PENSIONS COMMITTEE

Monday, 23rd July, 2018

at 6.30 pm

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

Members:

Councillor Robert Chapman (Chair)
Councillor Michael Desmond (Vice-Chair)
Councillor Kam Adams, Councillor Polly Billington, sCouncillor Ben Hayhurst
Councillor Rebecca Rennison

Co-optees:
Jonathan Malins-Smith and Henry Colthurst

Tim Shields
Chief Executive

Contact:
Rabiya Khatun
Governance Services
Tel: 020 8356 6279
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Future Meetings
12 September 2018
12 December 2018
26 March 2019

The press and public are welcome to attend this meeting

Hackney

AGENDA
Monday, 23rd July, 2018

ORDER OF BUSINESS

14	**Any Other Business Which in The Opinion Of The Chair Is Urgent**	

15	**Exclusion of The 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.	

16	**Consideration of the Exempt Minutes of the Previous Meeting**	145 - 146

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 and Governance 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 <u>nature</u> 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, Director of Legal and Governance Services on 020 8356 6234 or email suki.binjal@hackney.gov.uk

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Hackney

MINUTES OF A MEETING OF THE PENSIONS COMMITTEE

WEDNESDAY, 23RD MAY, 2018

Councillors Present: **Councillor Robert Chapman in the Chair**

Cllr Michael Desmond (Vice-Chair),
Cllr Kam Adams, Cllr Polly Billington,
Cllr Ben Hayhurst and Cllr Rebecca Rennison

1 Appointment of Chair and Vice Chair of the Pensions Committee

RESOLVED that Councillor Robert Chapman be elected to serve as Chair of the Pensions Committee for the 2018/2019 Municipal Year.

RESOLVED that Councillor Michael Desmond be elected to serve as Vice Chair of the Pensions Committee for the 2018/2019 Municipal Year.

1 Establishment and Composition of the following Committee

RESOLVED that the establishment and membership of the Pensions Committee for the 2018/2019 Municipal Year:

Councillor Kam Adams
Councillor Polly Billington
Councillor Robert Chapman
Councillor Michael Desmond
Councillor Ben Hayhurst
Councillor Rebecca Rennison

One Conservative vacancy

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MINUTES OF A MEETING OF THE PENSIONS COMMITTEE

WEDNESDAY, 21ST MARCH, 2018

Councillors Present:	**Councillor Robert Chapman in the Chair** **Cllr Michael Desmond (Vice-Chair), Cllr Geoff Taylor, Cllr Kam Adams and Cllr Patrick Moule**
Co- optee	**Jonathan Malins- Smith**
Apologies:	**Councillor Feryal Demirci**
Officers in Attendance:	Ian Williams (Group Director of Finance and Corporate Resources), Michael Honeysett (Director of Financial Management), Rachel Cowburn (Head of Investment & Actuarial Services), Sean Eratt (Legal Services) and Dan Paul (Head of HR & OD)
Also in Attendance:	Andrew Johnston - Hymans Robertson Michael Ferguson - AON

1 Apologies For Absence

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1.1 Apologies for absence were received on behalf of Councillor Demirci.

1 Declarations of Interest - Members to declare as appropriate

2.1 Councillors Chapman, Taylor, and Desmond declared a non-pecuniary interest as deferred members of the LGPS.

2.2 Councillor Moule declared a non-prejudicial interest as his partner is a member of the LGPS.

3 Consideration of The Minutes of The Previous Meeting

3.1 RESOLVED that the minutes of the meeting held on 4 December 2017 were confirmed as a correct record.

(Items 4 and 5 were considered together)

4 Training - De-risking

4.1 Rachel Cowburn introduced the training session on asset allocation and de-risking, which would assist Members in meeting the standards set out in the CIPFA Knowledge and Skills Framework and the Fund's training policy.

4.2 Andrew Johnston, Hymans Roberston delivered a training session on asset allocation and de-risking triggers. An outline of the presentation is set out below:

Asset Allocation GrIP

- Growth

Expected to deliver a higher level of return than bonds over the long term

- Income

Produces income to help pay for member benefits

- Protection

Gilts and cash used to match movements in liabilities.

Funding position – closing the deficit

- Value of liabilities exceeds the value of assets
- The two key sources of closing this shortfall are asset outperformance (relative to fund liabilities) and contributions
- If contributions fall, the requirement for asset outperformance increases – more growth assets are required
- If assets returns reduce, higher contributions are required

Projecting the future – modelling

- Assess the likelihood of different outcomes

Two key measures

- Best outcomes
- Worst outcomes

Current “flight path”

- Seek to improve funding over time
- Capture opportunities as they arise

Why have de-risking triggers

- In 5 years time the Funding Level is expected to improve by c8%
- Funding level evolution should not trigger a change in investment strategy

What if we are ahead of target

- Reduction in required return

Benefits and considerations

- Capture funding gains when ahead of target
- Improvement in downside risk
- Monitoring/implementation
- Drivers of improvement?

Interest rate changes, inflation expectations, asset performance etc

- Where to invest proceeds
- Periodic review- maintain probability of achieving objectives

Proposed triggers

Investment scenarios tested

- Asset Class and scenarios

Funding Level Evolution

Appropriate level to de-risk

- On the current strategy there is a 67% probability of achieving full funding by 2031
- Taking less investment risk reduces downside risk whilst the probability of success in 2031 remains broadly similar

As funding improves, what is the appropriate investment strategy?

Proposed triggers

Date range		Required funding level on gilts +1.65%
31/12/17	-	88.0%
31/12/18	-	89.5%
31/12/19	-	91.0%

Implementation - monitoring

- Supported by cutting edge technology
- Officers/committee monitor – frequency depends on proximity
- Report to Committee Chair and Group Director of Finance and Corporate Resources

Implementation – asset allocation change

- Reduce allocation to growth dependent asset classes (equities)
- Flexibility for re-investment
  Depends on driver of funding improvement:
  - If predominately due to increase in bond yields – BMO /new debt mandate
  - If mainly driven by strong equity markets- Multi asset or new debt mandates or opportunities pot

Summary and next steps

- Approve de-risking triggers
- Asset allocation
  -Take enough risk to generate the returns required to close the deficit
  -Take no more risk than required
- De- risking
  - Monitor funding level at appropriate frequency
  - Allow for the expected improvement in funding level over time
  Be prepared to act
- Keep plans under review
  - Review after any change to asset allocation

RESOLVED to note the contents of the report and training.

5 Investment Strategy - De-Risking Framework

5.1 Rachel Cowburn introduced the report setting out the proposal for the Pension Fund to introduce a set of updated de-risking triggers.

5.2 Mr Malins- Smith enquired about the impact of sterling devaluation on the Fund. Mr Johnston stated that the Fund held a broad range of assets and that currency devaluation could impact on assets significantly exposed to currency risk such as property and equity.

5.3 Cllr Adams asked about the effect of the de-risking target on contribution levels. Mr Johnston advised that the contribution rates were agreed at the Fund's actuarial valuation and that the de-risking targets were based on the current contribution levels. Ms Cowburn stated that officers would monitor the funding levels on a weekly basis if the Fund was near the trigger levels set out.

5.4 Cllr Desmond enquired whether the Fund's assets were registered to the LBH Pension Fund. Ms Cowburn clarified that the Pension Fund did not hold any assets directly but that the Council owned units in investment funds. Mr Johnston added that the Fund's pooled and segregated assets were not explicitly registered to the Pension Fund but held in accounts registered to the Council and at HSBC. Ms Cowburn emphasised that the Council reconciled the Pension Fund's custodian records with the Fund Manager records on a regular basis to ensure the assets were registered.

5.5 Members sought clarification regarding the proposed de-risking triggers set out in the report. Mr Johnston stated that the proposed trigger levels were based on the funding level during the Fund's current actuarial valuation and that it was good practice to set targets even if the proposed trigger levels were unlikely to be met. Ms Cowburn indicated that the de-risking triggers would not be implemented if growth in liabilities significantly outweighed growth in assets.

5.6 The Chair queried the investment strategy in relation to increasing the bonds allocation due to the potential risk of bonds depreciating in value in the future. Mr Johnston replied that the primary purpose of asset allocation was to enable Members to take a more flexible approach to future investments and be prepared to manage risks in order to achieve the Fund's funding objectives.

5.7 Cllr Moule asked whether investments held over a longer period would result in a broader range of outcomes. Mr Johnston stated that the range of outcomes was more flexible for higher risk asset classes such as equities and less flexible for lower risk asset classes. Ms Cowburn added that the Fund's actuarial valuation was reviewed every three years and that the aim of de- risking strategy was to reduce the deficit recovery period by the next valuation cycle and finally achieve full funding level by 2031.

5.8 A Member enquired about the funding level and asset allocation. Ms Cowburn confirmed that the Fund's current funding level was approximately 83% and Mr Johnston indicated that Members should be prepared to regularly review plans especially if there was movement in the markets.

5.9 In response to a question regarding the timescale for investments once a de-risking trigger level had been met, Ms Cowburn stressed that the Committee had to act promptly as the timescale for investing in assets could be a matter of weeks.

5.10 The Chair indicated that Members needed to be informed of more low risk investment options other than bonds. The Chair referred to recommendation 3 within the report and indicated that Committee Members needed to be involved in the decision making process in relation to any changes in asset allocation and it was proposed that the recommendation be amended to include 'in consultation with Committee Members'. The Chair stated that it was the Pension's Committee's intention to call a formal or informal meeting of Committee Members if practical should the trigger levels be breached which required implementing changes to the Fund's asset allocation.

RESOLVED approve:

1. **Setting de-risking triggers for the Fund, i.e. 88% now, increasing to 89.5% from 1/1/19 and to 91% from 1/1/20**
2. **The principle of regular review of triggers;**
3. **The process for implementing changes to the Fund asset allocation should the trigger level be breached, i.e. report to the Chair and Group**

Director, Finance and Corporate Resources for approval and in consultation with Committee Members; and

4. **Delegate responsibility for reviewing the transition management arrangement for the Fund to ensure efficient implementation to the Officers, in liaison with the Chair of the Committee.**

6 Active and Passive Equity - Transition Update

RESOLVED by Virtue of Paragraph 3 Part 1 of schedule 12A of the Local Government Act 1972 this report is exempt because it contains Information relating to the financial or business affairs of any particular person (including the authority holding the information) and it is considered that the public interest in maintaining the exemption outweighs the public interest in disclosing the information.

7 Pension Fund Quarterly Report

7.1 Rachel Cowburn introduced the report providing an update on the Fund's 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.

7.2 Ms Cowburn referred to paragraph 7.4 of the report and reported that the outstanding data queries had reduced from 1,700 to 300. Further, as the Council was preparing to issue the annual benefit statements for 2017/18 officers were concerned that this could generate more queries in relation to final pay values as the new payroll interface would provide more accurate data. Officers were therefore liaising with Equiniti to ensure that sufficient resources were in place to respond to any queries and also working with Payroll to ensure it provided the correct information for any queries that could not be resolved by Equiniti.

7.3 Mr Malins-Smith queried why so many active members had become deferred members. Ms Cowburn replied that this had resulted from an increase in records as new employees were automatically enrolled into the LGPS scheme, issues with Payroll not processing pension member's leaving forms and forwarding leaving dates to Equiniti and Equiniti's system being unable to categorise unprocessed leavers of the scheme. She advised that Equiniti had now upgraded its systems and could now categorise unprocessed scheme leavers. The Council's new payroll system did not have the facility to issue a scheme leaver's form when a member's contributions ceased.

7.4 Mr Paul addressed the concerns relating to the ongoing payroll data issues and stated that the work undertaken in relation to pensions and iTrent system had been a process between Pensions, Payroll and ICT teams. Mr Paul processing issues related relating to his service included issues with the new payroll system and lack of resources to process leaving forms, which was not related to the iTrent system. He assured the Committee that resources had been increased to address this issue and that a post had been created for a Payroll Pensions Officer specifically dealing with non-system related pension issues such as processing member's leaving form and progress had been made in this area. With regard to the issues relating to the payroll system, Mr Paul explained that the transition from the previous system to iTrent had not been a smooth process and the issues had impacted on the payments to Hackney's third party pension administrators LGPS and Prudential. The third party payments were now being processed manually, which had increased the risk of errors occurring and an error had resulted in a late payment. Mr Paul stated that progress was being made and an automated payment to the provider had been tested and would hopefully be resolved by April 2018. Hackney's Payroll team had also taken on the third party payments functions which had previously been outsourced and the previous supplier had not provided all necessary information to process payments and to enable third party administrators to deal with the payments received, however, this issue had now been resolved. In terms of the end of year data, the iTrent payroll system had been selected on the basis that it would provide a better system for pensions and work was being undertaken to improve the system and resolve these issues.

7.5 Mr Paul referred to the insufficient information provided with the AVC contributions which had led to Prudential being unable to invest into appropriate investment schemes and reported that the affected members had been compensated and the issue had been resolved in December 2017.

7.6 Mr Malins- Smith sought clarification regarding the number of people affected by the AVC contributions issue. Mr Paul confirmed that 140 members had been affected over a period of six months and that those affected had been awarded £5,000 compensation each.

7.7 Ms Cowburn said that officers needed to ensure that the quality of the end of year data file was accurate as the file would go live and it could generate data enquiries which would require more resources and the Chair asked when the pension issues would be resolved. Mr Paul advised that the third party payment could be resolved by April 2018 if the automated payment was successful. With regard to the end of year data, the data file had to be tested and it was important to get the data into the right format before it was sent to Pensions and Equiniti. Mr Paul added that a group including Payroll, ICT and Pensions had been set up to identify and resolve the pension issues and that officers from these teams would work together to resolve these issue.

RESOLVED to note the contents of the report.

8 Guaranteed Minimum Pensions (GMP) Reconciliations

8.1 Rachel Cowburn introduced the report providing an update on the Fund's Guaranteed Minimum Pensions (GMP) reconciliation exercise, which was being undertaken to ensure that scheme member records for periods spent contracted out of the second state pension were properly accounted for. An update was also provided on the progress of Phase 2 of the reconciliation exercise and whether to increase the budget for Phase 2 and proposals for Phase 3 – Certification & Rectification

8.2 Ms Cowburn stated that Equiniti had revised the costs to £245,000 to complete Phase 2 of the project. Members were being requested to agree an additional budget of £45,000 to complete the deferred and pensioner reconciliation in Phase 2 of the project. Ms Cowburn advised that following an agreement to bring active members into the scope of the project, this had led to a higher number of queries produced from active members records and the revised budget to reconcile active members was now estimated at £184,706.25. Since the progress report had been produced, officers had been in discussion with Equinti regarding the substantial increase in the budget to £184k and further information had been requested relating to members queries. Officers had requested a breakdown of the active members' records to determine if it was necessary to check all these members' records. Ms Cowburn emphasised that the total budget would not be agreed until this further information had been provided, however Members were also being requested to agree a further budget of £45,000 for the reconciliation execrise being undertaken on active members.

8.3 In response to questions from the Chair regarding the additional budget, Ms Cowburn clarified that the initial budget had been underestimated as it had been based on fewer queries for active scheme members but there had been a significant increase in active members' queries which had resulted in an increase in the budget. It was clarified that Equiniti had been charging on the basis of minutes per case. Ms Cowburn stated that following discussions with Equiniti a compromise had been reached for an additional budget of £45,000 for the work being undertaken on active members' queries in this phase.

8.5 Ms Cowburn clarified that Members were being requested to agree an additional budget of £45,000 to complete the deferred and pensioner reconciliations and a further £45,000 for the work being undertaken on active member queries within Phase 2.

RESOLVED to approve the increase in budget to complete Phase 2, as set out in Appendix 1 of an additional budget of £45,000 to complete the deferred and pensioner reconciliation and a further £45,000 to reconcile active members, and to review and agree the commencement of Phase 3, subject to regular review of estimated costs as set out in Appendix 2 to this report. (It should be noted that further cost information has been requested from Equiniti with regards to Phase 2, and that this would be provided prior to the Committee – this recommendation was contingent on the receipt of satisfactory cost data from Equiniti.)

9 Pensions Administration Strategy 2018/19

9.1 Rachel Cowburn introduced the report on the draft Pension Administration Strategy for 2018/19, which had been updated to reflect changes to the Fund's third party administration contract

RESOLVED to approve the updated Pension Administration Strategy for publication

10 Pension Fund Communications Policy Statement 2018/19 - update

10.1 Rachel Cowburn introduced the updated Communications Policy Statement for the Pension Fund. The statement had been updated to incorporate a Privacy Notice provided to all members setting out certain prescribed information including the purpose for which member data was being collected, which organisations would receive it and how data would be safeguarded.

10.2 In response to questions from members, Ms Cowburn advised that more work was being done in terms of the process relating to disclosure and privacy of members data and reviewing contract arrangements to ensure file sharing and communication with employers within the Fund were secure. It was noted that this risk had been reflected in the risk register.

RESOLVED to note the update to the Communications Policy Statement 2018.

11 End of Administration Report 2014-2018

11.1 Rachel Cowburn introduced the report detailing the role of the Pensions Committee and summarising its key activities and achievements over the 2014-2018 administration. The Chair requested that the report be circulated to Members following the meeting.

11.2 The Chair noted that this was Cllrs Taylor and Moule's last meeting, and on behalf of the Members thanked them for their contributions to the Committee, especially Cllr Taylor and wished them the best for the future.

11.3 Cllr Moule expressed his thanks to the officers and consultants for working with him as a new member of the Committee.

RESOLVED to note the contents of the report.

12 Self-Assessment and Performance of Advisers

12.1 Rachel Cowburn introduced the report providing the background to the annual Self-Assessment Questionnaire and Performance of Advisers.

12.2 The Chair asked officers to explore further ways of providing training. Mr Williams stated that officers were reviewing the training programme in order to satisfy the new requirements following the introduction of new regulations. Officers were considering providing online training and holding special one day training. A report outlining proposals for Member training would be submitted at the meeting scheduled in June 2018. There were also plans to have annual training programme included in the agenda. Discussions were taking place with the Communications Team to publicise the positive work being undertaken in relation to pensions.

12.3 Mr Ferguson advised that any members interested in attending training on CIPFA competencies on 5 July 2018 could reserve a place. Mr Williams indicated that the training details would be circulated to the Chair following the meeting.

RESOLVED to:

1. **Note the report**
2. **Individually complete the self-assessment and assessment of advisers questionnaire**

13 Any Other Business Which in The Opinion Of The Chair Is Urgent

13a <u>London CIV- Guarantee and Recharge Agreement</u>

13.1 Noted the tabled paper circulated at the meeting.

13.2 Ms Cowburn explained that the request for signing the draft legal agreements between the London CIV and its member authorities was received on 16 March 2018 and therefore officers had requested the report be considered under any other urgent business.

13.3 Rachel Cowburn introduced the report setting out two draft legal agreements between the London CIV and its member authorities, relating to London CIV's (LCIV) participation in the LGPS as an admission body. LCIV's pension arrangements were provided through the City of London Pension Fund as an Admitted Body. The first agreement covered a guarantee in favour of the City of London whilst the second covered LCIV's FRS102 accounting liability. Both parties had been working together to develop these arrangements and LCIV had now requested that its member authorities formalise these arrangements by signing the agreement.

13.4 Ms Cowburn assured member that all authorities within LCIV would have to sign the guarantee agreement, which had been requested by the City of London Pension Fund, before it could be implemented.

RESOLVED to

1. **Approve the signing of the Recharge Agreement, subject to written confirmation from LCIV that within 6 months, they will produce a formal remuneration policy with specific reference to the eligibility of staff to join the LGPS and any maximum limits on pensionable pay.**
2. **Approve the signing of the Guarantee Agreement**

13b London CIV – Pooling agenda

In response to a query from Mr Malins-Smith regarding the London CIV pooling agenda, Mr Williams advised that a copy of the response would be circulated to all members and that a report would be submitted on this topic at a future meeting.

13c Terms of reference

Ms Cowburn reported that the terms of reference for the Pensions Committee was being reviewed by the Constitutional Review Group.

14 Exclusion of The Press And Public

RESOLVED

That the press and public be excluded from the proceedings of the meeting during consideration of the Items 6, 8 (appendices) and 15 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.

15 Consideration of the Exempt Minutes of the Previous Meeting

RESOLVED that the exempt minutes of the meeting held on 4 December 2017 were confirmed as a correct record.

Duration of the meeting: 6.30-9.05pm

Contact:
Rabiya Khatun
Governance Services Officer
020 8356 6279

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Hackney

REPORT OF THE GROUP DIRECTOR OF FINANCE AND CORPORATE RESOURCES		
Training – Introduction to Fund Governance **Pensions Committee** **23rd July 2018**	**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 governance of the Hackney Fund, 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 – Administering Authority 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 There are no immediate financial implications arising from this report

1. COMMENTS OF THE DIRECTOR OF LEGAL AND GOVERNANCE

5.1 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. An understanding of the governance structure of the LGPS and the Hackney Fund is included within the framework.

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

2. 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 governance

2.2 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.

2.3 The training session will provide members, and particularly new members, with an overview of the Governance structure of the Hackney Fund, and how Committee decision making fits into the wider governance structure.

Ian Williams
Group Director of Finance & Corporate Resources

Report Originating Officers: Rachel Cowburn ☎020-8356 2630
Financial considerations: Michael Honeysett ☎020-8356 3332
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Hackney

REPORT OF THE GROUP DIRECTOR OF FINANCE AND CORPORATE RESOURCES		
Proposed changes to Pensions Committee Terms of Reference **Pensions Committee** **23rd July 2018**	**Classification** **PUBLIC** **Ward(s) affected** **ALL**	**Enclosures** **One**

1. INTRODUCTION

1.1 This report sets out the need for a change to the Pensions Committee's Terms of Reference, as set out in the Council's constitution. It summarises the changes being proposed and why the changes need to be made, and sets out a plan for consultation with the Committee and consideration by the Monitoring Officer ahead of approval by Full Council.

2. RECOMMENDATIONS

2.1 The Pensions Committee is recommended to:

- **Note the report**
- **Approve the extension of the existing terms of appointment for co-opted representatives until the new appointment process detailed in the revised Terms of Reference is approved by full Council.**

3. RELATED DECISIONS

- Full Council – 26th March 2014 – Changes to the Constitution

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

4.1 Ensuring that the Council's constitution is kept up to date with regards to both the Pensions Committee and Pension Board helps to promote the good governance of the Fund, and ensure that the roles and responsibilities of each are clear to both members and the Pension Fund's wider stakeholders. Good governance and clarity of responsibilities can help ensure that the Fund is well managed, and that the Committee are meeting their fiduciary duty to safeguard the assets of the Fund.

4.2 There are no direct financial implications arising from this report

5. COMMENTS OF THE DIRECTOR OF LEGAL AND GOVERNANCE

5.1 The Pensions Committee is a Committee established by Full Council under Section 101(1) of the Local Government Act 1972. It acts as 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 (where assets remain outside of the London CIV) and custodians.

5.2 This report notifies the Pensions Committee of the intention to make changes to the Terms of Reference, and sets out arrangements for consultation with the Committee and consideration by the Monitoring Officer prior to approval by Full Council

6. SUMMARY OF PROPOSED CHANGES

6.1 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.

6.2 The proposed changes will replicate the Shareholders Agreement for the London CIV within the Constitution to formally reflect the Council's relationship with the London Collective Investment Vehicle Ltd.

6.3 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. A robust appointment process will help to ensure the fair appointment of individuals with the appropriate knowledge, skills and capacity to represent scheme members or employers on the Committee, as well as clarifying the responsibilities taken on by co-opted representatives.

6.4 Co-opted scheme member and employer representatives for the Pension Fund have previously been appointed at the first Pensions Committee meeting of the municipal year. Although referenced in the existing Terms of Reference the exact nature of the process to be followed has not previously been formalised. The revised Terms of Reference sets out an updated appointments process more in line with that of the Pension Board and it is recommended that the term of appointment for the existing co-opted member be extended until a revised appointment process is in place.

7. CONSULTATION ARRANGEMENTS

7.1 Officers of the Fund will work with Governance Services and the Monitoring Officer to establish a plan for consultation with Committee members and other interested parties, as required. The proposed changes will be considered in the context of the wider Constitutional Review before being submitted for approval by full Council later in 2018.

Ian Williams
Group Director of Finance & Corporate Resources

List of appendices:
None

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Hackney

REPORT OF THE GROUP DIRECTOR OF FINANCE & CORPORATE RESOURCES		
Business Plan 2018-2021 **Pensions Committee** **23rd July 2018**	**Classification** **PUBLIC** **Ward(s) affected** **ALL**	**Enclosures** **One** **AGENDA ITEM NO.**

1. INTRODUCTION

1.1 This report introduces the Pension Fund Business Plan for the period covering 2018-21 and includes a draft plan of work for the Pensions Committee and communications plan for the current financial year 2018-19

2. RECOMMENDATION

2.1 The Pensions Committee is recommended to:

- **Approve the Business Plan for the Pension Fund for 2018-21**

3. RELATED DECISIONS

- Pensions Committee 27th June 2017 – Business Plan 2017-20
- Pensions Committee 17th January 2013 – Pension Fund Objectives and Measurement.

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

4.1 The Pensions Committee acts in the role of quasi trustee for the Pension Fund and is responsible for the management of £1.48 billion worth of assets and for ensuring the effective and efficient running of the Pension Fund.

4.2 Having a three year business plan helps ensure that the Fund is at the forefront of best practice amongst LGPS Administering Authorities and ensures that the Committee is able to plan and understand the financial decisions that it will be faced with over the coming years. The decisions taken by the Committee impact directly on the financial standing of the Fund and can affect its ability to meet its liabilities. Ensuring prudent financial management help to improve the overall financial position of the Fund, potentially impacting on the contribution rates payable by participating employers.

4.3 The schedule of work as set out in the draft programme should help to ensure that Members are conversant with the key factors that are likely to affect the Pension Fund and to be able to take informed decisions in the management of the Fund over the coming year.

5. COMMENTS OF THE DIRECTOR OF LEGAL AND GOVERNANCE

5.1 The Council's Constitution gives the Pensions Committee responsibility for various specified 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 Regulations. Those obligations include producing specific documents and complying with statutory deadlines. It is sensible against this background, and consistent with good administration, to set out a three year business plan and schedule the work of the Committee to ensure that the regulatory requirements of the Fund are met in a timely fashion.

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

6. BACKGROUND/TEXT OF THE REPORT

6.1 The London Borough of Hackney is the Administering Authority for the Pension Fund; delegated powers under the Council Constitution have been given to the Pension Committee to oversee its management. This includes monitoring of investments, making decisions on strategic asset allocation, appointing advisors, overseeing pension administration, setting budgets and receiving the annual report and accounts for the Pension Fund.

6.2 The business plan covers all the known key strategic matters for the financial years 2018-2021, the majority of which will be covered by the Committee in some detail. Plans for 2018/19 include further work on implementation of the Fund's investment strategy, with an allocation to alternative credit due to be made during the year. Responsible Investment is also likely to be an area of the focus for the Committee, as it looks to deepen the Fund's approach to shareholder engagement, particularly in the context of its relationship with the London CIV. With the third party administration procurement now complete, the Fund is also making plans for improvements to employer engagement and reporting, to assist with data improvements ahead of the 2019 valuation. As usual the Committee will also be asked to consider a range of policy documents, many of which require updating on an annual or biennial basis.

6.3 Also included within the business plan is a draft communications plan for the current financial year 2018-19 which the Committee is asked to agree. This sets out the main areas to be targeted under the communications plan; annual reporting on actions undertaken during the year is included within the Pension Fund Report and Accounts under the Communications Policy

6.4 Clarity over the longer term strategic items within the business plan becomes more difficult further into the future, but the current business plan sets out the key known variables at this stage. It is recognised that this continues to be a time of considerable change for the LGPS and for the associated Pension Funds and that developments over the coming months could alter the business plan over the medium term.

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Appendices

Appendix 1 – Pension Fund Business Plan 2018-21

LONDON BOROUGH OF HACKNEY

PENSION FUND

BUSINESS PLAN

2018-2021

INTRODUCTION

The London Borough of Hackney is the Administering Authority of the London Borough of Hackney Local Government Pension Scheme (LGPS). Management of the Pension Fund is delegated to the Pensions Committee acting in the role of trustees of the Pension Fund. The day to day running of the Fund has been delegated to the Group Director, Finance and Corporate Resources, the Director, Financial Management and the Financial Services section of the Council. The Financial Services section has responsibility for all aspects of the day to day running of the Fund including administration, investments and accounting.

The purpose of this document is to set out a business plan for the Pension Fund for the period 2018-2021 and to outline the Fund's goals and objectives over the longer term. The business plan details our priorities and areas of key focus in relation to the London Borough of Hackney Pension Fund for 2018/19, 2019/20 and 2020/21. The business plan is formally reviewed and agreed every year. However, throughout the year it is monitored and the Pensions Committee may be asked to agree to changes to it.

The purpose of the business plan is to:

- explain the objectives for the management of the Hackney Pension Fund
- document the priorities and improvements to be implemented by the pension service during the next three years to help achieve those objectives
- enable progress and performance to be monitored in relation to those priorities
- provide staff, partners and customers with a clear vision for the next three years.

OBJECTIVES

The primary objectives of the Fund have been agreed by the Pensions Committee and are sub-divided into specific areas of governance, funding, investments, administration and communications:

Governance Objectives
1. All staff and Pension 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.
2. The Fund is aware that good governance means an organisation is open in its dealings and readily provides information to interested parties
3. To understand and ensure compliance with all relevant legislation

Governance Objectives
4. To ensure the Fund aims to be at the forefront of best practice for LGPS funds
5. Ensures the Fund manages Conflicts of Interest

Funding Objectives
6. To ensure the long-term solvency of the Fund.
7. To help employers recognise and manage pension liabilities as they accrue.
8. 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.
9. 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. (Including: To address the different characteristics of disparate employers or groups of employers to the extent that this is practical and cost effective.)

Investment Objectives
10. Optimise the return on investment consistent with a prudent level of risk
11. Ensure that there are sufficient assets to meet the liabilities as they fall due (i.e. focus on cash flow requirements)
12. Ensure the suitability of assets in relation to the needs of the Fund (i.e. delivering the required return).
13. Ensuring that the Fund is properly managed (and where appropriate being prepared to change).
14. Set an appropriate investment strategy for the Fund to allow the Administering Authority to seek to maximise returns and minimise the cost of benefits for an acceptable level of risk. Ensure return seeking assets are in line with funding objectives.

Administration Objective
15. To deliver an efficient, quality and value for money service to its scheme employers and scheme members.

Communications Objective

16. Ensure that all stakeholders are kept informed of developments within the Pension Fund. Ensuring that all parties are aware of both their rights and obligations within the Fund.

BUSINESS PLAN 2018-2021

In order to meet the objectives of the Pension Fund, the Pensions Committee has reviewed and agreed a business plan for the period 2018-2021. This has to be put in the context of a period of uncertainty for the Fund, which reflects not just volatility in investment markets, but also changes to comply with the Government's asset pooling agenda which have a significant impact on the management of the Fund. Set out in the table below is the 3 year business plan for the Pension Fund:

	2018/19	2019/20	2020/21	Relevant Committee
Governance Objectives				
Pension Fund Accounts	April - September	April - September	April - September	September
Employer Forum	November - January	November - January	November - January	N/A
Review Risk Register	October - December	October - December	October - December	December
Review Risk Policy	October - December			December
TPR Code of Practice	July- Sept	July- Sept	July- Sept	September
Governance policy & compliance statement Review	July - September	July - September	July - September	September
Self-Assessment & Review of Advisers	October - December	October - December	October - December	December
Member's Training Programme to include Pensions Board	Quarterly	Quarterly	Quarterly	All
Induction training for any new PC members at start municipal year	As required	As required	As required	N/A
Training Policy Review	July - September	July - September	July - September	September

	2018/19	2019/20	2020/21	Relevant Committee
Conflicts of Interest Policy Review			January - March	March
Procedure for Reporting Breaches Review	April - June			June
Pensions Board –Annual Report	July - September	July - September	July - September	September
Review Performance, funding, budget	Quarterly	Quarterly	Quarterly	All
AVC Review	January - March			March
Actuarial Services tender			June - September	September
Benefits and Governance Consultancy tender			June - September	September
Investment Consultancy tender		January - March		March
Custody Services tender				Due Oct 2021
Third Party Administration Tender				Due Jan 2023
Funding Objectives				
Actuarial Valuation 2019		April - March		As required/March
Funding Strategy Statement		November - March		December/March
Longevity Monitoring – Club Vita	October - December	October - December	October - December	December
Investment Objectives				
Review Investment Strategy Statement (incl Climate Change policy statement)	As required	As required	As required	As required (minimum every 3 years)

	2018/19	2019/20	2020/21	Relevant Committee
Strategic Asset Allocation - Regular Review	Ongoing	Ongoing	Ongoing	As required
Strategic Asset/Liability Review		October - January		December
Pension Fund Treasury Management Strategy	November - January	November - January	November - January	December
Individual Manager Review	Quarterly	Quarterly	Quarterly	
Asset/Liability Monitoring	Ongoing	Ongoing	Ongoing	
Collaborative working – London CIV & DCLG asset pooling development	Ongoing	Ongoing	Ongoing	As required
Investment in Infrastructure analysis	January - March			March
MiFID II compliance - review	Ongoing	Ongoing	Ongoing	As required
Implementation of climate change resolutions	Ongoing	Ongoing	Ongoing	As required
Alternative credit allocation	July - December			As required
Pension Administration				
Restaged auto-Enrolment		April - July		September
Pension Administration Strategy	January - March	January - March	January - March	March
Annual Pension Administration Performance Review	April - June	April - June	April - June	June
Scheme/GMP Reconciliation	Ongoing	Ongoing	Ongoing	As required
Employer data improvements	Ongoing	Ongoing	Ongoing	As required

	2018/19	2019/20	2020/21	Relevant Committee
Agree any further administration improvements with third party provider	Ongoing			September 2018
Administering Authority Discretions Review	April - June			June
Admission Bodies Policy	April - June			June
Employing Authority Discretions Review	January - March			March
Employer data audit	July - September			September
Communications				
Annual Benefit Statements	April - August	April - August		N/A
Communications Policy Review	November - January	November - January		December

Appendix 1

Draft Communications Plan 2018-2019

Objective of the Communications Strategy

The aim of the communication strategy is to make sure that all stakeholders are kept informed of developments within the Pension Fund. Effective communications will help to maintain the efficient running of the Scheme and ensure all parties are aware of their rights and responsibilities within the Fund.

An outline communications plan for 2018-2019 is set out below:

Stakeholders	Scheme Member	Prospective Scheme Members	Employers	Press and FOI Requests	Central Government & the Pensions Regulator
Type of Communication					
Annual Benefit Statements	July-August				
Annual Newsletter - Accounts	August - September		August - September		
Quarterly Newsletters	Quarterly				
Individual Member Self-Service	Available – Reminder in newsletter				
Website	Updates posted as required	Updates posted as required	Updates posted as required		
Posters/Scheme Guides	June - March	June - March	June - March		
Induction Sessions	Weekly	Weekly	As required		
Pre-Retirement Seminars	As required				
Employer Forum			November - January		
Employer training workshops			As required		
Pensions Admin Strategy			January - March		
Report & Accounts	Annual Newsletter		November		October
Funding strategy Statement			September - January		
Ad-Hoc Queries	Within set timescales	Within set timescales	Within set timescales	Within set timescales	Within set timescales
Pension Board	April - March	April - March	April - March		As Required
GMP Letters - Reconciliation	January - March		November - January	As Required	As required

Appendix 2

Pensions Committee – Suggested Future Agendas

September/October 2018

1. Apologies for Absence
2. Declarations of Interest
3. Consideration of minutes of previous meeting
4. Training – Investment: Alternative Credit
5. Alternative Credit Options
6. Pension Fund Accounts
7. Quarterly Update
8. Third Party Administration – Contract Implementation review
9. TPR Code of Practice Compliance
10. Governance Policy & Compliance Statement Review
11. Actuarial Services and Benefits Consultancy contracts
12. Training Policy Review
13. Employer Data Audit

December 2018

1. Apologies for Absence
2. Declarations of Interest
3. Consideration of minutes of previous meeting
4. Training – TBC
5. Responsible Investment – Strategy review for pooled arrangements
6. Risk Register Update
7. Quarterly Update
8. Treasury Management Strategy
9. Club Vita
10. Communications Policy Review
11. Self Assessment and Review of Advisers

Hackney

<table>
<tr><td colspan="3">REPORT OF THE GROUP DIRECTOR, FINANCE AND CORPORATE RESOURCES</td></tr>
<tr><td rowspan="2">London CIV Update - Presentation

Pensions Committee
23rd July 2018</td><td>Classification
PUBLIC</td><td rowspan="2">Enclosures

None

AGENDA ITEM NO.</td></tr>
<tr><td>Ward(s) affected

ALL</td></tr>
</table>

1. INTRODUCTION

1.1 This report provides the Committee with an update from the London Collective Investment Vehicle (CIV) on progress to date and future planning. Members of the CIV's Client relationship team will be presenting at the Committee, providing an introduction to the CIV for new Committee members and discussing key changes to the CIV's governance structure.

2. RECOMMENDATIONS

2.1 The Pensions Committee is recommended to:

- **Note the report**

3. RELATED DECISIONS

-
- Pensions Committee 4th December 2017 – London CIV Update
- Pensions Committee 24th January 2017 – London CIV Update
- Pensions Committee 27th June 2016 – Investment Pooling Update and July Submission

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

4.1 The CIV's presentation to the Fund will provide an update on progress to date as well as information with regards to future plans. Regular engagement with the London CIV going forwards is key to the Fund, ensuring that the Pool makes available the strategies and services that Hackney and other London funds require. Successful delivery of these objectives will be crucial in ensuring that the anticipated longer term investment manager fee savings can be delivered.

4.2 There are no immediate financial implications arising from this report.

5. COMMENTS OF THE DIRECTOR OF LEGAL AND GOVERNANCE

5.1 The presentation to Committee will consider the ongoing changes to the way in which LGPS investments are managed. Regular engagement with the CIV should help the Fund meet the requirements set out in Government guidance and ensure that it is able to transition assets over to the Pool in a timely manner

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

6. BACKGROUND/TEXT OF THE REPORT

6.1 The London CIV last attended the Pensions Committee in December 2017 to provide an update following a number of significant personnel changes, including the appointment of Mark Hyde-Harrison as interim CEO. Kevin Cullen, the newly appointed Client Relations Director, provided an update on the staff changes as well as progress on a review of the CIV's governance arrangements.

6.2 Since the previous Committee meeting, significant changes have been made to the CIV's governance structures. Following the review of its governance arrangements carried out by Willis Towers Watson, the CIV consulted with Boroughs in early 2018, asking for views on proposed changes to both its governance and its investment offer to Funds.

6.3 Following the consultation, Boroughs and the CIV agreed that the CIV should materially alter its governance arrangements as follows:

- Dissolve the London Councils Pensions Sectoral Joint Committee and replace it with a Shareholders Committee made up of 12 Borough representatives (8 Councillors, 4 Treasurers), along with the Chair of the Board and a Union Representative.
- Appoint two more Non-Executive Directors, representative of the shareholders (expected to be Leaders of London Local Authorities) to the Board, with a Treasurer nominated as an observer (but not a member of the Board).

6.4 These arrangements were formally agreed at the London CIV's AGM on 12th July 2018. Cllr Robert Chapman and Ian Williams have both been appointed to the Shareholder's Committee in their roles as Pensions Committee Chair and Borough Treasurer respectively.

6.5 Both Kevin Cullen and Ian Williams will give short presentations at the Committee meeting to provide an introduction to the London CIV and asset pooling to new Members, and to discuss the changes to the governance arrangements in more detail.

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Group Director of Finance & Corporate Resources

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Hackney

REPORT OF THE GROUP DIRECTOR, CORPORATE FINANCE AND RESOURCES		
Equity Restructure – Post-Completion Report **Pensions Committee** **23rd July 2018**	**Classification** **PUBLIC** **Ward(s) affected** **ALL**	**Enclosures** **One (Exempt)**

1. INTRODUCTION

1.1 This report provides an update following the completion of the Pension Fund's equity portfolio transition exercise.

2. RECOMMENDATIONS

2.1 **The Committee is recommended to:**

- **Note the report**

3. RELATED DECISIONS

3.1 Pensions Committee 21st March 2018 – Transition Update

3.2 Pensions Committee 4th December 2017 – Active and Passive Equity – Transition Approach

3.3 Pensions Committee 27th June 2017 – Passive Equity – Transition Approach

3.4 Pensions Committee 29th March 2017 – Investment Strategy Review – Detailed Recommendations

4. COMMENTS OF THE GROUP DIRECTOR, CORPORATE FINANCE AND RESOURCES

4.1 This report sets out an update on the implementation of planned changes to the Fund's investment strategy with regards to active and passive equity. Moving the Fund's UK equity assets to BlackRock, using the London CIV's rates, offers a potential saving on asset management costs of 3.5 basis points. The other proposals represent a cost-effective method of achieving the required changes to the Fund's investment strategy whilst at the same time offering mitigation against the risk of poor fund manager performance from the current active managers during the transition.

4.2 Whilst moving the Fund's UK passive equity mandate offers potential long term savings, the transition has generated additional costs for the Fund, both as a result of trading and through adverse market movements over the transition period. The Fund sought to minimise transition costs wherever possible through the use of an experienced transition manager. Further details of the transition costs incurred are provided both in the body of the report and in Appendix 1.

5. COMMENTS OF THE DIRECTOR OF LEGAL AND GOVERNANCE

5.1 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. One of its responsibilities is ensuring compliance with the Local Government Pension Scheme (Management and Investment of Funds Regulations 2016)

5.2 This transition exercise has been carried out line with the Regulations above. In transitioning to pooled funds with BlackRock and the London CIV, the Fund is acting in accordance with the Government's Criteria and Guidance for Investment Reform

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

6. APPROVAL FOR EXERCISE

6.1 At its meeting on 29th March 2017, the Pensions Committee agreed a range of recommendations with regards to the Fund's investment strategy, including a recommendation to transfer of the Fund's passive equity mandate to take advantage of lower fees offered following work by the London CIV. A revised allocation of 10% to a FTSE Allshare index tracker was approved, with a further 10% allocated to a tilted low carbon global index mandate.

6.2 Phase 1 of the transition plan was approved at the 27th June 2017 Committee meeting. Approval was granted for:

- In specie transfer of the UBS UK equity assets to an equivalent UK equity mandate, managed via a fund manager charging the reduced fees negotiated by the London CIV.
- In specie transfer of a portion of the Lazard and Wellington global equity mandates into regional/global equity passive mandates. The remaining mandates with Wellington and Lazard would each be 13% of the Fund's assets, in line with the revised target allocation for actively managed global equities.

6.3 At the 4th December 2017 meeting, approval was granted for:

- The establishment of a 10% allocation in a suitable low carbon titled global index mandate, funded from the current UK passive equity allocation. as set out in phase 2 of the approach to transition considered at the June 2017 meeting, outlined in Appendix 1
- The transfer of the full Wellington mandate (16% of the Fund's assets) into a regional/global passive equity mandate.
- A single manager (BlackRock) to manage both the passive mandates described above and the UK FTSE Allshare tracker approved as part of Phase 1.
- The Fund's selected passive manager to act as transition manager for the previously approved transition from the Lazard mandate to LCIV's sustainable global equity sub-fund.

7. TRANSITION SUMMARY

7.1 The total value of assets in scope of the transition was £857m, with the breakdown of assets at each stage as follows:

PREVIOUS MANDATE	TRANSITION	TARGET MANDATE

	ACCOUNT	
Wellington Global Equity Segregated Mandate (£247.4m)	BlackRock Transition Management (£857m)	LCIV Sustainable Global Active Equity Pooled Fund (203.5m)
Lazard Global Equity Segregated Mandate (£247.7m)-		BlackRock Global Passive Low Carbon Pooled Fund (£152.5m)
UBS FTSE AllShare Index Tracker Pooled Fund (£361.9m)		BlackRock Hedged MSCI World Passive Pooled Fund (£347.7m)
		BlackRock FTSE AllShare Passive Pooled Fund (£153.3m)

7.2 As shown in the table above, the transition involved the restructure of a UK equity pooled fund and two global equity segregated portfolios to fund investments in to four new pooled funds (UK equity, currency hedged global equity, global equity with a low carbon screen and active global sustainable equity. The assets were transferred into a new transition account at the Fund's custodian, HSBC, where the transition was managed by the BlackRock Transition Management Team. Trading then took place over a 6-day period, before the assets were transferred into the target structures shown above.

8. TRANSITION TIMETABLE

8.1 The transition was initially scheduled to take place prior to the scheme year ahead. However, to gain certainty over the initial outcome of the London CIV's governance review and eliminate any impact on the Fund's year end accounting, it was decided to move the transition to Q1 2018/19. Trading was planned for April; however, challenges in putting the legal arrangements in place for some of the new funds delayed trading activity to June.

8.2 An outline timetable of the transition itself is shown in the table below. A more detailed timetable is presented in BlackRock's Post-Transition Analysis report at Appendix 1

EVENT	DATE
In-specie redemption from UBS UK equity index fund	23/05/2018
Segregated assets transferred from Wellington and Lazard to BlackRock transition account	31/05/2018
Trading commenced	07/06/2018
Trading finalised	14/06/2018
Constructed portfolios transferred to new fund structures	19-20/06/2018

9. RISK MANAGEMENT

9.1 In-specie redemptions and investments were used to maximise asset retention, reduce costs and help maintain exposure throughout the transition period. The change in allocation resulted in a regional rebalance, out of EMEA (Europe, Middle

East & Africa) (-£174.5m, -20%) and into APAC (Asia Pacific) (+£35.5m, 4%) and the Americas (+£134.6m, 16%). An index equity futures overlay was used to adjust the exposure of the fund to that of the target.

9.2 FX forwards were used to hedge the currency shifts associated with the transition. The positions were put in place on 6th June 2018 and unwound as the equity trades were settled. The target BlackRock MSCI World fund was currency hedged to GBP, so. this exposure was maintained throughout the transition period and a coordinated handover of the hedges took place at the point of in-specie into the target fund.

10. COSTS

10.1 The total cost of the transition was £2,585,493 representing 0.30% of total assets in transition. This figure can be broken down as follows:

- Dealing Costs comprising commissions, fees and taxes, spread and market impact.
- Opportunity Costs resulting from market movements during the trading period.
- Transition Fee for BlackRock, including external commissions.

10.2 Pre-transition, BlackRock estimated a mean implementation shortfall of 0.22% with a potential opportunity cost (to one standard deviation) around that mean of +/- 0.07%. The final costs of the restructure at 0.30% are therefore above the one standard deviation estimated range. Much of the additional cost resulted from increased opportunity costs as stock-specific news during the transition period affected individual stock prices

10.3 A full breakdown of costs can be found at Appendix 1 to this report

11. IMPACT ON WIDER INVESTMENT STRATEGY

11.1 The completion of the equity transition exercise represents a major first step towards fulfilling the Fund’s asset pooling commitments, as well as towards implementing its strategy to reduce its exposure to fossil fuel risk as agreed at its meeting in January 2016. Reducing the allocation to the FTSE Allshare from 23.6% to 10% should have a significant downward impact on the Fund’s exposure to reserves, which will be further reduced through a 10% allocation to a dedicated low carbon index.

6.4 This transition does not impact on the ability of the Fund to continue to explore the possibility of a 0-5% allocation to local or other housing/infrastructure projects. The mandates recommended are all liquid assets, and are generally realisable at short notice.

Ian Williams
Group Director, Finance and Corporate Resources

Report Originating Officers: Rachel Cowburn ☎020-8356 2630
Financial considerations: Michael Honeysett ☎020-8356 3332
Legal comments: Patrick Rodger ☎020-8356 6187

Appendices

Appendix 1 – EXEMPT – BlackRock Post Transition Analysis Report

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

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Hackney

REPORT OF THE GROUP DIRECTOR, FINANCE & CORPORATE RESOURCES		
Pension Fund – Quarterly Update **Pensions Committee** **23rd July 2018**	**Classification** **PUBLIC** **Ward(s) affected** **ALL**	**Enclosures** **Three**

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 acts as quasi-trustee 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 OF LEGAL AND GOVERNANCE

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 March 2018, the funding level was 80.5% compared to 77% as at the end of March 2016.

6.2 The funding level of 80.5% at 31st March is based on the position of the Fund having assets of £1,497m and liabilities of £1,860m, i.e. for every £1 of liabilities the Fund has the equivalent of 80.5p of assets. It should be noted that the monetary deficit remains high and has increased slightly from £350m in March 2016 to £362m in March 2018.. 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.

6.3 The progress of the funding level on both an ongoing and yield curve basis is shown in the Actuary's Funding and Risk Report at Appendix 1 to this report. The report also highlights the asset risks to which the Fund is exposed, providing a basic breakdown of the Fund's asset allocation along with returns of major asset classes since 31st March 2016.

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 Committees' 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 The proposed changes to the Terms of Reference for the Hackney Pensions Committee will need to be approved by Full Council; however, prior to this, Committee Members will be consulted to ensure that they have a full understanding of the changes and are satisfied that the Committee will continue to function effectively as the decision making body for the Pension Fund.

7.3 The proposed changes include a section updating the appointments procedure for co-opted scheme members and employer representatives on the Committee, to bring the process more into line with that used for the Pension Board representatives.

8. INVESTMENT UPDATE

8.1 Appendix 2 to this report provides a manager performance update from the Fund's Investment consultants, Hymans Robertson. The report includes an analysis of quarterly, 1 year and 3 year performance against benchmark, as well as Hymans Robertson's current ratings for each manager.

8.2 It should be noted that considerable changes have been made to the Fund's equity portfolio since the reporting date. The Lazard, Wellington and UBS mandates referred to in the report are no longer held by the Fund. Full details of the transition can be found in the paper 'Equity Restructure – Post-completion update'

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 The Fund has recently to a new company setup within the Council's accounting system which, when set up, will permit more detailed in year reporting. The 2018/19 budget will be available at the September 2018 meeting, and will be fully aligned to the new company setup. A full assessment of 2017/18 costs against budget will be included in the report

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)	(178)	(182)	Adjusted for CPI as per above with a 1% uplift for 2017/18, followed by 2% pa thereafter
Transfers Out	(5,632)	(6,633)	(6,633)	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. RESPONSIBLE INVESTMENT UPDATE

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 During the quarter, LAPFF did not issue any voting alerts for companies directly held by the Fund, so no specific instructions were provided to Fund managers.

10.3 The LAPFF Quarterly Engagement report is attached at Appendix 3 to this report, setting out LAPFF's engagement activity over the Quarter in relation environmental, social and governance issues.

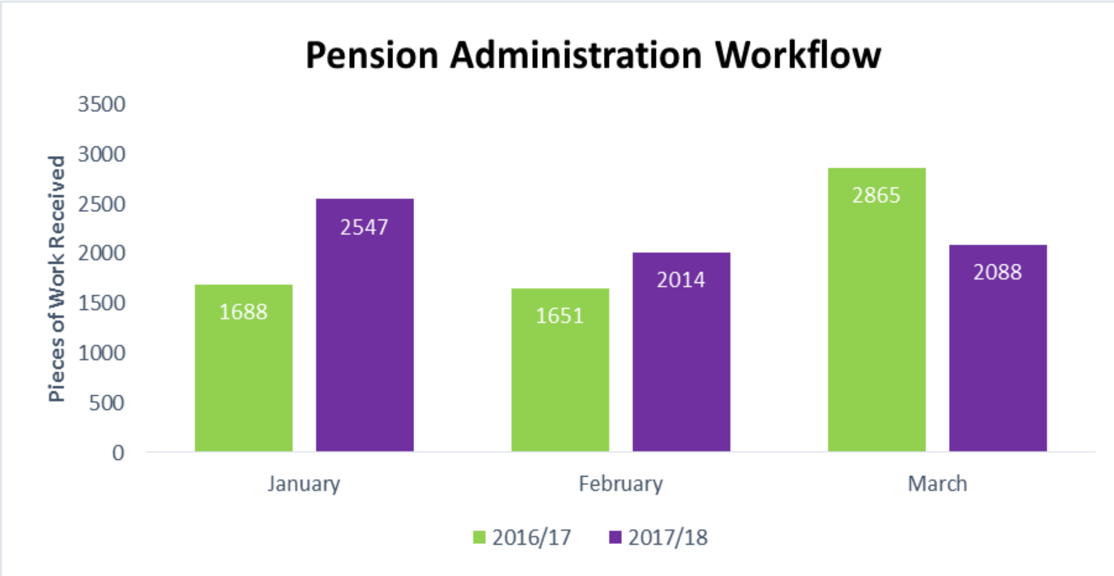
10.4 Following the restructuring of its equity portfolio, the Fund no longer retains any segregated mandates. It is therefore now key for the Fund to engage with its new pooled fund managers (BlackRock and the London CIV) and to develop a new approach to voting and engagement which is practical to implement in a pooled fund context. An indepth review of this area is planned for Autumn 2018 with a paper due to go to the December 2018 Pensions Committee meeting.

11. PENSION ADMINISTRATION

11.1 Pension Administration Management Performance

The case load for the administrators during Q4 2017/18 has decreased slightly in comparison to the same period in 2016/17. A total of 6,649 new cases were received during the current quarter, compared to 7,035 during Q4 in 2016/17

A comparison of the workflow for the administrators between Q4 2016/17 and the reporting quarter is set out below:-

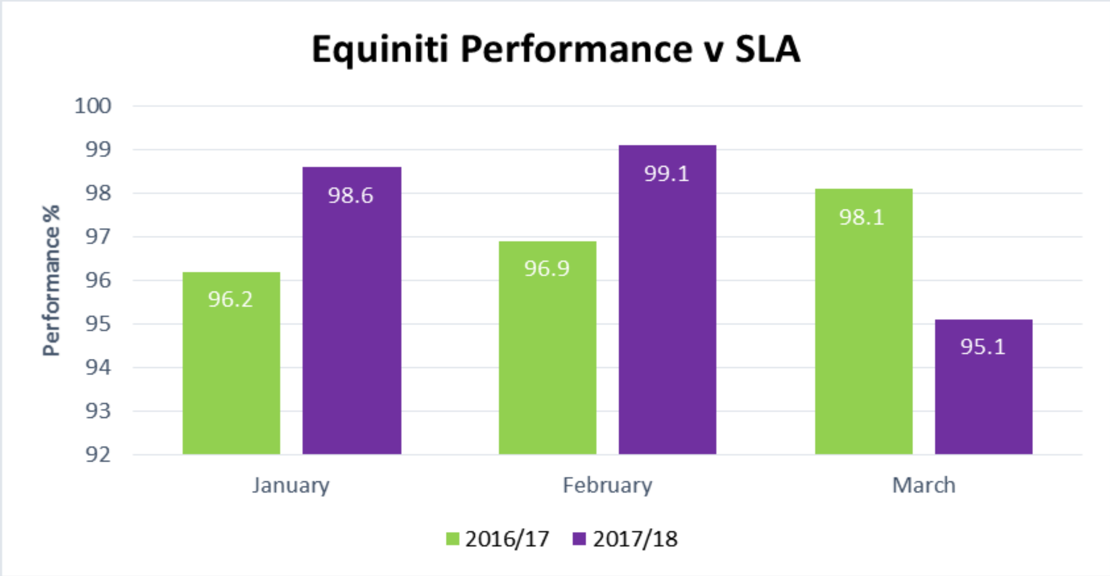


The average number of pieces of work received per month during Q4 2017/18 was 2,216 compared to an average of 2,345 received during the same period in 2016/17.

Much of this workload is attributed to the Council being the main employer in the Fund. Starter, opt-out outs, leavers and pay changes continue to be done manually as the new iTrent interface from the Council's payroll system is still under construction by Hackney's ITC.

The performance of the pension administrators is monitored by the Financial Services Section at Hackney on a monthly basis. Equiniti are working under a 'relaxed SLAs' regime due the number of data queries taking priority over the business as usual (BAU). Therefore performance against the service level agreement (SLA) is being monitored against priority work only (death grants, bank detail changes, pension into payment; i.e. all work relating to financials), and remains at an average of 97.6% for Q4 2017/18, compared to 99.9% for the same quarter last year.

The administrator's performance against the SLA for Q4 2016/17 and Q4 of the reporting period 2017/18 is set out below:



The volume of manual processing is still significantly above the norm. 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. The Council is the largest employer in the Fund and has the majority of the work.

It is hoped that the introduction of the Council's new payroll system will decrease the level of manual processing required. However, delays to the development of interfaces, monthly contribution reports and problems with some of the data transferred to the new payroll system, have meant that the administrators are unable to verify the accuracy of member data. Nor can they confirm the correct contributions are being paid by the Council and its LGPS members, as monthly reports are still not being provided by payroll to Equiniti. This is contrary to tPR compliance.

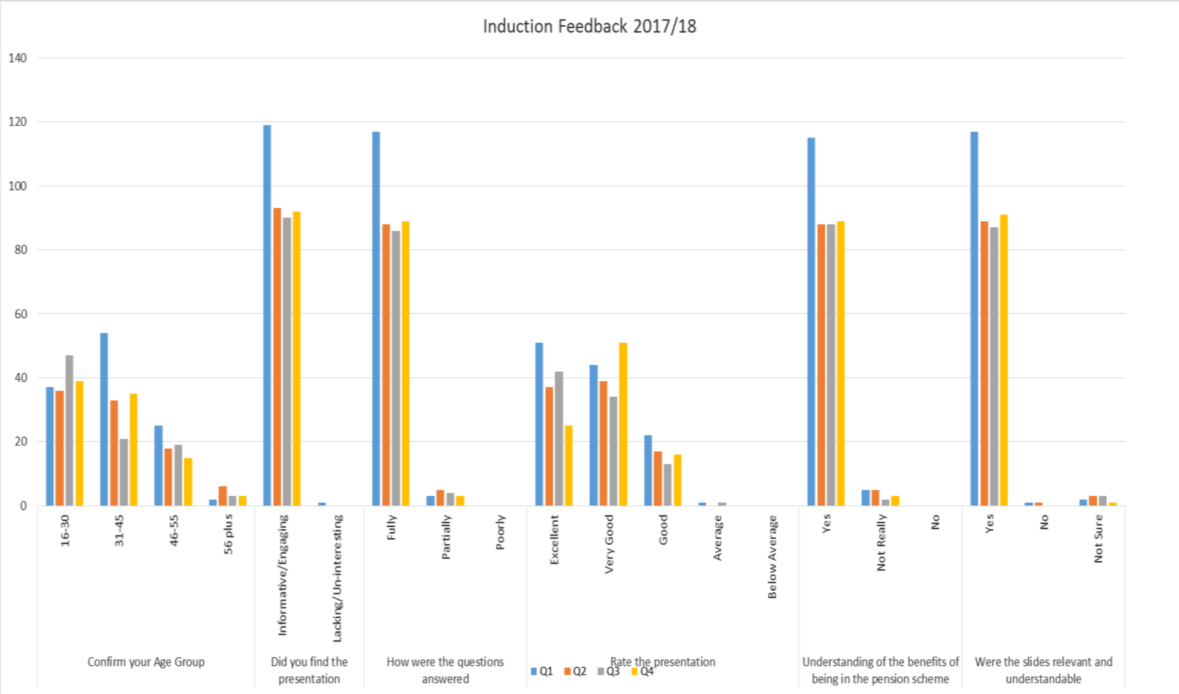
11.2 New Starters and Opt-Outs

	Total Active Membership at End of Quarter	Total Opt Outs For Quarter
Q4 2016/17	7,685	100
Q4 2017/18	7,522	112

The opt-outs in Q4 2017/18 remain in-line with previous months and average around 100 per month. The membership remains stable at 7,500.

11.3 Scheme Administration

The Financial Services in-house pension team facilitated at weekly induction sessions for 92 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 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 Q4 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
Q4 2106/17	3	0	1	2	0
Q4 2107/18	2	0	0	2	0

ACTIVE MEMBER'S ILL HEALTH RETIREMENT CASES					
	CASES RECEIVED	BENEFITS RELEASED ON TIER 1	BENEFITS RELEASED ON TIER 2	BENEFITS RELEASED ON TIER 3	UNSUCCESSFUL
Q4 2016/17	1	1	0	0	0
Q4 2017/18	3	2	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 4th quarter 2017/18:

<u>Stage 1</u>

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 Q4 2017/18

<u>Third Party Administration</u>

Following the 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.

As reported to Committee in December 2017, the delivery of the new service specifications has been delayed, monthly interfaces have not been available to test and the administration system at Equiniti has yet to be reconfigured to accept the full monthly data reports. Therefore, it was agreed by both parties to delay the contract commencement date of 1 January 2018 to 1 April 2018.

Despite good progress being made in many areas of the new specification during the *'go-live'* extension period, there were still a number of essential points of delivery that had yet to be completed such as monthly interface, monthly MI reporting in relation to SLAs and KPIs, website & secure portal with guides and factsheets. Due to these continued delays, the Council has agreed to once again extend the commencement date from 1 April to 1 July 2018. If the full service specification is not delivered on 'go-live' day, it could result in retention of fees payable to Equiniti, until the specification is delivered to a reasonable standard.

Redundancy Exercises for Departmental Budget Purposes

In Q4 of 2017/18, the in-house pensions' team have received a total of 101 redundancy estimate requests, compared to 91 for the previous quarter, some of these are for members over the age of 55 who will have pension released. Of the 101 requests, only 10 employees received final paperwork and left the organisation by the end of March 2018.

Pre-retirement workshops

During the Q4 2017/18, the Pensions Team have set up a series of 'Pre-retirement workshops', aimed at members who are thinking of retiring within the next 2 to 5 years. These workshops will begin in May 2018 and run bi-monthly until January 2019, and will be in conjunction with a company called Affinity Connect. Affinity specialise in providing seminars/workshops on various aspects of pension and employment issues, such as retirement (as mentioned), mid-career financial planning and redundancy. Affinity provide the facilitator, learning material and bookings for the seminars/workshops free of charge to the Fund. If this first series of workshops is successful, we aim to roll these workshops out on an annual basis.

Annual Employers Forum

The annual Employer Forum was held on 9 March 2018, and was attended by 14 of the Fund employers, including 7 schools. The Forums agenda was varied and covered subjects from employer roles and responsibilities, year-end timetable & processes, and the commencement of GDPR from 25 May 2018. Equiniti presented on the importance of correct & timely data; AON provided a presentation on *'pension hot topics'*; the Pensions Regulator (tPR) on the importance of compliance with COP14, and finally the Prudential on AVCs.

Pensions Administration Strategy (PAS)

During Q4 of the reporting period, an updated PAS was finalised and brought to Pensions Committee in March 2018 prior to its distribution to schools and employers in the Fund. The updated PAS includes greater emphasis on the role of the Regulator (tPR) and its powers of enforcement, and also the responsibility of the Fund to report material failures of employers, and breaches of the law, to the tPR.

Newsletters

The Pensions Team produced their quarterly Newsletter at the end of March 2018, which was issued to both Employers and Schools/Academies within the London Borough of Hackney Pension Fund. The newsletter covered the 2017/18 Year End process and data needed from employers & payrolls to produce the 2018 Annual Benefit Statements, a round-up of the Employer Forum held on 9 March, how to identify fraudulent requests for personal pension information and the new LGPS contribution bands from 1 April 2018.

12. REPORTING BREACHES

12.1 As previously reported, the Fund continues to engage with the Pensions Regulator in regard to the 1,600 outstanding Annual Benefit Statements from 2016/17 year-end. Data investigations have continued and good progress has been made with approx 1,200 records being resolved by the in-house pension team. The remaining 400 data queries, which relate to LB Hackney employees, are unconfirmed leavers and/or opt-outs and once the correct information has been received from payroll, the record will be corrected and a deferred benefit statement issued.

12.2 This is the 3rd year the Fund has been required to submit a report to the Regulator concerning this issue. This issues 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 with the Council's new payroll system, iTrent, and Equiniti to produce a working interface.

Ian Williams
Group Director of Finance & Corporate Resources

Appendices:
Appendix 1 –Funding & Risk Report (Hymans Robertson – Actuary)
Appendix 2 – Manager Performance Report (Hymans Robertson – Investment Consultant)
Appendix 3 – LAPFF Engagement Report Jan-March 2018

Report Originating Officers: Rachel Cowburn ☎020-8356 2630
Financial considerations: Michael Honeysett ☎020-8356 3332
Legal comments: Patrick Rodger ☎020-8356 6187

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London Borough of Hackney Pension Fund

Funding and risk report as at 31 March 2018

Reliances and limitations

This report was commissioned by and is addressed to the London Borough of Hackney in their capacity as the Administering Authority and is provided to assist in monitoring certain funding and investment metrics. It should not be used for any other purpose. It should not be released or otherwise disclosed to any third party except as required by law or with our prior written consent, in which case it should be released in its entirety. **Decisions should not be taken based on the information herein without written advice from your consultant.** Neither I nor Hymans Robertson LLP accept any liability to any other party unless we have expressly accepted such liability in writing.

The method and assumptions used to calculate the updated funding position are consistent with those disclosed in the documents associated with the last formal actuarial valuation, although the financial assumptions have been updated to reflect known changes in market conditions. The calculations contain approximations and the accuracy of this type of funding update declines with time from the valuation; differences between the position shown in this report and the position which a new valuation would show can be significant. It is not possible to assess its accuracy without carrying out a full actuarial valuation. This update complies with Technical Actuarial Standard 100.

HEADLINES

31 March 2018	Ongoing funding basis
Assets	£1,497m
Liabilities	£1,860m
Surplus/(deficit)	(£362m)
Funding level	80.5%

Summary

This funding update is provided to illustrate the estimated development of the funding position from 31 March 2016 to 31 March 2018, for the London Borough of Hackney Pension Fund (“the Fund”). It is addressed to the London Borough of Hackney in its capacity as the Administering Authority of the Fund and has been prepared in my capacity as your actuarial adviser.

At the last formal valuation the Fund assets were £1,172m and the liabilities were £1,522m. This represents a deficit of £350m and equates to a funding level of 77%. Since the valuation the funding level has increased by c3% to 80.5% as detailed in the table above.

This report has been produced exclusively for the Administering Authority. This report must not be copied to any third party without our prior written consent.

Should you have any queries please contact me.
Geoff Nathan FFA

London Borough of Hackney Pension Fund | Strategy and Risk Management dashboard

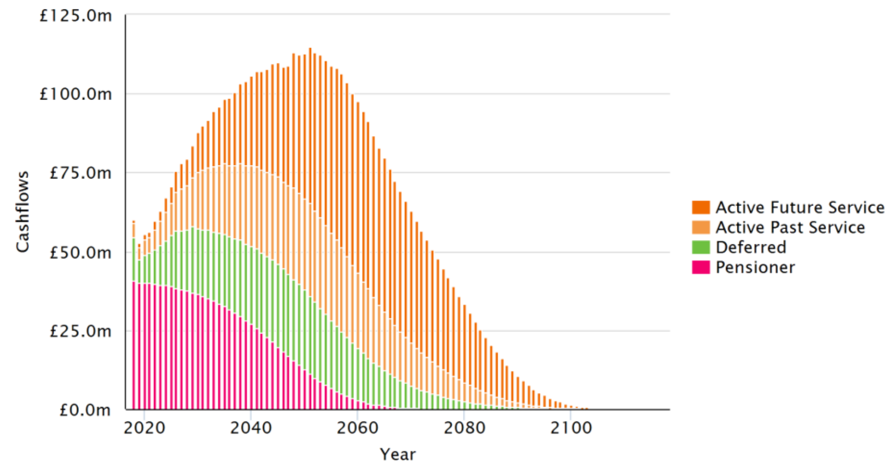
CURRENT POSITION

31 March 2018	Yield Curve Basis
Assets	£1,500m
Liabilities	£1,942m
Surplus/(deficit)	(£442m)
Funding level	77.2%

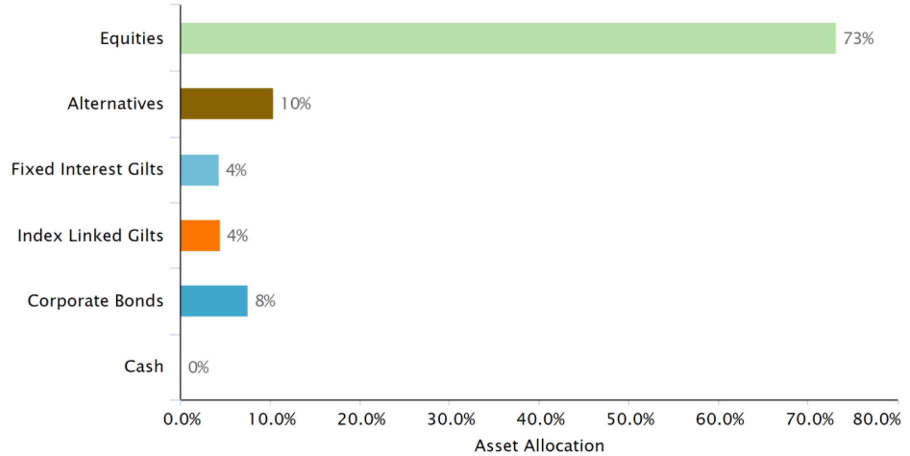
Surplus/(deficit)	£m
Surplus/(deficit) as at 31/03/2016	(405)
Contributions (less benefits accruing)	29
Interest on surplus/(deficit)	(17)
Excess return on assets	227
Impact of change in yields & inflation	(277)
Surplus/(deficit) as at 31/03/2018	(442)

	31 March 2016	31 December 2017	31 March 2018
Market Yields (p.a)			
Fixed Interest Gilts	2.17%	1.68%	1.63%
Index-linked Gilts	-0.96%	-1.64%	-1.65%
Implied Inflation	3.16%	3.38%	3.34%
AA Corporate Bonds	3.36%	2.44%	2.58%
Price Indices			
FTSE All Share	3,395	4,222	3,894
FTSE 100	6,175	7,688	7,057

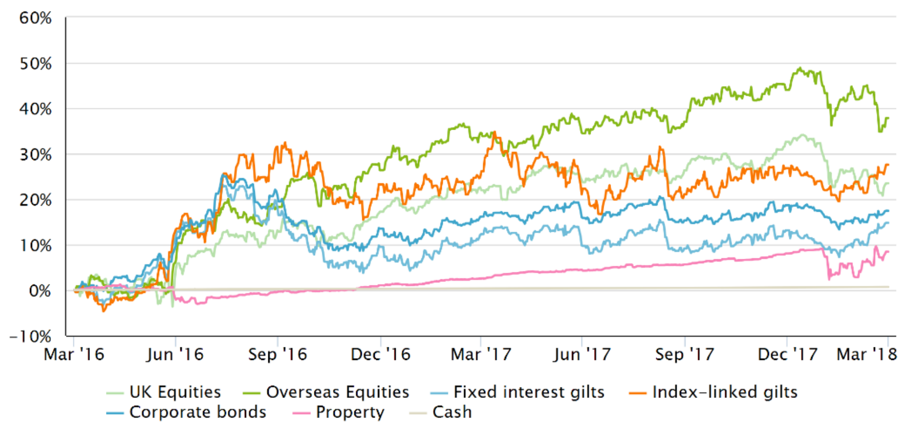
PROGRESS



ASSETS AND RISKS



Sterling total returns of major asset classes since 31 March 2016



Sensitivity Matrix as at 27 June 2018 for basis Ongoing funding basis (£m)

Shift in equity level (using FTSE 100 levels as proxy)

Shift in bond yields (% p.a.)	5335 -30%	6097 -20%	6860 -10%	7622 0%	8384 10%	9146 20%	9908 30%
0.6	(504)	(371)	(239)	(106)	27	160	293
0.4	(556)	(423)	(290)	(157)	(24)	108	241
0.2	(610)	(477)	(345)	(212)	(79)	54	187
0.0	(668)	(535)	(403)	(270)	(137)	(4)	129
-0.2	(730)	(597)	(464)	(331)	(199)	(66)	67
-0.4	(795)	(663)	(530)	(397)	(264)	(131)	2
-0.6	(865)	(732)	(600)	(467)	(334)	(201)	(68)

< 50% | 50% - 85% | 85% - 95% | 95% - 100% | 100% - 105% | 105% - 115% | > 115%

HYMANS ROBERTSON LLP

1 Asset allocation – Q1 2018

The following table sets out the Fund's asset allocation as at 31 March 2018 against the target allocation. The valuations have been provided by the Scheme's investment managers.

<table>
<tr><th>Manager</th><th>Mandate</th><th>Asset Allocation £</th><th>Asset Allocation %</th><th>Target Allocation %</th><th>Relative %</th></tr>
<tr><td>UBS</td><td>UK Equities</td><td>329,239,060</td><td>23.1</td><td>25.0</td><td>-1.9</td></tr>
<tr><td>Lazard</td><td>Global Equities</td><td>234,781,350</td><td>16.5</td><td>15.5</td><td>1.0</td></tr>
<tr><td>Wellington</td><td>Global Value</td><td>233,490,423</td><td>16.4</td><td>15.5</td><td>0.9</td></tr>
<tr><td>RBC</td><td>Global Emerging Market Equities</td><td>78,129,554</td><td>5.5</td><td>4.5</td><td>1.0</td></tr>
<tr><td colspan="2">Total Equities</td><td>875,640,387</td><td>61.4</td><td>60.5</td><td>0.9</td></tr>
<tr><td>BMO</td><td>Fixed Income</td><td>233,280,000</td><td>16.4</td><td>17.0</td><td>-0.6</td></tr>
<tr><td>Columbia Threadneedle</td><td>Property</td><td>123,468,100</td><td>8.7</td><td rowspan="2">10.0</td><td rowspan="2">0.4</td></tr>
<tr><td>Columbia Threadneedle</td><td>Low Carbon Property</td><td>25,601,312</td><td>1.8</td></tr>
<tr><td>Invesco</td><td>Multi Asset</td><td>66,882,571</td><td>4.7</td><td>5.0</td><td>-0.3</td></tr>
<tr><td>GMO</td><td>Multi Asset</td><td>101,856,829</td><td>7.1</td><td>7.5</td><td>-0.4</td></tr>
<tr><td colspan="2">Total Fund</td><td>1,426,729,199</td><td>100.0</td><td>100.0</td><td>0.0</td></tr>
</table>

Note: Numbers may not sum due to rounding

2 Performance summary – Q1 2018

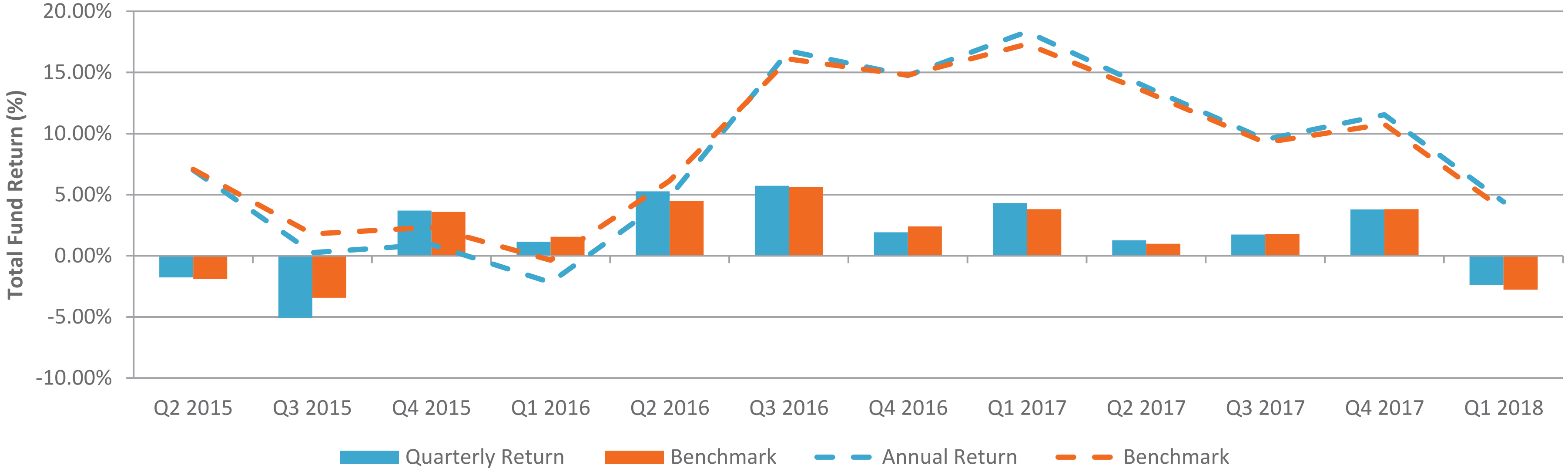
The following table sets out the performance of the Scheme's investment mandates as at 31 March 2018 against their respective benchmarks. Details of the performance benchmarks for each mandate are set out in Appendix 1.

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.

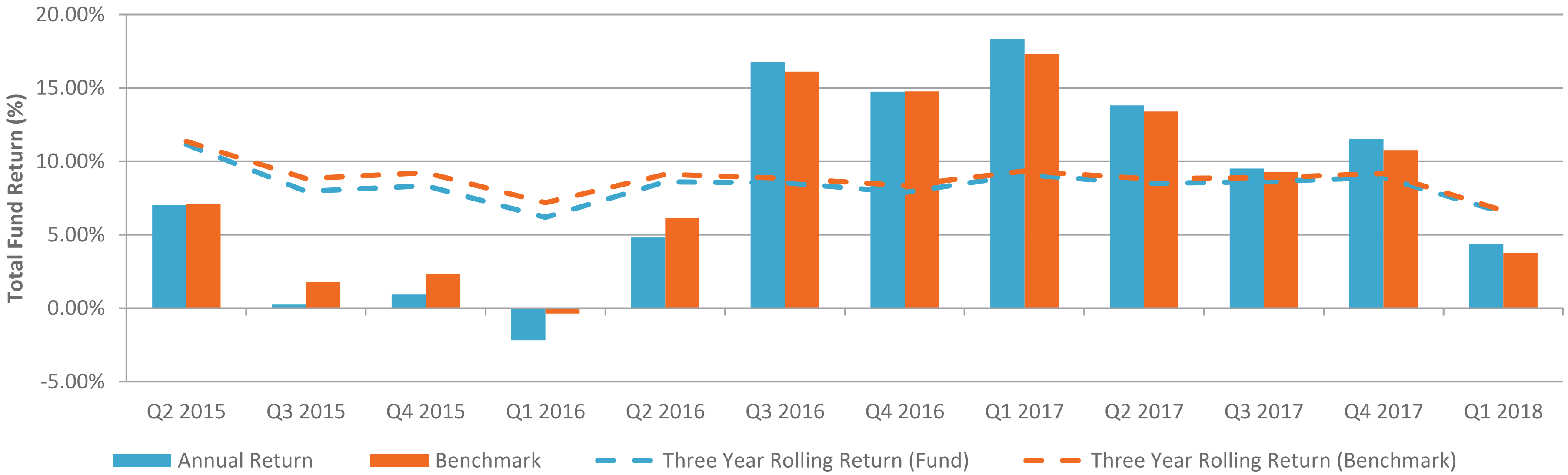
		UBS UK Eq	Lazard Global Eq	Wellington Global Eq	RBC EM Eq	BMO Fixed Income	Columbia Threadneedle Property	Columbia Threadneedle LCW	Invesco Multi Asset	GMO Multi Asset	Total Scheme
Q1 18 (%)	Fund	-6.8	-1.7	-2.5	-3.3	-0.2	2.0	2.0	0.2	0.1	-2.4
	Benchmark	-6.9	-3.7	-3.7	-2.2	-0.3	1.9	1.9	0.1	0.8	-2.8
	Relative	0.1	2.1	1.2	-1.1	0.1	0.1	0.1	0.0	-0.8	0.4
12 Month (%)	Fund	1.3	7.7	16.0	8.3	1.7	9.6	7.0	0.1	6.0	4.4
	Benchmark	1.2	5.3	5.3	11.4	0.9	10.0	10.0	0.4	1.6	3.8
	Relative	0.1	2.3	10.2	-2.7	0.8	-0.4	-2.8	-0.3	4.4	0.6
3 Year (% p.a.)	Fund	5.9	7.7	10.3		5.1	8.2			2.2	6.5
	Benchmark	5.9	8.8	8.8	n/a	4.6	8.1	n/a	n/a	0.8	6.6
	Relative	0.0	-1.0	1.4		0.5	0.1			1.4	-0.1
Since Inception (% p.a.)	Fund	8.2	8.6	8.9	23.6		6.7	6.1	2.5	3.6	
	Benchmark	8.1	9.4	9.4	26.9		5.7	9.7	0.5	1.3	
	Relative	0.0	-0.7	-0.4	-2.6	#N/A	0.9	-3.2	2.1	2.3	
Since Inception Dates		August 2003	April 2010	April 2010	December 2015	September 2003	March 2004	December 2016	December 2015	September 2012	

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

2.1 Performance summary – Quarterly returns and rolling one year performance



2.2 Performance summary – Annual returns and rolling three year performance



4 Performance Analysis

4.1 Estimated Performance Analysis Q1 2018

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 Q1	Weight % Q1	Target %	Fund Return %	Benchmark Return %	Asset Allocation	Stock Selection
UBS	UK Equities	FTSE All Share	329,239	23.1%	25.0%	-6.8	-6.9	0.02	0.02
Lazard	Global Equities	MSCI AC World (50% hedged)	234,781	16.5%	15.5%	-1.7	-3.7	-0.01	0.33
Wellington	Global Equities	MSCI AC World (50% hedged)	233,490	16.4%	15.5%	-2.5	-3.7	-0.01	0.20
RBC	Global Emerging Market Equities	MSCI Emerging Markets	78,130	5.5%	4.5%	-3.3	-2.2	0.01	-0.06
Total Equities			**875,640**	**61.4%**	**60.5%**	**-2.6**	**-3.0**	**0.00**	**0.49**
BMO	Bonds	Bonds Composite[1]	233,280	16.4%	17.0%	-0.2	-0.3	-0.02	0.02
Threadneedle	Property	IPD UK Quarterly All Balanced Property Index	123,468	8.7%	7.5%	2.0	1.9	0.04	0.01
Threadneedle	Low Carbon Property	IPD UK Quarterly All Balanced Property Index	25,601	1.8%	2.5%	2.0	1.9	-0.03	0.00
Invesco	Targeted Return	£LIBOR 3M	66,883	4.7%	5.0%	0.2	0.1	-0.03	0.00
GMO	Absolute Return	OECD CPI G7 (GBP)	101,857	7.1%	7.5%	0.1	0.8	-0.04	-0.05
Total Scheme			**1,426,729**	**100.0%**	**100.0%**	**-2.4**	**-2.8**	**-0.08**	**0.47**

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.

- At the end of March 2018, the Fund was overweight to equities.

Positives

- Outperformance from the Lazard and Wellington. Overall the Scheme broadly matched its benchmark.

Negatives

- Underperformance from RBC and GMO.

4.2 Estimated Performance Analysis – 12 months to 31 March 2018

The table below represents the manager performance over the 12 months to 31 March 2018 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 Q1	Weight % Q1	Target %	Fund Return %	Benchmark Return %	Asset Allocation	Stock Selection
UBS	UK Equities	FTSE All Share	329,239	23.1%	25.0%	1.3	1.2	0.00	0.02
Lazard	Global Equities	MSCI AC World (50% hedged)	234,781	16.5%	15.5%	7.7	5.3	0.01	0.36
Wellington	Global Equities	MSCI AC World (50% hedged)	233,490	16.4%	15.5%	4.7	5.3	0.01	-0.10
RBC	Global Emerging Market Equities	MSCI Emerging Markets	78,130	5.5%	4.5%	8.3	11.4	0.07	-0.15
Total Equities			**875,640**	**61.4%**	**60.5%**	**2.8**	**2.5**	**0.10**	**0.13**
BMO	Bonds	Bonds Composite[1]	233,280	16.4%	17.0%	1.7	0.9	-0.01	0.14
Threadneedle	Property	IPD UK Quarterly All Balanced Property Index	123,468	8.7%	7.5%	9.6	10.0	0.05	-0.03
Threadneedle	Low Carbon Property	IPD UK Quarterly All Balanced Property Index	25,601	1.8%	2.5%	7.0	10.0	-0.04	-0.05
Invesco	Targeted Return	£LIBOR 3M	66,883	4.7%	5.0%	0.1	0.4	0.02	-0.01
GMO	Absolute Return	OECD CPI G7 (GBP)	101,857	7.1%	7.5%	6.0	1.5	0.02	0.29
Total Scheme			**1,426,729**	**100.0%**	**100.0%**	**4.4**	**3.8**	**0.14**	**0.46**

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 UBS, Lazard, BMO and GMO. Overall the Scheme is ahead of its benchmark

Negatives

- Underperformance from Wellington, RBC, Invesco and both Threadneedle Property mandates.

HYMANS ROBERTSON LLP

4.3 Estimated Performance Analysis – 3 years to 31 March 2018

The table below represents the manager performance over the 3 years to 31 March 2018 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 Q4	Weight % Q4	Target %	Fund Return %	Benchmark Return %	Asset Allocation	Stock Selection
UBS	UK Equities	FTSE All Share	329,239	23.1%	25.0%	5.9	5.9	-0.04	0.02
Lazard	Global Equities	MSCI AC World (50% hedged)	234,781	16.5%	15.5%	7.7	8.8	0.00	-0.50
Wellington	Global Equities	MSCI AC World (50% hedged)	233,490	16.4%	15.5%	8.1	8.8	-0.01	-0.35
RBC	Global Emerging Market Equities	MSCI Emerging Markets	78,130	5.5%	4.5%	n/a	n/a	0.14	-0.29
Total Equities			**875,640**	**61.4%**	**60.5%**	**4.6**	**4.9**	**0.11**	**-1.12**
BMO	Bonds	Bonds Composite[1]	233,280	16.4%	17.0%	5.1	4.6	-0.11	0.26
Threadneedle	Property	IPD UK Quarterly All Balanced Property Index	123,468	8.7%	7.5%	8.2	8.1	0.04	0.07
Threadneedle	Low Carbon Property	IPD UK Quarterly All Balanced Property Index	25,601	1.8%	2.5%	n/a	n/a	-0.07	-0.07
Invesco	Targeted Return	£LIBOR 3M	66,883	4.7%	5.0%	n/a	n/a	0.10	0.26
GMO	Absolute Return	OECD CPI G7 (GBP)	101,857	7.1%	7.5%	2.2	1.0	0.09	0.18
Total Scheme			**1,426,729**	**100.0%**	**100.0%**	**6.5**	**6.6**	**0.15**	**-0.42**

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 Invesco, BMO and GMO. Overall the scheme broadly matched its benchmark.

Negatives

- Underperformance from Lazard and Wellington.

5 Risk Warnings

Please note the value of investments, and income from them, may fall as well as rise. This includes equities, government or corporate bonds, and property, whether held directly or in a pooled or collective investment vehicle. Further, investments in developing or emerging markets may be more volatile and less marketable than in mature markets.

Exchange rates may also affect the value of any investment. As a result, an investor may not get back the amount originally invested. Past performance is not necessarily a guide to future performance.

Private equity investments, whether held directly or in pooled fund arrangements carry a higher risk than publicly quoted securities; the nature of private equity pooling vehicles makes them particularly illiquid and investment in private equity should be considered to have a long time horizon.

Hymans Robertson LLP has relied upon third parties and may use internally generated estimates for the provision of data quoted, or used, in the preparation of this report. Whilst every effort has been made to ensure the accuracy of such estimates or data, we cannot accept responsibility for any loss arising from their use.

Prepared by:-

Andrew Johnston, Partner
Dave Gilmour, Investment Analyst

For and on behalf of Hymans Robertson LLP

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Local Authority Pension Fund Forum

The Local Authority Pension Fund Forum (LAPFF) exists to promote the long-term investment interests of member funds and beneficiaries, and to maximise their influence as shareholders whilst promoting the highest standards of corporate governance and corporate responsibility at investee companies. Formed in 1990, LAPFF brings together a diverse range of 72 public sector pension funds in the UK with combined assets of over £200 billion.

QUARTERLY ENGAGEMENT REPORT

JANUARY TO MARCH 2018


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LAPFF focuses on assessing climate risk in the transport sector

Concerns over alleged companies on the UN 'blacklist'

The Forum publishes two reports, on Share Buybacks and on Precarious Work

Executive Summary

During the last quarter, LAPFF has engaged with 21 companies on issues ranging from climate change resilience to human rights and due diligence process implementation.

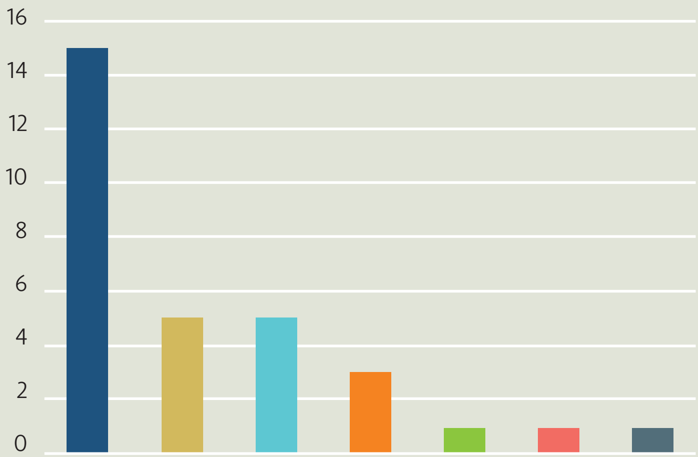
The Forum is currently focusing on climate risk engagements with transport companies as the sector rapidly shifts to a low carbon, electric future. LAPFF is interested to see how companies implement climate change resilience and reduce climate risks through cutting greenhouse gas emissions and increasing fuel efficiency.

Following speculation over the Human Rights Council's list of companies believed to be in violation of international human rights law due to their practices in West Bank and Gaza, the Forum requested meetings with some of these companies to follow up on these allegations. LAPFF is concerned that if an appropriate due diligence process is not in place, both the company and shareholders can face damaging reputational risks.

The Forum also published two reports at the beginning of the year. The first on ***Share Buybacks*** discusses the complexities and implications of share buybacks and questions whether they are the right method for distributing capital to shareholders.
The second, on ***Precarious Work*** assesses the risk these employment practices pose for companies as well as investors. It also provides guidance to assist investors in engaging on the topic.

Company Engagement

ENGAGEMENT TOPICS



Climate change	15
Employment standards	5
Human rights	5
Governance (general)	3
Board composition	1
Reputational risk	1
Remuneration	1

GOVERNANCE RISK

Share buybacks have been a recent focus of regulatory attention including in the government's White Paper on Corporate Governance in August 2017. Supporters of buybacks argue they boost share prices and enhance shareholder value, whereas critics see them simply as a means of artificially hitting performance targets to boost executive pay at the expense of independent shareholders.

First issued for members in 2015, LAPFF has now formally published its *Share Buybacks: Solutions or Illusions* report to move the debate forward. The report sheds light on the complexities and implications of share buybacks, a practice that is now commonplace amongst listed companies. In 2014/15 97% of FTSE 100 companies sought authority to purchase shares and over a quarter (28%) actually bought shares. The report offers guidance and insights for members into the merits of share buybacks and questions whether they are the right method for distributing surplus capital. Deliberately taking a broader perspective of the issues than those in the White Paper, the report includes not just the effect on Earnings Per Share and diversion of productive investment, but also covers the implications of buybacks on the transparency of company performance, tax and the alignment of management and shareholder interests.

Voting Alert

The Forum issued a voting alert recommending opposition to a stock option grant to **Tesla** Chief Executive, Elon Musk. The Forum welcomed the proposal's incentivisation of Mr Musk's role as a catalyst for the process of decarbonisation of a large segment of the transport sector which has a valuable environmental and social impact. The Forum was also pleased to see that the performance period was set to a timeframe of ten years; a timeframe unique for public companies.

Elon Musk

However, the Forum was of the opinion that the proposed performance award sets an unhealthy precedent for public company compensation. Upon successful achievement of all performance milestones, Mr Musk could own as much as 28.3%% of Tesla and be awarded $55.8 billion. The Forum believes that Chief Executives with an already high stake in the Company should not receive further stock as part of their remuneration package. LAPFF was also concerned that in an attempt to hit all operational milestones, ongoing employment and health and safety-related risks at Tesla have yet to be resolved. The Forum continues to engage with the company over these practices as they undermine the ability of Tesla to meet production targets.

Mergers and Acquistions

The Forum issued a briefing note to assist funds in identifying the best owners of **GKN's** assets following a hostile takeover bid from **Melrose**. The note encouraged funds to critically assess both GKN and Melrose, and analyses which of the two were proposing a better solution to GKN's performance problems. You can view the note here. The subsequent performance of the GKN assets under Melrose ownership will test our analysis and provide an *aide-memoire* to member funds over the coming months of integration.

People and Investment Value

At a meeting with **Provident Financial's** new Chief Executive Office, Malcolm Le May, LAPFF Vice Chair Ian Greenwood discussed problems facing the company's home credit division following a staffing reorganisation. The reorganisation involved a transition from a business staffed by 3,800 part-time, self-employed agents to one with a workforce of 2,500 full-time Customer Experience Managers. There were concerns that this had negatively impacted the close relationship between the agents and customers. The Forum also explored the causes of two past regulatory investigations of the controversial doorstep lender.

Cybersecurity
The Forum regularly engages with companies over cybersecurity management. To this end the Forum had correspondence with **Lloyds Banking Group** with regards to Lloyd's 2017 cyberattack which brought down its digital services for two days.

ENVIRONMENTAL AND CARBON RISK

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In conjunction with the Institutional Investor Group on Climate Change's (IIGCC) resolution working group, LAPFF participated in a collaborative meeting with the new Chair of **Rio Tinto**, Simon Thomas, to discuss a recent shareholder resolution filed for the upcoming annual meeting. The resolutions asks for a review of the company's oversight and processes related to public policy advocacy and how this maps with positions taken by relevant industry associations. The Chair was of the view that the main focus of the resolution should be the Company's response to climate change and the potential damage to shareholders. Rio has been engaging with the Minerals Council of Australia (MCA) on their public positioning and following this investor meeting, the MCA issued a new policy position on energy and climate change which now affirms positions on key aspects of climate change policy that Rio considers important.

A climate-related shareholder resolution was also discussed at a meeting with the chair of **Royal Dutch Shell**, Chad Holliday, also in conjunction with the IIGCC resolution working group. In November, Shell was the first oil & gas company to set out a strategy for aligning with Paris goals by setting the aim of cutting the net carbon footprint of its products in half by 2050, and around one-fifth by 2035. The objective of the meeting was to get the Company's perspective on the resolution filed by 'Follow-This', which asks Shell to set targets aligned with the 2-degree Paris goal. This would include most of scope 3 emissions which is customer use of fuel and natural gas products. Mr Holliday noted that the board was unlikely to support the resolution as it could well deter other companies from setting aspirations as Shell has done.

A further meeting with the **Southern Company** co-ordinated by the 50:50 initiative explored in more depth the governance measures put in place to ensure responsibility and consideration of climate change as a strategic matter. The meeting with Chief Legal Counsel James Kerr, was considered to have evidenced good progress.

The Forum liaised with several companies from the transport sector including **Bayerische Motoren Werke, Daimler, Rolls-Royce Holdings** and **Volkswagen** to understand the companies' approach to climate risk and their role in a tightening regulatory and tax environment. Of interest are also the companies' new technologies, including electric and hybrid powered cars and autonomous vehicles. The Forum also communicated with **Wizz Air** in relation to the Company's role in reducing climate risk. The Company provided detailed answers about fuel efficiency, fuel saving initiatives and elaborated on emissions monitoring and regulations.

Along with other investors, LAPFF signed a letter to **Ford Motor Company** to voice concern over the company's current and future fleet emissions not being consistent with the Paris Agreement's climate goals. Concerned about potential financial risks and decreased global competitiveness, signatories urged Ford to meet with them. The Forum also co-signed a letter to **Exxon Mobil** regarding the Company's governance and climate risk.

The Forum also approached **Hargreaves Lansdown** to discuss the Company's implementation of the Taskforce for Climate-related Financial Disclosure (TCFD) guidance. LAPFF regularly engages with companies about how to use and integrate the TCFD. A response is awaited.

With the aim to encourage palm oil providers to improve the traceability of their palm oil to prevent deforestation and inappropriate exploitation of land, the Forum co-signed a letter pressing the **Roundtable on Sustainable Palm Oil (RSPO)** to implement a more transparent and responsive complaints mechanism to properly uphold the credibility of the RSPO system.

SOCIAL RISK

Employment Standards

The Forum published a paper on the context, frequency and implications of precarious work for companies and those people performing work on their behalf. The report points to the growing consensus over what needs to change at a government and regulatory level, such as ending opportunities to abuse existing legal categories and greater transparency of terms, conditions and rights associated with employment contracts.

The paper assesses the risk for investors, gives some high-profile examples and provides investors with practical guidance to engaging companies on the issue, including asking boards how contracts fit with their approach to human capital management and whether they have undertaken cost-benefit analysis of precarious employment practices.

The Forum has been in communication with **Banco Santander** over reputational, financial and regulatory risks related to Santander Consumer USA (SCUSA), which is held by the Company through its wholly-owned subsidiary, Santander Holdings USA, Inc. Workforce standards at SCUSA are of concern to the Forum and further engagement is sought to discuss labour rights, alleged racial discrimination, human capital management and regulatory compliance.

LAPFF Vice Chair Denise Le Gal met with **National Express** Chairman Sir John Armitt to assess how the relationship with the unions had developed and to ensure good workplace practices at the Company's US subsidiary, Durham School Services, have improved. The meeting also covered safety concerns and board diversity.

Following LAPFF's attendance at **Sport Direct's** Annual Meeting and half-year financial review in December 2017, a meeting was sought with the Company to further discuss back-payments for agency workers. The Forum also suggested Sports Direct reach a joint agreement with Unite on the issue of backpayments. In his reply, the Chairman, Keith Hellawell, did not take up the offer to have a face-to-face meeting

Human Rights

Amid speculations about the content of the UN Human Rights Council's 'blacklist', the Forum communicated with **G4S, Caterpillar** and **Motorola Solutions**. All three are allegedly among the companies that do business with or are operating in the West Bank, East Jerusalem and Golan Heights. The Council believes that operating in this region violates international human rights law and urges companies to carry out human rights due diligence, as well as consider whether it is possible to engage in such an environment whilst respecting human rights.

At a meeting with **Motorola**, LAPFF Executive Jane Firth noted that the company's human rights policy was directed mainly at employees. She referred to the United Nations Guiding Principle on Business and Human Rights and asked whether the Company had an appropriate due diligence process in place. She also asked about Motorola's strategy to reduce reputational risk related to their business in the Israeli-occupied territories. An open channel of communication between LAPFF and Motorola was agreed.

Diversity

Together with other members of the 30% Club Investor Group, LAPFF continued to engage with companies from the real estate sector to determine companies' initiatives to increase female representation on corporate boards. Discussions focused on executive search firms, succession planning, women in leadership roles and sector-wide initiatives.

Helena Morrissey, founder of the 30% Club

©Andrew Testa , The New York Times

RELIABLE ACCOUNTS/ CONSULTATION RESPONSES

LAPFF's focus has been on Parliamentary Questions submitted by Baroness Sharon Bowles concerning the FRC and its governance and defective legal positions being taken, with linkage to the collapse of Carillion plc. To date, Baroness Bowles has tabled 51 questions. On the 28 February, LAPFF called for the FRC to be placed in special measures as part of the LAPFF response to the Corporate Governance Code.

On the 21 March, the Secretary of State for the Department of Business Enterprise and Industrial Strategy (BEIS) was asked at a joint Work and Pensions and BEIS Select Committees inquiry meeting about the effectiveness of the FRC. He announced to the Committee that there would be an independent enquiry into the operations of the FRC, and that enquiry would involve Parliamentary Committees.

When asked about the view of the Chief Executive of the FRC that the FRC needed more powers in the wake of it not taking more decisive and timely action on issues, the Secretary of State stated "I don't agree with Mr Haddrill that there is something that is preventing vigourous action being taken".

This is a positive response from the Secretary of State, and and vindicates the LAPFF position that the problem is not the legal framework, but the FRC itself.

MEDIA COVERAGE

Accounting standards

Carillion: Politicians press accounting watchdog over 'going concern' rules – IPE, 5 February 2018

UK public pensions call for accounting watchdog to be disbanded – IPE, 13 March 2018

FRC: Calling all pension funds – IPE, 16 March 2018

Local Authority Pension Fund Forum calls for accountancy watchdog to be scrapped – The Times, 19 March 2018

Investors need to tighten the screws on auditors – Financial Times, 19 March 2018

'Toothless' accountancy watchdog faces inquiry – The Times, 22 March 2018

U.K. governanance regulator defends its own governance – The Wall Street Journal, 29 March 2018

Gender Diversity

Big investors back push for 30% target for female executives – Financial Times, 2 February 2018

Employment Standards

Public pension funds turn spotlight on 'precarious work' – IPE, 16 March 2018

'Precarious' work could put council pension investments at risk – LocalGov, 19 March 2018

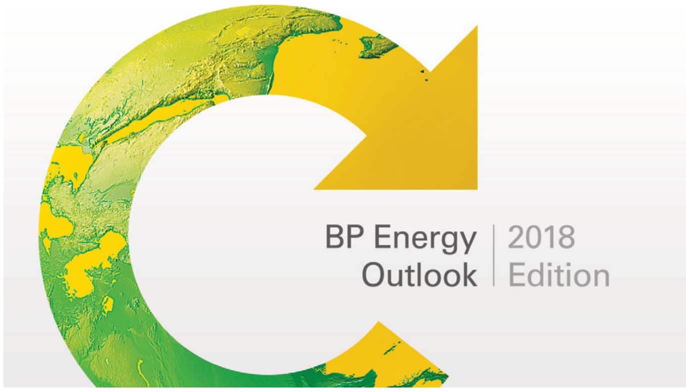
NETWORKS AND EVENTS

LAPFF co-chair, Ian Greenwood, spoke to the London CIV shareholder meeting about LAPFF Engagement approach and practices. Representatives also attended an East Sussex Pensions Board and Committee meeting and a Camden Pensions Committee meeting presenting on workplan concerns.

The Shadow Local Government Pensions Minister, Jim McMahon MP spoke at the January meeting of the All Party Parliamentary Group (APPG) on Local Authority Pension Funds. Chaired by Clive Betts MP, attendees, including LAPFF executive and other members, discussed investment risks, the Government's oversight of pension funds and the need to connect Councillors to the funds.

Climate Action 100+ IIGCC European Engagement Group call – Several of LAPFF's climate risk engagements are being continued through the global collaborative of Climate Action 100+. Two calls focused on engagement process and strategy across the range of companies that investors are engaging with in Europe and on selection of companies and procedures for engagement.

PRI Investor working group on sustainable palm oil webinar – the group presented key findings from their recently released report 'Sustainable Banking in ASEAN: Addressing ASEAN's FLAWS'. The report reviews the sustainable finance regulatory landscape in the ASEAN region to explore the ESG integration progress of banks and their alignment to sustainable development.



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At the BP Energy Outlook, Bob Dudley, the chief executive discussed BP's views on the speed of transition; intensifying competition; and the importance of carbon emissions reduction. BP recognises that the company has to plan for the transition being faster than previously identified. Spencer Dale, the Chief Economist, explained the greater range of scenarios now used by the company including a new 'evolving transition' scenario, as well as those exploring the impact of electric vehicles and 'new mobility'.

Teamster meeting – The Forum met with a representative from Teamsters regarding National Express operations in America and the treatment of the union and workers. These are ongoing issues that LAPFF has engaged with both Teamsters and National Express over.

COMPANY PROGRESS REPORT

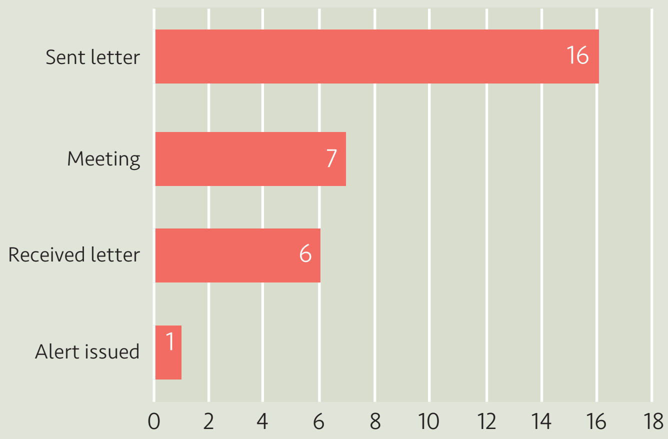
21 companies engaged over the quarter

Q1 2018 ENGAGEMENT DATA

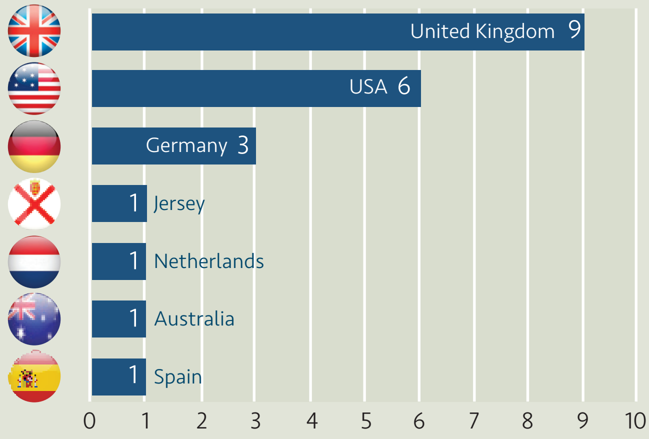
Company	Topics	Activity	Outcome
Banco Santander SA	Employment Standards	Letter	Dialogue
Bayerische Motoren Werke AG	Climate Change	Letter	Dialogue
Caterpillar Inc	Human Rights	Letter	Awaiting Response
Daimler AG	Climate Change	Letter	Dialogue
ExxonMobil	Climate Change	Letter	Awaiting Response
Ford Motor Company	Climate Change	Letter	Awaiting Response
G4S plc	Human Rights	Letter	Dialogue
Hargreaves Lansdown plc	Climate Change	Letter	Awaiting Response
Lloyds Banking Group plc	Governance/Cybersecurity	Letter	Dialogue
Motorola Solutions Inc	Human Rights	Letter/Meeting	Dialogue
National Express plc	Employment Standards	Meeting	Change in Process
Pearson plc	Governance	Letter	Awaiting Response
Provident Financial plc	Governance/Reputational Risk	Meeting	Small Improvement
Rio Tinto Group (AUS)	Climate Change	Meeting	Dialogue
Rolls-Royce Holdings plc	Climate Change	Letter	Dialogue
Royal Dutch Shell plc	Climate Change	Meeting	Dialogue
Sports Direct International plc	Employment Standards	Letter	No Improvement
Tesla Inc	Remuneration	Alert Issued	Awaiting Response
Volkswagen AG	Climate Change	Letter	Awaiting Response
Wizz Air Holdings plc	Climate Change	Letter	Dialogue

COMPANY ENGAGEMENT ACTIVITIES

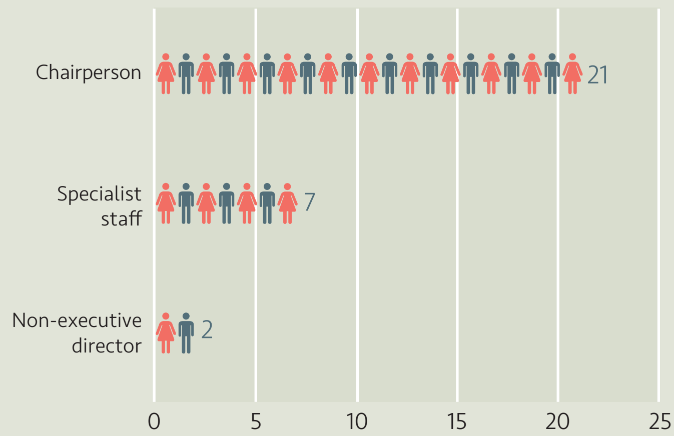
Company engagement activities



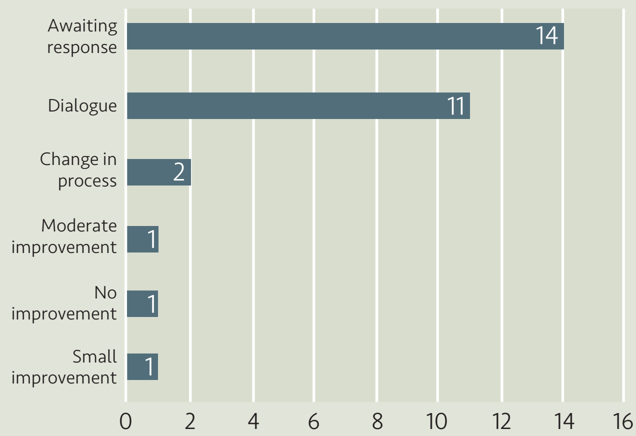
Company domiciles



Position engaged



Outcomes



LOCAL AUTHORITY PENSION FUND FORUM MEMBERS

- Avon Pension Fund
- Barking and Dagenham LB
- Bedfordshire Pension Fund
- Cambridgeshire Pension Fund
- Camden LB
- Cardiff and Vale of Glamorgan Pension Fund
- Cheshire Pension Fund
- City of London Corporation
- Clwyd Pension Fund
- Croydon LB
- Cumbria Pension Scheme
- Derbyshire CC
- Devon CC
- Dorset County Pension Fund
- Durham Pension Fund
- Dyfed Pension Fund
- Ealing LB
- East Riding of Yorkshire Council
- East Sussex Pension Fund
- Enfield LB
- Falkirk Council
- Gloucestershire Pension Fund
- Greater Gwent Fund
- Greater Manchester Pension Fund
- Greenwich Pension Fund RB
- Gwynedd Pension Fund
- Hackney LB
- Haringey LB
- Harrow LB
- Havering LB
- Hertfordshire County Council Pension Fund
- Hounslow LB
- Islington LB
- Lambeth LB
- Lancashire County Pension Fund
- Lewisham LB
- Lincolnshire CC
- London Pension Fund Authority
- Lothian Pension Fund
- Merseyside Pension Fund
- Newham LB
- Norfolk Pension Fund
- North East Scotland Pension Fund
- North Yorkshire CC Pension Fund
- Northamptonshire CC
- Northumberland CC
- Nottinghamshire CC
- Powys County Council Pension Fund
- Redbridge LB
- Rhondda Cynon Taf
- Shropshire Council
- Somerset CC
- Sheffield City Region Combined Authority
- South Yorkshire Pensions Authority
- Southwark LB
- Staffordshire Pension Fund
- Strathclyde Pension Fund
- Suffolk County Council Pension Fund
- Surrey CC
- Sutton LB
- Teesside Pension Fund
- The City and County of Swansea Pension Fund
- The Environment Agency Pension Fund
- Tower Hamlets LB
- Tyne and Wear Pension Fund
- Waltham Forest LB
- Wandsworth LB
- Warwickshire Pension Fund
- West Midlands ITA Pension Fund
- West Midlands Pension Fund
- West Yorkshire Pension Fund
- Wiltshire CC
- Worcestershire CC

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REPORT OF THE GROUP DIRECTOR, FINANCE & CORPORATE RESOURCES		
Voluntary Scheme Pays Policy 2018 **Pensions Committee** **23rd July 2018**	**Classification** **Public** **Ward(s) affected** **ALL**	**Enclosures** **One.**

1. INTRODUCTION

1.1 This report introduces the first 'Voluntary Scheme Pays Policy 2018', which has been drafted as a discretionary option for members of the Local Government Pension Scheme who breach HMRC's annual allowance limit on pension savings growth in a financial year, and to agree the policy permitting members to use 'Voluntary Scheme Pays' and the circumstances for accepting such applications.

2. RECOMMENDATION

2.1 Pensions Committee is recommended to:

- **Approve the Voluntary Scheme Pays Policy 2018**

3. RELATED DECISIONS

3.1 None

4. COMMENTS OF THE GROUP DIRECTOR, FINANCE AND CORPORATE RESOURCES

4.1 Allowing scheme members to exercise their right to request an Annual Allowance Charge to be paid via 'Voluntary Scheme Pays' will result in additional administration, although the amount of members that might wish to exercise this right is expected to be of a low volume.

4.3 Guidance on the calculation of the reduction in pension benefits following a Scheme Pays election has been issued by the Secretary of State for Communities and Local Government in conjunction with consultation by Government Actuaries Department (GAD) in order to ensure that the Scheme Pays offset is cost neutral to the scheme

5. COMMENTS OF THE DIRECTOR OF LEGAL AND GOVERNANCE

5.1 There is no statutory requirement for an Administering Authority to agree to Voluntary Scheme Pays requests so it is therefore for each authority to determine its policy on policy. However, it would seem best practice having robust governance arrangements in place, to facilitate informed decision making, supported by appropriate advice, policies and strategies, whilst ensuring compliance with appropriate legislation and statutory guidance. Thereby ensuring management of the Fund is done in a fair and equitable manner, having regard to what is in the best interest of the Fund's stakeholders, particularly the scheme members and employers.

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

6. BACKGROUND

6.1 Annual Allowance is one of the limits set by the Government in relation to the level of an individual's pension savings, known as pension input, before a charge becomes due to HM Revenue and Customs (HMRC).

6.2 Scheme members are normally required to pay their tax charges directly to HMRC, however, where the annual allowance charge in a tax year exceeds £2,000, members are able to elect to meet some or all of the tax charge from their future pension benefits. This is known as the Mandatory Scheme Pays option. This option requires the Pension Fund to pay the tax charge on the member's behalf and then to reduce their future pension benefits accordingly.

6.4 Local Government Pension Scheme (LGPS) administering authorities now have the power to grant a member's request to pay their annual allowance charge even if they do not meet the criteria for MSP; this mechanism has become known as Voluntary Scheme Pays (VSP).

6.5 Voluntary Scheme Pays is where the scheme member's annual allowance tax charge is less than £2,000, and the member may ask the Pension Fund to pay their annual allowance tax charge on a voluntary basis via the Voluntary Scheme Pays option with a corresponding reduction to their LGPS benefits. This would include those members adversely affected by HMRCs tapering rule. This, however, is subject to the Administering Authority's approval which is discretionary.

6.6 An important consideration however is that, in the tax year 2016/17, HMRC amended the annual allowance rules by introducing the tapered annual allowance for employees with taxable income in excess of £150,000 (including the value of the employer's pension contribution). For every £2 of income over £150,000 the standard annual allowance is reduced by £1. However, this is subject to a minimum reduced annual allowance of £10,000.

7. THE POLICY

7.1 As it currently stands, Scheme members whose pension growth in a year breaches the Mandatory Scheme Pays limit have only the following options –

- Pay the tax charge directly to HMRC
- Opt for Mandatory Scheme Pays for breach over £40,000
- If agreed opt for Voluntary Scheme Pays for the amount below £40,000

7.2 Where the member's annual allowance has been reduced to £10,000, they would have no option other than to pay a potentially significant tax charge directly to HMRC on the amount between £40,000 and their tapered annual allowance, i.e. £30,000.

7.3 HMRC have introduced different timelines for payment of the tax charges between Mandatory and Voluntary Scheme Pays:

Mandatory Scheme Pays - The deadline for members who incur a tax charge and wish to apply to the pension fund to utilise Mandatory Scheme Pays is 31 July each year. The subsequent deadline for administering authorities to make the payment to HMRC is the following 14 February.

Voluntary Scheme Pays – There is technically no deadline for members to request to use the Voluntary Scheme Pays option. However, subject to the administering authority's approval, the tax charge payment to HMRC must be made before 31 January in the following tax year to ensure additional interest charges are not incurred by the member.

7.4 The Fund **will** accept applications for Voluntary Scheme Pays in the following circumstances:

- A member is subject to the Tapered Annual Allowance or the Money Purchase Annual Allowance and has a tax charge of more than £2,000 relating to input in the London Borough of Hackney Pension Fund, and the irrevocable election is received by 31st December following the end of the tax year in which the input arises (i.e. 31st December 2018 for input in the 2017/18 year).

- A member meets all the criteria for Mandatory Scheme Pays but was unable to meet the 31st July deadline due to an administrative error or omission by the Hackney Pension Fund and/or the administrators Equiniti (i.e. the member was not notified of their pension input in time for them to meet the deadline). In these circumstances the application for Voluntary Scheme Pays should be made within 2 months of the member receiving notification of their pension input.

7.5 The Fund **will not** accept applications for Voluntary Scheme Pays in the following circumstances:

- The member's tax charge relating to pension input in the LGPS in England & Wales is less than £2,000, but they have applied for Voluntary Scheme Pays because their total tax charge when taking input from other arrangements into account is more than £2,000.

- The member has a Mandatory Scheme Pays right in respect of pension input in the LGPS in England and Wales, but has also asked the Fund to pay a tax charge relating to input in a separate pension arrangement.

- The member's tax charge is less than £2,000.

- A member did not meet the 31st July deadline for applying for Mandatory Scheme Pays, and this failure to meet the deadline was **not** due to any administrative error or omission by Hackney Pension Fund or by the pension administrators.

7.6 A Voluntary Scheme Pays request in any other scenario will be considered by the Fund on its merits; on a case by case basis. Following the acceptance of an election for Voluntary Scheme Pays, the member's benefits will be reduced by an amount corresponding to the tax charge paid by the Fund, using the guidance issued by the Government Actuary's Department (GAD).

7.7 The Voluntary Scheme Pays option could be utilised to the benefit of the Hackney Pension Fund as it is more likely the member will remain in the scheme and continue contributing to the Fund. The alternative would be for the member to leave the scheme to avoid incurring the tax charge thus reducing available funds in the scheme. This could impact on Scheme members down to middle manager levels with long service and could impact on Scheme Employers ability to attract and retain employees in key roles.

7.8 Once the policy is approved by the Pensions Committee it will be effective immediately. It will be formally reviewed and updated at least every 3 years or sooner, if there are any changes to the LGPS or other relevant Regulations or Guidance which need to be taken into account.

List of Appendices

Appendix 1 - London Borough of Hackney Pension Fund, Voluntary Scheme Pays Policy 2018

Ian Williams
Group Director
Finance & Corporate Resources

Report Originating Officers: Julie Stacey ☎020-8356 3565
Financial considerations: Michael Honeysett ☎020-8356 3332
Legal comments: Patrick Rodger ☎020-8356 6187

LONDON BOROUGH OF HACKNEY PENSION FUND

VOLUNTARY SCHEME PAYS POLICY

For the Local Government Pension Scheme (LGPS)

CONTENTS

INTRODUCTION

The Annual Allowance was introduced in 2006 and is the amount that the overall value of your pension benefits can increase by in a Pension Input Period (currently aligned to the tax year) before potentially incurring an additional tax charge.

In certain cases, members have an automatic entitlement under Section 237B of the Finance Act 2004 to ask the Fund to pay the tax charge on their behalf, and in return have a corresponding reduction to their benefits when they leave the scheme[1]. The reduction is applied to the member's pension account in the relevant tax year, and will be increased with inflation until the benefits are paid. This is known as **Mandatory Scheme Pays**.

In other cases, members may ask the Fund to pay the tax charge, but there is no entitlement and the Fund does not have to agree. Where the Fund does agree to pay the tax charge, the member's benefits will be reduced accordingly. The reduction is applied to the member's pension account in the relevant tax year, and will be increased with inflation until the benefits are paid. This is known as **Voluntary Scheme Pays**.

Members cannot use Scheme Pays once they are in receipt of their benefits, although it can still be used where the member has taken flexible retirement and is still building up further benefits in the Fund which are then subject to an Annual Allowance tax charge.

This Voluntary Scheme Pays Policy is established to provide clarity for Fund members who may wish to make an election for Voluntary Scheme Pays, and to ensure consistency of approach across the Fund.

BACKGROUND TO THE ANNUAL ALLOWANCE

This is a brief outline of the Annual Allowance, and it is the member's responsibility to seek advice on the specific requirements. Further information is available on the HMRC website: https://www.gov.uk/tax-on-your-private-pension/annual-allowance

The concept of the Annual Allowance was introduced from April 2006 under the Finance Act 2004 and is the amount that the overall value of your pension benefits can increase over a Pension Input Period (currently aligned to the tax year) before tax is due.

The current Standard Annual Allowance for the majority of people is £40,000, and if their Pension Input Amount in the relevant tax year exceeds that amount a tax charge may be due. Scheme members can carry forward any unused allowance from the previous three years to offset a potential tax charge.

The Pension Input Amount is the amount that the overall value of your benefits has increased between the start and end of the tax year.

Higher earners and those with substantial taxable income from other sources (including pensions in payment) could be subject to the Tapered Annual Allowance, giving them an Annual Allowance lower than the Standard Annual Allowance and which could be as low as £10,000.

[1] Only the member's pension is reduced as a result of electing for either Mandatory Scheme Pays or Voluntary Scheme Pays. Other benefits, including dependents' pensions and death in service payments, are not affected.

This affects anyone who meets **BOTH** of the following criteria:

- Threshold Income is £110,000 or more. Threshold Income is taxable income after employee pension contributions are deducted, and includes taxable income from **all** sources, not just salary.

- Adjusted Income exceeds £150,000. Adjusted Income is Threshold Income plus Pension Input Amount.

If someone meets both criteria, their individual Annual Allowance is reduced by £1 for every £2 that their Adjusted Income exceeds the £150,000 threshold. However, the member's Tapered Annual Allowance cannot be reduced below £10,000. Further information is available on the HMRC website: https://www.gov.uk/guidance/pension-schemes-work-out-your-tapered-annual-allowance

Members who have previously 'flexibly accessed' benefits from a separate defined contribution pension plan will be subject to the lower Money Purchase Annual Allowance, currently £4,000, and must inform Hackney Council if this applies as this reduces the Annual Allowance used to test the LGPS benefits. Further information can be found in the section headed 'Lower allowance if you take money from a pension pot' on the HMRC website: https://www.gov.uk/tax-on-your-private-pension/annual-allowance

Tax arising from exceeding the Annual Allowance is charged at the member's marginal rate of income tax (20%, 40% or 45% in whole or in part depending on taxable earnings) on the amount of pension input that exceeds the member's Annual Allowance, taking account of any carry forward of unused allowance from previous years. It is the member's responsibility to determine the rate of tax applied.

MANDATORY SCHEME PAYS

Where a member has a tax charge as a result of breaching the Annual Allowance, they have a right to Mandatory Scheme Pays from the London Borough of Hackney Pension Fund when **ALL** of the following criteria are met:

- The member's Annual Allowance tax charge exceeds £2,000, and

- The member has a Pension Input Amount within the LGPS in England and Wales[2] exceeding the standard Annual Allowance (currently £40,000), and

- An irrevocable election for Mandatory Scheme Pays is made by 31st July in the year following that in which the tax charge arose (i.e. for a tax charge arising from the 2016/17 year the Mandatory Scheme Pays election must be made by 31st July 2018) or before they retire, if earlier, and

- The member's full retirement benefits from the Fund are not yet in payment.

[2] Although the LGPS is administered by 89 funds across England and Wales, it is considered one scheme by HMRC and therefore, when assessing pension input in the LGPS, members must take into account ALL benefits they hold in different funds in the LGPS across England and Wales. The LGPS in Scotland, and the LGPS in Northern Ireland, are considered separate schemes by HMRC.

Where a member does meet **all** the above criteria, the London Borough of Hackney Pension Fund must pay the tax to HMRC on the member's behalf when requested, and must notify the member of the resulting reduction to their benefits. The Fund is not allowed to levy an administration charge for Mandatory Scheme Pays elections.

NOTE - that while the member can require the Fund to pay the excess of the pension input over the standard Annual Allowance, they do not need to ask the Fund to pay the full tax charge – the member can request that a lower amount is covered by Mandatory Scheme Pays and would have to make their own arrangements to pay the remaining tax charge to HMRC. Members should note that their pension cannot be reduced below the level of their Guaranteed Minimum Pension (GMP), so the Fund may not be able to pay the full tax charge if the corresponding reduction to benefits would reduce the pension below GMP[3].

VOLUNTARY SCHEME PAYS

Where a member may have incurred a tax charge but does not have an entitlement to Mandatory Scheme Pays, the member can ask the Fund to allow a Voluntary Scheme Pays election, but the scheme does not have to agree. The list below shows some potential situations in which this may occur; the list is not intended to be exhaustive:

- The member is subject to the Tapered Annual Allowance or the Money Purchase Annual Allowance, and their Pension Input Amount in the LGPS exceeds their Tapered/Money Purchase Annual Allowance but does not exceed the Standard Annual Allowance. *See examples below*.

- The member is subject to the Tapered Annual Allowance or the Money Purchase Annual Allowance, and their Pension Input Amount in the LGPS exceeds both the Tapered/Money Purchase Annual Allowance and the Standard Annual Allowance – there is a right to Mandatory Scheme Pays in respect of the input above the Standard Annual Allowance, but not for the input between the Tapered/Money Purchase Annual Allowance and the Standard Annual Allowance. *See examples below.*

- The member met all the other criteria for a Mandatory Scheme Pays election, but did not make the election by the 31st July deadline.

- The member has not exceeded the Annual Allowance based on their pension benefits in the LGPS in England and Wales, but in aggregate across all pension arrangements they have exceeded the Annual Allowance and the member's total tax charge when taking input from other arrangements into account is more than £2,000.

- The member has a Mandatory Scheme Pays right in respect of pension input in the LGPS in England and Wales, but also has a tax charge relating to input in a separate pension arrangement and wants to use Voluntary Scheme Pays from the Fund to cover this as well.

- The member's tax charge is less than £2,000.

[3] Guaranteed Minimum Pension is the minimum amount of pension that the Fund must pay in respect of any scheme membership between 1978–1997 that was contracted-out of the State Earnings Related Pension Scheme (SERPS).

There is no time limit set in the legislation for an election for Voluntary Scheme Pays (if permitted), but members should note that if the tax is not paid by 31st January in the year following the year in which the tax charge arises (i.e. 31st January 2018 for a tax charge arising in the 2016/17 year) interest and late payment penalties will be due[4].

Interest and late payment penalties do not apply for tax charges that are settled by Mandatory Scheme Pays, assuming the member provides the appropriate notifications to HMRC via self-assessment or otherwise. As in this circumstance, the member and the Administering Authority are jointly and severally liable for the payment of the tax charge, whereas the member remains solely liable for any tax due that is not covered by Mandatory Scheme Pays.

Tapered Annual Allowance Examples

- Member's Pension Input Amount is £60,000 and they are subject to a tapered annual allowance of £10,000. The tax charge will be £20,000 assuming they are a 40% taxpayer and have no carry-forward available. Mandatory Scheme Pays only applies to £8,000 of that tax charge (in respect of the input in excess of £40,000). The remaining £12,000 of the tax charge would need to be settled by the member directly with HMRC, unless a Voluntary Scheme Pays arrangement is agreed with the Fund.

- Member's pension input is £39,000 and they are subject to a tapered annual allowance of £10,000. Their tax charge will be £11,600 assuming they are a 40% taxpayer and have no carry-forward available. This does not qualify for Mandatory Scheme Pays as the pension input is less than the Standard Annual Allowance of £40,000, so would need to be settled by the member directly with HMRC, unless a Voluntary Scheme Pays arrangement is agreed with the Fund.

It should be noted that it is the member's responsibility to notify the Fund if they are subject to a Tapered Annual Allowance and the amount of tax due. The Fund cannot calculate this as it does not have details of total taxable income.

THE POLICY

This details the circumstances in which an election for Voluntary Scheme Pays will be accepted.

The Fund **will** accept applications for Voluntary Scheme Pays in the following circumstances:

- A member is subject to the Tapered Annual Allowance or the Money Purchase Annual Allowance and has a tax charge of more than £2,000 relating to input in the London Borough of Hackney Pension Fund, and the irrevocable election is received by 31st December following the end of the tax year in which the input arises (i.e. 31st December 2018 for input in the 2017/18 year).

[4] For Mandatory Scheme Pays, the member must indicate to HMRC that they will be using Mandatory Scheme Pays on their self-assessment tax return by 31st January in the year following that in which the tax charge arose, but the election to the Scheme does not have to be made until 31st July, six months later, and the Fund then has until the following 14th February to pay the tax.

- A member meets all the criteria for Mandatory Scheme Pays but was unable to meet the 31st July deadline due to an administrative error or omission by the Hackney Pension Fund and/or Equiniti (i.e. the member was not notified of their pension input in time for them to meet the deadline). In these circumstances the application for Voluntary Scheme Pays should be made within 2 months of the member receiving notification of their pension input.

The Fund **will not** accept applications for Voluntary Scheme Pays in the following circumstances:

- The member's tax charge relating to pension input in the LGPS in England & Wales is less than £2,000, but they have applied for Voluntary Scheme Pays because their total tax charge when taking input from other arrangements into account is more than £2,000.

- The member has a Mandatory Scheme Pays right in respect of pension input in the LGPS in England and Wales, but has also asked the Fund to pay a tax charge relating to input in a separate pension arrangement.

- The member's tax charge is less than £2,000.

- A member did not meet the 31st July deadline for applying for Mandatory Scheme Pays, and this failure to meet the deadline was **not** due to any administrative error or omission by Hackney Pension Fund or by the pension administrators, Equiniti.

A Voluntary Scheme Pays request in any other scenario will be considered by the Fund on its merits; on a case by case basis.

Following the acceptance of an election for Voluntary Scheme Pays, the member's benefits will be reduced by an amount corresponding to the tax charge paid by the Fund, using the guidance issued by the Government Actuary's Department.

MEMBERS APPROACHING RETIREMENT

There are situations where a member may breach the annual allowance in the Pension Input Period in which they retire, even if they retire relatively near the start of the tax year. This could be, for example, where there has been an ill health enhancement (and the member did not meet the severe ill-health condition under s229(4) of the Finance Act 2004) or a large pay increase, bonus or service enhancement before or at retirement.

If a member breaches the annual allowance in the tax year in which they receive their final retirement benefits, scheme pays can only be used if the election is made and processed before the benefits are put into payment (or "crystallise"). Otherwise members will have to pay the tax charge directly. Members in this situation may choose to pay the tax charge using any lump sum payable on retirement.

The Fund will issue an individual pension savings statement (PSS) to those active members who become a pensioner member during the Pension Input Period and who have exceeded the standard annual allowance. This will be provided when the retirement benefits are notified rather than under the usual timescales. This gives the member the time to determine whether a Mandatory Scheme Pays option applies and/or whether they wish to make an election for Mandatory or Voluntary Scheme Pays. If the member wishes to use Scheme Pays they should contact the Hackney Pension Fund well before the retirement date so that the relevant reduction can be calculated and applied before the benefits are put into payment.

It should be noted that it is the member's responsibility to notify the Fund at this time if they are subject to a Tapered Annual Allowance and the amount of tax due. The Fund cannot calculate this as it does not have details of total taxable income.

COSTS

All costs related to the operation and implementation of this Policy will be met directly by the London Borough of Hackney Pension Fund. Paying the tax charge should be broadly cost neutral for the Fund, as the Government Actuary's Department has issued guidance for calculating the reduction to the member's benefits which should ensure that the Fund does not lose out. However, the Fund will incur administration costs for the time taken in dealing with member requests and paying the tax due to HMRC.

It has been considered whether to apply an administration charge to members wishing to use Voluntary Scheme Pays, but due to the low numbers expected to take up this option it has been decided not to levy a charge at this time. This will be reviewed should it transpire to be administratively onerous to operate this policy.

APPROVAL, REVIEW AND CONSULTATION

This Voluntary Scheme Pays Policy was approved by the Pensions Committee at the meeting of 23 July 2018 and is effective immediately. It will be formally reviewed and updated at least every 3 years or sooner if there are any changes to the LGPS or other relevant Regulations or Guidance which need to be taken into account.

FURTHER INFORMATION

If you require further information about anything in or related to this Voluntary Scheme Pays Policy, please contact:

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Hackney

REPORT OF THE GROUP DIRECTOR, FINANCE & CORPORATE RESOURCES		
Reporting Breaches Procedure **Pensions Committee** **23rd July 2018**	**Classification** **Public** **Ward(s) affected** **ALL**	**Enclosures:** **One**

1. INTRODUCTION

1.1 Those involved in running or advising Pension Schemes have a statutory obligation to report 'materially significant' breaches of the law to The Pensions Regulator (TPR) under section 70 of the Pensions Act 2004. Since 1st April 2015, TPR's oversight powers have been extended to cover the administration and governance of public service schemes, including the Local Government Pension Scheme (LGPS). Part of TPR's remit has been to put in place a Code of Practice covering these aspects of scheme management; the Code includes a section providing guidance on how to identify and assess the significance of breaches of the law.

1.2 This report sets out the 'Reporting Breaches Procedure' for the Fund, to help ensure compliance with section 70 of the Pensions Act 2004 and with the 'reporting breaches' section of TPR's Code of Practice. The report provides a summary of the recommendations set out in the Code and details the actions taken by the Hackney Pension Fund to ensure that all those involved in the management of the Pension Scheme understand its requirements.

2. RECOMMENDATIONS

The Pensions Committee is recommended to:

- **Approve the updated Reporting Breaches Policy**

3. RELATED DECISIONS

- Pensions Committee 24th Jun 2015 – TPR Code of Practice and draft Reporting Breaches Procedure

4. COMMENTS OF THE CORPORATE DIRECTOR OF FINANCE AND RESOURCES

4.1 In recent years there has been an increased focus on the governance of LGPS funds, with the introduction of oversight powers for TPR and the publication of the Code of Practice being good examples of this. Ensuring compliance with the Code may result in additional work for the Fund's officers and advisers, bringing an associated increase in cost to be met by the Fund; however, any such costs will be immaterial in the context of a £1.1bn Fund.

4.2 The Pensions Regulator's Compliance and Enforcement policy sets out the Regulator's approach to regulatory compliance. It makes clear that the Regulator expects to educate and enable schemes to improve their standard of governance. However, where no action is taken by scheme managers address poor standards, enforcement action will be taken, which may include financial penalties.

5. COMMENTS OF THE DIRECTOR OF LEGAL AND GOVERNANCE

5.1 The Public Service Pensions Act (2013) extended the oversight powers of the Pensions Regulator to the administration and governance of public service schemes, including the LGPS. As such, those involved with the management of LGPS funds are now required to report breaches of scheme regulations to The Pensions Regulator under section 70 of the Pensions Act 2004.

5.2 Scheme regulations under this duty includes any legislation relevant to the administration and governance of the scheme. Such regulations will include:

- LGPS Regulations 2013
- LGPS (Transitional Provisions, Savings and Amendments) Regulations 2014
- LGPS (Amendment) (Governance) Regulations 2015.

Additionally, the Regulator stipulates that scheme regulations include:

- Certain legislative provisions, to the extent that they override provisions of the scheme regulations, or which have effect in relation to a scheme and are not otherwise reflected in the scheme regulations, and
- Any provision which the scheme regulations do not contain but which the scheme rules must contain if it is to conform with the requirements of Chapter 1 of Part 4 of the Pension Schemes Act 1993 (preservation of benefit under occupational pension schemes

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

6. REGULATORY BACKGROUND

6.1 Section 70 of the Pensions Act 2004 requires that certain people involved in running or advising a pension scheme must report 'materially significant' breaches of the law to TPR. For public service schemes, those subject to this reporting requirement ('Reporters') are:

- Scheme managers (in this case the Council as the Administering Authority, with responsibility delegated to the Pensions Committee)
- Pension Board Members
- Persons otherwise involved in the administration of the scheme
- Employer
- Professional advisers
- Persons otherwise involved in advising the Scheme Manager in relation to the scheme.

6.2 The Regulator's Code of Practice helps reporters to determine whether or not a breach needs to be reported, setting out two key judgements to enable a decision:

- Does the reporter have reasonable cause to believe there has been a breach of the law
- If so, does the reporter believe that this is likely to be of material significance to the Regulator?

The Code provides practical guidance on the factors reporters should consider in making these key judgements, and the process for making a report to the Regulator should this be required.

6.3 The Code also highlights the need for schemes to be satisfied that those with statutory responsibility for reporting breaches have a sufficient level of knowledge and understanding to fulfil their duty. The Code recommends that training be provided for Scheme Managers and Pension Board members, and for all others with a duty to report to be familiar with the legal requirements and processes and procedures for reporting.

6.4 TPR also recommends that schemes should establish and operate 'appropriate and effective' procedures that enable people to raise concerns and allow the objective consideration of any breaches identified. They should also set out appropriate timescales for reporters to consider whether or not a breach should be reported.

7. HACKNEY PENSION FUND – ACTIONS TAKEN

7.1 The Reporting Breaches Policy for the Hackney Pension Fund at Appendix 1 to this report was formally approved for the London Borough of Hackney Pension Fund at its meeting on the 24th June 2015. This update is part of the program of regular review set out in the Pension Fund Business Plan; minor changes have been made to update the report for personnel changes within the Financial Services team and a wider senior management restructure within the Council.

7.2 As per the Regulator's guidance, the policy:

- Sets out the law on reporting breaches, and those to whom it applies
- Provides guidance on how to confirm the facts when a breach is suspected
- Provides guidance on determining whether or not a breach is likely to be of material significance to the Regulator
- Sets out the appropriate level of seniority for decision-making when determining whether or not to report
- Provides appropriate timescales for reporting
- Provides guidance on dealing with complex cases
- Sets out an early reporting procedure for serious breaches (e.g. where dishonesty is suspected)
- Sets out the procedure for reporting a breach to the Regulator

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Appendices

1. LBH Pension Fund Procedure for Reporting Breaches of the Law

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London Borough of Hackney

Pension Fund

Procedure for Reporting Breaches of the Law

Reporting Breaches Procedure

Introduction

This document sets out the procedures to be followed by certain persons involved with the London Borough of Hackney Pension Fund, the Local Government Pension Scheme managed and administered by Hackney Council, in relation to reporting breaches of the law to the Pensions Regulator.

Hackney Council, as Administering Authority, has delegated responsibility for the implementation of these procedures to the Group Director, Finance and Corporate Resources and the Head of Pension Fund Investment.

Breaches can occur in relation to a wide variety of the tasks normally associated with the administrative function of a scheme such as keeping records, internal controls, calculating benefits and making investment or investment-related decisions.

This Procedure document applies, in the main, to:

- all members of the Pensions Committee and the local Pension Board
- all officers involved in the management of the Pension Fund including members of the Hackney Financial Services Team, the Director, Financial Management and the Group Director, Finance and Corporate Resources (Section 151 Officer)
- personnel of the third party administrator providing day to day administration services to the Fund, and any professional advisers including auditors, actuaries, legal advisers and fund managers
- officers of employers participating in the London Borough of Hackney Pension Fund who are responsible for pension matters.

The next section clarifies the full extent of the legal requirements and to whom they apply.

Requirements

Pensions Act 2004

Section 70 of the Pensions Act 2004 (the Act) imposes a requirement on the following persons:

- a trustee or manager of an occupational or personal pension scheme
- a member of the pension board of a public service pension scheme
- a person who is otherwise involved in the administration of such a scheme an occupational or personal pension scheme

- the employer in relation to an occupational pension scheme
- a professional adviser in relation to such a scheme
- a person who is otherwise involved in advising the trustees or managers of an occupational or personal pension scheme in relation to the scheme,

to report a matter to The Pensions Regulator as soon as is reasonably practicable where that person has reasonable cause to believe that:

(a) a legal duty relating to the administration of the scheme has not been or is not being complied with, and
(b) the failure to comply is likely to be of material significance to The Pensions Regulator.

The Act states that a person can be subject to a civil penalty if he or she fails to comply with this requirement without a reasonable excuse.

The duty to report breaches under the Act overrides any other duties the individuals listed above may have. However the duty to report does not override 'legal privilege'. This means that, generally, communications between a professional legal adviser and their client, or a person representing their client, in connection with legal advice being given to the client, do not have to be disclosed.

The Pension Regulator's Code of Practice

Practical guidance in relation to this legal requirement is included in The Pension Regulator's Code of Practice including in the following areas:

- implementing adequate procedures
- judging whether a breach must be reported
- submitting a report to The Pensions Regulator
- whistleblowing protection and confidentiality.

Application to the London Borough of Hackney Pension Fund

Hackney Council has developed this procedure which reflects the guidance contained in The Pension Regulator's Code of Practice in relation to the London Borough of Hackney Pension Fund and this document sets out how the Council will strive to achieve best practice through use of a formal reporting breaches procedure.

Training on reporting breaches and related statutory duties, and the use of this procedure is provided to Pension Committee members, Pension Board members and key officers involved with the management of the London Borough of Hackney Pension Fund on a regular basis. Further training can be provided on request to the Head of Pension Fund Investment.

The London Borough of Hackney Pension Fund Reporting Breaches Procedure

The following procedure details how individuals responsible for reporting and whistleblowing can identify, assess and report (or record if not reported) a breach of law relating to the London Borough of Hackney Pension Fund.

It aims to ensure individuals responsible are able to meet their legal obligations, avoid placing any reliance on others to report. The procedure will also assist in providing an early warning of possible malpractice and reduce risk.

1. Clarification of the law

Individuals may need to refer to regulations and guidance when considering whether or not to report a possible breach. Some of the key provisions are shown below:

- Section 70(1) and 70(2) of the Pensions Act 2004:
  www.legislation.gov.uk/ukpga/2004/35/contents
- Employment Rights Act 1996:
  www.legislation.gov.uk/ukpga/1996/18/contents
- Occupational and Personal Pension Schemes (Disclosure of Information) Regulations 2013 (Disclosure Regulations):
  www.legislation.gov.uk/uksi/2013/2734/contents/made
- Public Service Pension Schemes Act 2013:
  www.legislation.gov.uk/ukpga/2013/25/contents
- Local Government Pension Scheme Regulations (various):
  http://www.lgpsregs.org/timelineregs/Default.html (pre 2014 schemes)
  http://www.lgpsregs.org/index.php/regs-legislation (2014 scheme)
- The Pensions Regulator's Code of Practice:
  http://www.thepensionsregulator.gov.uk/codes/code-governance-administration-public-service-pension-schemes.aspx
  In particular, individuals should refer to the section on 'Reporting breaches of the law', and for information about reporting late payments of employee or employer contributions, the section of the code on 'Maintaining contributions'.

Further guidance and assistance can be provided by the Head of Pension Fund Investment, the Director, Financial Management or the Group Director, Finance and Corporate Resources, provided that requesting this assistance will not result in alerting those responsible for any serious offence (where the breach is in relation to such an offence).

2. Clarification when a breach is suspected

Individuals need to have reasonable cause to believe that a breach has occurred, not just a suspicion. Where a breach is suspected the individual should carry out further checks to confirm the breach has occurred.

Where the individual does not know the facts or events, it will usually be appropriate to check with the Head of Pension Fund Investment, the Director, Financial Management or the Group Director, Finance and Corporate Resources at Hackney Council, a member of the Pensions Committee or Pension Board or others who are able to explain what has happened. However there are some instances where it would not be appropriate to make further checks, for example, if the individual has become aware of theft, suspected fraud or another serious offence and they are also aware that by making further checks there is a risk of either alerting those involved or hampering the actions of the police or a regulatory authority. In these cases The Pensions Regulator should be contacted without delay.

3. Determining whether the breach is likely to be of material significance

To decide whether a breach is likely to be of material significance an individual should consider the following, both separately and collectively:

- cause of the breach (what made it happen)
- effect of the breach (the consequence(s) of the breach)
- reaction to the breach
- wider implications of the breach.

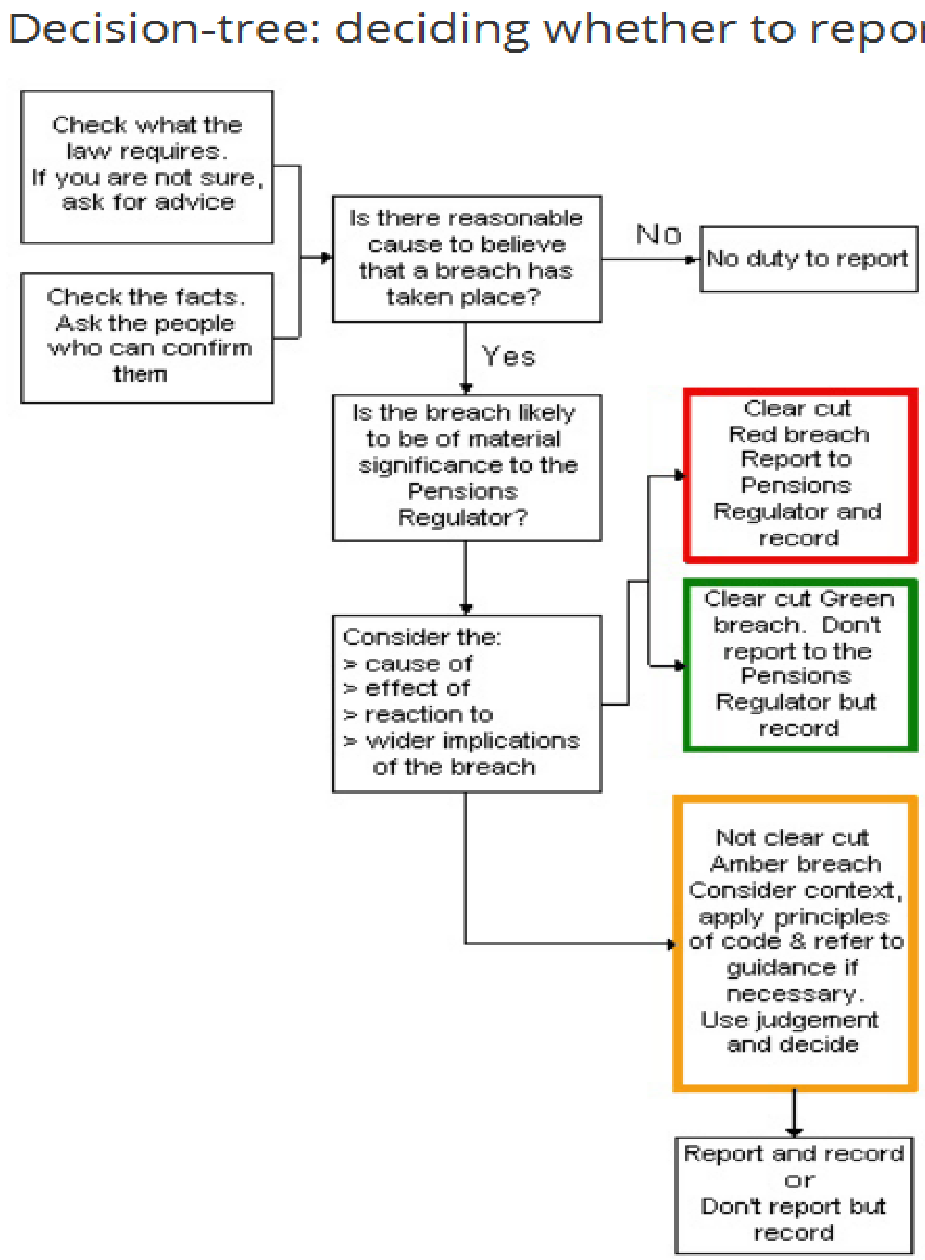
Individuals may also request the most recent breaches report from the Head of Pension Fund Investment, the Director, Financial Management or the Group Director, Finance and Corporate

Resources, as there may be details on other breaches which may provide a useful precedent on the appropriate action to take.

Further details on the above four considerations are provided in Appendix A to this procedure.

The individual should use the traffic light framework described in Appendix B to help assess the material significance of each breach and to formally support and document their decision.

A decision tree is provided below to show the process for deciding whether or not a breach has taken place and whether it is materially significant and therefore requires to be reported.



4. Referral to a level of seniority for a decision to be made on whether to report

Hackney Council has designated officers (Head of Pension Fund Investment, the Director, Financial Management or the Group Director, Finance and Corporate Resources) to ensure this procedure is appropriately followed. They are considered to have appropriate experience to help investigate whether there is reasonable cause to believe a breach has occurred, to check the law and facts of the case, to maintain records of all breaches and to assist in any reporting to The Pensions Regulator, where appropriate.

If breaches relate to late or incorrect payment of contributions or pension benefits, information the matter should be highlighted to the Head of Pension Fund Investment, the Director, Financial Management or the Group Director, Finance and Corporate Resources at the earliest opportunity to ensure the matter is resolved as a matter of urgency.

Individuals must bear in mind, however, that the involvement of the Head of Pension Fund Investment, the Director, Financial Management or the Group Director, Finance and Corporate Resources is to help clarify the potential reporter's thought process and to ensure this procedure is followed. The reporter remains responsible for the final decision as to whether a matter should be reported to The Pensions Regulator.

The matter should not be referred to either of these officers if doing so will alert any person responsible for a possible serious offence to the investigation (as highlighted in section 2). If that is the case, the individual should report the matter to The Pensions Regulator setting out the reasons for reporting, including any uncertainty – a telephone call to the Regulator before the submission may be appropriate, particularly in more serious breaches.

5. Dealing with complex cases

The Head of Pension Fund Investment, the Director, Financial Management or the Group Director, Finance and Corporate Resources may be able to provide guidance on particularly complex cases. Guidance may also be obtained by reference to previous cases, information on which will be retained by Hackney Council, or via discussions with those responsible for maintaining the records. Information may also be available from national resources such as the Scheme Advisory Board or the LGPC Secretariat (part of the LG Group - http://www.lgpsregs.org/).

If timescales allow, legal advice or other professional advice can be sought and the case can be discussed at the next Committee or Board meeting.

6. Timescales for reporting

The Pensions Act and Pension Regulators Code requires that if an individual decides to report a breach, the report must be made in writing as soon as reasonably practicable. Individuals should not rely on waiting for others to report and nor is it necessary for a reporter to gather all the evidence which The Pensions Regulator may require before taking action. A delay in reporting may exacerbate or increase the risk of the breach. The time taken to reach the judgements on “reasonable cause to believe” and on “material significance” should be consistent with the speed implied by ‘as soon as reasonably practicable’. In particular, the time taken should reflect the seriousness of the suspected breach.

7. *Early identification of very serious breaches*

In cases of immediate risk to the scheme, for instance, where there is any indication of dishonesty, The Pensions Regulator does not expect reporters to seek an explanation or to assess the effectiveness of proposed remedies. They should only make such immediate checks as are necessary.

The more serious the potential breach and its consequences, the more urgently reporters should make these necessary checks. In cases of potential dishonesty the reporter should avoid, where possible, checks which might alert those implicated. In serious cases, reporters should use the quickest means possible to alert The Pensions Regulator to the breach.

8. Recording all breaches even if they are not reported

The record of past breaches may be relevant in deciding whether to report a breach (for example it may reveal a systemic issue). Hackney Council will maintain a record of all breaches identified by individuals and reporters should therefore provide copies of reports submitted to The Pensions Regulator to the Head of Pension Fund Investment, the Director, Financial Management or the Group Director, Finance and Corporate Resources. Records of unreported breaches should also be provided to the Head of Pension Fund Investment, the Director, Financial Management or the Group Director, Finance and Corporate Resources as soon as reasonably practicable and certainly no later than within 20 working days of the decision made not to report. These will be recorded alongside all reported breaches. The record of all breaches (reported or otherwise) will be included in the quarterly Monitoring Report at each Pension Committee, and this will also be shared with the Pension Board.

Reporting a breach

Reports must be submitted in writing via The Pensions Regulator's online system at www.tpr.gov.uk/exchange, or by post, email or fax, and should be marked urgent if appropriate. If necessary a written report can be preceded by a telephone call.

Reporters should ensure they receive an acknowledgement for any report they send to The Pensions Regulator. The Pensions Regulator will acknowledge receipt of all reports within five working days and may contact reporters to request further information. Reporters will not usually be informed of any actions taken by The Pensions Regulator due to restrictions on the disclosure of information.

As a minimum, individuals reporting should provide:

- full scheme name (London Borough of Hackney Pension Fund)
- description of breach(es)
- any relevant dates
- name, position and contact details
- role in connection to the scheme
- employer name or name of scheme manager (the latter is Hackney Council).

If possible, reporters should also indicate:

- the reason why the breach is thought to be of material significance to The Pensions Regulator
- scheme address (provided at the end of this procedures document)
- scheme manager contact details (provided at the end of this procedures document)
- pension scheme registry number
- whether the breach has been reported before.

The reporter should provide further information or reports of further breaches if this may help The Pensions Regulator in the exercise of its functions. The Pensions Regulator may make contact to request further information.

Confidentiality

If requested, The Pensions Regulator will do its best to protect a reporter's identity and will not disclose information except where it is lawfully required to do so.

If an individual's employer decides not to report and the individual employed by them disagrees with this and decides to report a breach themselves, they may have protection under the Employment Rights Act 1996 if they make an individual report in good faith.

Reporting to Pensions Committee

A report will be presented to the Pensions Committee on a quarterly basis setting out:

- all breaches, including those reported to The Pensions Regulator and those unreported, with the associated dates.
- in relation to each breach, details of what action was taken and the result of any action (where not confidential)
- any future actions for the prevention of the breach in question being repeated
- highlighting new breaches which have arisen in the last year/since the previous meeting.

This information will also be provided upon request by any other individual or organisation (excluding sensitive/confidential cases or ongoing cases where discussion may influence the proceedings).

An example of the information to be included in the quarterly reports is provided in Appendix C to this procedure.

Review

This Reporting Breaches Procedure was originally developed in June 2015, with changes made in July 2018 to reflect changes to both the operational structure of the Financial Services team and the management structure of the Council. It will be kept under review and updated as considered appropriate by the Head of Pension Fund Investment, the Director, Financial Management or the Group Director, Finance and Corporate Resources. It may be changed as a result of legal or regulatory changes, evolving best practice and ongoing review of the effectiveness of the procedure.

Further Information

If you require further information about reporting breaches or this procedure, please contact:

Rachel Cowburn
Head of Pension Fund Investment
London Borough of Hackney Pension Fund
Hackney Council
4th \Floor, Hackney Service Centre
1, Hillman Street
London
E8 1DY

Designated officer contact details:

1) Head of Pension Fund Investment – Rachel Cowburn

E-mail rachel.cowburn@hackney.gov.uk

Telephone 020 8356 2630

2) Director, Financial Management – Michael Honeysett

E-mail michael.honeysett@hackney.gov.uk

Telephone 020 8356 3332

2) Group Director, Finance and Corporate Resources – Ian Williams

E-mail ian.williams@hackney.gov.uk

Telephone 020 8356 3003

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)

Appendix A – Determining whether a breach is likely to be of material significance

To decide whether a breach is likely to be of material significance individuals should consider the following elements, both separately and collectively:

- cause of the breach (what made it happen)
- effect of the breach (the consequence(s) of the breach)
- reaction to the breach
- wider implications of the breach

The cause of the breach

Examples of causes which are likely to be of concern to The Pensions Regulator are provided below:

- Acting, or failing to act, in deliberate contravention of the law.
- Dishonesty.
- Incomplete or inaccurate advice.
- Poor administration, i.e. failure to implement adequate administration procedures.
- Poor governance.
- Slow or inappropriate decision-making practices.

When deciding whether a cause is likely to be of material significance individuals should also consider:

- whether the breach has been caused by an isolated incident such as a power outage, fire, flood or a genuine one-off mistake
- whether there have been any other breaches (reported to The Pensions Regulator or not) which when taken together may become materially significant

The effect of the breach

Examples of the possible effects (with possible causes) of breaches which are considered likely to be of material significance to The Pensions Regulator in the context of the LGPS are given below:

- Committee/Board members not having enough knowledge and understanding, resulting in pension boards not fulfilling their roles, the scheme not being properly governed and administered and/or scheme managers breaching other legal requirements
- Conflicts of interest of Committee or Board members, resulting in them being prejudiced in the way in which they carry out their role and/or the ineffective governance and administration of the scheme and/or scheme managers breaching legal requirements
- Poor internal controls, leading to schemes not being run in accordance with their scheme regulations and other legal requirements, risks not being properly identified and managed and/or the right money not being paid to or by the scheme at the right time
- Inaccurate or incomplete information about benefits and scheme information provided to members, resulting in members not being able to effectively plan or make decisions about their retirement
- Poor member records held, resulting in member benefits being calculated incorrectly and/or not being paid to the right person at the right time
- Misappropriation of assets, resulting in scheme assets not being safeguarded

- Other breaches which result in the scheme being poorly governed, managed or administered

The reaction to the breach

A breach is likely to be of concern and material significance to The Pensions Regulator where a breach has been identified and those involved:

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

The wider implications of the breach

Reporters should also consider the wider implications when deciding whether a breach must be reported. The breach is likely to be of material significance to The Pensions Regulator where the fact that a breach has occurred makes it more likely that further breaches will occur within the Fund or, if due to maladministration by a third party, further breaches will occur in other pension schemes.

Appendix B - Traffic light framework for deciding whether or not to report

Hackney Council recommends those responsible for reporting to use the traffic light framework when deciding whether to report to The Pensions Regulator. This is illustrated below:

All breaches should be recorded even if the decision is not to report.

Red

Where the cause, effect, reaction and wider implications of a breach, when considered together, are likely to be of material significance.

These must be reported to The Pensions Regulator.

Example: Several members' benefits have been calculated incorrectly. The errors have not been recognised and no action has been taken to identify and tackle the cause or to correct the errors.

Amber

Where the cause, effect, reaction and wider implications of a breach, when considered together, may be of material significance. They might consist of several failures of administration that, although not significant in themselves, have a cumulative significance because steps have not been taken to put things right. You will need to exercise your own judgement to determine whether the breach is likely to be of material significance and should be reported.

Example: Several members' benefits have been calculated incorrectly. The errors have been corrected, with no financial detriment to the members. However the breach was caused by a system error which may have wider implications for other public service schemes using the same system.

Green

Where the cause, effect, reaction and wider implications of a breach, when considered together, are not likely to be of material significance.

These should be recorded but do not need to be reported.

Example: A member's benefits have been calculated incorrectly. This was an isolated incident, which has been promptly identified and corrected, with no financial detriment to the member. Procedures have been put in place to mitigate against this happening again.

When using the traffic light framework individuals should consider the content of the red, amber and green sections for each of the cause, effect, reaction and wider implications of the breach, before you consider the four together. Some useful examples of this is framework is provided by The Pensions Regulator at the following link

http:// www.thepensionsregulator.gov.uk/codes/code-related-report-breaches.aspx

Appendix C – Example Record of Breaches

Date	Category (e.g. administration, contributions, funding, investment, criminal activity)	Description and cause of breach	Possible effect of breach and wider implications	Reaction of relevant parties to breach	Reported / Not reported (with justification if not reported and dates)	Outcome of report and/or investigations	Outstanding actions

*New breaches since the previous meeting should be highlighted

REPORT OF THE GROUP DIRECTOR, FINANCE AND CORPORATE RESOURCES		
Pension Fund Administration Annual Report 2017/18 **Pensions Committee** **23 July 2018**	**Classification** **Public** **Ward(s) affected** **ALL**	**Enclosures:** **None** **AGENDA ITEM NO.**

1. INTRODUCTION

1.1 This report outlines the work undertaken by the London Borough of Hackney and the performance of the pension fund administrators, in regard to the administration of the LGPS Hackney Pension Scheme for the financial year 2017/18. The contract for pension administration, and pension payroll, is managed externally by the Fund's pension administrators, Equiniti, with the contract being overseen by the Financial Services Section of the London Borough of Hackney.

2. RECOMMENDATIONS

2.1 The Pensions Committee is recommended to note the report.

3. RELATED DECISIONS

- Pensions Committee - Special (25 March 2017) - Procurement of Third Party Pension Administration Services – Approve the award of contract
- Pensions Committee (24 January 2017) - Procurement of Third Party Pension Administration Services - Update (Exempt)
- Pensions Committee (6 December 2016) - Procurement of Third Party Pension Administration Services (Exempt)

- Pensions Sub-Committee (17 January 2013) – Pensions Administration Contract, approval of 3 year extension
- Pensions Sub-Committee (9 December 2008) – Procurement of Pension Scheme Administrator and Pension Payroll Provider

4. COMMENTS OF THE GROUP DIRECTOR, FINANCE AND CORPORATE RESOURCES

4.1 The costs of administration as a whole for the Pension Fund are relatively small compared to the overall value for the Fund. The cost in 2017/18 was £827k, compared to £539k in 2016/17. This increase was the result of significant increases to the cost of the Fund's administration contract in year and the additional cost of carrying out a GMP reconciliation exercise. The implementation of the new Third Party Administration contract during 2018/19 should see this overall cost reduce.

4.2 It is evident that having efficient administration is crucial to the effective management of the Pension Fund. The cost is made up of the cost of the third party administrators, including the administration of the pension payroll, and the internal costs of administering the Fund. This year the average cost of administering the Fund per member was £36.07 based on the current cost and membership at 31 March 2018, compared to £23.14 at 31 March 2017.

4.2 Good administration is key to ensuring that the Fund is able to meet its pension commitments in a timely manner and will avoid additional charges to the Fund from late payments and fines. The administration of the Pension Fund is closely monitored by officers of the Council to ensure efficient service delivery.

5. COMMENTS OF THE DIRECTOR OF LEGAL AND GOVERNANCE

5.1 The Local Government Pension Scheme Regulations 2013 set out in detail the administration of the Pension Scheme and how the Scheme rules are to be applied. If these were to be applied incorrectly then this would pose a risk to the Pension Fund.

5.2 The Pensions Committee, acting in its capacity as the Trustee of the Pension Fund, has responsibilities to ensure that the Fund is managed in accordance with the regulations. Receiving regular updates on the performance of the administration function will assist the Committee in ensuring that it fulfils its regulatory obligations under the Local Government Pension Scheme Regulation.

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

6. SUMMARY

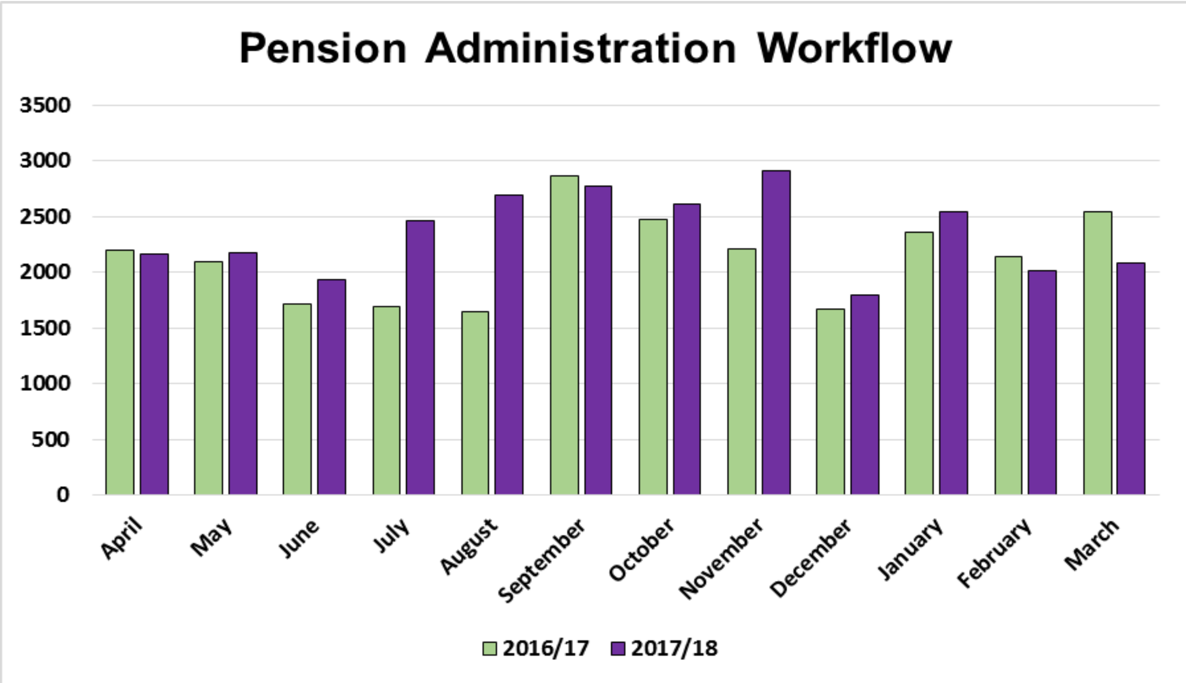
6.1 The pension administrators, Equiniti, have a dedicated team of qualified pension professionals who manage the day to day administration of the scheme on behalf of the London Borough of Hackney. The contract is monitored by the Financial Services Section of the London Borough of Hackney on a monthly basis and performance is measured against Service Level Agreements (SLA). Over the year the pension administrators handled 28,142 cases, an increase of 2,453 on the previous year of 25,598.

6.2 Overall performance against the SLA has shown a slight decrease for 2017/18 at 94.4%, compared to 97.1% for 2016/17, which can be attributed to the increased workflow and the continued difficulties faced by the administrators due to the Council's inability in providing any quality reporting since changing payroll provider in July of 2017. Despite these ongoing difficulties, Equiniti have successfully issued 5,762 annual benefit statements to active members, and 7,288 benefit statements to deferred members, including Councillors.

7. ADMINISTRATION PERFORMANCE

7.1 The performance of the pension fund administrators, Equiniti, is monitored by the Financial Services Section at Hackney Council. Meetings are held monthly to discuss performance against service level agreements, workflows, data cleanse issues and planning of future work projects. Meetings also include discussion of specific administration cases and recommendations for enhancements to the service provision both to Hackney and to members of the scheme.

7.2 Over the last year the total cases received by the administrators has increased significantly from 25,598 cases in 2016/17 to 28,142 in 2017/18, an increase of 9.5% on the previous year. The average number of cases received monthly has increased from 2,133 in the previous year, to 2,346 in 2017/18. The number of cases for 2017/18 in comparison to 2016/17 is shown in the chart below:-



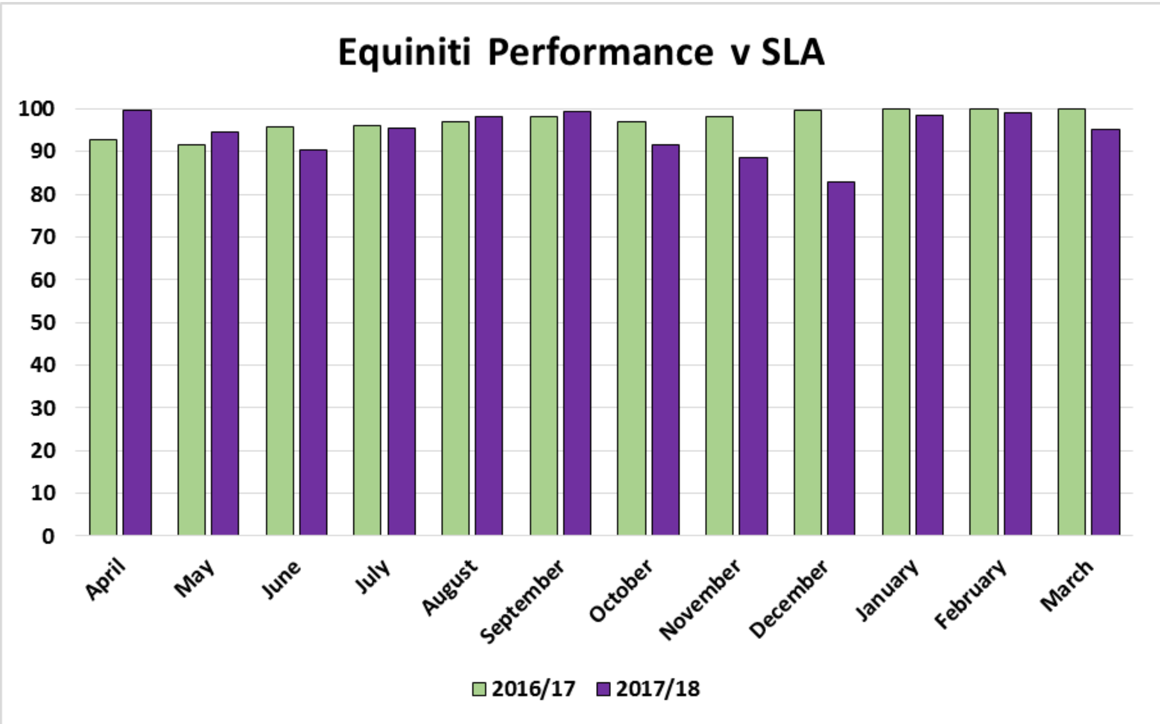
7.3 The increase has been due to the continued lack of a monthly payroll interface from the Council, the largest employer, which means all starters, opt-outs, leavers and change notifications are being processed manually. Following the issue of approx 4,300 active statements in early September, the caseload increased from then through to November 2017 due to additional data cleansing and verification being done manually on member records, in order to issue further batches of active benefit statements by end of December.

7.4 The lack in quality data received from the Council, and the payroll provider, continues to have a significant impact on workloads, with data cleansing and validation being a priority for the annual benefit statements. 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 update member records sufficiently to produce some of the annual benefit statements within the regulatory timeframe.

7.5 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 2017, and the Council was obliged, again, 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.

7.6 Performance under the pension administration contract when compared to the service level agreement (SLA), was 94.4% for 2017/18 as a whole, which is a slight decrease on 97.1% in 2016/17. This in its self is an achievement considering the difficulties the administrators had to overcome again this year. The performance v SLA over 2017/18 in comparison to 2016/17 is shown in the chart below:-



7.7 In addition to dealing with the day to day administration cases, Equiniti have also undertaken a number of tasks on behalf of the Fund, some of which are listed below:

- The year end pension payroll process has been completed for both the monthly and annual payrolls including the application of the pension increase (PI), reconciliation of the payrolls, production of P60s and reporting to HMRC

- System year end update of pension increase; Lifetime Allowance and Annual Allowance earnings and contribution histories was completed

- Certificates of Continued Entitlement (life certificates) were issued to all overseas pensioners and pensioners over the age of 80. This revealed 3 deaths that had not been previously notified to the administrators and 4 people who require power of attorney as they could no longer manage their own affairs.

- Data submissions:
  - FRS17 data submitted to the Actuary for 14 employers
  - Data submission for Club Vita longevity studies
  - 3 cessation valuation calculations for ceased employers
  - Monthly HEAT data capture report to the Actuary

- Overpayment of pensions - identified overpayments to a value of £92,862.03. These were as a result of late death notifications and re-employment cases. To date £41,817.23 has been recovered.

7.8 Employers and schools administration performance has been monitored over the year, and assistance and additional training has been provided to help support them with administering the scheme to ensure more accurate data is provided to Equiniti. Additional administration charges have been issued to a number of employers where persistent failure to deliver accurate and timely information, despite support, has arisen. In most instances there was a 1 or 2 day delay in getting the contribution payment or supporting data to Equiniti, and employers have been reminded of the regulatory requirements to ensure payments due to the Fund are made by the 19th of the month.

8. OTHER WORK UNDERTAKEN IN 2017/18

8.1 Third Party Administration contract

The administration contract with Equiniti commenced on 1 April 2009 for an initial period of 5 years, and approval was given on 1 April 2014 to extend for a further 3 years until 31 March 2017. A short term contract extension to 31 December 2017 was 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 any new provider in July 2017.

Following the 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. However, due to issues with the service specifications, interfaces not ready for testing, the administration system at Equiniti is yet to be reconfigured to accept the full monthly data reports, it was agreed by both parties to delay the contract commencement date of 1 January 2018 to 1 April 2018

Despite good progress being made in many areas of the new specification during the *'go-live'* extension period, there were still a number of essential points of delivery that had yet to be completed such as monthly interface, monthly MI reporting in relation to SLAs and KPIs, website & secure portal with guides and factsheets. Due to these continued delays, the Council has agreed to once again extend the commencement date from 1 April to 1 July 2018

8.2 Ill Health Pension Benefits.

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 HR team with the process for the release of active member's benefits on the grounds of ill health.

Active members' ill health pensions are released on one of 3 tiers, depending on the severity of the condition under which they are being retired:

- Tier 1 - the pension benefits are fully enhanced to the member's normal retirement date – 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.

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.

A breakdown of the number of active and deferred cases that were processed for 2017/18 is provided below, compared to the previous year:

DEFERRED MEMBER'S ILL HEALTH RETIREMENT CASES					
	CASES RECEIVED	SUCCESSFUL	UNSUCCESSFUL	ONGOING	WITHDRAWN
2017/18	10	5	2	2	1
2016/17	20	13	5	0	2

ACTIVE MEMBER'S ILL HEALTH RETIREMENT CASES					
	CASES RECEIVED	BENEFITS RELEASED ON TIER 1	BENEFITS RELEASED ON TIER 2	BENEFITS RELEASED ON TIER 3	UNSUCCESSFUL
2017/18	6	4	0	2	0
2016/17	3	3	0	0	0

8.3 Quarterly Newsletter – Employers/Schools

The in-house pension team continue to produce their quarterly Newsletter to employers (and schools) in the Fund. Over the last year, the newsletter has covered the actuarial valuation; the proposed exit cap; details of State Pension Age increases; the role of the Pensions Regulator; raising awareness of the 50/50 section of the scheme; GDPR effective 25 May 2018; feedback on the employer forum and details of the year-end processes for employers to provide the information needed to produce the 2018 annual benefit statements. Feedback on the newsletter has been positive and it is well received.

8.4 Pre-retirement workshops

During Q4 of 2017/18, the Pensions Team have set up a series of 'Pre-retirement workshops', aimed at members who are thinking of retiring within the next 2 to 5 years. These workshops will begin in May 2018 and run bi-monthly until January 2019, and will be in conjunction with a company called Affinity Connect. Affinity specialise in providing seminars/workshops on various aspects of pension and employment issues, such as retirement (as mentioned), mid-career financial planning and redundancy. Affinity provide the facilitator, learning material and bookings for the seminars/workshops free of charge to the Fund. If this first series of workshops is successful, we aim to roll these workshops out on an annual basis.

8.5 Annual Employer's Forum

The annual Employer Forum was held on 9 March 2018, and was attended by 14 of the Fund employers, including 7 schools. The Forums agenda was varied and covered subjects from employer roles and responsibilities, year-end timetable & processes, and the commencement of GDPR from 25 May 2018. Equiniti presented on the importance of correct & timely data; AON provided a presentation on *'pension hot topics'*; the Pensions Regulator (tPR) on the importance of compliance with COP14, and finally the Prudential on AVCs.

8.6 New & Ceasing Employers

During the year the Fund has admitted 2 new scheduled employers and 3 employers' contracts have ceased; breakdown is as follows:

Employer	Date Joined	Date Ceased	Deficit upon Ceasing Y/N
The Boxing Academy (conversion)	01/05/2017		
COLASP (City of London Academy, Shoreditch Park)	01/09/2017		
P J Naylor Cleaning Services		31/07/2017	N
Outward		31/12/2017	awaiting
Family Solutions		05/01/2018	awaiting

At the time of writing this report, there are 2 cessation valuations outstanding, this is due to some data anomalies that the Fund's actuary is currently clarifying with Equiniti. It is not expected that the ceasing employers' valuation results will be in deficit.

8.7 Redundancy Exercises for Departmental Budget Purposes

In 2017/18, the in-house pensions' team received a total of 496 redundancy estimate requests, some of these were for members over the age of 55 who will have pension released. The team provided leaver paperwork for 77 employees who were made redundant. Breakdown of requests is provided below:-

Age Group	Redundancy Estimate Requested	Leaver Paperwork Provided
Under 55 – without pension	335	44
Over 55 – with pension	161	33
Total	**496**	**77**

8.8 Employer Data Audit

The Funds Benefits & Governance Consultants, AON, were again asked to carry out a review the quality of data being supplied to the Pension Fund from its employers. Equiniti and officers at the Council co-operated fully with AON in regard to data gathering and providing relevant evidence for the report. The report, published in June 2017, key findings included:

- A handful of employers failing to provide an annual return
- Most are providing a monthly return, although approximately 1/3rd do not provide this in a consistently timely manner. The same applies to payment of contributions.
- Many employers still score poorly on accuracy, with difficulties in reconciling contributions paid to pensionable pay. Annual returns are generally worse affected than the monthly reporting.
- A small number of providers are responsible for the provision of data for a large majority of the membership. Significant issues have previously been reported in connection with these providers, and this remains a significant risk.

A number of the issues where they relate to the provision of data by the Council itself, have been addressed with the transition of payroll provider from Resourcelink to iTrent during July 2017. Additional support and training has been provided to other employers to assist with making improvements to accuracy of data and timeliness, but as a last result, charges are levied where employers continually fail to provide either information or payment in a timely fashion

8.9 Weekly Inductions

In the last year, the in-house Pensions team based at the Council, have presented at weekly induction sessions for 395 new employees, ensuring they are provided with information on the benefits of the Pension Scheme. Feedback from these sessions continues to be extremely positive, with 323 of those who attended felt the sessions were either 'excellent' or 'very good' and leave the sessions having a better understanding of the scheme and its benefits.

9. THE PENSIONS REGULATOR (tPR)

9.1 Following the Pensions Regulator assuming responsibility for setting standards of governance and administration in public service pension schemes, 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.

9.2 The Code requires Schemes 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

9.3 Therefore as detailed in paragraph 7.5 of this report, the March 2017 annual benefit statements could not be issued to **all** members 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 for the 3rd year:

- **June 2017** - failing to issue all active benefit statements by 31 August 2017. However, all statements for deferred members were issued by the deadline, along with approximately 4,300 statements for active members. An action plan agreed with Equiniti, and the remaining 2,400 statements to be issued by mid-October, and we will continue dialogue with tPR on progress.
    - tPR did not impose a fine providing statements issued by agreed extended deadline.

- **November 2017** - failing to issue remaining active benefit statements by mid-October, after extended deadline had been agreed with the Regulator. A batch of 783 were sent early October, the remaining 1,600 records had insufficient data to produce a statement. Action plan was agreed to clear the data queries and a commitment to issue the outstanding statements by 31 December 2017.
    - tPR did not impose a fine providing statements issued by agreed deadline.

9.4 At the time of writing (July 2018), work continues on the remaining 1,600 data queries which relate to LB Hackney employees, and good progress has been made with approx 1,200 records being resolved by the in-house pension team. The remaining 400 data queries, are unconfirmed leavers and/or opt-outs and once the correct information has been received from payroll, the record will be corrected and a deferred benefit statement issued.

Ian Williams
Group Director, Finance & Corporate Resources

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Financial Considerations: Michael Honeysett ☎020-8356 3332
Legal Considerations: Patrick Rodger ☎020-8356 6187

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Hackney

REPORT OF THE GROUP DIRECTOR OF FINANCE AND CORPORATE RESOURCES		
Administering Authority Discretions Policies **Pensions Committee** **23rd July 2018**	**Classification** **PUBLIC** **Ward(s) affected** **ALL**	**Enclosures** **None** **AGENDA ITEM NO.**

1. INTRODUCTION

1.1 This report proposes amendments to the existing Administering Authority discretions policies following regulatory changes in 2013. The policies were last reviewed by the Committee in June 2012 as part of a regular review. The policies should be reviewed regularly and also when there are changes in the Local Government Pension Scheme (LGPS) regulations that impact the existing policies.

2. RECOMMENDATIONS

2.1 The Pensions Committee is recommended to:

- **Approve the amended Administering Authority discretions policies**

3. RELATED DECISIONS

- Pensions Committee 23rd July 2018 – Admissions Policy
- Pensions Committee 29th September 2014 – Admnistering Authority Discretions Policies

3.1 COMMENTS OF THE GROUP DIRECTOR OF FINANCE & CORPORATE RESOURCES

4.1 Ensuring that the Fund has clear policies in place in relation to Administering Authority. discretions helps maintain proper financial governance of the Fund. Some of the areas where the regulations permit discretion can impact the financial health of the Fund or change its exposure to certain risk factors; ensuring that clear policies are in place helps maintain a consistent and prudent approach to these areas.

4.2 There are no immediate financial implication arising from this report

4. COMMENTS OF THE DIRECTOR OF LEGAL AND GOVERNANCE

5.1 Hackney Council, as administering authority to the London Borough of Hackney Pension Fund, has determined its discretionary policies in accordance with the Local Government Pension Scheme Regulations 2013 (as amended), and related legislation, and these are outlined in the attached statement.

5.2 The content of these policies has been reviewed in line with current legislation. The Council will exercise these discretions in line with the provisions of the various LGPS Regulations and other legislation. Nothing within this statement can overwrite the legal requirements within those provisions.

5.3 These policies do not give, nor shall they be deemed to give, any contractual rights to any member of the Pension Fund, or to any other person whatsoever. Nothing in this document will cause the Administering Authority's capacity to exercise its discretionary powers to be unlawfully fettered or restricted in any way

5.4 The Council will review the policies within this statement as required in the light of future changes to the LGPS legislation or other relevant legislation. It will also be reviewed at least every three years.

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

5. BACKGROUND/TEXT OF THE REPORT

6.1 The London Borough of Hackney under the terms of the LGPS regulations acts as the Administering Authority for the London Borough of Hackney Pension Fund. Under the terms of the Constitution of the Council, delegated powers over the Pension Fund have been given to the Pensions Committee to act as quasi-trustee of the Pension Fund.

6.2 The LGPS Regulations 2013 contain a number of areas where the Administering Authority can exercise its discretion and policies must be made and published relating to a number of these. Administering Authority discretions policies apply to all employers (and their scheme members) who participate in the Pension Fund. Since 2005, the London Borough of Hackney has published its discretions policies in an amalgamated statement and, in line with good practice, these policies have been formally reviewed every three to four years.

6.3 This update to the statement represents a routine review, ensuring that the list of discretions is complete and existing policies are still appropriate. Changes have been made to accommodate changes to the governance structure of the Fund since the last review, as well as changes to the management team.

6.4 The attached appendix to this report sets out the updated Statement of Administering Authority Discretions Policies, showing each area of discretion and the proposed Hackney Pension Fund policy. The attached Statement highlights:

- where a new discretionary policy has been added (yellow)
- where it is proposed that the existing policy be changed (turquoise) together with the reason for the change.

6.5 Most of the changes are updates to account for a change of decision maker following a team restructure. The most significant changes have been to add new policies in relation to the Pension Board and a change of regulation around exit credits to ceasing employers. .

6.6 There are a number of areas in which Hackney Council can also exercise discretionary powers as an employer in the Pension Fund. These are also due for review during the year and will once prepared will be approved by the Group Director, Finance and Corporate Resources.

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LONDON BOROUGH OF HACKNEY PENSION FUND

STATEMENT OF ADMINISTERING AUTHORITY DISCRETIONS POLICIES

Administering Authority statement of policy on discretions – effective 1 August 2018

Introduction

Hackney Council, as administering authority to the London Borough of Hackney Pension Fund, has determined its discretionary policies in accordance with the Local Government Pension Scheme Regulations 2013 (as amended), and related legislation, and these are outlined in this statement. We will apply these policies to all members of the Pension Fund, regardless of who their employer is. Where relevant, these policies equally apply to members who left pensionable service prior to 1 April 2014 (albeit only in relation to discretions exercised since the effective date of these policies), to councillor members and to pension credit members.

We reviewed and updated the content of these policies in line with current legislation. These amended policies were approved at the Hackney Council Pension Committee on 23 July 2018 and are effective from 1 August 2018 unless stated otherwise within this statement.

We retain the right to change these policies at any time as long as we republish the amended policy at least within one month of when the change(s) we are introducing come(s) into effect.

These policies do not give, nor shall they be deemed to give, any contractual rights to any member of the Pension Fund, or to any other person whatsoever. Nothing in this document will cause the Administering Authority's capacity to exercise its discretionary powers to be unlawfully fettered or restricted in any way.

We will exercise these discretions in line with the provisions of the various LGPS Regulations and other legislation. Nothing within this statement can overwrite the legal requirements within those provisions.

We will review the policies within this statement as required in the light of future changes to the LGPS legislation or other relevant legislation. It will also be reviewed at least every three years.

Administering Authority Discretions under the Local Government Pension Scheme

[Key to changes – to be removed before final publication on Pension Fund website as well as final column

- ***New discretion/policy or an existing provision that was not previously included***
- ***Change to existing policy – explained in final column]***

Ref	Regulation Reference (see key at end)	Description of Discretion	London Borough of Hackney Pension Fund Policy	*Description of Change where applicable*
	Key Strategies and Policies			
1	**R13 - 55**	Publish a Governance Policy stating how functions are delegated and whether the Administering Authority complies with guidance given by the Secretary of State	A copy of the current Governance Policy can be found on the Pension Fund's website.	
2	**R13 - 58**	Decide on the Funding Strategy for inclusion in funding strategy statement	Agreed in co-operation with actuary. A copy of the current Funding Strategy can be found on the Pension Fund's website.	
3	**R13 - 61**	Develop a Communication Policy setting out how the Administering Authority communicates with members, representatives of members, prospective members and employing authorities and the format, frequency and method of communications	A copy of the current Communications Policy can be found on the Pension Fund's website.	
4	**R13 – 59(1) and (2)**	Decide whether to have a written Pensions Administration Strategy and, if so, the matters it should include	A copy of the current Administration Strategy can be found on the Pension Fund's website.	

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Ref	Regulation Reference (see key at end)	Description of Discretion	London Borough of Hackney Pension Fund Policy	*Description of Change where applicable*
Scheme Management				
5	R13 – 105(2)	Whether to delegate any administering authority functions under the Regulations	The Administering Authority does delegate certain functions to senior officers and to the Pension Committee as appropriate. Details of these are set out in the Council's Constitution and summarised in the Governance Policy.	*New*
6	R13 – 106(3)	Whether to establish a joint local pensions board (if approval has been granted by the Secretary of State)	The Administering Authority did not establish a joint pension board	*New*
7	R13 – 106(6)	Decide procedures applicable to the local pensions board	Procedures have been decided, and are detailed in the local pension board's terms of reference	*New*
8	R13 – 107(1)	Decide appointment procedures, terms of appointment, and membership of the local pensions board	The appointment procedures and terms have been decided, and are detailed in the local pension board's terms of reference. The membership of the local pension board is set out on the Pension Fund's website.	*New*
Disputes				
9	R13 – 74(1) A58 R97 - 100	Appoint a person for dealing with applications under Stage One of the dispute resolution procedures (IDRP) in relation to any disputes relating to the role as Administering Authority (includes in relation to councillor members)	The Head of Pensions Administration will act as the Stage One IDRP assessor for Administering Authority disputes. Where the Head of Pensions Administration has previously been involved in the case, the Head of Pension Fund Investments will carry out this role.	*Change in decision maker to ensure independence*

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Ref	Regulation Reference (see key at end)	Description of Discretion	London Borough of Hackney Pension Fund Policy	*Description of Change where applicable*
10	**R13 – 76(4)** **A60(8)** **R97 - 99**	Decide the procedure to be followed by the Administering Authority when exercising its Stage Two IDRP functions (includes in relation to councillor members)	Stage 2 determinations are dealt with by the Group Director, Finance and Corporate Resources of the London Borough of Hackney, after obtaining relevant advice and guidance.	
11	**R13 – 79(2)** **A63(2)** **R97 – 105(1)**	Whether Administering Authority should appeal to the Secretary of State against an employer decision (or lack of a decision) – includes in relation to councillor members.	The Fund will appeal to the Secretary of State when there is sufficient evidence that an employer has made a decision or committed an act (or failed to act) that is both wrong in law and material, where we have been unable to persuade the employer to alter its actions (or inactions). Such matters will be decided by the Head of Pension Fund Investment.	*Change in decision maker*
Admission Agreements and Employer Management				
12	**R13 – 3(5) and Sch 2, Part 3, Para 1**	Whether to agree to an admission agreement with an external employer.	Please see our separate Admissions Policy.	*Minor change to add in another regulation reference*
13	**R13 – Sch2, Part 3, Para 14**	Whether to backdate the effective date of an admission agreement with an external employer.	Please see our separate Admissions Policy.	*New*
14	**R13 – 4(2)(b)**	Whether to agree to an admission agreement with a Care Trust, NHS Scheme employing authority or Care Quality Commission	This will be subject to agreement by the Pension Committee.	

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Ref	Regulation Reference (see key at end)	Description of Discretion	London Borough of Hackney Pension Fund Policy	*Description of Change where applicable*
15	**R13 – Sch 2, Part 3, para 9(d)**	Whether to terminate a transferee admission agreement in the event of • insolvency, winding up or liquidation of the body • breach by that body of its obligations under the admission agreement • failure by that body to pay over sums due to the Fund within a reasonable period of being requested to do so	Please see separate Admissions Policy.	
16	**R13 – Sch 2, Part 3, para 12(a)**	Employees of a contractor are only entitled to remain in the LGPS whilst they continue to be employed in connection with the original services that were transferred. This expression should be defined by the Administering Authority.	This is defined as meaning an employee will be expected to work at least 50% of their time on the services covered by the contract to remain in the LGPS.	
17	**R13 - 54(1)**	Whether to set up a separate admission agreement fund	Please see our separate Admissions Policy.	
18	**R13 – 64(2A)**	Whether to suspend, for up to 3 years, an employer's obligation to pay an exit payment where the employer is again likely to have active members within the specified period of suspension.	This will be decided by the Head of Pension Fund Investment taking into consideration the advice of the Fund Actuary.	*New*

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Ref	Regulation Reference (see key at end)	Description of Discretion	London Borough of Hackney Pension Fund Policy	*Description of Change where applicable*
19	**R13 – 64(2ZA)**	Whether to agree to pay an exit credit which is payable to an exiting employer, beyond three months of the date on which that employer ceases to be a Scheme employer. This would be an extension of the usual timescale and would only be permitted if agreement is also received from the exiting employer.	This will be decided by the Head of Pension Fund Investment and the exiting employer.	*New*
20	**R13 – 64(4)**	Whether to obtain a revision of the rates and adjustments certificate if there are circumstances that make it likely that a Scheme Employer will be ceasing.	This will be decided by the Head of Pension Fund Investments in accordance with the Fund's Admission Policy taking into consideration the advice of the Fund Actuary	*Change in decision maker*
21	**R13 - 65**	Whether to obtain a new rates and adjustments certificate if the Secretary of State amends the Regulations as part of the "cost sharing" valuation	This will be decided by the Head of Pension Fund Investments taking into consideration the advice of the Fund Actuary.	*Change in decision maker*
22	**R13 – 68(2)** **TP14 – Sch 2, Para 2(3)** **R97 – 80(5)**	Whether to require any strain on Fund costs to be paid "up front" by an employer following redundancy / business efficiency, flexible retirement, or the waiver (in whole or in part) of any actuarial reduction on voluntary or flexible retirement.	Where costs arise from an employer's decision to allow early retirement, these costs will be met by an internal recharge or invoice, as appropriate. The council and external employers (including schools) will be required to meet any strain cost payment within the financial year in which the early retirement, on any grounds, takes place.	

Ref	Regulation Reference (see key at end)	Description of Discretion	London Borough of Hackney Pension Fund Policy	*Description of Change where applicable*
23	**R13 – 80(1)(b)** **TP14 – 22(1)** **A64(1)(b)**	What information should be supplied by employers to enable administering authority to discharge its functions	The Third Party Administrator will determine the format and frequency of information. Details are available in the Pension Administration Strategy (PAS) and Employers' Guide, a copy of which can be found on the Pension Fund's website.	
24	**R13 – 69(1)**	Decide frequency of payment of contributions to the Fund by employers and whether to make an administration charge for late receipt.	Details are included in the Pension Administration Strategy (PAS), a copy of which can be found on the Pension Fund's website.	
25	**R13 – 69(4)**	Decide the format and frequency of information from employers to accompany payments of contributions to the Fund	The Third Party Administrator will determine the format and this frequency of information. Further information is available in the Pension Administration Strategy (PAS) and Employers' Guide, a copy of which can be found on the Pension Fund's website.	
26	**R13 – 70** **TP14 – 22(2)**	Whether to issue an employer with a notice to recover additional costs incurred as a result of the employer's level of performance	Details are included in the Pension Administration Strategy (PAS), a copy of which can be found on the Pension Fund's website.	
27	**R13 – 71(1)**	Whether to charge interest on payments by employers overdue	Details are available in the Pension Administration Strategy (PAS), a copy of which can be found on the Pension Fund's website	

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Ref	Regulation Reference (see key at end)	Description of Discretion	London Borough of Hackney Pension Fund Policy	*Description of Change where applicable*
28	R13 – 36(3) A56(2) R97 – 97(10)	The Administering Authority is required to approve medical advisors used by employers (for the determination of ill health benefits) – including in relation to councillor members.	The Head of Pensions Administration will determine whether an employer can use an alternative Occupational Health Provider to the Council's own provider	*Change in decision maker*
Payments relating to Death				
29	R13 – 82(2) A52(2) R97 - 95	A death grant due to a scheme member's estate can be paid to the personal representative(s), or anyone appearing to be, without the need for grant of probate / letters of administration if the death grant is less than the amount specified in any order under Section 6 of the Administration of the Estates (Small Payments) Act 1965 (£5,000 at the time of the making of this policy). This also relates to councillor members.	The Fund will normally pay the death grant without production of grant of probate / letters of administration in such cases, subject to the agreement of the Head of Pensions Administration.	*Change in decision maker*

Ref	Regulation Reference (see key at end)	Description of Discretion	London Borough of Hackney Pension Fund Policy	*Description of Change where applicable*
30	**R13 – 17(12), 40(2), 43(2) & 46(2)** **TP14 – 17(5) to (8)** **B23(2), 32(2) & 35(2)** **T08Sch1** **R97 - 38(1) & 155(4)** **R95 - E8**	The Administering Authority may, at its absolute discretion, pay any death grant due (including AVCs, SCAVCs and life assurance relating to AVCs) to or for the benefit of the member's nominee, personal representatives or any person appearing to the authority to have been a relative or dependent of the member. This also relates to councillor members.	Delegated powers to decide who is to receive payment of death grants have been given to any two of the following – • Group Director, Finance and Corporate Resources • Head of Pensions Administration • Head of HR & Organisational Development • Director, Financial Management A quorum of two of the officers is required for a decision to be made.	*Change in decision maker*
31	**R13 – Sch 1** **TP14 – 17(9)(b) B25**	The Administering Authority must decide the evidence required to determine financial dependence of a co-habitee on a scheme member or financial interdependence between the co-habitee and the scheme member	We will provide the appropriate parties with the details of the evidence required to determine financial dependence or interdependence, and the final decision about any cases will be made by the Head of Pensions Administration based on the evidence provided.	*Change in decision maker*
32	TP14 – 3(6), 4(6)(c), 8(4), 10(2)(a), 17(2)(b) B10(2)	Where member to whom **B**10 applies (use of average of 3 years pay for final pay purposes) dies before making an election, the Administering Authority can decide whether to make that election on behalf of the deceased member	This discretion will automatically be applied if it would result in higher benefits being paid.	

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Ref	Regulation Reference (see key at end)	Description of Discretion	London Borough of Hackney Pension Fund Policy	*Description of Change where applicable*
33	**TP14 – 3(6), 4(6)(c), 8(4), 10(2)(a) & 17(2)(b)** **T08 - Sch 1** **R97 - 23(9)**	Whether to make an election on behalf of a deceased member who had a certificate of protection of pension benefits so their benefits may be calculated using the best pay figure	This discretion will automatically be used if it would result in higher benefits being paid.	
34	**R97 - 22(7)**	Whether to select an alternative final pay period for deceased non-councillor member (applies to leavers between 31st March 1998 and 1st April 2008)	This discretion will automatically be used if it would result in higher benefits being paid.	
35	**R13 – Sch 1 "Eligible Child"** **TP17(9)**	Whether to treat a child as being in continuous education or vocational training, despite a break (including a child of a councillor member) so that the child's pension resumes after the break.	We will normally accept short breaks including term holidays, and also gap years, as being interruptions in education/training and will restart a suspended child's pension at the end of such a break or gap, providing confirmation from the relevant body is received that education/training has resumed. The Head of Pensions Administration will decide each case on its own merits.	*Change in decision maker*
36	**R97 - 47(1)** **R95 – G11(1)**	How to apportion children's pension amongst eligible children (children of councillor members and children of leavers between 31st March 1998 and 1st April 2008)	Where there is more than one eligible child, the Fund will normally divide a children's pension equally between the eligible children, with delegated authority given to the Head of Pensions Administration to determine what is appropriate.	*Change in decision maker*

Ref	Regulation Reference (see key at end)	Description of Discretion	London Borough of Hackney Pension Fund Policy	*Description of Change where applicable*
37	B27(5) R97 – 47(2) R95 – G11(2)	Whether to pay the whole or part of a child's pension to another person for the benefit of the child (includes children of councillor members). This applies to pre 1st April 2014 leavers only.	Where a child is below the age of 17, we will normally pay his/her pension to the person who has the care of the child, to be applied for the benefit of that child. This will be decided on a case by case basis by the Head of Pensions Administration.	*Change in decision maker*
38	R95 - F7	Whether or not to suspend of spouses' pensions during remarriage or cohabitation	We will not suspend spouse's pensions and therefore they will be paid for life.	
Transferring or Linking Benefits				
39	R13 – 98(1)(b)	Whether to agree to the payment of a bulk transfer	Please see our separate Admissions Policy which also covers bulk transfer payments.	
40	R13 – 100(6)	The Administering Authority (with the agreement of the employer) may extend the 12 month time limit for a scheme member to elect to transfer in benefits from a non-local government pension scheme or personal pension plan.	We expect scheme members to request all transfers within 12 months, and will only extend the 12-month time limit in exceptional circumstances where the scheme member can demonstrate the reason for their late request was outside of their control. The Head of Pensions Administration will determine any such requests in consultation with the employer.	*Change in decision maker*
41	R13 – 100(7)	Whether to allow transfers of pension rights into the Fund	We will accept all transfer values (subject to meeting the appropriate timescales).	

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Ref	Regulation Reference (see key at end)	Description of Discretion	London Borough of Hackney Pension Fund Policy	*Description of Change where applicable*
42	**TP14 – 15(1)(d) & A28(2)**	Whether to charge a scheme member for the provision of an estimate of the additional pension that would be provided in the Fund in return for a transfer in of in house AVC/SCAVC funds (only applies where the arrangement was entered into before 1st April 2014)	Scheme members may request one quote per financial year that is provided free of charge. In the exceptional case that a further quote is requested by the same member, we reserve the right to impose an administration charge on the scheme member equivalent to the charge for additional retirement quotes as per the Pension Administration Strategy in force at the time of the request, a copy of which can be found on the Pension Fund's website. The decision as to whether to impose this charge will be made on a case by case basis by the Head of Pensions Administration.	*Change in decision maker*
43	**TP14 – 10(9)**	Where a deferred member also has ongoing multiple concurrent employments, the member may be able to choose which employment the deferred benefits are aggregated with. We can decide this where the member does not make their own election within 12 months.	The Third Party Administrator will decide this based on what appears to be the most beneficial approach at the point 12 months after the person became a deferred member for that employment.	
44	**R97 - 118**	Whether the Fund will retain the Contributions Equivalent Premium (CEP) where a scheme member transfers out to a contracted in pension scheme (for councillor members and pre 1.4.08. leavers)	The CEP amount will be retained by the Fund and used towards providing the balance of benefits due to the scheme member.	
Other Miscellaneous Discretions				

Ref	Regulation Reference (see key at end)	Description of Discretion	London Borough of Hackney Pension Fund Policy	*Description of Change where applicable*
45	**R97 – 106A(5)**	The date to which benefits shown on deferred Annual Benefit Statements are calculated	All annual benefit statements will be calculated as at the 31st March preceding their distribution.	*Discretion only now applies to deferred benefit statements*
46	**TP14 – 3(13)** **A70(1) & A71(4(c)** **T08 – 12** **R97 – 109 & 110(4)(b)**	Abatement of pensions on re-employment (applies to pre 1 April 2014 retirees only including councillor members)	Retirement benefits are not abated and any that are subject to abatement as at 1 October 2014 will cease to be abated from that date.	
47	**R13 – 22(3)(c)**	The pension account may be kept in such form as is considered appropriate	The Third Party Administrator will determine the form a pension account should be kept in.	
48	**R13 – 83** **A52A**	An Administering Authority may determine how and to whom benefits may be paid if the recipient is incapable of managing their affairs by reason of mental disorder or otherwise	In these circumstances we may decide to pay some or all of the benefit to someone else to be applied for the benefit of the scheme member. The Head of Pensions Administration will decide these matters on a case by case basis.	*Change in decision maker*
49	**R13 – 16(1)**	Whether to turn down a request to pay an APC/SCAPC by regular contributions over a period of time where it would be impractical to allow such a request, for example, due to the pension being bought resulting in very small payments	We will not decline a request unless an employer asks us to and, if an employer does so, the Head of Pensions Administration will decide whether to decline the request	*Change in decision maker*

Ref	Regulation Reference (see key at end)	Description of Discretion	London Borough of Hackney Pension Fund Policy	*Description of Change where applicable*
50	R13 – 16(10)	Whether to require a satisfactory medical before agreeing to an application to pay an APC or SCAPC, and whether to turn down the application if not satisfied that the member is in reasonably good health.	Any scheme member wishing to purchase additional pension via an APC/SCAPC by paying regular contributions will be required to undergo a medical examination and to be found to be in reasonable health prior to being permitted to commence payment of additional contributions.	*Added clarification of discretion, and change in Hackney's policy to only require a medical examination in certain situations*
51	R13 – 32(7)	A scheme member wishing to receive benefits other than at normal pension age, or on flexible retirement, must elect to do so within certain time limits. The Administering Authority may extend these time limits.	We expect any elections to be made within the time limits in the regulations. However, the time limit may be extended by the Head of Pensions Administration in exceptional circumstances.	*Change in decision maker*
52	TP14 – 15(1)(c) T08 - Sch1 & R97 - 83(5)	Whether to extend the time period for a scheme member electing to capitalise remaining contributions to an added years contract in cases of redundancy	We will normally apply the prescribed 3 month time limit, however the Head of Pensions Administration may extend this in exceptional circumstances.	*Change in decision maker*
53	R13 – 34(1) B39 T08 - 14(3) R97 – 49 & 156	The Administering Authority may commute small pensions into a lump sum where they are below nationally prescribed limits.	We will pay a lump sum in lieu of a pension which falls below the nationally defined limits unless the member elects to continue to receive the pension as an ongoing payment.	
54	R13 – 49(1)(c) B42(1)(c)	Decide, in the absence of an election from the scheme member, which benefit is to be paid where the member would be entitled to a benefit under two or more regulations in respect of the same period of Scheme membership	These will be decided on a case by case basis by the Head of Pensions Administration.	*Change in decision maker*

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Ref	Regulation Reference (see key at end)	Description of Discretion	London Borough of Hackney Pension Fund Policy	*Description of Change where applicable*
55	**R97 - 147**	Whether to permit a Pension Credit to remain in the Fund or require a transfer out	The Third Party Administrator will deal with these cases in accordance with the Pension Credit member's wishes.	
56	**R97 - 50 and 157**	Whether to commute benefits due to exceptional ill-health (applies to councillor members and pre 1st April 2008 leavers only)	In these circumstances, we will pay a lump sum in lieu of a pension unless the member elects for it not to be paid.	
57	**R97 - 91(6)**	The Administering Authority may determine the timing of pension increase payments by employers to Fund (applies to pre 1st April 2008 leavers only)	Any such payments must be made monthly.	
Discretions relating to employers which no longer exist				
58	**R13 – 38(3) & 38(6)** **B31(4) and 31(7)**	A former employer must decide whether a deferred member meets the criteria for permanent ill health. This also applies to a scheme member who was formerly in receipt of Tier 3 ill-health benefits. The Administering Authority may decide this if that employer no longer exists.	We will follow the policy of the employer immediately before it ceased to be a Scheme employer where possible. If this is not known, we will follow the policy of Hackney Council as the main employer in the Fund.	
59	**TP14 – Sch 2, Paras 1(2) and 2(2)**	An employer can choose to allow rule of 85 protections to apply to a scheme member's benefits on voluntary retirement. In doing this some or all of the early retirement reduction would not apply. This provision can only apply to scheme members who have reached age 55. The Administering Authority may decide this if that employer no longer exists.	We will follow the policy of the employer immediately before it ceased to be a Scheme employer where possible. If this is not known, we will follow the policy of Hackney Council as the main employer in the Fund.	

Ref	Regulation Reference (see key at end)	Description of Discretion	London Borough of Hackney Pension Fund Policy	*Description of Change where applicable*
60	**TP14 – 3(1), Sch 2, Paras 2(1) and 2(2)** **B30(5) and 30A(5)**	An employer can choose whether to waive on compassionate grounds any reduction to benefits that might otherwise apply. This can also apply to former Tier 3 Ill-Health members. The Administering Authority may decide this if that employer no longer exists.	We will follow the policy of the employer immediately before it ceased to be a Scheme employer where possible. If not, we will follow the policy of Hackney Council as the main employer in the Fund.	
61	**R13 – 30(8)**	An employer can choose to waive, in whole or in part, any reduction that might otherwise apply to that scheme member's benefits on flexible retirement. The Administering Authority may decide this if that employer no longer exists.	We will follow the policy of the employer immediately before it ceased to be a Scheme employer where possible. If this is not known, we will follow the policy of Hackney Council as the main employer in the Fund.	
62	**R13 – 30(8)**	An employer can choose to waive, in whole or in part, any early retirement reduction that might otherwise apply to a scheme member's benefits on voluntary retirement. These provisions only apply to scheme members who have reached age 55. The Administering Authority may decide this if that employer no longer exists.	We will follow the policy of the employer immediately before it ceased to be a Scheme employer where possible. If this is not known, we will follow the policy of Hackney Council as the main employer in the Fund.	

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Discretions under the Local Government (Early Termination of Employment) (Discretionary Compensation) (England and Wales) Regulations 2000 (as amended)

Ref	Regulation Reference	Description of Discretion	London Borough of Hackney Pension Fund Policy	*Description of Change where applicable*
63	31(2)	Where an employer terminates employment early, the Administering Authority may agree to pay compensation on behalf of employer from the Fund and recharge payments to employer	The Administering Authority will pay compensation on behalf of employer from the Fund and recharge payments to employer	

***Key to Regulation References:**

- R13 – The Local Government Pension Scheme Regulations 2013
- TP14 – The Local Government Pension Scheme (Transitional Provisions, Savings and Amendment) Regulations 2014
- A – The Local Government Pension Scheme (Administration) Regulations 2008
- B – The Local Government Pension Scheme (Benefits, Membership and Contributions) Regulations 2007
- T08 – The Local Government Pension Scheme (Transitional Provisions) Regulations 2008
- R97 – The Local Government Pension Scheme Regulations 1997
- R95 - The Local Government Pension Scheme Regulations 1995

*Note that references to old provisions (e.g. R97) generally apply in relation to scheme members who left under those provisions.

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

Document is Restricted