PENSIONS COMMITTEE

Tuesday, 26th March, 2019

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
Councillor Ben Hayhurst
Councillor Rebecca Rennison

Co-optees:

Jonathan Malins-Smith

Tim Shields
Chief Executive

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

The press and public are welcome to attend this meeting

Hackney

AGENDA

Tuesday, 26th March, 2019

ORDER OF BUSINESS

<table>
<tr><td rowspan="3">14</td><td colspan="2">Exclusion of The Press And Public</td><td rowspan="3"></td></tr>
<tr><td colspan="2">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.</td></tr>
<tr><td>Wards Affected</td><td>Contact Officer

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</table>

15	**Consideration of the Exempt Minutes of the Previous Meeting**	335 - 338

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:

- Mayor of Hackney
- Your Councillors
- Cabinet
- Speaker
- MPs, MEPs and GLA
- Committee Reports
- Council Meetings
- Executive Meetings and Key Decisions Notice
- Register to Vote
- Introduction to the Council
- Council Departments

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

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

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

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

Further Information

Advice can be obtained from Suki Binjal, 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, 12TH DECEMBER, 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
Co- Optee	Jonathan Malins-Smith (Scheme Member Representative)
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), Julie Stacey (Head of Pensions Administration), Pradeep Waddon (Head of Treasury and Banking) and Sean Eratt (Legal Services).
Also in Attendance:	Andrew Johnston} Hymans Robertson Simon Jones } Neil Sellstrom - PIRC A representative of LAPFF Karen McWilliam – AON Hackney Divest

1 Apologies For Absence

1.1 There were no apologies for absence.

1 Declarations of Interest - Members to declare as appropriate

2.1 There were no declarations of interest.

3 Consideration of The Minutes of The Previous Meeting

3.1 **RESOLVED that the minutes of the meeting held on 12 September 2018 be confirmed as a correct record.**

A representative of Hackney Divest presented Members with Christmas cards from young children requesting the Fund disinvest from fossil fuel.

4 Responsible Investment - Training/Discussion paper

4.1 Rachel Cowburn introduced the report providing a broad overview of the Fund's approach to Responsible Investment across two dimensions: sustainable investment and effective stewardship. In addition, consideration had been given to the applicable legislation and guidance and best practice across each dimension and the areas where the Pension Fund could look to change and improve its approach.

4.2 Simon Jones, Hymans Johnston delivered training on responsible investment.

An introduction to responsible investment and understanding and addressing the risks of climate change

- The language of responsible investment can be somewhat confusing
- The PRI uses a definition of responsible investment that emphasises the health of the market as a whole.
  - Principles for responsible investment
- We focus on two key dimensions of responsible investment
  - Sustainable investment
  - Effective stewardship
- There are a range of Environmental, Social, Governance (ESG) factors although they affect different companies/ investments in different ways
  - Operational risks
  - Systemic risks
- Investors have responsibility to consider material financial factors and the Law Commission has clarified fiduciary duty.
  - Financial factors
  - Non- financial factors
- Guidance also requires that responsible investment is considered in your decision making
- Investment can also give rise to unwanted reputational risks
- But primarily, unrecognised ESG risks can have a material financial impact on investor outcomes
- These outcomes can be seen in debt as well as equity investment and changing legislation/policy may also affect asset valuations and prospective returns
- Investors have the ability to positively influence corporate behaviour
- There is good evidence that strong governance can be value additive
- There is a spectrum of positions on responsible investment that investors can take although compliance is not an option
  - Core position
  - Active position
  - Leading position
- Responsible investment can be a journey, and investors should start by focusing on the status quo although it is a topic that can be addressed at each stage of the investment process
  - Objectives/constraints
  - Investment strategy
  - Market influences
  - Solutions
  - Monitoring

4.3. Mr Malins- Smith stated that Members needed to focus on reducing the Fund's deficit by either achieving higher returns on investments or setting higher contribution rates for both scheme employers and employees. Ms Cowburn emphasised that the LGPS was a statutory scheme and employee contributions were set nationally. Mr Jones stated that factors under responsible investment could have a material impact on investments. The Chair noted that social factors also affected investment and that there was a correlation between board diversity and investment performance.

4.4 Councillor Billington asked if the Pension Fund's responsible investment profile had been impacted by the climate risk requirement for financial disclosure and ensuring compliance with the Task Force on Climate-related Financial Disclosures (TCFD) recommendations. Mr Jones stated Hackney had taken steps to reduce its carbon risk exposure within its equity portfolio and had benefited from the recommendations. The TCFD had raised the serious issue of climate change risk in relation to long term financial stability and had set out its recommendations for Fund Managers to comply with. Compliance would also ensure that investors had access to better quality information in order to make financial decisions. Ms Cowburn added that the Committee's decision to set a target for reducing fossil fuel investments had been influenced by other larger London Pension Funds focusing on climate challenges. The long term aim of responsible investment was to work with Fund Managers and aspire to reduce climate risk. Mr Jones stated that engagement with companies was part of responsible investment and that Pension Funds as asset owners needed to respond to climate change challenges by having good policies in place to realise objectives and outcomes.

4.5 Mr Malins-Smith emphasised that the Fund also faced serious investment issues that had to be addressed due the underperformance of the equities exposure. Mr Jones indicated that Members could consider investment strategy, investment structure and embedding financial consideration in its approach for asset classes. In addition, it was important that investment returns and responsible investment were considered as part of an integrated investment decision. The Chair advised that an investment update would be provided at the next meeting.

4.6 A representative from LAPFF discussed the paper circulated at the meeting highlighting that LAPFF represented a total of £230bn of LGPS assets and was the largest shareholder engagement organisation in Europe. The performance service LAPFF offered to members included: company engagement, voting alerts, members briefing, policy guidance, annual reporting, commissioning legal opinion, AGM briefing and attendance, shareholder resolution filing support, quarterly engagement reports, trustee guides and consultation responses. Its current workplan theme included LGPS reform, fringe meetings, networking, training, leadership, research and new initiatives, share buybacks, corporate tax transparency, environmental risk management, holding based engagement, ESG concerns, member liaison, executive pay and AGM and strategy meetings.

4.7 Ms Cowburn referred to the challenges of exercising voting rights in particular as a large investor in the London Collective Investment Vehicle (LCIV) and ensuring that the LCIV voting policy made it mandatory for Fund Managers to vote in line with LAPFF voting alerts. The LAPFF representative indicated that LCIV had been meeting its statutory obligation in respect of responsible investment but faced challenges in formulating a responsible investment strategy in relation to a pooled fund and voting in line with LAPFF voting alerts. Officers were advised to engage with LCIV to clarify its voting process and that LAPFF could also provide a schedule of voting alerts issued and Fund Managers voting. Ms Cowburn explained that it was important to apply pressure on the LCIV to develop a more comprehensive voting policy including responsible investment protocols to ensure its Fund Managers voted in line with LAPFF voting alerts at meetings and a proposal to purchase a voting overlay service, which provided both advice and proxy voting services that enabled the outsourcing of the voting process. This service would allow individual Fund investors within a pooled vehicle to communicate their voting decision to their local adviser and for the adviser to vote on its behalf at shareholder meetings.

4.8 The Chair advised that a letter would be drafted to LCIV regarding the issue of its shareholder voting policy and protocols. The draft letter would be circulated to Members for comments and an update would be provided at a future meeting.

RESOLVED to:

1. **Note the contents of the report.**
2. **Consider priorities for improvement to the Fund's approach to Responsible Investment**

5 LGPS Performance Universe Presentation

5.1 Rachel Cowburn introduced the report from Pensions and Investment Research Consultants (PIRC) Ltd, the provider of the LGPS Performance Universe formerly delivered by WM (State Street).

5.2 Neil Sellstrom, PIRC, gave a presentation on Local Authority Pension Performance Analytics and also circulated the Annual Report 2017/18.

PIRC Pension Performance Analytics

- Our universe
  Has a 30 year history. Measures 62 LGPS Funds and at end of March theses were valued just under £80bn.Collect portfolio and overall fund level data on monthly basis for each fund. Comprehensive database of LGPS Investment available
- Latest year results
  Average LA fund produced return of 4.5%.
- What we did well?
  Property, Hedging, Private Equities and Absolute Return Bond
- And less well
  UK equities, Diversified Growth Funds and cash
- Equities
- What changed?
  Equity exposure fell to its lowest level since LGPS began
  Multi asset credit and diversified income strategies gained ground, move away from index based benchmark towards absolute return benchmark
  Reduction in the level of passive investment
  Major switches across index tracking managers as funds moved to take advantage of reduced fees negotiated at pool level
- Longer term performance has been excellent
  Last ten year return average 7.7% p.a.
- Range of results has been wide
- Strategic asset allocation has been key
- Risk and return – last ten years

- Risk and return – performance by pool
- Active management
- Investment performance
- Does active management meet expectations
- An interesting challenge
- UK equities

5.3 Councillor Hayhurst sought clarification regarding active and passive management. Mr Sellstrom replied that this referred to the benchmark given to the Fund Manager to perform against for example passive manager performance would be benchmarked against the FSTE benchmark. Active managers were expected to meet an agreed outperformance target and would look across all the stocks in the universe for additional returns.

5.4 Councillor Desmond asked if equity included currency fluctuations and whether the prediction for property had been influenced by recent figures. Mr Sellstrom confirmed that equities included currency variations and that Fund Managers managed these variations as part of their portfolio. The performance information relating to property had been based on historical data and was not a guide to future investment performance. However, property had performed strongly since the financial crisis.

RESOLVED to note the contents of the report and presentation.

6 Alternative Credit - Strategy Decision

6.1 Rachel Cowburn introduced the report providing a summary of the review process undertaken by the Fund to identify a suitable private debt strategy and providing an overview of the options available including both strategy selection and implementation. Ms Cowburn outlined the recommendations within the report and the funding of a new private debt mandate by reducing the Fund's exposure in equities.

6.2 The press and public were excluded from the proceedings of the meeting during consideration of exempt appendices.

RESOLVED to:

a. **Approve a target allocation of 10% of Fund assets to private debt, using the strategies selected by Project Monument;**
b. **Approve the recommended structure for the private debt mandate, being a £95m commitment to Permira and £65m commitment to Churchill (representing c.11% of assets);**
c. **Agree to pursue mitigation of currency exposure in the most advantageous manner for the Fund; and**
d. **Approve a temporary allocation of 5.5% (half the proposed total private debt mandate) BlackRock's Sterling Ultra Short Bond Fund to manage cash drawdowns during the investment period for the mandate.**

7 Third Party Administration Contract Implementation update

7.1 Julie Stacey introduced the report providing an update on the new contract with Equiniti for Third Party Administration Services for the Hackney Pension Fund and the benefits to the Fund and its stakeholders.

7.2 Councillor Hayhurst enquired about the contract with Equinti. Ms Stacey clarified that the contract with Equniti had been renewed and that the data issues had resulted from the employer not being able to provide good quality data.

7.3 Councillor Billington asked about the impact of the data issue for scheme members. Ms Stacey advised that this issue could potentially affect future pay and therefore it was necessary to ensure that contribution bands and pension service information were up to date. This could be undertaken by looking at the hours, potential part- time issues, historical service prior to CARE and prior service and this information would be used for future pay. However, if this information was incorrect then incorrect benefits would be paid to members. The whole process of data cleansing was continual and automating as much of the processes would also cleanse and improve data. Mr Malins-Smith added that the Head of HR and Electoral Services had been invited to a future meeting of the Pensions Board to address this issue.

RESOLVED:
To note the contents of the report and particularly the improvements the new third party administration contract will provide to the scheme members, employers and Hackney Council in its role as the administering authority to the Fund.

8 Pension Fund Risk Register and Policy Update

8.1 NOTED the Hackney Pension Fund Control Risk Register circulated at the meeting.

8.2 Rachel Cowburn introduced the updated Pension Fund Risk Register that summarised the potential significant risks that the Fund was exposed to and controls in place to manage the risks and an updated Risk Policy.

8.3 The Chair indicated that Members wanted an annual review of all risks and asked Members to directly feedback to Ms Cowburn regarding the format.

RESOLVED to:

a. **Note the updates to the format of the risk register**
b. **Approve the updated risk policy**

9 Pensions Fund Quarterly Update

9.1 Rachel Cowburn introduced the report providing an update on the key quarterly performance measures, the funding position, fund governance, investment performance, responsible investment, budget monitoring, administration performance and reporting breaches.

9.2 The Chair queried the rise in the total opt outs for 2018/19 and the fall of 700 active members. Ms Cowburn explained that there had been no underlying factor for the increase in opt outs and it was not a general trend. Ms Stacey replied that it was expected that the number of active members would decrease following data cleansing.

RESOLVED to note the contents of the report.

10 Draft Pension Administration Strategy 2019/22

10.1 Julie Stacey introduced the report on the draft Pension Administration Strategy for 2019/2022, which had been updated to reflect changes to the Fund's third party administration contract.

10.2 Ms Stacey reported that the Pensions Board had recommended an amendment in the first paragraph at page 183 of the strategy from '5 or more' to '3 or more repetitive…'

RESOLVED to:
1. Approve the review period of the Pension Administration Strategy to change from annually to every 3 years, notwithstanding the requirement to review and amend when regulations changes
2. Approve the updated Pension Administration Strategy be issued for consultation with employers and other interested parties subject to the above amendment.

11 Training Needs Analysis

11.1 Ian Williams introduced the report and stated that a questionnaire had been circulated for Members to indicate their training needs, their views on the effectiveness of the Pensions training and setting out their preferences with regards to training styles. This questionnaire would provide officers with information to customise individual training plans and ensure the Fund was complying with the requirements of the CIPFA Knowledge and Skills Framework and in line with Markets in Financial Instruments Directive (MiFID) II.

11.2 With the changes in Committee membership, it was recognised that Members needed individual training sessions and support to meet their individual needs. Members commented that the skills audit should have fewer questions, focus more on knowledge and use plain English. The Chair requested that the skills audit be updated to reflect Members comments, be more user friendly and that the training must be relevant.

11.3 It was noted that the deadline of 31st January 2019 within recommendation 2 be deleted.

RESOLVED to:
1. Note the report
2. Individually complete and return the Training Needs Self-Assessment questionnaire.

12 Pension Fund Treasury Management Strategy

12.1 Rachel Cowburn introduced the Treasury Management Strategy for the Pension Fund for 2019-2022.

RESOLVED to:
1. **Agree the Treasury Management Strategy for the Pension Fund for 2019-2022.**
2. **Delegate responsibility for Pension Fund treasury management to the Group Director, Finance and Corporate Resources, including the authority to add**

or remove institutions from the approved lending list and amend cash and period limits as necessary in line with the Council's own creditworthiness policy.

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

Brexit Briefing

13.1 Rachel Cowburn presented the Brexit briefing paper circulated at the meeting. It provided an update on Brexit and the potential impact on the Pension Fund's investments. It was noted that a future meeting could be necessary to enable changes in the Fund's investment strategy following Brexit on 29 March 2019.

RESOLVED that Brexit briefing be noted.

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 – Alternative Credit- Strategy Decision 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.

Duration of the meeting: 6.30 - 9.25 pm

Contact:
Rabiya Khatun
Governance Services
020 8356 6279

Hackney

REPORT OF THE GROUP DIRECTOR, FINANCE & CORPORATE RESOURCES		
Longevity and Funding Update/Training – Club Vita **Pensions Committee** **26th March 2019**	**Classification** **PUBLIC** **Ward(s) affected** **ALL**	**Enclosures** **Three** **AGENDA ITEM NO.**

1. INTRODUCTION

1.1 This report provides Members with an update on the Fund's longevity risk, which is the risk associated with increasing life expectancies. The report presents the Fund's 2018 longevity reporting from Club Vita, providers of a dedicated longevity study for Defined Benefit Pension Funds. Club vita will also provide a training session to Members at the Committee meeting.

2. RECOMMENDATION

2.1 The Pensions Committee is recommended to note the report

3. RELATED DECISIONS

- Pensions Committee 27th `June 2017 – Longevity & Funding Update

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

4.1 Increasing longevity, i.e. people living longer, has a direct impact on the Pension Fund's liabilities. Increased life expectancy means that pensioners will draw their benefits for longer, thereby increasing the cost of providing those benefits. The Fund Actuary, as part of the actuarial valuation, includes within his assumptions a projection of longevity for the Fund's membership.

4.2 The Fund has for a number of years participated in a dedicated longevity study undertaken by Club Vita, which is affiliated with Hymans Robertson. As part of the Club Vita project, the Fund is able to more accurately monitor direct experience of its members' specific longevity and therefore monitor its own risks in this area. The Fund Actuary is able to include the Club Vita data within the valuation to give a more accurate picture of longevity; this can have a direct impact on the contribution rates employers have to pay.

4.3 The cost of participating in the annual review is approximately £10k pa. However, the review is a key way for the Committee to monitor a significant risk to the Fund.

5. COMMENTS OF THE DIRECTOR OF LEGAL AND GOVERNANCE

5.1 This report provides information to the Committee regarding changes in longevity and the consequent impact on funding levels for the Pension Fund. Whilst the Fund has no statutory obligation to participate in longevity studies such as this, the resulting analysis may assist the Committee in considering assumptions for the upcoming 2019 valuation.

5.2 The information provided in this report is therefore relevant to the Committee's obligations, as set out in Paragraph 7 of its Terms of Reference, in relation to monitoring liabilities and undertaking asset/liability modelling and other relevant studies as required.

6. BACKGROUND TO THE REPORT

6.1 The life expectancy of members is a key assumption in assessing pension scheme liabilities. Over 230 pension funds, including a large number of LGPS funds, participate in Club Vita and this provides for an extensive database through which longevity trends can be measured. Participation in Club Vita enables the Committee to monitor the Fund's longevity experience both individually and against its peer group. It also allows the actuary to incorporate Fund specific longevity patterns within the valuation process, helping to improve the accuracy of assumptions made. This will help Members to manage the impact of this key risk over the longer term.

6.2 Attached as an appendix to this report is a summary of the findings from reviewing the Fund's latest (to December 2018) mortality experience along with a more detailed monitoring report (VitaMonitor) on longevity experience for the LB Hackney Pension Fund and the index report (VitaIndex) which compares the experience of the Hackney Fund to that of its peer group (other LGPS funds within the Club Vita database).

6.3 The reports summarise the impact of the longevity experience of the Fund since its last valuation by comparing the actual experience of the Fund with the assumptions made in previous valuations. They also look at emerging trends in longevity and assess how the Fund might allow for future changes in longevity in future valuations. The data used includes postcodes, pension amounts, salaries and reasons for retirement, obtained from the administrators of each of the 231 pension funds involved.

6.4 At the Committee meeting, Club Vita will present more in depth training session on the Fund's longevity reporting, providing Members with the opportunity to ask questions and review the reports in greater detail.

Ian Williams

Group Director, Finance & Corporate Resources

Report Originating Officers: Rachel Cowburn ☎020-8356 2630

Financial considerations: Michael Honeysett, ☎020-8356 3332

Comments of the Director of Legal and Governance: Patrick Rodger, Senior Lawyer, Legal Services ☎020-8356 6187

Appendices:

Appendix 1 - Vita Summary Report

Appendix 2 – VitaIndex

Appendix 3 - VitaMonitor

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The latest evidence on longevity: Impact on your fund

London Borough of Hackney Pension Fund

March 2019

Introduction

This report contains the key findings of our analysis for the London Borough of Hackney Pension Fund. Throughout, we have focussed on why your results matter and suggested how you can apply them to keep on top of your longevity risk.

We've tried not to clutter the report with technical terms and jargon. But combining state-of-the-art techniques with the most appropriate data is fundamental to the quality of your results. We've included a very brief summary of how we do this on the next page.

Greater detail, in-depth analysis and further explanation can be found in your suite of full reports, available from the members' area of **www.clubvita.co.uk**.

We hope that you find this report accessible, informative and, above all, useful. As always, we'd be delighted to receive any feedback on this or our other services to you.

We are grateful for the continued support of you and all our other members. We are confident that by sharing their data, every member of Club Vita benefits and gets out more than they put in.

For and on behalf of Club Vita LLP

13 March 2019

“We've tried not to clutter the report with technical terms and jargon.”

How we performed your analysis

Your analysis is built on the combined data of 231 diverse funds, paying 2.9 million pensioners from across the UK. Between them, they provide records of some 1.5 million deceased pensioners.

The **size of the data** is crucial to the statistical credibility of your analysis, and its **long history** ensures we can share with you invaluable insights on pension scheme **longevity trends**. And by asking each subscriber for fresh data every year we keep your analysis **up to date**.

Perhaps most important of all is the **richness of the data**. By getting postcodes, pension amounts, salaries, reason for retirement (and much more) direct from the administrators of every scheme, we can test exactly what factors impact on lifespans. It also means we can apply our results accurately to your fund - in essence picking out those many individuals who are most like each of your members and using their experience to provide up-to-date, relevant information.

A few key results:

- By combining affluence (salary or pension) with postcode, our model is **much more predictive than using postcode alone**.
- We use **salary**, in preference to pension amount, because it is a better measure of affluence (for men).
- By combining affluence, postcode, reason for retirement and occupation type, we capture a **spread of 10 years** in men's average lifespan – so our model works well for all kinds of schemes.

These features in combination are what drive the robustness of our analysis, and the robustness of the decisions our members make as a result.

“The size of the data is crucial to the statistical credibility of your analysis”

Your key longevity issues

The world of longevity never stays still for long, and it can often be difficult to establish which changes are, or are not, relevant to your fund. In this report we highlight the key issues you should be aware of:

Current longevity

- Impact of the latest changes in longevity – what does the latest experience of defined benefit pensioners mean for your fund?
- Experience of your members – are your members surviving for longer or shorter periods than expected and what does this mean for your funding position?
- Some members are more influential than others – the experience of the pensioners with the highest pensions is important to your fund.

Future longevity trends

- Recent longevity trends will influence the assumptions you set for how the life expectancy of your members will change in the future. It is important to understand the reasons behind recent experience before relying on it to set the longevity trend assumption for your fund.
- The future is uncertain, yet many pension schemes base their funding, contribution and investment strategies on a single assumption of how life expectancies will change in the future. Using our 'Alternative Futures' can help you explore how resilient your strategies are when things don't turn out in line with your assumption.

"Given an uncertain future, how resilient is your strategy?"

The latest evidence on current lifespans

New evidence on longevity emerges every year. That's why we annually update your VitaCurves (longevity assumptions matched individually to the characteristics of each member of your fund).

Taking account of the latest VitaCurves would decrease your liabilities by 1.2%, compared to your current funding assumptions. This impact is broken down below.

Membership group	Approximate change in liability using VitaCurves (with data calibrated spanning 2014-2016) rather than current funding assumption
Actives	-1.2%
Deferred Pensioners	-1.0%
Pensioners and Dependants	-1.2%
Overall	**-1.2%**
Change to future service contribution rate	-1.2%

These figures are based on a broad approximation to scheme benefits and financial assumptions which are designed to reflect a market consistent basis. Full details of the assumptions used are included in the VitaCurves report

This impact will change from year to year due to:

- recent longevity improvements being different to those you assumed
- the impact of emerging evidence for people like your members, captured in these latest VitaCurves
- changes to your data or membership profile

In particular the latest longevity experience includes 2015, a year which saw a 5.6% increase in deaths registered in England & Wales. We saw a similarly heavy year across Club Vita, leading to reduced expectations of projected life expectancy amongst most pensioners.

For more information

For further details, see your VITACURVES report, available from the members' area of **www.clubvita.co.uk**. This also explains how your advisors can access and make direct use of your VitaCurves (either for individual members, or average assumptions for key sections of your fund) in their calculations for you.

> "Taking account of the latest VitaCurves would decrease your liabilities by 1.2%"

Why this matters

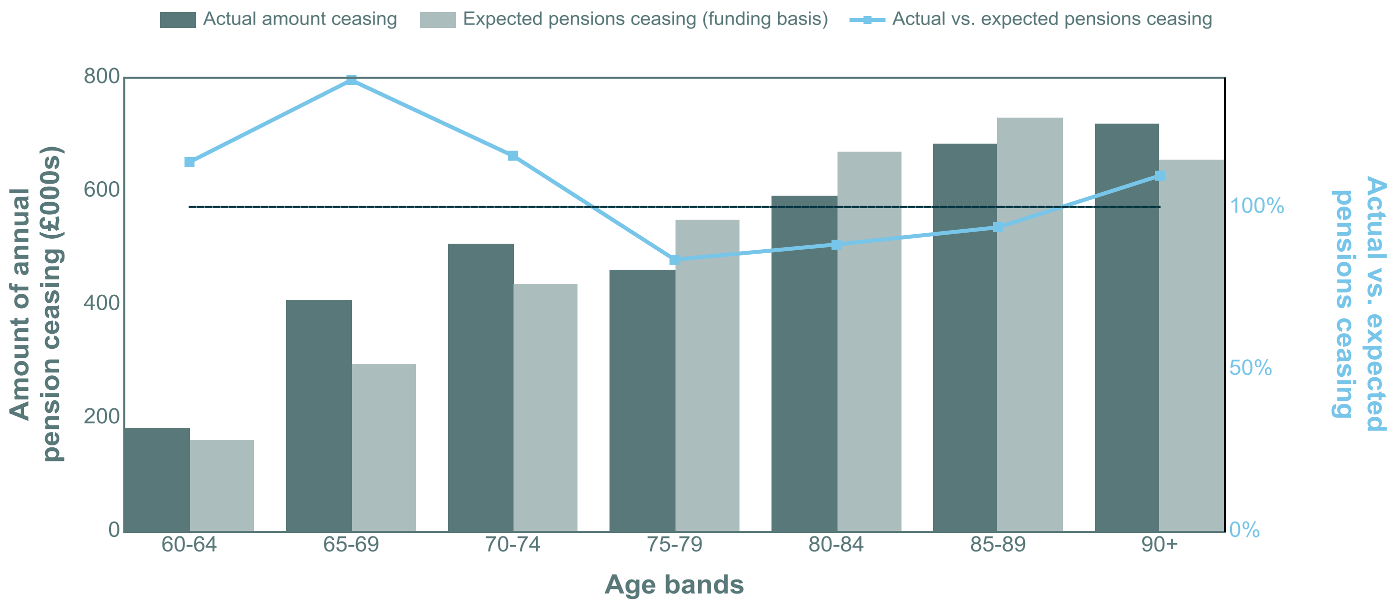
- This analysis tells you if your funding assumptions (for current longevity) remain on track.
- You can build this latest information into your decision making, for example:
  - on longevity de-risking (such as longevity swaps or buy-in)
  - on financial de-risking (such as trigger points or cashflows underlying Liability Driven Investment strategies)
  - on funding

Page 17

Your fund's own experience

However well you set your fund's longevity assumptions, your experience will vary from year to year. This can lead to funding gains (if fewer members survive than expected) or strains (if more survive than expected).

Fund experience over three years to 31 August 2018 split by age group (All types of pensioner)



The chart above looks at experience over the last three years and contrasts the actual amount of pension ceasing (dark grey bars) with the expected amount ceasing (light grey bars) at each age range. In each case the expected number is based upon your current funding assumption as described in your VitaMonitor report.

The ratio of these two numbers is shown as a light blue line. Where the blue line is above 100%, there were more deaths than expected - typically leading to a funding gain - and vice versa.

The table below shows **the impact of your fund's experience since the last valuation** (as at 31 March 2016) **has been to leave your liabilities relatively unchanged.**

	Year ending			Since last valuation
	31 Aug 2018	31 Aug 2017	31 Aug 2016	
Extra (less) pension in payment at year end (£k)	41	(16)	(56)	1
Estimated % increase (decrease) in liabilities	0.0%	0.0%	0.0%	0.0%

When combined with the latest VitaCurves (see previous page), we estimate this would **in aggregate decrease your liabilities by 1.2%.**

For more information

For further details of this and other monitoring, see your VITAMONITOR report, available from the members' area of **www.clubvita.co.uk**.

Why this matters

- Your fund's experience is ultimately what drives the costs that emerge.
- For very mature or small schemes these impacts can be significant.
- Experience consistently different to your assumptions may suggest changes are needed.
- But it should be kept in mind that this experience can be volatile.

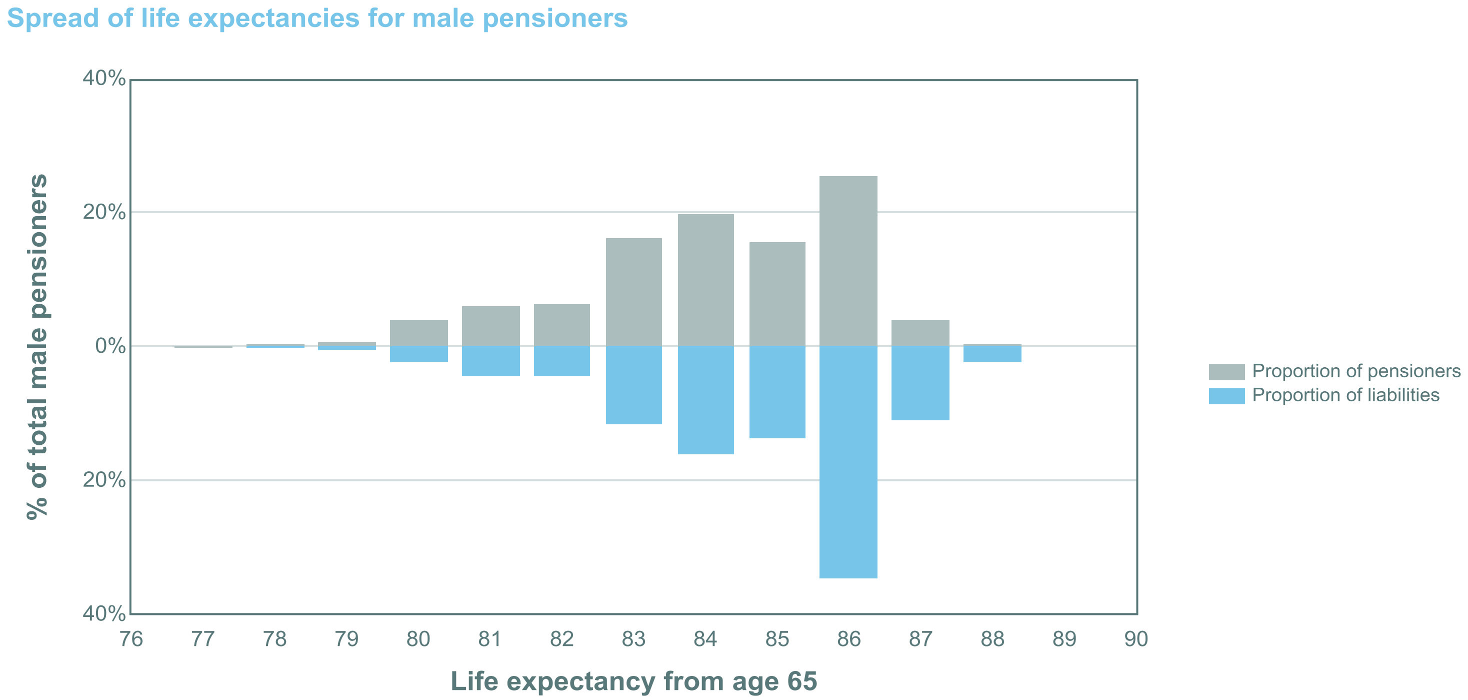
> "The impact of your fund's experience since the last valuation has been to leave your liabilities relatively unchanged"

Page 20

Diversity and concentration of risk

The chart below shows the wide range of life expectancies predicted by your VitaCurves analysis. The top half shows the spread of life expectancies from 65 (to the nearest year) for male pensioners. It illustrates that some members are expected to live much longer than others.

The bottom half of the chart also shows the spread of life expectancies from 65, but here we have shown the proportion of member liabilities at each age. Taking both parts of the chart together, you can understand how influential certain groups of your members are to your fund.



It is clear that the traditional approach of using **a single assumption** simply did not reflect the reality of how longevity differed for pension scheme members, and **was an oversimplification for many purposes**. Using VitaCurves allows you to set a longevity assumption that reflects the characteristics of each member of your fund.

The larger bars for high life expectancies in the bottom half of the chart relate to more affluent individuals with larger pensions. In fact, across the whole fund:

- 50% of the liabilities are concentrated on 14.2% of members
- 10% of liabilities are concentrated on just 1.2% of members (i.e. 273 individuals)
- The "bottom" 50% of members account for less than 10.8% of liabilities

This means that **the lifespans of the members with the largest liabilities will have a disproportionate effect on the finances of the fund**.

Understanding where you have a concentration of risk enables you to make better decisions on how to reduce risk. It would generally be most efficient, in terms of the most reward for the effort applied, to focus de-risking efforts on the members with the largest individual liabilities.

"Lifespans of the members with the largest liabilities have a disproportionate effect on the finances of the fund"

Why this matters

A single longevity assumption is an oversimplification for situations such as:

- setting (appropriate) contribution rates for employers with different types of members
- assessing the cost of designing member options (e.g. enhanced transfer values or pension increase exchanges) where take up will be skewed to certain groups
- calculating liabilities for subgroups of the scheme (e.g. buy-in for older members)

The VitaCurves analysis enables you to allow for the spread of life expectancies wherever it benefits your decision making.

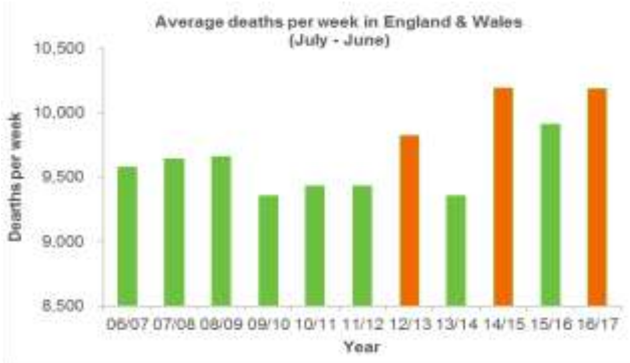
A volatile start to the 2010s

How longevity will increase in the future ('future improvements') is an important assumption for all pension schemes. Setting this assumption involves projecting recent levels of improvement into the future, so understanding the drivers of recent longevity experience is critical.

We have seen lower improvements in longevity in recent years (since 2012/3), which has resulted in lower rates of longevity improvement being projected into the future. As a result the value placed on liabilities has typically fallen.

One way to look at improvement patterns is to consider deaths over the course of a year. In the chart to the right[1] we start each year in July to fully capture each winter season – where we tend to see most deaths. The chart shows that:

- The average number of deaths had generally been falling over the period to 2011/12.
- The most recent five year period has seen three 'heavy' years (shown in orange), typically followed by some 'bounce-back' in death rates in the following year.



Note that despite the increased volatility, longevity is still generally increasing (if mortality rates were unchanged we would expect the death rate to increase by 2-3% p.a. due to aging of the population).

The increase in 2012/13 has been attributed to the weather. An extended period of dull and wintry weather, was followed by a harsh cold snap in February and March 2013. All of which led to particularly heavy mortality.

2013/14 seemed to be a 'bounce-back', however the further increase in numbers of deaths in 2014/15 was initially attributed to the winter flu. The flu vaccine provided to vulnerable people (mainly the elderly, pregnant women and young children) offered little protection against the flu strain prevailing in the early months of 2015.

Therefore both the 2012/13 and 2014/15 spikes could potentially be caused, at least in part, by what could be described as 'one-off' external events. Accordingly most commentators cautioned against reading too much into them when projecting future trends.

However, it is difficult to point to similar one-off reasons for the elevated numbers of deaths observed in 2015/16 and 2016/17. Commentators to date have identified two potential areas that require further investigation – the rise in Alzheimer's and dementia related deaths, and the impacts of austerity on health and social care budgets, albeit there may be other relevant factors.

[1] The chart is based on weekly death data published by ONS and covers the England & Wales population, although similar patterns are seen in Club Vita data.

What this volatility means for you

So what does this mean for schemes setting assumptions for how longevity will change in the future? Schemes are tending to take one of the following approaches:

Retain existing assumption

Many schemes are nervous about automatically reflecting the recent experience. Their concern is that the recent falls in longevity improvements will prove to be a temporary feature and their effects will be reversed by longevity improvements in future years. This reversal could be driven by the fittest pensioners who are more likely to have survived the recent winters.

Fully reflect recent experience

Some schemes are fully reflecting recent experience. They will hold a view that recent experience is likely to be repeated in the future, in essence that longevity will improve at a slower rate in the future than during the period from 2000 to 2012. In doing this they accept that if a reversal in longevity improvements occurs future increases in funding reserves will be required.

Partially reflect recent experience

Other schemes are partially reflecting recent experience. These schemes are typically nervous that recent falls in longevity improvements will prove to be a temporary feature, but accept that we *may* be entering a period of slower longevity improvements.

In our experience most pension schemes are now making at least a partial allowance for recent heavier experience in setting their assumptions. Whichever approach is adopted, it is important that schemes continue to monitor their longevity experience to give early warning of future changes in funding reserves. You are able to do this using your VITAMONITOR report, available from the members' area of **www.clubvita.co.uk**.

> "Adoption of the latest longevity projections could reduce liabilities by 2-5%, with the risk of future bounce back"

Page 24

A scheme-specific approach to improvements

The most widely used longevity improvement assumptions make use of England & Wales population data, making it of less direct relevance to pension schemes than the experience of defined benefit scheme pensioners. However your fund already uses the experience of defined benefit scheme pensioners as a starting point for the assumption used for how life expectancies will change in the future.

In 2017, we concluded a research project with the PLSA (formerly the NAPF) investigating historic longevity improvements within defined benefit pension schemes over the period from 2000 to 2015. This was a follow up to our previous research, published in 2014, which looked at experience over the period from 2000 to 2010, and identified that:

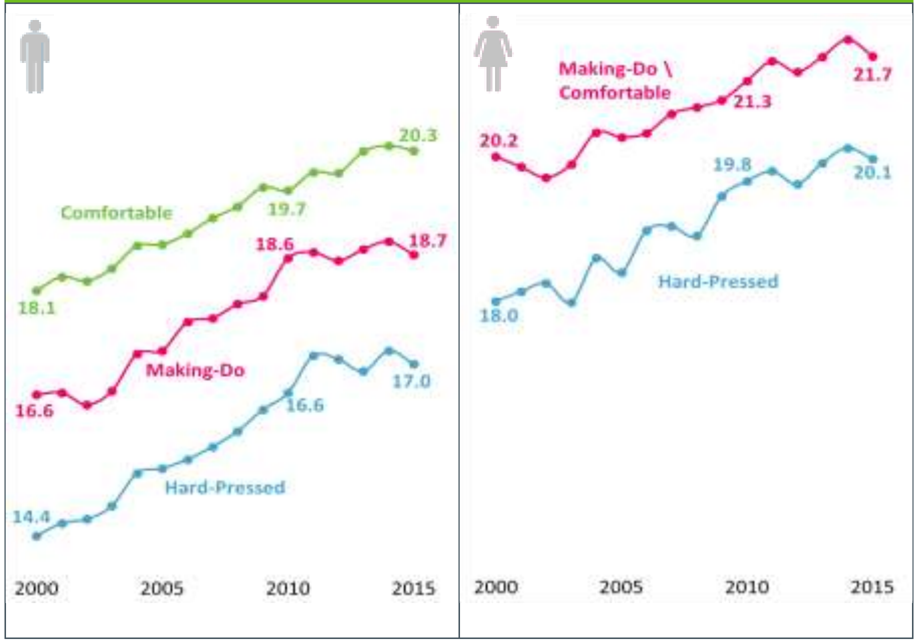
- Life expectancy had increased at different rates for different types of defined benefit pensioner; and
- Pensioners could be categorised as one of three types - ‘Comfortable’, ‘Making-Do’ or ‘Hard-Pressed’ – based on broad affluence and lifestyle measures.

While between **2000 and 2010** the (longer lived) ‘Comfortable’ male group saw the slowest increase in life expectancy of the three types of pensioner, between **2010 and 2015** improvements continued at a **steady rate,** in line with 2000 to 2010. By contrast, over **2000 to 2010** the ‘Hard-Pressed’ group (who are shorter-lived) saw the fastest increase in life expectancy, but life expectancy for this group has remained level from 2011 to 2015.

For women, we found that both groups had seen little change from 2011 to 2015, following the ‘Hard-Pressed’ group seeing faster increases in the 2000s.

The headline result of these changes is that the gap between life expectancy of the shortest and longest lived defined benefit pension scheme members **reduced over 2000 to 2010**, but has subsequently **widened over 2010 to 2015**.

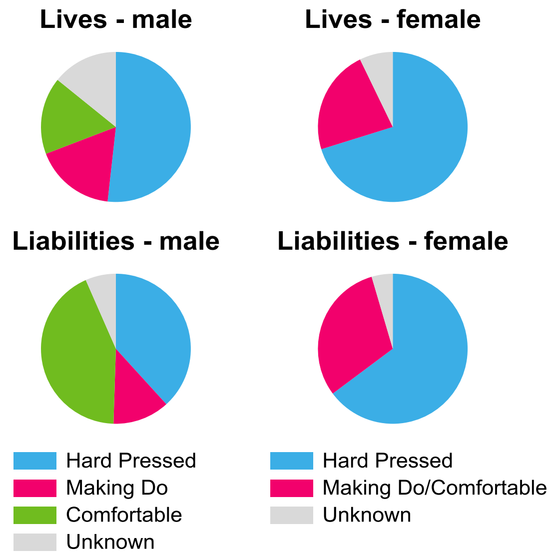
Life expectancy from age 65



These trends highlight the importance of pension schemes considering their socio-economic profile when setting assumptions for how longevity may change in the future.

What this research means for you

Every pension fund is different and has its own socioeconomic profile. The breakdown of your fund's members by longevity trend group is shown below.



The majority of your fund's liabilities relate to those in the making do and comfortable groups (excluding any "unknown" members). As discussed on the previous page, from 2010 to 2015 **Comfortable** members saw **higher improvements in life expectancy** than average for pension scheme members, while **Hard-Pressed** and **Making-Do** members saw **lower improvements**. The good news is that you are already capturing these emerging trends by using VitaCurves.

What does this mean for the future?

Recent trends are a helpful guide to the short term. Your actuary can use the PLSA study to fine tune short term expectations to reflect your fund's population.

Much more material to your funding and investment strategy is how trends will evolve over the medium and long term for these different groups. Will life expectancies continue to diverge, or start to converge again (as they did over the 2000s)? We explore different potential scenarios over the next two pages.

> "From 2010 to 2015 the majority of your members saw higher than average longevity improvements"

Why this matters

- These differential trends make it critical to use up-to-date base tables. Club Vita provides you with the most up-to-date, relevant information available.
- The differences seen are likely to persist in the future. The PLSA study provides the tools to set an improvement assumption relevant to your population and to explore the likely impact of different longevity scenarios on your fund's finances.

Alternative futures

How life expectancy will increase in the medium to long term is hugely uncertain. Nevertheless, in various different situations trustees are called upon to set an improvement assumption. There is a huge diversity of possible outcomes to consider, but discussions often focus on a small range, often couched in actuarial language.

In particular, typical sensitivities set out what happens to cashflows and liabilities if pensions were paid for 1 year more than expected. But they don't highlight the fact that most schemes are assuming a rapid slowdown in improvements, nor do they give any insight into specific scenarios. For example, what happens if life expectancies were to increase steadily as they did over the 2000s, or reduce to previous levels, or if the gap between shortest and longest lived continued to increase?

As part of Club Vita's PLSA study, we created 8 scenarios to help trustees understand the range of potential scenarios that could transpire over the coming decades[2].

Our scenarios cover a wide range of outcomes, ranging from material declines in life expectancy to prolonged continuation of recent increases. By focussing on the real world events that would need to occur for these scenarios to unfold, rather than focusing on improvement rates themselves, we help to give some context to each scenario to aid discussions.

How your fund would be impacted by each of these scenarios will depend on a number of factors, including the profile of your fund against the longevity trend groups shown on the previous page, as well as the age profile and maturity of your fund.

On the next page we investigate the approximate financial impact of each scenario, relative to your current funding. In doing so we have updated your current funding assumption to reflect recent mortality experience, which is likely to have reduced liabilities.

You may wish to explore one or more of these scenarios in more detail with your advisers – for example, to consider how your fund's funding and investment strategy would change if longevity trends developed in line with one of these scenarios.

Decline in life expectancy

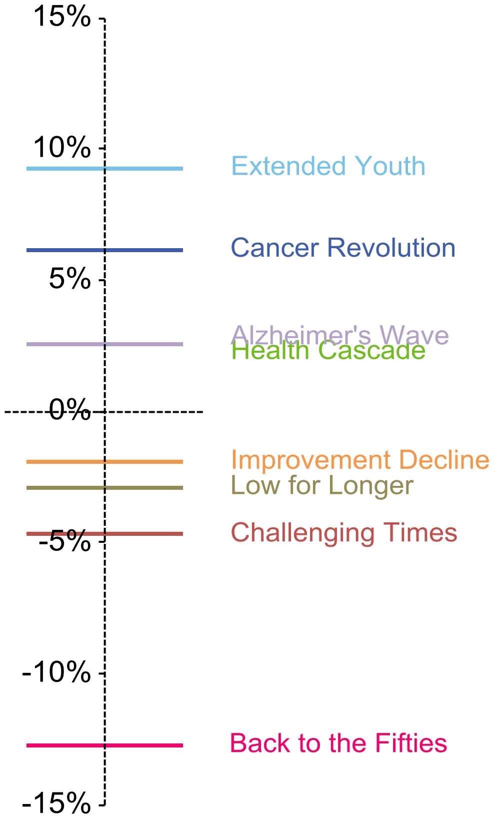
Material increase in life expectancy

> "How do you think longevity will change?"

[2] More detail about each scenario is set out in our Longevity Trends publication with the PLSA http://clubvita.co.uk/Documents/Longevity-model-Jun-17.pdf

The financial impact of scenarios

We have considered the impact on your funding reserve of the future being in line with each of the scenarios. In doing so we have taken as a starting point your existing approach to setting longevity improvement assumptions. For example, for your fund, given your approach, if the future is like 'Extended Youth' your liabilities would increase by around 9%.



Extended Youth
Return to improvements in longevity seen over the 2000s which continue into the future
Impact 9% increase

Cancer Revolution
Following a period of modest improvements, a 'cure' for cancer is released in 2027
Impact 6% increase

Health Cascade
Uptake of healthy behaviours cascades from wealthier to poorer individuals
Impact 3% increase

Alzheimer's Wave
Deaths attributed to Alzheimer's increase rapidly over 5 years before a 'cure' is found
Impact 3% increase

Low for Longer
Low growth economy and austerity impact on health and social care slows improvements
Impact 3% decrease

Improvement Decline
Increased obesity and diabetes in younger generations acts to slow improvements
Impact 2% decrease

Challenging Times
Climate change and resource constraints significantly impact on life expectancy
Impact 5% decrease

Back to the Fifties
Life expectancy shows a prolonged and material decline for all groups
Impact 13% decrease

We can see for your fund the impact of the various scenarios ranges from a 13% reduction to a 9% increase in liabilities. This **22% spread** is indicative of the range of possible future outcomes that your fund might face (although the reality may be even more extreme than illustrated here).

Page 27

Why this matters

- Understanding the range of potential outcomes can help justify your current assumption.
- It also provides a framework within which to consider the impact of alternative scenarios on your funding and investment decisions.
- Because our scenarios have specific narratives attached, this allows you to test your assumption against beliefs you have on what the future may hold.

Reliances and Limitations

This report is provided for the exclusive use of London Borough of Hackney Pension Fund as governed by the Club Vita Rules.

It must not be released or otherwise disclosed to any third party (in whole or in part) except as required by law, regulatory obligation or in accordance with the Club Vita Rules. Third parties placing reliance on this report do so at their own risk and Club Vita accepts no liability in relation to any such reliance.

The contents of this report are reliant on the data supplied to us on your behalf including administration data provided by Bruce Barry of Equiniti Pension Solution Opertions on 22 November 2018.

This report forms part of a suite of reporting from Club Vita. This report provides a summary of key results from Club Vita's analysis. More detail on the analysis, including key assumptions and any material uncertainties are covered within your full set of reports available via the members' area of **www.clubvita.co.uk**. In aggregate these reports meet the requirements of TAS 100.

Club Vita LLP is an appointed representative of Hymans Robertson LLP which is authorised and regulated by the Financial Conduct Authority.

London Borough of Hackney Pension Fund

VITAINDEX

Longevity Analytics for London Borough of Hackney Pension Fund

March 2019

CLUB VITA

Foreword

This VitaIndex report compares your own experience with the rest of Club Vita's dataset (VitaBank) and a peer group of similar funds. Your first VitaIndex report also contained a more general analysis of the combined data of the participants of Club Vita which you may wish to have to hand when reading this report. This VitaIndex report has been updated to reflect your own recent experience, as well as the updated recent experience of other VitaBank participants since the previous Index report was produced.

VitaIndex, like most of Club Vita's tools, is primarily intended for trustees and pension managers. It assumes no prior knowledge of the statistical analysis of longevity.

Individual characteristics - we are all different

Every fund has its own 'demographic DNA' which explains why its members have a lower or higher life expectancy than others. The DNA refers to the fund's mix of the following[1]:

- **Normal and ill-health** retirees – a pensioner retiring in normal health can typically expect to survive between 2½ and 3 years longer than a pensioner that retires in ill-health. The effect of retirement health on life expectancy is at the upper end of this range for pensioners that have the best lifestyles and highest levels of affluence.
- **Lifestyle**, or how individuals spend their money outside of work, can lead to considerably different life expectancies – all else being equal, there is a difference of between 4½ and 5 years in life expectancy between the least healthy and healthiest lifestyles.
- The effect of wealth, or **affluence** of members on life expectancy, is best measured differently for men and women:
    - For men, the last known salary (revalued to current terms) is generally a better indicator of the effect of affluence on longevity, men with the highest levels of affluence having a life expectancy of between 2½ and 3½ years longer than those with the lowest.
    - For women, the effect of affluence on longevity is best predicted by the amount of pension in payment, the effect being smaller than that seen in men.
- **Occupation**, or whether an individual has carried out a 'manual' or 'non-manual' role, accounts for less than ½ year difference in life expectancy for men (and around 1 year for women), with 'ex-manual' workers tending to have lower longevity.
- Your **VitaCleansing** and **VitaCurves** reports give you more information on the quality of your data and your scheme's 'demographic DNA'.

Longevity trends

- Life expectancy has recently been increasing at around two years per decade.
- The rate at which these improvements will continue is unknown – however most published projections relate to analysis of trends in insurance company data or the population as a whole, and represent an average for people with very different longevity characteristics.
- Our analysis of the experience data received has shown that the historic rates of improvement have been of a different 'strength' and 'shape' to the published projections.

[1] The differences in life expectancy that are shown here reflect what happens when one element of the demographic DNA is changed and all other elements are left unchanged (e.g. lifestyle accounts for 4½ to 5 years difference in life expectancy for individuals with the same retirement health, affluence and occupation characteristics).

- Inevitably, actual experience will differ from whatever is anticipated. We believe that it is important that all schemes **monitor** emerging experience and remain **informed** of the latest developments. Please see your **VitaMonitor** report for the latest such information.

We do hope that you enjoy reading your VitaIndex report. We are very grateful for any feedback that you may have on the content of these reports.

Steven Baxter | Andrew Gaches | Steven Hood

For and on behalf of Club Vita LLP

13 March 2019

Contents

1 The profile of your membership

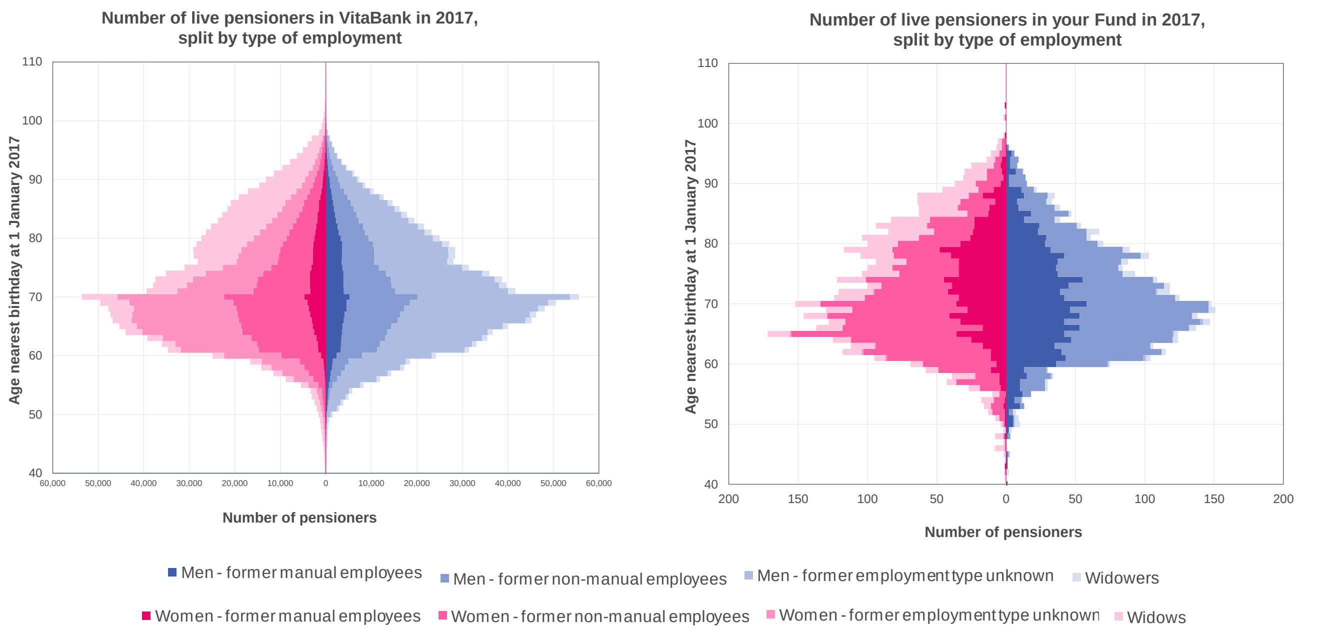
Club Vita aims to provide greater insight into the longevity characteristics in occupational pension schemes by bringing like-minded schemes together in a community where longevity experience data is pooled. By combining the data from individual schemes a clearer picture of the underlying patterns emerges.

The combined data, known as **VitaBank™**, presented in this report comes from the 231 schemes currently participating in Club Vita, who in total had around 2.9m pensions in payment[2], spread across the UK. The charts in this section illustrate the membership profile of VitaBank and contrast this with the data of the London Borough of Hackney Pension Fund ("the Fund").

1.1 Profile of pensioner membership

Chart 1A – Split by type of former occupation

The 'population pyramids' below show the numbers of pensions in payment at each age in VitaBank and in your fund in 2017.



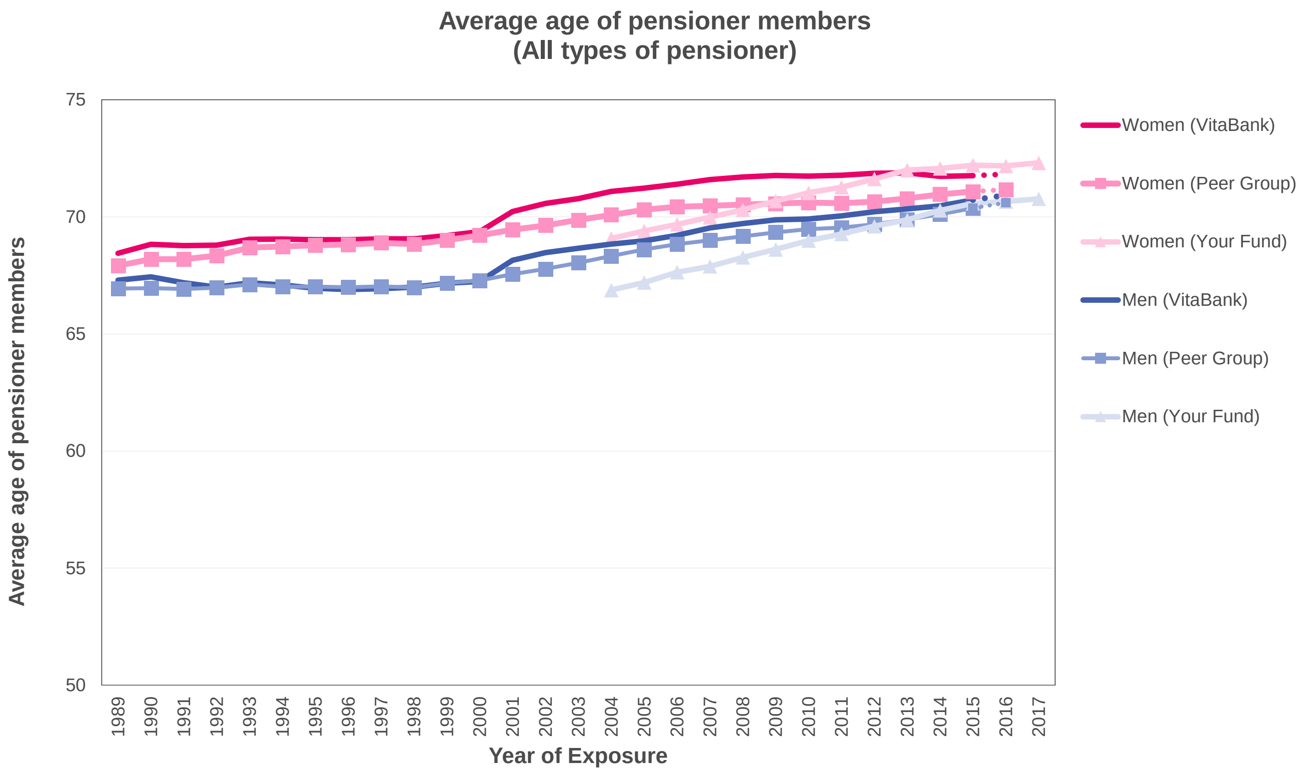
The data is grouped according to age and gender and also according to the main types of employee role we are able to identify in the database, namely former manual employees, former non-manual employees and 'unclassifieds'. The 'unclassifieds' are members of pension schemes where a manual / non-manual split is not available or members of local authority pension schemes who joined after 1998 after which a manual/officer (i.e. manual/non-manual) classification ceased to apply.

The scheme pensioners represent just 0.3% of the records of live pensioners in VitaBank. With the current number of pensioners, the scheme 'population pyramid' demonstrates greater 'jumps' in the progression of number of pensioners between ages relative to the 'smoother' progressions seen in VitaBank.

[2] As at the last date each scheme in VitaBank submitted data to Club Vita. As schemes are supplying updated information at different points in time the actual numbers of pensions in payment shown in later charts are slightly lower than this.

Chart 1B – Ageing pensioners

This chart looks at the average age of pensioners in each year from 1989 to 2017 (excluding pensioners aged below 40).



Note: Since funds contribute data at dates spread across the year not all schemes will have provided data covering the entire of the most recent calendar year(s). Consequently some of the points in the chart above (and in later charts) are connected to historic points by a dotted line to reflect the provisional nature of this data.

Within the pooled data the average pensioner ages have risen over the 27 years to 2016, from age 67.3 for men and 68.4 for women in 1989 to ages 70.9 and 71.8 respectively.

The equivalent numbers for the London Borough of Hackney Pension Fund, your peer group of other LGPS Schemes and VitaBank as a whole are shown in the following table for 2004 (the date from which your scheme information is reliable) and 2016.

	Average age of pensioners			
	Men		Women	
	2004	2016	2004	2016
London Borough of Hackney Pension Fund	66.9	70.7	69.1	72.2
LGPS Schemes	68.3	70.6	70.1	71.2
VitaBank (all funds)	68.8	70.9	71.1	71.8

The increase in average pensioner ages is only partially a result of improving longevity: much of the increase is simply due to the ageing of the pension fund membership i.e. as pension schemes ‘grow up’ (or mature) so the balance between new retirees at young ages and ‘established’ pensioners at older ages changes.

2 Considering your longevity experience

2.1 Components of longevity experience

When making longevity assumptions for the members of your fund there are two key elements:

- **Baseline longevity -** In principle this is measurable from the numbers dying in recent years – although a large volume of data would typically be needed before we can really be certain about these rates
- **Longevity improvements -** In order to project future changes in longevity it is important to have a good understanding of recent changes. We provided analysis of the improvements seen within the occupational pension schemes participating in this study within your previous VitaIndex report.

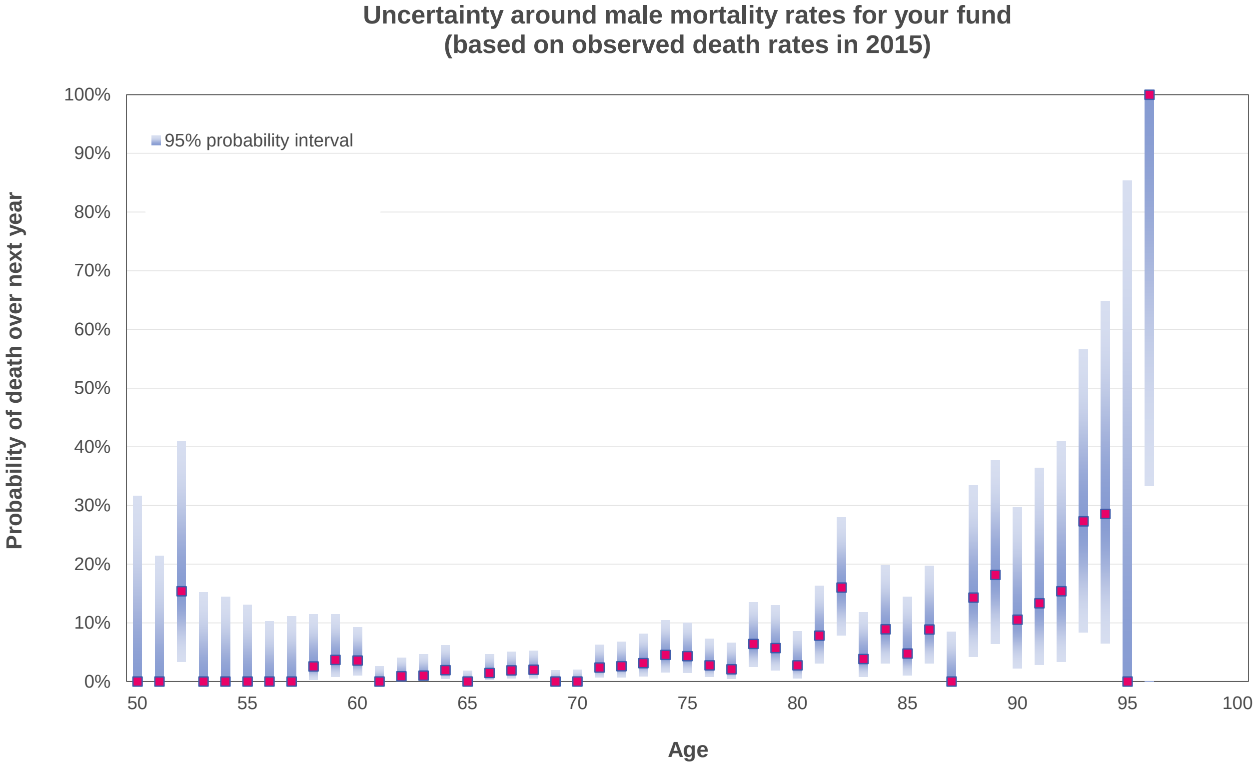
2.2 Death is 'fuzzy'

For individual funds it can be very difficult to draw conclusions about baseline longevity from recent experience alone – this is especially the case for small and medium sized funds such as yours.

Crude death rates and a best guess at mortality rates (men)

It is possible to analyse the 'crude' death rates experienced at different ages for individual pension schemes, in an effort to work out what proportion of people might reasonably be expected to survive to their next birthday, or more morbidly what proportion died at each age (the death rate). In the chart below we see the pattern of death rates by age (illustrated by the pink dots) for your fund in 2015.

Chart 2A – Crude death rates and a 'best guess' at mortality rates



At some ages the dots/bars may be missing – this occurs where your fund has no members of those ages alive in 2015 and so we are unable to draw any conclusions about the death rates at those ages in that year.

The actual death rates are ‘spiky’ – while there is a general pattern that the death rates are lower at younger ages, and not unsurprisingly, tend to increase with age, the death rates (pink dots) do not form a smooth curve.

The ‘spikiness’ identified above (by the pink dots) makes it difficult to say with certainty what proportion of individuals might, at each age, reasonably be expected to survive, or die during, the next year. The challenge when setting a longevity assumption becomes working out what the underlying ‘pattern’ is – i.e. how to draw a gradually increasing (smooth) curve through, or between, the observed points.

For your fund, what we can actually say is that the ‘true’ death rates are likely[3] to be somewhere in the blue bars (i.e. in all except one in twenty ages the ‘true’ mortality rates pass through the bar). In addition, the deeper the shade of blue the more likely it is that the true death rate lies in that part of the bar.

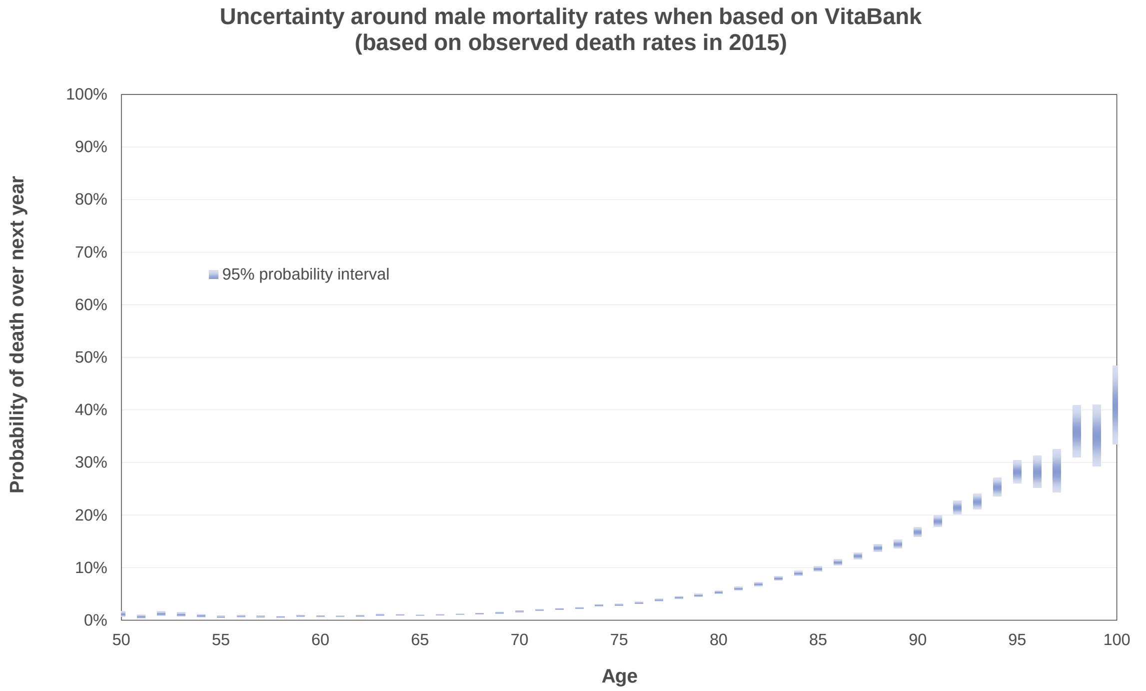
Whilst we have some certainty at those ages where there are lots of pensioners and widow(er)s (i.e. the younger ages) the uncertainty as to the true mortality rates generally increases with age as there tend to be fewer pensioners and widow(er)s at those older ages. Since it is at the older ages (75+) where pension liability values are typically most sensitive to the mortality rates assumed, the uncertainty we see above is particularly unhelpful when trying to set longevity assumptions.

2.3 Lifting the fog on longevity

One way to remove some of the uncertainty seen above is to pool data over a number of calendar years – however for small funds in particular this often requires use of a large number of years worth of data before the noise is reduced. An alternative to this is pooling the data across a large number of funds – as done in Club Vita.

Chart 2B – Clarity in numbers

The chart below shows the comparable chart to 2A – but for VitaBank as a whole in 2015.



[3] For the technical reader: the shaded blue bars are 95% beta-binomial Bayesian probability intervals for the ‘true’ average mortality rate at each age in light of the observed crude death rates.

The blue bars are now considerably shorter – this shows how much more certain we can be about the ‘true’ mortality rates when working with the greater data volumes in VitaBank.

It remains a little difficult to draw a nice smooth curve through the bars above – this reflects the fact that the mix of people differs at each age i.e. each bar is based on lots of people with different longevity characteristics and so different chances of dying.

Because of the large amount of data obtained by pooling we can start to look at smaller groups of individuals defined by the characteristics that we have found to affect longevity, and identify with confidence the mortality rates experienced by such groups. (We explored this and the complex statistical methods we have used to identify the underlying patterns in your first VitaIndex report.)

3 Every fund is different

3.1 Who lives longest – you, your peers or everyone else?

This section looks at the extent to which life expectancies are different in the individual funds participating in Club Vita.

Jargon buster

Life expectancy is the average length of time an individual can expect to live. Life expectancy can either be expressed as **future life expectancy** (for example 20 years for someone currently aged 65) or as **total life expectancy** (for example 85 for someone currently aged 65). In this report we use total life expectancies.

The chart overleaf plots the life expectancy for men against women, with each fund[4] identified by a single marker. These 'period' life expectancies represent the lifespans that would be expected if mortality rates observed over the last five years were repeated in future[5] - this makes no allowance for future improvements.

Jargon buster

When looking at life expectancies it is important to know whether they include any allowance for future changes in longevity. **Period life expectancies** are based on mortality rates experienced for one particular period, whilst **cohort life expectancies** are determined using projected death rates for one particular generation and so assume some future change (usually reduction) in the chances of dying at each age. Throughout this report we use period life expectancies.

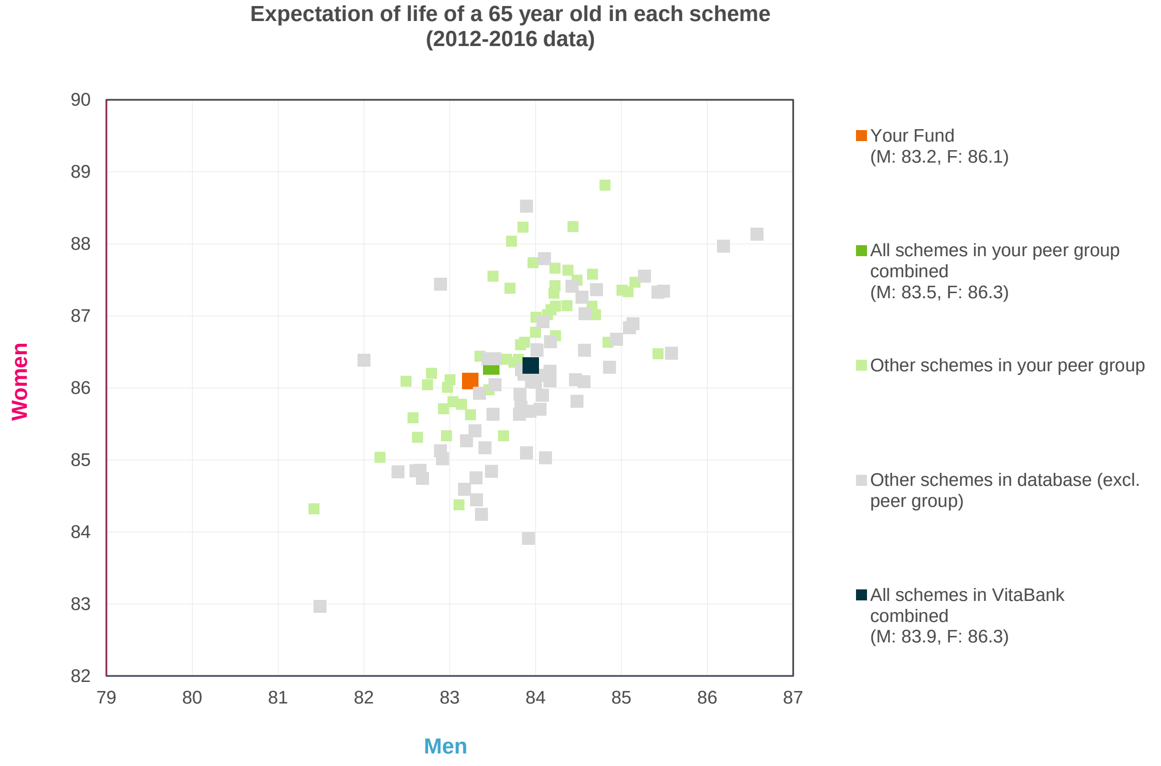
In calculating the life expectancies we have included the information relating to widow(er)s as this provides insight into mortality rates at the oldest ages, where, as seen in Chart 1A there is considerable volumes of data in relation to widows in particular.

We have highlighted your fund so that you are able to compare your experience against that of other funds in the database and in particular your peer group of other LGPS Schemes - which are highlighted in green.

[4] Please be aware that markers are not shown for all schemes in the dataset as those with less than 1,000 years of exposed to risk over the period 2012-2016 are likely to be subject to too much random variation for the marker to be meaningful. Immature schemes (i.e. those with no or very few individuals at the older ages (85+) have also been excluded.

[5] To avoid problems with the sparseness of data at extreme old ages for some schemes the mortality rates have been calculated in five year age bands and at the oldest age bands VitaBank's average data is used where schemes have insufficient data to use their own crude death rates.

Chart 3A – Variations in life expectancy



If men and women demonstrate the same mortality patterns in each fund then within this chart we would observe a diagonal line. It is therefore encouraging to see that the funds appear to follow a diagonal suggesting that men and women exhibit similar mortality patterns in each fund. Some of the funds which appear off of the diagonal may be due to distortions caused by relatively small bodies of data, or differences between the male and female populations in those funds in terms of the other key longevity differentiators we identify in section 4.

You, your peers and everyone else

The gap between highest and lowest appears considerable: from 81.4 to 86.6 for men and from 83.0 to 88.8 for women within the database as a whole. In particular:

- Within LGPS Schemes there is a range of life expectancies of between 81.4 and 85.4 for men and between 84.3 and 88.8 for women.
- Within your peer group the average life expectancy is 83.5 for men and 86.3 for women. For both men and women this is similar to the average life expectancies for VitaBank.
- The life expectancies within your fund are 83.2 for men and 86.1 for women. For both men and women this is similar to the life expectancies seen for other LGPS Schemes and for the combined data in VitaBank.
- Your previous Index report may have shown slightly different life expectancies within your fund for men and women. The main reason for this change will be the updating of our analysis for the more recent experience observed within your Fund and the other Club Vita participants.

4 Everyone is different

Many of the characteristics that Club Vita has identified as affecting longevity (gender, lifestyle, affluence, occupation and retirement health) are inter-related. For example, the average income of former non-manual employees is typically higher than that of manual employees. In other words, if you were to consider the effect of occupation on longevity (ignoring other characteristics), some of the higher mortality seen for former manual workers relative to non-manual workers will be due to income and lifestyle differences rather than simply due to their occupation.

In order to make appropriate allowances for different longevity characteristics it is important to be able to identify the impact that individual characteristics have in isolation and how the impact of these characteristics decrease with age. Our research team has used sophisticated statistical techniques designed to separate out the impact of individual longevity predictors i.e. the effect of different parts of your fund's demographic DNA – a summary of these methods is included in Appendix B in our original VitaIndex report.

As part of this analysis our statistics team have also identified the groupings of salary and pension which provide most insight into differences in longevity.

Change in longevity characteristic	**Impact on life expectancy from age 65 (if all other characteristics are unchanged)**
Male to female	Increase of 2 to 2½ years
Normal to ill health retiree (men)	Typically a decrease of 2½ to 3 years (the impact is biggest for those combinations of lifestyle and affluence with the longest life expectancy in normal health)
Geo-demographic longevity group A to G for men	Increase of 4½ to 5 years
Increase in pay at retirement from below £15,600 p.a. to over £66,400 p.a. (men)	Increase of 2½ to 3½ years
Manual to non-manual (men)	Increase of less than ½ year (the impact is larger for women at around 1 year)

Technical note: Above values are based upon the adjusted impact of the change in a single characteristic as derived from logistic generalised linear models fitted to the 164 schemes loaded onto VitaBank as at January 2018 and stratified by sex and adjusted for age, occupation, retirement type, affluence (salary at exit/retirement and pension) and postcode based longevity group (including any significant interactions between these covariates). For additional details please see Appendix B in our original VitaIndex report. Please note that the above results are based upon our latest research and so may be slightly different to results in earlier reports reflecting changes in the impact of different factors over time and the additional insights we continue to gain from the dataset.

In order to understand why different funds exhibit different life expectancies we need to understand more about why the different members of those funds may have different life expectancies and how your fund differs from others in terms of its **demographic DNA** (i.e. the makeup of your membership in terms of the different longevity characteristics that we have identified). The demographic DNA of your fund is explored in the following section and some additional summary statistics are provided in an Appendix to this report.

5 Your fund's demographic 'DNA'

Please note that:

- The charts show only members for whom we hold the relevant data – the proportion of your members for whom we hold relevant data is shown in footnotes; and
- With the exception of charts 5B and 5C, the charts consider only the pensioner membership of the fund i.e. widow(er)s have been excluded.

Chart 5A – The sick die young ... your ill health 'DNA'[6]

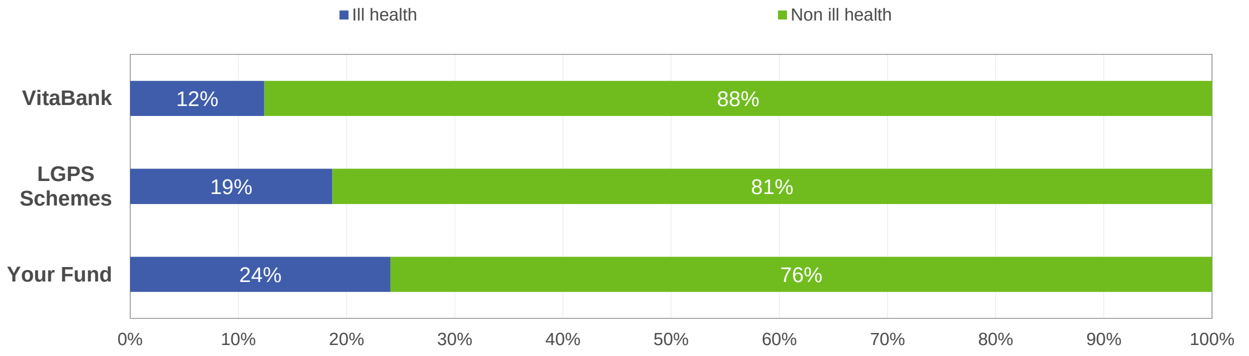
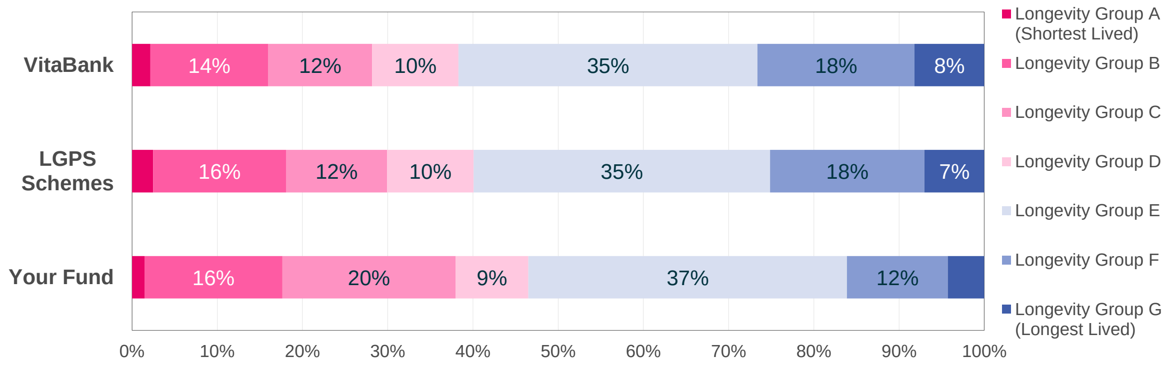
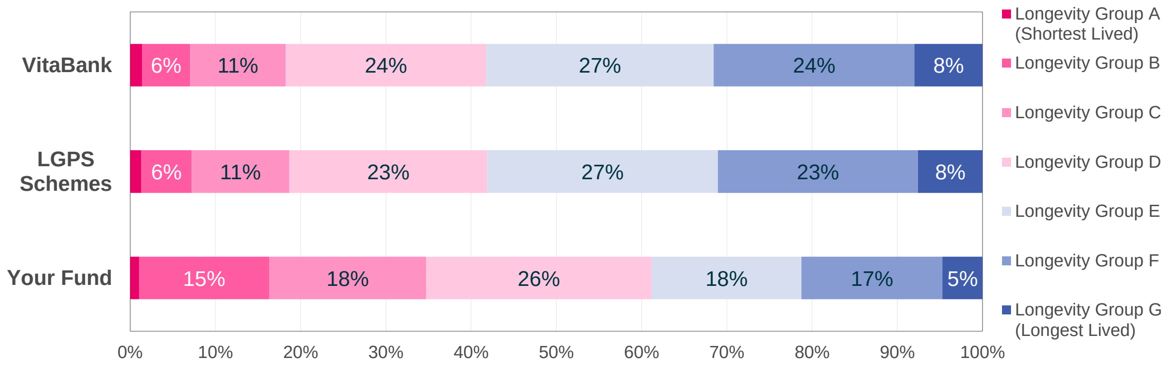


Chart 5B (men) & 5C (women) – Life is more than just work ... your geo-demographic 'DNA'[7]





[6] Retirement health was supplied for all of your pensioners.
[7] We have recorded usable postcodes for 95% of your pensioners and dependants – please see our VitaCleansing report for more information.

Chart 5D – Money matters ... your male affluence ‘DNA’[8]

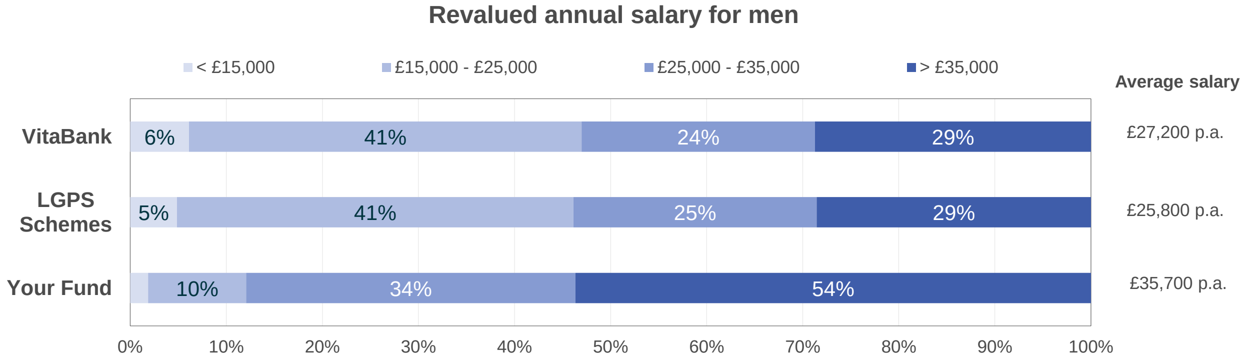


Chart 5E – Money matters ... your female affluence ‘DNA’[9]

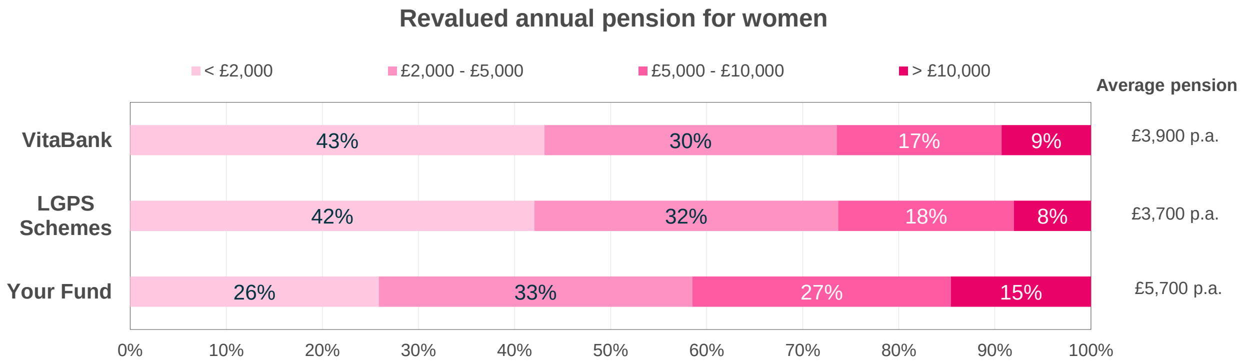
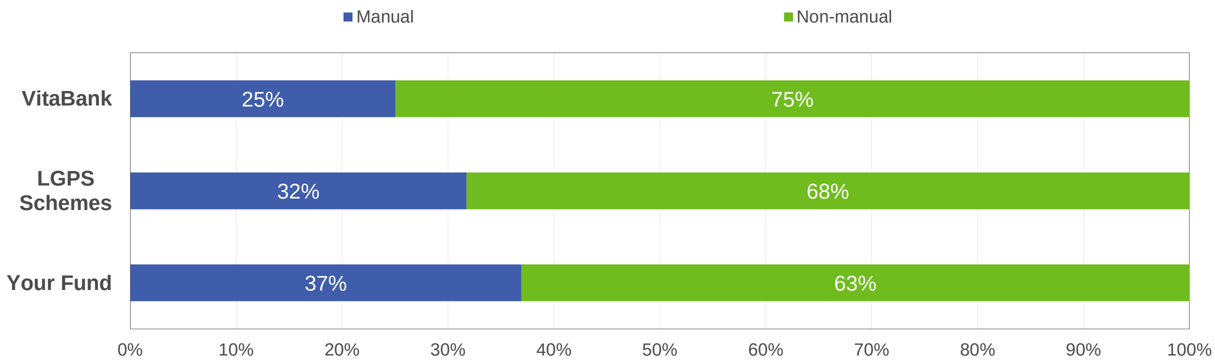


Chart 5F – A job for life and death ... your occupational ‘DNA’[10]



Typically we would expect that, all else being equal, relative to the average occupational pension scheme:

- funds with a higher proportion of ill health retirees will have a lower average life expectancy;
- funds where a higher proportion of members live in postcodes associated with the ‘worst’ lifestyles (shortest lived) will have a lower average life expectancy;
- funds with lower salaries or pensions in payment will have lower average life expectancy; and

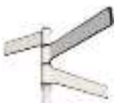
[8] A reliable salary value was supplied for 76% of your pensioners – please see your VitaCleansing report for more information.
[9] Pension was supplied for all of your pensioners – please see your VitaCleansing report for more information.
[10] This information is known for almost all of your members - please see your VitaCleansing report for more information.

- funds with a higher proportion of former manual employees will have a lower average life expectancy.

We can look at the DNA of your pensioners to see if it helps explain the life expectancy seen in Chart 3A relative to other LGPS Schemes and VitaBank. In the table below ⇧, ⇩ and ⇔ indicate that your demographic DNA suggests that you should have on average higher, lower or similar life expectancy to other schemes, respectively.

Longevity Characteristics		**What does your demographic DNA suggest about how your fund's average life expectancy should compare to...?**	
		Peer group	**VitaBank**
Retirement health		⇩	⇩
Lifestyle	Male	⇩	⇩
	Female	⇩	⇩
Affluence	Male	⇧	⇧
	Female	⇧	⇧
Occupation		⇩	⇩

Based upon the table above it is difficult to draw definitive conclusions on how the fund's longevity characteristics contrast to either other LGPS Schemes or VitaBank. In practice, though, the fund's membership is a diverse mix of individuals that exhibit a range of different combinations of longevity characteristics and this is reflected by the position of the fund on chart 3A. This is explored further in your VitaCurves report.



Further information on our analysis of your scheme's longevity characteristics, including the consideration of non-pensioner members, is provided in your **VitaCurves** report. In particular the **VitaCurves** report considers the impact on the value of your liabilities of adopting the latest version of **VitaCurves** as your longevity assumptions.

6 Living longer but how much longer?

So far the focus of our analysis in VitaIndex has been on identifying which factors distinguish between those who are expected to live longer or shorter than others – i.e. factors which it may be important for you to take into account when setting the baseline assumption for funding purposes – and investigating your fund's demographic 'DNA'.

However, mortality rates are likely to change in the future and in order to put possible future projections into context it is important to understand how mortality rates and life expectancies have been changing in the past. In this section we start to consider the changes that have been happening over the last 23 years.

6.1 Two years a decade

The following two charts demonstrate a helpful way of summarising the information we hold on recent improvements in longevity into a single figure – a life expectancy.

To generate life expectancies we have taken the crude death rates across all ages in each single calendar year to calculate the implied expected age of death if the same death rates continued to apply in all future years. As the death rates in a single year do not allow for further improvements in longevity they can be useful for comparing year-on-year trends in mortality, and variations between membership groups, but cannot be used to give a best estimate of future life expectancy. In each case we have considered someone who has reached age 65 in each single complete calendar year of experience (i.e. from 1993 to 2017).

One benefit of not making any allowance for future changes in mortality is that the life expectancy figures produced do not incorporate any judgemental views on 'longevity improvements', and are simply functions of the observed data[11].

The charts reveal:

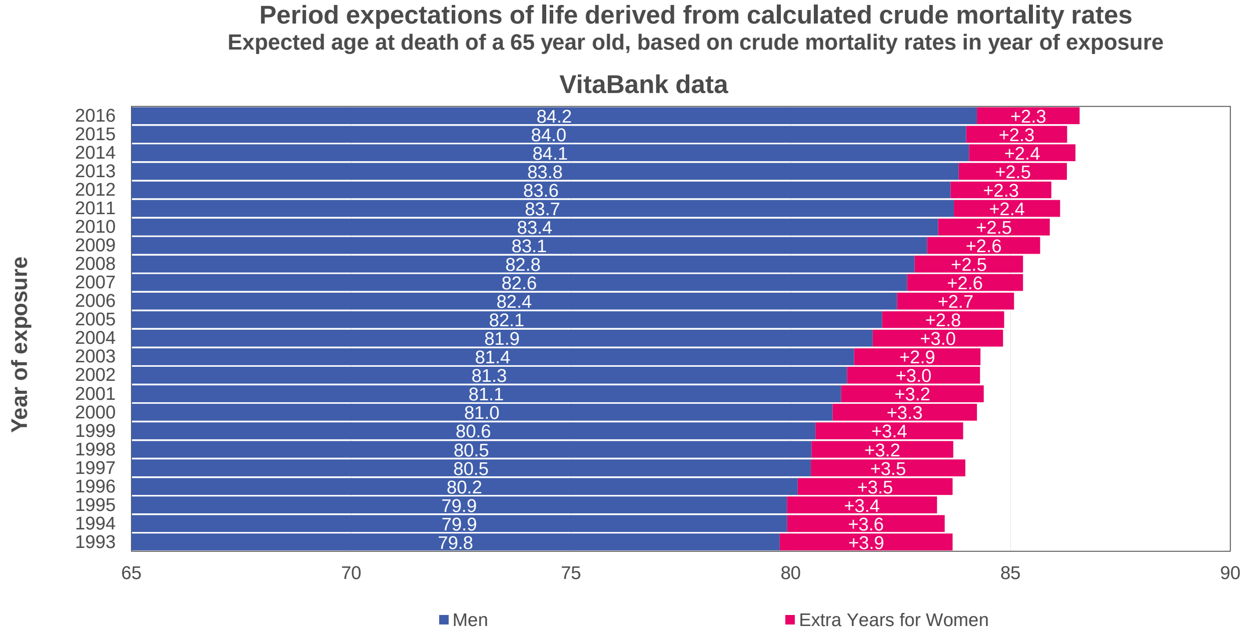
- The life expectancy for males (at age 65) has risen from 79.8 in 1993 to 84.0 in 2015 – an increase of around 2.3 months each year, or around 1.9 years per decade[12].
- The life expectancy for women has also risen, but less rapidly than for men. This shows that the life expectancy for men has been catching up with women. One of the drivers for this is that more men smoked historically and so the quitting of smoking which has happened in recent decades has been most beneficial to men.
- The life expectancy of individuals within the fund has been far more variable over time, highlighting the clarity that comes from pooling data.

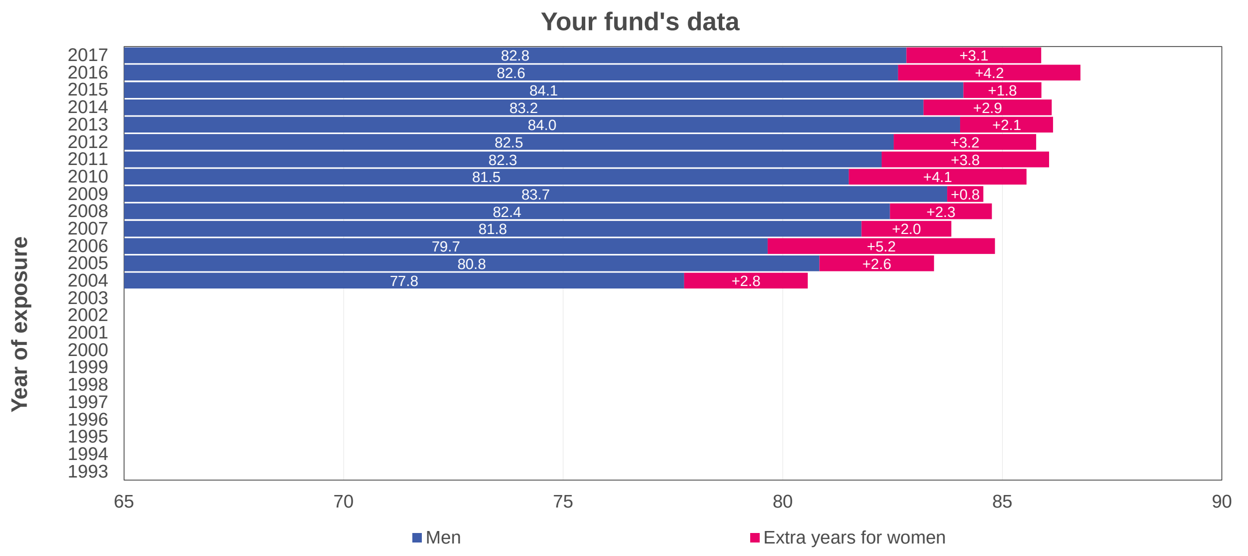
Further information on our analysis of longevity improvements was provided in your first VitaIndex report and annual updates to this will be provided in your VitaMonitor report.

[11] However, this introduces a limitation because we do not have complete information at all ages – for instance at some ages where we are observing a small number of individuals there will be some years where no one is observed to die, suggesting a misleadingly low death rate of 0%. Similarly at other ages there may only be a small number of individuals all of whom die, or there may be no one alive at all. To avoid these problems some smoothing of the crude death rates has been carried out at ages over 100.

[12] The results are also similar to those observed in the UK population, as evidenced by National Statistics studies.

Chart 6A and 6B – Increasing life expectancies





Appendix – Your fund, your peer-group and VitaBank

The table below contrasts the London Borough of Hackney Pension Fund with your peer group (LGPS Schemes) and the combined dataset of the first 231 occupational pension schemes to participate in Club Vita.

		Men			Women			Combined		
		Within your fund	Within your peer group	VitaBank	Within your fund	Within your peer group	VitaBank	Within your fund	Within your peer group	VitaBank
Population Profile (2015)	Active	26%	31%	24%	32%	37%	31%	30%	36%	28%
	Deferred	40%	32%	36%	41%	37%	38%	40%	35%	37%
	Pensioners (excluding widow(er)s)	32%	33%	38%	20%	21%	23%	25%	25%	29%
	Widow(er)s and dependants	2%	3%	2%	7%	4%	8%	5%	4%	6%
	Split by gender	47%	38%	48%	53%	62%	52%	-	-	-
Pensioner Profile (2015) Retirement Type	Proportion retiring on 'normal health'	75%	76%	79%	77%	80%	81%	76%	78%	80%
	Proportion retiring on grounds of ill health	25%	20%	10%	23%	16%	12%	24%	18%	11%
	Proportion retiring where retirement reason is unknown	0%	4%	11%	0%	4%	7%	0%	4%	9%
Pensioner Income (2015) excl. widow(er)s (revalued to 2016)	Proportion with pensions of less than £2k p.a.	12%	21%	21%	26%	42%	43%	18%	33%	31%
	Proportion with pensions of between £2k and £5k p.a.	21%	26%	26%	33%	32%	30%	27%	29%	28%
	Proportion with pensions of between £5k and £10k p.a.	35%	26%	23%	27%	18%	17%	31%	22%	20%
	Proportions with pensions in excess of £10k p.a.	32%	27%	30%	14%	8%	10%	24%	16%	21%
Average Pensions in Payment (2015)	All former employment types	£8,814	£7,637	£8,851	£5,674	£3,676	£3,930	£6,583	£4,961	£6,150
	Former manual employees	£6,192	£4,538	£4,699	£3,608	£1,634	£1,691	£4,958	£3,162	£3,304
	Former non-manual employees	£10,587	£10,735	N/A	£6,621	£4,920	N/A	£8,453	£7,168	N/A
Average Salary at Retirement/Exit (revalued to 2016)	All former employment types	£35,733	£25,845	£27,155	£28,582	£19,805	£20,062	£32,867	£21,939	£23,261
	Former manual employees	£29,861	£20,912	£21,389	£23,080	£15,185	£15,364			
	Former non-manual employees	£42,199	£33,512	N/A	£33,733	£22,254	N/A			
Average Ages (inc widow(er)s)	Pensioners (2004)	66.9	68.3	68.8	69.1	70.1	71.1	68.0	69.3	69.9
	Pensioners (2015)	70.6	70.4	70.7	72.2	71.1	71.8	71.5	70.8	71.3
	Age at death of pensioners (2004)	74.4	76.9	77.7	77.7	N/A	N/A	75.9	78.5	79.4
	Age at death of pensioners (2015)	78.0	79.4	80.1	81.9	82.3	83.6	80.0	81.1	81.9
Period Life Expectancy (2012-2016)	Pensioners inc widow(er)s	83.2	83.5	83.9	86.1	86.3	86.3	84.7	85.1	85.1

Reliances and Limitations

This report is provided for the benefit of the party set out on the cover page. It has been prepared by Club Vita LLP for the London Borough of Hackney Pension Fund, pursuant to your membership of Club Vita LLP as governed by the Club Vita Rules ("the Rules"). It has been prepared for your exclusive use and must be used by you solely for the purpose of you monitoring the longevity experience of your pension fund (the "Purpose"). It must not be used for any other purpose, recited, referred to, published, quoted, replicated, reproduced or modified (in whole or in part) except as required by law, regulatory obligation or as set forth in the Rules, without Club Vita LLP's prior, written, express consent.

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For the avoidance of doubt, this report does not constitute actuarial advice. Furthermore, this report should not be construed as providing advice on the appropriateness of any mortality assumption for the purposes of scheme funding as required under Part 3 of the Pensions Act 2004 and The Occupational Pension Schemes (Scheme Funding) Regulations 2005.

The information in the report has been compiled by or on behalf of Club Vita LLP and is based upon our understanding of legislation and events as at March 2019. It should be noted that Club Vita LLP does not provide legal services and therefore, we accept no liability to you or to any other third party in respect of any legal opinions expressed in this report. You are advised to take independent legal advice in respect of any legal matters arising out of this report.

Utilisation of Data

The contents and conclusion of this report are reliant upon the extract of the current and historic data held by the fund's administrators. This was supplied to us by Bruce Barry of Equiniti Pension Solution Opertions on 22 November 2018. We have carried out a number of checks on the data to ensure that it is suitable for the purposes of longevity analysis. The results of this analysis are summarised in our **VitaCleansing™** report dated March 2019 and has resulted in the data from your fund having been included in our longevity analyses from 1 January 2004. Please be aware that the checks we have performed are designed to verify the data as adequate for the purposes of longevity analysis and does not warrant the data as suitable for other purposes.

continued overleaf...

Reliances and Limitations (continued)

The data analysed within this report relates solely to pensions in payment. In all of the analyses, pensioners aged below 40 have been excluded as the data on child dependants' (or young widow(er)s) pensions is sparse and unreliable.

Within this report we have identified a number of predictors of longevity which explain a considerable proportion of the variation observed in the mortality experience of the contributing schemes. However, not all of the variations between funds are explained in terms of the factors identified within this report. It is likely that there are additional factors which explain the residual variation in mortality experience. To the extent that some of these additional factors are found more or less frequently in the membership of the London Borough of Hackney Pension Fund it may be particularly important for the sponsor and trustees of the fund to appreciate the impact of these factors on longevity.

Compliance statement

This report (in combination with your VitaCleanse, VitaCurves and VitaMonitor reports) complies with the requirements of Technical Actuarial Standard 100 as effective from 1 July 2017.

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Appendix 3

London Borough of Hackney Pension Fund

VITAMONITOR

Monitoring longevity experience for the London Borough of Hackney Pension Fund

March 2019

CLUB VITA

Welcome to VitaMonitor...

Welcome from all the Club Vita team to your annual **VitaMonitor** report.

Longevity is one of the largest risks that any pension scheme runs, yet typically one which is monitored less frequently – often leading to nasty surprises at triennial valuations. Over the last decade the funding positions of most pension schemes will have been repeatedly revised downwards in light of emerging longevity patterns. We cannot promise to always be the bearer of good news, but we hope that you will find our regular monitoring useful in managing your longevity risk.

Our report is split in to two sections, and whilst we have tried to explain any jargon as we go along, we have included a jargon buster in Appendix A:

What has been happening? (page 5 onwards)

As trustees you have had to make an assumption as to how long people will live for. However have the members of your scheme been living (and dying) in accordance with the funding assumption? In sections 1-5 we see how:

- more pensions remain in payment at the year ending 31 August 2018 than anticipated under your funding assumptions. However, last year's experience has overall been broadly neutral to the value placed on your liabilities
- the experience over the last three years has been varied - with some years having fewer pensions surviving than would have been anticipated, and some years with more pensions surviving than anticipated.
- the estimated net effect of this experience has been, allowing for the ages of members for which any extra pensions are payable, broadly neutral since your last valuation at 31 March 2016
- we can also consider the combined evidence for all Club Vita subscribers. If you were to update your longevity assumptions to reflect the latest experience from Vita it would decrease the value placed on your liabilities by 1.2%

Steven Baxter

Andrew Gaches

Steve Hood

For and on behalf of Club Vita LLP

Managing longevity risk (page 16 onwards)

For most schemes longevity ranks in the top three risks faced by trustees, and as such deserves actively monitoring and managing. In particular the behaviours of your membership can influence your risk exposure which we explore in section 8 and summarise in a **longevity risk register** in section 9. Our observations include:

- we estimate that 10% of your liabilities are concentrated in just 1.2% of your members - how long these members actually live for will play an important role in the ongoing funding position of the fund
- the average age of new retirees (from active service) within your fund has been variable over the last decade but is generally lower than other LGPS Schemes
- 2% of active members who retired over year to 31 August 2018 did so on grounds of ill health and a decreasing proportion of members have been retiring on ill health

Contents

What has been happening?

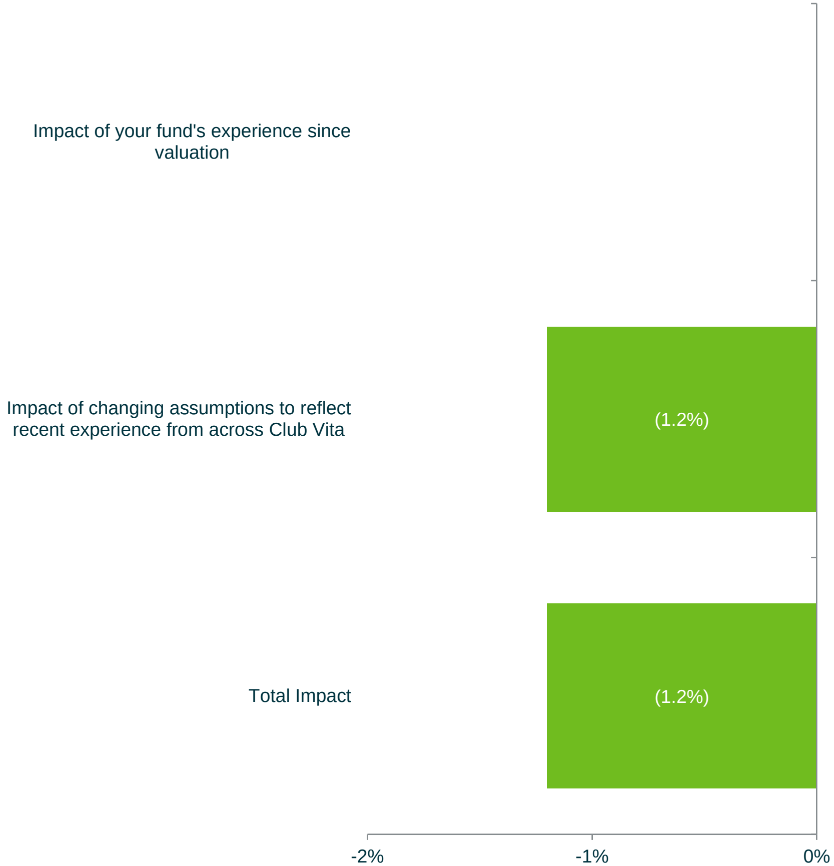
CLUB VITA LLP

1 Emerging experience at a glance

The financial impact

Over recent years estimates of how long people are living for have seemed to steadily risen, often increasing much faster than anticipated by trustees and sponsors alike leading to a succession of increases in the valuation of pension scheme liabilities.

In this section we provide a summary of the impact of the longevity experience of your fund since your last valuation and identify how the emerging insights from Club Vita may lead to you taking a different view in subsequent valuations. In sections 2 to 5 we then explore this summary picture in more detail.



More pension remains in payment in your fund at 31 August 2018 than would be expected under your current funding assumptions. However, we estimate that, all else being equal, this has had a broadly neutral effect on your liabilities since your last valuation. **(Section 3)**

Although more pensions are in payment than anticipated this does not necessarily mean your assumptions about how long people are currently living for are wrong. Your membership has a variety of individuals as seen in your VitaCurves report. Looking across the data for all Club Vita subscribers we see that allowing fully for this variety in the mortality assumption you use would decrease your liabilities. **(Section 4)**

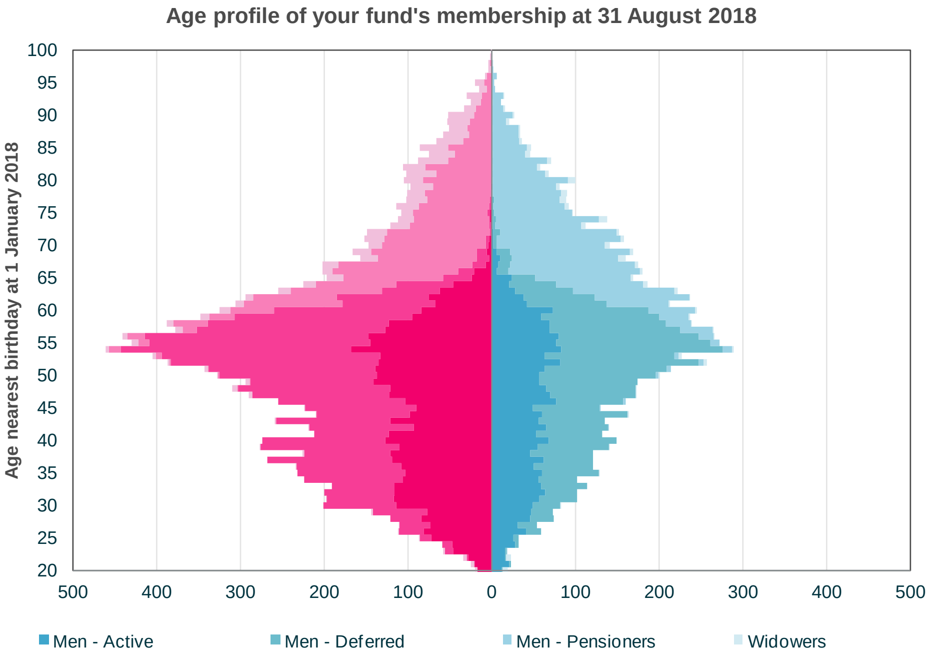
The combined impact of the two items above – the actual survivorship of your members, and reflecting our latest longevity insights – suggests a decrease in your liabilities of 1.2%.

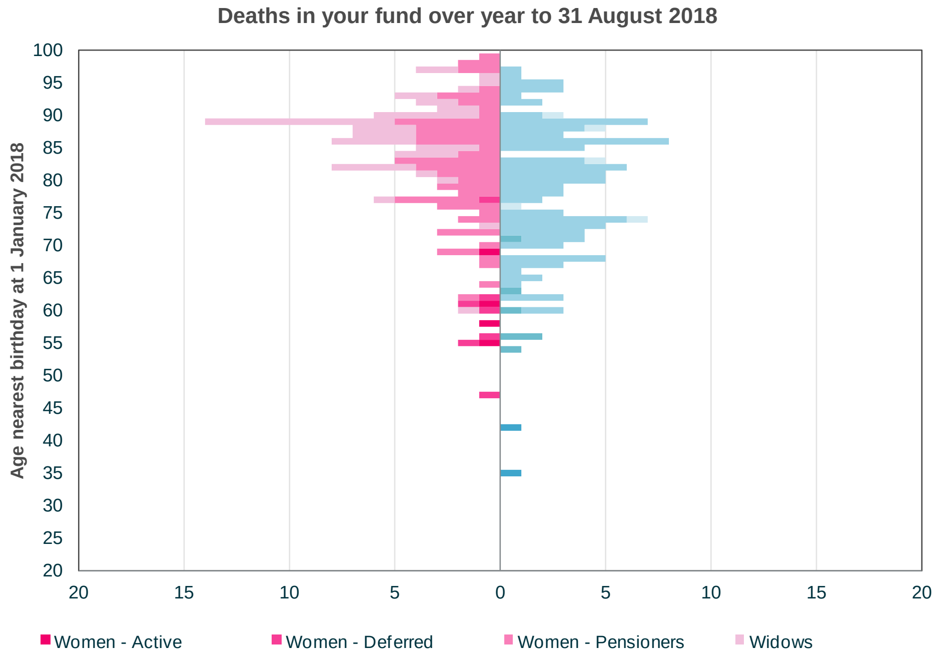
This impact reflects actual experience and is therefore objective. Within your assumptions you will also be making a subjective allowance for how longevity will change in the future. In light of recent experience and the information on emerging trends in **Section 5**, you may wish to review your allowance for future improvements.

2 Your experience

A matter of life and death

The ‘population pyramids’ below show the number of members in the scheme at each age (left) and the profile of the deaths which occurred over the year to 31 August 2018:





Page 57

We see that the majority of the membership of the fund is aged below 70. However, the chances of dying before age 70 are very low, and consequently most of the deaths occurred at older ages.

When funding for future payments you will have made an allowance for the pattern of deaths with age. This will have assumed a smooth pattern of deaths with age. In contrast the charts above show actual deaths have been ‘spiky’. This begs the question were more, or fewer, members alive as at 31 August 2018 than anticipated under your funding plans?

2 Your experience (con't)

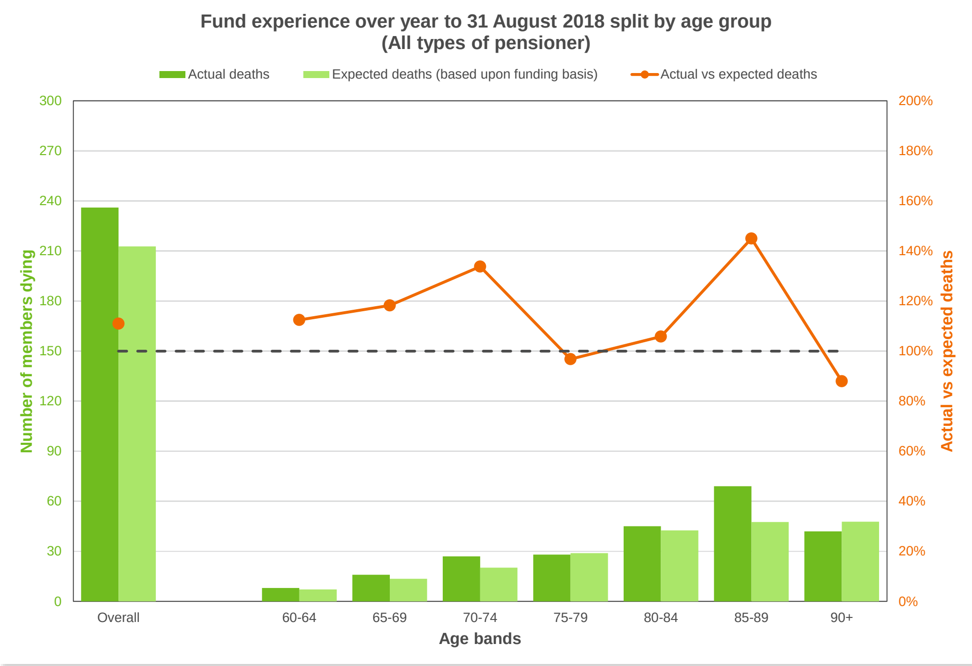
What you expected to happen

In order to identify whether more, or fewer, members survived the year to 31 August 2018 than anticipated under your funding plans we start by contrasting the number of members who died during the year with the number expected to have died under your funding assumptions.

In the chart to the right the dark green bars show the actual number of deaths for different age bands, with the total across all ages shown in the leftmost bar. This is contrasted with the number of deaths which would have been expected had experience been in line with your funding assumptions[1] (the light green bars).

The ratio of the actual deaths to the expected deaths is shown as the orange line and dots. An actual vs. expected deaths of 100% suggests that the number of deaths has been in line with expectations, whilst if it is less than 100% then fewer deaths have occurred than anticipated. We can see that:

- Overall more deaths have occurred than anticipated
- There has been considerable variation in experience with age; for example:
  - amongst those aged 90+ the actual deaths have been lower than expected; whilst
  - amongst those aged 85-89 the actual deaths have been higher than expected.



As (overall) more deaths have occurred than anticipated, fewer people are alive at the end of the year than anticipated.

However, in the world of pension funding it is less important whether the 'correct' number of people died but rather who died and who survived, and whether the amount of pension in payment at the end of the year is higher or lower than expected.

1 Our interpretation of your current funding assumptions can be found in Appendix C

3 Understanding your experience

Just a good year?

The chart on the right looks at the experience over the three years to 31 August 2018 for your fund and contrasts the actual amount of pension ceasing (dark green bars) to the expected amount ceasing (light green bars) at each age under the trustees' funding basis. The ratio of these two numbers is shown as a dark orange line.

Experience over last three years

The chart to the right shows that over the last three years:

- fewer pensions ceased than expected at some ages (e.g. 75-79)
- whilst at other ages (e.g. 65-69) more pensions ceased than expected

Financial impact of this experience

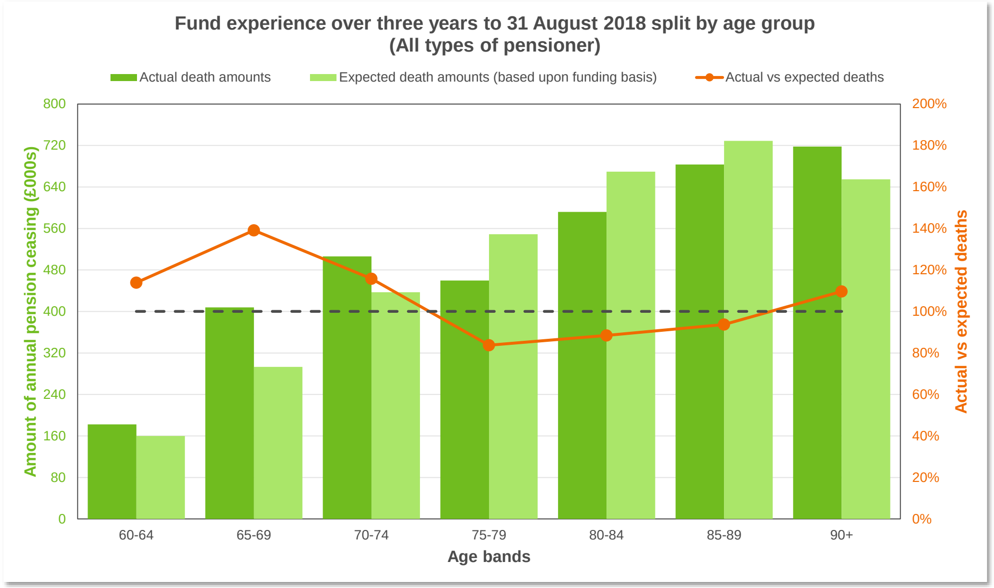
Ultimately, the pattern of deaths and amount of pensions ceasing with age is crucial - fewer pensions ceasing than expected is most costly at the youngest ages. This is because we would expect this 'additional' pension to be paid for longer.

The table to the right shows that:

- the last three years have been varied in terms of more or less pension surviving each year compared to expectation
- we estimate the net effect of experience since the last valuation has been broadly neutral to the value placed on the liabilities

Time to update assumptions?

However, to what extent has your experience over the last three years been unique to your fund and, does it mean you should review your assumption as to how long people are currently living for?



Impact on liabilities of membership survival

	Year ending 31 August 2018	Year ending 31 August 2017	Year ending 31 August 2016	Since last valuation
Extra (less) pension alive at year end (£k)	41	(16)	(56)	1
Estimated % increase (decrease) in liabilities	0.0%	0.0%	0.0%	0.0%

The impact since the last valuation is based on proportional allocation of experience within years ending on 31 August and so actual impact may differ slightly from that shown here.

If you have received Monitoring reports in earlier years then the table above may show slightly different values to previous reports. This will be due to a combination of any changes to the assumptions we are comparing against (for example if you have finalised a valuation report since last year), any extra information in your most recent data, and any changes to the financial assumptions we have used (see Appendix C for the financial assumptions used in this report).

NB. Pension amounts have been revalued in line with RPI to previous years in order to remove the effect of pension increases. To the extent your fund provides pensions that increase at a different rate to inflation the expected amounts ceasing may differ to those shown here.

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3 Understanding your experience *(con't)* Knowing your members

Actuarial assumptions tend to assume a certain chance of surviving a year – or put another way, that a certain proportion of the membership will die each year. The unique characteristics of your individual members will mean that we would expect some differences from your funding assumptions – for example the healthy members of your membership will have a greater chance of surviving the year than the less healthy members.

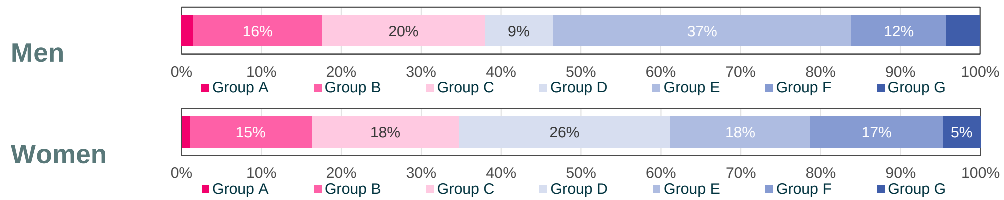
The rest of this section recaps on the three main longevity characteristics – namely lifestyle, affluence, and retirement health of your 'Demographic DNA', more details of which are provided in our VitaIndex and 'Tailoring VitaCurves' reports.

The demographic DNA of your pensioners

Lifestyle

One of the most important predictors of longevity is an individual's lifestyle. The chart to the right illustrates the mix of lifestyles within your fund for those individuals where their postcode is known. Please note that Group G are those with the healthiest lifestyles and so longest life expectancies.

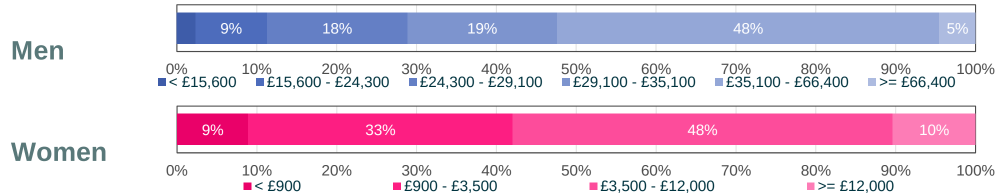
Page 60



Affluence

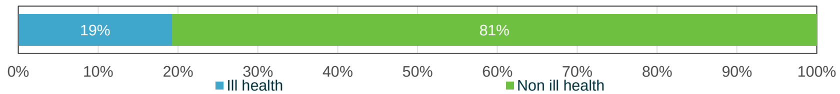
How people spend their money, their lifestyle, is important to longevity. However it is also important how much they have to spend. The larger an individual's income the longer he or she will tend to live.

The charts to the right show the spread of salaries for men (blue bars) and the spread of pensions for women (pink bars) within your fund for those individuals where this information is known.



Retirement health

Those who retire on grounds of ill health typically have a shorter lifespan than those who retire on grounds of normal health. The chart to the right shows the mix within your fund.



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4 Updating your assumptions for the passage of time

The assumptions you currently use for funding capture the unique mix of people found in your scheme and use the experience across our database (VitaBank) of similar individuals to identify an appropriate ‘baseline’ longevity assumption for each member known as VitaCurves. This is described in our ‘Tailoring VitaCurves’ report (see also ‘Bill and Ben’).

Since your last valuation we have continued to gather data, and regularly update our assumptions to ensure they reflect the most recent experience possible.

We estimate that the impact of changing your assumptions for current longevity to reflect the emerging Club Vita experience is to decrease the value placed on pensioner liabilities by 1.2%. Taking into account the characteristics of your actives and deferred pensioners we estimate that the overall impact is to decrease the value placed on liabilities by 1.2%. This decrease reflects the following:

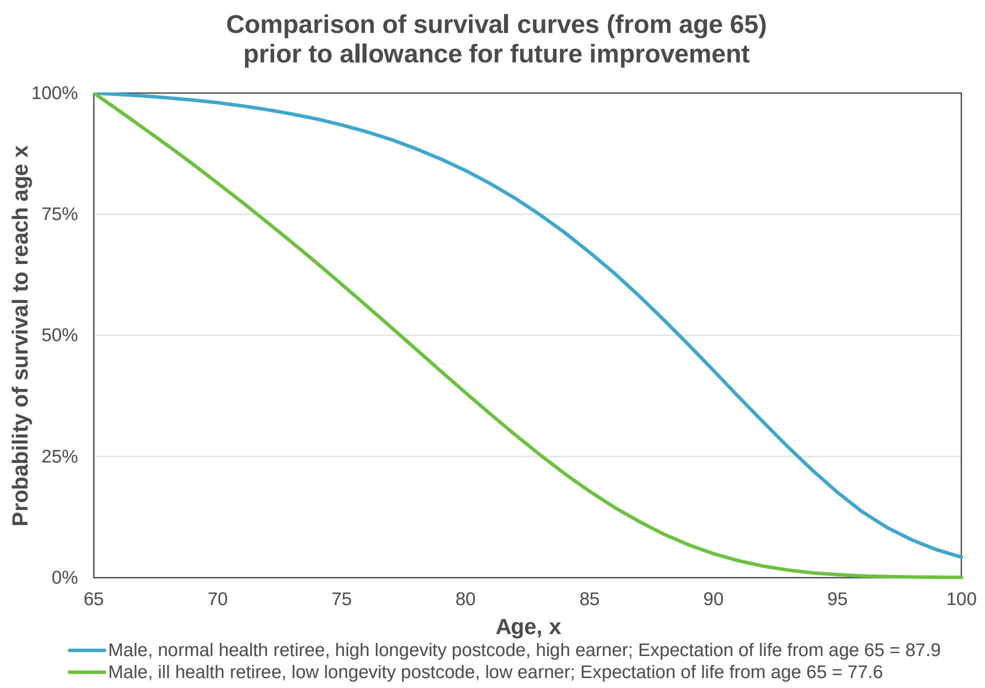
Page 61

- Actual emerging longevity improvements compared to those assumed in your latest funding valuation
- Any extra data available to Club Vita which was not available when identifying the characteristics of your members, and so the VitaCurves, used for the funding valuation
- Refinements to VitaCurves to reflect the latest emerging insights – for example we have recently been able to incorporate additional information on very high earners

Impact on funding position

We estimate that the overall impact of changing your assumptions for current longevity to reflect the emerging Club Vita experience is to decrease the value placed on your fund's liabilities (for all members) by 1.2%.

If you have received Monitor reports in earlier years then the overall impact of changing your assumptions to reflect VitaCurves shown above may differ from that shown in previous years. The likely reasons for this are set out in our accompanying ‘Tailoring VitaCurves’ report.



Bill and Ben...

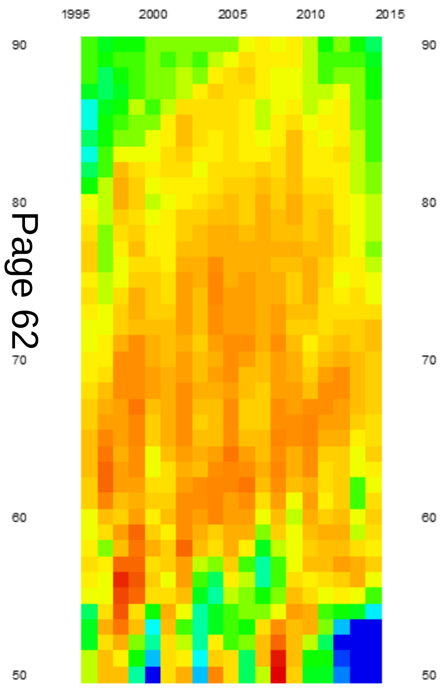
Bill and Ben have both recently retired. They are both 65, yet Bill can reasonably expect to survive to age 88, whilst Ben can consider himself fortunate if he survives to age 78. Why is this? Bill retired in normal health, from a well paid job and has a healthy lifestyle – his chance of surviving to older ages is the blue line in the chart above. In contrast, Ben retired in ill health, from a low paid job and has a less healthy lifestyle – he is the green line in the chart above.

5 Trends

Golden generations

So far we have considered how recent experience has impacted your fund. However in setting a longevity assumption you also need to consider how longevity will evolve in the future. One thing most people will agree on is tomorrow's world is likely to be very different from today's world – and life expectancy is just one such difference. However whether longevity will continue to increase, and if so how quickly is open to debate. In the short to medium term though – wars, pandemics or magic cures aside – we would expect life expectancy to be a gentle continuation of patterns in recent experience. But what are these patterns?

Men



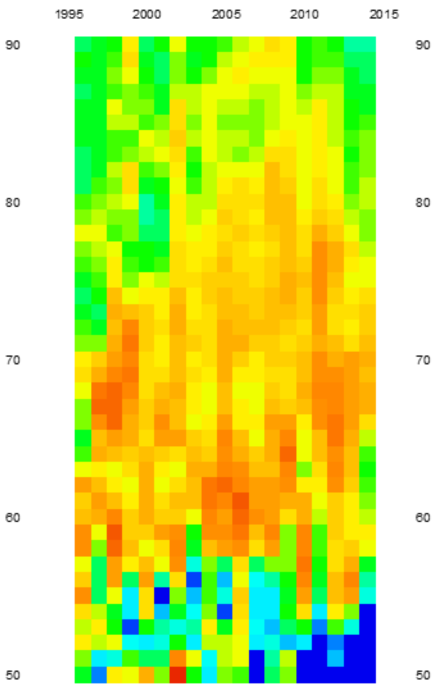
One way to visualise recent trends is via the colourful images to the right and left. In these charts ages run from bottom to top, and time from left to right – and crucially individuals born at similar times (cohorts) move along diagonals from the bottom left to top right. The colours represent how much mortality rates have been falling. The 'warmer' the colour (i.e. the deeper the orange and red) the higher the fall.

Looking at men, we see that there is a diagonal of strong oranges, broadly centred on those currently aged in their early 70s. This suggests that there is a 'golden generation' born around the early 1940s for whom life expectancy is rapidly improving. There is a further cohort centred on those aged in early 80s. There appears to be some 'cooling' of this cohort in recent years, particularly amongst older members. Some commentators have suggested that this is a sign of a slowdown in improvements. Our 2017 research with the PLSA into experience of different socio-economic groups found that over 2010 to 2015 the most affluent pension scheme members saw steady improvements, while less affluent members saw some slowdown. At Club Vita we will of course continue to monitor how mortality rates are developing over time, and your Club Vita consultant will be able to provide the latest update when you next meet.

The situation for women is slightly different. There is less evidence of different cohorts of experience, suggesting that longevity trends have been impacting men and women differently. Why might this be? One possible reason may be the differences in smoking cessation – men born in the mid 1930s were much more likely to give up smoking.

Want to know more about how to read these heat maps? Please see Appendix B.

Women



5 Trends *(con't)* — The big killers (1)

Changes in longevity can also be looked at in terms of the underlying causes of death, and what has caused the changes seen in those causes of death. The vast majority of members of occupational pension schemes are expected to reach age 75 – for example nearly 70% of all men (and 80% of all women) currently aged 40 can expect to reach age 75, even if there are no future health improvements. It is informative therefore to focus in on the causes of death amongst those aged 75 and older.

The charts to the right consider the number of deaths amongst over 75 year olds by each of the major causes of death at older ages, namely cancers, circulatory disease and respiratory diseases for each year since 1950. We see that:

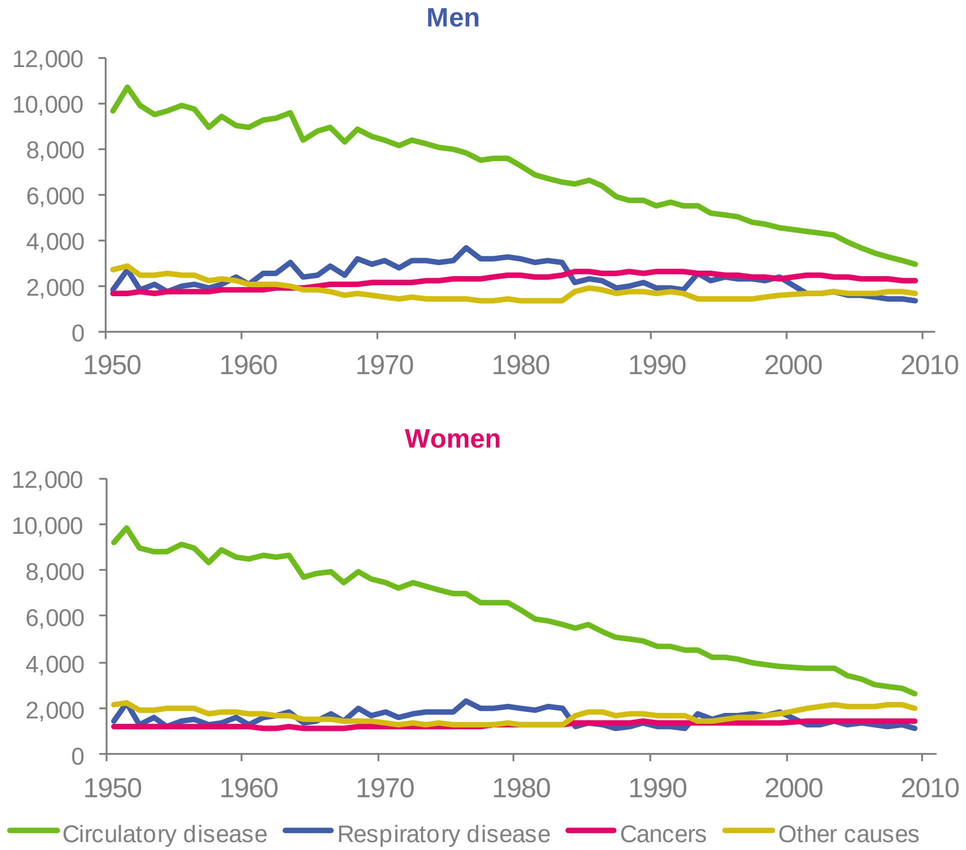
- **circulatory disease** (e.g. heart attacks and strokes) deaths are continuing the sustained decline which has been seen over the last 60 years
- **cancer** mortality has stayed fairly level over the last 30 years for women but increased for men, reaching a peak in the late 1980s. For men it is the second most common cause of death amongst the over 75s.
  (this pattern is most likely due to men having historically been more likely to smoke, with smoking rates amongst men peaking in the 1940s and 1950s, combined with the latency period of in excess of 20 years between smoking and lung cancer)
- the number of deaths from **respiratory diseases** (e.g. pneumonia) has been falling over recent years
  (the 'dip' between 1983 and 1993, and after 2000 relates to changes in the rules for classifying the underlying cause of death)
- '**other'** causes of death (e.g. 'old age') have overtaken respiratory diseases to be the second most common cause of death amongst women

Page 63

The long term prospects for longevity are likely to be determined by the prospects for medical treatments which prolong life and/or cures, along with trends in individuals' lifestyle choices such as smoking, diet and exercise. We explore this further on the next page.

Technical note: The profile of the UK population has changed a lot since 1950. To compensate for this the charts are based on 'standardised' rates i.e. as if the population had the same age profile as seen in 2008.

Deaths per 100,000 lives from major causes amongst aged 75 and over in UK (based on 2008 UK age profile)



5 Trends *(con't)*

The big killers (2)

Respiratory Diseases

One of the major contributors to respiratory disease deaths is COPD (a form of lung disease) which accounts for over 30% of all respiratory deaths amongst the over 75s. Other major contributors include occupational related diseases such as mesothelioma from asbestos exposure.

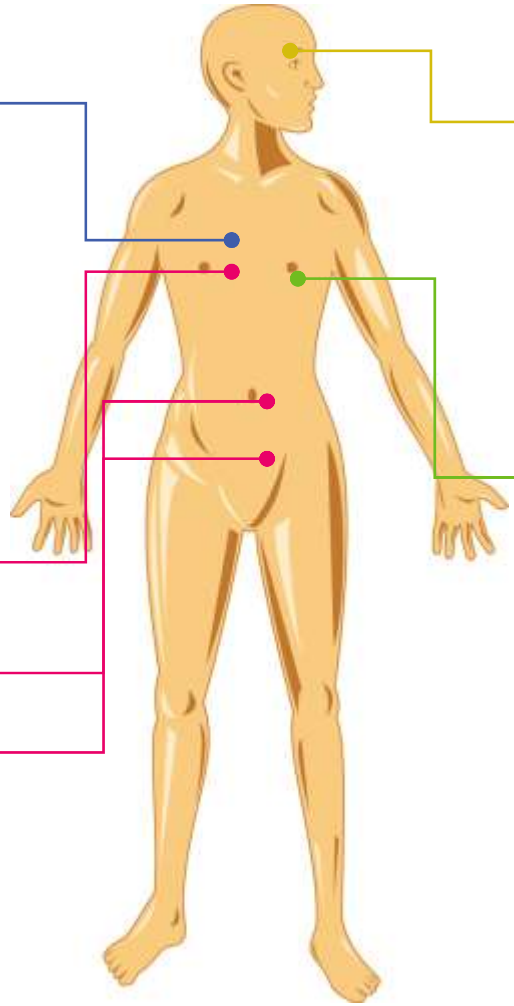
The British Thoracic Society estimates that 44% of all respiratory diseases are associated with social inequalities. In July 2011 the Department of Health launched a new strategy for tackling COPD and Asthma in England, with particular focus on these social inequalities.

Cancers

Cancer mortality is dominated by the 'big four' – **lung**, **colorectal**, **breast** and **prostate** cancer.

Cancers range from the very aggressive (lung cancer) to those which respond well to surgery (colorectal and breast cancer), making it hard for medical science to make unilateral breakthroughs.

Smoking, diet and exercise are recognised risk factors for many cancers. Continued smoking cessation means declines in cancer rates in the short term are likely. The Department of Health has also launched campaigns to raise public awareness of the symptoms of both lung and bowel cancer to aid early diagnosis.



Other causes

Other causes include infections, 'old age' (senility without psychosis) and dementia. One of the main reasons for recent increases in this group is the increasing recognition that factors such as dementia are the root cause of deaths.

In March 2012 David Cameron outlined plans to increase funding for dementia research, aiming to make the UK a world leader in dementia care and research.

Circulatory Diseases

Despite death rates dropping to barely a third of levels in the early 1960s, diseases of the heart and circulatory system remain the single biggest killer of the elderly.

Medical treatments, such as low dose aspirin and balloon angioplasty to help open up blocked arteries have had an important role to play in this dramatic fall. However, direct treatment only accounts for approximately 40% of the fall – the rest being due to behavioural changes such as smoking cessation and increased management of blood pressure / cholesterol.

Continued benefits from smoking cessation, bans on smoking in public places, increased use of statins and government targets all suggest continued falls in future. For example the Scottish Government has a stated aim to "Reduce mortality from coronary heart disease among the under 75s in deprived areas".

Managing longevity risk

6 Understanding longevity risk

Being prepared

Money, interest and death

A one year change in life expectancy increases the value placed on your liabilities by around 3%. For most schemes longevity risk is second only to investments and sponsor covenant in terms of importance. At Club Vita we split longevity risk into four key parts.

Individual risk

A typical pension scheme valuation identifies the necessary funds if each member were to survive to his or her life expectancy. In practice some members will live longer than their 'allotted time' and some will die prematurely.

Funding valuations assume that these variations will 'average out'. However, if the liabilities of a scheme are concentrated in just a few members of the scheme, then a key risk is how long these members ***actually*** live for. We explore this in **Section 7**.

Estimation risk

Your members will not live and die precisely in line with the actuarial funding schedule ('individual risk'). But what if the schedule is wrong?

Estimating current longevity is a bit like trying to guess the number or sweets in the jar at a school fete – it is very hard to get it spot on. However by allowing for the different shapes and sizes of the sweets (or the longevity of your members through VitaCurves) we can get a better estimate.

Trend risk

In making an assumption about the longevity of your members it is necessary to project how longevity will change in the future.

Inevitably, future experience will differ from the projections you are using and this leads to the risk that future trends differ from predictions in a financially material way.

Geared risk

For some schemes the financial risk of members living longer is increased owing to the knock-on consequences of individuals living longer on the sponsor covenant.

For example Insurer Plc sells annuities. If life expectancy increases in an unexpected way, so annuities sold previously become less profitable. The pension scheme of Insurer Plc may find itself needing more money during tough times for Insurer Plc.

Your exposure to these risks can change over time. For immature schemes dominated by actives and deferred pensioners the long time horizon of the benefit promises makes the scheme particularly sensitive to long term trends in mortality. As a scheme becomes dominated by pensioners so shorter term trends and the concentration of liabilities in certain individuals become key.

Your exposure to longevity risk also changes owing to the choices members make – for example commuting pension for cash reduces the amount of benefit payments linked to the vagaries of future longevity. We explore this further in **section 8**.

7 Concentration hurts

Individual risk

In funding for pension scheme liabilities, trustees typically aim to have sufficient funds to pay pensions for as long as an individual is *expected* to be alive. However individuals continue to defy expectations. For example, how many pension schemes would have anticipated, back in 1961, when the late Henry Allingham was 65, that a member of their scheme could go on to become the oldest lived man ever in the UK, collecting a pension for some 48 more years!

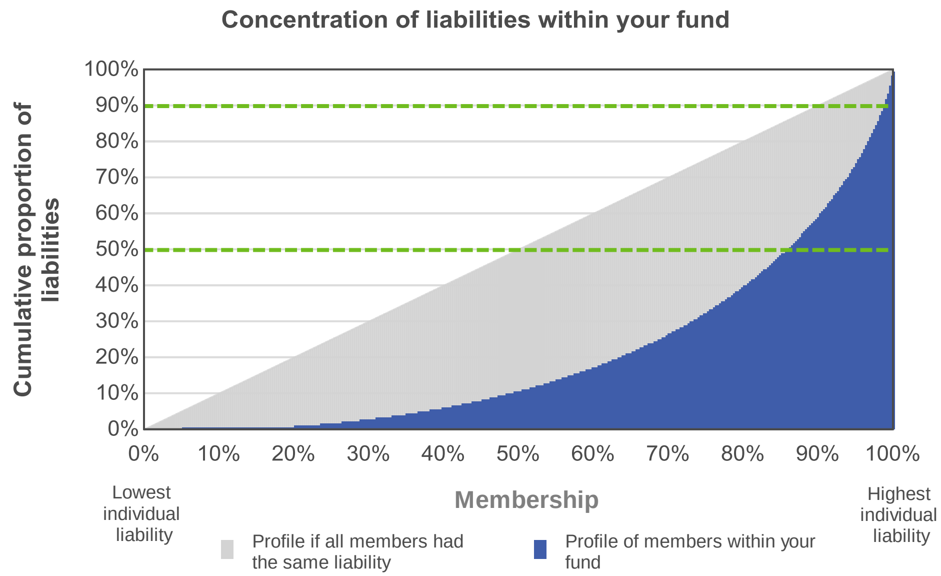
One thing is certain – not everyone in your pension scheme will live to the age anticipated in your trustees' funding assumptions. However, it is hoped that this will broadly average out, with some members living longer than expected and some dying prematurely. This is fine if the pension scheme is large, and everyone has similar size benefits and similar life expectancies. In practice though the liabilities can be concentrated in a handful of members and so the *idiosyncrasies* of how long these members **actually** live for can be key to the financial health of the pension fund.

In any pension scheme the different ages and pensions of different members means that they have different liabilities and so some concentration of liabilities is to be expected. One way to visualise how concentrated the liabilities are is using the chart to the right. In this chart members are listed from left to right in order of increasing liabilities. The blue area shows the total liabilities as we move through the members. We can see that:

- 50% of the liabilities are concentrated on 14% of your members
- 10% of the liabilities are concentrated in just 1.2% of your members (i.e. 273 members)

How big an issue is this?

If each member represented a similar liability then in the chart to the right the blue area would fill the grey triangle. One way to measure the extent of this risk (and so monitor from year to year or indeed compare to other funds) is to consider how much of the grey triangle is visible – the more visible it is the greater the concentration risk. On this measure your concentration risk is currently 59% which is fairly low.



In the chart above, members have been listed from left to right in order of increasing liabilities – i.e. the member with the single largest liability is at the far right. The blue area shows the total liabilities as we move through these members.

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8 Demographic trends

Retirement trends

Living longer & working longer?

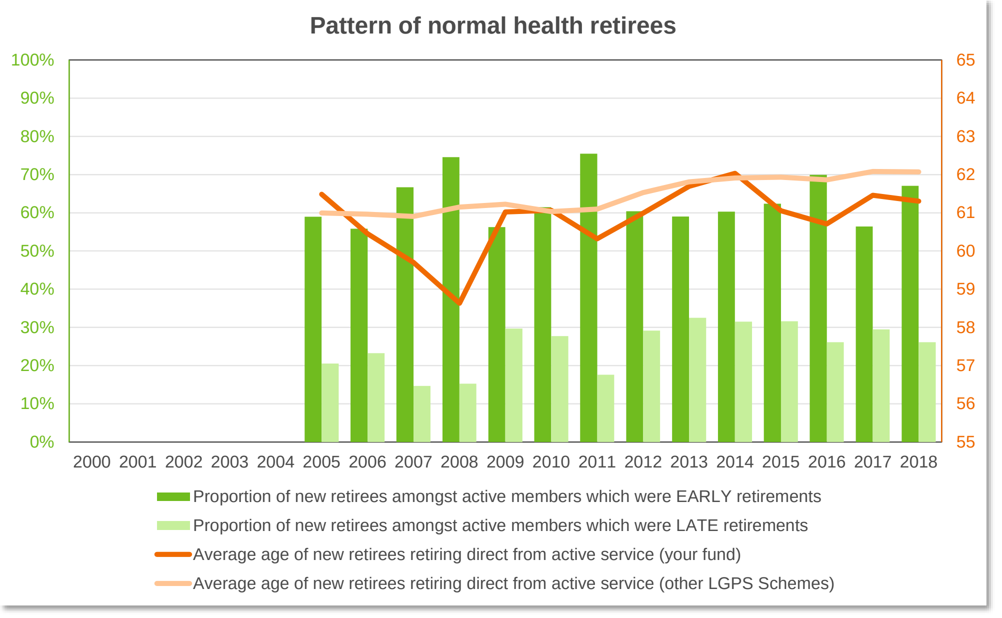
Over recent decades there has been a sustained trend towards people living longer – but are the members spending some of this extra lifetime working? Put another way are members retiring at older ages than in the past?

The age at which members retire is also important in terms of the fund's sensitivity to changes in life expectancy. A one year increase in life expectancy has a bigger impact for those retiring late than those retiring early since the increase represents a bigger proportion of the total payments. However, with late retirements the fund may also have more opportunity to spot trends in longevity and to therefore adjust the benefits before they come into payment (via late retirement factors) to reflect these trends.

The chart to the right looks at the pattern of retirements from active service. In order to avoid distortions arising from the changes in ill health retirement patterns we have excluded those members retiring in ill health. We see that:

- the proportion of members who retire early each year has been variable over the last decade
- the average age at which members have been retiring in your fund has been variable over the last decade
- the average age of retirement within other LGPS Schemes has generally been increasing
- the average age of new retirees (from active service) within your fund has generally been lower than other LGPS Schemes

Page 68



Technical Note: For the purposes of this chart (and the one on the following page) we have treated an early retirement as one before age 60 (or 'rule of 85' age if later) and a late retirement as after age 65 (or 'rule of 85' age if earlier)

Information is shown in respect of other LGPS Schemes for 2018 though note that not all schemes have submitted data spanning the year to 31 August 2018 yet.

8 Demographic trends *(con't)*

Ill-health retirement trends

In sickness and in health...

Typically, the fewer the retirements that are happening due to grounds of ill health, so the healthier your new retirees are, and so the longer the members are expected to live. In this section we consider the ill health retirement patterns within the fund. Since ill health retirements typically occur from active status rather than amongst deferred pensioners we focus on retirements from amongst the active members.

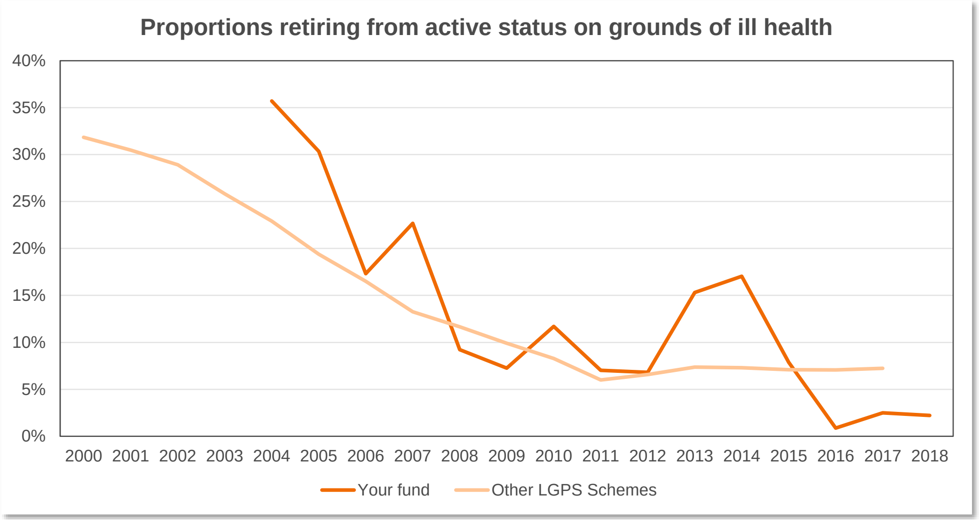
The top chart to the right shows that:

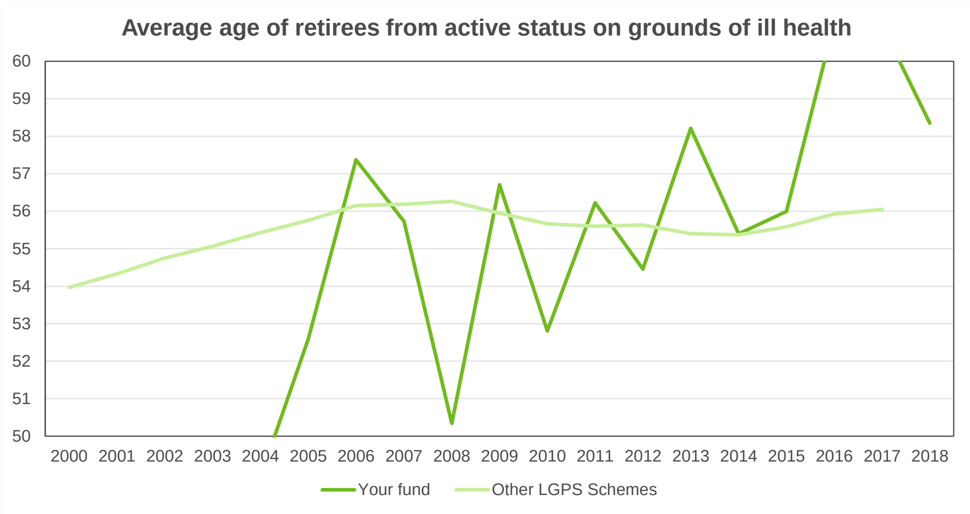
- 2% of active members who retired during the year to 31 August 2018 did so on grounds of ill health.
- a decreasing proportion of your new retirees are retiring on grounds of ill health each year.

The lower chart considers the average retirement age of new ill health retirees. We see that:

- the average retirement age of your ill health retirees has been volatile, but has, on the whole, been increasing, however in contrast, the average ill health retirement age has been relatively stable across other LGPS Schemes.

Of course, these trends are not always a reflection of changing health of your membership – for example changes in the eligibility rules or discretion exercised by trustees and companies over time may explain these trends.





No information is shown in respect of other LGPS Schemes for 2018 as not all schemes have submitted data spanning the year to 31 August 2018 yet.

8 Demographic trends *(con't)*

Old widows tail

Marital bliss?

The longer members live for in your fund the longer the benefits are paid for. However the total amount of benefit which is ultimately paid to each member also depends on the extent to which the member is outlived by an eligible dependant.

The chart to the top right looks at the proportion of the deaths over the last year which gave rise to a dependant's pension within your fund. We can see that:

- females dying at older ages were generally less likely to leave a dependant. *This is unsurprising as the older a female is when they die the greater the chance that their spouse will have died before them.*

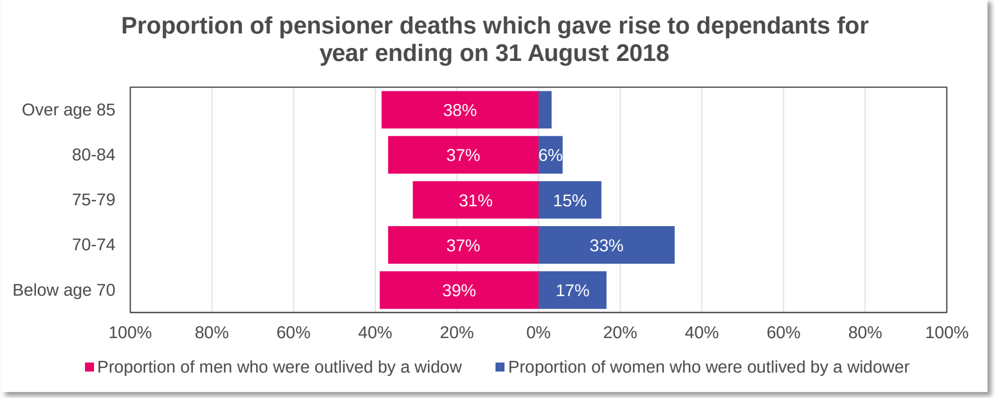
- men were generally more likely to leave a dependant than women. *Women tend to live longer than men, which makes it more common for a woman to outlive her husband than the reverse.*

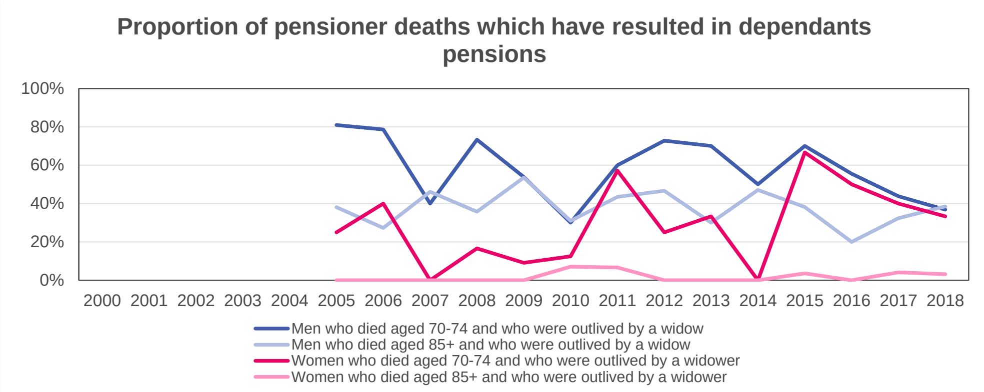
These patterns often receive little attention, yet can be significant, particularly if you are considering risk transfer options.

The chart to the bottom right considers how these patterns have been changing over time. We see that:

- at younger ages the proportion of members leaving a dependant has been variable reflecting the relatively low number of deaths happening each year at these ages within the fund.
  As longevity increases so the deaths at younger ages tend to reflect 'premature' deaths and so, all else being equal, are more likely to leave a spouse.

- at older ages the relatively low number of deaths happening each year within your fund means the proportion of over 85 years old leaving a dependant has been variable.





Keeping up with the Jones'

For many schemes the only way we can 'link' a widow(er) back to an original member is by identifying members who died just before the widow(er)'s pension commenced, and have the same surname. Of course, common names like 'Jones' can cause some false matches and this may distort the figures shown above.

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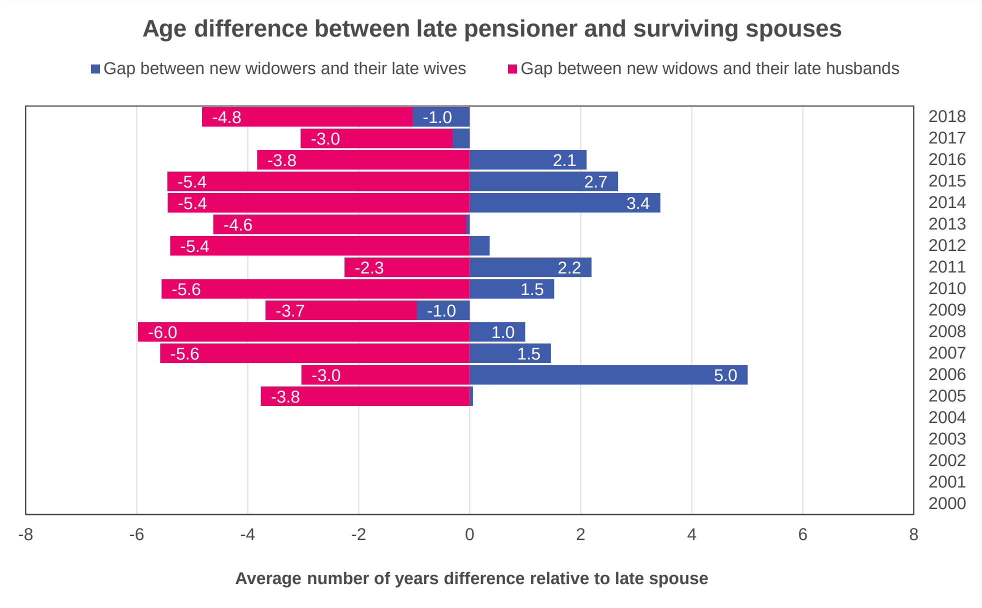
8 Demographic trends *(con't)*

Age differences

Mind the gap

It is not just whether a member leaves a widow(er) which is important to pension schemes, but also how old he or she is. The younger the widow(er) the longer the benefit will be paid for and the greater the potential exposure to future increases in longevity.

The chart to the right shows – for deaths in recent years in your fund – how much older or younger the surviving spouse was compared to the member.



It is well known that men tend to marry younger women. The older member of the marriage – typically the man – is more likely to die first. It is no surprise that we therefore see that:

- widows have generally been younger than their late husbands
- the age gaps are in the opposite direction for new widowers' pensions, but generally smaller (men who outlive their wives are likely to be those closest to their wife in age or indeed younger than their wife)

We can also see that over the last 14 years the age gap between:

- widows and their late husbands has been variable
- widowers and their late wives has been variable

9 Your longevity risks at a glance

Risk register

The tables below summarise your current level of exposure to longevity risk and the demographic trends in your fund. Those items identified in green are those where the trustee(s) (possibly in collaboration with the sponsoring employer) may be able to take proactive actions to manage longevity risk.

Risk Measure	Current value	Change over year	Overview
Concentration risk	59%	⬄	The more the liabilities are concentrated with a few individuals the greater the exposure to the risk that those particular members live longer than expected.

Demographic trend	Current value	Change over year	Overview
Proportion of new retirees, retiring early actives, exc. Ill health retirees)	67%	⇧	The more members that retire early the lower the exposure to longevity risk – if members live a year longer than expected then this extra year is a smaller proportion of the total number of payments than would have otherwise been the case. Similarly the older the average age of new retirees so the greater the longevity risk.
Ill health retirements	2%	⇩	Members retiring in ill health tend to have shorter life-spans, reducing the exposure to longevity trend risk, although the benefits paid will typically be higher.
Proportion of men (women) aged over 85 who died leaving a widow(er)	38% (3%)	⇧ ⇧	The more members who leave a spouse, the greater the exposure to the survival of a second life.
Age gap between late pensioners and surviving spouse for men (women)	-4.8 (-1.0)	⇩ ⇩	The younger members' husbands and wives are, the greater the risk that they will outlive the member, resulting in benefits being paid for longer.

Appendices, Reliances and Limitations

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Appendix A

Jargon buster

Actual vs. expected deaths The ratio of the actual number of deaths observed to the number we would have expected to observe had the pattern of deaths with age and time been in line with some specified rate e.g. your funding assumption.

Baseline This is the part of a longevity assumption which is, in principle, objective and refers to how long people have been living for in recent years.

Cohort A group of individuals born around the same time.

COPD = Chronic Obstructive Pulmonary Disease A form of lung disease characterised by slow, progressive and largely irreversible reduction in the capabilities of the lung. The limitations to breathing are caused by varying combinations of diseases to the airways and destruction of lung tissue (emphysema).

Demographic DNA The unique mix of longevity characteristics within your membership.

Future improvements This is the subjective part of a longevity assumption and relates to how life expectancy may change in the future. Whilst changes at the personal level may be positive i.e. increasing life expectancy, or negative i.e. decreasing life expectancy, you will often see future changes referred to as future improvements.

Liability The financial value placed upon the benefits promised to members. The value is uncertain and based upon a number of assumptions, including how long individuals will live for. Ultimately, the fund is liable for the full benefit promise and so the actual cost may be higher or lower than the value place on that promise.

Life expectancy Life expectancy is the average length of time an individual can expect to live. Life expectancy can either be **future life expectancy** (for example 20 years for someone aged currently aged 65) or as **total life expectancy** (for example 85 for someone currently aged 65). In this report we use total life expectancies.

Longevity Longevity describes how long people will live for.

Mortality This describes how likely it is that someone will die within a specific timeframe, usually the next year.

Monoclonal antibodies Monoclonal antibodies are antibodies designed to specifically bind to certain substances in the body. Within cancer treatments the hope is that by designing monoclonal antibodies that bind to cancer cells it will be possible, for example, to deliver a specific toxin to destroy these cells.

Predicted A/E The A/E ratio we would have expected to see for your fund had the actual number of deaths you experienced been in line with the wider VitaBank experience, where the wider experience is weighted in line with the mix of longevity characteristics in your fund (i.e. your demographic DNA).

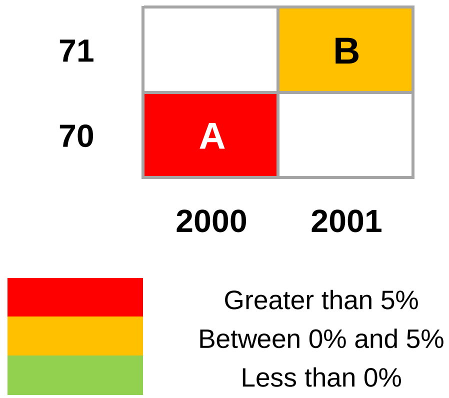
VitaBank The pooled data from all schemes participating in Club Vita.

Appendix B

How to read heat maps

The ‘hot and cold’ of life and death

The image below shows an example of a heat map, which covers two ages, 70 and 71, and two calendar years, 2000 and 2001. We will use this chart to explain how to read heat maps.



In a heat map each square represents the change in the death rate at a certain age compared to the rate in the previous year. In the example to the left, the square marked A represents how much lower the death rate was amongst 70 year olds in 2000, compared to the previous year, 1999. Since the square is a bright red this tells us that there was more than a 5% reduction in deaths per thousand for 70 year olds in 2000 compared to 1999.

Similarly, the square marked ‘B’ indicates that the death rate amongst 71 year olds in 2001 was lower, by up to 5%, than it was in 2000. So, if, for example, 100 in every one thousand 71 year olds died in 2000, then perhaps only 96 in every thousand 71 year olds died in 2001.

‘Golden’ cohorts

When reading heat maps it is also important to know that individuals born at similar times – known as *birth cohorts* – move along diagonals in these charts. For example someone aged 70 in 2000 will be aged 71 in 2001.

In the chart above we can see a strong diagonal of hot colours – reds – concentrated on those aged 70 in 2000, 71 in 2001 etc. This suggests that those born around 1930 (and so aged 70 in 2000 etc.) have been especially fortunate in seeing very beneficial changes in later life. This is often referred to as a ‘golden cohort’ and underlies the ‘cohort’ effect which your actuary may have referred to.

A Technical Note – Being smooth.,,,

In practice the year-on-year changes, even in a large dataset like **VitaBank™** can give a very multicoloured pattern to these ‘maps’. In order to avoid this, some smoothing of the underlying rates is usually necessary – throughout this report the heat maps relate to smoothed data.

Appendix C — Disclosure of assumptions

In comparing the experience of your fund against your funding assumptions, and assessing the financial impact of your fund's experience we have had to both interpret your current longevity assumptions, and make a number of other assumptions. We disclose these below.

Your current longevity assumption

We usually express a longevity assumption in two parts – an assumption about current longevity (the 'baseline') and an assumption about future improvements.

Baseline (2015):

For the purposes of expressing the 'current' longevity assumption we have described it in terms of the assumption which applied in 2015. We have chosen this year as it is also the same year to which our most recent VitaCurves relate.

Current male pensioners

VitaCurves (calibrated to data spanning 2012 - 2014) with future improvements in line with Club Vita calibrated CMI 2013 projections with a long term rate of improvement of 1.25% p.a.

Future male pensioners

As above.

Current female pensioners

VitaCurves (calibrated to data spanning 2012 - 2014) with future improvements in line with Club Vita calibrated CMI 2013 projections with a long term rate of improvement of 1.25% p.a.

Future female pensioners

As above.

Future improvements (from 2015):

As per your current funding assumption which we have interpreted to be:

Improvements in line with Club Vita calibrated CMI 2013 projections with a long term rate of improvement of 1.25% p.a.

Other assumptions specific to your scheme

We have assumed the following:

- A normal retirement age of 65
- That active members will retire early at, on average, age 62, whilst deferred members will retire at 65
- A lump sum benefit is payable at retirement of 3 times pension
- Upon death after retirement a spouse's pension is payable of 50% of the member's pension prior to any commutation

Please note that our analysis of the financial impact of experience is sensitive to these assumptions, as described in Appendix B of your 'Tailoring VitaCurves' report.

Assumptions which are not specific to your scheme

We have made the following financial assumptions, which are designed to broadly reflect a market consistent basis:

- Net discount rate whilst member in active service of 0%
- Net discount rate whilst member in deferment of 1%
- Net discount rate whilst benefits are in payment of 0.0%

We have also made the following general assumptions:

- Husbands are 3 years older than their wives
- 80% of members are married at retirement or current age if older
- Active members remain in service until they retire
- No allowance to be made for death prior to retirement
- No allowance for members opting to take transfer values

CLUB VITA LLP

The Small Print...

Reliances and Limitations

This report is provided for the benefit of the party set out on the cover page. It has been prepared by Club Vita LLP for the London Borough of Hackney Pension Fund (the 'fund'), pursuant to your membership of Club Vita LLP as governed by the Club Vita Rules (the "Rules"). It has been prepared for your exclusive use and must be used by you solely for the purpose of you monitoring the longevity experience of your pension fund (the "Purpose"). It must not be used for any other purpose, recited, referred to, published, quoted, replicated, reproduced or modified (in whole or in part) except as required by law, regulatory obligation or as set forth in the Rules, without Club Vita LLP's prior, written, express consent. The sole exception to this is that you may share this report for the Purpose, with your Scheme Actuary and/or sponsoring employer(s) and/or appointed longevity consultant ("Permitted Third Parties"), but without creating any duty or liability to them on the part of Club Vita LLP or its licensors. Prior to sharing this report with any Permitted Third Parties you must inform such Permitted Third Parties, that the contents of this report are confidential, must not be disclosed to any other party, replicated, reproduced, published, referred to or quoted, whether in whole or in part, without Club Vita LLP's express written consent and that if they, or any other third person, place reliance on the report they do so at their own risk and have no recourse against Club Vita LLP or its licensors in respect of such reliance.

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For the avoidance of doubt, this report does not constitute actuarial advice. Furthermore, this report should not be construed as providing advice on the appropriateness of any mortality assumption for the purposes of scheme funding as required under Part 3 of the Pensions Act 2004 and The Occupational Pension Schemes (Scheme Funding) Regulations 2005.

The information in the report has been compiled by or on behalf of Club Vita LLP and is based upon our understanding of legislation and events as at 13 March 2019. It should be noted that Club Vita LLP does not provide legal services and therefore, we accept no liability to you or to any other third party in respect of any legal opinions expressed in this report. You are advised to take independent legal advice in respect of any legal matters arising out of this report.

Utilisation of Data

The contents and conclusion of this report are reliant upon the extract of the current and historic data held by the fund's administrators. This was supplied to us by Bruce Barry of Equiniti Pension Solution Opertions on 22 November 2018. This data is summarised in our VitaCleansingTM report. We have carried out a number of checks on the data to ensure that it is suitable for the purposes of longevity analysis, the results of which are summarised in our VitaCleansingTM report. Please be aware that the checks we have performed are designed to verify the data as adequate for the purposes of longevity analysis and does not warrant the data as suitable for other purposes.

Within this report we have identified a number of predictors of longevity which explain a considerable proportion of the variation observed in the mortality experience of the contributing schemes. However, it is likely that some residual variation remains explicable by factors other than those identified here. To the extent that some of these additional factors are found more or less frequently in the membership of the fund it may be particularly important for the trustees of the London Borough of Hackney Pension Fund to appreciate the impact of these factors on longevity.

Simplifying assumptions

In analysing the experience of the fund we have made a number of assumptions. In addition to the assumptions disclosed in Appendix C the main simplification made is to calculate expected deaths amongst widow(er)s based upon the actual widow(er)s alive during the year rather than, for pensioners which die during the year, allowing for the chance each death will result in a widow(er) who could then go on to die during the year.

In identifying whether a member gave rise to a dependant pension upon death we have sought to use any connections in the unique member key syntax where this has been made available to us. Beyond this we rely on deducing connections by assuming that a dependant's pension coming into payment to an individual within 30 days of the death of a member with the same surname.

Compliance statement

This report (in combination with your VitaCleanse, VitaCurves and VitaIndex reports) complies with the requirements of Technical Actuarial Standard 100 as effective from 1 July 2017.

Hackney

REPORT OF THE GROUP DIRECTOR, FINANCE AND CORPORATE RESOURCES		
Exposure to Fossil Fuels – Review of Progress **Pensions Committee** **26th March 2019**	Classification **PUBLIC** Ward(s) affected **ALL**	Enclosures: Three

1. INTRODUCTION

1.1 This report provides the Pensions Committee with an update on implementation of the Fund's carbon reduction target. The report provides an overview of the introduction of the target in 2016/17, considers how changes to the Fund's asset allocation since 2016/17 have helped reduce exposure and sets out plans for a formal review of progress during 2019 along with further measures in the future.

1.2 As set out in this report, the formal review will include an interim carbon risk review to be carried out by Trucost, the same provider we used to carry out our initial analysis, thus allowing for comparability between the original and interim reports. The review will be carried out as at 30th June 2019 allowing the results to be considered within the upcoming strategy setting exercise that will take place early in 2020. The Committee will consider the results of the interim review as well as wider information and updates on the impact of fossil fuels, such as the IPCC special report on the impacts of global warming of 1.5 °C.

1.3 The Committee will continue to engage with fossil fuel companies via organisations such as LAPFF in order to influence their future strategies with the aim to influence a wider move from fossil fuels in the world economy.

1.4 In addition, the Fund wishes to explore ways in which we can support progress towards a low carbon economy through positive investment in renewable energy and associated technologies, in line with the recent reports that state that a rapid and orderly transition to other energy sources is increasingly urgent. We believe that investing in the suppliers and technologies helping to drive change is a potential way for the Fund to actually contribute to the transition. The Committee will therefore use the next investment strategy review to consider how the Fund could make a positive contribution to the transition to a low carbon economy through investment in renewable energy, whilst meeting its own strategic investment requirements.

2. RECOMMENDATIONS

2.1 **The Pensions Committee is recommended to:**

- **Note the report**
- **Approve the proposal to commission a formal interim carbon risk audit at an expected cost of £10-£20k**

3. RELATED DECISIONS

- Pensions Committee (24th January 2017) – Investment Strategy Statement

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

4.1 The Pensions Committee is responsible for the management of the Pension Fund and are therefore responsible for the management of approximately £1.5 billion worth of assets and for ensuring the effective and efficient running of the Fund. The level of investment returns achieved by the Fund has significant financial implications, not solely for the Fund itself but also for the Fund's employers, who must make up any shortfall with additional contributions

4.2 The Fund recognises that investment in fossil fuels and the associated exposure to potential 'stranded assets' scenarios may pose material financial risks. These risks apply not only to the Fund's investment portfolio but also, when considered on a wider scale, to long term global economic growth

4.3 In recognising the risks that climate change and stranded assets scenarios could pose to the Fund, the Committee needs to understand where these risks might apply and how they can best be mitigated within the investment management framework within which LGPS funds operate. The Fund's approach to carbon reduction is intended to ensure that the risks of fossil fuel investment are appropriately managed whilst ensuring that the Fund retains an appropriately broad investment universe.

5. COMMENTS OF THE DIRECTOR OF LEGAL AND GOVERNANCE

5.1. The Local Government Pension Scheme (Management and Investment of Funds) Regulations 2016 Regulation 7 requires the Administering Authorities to publish and maintain an Investment Strategy Statement which includes, amongst other items, details of the authority's policy on how social, environmental and corporate governance considerations are taken into account in the selection, non-selection, retention and realisation of investments.

5.2. The Hackney Pension Fund's Investment Strategy Statement includes climate change as a material financial factor to be taken into account in the Pensions Committee's decision making. This position with regards to carbon risk is supported by the Law Commission, whose guidance clarifies that funds must have regard to all material financial factors when making investment decisions and by the Pensions Regulator, who regards climate risk as a financial factor affecting the long term sustainability of pension scheme investments. The Regulator has stated that climate change should be taken into account in the development and implementation of pension funds' investment strategies.

5.3. This paper sets out how the Committee approaches the inclusion of climate change as a factor within its investment decision making and how it is taken into account within the Fund's Investment Strategy Statement. This helps to demonstrate compliance with the Regulations detailed above, as well as guidance provided by the Law Commission and the Pensions Regulator.

6. BACKGROUND TO THE REPORT

6.1. The Local Government Pension Scheme (Management and Investment of Funds) Regulations 2016 Regulation 7 requires the Administering Authorities to publish and maintain an Investment Strategy Statement which includes, amongst other items, details of the authority's policy on how social, environmental and corporate governance considerations are taken into account in the selection, non-selection, retention and realisation of investments.

6.2. The Hackney Pension Fund's policy, based on guidance from the Law Commission, is to take into account any factors which are financially material and affect the financial sustainability of investments. These may include Environmental, Social and Governance (ESG) factors, such as carbon risk. The Fund does not make investment decisions on the basis of non-financial factors.

6.3. The Pensions Regulator specifically references climate risk in its Defined Benefit investment guidance, stating that 'Most investments in pension schemes are long-term and are therefore exposed to long-term financial risks. These potentially include risks relating to factors such as climate change, unsustainable business practices, and unsound corporate governance. Despite the long-term nature of investments, these risks could be financially significant, both over the short and longer term'

6.4. Taking all of the above together, the Committee considers it appropriate to take climate risk into account as a material financial risk within its investment strategy. The remainder of the paper sets out actions taken by the Committee to address this risk.

7. INITIAL STRATEGY MEETING

7.1. The Pensions Committee began its in depth consideration of carbon exposure in early 2016. In January 2016, the Pensions Committee held an initial strategy meeting to consider in detail the Fund's approach to investment in fossil fuels and management of the financial risks posed by climate change. At this meeting, the Committee considered and approved a set of recommendations reflecting both its recognition of these risks and a strengthened commitment to factor them into its investment approach

7.2. The recommendations made are set out below along with an update on progress:

Recommendation	Progress made
Develop a policy statement regarding the London Borough of Hackney's approach to fossil fuel investment with a view to inclusion as a section within the new Investment Strategy Statement (ISS), which will replace the current Statement of Investment Principles.	Complete – this was included in the Investment Strategy Statement introduced in March 2017. A copy of the relevant section of the ISS can be found at Appendix 2.
Agree to monitor carbon risk within the London Borough of Hackney Pension Fund and to appoint a specialist contractor to conduct a carbon footprint of the Fund at an estimated cost of between £5k to £20k	Complete – completed in summer 2016, with a follow-up exercise now planned for summer 2019. This is considered in more detail in Section 8
Review options for the Pension Fund's passive UK equity mandate	Complete – the Fund made a £150m allocation to BlackRock's MSCI Low Carbon Target Fund in May 2018. The Committee continues to review the Fund's passive equity exposure and the balance between active and passive investing.
Continue engagement activities with the Fund's investment managers on their approach to fossil fuel and to promote consideration of	Ongoing – All managers are asked about how carbon risk is incorporated into their decision making process. We also receive regular

climate change issues with managers when making investment decisions.	engagement reporting from our active equity managers
Maintain an active approach to climate change issues with investee companies and look for further opportunities to work with others on issues of ESG importance	Ongoing – the Fund is increasing its involvement with the Local Authority Pension Fund Forum to take a more active approach to climate change issues.
Consider options for an initial active investment of approximately 5% of the Fund in a sustainability/low carbon or clean energy fund(s). Given the right risk/return profile, investment in such a fund would demonstrate the Fund's commitment to invest in clean and sustainable companies.	Complete – the Fund has gone beyond its initial commitment, increasing 13% of Fund assets in RBC's Global Sustainable Equity Fund.
Review options for switching some of the existing property mandate into a low carbon property fund	Complete – the Fund has invested £25m in Threadneedle's Low Carbon Workplace Fund, which acquires commercial office buildings and refurbishes them to create energy efficient workplaces. Once occupied, the buildings' energy and carbon performance are monitored against standards set by the Carbon Trust, who also provide support to occupiers to help reduce their energy usage
In recognition of the financial risks posed by climate change, resolve to amend the Fund's risk register to reflect this as a risk.	Complete – carbon risk has been included in a new ESG section within the register.

7.3. As can be seen from the table above, the Fund has made considerable progress in implementing the recommendations made, within all one-off items now complete. In one case the Fund has gone significantly beyond the original recommendation, making a 13% allocation to RBC GAM's Sustainable Global Equity Strategy through the London CIV, rather than the 5% originally suggested. Where the recommendations are for iterative engagement processes, the Fund continues to work to improve the effectiveness of its engagement, particularly in light of asset pooling.

7.4. These recommendations represent the start of the Fund's journey in managing carbon risk; the Fund has since taken broader action to reduce exposure across its equity portfolio, as detailed in section 8. The management of carbon risk is now a mainstream part of the Fund's approach to risk management; the Pensions Committee recognises that, as with any other risk faced by the Fund, its management is an ongoing process. As the Fund approaches the mid-point of its 6 year target, work is therefore already beginning on how the current approach can be broadened and improved. Further details on future plans can be found in Section 9 of this report.

8. CARBON RISK AUDIT

8.1. As discussed in Section 7, one of the recommendations made was to agree to monitor carbon risk within the fund and to appoint a specialist contractor to conduct a carbon footprint of the Fund. A carbon risk audit was carried out by Trucost in summer 2016 which assessed the operational carbon footprint and exposure to fossil fuel reserves of the Fund's equity portfolio, setting out where the Fund was most exposed in terms of assets at risk of stranding. The results of this assessment suggested that the greatest risk with regards to potentially stranded assets was concentrated in companies with coal reserves within the passive UK equity and active Emerging

Markets equity portfolios; however some concentration of oil and gas reserves was found within the fund's two active Global Equity mandates. The results of the audit can be found at Appendix 3 to this report.

8.2. After considering the results of the carbon risk audit, the Pensions Committee agreed the following target for a reduction in exposure to fossil fuel reserves ("future emissions")

- Reduce the Fund's relative exposure to future emissions from fossil fuel reserves (measured in $MtCO_2e$ – million tonnes of CO_2 emissions) by 50% over 2 valuation cycles (6 years)
- Measure the reduction relative to the Fund's position as at July 2016 ($7.11MtCO_2e$) and adjusted for Assets Under Management (£AUM)

The Committee agreed that the target would be periodically reviewed to ensure that it remained consistent with the risks associated with investment in carbon assets and with the Committee's fiduciary duties. As set out in the original recommendations detailed in Section 7, it was agreed that the target would be included in the Fund's Investment Strategy Statement. A copy of the relevant section of the current Investment Strategy Statement can be found at Appendix 2. The policy aims to cut the Fund's exposure to future CO2 emissions in line with the level implied by the inter-governmental Paris Agreement's 2oC scenario

8.3. When setting its investment strategy following the 2016 valuation, the Committee considered how its carbon reduction target could be achieved within the Fund's broader investment strategy, taking into account the need to move to pooled investment structures. It was agreed that reduced exposure to reserves would be achieved primarily through planned asset allocation changes, including:

- A planned reduction in the Fund's overall equity exposure and subsequent shift towards alternative credit
- A reduction in the Fund's UK passive equity exposure, with an equivalent increase in global passive equity exposure

8.4. In agreeing specific investment strategy decisions, the Committee also took into consideration other more detailed recommendations made as part of the January 2016 strategy meeting. These included:

- Identifying a suitable low carbon global equity passive equity strategy
- Consideration of options for an active global equity investment of in a sustainability/low carbon or clean energy fund(s).
- In both cases the Committee considered it appropriate to first consider options put in place via the London CIV to help meet the Fund's asset pooling obligations.

8.5. The Fund has already taken significant action to help meet its target. May 2018 saw the completion of a significant restructure of the Fund's equity portfolio, with the Fund investing 10% (approx. £150m) of assets in Blackrock's newly created MSCI Low Carbon Target Fund, with the aim of reducing the fund's exposure to fossil fuels and carbon emissions while still accessing a wide range of global markets and minimising tracking error relative to the MSCI World. The move was funded by significantly reducing exposure to the FTSE Allshare Index, the Fund's most significant source of exposure to carbon risk. A further 13% of assets (approx. £195m) was invested in RBC GAM's Global Sustainable Equity strategy via the London CIV. The strategy aims to invest in companies with long term, sustainable revenues, with a strong focus on Environmental, Social and Governance (ESG) factors.

8.6. The table below provides a full breakdown of the changes made to the Fund's equity portfolio.

PREVIOUS MANDATE	**TRANSITION ACCOUNT**	**TARGET MANDATE**
Wellington Global Equity Segregated Mandate (£247.4m – 15.5% of fund assets)	BlackRock Transition Management (£857m)	LCIV Sustainable Global Active Equity Pooled Fund (203.5m – 13% of fund assets)
Lazard Global Equity Segregated Mandate (£247.7m – 15.5% of fund assets)-		BlackRock Global Passive Low Carbon Pooled Fund (£152.5m – 10% of fund assets)
UBS FTSE AllShare Index Tracker Pooled Fund (£361.9m – 25% of fund assets)		BlackRock Hedged MSCI World Passive Pooled Fund (£347.7m - 23% of fund assets)
		BlackRock FTSE AllShare Passive Pooled Fund (£153.3m – 10% of fund assets)

8.7. These changes have already had a significant impact on the proportion of the Fund's assets invested in companies involved in fossil fuel production. Between July 2016 and December 2018, the percentage of the Fund's assets invested in fossil fuel companies reduced from approximately 7.1% of assets to approximately 4.5% of assets. Although this analysis reflects percentage value invested rather than exposure to reserves (the Fund's chosen target metric), it does still provide a useful indication that the Fund's exposure to fossil fuel companies is materially reducing. A breakdown of exposure by company is provided at Appendix 1 to this report.

8.8. It should be noted that whilst we have also included estimated value of the stock holdings in the appendix, this is irrelevant to the target set, particularly as the value of any holdings is of course impacted by the overall fluctuations in the world's stock markets, reflecting not only company specific factors but also more general economic factors at any one time. It is not therefore a true measure of any change in the Fund's exposure to fossil fuels.

8.9. In December 2018, the Fund also made a £165m commitment to 2 private debt mandates, to be funded from the existing MSCI World Passive Pooled Fund allocation. The commitments to these mandates will be drawn down gradually over a period of approximately 2 years. BlackRock's ultra short bond fund will be used as an interim strategy to manage a proportion of funds not immediately invested rather than maintain the full existing allocation to equities.

8.10. Allocating to private debt means a shift from holding large cap listed equities (via the MSCI All World Index Tracker) to lending to mid-sized companies. As such, whilst the strategies do not operate any exclusion policies, the nature and size of the companies involved means the shift to the new strategies will result in the Pension Fund reducing its exposure to large multinational fossil fuel companies.

8.11. Shifting assets away from listed equity will affect the proportion of assets for which the Fund is able to obtain carbon footprinting data. The 2016 carbon risk audit covered the Fund's listed equities, which at the time comprised 60% of its assets. A 10% allocation to private debt will reduce this to 50%. Given the lack of quantitative data available for private debt, it is proposed that the Fund assesses the impact for this new class of assets on a qualitative basis by monitoring the nature of the underlying assets and engaging with the relevant managers. We do not expect these mandates to expose the Fund to significant carbon reserves.

9. 2019 FORMAL INTERIM ASSESSMENT

9.1. In setting its initial target, the Fund chose to use 2 valuation cycles to assess progress, suggesting an interim review in 2019, after 1 valuation cycle. This timeline aligns implementation of the carbon reduction target with overall strategy setting, allowing the Committee to consider the issue as part of its full strategy review.

9.2. Officers of the Fund have approached Trucost, who carried out the initial carbon risk audit, with a view to commissioning an interim carbon risk review. Trucost have been selected as it was felt appropriate to use the same provider to allow for comparability between the original and interim reports. It is intended that the review should include:

- A comparison of the exposure to reserves for the current listed equity portfolio against the same for the 2016 listed equity portfolio using current carbon reserves data
- An analysis by fund manager of operational emissions (Scope 1 and Scope 2) and exposure to reserves for the Fund's current listed equity and bond portfolios, relative to benchmark
- An analysis of the Fund's alignment to internationally agreed future warming scenarios

9.3. It is intended that the proposed review should be carried out as at 30th June 2019. This timeframe would allow the results to be considered within the upcoming strategy setting exercise to take place in early 2020, following the outcome of the 2019 valuation, which will be available by March 2020 at the latest. In considering its approach to carbon risk and any potential changes to the target going forward, the Committee will take into account the outcome of the interim review as well as wider information and updates on the impact of fossil fuels, such as the IPCC special report on the impacts of global warming of 1.5 °C. The Committee will also take in to consideration consider the Council's target to become carbon-free by 2050, to which the Pension Fund is aligned.

9.4. The implementation of the recommendations set out in Section 7 and the wider restructure of the Fund's equity portfolio represent the start of the Fund's journey towards the comprehensive management of carbon risk. At present, the UK and wider global economies remain heavily based on fossil fuels; as we transition to a lower carbon economy new opportunities will continue to open up. At present, the Fund considers that fully excluding fossil fuels from its investment strategy would excessively restrict its investment horizons; fossil fuel divestment is not cost or risk free and the Fund needs to balance the potential long term benefits of reduction with the risks of increased investment management costs and short to medium term losses. However, as the prevalence of fossil fuels within the wider economy reduces, these risks should also reduce, permitting further reductions in fossil fuel exposure.

9.5. The Committee also strongly believe that engagement with fossil fuel companies via organisations such as LAPFF in order to influence their future strategies should continue alongside the reductions in stock holdings in such companies. We believe that simply selling stocks, whilst reducing the fund's exposure, does not in itself achieve the impact of an overall reduction in the use of fossil fuels. Others will buy the stocks released and they may not wish to engage with the companies in order to influence the move from fossil fuel.

9.6. To date, the Fund's primary focus in terms of managing its carbon risk has been on reducing risk through targeted reduction in its exposure to fossil fuel assets. However, the Fund now also wishes to explore ways in which we can support progress towards a low carbon economy through positive investment in renewable energy and associated technologies. The publication of the Intergovernmental Panel on Climate Change (IPCC)'s report on the impacts of global warming of 1.5 °C makes clear that a rapid and orderly transition to other energy sources is increasingly urgent; whilst selective disinvestment from fossil fuel assets can be used to help manage the financial risks faced by the Fund, investing in the suppliers and technologies helping to drive change is a potential way for the Fund to actually contribute to the transition.

9.7. The Committee therefore wishes to use the next investment strategy review to consider how the Fund could make a positive contribution to the transition to a low carbon economy through investment in renewable energy, whilst meeting its own strategic investment requirements. As part of the planned interim carbon risk audit, the Committee will consider an analysis of its energy exposure against the energy requirements for 2°C and 1.5°C future warming scenarios. This analysis can then be used to consider how the Fund might look to align its exposure to those scenarios.

Ian Williams
Group Director, Finance & Corporate Resources

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Appendices
Appendix 1 - Fossil Fuel Holdings Breakdown
Appendix 2 - Investment Strategy Statement Excerpt
Appendix 3 - Carbon Risk Audit Presentation - EXEMPT

Appendix 1 – Breakdown of Fossil Fuel Exposure

The tables below set out the market value of fossil fuel stocks within the Hackney Pension Fund equity portfolio at 31/07/2016 and 31/12/2018. Where holdings are via pooled funds, the market value of the underlying holdings has been estimated. Fossil fuel stocks are defined here as all oil, gas and coal producers, all gas utilities and any multi-utility and mining companies within the Carbon Underground 200. It should be noted that market values can vary widely and do not indicate the intensity of exposure to fossil fuel reserves.

Jul-16			
Fund/mandate name	**Fund NAV**	**Value of fossil fuel stocks (£)**	**% of fund/mandate assets**
FTSE AllShare index tracker	290,199,393	44,653,417	15.39%
Active Segregated Global Equity Holdings	390,842,566	40,876,985	10.46%
Active Pooled Emerging Markets Equity	63,159,464	2,225,925	3.52%
Total Hackney Pension Fund Assets	**1,237,505,867**		
Total value of fossil fuel stocks	**87,756,326**		
Total Fund % exposure	**7.09%**		

Dec-18			
Fund/mandate name	**Fund NAV**	**Value of fossil fuel stocks (£)**	**% of fund/mandate assets**
FTSE AllShare index tracker	135,028,518.18	27,747,790	20.55%
MSCI All World index tracker	314,656,963.75	21,313,342	6.77%
MSCI Low Carbon Target index tracker	142,167,830.16	5,358,080	3.77%
Active Pooled Global Equity	183,162,084	7,549,356	4.12%
Active Pooled Emerging Markets Equity	74,159,084	3,713,538	5.01%
Total Hackney Pension Fund Assets	**1,455,750,510**		
Total value of fossil fuel stocks	**65,682,106**		
Total Fund % exposure	**4.51%**		

Passive Pooled Funds 31/07/2016

Description	Estimated Value of underlying holding	Sector	Index
ANGLO AMERICAN USD0.54945	1,431,340	Metals & Mining	FTSE All Share
BHP BILLITON PLC USD0.50	2,633,439	Metals & Mining	FTSE All Share
EVRAZ PLC ORD USD1	121,221	Metals & Mining	FTSE All Share
GLENCORE XSTRATA ORD USD0.01	2,883,956	Metals & Mining	FTSE All Share
RIO TINTO ORD GBP0.10	3,954,483	Metals & Mining	FTSE All Share
CENTRICA ORD GBP0.061728395	1,728,797	Multi-Utilities	FTSE All Share
BP ORD USD0.25	10,486,190	Oil, Gas & Consumable Fuels	FTSE All Share
CAIRN ENERGY PLC ORD GBP0.0136686 (POST CON)	136,100	Oil, Gas & Consumable Fuels	FTSE All Share
ENQUEST PLC ORD GBP0.05	23,649	Oil, Gas & Consumable Fuels	FTSE All Share
NOSTRUM OIL & G ORD GBP0.01	35,193	Oil, Gas & Consumable Fuels	FTSE All Share
OPHIR ENERGY PLC ORD GBP0.0025	62,890	Oil, Gas & Consumable Fuels	FTSE All Share
PREMIER OIL ORD GBP0.125	43,344	Oil, Gas & Consumable Fuels	FTSE All Share
ROYAL DUTCH SHELL 'B'SHS EUR0.07 (UK LIST)	10,124,392	Oil, Gas & Consumable Fuels	FTSE All Share
ROYAL DUTCH SHELL PLC 'A'SHS EUR0.07	3,484,199	Oil, Gas & Consumable Fuels	FTSE All Share
ROYAL DUTCH SHELL PLC 'A'SHS EUR0.07	7,218,510	Oil, Gas & Consumable Fuels	FTSE All Share
SOCO INTERNATIONAL ORD GBP0.05	43,600	Oil, Gas & Consumable Fuels	FTSE All Share
TULLOW OIL ORD GBP0.10	242,114	Oil, Gas & Consumable Fuels	FTSE All Share
TOTAL	**44,653,417**		

Active Segregated Holdings 31/07/2016

Description	Market value of holding	Sector	Mandate Name
Gas Natural Sdg EUR1	2,635,727	Gas Water & Multiutilities	Segregated Global Equities

Centrica Ord GBP0.061728	2,585,918	Gas Water & Multiutilities	Segregated Global Equities
HK & China Gas HKD0.25	2,585,256	Gas Water & Multiutilities	Segregated Global Equities
E On NPV	2,063,238	Gas Water & Multiutilities	Segregated Global Equities
National Grid New Ord GBP0.114	1,672,574	Gas Water & Multiutilities	Segregated Global Equities
EOG Resources Com USD0.01	2,750,798	Oil & Gas	Segregated Global Equities
EOG Resources Com USD0.01	2,174,093	Oil & Gas	Segregated Global Equities
Pioneer Natural Resources Com USD0.01	2,327,738	Oil & Gas	Segregated Global Equities
Pioneer Natural Resources Com USD0.01	1,596,485	Oil & Gas	Segregated Global Equities
Royal Dutch Shell 'B' EUR0.07	3,767,564	Oil & Gas	Segregated Global Equities
Halliburton Com USD2.50	2,460,047	Oil & Gas	Segregated Global Equities
Marathon Oil Com USD1	2,169,025	Oil & Gas	Segregated Global Equities
Occidental Ptl Com USD0.20	1,978,164	Oil & Gas	Segregated Global Equities
Exxon Mobil Com NPV	1,860,592	Oil & Gas	Segregated Global Equities
Anadarko Petroleum Com USD0.10	1,742,603	Oil & Gas	Segregated Global Equities
Noble Energy Com USD0.01	1,649,195	Oil & Gas	Segregated Global Equities
Royal Dutch Shell 'A' EUR0.07	1,334,375	Oil & Gas	Segregated Global Equities
Concho Resources Com USD0.001	1,039,785	Oil & Gas	Segregated Global Equities
Kinder Morgan Com USD0.01	1,011,638	Oil & Gas	Segregated Global Equities
Cabot Oil & Gas Com USD0.1	806,609	Oil & Gas	Segregated Global Equities
Southwestern Energy Com USD0.10	665,561	Oil & Gas	Segregated Global Equities
TOTAL	**40,876,985**		

Active Pooled Funds 31/07/2016

Description	Market value of holding	Sector	Mandate Name
PETROL BRASILEIROS PFD BRL0.12	198,714	Energy	Active Pooled Emerging Markets Equity
CHINA PETRO & CHEM H CNY1	242,181	Energy	Active Pooled Emerging Markets Equity
CNOOC LTD HKD0.02	234,459	Energy	Active Pooled Emerging Markets Equity

TB BATUBARA BUKIT ASAM	158,291	Energy	Active Pooled Emerging Markets Equity
OIL CO LUKOIL PJSC REP(1 ORD RUB0.02)	192,488	Energy	Active Pooled Emerging Markets Equity
BANGCHAK PETROLEUM THB1(ALIEN MKT)	108,173	Energy	Active Pooled Emerging Markets Equity
TUPRAS TRY1	109,472	Energy	Active Pooled Emerging Markets Equity
CEMIG CIA ENERG MG PREF BRL5.00	1,077	Utilities	Active Pooled Emerging Markets Equity
ENERGIAS DO BRASIL COM STK NPV	210,442	Utilities	Active Pooled Emerging Markets Equity
ENERSIS AMERICAS S A ADS REP 50 SHARES	83,241	Utilities	Active Pooled Emerging Markets Equity
ENERSIS S A ADR(50 COM)	115,811	Utilities	Active Pooled Emerging Markets Equity
KOREA ELEC POWER KRW5000	210,562	Utilities	Active Pooled Emerging Markets Equity
ELECTRICITY GENRTG THB10(ALIEN MKT)	130,862	Utilities	Active Pooled Emerging Markets Equity
INDRAPRASTHA GAS INR10	230,151	Utilities	Active Pooled Emerging Markets Equity
TOTAL	**2,225,925**		

Passive Pooled Funds 31/12/2018

Description	Estimated Value of underlying holding	Sector	Index
ANGLO AMERICAN PLC	1,086,130	Metals & Mining	FTSE All Share
BHP GROUP PLC	2,157,909	Metals & Mining	FTSE All Share
EVRAZ	148,473	Metals & Mining	FTSE All Share
GLENCORE PLC	2,105,370	Metals & Mining	FTSE All Share
RIO TINTO PLC	2,663,475	Metals & Mining	FTSE All Share
CENTRICA PLC	475,381	Multi-Utilities	FTSE All Share
BP PLC	6,282,344	Oil, Gas & Consumable Fuels	FTSE All Share
CAIRN ENERGY PLC	56,172	Oil, Gas & Consumable Fuels	FTSE All Share
ENERGEAN OIL & GAS PLC	33,347	Oil, Gas & Consumable Fuels	FTSE All Share
ENQUEST PLC	21,304	Oil, Gas & Consumable Fuels	FTSE All Share
NOSTRUM OIL & GAS PLC	6,166	Oil, Gas & Consumable Fuels	FTSE All Share
OPHIR ENERGY PLC	13,877	Oil, Gas & Consumable Fuels	FTSE All Share
PREMIER OIL PLC	31,395	Oil, Gas & Consumable Fuels	FTSE All Share
ROYAL DUTCH SHELL PLC	6,804,743	Oil, Gas & Consumable Fuels	FTSE All Share
ROYAL DUTCH SHELL PLC CLASS B	5,687,903	Oil, Gas & Consumable Fuels	FTSE All Share
SOCO INTERNATIONAL PLC	15,062	Oil, Gas & Consumable Fuels	FTSE All Share
TULLOW OIL PLC	158,739	Oil, Gas & Consumable Fuels	FTSE All Share
FIRSTENERGY CORP	154,767	Electric Utilities	MSCI World
PG&E CORP	112,896	Electric Utilities	MSCI World
ALTAGAS LTD	14,840	Gas Utilities	MSCI World
APA GROUP UNITS	63,640	Gas Utilities	MSCI World
ATMOS ENERGY CORP	86,710	Gas Utilities	MSCI World
HIROSHIMA GAS LTD	17	Gas Utilities	MSCI World
HOKKAIDO GAS LTD	20	Gas Utilities	MSCI World
HONG KONG AND CHINA GAS LTD	175,166	Gas Utilities	MSCI World

K&O ENERGY GROUP INC	24	Gas Utilities	MSCI World
NATURGY ENERGY SA	79,884	Gas Utilities	MSCI World
NIPPON GAS LTD	153	Gas Utilities	MSCI World
OSAKA GAS LTD	61,121	Gas Utilities	MSCI World
SAIBU GAS LTD	69	Gas Utilities	MSCI World
SHIZUOKA GAS LTD	63	Gas Utilities	MSCI World
TOHO GAS LTD	29,551	Gas Utilities	MSCI World
TOKYO GAS LTD	89,723	Gas Utilities	MSCI World
UGI CORP	86,883	Gas Utilities	MSCI World
ANGLO AMERICAN PLC	192,664	Metals & Mining	MSCI World
ARCELORMITTAL SA	124,819	Metals & Mining	MSCI World
BHP GROUP LTD	632,750	Metals & Mining	MSCI World
BHP GROUP PLC	375,987	Metals & Mining	MSCI World
GLENCORE PLC	353,013	Metals & Mining	MSCI World
LUNDIN MINING CORP	26,733	Metals & Mining	MSCI World
RIO TINTO LTD	181,036	Metals & Mining	MSCI World
RIO TINTO PLC	491,544	Metals & Mining	MSCI World
SOUTH32 LTD	82,631	Metals & Mining	MSCI World
TECK RESOURCES SUBORDINATE VOTING	85,764	Metals & Mining	MSCI World
AGL ENERGY LTD	89,535	Multi-Utilities	MSCI World
CENTRICA PLC	87,067	Multi-Utilities	MSCI World
AKER BP	1,027	Oil, Gas & Consumable Fuels	MSCI World
ANADARKO PETROLEUM CORP	198,579	Oil, Gas & Consumable Fuels	MSCI World
ANTERO RESOURCES CORP	14,834	Oil, Gas & Consumable Fuels	MSCI World
APACHE CORP	97,918	Oil, Gas & Consumable Fuels	MSCI World
ARC RESOURCES LTD	20,174	Oil, Gas & Consumable Fuels	MSCI World
BEACH ENERGY LTD	187	Oil, Gas & Consumable Fuels	MSCI World
BP PLC	1,122,199	Oil, Gas & Consumable Fuels	MSCI World
CABOT OIL & GAS CORP	97,846	Oil, Gas & Consumable Fuels	MSCI World

CALTEX AUSTRALIA LTD	42,740	Oil, Gas & Consumable Fuels	MSCI World
CAMECO CORP	42,878	Oil, Gas & Consumable Fuels	MSCI World
CANADIAN NATURAL RESOURCES LTD	270,974	Oil, Gas & Consumable Fuels	MSCI World
CENOVUS ENERGY INC	81,064	Oil, Gas & Consumable Fuels	MSCI World
CHENIERE ENERGY INC	115,991	Oil, Gas & Consumable Fuels	MSCI World
CHEVRON CORP	1,830,349	Oil, Gas & Consumable Fuels	MSCI World
CIMAREX ENERGY	52,825	Oil, Gas & Consumable Fuels	MSCI World
CONCHO RESOURCES INC	166,428	Oil, Gas & Consumable Fuels	MSCI World
CONOCOPHILLIPS	660,209	Oil, Gas & Consumable Fuels	MSCI World
CONTINENTAL RESOURCES INC	40,203	Oil, Gas & Consumable Fuels	MSCI World
COSMO ENERGY HOLDINGS LTD	157	Oil, Gas & Consumable Fuels	MSCI World
CRESCENT POINT ENERGY CORP	518	Oil, Gas & Consumable Fuels	MSCI World
DEVON ENERGY CORP	108,333	Oil, Gas & Consumable Fuels	MSCI World
DIAMONDBACK ENERGY INC	124,044	Oil, Gas & Consumable Fuels	MSCI World
ENAGAS SA	23,848	Oil, Gas & Consumable Fuels	MSCI World
ENBRIDGE INC	36,708	Oil, Gas & Consumable Fuels	MSCI World
ENBRIDGE INC	505,789	Oil, Gas & Consumable Fuels	MSCI World
ENCANA	40,090	Oil, Gas & Consumable Fuels	MSCI World
ENI	361,507	Oil, Gas & Consumable Fuels	MSCI World
EOG RESOURCES INC	435,936	Oil, Gas & Consumable Fuels	MSCI World
EQUINOR	223,016	Oil, Gas & Consumable Fuels	MSCI World
EXXON MOBIL CORP	2,555,132	Oil, Gas & Consumable Fuels	MSCI World
FUJI OIL LTD	17	Oil, Gas & Consumable Fuels	MSCI World
GALP ENERGIA SGPS SA	63,487	Oil, Gas & Consumable Fuels	MSCI World
HESS CORP	109,374	Oil, Gas & Consumable Fuels	MSCI World
HOLLYFRONTIER CORP	88,592	Oil, Gas & Consumable Fuels	MSCI World
HUSKY ENERGY INC	31,321	Oil, Gas & Consumable Fuels	MSCI World
IDEMITSU KOSAN LTD	29,990	Oil, Gas & Consumable Fuels	MSCI World
IMPERIAL OIL LTD	73,553	Oil, Gas & Consumable Fuels	MSCI World

INPEX CORP	88,154	Oil, Gas & Consumable Fuels	MSCI World
INTER PIPELINE LTD	47,900	Oil, Gas & Consumable Fuels	MSCI World
ITOCHU ENEX LTD	50	Oil, Gas & Consumable Fuels	MSCI World
JAPAN PETROLEUM EXPLORATION LTD	92	Oil, Gas & Consumable Fuels	MSCI World
JXTG HOLDINGS INC	137,119	Oil, Gas & Consumable Fuels	MSCI World
KEYERA CORP	39,457	Oil, Gas & Consumable Fuels	MSCI World
KINDER MORGAN INC	252,414	Oil, Gas & Consumable Fuels	MSCI World
KONINKLIJKE VOPAK NV	24,488	Oil, Gas & Consumable Fuels	MSCI World
LUNDIN PETROLEUM	40,709	Oil, Gas & Consumable Fuels	MSCI World
MARATHON OIL CORP	115,816	Oil, Gas & Consumable Fuels	MSCI World
MARATHON PETROLEUM CORP	360,720	Oil, Gas & Consumable Fuels	MSCI World
MITSUUROKO GROUP HOLDINGS LTD	24	Oil, Gas & Consumable Fuels	MSCI World
NESTE	89,184	Oil, Gas & Consumable Fuels	MSCI World
NEW HOPE CORPORATION LTD	88	Oil, Gas & Consumable Fuels	MSCI World
NEWFIELD EXPLORATION	295	Oil, Gas & Consumable Fuels	MSCI World
NIPPON COKE & ENGINEERING LTD	18	Oil, Gas & Consumable Fuels	MSCI World
NOBLE ENERGY INC	76,081	Oil, Gas & Consumable Fuels	MSCI World
OCCIDENTAL PETROLEUM CORP	412,447	Oil, Gas & Consumable Fuels	MSCI World
OIL SEARCH LTD	58,596	Oil, Gas & Consumable Fuels	MSCI World
OMV AG	57,767	Oil, Gas & Consumable Fuels	MSCI World
ONEOK INC	181,596	Oil, Gas & Consumable Fuels	MSCI World
ORIGIN ENERGY LTD	53,986	Oil, Gas & Consumable Fuels	MSCI World
PARSLEY ENERGY INC CLASS A	40,047	Oil, Gas & Consumable Fuels	MSCI World
PEMBINA PIPELINE CORP	141,183	Oil, Gas & Consumable Fuels	MSCI World
PHILLIPS	357,867	Oil, Gas & Consumable Fuels	MSCI World
PIONEER NATURAL RESOURCE	196,874	Oil, Gas & Consumable Fuels	MSCI World
PLAINS GP HOLDINGS CLASS A	32,981	Oil, Gas & Consumable Fuels	MSCI World
PRAIRIESKY ROYALTY LTD	23,340	Oil, Gas & Consumable Fuels	MSCI World
REPSOL RIGHTS SA	5,251	Oil, Gas & Consumable Fuels	MSCI World

REPSOL SA	184,823	Oil, Gas & Consumable Fuels	MSCI World
ROYAL DUTCH SHELL PLC	1,178,069	Oil, Gas & Consumable Fuels	MSCI World
ROYAL DUTCH SHELL PLC CLASS B	962,036	Oil, Gas & Consumable Fuels	MSCI World
SALA CORP	29	Oil, Gas & Consumable Fuels	MSCI World
SAN AI OIL LTD	69	Oil, Gas & Consumable Fuels	MSCI World
SANTOS LTD	40,847	Oil, Gas & Consumable Fuels	MSCI World
SEVEN GENERATIONS ENERGY LTD CLASS	17,018	Oil, Gas & Consumable Fuels	MSCI World
SHOWA SHELL SEKIYU K.K.	19,435	Oil, Gas & Consumable Fuels	MSCI World
SINANEN HOLDINGS LTD	23	Oil, Gas & Consumable Fuels	MSCI World
SNAM	105,152	Oil, Gas & Consumable Fuels	MSCI World
SUNCOR ENERGY INC	406,661	Oil, Gas & Consumable Fuels	MSCI World
TARGA RESOURCES CORP	74,339	Oil, Gas & Consumable Fuels	MSCI World
TOTAL SA	1,151,599	Oil, Gas & Consumable Fuels	MSCI World
TOURMALINE OIL CORP	25,141	Oil, Gas & Consumable Fuels	MSCI World
TRANSCANADA CORP	261,817	Oil, Gas & Consumable Fuels	MSCI World
VALERO ENERGY CORP	285,448	Oil, Gas & Consumable Fuels	MSCI World
VERMILION ENERGY INC	21,142	Oil, Gas & Consumable Fuels	MSCI World
VIVA ENERGY GROUP LTD	154	Oil, Gas & Consumable Fuels	MSCI World
WASHINGTON H SOUL PATTINSON & COMP	232	Oil, Gas & Consumable Fuels	MSCI World
WHITEHAVEN COAL LTD	240	Oil, Gas & Consumable Fuels	MSCI World
WILLIAMS INC	222,817	Oil, Gas & Consumable Fuels	MSCI World
WOODSIDE PETROLEUM LTD	174,764	Oil, Gas & Consumable Fuels	MSCI World
PG&E CORP	39,558	Electric Utilities	MSCI Low Carbon Target
APA GROUP UNITS	24,727	Gas Utilities	MSCI Low Carbon Target
ATMOS ENERGY CORP	359,833	Gas Utilities	MSCI Low Carbon Target
HONG KONG AND CHINA GAS LTD	107,377	Gas Utilities	MSCI Low Carbon Target
NIPPON GAS LTD	14	Gas Utilities	MSCI Low Carbon Target
OSAKA GAS LTD	86	Gas Utilities	MSCI Low Carbon Target
TOHO GAS LTD	89,357	Gas Utilities	MSCI Low Carbon Target

TOKYO GAS LTD	120	Gas Utilities	MSCI Low Carbon Target
LUNDIN MINING CORP	114,369	Metals & Mining	MSCI Low Carbon Target
ANADARKO PETROLEUM CORP	269	Oil, Gas & Consumable Fuels	MSCI Low Carbon Target
APACHE CORP	121	Oil, Gas & Consumable Fuels	MSCI Low Carbon Target
BP PLC	3,298	Oil, Gas & Consumable Fuels	MSCI Low Carbon Target
CABOT OIL & GAS CORP	117	Oil, Gas & Consumable Fuels	MSCI Low Carbon Target
CAMECO CORP	26,766	Oil, Gas & Consumable Fuels	MSCI Low Carbon Target
CHENIERE ENERGY INC	241,494	Oil, Gas & Consumable Fuels	MSCI Low Carbon Target
CHEVRON CORP	123,419	Oil, Gas & Consumable Fuels	MSCI Low Carbon Target
CIMAREX ENERGY	72	Oil, Gas & Consumable Fuels	MSCI Low Carbon Target
CONCHO RESOURCES INC	193,048	Oil, Gas & Consumable Fuels	MSCI Low Carbon Target
CONOCOPHILLIPS	874	Oil, Gas & Consumable Fuels	MSCI Low Carbon Target
COSMO ENERGY HOLDINGS LTD	14	Oil, Gas & Consumable Fuels	MSCI Low Carbon Target
DEVON ENERGY CORP	129	Oil, Gas & Consumable Fuels	MSCI Low Carbon Target
DIAMONDBACK ENERGY INC	142,660	Oil, Gas & Consumable Fuels	MSCI Low Carbon Target
ENAGAS SA	8,752	Oil, Gas & Consumable Fuels	MSCI Low Carbon Target
ENBRIDGE INC	225,025	Oil, Gas & Consumable Fuels	MSCI Low Carbon Target
ENI	937	Oil, Gas & Consumable Fuels	MSCI Low Carbon Target
EOG RESOURCES INC	141,800	Oil, Gas & Consumable Fuels	MSCI Low Carbon Target
EXXON MOBIL CORP	3,516	Oil, Gas & Consumable Fuels	MSCI Low Carbon Target
GALP ENERGIA SGPS SA	98,038	Oil, Gas & Consumable Fuels	MSCI Low Carbon Target
HESS CORP	123	Oil, Gas & Consumable Fuels	MSCI Low Carbon Target
HOLLYFRONTIER CORP	171,995	Oil, Gas & Consumable Fuels	MSCI Low Carbon Target
IDEMITSU KOSAN LTD	61	Oil, Gas & Consumable Fuels	MSCI Low Carbon Target
INPEX CORP	117	Oil, Gas & Consumable Fuels	MSCI Low Carbon Target
JAPAN PETROLEUM EXPLORATION LTD	8	Oil, Gas & Consumable Fuels	MSCI Low Carbon Target
JXTG HOLDINGS INC	213	Oil, Gas & Consumable Fuels	MSCI Low Carbon Target
KINDER MORGAN INC	98,330	Oil, Gas & Consumable Fuels	MSCI Low Carbon Target
KONINKLIJKE VOPAK NV	26,571	Oil, Gas & Consumable Fuels	MSCI Low Carbon Target

MARATHON OIL CORP	145	Oil, Gas & Consumable Fuels	MSCI Low Carbon Target
MARATHON PETROLEUM CORP	396,585	Oil, Gas & Consumable Fuels	MSCI Low Carbon Target
NESTE	105,992	Oil, Gas & Consumable Fuels	MSCI Low Carbon Target
NEWFIELD EXPLORATION	36	Oil, Gas & Consumable Fuels	MSCI Low Carbon Target
NOBLE ENERGY INC	110	Oil, Gas & Consumable Fuels	MSCI Low Carbon Target
OCCIDENTAL PETROLEUM CORP	564	Oil, Gas & Consumable Fuels	MSCI Low Carbon Target
ONEOK INC	416,679	Oil, Gas & Consumable Fuels	MSCI Low Carbon Target
PEMBINA PIPELINE CORP	171,569	Oil, Gas & Consumable Fuels	MSCI Low Carbon Target
PHILLIPS	679,721	Oil, Gas & Consumable Fuels	MSCI Low Carbon Target
PIONEER NATURAL RESOURCE	118,481	Oil, Gas & Consumable Fuels	MSCI Low Carbon Target
PRAIRIESKY ROYALTY LTD	178,981	Oil, Gas & Consumable Fuels	MSCI Low Carbon Target
ROYAL DUTCH SHELL PLC	3,567	Oil, Gas & Consumable Fuels	MSCI Low Carbon Target
ROYAL DUTCH SHELL PLC CLASS B	441,557	Oil, Gas & Consumable Fuels	MSCI Low Carbon Target
SHOWA SHELL SEKIYU K.K.	31	Oil, Gas & Consumable Fuels	MSCI Low Carbon Target
SNAM	68,902	Oil, Gas & Consumable Fuels	MSCI Low Carbon Target
TOTAL SA	3,326	Oil, Gas & Consumable Fuels	MSCI Low Carbon Target
VALERO ENERGY CORP	392,280	Oil, Gas & Consumable Fuels	MSCI Low Carbon Target
WILLIAMS INC	136,301	Oil, Gas & Consumable Fuels	MSCI Low Carbon Target
TOTAL	**54,419,136**		

Active Pooled Funds 31/12/2018

Description	Estimated Value of underlying holding	Sector	Fund
EOG Resources Inc	7,549,356	Energy	Active Pooled Global Equity
Bukit Asam Tbk PT	258,821	Energy	Active Pooled Emerging Markets Equity
CNOOC Ltd	312,738	Energy	Active Pooled Emerging Markets Equity
Centrais Eletricas Brasileiras SA - Preferred Shares	155,500	Utilities	Active Pooled Emerging Markets Equity

China Petroleum & Chemical Corp	236,021	Energy	Active Pooled Emerging Markets Equity
China Resources Power Holdings Co Ltd	424,899	Utilities	Active Pooled Emerging Markets Equity
Cia Energetica de Minas Gerais - Preferred Shares	183,207	Utilities	Active Pooled Emerging Markets Equity
Ecopetrol SA	108,144	Energy	Active Pooled Emerging Markets Equity
Inter RAO UES PJSC	252,223	Utilities	Active Pooled Emerging Markets Equity
LUKOIL PJSC - ADR	356,630	Energy	Active Pooled Emerging Markets Equity
MOL Hungarian Oil & Gas PLC	451,975	Energy	Active Pooled Emerging Markets Equity
Petroleo Brasileiro SA - Preferred Shares	311,632	Energy	Active Pooled Emerging Markets Equity
Reliance Industries Ltd	554,592	Energy	Active Pooled Emerging Markets Equity
Tupras Turkiye Petrol Rafinerileri AS	107,155	Energy	Active Pooled Emerging Markets Equity
TOTAL	**11,262,894**		

LB Hackney Pension Fund – Investment Strategy Statement Section 8

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

The Fund invests on the basis of financial risk and return, having considered a full range of factors, including environmental, social, and corporate governance (ESG) factors where these present financial risks to the delivery of portfolio objectives and therefore impact on the sustainability of the Fund's returns.

The Fund therefore requires its investment managers to integrate all material financial factors, including ESG considerations, into their investment analysis and decision-making for all fund investments.

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

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

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

- Reduce the Fund's relative exposure to future emissions from fossil fuel reserves (measured in $MtCO_2e$ – million tonnes of CO_2 emissions) by 50% over 2 valuation cycles (6 years)
- Measure the reduction relative to the Fund's position as at July 2016 (7.11$MtCO_2e$) and adjusted for Assets Under Management (£AUM)

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

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

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

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

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

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

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 AND CORPORATE RESOURCES		
Pension Fund Actuarial Valuation 2019 - Introduction **Pensions Committee** **26th March 2019**	**Classification** **PUBLIC** **Ward(s) affected** **ALL**	**Enclosures** **Four**

1. INTRODUCTION

1.1 This report provides an introduction to the 2019 valuation process and sets out an indicative timetable. It covers measures discussed with the Fund actuary to address potential timetabling issues resulting from late data provision and summarises the latest developments with regards to the use of the LGPS Scheme Advisory Board and Treasury Cost Cap mechanisms

2. RECOMMENDATIONS

2.1 **The Pensions Committee is recommended to note the report.**

3. RELATED DECISIONS

- Pensions Committee 29th March 2017 - Pension Fund Actuarial Valuation 2016 – Valuation Report

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

4.1 The triennial valuation outcome is sensitive to both the actuarial and financial assumptions made within the valuation, and the membership data used; significant variations to either the assumptions or the data used could impact the Fund's financial position. Given the relationship between the Pension Fund and the Council, the inputs to the triennial valuation can therefore directly impact on the level of resources available for other Council services.

4.2 It is therefore critical that both the Pensions Committee and Pension Board have a sound understanding of the valuation process and the assumptions used.

4.3 There are no direct financial implications arising from this report

5. COMMENTS OF THE DIRECTOR OF LEGAL AND GOVERNANCE

5.1 Regulation 62 of the Local Government Pension Scheme (LGPS) Regulations 2013 prescribes that each administering authority must obtain:

- an actuarial valuation of the assets and liabilities of each of its pension funds as at 31st March 2016 and on 31st March in every third year afterwards;
- a report by an actuary in respect of the valuation; and
- a rates and adjustments certificate prepared by an actuary

5.2 Paragraph 7 of the Pensions Committee's Terms of Reference state that it is responsible for 'mak[ing] arrangements for the triennial actuarial valuation, monitor[ing] liabilities and undertak[ing] any asset/liability and other relevant studies as required.

5.4 Taking into account the regulatory requirements around the actuarial valuation and role of the Pensions Committee as set out in the Terms of Reference, the consideration of the 2019 valuation process would appear to properly fall within the Committee's remit

6. 2019 VALUATION PROCESS

6.1 A draft Valuation timetable produced by the fund actuary is attached at Appendix 1. Officers of the Fund have already met with the actuary to discuss the proposed timetable and consider measures to address issues resulting from late data provision. It is likely that the Fund will need to use multiple cuts of data as the data held by Equiniti improves; this will impact the overall cost of the valuation but should help to increase the accuracy of data provided. A draft timetable and roadmap are provided at Appendices 1 and 2; however, these are indicative only.

6.2 The fund actuary is now carrying out additional modelling work to assist the fund in setting financial assumptions for the valuation. The work will focus on stochastic modelling considering the impact of different asset outperformance assumptions on the probability of the Fund reaching full funding across various timescales. This work will then be used to inform the discount rate used in the valuation.

6.3 The 2019 valuation was expected to be affected by the LGPS Scheme Advisory Board cost cap mechanism. Cost control mechanism are now in place across all the public service pension schemes and it was widely expected that reductions in member costs would lead to these being triggered prior to the 2019 valuation. That process has now been paused as the result of a Court of Appeal case – further information is provided in section 7.

6.4 A more in depth review of the process and assumptions used for the valuation will be provided at a strategy meeting for the Pensions Committee during Q2 2019.

7. COST CAP MECHANISMS

7.1 A mechanism for assessing the value of pensions (the "cost control mechanism" or "cost cap") was introduced for all public service pension schemes as part of the Hutton reforms. The cap is intended to periodically assess the cost of the providing pensions to ensure that the reforms are affordable and sustainable. The process measures changes in member costs (those relating to assumptions about the profile of scheme members) only; if these have moved from a pre-determined target, changes to the scheme design or member contributions must be implemented to bring costs back within the target range. Changes to employer costs (those relating to assumptions that are financial or technical in nature).

7.2 Unlike the other public service schemes, the LGPS has two cost cap mechanisms in operation. One is the employer cost cap, operated by HM Treasury, with the other being the future service cost cap operated by the LGPS Scheme Advisory Board (SAB). Both processes are currently undertaken triennially in line with local valuations. Two different mechanisms are in place as the HM Treasury process is designed to make information about the cost of providing public service pensions comparable between schemes. The SAB process allows the SAB to take account of factors specific to the LGPS (e.g. the 50/50 scheme or differences in the lump sum commutation rate).

7.3 Both mechanisms will trigger changes to either the scheme design or member contributions if costs differ from the target cost by more than 2% in either direction. The HM Treasury process uses a target employer contribution cost of 14.6%, whilst the SAB process uses a target total cost of 19.5% with a 2:1 ratio of employer to member contributions. More information on the two process is provided in the SAB briefing note at Appendix 3.

7.4 The HM Treasury process has already taken place for the other public service schemes; indicative outcomes have been breaches of the cost cap floor requiring benefit improvements in excess of 3% of payroll For the LGPS, the SAB process takes place prior to finalisation of the Treasury calculations. The outcome of the Board’s process was a total scheme future service cost of 19%; as the target for the process is 19.5% the Board agreed to consider recommendations to return the total cost back to the target. If accepted by Government, the Board’s recommendations around changes to scheme design could then have been taken into account in the finalisation of the Treasury cost cap calculations, potentially avoiding automatic benefit changes.

7.5 At the end of January, Government announced a pause to the cost cap mechanism across the public services following a Court of Appeal judgement. In December 2018, the Court ruled that the ‘transitional protection’ (or underpin) offered to members within ten years of retirement as part of the Hutton reforms amounted to unlawful age discrimination. The Government is seeking permission to appeal this decision. However, if this is unsuccessful, the Court will require steps to be taken to compensate employees who were transferred to the new schemes. A copy of the statement from Government can be found at Appendix 4.

7.6 This decision is highly significant for the LGPS and other public service schemes) and produces considerable uncertainty about if, when and how benefits and member contributions will be affected in the LGPS. This in turn impacts the 2019 local fund valuations, which were to have allowed for scheme changes resulting from the cost cap process.

7.7 Officers have discussed the issue with the fund actuary and have agreed that in the absence of any clear messages from LGPS Scheme Advisory Board (SAB) and/or MHCLG, the 2019 valuations will proceed on the basis of the current benefit and member contribution structure, ignoring the cost cap process for the meantime. As and when there are developments the actuary will consider how best to incorporate into the 2019 valuation contribution-setting process. The actuary will also be liaising with other firms to ensure consistency across all LGPS Funds, as far as is practical, regardless of who their actuary is.

7.8 Officers will continue to monitor developments from the Local Government Association (LGA), SAB or the Ministry for Housing, Communities and Local Government (MHCLG).

Ian Williams
Group Director, Finance & Corporate Resources

Report Originating Officers: Rachel Cowburn ☎020-8356 2630
Financial considerations: Michael Honeysett ☎020-8356 3332
Comments of the Director of Legal and Governance: Patrick Rodger, Senior Lawyer, Legal Services ☎020-8356 6187

Appendices
Appendix 1 – Indicative Valuation Timetable
Appendix 2 – Valuation Roadmap
Appendix 3 – SAB Cost Control Briefing Note
Appendix 4 – Government statement on cost cap pause

Your valuation timetable

Outlined below is a sample valuation timetable. The dates shown are indicative only. At the pre-valuation meeting, we will discuss these further with you and agree a specific timetable so that we can meet your deadlines and help with the process of communicating valuation results to all of the stakeholders. We can also produce a more detailed project plan that incorporates any other projects or activities that will feed into the valuation process.

A key objective of our pre-valuation discussions is to put in place a definitive timetable for your fund.

The timetable will take into account your expectation of when you can provide us with all of the required data and the planned dates that you will report the valuation results to committee and to employers.

Event	Responsibility	Example Timescale
Submission of data*	Fund	28 June 2019
Data validation*	Hymans	5 July 2019
Resolution of data queries*	Fund	12 July 2019
Clean data sign-off	Hymans	19 July 2019
Provision of initial whole fund results	Hymans	30 August 2019
Submission of SAB results	Hymans	30 September 2019
Provision of individual employer results	Hymans	15 November 2019
Finalisation of employer results and setting of contribution rates	Hymans/Fund	By 31 March 2020**
Final valuation report and rates & adjustments certificate issued	Hymans	By 31 March 2020

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Appendix 2

Hackney Pension Fund
DRAFT 2019 valuation timetable and route map

	Q1 2019	Q2 2019	Q3 2019	Q4 2019	Q1 2020
Overall approach / planning	Review of data quality (if possible)				Post-valuation actions / focus
	Board/Committee valuation training and employer forum				
Assumption setting	Valuation assumptions				
	Club Vita longevity update				
Asset Allocation / HEAT					
Employer Issues	Valuation timetable / Employer engagement plan			Employer valuation results and proposed contributions	
	Update on employer risk information/ covenant review options			Employers Forum Dec 2019	
Formal reporting, etc	Funding Strategy Statement (identify changes in principles since 2016, including any CIPFA changes)	Approve draft Funding Strategy Statement	Whole Fund Results		Sign off 2019 valuation report and R&A
					Finalise and sign off FSS following employer consultationf
Councils contribution rates	2019 valuation ComPASS modelling proposal / scenrios agreed	Hymans carry out Council ComPASS modelling			
Ill-health management	Consider approach to ill-health management				
Valuation process		Submit formal 2019 valuation data / Hymans validate etc	Hymans commence employer results calculations		
		Hymans commence whole Fund calculations			

Hymans Robertson LLP
Janaury 2019

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Shadow Advisory Board

Cost control in the LGPS - A briefing note for members and employers

<u>Summary</u>

Under the new public service pension scheme framework, the costs of the pension schemes must be periodically assessed to ensure that the reforms are affordable and sustainable.

In the LGPS in England & Wales, there will be two mechanisms used to do this:

a) the employer cost cap (ECC) process as operated by HM Treasury, and
b) the future service cost (FSC) process as operated by the LGPS Scheme Advisory Board.

Both processes could lead to changes to the scheme design or to the level of members' contributions if the costs of the LGPS are shown to have moved sufficiently from the target.

The target cost for the FSC process is 19.5% as a total of employer and member contributions at a 2:1 ratio (13% relating to employers' contributions and 6.5% relating to members'). The proposed target cost for the ECC process is 14.6% of employer contributions alone.

The cost cap mechanisms are both mainly concerned with calculating the cost of providing benefits that have been accrued since the career average reforms took effect in April 2014. The total employer contributions targeted are therefore notional figures, and most employers will find they pay contributions that are different to these notional rates.

There are some differences between the mechanisms in how the requirement to make changes to the Scheme is triggered, but under either process, movement of 2% or more in either direction will require changes to be made to bring the Scheme cost back to the target.

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Shadow Advisory Board

A member perspective

In the event that either of the processes demonstrate that the cost of the Scheme has increased or decreased to a point that a requirement for reform is triggered, the Scheme must be bought back to its target cost via one of the below two means:

- Changes to the design of members' benefits (for example, by changing the accrual rate or the normal pension age), or
- Changes to the member contribution rate.

The results of the cost control process could therefore lead to either, a) changes in the contributions which need to be paid in to the LGPS as part of Scheme membership, or b) to changes in the pension benefits eventually payable by the LGPS.

In the event that a design change cannot be agreed between the Government and the Scheme Advisory Board to bring the Scheme back to its target cost, an adjustment to the rate at which future benefits will accrue ('the accrual rate') must be made by DCLG.

An employer perspective

The figures calculated under the cost control processes will be broadly used to answer the question, "How much does the career average benefits structure cost across the LGPS in England & Wales?"

The results of the cost control processes are therefore highly unlikely to correlate with the contribution rates payable by individual employers. There are two main reasons for this:

- Local funding valuations are based on individual fund and employer experience and assumptions are made based on this experience. The cost control processes will be looking at Scheme experience nationally and consequentially making assumptions on this basis.
- Local funding valuations will include consideration of all the benefits payable by each fund and employer in their participation in the Scheme - including costs relating to the pre-April 2014 final salary benefits structure.

In the event that reforms to the Scheme do result from either of the processes, employers will also need to be aware of the crucial need to communicate with their employees to ensure that they understand the changes that will be made.

Shadow Advisory Board

1. Background

Key points: A crucial part of the new public service pension scheme framework is the requirement for schemes' costs to be periodically assessed against a cost control mechanism. In the LGPS in England & Wales, there will be two cost control mechanisms:

a) the employer cost cap (ECC) process as operated by HM Treasury, and
b) the future service cost (FSC) process as operated by the LGPS Scheme Advisory Board.

Both processes could lead to changes to the scheme design or to the level of members' contributions if the mechanisms demonstrate that the cost of the LGPS has moved sufficiently from the target.

In June 2010, the Chancellor of the Exchequer announced the formation of an Independent Public Service Pensions Commission to make recommendations on how public service pensions could be made more sustainable and affordable in the long term in a manner fair to both the public service workforce and the taxpayer.

The Commission, chaired by Lord Hutton of Furness, published its final report in March 2011 and this outlined a variety of proposals to reform public service pension schemes in order to achieve better sustainability and affordability. One of the proposals, recommendation 12, stated:

> *"The Government, on behalf of the taxpayer, should set out a fixed cost ceiling: the proportion of pensionable pay that they will contribute, on average, to employees' pensions over the long term. If this is exceeded then there should be a consultation process to bring costs back within the ceiling, with an automatic default change if agreement cannot be reached."*

In making this recommendation, the Commission has demonstrated that a crucial aspect of the package of reforms will be continually reviewing the public service pension schemes to ensure that the aims of sustainability and affordability are being met.

A new legislative framework for public service pension schemes was introduced by the Public Service Pensions Act 2013. In keeping with recommendation 12, this requires that public service pension schemes, including the Local Government Pension Scheme (LGPS), are regularly assessed against a cost control mechanism.

Crucially, if an assessment under the cost control mechanism shows that the costs of the Scheme have moved sufficiently from the target cost, changes must be made to bring the Scheme cost back to the target.

This is known as the cost control process and, in the LGPS in England & Wales, there will be two mechanisms for assessing the cost of the Scheme:

- an Employer Cost Cap mechanism (ECC), operated by HM Treasury on advice from GAD which is the mechanism formally required by the Public Service Pensions Act 2013, and
- a Future Service Cost mechanism (FSC), operated by the LGPS Scheme Advisory Board, on advice from GAD and to the satisfaction of the Department for Communities and Local Government (DCLG).

Both processes will be undertaken in the LGPS every three years in line with the local triennial valuations that are undertaken by each pension fund to determine funding levels and the employer contributions payable in the coming period. The cost control mechanisms will first be used to assess the cost of the Scheme at the same time as the 2016 valuations, using data as at 31st March 2016.

Any changes to the Scheme's benefits structure or its employee contribution rates which arise from the 2016 cost control process will be effective from 1st April 2019.

Please note - All references within the remainder of this document to the Local Government Pension Scheme or the LGPS should be taken to mean the Local Government Pension Scheme in England & Wales.

2. The two mechanisms

Key points: There are two mechanisms because the ECC process has been partly established in order to demonstrate consistency between the public service pension schemes. Because of this, the LGPS Scheme Advisory Board FSC process has been set up to reflect the specifics of the LGPS experience in assessing the costs of the pension scheme reforms.

There will be a number of differences between the two processes, which will mean that the figures calculated through the ECC process won't always match the figures calculated through the FSC process.

In the event that the ECC is triggered but the FSC isn't, the ECC mechanism as operated by HM Treasury will take precedence.

Shadow Advisory Board

There are two mechanisms for assessing the costs of the LGPS. The ECC process as operated by HMT will in some respects be standardised across all public service pension schemes to allow for some consistency of comparison between the schemes. The FSC process as operated by the Scheme Advisory Board has therefore been established to reflect the specifics of the LGPS.

Whilst both are actuarial estimations of how much it will cost to provide the benefits of the Scheme, there are certain differences between the calculations which will mean that each gives a different answer to the question, "How much does the career average benefits structure cost?".

For instance, the LGPS is alone amongst the public service pension schemes in offering a 50/50 section to its members. This section offers members the opportunity to broadly pay half the contributions and receive half the benefits. If there is a high take up of 50/50 section membership in the LGPS, that could cause an overall reduction in the total cost of the Scheme. However, the ECC process operated by HM Treasury will not take 50/50 membership into consideration in its calculations - instead it will assume that all members are in the full section of the Scheme. This could mean that different figures will emerge from the two processes because of the differing treatments of 50/50 members.

In addition, the processes may make different assumptions in respect of what will happen within the Scheme in the future. For example, when members come to retire they can choose to commute some of their pension and instead take this as a lump sum. The government currently plan that an assumption will be made across all public service pension schemes that on average 15% of the maximum a member can convert from annual pension is commuted to lump sum. In the event that the LGPS has different experience, the Scheme Advisory Board may choose to use a different assumption in its FSC calculations.

Crucially, in the event that the HM Treasury ECC process suggests that corrective action needs to be taken to bring the Scheme back to its target cost, but the Scheme Advisory Board FSC process suggests that no action needs to be taken, the HM Treasury process takes precedence and changes would need to be made to the Scheme.

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3. The target costs

Key points: The target cost for the Scheme Advisory Board FSC process is 19.5% as a total of employer and member contributions at a 2:1 ratio (13% relating to employers' contributions and 6.5% relating to members'). The proposed target cost for the HM Treasury ECC process is 14.6% of employer contributions alone.

There are some differences between the mechanisms in how the requirement to make changes to the Scheme is triggered, but under either process, movement of 2% or more from the respective targets in either direction will require changes to be made to bring the Scheme cost back to either target.

The cost cap mechanisms are both only concerned with calculating the cost of providing benefits that have been accrued since the career average reforms took effect in April 2014. The total employer contributions targeted of 13% for the FSC and 14.6% for the ECC are therefore notional figures, and most employers will find they pay contributions that are different to these notional rates (for a number of reasons, as outlined further in the next section).

The target cost for the FSC process is 19.5% as a total of employer and member contributions at a 2:1 ratio (13% relating to employers' contributions and 6.5% relating to members'). The proposed target cost for the ECC process is 14.6% of employer contributions alone.

It is important to note that both processes are only designed to look at certain elements of the cost of the Scheme. Significantly, the mechanisms are being established to ensure that the new career average framework is sustainable and affordable, and therefore costs relating to LGPS Scheme membership accrued up to and including 31st March 2014 under the final salary structure will broadly not be considered in the calculations. That means that for employers, any contributions relating to prior to 31st March 2014 (ie. pre- April 2014 deficit contributions) will not be considered in the respective targets of 19.5% and 14.6% respectively. Further detail of the differences between the cost control mechanism and individual employer contribution rates as calculated during local funding valuations are outlined in the next section.

There are some differences between the mechanisms in how the requirement to make changes to the Scheme is triggered.

For the Scheme Advisory Board FSC process:

- A movement of between 0% and 1% from the target in either direction *may* result in agreed recommendations for action to move back to the target.
- A movement of between 1% and 2% from the target in either direction *should* result in agreed recommendations for action to move back to the target.
- A movement of 2% or more from the target in either direction *must* result in agreed recommendations for action to move back to the target.

By contrast, for the HM Treasury ECC mechanism, no corrective action will be required to move the Scheme back to the target unless there is a movement of 2% or more from the target in either direction.

4. The cost control mechanisms and local funding valuations

Key points: Whilst local funding valuations and the cost control processes will be undertaken in parallel every three years from 2016, there are significant differences in the purposes of these and the processes through which these are undertaken.

Local funding valuations include consideration of all benefits that will become payable by the Scheme in each fund, whereas the cost control processes will only be looking at the costs arising from the post-April 2014 career average benefits structure.

In addition, the calculations of local funding valuations and the assumptions as to future experience will be specific to each fund and to each employer, whereas the cost control processes will be looking at the membership across the LGPS, and will similarly be making assumptions at a Scheme-wide level.

For these reasons, the contribution rates of individual employers are not comparable with the results that will emerge from either of the cost control processes.

The cost control mechanisms and local funding valuations will both be undertaken every three years from 2016, and will be calculated using the data provided to each fund actuary to undertake local funding valuations. However, they are very different in process and the results of the cost control mechanisms should not be compared with individual fund and employer results as calculated through local funding valuations.

As mentioned above, a crucial difference is that the cost control processes have been implemented to answer the question, "What is the cost of the career average benefit structure implemented from April 2014?" By contrast, local funding valuations are undertaken to determine the contributions that need to be paid in by the participating employers to pay all the benefits payable to members. Local funding valuations and individual employer contributions therefore include consideration of benefits accrued by members prior to April 2014 under the final salary benefit structure.

In addition, whereas local funding valuations are undertaken by a locally appointed fund actuary, using assumptions about life expectancy, salary increases, etc, that are tailored to the experience of each pension fund, the cost control process calculations undertaken by GAD are based on national experience and so may differ from the assumptions used within each pension fund.

In determining individual employer contribution rates, fund actuaries also consider each organisation's membership profile. The cost control processes, however, look at the Scheme nationally ('the model fund') and this means that if, for instance, an organisation has a higher average age of LGPS members than the Scheme does across the board, that may mean there are differences between that employer's contribution rate and the average contribution rate calculated under either of the cost control processes.

For the above reasons, the contribution rates of individual employers are highly unlikely to correlate with the results that will emerge from either of the cost control processes.

Appendix 4

Pensions:Written statement - HCWS1286

WS **Treasury** Made on: 30 January 2019

Made by: **Elizabeth Truss** (The Chief Secretary to the Treasury) Commons **HCWS1286**

Pensions

The Government is announcing a pause to one element of the valuations of public service pensions, following a court ruling on part of the 2015 pension reforms.

The Coalition Government introduced reforms to public sector pensions, meaning most public sector workers were moved to new pension schemes in 2015.

In December 2018, the Court of Appeal ruled that the 'transitional protection' offered to some members as part of the reforms amounts to unlawful discrimination. The Government is seeking permission to appeal this decision. If this is unsuccessful, the Court will require steps to be taken to compensate employees who were transferred to the new schemes.

A mechanism for assessing the value of pensions (the "cost control mechanism") was also introduced as part of the 2015 reforms. In September of last year, Government announced that provisional results indicated that the cost control mechanism would be engaged, triggering automatic changes to member benefits.

However, given the potentially significant but uncertain impact of the Court of Appeal judgment, it is not now possible to assess the value of the current public service pension arrangements with any certainty. The provisional estimate is that the potential impact of the judgment could cost the equivalent of around £4 billion per annum. It is therefore prudent to pause this part of the valuations until there is certainty about the value of pensions to employees from April 2015 onwards.

The value of public service pensions will not be reduced as a result of this suspension. If the Government is successful in court, we will implement the changes to employee benefits as planned. If the Government is defeated, employees will be compensated in a way that satisfies the judgment.

In order to ensure employers are meeting the increased costs of providing pensions, the part of the valuations of the unfunded pension schemes which sets employer contributions (which existed before the 2015 reforms) will continue. Employers in unfunded schemes have been planning for these changes in employer contributions to be implemented in April 2019, and the Treasury is in the process of allocating funding to departments to help with these costs.

Whatever the court outcome, we know the costs of providing public sector pensions are increasing. The 2015 reforms were to ensure public service pensions are affordable and sustainable in the long term, maintaining intergenerational fairness and ensuring the burden on the working population remains proportionate.

This statement has also been made in the House of Lords: **HLWS1253**

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Hackney

REPORT OF THE GROUP DIRECTOR, FINANCE & CORPORATE RESOURCES		
Pension Fund – Quarterly Update **Pensions Committee** **26th March 2019**	**Classification** **PUBLIC** **Ward(s) affected** **ALL**	**Enclosures** **Four**

1. INTRODUCTION

1.1 This report is an update on key quarterly performance measures, including an update on the funding position, fund governance, investment performance, responsible investment, 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 –2016 Actuarial Valuation and Funding Strategy Statement
- Pensions Committee 29th March 2017 –Investment Strategy Statement
- Pensions Committee 26th March 2019 –Pension Administration Strategy (PAS)

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

4.1 The Pensions Committee has delegated responsibility for management of the Pension Fund. Quarterly monitoring of key aspects of the management of the Pension Fund is good practice and assists the Committee in making informed decisions. .

4.2 Monitoring the performance of the Fund's 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. 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 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's Terms of References sets out its responsibility for management of the Pension Fund. The Committee has delegated responsibility:

- To make arrangements for the triennial actuarial valuation, monitor liabilities and to undertake any asset/liability and other relevant studies as required.
- To monitor the performance and effectiveness of the investment managers and their compliance with the Statement of Investment Principles (Investment Strategy Statement).
- To set an annual budget for the operation of the Pension Fund and to monitor income and expenditure against budget.
- To act as Scheme Manager for the Pension Fund

5.2 Given these responsibilities, it is appropriate for the Committee to consider a regular quarterly update covering funding and investment matters, budget monitoring and scheme administration and governance.

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 December 2018, the funding level was 74.5% compared to 77% as at the end of March 2016. This represents a considerable decrease relative to the previous quarter (81.3%), following an extremely challenging quarter for investment markets.

6.2 The funding level of 74.5% at 31st December 2018 is based on the position of the Fund having assets of £1,396m and liabilities of £1,874m, i.e. for every £1 of liabilities the Fund has the equivalent of 74.5p of assets. The monetary deficit remains high, increasing from £350m in March 2016 to £479m in December 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 Asset Pooling remains a high priority issue for LGPS funds and brings significant changes to investment governance. MHCLG has recently prepared new statutory guidance on LGPS asset pooling and has now invited views on the draft guidance via an informal consultation.

7.2 Interested parties, (including the Scheme Advisory Board, LGPS funds, the pool Joint Committees, the Cross Pool Collaboration Group, the pool operating companies where owned by participating funds, CIPFA and ALATS) have been invited to comment. A response to the consultation is being prepared by officers of the Fund and will be circulated to Committee Members prior to submission.

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.

9. RESPONSIBLE INVESTMENT UPDATE

9.1 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.

9.2 The LAPFF Quarterly Engagement report is attached at Appendix 3 to this report, setting out LAPFF's engagement activity over the Quarter in relation to environmental, social and governance issues. Following the restructuring of its equity portfolio, the Fund no longer retains any segregated mandates and therefore has no direct holdings in any of the companies referenced

9.3 Given the above, it is 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. This process commenced late in 2018; the Fund is beginning a programme of specific engagement with LCIV to help drive the introduction of robust voting and engagement processes. The Fund is also hoping to work with other London Authorities on this project to help establish broad support and drive consensus-building.

10. BUDGET MONITORING

10.1 Officers are currently developing a new budget template to link the Fund's operational budget to its business plan – the 2019/20 budget will be brought the June Pensions Committee for approval along with the Business Plan

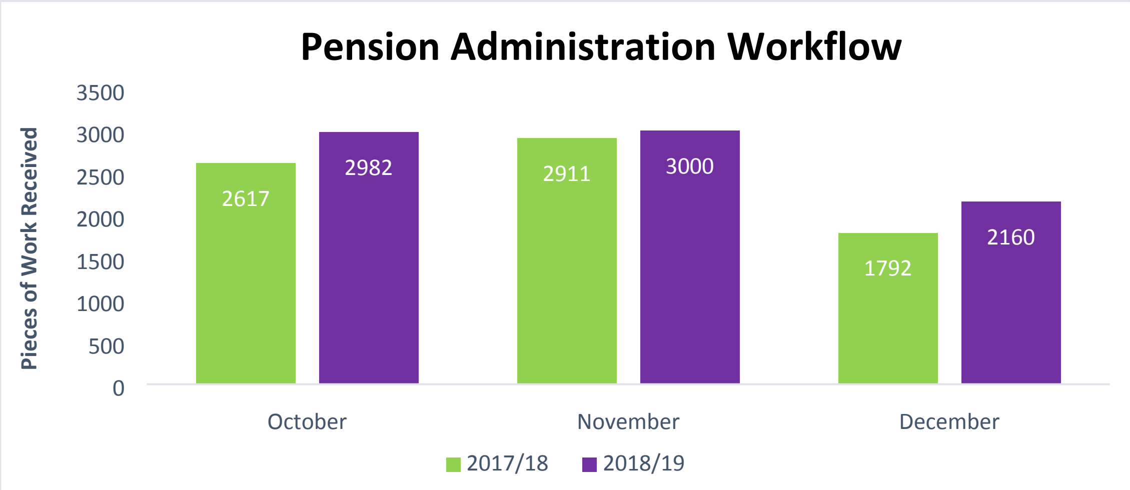
.

11. PENSION ADMINISTRATION

11.1 **Pension Administration Management Performance**

During Q3 2018/19, the administrators received a total of 8,142 new cases compared to 7,320 during Q3 in 2017/18.

A comparison of the monthly workflow between Q3 2017/18 and the reporting quarter is set out below:-



The average number of pieces of work received per month during Q3 2018/19 was 2,714, an increase of 274 pieces for the same period in 2017/18.

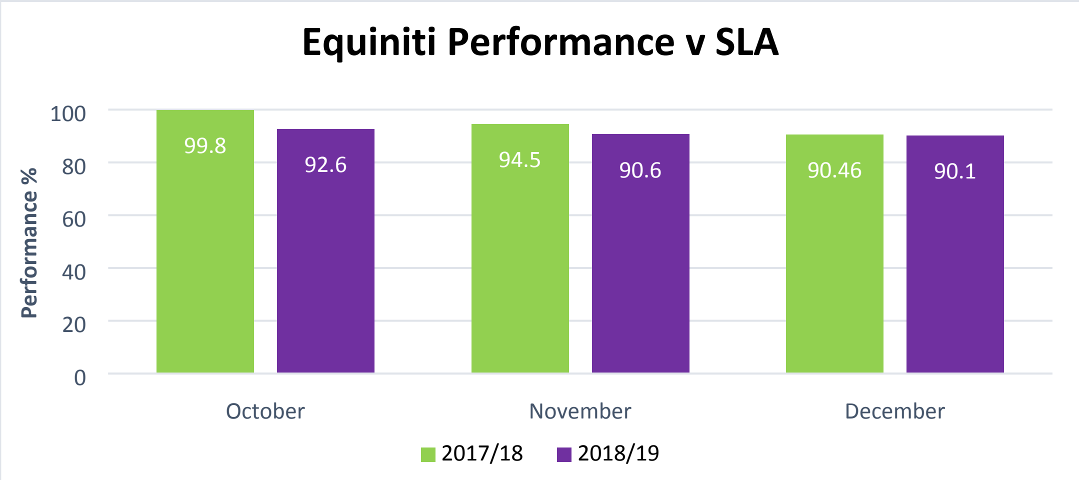
Much of this workload along with all new starters and leavers, has to be processed via an initial paper form request and then entered manually onto the pension administration system. Despite significant progress being made on the payroll interface during Q2, there has been numerous problems in Q3 with regard to iTrent system providing any reports, not just for pensions. There have been issues, that are still yet to be explained by Midland, as to why the reports would not run, one theory is with the 'hosting site' at Hackney and it's connect with Midland, but it is yet to be confirmed. Test reports have not been run for approximately 3 months and this has severally hampered the efforts of the Equiniti and the Hackney pension team, in testing the interface and resolving data queries.

Until the issues had been resolved, testing at Equiniti was on hold, so any progress that could have been made in the quarter iwasdelayed, which will of course having a knock-on effect with the other work that needed to be undertaken.

Since the end of Q3, the Council have been able to run a report from iTrent that has been sent to Equiniti for testing. Whilst the report is still under review it is hoped feedback can be provided verbally at the Committee meeting

The performance of the external pension administrators is monitored by the Pensions Administration team at Hackney on a monthly basis. Equiniti are still working under a 'relaxed SLAs' regime due to 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 has dipped slightly with an average of 91.1% for Q3 2018/19, compared to 98.9% for the previous quarter.

The administrator's monthly performance against the SLA during Q3 2017/18 and Q3 of 2018/19 is illustrated out below:



Continued delays to the development of a monthly interface, 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 contribution reports are still not being provided by payroll to Equiniti. This is contrary to the Regulations and tPR compliance.

The continued lack of useable data from Hackney, being the main employer in the Fund, has again impacted on the production of the statutory annual benefits statements (ABS) due to members at the end of August 2018. As reported in the last quarter, a pragmatic approach was taken very early on in order to meet the end of August deadline, and focus was directed to those employers who were able to provide a year-end report that could be validated, and the ABSs were produced and sent for those members.

The in-house pension team continue to work through LB Hackney data, line by line, member by member, to update and correct the pension data. Equiniti are currently validating some of the data and are hopeful they can run further batches of ABSs by the end of March 2019.

We have, again, had to report the Council's failure to the Pensions Regulator – and an update on the situation was given to tPR in November 2018. Full details are provided in the Breaches section of this report.

11.2 New Starters and Opt-Outs

	Total Active Membership at end of Quarter	Total Opt Outs for Quarter
Q3 2017/18	7,558	97
Q3 2018/19	6,911	172

The in-house pension administration team have been undertaking a data cleanse since August 2018 and have identified a number of un-notified leavers and opt outs that have since been processed following receipt of the correct paperwork from the employers. There is also been a reclassification of 'work in progress', whereby cases being undertaken for active members are now moved to a ‘restricted’ status that removes them from the active membership numbers. This has reduced our overall active membership to a more realistic level.

The in-house team have facilitated at weekly induction sessions for 133 new employees during Q3 2018/19. 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.

The number of employees who decided to opt-out in Q3 2018/19 remain in-line with previous months/quarters, and still average around 100 per month.

11.3 **Ill Health Pension Benefits.**

The release of ill health benefits fall into 2 main categories, being those for deferred and active members. The in-house pension administration team process all requests for the release of deferred members’ 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 members’ benefits on the grounds of ill health.

Deferred members' 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 member’s 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.

A breakdown of cases for Q3 2018/19 against the same period for 2017/18 follows:

DEFERRED MEMBER'S ILL HEALTH RETIREMENT CASES					
	CASES RECEIVED	SUCCESSFUL	UNSUCCESSFUL	ONGOING	WITHDRAWN
Q3 2017/18	4	2	1	0	1
Q3 2018/19	4	0	0	3	1

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
Q3 2017/18	0	0	0	0	0
Q3 2018/19	1	1	0	0	0

11.4 **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 relating to ill health, are reviewed and determinations made by a senior technical specialist at the Fund's pension administrators, Equiniti, other appeals are determined by the Head of Pensions Administration.

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

There were 2 cases concluded at Stage 1 in the 3rd quarter 2018/19:

1) Dependant member appeal against non-award of co-hab partner pension.
Decision - Appeal not upheld as deceased member's pension was in payment before the regulation change, so no co-hab partner pension can be awarded.

2) Member appeal against non-release of pension on the grounds of ill health retirement.
Decision - Appeal upheld and referred back to the employer to reconsider.

11.5 **Other work undertaken in Q3 2018/19**

<u>Third Party Administration Implementation update</u>

Progress continues to be made in various areas, but there are still a number of significant points of delivery on the new service specification that remain outstanding. There has been good progress made in regard to the contract fee structure, and performance rectification and resolution planning has been added to the new contract. The full Contract & Order were provided to Equiniti in September for signing.

<u>New & Ceasing Employers</u>

During Q3, the Fund has admitted 1 new transferee body, 1 existing contract renewed and 1 renewal of an existing contract still under negotiation for renewal. There have been no employer contracts ceased during this period: breakdown is as follows:

Employer	Date Joined	Date Ceased	Deficit upon Ceasing Y/N
PJ Naylor – Grasmere School	01/10/2018		
SND – Our Lady & St Josephs (renewed)	01/11/2018		
Peabody Trust (under negotiation)		31/12/2018	

Redundancy Exercises for Departmental Budget Purposes

In Q3 of 2018/19, the in-house pensions' administration team have received a total of 49 redundancy estimate requests, some of these are for members over the age of 55 who will have pension automatically released. Of the 49 requests, only 5 employees received final paperwork and left the organisation.

12. REPORTING BREACHES

12.1 The breaches register for Q3 2018/19 is attached at Appendix 4 to this report. There were 12 breaches during the period, all relating to contributions. 5 are rated amber and 7 green; none are considered reportable.

12.2 During Q2, the Fund experienced a breach relating to Annual Benefits Statements which was reported to TPR. The Fund breached the statutory deadline for statements for approximately 6,300 active members, the vast majority of whom were employed by Hackney Council or its maintained and voluntary-aided schools. The failure to send these statements primarily resulted from the failure of Hackney Council to provide data by the deadlines requested.

12.3 The Fund provided a further update to the Regulator during March 2019, discussing progress towards rectifying the breach and preventing recurrence in the future. Approximately 3,600 additional statements were sent out by Equiniti for distribution in early November. Equiniti are continuing to work on the production of statements for the remaining 1,600 (approx.) active members.

12.4 Meaningful progress has now been made on development of a new interface for the Council; however, this is likely to generate a significant backlog of data queries for Equiniti once up and running.

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 Quarterly Engagement Report
Appendix 4 – Breaches Register

Report Originating Officers: Rachel Cowburn ☎020-8356 2630
Financial considerations: Michael Honeysett ☎020-8356 3332
Comments of the Director of Legal and Governance: Patrick Rodger, Senior Lawyer, Legal Services ☎020-8356 6187

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London Borough of Hackney Pension Fund

Funding and risk report as at 31 December 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 December 2018	Ongoing funding basis
Assets	£1,396m
Liabilities	£1,874m
Surplus/(deficit)	(£479m)
Funding level	74.5%

Summary

This funding update is provided to illustrate the estimated development of the funding position from 31 March 2016 to 31 December 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 decreased by c2.5% to 74.5% 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

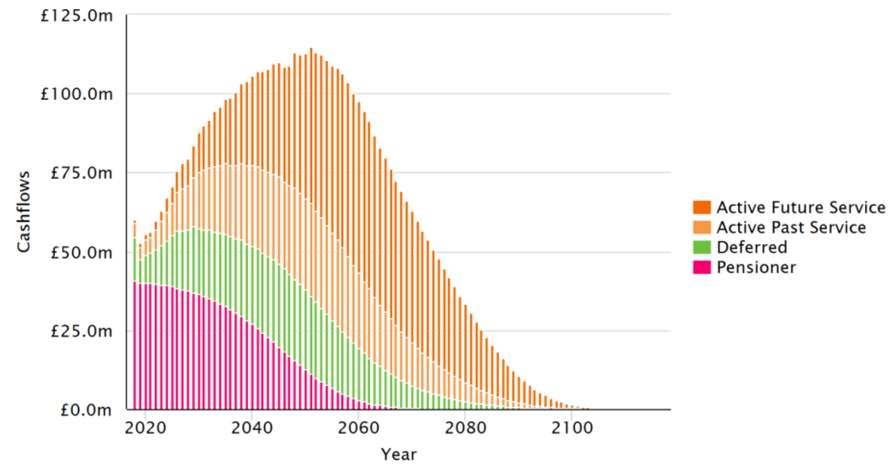
CURRENT POSITION

31 December 2018	Yield Curve Basis
Assets	£1,396m
Liabilities	£1,967m
Surplus/(deficit)	(£571m)
Funding level	71.0%

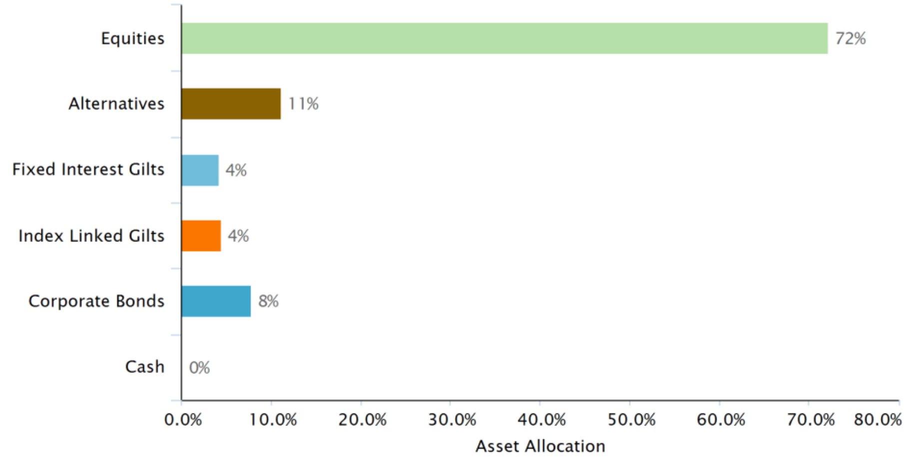
Surplus/(deficit)	£m
Surplus/(deficit) as at 31/03/2016	(405)
Contributions (less benefits accruing)	36
Interest on surplus/(deficit)	(25)
Excess return on assets	78
Impact of change in yields & inflation	(256)
Surplus/(deficit) as at 31/12/2018	(571)

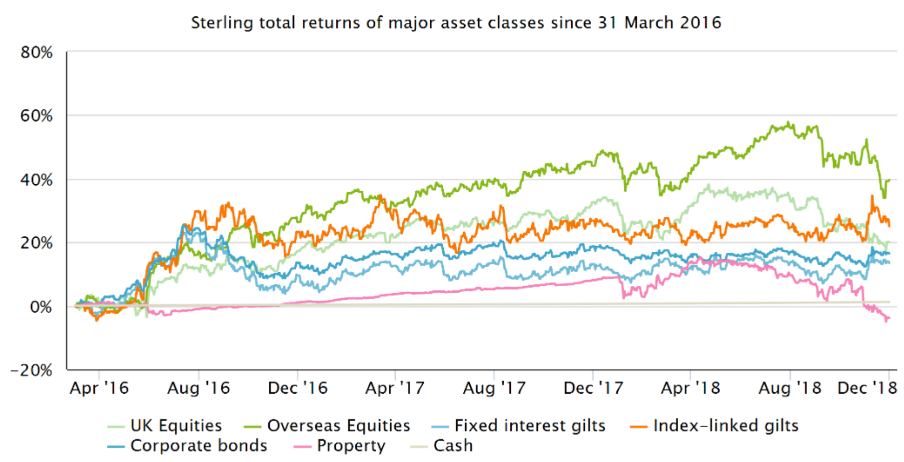
	31 March 2016	30 September 2018	31 December 2018
Market Yields (p.a)			
Fixed Interest Gilts	2.17%	1.86%	1.76%
Index-linked Gilts	-0.96%	-1.47%	-1.54%
Implied Inflation	3.16%	3.38%	3.35%
AA Corporate Bonds	3.36%	2.81%	2.76%
Price Indices			
FTSE All Share	3,395	4,128	3,675
FTSE 100	6,175	7,510	6,728

PROGRESS



ASSETS AND RISKS





Sensitivity Matrix as at 26 February 2019 for basis Ongoing funding basis (£m)

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

Shift in bond yields (% p.a.)	5006 -30%	5721 -20%	6436 -10%	7151 0%	7866 10%	8581 20%	9296 30%
0.6	(610)	(484)	(359)	(233)	(108)	18	143
0.4	(663)	(538)	(412)	(287)	(161)	(36)	90
0.2	(720)	(595)	(469)	(344)	(218)	(93)	33
0.0	(780)	(655)	(529)	(404)	(278)	(153)	(27)
-0.2	(844)	(719)	(593)	(468)	(342)	(217)	(91)
-0.4	(912)	(787)	(661)	(536)	(410)	(285)	(159)
-0.6	(985)	(859)	(734)	(608)	(483)	(357)	(232)

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

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Appendix 2

1 Asset allocation – Q4 2018

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

Manager	Mandate	Asset Allocation £	Asset Allocation %	Target Allocation %	Relative %
LCIV	Global Equities	183,162,084	13.1	13.0	0.1
BlackRock	Low Carbon	142,167,830	10.2	10.0	0.2
BlackRock	UK Equities	135,095,411	9.7	10.0	-0.3
BlackRock	Global Equities	314,863,451	22.6	23.0	-0.4
RBC	Global Emerging Market Equities	74,159,084	5.3	4.5	0.8
Total Equities		**849,447,860**	**60.9**	**60.5**	**0.4**
BMO	Fixed Income	232,202,000	16.6	17.0	-0.4
Columbia Threadneedle	Property	128,137,402	9.2	10.0	1.1
Columbia Threadneedle	Low Carbon Property	26,746,883	1.9		
Invesco	Multi Asset	64,697,167	4.6	5.0	-0.4
GMO	Multi Asset	94,352,076	6.8	7.5	-0.7
Total Fund		**1,395,583,388**	**100.0**	**100.0**	**0.0**

Note: Numbers may not sum due to rounding

2 Performance summary – Q4 2018

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

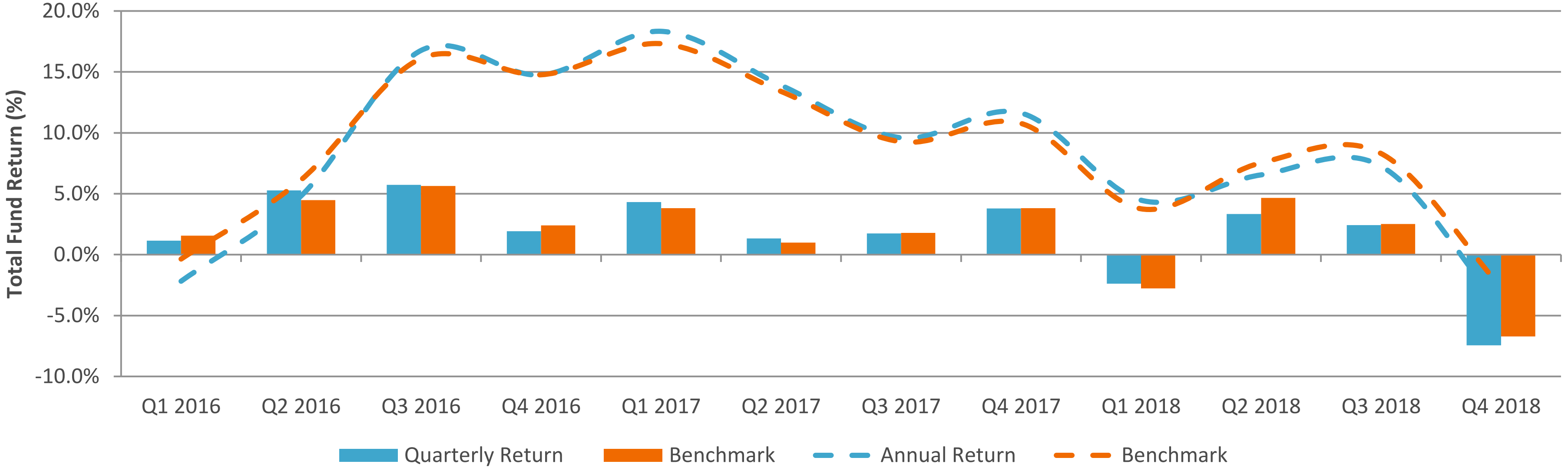
The table also shows the total Scheme performance against benchmark as calculated by Hymans Robertson. The performance and benchmark numbers have been provided by the Scheme's investment managers.

		LCIV LC Eq	BlackRock LC Eq	BlackRock UK Eq	BlackRock Global Eq	RBC EM Eq	BMO Fixed Income	Columbia Threadneedle Property	Columbia Threadneedle LCW	Invesco Multi Asset	GMO Multi Asset	Total Scheme
Q4 2018 (%)	Fund	-12.0	-11.8	-10.2	-13.3	-2.9	0.9	0.9	1.0	-2.7	-4.3	-7.4
	Benchmark	-11.4	-12.1	-10.3	-13.4	-5.3	1.3	0.9	0.9	0.2	-0.1	-6.7
	Relative	-0.7	0.3	0.0	0.1	2.5	-0.3	0.0	0.1	-2.9	-4.3	-0.8
12 Month (%)	Fund					-8.2	-0.6	6.1	8.8	-3.6	-7.3	-4.4
	Benchmark	n/a	n/a	n/a	n/a	-9.3	-0.4	6.6	6.6	0.7	1.9	-2.7
	Relative					1.2	-0.2	-0.4	2.1	-4.3	-9.0	-1.7
3 Year (% p.a.)	Fund					13.6	6.0	6.2		1.0	1.5	7.0
	Benchmark	n/a	n/a	n/a	n/a	14.7	5.5	6.5	n/a	0.5	1.8	7.4
	Relative					-1.0	0.5	-0.3		0.4	-0.2	-0.3
Since Inception (% p.a.)	Fund	-9.0	-7.8	-9.6	-8.4	15.3	6.3	6.7	7.2	0.6	1.9	
	Benchmark	-7.2	-8.3	-9.7	-8.6	16.7	6.0	5.8	8.3	0.5	1.3	
	Relative	-2.0	0.5	0.1	0.3	-1.2	0.3	0.9	-1.0	0.1	0.6	
Since Inception Dates		June 2018	June 2018	June 2018	June 2018	December 2015	September 2003	March 2004	May 2016	December 2015	September 2012	

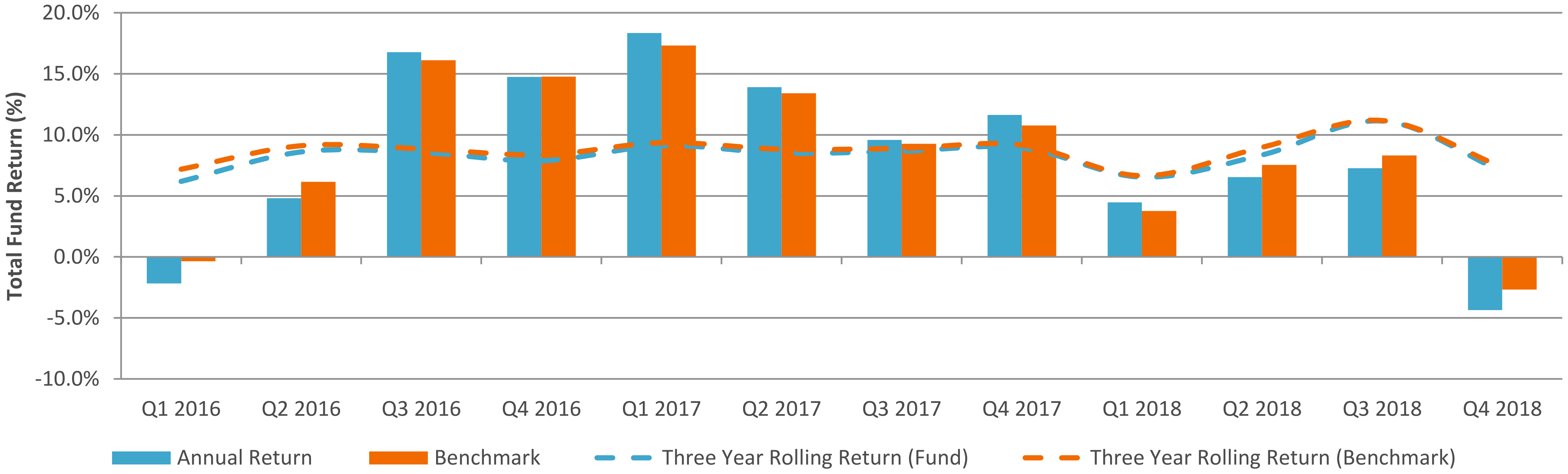
Note: Long term returns are calculated by rolling up historic quarterly returns and includes contribution of all current and historical mandates over the period. LCIV and BlackRock Since Inception returns are not annualised.

Page 153

2.1 Performance summary – Quarterly returns and rolling one year performance



2.2 Performance summary – Annual returns and rolling three year performance



3 Manager update – Q4 2018

The following section sets out the current Hymans Robertson indicators for the managers/products employed by the London Borough of Hackney Pension Fund. We have recently updated our manager rating system and it is summarised in the table below. Further information is available in the Appendices. We have also included a brief comment on each manager with updated commentary where relevant and available. The manager 'indicator' approach forms part of our manager RADAR research process.

Rating	Comment
Preferred	One of our highest rated strategies in the asset class.
Positive	We have a positive opinion on the strategy and believe it has a high possibility of reaching its objectives. But we believe there are superior strategies available.
Suitable	We believe the strategy is suitable for pension scheme investors from a regulatory perspective, but we have no strong view on its forward-looking prospects.
Negative	We have a negative outlook for the strategy relative to peers.
Not rated	We currently do not have a formal rating for the strategy.

4 Performance Analysis

4.1 Estimated Performance Analysis Q4 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	Weight %	Target %	Fund Return %	Benchmark Return %	Asset Allocation	Stock Selection
LCIV	Global Equities	MSCI World Index Total Return	183,162	13.1%	13.0%	-12.0	-11.4	-0.04	-0.10
BlackRock	Low Carbon	MSCI World Low Carbon Index	142,168	10.2%	10.0%	-11.8	-12.1	-0.04	0.03
BlackRock	UK Equities (indexed)	FTSE All-Share	135,095	9.7%	10.0%	-10.2	-10.3	0.00	0.00
BlackRock	Global Equities	MSCI World Net Total Return 95% hedged	314,863	22.6%	23.0%	-13.3	-13.4	-0.08	0.03
RBC	Global Emerging Market Equities	MSCI Emerging Markets	74,159	5.3%	4.5%	-2.9	-5.3	0.01	0.12
Total Equities			**849,448**	**60.9%**	**60.5%**	**-7.3**	**-7.0**	**-0.15**	**0.09**
BMO	Bonds	Bonds Composite[1]	232,202	16.6%	17.0%	0.9	1.3	-0.15	-0.05
Threadneedle	Property	MSCI UK Quarterly All Balanced Property Index	128,137	9.2%	7.5%	0.9	0.9	0.07	0.00
Threadneedle	Low Carbon Property	MSCI UK Quarterly All Balanced Property Index	26,747	1.9%	2.5%	1.0	0.9	-0.06	0.00
Invesco	Targeted Return	£LIBOR 3M	64,697	4.6%	5.0%	-2.7	0.2	-0.04	-0.13
GMO	Absolute Return	OECD CPI G7 (GBP)	94,352	6.8%	7.5%	-4.3	-0.1	-0.07	-0.29
Total Scheme			**1,395,583**	**100.0%**	**100.0%**	**-7.4**	**-6.7**	**-0.40**	**-0.38**

[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.

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4.2 Estimated Performance Analysis – 12 months to 31 December 2018

The table below represents the manager performance over the 12 months to 31 December 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	Weight %	Target %	Fund Return %	Benchmark Return %	Asset Allocation	Stock Selection
LCIV	Global Equities	MSCI World Index Total Return	183,162	13.1%	13.0%	n/a	n/a	n/a	n/a
BlackRock	Low Carbon	MSCI World Low Carbon Index	142,168	10.2%	10.0%	n/a	n/a	n/a	n/a
BlackRock	UK Equities (indexed)	FTSE All-Share	135,095	9.7%	10.0%	n/a	n/a	n/a	n/a
BlackRock	Global Equities	MSCI World Net Total Return 95% hedged	314,863	22.6%	23.0%	n/a	n/a	n/a	n/a
RBC	Global Emerging Market Equities	MSCI Emerging Markets	74,159	5.3%	4.5%	-8.2	-9.3	-0.06	0.05
Total Equities			**849,448**	**60.9%**	**60.5%**	**-2.3**	**-0.7**	**-0.06**	**0.05**
BMO	Bonds	Bonds Composite[1]	232,202	16.6%	17.0%	-0.6	-0.4	-0.09	-0.03
Threadneedle	Property	MSCI UK Quarterly All Balanced Property Index	128,137	9.2%	7.5%	6.1	6.6	0.07	-0.03
Threadneedle	Low Carbon Property	MSCI UK Quarterly All Balanced Property Index	26,747	1.9%	2.5%	8.8	6.6	-0.07	0.04
Invesco	Targeted Return	£LIBOR 3M	64,697	4.6%	5.0%	-3.6	0.7	-0.05	-0.20
GMO	Absolute Return	OECD CPI G7 (GBP)	94,352	6.8%	7.5%	-7.3	1.9	-0.08	-0.60
Total Scheme			**1,395,583**	**100.0%**	**100.0%**	**-4.4**	**-2.7**	**-0.29**	**-0.77**

[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.
Attribution analysis excludes the stock selection and asset allocation impact of mandates which have been fully redeemed and those which have not been invested over the full period.

HYMANS ROBERTSON LLP

4.3 Estimated Performance Analysis – 3 years to 31 December 2018

The table below represents the manager performance over the 3 years to 31 December 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	Weight %	Target %	Fund Return %	Benchmark Return %	Asset Allocation	Stock Selection
LCIV	Global Equities	MSCI World Index Total Return	183,162	13.1%	13.0%	n/a	n/a	n/a	n/a
BlackRock	Low Carbon	MSCI World Low Carbon Index	142,168	10.2%	10.0%	n/a	n/a	n/a	n/a
BlackRock	UK Equities (indexed)	FTSE All-Share	135,095	9.7%	10.0%	n/a	n/a	n/a	n/a
BlackRock	Global Equities	MSCI World Net Total Return 95% hedged	314,863	22.6%	23.0%	n/a	n/a	n/a	n/a
RBC	Global Emerging Market Equities	MSCI Emerging Markets	74,159	5.3%	4.5%	n/a	n/a	n/a	n/a
Total Equities			**849,448**	**60.9%**	**60.5%**	**5.9**	**6.7**	**n/a**	**n/a**
BMO	Bonds	Bonds Composite[1]	232,202	16.6%	17.0%	6.0	5.5	-0.15	0.26
Threadneedle	Property	MSCI UK Quarterly All Balanced Property Index	128,137	9.2%	7.5%	6.2	6.5	0.16	-0.05
Threadneedle	Low Carbon Property	MSCI UK Quarterly All Balanced Property Index	26,747	1.9%	2.5%	n/a	n/a	n/a	n/a
Invesco	Targeted Return	£LIBOR 3M	64,697	4.6%	5.0%	1.0	0.5	0.07	0.06
GMO	Absolute Return	OECD CPI G7 (GBP)	94,352	6.8%	7.5%	1.5	1.8	0.07	0.10
Total Scheme			**1,395,583**	**100.0%**	**100.0%**	**7.0**	**7.4**	**0.15**	**0.37**

[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.
Attribution analysis excludes the stock selection and asset allocation impact of mandates which have been fully redeemed and those which have not been invested over the full period.

Page 157

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

Local Authority Pension Fund Forum

Appendix 3

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 79 public sector pension funds and five pools in the UK with combined assets of over £230 billion.

QUARTERLY ENGAGEMENT REPORT

OCTOBER TO DECEMBER 2018

LAPFF raises the stakes and calls for a shareholder resolution at Ryanair

AGM attendance raises operational risk of joint ventures in relation to Samarco dam

Competition and Markets Authority final report devotes an appendix to LAPFF's 'expectations gap' on audit quality

Kingman Review recommends disbanding the FRC in line with LAPFF position

Affordability and climate risk strategy explored in meetings with construction firms and housebuilders

Regulatory and other challenges of plastic waste and pollution addressed with consumer goods and packaging companies

Executive Summary

Concerned about the continuing human capital management and governance issues at Ryanair, the Forum announced a proposal to file a shareholder resolution ahead of the company's 2019 AGM, with the aim of replacing the current Chair David Bonderman, who has been on the board for 22 years, and ensuring that a coherent succession plan is in place for Chief Executive Michael O'Leary. Despite numerous efforts to meet with a Board member, Ryanair has not yet agreed to such a meeting.

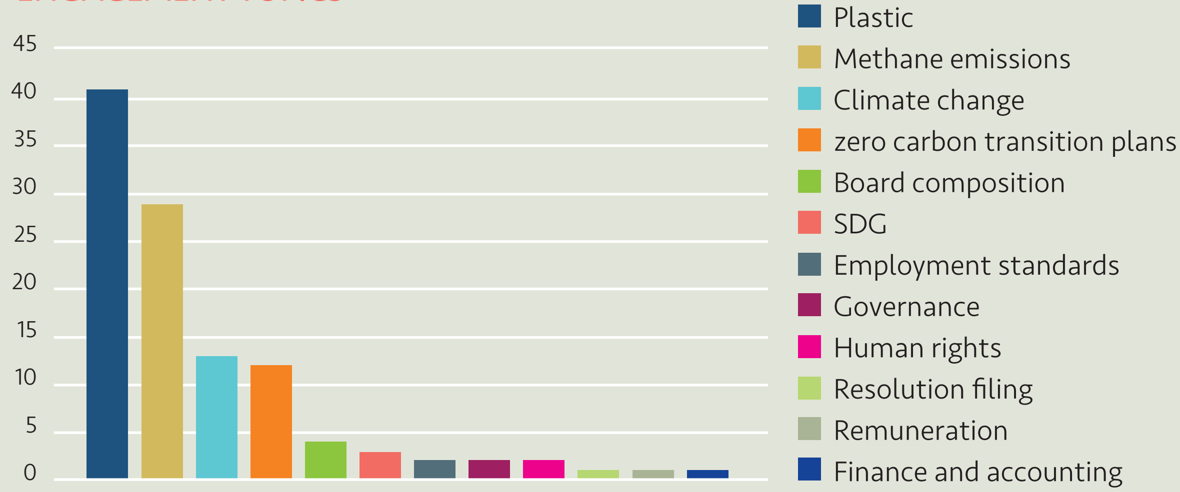
The Forum also progressed work on the topic of plastics, joining a coalition of investors engaging with companies on the overall threats posed by plastic waste and pollution. The Forum met with two companies on this, as well as discussing the use of single-use plastic specifically. Additionally, the Forum co-signed a letter to a range of companies on reducing plastic pellet loss.

The quarter saw many engagements with Board members of housebuilders and construction companies on the topic of sustainable cities and climate risk management. Part of a broader topic of Sustainable Development Goals, these meetings sought to broaden the Forum's understanding of how these companies approach issues around planning and affordability, and seek assurance that tackling climate change is integral to the business strategy.

During this quarter, LAPFF engaged with 95 companies on issues ranging from human capital management and Board composition to climate change reporting and sustainability.

Company Engagement

ENGAGEMENT TOPICS



SOCIAL RISK

Michael O'Leary

Ryanair

In continuing attempts to meet with members of the **Ryanair** Board, Acting Chair Cllr Paul Doughty attended the AGM and reiterated a request to meeting, but this was not secured. Following a failure to listen to shareholders' concerns after almost 30% of voted against Mr Bonderman's re-election at the September AGM, LAPFF announced plans to file a shareholder resolution at the 2019 AGM that would recommend the Company replace Mr Bonderman and set out succession plans for Chief Executive Michael O'Leary.

Social Risks and Poor Management at BHP and Sports Direct

During the quarter, Cllr Paul Doughty attended **BHP Billiton's** AGM, where he inquired about operational risks of joint ventures, specifically in relation to the Samarco dam. While the company noted that a different approach to joint ventures would not have prevented Samarco, BHP learned a number of lessons from the tragedy. The Forum also met with community members affected by the Samarco dam collapse to listen to their personal experiences and to assess what additional issues can be raised with the company in the future.

At **Sports Direct's** AGM in December, Cllr Doughty inquired about the current acquisition strategy which might not be appropriate to create sufficient value for shareholders. The Forum questioned the company's reasoning behind acquiring struggling high street retailers House of Fraser and Evans Cycles, in light of Michael Ashely's comments that the 'high street is dying'. Sports Direct assured the Forum that all efforts will be paid to save the high street and shareholder assets will be protected. When asked about including an independent body in the selection process of a workers representative, the company did not comment.

Following a meeting with the Vice President of investor relations representative earlier this year, LAPFF wrote to the Lead Independent Director of **Motorola Solutions**, requesting a meeting to discuss the Company's human rights policy and due diligence processes relating to operation in the Occupied Palestinian Territories.

LAPFF continued to engage with companies on gender diversity through its membership in the 30% Club Investor Group, which currently has a focus of UK companies in the energy sector. The group is also reaching out to search firms to ensure that they fully embrace the voluntary code of conduct on diversity.

'Expectations Gap is a Red Herring': LAPFF Responds to Competition and Markets Authority

The LAPFF response to the Competition and Markets Authority (CMA) consultation on the UK audit market, submitted on 29 October 2018, highlighted the deficiencies of the Financial Reporting Council and the standards and inspection regimes under that. LAPFF received a very quick response from the enquiry and a meeting was held with the acting chair of LAPFF on 13 November. The officials met were very engaged on the issues, and given similar information from the investor coalition that LAPFF has been a member of, the subject of the legal opinions of George Bompas QC for LAPFF was discussed in detail.

The matter of the auditors' claim of an 'expectation gap' between what they are supposed to do and what the public expects them to do, came up. The final CMA report devoted an appendix chapter to the subject. It states that 'LAPFF described the expectations gap as a red herring. LAPFF argued that the audit quality problem is a result of the industry's misinterpretation of the existing legal framework. In short, if the existing regime was interpreted and applied properly, the expectation gap would disappear because the current legal framework should be robust enough to produce the quality outcomes stakeholders expect.'

The CMA report also made far reaching recommendations to reform the UK audit market. Firstly, separating the consulting parts of accounting firms from audit, a form of ring fencing. Secondly, requiring that FTSE 350 companies must have joint auditors, the second auditor not being one of the Big 4.

On the same day the Kingman Review reported on the future of the Financial Reporting Council. It recommends, in line with the LAPFF position, that the FRC is disbanded and replaced with a statutory body constituted by Parliament. The Review recommends this as the Auditing, Reporting and Governance Authority.

Page 161

Governance at Housebuilders and Glencore
With the aim of gaining a better understanding of companies' approach to the Sustainable Development Goals, in particular the goal on sustainable cities and communities, LAPFF met with a number of housebuilders and construction companies. At a meeting with the Chair of **Persimmon**, Roger Devlin, LAPFF Vice Chair Cllr Doug McMurdo asked about issues around planning and the Help to Buy scheme. On climate risk management, the Company expressed interest in measuring Scope 3 emissions. The Forum was also interested to hear the company's plan to repair its damaged reputation over executive payouts, following opposition from 49% of shareholders on remuneration for Chief Executive, Jeff Fairburn.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At a meeting on the same topic with Kevin Beeston, the Chair of **Taylor Wimpey**, Cllr McMurdo inquired about the sustainability of the Help to Buy scheme and the company's relationship with central government. The company then discussed climate risk management and assured LAPFF that science-based targets will be set. Diversity across the business was also a topic of discussion. The overall approach to sustainable cities and other development goals was also raised with the chief executive of **Barratt Developments**, David Thomas. The meeting discussed standards for homes, noting the board's focus on climate risk, which includes adaptation measures taken in siting for flooding as well as the need for science-based targets.

Along with other investors, including Sarasin and Church Commissioners, LAPFF met with Tony Hayward, the Chair of **Glencore** to ensure that the company has appropriate measures in place to deal with bribery and corruption. Investors present were also proposing that the company undergoes an independent review of its internal controls, to which Glencore committed to.

LAPFF also expressed its concern over **Amazon's** lack of meaningful engagement with its shareholders, despite concerns related to management of of certain environmental, social and governance matters. In a collaborative letter to the company, signatories noted their interest in filing a resolution if no response is received.

At **Rio Tinto's** ESG Forum hosted by the Chair, the Board as well as senior management, company representatives discussed the importance of incorporating ESG in business strategy and communicating about potential issues with shareholders. During a Q&A, investors engaged on a range of topics including relationship with employees and unions, fatality rate and joint ventures, as well as climate-related financial disclosure and climate change competence at Board level.

ENVIRONMENTAL AND CARBON RISK

Tackling Climate Risk at Oil and Gas Companies
One of the big stories of the quarter, was **Royal Dutch Shell** publishing a joint statement with Climate Action 100+ lead investors, setting out its corporate strategy to implement its commitment made in 2018 which was to reduce the *Net Carbon Footprint* of its energy products by around half by 2050. Specific milestones include targets linked to remuneration, annual reporting on the progress, alignment with the TCFD recommendations and review of trade association memberships. Acting Chair Cllr Paul Doughty attended Shell's 'Board Day' in December. The Chair Chad Holliday was in attendance along with the Chairs of the Audit, Remuneration and CSR Committees and described various attributes of the board members that make them effective for Shell. Cllr Doughty asked Mr Holliday how environmental, social and governance standards can be respected through non-operated joint ventures in which Shell is involved. Cllr Doughty used the example of a recent communication by IndustriALL expressing concern about working conditions for contract workers at Shell operations.

An 'eight on eight' meeting of **BP** executives and 'Climate Action 100+' investors continued long-term regular engagement with the company. Discussions aimed to tease out further details on the company's strategy for the transition to a low carbon economy, including more information on target setting over the short, medium and long-term; ensuring capex on oil and gas development is aligned with the Paris agreement and provision of information on emissions associated with the production and use of the company's products.

The focus on the oil and gas companies does not diminish, and in December, under a tight time-frame, funds were offered the opportunity to co-file a shareholder resolution to **ExxonMobil** as part of Climate Action 100+ engagement. The resolution called for the company to disclose short, medium and long-term greenhouse gas targets aligned the Paris Climate Agreement.

Along with a group of 61 investors, the Forum asked 30 companies to declare their support for continued US Environmental Protection Agency (EPA) regulation of methane emissions and to oppose the elimination of direct regulation of methane emissions. Natural gas is almost entirely methane which is 87 times more potent in global heating than carbon dioxide over a twenty year period. If emissions from gas production, storage and delivery exceed 2% of gas produced, there is no climate benefit compared to coal. The participating investors believe that rolling back current methane regulation would be a threat to long-term viability of the oil and gas sector.

Utilities and clean energy

A meeting with **National Grid** co-ordinated by Climate Action 100+ provided encouraging news that the group will look at a 1.5 degree scenario. Cllr Robert Chapman asked about the most positive areas of 'value change' for shareholders. In the response, the decarbonisation of transport was cited, with further information provided on the timescale for the role out of charging points around the UK's motorway system. The different market forces at work in the UK and US businesses are very apparent. National Grid works closely with consumers in its US operations where Massachusetts, New York and Rode Island have each adopted targets mandating an 80% reduction in CO_2 emissions by 2050 across their entire economies. The Group is working in a number of areas to progress this including energy efficiency, micro-grids and geothermal.

During a meeting with **Southern Company**, co-ordinated by the 50 50 initiative, company representatives talked about the reasons for not having a separate Climate Committee, but instead delegating to the operations committee to address climate risks. The meeting also discussed climate-related disclosure and the use of climate-related metrics as part of executive remuneration.

LAPFF joined other Climate Action 100+ investors in writing to a number of utility companies, urging them to accelerate decarbonisation by setting out transition plans to net-zero carbon economy. Signatories also called on companies to support the development of ambitious climate policy and ensure that their trade associations are aligned with this objective.

Cross sectoral engagement

A first meeting was held with **ArcelorMittal** under the aeigis of the Climate Action 100+ Group. The meeting covered governance of climate risk at the company and plans for emission reductions through the use of low carbon technologies across operations. Scenario planning, target setting and Taskforce on Climate-related Financial Disclosure reporting were also discussed.

A collaborative conference call, was held with **General Electric Company** to follow up on an letter sent earlier in the year on the climatic impacts of the proposed Amu Power coal project in Kenya. On the call, company representatives committed only to listen to questions and provide written answers. LAPFF asked if the company had considered how prices quoted for coal versus renewables might change over a two to five year time frame, and their view on renewables. A follow-up letter to the company set out a range of issues, including on this point, by asking for the levelised cost of electricity the company used in its evaluation.

LAPFF has signed on to an Investor Statement supporting a just transition to a low-carbon economy. This statement recognises that the social impact of a low-carbon energy transition is often overlooked. However, to avoid stranded workers and stranded communities, as well as stranded physical assets, and to facilitate a smooth transition, social impacts need to be considered.

LAPFF also signed a statement from the Investor Working Group on Sustainable Palm Oil, which highlighted what investors' expect of companies regarding sustainable palm oil, and asks companies operating across the palm oil value chain to adopt and publicly disclose a 'no deforestation, no peat, no exploitation' policy. The statement serves to update an early position paper (signed by LAPFF).

An exchange of correspondence with the Financial Conduct Authority (FCA) aimed to better understand how shareholder resolutions are being dealt with at dual-listed companies and to prompt the FCA to promote better practice in the regulatory framework for shareholder accountability. The Forum was specifically concerned with a resolution on climate change at Rio Tinto and reiterated to the FCA that climate risk is a pressing policy issue that affects all companies.

Plastics: 2025 Target for Biodegradable, Compostable and Recyclable Materials at PepsiCo and Nestlé

As a member of the Plastic Solutions Investor Alliance, the Forum engages with consumer goods companies on the overall threats posed by plastic waste and pollution. In November, the Forum participated in a collaborative call with **Nestlé** to discuss the company's global packaging commitment and the related challenges of moving towards a more circular plastic economy. Plastic packaging and pollution was also discussed with **PepsiCo**. The company discussed plans to solely use plastic that is biodegradable, compostable and recyclable by 2025. Both companies expressed concerns over the challenges of having global operations with different regulations. The two companies are working together to achieve the 2025 target.

The Forum has also signed an investor letter urging companies to commit to zero plastic pellet loss across their whole business and to assess and report on all progress. Plastic pellets are used to create almost all plastic products and it is estimated that over 200 thousand tonnes of pellets or other micro-plastics enter the ocean each year[1]. The letter was sent to over 40 companies in associated supply chains which included plastic manufacturers, plastic packaging manufacturers, transport and logistic companies, retailers and consumer companies.

[1]Eunomia (2016) Plastics in the Marine Environment http://www.eunomia.co.uk/reports-tools/plastics-in-the-marine-environment/

MEDIA COVERAGE

Ryanair: Pressure for a New Chair

Ryanair hits headwinds in 2018, but is still well placed to grow – Irish Times, 26 December 2018

Ryanair, O'Leary sotto l'assedio dei fondi inglesi – First Online, 9 November 2018

Investoren fordern Ablsung des Ryanair-Verwal-tungsratschefs – Ariva.de, 5 November 2018

ESG Roundup: UK public sector schemes to oppose Ryanair chairman – IPE, 30 October 2018

Pension funds heal pressure on Ryanair to ditch chairman – The Times, 29 October 2018

Pension fund revives efforts to change Ryanair leadership – LGC, 29 October 2018

Council pension fund forum calls for Ryanair chair to step down – LocalGov, 29 October 2019

Ryanair investors square up for second fight over chairman Bonderman – Independent, 29 October 2018

Ryanair investors call for chairman to go, CEO succession plan - media reports – ProactiveInvestors, 29 October 2018

Crisis en Ryanair: nueva conspiracion interna para que el presidente dimita – preferente.com, 29 October 2018

Ryanair investors call for chairman to stand down in 2019 – The Guardian, 28 October 2018

Ryanair shareholder reignites calls to replace chairman – Financial Times, 28 October 2018

Ryanair shareholder gear up for fresh call to ditch chair – The Telegraph, 28 October 2018

Ryanair shareholder calls for chairman's ouster – Reuters, 28 October 2018

Ryanair shareholders call for chairman David Bonderman to be replaced - ITV, 28 October 2018

Un actionnaire de Ryanair demande l'eviction du president – Capital, 28 October 2018

Reliable Accounts: Challenging the Auditors

Kingman review proposes replacing FRC with new, stronger regulator – IPE, 18 December 2018

Big Four warns against breaking up UK audit firms – Financial Times, 13 November 2018

Chief executive of audit watchdog to step down amid independent probe – IPE, 2 November 2018

'Total failure of a political ideology': SNP MP blasts outsourcing industry at #SNP18 fringe – Common-Space, 9 October 2018

Utilities and the Drive to Zero Carbon

Power companies must accelerate decarbonisation and support ambitious climate policy – Financial Times, 20 December 2018

Asset Managers and ESG

£230bn pensions body tells AMs to 'up your game' on ESG – Citywire Selector, 20 December 2018

Public pension funds 'underwhelmed' by managers on ESG – IPE, 20 December 2018

Pension funds criticise asset managers over lax ESG approach – LGC, 19 December 2018

Mitigating the investment risks of rising income inequality – Impact Alpha, 8 November 2018

For the LGPS, ESG is a shared priority with a split approach – LGC, 22 October 2018

COMPANY PROGRESS REPORT

95 companies engaged over the quarter

Q4 2018 ENGAGEMENT DATA

Company	Activity	Topic	Outcome
ALIBABA GROUP HOLDING LIMITED	Letter	Commit to zero plastic pellet loss	Dialogue
AMCOR LTD	Letter	Commit to zero plastic pellet loss	Dialogue
AMOREPACIFIC CORP	Letter	Commit to zero plastic pellet loss	Dialogue
ANADARKO PETROLEUM CORPORATION	Letter	Support methane emissions regulation	Dialogue
ANTERO RESOURCES	Letter	Support methane emissions regulation	Dialogue
APACHE	Letter	Support methane emissions regulation	Dialogue
ARCELORMITTAL SA	Meeting	Climate Change	Change in Process
BARRATT DEVELOPMENTS PLC	Meeting	Other (SDG)/Climate Change	Satisfactory Response
BASF SE	Letter	Commit to zero plastic pellet loss	Dialogue
BEIERSDORF AG	Letter	Commit to zero plastic pellet loss	Dialogue
BEMIS COMPANY INC	Letter	Commit to zero plastic pellet loss	Dialogue
BHP GROUP PLC (GBR)	AGM	Governance (Joint ventures)/ Human Rights	Dialogue
BP PLC	Meeting/ Letter	Climate Change/ Support methane emissions regulation	Small Improvement
C.H. ROBINSON WORLDWIDE INC.	Letter	Commit to zero plastic pellet loss	Dialogue
CABOT OIL & GAS	Letter	Support methane emissions regulation	Dialogue
CENTRICA	Letter	Set out transition plans to net-zero carbon economy	Dialogue
CEZ	Letter	Set out transition plans to net-zero carbon economy	Dialogue
CHESAPEAKE ENERGY CORPORATION	Letter	Support methane emissions regulation	Dialogue
CHEVRON	Letter	Support methane emissions regulation	Dialogue
CIMAREX ENERGY	Letter	Support methane emissions regulation	Dialogue
CONOCOPHILLIPS	Letter	Support methane emissions regulation	Dialogue
CONTINENTAL RESOURCES	Letter	Support methane emissions regulation	Dialogue
COVESTRO AG	Letter	Commit to zero plastic pellet loss	Dialogue
DAIRY FARM INTL HOLDINGS LTD	Letter	Commit to zero plastic pellet loss	Dialogue
DEVON ENERGY	Letter	Support methane emissions regulation	Dialogue
DIAMONDBACK ENERGY, INC.	Letter	Support methane emissions regulation	Dialogue
DOW DUPONT COMPANY	Letter	Commit to zero plastic pellet loss	Dialogue
DSV A/S	Letter	Commit to zero plastic pellet loss	Dialogue
E.ON SE	Letter	Set out transition plans to net-zero carbon economy	Dialogue
EASTMAN CHEMICAL COMPANY	Letter	Commit to zero plastic pellet loss	Dialogue
EDF	Letter	Set out transition plans to net-zero carbon economy	Dialogue
ENBRIDGE	Letter	Support methane emissions regulation	Dialogue
ENCANA	Letter	Support methane emissions regulation	Dialogue
ENEL SpA	Letter	Set out transition plans to net-zero carbon economy	Dialogue

Q4 2018 ENGAGEMENT DATA

Company	Activity	Topic	Outcome
ENGIE	Letter	Set out transition plans to net-zero carbon economy	Dialogue
EOG RESOURCES	Letter	Support methane emissions regulation	Dialogue
EQT	Letter	Support methane emissions regulation	Dialogue
EQUINOR/ SATOIL	Letter	Support methane emissions regulation	Dialogue
EXPEDITORS INTERNATIONAL OF WASHINGTON INC.	Letter	Commit to zero plastic pellet loss	Dialogue
EXXON MOBIL CORPORATION	Letter	Commit to zero plastic pellet loss/ Climate Change	Dialogue
FORTUM OYJ	Letter	Set out transition plans to net-zero carbon economy	Dialogue
GAS NATURAL SDG SA	Letter	Set out transition plans to net-zero carbon economy	Dialogue
GENERAL ELECTRIC COMPANY	Letter	Climate Change	Dialogue
GLENCORE PLC	Meeting	Governance (Corruption)	Small Improvement
GODREJ CONSUMER PRODUCT	Letter	Commit to zero plastic pellet loss	Dialogue
GREIF INC -CL A	Letter	Commit to zero plastic pellet loss	Dialogue
HESS CORPORATION	Letter	Support methane emissions regulation	Dialogue
IBERDROLA SA	Letter	Set out transition plans to net-zero carbon economy	Dialogue
JERONIMO MARTINS SGPS SA	Letter	Commit to zero plastic pellet loss	Dialogue
JOHNSON & JOHNSON	Letter	Commit to zero plastic pellet loss	Dialogue
KINDER MORGAN	Letter	Support methane emissions regulation	Dialogue
KUEHNE NAGEL INTERNATIONAL AG	Letter	Commit to zero plastic pellet loss	Dialogue
LG CHEMICAL LTD	Letter	Commit to zero plastic pellet loss	Dialogue
MARICO LTD	Letter	Commit to zero plastic pellet loss	Dialogue
MOTOROLA SOLUTIONS INC.	Letter	Human Rights	Dialogue
NATIONAL FUEL GAS	Letter	Support methane emissions regulation	Dialogue
NATIONAL GRID PLC	Meeting/Letter	Climate Change/Employment Standards/Set out transition plans to net-zero carbon economy	Moderate improvement
NATURA COSMETICOS SA	Letter	Commit to zero plastic pellet loss	Dialogue
NESTLÉ SA	Letter/Meeting	Commit to zero plastic pellet loss/ Environmental risk (plastic)	Small Improvement
NIPPON EXPRESS CO LTD	Letter	Commit to zero plastic pellet loss	Dialogue
NOBLE ENERGY	Letter	Support methane emissions regulation	Dialogue
OCCIDENTAL	Letter	Support methane emissions regulation	Dialogue
PANALPINA WELTTRANSPORT AG	Letter	Commit to zero plastic pellet loss	Dialogue
PEPSICO	Meeting	Environmental Risk (Plastic)	Change in Process
PERSIMMON PLC	Meeting	Other (SDG)/Climate Change/ Remuneration	Small Improvement
PETROCHINA CO LTD	Letter	Commit to zero plastic pellet loss	Dialogue
PIGEON CORP	Letter	Commit to zero plastic pellet loss	Dialogue
PIONEER NATURAL RESOURCES COMPANY	Letter	Support methane emissions regulation	Dialogue
QEP RESOURCES	Letter	Support methane emissions regulation	Dialogue
RANGE RESOURCES COMPANY	Letter	Support methane emissions regulation	Dialogue

Q4 2018 ENGAGEMENT DATA

Company	Activity	Topic	Outcome
RELIANCE INDUSTRIES LTD	Letter	Commit to zero plastic pellet loss	Dialogue
REPSOL	Letter	Support methane emissions regulation	Dialogue
ROYAL DUTCH SHELL PLC	Meeting/Letter	Climate Change/Support methane emissions regulation	Moderate Improvement
RWE AKTIENGESELLSCHAFT	Letter	Set out transition plans to net-zero carbon economy	Dialogue
RYANAIR HOLDINGS PLC	Letter	Board Composition	Dialogue
SHOPRITE HOLDINGS LTD	Letter	Commit to zero plastic pellet loss	Dialogue
SONOCO PRODUCTS COMPANY	Letter	Commit to zero plastic pellet loss	Dialogue
SOUTHERN COMPANY	Meeting/Letter	Climate Change/ Set out transition plans to net-zero carbon economy	Small Improvement
SOUTHWESTERN	Letter	Support methane emissions regulation	Dialogue
SPORTS DIRECT INTERNATIONAL	Meeting	Finance and Accounting/ Employment Standards	Dialogue
SSE PLC	Letter	Set out transition plans to net-zero carbon economy	Dialogue
TAYLOR WIMPEY PLC	Meeting	Other (SDG)/ Climate Change	Satisfactory Response
TESCO PLC	Letter	Commit to zero plastic pellet loss	Dialogue
THE COCA-COLA COMPANY	Letter	Commit to zero plastic pellet loss	Dialogue
THE PROCTER & GAMBLE COMPANY	Letter	Commit to zero plastic pellet loss	Dialogue
TOYO SEIKAN KAISHA LTD	Letter	Commit to zero plastic pellet loss	Dialogue
UNILEVER PLC	Letter	Commit to zero plastic pellet loss	Dialogue
UNI-PRESIDENT ENTERPRISE CO	Letter	Commit to zero plastic pellet loss	Dialogue
WALMART INC.	Letter	Commit to zero plastic pellet loss	Dialogue
WHITING PETROLEUM CORP	Letter	Support methane emissions regulation	Dialogue
XPO LOGISTICS INC	Letter	Commit to zero plastic pellet loss	Dialogue

NETWORKS AND EVENTS

The following lists some of the events and meetings attended by or on behalf of LAPFF representatives during the quarter:

Local Authority Pension Fund Forum

The Forum's 23rd annual conference focused on the financial aspects of corporate governance. Presentations from Lord Davies, Baroness Brown, James Bloodworth and many others covered a wide range of topics including problematic accounting rules, executive remuneration, the climate crisis, plastics, human capital management risks and diversity.

PRI

LAPFF Acting Chair, Cllr Paul Doughty, met with the Head of UK and Ireland at the Principles of Responsible Investment (PRI) in December. LAPFF has joined a number of PRI engagements in the past and the two organisations are continuing to look for ways to work together on the responsible investment agenda.
In October, the Forum attended a call with PRI to update signatories on cyber engagements and discuss next steps in escalating activities on this topic.

global witness

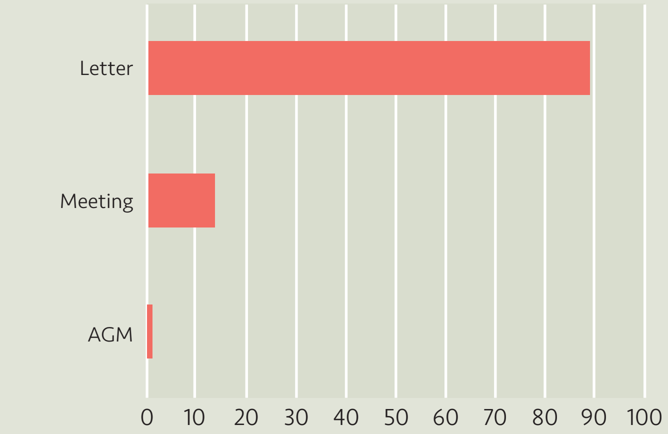
At a collaborative meeting with Peter Jones of Global Witness, the Forum discussed Glencore's relationship with notorious businessman Dan Gertler and related corruption allegations. Global Witness provided three examples around the time of Glencore's IPO that suggested significant financial benefit to Mr Gertler, and no apparent commercial benefit to Glencore.

appg

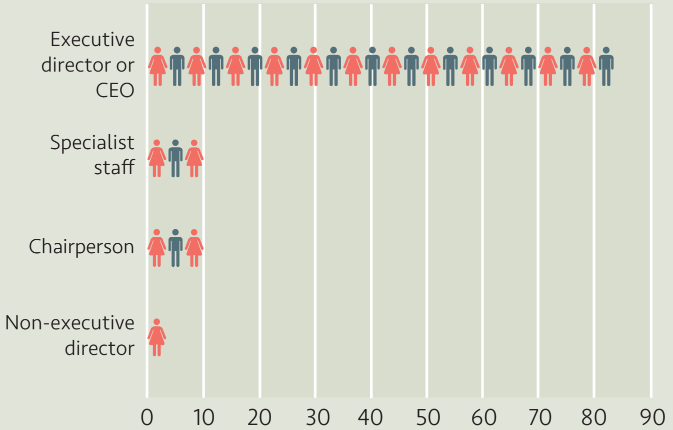
Tom Powdrill of the International Transport Workers' Federation, spoke about employment standards at Ryanair and the role of pension funds at the October meeting of the All Party-Parliamentary Group (APPG) on Local Authority Pension Funds. Chaired by Clive Betts MP, the meeting also covered the topic of localising pension fund investments, introduced by Craig Berry, a former employee of Sheffield Political Economy Research Institute. The minutes from the meeting can be accessed here.

COMPANY ENGAGEMENT ACTIVITIES

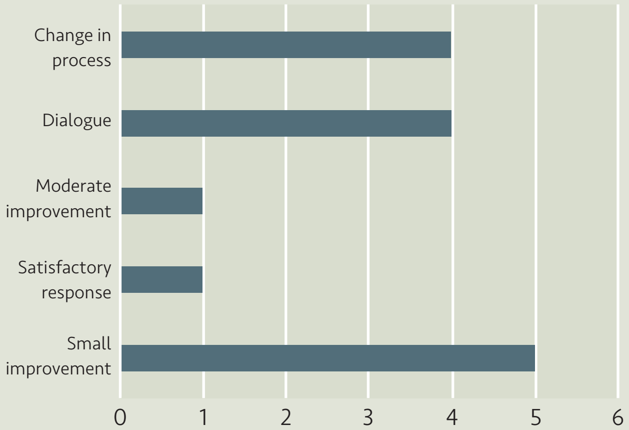
Company engagement activities



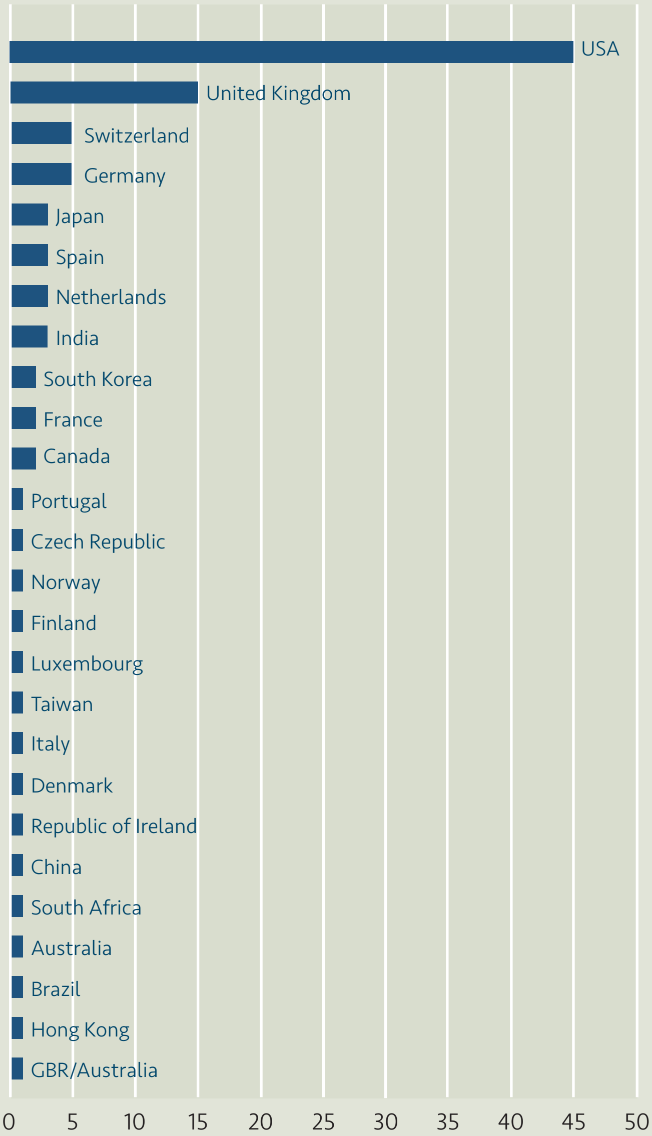
Position engaged



Outcomes



Company domiciles



LOCAL AUTHORITY PENSION FUND FORUM MEMBERS

- Avon Pension Fund
- Barking and Dagenham LB
- Barnet LB
- Bedfordshire Pension Fund
- Border to Coast Pensions Partnership
- Cambridgeshire Pension Fund
- Camden LB
- Cardiff and Vale of Glamorgan Pension Fund
- Cheshire Pension Fund
- City and County of Swansea Pension Fund
- City of London Corporation
- Clwyd Pension Fund
- Cornwall 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
- Environment Agency Pension Fund
- Falkirk Council
- Gloucestershire Pension Fund
- Greater Gwent Fund
- Greater Manchester Pension Fund
- Greenwich Pension Fund
- Gwynedd Pension Fund
- Hackney LB
- Hammersmith and Fulham LB
- Haringey LB
- Harrow LB
- Havering LB
- Hertfordshire County Council Pension Fund
- Hounslow LB
- Islington LB
- Lambeth LB
- Lancashire County Pension Fund
- Leicestershire Pension Fund
- Lewisham LB
- Lincolnshire CC
- London CIV
- London Pension Fund Authority
- Lothian Pension Fund
- Merseyside Pension Fund
- Merton LB
- Newham LB
- Norfolk Pension Fund
- North East Scotland Pension Fund
- North Yorkshire CC Pension Fund
- Northamptonshire CC
- Northern Pool
- Northumberland CC
- Nottinghamshire CC
- Oxfordshire Pension Fund
- Powys CC Pension Fund
- Redbridge LB
- Rhondda Cynon Taf
- Shropshire Council
- Somerset CC
- South Yorkshire Pension Authority
- Southwark LB
- Staffordshire Pension Fund
- Strathclyde Pension Fund
- Suffolk CC Pension Fund
- Surrey CC
- Sutton LB
- Teesside Pension Fund
- Tower Hamlets LB
- Tyne and Wear Pension Fund
- Wales Pension Partnership
- Waltham Forest LB
- Wandsworth LB
- Warwickshire Pension Fund
- West Midlands ITA Pension Fund
- West Midlands Pension Fund
- West Yorkshire Pension Fund
- Westminster LB
- Wiltshire CC
- Worcestershire CC

Appendix 4

LB Hackney Pension Fund - Breaches Register

Quarter	Date	Category (e.g. administration, contributions, funding, investment, criminal activity)	Employer / Org.	Description of breach	Cause of breach	Possible effect of breach and wider implications	Reaction of relevant parties to breach	Traffic Light System	Reported / Not reported (with justification if not reported and dates)	Outcome of report and/or investigations	Outstanding actions
Q3	Oct-18	Contributions	Fit for Sport	Contributions payment received late	Employer has missed the prescribed period for contributions	Late contributions could affect member queries & ABS	Employer notified of regulations to provide contributions on time and warned of breach	G	Not reported	Contributions payment received late. First offence, issued with a warning. No levy raised.	Monitor going forward
Q3	Oct-18	Contributions	Greenwich Leisure	Contributions payment received late	Employer has missed the prescribed period for contributions	Late contributions could affect member queries & ABS	Employer notified of regulations to provide contributions on time and warned of breach	A	Not reported	Contributions payment received late. Fifth offence, emails have been forwarded to Julie Stacey to take action.	Monitor going forward
Q3	Oct-18	Contributions	PJ Naylor Baden Powell	Contributions payment received late	Employer has missed the prescribed period for contributions	Late contributions could affect member queries & ABS	Employer notified of regulations to provide contributions on time and warned of breach	G	Not reported	Contributions payment received late. First offence, issued with a warning. No levy raised.	Monitor going forward
Q3	Oct-18	Contributions	PJ Naylor Baden Powell	HK221 received late	Late supporting documents	Late supporting documents could affect member queries & ABS	Employer has been warned of breach	G	Not reported	HK221 received late. Employer has spent some time filling the HK221 with Nicola. Email has been sent to remind employer of the deadlines.	Monitor going forward
Q3	Oct-18	Contributions	PJ Naylor Grasmere	Contributions payment received late	Employer has missed the prescribed period for contributions	Late contributions could affect member queries & ABS	Employer notified of regulations to provide contributions on time and warned of breach	G	Not reported	Contributions payment received late. First offence, issued with a warning. No levy raised.	Monitor going forward
Q3	Oct-18	Contributions	PJ Naylor Grasmere	HK221 received late	Late supporting documents	Late supporting documents could affect member queries & ABS	Employer has been warned of breach	G	Not reported	HK221 received late. Employer has spent some time filling the HK221 with Nicola. Email has been sent to remind employer of the deadlines.	Monitor going forward
Q3	Nov-18	Contributions	Hackney (LBH)	HK221 received late	Late supporting documents due to staff member being on annual leave	Late supporting documents could affect member queries & ABS	Employer has been warned of breach	A	Not reported	Contribution breakdown received late. Levy sent in line with Julie Stacey's email.	Monitor going forward
Q3	Nov-18	Contributions	Greenwich Leisure	Contributions payment received late	Employer has missed the prescribed period for contributions	Late contributions could affect member queries & ABS	Employer notified of regulations to provide contributions on time and warned of breach	A	Not reported	Contributions payment received late. Sixth offence, levy raised. Emails have been forwarded to Julie Stacey to contact employer. They advised October's amount was paid to LBH by mistake.	Monitor going forward
Q3	Nov-18	Contributions	Manor House Development Trust	Contributions payment received late	Employer has missed the prescribed period for contributions	Late contributions could affect member queries & ABS	Employer notified of regulations to provide contributions on time and warned of breach	G	Not reported	Contributions payment received late. Second offence, levy raised for £65.	Monitor going forward
Q3	Nov-18	Contributions	Peabody Trust (Previous name Family Mosaic)	HK221 received late	Late supporting documents	Late supporting documents could affect member queries & ABS	Employer has been warned of breach	G	Not reported	HK221 received late. Second offence, levy raised for £65.	Monitor going forward
Q3	Dec-18	Contributions	Hackney (LBH)	HK221 received late	Late supporting documents	Late supporting documents could affect member queries & ABS	Employer has been warned of breach	A	Not reported	HK221 received late. Levy raised for £65.	Monitor going forward
Q3	Dec-18	Contributions	Greenwich Leisure	Contributions payment received late	Employer has missed the prescribed period for contributions	Late contributions could affect member queries & ABS	Employer notified of regulations to provide contributions on time and warned of breach	A	Not reported	Contributions payment received late. Seventh offence, levy raised for £65. Emails have been forwarded onto Julie to contact employer by phone and email. Payments GLL made to LBH have been returned. However yet to receive any money from employer. Outstanding levies have not been paid.	Monitor going forward

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Hackney

REPORT OF THE GROUP DIRECTOR, FINANCE & CORPORATE RESOURCES		
GMP Reconciliation **Pensions Committee** **20th March 2019**	**Classification** **PUBLIC** **Ward(s) affected** **ALL**	**Enclosures** **Four (Exempt)**

1. INTRODUCTION

1.1 This report provides the Pensions Committee with an update on the Fund's GMP reconciliation (Guaranteed Minimum Pensions) exercise, which is being undertaken to ensure that scheme member records for periods spent contracted out of the second state pension are properly accounted for. The report provides an update on the progress of Phase 2 of the reconciliation exercise and outlines factors for considering and agreeing an increase in the budget to complete Phase 2, and to consider the proposal and budget for beginning the next phase of the project, Phase 3a – Certification & Rectification (Initiation stage).

2. RECOMMENDATIONS

2.1 The Pensions Committee is recommended to:

- **Approve additional budget of £56k to complete the outstanding Phase 2 work required on the remaining pensioner and deferred members and active members with pre-1997 service**
- **Approve an initial budget of £60k to allow Phase 3 to commence**

3. RELATED DECISIONS

- Pension Committee 21st March 2018 – GMP reconciliation exercise
- Pension Committee 29th March 2017 – GMP reconciliation exercise
- Pension Board 20th March 2017 – GMP Reconciliations
- Pension Board 26th January 2016 – GMP Reconciliations – Update and Training

4.1 COMMENTS OF THE GROUP DIRECTOR, FINANCE AND CORPORATE RESOURCES

4.1 This report sets out for the Pensions Committee the issues faced by the Fund as it tries to reconcile historical data for its scheme members for periods during which they were contracted out of the second state pension.

4.2 Whilst the cost of undertaking a GMP reconciliation exercise is significant, failure to undertake this work would result in the Fund being made responsible for the payment of any GMP liability that HMRC deems to be associated with it. Indications are that the differences between the Fund's administration data and HMRCs records are considerable, exposing the Fund to significant risk if no reconciliation exercise is undertaken.

4.3 The Pensions Committee is requested to approve spend of approximately £115k, of which £56k is over and above the initial budget for this exercise. The additional spend is necessary to ensure completion of Phase 2 of the project.

5. COMMENTS OF THE DIRECTOR OF LEGAL AND GOVERNANCE

5.1 The reconciliation of GMP values is not a mandatory requirement under the Local Government Pension Scheme Regulations 2013. However, conducting a reconciliation exercise can help to reduce the risks to the Fund associated with unreconciled GMP liabilities, such as breaches of the Pensions Regulator's (TPR) code of practice regarding record keeping

5.2 Paragraph 7 of Pensions Committee's Terms of Reference state that it is responsible for monitoring liabilities and undertaking any asset/liability and other relevant studies as required. The Committee is also responsible for monitoring the Pension Fund Budget.

5.3 As GMP reconciliation helps to properly measure and control the Fund's liabilities, consideration of such an exercise and its associated costs would appear to fall within the remit of Pensions Committee

6. GMP RECONCILIATION - BACKGROUND

6.1 From 6th April 2016 the government introduced the new State Pension (nSP). This was designed to radically simplify pension provision, removing layers of complexity whilst ensuring security in retirement. Amongst the provisions removed was the Additional State Pension (AP), an earnings-related element of the old system. Members of defined benefit occupational schemes such as the LGPS were able to 'contract out' of this element, permitting both employee and employer to pay lower National Insurance contributions as a result. In exchange, schemes guaranteed to provide members with a pension at least as high as they would have received had they not been contracted out. This guaranteed amount is the GMP; it applies to all those who were contracted out between 6 April 1978 and 5 April 1997.

6.2 HMRC offered a service whereby schemes can check their GMP records against those held by HMRC and resolve any differences. However, HMRC withdrew the Scheme Reconciliation Service (SRS) at the end of October 2018 and no further support is offered for GMP queries. Schemes already undertaking a GMP reconciliation when the support service was withdrawn can continue to have their GMP queries rectified. Where schemes have not undertaken a reconciliation of their contracted out liabilities, HMRC takes the stance that its own calculations are final; schemes will become responsible for any GMP liabilities which HMRC believe they hold

6.3 The reconciliation of GMP values is not a mandatory regulatory requirement; however the Fund faces significant risks if its GMP liabilities are not reconciled. These include:

- Incorrect calculation of GMPs by HMRC, potentially increasing the fund's overall liabilities

- Assumed liability for GMPs if HMRC holds records for a fund that are not the fund's responsibility
- Unexpected increase in liabilities if the Fund does not hold records of all the liabilities it is responsible for
- Breach of The Pensions Regulator's (TPR) code of practice regarding record keeping
- Over and underpayment of pension benefits to individual scheme members
- Queries following HMRC notifications to scheme members in 2018
- Reputational issues

6.4 Officers have been working with the pension administrators, Equiniti, on a phased reconciliation project. The project is being undertaken by a specialist team within Equiniti's discontinuance department, and is separate from the main administration service provided to the Fund. It is run on a phased basis, with the scope and estimate costings being agreed for each phase prior to approval.

7. PHASE 2 UPDATE

7.1 Phase 1 of the project was completed during 2016/17 within the agreed budget of £28,000. This phase involved requesting and receiving data from both HMRC and the Fund's administrator, and identifying sets of defined queries, which were then submitted to HMRC for analysis.

7.2 The initial project proposal and budget of £208k for Phase 2 was agreed by Pensions Committee in March 2017. Following this initial approval, Equiniti conducted an analysis on the 'Gap' members (i.e. members whose status changed between the date of the initial data run of April 2016 and April 2017), which identified a further 353 pensioners and 1,049 deferred members to be brought into scope.

7.3 It was also agreed to analyse the Funds active membership of 7,531 (as at April 2017) to identify any records to be brought into scope. This significantly increased the number of records requiring rectification, putting strain on the budget for Phase 2. The Fund therefore took a pragmatic approach and agreed that only those active members with pre-97 service, and therefore a GMP element attached to their future benefits, would be brought into scope, significantly limiting the increase in cost.

7.4 In March 2018, following discussions on the Funds approach to the active membership, the Pension Committee agreed an increased budget for Phase 2, on the proviso that the increase in budget be spent to complete the pensioner/dependants and deferred records, and to only investigate the pre-97 actives.

7.5 As at the end of February 2019, the Funds records are 92% reconciled, leaving 2160 cases still outstanding. A high level breakdown of all outstanding queries is provided at Appendix 3, with a detailed data snapshot (provided by Equiniti) at Appendix 4. HMRC are still investigating these records; however, response times have slowed due to increased volumes of work received prior to closure of reconciliation service. These cases may not be responded to until May 2019, after which Equiniti will need to undertake further validations

7.7 The spend on Phase 2 of the project as at the end of February 2019 is £339k, meaning the revised budget for Phase 2 of £343k is almost exhausted. The Pensions

Committee is requested to approve a further increase in budget to allow the phase to be completed. Until responses are received from HMRC, neither the validation method to be used nor the exact cost can be determined. Equiniti have therefore set out an upper cost limit by assuming that each case will be worked individually with no reductions from bulk processing.

7.8 It is therefore proposed that the Pensions Committee approves an increase in budget of approximately £56k, reflecting the outstanding Phase 2 work required on the remaining pensioner and deferred members and active members with pre-1997 service. Further details can be found at Appendix 1 (Page 7, Option 1). Officers will continue to receive a monthly report from Equiniti detailing progress made and costs incurred. Savings from any bulk analysis used to complete Phase 2 can be utilised to begin Phase 3.

8. PHASE 3 PROPOSAL

8.1 Phase 3 of the project is the Certification and Rectification of the Fund's administration data and benefits. Given the number of cases currently requiring rectification (2279), the Pensions Committee is asked to approve commencement of Phase 3, which is split into the following sub-phases:

- **Phase 3a – Initiation**
  Comparison of pension & GMP values, provides high level view of cases that can be rectified using an agreed automated method, or are more complex and need to be rectified manually
- **Phase 3b – Certification**
  Indicator added to member records confirming a reconciliation has been undertaken – several cycles of this will need to be done as records are agreed/matched/cleared
- **Phase 3c – Pilot Phase**
  Enhanced comparison of complex data from Phase 3a – to reduce number of cases needing manual rectification
- **Phase 3d – Rectification casework**
  Physical amendments to the admin system and necessary corrections to benefits in payment

8.2 Until sub-phases 3a -c are complete, it will not be possible to provide a detailed timescale and budget estimate for the rectification work required in 3d. The Pensions Committee is therefore asked to approve an initial budget of £60k to allow work to commence on the following tasks:.

1) To allow initiation to begin for pensioner and dependant members
2) To peer review the cases on the administration change log (ACL), that have already been identified during Phase 2
3) To undertake the 'Data rectification' for deferred members where the 'Re-tranche only' calculation method applies
4) To undertake 'Data rectification' for active members (pre-97's only)
5) To commence 'Certification' of records on the Administration system.

A breakdown of the proposed budget is provided at Appendix 3 (section 2). As Phase 3 progresses, and decisions and policies are required, officers will bring the reports and recommendations to the Committee and Board as necessary.

Ian Williams
Group Director, Corporate Finance and Resources

Report Originating Officers: Julie Stacey ☎020-8356 3565
Financial considerations: Michael Honeysett ☎020-8356 3332
Comments of the Director of Legal and Governance: Patrick Rodger, Senior Lawyer, Legal Services ☎020-8356 6187

Appendices

Appendix 1 – EXEMPT - Phase 2 Completion Proposal
Appendix 2 – EXEMPT - Phase 3 Initiation Proposal
Appendix 3 – EXEMPT - Phase 2 outstanding queries & Phase 3 budget proposal breakdown
Appendix 4 – EXEMPT - Data Snapshot

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REPORT OF THE GROUP DIRECTOR, FINANCE & CORPORATE RESOURCES		
Pension Administration Strategy 2019/22 **Pensions Committee** **26th March 2019**	**Classification** **Public** **Ward(s) affected** **ALL**	**Enclosures** **one**

1. INTRODUCTION

1.1 The Local Government Pension Scheme Regulations (2013), Regulation 59, gives Administering Authorities the discretion to issue a Pension Administration Strategy (PAS) following consultation with employers and other interested parties. This report introduces the final version of PAS for 2019/22, which has been out for consultation and updated to reflect changes to the Fund's third party administration contract.

2. RECOMMENDATION

2.1 Pensions Committee is recommended to:

- **Approve the updated Pension Administration Strategy for publication**

3. RELATED DECISIONS

3.1 Previous Pensions Committee meetings 21st March 2018, 21st March 2017, 23rd March 2016, 31st March 2015, 20th March 2014, 27th March 2013, 6th January 2010 and 19th March 2008 for approval of Pension Administration Strategy following consultation.

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

4.1 Putting a Pension Administration Strategy in place helps ensure that the role and responsibilities of both the administering authority and employers is clear. It is particularly important that employers are aware of their responsibilities in relation to the Pension Fund to help ensure that the accuracy of Scheme data is maintained and that scheme members have accurate pension records. In addition it ensures that the administration of the pension scheme is efficient, will help to keep costs to a minimum and ensure best practice. Where poor administration on the part of an employer leads to additional costs for administration, there is a mechanism for recouping those additional costs and these are set out in the Pensions Administration Strategy. Whilst these are only charged as a last resort and the costs are not significant in the overall cost of running the scheme, recouping additional charges helps to reinforce the need for employers to fulfil their administration responsibilities.

4.2 In addition it should be noted that there is now an enhanced role for the Pensions Regulator in respect of LGPS funds; having accurate data and good administrative practices will ensure that the Fund is able to meet the Regulator's requirements for data and avoid undue scrutiny and potentially significant fines.

5. COMMENTS OF THE DIRECTOR OF LEGAL AND GOVERNANCE

5.1 The Local Government Pension Scheme Regulations (2013), Regulation 59 states that Administering Authorities may prepare a written statement on their pension administration strategies. It is therefore not a legal requirement to do so; however, it would seem best practice, thereby ensuring that the roles and responsibilities are clearly defined bringing overall benefits to the Fund by improving communication and maintaining good record keeping.

5.2 The Regulations require publication of the Strategy, which includes providing copies of the Strategy to employers and to the Secretary of State and keeping any Strategy under review and notifying revisions. This paper and the associated Appendix, Pension Administration Strategy, follow a review of the previous document demonstrating that the Strategy is being kept under proper review and that appropriate consultation is being undertaken.

6. SUMMARY

6.1 The London Borough of Hackney act as the Administering Authority for the London Borough of Hackney Pension Fund and responsibility for the management of the Pension Fund has been delegated to the Pensions Committee.

6.2 The Local Government Pension Scheme Regulations 2013 (Regulation 59) give Administering Authorities the discretion to issue a Pension Administration Strategy document, following consultation with Employing Authorities and other interested parties. The Strategy covers areas such as the procedures for communication and liaison with employing authorities, performance levels of both the Administering and Employing Authorities and procedures for pension scheme administration.

6.3 In addition, Regulation 59(2)e of the 2013 Regulations, allows a Fund to recover additional costs from a scheme employer where, in its opinion, they are directly related to the poor performance of that scheme employer. The Pension Administration Strategy (PAS) 2019/22 clearly sets out the standards expected, and deadlines for the submission of data to the scheme administrators. It also sets out the associated costs of any additional administration the Fund may incur as a result of the unsatisfactory level of performance of a Scheme Employer on pages 35 to 38.

6.4 A change to note in the PAS, is in respect to payment failures by Employers. If any Employer has repetitive or regular payment failures in any one financial year, the Fund will deem this as being of 'material significance' and in-line with its legal responsibilities, report this to the Pensions Regulator (tPR). The Employer may then be subject to legal enforcement action by the Pensions Regulator. The number of instances, on the recommendation of the Hackney Pension Board, was reduced from 5 to 3 in any one financial year.

6.5 The PAS has been updated to include greater detail on the support that can be provided to employers from the Administering Authority when dealing with other employment matters, not always directly associated with pension administration. The in-house pension team can help employers with individual or large scale redundancy exercises and calculations, ill health retirement and monitoring, admission agreements and school conversion to academy status. Any additional administration charges associated with these tasks has been clarified in pages 39 & 40 of the PAS.

6.6 The draft Strategy was circulated to all employers (including schools) and other interest parties, with a deadline of 9th February 2019 for comments. No comments were received.

6.7 Once approved, the Strategy will be published and circulated to all employers and interested parties, to take effect from 1st April 2019, with performance monitored accordingly. The Strategy will also be forwarded to MHCLG for information in accordance with the Regulations and a report on performance will be included in the Hackney Pension Fund Annual Report and Accounts.

6.8 The Pensions Committee receives as part of its quarterly reporting, an update on administration performance and key issues that affect the administration of the Scheme. In addition, the Committee receives an annual pension administration report which includes the performance of the third party administrator.

6.9 The Pensions Board comprising equal numbers of employer and scheme member representatives, assist the Administering Authority in ensuring compliance with the regulations, and in particular the PAS, as this affects the administration of the Pension Fund. The Pensions Board therefore reviews the effectiveness of the Fund's Pension Administration Strategy on an annual basis and also receives reports on the Administration Strategy and its effectiveness.

6.10 The PAS will be kept under review and revised as appropriate following any material changes to regulations and other policies. Any material changes or major revisions to the Strategy will be brought back to Committee for review prior to consultation. The attached appendix to this report, Pension Administration Strategy 2019/22, is now being put before Committee for final approval prior to publication and distribution.

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Finance & Corporate Resources

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Financial considerations: Michael Honeysett ☎020-8356 3332
Comments of the Director of Legal and Governance: Patrick Rodger, Senior Lawyer, Legal Services ☎020-8356 6187

List of Appendices
Appendix 1 - London Borough of Hackney Pension Fund, Pension Administration Strategy 2019/22

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LONDON BOROUGH OF HACKNEY PENSION FUND

PENSION ADMINISTRATION STRATEGY 2019/22

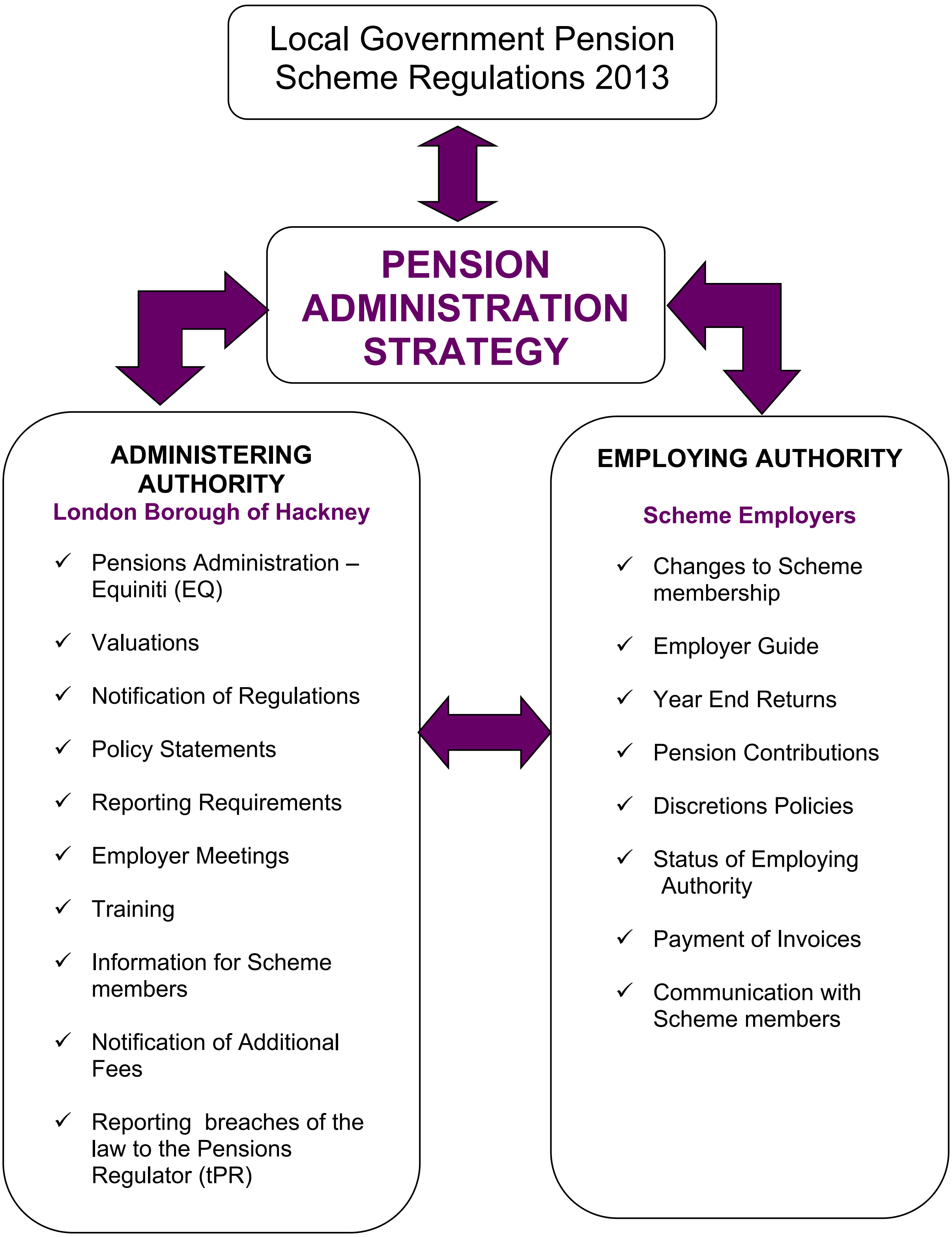
For the Local Government Pension Scheme (LGPS)

Approval date – March 2019
Review date – December 2021
Draft Version 1

CONTENTS

INTRODUCTION

This is the Administration Strategy Statement of the London Borough of Hackney Pension Fund (the Fund) in relation to the Local Government Pension Scheme (LGPS – the Scheme), which is administered by the London Borough of Hackney (LBH) and Equiniti (EQ). Below is a diagram showing the roles and responsibilities of the parties in the administration of the scheme



Aims and Objectives

The aim of this Pension Administration Strategy is to set out the quality and performance standards expected of the Fund and its scheme employers. The Administration Strategy will assist in clarifying the roles and responsibilities of both the Administering Authority and the Employing Authorities, i.e. those employers who participate in the Pension Fund.

In addition, there are approximately 70 local authority schools that operationally are part of the London Borough of Hackney, but use separate payroll providers. Unless specifically mentioned otherwise, all references in this strategy to employers apply to these local authority schools, and they are required to provide information as if they are separate employers.

Effective and efficient administration of the pension fund is beneficial to all stakeholders in the Pension Fund, the Administering Authority, employers and scheme members. The following are some of the benefits to be had from having efficient pension scheme administration; the list is by no means exhaustive and is not in order of importance.

For the Administering Authority, effective administration means:

- It can fulfil its obligations under the regulations for administering the pension scheme
- Lower costs, improved use of resources
- Easier and swifter provision of services to employers and scheme members
- Improved communication between Administering Authority, employers and scheme members
- Improved monitoring of performance
- Clean data enabling faster and more accurate monitoring of the Pension Fund by the Fund actuaries
- Improved decision making in relation to policies and investments

For Employing Authorities, effective administration means:

- Greater understanding of the Pension Fund and its impact upon them as an employer
- Lower costs
- Improved communication
- Employee satisfaction
- Improved decision making for budgeting
- Fulfilling its obligations as an Employing Authority under the LGPS regulations

For Scheme members, efficient administration means:

- Accurate records of their pension benefits
- Earlier issuance of annual benefit statements
- Faster responses to their pension record queries
- Faster access to benefits at retirement
- Improved communications
- Enhanced understanding of the pension scheme and the benefits of being a member

Setting out the expectations of the Administering Authority and Employing Authorities will help to ensure that both parties are aware of their roles and responsibilities in relation to the administration of the pension scheme. Both employer and administrator are dependent on the other for effectual communication and accurate flows of information without which the pension scheme cannot be administered effectively. The scheme members are reliant on both the employer and the administrator to ensure that their pension records are accurate and that they are well informed.

The Pension Administration Strategy is not meant to supersede existing procedures or policies but to complement them. The Admission Agreement sets out some basic requirements of both the Administering Authority and the employer and the Employer Guide sets out in detail how to carry out day to day administration of the Pension Fund within the employer's site.

The Pensions Administration Strategy has a number of specific objectives, including:

- Deliver an efficient, quality and value for money service to its scheme employers and scheme members
- Ensure payment of accurate benefits and collect the correct contributions from the right people in a timely manner
- Ensure the Fund's employers are aware of and understand their role and responsibilities under the LGPS regulations and in the delivery of the administration function
- Maintain accurate records and communicate all information and data accurately, and in a timely and secure manner
- Set out clear roles and responsibilities for the Council and Equiniti and work together to provide a seamless service to Scheme employers and scheme members
- Continuously review and improve the service provided.

Implementation

The Administration Strategy is effective from 1April 2019.

Regulatory basis

The Scheme is a statutory scheme, established by an Act of Parliament. The following regulations governing the Scheme are shown below:

- Local Government Pension Scheme (Benefits, Membership and Contributions) Regulations 2007 (as amended)
- Local Government Pension Scheme (Administration) Regulations 2008 (as amended)
- Local Government Pension Scheme (Transitional Provisions) Regulations 2008 (as amended)
- Local Government Pension Scheme Regulations 2013 (as amended)
- Local Government Pension Scheme (Transitional Provisions and Savings) Regulations 2013 (as amended)

Regulation 59(1) of the Local Government Pension Scheme Regulations 2013 enables a Local Government Pension Scheme Fund to prepare a written statement of the authority's policies ("its pension administration strategy") as one of the tools which can help in delivering a high quality administration service to its scheme members and other interested parties.

In addition, Regulation 59(2)e of the 2013 regulations allows a fund to recover additional costs from a scheme employer where, in its opinion, they are directly related to the poor performance of that scheme employer. Where this situation arises the fund is required to give written notice to the scheme employer, setting out the reasons for believing that additional costs should be recovered, the amount of the additional costs, together with the basis on which the additional amount has been calculated.

ADMINISTRATION IN THE LONDON BOROUGH OF HACKNEY

Responsibility

The London Borough of Hackney has delegated responsibility for the management of the Pension Fund to the Pension Committee. The Pension Committee will monitor the implementation of this Administration Strategy on an annual basis.

In addition the Pensions Board will assist and advise the Administering Authority in ensuring compliance with the Regulations and will receive reports on the Administration Strategy and its effectiveness.

Objective

The Fund's objective in relation to administration is to deliver an efficient, quality and value for money service to its scheme employers and scheme members. Operationally the administration of the Fund is partly outsourced to Equiniti and partly carried out by Council staff.

The Council and Equiniti staff work together to provide a seamless service to scheme employers and scheme members.

Communications

The Fund has published a Communication Strategy Statement, which describes the way the Fund communicates with:-

- scheme members
- members representatives
- prospective members
- scheme employers
- other stakeholders/interested parties

The latest version of the Communication Strategy Statement can be obtained from the Fund website:- http://hackney.xpmemberservices.com

The table below summarises the current methods the Fund uses to communicate:

Method of Communication	Communication material
Website http://hackney.xpmemberservices.com	Information about the Fund, the LGPS, administrative procedures, policies and forms for use
Newsletters	Annual newsletter and additional newsletters issued as may be necessary to highlight new issues and forthcoming events

Employer meetings	Held annually to provide Employers with a forum to address the Fund's staff and advisers
Pensions helplines:- Equiniti London Borough of Hackney Pensions Team	 01293 603 085 020 8356 2521
E-mail addresses: For the Equiniti team: Hackney.pensions@equiniti.com For the London Borough of Hackney team: pensions@hackney.gov.uk	To answer day to day questions about administering the Scheme
Individual Employer meetings	Offered to Employers who need advice about how to carry out the day to day administration of the Scheme
Annual Benefit Statements	Sent to active and deferred scheme members
Individual Scheme member meetings	1-2-1 meetings available with a member of the Pensions team as required
Pension Presentations	Presentations to staff, managers, new employees, etc. on pension related matters

Training and Engagement

The objectives of the Fund have always been to keep stakeholders informed of new developments by sending emails and newsletters, and by providing free training, forums and workshops for Employers when new Regulations are implemented or are under consideration. Additionally free training is offered on an ongoing basis to new scheme employers or relevant new HR/Payroll staff.

It is important that Employers ensure that their staff have the right level of skills and knowledge to support any changes, starting with a sound foundation of existing regulations

and administrative processes. There is an ongoing need to continuously maintain the quality of member records and the administrative processes by improving the quality of information received from Employers.
The aims of this approach are therefore:-

- To maintain a high standard of customer service for members and Employers
- To ensure that relevant staff within each Employer have sufficient knowledge and skills to effectively discharge administrative processes

- To ensure that Employers are fully aware of the risks involved in poor administration and maintenance of member pension records and if they fail to discharge of their discretionary functions

- To provide ongoing training on relevant employer responsibilities

- To support the implementation of new technology within the Fund to enable self-service for the Employer and streamlined administration

To achieve this, the Fund will:-

- Work with Employers' Human Resources, Payroll and other staff to help develop relevant skills and knowledge by providing appropriate assistance, guidance and training

- Organise free workshops and forums for Employers to debate new issues as they emerge

This strategy will ensure that Employers have a common understanding of their obligations under the Local Government Pension Scheme, and that administrative processes are designed to maximise efficiency and effectively manage risk.

The Fund will provide free training for Employers' relevant staff, to build up and maintain a level of professional expertise which will enable Employers to deliver information required by the Fund to efficiently administer the Scheme.

PERFORMANCE STANDARDS

The Scheme prescribes that certain decisions be taken by either the Fund or the scheme employer, in relation to the rights and entitlements of individual scheme members. In order to meet these obligations in a timely and accurate manner, and also to comply with overriding disclosure requirements, the Fund has agreed levels of performance between itself and scheme employers which are set out below:

Overriding legislation

Scheme employers will, as a minimum, comply with overriding legislation, including:

- Local Government Pension Scheme Regulations
- Pensions Acts 2004 & 2011 and associated disclosure legislation
- Public Service Pensions Act 2013 and associated record keeping legislation
- Freedom of Information Act 2000
- Equality Act 2010
- Data Protection Act 2003/GDRP legislation effective from 25 May 2018
- Finance Act 2013
- Relevant Health and Safety legislation
- Any other legislation that may apply at the current time

Internal quality standards

The Fund and scheme employers will ensure that all functions and tasks are carried out to agreed quality standards. In this respect the standards to be met are:

- compliance with all requirements set out in the Employers' Guide
- all information required by the Fund to be provided in the required format and/or on the appropriate forms referred to in the Employers' Guide which are accessible from the Fund website at http://hackney.xpmemberservices.com
- information to be legible and accurate
- communications to be in a plain language style
- information provided to be checked for accuracy by an appropriately qualified member of staff
- information provided to be authorised by an appropriate officer
- actions are carried out, or information provided, within the timescales set out in this Administration Strategy.

Timeliness

Overriding legislation dictates minimum standards that pension schemes should meet in providing certain pieces of information to the various parties associated with the Scheme. The Scheme itself sets out a number of requirements for the Fund and scheme employers to provide information to each other, scheme members and prospective scheme members, dependants, other pension arrangements or other regulatory bodies. The following sections on responsibilities set out the locally agreed timescales for these requirements.

FUND RESPONSIBILITIES

The London Borough of Hackney is the Administering Authority of the London Borough of Hackney Pension Fund and has delegated powers to the Pensions Committee to oversee the management of the Pension Fund. The role of the Administering Authority is to administer the Pension Fund and act as a quasi-trustee body for the management of the Pension Fund.

The Pensions Board comprising equal numbers of employer and scheme member representatives will assist the Administering Authority in ensuring compliance with the regulations and in particular as this affects the administration of the Pension Fund and will therefore review the effectiveness of the Fund's Pension Administration Strategy on an annual basis.

This section outlines the key responsibilities of the Fund and the performance standards scheme employers and scheme members should expect. It is focussed on the key activities which scheme employers and scheme members are involved in and should not be viewed as a complete list of all activities. It includes the performance standards that the Administering Authority has agreed with the pension administrators, Equiniti (EQ).

Administering Authority
Fund Administration

pensions@hackney

This section details the functions which relate to the **whole Fund**, rather than individual scheme members' benefits.

Task/Function	Standard
Pension Administration Strategy - PAS	Consult with employers following any significant revisions to the Administration Strategy Publish agreed Strategy within 2 months of being agreed by the Pensions Committee
Member Scheme Guide to the LGPS **Employers' Guide to the LGPS**	Update & publish within 30 working days from any significant revision.
Pension forms	Update & publish within 30 working days from any significant revision.
Scheme Employers' meeting	Annually

Task/Function	Standard
Training sessions for scheme employers.	Upon request from scheme employers, or as required.
Changes to the scheme rules.	Notify employers within 2 months of the change(s) coming into effect.
Employer's unsatisfactory performance.	As soon as a performance issue becomes apparent.
Recovery of additional administration costs - associated with the scheme employer's unsatisfactory performance (including any interest that may be due).	Within 10 working days of scheme employer's failure to improve performance, as agreed.
Annual Benefit Statements to active and deferred members	To be issued no later than 5 months after the end of the Scheme year to which it relates.
Valuation results (including individual employer details).	10 working days from receipt of results from the Fund's actuary (but in any event no later than 31 March following the valuation date).
Cessation valuation exercises – on cessation of admission agreements or a scheme employer ceasing participation in the Fund.	Upon each cessation or occasion where a scheme employer ceases participation on the Fund.
Arrange for calculation of FRS102 (valuations for employers as required)	Issue results within 10 working days from receipt from the Fund's actuary
Admission Agreements for new scheme employers, where required (including the allocation of assets and notification to the Secretary of State).	Within 3 months of employer entry to the scheme

Task/Function	Standard
Governance Policy and Compliance Statement.	Publish within 30 working days of policy being agreed by the Pensions Committee.
Funding Strategy Statement – FSS reviewed at each triennial valuation, following consultation with scheme employers and the Fund's actuary	Revised statement to be published at the same time as the final valuation report is issued.
Annual Report and Accounts – R&A (and any report from the auditor)	By 30 September following the year end or following the issue of the auditor's opinion
Communications Policy Statement.	Publish within 30 working days of policy being agreed by the Pensions Committee
Statement of Investment Principles - SIP	Publish within 30 working days of policy being agreed by the Pensions Committee
Administering Authority Discretions Policies	Publish within 30 working days of policy being agreed by the Pensions Committee
Statutory auto-enrolment communications Agree with integrated bodies (e.g. maintained & VA schools) the arrangements for each 3 year auto-enrolment cycle, and provide written confirmation of those arrangements.	No less than 6 weeks prior to the staging date

SCHEME ADMINISTRATOR RESPONSIBILITIES

Provider - Equiniti

The Fund's third party administrators, Equiniti (EQ), assist with the overall administration of the scheme and to ensure the smooth operation of the administrative function.

Equiniti can be contacted via their helpline number - 01293 603 085

or by email: – hackney.employers@equiniti.com

As a Fund, there are certain administrative functions that, under the LGPS Regulations, are legal requirements and must be processed within set timeframes. If scheme employers do not provide the requested data correctly, in the right format and within the timescales requested by the administrators, the Fund cannot meet its legal obligations and may be liable to penalty fines imposed by the Pension Regulator (tPR).

The administrators, and the Fund, are therefore reliant on employers providing the data in order to correctly administer the scheme and fulfil its legal duties as listed below:

Process	Legal Requirement
To process new member information e.g. creating a pension account record	Provide information about the scheme within: • 2 months from date of joining where scheme member information has been received or • 1 month of receiving jobholder information where the individual is being automatically enrolled / re-enrolled.
To provide transfer value information	3 months from date of request
To inform members who leave the scheme of their deferred benefit entitlement	As soon as is practicable, and no more than 2 months from date of initial notification (from employer or scheme member)
To notify the amount of retirement benefits and payment of tax free cash sum	1 month from date of retirement if on or after Normal Pension Age 2 months from date of retirement if before Normal Pension Age
To notify dependant(s) of the amount of death benefits	As soon as possible but in any event no more than 2 months from date of becoming aware of the death, or from date of request
Provide annual benefit	31st August in the same calendar year

statements to active and deferred members	

Service Standards Agreement - SLAs

In order to meet the legal requirements of the LGPS, the Fund as implemented a number of operational Service Standards in relation to the administration services provided by Equiniti: -

- All Service Standards are quoted in working days unless otherwise indicated.

Note – these Service Standards are only achievable with the cooperation of all scheme employers and by providing the correct data & information when requested:

Category	Process	Service Standard
Retirements	Overall case target to later of payment of lump sum and notification of final benefits	95% within 20 days from date of retirement
	Notify members of benefits that may be payable	95% within 5 days
	Notification of final benefits and payment of lump sum (both to be completed in timescale)	95% within 3 days
	First pension payment	98% within 40 days
Death of a Member	Issue letter requesting any information required to verify entitlement to benefits	95% within 1 day
	Notification of benefits due and payment of lump sum death benefit (both to be completed in timescale)	95% within 3 days
	First survivor pension payment(s)	98% within 40 days
New Joiners main scheme & 50/50 scheme	New Joiner - apply for any transfer value details from a previous fund or scheme	95% within 5 days
	New joiner - Issue a notice to member confirming details relating to their admittance.	95% within 5 days
	50/50 scheme - Notify member when 50/50 membership commences or	95% within 10 days

	ceases	
Estimates or Quotes	Estimates or quotations of benefits	95% within 10 days
Transfer In	LGPS and non-LGPS – Request details from previous pension arrangements	95% within 5 days
	LGPS and non-LGPS – Calculate and provide quotation service credit to member	95% within 10 days
	LGPS and non-LGPS – Request payment of transfer	95% within 5 days
	LGPS and non-LGPS – Notify the member of the benefits awarded	95% within 10 days
Transfer Out	LGPS and non-LGPS – Provide transfer value details/information pack to new provider and/or scheme member as appropriate	95% within 10 days
	LGPS and non-LGPS – Pay transfer value	95% within 10 days
	LGPS and non-LGPS – Notify pension provider that payment has been made	95% within 5 days of transfer value is paid
Pension Sharing Orders	Carry out calculation and provide information to scheme member/solicitor	95% within 5 days
	Calculate and notify final pension debit	95% within 5 days
	Calculate and notify final pension credit	95% within 5 days
Retirements	Notify members of benefits that may be payable	95% within 5 days
	Notification of final benefits and payment of lump sum (both to be completed in timescale)	95% within 5 days
	First pension payment	98% within 40 days
Leavers	Write to scheme member with options	95% within 10 days
Leaver Refunds	Calculate and pay refund of	95% within 10 days

	contributions	
	Write to scheme member in advance of payment due date	95% 2 months in advance
Additional Contributions & Benefits	Providing information to members regarding paying or changing additional contributions (including AVCs) on request	95% within 10 days
	Absence Contributions – providing information to members on return from absence	95% within 10 days
	Action a request to pay additional contributions (including AVCs)	95% within 10 days
Annual Benefit Statements	Provide annual benefit statements to active and deferred members	31st August in the same calendar year

SCHEME EMPLOYER RESPONSIBILTIES

This section outlines the responsibilities of all scheme employers in the Fund and the performance standards scheme employers are expected to meet to enable the Fund to deliver an efficient, quality and value for money service.

External providers

Scheme employers must ensure that appropriate record-keeping is maintained and where they outsource their payroll, HR or pension administration functions to a third party, the legal responsibility for the provision of pension data to the Administering Authority or the third party pension administrator, lies with the Scheme employer and not the third party.

Any external service providers with responsibility for carrying out any functions relating to the administration of the Local Government Pension Scheme must be made are aware of the standards that are to be met.

Scheme employers must therefore ensure, as part of any contract entered into with a third party, that the third party has sufficiently robust processes in place to fulfil the statutory duties of the Scheme and the performance levels set out in the Pension Administration Strategy.

All information must be provided in the format prescribed by the Fund and within the prescribed timescales. Information and guidance is provided in the Employers' Guide which is available from the funds web site http://hackney.xpmemberservices.com

Employer Responsibilities

This section details the functions, **some of which are statutory**, and relate to scheme employers' responsibilities and tasks:

Task/Function	Performance Target
Nominated Representative To receive information from the Fund and to take responsibility for disseminating it within the organisation. Ensure the Fund is kept up to date with any change to the nominated representative.	Notify the Fund **within 30 working days** of employer joining fund, or change to nominated representative.
Employer Discretions Policy Formulate, publish and update (as necessary) in relation to all areas where the employer may exercise a discretion within the LGPS Regulations. A copy of the Employer Discretions Policy must be provided to the Fund.	Provide a copy to the Fund **within 30 working days** of the policy being agreed *Failure to provide the Fund with a copy of your policies could impact on the release/payment of individuals' benefits.*

Task/Function	Performance Target
Enquiries & Data queries From the Fund	Respond to the Fund/administrators within **10 working days** from receipt of enquiry.
Contributions – Employer & Employee Paid monthly to the Fund and to provide schedule of payments in the correct format stipulated by the Fund.	Cleared funds to be received **by/on 19th calendar day** of the month following the deduction. *Failure to provide the Fund/*Administrators *with a schedule of contributions including additional pension payments – added years, ARCs, APCs, and AVCs - by the target date, and/or not in the correct format stipulated by the Fund, could result in additional administration costs being levied against you***.**
IMPORTANT NOTE **Late payment of pension contributions** by Scheme employers is a serious offence and the Pensions Regulator or the Pensions Ombudsman has significant powers of sanction. Scheme managers must report payment failures which are likely to be of material significance to the Pensions Regulator within a reasonable period, in the case of employee contributions; and as soon as reasonably practicable in the case of employer contributions The Pensions Regulator can impose fines of up to £50,000 for each instance of persistent offence. Recent changes to the Pensions Act have made it easier to prosecute employers for late payment of contributions. **Any fines imposed on the Fund by the Regulator, which is deemed to be the fault of an Employer, will be passed on to that Employer**	
Changes to employer contribution rates (as instructed by the Fund) *Note - Employer contributions are expressed as a percentage of pensionable pay and are payable at such rate(s) as may be advised by London Borough of Hackney Pension Fund following the completion of each triennial actuarial valuation of the pension fund.*	At date specified on the actuarial advice received by the Fund.

Task/Function	Performance Target
Year end Reports Required by the Fund **in the format stipulated** to your nominated representative in March each year.	Provide to the Administrators **by 30 April** following the year end.
Additional Data & Information Requests May be requested by the Fund for the production of the annual benefit statements in each year	Respond to the Fund/administrators within **10 working days** of receipt of the request from the Fund
Data Errors Following validation by the Fund, errors may be found in the contribution and/or year end information - corrective action may need to be taken promptly.	Respond fully to the Fund/administrators **within 10 working days** of receipt of the request from the Fund
Auto-enrolment – monthly assessment Ensure that any staff who are not already scheme members are assessed according to their age and earnings.	Assessment to be made according to pay periods (e.g. staff paid monthly should be monitored on a monthly basis)
Auto-enrolment within statutory deadlines Ensure that any staff who are not scheme members and become an Eligible Jobholder and none of the statutory exceptions apply, are enrolled into the LGPS.	With effect from the employee's auto-enrolment date Employers must provide the Fund/Administrators with their **monthly AE reports 1 month** following the month of enrolment
Auto-enrolment communications Where employers are providing their own Automatic Enrolment communications, they must ensure that any staff affected by AE (including new starters) are provided with the necessary AE information within statutory deadlines	Within **6 weeks** of the date they become eligible for automatic enrolment
Auto-enrolment communications – if provided by the Fund Where auto-enrolment (AE) communications are provided by the Fund	Employers must provide the Fund with their monthly AE reports within **5 working days** of your own payroll date

Task/Function	Performance Target
Contracting out services Involving a **TUPE transfer** of staff to another organisation.	Contact the Fund at the very beginning of the tender process so that important pension information can be provided for inclusion in the tender documentation.
Admission Agreements To be put in place for new employers admitted to the Fund following the when contracting out a service	Provide to new Employers within **3 months** of joining the scheme
Pension information Provided by the Fund is to be distributed to scheme members/potential scheme members	Provide to members within **15 working days** of receipt of the information or on the member joining the scheme
Starter form and a Member Scheme Guide Provided to new/prospective scheme or refer them to the Fund website.	Provide to member within **5 working days** of commencement of employment or change in contractual conditions.
Additional fund payments In relation to early payment of benefits where a strain cost applies	Paid within **30 working days** of receipt of invoice from the Fund.
Additional administration costs Paid to the Fund associated with the poor performance of the scheme employer.	Paid within **30 working days** of receipt of invoice from the Fund.

Scheme Administration - Forms

This section details the **employer responsibilities** and tasks which <u>relate to member benefits</u> from the Scheme.

Task/Function	Performance Target
Contractual Enrolment To ensure that **all** employees are brought in to the Scheme from their employment start date.	

Starter forms Complete a starter form for each new employee admitted to the pension scheme and ensure that the employee completes their element of the process. **More than one contract of employment** Each contract must have its own starter form as each employment and pension membership must be maintained separately under the Regulations.	Provide Administrators with copy of the **Starter form(s)** within **15 working days** of the employee's employment start date
Employee contribution rate Applied in accordance with the LGPS contribution bandings based on actual pensionable pay – including overtime/bonuses etc.	Immediately upon commencing scheme membership and in line with the employer's policy and as a minimum in each April payroll thereafter.
Main Scheme or 50/50 Scheme contributions To apply the correct employee contribution rate according to actual pensionable pay of the member & in accordance to rates for main scheme or 50/50 To reassess employee contribution rate in line with employer's policy on adjusting employee contribution rates and notify the employee of their change in rate.	Review as per employer's own **Employee Contribution Policy** and effect a change in rate if necessary – ie a move from the main scheme to the 50/50 section of the scheme, or vis-versa
Election to join 50/50 section Member election form completed & signed – move member to 50/50 scheme & amend employee contributions only **NOTE – Employer continues to pay FULL rate contributions** **OR** **Election to re-join Main scheme** Member election form completed & signed – move member to main scheme & amend employee contributions only	Reduce **employee** contributions the month following month of election, or such later date specified by the scheme member. Provide Administrators with copy of **Election to join the 50/50 section form** within **1 month** following month of election Increase **employee** contributions the month following month of election, or such later date specified by the scheme member. Provide Administrators with copy of **Re-join Main Scheme Election form** within **1 month** following month of election

<table>
<tr><th>Task/Function</th><th>Performance Target</th></tr>
<tr><td>Commencing Additional Pension Contributions - APC
After receipt of the completed & signed form from the member, commence deduction or amend such deductions, as appropriate.</td><td>Month following election to pay contributions or notification received from the Fund

Provide Administrators with copy of the APC agreement form within 1 month of first contribution paid.</td></tr>
<tr><td>Ceasing deduction of :-
Added Years Contracts
Additional Regular Contributions - ARC
Additional Pension Contributions - APC
After receipt of the completed and signed forms from the member</td><td>Immediately following receipt of election form from scheme member

Provide Administrators with copy of cessation form/notification within 1 month of ceased payments</td></tr>
<tr><td>AVC – Additional Voluntary Contributions
Arrange for the deduction of AVCs via your payroll provider and the payment over of contributions to the approved AVC provider(s)</td><td>Commence deduction of AVCs in month of the member’s election – provide Administrators with copy of AVC member form in the month of member’s election

Pay over contributions to the AVC provider(s) on/by the 19th of the month the deduction was made in</td></tr>
<tr><td colspan="2">IMPORTANT NOTE

Monthly AVC deductions should be paid directly to the AVC provider (Prudential) as soon as the payrolls are processed. A schedule must be sent with the payment, giving details of all contributions paid over to Prudential which must reach Prudential by the 19th day of the month following the month they were deducted.

Scheme managers must report payment failures which are likely to be of material significance to the Pensions Regulator within a reasonable period, in the case of employee contributions; and as soon as reasonably practicable in the case of employer contributions

Failure to do so is in breach of legislation and may be reported to the Pensions Regulator. Any fines imposed on the Fund by the Regulator, which is deemed to be the fault of an Employer, will be passed on to that Employer</td></tr>
<tr><td>Opt outs
Member to complete the appropriate form – employer to provide copy of the form to the Fund</td><td>To cease contributions the month following month of election, or such later date specified by the scheme member.

Provide copy of Opt out form to the Administrators within 1 month following month of election to opt out</td></tr>
</table>

Task/Function	Performance Target
Opt outs – within 3 months of start date Refund employee contributions via your own payroll - where the member has opted out of the Scheme within 3 months and does not have previous LGPS membership.	Refund to be made in the month following the month of election to opt out. Refunds are to be included in the monthly contribution data to the Administrators
Contractual changes to conditions of service: • contractual hours • actual pay – including overtime • remuneration changes due to promotion or re-grade • honorariums	Provide copy of **Change of Details** form the Administrators within **20 working days** of change.
Changes in member's personal circumstances: • marital or civil partnership status • change of name • national insurance number	Immediately inform the Administrators following notification by the scheme member of a change in circumstances
Assume Pensionable Pay – APP Periods of reduced pay or nil pay as a result of: • sickness • injury • or relevant child related leave, includes – ordinary maternity, paternity or adoption leave; paid shared parental leave; any additional maternity or adoption leave Employer must apply **Assumed Pensionable Pay (APP)** for pension purposes. Both employee and employer contributions must be deducted against the amount of APP	Employers must notify the Administrators of the date the reduction is effective from for sickness or injury OR the date from which the relevant child related leave began. Provide the appropriate **absence form** to the Administrators within **20 working days** of effective date.

Task/Function	Performance Target
Periods of reduced pay or nil pay as a result of: • unpaid additional maternity, paternity or adoption leave • unpaid shared parental leave taken at the end of the relevant child related leave.	**This is treated as unpaid leave for pension purposes** - Assumed Pensionable Pay (APP) does **NOT** apply. Provide the appropriate **absence form** to the Administrators within **20 working days** of effective date
Periods of reduced pay or nil pay as a result of: • authorised/unauthorised unpaid leave of absence (sabbatical etc) • industrial action	**This is treated as unpaid leave for pension purposes** - Assumed Pensionable Pay (APP) does **NOT** apply. Provide the appropriate **absence form** to the Administrators within **20 working days** of effective date
Leavers – leaving your employment The leaver form must include an accurate assessment of their final pay.	Provide the Administrators with a completed **leaver form** within **15 working days** of month end of leaving. Revised pay details can be submitted to the Administrators on an amended leaver form if they differ from the initial notification
Retiring – normal retirement from your employment The leaver form must including an accurate assessment of their final pay. You must also provide the authorisation form, stating the reason for retirement, signed by the employer as agreement to meet any associated costs with the retirement.	Provide the leaver form to the Administrators within 15 working days **before** the member retires Revised pay details can be submitted to the Administrators on an amended leaver form if they differ from the initial notification
Death of a scheme member OR **Member is suffering from a potentially terminal illness** .	Notify the Administrators who will then ensure next of kin details are held and any benefits due are paid in accordance with the members' wishes, if appropriate As soon as practicable, but **within 5 working days** of members death

Task/Function	Performance Target
Ill Health Retirement applications Employer to appoint an independent registered medical practitioner (IRMP) qualified in occupational health medicine, in order to consider all ill health retirement applications	Notify the Administrators **within 1month** of commencing participation in the scheme, or date of resignation of existing medical adviser
Ill Health Retirement decisions The Employer must determine, based on medical opinion from your IRMP (and assistance from the Administering Authority, if required), whether ill health retirement benefits are to be awarded **and** to determine which tier of benefits are to be awarded e.g. Tier 1, 2 or 3.	To make the decision **within 1 month** of receipt of the IRMP report Provide the Administrators with the **ill health retirement declaration form & completed leaver form** with **5 working days** of the employers final determination and agreed last day of service for the member *Refer to page 39 – ill health retirements & tier 3 awards – if you require any assistance*
Ill Health Retirements – Tier 3 awards Employers must keep a record of all Tier 3 ill health retirements, & undertake a review once the pension has been in payment for 18mths to assess if the former employee is gainfully employed & payments are to cease **and** to arrange subsequent appointments with the IRMP to assess whether an increase in benefits is applicable.	Notify the Administrators within **5 working days** of the review being completed in accordance with the LGPS regulations, by providing all necessary paperwork for the Administrators to either continue or cease payments, or to increase the level of benefits to be paid. *Refer to page 39 – ill health retirements & tier 3 awards – if you require any assistance*

MONITORING PERFORMANCE AND COMPLIANCE

Ensuring compliance with the Scheme regulations and this Administration Strategy is the responsibility of the Fund **and** Scheme Employers. We will work closely with all Scheme employers to ensure compliance with all statutory requirements, whether they are specifically referenced in the LGPS Regulations, in overriding legislation or in this Administration Strategy.

This section describes the ways in which performance and compliance will be monitored.

The Pension Board, the National Scheme Advisory Board & the Pensions Regulator (tPR)

The Public Service Pensions Act 2013 established the requirement for local Pension Boards in the LGPS with responsibility for assisting the Administering Authority in relation to the following:

- Securing compliance with the scheme regulations
- Ensuring the effective and efficient governance and administration of the scheme
- Securing compliance with the requirements imposed in relation to the LGPS by the Pensions Regulator; and
- Such other matters as the LGPS regulations may specify.

As a result the Local Pension Board of the London Borough of Hackney Pension Fund was established from 1 April 2015. A key aim of the Pension Board is to raise the standard of management and administration of public service pension schemes and to achieve more effective representation of employer and employee interests in that process.

In addition, the Pensions Regulator's remit was extended to include the public sector, and a national Scheme Advisory Board was created. The Administering Authority and scheme employers are expected to fully comply with any guidance produced by the Scheme Advisory Board and the Pensions Regulator. Any recommendations made by any of these entities will be considered by the Administering Authority, and where appropriate duly implemented (following discussions with employers where necessary).

Audit

The Fund is subject to an annual external audit of the accounts and, by extension the processes employed in calculating the figures for the accounts, by KPMG. The key findings of their work are presented to the Pensions Committee in an Annual Governance Report and the Fund is set an action plan of recommendations to implement.

In addition the Fund is subject to internal audits by the Council of its processes and internal controls. Any subsequent recommendations made are considered by the Fund and where appropriate duly implemented (following discussions with scheme employers where necessary).

Performance monitoring

The Fund monitors Equiniti's performance against the agreed contract and Service Level Agreements (SLAs). Monthly Service Review Meetings (SRM) are held were work received/completed and SLAs are discussed and Equiniti are asked to explain any variations from the SLAs and Key Performance Indicators (KPIs).

Measuring the Fund against the administration objectives

Objectives	Measurements
Deliver an efficient, quality and value for money service to its scheme employers and scheme members	Service standards achieved in 95% of cases (100% for legal requirements) Customer Satisfaction Surveys with scheme employers and scheme members achieving 95% of scores in positive responses in these areas Positive scheme employer feedback with minimal or no employer complaints Positive scheme member feedback with minimal or no member complaints
Ensure payment of accurate benefits and collect the correct contributions from the right people in a timely manner	Positive results in internal and external audits and other means of oversight/scrutiny. Performance target achieved for collection of contributions by 19th day of the month following the deduction Minimal issues against the Fund identified by Internal Dispute Resolution Procedures and complaints
Ensure the Fund's employers are aware of and understand their role and responsibilities under the LGPS regulations and in the delivery of the administration function	Customer Satisfaction Surveys with scheme employers achieving 95% of scores in positive responses in these areas Issues included in formal improvement notices issued to scheme employers resolved in accordance with plan Notify scheme employers of changes to the scheme rules within 2 months of change Offer/organise training sessions for new scheme employers and relevant new staff in scheme employers within 2 weeks of new

	employer/staff starting Organise training for employers where unsatisfactory performance and escalate within 1 month if not attended training or improvements not evident Employer responsibilities in relation to administration are regularly communicated to employers
Maintain accurate records and communicate all information and data accurately, and in a timely and secure manner	No breaches of data security protocols Annual data checks (including ongoing reconciliations) resulting in few issues that are all resolved within 2 months Positive results in audit and other means of oversight/scrutiny
Set out clear roles and responsibilities for the Council and Equiniti and work together to provide a seamless service to Scheme employers and scheme members	Monthly monitoring of Equiniti where Fund asks them to explain variations from agreed Service Level Agreement targets The Fund specifies clear service standards with Equiniti
Continuously review and improve the service provided	Achieve continual improvement in member engagement with our online tools Monitoring of the performance standards used to inform the service going forward Use feedback from scheme employers on the service to develop plans Fund work with Equiniti on programme of continuous improvement to the service

Key Risks

The key risks to the delivery of this Strategy are outlined below. Fund officers will work with the Pensions Committee and Pension Board in monitoring these and other key risks and consider how to respond to them.

- Significant external factors, such as national change, impacting on workload
- Lack or reduction of skilled resources due to difficulty retaining and recruiting staff members

- Inadequate performance of Equiniti against service standards
- Increase in the number of employing bodies causes strain on day to day delivery
- Incorrect calculation of members' benefits, resulting in inaccurate costs
- Employer's failure to provide accurate and timely information resulting in incomplete and inaccurate records. This leads to incorrect valuation results and incorrect benefit payment
- Failure to administer the scheme in line with regulations. This may relate to delays in enhancement to software or regulation guidance
- Failure to maintain records adequately resulting in inaccurate data
- Unable to deliver an efficient service to pension members due to system unavailability or failure.

Feedback from employers

Employers who wish to provide feedback on the performance of the Fund against the standards in this Administration Strategy should e-mail comments to the following address: pensions@hackney.gov.uk . This will be acknowledged within 5 working days and an investigation of the matter will then be undertaken. Following the investigation a response will be provided to the scheme employer within 15 working days of the initial acknowledgment.

Annual report on the strategy

The Scheme regulations require the Fund to undertake a formal review of performance against the Administration Strategy on an annual basis. This report details the performance of the pension administrators and the Fund's Employers. It is presented to Pensions Committee, Pensions Board and is included within the Pension Fund Annual Report and Accounts.

ROLE OF THE PENSIONS REGULATOR (tPR)

The Pensions Regulator

Background

Section 17 and Schedule 4 of the Public Service Pensions Act 2013 extended the role of the Pensions Regulator to include public sector pension schemes including the Local Government Pension Scheme (LGPS) from 1 April 2015. With regard to the LGPS, the Pensions Regulator now has responsibilities in relation to governance and particularly administration.

Schedule 4 of the Public Service Pensions Act 2013 requires the Pensions Regulator to issue a Code of Practice or Codes of Practice in respect of certain specified matters. In response to this requirement, the Pensions Regulator Code of Practice No 14 ***"Governance and administration of public service pension schemes"*** which came into effect from 1 April 2015.

This Code of Practice is applicable both to the Pension Fund and the individual Employers within the Fund.

Code of Practice No 14
Governance and Administration of Public Service Pension Schemes

Code of Practice No 14 covers the following:-

Governing your scheme

Knowledge and understanding required by pension board members
Conflicts of interest and representation
Publishing information about schemes

Managing risks

Internal Controls

Administration

Scheme record-keeping
Maintaining contributions
Providing information to members

Resolving issues

Internal dispute resolution
Reporting breaches of the law

It is crucial that all Employers within the London Borough of Hackney Pension Fund are aware of, and comply with, the legal requirements and standards covered in the Code.

Failures by an Employer to fulfil legal requirements and follow the expected standards within the Code may result in that Employer (rather than the Pension Fund) being subject to legal enforcement action by the Pensions Regulator.

Sections that have particular relevance for Employers in the Fund are Administration and Resolving Issues

Administration

Scheme record-keeping

Key points

- The Scheme should work with employers to ensure they understand what information they're required to provide and when they need to do this.

- The Scheme should work with participating employers to seek to ensure they understand the key events and information they need to provide, and have processes in place to provide timely and accurate data.

- If an employer fails to provide the required information (meaning that they and/or the Scheme Manager may not be complying with legal requirements), the Scheme should consider whether to report the breach to the Pensions Regulator (tPR).

Schemes require participating employers to provide them with timely and accurate data in order for the scheme manager to be able to fulfil their legal obligations. Schemes should seek to ensure that employers understand the main events which require information about members to be passed from the employer to the scheme and/or another employer, such as when an employee:

  - joins or leaves the scheme
  - changes their rate of contributions
  - changes their name, address or salary
  - changes their member status, and
  - transfers employment between scheme employers.

If any Employer fails persistently to act according to the procedures set out in this Pension Administration Strategy, meaning that they and/or the Fund may not be complying with legal requirements, the Fund will assess whether there has been a relevant breach and take action as necessary to report breaches of the law to the Regulator under Section 70 of the Pensions Act 2004.

Maintaining contributions

Reporting payment failures

The Scheme must report payment failures that are likely to be of 'material significance' to the Pensions Regulator (tPR) as soon as possible – usually within 10 working days.

A late payment is likely to be of material significance where it was caused by:

- the employer not being willing or able to pay contributions
- possible dishonesty or misuse of assets or contributions

- fraudulent evasion of the duty to pay contributions

- the employer having inadequate procedures or systems in place to ensure the correct and timely payment of contributions due, for example where there are repetitive and regular payment failures,

- contributions having been outstanding for more than 90 days

If any Employer has 3 or more repetitive or regular payment failures in any one financial year, the Fund will deem this as being of 'material significance' and in-line with its legal responsibilities, report this to the Pensions Regulator (tPR). The Employer may then be subject to legal enforcement action by the Pensions Regulator.

Resolving issues

Internal dispute resolution (IDRP)

Where a person with an interest in the scheme isn't satisfied with any matter relating to the scheme, they have the right to ask for that matter to be reviewed.

A person has an interest in the scheme if they:

- are a member or surviving non-dependant beneficiary of a deceased member of the scheme
- are a widow, widower, surviving civil partner or surviving dependant of a deceased member of the scheme
- are a prospective member of the scheme
- have ceased to be a member, beneficiary or prospective member or
- claim to be in one of the categories mentioned above and the dispute relates to whether they are such a person.

The Fund has a clear internal disputes resolution procedure (IDRP) set out for members of the LGPS which can be found on the Pension Fund's website: http://hackney.xpmemberservices.com.

All Scheme employers are required to nominate a Stage 1 Adjudicator to deal with disputes at Stage 1 of the process. Scheme employers are asked to supply the details of their Stage 1 Adjudicator as part of their discretionary policy statement and should advise the Fund immediately of changes made in this regard.

Where a Scheme employer is in dispute with a decision or action taken by the Fund, the Fund will in the first instance attempt to resolve the matter internally and may seek an independent senior mediator from within London Borough of Hackney as the Administering Authority to make a final determination. Should this prove to be unsuccessful, a suitable, mutually agreeable and independent third party shall be appointed to determine the outcome of the matter.

POLICY ON THE RECOVERY OF ADDITIONAL ADMINISTRATION COSTS FROM EMPLOYERS

The Scheme regulations provide pension funds with the ability to recover from a scheme employer any additional costs associated with the administration of the Scheme incurred as a result of the unsatisfactory level of performance of that Scheme Employer.

Where a fund wishes to recover any such additional costs they must give written notice stating:

- The reasons in their opinion that the Scheme Employer’s unsatisfactory level of performance contributed to the additional cost
- The amount of the additional cost incurred
- The basis on how the additional cost was calculated
- The provisions of the Administration Strategy relevant to the decision to give notice.

Circumstances where costs might be recovered

It is the policy of the Fund to recover additional costs incurred in the administration of the Scheme as a direct result of the unsatisfactory level of performance of any scheme employer (including the Council) or third party service provider. This includes the payment of fees levied against the scheme employer.

The circumstances where such additional costs will be recovered from the scheme employer are:

- persistent failure to provide relevant information to the Fund, scheme member or other interested party in accordance with specified performance targets in this Administration Strategy (either as a result of timeliness of delivery or accuracy/quality of information)

- failure to pass relevant information to the scheme member or potential members, either due to poor quality of information or not meeting the agreed timescales outlined in the performance targets in this Administration Strategy

- failure to deduct and pay over correct employee and employer contributions to the Fund within the stated timescales

- instances where the performance of the scheme employer results in fines being levied against the Fund by the Pension Regulator (tPR), Pensions Ombudsman or other regulatory body.

For the avoidance of doubt, “accuracy/quality” in this Strategy is defined as when we have received a completed form, or transfer of information, with no gaps in mandatory areas and with no information which is either contradictory or which we need to query.

Approach to be taken by the Fund

The Fund will seek, at the earliest opportunity, to work closely with scheme employers in identifying any areas of unsatisfactory performance, provide the necessary training and put in place appropriate processes to improve the level of service delivery in the future. Consideration for seeking additional administration costs where persistent failure occurs and no improvement is demonstrated by a scheme employer would be seen as a failure and will only be taken once the steps described below are taken to resolve the situation:

1. Write to the scheme employer, setting out area(s) of concern and offer training.

2. If no improvement is seen within one month of the training or no response is received to the initial letter, the scheme employer will be asked to attend a meeting with representatives of the Fund to discuss area(s) of concern and to agree an action plan to address them. Where appropriate, the originating employer will be informed and expected to work with the Fund to resolve the issues.

3. If no improvement is seen within one month or a scheme employer is unwilling to attend a meeting to resolve the issue, the Fund will issue a formal written notice, setting out the area(s) of concern that have been identified, the steps taken to resolve those area(s) and notice that the additional costs will now be reclaimed.

4. An invoice will then be issued to the scheme employer clearly setting out the calculations of any loss resulting to the Fund, or additional cost, taking account of time and resources in resolving the specific area(s) of unsatisfactory performance, in accordance with the fee scale set out in this document.

5. An annual report will be presented to the Pensions Committee meeting detailing any fees levied against scheme employers and outstanding payments.

Fees for additional administration

The table below sets out the fees which the Fund will levy on a scheme employer whose performance falls short of the standards set out in this document. Each task is referenced to the Employer Responsibilities section. Charging is a last resort and the approach outlined above will be followed before a fee is levied.

Employer Responsibility	Additional Administration Charge
Monthly Contributions Payment Late payment of employee and employer contributions to the administrators by the 19th calendar day of month following deduction (must be cleared funds by/on 19th of the month)	£65 plus interest*, calculated on a daily basis until contributions received. **Interest will be charged in accordance with regulation 44 of the LGPS Administration regulations, which states interest should be charged at Bank of England Base Rate plus 1%.*
Employer Responsibility	**Additional Administration Charge**

Monthly Contributions Schedule (HK221) Non-provision of the correct schedule of payments and/or not in the format stipulated by the Fund, accompanying the contributions by the 19th calendar day of month following deduction	£65 per occasion
NOTE - Any fines imposed on the Fund by the Pensions Regulator, in relation to employer, employee and AVC contributions which is deemed to be the fault of the Employer, will be passed on to that Employer	Re-charge amount to be paid within 30 days of receipt
Change Notifications failure to notify the administrators of any change to a members - working hours - leave of absence with permission (maternity, paternity, career break) or - leave of absence without permission (strike, absent without permission) - within 20 days of the change in circumstance	£65 per form, per occasion
Year End Data Failure to provide year end data by 30th April following the year end or the non-provision of year end information or the accuracy/quality of the year end data is poor requiring additional data cleansing *For the avoidance of doubt* ***"accuracy/quality"*** *in this Strategy is defined as when we have received a completed form or transfer of information with no gaps in mandatory areas and with no information which is either contradictory or which we need to query*	Late receipt - initial fee of £300 then a fee of £150 for every month the information remains outstanding Quality/format of data – fee of £150 should data provided not be in the correct format and/or the quality is poor

Employer Responsibility	Additional Administration Charge
New Starter(s) Failure to notify the administrators of new starter(s) and the late or non-provision of starter form(s) – within 15 days of employee joining the scheme	Initial fee of £65 per form then a fee of £35 per form for each month the form(s) remains outstanding
Automatic Enrolment (AE) Failure to provide the administrators full details of staff affected by Automatic Enrolment on a monthly basis - within 6 weeks of the date they become eligible for automatic enrolment **NOTE** - Any fines imposed on the Fund by the Pensions Regulator due to failure to provided information for Auto enrolment process, which is deemed to be the fault of the Employer, will be passed on to that Employer	Initial fee of £100 then a fee of £50 for every month the information remains outstanding Re-charge amount to be paid within 30 days of receipt
Leaver(s) Failure to notify the administrators of any leaver(s) and the late or non-provision of leaver form(s) including an accurate assessment of final pay – within 15 days of employee leaving the scheme or employment	Initial fee of £65 per form then a fee of £35 per form for each month the form(s) remains outstanding
Retirees Failure to notify the administrators when a scheme member is due to retire 15 working days before the retirement date - including an accurate assessment of final pay and authorisation of reason for retirement.	Initial fee of £65 per form then a fee of £35 per form for each month the form(s) remains outstanding

Employer Responsibility	Additional Administration Charge
Late payment of pension benefits As a result of the **employers failure** to notify the administrators of a scheme members retirement & not providing the correct paperwork, interest becomes payable on any lump sum paid. The administrators will recharge the total amount of interest paid back to the employer	Calculation will be provided – payment due is as invoiced within 30 days of receipt of invoice

EMPLOYER CONTRIBUTION RATES / ADDITIONAL EMPLOYER ASSISTANCE & ASSOCIATED COSTS

Employers Contribution Rates

Employers' contribution rates are not fixed. Employers are required to pay whatever is necessary to ensure that the portion of the fund relating to their organisation is sufficient to meet its liabilities.

The London Borough of Hackney has an actuarial valuation undertaken every 3 years by the Fund's actuary. The actuary balances the fund's assets and liabilities in respect of each employer, and assesses the appropriate contribution rate for each employer to be applied for the subsequent 3 years.

Additional Employer Assistance & Associated Costs

The cost of running the London Borough of Hackney Pension Fund is charged directly to the Fund, and the actuary takes these costs into account in assessing the employers' contribution rates.

If an employer wishes the *London Borough of Hackney to carry out work not attributable to pension's administration they will be charged directly for the cost of that work.

The following functions have been designated Employer Functions – this means that they are outside of the normal scope of pension administration responsibilities for the Fund but the Administering Authority is willing to assist employers with these services.

They will be subject to a charge depending on the level of work required and whether external suppliers have to be engaged such as the Fund's Actuary, Occupational Health, etc.

Function/Task	Description & Associated cost
*Redundancy & Severance calculations (excluding/including pension calculation) *Efficiency Retirements *Flexible Retirements	Information, guidance, calculations and the preparation of associated paperwork for employee signature and payroll instructions Cost – 1 estimate per employee, per rolling 12 month period is provided free of charge. Subsequent requests from the employer due to a change of circumstance (e.g. last day of service, change of earnings) will be charged at £50 per case
Ill health retirements & Tier 3 awards.	Monitor and review tier 3 ill health awards to cessation, liaise with Occupational Health Services, and provide support at the IHRP meetings to determine cessation of benefits or a potential uplift in benefits Cost – as charged by the Occupational Health Service used for each case

Function/Task	Description & Associated cost
Injury payments	Calculation and payment of injury awards Cost – standard administration charge £100 plus any cost as invoiced from the Actuary + any chargeable Actuary time as invoiced
FRS17/IAS19	Provision of data required for FRS17/IAS19 calculations to the Actuary, plus any chargeable Actuary time Cost – standard administration charge £100 Plus as invoiced from the Actuary + any chargeable Actuary time as invoiced
Admission Agreements	Setting up and amendment of admission agreements for Contractors/new Employers admitted to the Fund Cost – standard administration charge of £100 plus as invoiced from the Actuary/Legal + any chargeable Actuary/Legal time as invoiced, if required
Cessation & Interim Valuations	Provision of data required for interim and/provision of data required for interim and/or cessation valuations Cost – as invoiced from the Actuary + any chargeable Actuary time as invoiced
Academy Conversions	Any work related to this requiring input from the Administering Authority Cost – as invoiced from the Actuary + any chargeable Actuary time as invoiced
Legal Work & non-standard actuarial work	Any work in relation to this requiring input from the Administering Authority – e.g. contract review on outsourcing, employer policies, TUPE & future pension provision etc. Cost – as invoiced from the Actuary/Legal + any chargeable Actuary/Legal time as invoiced

***** the London Borough of Hackney Pensions Team, upon receipt of **accurate information** on the **appropriate estimate request form** in relation to an active member, or employee not in the LGPS, retiring due to age, redundancy, efficiency or flexible retirement, can provide 1 free estimate per member/employee, per 12 month rolling period.

Estimates are normally returned to the requesting employer within 20-30 working days of the receipt of the request – timeframe is dependent on checking employee employment/pension records, complexity of each case and the number of requests received at any one time.

SERVICE AND COMMUNICATION IMPROVEMENT PLANNING

As set out earlier in this Administration Strategy, the Fund's objective in relation to administration is to deliver an efficient, quality and value for money service to its scheme employers and scheme members. This can only be achieved through continuously reviewing and improving the service. Communication between the Fund and scheme employers is key to providing the service and is therefore an important aspect of service improvement planning.

Equiniti and the Council's in-house pension team work together on a programme of continuous improvement to the service.

The monitoring of the performance standards set out in this document will inform the programme going forward and feedback from scheme employers on the service and the way in which the Fund communicates is welcomed in developing plans. Feedback should be e-mailed to: pensions@hackney.gov.uk.

The Fund will take responsibility for improving the service and determining the balance between implementing service improvements and the goal of providing a value for money service for the Fund.

Employers will be informed of any changes to the service provision which affect the way they interact with the Fund.

CONSULTATION AND REVIEW PROCESS

In preparing this Administration Strategy the Fund has consulted with all the scheme employers with active contributors in the Fund. The Strategy will be reviewed every 3 years, or more frequently if there are changes to the Scheme regulations or requirements.

All scheme employers will be consulted before any changes are made to this document.

The latest version of this document can be accessed from the Fund website http://hackney.xpmemberservices.com

LOCAL GOVERNMENT PENSION SCHEME REGULATIONS 2013

The Regulations in relation to the Pension Administration Strategy are contained in the Local Government Pension Scheme Regulations 2013, and are set out below:

Pension administration strategy

59. (1) An administering authority may prepare a written statement of the authority's policies in relation to such of the matters mentioned in paragraph (2) as it considers appropriate ("its pension administration strategy") and, where it does so, paragraphs (3) to (7) apply.

(2) The matters are—

(a) procedures for liaison and communication with Scheme employers in relation to which it is the administering authority ("its Scheme employers");

(b) the establishment of levels of performance which the administering authority and its Scheme employers are expected to achieve in carrying out their Scheme functions by—

(i) the setting of performance targets,

(ii) the making of agreements about levels of performance and associated matters, or

(iii) such other means as the administering authority considers appropriate;

(c) procedures which aim to secure that the administering authority and its Scheme employers comply with statutory requirements in respect of those functions and with any agreement about levels of performance;

(d) procedures for improving the communication by the administering authority and its Scheme employers to each other of information relating to those functions;

(e) the circumstances in which the administering authority may consider giving written notice to any of its Scheme employers under regulation 70 (additional costs arising from Scheme employer's level of performance) on account of that employer's unsatisfactory performance in carrying out its Scheme functions when measured against levels of performance established under sub-paragraph (b);

(f) the publication by the administering authority of annual reports dealing with—

(i) the extent to which that authority and its Scheme employers have achieved the levels of performance established under sub-paragraph (b), and

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

(g) such other matters as appear to the administering authority after consulting its Scheme employers and such other persons as it considers appropriate, to be suitable for inclusion in that strategy.

(3) An administering authority must—

(a) keep its pension administration strategy under review; and

(b) make such revisions as are appropriate following a material change in its policies in relation to any of the matters contained in the strategy.

(4) In preparing or reviewing and making revisions to its pension administration strategy, an administering authority must consult its Scheme employers and such other persons as it considers appropriate.

(5) An administering authority must publish—

(a) its pension administration strategy; and

(b) where revisions are made to it, the strategy as revised.

(6) Where an administering authority publishes its pension administration strategy, or that strategy as revised, it must send a copy of it to each of its Scheme employers and to the Secretary of State as soon as is reasonably practicable.

(7) An administering authority and its Scheme employers must have regard to the pension administration strategy when carrying out their functions under these Regulations.

(8) In this regulation references to the functions of an administering authority include, where applicable, its functions as a Scheme employer

Payment by Scheme employers to administering authorities

69.—(1) Every Scheme employer must pay to the appropriate administering authority on or before such dates falling at intervals of not more than 12 months as the appropriate administering authority may determine—

(a) all amounts received from time to time from employees under regulations 9 to 14 and 16(contributions);

(b) any charge payable under regulation 68 (employer's further payments) of which it has been notified by the administering authority during the interval;

(c) a contribution towards the cost of the administration of the fund; and

(d) any amount specified in a notice given in accordance with regulation 70 (additional costs arising from Scheme employer's level of performance).

(2) But—

(a) a Scheme employer must pay the amounts mentioned in paragraph (1)(a) within the prescribed period referred to in section 49(8) of the Pensions Act 1995**(41)**; and

(b) paragraph (1)(c) does not apply where the cost of the administration of the fund is paid out of the fund under regulation 4(5) of the Local Government Pensions Scheme (Management and Investment of Funds) Regulations 2009 (management of pension fund)**(42)**.

(3) Every payment under paragraph (1)(a) must be accompanied by a statement showing—

(a) the total pensionable pay received by members during the period covered by the statement whilst regulations 9 (contributions) applied (including the assumed pensionable pay members were treated as receiving during that period),

(b) the total employee contributions deducted from the pensionable pay referred to in sub-paragraph (a),

(c) the total pensionable pay received by members during the period covered by the statement whilst regulation 10 applied (including the assumed pensionable pay members were treated as receiving during that period),

(d) the total employee contributions deducted from pensionable pay referred to in sub-paragraph (c),

(e) the total employer contributions in respect of the pensionable pay referred to in sub-paragraphs (a) and (c),

(f) the total additional pension contributions paid by members under regulation 16 (additional pension contributions) during the period covered by the statement, and

(g) the total additional pension contributions paid by the employer under regulation 16(additional pension contributions) during the period covered by the statement.

(4) An administering authority may direct that the information mentioned in paragraph (3) shall be given to the authority in such form, and at such intervals (not exceeding 12 months) as it specifies in the direction.

(5) If an amount payable under paragraph (1)(c) or (d) can not be settled by agreement, it must be determined by the Secretary of State.

Additional costs arising from Scheme employer's level of performance

70. (1) This regulation applies where, in the opinion of an administering authority, it has incurred additional costs which should be recovered from a Scheme employer because of that employer's level of performance in carrying out its functions under these Regulations.

(2) The administering authority may give written notice to the Scheme employer stating—

(a) the administering authority's reasons for forming the opinion mentioned in paragraph (1);

(b) the amount the authority has determined the Scheme employer should pay under regulation 69(1)(d) (payments by Scheme employers to administering authorities) in respect of those costs and the basis on which the specified amount is calculated; and

(c) where the administering authority has prepared a pension administration strategy under regulation 59, the provisions of the strategy which are relevant to the decision to give the notice and to the matters in sub-paragraphs (a) or (b).

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Hackney

REPORT OF THE GROUP DIRECTOR, FINANCE & CORPORATE RESOURCES		
Pension Fund Communications Strategy Statement 2019/21 **Pensions Committee** **26th March 2019**	**Classification** **PUBLIC** **Ward(s) affected** **ALL**	**Enclosures** **One**

1. INTRODUCTION

1.1 This report introduces the updated draft Communications Strategy Statement for the Pension Fund. It is a regulatory requirement for the Fund to have a Communications Strategy Statement and for the Statement to be kept under review and updated as required. The Pension Fund Business Plan also includes provision for an annual review of the Communications Strategy to ensure that it is reviewed by the Pension Committee on a regular basis.

2. RECOMMENDATIONS

2.1 The Pension Committee is recommended to:

- **Approve the Communications Strategy Statement 2019/21**

3. RELATED DECISIONS

- Pension Sub-Committee 6th March 2006 – Approval of first Communications Policy Statement.
- Pension Sub-Committee 23rd June 2010, 27th March 2013, 16th January 2014, then Pensions Committee 31st March 2015, 13th January 2016, 24th January 2017, 4th December 2017, 21st March 2018 – Approval of amended Communications Policy Statement.

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

4.1 The approval of a Communications Strategy Statement has no immediate financial impact, however, a good communications strategy for the pension fund helps the Fund to demonstrate good governance and maintain an efficient and cost effective Fund.

4.2 The implementation of an effective communications strategy however is not without cost, given the need to keep members and employers informed. Where possible a lot of information is provided electronically with a dedicated Pension Fund website which forms part of the Third Party Administration Contract.

5. COMMENTS OF THE DIRECTOR OF LEGAL AND GOVERNANCE

5.1 The Local Government Pension Scheme Regulations 2013, Regulation 61, require LGPS Pension Funds to publish and keep under review their Communications

Strategies and Policies. The Regulations further set out the requirements for Administering Authorities to cover in such statements, the types of information to be covered, the frequency and recipients of such communications.

5.2 The Committee acting in its capacity as Administering Authority therefore has a responsibility to ensure that such Communications Strategy Statements are kept under review and that they are re-considered as and when necessary. This report ensures that the Committee are meeting their obligations as quasi trustees in respect of the Communications Strategy.

6. THE COMMUNICATIONS STRATEGY STATEMENT

6.1 The requirement for LGPS Pension Funds to have a Communications Strategy Statement was introduced in 2005, with the then Pensions Sub-Committee approving its first Communications Statement at its meeting in March 2006. The Statement was subsequently updated in June 2010, March 2013 and annually thereafter.

6.2 The Strategy was previously updated to reflect the introduction of the General Data Protection Regulation (GDPR) from 25th May 2018 and approved by Pensions Committee on 4th December 2017 for publication on the Pension Fund website.

6.3 The Strategy has been further updated to incorporate the use of customer satisfaction surveys, in conjunction with our 3rd party pension administrators Equiniti, launched during 2018/19. The additions to the Policy are noted on page 12 & 13, ‘Communications Material, Feedback’ and detail how the Fund will undertake the surveys and report results to the Pensions Committee and Pension Board as appropriate.

6.4 The surveys will be undertaken at least on an annual basis, and will be aimed at both members and employers in the Fund. They will be used to assess the member experience when interacting with the administrators, either by phone or when they have used any of the on-line facilities. Quick and easy questions will be put to the user or ‘customer’, and responses will be analysed and reported back to the Fund by Equiniti.

6.5 The feedback from the surveys will help the Fund, and the administrators, formulate better engagement strategies, make changes to administration practices that will result in improvements to service, and increase efficiency and add value.

6.6 Below is the relevant extract from the Local Government Pension Scheme Regulations 2013, Regulation 61, which sets out the requirements of the communications strategy for LGPS Funds:

61. (1) An administering authority must prepare, maintain and publish a written statement setting out its policy concerning communications with—

(a) members;

(b) representatives of members;

(c) prospective members; and

(d) Scheme employers.

(2) In particular the statement must set out its policy on—

(a) the provision of information and publicity about the Scheme to members, representatives of members and Scheme employers;

(b) the format, frequency and method of distributing such information or publicity; and

(c) the promotion of the Scheme to prospective members and their employers.

(3) The statement must be revised and published by the administering authority following a material change in their policy on any of the matters referred to in paragraph (2).

Ian Williams
Group Director, Finance & Corporate Resources

Report Originating Officer: Julie Stacey ☎020-8356 3565
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Comments of the Director of Legal and Governance: Patrick Rodger, Senior Lawyer, Legal Services ☎020-8356 6187

Appendix

Appendix 1 – Pension Fund Communications Strategy Statement (LGPS) 2019/21

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LONDON BOROUGH OF HACKNEY PENSION FUND

COMMUNICATIONS STRATEGY STATEMENT (LGPS) 2019/22

Approval date – March 2019
Review date – March 2021
Version 1

COMMUNICATIONS STRATEGY STATEMENT

Legislative background

This document sets out the Communications Strategy of the Administering Authority of the London Borough of Hackney Pension Fund as required under the Local Government Pension Scheme Regulations (2013), Regulation 61.

The Public Service Pensions Act 2013 also introduced a framework for the governance and administration of public sector service pension schemes and provided an extended regulatory oversight of the LGPS to the Pensions Regulator. The Regulator's Code of Practice No14 has detailed guidance on providing good quality communications to members and others, with reference to the Occupational & Personal Pensions Scheme (Disclosure of Information) Regulations 2013 and HM Treasury Directions 2014 on Information about Benefits.

Aims and Objectives

The aim of this communications strategy is to make sure that all stakeholders are kept informed of developments within the Pension Fund. We want to ensure transparency and an effective communication process will help to maintain the efficient running of the Scheme. Regulations require each Administering Authority to prepare, maintain and publish a statement setting out their policy on communicating with the following stakeholders and organisations:

This Communications Strategy has a number of specific objectives relating to how we communicate with our stakeholders, including:

- Promote the scheme as a valuable benefit and provide sufficient and up to date information so members can make informed decisions about their benefits
- Communicate in a plain language style
- Ensure the Fund uses the most appropriate means of communication, taking into account the different needs of different stakeholders
- Look for efficiencies in delivering communications including greater use of technology
- Evaluate the effectiveness of communications and shape future communications appropriately.

Communications Methodology

The administering authority has at its disposal a wide range of options for communicating with the diverse groups that it needs to serve. The method of communication will vary depending on what needs to be communicated and to whom. The methods used by the Administering Authority to communicate with all interested parties are detailed below.

General Communications

We use a range of methods to communicate including a variety of paper-based and electronic means. The Fund has a dedicated Pensions website: www.hackneypension.co.uk and the use of a secure portal 'Sharefile' for employers to upload confidential information.

We will accept some communications electronically and will respond electronically where possible. For security reasons, we will not use email for communicating sensitive information or where it is necessary to verify the address or identity of the sender

- **Pension Scheme Administrators** – The Fund's administrators, Equiniti, will assist with the overall administration of the scheme to ensure the smooth operation of the administrative function.

  They can be contacted via the helpline number - 01293 603 085 or by email:-

  - for Members of the scheme – hackney.pensions@equiniti.com

  - for Administration staff – hackney.employers@equiniti.com

- **Website** – Communication in the form of a dedicated Pension Fund website is available which contains a wide range of information for not only scheme members but also scheme employers and other interested parties. The website can be accessed via www.hackneypension.co.uk. The website contains copies of scheme guides, newsletters and other relevant information pertaining to the LGPS

- **Policy Documents** – These are available for all stakeholders to access either on the website at www.hackneypension.co.uk, in hard copy or electronically on application. Copies of all policy documents are held within the Financial Services Section, Finance and Resources Directorate.

- **Posters** – These will be designed to help those who are both members and non-members of the LGPS, to understand the full range of benefits when participating in the scheme, and providing guidance on how to obtain more information and also how to join the scheme.

- **Council Intranet** – Updates on the scheme and any other relevant news in regards to LGPS is available through communication updates via the Council intranet, which is the Fund’s largest employer.

Branding

As the pension fund is administered by Equiniti, all literature and communications will include a combination of the branding of the London Borough of Hackney, Hackney Pensions and Equiniti.

Hackney

pensions@hackney

EQUINITI

Data Protection Statement

To protect members’ personal information, the London Borough of Hackney Pension Fund and the pension administrators, Equiniti, are registered under the Data Protection Act 2018. This allows members to check that their details held are accurate.

The Fund may, if it chooses, pass certain details to a third party, if the third party is carrying out an administrative function of the Fund, for example, the Fund's AVC provider. Members who wish to apply to access their data on Data Protection grounds should contact the pension administrators, Equiniti, on 01293 603 085 or by email hackney.pensions@equiniti.com

The new General Data Protection Regulation (GDPR) applies in the UK from 25th May 2018. The Regulation applies to both the Fund and to any organisations that process data on its behalf, including Equiniti.

The Regulation includes rules on providing privacy information which are more detailed and specific than those in the Data Protection Act 1998 which formerly applied. To ensure compliance with the Regulation, the Fund provided all members with a Privacy Notice, setting out certain prescribed information including the purpose for which member data is being collected, which organisations will receive it and how it will be safeguarded.

National Fraud Initiative (NFI)

This authority is under a duty to protect the public fund it administers, and to this end may use information for the prevention and detection of fraud. This includes our participation in the Government’s National Fraud Initiative (NFI), and it may also share information with other bodies responsible for auditing, or administering public funds, solely for the purposes of preventing and/or detecting fraud.

Strategy on Communicating with Contributing (active) Scheme Members, Deferred and Pensioner Members

All members of the Scheme (active, deferred and pensioner members) will be kept informed about their benefits, developments in the Scheme and any changes to the scheme of a regulatory or operational nature. This includes consultation with representative groups as required.

- **Scheme Guides** – There are scheme guides available for members setting out the conditions of membership and main scheme benefits that apply under the Local Government Pension Scheme (LGPS). A copy of these will be provided to new employees of the scheme and at other times on request. The scheme guides can also be found on the Pension Fund website at www.hackneypension.co.uk which is available for any member to access.

- **Member Self-Service** – Via the Fund's website, all scheme members can securely access their pension details held on the pension administrator's database. This facility allows scheme members to check their personal details and advise the administrators of any changes. It also has the ability for scheme members to produce an estimate of their potential LGPS benefits due to them at retirement. Pensioner members will be able to view payslips and P60's and their address details.

- **Annual Benefit Statements** – Active and deferred scheme members are entitled to an annual benefit statement detailing the benefits that they might expect at retirement. These are issued annually and would normally be issued within 5 months of the financial year end (31st March). These contain vital information for scheme members and enable individuals to make informed choices about their retirement options.

- **Pension Surgeries** – based at Hackney Service Centre, 1 Hillman Street, London, E8 1DY. Pension Officers can be contacted by email pensions@hackney.gov.uk or alternatively contact by telephone 020 8356 2521/2507/4266/6802, for members (active, deferred and pensioners) to make an appointment to discuss their benefits, retirement issues and the options available in the Scheme.

- **Pension Roadshows/Presentations** – Roadshows and presentations are used to target specific topics or when major scheme changes occur, enabling all members of the LGPS to have access to information. General meetings and presentations will be held at intervals to communicate the benefits and options available to scheme members and prospective members.

- **Pre-retirement seminars –** Presentations on the scheme and benefit choices at pre-retirement seminars facilitated by the Hackney Pensions team, to help scheme members approaching retirement prepare for the financial and lifestyle changes retirement brings.

- **Newsletters** – These will be sent to scheme members to communicate changes in regulations, developments in the fund and to inform members of changes in policy. The exact timing and nature of these newsletters will vary depending on what developments are taking place. However if there are regulatory changes which are likely to impact on individuals benefits or scheme membership in any significant way, then newsletters will be sent to members in sufficient time for them to be able to act upon that information. An annual accounts newsletter is sent to all scheme members providing information on the state of the fund, performance of the fund and any major changes which have taken place during the year.

- **Pensioner Payslips –** All pensioners receive a payslip each month along with their P60 at the end of the year. Electronic payslips are also available to those registered for self-service.

- **Pension Increase notifications –** The notification of the annual increase to pensioner benefits is sent out to every member in receipt of a pension each April.

- **Certificates of Continued Entitlement to Pensions (Life Certificates) –** The Fund will undertake an annual exercise, conducted through correspondence, in order to establish the continued existence of the following pensioners:

    - All pensioners living abroad (outside the UK).
    - Those over the age of 80
    - Those pensioners receiving pension benefits by cheque
    - Those retired on ill health grounds.

  This exercise will also be undertaken every 3 years to establish the continued existence of ALL members in receipt of a pension.

- **Pension Fund Report and Accounts Summary** – This provides a summary of the Pension Fund during the financial year and will be distributed annually to all scheme members

<u>Strategy on Communicating with Prospective Scheme Members</u>

We will make information available to all prospective scheme members, new employees and prospective employees. All new employees will be contractually enrolled into the LGPS where their employer is a scheduled body or a contractor has an open admission agreement, the terms of which are to enrol new members and will receive information regarding the scheme. They can still choose to opt-out should they choose to do so.

- **Initial Contact** - All permanent new members of staff are contractually enrolled into the LGPS, where the employer is a scheduled body or open admission agreement contractor. Each new member is sent a welcome letter statutory notice by the pension administrators confirming their membership of the LGPS along with details of where to find an electronic copy of the scheme guide, and further details of the scheme.

- **Induction seminars** – Presentation on the scheme and its benefits at the weekly induction seminars for all new employees of the Council, which are facilitated by HR, providing prospective new members of the scheme information in order for them to make an informed decision in regard to membership of the scheme. Induction seminars are also provided for other employers on request.

- **Liaison Officer, Pensions** – based at Hackney Service Centre, 1 Hillman Street, London E8 1DY, the Liaison Officer, Pensions is easily contactable by email: pensions@hackney.gov.uk telephone 020 8356 6802, or letter. It is also possible to arrange a 1-2-1 meeting to discuss the benefits and options available to prospective members.

- **Scheme Guides** – There are scheme guides available for prospective members setting out the conditions of membership and main scheme benefits that apply under the Local Government Pension Scheme (LGPS). A copy of these will be provided electronically to new employees and prospective members of the scheme, and at other times, on request. The scheme guides can also be found on the Pension Fund website www.hackneypension.co.uk which is available for any member to access.

Strategy on Communicating with Employers participating in the Fund

We will keep employers in the Pension Fund informed about developments in the Scheme and consult on changes to the Scheme as required. Potential scheme employers will also have access to information about the Pension Fund to ensure that they are fully informed in their relationship with the Fund.

- **Employer Guide** – This is a guide for scheme employers outlining the details of the scheme and the administrative arrangements for the scheme, and is available on the website www.hackneypension.co.uk. Training on procedures in relation to the employer guide is also available upon request.

- **Employer Seminars/Meetings** – Annual employer forums are held to update employers of relevant current issues, policy changes and investment updates. Further seminars/meetings will be held as appropriate to communicate changes in policy within the Scheme or to discuss major issues affecting all employers such as the triennial actuarial review. Individual meetings with separate employers can be held annually or as required. Employers will also be notified in writing of any changes which affect them or the way that the scheme is administered.

- **Email –** Periodic emails are sent to keep scheme employers up to date with topical pension matters, and payroll issues that may have an effect on pensions, including articles from LGA Circulars and Bulletins, and any relevant external training courses they may wish to attend

- **Quarterly Newsletter –** A quarterly newsletter is sent to all Employers and Schools to ensure that the scheme employers are aware of current issues, policy changes and amendments to pension matters that affect themselves and/or their members

- **Secure Portal** – The Fund has a secure portal 'Sharefile' which facilitates the transfer of sensitive information and data between the Fund and Employers electronically. Access rights are strictly controlled by the pension administrators, Equiniti.

- **Website** – The website has a dedicated area for Scheme Employers and is used to access detailed information on procedures which must be followed to administer the LGPS and holds a wide range of information in regard to Employer Guides, pension forms, newsletters and policies. The website can be accessed via www.hackneypension.co.uk

- **Pensions Administration Strategy (PAS) –** The administration strategy sets out the roles and responsibilities of the Administering Authority (the London Borough of Hackney), the third party administrator and employers in the Pension Fund and can be found on the website at: www.hackneypension.co.uk. It sets out the service level agreement and targets which all are expected to meet.

- **Employer Training –** The Fund offers all Scheme Employers training on the LGPS and their role in the administration of the scheme. This covers the full range of administrative and regulatory duties under the scheme regulations.

- **Annual Report and Accounts** – This contains details of the Pension Fund during the financial year, income and expenditure as well as other related details. This is a detailed and lengthy document and will therefore not be routinely distributed, except to employers participating in the Fund or on request. The full document will be published on the website at www.hackneypension.co.uk.

Strategy on Communicating with Elected Members

Information will be provided to Council Members in order for them to be able to fulfil their duties under the role of administering authority.

- **Access to Pensions Committee** – The Pensions Committee is the Committee which has delegated power to review, administer and monitor the Pension Fund. The Committee meets a minimum of four times a year or more frequently, as required. Meetings are open to members of the public, although there may be occasions when members of the public are excluded due to the confidential nature of matters under discussion.

- **Committee Reports** – Reports to Pensions Committee and to other Committees as necessary, for example Corporate Committee and Council, ensure that Council Members are kept informed of developments in relation to Pension Fund issues and the impact that these can have on overall Council policies and procedures. These are published on the Council's website. The agenda, reports and minutes of the meetings are available on the Council's website at http://mginternet.hackney.gov.uk/ieListMeetings.aspx?CId=499&Year=0

- **Training –** Committee Member training is a standing agenda item and the Committee liaise with Officers on training needed and received on an on-going basis each year. They are also kept informed of any relevant external training course

- **Presentations** – Officers and advisers to the Fund deliver presentations on investment and administration matters to the Committee

Strategy on Communicating with the Pensions Board

The Pension Board will meet at least twice a year in the ordinary course of business and additional meetings may be arranged as required to facilitate its work.

- **Reports to The Pensions Board** - The Pension Board will be treated in the same way as a Committee of Hackney Council and, as such, members of the public may attend and papers will be made public in the same was as described above for the Pension Committee.

- **Training –** The Pension Board will be provided with, and be required to undertake, appropriate training, either provided internally by Officers or externally.

Strategy on Communicating with Other Bodies

There are a number of other interested parties with whom we will communicate with as required, this includes:

- **The Ministry of Housing, Communities & Local Government (MHCLG)** (formerly the DCLG) – regular contact with MHCLG as regulator of the scheme, participating and responding to consultations as required.

- **Trade Unions –** we will work with relevant trade unions to ensure the Scheme is understood by all interested parties. Efforts will be made to ensure all pension related issues are communicated effectively with the trade unions.

- **Employer Representatives** - we will work with relevant employer representative bodies to ensure that the Fund's views are represented to employer groups.

- **London CIV** – the London Collective Investment Vehicle was established by a group of 32 London based Councils to invest assets on a pooled basis for the LGPS Funds administered by those Councils. It is important that the London CIV understands the Fund's strategies so that the assets are invested in accordance with those strategies. Communication with the CIV will be in a number of ways including directly at officer level and via the various committees and groups established as part of the London CIV governance structure. The Hackney Pensions Committee will also receive regular updates on the activities of the CIV and will also be responsible for deciding the assets to be invested in the CIV. The Group Director, Finance and Corporate Resources, is a non-executive Director of the London CIV Board which is a further method of exchanging information. The Chair of the Pensions Committee and the Group Director, Finance and Corporate Resources, are also members of the London CIV Shareholders Committee.

- **Pension Fund Investment Managers, Advisers and Actuaries** –
  - Regular meetings with the Fund Managers who invest funds on behalf of the Fund.
  - Regular meetings with Investment Advisers who provide help and advice on the asset allocation and investments of the Fund
  - Regular meetings with the Fund's Benefits and Governance Advisers who provide guidance on the administration of the Fund and its governance arrangements.
  - Regular meetings with the Fund Actuary to discuss funding levels, employer contributions and valuation of the assets and liabilities of the Fund

- **Pension Fund Custodian** – The Fund's Custodian is HSBC, who ensures the safekeeping of the Funds investment transactions and all related share certificates.

- **Third Party Administrator** – Hackney Council has chosen to outsource the administration of the Fund to a third party administrator who is responsible for maintaining all pension scheme member records, calculating and communicating scheme members' entitlements and liaising with employers to collect pension related information and contributions. The Fund's current third party administrator is Equiniti.

- **AVC Provider** – Additional Voluntary Contributions (AVC) are a way to top up your pension benefits, and in some instances provide tax free lump sum depending on the policy, and are held and invested separately from the LGPS. The Funds current AVC provider is Prudential

- **Pensions and Lifetime Savings Association (PLSA) (previously known as NAPF)** – The Fund is a member of PLSA, which provides an opportunity for administering authorities to discuss issues of common interest and share best practice.

- **Local Authority Pension Fund Forum (LAPFF)** – The Fund is a member of LAPFF which was established to help local authority funds share information and ideas about socially responsible investing.

- **London Pension Officers Group (LPOG) & London Pension Officers Forum (LPOF) –** the Fund is a member of these voluntary groups. Meetings are held on a quarterly basis to share information and ensure standardised interpretation of LGPS regulations and best practice.

- **Requests for Information (FOI)** - Requests for information either under the Freedom of Information Act or otherwise, will be dealt with as openly and swiftly as allowed providing that such information does not breach confidentiality.

- **Consultations** – There are occasions when the administering authority will consult with interested parties either as a result of potential changes to the regulations governing the LGPS or specific policy changes relating to the Hackney Pension Fund. In these instances, the most effective way of communicating with interested parties is to hold a period of consultation, during which, they are given the opportunity to respond to specific changes. Interested parties and representative groups will be approached to provide feedback to the policy changes before amendments are enacted.

- **Minority Groups** – It is recognised that there may be occasions when some minority groups may not be able to access all the information available to others. The Pension Fund will try to ensure that information is available to the widest possible audience and as such will try to ensure that minority groups do have access to information. This is however a developing area, but feedback on how to promote better access for all minority groups is welcome.

Measuring whether we meet our Communication Strategy objectives

The Fund will monitor success against our communication objectives in the following ways

Objectives	Measurement
Promote the scheme as a valuable benefit and provide sufficient and up to date information so members can make informed decisions about their benefits	Customer satisfaction surveys with scheme members achieving 90% of scores in positive responses in these areas
Communicate in a plain language style	Customer satisfaction surveys with employers and scheme members achieving 90% of scores in positive responses in these areas
Ensure the Fund use the most appropriate means of communication, taking into account the different needs of different stakeholders	Customer satisfaction surveys with employers and scheme members achieving 90% of scores in positive responses in these areas
Look for efficiencies in delivering communications including greater use of	Evidence of consideration given towards available technology solutions

technology	
Evaluate the effectiveness of communications and shape future communications appropriately	Satisfaction survey is undertaken annually, and/or on an ongoing basis Results from satisfaction survey are thoroughly analysed and investigated, and trends monitored from previous periods (at least annually) Detailed analysis of survey results is used to identify areas to improve communications in future

An overview of our performance against these objectives will be reported within the Fund's Annual Report and Accounts and also reported on an ongoing basis to the Pension Fund Committee and Pension Board.

If performance is substantially below standard (whether by a large margin for a short period of time or a small margin for a longer period of time) the Fund will formulate an improvement plan. This will be reported to the Fund’s Pension Fund Committee and Pension Board together with an ongoing update on achievement against the improvement plan.

Key Risks

The key risks to the delivery of this Strategy are outlined below. Fund officers will work with the Pensions Committee and Pension Board in monitoring these and other key risks and consider how to respond to them.

- Significant external factors, such as national change, impacting on workload
- Lack or reduction of skilled resources due to difficulty retaining and recruiting staff members
- Inadequate performance of Equiniti against service standards
- Increase in the number of employing bodies causes strain on day to day delivery
- Incorrect calculation of members' benefits, resulting in inaccurate costs
- Employer’s failure to provide accurate and timely information resulting in incomplete and inaccurate records. This leads to incorrect valuation results and incorrect benefit payment
- Issues in production of annual benefits statements, e.g. wrong address and printing errors due to external supplier
- Failure to administer the scheme in line with regulations. This may relate to delays in enhancement to software or regulation guidance
- Failure to maintain records adequately resulting in inaccurate data
- Unable to deliver an efficient service to pension members due to system unavailability or failure.

Communication Material

The table below shows the Fund communications along with their publication frequency and the format in which they are available to their intended audience.

Communication Material	Paper form	Electronic form	Website	Frequency	Intended Audience (active, deferred, pensioner, prospective members, employers or ALL)
Annual Benefit Statements	✓	✓	✗	Annually	Active, Deferred
Annual Newsletter	✓	✓	✓	Annually	ALL
Pension Updates	✓	✓	✓	When details available	Active, Prospective, Employers
Ad hoc Newsletters	✓	✓	✓	As required	ALL
Newsletter	✗	✓	✓	Quarterly	Employers (& schools)
Payslips	✓	✓	✗	Monthly	Pensioners
Notice of Pension Increase (PI)	✓	✗	✓	Annually (April)	Pensioners
Scheme Updates/Changes	✓	✓	✓	As required	Active members/Employers (& schools)
Scheme Guides	✗	✓	✓	When requested	ALL
Induction Sessions	✓	✓	✗	Weekly	Prospective
Pre-Retirement Seminars	✗	✓	✓	As required	Active
Employer Forum	✗	✓	✓	Annually	Employers
Pensions Administration Strategy (PAS)	✗	✓	✓	Annually (April)	Employers (& schools)
Pension Committee	✓	✓	✓	4 to 6 meetings per financial year	ALL

Pension Board	✓	✓	✓	2 meetings per financial year	ALL
Communications Strategy Statement	✗	✓	✓	Annually (April)	ALL
Full Report & Accounts	✓	✓	✓	Annually (September)	ALL
Summary Report & Accounts	✓	✓	✓	Annually	Active, Deferred, Pensioner
Statement of Investment Principles	✓	✓	✓	Annually (April)	ALL
Ad-Hoc Queries	✓	✓	✗	Within set timescales	ALL

Feedback

The Fund welcomes comments and feedback from scheme members, scheme employers, prospective members and other interested parties. The mechanisms for feedback include consultation periods, direct communication with the scheme administrators, use of on-line facilities and direct communication with the Financial Services Section, which oversees all aspects of the Pension Fund.

Feedback Mechanism	Paper form	Electronic form	Website	Frequency	Intended Audience (active, deferred, pensioner, prospective members, employers or ALL)
Employer Forum	✓	✗	✗	Annually (Feb/March)	Employers
Pensions Administration Strategy (PAS)- consultation period	✗	✓	✗	Annually (Jan/Feb)	Employers (& schools)
Weekly Inductions/Pre-retirement seminars	✓	✓	✗	When held	Prospective/Actives
Customer Satisfaction Surveys	✓	✓	✗	Annually	ALL
Ad hoc Surveys	✓	✓	✗	When required	ALL/specific audience

The feedback received on the PAS, Employer Forums and Weekly Inductions/Pre-retirement seminars are reported to the Pension Committee on a regular basis. Committee reports will also incorporate the results and feedback on annual bulk or specific surveys that may be undertaken by the Fund in conjunction with the pension administrators, Equiniti.

The results and feedback will be used to assist the Fund to continually make improvements to the service by amending/updating its administration practices, increasing efficiency and thereby improve members experience when contacting/interacting with the Fund and the administrators. Enhancements and efficiencies to the service will be reported to Pensions Committee and/or Pensions Board as appropriate.

Contact Details

Contact details are provided below for the relevant departments. General administrative queries relating to pension scheme membership issues should be addressed to:

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

Tel No: 01293 603 085
To contact them by email -

- for members of the scheme - hackney.pensions@equiniti.com

- for Administration staff – hackney.employers@equiniti.com

For other queries and feedback issues, please contact:

Financial Services Section
London Borough of Hackney
Financial Management
4th Floor Hackney Service Centre
1 Hillman Street
London
E8 1DY

Tel no: 020 8356 2521
Email: pensions@hackney.gov.uk

Review of the Communications Strategy Statement

This strategy document will be reviewed at least annually and updated as required when there are significant changes to be made and, if appropriate, will be consulted upon with the relevant stakeholders.

Regulatory Background

Local Government Pension Scheme Regulations 2013

Below is the relevant extract from the Local Government Pension Scheme Regulations 2013, Regulation 61, which sets out the requirements of the Communications Policy for LGPS Funds

Statements of policy concerning communications with members and Scheme employers

61. (1) An administering authority must prepare, maintain and publish a written statement setting out its policy concerning communications with—

(a) members;

(b) representatives of members;

(c) prospective members; and

(d) Scheme employers.

(2) In particular the statement must set out its policy on—

(a) the provision of information and publicity about the Scheme to members, representatives of members and Scheme employers;

(b) the format, frequency and method of distributing such information or publicity; and

(c) the promotion of the Scheme to prospective members and their employers.

(3) The statement must be revised and published by the administering authority following a material change in their policy on any of the matters referred to in paragraph (2).

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REPORT OF THE GROUP DIRECTOR, FINANCE & CORPORATE RESOURCES		
Pension Fund Admissions Policy & Funding Strategy Statement - Admitted Bodies (2019) **Pensions Committee** **26th March 2019**	**Classification** **Public** **Ward(s) affected** **ALL**	**Enclosures** **One**

1. INTRODUCTION

1.1 This report introduces updates to the Pension Fund Admissions Policy and Pension Fund Funding Strategy Statement. The Admissions Policy is concerned with the admission of new employers to the Fund when external contractors take on staff who are members, or eligible to be members, of the LGPS under a TUPE arrangement.

2. RECOMMENDATION

2.1 The Pensions Committee is recommended to:

- **Approve the updated Admissions Policy, Employer Admissions to the Fund (2019)**

3. RELATED DECISIONS

- Pensions Committee 21 September 2015 – Admitted Bodies and Bulk Transfers Policy
- Pension Committee 29 September 2014 – Administering Authority Discretions Policies
- Pension Sub-Committee 26 June 2012 – Administering Authority Discretions Policies
- Pension Sub-Committee 26 June 2012 – Admitted Bodies and Bulk Transfers

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

4.1 Admitting a new employer to the Pension Scheme can expose the Pension Fund to financial and reputational risk. Whilst an admissions policy is not required under the regulations, it is a discretion, it ensures prudent financial management to have clear policy on admissions in place in order to protect both the Scheme's assets and reputation.

4.2 Prior to admission, an actuarial assessment is undertaken to determine the level of contributions required by the employer and whether there is a requirement for a guarantor or bond. Regular monthly monitoring is undertaken by the pension administrators to ensure that contributions are accurate and received on time.

4.3 On termination, a calculation is undertaken to determine any outstanding liabilities in order to recover from the ceasing employer. The LGPS (Amendment) Regulations, in force from 14 May 2018, now provide for the payment of an Exit Credit by the administering authority, to a ceasing employer of the Fund, and as such the Admission Policy has been updated to incorporate the change in regulation and to clarify the Funds criteria in regard to this.

4.4 The use of a sound admissions and termination policy will help protect the Fund from financial loss. To date the Fund has not suffered major financial loss due to the failure of scheme employers, however, given the current financial climate and the increase in admitted bodies in recent years, it is increasingly important to have a sound policy put in place.

5 COMMENTS OF THE DIRECTOR OF LEGAL AND GOVERNANCE

5.1 The Local Government Pension Scheme (LGPS) Regulations 2013, Schedule 2 Part 3 sets out the type of bodies with whom an administering authority may make an admission agreement. The decision to introduce a policy around admissions is at the discretion of the administering authority. Setting out a policy on admissions helps to improve the Fund's governance arrangements and is consistent with best practice.

5.2 Paragraph 13 of Pensions Committee's Terms of Reference states that it is responsible for determining all matters related to admission body issues; the consideration of the Fund's Admission's Policy therefore lies within the remit of Pensions Committee.

6. ADMISSIONS POLICY

6.1 Admission bodies are a specific type of employer under the Regulations that govern the LGPS and usually arise as a result of services being outsourced. The Fund currently has a mixture of Scheme employers, such as the Council and admission bodies both community of interest and transfer of service (contractors) bodies, and it is prudent to have an up to date policy in place which sets out the Fund's approach to admission bodies and helps to clarify the roles and responsibilities, not just of the Fund, but also for contractors and awarding authorities.

6.2 Following amendment in May 2018, the LGPS Regulations 2013 now provide for the payment of an Exit Credit by the administering authority to a ceasing employer of the Fund. Where a ceasing employer's liabilities are fully funded and there is surplus of assets in the Fund relating to that employer, an exit credit must be paid by the administering authority to an exiting employer. This has significant implications for both the Fund and employers, particularly where risk-sharing arrangements are in place. It is understood, however, that these provisions are currently subject to scrutiny by Government and may be liable to change in future.

6.3 Officers of the Council have been working with the Fund's Legal advisers and actuary to update the Admissions Policy, incorporating the updates made to the regulations where risk sharing arrangements are in place. If, following the review period, the regulatory provisions regarding exit credits remain in force, further revisions to the policy may be considered to reduce the wider risks around exit credits. However, given the current uncertainty over the issue, it seems prudent to focus at this time on mitigating the risks to the Fund currently associated with risk sharing arrangements already in place. Further details regarding the changes around exit credits are provided in section 7 of this report.

6.4 The Policy has also been updated to incorporate detailed arrangements in respect of the approval process for admitting contractors to the Fund. The report clarifies the delegated permissions of the Responsible Officers of the Fund in determining whether to admit or refuse entry to the Fund, having regard to the admission criteria as set out in Section 10 of the Policy.

6.9 Under the Academies Act 2010, former maintained schools can apply for academy status, allowing them to operate independently from Local Authority control, and assume responsibility for managing their own finances. Academies may exist as separate legal entities or be grouped together as multi-academy trusts (MATs). Free schools can also be set up outside of direct local authority control, acting in much the same way as academies and as such, are not required to be covered by the Admission Policy.

6.10 On approval, a copy of the Policy will be placed on the Pension Fund website and will be made available to prospective admission bodies. This will assist Officers when dealing with prospective contractors and letting authorities make clear their roles and responsibilities.

7. EXIT CREDITS

7.1 The Local Government Pension Scheme (Amendment) Regulations 2018 (Statutory Instrument 2018 No. 493) was published in May 2018, introducing the following provision:

64. (2) When a person becomes an exiting employer, the appropriate administering authority must obtain-

(a) an actuarial valuation as at the exit date of the liabilities of the fund in respect of benefits in respect of the exiting employer's current and former employees; and

(b) a revised rates and adjustments certificate showing the exit payment due from the exiting employer or exit credit payable to the exiting employer in respect of those benefits.

(2ZA) If an exit credit is payable to an exiting employer, the appropriate administering authority must pay the amount payable to that employer within three months of the date on which that employer ceases to be a Scheme employer, or such longer time as the administering authority and the exiting employer may agree.

(2ZB) When an administering authority has paid an exit credit to an exiting employer, no further payments are due from that administering authority in respect of any surplus assets relating to the benefits in respect of any current or former employees of that employer as a result of these Regulations.

7.2 Therefore where a ceasing employer's liabilities are fully funded and there is surplus of assets in the Fund relating to that employer, an exit credit must be paid by the administering authority to an exiting employer within 3 months of the date on which the employer ceases to be a scheme employer, or such a longer time as agreed between the administering authority and the exiting employer. Once paid, no further payments are due from the administering authority in respect of any surplus assets relating to the benefits of any current or former employees of the exiting employer.

7.3 The Regulations are silent, however, in regard to employers in the Fund who already have, or will have, a "pass-through", "cap & collar" or other "risk sharing" arrangement stipulated in their contract with the letting authority. In these circumstances, it is unreasonable for ceasing employers to receive an exit credit if associated costs of being in the Fund have been 'passed through' to the letting authority, or have been ‘capped’ with the letting authority picking up any extra costs whilst their contractor is in the Fund.

7.4 The Fund’s Policy in relation to new contracts, states that those employers with any form of “risk sharing” arrangements, such as pass-through or cap & collar, in place when they enter the Fund will not be entitled to receive an exit credit upon ceasing, nor will the letting authority.

7.5 For existing employers in the Fund prior to the regulation change in May 2018, and contracts are extended or renewed, they will need to agree with the Fund via a ‘side-agreement’ that:-

- If there is a surplus at the end date of the original contract, then the provider will be offered an extension on the basis that any future exit credit will not exceed the surplus at the end of the original contract.

- If there is a deficit at the end date of the first contract period, then this will continue and any deficit as at the end of the subsequent contract period will be sought from the provider.

7.6 If, as set out in Section 6, the current exit credit provisions remain in force, further amendments to the Admissions Policy may be considered. These could include the introduction of mandatory pass-through for small, short-term admission bodies. This would limit employer liability for deficits, but also limit the Fund’s liability for exit credits. Given that this would represent a significant change from current policy, such an amendment will not be considered until confirmation is received that the provisions regarding exit credits will remain in force for the foreseeable future.

Ian Williams
Group Director, Finance & Corporate Resources

Report Originating Officers: Julie Stacey ☎020-8356 3565
Financial considerations: Michael Honeysett ☎020-8356 3332
Comments of the Director of Legal and Governance: Patrick Rodger, Senior Lawyer, Legal Services ☎020-8356 6187

List of Appendices
Appendix 1 - London Borough of Hackney Pension Fund, Admissions Policy, Employer Admissions to the Fund (2019)

LONDON BOROUGH OF HACKNEY PENSION FUND

ADMISSIONS POLICY

(Employer Admissions to the Fund)

For the Local Government Pension Scheme (LGPS)

Approval date – March 2019
Review date – March 2021
Draft Version 1

CONTENTS

Introduction

1 Purpose

The key purpose of this policy is to set out the criteria that the London Borough of Hackney Pension Fund (the "**Fund**") will use for admitting new employers to the Local Government Pension Scheme (the "**LGPS**").

The Fund is administered by the London Borough of Hackney (the "**Administering Authority**").

In establishing this policy, the Fund's main aims are:

- to minimise the risk and consequences of an employer being unable to fulfil its responsibilities as an employer of the Fund and meet the pension promises its employees have earned;
- to admit new employers where viable in order to provide access to the LGPS for eligible employees; and
- where new employers are admitted, to ensure sufficient protections are in place to minimise the funding risks.

This policy is effective from April 2019.

This policy should be read in conjunction with the Fund's current Funding Strategy Statement (FSS) and relevant legislation from time to time.

In exceptional circumstances there may be departure from parts of this policy but only with prior agreement of the Pensions Committee.

2 Reliance and Limitations

This policy is not to be construed as advice to any employer. It sets out the background to the Fund's policy on admission bodies, but it should be noted that the approach in any specific case may depend on the individual circumstances. As such, the guidance in this policy is generic.

All interested parties should seek their own legal advice to ensure they are clear about their responsibilities and the potential liabilities of participating in the LGPS.

3 Interaction with Funding Strategy Statement (FSS)

The FSS sets out high level policies in a number of areas relating to admission agreements. The keys areas covered by the FSS are:-

- The purpose and aims of the Fund;
- Solvency and target funding levels;
- Links to investment strategy;
- Key risks and controls.

The information contained with the FSS applies equally to admission bodies. This admission body policy further clarifies the operation of the FSS within the Fund.

4 Definitions used in this policy

In this policy, defined terms have the meanings set out below:

“2013 Regulations”	the Local Government Pension Scheme Regulations 2013.
"Administering Authority"	the London Borough of Hackney acting in its capacity as the administering authority of the Fund
"FSS"	the Fund's most recent Funding Strategy Statement from time to time
"Fund"	the London Borough of Hackney Pension Fund
"LGPS Regulations"	the 2013 Regulations and the Transitional Regulations
"Scheme"	the Local Government Pension Scheme (England & Wales)
“Transitional Regulations”	the Local Government Pension Scheme (Transitional Provisions, Savings and Amendment) Regulations 2014

Any reference in this policy to any statute or statutory provision will include any subordinate legislation made under it and will be construed as a reference to such statute, statutory provision and/or subordinate legislation as modified, amended, extended, consolidated, re-enacted and/or replaced and in force from time to time.

The Regulatory Framework

5 The LGPS Regulations

The 2013 Regulations, in force since 1 April 2014, clearly set out those organisations that Administering Authorities may have admission agreements with -

<u>Schedule 2 Part 3</u>

Paragraph 1

The following bodies are admission bodies with whom an administering authority may make an admission agreement:

(a) *a body which provides a public service in the United Kingdom which operates otherwise than for the purposes of gain and has sufficient links with a Scheme employer for the body and the Scheme employer to be regarded as having a community of interest (whether because the operations of the body are dependent on the operations of the Scheme employer or otherwise);*

(b) *a body, to the funds of which a Scheme employer contributes;*

(c) a body representative of:
(i) any Scheme employers, or
(ii) local authorities or officers of local authorities;

(d) a body that is providing or will provide a service or assets in connection with the exercise of a function of a Scheme employer as a result of:
(i) the transfer of the service or assets by means of a contract or other arrangement,
(ii) a direction made under section 15 of the Local Government Act 1999 (Secretary of State's powers),
(iii) directions made under section 497A of the Education Act 1996;

(e) a body which provides a public service in the United Kingdom and is approved in writing by the Secretary of State for the purpose of admission to the Scheme.

Most admission bodies fall under Schedule 2, Part 3, 1(a) or 1 (d)(i):-

Schedule 2, Part 3, 1(a) (**formerly known as a community admission body)** is a body which provides a public service in the United Kingdom which operates otherwise than for the purposes of gain and has sufficient links with a Scheme employer for the body and the Scheme employer to be regarded as having a community of interest (whether because the operations of the body are dependent on the operations of the Scheme employer or otherwise).

It is admitted to the Fund by way of an admission agreement. Employees of the admission body can join the LGPS if the admission agreement allows it.

Schedule 2, Part 3, 1 (d) (i) (**formerly known as a transferee admission body**)
is a body that is providing or will provide a service or assets in connection with the exercise of a function of a Scheme employer as a result of the transfer of the service or assets by means of a contract or other arrangement.

It is a commercial entity and is admitted to the Fund by way of an admission agreement. Employees of an admitted body can join the LGPS if the admission agreement allows it.

Regulation 3 – Active membership

Paragraph 5

Where an administering authority enters into an admission agreement with an admission body:

(a) *the admission body must comply with the requirements specified in paragraphs 3 to 12 of Part 3 of Schedule 2; and*

(b) *these Regulations apply to the admission body and to employment with the admission body in the same way as if the admission body were a Scheme employer listed in Part 2 of Schedule 2.*

LGPS (Amendment) Regulations, in force from 14 May 2018

Regulation 64.
Special circumstances where revised actuarial valuations and certificates must be obtained

64. -(1) Subject to paragraph (2A), if a person-

(a) ceases to be a Scheme employer (including ceasing to be an admission body participating in the Scheme), or

(b) is or was a Scheme employer, but irrespective of whether that employer employs active members contributing to one or more other funds, no longer has an active member contributing towards a fund ("a relevant fund") which has liabilities in respect of benefits in respect of current and former employees of that employer,

that person becomes "an exiting employer" in relation to the relevant fund for the purposes of this regulation and is liable to pay an exit payment or entitled to receive an exit credit.

(2) When a person becomes an exiting employer, the appropriate administering authority must obtain-

(a) an actuarial valuation as at the exit date of the liabilities of the fund in respect of benefits in respect of the exiting employer's current and former employees; and

(b) a revised rates and adjustments certificate showing the exit payment due from the exiting employer or exit credit payable to the exiting employer in respect of those benefits.

(2ZA) If an exit credit is payable to an exiting employer, the appropriate administering authority must pay the amount payable to that employer within three months of the date on which that employer ceases to be a Scheme employer, or such longer time as the administering authority and the exiting employer may agree.

(2ZB) When an administering authority has paid an exit credit to an exiting employer, no further payments are due from that administering authority in respect of any surplus assets relating to the benefits in respect of any current or former employees of that employer as a result of these Regulations.

(2A) An administering authority may by written notice ("a suspension notice") to an exiting employer suspend that employer's liability to pay an exit payment for a period of up to 3 years starting from the date when that employer would otherwise become an exiting employer, if the condition in paragraph (2B) is met.

(2B) The condition mentioned in paragraph (2A) is that in the reasonable opinion of the administering authority the employer is likely to have one or more active members contributing to the fund within the period specified in the suspension notice.

(2C) If an administering authority serves a suspension notice on an employer, unless that suspension notice is withdrawn, paragraph (2) does not apply in respect of that employer, but the employer must continue to make such contributions towards the liabilities of the fund in respect of benefits in respect of the employer's current and former employees as the administering authority reasonably requires.

(3) Where for any reason it is not possible to obtain all or part of the exit payment due from the exiting employer, or from an insurer, or any person providing an indemnity, bond or guarantee on behalf of the exiting employer, the administering authority must obtain a further revision of any rates and adjustments certificate for the fund showing-

(a) in the case where a body is an admission body falling within paragraph 1(d) of Part 3 of Schedule 2 to these Regulations (Scheme employers: bodies providing services as a result of transfer of a service), the revised contribution due from the body which is the related employer in relation to that admission body; and

(b) in any other case, the revised contributions due from each Scheme employer which contributes to the fund,

with a view to providing that assets equivalent to the exit payment due from the exiting employer are provided to the fund over such period of time as the administering authority considers reasonable.

(4) Where in the opinion of an administering authority there are circumstances which make it likely that a Scheme employer (including an admission body) will become an

exiting employer, the administering authority may obtain from an actuary a certificate specifying the percentage or amount by which, in the actuary's opinion-

(a) the contribution at the primary rate should be adjusted; or

(b) any prior secondary rate adjustment should be increased or reduced,

with a view to providing that assets equivalent to the exit payment that will be due from the Scheme employer are provided to the fund by the likely exit date or, where the Scheme employer is unable to meet that liability by that date, over such period of time thereafter as the administering authority considers reasonable.

(5) When an exiting employer has paid an exit payment into the appropriate fund, no further payments are due from that employer in respect of any liabilities relating to the benefits in respect of any current or former employees of that employer as a result of these Regulations.

6 Discretions under the 2013 Regulations

When an Administering Authority is considering permitting a body to become an admission body, the 2013 Regulations include a number of discretions relating to the creation and management of admission agreements. These discretions are considered within the remainder of this policy.

THE FUND'S APPROACH TO EMPLOYER RISKS

Background

It is essential for the Administering Authority to establish their fundamental approach to the risks involved in the admission of new employers to the fund.

The admission body is responsible for any surplus or deficit arising during the period of the admission agreement so that when the admission agreement ceases, it is 100% funded. However, ultimately, if the body was to fail or cease to exist and any deficit cannot be met by the body or claimed from any bond or indemnity, the liability will fall to the other employers in the Fund (either, the awarding authority, any guarantor employer or all other employers, depending on the circumstances). It is prudent therefore for the Fund to ensure any such risks are minimised and mitigated.

Although the risks may not be able to be eliminated completely, there are a number of options that can be considered to try and mitigate these risks. These are summarised below and considered in more detail as part of this policy:

- Allocating assets on entry;
- Consideration of who can become admission bodies;
- Requirements for a bond or guarantor;
- Potentially levying a higher contribution rate e.g. due to a change of circumstances at the admission body during the contract term that increases the risk of termination and/or under-funding;
- Having clear termination clauses;
- Putting in place a wide ranging and unambiguous admission agreement;
- Reviewing the bond annually;
- Monitoring individual employer experience and status (e.g. salary experience, continued ability of employees to join the Fund);
- Monitoring employer covenant;
- Requiring the cost of all early retirements and topped up benefits to be paid as a lump sum;
- Monitoring other costs and levying a lump sum where necessary;
- Additional valuations in the final lead up to termination and adjusting contributions accordingly;
- Funding basis for cessation calculations;
- Including a requirement to reimburse all actuarial, legal and other appropriate fees relating to the admission.

The following sections will consider these further in relation to the various stages of the admission body cycle.

7 Entry Conditions and Requirements

London Borough of Hackney, as Administering Authority, is responsible for deciding which applications to become admission bodies within the Fund should be declined or accepted. Clearly an overriding requirement is that the body meets the entry requirements outlined within the LGPS Regulations. Beyond that, the London Borough of Hackney can:

- ***for a body with links to a Scheme employer (formerly known as a community admission body – CAB)*** - have complete flexibility in deciding whether or not to accept applications. It is therefore appropriate for London Borough of Hackney to determine what entry criteria exists for employers to become admission bodies within Fund, and

- ***for outsourced service providers (formerly known as a transferee admission body- TAB)*** - in line with the December 2009 CLG guidance on admission bodies, admit a service provider if the service provider and the awarding authority agree to meet the requirements of the LGPS Regulations and the terms of the Funds admission agreement.

Fund Policy

The overlying principle is that the Fund will only enter into an admission agreement with a body that:

- Provides services linked to one of the Scheme employers in the Fund where such an arrangement is beneficial to the relevant Scheme employer. The interests of the body must be closely aligned to the work of the Scheme employer and meet the requirements in the LGPS Regulations, or

- Provides services on behalf of one of the Scheme employers in one of the ways prescribed in the LGPS Regulations.

The Fund will enter into an admission agreement that is ‘open’ or ‘closed’ to new employees.

8 Bond / Indemnity or Guarantor Requirements

Before agreement is given for a new potential admission body to participate in the Fund, it is important to understand and minimise the risk it might place on the Fund and the other employers in it. Generally this risk relates to the costs of liabilities (i.e. under-funding) not yet paid for at the point of termination of the admission agreement. Termination can occur for a number of reasons, including the natural end of a contract, a takeover or a body going into liquidation.

Under the terms of the LGPS Regulations, a termination valuation is carried out at the point of cessation in order to ascertain the final payment due relating to any deficit. Where the admission body is unable to meet the outstanding payment, the payment must be collected from:

- any insurer or person providing an indemnity or bond on behalf of that body (this might include a guarantor, such as a sponsoring employer or central government department);

and where that is not possible:

- in the case of a service provider, from the awarding authority for that service provider; or

- in the case of any other admission body, from each other employing authority within the Fund.

The outstanding deficit at the point of termination may largely already exist due to adverse experience but could be increased by additional liabilities resulting from the termination. The risks relating to the potential of a deficit arising at the point of termination include:

- redundancy early retirements, on premature termination of the contract;
- current funding strain (this will be zero at outset if the service provider commences on a fully funded position);
- asset underperformance;
- lower gilt yields than at the outset (i.e. the risk that the future return available from government bonds falls, leading to a higher value being placed on the liabilities and hence under funding on premature termination);
- the conservative nature of the financial and mortality assumptions which may be used in the cessation calculations;
- greater than expected salary increases over the term of the contract;
- the cost of ceasing participation in Fund (e.g. termination costs covering the need for a cessation valuation and all of the necessary additional administration costs); and
- unpaid contributions.

The LGPS Regulations do include some requirements to reduce these risks, including:

- the need for the awarding authority (or Administering Authority in the case of some national Directions) to carry out a risk assessment on the premature termination of a service provider upon insolvency, winding up or liquidation and, where they consider it necessary taking into consideration the results of that assessment, require the service provider to put in place a bond or indemnity to cover the level of risk identified.

- where a body with links to an employer in the fund’s entry criteria relates to them receiving funding from a Scheme employer and that funding is less than 50% of the total funding it receives from all sources, that Scheme employer must agree to act as a guarantor in relation to any deficit on termination.

As the potential deficit relating to the above risks can fluctuate, often on a daily basis, there is no guarantee that any bond or indemnity payout (which is based on a fixed level of cover that is renewed annually) will be sufficient to secure 100% funding of the departing employer’s liabilities in Fund. Any remaining shortfall would fall on the guarantor, awarding authority or on all other employers in Fund, as appropriate under the LGPS Regulations and admission agreement.

To minimise the risks further, LGPS funds often may put in place further requirements or processes, such as looking for a guarantor or a bond or indemnity. In some circumstances, particularly in the case of CABs, it may not be necessary to put a bond or indemnity in place. Instead a body closely linked to the admission body may agree to act as guarantor, meaning that it will become liable for any pension costs should the admission body fail or cease to exist.

Fund Policy

The Fund will require any potential admission body to provide:-

For a body with links to a Scheme employer

a guarantor considered by the Fund to be strong, secure and financially durable (generally only a local authority or central government department) or a bond/indemnity the Fund considers to have equivalent strength.

For a service provider

a preference for a bond or indemnity to be provided but this is not a mandatory requirement as the awarding authority is in effect a guarantor already under the terms of the LGPS Regulations. The awarding authority will be required to confirm the approach it wishes to take.

In all circumstances where a bond or indemnity is provided, the bond or indemnity must be re-evaluated and renewed on an annual basis at the providers cost.

9 Risk Sharing

It is becoming commonplace for awarding authorities and service providers to enter into risk sharing arrangements as part of the provision pension benefits. This can take many forms, for example:

- fixed employer contribution rates (often higher than the certified rate);
- ceilings and floors to the employer contribution rate;
- 'pass through' arrangements;
- the awarding authority paying all, or a proportion of any deficit on termination;
- certain elements of the employer contribution rate being the responsibility of the awarding authority (e.g. past service, investment returns, ill-health retirement);
- waiving the requirement to provide a bond or indemnity;
- pooling the new admission body with the Scheme employer.

These arrangements do not change the true cost of pension benefits; they only change who is responsible for them. These arrangements can be challenging to put in place and to monitor, and are often subject to dispute from the parties involved.

Fund Policy

In order to avoid the pension fund becoming involved in any disputes relating to risk sharing and to protect the other participating employers, the Fund will not be party to any risk sharing agreement between any employer (awarding authority) and a service provider.

Accordingly, any such arrangements will not be detailed in the admission agreement and the admission body will be required to follow the principles of agreement as if no such risk sharing was in place and as if they were any other employer within the Fund; it will then be up to the awarding authority and the service provider to put in place separate steps to allow the risk sharing to be implemented (e.g. via the contract payments).

Accordingly the service provider will be required to pay the certified employer contribution rate to the Fund and any other contributions required e.g. early retirement strain costs, regardless of risk sharing arrangement in place.

The only exceptions to this are:-

- that Fund will be willing to accept payment of any deficit on termination from the awarding authority, rather than the exiting employer
- the potential for the bodies to agree to a pooling arrangement as outlined later in this policy.

It is also acknowledged that, although the Fund will encourage the provision of a bond or indemnity to provide cover on the early termination of the service provider, it is the awarding authority's decision as to whether such a bond or indemnity is required (as they are ultimately a guarantor for all pension costs).

10 Approval Process for becoming an Admission Body

Under the principles of good governance, it is important that a clear and robust approval process is in place when determining whether a body should be allowed to enter into an admission agreement.

Fund Policy

The Funds Pension Committee have allowed Responsible Officers of the Fund to approve, or decline if there is sufficient justification, any applications to join the Fund, and they will be responsible for ensuring any bodies meet the criteria, having regard to the appropriate legal and actuarial advice.

Responsible Officers are:

Head of Pensions Administration, or
Head of Pension Fund Investments
and either are permitted to approve, or decline, entry to the Fund.

Fund admission agreements will generally be standard and non-negotiable, drawn up on advice from the Fund actuary and legal advisor.

These terms will include as well as the provisions required by the LGPS Regulations, details on commencement, transfer, payment, monitoring and termination clauses to protect the other beneficiaries and participants in the Fund.

All applications will be acceptable if either of the Responsible Officers of the Fund named above, are satisfied the criteria are met and the standard terms of the admission agreement are accepted.

All applications to join the fund are reported to the Council's Pensions Committee on an individual basis, for information purposes only.

11 Allocation of Assets

On initial admission, each body will be notionally allocated assets. Thereafter the body's assets and liabilities will be tracked and employer contributions set with a view to achieving solvency at the end of the contract period.

The assets that are notionally allocated for new service providers are usually set equal to 100% of the value of the past service liabilities of any transferring employees.

For others, there may or may not be past service liabilities; where there are, it is typical for a share of fund approach to be adopted.

Fund Policy

The allocation of assets at the commencement of an admission agreement will typically be as follows (unless a pooling arrangement is entered into as described later in this policy):

For new service providers – 100% of the value of the past service liabilities of any transferring employees;

For others - to be agreed in each individual case depending on the circumstances of the case, taking into consideration the views of any transferring employer.

In both cases, the assets will be calculated on a basis consistent with the Fund's Funding Strategy Statement (FSS).

This asset share will be tracked during the period of the admission agreement and adjusted at each formal triennial valuation to take account of the admission body's actual experience over the period since the previous valuation (or date of entry if later) against what was assumed.

This 'analysis of experience' approach allows for all of the main contributors to surplus or deficit, including:

- Surplus/deficit at previous valuation;
- Changes in assumptions;
- Investment returns on money invested;
- Contributions paid by employer versus employer's cost of benefits accrued;
- Any payments of special or additional employer contributions or bulk transfers in/out;
- Changes to pensionable salaries and pensions in payment;
- Ill health retirements and early retirements (on redundancy/efficiency);
- Withdrawals;
- Pensioner mortality.

This approach allows the funding position of the employer to be assessed regularly and on a basis that reflects its actual experience in the Fund. The assets will remain within the main Fund (i.e. no separate admission body fund will be set up).

12 Investment Strategy

Fund Policy

The investment strategy is set for the Fund as a whole, not for each employer's notional share of the Fund.

13 Contribution Rates and Other Costs

At the beginning of each admission agreement, it will be necessary to determine what employer contribution rate will be payable by the admitted body. There will also be circumstances where additional costs arise, such as legal costs or actuarial costs.

Fund Policy

The employer contribution rate will be set in accordance with the funding strategy statement, taking into consideration elements such as:

- any past service;
- whether the admission agreement is open or closed;
- whether the admission agreement is fixed term or not, and the period any fixed contract period;
- the employer covenant and that of its guarantor (if any) and/or any bond or indemnity to be put in place;

In addition the admission body will be required to pay additional payments including, but not limited to:

- lump sums in relation to any early retirements or early payment of pension benefits;
- lump sums in relation to any award of additional benefits;
- re-imbursement of the administering authorities or other bodies costs due to poor administration by the admission body.

The admission body may also be required to pay additional lump sum payments in respect of early payment and/or enhancements for early retirements on ill-health grounds.

As mentioned later, a pooling arrangement may be entered into in certain circumstances which moves away from some of the principles mentioned above.

The Fund will require any actuarial, legal, administration and other justifiable cost to be paid by the admission body. In the case of a service provider it may be agreed that these costs are paid for by the awarding authority (or shared between or amongst them).

The Fund will, if deemed appropriate, communicate the implications of a transfer to the awarding authority and may require the revision of the contribution rate payable by the awarding authority after the transfer occurs.

The Fund reserves the right to require payment by the awarding authority of a lump sum contribution to cover any deficit in respect of transferees.

14 Pooling

There may be circumstances where an admission agreement is created in relation to a small number of staff and the link between a Scheme employer and that body is extremely strong. This may or may not be in an outsourcing situation. In these circumstances, the Scheme employer may consider that they are willing to share some pension risks with the admission body as if the employees were part of their own workforce and that the administrative procedures around putting in place, monitoring and maintaining an admission body are material in comparison to the number of employees and/or liabilities involved.

In these circumstances, the Scheme employer and the admission body may both agree that a pooling arrangement is an appropriate alternative means of ongoing funding. In simple terms, this will allow the two bodies to effectively be treated as if it were one employer. As a result the same employer contribution rate and other funding arrangements will apply (generally equally) in relation to all members.

<u>Fund Policy</u>

The Fund may allow smaller employers to pool their contributions as a way of sharing experience and smoothing out the effects of costly but relatively rare events such as ill health retirements or death in service.

- Service providers are **ineligible** for pooling.
- Other admitted bodies that are deemed to have closed to new entrants are also **not permitted** to participate in a pool.

15 Ongoing Monitoring of Admission Bodies

It is important that monitoring of an admission body is carried out throughout the term of any admission agreement and, where considered necessary, appropriate remedial action taken to safeguard all employers within the Fund. This can be carried out in many ways, including:

- Regular reviews of the employer funding level;
- Regular reviews of the employer covenant, where applicable;
- Regular reviews of the potential risk on early termination (including redundancy costs);
- Assessment against actuarial assumptions in areas such as pay growth;
- Requirements on the admission body to notify changes in their circumstances and to provide certain financial information upon request;
- Regular assessment of the value of any security put in place by the employer;
- Checks to see whether an employer has failed to notify the Fund of relevant changes (e.g. closure to new entrants).

<u>Fund Policy</u>

During the period of the admission agreement, the level of risk in relation to any bonds or indemnities in place will be reassessed on an annual basis and the relevant admission bodies will be required to renew their bond or indemnity appropriately. Contribution rates will be reviewed at formal valuations.

In addition, the Fund reserves the right to review contribution rates for admission bodies annually or more frequently, particularly within the final three years before the expected date of termination of the admission agreement.

Furthermore, the Fund will carry out ongoing monitoring and/or put in place processes to assist with ongoing monitoring. If it appears that the liabilities relating to it have increased more than had been allowed for at the preceding triennial valuation, the Fund may review the employer contribution rate (i.e. out with the formal triennial valuation cycle). In addition, the Fund may require employers to provide information to enable the Fund to assess the covenant of the employer and evaluate the scale of obligations to the pension scheme relative to the employer's operating cash-flow.

The Fund will also obtain a revision of contribution rates where it considers there are circumstances which make it likely that an employer will become an exiting employer. Any review of contribution rates will be carried out in consultation with the Fund Actuary.

16 Cessation Terms and Requirements

One of the greatest risks to the Fund (and its participating employers) is that a body ceases to exist with an outstanding deficit that it cannot pay and which will not be met by any bond, indemnity or guarantor. Previous sections of this policy are drafted with a view to safeguarding against this. However, it is also important that the Fund has the flexibility to terminate an admission agreement at the appropriate point to protect the other employers in the fund and to allow it to levy a termination payment (obviously assuming there are appropriate grounds for doing so).

Fund Policy

The Fund will take legal advice on the appropriate termination requirements to be included in admission agreements and these will be incorporated into all admission agreements. These will include the option for an admission agreement to be terminated by the Fund in any of, but not limited to, the following circumstances:

- Where the admission body is not paying monies in a timely manner;
- Where the admission body is not meeting administrative requirements relating to the provision of information;
- Where no further active members exist; or
- Where the employer is wound up, merged or ceases to exist.

17 Planning for a future cessation

When an admission agreement ceases, the employer’s assets should equal its liabilities on an appropriate basis. The LGPS Regulations have provisions that deal with admission bodies which have a time limited admission agreement or it is known that the admission body is going to leave the Fund at some date in the future. This could be in the lead up to a natural end of a contract or at the first indication that a body is going to cease to exist/contract be terminated prematurely.

In these circumstances, the Administering Authority may seek to increase or reduce the admission body’s contributions to the Fund in the period leading up to cessation to target a position where the employer’s assets are equal to its liabilities on an appropriate basis.

Fund Policy

A provisional cessation valuation will be carried out on premature termination of an admission body as soon as the Fund become aware of this likelihood unless the termination is likely to take place in the immediate future. Additional provision cessation valuations may be carried out on the advice of the Fund Actuary.

Where an admission agreement for an admission body that is not a service provider and has no guarantor is likely to terminate within the next 5 to 10 years, or lose its last active member within that timeframe, the Fund reserves the right to set contribution rates by reference to liabilities valued on a gilts basis (i.e. using a discount rate that has no allowance for potential investment outperformance relative to gilts).

The target in setting contributions for any employer in these circumstances is to achieve full funding on a gilts basis by the time the agreement terminates or the last active member leaves in order to protect other employers in the Fund. This policy will increase regular contributions and reduce, but not entirely eliminate, the possibility of a final deficit payment being required when a cessation valuation is carried out.

18 Basis of Termination Valuation

As with any actuarial valuation, the purpose of a termination valuation is not so much to predict the cost of providing the Fund benefits of the relevant members (which will not be known until the last benefit payment is made), but to assess how much the Fund should hold now to meet the future expected benefit payments such that the potential for the requirement for additional funds are limited in the future. The amount required is heavily influenced by the basis used for the calculation of the liabilities, which in turn will ultimately depend on the particular circumstances of the cessation. The range of bases can include the ongoing funding basis, a gilts basis and a buy-out basis.

Fund Policy

The Fund's general principle on the cessation of an admission body is to assume a "clean break" on termination, i.e. the departing employer's liability to make further contributions to the Fund is extinguished on payment of the termination deficit calculated on an appropriate basis;

The Fund's policy in relation to the calculation of cessation valuations in various circumstances is shown below, albeit each case will be considered on its own merits

Service providers –
The length of the contract for a service provider will usually be pre-determined and may be specified in the admission agreement.

Employers at the natural end of a contract:-

Once the contract is complete or the employer has completed the services it was contracted to carry out (and no plans for *extending the contract are in place), the employer will leave the Fund. Under these circumstances, it is usual for the remaining active employees to transfer back to the Council or into a second (or later) generation service provider. In this scenario, the Fund would expect that the responsibility for the deferred pensioners and pensioners transfers back to the awarding authority.

The cessation liabilities will normally be calculated on an ongoing valuation basis since the awarding authority will be taking responsibility for funding those liabilities. Where a lower risk investment strategy has been adopted, the assumptions used in the calculation of the cessation liabilities will be consistent with that investment strategy.

If any member is made redundant at the natural end of the contract any resulting early retirement strain will be paid to the Fund by the ceasing employer.

* *If the contract is extended/renewed with the same provider, a side-agreement to the original Admission Agreement will be set up between the provider and the Fund to acknowledge the continuation of the contract, a new termination date and detail any change in employer contribution rate for the extended period.*

If the contractor doesn't already have a "pass through" or risk sharing" arrangement in place at the date of the contract extension, then the following will apply and be noted in the side-agreement to and confirm that:

- *If the same provider is in surplus at the end date of the original contract, then the provider will be offered an extension on the basis that any future exit credit will not exceed the surplus at the end of the original contract.*

- *If the same provider has a deficit at the end date of the first contract period, then this will continue and any deficit as at the end of the subsequent contract period will be sought from the provider.*

Employers that leave the Scheme prior to the natural end of an admission agreement:-

Under these circumstances, it will need to be established whether the current active membership will transfer to another LGPS employer or service provider and who is responsible for any residual and future liabilities in respect of deferred pensioners and pensioners (and also potentially the transferring active members).

For terminating contracts those liabilities that cannot be recovered via a bond/indemnity or guarantor would usually fall back to the awarding authority and ideally this should be written into the admission agreement. Employers falling under this category will be considered on a case by case basis since there may be circumstances where the transfer agreement between the awarding authority and the service provider (to which the Fund is a party) dictate a different approach.

<u>**Those with links to the Scheme employer**</u> –
Admission agreements for these are typically open-ended rather than time-limited. It is now a condition of admission that this type of employer be "sponsored" by another Scheme employer or another public body or to provide an indemnity acceptable to the Fund.

The sponsor (or guarantor) generally assumes responsibility for the assets and liabilities in the Fund which are attributable to this admitted body in the event that they cannot be met.

Where there is a guarantor, as required by this admissions policy, the cessation valuation will normally be calculated using an ongoing valuation basis appropriate to the investment strategy. Where a lower risk investment strategy has been adopted, the assumptions used in the calculation of the cessation liabilities will be consistent with that investment strategy. Where the admission body has no guarantor (these will generally be historical cases), the cessation liabilities and final deficit will normally be calculated using a gilts basis with an allowance for further future mortality improvements.

If for some reason the Fund is not able to recover the full amount of the final deficit then together with any future deficit arising in respect of the membership it will be the responsibility of all the employers in the Fund. In some circumstances, e.g. where employees are transferring to another LGPS employer (which will usually be the guarantor) an ongoing valuation approach may be adopted for any transferring liabilities.

The approach used to carry out a provisional, or indicative cessation valuation should be the same as would be used if the body were ceasing on the calculation date. The Administering Authority reserves the right to use different funding assumptions if they are deemed to be appropriate.

19 Payment of Cessation Deficit or Exit Credit

The LGPS Regulations do not specify whether or not this payment should be paid as a lump sum or whether it is paid in instalments. There is, however, a provision that clarifies what should happen if it is not possible to recover the cessation payment (for example, due to the admission body going into liquidation and no assets being available).

Also under Regulation 25A of the Transitional Regulations, the Administering Authority reserves the right to levy a cessation debt on employers who have ceased participation in the Fund under previous LGPS regulations, but for whom a cessation valuation was not carried out at the time.

In the first instance the Fund will attempt to recover any outstanding payment from any bond or indemnity. If there is a guarantor, this would be a second port of call for the monies.

Fund Policy

Payment of Cessation Deficit

The Fund will collect any deficit on cessation by way of a single lump sum payment where it is the admission body that is making the payment.

Where this is not the case, any outstanding payment once any bond, indemnity or alternative guarantor has been exhausted may be recovered as follows:

For Service Providers

- The outstanding payment will be paid via an increase to the awarding authority's ongoing contribution rate, calculated by spreading the outstanding payment over the awarding authority's pensionable payroll (over a spreading period to be determined by the Fund).
- The fund reserves the right to require payment by immediate lump sum;

For other admission bodies

- Where the deficit is to be spread amongst all the employers in the fund, the rates and adjustments certificate will be adjusted to allow for any ongoing deficit for departed employers at each triennial valuation, commencing from the first triennial valuation after the body departs (unless the results of that valuation have already been finalised).
- Where a Scheme employer has agreed to be the guarantor, the deficit will be paid in the same way as outlined for a service provider (above).

Where however the participation of the exiting employer in the Fund has been subject to a "pass-through" or other "risk sharing" arrangement during the time of their contract then, the funding deficit will revert back to the Scheme Employer who awarded the service contract to the exiting employer.

Payment of any Exit Credit

If it is determined by the fund actuary that there is an exit credit i.e. funding surplus, the Administering Authority is required to pay the specified amount to the exiting employer within 3 months of the exit date or such longer period as agreed between the Administering Authority and the exiting employer.

The Administering Authority therefore requires the exiting employer to provide the information required to calculate the cessation valuation within 2 weeks of the exit date in order to meet this deadline. If this information is delayed, then the Administering Authority requires the exiting employer to amend the payment date of any surplus to 3 months from the date all of the leaving information is received by the Fund.

Where however the participation of the exiting employer has been subject to a "pass-through" or other "risk sharing" arrangement during the time of their contract then, the funding surplus will not revert back to the Scheme Employer who awarded the service contract, nor to the exiting employer.

20 Changes to this Admissions Policy

This policy will be reviewed from time to time, and at least following changes in the regulations or guidance pertaining to admission bodies, or transferring employees' pension rights.

The Fund reserve the right to change this policy at any time without notice. This policy has been reviewed and updated in March 2019 and the next scheduled review is March 2021.

Any queries should be directed to:

Julie Stacey
Head of Pensions Administration
London Borough of Hackney
4th Floor, Hackney Service Centre
1 Hillman Street
London Borough of Hackney E8 1DY

Email: julie.stacey@hackney.gov.uk.

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Hackney

REPORT OF THE GROUP DIRECTOR, FINANCE AND CORPORATE RESOURCES		
Conflicts of Interest Policy **Pensions Committee** **26th March 2019**	Classification **PUBLIC** Ward(s) affected **ALL**	Enclosures One

1. INTRODUCTION

1.1 This report provides the Pensions Committee with an update to the Fund's Conflicts of Interest Policy. The report provides an overview of the changes made to the Policy since its last review by the Committee and recommends the updated Policy for approval.

2. RECOMMENDATIONS

2.1 The Pensions Committee is recommended to:

- **Approve the draft updated Conflicts of Interest Policy**

3. RELATED DECISIONS

- Pensions Committee (31st March 2015) – Conflicts of Interest Policy

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

4.1 Proper management of conflicts of interest helps to reduce financial risk to the Pension Fund by promoting fair and transparent relationships with Fund stakeholders. Maintaining a Conflicts of Interest Policy provides a framework for the disclosure and management of potential conflicts and represents good practice; the costs of maintaining such a policy are not material.

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

5. COMMENTS OF THE DIRECTOR OF LEGAL AND GOVERNANCE

5.1 Regulation 108 of the Local Government Pension Scheme Regulations requires administering authorities to satisfy themselves that none of the members of its Local Pension Board has a conflict of interest. This sets out a clear legislative requirement to manage conflicts of interest within the Pension Board; it is good practice for this approach to be extended to Pensions Committee Members and to senior officers of the Pension Fund.

5.2 Paragraph 1 of Pensions Committee's terms of references state that the Committee's role is to consider pension matters and meet the obligations and duties of the Council under the Superannuation Act 1972, and the various pension legislation. Taking this into account, consideration of the Pension Fund Conflicts of Interest Policy would appear to sit within the remit of Pensions Committee.

6 BACKGROUND TO THE REPORT

6.1 The Local Government Pension Scheme Regulations 2013 and the Pensions' Regulator's (TPR) Code of Practice set out that members of the Pensions Board should not have a conflict of interest in respect of their duties as members of the Board. In addition the TPR guidance provides for how such conflicts can be identified, monitored and managed. Although following the code itself is not a regulatory requirement, should TPR identify a situation where the legal requirements are being breached, he will use the code as a core reference document when deciding appropriate action.

6.2 Whilst the legal requirements around conflicts of interest relate specifically to members of the Pension Board, the attached draft Conflicts of Interest Policy (appendix 1 to this report) has been widened to include both the Pensions Committee and officers involved in the management of the Pension Fund. Whilst both Committee Members and officers are covered by other Council policies in respect of wider responsibilities, it is appropriate to consider conflicts of interest in relation to the Pension Fund in a single policy.

6.3 The Policy details how actual and potential conflicts of interest are identified and managed by those involved in the management and governance of the Pension Fund whether directly or in an advisory capacity. A conflict of interest is defined as a financial or other interest which is likely to prejudice a person's exercise of functions and appendix 1C of the Policy document sets out some examples of how conflicts of interest might arise. The Policy document also contains an example (appendix 1D) of a declaration form for completion by those involved in the Pension Fund with an annual register (appendix 1E) for recording potential and actual conflicts of interest to be reviewed annually.

6.4 The Policy has been updated to reflect changes to the structure of the Financial Services team since the previous update and to amend job titles where appropriate.

Ian Williams
Group Director, Finance & Corporate Resources

Report Originating Officers: Rachel Cowburn ☎020-8356 2630
Financial Considerations: Michael Honeysett ☎020-8356 3332
Comments of the Director of Legal and Governance: Patrick Rodger, Senior Lawyer, Legal Services ☎020-8356 6187

Appendices
Appendix 1 – Draft Conflicts of Interest Policy

Appendix 1

London Borough of Hackney Pension Fund

Conflicts of Interest Policy

Hackney

Conflicts of Interest Policy

Introduction

Conflicts of interest have always existed for those with LGPS administering authority responsibilities as well as for advisers to LGPS funds. This simply reflects the fact that many of those managing or advising LGPS funds will have a variety of other roles and responsibilities, for example as a member of the scheme, as an Elected Member of an employer participating in the LGPS or as an adviser to more than one LGPS administering authority. Further any of those persons may have an individual personal, business or other interest which might conflict, or be perceived to conflict, with their role managing or advising LGPS funds.

It is generally accepted that LGPS administering authorities have both fiduciary and public law duties to act in the best interests of both the scheme beneficiaries and participating employers. This, however, does not preclude those involved in the management of the fund from having other roles or responsibilities which may result in an actual or potential conflict of interest. Accordingly, it is good practice to document within a policy, such as this, how any such conflicts or potential conflicts are to be managed.

This is the Conflicts of Interest Policy of the London Borough of Hackney Pension Fund, which is managed by the London Borough of Hackney Council. The Policy details how actual and potential conflicts of interest are identified and managed by those involved in the management and governance of the London Borough of Hackney Pension Fund whether directly or in an advisory capacity.

This Conflicts of Interest Policy is established to guide the Pensions Committee members, local Pension Board members, officers and advisers. Along with other constitutional documents, including the various Codes of Conduct, it aims to ensure that they do not act improperly or create a perception that they may have acted improperly. It is an aid to good governance, encouraging transparency and minimising the risk of any matter prejudicing decision making or management of the Fund otherwise.

Aims and Objectives

In relation to the governance of the Fund, the Administering Authority's objectives are to ensure that:

- all staff and Pensions Committee Members charged with the financial administration and decision-making with regard to the Fund are fully equipped with the knowledge and skills to discharge the duties and responsibilities allocated to them
- the Fund is open in all its dealings and readily provides information to interested parties
- all relevant legislation is understood and complied with
- the Fund is at the forefront of best practice for LGPS funds
- all Conflicts of Interest are managed appropriately

The identification and management of potential and actual conflicts of interest is therefore integral to the Administering Authority achieving its governance objectives.

To whom this Policy Applies

This Conflicts of Interest Policy applies to all members of the Pensions Committee and the Pension Board, including scheme member and employer representatives, whether voting members or not. It applies to all members of the Hackney Council Pension Fund Management Team and the Chief Finance Officer (Section 151 Officer).

This Policy and the issue of conflicts of interest in general must be considered in light of each individual's role, whether this is a management, advisory or assisting role.

The Head of Pension Fund Investment will monitor potential conflicts for less senior officers involved in the daily management of the Pension Fund and highlight this Policy to them as he or she considers appropriate.

This Policy also applies to all advisers and suppliers to the Fund, whether advising the Pension Board, Pensions Committee or Fund officers, in relation to their role in advising or supplying the Fund.

In this Policy, reference to advisers includes all advisers, suppliers and other parties providing advice and services to the Administering Authority in relation to pension fund matters. This includes but is not limited to actuaries, investment consultants, independent advisers, benefits consultants, third party administrators, fund managers, lawyers, custodians and AVC providers. Where an advisory appointment is with a firm rather than an individual, reference to "advisers" is to the lead adviser(s) responsible for the delivery of advice and services to the Administering Authority rather than the firm as a whole.

In accepting any role covered by this Policy, those individuals agree that they must:

- acknowledge any potential conflict of interest they may have;
- be open with the Administering Authority on any conflicts of interest they may have;
- adopt practical solutions to managing those conflicts; and
- plan ahead and agree with the Administering Authority how they will manage any conflicts of interest which arise in future.

The procedures outlined later in this Policy provide a framework for each individual to meet these requirements.

Legislative and related context

There are a number of overriding requirements relating to the management of potential or actual conflicts of interest for those involved in LGPS funds which are included in legislation or guidance. These are summarised in Appendix 1.

Other Administering Authority Requirements

Individuals to whom this policy applies may also be required to adhere to other requirements in relation to conflicts of interest. This includes:

- Pension Fund Committee Members who are required to adhere to the Hackney Council Members' Code of Conduct

- local Pension Board Members who are required to adhere to the Hackney Council Members' Code of Conduct
- employees who are required to adhere to the Hackney Council Employees' Code of Conduct
- advisers who are expected to have their own policies or protocols.

Further information is provided in Appendix 2.

What is a Conflict or Potential Conflict and how will they be managed?

The Public Service Pensions Act 2013 defines a conflict of interest as a financial or other interest which is likely to prejudice a person's exercise of functions.

Therefore, a conflict of interest may arise when an individual:

- has a responsibility or duty in relation to the management of, or provision of advice to, the LGPS fund administered by Hackney Council, and
- at the same time, has:
    - a separate personal interest (financial or otherwise) or
    - another responsibility in relation to that matter,

giving rise to a possible conflict with their first responsibility. An interest could also arise due to a family member or close colleague having a specific responsibility or interest in a matter.

Some examples of potential conflicts are included in Appendix 3.

Hackney Council encourages a culture of openness and transparency and encourages individuals to be vigilant; have a clear understanding of their role and the circumstances in which they may have a conflict of interest, and of how potential conflicts should be managed.

Hackney Council will evaluate the nature of any dual interests or responsibilities that are highlighted and assess the impact on Pension Fund operations and good governance were an actual conflict of interest to materialise.

Ways in which conflicts of interest may be managed include:

- the individual concerned abstaining from discussion, decision-making or providing advice relating to the relevant issue
- the individual being excluded from the meeting(s) and any related correspondence or material in connection with the relevant issue (for example, a report for a Pensions Committee meeting)
- a working group or sub-committee being established, excluding the individual concerned, to consider the matter outside of the formal meeting (where the terms of reference permit this to happen)

Provided that the Administering Authority (having taken any professional advice deemed to be required) is satisfied that the method of management is satisfactory, Hackney Council shall endeavour to avoid the need for an individual to resign due to a conflict of interest. However, where the conflict is considered to be so fundamental it cannot be effectively managed, or where a Pension Board member has an actual conflict of interest as defined in the Public Service Pensions Act 2013, the individual will be required to resign from the Committee, Board or appointment.

Responsibility

The Administering Authority for the London Borough of Hackney Pension Fund must be satisfied that conflicts of interest are appropriately managed. For this purpose, the Head of Pension Fund Investment is the designated individual for ensuring the procedure outlined below is adhered to. For Pension Board members, the Director, Financial Management and the Director of Legal and Governance Services must be satisfied that no conflict of interest exists and, accordingly, all information relating to Pension Board members will be shared with the Head of Pension Fund Investment.

However, it is the responsibility of each individual covered by this Policy to identify any potential instances where their personal, financial, business or other interests might come into conflict with their pension fund duties.

Operational procedure for officers, Pensions Committee members and Pension Board members

What is required	How this will be done
Step 1 - Initial identification of interests which do or could give rise to a conflict.	On appointment to their role or on the commencement of this Policy if later, all individuals will be provided with a copy of this Policy and be required to complete a Declaration of Interest the same or similar to that included in Appendix 4. The information contained in these declarations will be collated into the Pension Fund's Register of conflicts of interest in a format the same or similar to that included in Appendix 5.
Step 2 - Ongoing notification and management of potential or actual conflicts of interest	At the commencement of any Pensions Committee, Pension Board or other formal meeting where pension fund matters are to be discussed, the Chairman will ask all those present who are covered by this Policy to declare any new potential conflicts. These will be recorded in the Fund's Register of conflicts of interest. In addition, the latest version of the register will be made available by the Head of Pension Fund Investment to the Chairman of every meeting prior to that meeting. Any individual who considers that they or another individual has a potential or actual conflict of interest which relates to an item of business at a meeting, must advise the Chairman and the Head of Pension Fund Investment prior to the meeting, where possible, or state this clearly at the meeting at the earliest possible opportunity. The Chairman, in consultation with the Head of Pension Fund Investment, should then decide whether the conflicted or potentially conflicted individual needs to leave the meeting during the discussion on the relevant matter or to withdraw from voting on the matter.

	If such a conflict is identified outside of a meeting the notification must be made to the Head of Pension Fund Investment and where it relates to the business of any meeting, also to the Chairman of that meeting. The Head of Pension Fund Investment, in consultation with the Chairman where relevant, will consider any necessary action to manage the potential or actual conflict. Where information relating to any potential or actual conflict has been provided, the Head of Pension Fund Investment may seek such professional advice as he or she thinks fit (such as legal advice from the Monitoring Officer) on how to address any identified conflicts. Any such potential or actual conflicts of interest and the action taken must be recorded on the Fund's Register of conflicts of interest.
Step 3 - Periodic review of potential and actual conflicts	At least once every 12 months, the Head of Pension Fund Investment will provide to all individuals to whom this Policy applies a copy of the Fund's Register of conflicts of interest. All individuals will complete a new Declaration of Interest (see Appendix 4) confirming that their information contained in the Register is correct or highlighting any changes that need to be made to the declaration. The updated Register will then be circulated by the Head of Pension Fund Investment to all individuals to whom it relates.

Conduct at Meetings

There may be occasions / circumstances when a representative of employers or members wishes to provide a specific point of view on behalf of an employer (or group of employers) or member (or group of members). The Administering Authority requires that any individual wishing to speak from an employer's or member's viewpoint must state this clearly, e.g. at a Pension Board or Pensions Committee meeting, and that this will be recorded in the minutes.

Operational procedure for advisers

Although this Policy applies to all of the key advisers, the operational procedures outlined in steps 1 and 3 above relating to completing ongoing declarations are not expected to apply to advisers. Instead all advisers must:

- be provided with a copy of this Policy on appointment and whenever it is updated
- adhere to the principles of this Policy
- provide, on request, information to the Head of Pension Fund Investment in relation to how they will manage and monitor actual or potential conflicts of interests relating to the provision of advice or services to Hackney Council as Administering Authority
- notify the Head of Pension Fund Investment immediately should a potential or actual conflict of interest arise.

All potential or actual conflicts notified by advisers will be recorded in the Fund's Register of conflicts of interest.

Monitoring and Reporting

The Fund's Register of conflicts of interest may be viewed by any interested party at any point in time. It will be made available on request to the Head of Pension Fund Investment. In addition information relating to conflicts of interest will be published in the Fund's Annual Report and Accounts.

In order to identify whether the objectives of this Policy are being met the administering authority will review the Register of conflicts of interest on an annual basis and consider whether there has been any potential or actual conflicts of interest that were not declared at the earliest opportunity.

Key Risks

The key risks to the delivery of this Policy are outlined below all of which could result in an actual conflict of interest arising and not being properly managed. The Head of Financial Services will monitor these and other key risks and consider how to respond to them.

- Insufficient training or poor understanding in relation to individuals' roles on pension fund matters
- Insufficient training or failure to communicate the requirements of this Policy
- Absence of the individual nominated to manage the operational aspects of this Policy and no one deputising or failure of that individual to carry out the operational aspects in accordance with this Policy
- Failure by a chairperson to take appropriate action when a conflict is highlighted at a meeting.

Costs

All costs related to the operation and implementation of this Policy will be met directly by London Borough of Hackney Pension Fund. However, no payments will be made to any individuals in relation to any time spent or expenses incurred in the disclosure or management of any potential or actual conflicts of interest under this Policy.

Approval, Review and Consultation

This Conflicts of Interest Policy was approved at the London Borough of Hackney Pensions Committee meeting on 26 March 2019. It will be formally reviewed and updated at least every three years or sooner if the conflict management arrangements or other matters included within it merit reconsideration, including 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 Conflicts of Interest Policy, please contact:

London Borough of Hackney Pension Fund
Financial Services Department
4th Floor, Hackney Service Centre
1 Hillman Street
London
E8 4RU

Telephone: 020 8356 2745

Email: pensions@hackney.gov.uk

Legislative and Related Context

The overriding requirements in relation to the management of potential or actual conflicts of interest for those involved in LGPS funds are contained in various elements of legislation and guidance. These are considered further below.

The Public Service Pensions Act 2013

Section 5 of this Act requires that the scheme manager (in the case of the LGPS, this is the administering authority) must be satisfied that a local pension board member does not have a conflict of interest at the point of appointment and from time to time thereafter. It also requires local pension board members (or nominated members) to provide reasonable information to the scheme manager for this purpose.

The Act defines a conflict of interest as "a financial or other interest which is likely to prejudice the person's exercise of functions as a member of the board (but does not include a financial or other interest arising merely by virtue of membership of the scheme or any connected scheme)."

Further, the Act requires that scheme managers must have regard to any such guidance that the national scheme advisory board issue (see below).

The Local Government Pension Scheme Regulations 2013

Regulation 108 of these Regulations applies the requirements of the Public Service Pensions Act (as outlined above) to the LGPS, placing a duty on each administering authority to satisfy itself that local pension board members do not have conflicts of interest on appointment or whilst they are members of the board. It also requires those pension board members to provide reasonable information to the administering authority in this regard.

Regulation 109 states that each administering authority must have regard to guidance issued by the Secretary of State in relation to local pension boards. Further, regulation 110 provides that the national scheme advisory board has a function of providing advice to administering authorities and local pension boards. At the point of writing this Policy, the shadow LGPS national scheme advisory board has issued guidance relating to the creation of local pension boards including a section on conflicts of interest. It is expected that this guidance will be adopted by the scheme advisory board when it is created by statute and possibly also by the Secretary of State. This Conflicts of Interest Policy has been developed having regard to that guidance.

The Pensions Act 2004

The Public Service Pensions Act 2013 also added a number of provisions to the Pensions Act 2004 related to the governance of public service pension schemes and, in particular, conflicts of interest.

Section 90A requires the Pensions Regulator to issue a code of practice relating to conflicts of interest for pension board members. The Pensions Regulator has issued such a code and this Conflicts of Interest Policy has been developed having regard to that code.

Further, under section 13, the Pensions Regulator can issue an improvement notice (i.e. a notice requiring steps to be taken to rectify a situation) where it is considered that the requirements relating to conflicts of interest for Pension Board members are not being adhered to.

The Localism Act 2011

Chapter 7 of this Act requires councillors to comply with the code of conduct of their local authority and that code of conduct must be consistent with the Seven Principles of Public Life (considered further below). In addition the Act requires that the code of conduct must include provisions requiring the disclosure and registration of pecuniary interests and interests other than pecuniary interests.

The Seven Principles of Public Life

Otherwise known as the 'Nolan Principles', the seven principles of public life apply to anyone who works as a public office-holder. This includes people who are elected or appointed to public office, nationally and locally, and all people appointed to work in:

- the civil service
- local government
- the police
- the courts and probation services
- non-departmental public bodies
- health, education, social and care services

The principles also apply to all those in other sectors that deliver public services.

Many of the principles are integral to the successful implementation of this Policy. The principles are as follows:

- selflessness
- integrity
- objectivity
- accountability
- openness
- honesty
- leadership.

Advisers' Professional Standards

Many advisers will be required to meet professional standards relating to the management of conflicts of interest, for example, the Fund Actuary will be bound by the requirements of the Institute and Faculty of Actuaries. Any Protocol or other document entered into between an adviser and the Administering Authority in relation to conflicts of interest, whether as a requirement of a professional body or otherwise, should be read in conjunction with this Policy.

Appendix 2B

Other Administering Authority Requirements

Pension Fund Committee Members

In addition to the requirements of this Policy, Pensions Committee members and co-opted members (including non-voting co-opted members) are required to adhere to the Hackney Council Members' Code of Conduct which, in Part 2, includes requirements in relation to the disclosure and management of pecuniary and other interests.

Local Pension Board Members

In addition to the requirements of this Policy, Local Pension Board members are required to adhere to Part 7 of the Terms of Reference of the Local Pension Board. This includes the following requirements:

"Part 2 of Hackney Council's Code of Conduct for Members and Co-optees shall apply in relation to the management of conflicts of interest on the Pension Board with the exception of the registration of pecuniary interests and how interests are to be disclosed which are detailed below.

Each member of the Pension Board, or a person proposed to be appointed to the Board, (as well as attendees participating in the meeting) must provide the Assistant Director, Financial Management and the Assistant Director, Legal and Democratic Services with such information as he or she reasonably requires for the purposes of demonstrating that there is no conflict of interest.

The Assistant Director, Financial Management and Assistant Director, Legal and Democratic Services will jointly adopt the role of ensuring that the Chair and Vice Chair of the Pension Board does not have a conflict of interest. Further they must be satisfied that the Chair is carrying out his or her responsibilities under this part appropriately."

Employees

In addition to the requirements of this Policy, officers of Hackney Council are required to adhere to the Hackney Council Code of Conduct for Employees which includes requirements in relation to aiming to avoid conflicts of interests and declaring them in writing should they occur.

Advisers

The Administering Authority appoints its own advisers. There may be circumstances where these advisers are asked to give advice to Hackney Council or other scheme employers, or even to scheme members or member representatives such as the Trades Unions, in relation to pension matters. Similarly, an adviser may also be appointed to another administering authority which is involved in a transaction involving the Hackney Council Pension Fund and on which advice is required. An adviser can only continue to advise the Administering Authority and another party where there is no conflict of interest in doing so.

Where the Pension Board decides to appoint an adviser, this can be the same person as is appointed to advise the Pensions Committee or Fund officers as long as there is no conflict of interest between the two roles.

The key advisers are all expected to have their own policies or protocols on how conflicts of interest will be managed in their relationships with their clients, and these should have been shared with Hackney Council.

Examples of Potential Conflicts of Interest

a) An elected member on the Pensions Committee is asked to provide views on a funding strategy which could result in an increase in the employer contributions required from the employer he or she represents.

b) A member of the Pensions Committee is on the board of a supplier that the Committee is considering appointing.

c) An officer of the Fund or member of the Pensions Committee accepts a dinner invitation from a supplier who has submitted a bid as part of a tender process.

d) An employer representative on the Local Pension Board is employed by a company to which the administering authority has outsourced its pension administration services and the Local Pension Board is reviewing the standards of service provided by that company.

e) The person appointed to consider internal disputes is asked to review a case relating to a close friend or relative.

f) An officer of the Fund is asked to provide guidance to the Local Pension Board on the background to an item considered at the Pensions Committee. This could be a potential conflict as the officer could consciously or sub-consciously avoid providing full details, resulting in the Board not having full information and not being able to provide a complete view on the appropriateness or otherwise of that Pensions Committee item.

g) The administering authority is considering buying its own payroll system for paying pensioners, rather than using the payroll system used for all employees of the Council. The Group Director, Finance & Corporate Resources, who has responsibility for the Council budget, is expected to approve the report to go to the Pensions Committee, which, if agreed, would result in a material reduction in the recharges to the Council from the Fund.

h) Officers of the Fund are asked to provide a report to the Local Pension Board or Pensions Committee on whether the administration services should be outsourced which, if it were to happen, could result in a change of employer or job insecurity for the officers.

i) An employer representative employed by the administering authority and appointed to the Pension Board to represent employers generally could be conflicted if he or she only acts in the interests of the administering authority, rather than those of all participating employers. Equally, a member representative, who is also a trade union representative, appointed to the pension board to represent the entire scheme membership could be conflicted if he or she only acts in the interests of their union and union membership, rather than all scheme members.

j) A Fund adviser is party to the development of a strategy which could result in additional work for their firm, for example, delegated consulting of fund monies or providing assistance with monitoring the covenant of employers.

k) An employer representative has access to information by virtue of his or her employment, which could influence or inform the considerations or decisions of the Pensions Committee or Local Pension Board. He or she has to consider whether to share this information in light of their duty of confidentiality to their employer. Their knowledge of this information will put them in a position of conflict if it is likely to prejudice their ability to carry out their functions as a member of the Pensions Committee or Local Pension Board.

Declaration of Interests relating to the management of the London Borough of Hackney Pension Fund administered by Hackney Council

I, [insert full name], am:

Tick as appropriate

- an officer involved in the management
- a Pension Fund Committee Member
- a Pension Board Member

of the London Borough of Hackney Pension Fund and I set out below under the appropriate headings my interests, which I am required to declare under the London Borough of Hackney Pension Fund Conflicts of Interest Policy. I have put "none" where I have no such interests under any heading.

Responsibilities or other interests that could result in a conflict of interest (please list and continue on a separate sheet if necessary):

1. *Relating to me*
    a. *Responsibilities relating to an employer in the pension fund*

    b. *Membership of the LGPS*

    c. *Other (see examples)*

2. Relating to family members or close colleagues

a. Responsibilities relating to an employer in the pension fund

b. Membership of the LGPS

c. Other (see examples)

Undertaking:

I declare that I understand my responsibilities under the London Borough of Hackney Pension Fund Conflicts of Interest Policy. I undertake to notify the Head of Financial Services of any changes in the information set out above.

Signed ____Date _____________________

Name (CAPITAL LETTERS) ____

Position ____

Appendix 2E

London borough of Hackney Pension Fund - Register of Potential and Actual Conflicts of Interest

All reported conflicts of interest will be recorded in the minutes and a register of conflicts will be maintained and reviewed annually by Hackney Council, the Administering Authority.

Date identified	Name of Person	Role of Person	Details of conflict	Actual or potential conflict	How notified(1)	Action taken(2)	Follow up required	Date resolved

(1) E.g. verbal declaration at meeting, written conflicts declaration, etc

(2) E.g. withdrawing from a decision making process, left meeting

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

Document is Restricted

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