the governance arrangements and the knowledge and skills required in relation to the operation of the new asset pools and funds' relationships with them. The Fund's training policy has been updated in line with this guidance, alongside planned updates to the Terms of Reference for the Committee to ensure that the Fund's relationship with the London CIV, its chosen asset pool, is formalised within the Council's constitution.

London Borough of Hackney Pension Fund Training Policy

6.8 The Training Policy details the proposed training strategy for members of the Pensions Committee, the Pensions Board and senior officers responsible for the management of the Fund. The Training Policy has been created and subsequently updated to provide a formal framework and greater transparency on the training regime in accordance with the national requirements. It will aid existing and future Pensions Committee Members, Pension Board members and senior officers in their personal development and performance in their individual roles, providing a structure which will ensure that the Pension Fund is managed by individuals who have the appropriate levels of knowledge and skills.

6.9 Pensions Committee members, Pension Board members and senior officers will continue to be provided with ongoing opportunities to attend training events to assist them to adhere to the policy.

Ian Williams
Group Director, Finance & Corporate Resources

Report Originating Officers: Rachel Cowburn ☎020-8356 2630
Financial considerations: Michael Honeysett ☎020-8356 3332
Legal comments: Stephen Rix ☎020-8356 6122

London Borough of Hackney

Pension Fund

Training Policy

Hackney

TRAINING POLICY

Introduction

This is the Training Policy of the London Borough of Hackney Pension Fund in relation to the Local Government Pension Scheme (LGPS), which is managed and administered by Hackney Council. The Policy details the training strategy for members of the Pensions Committee and Pension Board, and senior officers responsible for the management of the Fund.

The Training Policy is established to aid Pensions Committee and Pension Board members and senior officers in performing and developing personally in their individual roles, with the ultimate aim of ensuring that the London Borough of Hackney Pension Fund is managed by individuals who have the appropriate levels of knowledge and skills.

Hackney Council has delegated responsibility for the implementation of this Training Policy to the Group Director, Finance and Corporate Resources.

Aims and Objectives

Hackney Council recognises the significance of its role as Administering Authority to the London Borough of Hackney Pension Fund on behalf of its stakeholders which include:

- around 23,000 current and former members of the Fund, and their dependants
- over 30 employers within the Hackney Council area or with close links to Hackney Council
- the local taxpayers within the London Borough of Hackney.

In relation to the governance of the Fund, our objectives are to ensure that:

- all staff and Pensions Committee members charged with the financial administration and decision-making with regard to the Fund are fully equipped with the knowledge and skills to discharge the duties and responsibilities allocated to them
- the Fund is aware that good governance means an organisation is open in its dealings and readily provides information to interested parties
- all relevant legislation is understood and complied with
- the Fund aims to be at the forefront of best practice for LGPS funds
- the Fund manages Conflicts of Interest appropriately
- the Fund’s relationship with its chosen asset pool, the London CIV, is well understood, with clearly defined roles and responsibilities for both the Fund and the pool.

This Policy has been put in place to assist the Fund in achieving these objectives and all Pensions Committee members, Pension Board members and senior officers to whom this Policy applies are expected to continually demonstrate their own personal commitment to training and to ensuring that these objectives are met.

To assist in achieving these objectives, the London Borough of Hackney Pension Fund will aim to comply with:

- the CIPFA Knowledge and Skills Frameworks and
- the knowledge and skills elements of the Public Service Pensions Act 2013 and
- The Pensions Regulator's (TPR) Code of Practice for Public Service Schemes

as well as any other LGPS specific guidance relating to the knowledge and skills of Pensions Committee members, Pension Board members or pension fund officers which may be issued from time to time.

To whom this Policy Applies

This Training Policy applies to all members of the Pensions Committee and the local Pension Board, including scheme member and employer representatives. It also applies to all managers in the Hackney Council Pension Fund Management Team and the Chief Finance Officer (Section 151 Officer) (from here on in collectively referred to as the senior officers of the Fund).

Less senior officers involved in the daily management of the Pension Fund will also be required to have appropriate knowledge and skills relating to their roles, which will be determined and managed by the Pension Fund Manager and his/her team.

Personnel of the third party administrator that provides the day to day administration of the London Borough of Hackney Pension Fund are also expected to be able to meet the objectives of this Policy, as are all other advisers to the Fund.

Officers of employers participating in the London Borough of Hackney Pension Fund who are responsible for pension matters are also encouraged to maintain a high level of knowledge and understanding in relation to LGPS matters, and Hackney Council will provide appropriate training for them. This is considered separately in the London Borough of Hackney Pension Fund Administration Strategy.

CIPFA and TPR Knowledge and Skills Requirements

CIPFA Knowledge and Skills Framework and Code of Practice

In January 2010 CIPFA launched technical guidance for Representatives on Pensions Committees and non-executives in the public sector within a knowledge and skills framework. The Framework details the knowledge and skills required by those responsible for pension scheme financial management and decision making.

In July 2015 CIPFA launched technical guidance for Local Pension Board members by extending the existing knowledge and skills frameworks in place. This Framework details the knowledge and skills required by Pension Board members to enable them to properly exercise their functions under Section 248a of the Pensions Act 2004, as amended by the Public Service Pensions Act 2013.

The Framework covers eight areas of knowledge and skills identified as the core requirements (which includes all those covered in the existing Committee and non-executive's framework):

- Pensions legislation
- Public sector pensions governance
- Pension accounting and auditing standards
- Pensions administration
- Financial services procurement and relationship management
- Investment performance and risk management
- Financial markets and products knowledge
- Actuarial methods, standards and practice

In October 2016, Aon Hewitt published its 'Investment Pooling Governance Principles' guidance on behalf of the CIPFA Pensions Panel. This guidance updates the previous Knowledge and Skills framework to include additional competencies relating to asset pooling, ensuring that each area within the core requirements includes a section considering the structure and governance of the asset pools and their relationship to their constituent funds.

CIPFA's Code of Practice recommends (amongst other things) that Local Government Pension Scheme administering authorities -

- formally adopt the CIPFA Knowledge and Skills Frameworks (or an alternative training programme)
- ensure that the appropriate policies and procedures are put in place to meet the requirements of the Frameworks (or an alternative training programme);
- publicly report how these arrangements have been put into practice each year.

The Pensions Act 2004, and The Pension Regulator's Code of Practice

Section 248a of the Pensions Act 2004, as amended by The Public Service Pensions Act 2013 (PSPA13) requires Pension Board members to:

- be conversant with the rules of the scheme and any document recording policy about the administration of the scheme, and
- have knowledge and understanding of the law relating to pensions and any other matters which are prescribed in regulations.

The degree of knowledge and understanding required is that appropriate for the purposes of enabling the individual to properly exercise the functions of a member of the Pension Board.

These requirements are incorporated and expanded on within the TPR Code of Practice which came into force on 1 April 2015.

Scheme Advisory Board Guidance

Further guidance for Local Pension Boards was also issued by the Scheme Advisory Board (SAB) in February 2015, this sets out in more detail how the requirements of the regulations should be implemented by administering authorities. The Guidance specifies that boards should set out a policy and framework to address the knowledge and understanding requirements that apply to its members. It is permissible for this policy to cover both the Pensions Committee and Pension Board, as is the case here.

Application to the London Borough of Hackney Pension Fund

Hackney Council recognises that effective financial administration, scheme governance and decision-making can only be achieved where those involved have the requisite knowledge and skills. Accordingly it fully supports the use of the CIPFA Knowledge and Skills Frameworks, and TPR's Code of Practice. Hackney Council adopts the principles contained in these publications in relation to the London Borough of Hackney Pension Fund and its relationship to the London Collective Investment Vehicle, and this Training Policy highlights how the Council will strive to achieve those principles through use of a rolling Training Plan together with regular monitoring and reporting.

The London Borough of Hackney Pension Fund Training Plan

Hackney Council recognises that attaining, and then maintaining, relevant knowledge and skills is a continual process for Pensions Committee members, Pension Board members and senior officers, and that training is a key element of this process. Hackney Council will develop a rolling Training Plan based on the following key elements:

Individual Training Needs

A training needs analysis will be developed for the main roles of Pensions Committee members, Pension Board members and senior officers customised appropriately to the key areas in which they should be proficient. Training will be required in relation to each of these areas as part of any induction and on an ongoing refresher basis.

Hot Topic Training

The Training Plan will be developed to ensure appropriately timed training is provided in relation to hot topic areas, such as a high risk area or a specific area where decisions need to be made. This training may be targeted at specific roles.

General Awareness

Pensions Committee members, Pension Board members and senior officers are expected to maintain a reasonable knowledge of ongoing developments and current issues, which will allow them to have a good level of general awareness of pension related matters appropriate for their roles and which may not be specific to the London Borough of Hackney Pension Fund.

Each of these training requirements will be focussed on the role of the individual i.e. a Pensions Committee member, a Pension Board member or the specific role of the officer.

The Pensions Committee agrees a training plan on an annual basis at the first meeting of the Municipal Year. The training plan is developed taking into consideration the needs of the Committee, the Board and officers to both enhance existing knowledge and skills and to develop new areas of understanding. This ensures that training is accessible to all Committee and Board members and key officers involved in the management of the Pension Fund.

Training will be delivered through a variety of methods including:

- In-house training days provided by officers and/or external providers
- Training as part of meetings (e.g. Pensions Committee) provided by officers and/or external advisers
- External training events
- Circulation of reading material
- Attendance at seminars and conferences offered by industry-wide bodies

- Attendance at meetings and events with the London Borough of Hackney Pension Fund's investment managers and advisors
- Links to on-line training
- Access to the London Borough of Hackney Pension Fund website where useful London Borough of Hackney Pension Fund specific material is available

In addition London Borough of Hackney Pension Fund officers and advisers are available to answer any queries on an ongoing basis including providing access to materials from previous training events.

Initial Information and Induction Process

On joining the Pensions Committee, the Pension Board or the London Borough of Hackney Pension Fund Management Team, a new member or officer will be provided with the following documentation to assist in providing them with a basic understanding of London Borough of Hackney Pension Fund:

- The members' guide to the Local Government Pension Scheme (LGPS)
- The latest Actuarial Valuation report
- The Annual Report and Accounts, which incorporate:
  - The Funding Strategy Statement
  - The Governance Policy and Compliance Statement
  - The Investment Strategy Statement
  - The Communications Policy
  - The Administration Strategy
- The administering authority's Discretionary Policies
- This Training Policy

In addition, an individual training plan will be developed to assist each Pensions Committee member, Pension Board member or officer to achieve, within six months, their identified individual training requirements.

Monitoring Knowledge and Skills

In order to identify whether Pensions Committee members, Pension Board members and senior officers are meeting the objectives of this policy we will:

1) Compare and report on attendance at training based on the following:

   - Individual Training Needs – ensuring refresher training on the key elements takes place for each individual at least once every three years.
   - Hot Topic Training – attendance by at least 80% of the required Pensions Committee members, Pension Board members and senior officers at planned hot topic training sessions. This target may be focussed at a

particular group of Pensions Committee members, Pension Board members or senior officers depending on the subject matter.

- General Awareness – each Pensions Committee member, Pension Board member or officer attending at least one day each year of general awareness training or events.
- Induction training – ensuring areas of identified individual training are completed within six months.

2) Consider whether the objectives have been met as part of the annual self-assessment carried out each year which is completed by all Pensions Committee members, Pension Board members and senior officers.

Key Risks

The key risks to the delivery of this Policy are outlined below:

- Changes in Pensions Committee and/or Pension Board membership and/or senior officers potentially diminishing knowledge and understanding.
- Poor attendance and/or a lack of engagement at training and/or formal meetings by Pensions Committee Members, Pension Board Members and/or other senior officers resulting in a poor standard of decision making and/or monitoring.
- Insufficient resources being available to deliver or arrange the required training.
- The quality of advice or training provided not being to an acceptable standard.

The Pensions Committee members, with the assistance of London Borough of Hackney senior officers and Pension Board members, will monitor these and other key risks and consider how to respond to them.

Reporting

A report will be presented to the Pensions Committee on an annual basis setting out:

- The training provided / attended in the previous year at an individual level
- Attendance at Pensions Committee and Pension Board meetings
- The results of the measurements identified above.

This information will also be included in the London Borough of Hackney Pension Fund's Annual Report and Accounts.

At each Pensions Committee meeting, members will be provided with details of forthcoming seminars, conferences and other relevant training events as well as a summary of the events attended since the previous meeting.

Costs

All training costs related to this Training Policy are met directly by the London Borough of Hackney Pension Fund.

Approval, Review and Consultation

This Training Policy was originally approved at the London Borough of Hackney Pensions Committee meeting on 14 January 2015 and amendments to incorporate the requirements of the CIPFA Local Pension Boards Framework were approved on 23 March 2016. Further amendments to incorporate additional CIPFA guidance on investment pooling were approved on 11 September 2017. This Training Policy was also formally adopted by the London Borough of Hackney Pension Board at its first meeting, with updated policies approved where required. It is formally reviewed and updated at least every year or sooner if the training arrangements or other matters included within it merit reconsideration.

Further Information

If you require further information about anything in or related to this Training Policy, please contact:

Rachel Cowburn
Head of Pension Fund Investment
London Borough of Hackney Pension Fund
4th Floor, Hackney Service Centre
1 Hillman Street
London
E8 1DY

E-mail rachel.cowburn@hackney.gov.uk

Telephone 020 8356 2630

Further information on the London Borough of Hackney Pension Fund can be found as shown below:

Telephone: 020 8356 2745

Email: pensions@hackney.gov.uk (Governance)

hackney.pensions@equiniti.com (Administration)

Pension Fund Website: http://hackney.xpmemberservices.com

Hackney Council Website: www.hackney.gov.uk (Minutes, Agendas, etc)

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Hackney

REPORT OF THE GROUP DIRECTOR OF FINANCE AND CORPORATE RESOURCES		
ANNUAL REPORT OF THE PENSIONS COMMITTEE 2016-2017 **Pensions Committee** **11th September 2017**	**Classification** **PUBLIC** **Ward(s) affected** **ALL**	**Enclosures** **One** **AGENDA ITEM NO.**

1. INTRODUCTION

1.1 The purpose of this report is to detail the role of the Pensions Committee and summarise the key activities and achievements in 2016/17 that demonstrate how the Committee has fulfilled its role effectively acting in its capacity as quasi-trustees of the Council's Pension Fund. This report will then be presented to full Council in due course as a Committee of the Council.

2. RECOMMENDATIONS

2.1 The Pensions Committee is recommended to note the report.

3. RELATED DECISIONS

- Pensions Committee (27th June 2017) – Business Plan

4. COMMENTS OF THE GROUP DIRECTOR OF FINANCE & CORPORATE RESOURCES

4.1 The Pensions Committee act in the capacity of quasi trustees for the Pension Fund and its Administering Authority, the London Borough of Hackney and as such are responsible for the management of approximately £1.39 billion worth of assets and for ensuring the effective and efficient running of the Pension Fund. The decisions taken by the Committee impact directly on the financial standing of the Fund and, given the need to ensure that the Fund is able to meet its liabilities (pension benefit payments), the decisions taken will affect its ability to meet such liabilities. The Administering Authority has a responsibility to ensure that over time the Pension Fund is able to meet all its future liabilities and ensuring prudent financial management will directly impact on the contribution rates payable by all employers participating in the Fund, with the Council representing the largest employer in the Fund.

5. COMMENTS OF THE DIRECTOR, LEGAL

5.1 The Council's Constitution gives the Pensions Committee responsibility for a wide range of functions relating to management of the Council's Pension fund. In carrying out those functions the Committee must have regard to the various legislative obligations imposed on the Council as the Fund's Administering Authority, particularly by the suite of Local Government Pension Scheme (LGPS) Regulations.

5.2 The Committee has legal responsibilities for the prudent and effective stewardship of the Pension Fund and a clear fiduciary duty in the performance of its functions.

5.3 The annual report of the Pensions Committee's activities demonstrates how it has undertaken and fulfilled its statutory and constitutional responsibilities during 2016/17.

5.4 There are no immediate legal implications arising from this report.

6. BACKGROUND/TEXT OF THE REPORT

6.1 Delegated powers under the Council Constitution have been given to the Pensions Committee to oversee the management of the Pension Fund as the Administering Authority and are set out in the Terms of Reference for the Committee.

6.2 The Pensions Committee is a committee of the Council and reports annually on the work undertaken at Committee. The attached report covers the 2016/17 Financial Year where the Committee has met 5 times to cover a broad spectrum of pension related business. The full programme of work and training undertaken by the Committee is set out in the Appendix to this report.

6.3 Members continued with an extensive training programme during the year which reflected the key requirements laid down in the CIPFA Knowledge and Skills Framework.

6.6 Committee papers have largely been provided in accordance with the agreed timeframe with 1 late report. This was a report concerning Brexit, provided after the publication deadline following the UK's surprise decision to leave the EU, made 3 days prior to the Committee.

6.7 The Annual Report of the Committee evidences the work that the Committee has undertaken and demonstrates that it has discharged its responsibilities effectively both in terms of its legal responsibilities under the LGPS Regulations and the Committees Terms of Reference.

6.8 The coming year will continue to provide the Committee with an extensive work programme which includes work on asset pooling in line with the Government's investment reform agenda. In addition the Committee will continue with the work on planned changes to the Fund's investment strategy. The Fund will, from 3rd January 2018, need to opt up as an elective professional investor, following the introduction of MiFID II. The Committee began its review of the opt up process in 2016/17, with approval due in September 2017. The Committee will also continue to closely monitor the quality of membership data submitted to the Fund, with ongoing work for officers on process improvements within the Council.. A number of policy reviews will also be undertaken to update current arrangements. Ongoing training for the Committee in relation to both the Knowledge and Skills Framework and pertinent investment and governance issues will continue to be a regular feature as will monitoring of funding levels and the Pension Fund budget.

Ian Williams
Group Director of Finance & Corporate Resources

Report Originating Officers: Rachel Cowburn ☎020-8356 2630
Financial considerations: Michael Honeysett ☎020-8356 3332
Legal comments: Stephen Rix ☎020-8356 612

APPENDIX

Annual Report of the Pensions Sub-Committee 2016-17

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APPENDIX 1

Annual Report of the Pensions Committee 2016-2017

ANNUAL REPORT OF THE PENSIONS COMMITTEE 2016/17

1. CHAIR'S INTRODUCTION – COUNCILLOR ROBERT CHAPMAN

1.1 The Pensions Committee has responsibility for the management of the Pension Fund acting as quasi-trustees on behalf of the Administering Authority, the London Borough of Hackney.

1.2 During the 2016/17 municipal year the Pensions Committee undertook an extensive work and training programme, and met 5 times during the year. The Committee carries with it a considerable responsibility to ensure that the Pension Fund, which was valued at £1,391m at 31 March 2017 and has over 23,000 scheme members, is managed in an efficient and effective way. The Committee has responsibility for all aspects of the Pension Fund including managing the investments, ensuring governance arrangements are appropriate and scheme members and employers are kept informed of key information.

1.3 2016/17 saw the approval of the Fund's 2016 valuation, with the funding level improving to 77%, up from 70% in 2013. The monetary value of the deficit reduced from £406m to £349m. The Fund remains strongly cash flow positive with contributions and transfers in outstripping benefits paid and transfers out by £22.8 million plus a further net inflow from investments of £14.4 million. This is an area in which the Pensions Committee maintains strong oversight given the maturity profile of the Fund and the ongoing austerity programme affecting public services. Active membership of the Fund has remained stable for the present, helping to maintain the strong cash flow position.

1.4 The Fund has continued its collaborative work through the National LGPS Frameworks project, which continues to deliver efficiency savings for both the Hackney Fund and the wider LGPS. Having been a founder member of a number of previous frameworks, Hackney continued its involvement by acting as a founder on the new Third Party Administration services framework.

1.5 Responsible Investment remained an important area of focus for the Committee during 2016/17. Understanding and managing the risks posed to the Fund by climate change has been a priority; in January, the Committee approved a target for the Fund to reduce its exposure to future fossil fuel emissions by 50% over 6 years. In setting its new investment strategy, the Committee has considered how best to meet this target in line with the move to asset pooling; a number of proposals are now being considered for implementation over the medium term.

1.6 The Fund introduced one new investment mandate during the year, investing £25m in Threadneedle's 'Low Carbon Workplace' property fund, in line with the proposals agreed by the Committee in 2015/16 to help measure and manage the risks faced by the Fund from climate change.

1.7 The Committee agrees a training programme each year to ensure that it is able to evidence it has met the requirements of the CIPFA Knowledge and Skills programme and is able to fulfil the governance role with which it is charged. The Committee takes this aspect extremely seriously and training forms a key part of the agenda for each meeting, along with Committee Members and officers attending additional external training on a regular basis.

1.8 Details on the work and training undertaken by Committee during the municipal year 2016/17 are set out in section 3 of this report. Section 4 provides an outline of the anticipated work for the forthcoming year.

2. COMMITTEE MEMBERSHIP AND ATTENDANCE

2.1 The following Councillors were members of the Committee during the 2016/17 municipal year –

Cllr Robert Chapman (Chair)
Cllr Michael Desmond (Vice Chair)
Cllr Kam Adams
Cllr Feryal Demirci
Cllr Patrick Moule
Cllr Geoffrey Taylor

In addition, Jonathan Malins-Smith is co-opted to the Committee as the Scheme Member Representative. The position of Employer Representative is currently vacant following the end of the contract with Hackney Homes and the return of its staff to the Council.

2.2 The table below outlines Members' attendance at Pensions Committee meetings during the 2016/17 municipal year and the training sessions at which members were in attendance. It is noted that Members have a large number of commitments, including other public meetings and ward commitments, and are therefore not always available to attend meetings of the Committee.

Committee Members Attendance 2016/17									
	27th June		19th September		6th December (strategy)	24th January		29th March	
	Meeting	Training	Meeting	Training	Meeting	Meeting	Training	Meeting	Training
Cllr Robert Chapman (Chair)	P	P	P	P	P	P	P	P	P
Cllr Michael Desmond (Vice Chair)	P	P	P	P	P	P	P	P	P
Cllr Kam Adams	P	P	P	P	P	P	P	P	P
Cllr Feryal Demirci	A	A	A	A	A	P	P	P	P
Cllr Patrick Moule	P	P	A	A	P	P	P	P	A
Cllr Geoff Taylor	P	P	P	P	P	P	P	P	P
Co-Opted Members									
Jonathan Malins-Smith	A	A	P	P	P	P	P	P	P
P = Present									
A = Absent									

3. WORK UNDERTAKEN IN THE 2016/17 MUNICIPAL YEAR

3.1 The Pensions Committee has responsibility for the strategic management of the Pension Fund, which by the end of the financial year held £1.39bn worth of assets with 23,295 scheme members. The Committee is responsible for deciding the broad asset allocation of the Pension Fund along with its strategic direction and for ensuring the long term solvency of the Fund, i.e. the ability to pay the pensions of all past, present and future scheme members. The Committee has considered a wide range of issues and taken a number of key decisions affecting the Pension Fund. The work of the Committee has broadly fallen under the following categories during the Municipal Year:

3.2 Governance

3.2.1 During the year, the Committee approved the Fund's 2016 actuarial valuation, which saw the funding level improve from 70% to 77%, with the monetary deficit reducing to £349m from £406m. The improvement in the funding level is pleasing to note, and has permitted a decrease in the Council's contribution rate from 36.9% to 34.9% for 2017/18, with further incremental reductions planned over the following two years.

3.2.2 Compliance with The Pension Regulator's Code of Practice has continued to feature on the Committee's agenda during 2016/17. Although following the Code itself is not a legal requirement, it sets out how the Regulator expects the requirements of the Public Sector Pensions Act 2013 should be met. The Regulator has the power to take action where the provisions of the Act are not being met, and will use the Code as a core reference document in deciding on the appropriate action to take. The Committee has considered whether the management of the LB Hackney Pension Fund meets the standards set out in the Code through use of a compliance checklist, and ensured that appropriate processes are being developed for the few areas in which the Fund has not yet achieved full compliance.

3.2.3 The Committee has continued to closely monitor the quality of membership data supplied to the Fund, following a data audit carried out by the Fund's benefit consultants, AON, in 2015/16. The Council, by far the largest employer in the Fund, changed payroll provider in July 2017, meaning that for much of 2015/16, the Council needed to both manage the winding down of the previous contract and prepare for implementation with the new provider. This led to additional challenges with regards to data provision; the Committee have monitored developments closely, whilst officers from the Fund have been closely involved with the implementation project for the new payroll contract. This work has continued into the new municipal year and is likely to continue over the medium term, as the Fund looks to improve ongoing processes as well as completing a data cleansing exercise.

3.2.4 At the start of the municipal year, the Committee reviewed the business plan for the year and also the longer term objectives for the Fund to ensure that they remain appropriate for the Fund.

3.3 Investments/Asset Allocation

3.3.1 2016/17 has proven a positive, albeit turbulent, year in investment terms. The Fund ended the year valued at £1,391m, compared to £1,172m in 2015/16. Most of the gains have resulted from the Fund's allocation to equity markets, with a weak pound boosting returns from global equities, as well as the performance of the FTSE Allshare with its heavy exposure to foreign currency revenues. Performance across other asset classes has also been largely positive, with property, which suffered following the Brexit vote, the only significant weak point.

3.3.2 The Committee continued to monitor the investment portfolios and the performance of the Fund Managers it employs on a quarterly basis, as well as reviewing the rolling annual, 3yr and 5yr performance. Over the year, the Fund outperformed its customised benchmark by 1.4%, returning 18.9% over the year, compared to 17.5% for the benchmark. Contributors to the overall outperformance included the Fund's equity portfolio, its multi asset holdings, which rebounded strongly following a disappointing 2015/16, and the fixed income portfolio. Detractors from performance included the Fund's emerging markets allocation and pooled property holding.

3.3.3 The Fund introduced one new investment mandate during the year, investing £25m in Threadneedle's 'Low Carbon Workplace' property fund, in line with the proposals agreed by the Committee in 2015/16 to help measure and manage the risks faced by the Fund from climate change. Funds were drawn down in 3 tranches, with £10m funded through switching out of the Fund's existing property mandate in May 2016, followed by 2 further installments of £5m, both funded from cash, in October 2016 and February 2017.

3.3.4 During the year and following the 2016 valuation, the Fund carried out a full review of its investment strategy, setting out an overview of planned changes in its new Investment Strategy Statement (ISS). The most significant of these has been the Committee's decision to reduce the Fund's equity exposure in favour of multi asset credit, in light of the improved funding level and recent increases in equity valuations.

3.4 LGPS Structural Reform and the London CIV

3.4.1 2016/17 continued the theme of major changes for the LGPS, with further fundamental changes being made to the way investments are managed. In September 2016, the Government made and laid the long awaited LGPS (Management and Investment of Funds) 2016 Regulations, as well as publishing associated guidance. The Regulations dispense with the current, explicit limits on specified types of investment and, instead, charge administering authorities with determining the appropriate mix of investments for their funds. The quid pro quo for more freedom in the formulation of investment strategies is an obligation upon administering authorities to adhere to official guidance and broad powers allowing the Government to intervene if they do not.

3.4.2 The new Regulations also removed the requirement for funds to produce a Statement of Investment Principles (SIP), replacing it with the new Investment Strategy Statement (ISS), which must set out in detail not only an administering authority's asset allocation strategy, but also its plans for asset pooling and approach to Environmental, Social and Governance (ESG) consideration, amongst other items. Hackney's ISS was considered on detail by the Committee on numerous occasions during 2016/17, with approval granted for the finalised statement at the March 2017 meeting, ahead of the 1st April deadline.

3.4.3 The Fund's ISS sets out its medium term plans for moving its assets to its asset pool of choice, the London CIV. With no common mandates with other London boroughs, the Fund currently has no assets on the pool; however, planned changes to its asset allocation will start to bring assets onto the pooled structure from 2017/18. Whilst decisions around manager selection for these assets will rest with the pool, the decision on how the Fund will invest and in which investment strategies will remain with the Committee as the body responsible for the management of the Fund

3.5 Stewardship and Corporate Governance

3.5.1 The Committee appreciates that it has responsibilities as a shareholder in the underlying companies that it holds in the portfolio and considerable time and discussion has taken place on ways to improve the Fund's stewardship arrangements. One issue particularly recognised is that of fossil fuels and their impact on climate change. The Committee has recognised that these issues could present systemic risks to the planet, but could also have a material impact on the financial position of the Pension Fund. It therefore has a long running workplan in place to ensure that this issue is addressed within the Fund's investment strategy.

3.5.2 During the year, the Committee approved a target for the Fund to reduce its exposure to future fossil fuel emissions by 50% over 6 years. In setting its new investment strategy, the Committee has considered how best to meet this target in line with the move to asset pooling; a number of proposals are now being considered for implementation over the medium term.

3.5.3 The Committee has also considered a range of other measures to enhance its approach to wider corporate governance, ethical and social issues, including reviewing the options for a governance overlay service. The Fund has reaffirmed its membership of the Local Authority Pension Fund Forum (LAPFF), which is a collection of Local Authority funds who by acting collectively are able to apply pressure to management of companies to try to improve their governance standards.

3.6 Financial Monitoring including Annual Report and Accounts

3.6.1 At the Pensions Committee meeting on 19th September the Committee were presented with the 2015/16 Pension Fund Annual Report and Accounts for approval post- audit. The audit confirmed that there were no major issues with the accounts and that the auditors were satisfied with their findings.

3.6.2 A draft audit plan for the Pension Fund for the 2016/17 Financial Statements was considered at a meeting on 29th March 2017.

3.6.3 The Committee also received and approved the Pension Fund Annual Budget for 2017/18 and a review of the position for the budget for 2016/17 at its meeting on the 29th March 2017. Quarterly budget monitoring was undertaken during the year in order to better monitor the cashflow position of the Fund.

3.6.4 The Committee reviewed and approved an updated Treasury Management Strategy for the Pension Fund at its meeting on 24th January 2017.

3.7 Other Collaborative Working

3.7.1 The Committee has been kept informed of the work that the Fund has been involved in on the National LGPS Frameworks for procurement, delivering efficiency savings both for the Fund itself and across the LGPS. The Fund has remained an active participant in the project during 2016/17, being involved in finalising a new framework for third party pension administration. As detailed earlier in the report, the Fund subsequently commenced a mini-competition through the Framework during 2016/17.

3.8 Training

3.8.1 As part of the process of enabling Committee Members to fulfil their roles as quasi-trustees of the Pension Fund and the need to meet their fiduciary and regulatory responsibilities, the Committee were provided with a training session prior to each meeting. The CIPFA Knowledge and Skills Framework sets out in considerable detail the level of knowledge and skills that are expected of Committee Members who hold responsibility for the management of LGPS Funds; it is therefore vital to ensure that appropriate levels of training are available to Committee Members.

3.8.2 The topics covered in the training programme for Members were provided in line with the Knowledge and Skills Framework to help ensure that the Committee are able to achieve high levels of the specialist knowledge required of them.

3.8.3 The topics covered during the year in line with the Knowledge and Skills Framework are outlined in the table below:

Dedicated Training	Date
Active versus passive equity investment (KSF4)	27/06/2016
Actuarial Valuation (KSF6)	19/09/2016
Asset Liability Modelling (KSF6, KSF4)	06/12/2016
Pensions Legislation and Governance (KSF1)	24/01/2017
Financial Markets and Product Knowledge (KSF5)	29/03/2017
Supplemental Training	**Date**

Pensions Administration	27/06/2016
Investment Pooling – Legislative and Governance Context (KSF1)	27/06/2016
TPR Code Compliance (KSF1)	19/09/2016
Pension Fund Report and Accounts (KSF2)	19/09/2016
Section 13 GAD Reporting (KSF6)	19/09/2016
Investment Pooling Update (KSF1, KSF5)	24/01/2017
Pension Fund Risk Register (KSF1, KSF4)	24/01/2017
Third Party Administration Procurement (KSF3)	24/01/2017
Actuarial Valuation Final Report (KSF6)	29/03/2017
Investment Strategy Statement (KSF4)	29/03/2017
Strategy Meeting Supplemental Training	**Date**
Investment Strategy (KSF4, KSF5)	06/12/2016
Asset Liability Modelling (KSF6, KSF4)	06/12/2016
Third Party Administration – Procurement (KSF3)	06/12/2016

3.9 Ad-hoc Projects

3.9.1 The Committee also reviewed a number of other projects during the municipal year covering a range of topics as set out below:

- Pension Fund Risk Register – The Committee considered an updated Pension Fund Risk Register at its Committee meeting in January, ensuring a good understanding of the wider risks facing the Fund.
- Policy Reviews – Both the Communications Policy and the Pensions Administration Strategy were reviewed and approved by the Committee during the year as part of a rolling programme to ensure that policy documents are reviewed on a regular basis and any necessary changes are considered and approved.

4. WORK PROGAMME 2017/18

4.1 During the 2017/18 municipal year, the following reports are expected to be submitted to the Committee for consideration –

- Stewardship and Corporate Governance
- Report and Accounts 2017/18
- 2018/19 Budget
- Business Plan 2017/20
- Asset pooling update
- Implementation of planned Investment Strategy Changes
- Update on progress of climate change resolutions
- Quarterly monitoring – covering Funding, Budget, Investment, Administration
- Governance
- Membership data quality update/Data cleansing exercise
- Fund Manager Reports
- GMP reconciliation exercise
- Regulatory changes and consultations

- Pension Fund Risk Register
- Training Programme
- Policy reviews, including administering and employing authorities' discretions policies
- Implementation of MiFID II

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Hackney

REPORT OF THE GROUP DIRECTOR OF FINANCE AND CORPORATE RESOURCES		
The Pensions Regulator Code of Practice Compliance Checklist **Pensions Committee** **11th September 2017**	**Classification** **PUBLIC** **Ward(s) affected** **ALL**	**Enclosures** **One** **AGENDA ITEM NO.**

1. INTRODUCTION

1.1 From 1st April 2015 the Pensions Regulator (TPR) assumed responsibility for public service pension schemes and put in place codes of practice for public service pension schemes covering a number of areas relating to the management of schemes. The Code of Practice for Public Service Pension Schemes came into force from 1st April and all schemes must now consider whether they comply with the Code.

1.2 This report covers an updated Compliance Checklist for the London Borough of Hackney Pension Fund.

2. RECOMMENDATIONS

2.1 The Pensions Committee is recommended to:

- Note the Code of Compliance Checklist and where further work is required and being undertaken.

3. RELATED DECISIONS

- Pensions Committee 27th June 2017 - Employer Data Audit
- Pensions Committee 24th January 2017 – Pension Fund Risk Register
- Pensions Committee 19th September 2016 – TPR Code Compliance Checklist

4. COMMENTS OF THE GROUP DIRECTOR OF FINANCE & CORPORATE RESOURSES

4.1 In recent years there has been much greater focus on whether the governance of LGPS pension funds is appropriate. The introduction of local Pension Boards and focus on increased training are just two areas which we have seen. TPR's greater legal powers of oversight extend this further and the Code of Practice is a useful means to understand what good practice looks like in these areas.

4.2 A good standard of governance is crucial in minimising the key risks involved in managing the Pension Fund. Although there are clear benefits for many schemes of the greater oversight powers that have been given to TPR, ensuring compliance with these areas and the much greater focus on governance results in additional work for officers and advisers of the Fund. Any costs associated with delivering the requirements of this Code and the related legal changes are immaterial in the context of the Pension Fund and any such costs are recharged to the Pension Fund.

4.3 The Pensions Regulator's Policy on compliance and enforcement sets out his powers and the consequences of not meeting the requirements under the Code which could have financial consequences and could in extreme cases lead to financial penalties.

5. COMMENTS OF THE DIRECTOR, LEGAL

5.1 The responsibilities given to the Pensions Committee, Pension Board members and senior officers in respect of the management of the Pension Fund are both broad and onerous. For example, as quasi-trustees of the Pension Fund, they would owe a fiduciary duty to fund members and participating employers, which imposes the highest standard of care in equity and law. The responsibilities are exercised in a legal framework that is both complex and changing.

5.2 The extended powers of TPR and his Code of Practice for Public Service Pension Schemes require a high standard of governance in the management of the Fund and it is appropriate that a procedure is put in place to ensure we adhere to these requirements. The compliance checklist that is being developed will assist in this regard and allow us to monitor the requirements on an ongoing basis.

5.3 Not adhering to the overriding legal requirements could impact on meeting the ongoing objectives of the Pension Fund. In addition, where scheme managers or pension boards fail to address poor standards and non-compliance with the law, TPR will consider undertaking further investigations and taking regulatory action, including enforcement action.

5.4 There are no immediate legal implications arising from this report.

6. BACKGROUND/TEXT OF THE REPORT

6.1 TPR finalised its 14th Code of Practice in January 2015 following a consultation with interested parties on the original draft and the Regulator's new powers under the Public Services Pensions Act 2013 (the 2013 Act).

6.2 Although following the code itself is not a regulatory requirement, should TPR identify a situation where the legal requirements are being breached, he will use the code as a core reference document when deciding appropriate action.

6.3 The matters covered by Code 14 are:

- knowledge and understanding for members of pension boards;
- conflicts of interest;
- publication of information about pension boards, governance and administration;
- internal controls;
- record-keeping;
- late payment of employer and employee contributions;
- information about member benefits and disclosure of information to members;
- internal dispute resolution, and
- reporting breaches of the law.

6.4 Given the legal powers that have now been placed on TPR and the increasing focus on the governance of public service pension schemes, it is appropriate to consider whether the management of the London Borough of Hackney Pension Fund meets the overriding legal requirements and the recommended ways of working outlined in

TPR's Code of Practice. The Committee were last provided with the completed checklist in September 2016, showing where the Fund was able to demonstrate Compliance with the Code.

6.5 The full updated checklist is attached for review by the Committee. As can be seen in many areas, the Fund is generally able to demonstrate good levels of compliance with the Code and these are highlighted in green. This has improved from the previous update, largely due to the appointment of new members to the Pension Board. There are still a number of areas associated with the Pensions Board showing as amber – in many cases these are areas associated with training, where the replacement of 3 out of 4 original Board members has resulted in an increased training requirement. There are also other areas highlighted as amber, where further work need to be undertaken to reach full compliance.

6.6 There are also 2 areas where the Fund is failing to meet the requirements of the Code, one of which is related to the administering authority's Internal Dispute Resolution Procedure (IDRP).The authority's current process guide does not highlight or consider whether or not a dispute is exempt under Section 50 – this has been flagged and the guide is now due to be updated

6.7 The second red area relates to the issuance of Annual Benefits Statements to active scheme members. Statements to deferred members were submitted by the deadline of 31st August, with around 5000 statements for active members due to be sent around 4th September 2017. The remaining 2,200 statements to actives have not been issued by the deadline; the Fund is currently working with Equiniti to draw up a plan for producing these statements, with a likely target date of mid-October. The primary cause of the breach was a failure by the Council, as the Fund's main employer, to submit an adequate year end return. The issue has been highlighted in the quarterly report on breaches and a formal breach report submitted to TPR.

6.8 Whilst this is not an issue that is confined to the London Borough of Hackney, submitting good quality data to the Fund has been an ongoing problem for the Council. The Council has recently changed its payroll supplier and, whilst this does not immediately resolve the issue, the Fund is working with the project team for the new system to ensure that reporting from the new supplier is developed in line with the Fund's requirements. Midland HR, the new supplier, has recognised that there have been difficulties in producing LGPS reporting, and is working constructively with employers to develop its reporting capabilities.

Ian Williams
Group Director of Finance & Corporate Resources

List of appendices:
Appendix 1- The Pensions Regulator's Code of Practice – Compliance Checklist

Report Originating Officers: Rachel Cowburn ☎020-8356 2630
Financial considerations: Michael Honeysett ☎020-8356 3332
Legal comments: Stephen Rix ☎020-8356 6122

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The Pension Regulator’s and Scheme Advisory Board Compliance Checklist

Date of Completion: 31/08/2017

Contents

Introduction
Summary Results Dashboard
A - Reporting Duties
B - Knowledge and Understanding
C - Conflicts of interest
D - Publishing information about schemes
E - Managing risk and internal controls
F - Maintaining accurate member data
G - Maintaining contributions
H - Providing information to members and others
I - Internal Dispute Resolution
J - Reporting breaches of the law
K - Scheme Advisory Board - Guidance on the creation and operation of Local Pension Boards in England and Wales

Introduction

This document outlines how Hackney Council complies with the Pensions Regulator's (TPR) Code of Practice No 14 Governance and administration of public service pension schemes ('the TPR Code') in relation to the management of the London Borough of Hackney Pension Fund which is part of the Local Government Pension Scheme (LGPS). It will be updated regularly by officers of the Fund and reported annually to the Pensions Committee and Pension Board (generally in June/July each year).

This document highlights all the key elements of the TPR Code and then evidences whether Hackney Council meets these areas of best practice. As part of this evidence it shows when the element was last checked and whether, at that point, it was considered fully, partially or not compliant. Where they are partially or not compliant, it also highlights whether the Council have identified actions to be carried out to improve their current practices. Where an element is not yet active, the commentary will generally still highlight where advanced progress is being made.

Those reading this document should be mindful that the TPR Code applies equally to all public service pension schemes and therefore it is generic in nature. There may be a number of elements that are more specifically stipulated within LGPS legislation and it is not the purpose of this compliance checklist to consider that level of detail.

Further, Hackney Council may also incorporate key elements of national guidance from the LGPS Scheme Advisory Board into this compliance checklist. This version contains the checklists included as part of the Shadow Scheme Advisory Boards "Guidance on the creation and operation of Local Pension Boards in England and Wales".

Key

Frequency of review and last review date: Where a process, policy or practice is officially reviewed at a set interval, the actual interval will be shown as well as the last interval date. However, in many circumstances processes and procedures are ongoing and part of the day – to - day operation of the Fund. In these circumstances, an annual check will be carried out to ensure that the ongoing process meets the TPR Code expectations and therefore the date shown will be the date that annual check was carried out and the frequency will be shown as "ongoing (annual check)".

Completed:	**Compliant:**	**Where responsibility relates to employers:**
Fully completed	Fully compliant	Employers - Fully compliant
In progress	Partially compliant	Employers - Partially compliant
Not started	Non-compliant	Employers - Non-compliant
Not yet relevant	Net yet relevant	Not yet relevant

Definitions:

PSPA13	Public Service Pensions Act 2013
LGPS	Local Government Pension Scheme
TPR	The Pensions Regulator
TPR Code	The Pensions Regulator's Code of Practice No 14 Governance and administration of public service pension schemes
Scheme Manager	For the London Borough of Hackney Pension Fund, this is Hackney Council.
Administering Authority	The LGPS specific term for Scheme Manager. For the London Borough of Hackney Pension Fund, this is Hackney Council.
IDRP	Internal Dispute Resolution Procedure
SAB	The national LGPS Scheme Advisory Board
PC	Pensions Committee
PB	Pension Board

Summary Dashboard

A dashboard showing the summary of the results of the latest compliance checklist is shown below:

No.	Completed	Compliant
Reporting Duties		
A1	Fully completed	Fully compliant
A2	Fully completed	Fully compliant
A3	Fully completed	Fully compliant
A4	Fully completed	Fully compliant
Knowledge and Understanding		
B1	In progress	Fully compliant
B2	Fully completed	Fully compliant
B3	Fully completed	Partially compliant
B4	Fully completed	Fully compliant
B5	Fully completed	Fully compliant
B6	In progress	Partially compliant
B7	Fully completed	Fully compliant
B8	In progress	Partially compliant
B9	Fully completed	Partially compliant
B10	In progress	Partially compliant
B11	In progress	Partially compliant
B12	Fully completed	Partially compliant
Conflicts of Interest		
C1	Fully completed	Fully compliant
C2	In progress	Fully compliant
C3	In progress	Fully compliant
C4	Fully completed	Fully compliant
C5	Fully completed	Fully compliant
C6	Fully completed	Fully compliant
C7	Fully completed	Fully compliant
C8	Fully completed	Fully compliant
C9	Fully completed	Fully compliant
C10	Fully completed	Fully compliant
C11	Fully completed	Fully compliant
Publishing Information		
D1	In progress	Partially compliant
D2	In progress	Partially compliant
D3	Fully completed	Fully compliant
D4	Fully completed	Fully compliant

No.	Completed	Compliant
Risk and Internal Controls		
E1	Fully completed	Fully compliant
E2	Fully completed	Fully compliant
E3	Fully completed	Fully compliant
E4	Fully completed	Fully compliant
E5	Fully completed	Fully compliant
E6	Fully completed	Fully compliant
E7	Fully completed	Fully compliant
E8	Fully completed	Fully compliant
Maintaining Accurate Member Data		
F1	Fully completed	Partially compliant
F2	Fully completed	Fully compliant
F3	Fully completed	Fully compliant
F4	Fully completed	Fully compliant
F5	Fully completed	Fully compliant
F6	Fully completed	Fully compliant
F7	Fully completed	Fully compliant
F8	Fully completed	Fully compliant
F9	Fully completed	Partially compliant
F10	Fully completed	Fully compliant
F11	Fully completed	Partially compliant
Maintaining Contributions		
G1	Fully completed	Fully compliant
G2	Fully completed	Fully compliant
G3	Fully completed	Partially compliant
G4	Fully completed	Fully compliant
G5	Fully completed	Fully compliant
G6	Fully completed	Fully compliant
G7	Fully completed	Employers - Partially compliant
G8	Fully completed	Fully compliant
G9	Fully completed	Fully compliant
Providing Information to Members and Others		
H1	In progress	Employers - Non-compliant
H2	Fully completed	Partially compliant
H3	Fully completed	Fully compliant
H4	Fully completed	Partially compliant
H5	Fully completed	Fully compliant
H6	Fully completed	Fully compliant

No.	Completed	Compliant
H7	Fully completed	Employers - Fully compliant
H8	Fully completed	Partially compliant
H9	Fully completed	Fully compliant
H10	Fully completed	Fully compliant
H11	Fully completed	Partially compliant
H12	Fully completed	Fully compliant
H13	Fully completed	Fully compliant
Internal Dispute Resolution		
I1	Fully completed	Fully compliant
I2	Fully completed	Non-compliant
I3	Fully completed	Partially compliant
I4	Fully completed	Fully compliant
I5	Fully completed	Fully compliant
I6	Fully completed	Partially compliant
I7	Fully completed	Fully compliant
I8	Fully completed	Fully compliant
I9	Fully completed	Fully compliant
Reporting Breaches		
J1	Fully completed	Fully compliant
J2	Fully completed	Fully compliant
J3	Fully completed	Partially compliant
Scheme Advisory Board Requirements		
K1	Fully completed	Fully compliant
K2	Fully completed	Fully compliant
K3	Fully completed	Fully compliant
K4	Fully completed	Fully compliant
K5	Fully completed	Partially compliant
K6	Fully completed	Fully compliant
K7	Fully completed	Partially compliant
K8	Fully completed	Fully compliant
K9	Fully completed	Partially compliant
K10	Fully completed	Fully compliant
K11	Fully completed	Fully compliant
K12	Fully completed	Partially compliant
K13	Fully completed	Fully compliant
K14	Fully completed	Partially compliant
K15	Fully completed	Fully compliant

A - Reporting Duties

Note the requirements in this section are not included in the TPR Code but they are a fundamental to the relationship with TPR.

Legal Requirements

All public service pension schemes have to be registered with TPR. In addition, all schemes must provide a regular scheme return to TPR, containing prescribed information. A return is required when the scheme receives a scheme return notice from the regulator. The scheme manager must also keep the regulator informed of any changes to registrable scheme details.

Note the requirements in this section are not included in the TPR Code but are a requirement for all schemes.

No.	TPR Requirement	London Borough of Hackney Approach / Evidence	Frequency of Review	Last Review Date	Review Completed	Compliant	Notes	Action
A1	Is your scheme registered with the Pension Regulator?	New registration will only be required if a new LGPS is created that is deemed to be a separate scheme Check annually to see if new registration is required	Annual (Jul)	31/07/2017	Fully completed	Fully compliant		
A2	Is the information held on the Pensions Regulator's website about the scheme up-to-date?	Update as employers join or leave the scheme and check annually for overall accuracy.	Ongoing (annual check - Jul)	31/07/2017	Fully completed	Fully compliant	Last scheme return submitted to TPR (Aug 16) TPR up-to-date with employer details & Pension Board member details (Jun 17)	

No.	TPR Requirement	London Borough of Hackney Approach / Evidence	Frequency of Review	Last Review Date	Review Completed	Compliant	Notes	Action
A3	Have you completed this latest Scheme Return in the required timescale?	TPR return to be submitted as and when needed	As and when received	31/07/2017	Fully completed	Fully compliant	Last scheme return submitted to TPR (Aug 16). Update required in September 2017 - RC received notification from TPR	
A4	Have you responded to the latest TPR public service pension scheme survey /questionnaire?	Intention is to respond to any such survey that is received, including on a voluntary basis.	As and when received.	31/07/2017	Fully completed	Fully compliant	Last survey received and completed (November 2016) (Summary of results can be found online: http://www.thepensionsregulator.gov.uk/docs/public-service-research-summary-2017.pdf)	

B - Knowledge and Understanding

Legal Requirements

A member of the pension board of a public service pension scheme must be conversant with:

- the rules of the scheme, and
- any document recording policy about the administration of the scheme which is for the time being adopted in relation to the scheme.

A member of a pension board must have knowledge and understanding of:

- the law relating to pensions, and
- any other matters which are prescribed in regulations.

The degree of knowledge and understanding required is that appropriate for the purposes of enabling the individual to properly exercise the functions of a member of the pension board.

No.	TPR Requirement	London Borough of Hackney Approach / Evidence	Frequency of Review	Last Review Date	Review Completed	Compliant	Notes	Action
B1	Are there policies and arrangements in place to support pension board members in acquiring and retaining knowledge and understanding?	Pension Fund Training Policy with appropriate objectives and measurements in place.	Annual (Jun)	30/06/2017	In progress	Fully compliant	Adopted by Pension Board at its first meeting in July 2015. Training policy to be agreed at September 2017 PC meeting	Review Training Policy (during Jul / Aug 2017)
B2	Has a person been designated to take responsibility for ensuring the framework is developed and implemented?	In training policy. Responsibility delegated to the Group Director of Finance and Corporate Resources.	Ongoing (annual check - Jun)	30/06/2017	Fully completed	Fully compliant		
B3	Is the Fund providing assistance to pension board members to determine the degree of knowledge and understanding required?	Dedicated induction training will be provided based on CIPFA requirements and TPR Toolkit also incorporated – final details to be determined. Also all new members will be provided with key documents as per Training Policy Ongoing PB members will be required to go to the training for Pension Committee in addition to carrying out additional ad - hoc training as other needs arise. Annual self -assessment will be completed through the effectiveness survey.	Ongoing (annual check - Jun)	30/06/2017	Fully completed	Partially compliant	Pensions Board Meeting 16/07/15 - Board Members provided with key documents. Board Members have attended training sessions at Pensions Committee After recent recruitment, the Board has 3 new members. An LGPS Fundamentals training session is currently being planned, with the self assessment review due to go out in late summer 2017.	Setup LGPS fundamentals training session Self-assessment review for PB members to be issued in late summer 2017
B4	Are the roles and responsibilities of pension boards and members of pension board clearly set out in scheme documentation?	Including in the PB Terms of Reference.	Ongoing (annual check - Jun)	30/06/2017	Fully completed	Fully compliant		
B5	Are pension board members aware of their legal responsibility in terms of Knowledge and Understanding?	Articulated in Training Policy and part of Induction Training. All members to be provided with copy of Training Policy as part of induction pack and reminded of Policy on an annual basis.	Ongoing (annual check - Jun)	30/06/2017	Fully completed	Fully compliant	3 new board members made aware when recruited [completed during application process] 1st meeting with all 3 new members on 20th March 2017 - Discussed legal responsibilities	Legal responsibilities to be reviewed annually
B6	Have all pension board members got access to copies of the scheme rules and relevant Fund documentation?	Will be part of induction training including welcome pack with key documents included. Ongoing training part of normal Committee business (which PB members be given access to).	Ongoing (annual check - Jun)	30/06/2017	In progress	Partially compliant	PB Members expected to attend training at PC and also to attend other relevant training when available Documents sent to new Board members during March 2017 Board meeting	Check needed to ensure all members have received up-to-date relevant documentation
B7	Is there an up-to-date list of the Fund specific documents with which pension board members need to be conversant in?	Induction list in Training Policy	Ongoing (annual check - Jun)	30/06/2017	Fully completed	Fully compliant		

No.	TPR Requirement	London Borough of Hackney Approach / Evidence	Frequency of Review	Last Review Date	Review Completed	Compliant	Notes	Action
B8	Are all pension board members investing sufficient time in their learning and development?	Training plans are agreed each June as part of the PC business plan. Monitoring of attendance at training is undertaken in accordance with Training Policy and recorded annually in governance update in annual report and accounts.	Ongoing (annual check - Jun)	30/06/2017	In progress	Partially compliant	Pensions Board adopted the training policy However, a model is being developed to capture individual training needs against CIPFA requirements/TPR toolkits and to monitor against those specific requirements. Each June PC will highlight any individuals (PB, PC & officers) with outstanding requirements.	- Training to be set up for PC, PB and senior staff. This will be induction training for new members and refresher training for existing members.
B9	Does the Fund offer pre-appointment training for new pension board members or mentoring by existing members?	Induction process in Training Policy including providing all with copies of key documents.	Ongoing (annual check - Jun)	30/06/2017	Fully completed	Partially compliant	Fundamentals training session planned for new and existing Board and Committee members	- Training to be set up for PC, PB and senior staff. This will be induction training for new members and refresher training for existing members.
B10	Is there a process in place for regularly assessing the pension board members' level of knowledge and understanding is sufficient for their role, responsibilities and duties?	There is a Training Plan (annual) which is focussed at whole PC/PB level. Annual self-assessment already carried out for PC members and will be extended to PB going forward.	Ongoing (annual check - Jun)	30/06/2017	In progress	Partially compliant	Pensions Board appointed with a training plan. PC/PB will be required to undergo individual self assessment. However, a model is being developed to capture individual training needs against CIPFA requirements/TPR toolkits and to monitor against those specific requirements, including providing individual certificates. Each June PC will highlight any individuals with outstanding requirements (PC, PB and officers). Annual effectiveness questionnaire is being expanded (in Jul/Aug 2017) to ask if any individuals have further training requirements.	- Self-assessment review for PB members to be issued in late summer 2017
B11	Are records of learning activities being maintained?	This is included in the annual report and accounts at whole PC/PB level.	Ongoing (annual check - Jun)	30/06/2017	In progress	Partially compliant	Annual report and Accounts for 2016/17 will include records of training when issued in September. A model is being developed to capture this information at individual level (for at least last three years) and each individual will be provided with an annual certificate as well as it being reported to each June PC.	Annual report and Accounts for 2016/17 to be issued in September 2017.
B12	Have the pension board members completed the Pension Regulator's toolkit for training on the Code of Practice number 14?	It is the intention that all PB and PC members will carry this out. Initially it will be incorporated into training as part of meetings. Meeting 1 of the Pension Board will include the conflicts of interest and breach module questions.	Ongoing (annual check - Jun)	30/06/2017	Fully completed	Partially compliant	Pensions Board appointed and provided with information on TPR Toolkit. First Board meeting included breaches and conflict module. In addition they have all attended a training day as well as attending PC training sessions. '- Toolkit details sent to Board members following meeting on 20th March 2017	Need to follow up with new scheme members to ensure TPR Toolkit has been completed

C - Conflicts of interest

Legal Requirements

The Public Service Pensions Act 2013 sets out the legal requirements for scheme managers and pension boards for conflicts of interest.

In relation to the pension board, scheme regulations must include provision requiring the scheme manager to be satisfied:

- that a person to be appointed as a member of the pension board does not have a conflict of interest and
- from time to time, that none of the members of the pension board has a conflict of interest.

Scheme regulations must require each member or proposed member of a pension board to provide the scheme manager with such information as the scheme manager reasonably requires for the purposes of meeting the requirements referred to above.

Scheme regulations must include provision requiring the pension board to include employer representatives and member representatives in equal numbers.

No.	TPR Requirement	London Borough of Hackney Approach / Evidence	Frequency of Review	Last Review Date	Review Completed	Compliant	Notes	Action
C1	Does the Fund have a conflict of interest policy and procedure, which include identifying, monitoring and managing potential conflicts of interest?	Pension Fund Conflict Policy with appropriate objectives and measurements in place which includes procedures to identify, monitor and manage potential conflicts of interest. Conflicts of interest register records conflicts of interest declared by PB & PC members	Annual (Jan)	30/06/2017	Fully completed	Fully compliant	Adopted by Pensions Board at first meeting	
C2	Do pension board members have a clear understanding of their role, the circumstances in which they may have a conflict of interest and how to manage potential conflicts?	PC & PB members must complete a declaration which requires them to sign that they understand the requirements. Declarations must be completed by all PB members and reaffirmed annually. In addition, opportunity for new declarations is provided at the start of each meeting. Training on conflicts planned for first PB meeting and they will adopt the conflicts policy at first PB meeting	Annual (Sep)	30/06/2017	In progress	Fully compliant	All Pension Board members complete declarations on appointment. [Completed March 2017] Existing PC members had all completed annual declarations. Declaration forms had been sent out to new PC members [Feb 2017 - Awaiting returns]	New declaration form are due to be sent out to all members
C3	Have all Pension Board members provided appropriate information for the Administering Authority to determine whether a conflict exists (on appointment and from time to time)?	Policy requires each PC & PB member to complete a declaration on appointment and annually. The Head of PF Investments will ensure that all are received and collated within six weeks of the first meeting. The register is reviewed annual to ensure conflicts are being registered at the earliest opportunity.	Annual (Sep)	30/06/2017	In progress	Fully compliant	All Pensions Board complete declarations on appointment. [Completed March 2017] Declaration forms have been sent out to new PC members [Feb 2017 - Awaiting returns]	Review conflict of interest register (in Aug/Sep 17)
C4	Does the appointment process for pension board members require disclosure of interests and responsibilities which could become conflicts of interest?	The Policy and procedures and the declarations require PB members to highlight potential, as well as actual, conflicts. The procedure requires declaration at interview, annually and at each meeting (if not already declared). The Head of PF Investments has responsibility for ensuring the procedure is followed.	Ongoing (annual check - Jan)	30/06/2017	Fully completed	Fully compliant	Both actual and potential conflicts of interest have been highlighted by members of the Pensions Board	
C5	Is the conflicts policy regularly reviewed?	Every three years or earlier if considered appropriate	Triennially	31/03/2015	Fully completed	Fully compliant	Next review of Conflicts Policy due March 2018	

No.	TPR Requirement	London Borough of Hackney Approach / Evidence	Frequency of Review	Last Review Date	Review Completed	Compliant	Notes	Action
C6	Does the Fund have a conflicts register and it is circulated for ongoing review and published?	There is a register of interests which is updated on an ongoing basis based on information in individual declarations and provided to the Chair prior to each meeting. The information is incorporated in annual report and accounts and available on request. All declarations made at meetings will be recorded in the minutes which are public. Refer to policy – regularly reviewed (annual basis etc).	Ongoing (annual check - Jan)	30/06/2017	Fully completed	Fully compliant	Register of interests now available following establishment of Pensions Board. Published annually in accounts but consider inclusion on website.	Review conflict of interest register (during Aug/Sep 17)
C7	Is appropriate information included in the register?	Register of interests updated on an ongoing basis but this will be reviewed annually to ensure it is being used correctly. Register includes all this information and is included as an appendix to the Conflicts policy.	Ongoing (annual check - Jan)	30/06/2017	Fully completed	Fully compliant		
C8	Is there a standing item on the agenda for declaring conflicts of interest?	Part of standard PC meeting agenda and intention to be part of PB meeting agenda too.	Ongoing (annual check - Jan)	30/06/2017	Fully completed	Fully compliant	Declarations are part of standard agenda for PB	
C9	Do those involved know how to report a conflict of interest?	Members trained on appointment and provided with copy of Conflicts Policy annually. Also Policy referred to at start of each meeting	Ongoing (annual check - Jan)	30/06/2017	Fully completed	Fully compliant	Pension Board provided with background on Conflicts Policy and referred to in meetings	
C10	Is the number of employer and member representatives on the board in line with legal requirements?	Outlined in the terms of reference.	Ongoing (annual check - Sep)	30/06/2017	Fully completed	Fully compliant	New members recruited	
C11	Is the board made up of the appropriate mix of representatives in order to minimise potential conflicts?	To be completed as part of appointment process and then reviewed annually to ensure this continues. Appointment Process completed including appointments panel interview to assess capacity of individuals to fulfil role as Pension Board Member.	Ongoing (annual check - Sep)	30/06/2017	Fully completed	Fully compliant	Pension Board members were required to submit statement outlining skills appropriate to their role on the Board. Interviews were conducted to select most suitable Board Members	

D - Publishing information about schemes

Legal Requirements

The scheme manager for a public service scheme must publish information about the pension board for the scheme(s) and keep that information up-to-date.

The information must include:

- who the members of the pension board are
- representation on the board of members of the scheme(s), and
- the matters falling within the pension board's responsibility

No.	TPR Requirement	London Borough of Hackney Approach / Evidence	Frequency of Review	Last Review Date	Review Completed	Compliant	Notes	Action
D1	Does the Administering Authority publish information about the pension board?	See - http://hackney.xpmemberservices.com/Scheme/Pensions-Board.aspx	Ongoing (annual check - Jan)	30/06/2017	In progress	Partially compliant	Details requested from new Board members for publication on website	Contact details of the PB members to be published
D2	Does the Administering Authority publish other useful related information about the pension board?	See - http://hackney.xpmemberservices.com/Scheme/Pensions-Board.aspx Already has appointment process, terms of reference and roles and responsibilities.	Ongoing (annual check - Jan)	30/06/2017	In progress	Partially compliant	Details requested from new Board members for publication on website	Contact details of the PB members to be published
D3	Is all the information about the Pension Board kept up-to-date?	Information regularly checked.	Ongoing (annual check - Jan)	30/06/2017	Fully completed	Fully compliant	Review of info available currently underway	
D4	Does the Administering Authority public information about pension board business?	All pension board meetings are public meetings and information will be contained on the Hackney Council website.	Ongoing (annual check - Jan)	30/06/2017	Fully completed	Fully compliant	Pension Board Agenda and papers are published on Council website	

E - Managing risk and internal controls

Legal Requirements

The scheme manager must establish and operate internal controls which adequately ensure the scheme is administered and managed in accordance with the scheme rules and the requirements of the law.

Internal controls are defined in the legislation as:

- arrangements and procedures to be followed in the administration and management of the scheme
- systems and arrangements for monitoring that administration and management
- arrangements and procedures to be followed for the safe custody and security of the assets of the scheme

The legal requirements apply equally where a scheme outsources services connected with the running of the scheme.

No.	TPR Requirement	London Borough of Hackney Approach / Evidence	Frequency of Review	Last Review Date	Review Completed	Compliant	Notes	Action
E1	Is there an agreed process for identifying and recording scheme risks?	A risk management policy is in place that outlines the procedure for identifying, managing and recording risk. It covers all the key areas identified by the TPR Code.	Annual (Jun)	30/06/2017	Fully completed	Fully compliant	Risk management policy agreed at June 2015 PC; policy is updated every 3 years (next due June 2018)	Review Risk Management Policy in Jun 2018
E2	Does the Fund have an adequate process to evaluate risks and establish internal controls?	The risk management process includes how risks are to be evaluated and internal controls established. It makes use of a RAG status based on impact and likelihood and the associated control is then shown as part of the risk register. The risk management policy also lists the key internal controls.	Annual (Jun)	30/06/2017	Fully completed	Fully compliant		
E3	Does the Administering Authority have a risk register to record all risks identified and action taken?	Risk register is in place which includes all internal controls and action taken. Risk Register last reviewed at Pensions Committee meeting in January 2017.	Annually (annual check - Jun)	30/06/2017	Fully completed	Fully compliant		
E4	Does the Administering Authority review the effectiveness of the risk management and internal control systems of the Fund?	Our risk management and internal controls are continually reviewed for effectiveness as part of a number of processes including: - The ongoing updating of the risk register which includes the control of those risks - Issues identified through regular monitoring reports such as performance monitoring for PC, IDRP updates, monthly reports from Equiniti and breaches notifications. - The triennial (at least) review of the risk management policy which includes a list of the key controls - Regular internal and external audit reports. - Annual internal control reports from Equiniti, custodian and fund managers. - Annual update of TPR Code compliance checklist. - Periodic ad-hoc reviews (e.g. LGPS2014 audit).	Annually (annual check - Jun)	30/06/2017	Fully completed	Fully compliant		

No.	TPR Requirement	London Borough of Hackney Approach / Evidence	Frequency of Review	Last Review Date	Review Completed	Compliant	Notes	Action
E5	Does the Administering Authority regularly review the risk register?	Risk management is ongoing and therefore the register can be updated as a result of risk identification through a number of means including: - annual review at pensions committee - performance measurement against agreed objectives - monitoring against the Fund's business plan - findings of internal and external audit and other adviser reports - feedback from the local Pension Board, employers and other stakeholders - informal meetings of senior officers or other staff involved in the management of the Fund - liaison with other organisations, regional and national associations, professional groups, etc. Risk Register last reviewed at Pensions Committee meeting in January 2016	Annually (annual check - Jun)	30/06/2017	Fully completed	Fully compliant	Reviewed at Jan 2017 PC, next review Jan 2018	
E6	Is there a standing item on the Pension Board agenda to review scheme risks?	It is a standing item on the Pensions Committee each January and, as a matter of course, is then shared with the Pension Board.	Annually (annual check - Jan)	30/06/2017	Fully completed	Fully compliant	Risk register discussed January 17 PC / March 17 PB	
E7	Does the Administering Authority have adequate systems, arrangements and procedures (internal controls) in place for the administration and management of the Fund and are they documented ?	It is considered that there are adequate internal controls in place. These are articulated in the risk register and many of the key ones outlined in the appendix to the Risk Management Policy.	Annually (annual check - Jun)	30/06/2017	Fully completed	Fully compliant		
E8	Do these procedures apply equally to outsourced services, are internal controls reflected in contracts with third party providers and is there adequate reporting in relation to those controls?	The key outsourced services for this purpose are Equiniti (third party administration), HSBC (custodian) and Fund managers. These providers are required to provide annual internal control reports and a control sheet is used to ensure they are received and reviewed.	Annually (annual check - Jun)	30/06/2017	Fully completed	Fully compliant		

F - Maintaining accurate member data

Legal Requirements

Scheme managers must keep records of information relating to:

- member information
- transactions, and
- pension board meetings and decisions.

The legal requirements are set out in the Public Service Pensions (Record Keeping and Miscellaneous Amendments) Regulations 2014 (‘the Record Keeping Regulations’).

The Data Protection Act 1998 and the data protection principles set out additional requirements for using, holding and handling personal information. Other requirements are set out in the:

- Pensions Act 1995 and 2004
- Pensions Act 2008 and the Employers’ Duties (Registration and Compliance) Regulations 2010
- Occupational Pension Schemes (Scheme Administration) Regulations 1996 (SI 1996/1715)
- Occupational Pension Schemes (Scheme Administration) Regulations (Northern Ireland) 1997 (SR 1997 No 94)
- Registered Pension Schemes (Provision of Information) Regulations 2006 (SI 2006/567)

No.	TPR Requirement	London Borough of Hackney Approach / Evidence	Frequency of Review	Last Review Date	Review Completed	Compliant	Notes	Action
F1	Do member records record the information required as defined in the Record Keeping Regulations and is it accurate?	Scheme member records are maintained by Equiniti our third party administrators. Therefore much of the information here and in later questions relates to the records they hold on Hackney’s behalf. However, as the scheme manager, Hackney is required to be satisfied the regulations are being adhered to. Checks were carried out in relation to each of the requirements in the Record Keeping Regulations and all were considered compliant except for in relation to clause 4(3) which relates to information for members who pay AVCs. This is held and maintained by Prudential with an annual update provided to Hackney Council/Equiniti. Hackney are currently investigating gaining access to view these AVC records. Data accuracy and completeness reports are also received via the triennial valuation, which cover some of these elements. In the autumn of 2015, Aon Hewitt carried out a audit of employer provided data. It highlighted a number of issues with the quality of data being provided by employers. Going forward Equiniti will providing an annual statement confirming they are adhering to this requirement on the accuracy and completeness of the data.	Annually (Jul/Aug) Part of actuarial valuation (triennial)	31/07/2017	Fully completed	Partially compliant	Equiniti were unable to provide complete and accurate annual benefit statements for all scheme members in 2015-2016 because they had not received year-end files from the scheme's largest employer (Hackney Council). For the 2016-17 benefit statements Equiniti are relying on the monthly data submissions in order to run Hackney Council & HLT ABSs as a year end file could not be provided. The Triennial valuation 2016-17 is complete Access to AVC information has been partially gained as the Pru now provides monthly listings of new AVC contracts and any amendments to existing contracts.	Ongoing data improvement work in relation to quality of employer data. A formal data improvement plan is being put into place between the Administering Authority and Equiniti Hackney Council are implementing a new payroll system with a monthly interface which should improve the quality of the data being sent to Equiniti. Ongoing work with the Pru is continuing to secure full access to view all AVCs records and accurately reflect this on members records

No.	TPR Requirement	London Borough of Hackney Approach / Evidence	Frequency of Review	Last Review Date	Review Completed	Compliant	Notes	Action
F2	Does the Fund have the appropriate processes in place so employers can provide timely and accurate information?	The Fund's Pension Administration Strategy includes a list of all employer responsibilities and duties including timescales. Employer performance is measured against the PAS with appropriate action taken to ensure compliance.	PAS reviewed each January for PC in March	31/07/2017	Fully completed	Fully compliant		
F3	Does the Fund keep records of and reconcile transactions as required by the Record Keeping Regulations?	All info on scheme records and also on the client cash manager (Lloyds pension fund bank account with Equiniti) that then flows across to the Hackney PF account and all feeds into annual report and accounts. This includes all write offs. There are also some spreadsheets that are used for further checks (e.g. transfers in, overpayments). There is reconciliation between actual and expected costs with a quarterly update against budget in PC papers.	Ongoing (annual check - Jun)	30/06/2017	Fully completed	Fully compliant		

No.	TPR Requirement	London Borough of Hackney Approach / Evidence	Frequency of Review	Last Review Date	Review Completed	Compliant	Notes	Action
F4	Are records kept of pension board meetings as required by the Record Keeping Regulations?	Full minutes are maintained and published on the Hackney Council website. Annual check to ensure this continues to be the case.	Ongoing (annual check - Sep)	30/06/2017	Fully completed	Fully compliant		
F5	Are records kept of decisions made by the pension board, outside of meetings as required by the Record Keeping Regulations?	We do not expect there to be decisions outside of the PB. The secretary (R Cowburn) will monitor the situation.	Ongoing (annual check - Sep)	30/06/2017	Fully completed	Fully compliant		

No.	TPR Requirement	London Borough of Hackney Approach / Evidence	Frequency of Review	Last Review Date	Review Completed	Compliant	Notes	Action
F6	Are records retained for as long as they are needed?	Hackney consider it necessary to retain records for long as is possible due to the number of enquiries from employees relating to periods many decades ago. Accordingly personal records are maintained in addition to other data such as contribution lists, spreadsheets of old cases and pensions increases reports.	Ongoing (annual check - Sep)	30/06/2017	Fully completed	Fully compliant	Fully compliant as appropriate systems are in place. Discussions are in progress about the retention of data as the Council transitions payroll system	
F7	Does the Administering Authority have policies and processes to monitor data on an ongoing basis?	There are a number of separate processes in place to monitor data on an ongoing basis (generally carried out by Equiniti) including: - Monthly HK221 spreadsheets to check against changes received from employers - Year-end annual returns provide a further opportunity to highlight any data discrepancies - All data entry is checked for input accuracy - Various tolerance checks such as changes in pay - Processes if pensioner payslips are returned (including suspension of pension on second return), using only BACs payments for pensioners and life certificate exercises (overseas and over a certain age annually and then all cases every 2 or 3 years) and national fraud initiative every 2 years. - Triennial valuation highlights data issues. Process exists for warning and charging levies to employers if incomplete monthly data is provided or if provided late - Checks on 'common' data (ad-hoc)	Ongoing (annual check - Jul)	31/07/2017	Fully completed	Fully compliant	Monthly HK221 & Year end data checks along with the Triennial valuation makes us compliant. In addition to this, Equiniti have confirmed that the common data report has been run for 2017 and the analysis is being worked on to provide Hackney with a written report.	Equniti will provide LBH with a written report on the common data analysis in due course

No.	TPR Requirement	London Borough of Hackney Approach / Evidence	Frequency of Review	Last Review Date	Review Completed	Compliant	Notes	Action
F8	Does the Administering Authority carry out a data review at least annually?	Annual year end reconciliations as described above plus for annual report and accounts, pensions increases and benefit statements. Equiniti carry out a common data and intend to commence a conditional data review.	Ongoing (annual check - Jul)	31/07/2017	Fully completed	Fully compliant	A conditional data report has been run for 2017 and the analysis is being worked on to provide Hackney with a written report.	Equniti will provide LBH with a written report on the conditional data analysis in due course
F9	Is a data improvement plan in place which is being monitored with a defined end date?	Monthly meeting held between Equiniti and Hackney where some elements of improvement are discussed and actions/timescales agreed. However, a clear statement of all improvement areas with a plan is not currently in place. Employers are charged an administration fee where they fail to meet standards.	Ongoing (annual check - Jul)	31/07/2017	Fully completed	Partially compliant		Formal Data improvement plan is in the process of being developed and template will be presented to committee at September meeting ready for Equiniti implimentation.
F10	Are processes and policies in place to reconcile scheme data with employer data?	Monthly and year end spreadsheets assist with reconciling data.	Ongoing (annual check - Jul)	31/07/2017	Fully completed	Fully compliant		

No.	TPR Requirement	London Borough of Hackney Approach / Evidence	Frequency of Review	Last Review Date	Review Completed	Compliant	Notes	Action
F11	Do the Administering Authority's member data processes meet the requirements of the Data Protection Act 1998 and the data protection principles?	Ensure all those involved with data understand the DPA: - Equiniti get annual training - Hackney staff periodic training but some staff have not received yet received training - DPA officer at both Equiniti and Hackney - Council data protection policy in place and guidance on intranet Evidence of processes includes: - Share file is used for data transfer with all employers, Equiniti and Hackney - Focalpoint used for data transfer with actuary - Actuary – use focalpoint. - Otherwise any sensitive e-mails are generally encrypted unless scheme member insists otherwise.	Ongoing (annual check - Jul)	31/07/2017	Fully completed	Partially compliant	New GDPR (Data Protection Reform) will have direct effect in May 2018 despite Brexit. LGPS Funds need to demonstrate in a meaningful way that both the overall governance structure for data protection compliance and the individual policies and procedures relating to data processing are compliant.	DPA training to be arranged for all Hackney pension team staff members, including ensuring all understand the process if a breach occurs.

G - Maintaining contributions

Legal requirements

Contributions must be paid as detailed below, and where not done, they should be reported to TPR in circumstances where the scheme manager has reasonable cause to believe that the failure is likely to be of material significance to TPR in the exercise of any of its functions. Reporting must be carried out as detailed below.

Contribution Type	Contributions must be paid	When a failure should be reported
Employer	On or before the due date as defined by the scheme regulations	To The Regulator: As soon as reasonably practicable
Employee	Paid within the prescribed period (19th day of the month, or 22nd day if paid electronically) or earlier date if required by the scheme regulations	Regulator: Within a reasonable period – 10 working days

No.	TPR Requirement	London Borough of Hackney Approach / Evidence	Frequency of Review	Last Review Date	Review Completed	Compliant	Notes	Action
G1	Does the Fund have procedures and processes in place to identify payment failures?	There is a master spreadsheet where all contributions received are entered and monitored by Equiniti. All payments are made by electronic transfer to reduce risk of payment failure. Hackney Council and Equiniti hold monthly meetings to determine how to deal with any issues arising.	Ongoing (annual check - Jun)	30/06/2017	Fully completed	Fully compliant	There has been an improvement in monitoring contributions by sample testing the data in supporting documents.	Further communication with employers to submit supporting documents in specified format.
G2	Do those processes and procedures include a contributions monitoring record to determine whether contributions are paid on time and in full?	The spreadsheet highlights where a payment is not received by 19th each month. It also highlights if contributions could be incorrect by comparing salary vs contribution rate to give employee and employer rates. The HK221 detailed information (per employee) is used to cross check the amounts that are coming through correctly to the gross totals. Interest is automatically charged for late contributions in accordance with LGPS regulations and discretionary policy. Details of the charges applied and the interest are provided in the administration strategy.	Ongoing (annual check - Jun)	30/06/2017	Fully completed	Fully compliant	There is a robust monitoring process in place and the capability to receive interest on late contributions in the PAS. The PAS could be more strictly enforced	New charges within the PAS to be enforced on employers submitting poor data or late payments
G3	Do those processes and procedures include monitoring payments against the contributions monitoring record on an ongoing basis?	The process includes reconciliation with the payment received and shown in the financial system. No process is currently in place in relation to reconciling AVC payments with contributions record.	Ongoing (annual check - Jun)	10/07/2017	Fully completed	Partially compliant	Since the last review a process has now been put in place to monitor contributions for new and ongoing contracts. This is only marked as partially compliant as not all employers are party to this reconciliation and some employees with ongoing contracts who have not changed contribution amounts have not been picked up as part of this process.	Process that has been put in place will try to be expanded to take into account employers other than just Hackney Council. Ongoing contribution reconciliations needs to be explored so that each members contributions are rec'd each month. Prudential's processes need to be explored as LBH are not 100% confidence all notifications are coming through.
G4	Are these procedures regularly reviewed to ensure they are effective?	Payments are generally always on time. Monthly meeting between Equiniti and Hackney consider any late cases. Within Equiniti, the finance team meet every Monday to discuss what is expected, what is coming up, timetables, including highlighting any late payments and escalating to service review meetings.	Ongoing (annual check - Jun)	30/06/2017	Fully completed	Fully compliant		

No.	TPR Requirement	London Borough of Hackney Approach / Evidence	Frequency of Review	Last Review Date	Review Completed	Compliant	Notes	Action
G5	Do the Administering Authority's processes include managing overdue contributions in line with TPR's suggested approach?	For main scheme contributions, monitoring spreadsheet maintained by Equiniti and separately by Hackney Council. Identification and escalation process, however, needs to be formalised. Prudential automatically notify the scheme manager if any AVC payments are received late from employers (very few – only 4 or 5 in last 10 years).	Ongoing (annual check - Jun)	30/06/2017	Fully completed	Fully compliant		
G6	Does the Fund maintain a record of any investigations and communications with employers?	Information is collated in individual records relating to each employer. A summary of late payments is included in annual report and accounts (although employers are not specifically named). Information is also available on the historic monitoring spreadsheets. Equiniti system Compendia stores email and letter communications with employers	Ongoing (annual check - Jun)	30/06/2017	Fully completed	Fully compliant		
G7	Do employers provide sufficient information to monitor contributions and is this in accordance with the LGPS regulations?	There is monitoring of the format that employers provide information and this is being checked against the PAS. Training is provided to employers but where information is not of suffient quality employers may be charged or extreme cases reported to the pensions regulator	Ongoing (annual check - Jun)	30/06/2017	Fully completed	Employers - Partially compliant	During 2016/17 there were ongoing issues with employers not providing sufficient information with HK221 spreadsheets. This is all captured on the Equiniti spreadsheet including what action has been taken and whether escalated to the Council. Year-end returns have been received from the majority of employers to verify the information, and queries responded to, to enable reconciliation of member contributions with service.	Ongoing work with employers to ensure data is received in accordance with requirements.
G8	Is there a satisfactory process in place to assess the materiality of any payment failures and ensure that those which are material are reported to the Regulator within a reasonable period?	Existing spreadsheets in placeidentify late payments, the PAS sets out processes in regards to late payments and the use of reporting breaches is available if required to report to the regulator.	Annual check - (Jul)	31/07/2017	Fully completed	Fully compliant		
G9	If the administration of contributions outsourced to a service provider, is there a process in place to obtain regular information on the payment of contributions to the scheme?	Yes, for main scheme (administered by Equiniti), spreadsheet maintained and shared monthly with Hackney Council and discussed as part of monthly service review meeting. Contribution monitoring is a requirement of service provision by Equiniti. In relation to AVCs (administered by Prudential), all late payments are notified directly to Hackney Council.	Ongoing (annual check - Jul)	31/07/2017	Fully completed	Fully compliant		

H - Providing information to members and others

Legal requirements

The law requires schemes to disclose information about benefits and scheme administration to scheme members and others. This includes requirements relating to benefit statements and certain other information which must be provided under the requirements of the 2013 Act, HM Treasury directions and the Occupational and Personal Pension Schemes (Disclosure of Information) Regulations 2013 ('the Disclosure Regulations 2013'). In addition to these duties, there are other legal requirements relating to the provision of information to members and others under other legislation.

No.	TPR Requirement	London Borough of Hackney Approach / Evidence	Frequency of Review	Last Review Date	Review Completed	Compliant	Notes	Action
H1	Has an annual benefit statement been provided to all active members within the required timescales?	Sent annually. 4,008 (out of 7,286) statements as at 31st March 2016 were issued by end of August 2016. The remaining statements were issued by end of October 2016. 2017 statements are currently being run	Annual (Sep)	31/07/2017	In progress	Employers - Non-compliant	Delay in issuing 2016 statements was due to Hackney Council payroll information not being accurate. Breach reported (Sep 16) to the Pensions Regulator Update 31/08/2017 - Deferred statements sent on time. 5000 active member statements due to be sent 04/09/2017. Remaining approx. 2000 under review, with intention to send by Mid-Oct 2017. Breach reported to TPR.	- Ongoing work with Hackney Council to improve data. This will be facilitated by the new payroll interface. - Monitor issue of remaining 2000 active statements. Updated formal plan to be agreed with EQ and provided to TPR and Pensions Board.
H2	Do these meet the legal requirements in relation to format?	A compliance review spreadsheet has been set up to monitor all areas under the legislation, which is being reviewed against the new ABS template	Annual (Jan)	31/07/2017	Fully completed	Partially compliant	The standard statements have been improved for 2017 but there are still a few areas that are not fully compliant	Further work to be carried out on template for statements ready for 2018

No.	TPR Requirement	London Borough of Hackney Approach / Evidence	Frequency of Review	Last Review Date	Review Completed	Compliant	Notes	Action
H3	Has a benefit statement been provided to all active, deferred and pension credit members who have requested one within the required timescales?	Benefit statements are issued automatically to all active and deferred members annually, which is more proactive than this provision (which just relates to issuing them on request). Active statements issued by October 2016. Deferred statements issued August 2016. For 2017 statements are currently being run with target date of 31 August Pension credit statements issued within 10 working days. It is monitored that they meet the 10 working day deadline on Equiniti workflow system Pulse.	Annual (Sep)	31/07/2017	Fully completed	Fully compliant	Around 473 deferred not issued as no last known address. In 2016/17 there were 0 requests for PC benefit statements.	Tracing exercise was carried out to help reduce the number of unknown addresses (originally 1,600 unknown addresses have now been reduced to 473 with ongoing investigation).
H4	Does this meet the legal requirements in relation to format?	The information in the standard active and deferred statements does not fully comply with the disclosure requirements for information to be provided on request. However, it is possible information provided on individual requests is more compliant but this needs further investigated.	Ongoing (annual check - Sep)	31/07/2017	Fully completed	Partially compliant		Further investigation and discussion required to decide whether to change format of statements to adhere to Disclosure Requirements or just to apply those requirements for individual requests.
H5	Has an annual benefit statement been provided to all members with AVCs within the required timescales?	The Prudential send annual AVC statements to all AVC members by post	Annual (Sep)	31/07/2017	Fully completed	Fully compliant	2015-16 statements sent 26/05/16 2016-17 statements sent 31/05/17	
H6	Do these meet the legal requirements in relation to format?	Statement provided by Prudential checked against requirements and all appropriate information is included.	Annual (Jun)	31/07/2017	Fully completed	Fully compliant		
H7	Is basic scheme information provided to all new and prospective members within the required timescales?	New starter information is issued by Equiniti. This is done by issuing a notification of joining with a nomination form, transfer form and a link to the LGPS website. Equiniti aim to provide this information within 10 working days of being notified of joiners by employers (which is the official SLA as part of their contract). However, because the SLA relates to when notified, it does not necessarily mean the legal timescale has been met which is within 2 months of joining the scheme. Equiniti often identify cases from contribution spreadsheets and auto-enrolment reports to chase outstanding information from employers with a review to improving this process. Equiniti will also send out the ne starter infomration to members once picked up form the contribution spreadsheets even if they have not yet recevied a starter form form the employer. From October 2016 the LBH pension team use a monitoring spreadsheet to track all new starters to ensure that the starter forms are going across within the set timescales and that Equiniti have actioned new starter information.	Ongoing (annual check - Jun)	14/07/2017	Fully completed	Employers - Fully compliant		There is ongoing work to improve transfer of information from employers to Equiniti, including developing interfaces and charging administration cost for late notifications.
H8	Does this meet the legal requirements in relation to format?	A check against the requirements has been carried out. In the main the new joiner information is compliant but some areas are excluded or not as explicit as they might be, for example, in relation to the lack of charges for scheme members, what happens when a member leaves and the fact the scheme is registered by HMRC.	Ongoing (annual check - Jun)	31/07/2017	Fully completed	Partially compliant		The joiner information is to be reviewed as part of the quality compliance review which is due to take place under the new amdinistration contract. New members also need to be guided to the LBH Pension website once the improvements have been made to ensure all infomration is up to date and compliant.

No.	TPR Requirement	London Borough of Hackney Approach / Evidence	Frequency of Review	Last Review Date	Review Completed	Compliant	Notes	Action
H9	Is all other information provided in accordance with the legal timescales?	Equiniti are asked to provide an annual statement confirming that they have met these requirements in relation to the main scheme for the previous financial year. Prudential (the AVC provider) are asked to provide an annual statement confirming they have met the requirements in relation to lifestyling. All standard communications to members from Hackney Council and Equiniti provide the postal contact details and the pensions@hackney.gov.uk email address.	Ongoing (annual check - Sep)	31/07/2017	Fully completed	Fully compliant	Equiniti have confirmed that Compendia automatically highlights the disclosure dates/requirements. The monthly Equiniti reports now have a statement saying they have not breached disclosure requirements, or if they have what. The Pru have confirmed that these requirements have been met for 2016-17 and that they inform members on an annual basis whether they are in the growth or accumulation phase of lifestyle via their annual benefit statment	Although compliant the disclosure reporting on the monthly report could be improved and this will be looked at.
H10	Is all other information provided in the format and methods required by law?	Equiniti are asked to provide an annual statement confirming that they have met these requirements for the main scheme in relation to the previous financial year. Prudential (the AVC provider) are asked to provide an annual statement confirming they have met the requirements in relation to lifestyling.	Ongoing (annual check - Jun)	31/07/2017	Fully completed	Fully compliant	Equiniti have confirmed that Compendia automatically highlights the disclosure dates/requirements. The monthly Equiniti report now has a statement saying they have not breached disclosure requirements, or if they have what. The Pru have confirmed that the requirements are met and that they inform members but inclusion on their website, enclosing an AVC leaflet with the main scheme ABSs for 2016-17.	Although compliant the disclosure reporting on the monthly report could be improved and this will be looked at.
H11	Where any information is only provided electronically (i.e. instead of any hard copy) does it comply with the legal requirements?	Everything is hard copy (including info leaflets such as Freedom changes) except the basic scheme information which must be provided for new starters. In these circumstances a hard copy statutory notice is provided directing them to the information on the website.	Ongoing (annual check - Sep)	31/07/2017	Fully completed	Partially compliant	The new starter notification contains an out of date website address and therefore this has been marked at this review as partially compliant. Also the funds website is currently being updated to verify that all information is current and compliant.	The new starter notice needs to be changed so that an up to date website address is given. The website is being updated to ensure fully up to date
H12	Does the Administering Authority aim to design and deliver communications in a way that ensures scheme members are able to engage with their pension provision?	Objectives are included in the Communications Strategy that focus on these requirements. Currently only feedback is in relation to a survey from induction presentations. Results for 2016-17 Induction sessions covered 417 New Employees and found that 98% found the presentation informative & engaging and that 94% now have a better understanding of being in the scheme.	Ongoing (annual check - Sep)	31/07/2017	Fully completed	Fully compliant		Equiniti are planning further surveys with scheme members to gather wider feedback as part of their engagement strategy.
H13	Does the Administering Authority use a tracing service?	Pensioners – if a pensioner becomes untraceable, Equiniti use the DWP tracing service. Deferred and frozen refunds – tracing service used in summer 2016. Originally 1,600 unknown addresses have now been reduced to 473.	Annual (Sep)	31/07/2017	Fully completed	Fully compliant		Tracing exercises will be carried out on a periodic basis

I - Internal Dispute Resolution

Legal requirements

The Pensions Act 1995 requires scheme managers to set up and implement an Internal Dispute Resolution Procedure (IDRP) to help resolve disputes between the scheme manager and people with an interest in the scheme.

The act states that a person has an interest in the scheme if they:

- are a member or beneficiary
- are a prospective member
- have ceased to be a member, beneficiary or prospective member
- claim to be any of the above and the dispute relates to this claim.

The Act also states that the procedure must include:

- how an application is to be made
- what must be included in an application
- how decisions are to be reached and notified
- a specified period (which is reasonable) within which applications must be made.

The procedure may require people with an interest in the scheme to first refer matters in dispute to a 'specified person' in order for that person to consider and give their decision on those matters. This decision may then be confirmed or replaced by the decision taken by the scheme manager after reconsideration of the matters. However, legislation provides flexibility for scheme managers to decide the details of these.

No.	TPR Requirement	London Borough of Hackney Approach / Evidence	Frequency of Review	Last Review Date	Review Completed	Compliant	Notes	Action
I1	Has the Administering Authority put in place an internal dispute resolution procedure?	An IDRP procedure is in place with leaflets available setting out the process	Ongoing (annual check - Jun)	31/07/2017	Fully completed	Fully compliant	Leaflets are available on the website which set out the procedure	
I2	Does the Administering Authority's process highlight or consider whether a dispute is exempt?	An IDRP procedure is in place with leaflets available setting out the process, but does not currently include this information	Ongoing (annual check - Jun)	31/07/2017	Fully completed	Non-compliant	The procedure is currently non compliant as it does not highlight or consider whether a dispute is exempt under section 50	IDRP guides will be updated to include this information.
I3	Does the information made available to applicants about the procedure clearly state the procedure and process to apply for a dispute to be resolved including: - who it applies to - who the specified person (stage 1) is - the timescales for making applications - who to contact with a dispute - the information that an applicant must include - the process by which decisions are reached?	Member leaflet outlining IDRP procedure includes some of this information.	Ongoing (annual check - Jun)	31/07/2017	Fully completed	Partially compliant	More detailed information is needed setting out: Who can apply (215) The name & job title of stage 1 specified person/who to contact (237)	IDRP member guide will be updated to include the missing information
I4	Has the Administering Authority ensured that employers who make first stage decisions also have IDRP in place?	Where the employer has not responded with their own stage 1 person, the Council's stage 1 person is undertaking the role. This is communicated regularly including: - mentioned at employer forum in February 2017. - PAS sent to employers in April 2017 which sets out need for stage 1 person to be included in their discretions policy.	Ongoing (annual check - Jun)	31/07/2017	Fully completed	Fully compliant	We have not been notified that any employers carry out their own process. Accordingly Equiniti act as stage 1 by default.	Once new Employer IDRP guide has been finalised this will be sent to Employers again
I5	Are the timescales in the procedure adhered to including sending an acknowledgment on receipt of an application?	Acknowledgements issued within 2 days and responses are sent within 2 month deadline (albeit usually within 6 weeks due to SLA). This will be checked annually for both stages 1 and 2.	Ongoing (annual check - Jun)	31/07/2017	Fully completed	Fully compliant	EQ have confirmed that timescales are still adhered too	

No.	TPR Requirement	London Borough of Hackney Approach / Evidence	Frequency of Review	Last Review Date	Review Completed	Compliant	Notes	Action
I6	Does the Administering Authority notify and advertise the procedure appropriately?	Leaflet included on the website (which is where joining information also is). Not all notification of benefit letters currently includes this (e.g. missing from refund and death benefits) but all other benefit notification include it. The administration strategy, updated in 2017, includes IDRP information.	Ongoing (annual check - Jun)	31/07/2017	Fully completed	Partially compliant	Admin Strategy was updated in April 2017 and includes IDRP information (PAS). This is still not contained in the Communications strategy, but can be included in the 2018 review.	Communications strategy will be updated in 2018. IRDP information to be added to refund and death notification letters.
I7	Are the notification requirements in relation to TPAS and the Pensions Ombudsman being adhered to?	Guide enclosed when acknowledging receipt of an IDPR. Notifications always include information about TPAS/PO in the decision letter.	Ongoing (annual check - Jan)	31/07/2017	Fully completed	Fully compliant		
I8	Does the Administering Authority regularly assess the effectiveness of its arrangements?	Information included in Pension Committee quarterly reporting. More formal review of the arrangements on an annual basis as part of the annual administration report	Ongoing (annual check - Jun)	31/07/2017	Fully completed	Fully compliant		
I9	Does the Administering Authority regularly assess the effectiveness where employers carry out a stage one process?	We have not been notified that any employers carry out their own process. Accordingly Equiniti act as stage 1 by default.	Ongoing (annual check - Jun)	31/07/2017	Fully completed	Fully compliant		

J - Reporting breaches of the law

Legal Requirements

Certain people are required to report breaches of the law to the regulator where they have reasonable cause to believe that:

- a legal duty which is relevant to the administration of the scheme has not been, or is not being, complied with
- the failure to comply is likely to be of material significance to the regulator in the exercise of any of its functions.

People who are subject to the reporting requirement ('reporters') for public service pension schemes are:

- scheme managers
- members of pension boards
- any person who is otherwise involved in the administration of a public service pension scheme
- employers: in the case of a multi-employer scheme, any participating employer who becomes aware of a breach should consider their statutory duty to report, regardless of whether the breach relates to, or affects, members who are its employees or those of other employers
- professional advisers including auditors, actuaries, legal advisers and fund managers: not all public service pension schemes are subject to the same legal requirements to appoint professional advisers, but nonetheless the regulator expects that all schemes will have professional advisers, either resulting from other legal requirements or simply as a matter of practice
- any person who is otherwise involved in advising the managers of the scheme in relation to the scheme.

The report must be made in writing as soon as reasonably practicable.

No.	TPR Requirement	London Borough of Hackney Approach / Evidence	Frequency of Review	Last Review Date	Review Completed	Compliant	Notes	Action
J1	Is the Administering Authority satisfied that those responsible for reporting reaches under the legal requirements and TPR guidance understand the requirements?	Training at PC in June 2015 and at July PB. Procedure will be shared with all PB, PC and key officers & put on website.	Ongoing (annual check - Sep)	30/06/2017	Fully completed	Fully compliant	Due a review in Training plan for PB but procedure in place and periodically reviewed	
J2	Does the Administering Authority have appropriate procedures in place to meet their legal obligations for identifying and assessing breaches?	Breaches procedure is in place (developed May 2015).	Annual (Sep)	30/06/2017	Fully completed	Fully compliant		
J3	Are breaches being recorded in accordance with the agreed procedures?	Procedure launched May/June 2015 so no historical recording. The Head of Pension Fund Investment and Actuarial Services will maintain a record of breaches and this is included in the quarterly PC governance update report including a comment on whether any breaches are systemic and action taken. Some details may need to be withheld for confidentiality reasons. Some concerns at the moment in relation to insufficient monitoring and recording of breaches at Equiniti.	Ongoing (annual check - Sep)	30/06/2017	Fully completed	Partially compliant	Both reported and unreported breaches are included within the Quarterly Report to Pensions Committee and provided to the PB.	- Ongoing work with Equiniti to ensure all breaches are identified, notified and recorded.

K - Scheme Advisory Board - Guidance on the creation and operation of Local Pension Boards in England and Wales

Legal Requirements

Clause 7 of the Public Service Pensions Act provides that the national Scheme Advisory Board (SAB) may provide advice to scheme managers or pension boards in relation to the effective and efficient administration and management of the scheme.

It also provides that a person to whom advice is given by virtue of subsection (1) or (2) must have regard to the advice.

The Scheme Advisory Board has published guidance on the creation and operation of Local Pension Boards in England and Wales which incorporates a number of action point check lists at the end of some of the sections. The following are the items in those checklists.

No.	SAB Requirement	SAB Section	London Borough of Hackney Approach / Evidence	Frequency of Review	Last Review Date	Review Completed	Compliant	Notes	Action
K1	Administering Authority to have approved the establishment (including Terms of Reference) of the Local Pension Board by 1 April 2015.	5	Hackney Council approved 27/2/15.	Ongoing (annual check - Feb)	30/06/2017	Fully completed	Fully compliant		
K2	The Local Pension Board must be operational (i.e. had its first meeting no later than 4 months after the 1 April 2015).	5	First meeting planned for 16/7/15.	Ongoing (annual check - Jan)	30/06/2017	Fully completed	Fully compliant	First meeting of PB 16/07/15 Last meeting of PB 20/03/17	
K3	Once established a Local Pension Board should adopt a knowledge and understanding policy and framework (possibly in conjunction with the Pensions Committee if appropriate).	6	Training Policy approved by PC 14/1/15. Will be part of agenda of first meeting on 16/7/15 and it is then reviewed annually.	Annual (Jan)	30/06/2017	Fully completed	Fully compliant		
K4	A Local Pension Board should designate a person to take responsibility for ensuring that the knowledge and understanding policy and framework is developed and implemented.	6	Designated to Corporate Director of Finance & Resources as part of Training Policy which will be adopted by the Board.	Ongoing (annual check - Jan)	30/06/2017	Fully completed	Fully compliant		
K5	The Administering Authority should offer access to high quality induction training and provide relevant ongoing training to the appointed members of the Local Pension Board.	6	Training plan being developed including induction training for all board members.	Ongoing (annual check - Jan)	30/06/2017	Fully completed	Partially compliant	Training plan in place - training to be provided to Pension Board members at PC meetings and separate PB training	PB members to attend fundamentals training course
K6	A Local Pension Board should prepare (and keep updated) a list of the core documents recording policy about the administration of the Fund and make the list and documents (as well as the rules of the LGPS) accessible to its members.	6	Part of Training Policy. Documents part of induction pack and on website.	Ongoing (annual check - Jan)	30/06/2017	Fully completed	Fully compliant		
K7	Members of a Local Pension Board should undertake a personal training needs analysis and put in place a personalised training plan.	6	There is a Training Plan (annual) but it is focussed at whole PC/P B level. Annual self -assessment will be completed through effectiveness survey.	Ongoing (annual check - Jan)	30/06/2017	Fully completed	Partially compliant	Self-assesment completed in summer 2016 Next self assessment due summer 2017	A model is being developed to capture individual training needs against CIPFA requirements/TPR toolkits and to monitor against those specific requirements. Each June PC/Summer PB will highlight any individuals with outstanding requirements.

No.	SAB Requirement	SAB Section	London Borough of Hackney Approach / Evidence	Frequency of Review	Last Review Date	Review Completed	Compliant	Notes	Action
K8	An Administering Authority should prepare a code of conduct and a conflicts policy for its Local Pension Board for approval in accordance with the Administering Authority's constitution and at the first meeting of the Local Pension Board. The Local Pension Board should keep these under regular review.	7	Code of conduct is part of PB Terms of Reference. Conflicts of Interest Policy approved by PC on 31/3/15 is going to first meeting for adoption.	Annual (Mar)	30/06/2017	Fully completed	Fully compliant	Adopted by Pension Board at its first meeting	
K9	Training should be arranged for officers and members of a Local Pension Board on conduct and conflicts.	7	Planned for first PB meeting	Ongoing (annual check - Jan)	30/06/2017	Fully completed	Partially compliant	Training plan in place - training to be provided to Pension Board members at PC meetings and separate PB training	PB members to attend fundamentals training course
K10	A Local Pension Board should establish and maintain a register of interests for its members.	7	Included as part of Policy requirements.	Ongoing (annual check - Jan)	30/06/2017	Fully completed	Fully compliant		
K11	An Administering Authority should agree the ongoing reporting arrangements between the Local Pension Board and the Administering Authority.	8	Outlined in PB Terms of Reference	Ongoing (annual check - Jan)	30/06/2017	Fully completed	Fully compliant		
K12	A Local Pension Board should understand the Administering Authority's requirements, controls and policies for FOIA compliance so that the Local Pension Board is aware of them and can comply with them.	8	Copy of Council's FOI policy will be provided to all PB members as part of induction pack.	Ongoing (annual check - Jan)	30/06/2017	Fully completed	Partially compliant		Council's FOI policy to be provided to new PB members
K13	A Local Pension Board should put in place arrangements to meet the duty of its members to report breaches of law.	8	Planned for first PB meeting	Ongoing (annual check - Jan)	30/06/2017	Fully completed	Fully compliant	Breaches policy agreed by PB and breaches included in quarterly reporting	
K14	A Local Pension Board should consider (with its Administering Authority) the need to publish an annual report of its activities.	8	A requirement outlined in PB Terms of Reference	Annual (Summer)	30/06/2017	Fully completed	Partially compliant	First PB Annual Report published in 2015/16 Annual Report & Accounts Next PB Annual Report to be published in 2016/17 Annual Report & Accounts	PB Annual Report to be published in 2016/17 Annual Report & Accounts
K15	An Administering Authority should consult on, revise and publish its governance compliance statement to include details of the terms, structure and operational procedures relating to its Local Pension Board.	8	Completed and updated at March 2015 PC.	Annual (Mar)	30/06/2017	Fully completed	Fully compliant	Statement carried forward to 2016/17 Annual Report	

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

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