PENSIONS BOARD

Wednesday, 20th March, 2019

at 10.00 am

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

Membership

Members:

Samantha Lloyd (Scheme Member) (Chair)
Kay Brown (Employer Representative)
Henry Colthurst (Employer Representative)
Michael Hartney (Scheme Member Representative)

TIM SHIELDS
CHIEF EXECUTIVE

Contact:
Peter Gray
Governance Services
Tel: 020 8356 3326
Email: Peter.Gray@hackney.gov.uk

The press and public are welcome to attend this meeting

Hackney

AGENDA
Wednesday, 20th March, 2019

ORDER OF BUSINESS

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Further Information

Advice can be obtained from Suki Binjal, Interim Director of Legal, Services, on 020 8356 6237 or email suki.binjal@hackney.gov.uk

FS 566728

Hackney

MINUTES OF A MEETING OF THE PENSIONS BOARD

THURSDAY, 29TH NOVEMBER, 2018

Present: **Samantha Lloyd in the Chair**
Kay Brown
Michael Hartney

Officers in attendance: **Michael Honeysett (Head of Financial Management), Rachel Cowburn (Head of the Investment Fund), Julie Stacey (Head of Pensions Administration) , Sean Eratt (Senior Lawyer), Peter Gray (Governance)**

Also in Attendance: **Karen Mc William (Aon)**

1. Apologies for absence

1.1 Apologies for absence was submitted on behalf of Henry Colthurst.

2. Declarations of Interest - Members to declare as appropriate

2.1 There were no declarations of interests.

3. Minutes of Previous meeting

3.1 The minutes of the previous meeting were agreed as a correct record, subject to amendment to minute 11.1 replacing 'Board' with 'Committee'.

Matters Arising:

3.2 The Board noted that an employer representative had not yet been appointed to the Pensions Committee and that the Council's constitution would require amendment to facilitate this. Rachel Cowburn outlined the process to be carried out to make the appointment. The Board expressed concerns that the necessary appointments had not yet been made and stressed that the Pensions Committee should make this appointment. The Board asked for an update if the necessary appointments are not made prior to the next meeting of the Pensions Board.

RESOLVED:

That the Board be updated if the necessary appointments are not made prior to the next meeting of the Board.

ACTION: Rachel Cowburn

4. Training - Pooling Governance

4.1 The Board stressed that pre-appointment and post-appointment training should be more robust. Training should focus on the key, core aspects of the work of the Board. A training needs analysis was to be carried out with individual conversations on training needs where necessary. Members were asked to complete the relevant forms and highlight if further discussion was required.

RESOLVED:

To note the report.

5. London CIV Governance Update

5.1 Rachel Cowburn introduced the report providing the Pensions Board with an overview of the governance arrangements of the London Collective Investment (London CIV) and the recent changes made and the drivers behind these changes. The Board noted that despite good early progress, the CIV had faced a number of challenges over the past 18 months. Having initially been set up as a voluntary pool, the CIV encountered difficulties with the introduction of mandatory pooling, with its large number of stakeholders and previous voluntary nature resulting in a lack of clarity around its vision and strategy. A review of the CIVs governance arrangements was commissioned from Willis Towers Watson and carried out during late 2017. The review found that the CIV needed to refresh its governance arrangements and clarify its future direction. It was noted that changes had now been made to improve governance at the CIV. Changes to CIV’s client engagement and investment approaches were also part of the consultation process. Borough feedback on a number of these issues remained under consideration by the CIV, although some recommendations such as the development of a Responsible Investment policy had been taken.

5.2 The Chair stressed that the Board’s remit was to monitor the effectiveness of the new governance arrangements at CIV London and asked how the performance of CIV investments was monitored. Rachel Cowburn confirmed that the Council received performance reporting data on the parts of CIV London used by it. The Board expressed concern at the high staff turnover at the CIV and asked what measures were in place to address this. The Board considered that CIV had much progress to make and asked that this matter be placed on the agenda for the next meeting and that the Hackney representatives on the CIV be asked to attend that meeting for the discussion.

RESOLVED:

1. To note the report

2. That CIV governance be placed on the agenda for the next meeting and the Hackney representatives on the CIV be invited to attend to discuss progress.

ACTION: Rachel Cowburn

6. Third Party Administration Contract Implementation

6.1 Rachel Cowburn introduced the report. In January 2017 a procurement exercise commenced to identify a provider of Third Party Administration Services for the

Hackney Pension Fund. The contract was due to commence on 1st January 2018 for a period of 5 years, with potential to extend this for up to a further 3 years. In May 2017 Equinti, who were the existing third party administrator, were notified that they were successful in being awarded the new contract. Since then, the officer of the Fund, assisted by Aon, have been working with Equiniti to ensure the requirements of the new contract can, and are being met. Julie Stacey reported that there was a good and interactive website. Further, there was now less need for manual intervention and much work was being undertaken on interfaces. The Board noted that officers of the Fund continue to have some concerns about the standard of quality control and automation within Equiniti and in recent months there had been further examples of incorrectly calculated or communicated scheme benefits which had been highlighted to Equiniti.

6.2 The Board expressed concern about the continuing difficulties with the interface been pensions and Payroll, noting the continued failure of Hackney Council to provide timely and accurate pension information to Equiniti which had resulted in continued pressure on the administering authority to try to rectify as much of the data as possible each year. The Board asked that if the difficulties with the interface were not rectified before the next meeting, the Head of Human Resources be invited to attend that meeting to discuss this issue. Julie Stacey told the Board that it was anticipated that there would be improvements next year.

RESOLVED:

1. 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.

2. That if the difficulties with the interface between pensions and payroll is not rectified before the next meeting, the Head of Human Resources be invited to attend that meeting to discuss this issue.

ACTION: Rachel Cowburn

7. Review of Pensions Committee Work - April - September 2018

7.1 Rachel Cowburn introduced the report outlining the work undertaken by the Pensions Committee at its meetings in the period from April to September 2018 and to note items that are relevant to the work of the Pensions Board.

RESOLVED:

To note the report.

8. Compliance with Code of Practice

8.1 Rachel Cowburn introduced the report. From 1st April 2015 the Pensions Regulator assumed responsibility for public service pension schemes and put in place codes of practice for public service pension schemes covering a number of areas relating to the management of schemes. The Board noted that there were two areas where the Fund was failing to meet the requirements of the Code – the issuance of Annual Benefits Statements to active scheme members and monitoring of contributions – in this case the incorrect ongoing payment of AVC contributions by an employer to Equiniti. This had resulted in those contributions not being invested in a timely fashion. It was noted that although this related to only one member, the issue would need to be reviewed and processes put in place to prevent recurrence. In response to a question from Kay Brown it was noted that it was hoped that statements would be issued before Christmas. In response to a question from the Chair, Rachel Cowburn confirmed that the Pensions Committee was aware of and concerned about these issues. There were concerns about internal resources in the council and the length of time taken to resolve issues.

8.2 The Chair asked whether the Human Resources Team recognised the work that was necessary to be carried out and stressed that the necessary resources should be available to ensure the production of reliable data. Michael Honeysett told the Board of a restructure in Human Resources and that the Head of Human Resources recognised the need to improve in this area. In relation to incorrect ongoing payment of AVC contributions by the employer to Equiniti Kay Brown asked for reassurance that the employer had taken steps to ensure that this did not occur again. Julie Stacey updated the Board that there had been problems with incorrect coding and that work was ongoing to ensure correct coding. Hackney would be charged for this. The Chair recommended more frequent billing. Julie Stacey confirmed that functionalities were going back to the employer. The Chair asked if the Regulator had been informed of these issues. Rachel Cowburn confirmed that there had been discussions with the Regulator around annual statements in the context of a wider policy and was aware of the concerns.

RESOLVED:

To note the Code of Compliance Checklist for the London Borough of Hackney Pension Fund.

9. Data Improvement Update

9.1 The Board considered an update on progress made on issuing the 2017/18 Annual Benefit Statements to active members of the Fund. The report also covered actions taken to help improve the quality of data provided by the Council as an employer and to cleanse the data currently held on the pension administration system in relation to Hackney Council and schools staff.

RESOLVED:

To note the actions taken to improve data provision from the Council in respect of those employees who are members of the LGPS to the pension administrator.

10. Administration Authority Discretion Policies

10.1 The Board noted the report setting out the discretionary policies for Hackney Council as administering authority for the London Borough of Hackney Pension Fund.

RESOLVED:

To note the amended Administering Authority discretions policies.

11. Pensions Fund Administration Annual Report

11.1 The Board noted the report outlining work undertaken by the London Borough of Hackney and the performance of the pension fund administrators, in regard to the administration of the LGPS Hackney Pension Scheme for the financial year 2017/18.

RESOLVED:

To note the report.

12. Pension Administration Strategy – Draft (PAS) 2019/22

12.1 Julie Stacey introduced the draft Pensions administration strategy for 2019/22, which had been updated to reflect changes to the Fund's third party administration. The draft strategy would be circulated to all employers (including schools) and other interested parties for review and comment by close of business on 9th February 2019. The strategy would be submitted to the Pensions Committee in March 2019. Julie Stacey stressed the need for the employers to be aware of their role and responsibilities. Help and support was available to employers with an annual employer's forum. A '5 strikes' rule was in place for incidents of non-compliance. The Board agreed that this should be reduced to '3 strikes.' The Board asked for updates on the implementation of the strategy. It asked for re-submission of the draft strategy if there are changes to it following consultation.

RESOLVED:

1. To note the updated Pension Administration Strategy to be issued for consultation with employers and other interested parties.

2. To note the change in the review period of the Pension Administration Strategy from annually to every years, notwithstanding the requirement to review and amend when regulations change.

3. That updates on the implementation of the strategy be sent to Board members.

ACTION: Rachel Cowburn

13. Training Needs Self-Assessment and Analysis

13.1 Training needs self-assessment and analysis was discussed under item 4 on the agenda.

RESOLVED:

1. To note the report

2. That members individually complete and return the Training Needs Self-Assessment questionnaire by 31st January 2019.

14. Pensions Board Work Schedule

14.1 The Board considered the Pensions Board work schedule.

RESOLVED:

To note the Pensions Board work programme.

15. Any other business - GMP Reconciliation

15.2 In response to Board questions it was noted the Fund's administration data was being checked against and HMRCs records. The Board noted that a report would be made to the next meeting of the Board.

Duration of the meeting: 10:00am -12:00noon

Hackney

REPORT OF THE GROUP DIRECTOR, FINANCE AND CORPORATE RESOURCES		
Data Improvement Update **Pension Board** **20th March 2019**	Classification **PUBLIC** Ward(s) affected **ALL**	Enclosures None **AGENDA ITEM NO.**

1. INTRODUCTION

1.1 This report covers an update to the Board on progress made on issuing the 2017/18 Annual Benefit Statements (ABSs) to active members of the Fund. The report also covers actions taken to help improve the quality of data provided by the Council as an employer and to cleanse the data currently held on the pension administration system in relation to Hackney Council and schools' staff.

2. RECOMMENDATIONS

2.1 The Pension Board is recommended to:

- Note the actions taken to improve data provision from the Council, in respect of those employees who are members of the LGPS, to the pension administrators

3. RELATED DECISIONS

- Pensions Board 29th November 2018 – Data Improvement Update
- Pensions Board 21st March 2018 - ABS Breach Reporting and 2017/18 Year End Data

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

4.1 The standard of monthly and year end contribution data provided by the Council to the Pension Fund has declined in recent years, as the 2014 scheme changes and introduction of auto-enrolment have made the provision of adequate data more challenging. The financial implications of poor quality data for the Pension Fund are considerable; not only does it raise the risk that member benefits will not be calculated in accordance with scheme regulations, but could also reduce the accuracy of the Fund's actuarial valuation and lead to inefficient management of investment risks. This could result in employers, including the Council, paying insufficient or excessive contributions with a material impact on their own finances. The involvement of the Pension Regulator (tPR) in this area also raises the risk of financial penalties and reputational damage.

4.2 The introduction in 2017 of a new payroll provider for the Council, the Fund's main employer, created additional risks around data provision but also provided opportunities for improvement. Some additional cost, such as the provision of new reporting, is inevitable; however, this is negligible in comparison to the financial risks posed by failing to act.

5. COMMENTS OF THE DIRECTIOR OF LEGAL AND GOVERNANCE

5.1 The Pension Fund is required, under Section 4 of the Public Service Pensions (Record Keeping and Miscellaneous Amendments) Regulations 2014 to hold certain information about its members. Failure to maintain complete and accurate records could result in the Fund failing to pay benefits in accordance with scheme regulations, inefficient management of investment risk and potentially excessive or insufficient contribution rates for employers.

5.2 Failure to adhere to the overriding legal requirements could therefore impact on meeting the ongoing objectives of the Pension Fund. In addition, where scheme managers or pension boards fail to address poor standards and non-compliance with the law, tPR will consider undertaking further investigations and taking regulatory action, including issuing an enforcement action notice or imposing a substantial financial penalty against the Fund.

5.3 The role of the Pension Board is prescribed by Section 106 of the LGPS Regulations 2013 and includes the following:

- Securing compliance with the Local Government Pension Scheme Regulations 2013 and any other legislation relating to the governance and administration of the Scheme and any connected scheme
- Securing compliance with any requirements imposed by the Pensions Regulator in relation to the Scheme and any connected scheme
- Ensuring the effective and efficient governance and administration of the Scheme and any connected scheme

5.4 Taking into account the role of the Pension Board as set out in the Regulations, reviewing the progress made towards compliance with statutory record-keeping requirements clearly falls within the remit of the Pension Board.

6. BACKGROUND TO THE REPORT

6.1 Whilst this is not an issue that is confined to the London Borough of Hackney, submitting good quality data to the Pension Fund has been an ongoing problem for the Council for a number of years. The increased complexity of the 2014 CARE scheme and the introduction of auto-enrolment have made the provision of accurate data more challenging; the quality of the data held by the Fund has declined sharply since 2013.

6.2 This issue poses significant financial and reputational risks to both the Pension Fund and the Council itself. Clearly, inaccurate contribution data raises the risk that member benefits will be calculated incorrectly, but could also reduce the accuracy of the Fund's actuarial valuation. This could result in employers, including the Council, paying insufficient or excessive contributions with a material impact on their own finances. The involvement of the tPR in this area also raises the risk of significant financial penalties and reputational damage.

6.3 The issue also impacts the provision of information to scheme members. The Fund has a statutory duty to provide active and deferred members with an Annual Benefit Statement (ABS) by 31st August each year. Failure of employers to provide adequate membership data can seriously delay the production of ABSs, breaching the Fund's statutory duty and necessitating a declaration to the Pensions Regulator.

7. PRODUCTION OF 2017/18 ANNUAL BENEFIT STATEMENTS

7.1 As at 31st August 2018 the Fund had sent out statements to all its deferred members and 627 active members. The Fund therefore 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.

7.2 3,616 additional statements were sent out during November 2018. The in house administration team are conducting a significant data cleansing exercise to ensure that the remaining statements are sent out as soon possible. Equiniti have commenced an initial review of the revised data received from the admin team and are expected to provide updated timescales shortly.

7.3 The failure to send these statements represents a clear breach of law, and this issue has been reported to the Pensions Regulator. Officers provided an update to the Regulator via a conference call during March 2019 and will shortly be providing updated documentation to the Regulator setting out the Fund's wider data improvement plan as well as details of the data cleansing exercise now being undertaken taken by the in house administration team.

8. UNDERLYING CAUSES

8.1 The key driver behind the Fund's failure to produce timely ABSs is the failure of the Council to provide adequate data within the required timescales. In recent years, the Council has not been able to produce data in a format that can be automatically uploaded into Compendia, the Fund's administration system. The Council changed payroll provider from July 2017, which added additional risk to the process as well as providing opportunities for improvement.

8.2 Difficulties in obtaining consultancy time the Council payroll provider and extensive specification changes by Equiniti delayed the development of new automated data provision following the introduction of the Council's new payroll system. At the time of the last Board meeting, successful early testing had been carried out on a new automated data upload format. However, further shortages of consultancy time and broader problems with the Council's payroll database were causing further delays to testing. The Board emphasised the importance of obtaining further consultancy time as soon as possible and certainly prior to Christmas 2018.

8.3 The Fund was able to obtain the required consultancy time during December; this focused on addressing the underlying problems in the Council's hosted payroll environment. After an extensive review by Midland, the payroll provider, the issue was resolved during February 2019. At the time of writing, officers were awaiting a full report from Midland/Hackney ICT on the causes of the issue.

8.4 Since the resolution of the underlying issues with the database environment, final testing on the report has progressed, with the majority of issues identified during previous tests now resolved. Whilst this represents a positive step forward, it should be noted that extensive work is likely to be required during 2019 to address historic data issues both on Compendia (the pensions administration system) and iTrent (the Council's payroll system). These issues have already been raised with the Fund's actuary with reference to the 2019 valuation and a revised timetable is being developed.

Ian Williams
Group Director, Finance & Corporate Resources

Report Originating Officers: Rachel Cowburn ☎020-8356 2630
Financial considerations: Michael Honeysett ☎020-8356 3332
Legal comments: Sean Eratt ☎020-8356 6012

Hackney

REPORT OF THE GROUP DIRECTOR, FINANCE AND CORPORATE RESOURCES		
Pension Fund Risk Register and Policy **Pension board** **20th March 2019**	**Classification** **PUBLIC** **Ward(s) affected** **ALL**	**Enclosures** **Two** **AGENDA ITEM NO.**

1. INTRODUCTION

1.1 This report introduces a new format for the Pension Fund Risk Register, which summarises potential significant risks to which the Fund is exposed and the controls in place to manage those risks. The report also introduces an update to the Fund's Risk Policy, which was approved by the Pensions Committee in December 2018.

2. RECOMMENDATIONS

2.1 The Pension board is recommended to:

- Note the updates to the format of the risk register
- Note the updated risk policy
- Agree the provision of a high level risk summary at each meeting, with periodic (no less than triennial) review of the full underlying register

3. RELATED DECISIONS

- Pensions Committee 12th December 2018 – Pension Fund Risk Register and Policy

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

4.1 The attached risk register highlights the importance of effective risk management to the financial performance of the pension fund. Given the importance of the pension fund to the Council's finances, failure to effectively manage the risks associated with the fund could have a significant negative impact on the Council's financial performance.

4.2 There are no direct financial consequences arising as a result of this report

5. COMMENTS OF THE DIRECTOR OF LEGAL AND GOVERNANCE

5.1 The role of the Pension Board is prescribed by Section 106 of the Local Government Pension Scheme Regulations 2013 and includes the following:

- Securing compliance with the Local Government Pension Scheme Regulations 2013 and any other legislation relating to the governance and administration of the Scheme and any connected scheme

- Securing compliance with any requirements imposed by the Pensions Regulator in relation to the Scheme and any connected scheme
- Ensuring the effective and efficient governance and administration of the Scheme and any connected scheme

5.2 Further details of the suggested functions of local pension boards are provided by statutory guidance ((Local Government Pension Scheme (LGPS) Guidance on the creation and operation of Local Pension Boards in England and Wales). This guidance suggests that reviewing the pension fund risk register might be included by administering authorities within the remit of their local pension board

5.3 Taking into account the role of the Pension Board as set out in the Regulations and statutory guidance, the consideration of the risks associated with administering the Pension Fund would appear to properly fall within the Board's remit

6. RISK REGISTER

6.1 The Pension Fund Risk Register highlights the key risks faced by the Pension Fund and the measures that can and have been put in place to control those risks. The register is Pension Fund specific, although its content is drawn from the full Financial Services Risk Register drawn up in conjunction with the Council's risk management team. Risks are therefore monitored from the perspectives of both the Pension Fund and the Council as a whole, as the materialisation of risks associated with the Pension Fund will ultimately impact upon the Council.

6.2 The magnitude of risks within the register is assessed along two dimensions:

- Likelihood – the probability that a risk will materialise
- Impact – the consequences if the risk were to materialise

These are scored on a matrix, which indicates overall levels of risk as follows:

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

6.3 Following recommendations made by the Pension Board in 2018, a new presentation template for the pension fund risk register has now been introduced. The changes present the Fund's risks in a more visual way, assessing risks relative to the target level of risk which the Fund is willing (or required) to accept. Going forward, the changes will also allow for a high level summary to be produced, highlighting emerging or key risks as well as any existing risks showing a negative direction of travel. The intention is to ensure that monitoring of risk is aligned more closely with the Fund's business plan to ensure that developing or worsening risk areas are highlighted early on

6.4 At the Board meeting, members will be provided with the full risk register for review, presented using the new template. In the future, the Board will be provided at each meeting with the high level risk summary described and will receive the full underlying register on request, or if significant changes are made. It is recommended that the

Board receive the full register at least triennially. The Pensions Committee will also make use of the high level summary for ongoing quarterly risk management, with periodic review of the full register.

7. RISK POLICY

7.1 The Policy sets out the aims and objectives for the management of risk, but also recognises that risk cannot be removed entirely from the management of the Pension Fund, by the very nature of the Fund itself and the environment in which it operates. The risk management process involves the identification of risk, analysing risks, controlling risks where appropriate and the monitoring of risk on an ongoing basis.

7.2 The appendix also sets out key internal controls identified and whilst this is not an exhaustive list, it form the basis at a high level of some of the internal controls in place to manage the Fund on a day to day basis. The Public Service Pensions Act 2013 has added provisions from the 2004 Pensions Act for Public Service Schemes to have internal controls procedures for the purpose of ensuring that the scheme is administered in accordance with regulations and scheme rules. In addition TPR's Code of Practice guidance on internal controls requires scheme managers to carry out a risk assessment and produce a risk register which should be reviewed regularly. TPR also has powers to issue improvement notices where it is considered that the requirements relating to internal controls are not being adhered to.

7.3 Key changes to the Policy include updates to account for a restructure of the Financial Services Team since the last update, and changes to the frequency of risk reporting. The new format of the register will permit quarterly risk reporting, allowing the frequency of mandatory review for the full underlying register to change to triennially. In practice, however, full review is likely to occur more frequently; the full risk register will be provided on request by either the Pension Board or Pensions Committee and will be brought to both if significant changes are made.

Ian Williams
Group Director, Finance and Corporate Resources

Report Originating Officer: Rachel Cowburn ☎020-8356 2630
Financial Considerations: Michael Honeysett ☎020-8356 3332
Legal Comments: Sean Eratt ☎020-8356 6012

Appendices
Appendix 1 – Pension Fund Risk Register
Appendix 2 – Pension Fund Risk Policy

This page is intentionally left blank

Administration and Communication Risks Heat Map and Summary

Impact	Administration & Communication Risks				
Insignificant					
Minor				4	3
Moderate			2		
Major	1		5		
Catastrophic					
	Almost certain	Likely	Possible	Unlikely	Rare

Likelihood

Key

1 — Each risk is represented in the chart by a number in a square.
- The number denotes the risk number on the risk register.
- The location of the square denotes the current risk exposure.

1 — The background colour within the square denotes the target risk exposure.

New risks since the last reporting date are denoted with a blue and white border.

An arrow denotes a change in the risk exposure since the previous reporting date, with the arrow coming from the previous risk exposure.

12 March 2019

Hackney Pension Fund - Control Risk Register

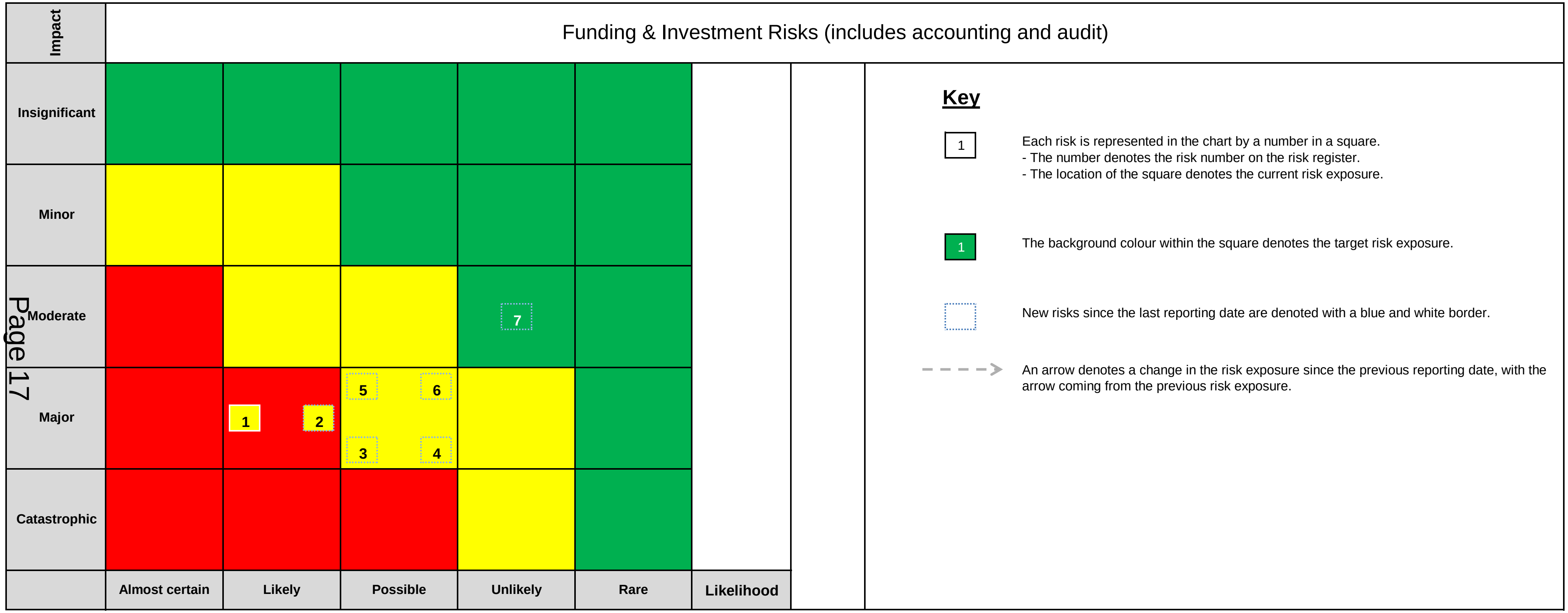
Administration & Communication Risks

Objectives extracted from Administration Strategy (03/2017) and Communications Strategy (04/2016):

A1 Deliver an efficient, quality and value for money service to its scheme employers and scheme members
A2 Ensure payment of accurate benefits and collect the correct contributions from the right people in a timely manner
A3 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
A4 Maintain accurate records and communicate all information and data accurately, and in a timely and secure manner
A5 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
C1 Promote the scheme as a valuable benefit and provide sufficient and up to date information so members can make informed decisions about their benefits
C2 Communicate in a plain language style
C3 Ensure the Fund use the most appropriate means of communication, taking into account the different needs of different stakeholders
C4 Look for efficiencies in delivering communications including greater use of technology
C5 Evaluate the effectiveness of communications and shape future communications appropriately

Risk no:	Risk Overview (this will happen)	Risk Description (if this happens)	Strategic objectives at risk (see key)	Current impact (see key)	Current likelihood (see key)	Current Risk Status	Internal controls in place	Target Impact (see key)	Target Likelihood (see key)	Target Risk Status	Meets target?	Date Not Met Target From	Expected Back On Target	Further Action and Owner	Risk Manager	Next review date	Last Updated
1	Poor Membership Data	Poor administration and/or provision of data result in inaccurate data giving rise to financial, reputational risks, actuary unable to set contribution rates, higher contribution rates, member dissatisfaction, inaccurate benefit statements produced, overpayment of benefits etc.	A4	Major	Almost certain		1 - annual monitoring of membership records, valuation checks, external data validations 2 - Monthly monitoring of contributions to ensure that employers paying across correct contributions along with membership data being supplied 3 - Service Level Agreement with external administrator and monthly monitoring of contract. Monitoring of employers and Pensions Administration Strategy which enables Fund to recoup additional administration costs for sub-standard performance. 4 - Provision of employer support to ensure employers have the knowledge and understanding necessary to provide correct information	Moderate	Possible		😐 Current impact 1 too high Current likelihood 2 too high	01/12/2018	Dec 2020	1 - Prioritise completion of development work on interface (RC) 2 - Roll out employer portal to all employers (JS) 3 - Develop and roll out data improvement plan (JS/RC) 4 - liaise with Hackney payroll team to roll out new contribution monitoring report (RC) 5 - Ensure equiniti roll out employer strategy in line with contract (JS)	Julie Stacey/Rachel Cowburn	01/06/2019	01/03/2019
2	Poor Stakeholder Engagement	Poor communication with stakeholders (e.g. member communications late or incomplete, poor explanation of scheme) giving rise to disaffection, poor understanding amongst members and employers and actions against Council	A3, C1-5	Moderate	Possible		1 - Range of communication options for members and employers 2 - Provision of employer support to new or struggling employers	Moderate	Unlikely		😐 Current likelihood 1 too high	01/12/2018	Dec 2019	'1 - Roll out new website (JS) 2 - Roll out member self service (JS) 3 - Roll out employer portal (JS) 4 - Carry out scheme member satisfaction surveys (JS)	Julie Stacey	01/06/2019	01/03/2019
3	Pension Overpayments - increased costs through failure to cease pension payments	Pension Overpayments arising as a result of non-notification of death, re-employment, or ceasing education. This has financial and reputational consequences.	A2	Minor	Rare		1 - Management of NFI matches and follow up. NFI exercises to identify checks 2 - Write to pensioners each year over age 80 and overseas seeking confirmation of ongoing pension entitlement.	Minor	Rare		☺			1 - Existence checks due April 2019 (JS)	Julie Stacey	01/06/2019	01/03/2019
4	Discretionary Policies - insufficiently robust policies expose Fund to higher costs	Regulations allow the Pension Fund and employers certain areas where they are able to exercise discretion. Excessively generous or insufficiently robust policies of the Pension Fund and employers exposed to higher costs and reputational risks.	A2, A3	Minor	Unlikely		1 - Controls – Agreed policies and procedures to control such risks, which are regularly reviewed and approved by Pensions Committee. 2 - Ensuring that employers are aware of the additional costs that could arise from the exercise of their discretions or lack of policy.	Minor	Unlikely		☺				Julie Stacey	01/03/2019	01/03/2019
5	Poor delivery of administration service	Risk that third party administrator does not deliver in accordance with contractual requirements	A1-5	Major	Possible		1 - Strict service standards and SLAs in place 2 - Appointment through robust procurement exercise 3 - Expert contract management team in place 4 - Regular monitoring of KPIs 5 - Regular service review meetings	Major	Unlikely		😐 Current likelihood 1 too high	01/12/2018	Dec 2019	1 - Ensure contract requirement are met 2 - Early identification and escalation of issues	Julie Stacey	01/06/2019	01/03/2019

Funding and Investment Risks (Including Accounting & Audit) Heat Map and Summary



12 March 2019

Hackney Pension Fund - Control Risk Register

Funding & Investment Risks (includes accounting and audit)

Objectives extracted from Funding Strategy Statement and Investment Strategy Statement:

F1 To ensure the long-term solvency of the Fund, using a prudent long term view. This will ensure that sufficient funds are available to meet all members'/dependants' benefits as they fall due for payment.
F2 To ensure that employer contribution rates are reasonably stable where appropriate
F3 To minimise the long-term cash contributions which employers need to pay to the Fund, by recognising the link between assets and liabilities and adopting an investment strategy which balances risk and return (NB this will also minimise the costs to be borne by Council Tax payers)
F4 To reflect the different characteristics of different employers in determining contribution rates. This involves the Fund having a clear and transparent funding strategy to demonstrate how each employer can best meet its own liabilities over future years
F5 To use reasonable measures to reduce the risk to other employers and ultimately to the Council Tax payer from an employer defaulting on its pension obligations
I1 Have a strategic asset allocation benchmark for the Fund that has the appropriate balance between generating a satisfactory long-term return on investments whilst taking account of market volatility and risk and the nature of the Fund's liabilities.

Risk no:	Risk Overview (this will happen)	Risk Description (if this happens)	Strategic objectives at risk (see key)	Current impact (see key)	Current likelihood (see key)	Current Risk Status	Internal controls in place	Target Impact (see key)	Target Likelihood (see key)	Target Risk Status	Meets target?	Date Not Met Target From	Expected Back on Target	Further Action and Owner	Risk Manager	Next review date	Last Updated
1	Asset risk - failure to meet objectives through poor asset performance	Asset risks include the following: Concentration - over allocation to a single asset class Illiquidity - insufficient liquid assets Currency risk – underperformance of asset currency ESG Risk – ESG related factors reduce the Fund's ability to generate long-term returns. Manager Underperformance	I1	Major	Likely		1 - Investment in a diversified range of asset classes 2 - Regular cash flow monitoring 3 - Currency hedging policy 4 - ESG and climate risk policy in place 5 - Multiple managers & performance monitoring	Major	Possible		Current likelihood 1 too high	01/12/2018	Dec 2020	1 - Complete planned investment strategy changes and associated transitions (RC) 2 - Align cash flow monitoring to business objectives (RC)	Rachel Cowburn	01/09/2019	01/03/2019
2	Funding risk - growth rate of liabilities outstrips that of assets	Funding Risks include: Inflation risk - Price and pay inflation more than anticipated Changing demographics –longevity improvements . Systemic risk - interlinked and simultaneous failure of several asset classes	F1	Major	Likely		1 -Monitoring of asset allocation and investment returns 2 - Some investment in bonds assists in liability matching 3 - Stabilisation modelling at whole Fund level allows for the probability that risk free returns on govt bonds will fall 4 - Assessment of liabilities at the triennial valuation and the roll-forward of liabilities between valuations	Moderate	Likely		Current impact 1 too high	01/12/2018	Dec 2020	1 - Reassess liabilities and requirement for matching assets at triennial valuation (RC)	Rachel Cowburn	01/06/2019	01/03/2019
3	Other provider risk - loss of value resulting from external providers	Other provider risks include: Transition risk - unexpected costs in relation to the transition of assets Custody risk - losing economic rights to Fund assets Credit default - default of a counterparty	I1	Major	Possible		1 - Regular scrutiny of providers 2 - Monitoring and management (may be delegated to investment managers in certain situations e.g. custody risk in relation to pooled funds). 3 - Seek appropriate advice where necessary (e.g. during a significant transition) 4 - The Pensions Committee has the power to replace a provider should serious concerns exist.	Major	Unlikely		Current likelihood 1 too high	01/12/2018	Dec 2020	'1 - Transition planning for upcoming transitions (increased risk as increased movement of assets/appointment pof new providers) (RC)	Rachel Cowburn	01/09/2019	01/03/2019
4	Asset pooling risk - pooling prevents the Fund achieving its objectives	Asset pooling risks include: Transition risk – excessive additional cost through transition to the pooled arrangement. Concentration and capacity risks – excessive concentration of assets amongst relatively few large institutions. Political risk – central Government's infrastructure aspirations present conflict of interest for the Fund in setting its asset allocation strategy. Reputational risks – failure of a pooled arrangement could have significant consequences for the LGPS. Strategy risk – the Fund's chosen asset pool does not deliver suitable investment strategies to allow the fund to meet its objectives	I1	Major	Possible		1 - 'Monitor devlopment/respond to consultatuons - Monitor proposed changes, consultations and guidance from Government on the pooling agenda, responding where appropriate to influence outcomes. Amend process where required to ensure compliance. 2 - Relationship Management - Maintain good working relationship to ensure that the Fund is fully aware of developments at the pool level and the pool is aware of and responds to the Fund's strategic requirements. 3 - Transition Planning - Planning for transition considered as part of Investment Strategy development to ensure assets are transitioned efficiently and within the required timeframes. 4 - Pensions Committee Chair and S151 officer members of Shareholder Committee	Major	Unlikely		Current likelihood 1 too high	01/12/2018	Dec 2020	1 - Transition planning for upcoming transitions (increased risk as increased movement of assets/appointment pof new providers) (RC) 2 - Ensure more frequent formal catch up with senior LCIV staff (IW/MH/RC) 3 - Ensure LCIV aware of Hackney business plan to understand timing requirements (IW/MH/RC)	Rachel Cowburn	01/09/2019	01/03/2019
5	ESG Risk - ESG factors negatively impact Fund performance	ESG risk is the risk that financially material ESG factors have a negative impact on the Fund's performance. ESG factors include (but are not limited to) carbon risk, which is the risk that the implementation of COP21 political commitments dramatically reduces the proportion of fossil fuel reserves that can be used, with a subsequent impact on the business models and valuations of fossil fuel companies.	I1	Major	Possible		1 - Monitoring and management of the Fund's exposure to fossil fuel reserves and power generation to assess level of risk. Initial assessment carried out in July 2016. 2 - Inclusion of a policy statement setting out the Fund's approach to climate risk within the Investment Strategy Statement 3 - Active engagement with managers to understand sources of ESG risk	Major	Unlikely		Current likelihood 1 too high	01/12/2018	Dec 2020	1 - Ongoing devlopment of monitoring of fossil fuel risk (formal review of target summer 2019) 2 - Liaise with managers to improve wider ESG risk reporting	Rachel Cowburn	01/06/2019	01/03/2019
6	External Factor/Regulatory Risk	The risk that external (e.g. geopolitical) factors or the introduction of new regulation requires major changes to the operation of the Fund	I1, F1	Major	Possible		1 - Asset liability modelling to ensure the Fund's Investment Strategy helps the Fund meets its objectives under a range of economic conditions 2 - Horizon scanning to ensure awareness of potential future risks and prepare	Moderate	Possible		Current impact 1 too high	01/12/2018	Dec 2020	1 - Complete Investment strategy updates to improve fund resilience - re-review at triennial valuation	Rachel Cowburn	01/06/2019	01/03/2019
7	Employer Convenant/Affordability risks	Employer Convenant and Affordability risks include: Employer default Employer deficit on termination Highly variable/rapidly increasing employer contribution rates	F4	Moderate	Unlikely		1 - Valuation and inter-valuation monitoring 2 - Monitoring of contributions 3 - Employer covenant checks with use of bonds/guarantees where necessary 4 - Contribution rate stabilisation where appropriate	Moderate	Unlikely						Rachel Cowburn	01/09/2019	01/03/2019

All Fund Risk Heat Map and Summary of Governance Risks

12 March 2019

Hackney Pension Fund - Control Risk Register

Governance Risks

Objectives extracted from Governance Policy

G1 All staff, Pensions Committee and Pension Board Members charged with financial administration, decision-making or oversight with regards to the Fund are fully equipped with the knowledge and skills to discharge the duties and responsibilities allocated to them
G2 The Fund is aware that good governance means an organisation is open in its dealings and readily provides information to interested parties
G3 All relevant legislation is understood and complied with
G4 The Fund aims to be at the forefront of best practice for LGPS funds
G5 The Fund manages Conflicts of Interest appropriately

Risk no:	Risk Overview (this will happen)	Risk Description (if this happens)	Strategic objectives at risk (see key)	Current Impact (see key)	Current Likelihood (see key)	Current Risk Status	Internal controls in place	Target Impact (see key)	Target Likelihood (see key)	Target Risk Status	Meets target?	Date Not Met Target From	Expected Back on Target	Further Action and Owner	Risk Manager	Next review date	Last Updated
1	Recruitment and Rention - Insufficient experienced staff to meet Fund objectives	Restrictions on local authority salaries make it challenging for the fund to recruit and retain suitably qualified and experienced staff.	G1, G3, G4	Moderate	Likely		1 - Salaries benchmarked, supplements paid where appropriate 2 - Policies and procedures in place 3 - Staff able to cover other roles where possible 4 - Develop robust succession planning approach	Moderate	Unlikely		Current likelihood 2 too high	01/12/2018	Dec 2019	1 - Develop succession planning approach (MH/RC/JS) 2 - Further development of training programme - increase focus on mid level staff (RC/JS)	Julie Stacey/Rachel Cowburn	01/09/2019	01/03/2019
2	Knowledge and Skills - insufficient knowledge and skills amongst those charged with Fund Mangement	Failure to provide to suitable training and to ensure that all Committee Members are able to attend with sufficient regularity could result in the Fund failing to meet its objectives as a result of insufficient knowledgre and skills amonst those charged with its management	G1, G3, G4	Moderate	Possible		1 - Improvements being made to both induction and ongoing training 2 - Regular review of training offered and its effectiveness 3 - Knowledge and Skills Policy/training plan in place	Moderate	Unlikely		Current likelihood 1 too high	01/12/2018	Dec 2019	1 - Review of training programme and requirements underway (MH/RC)	Rachel Cowburn	01/06/2019	01/03/2019
3	Conflicts of Interest - actual conflicts of interet permitted to materialise	Failure to adequately monitor and disclose conflicts of interest results in potential conflicts not being managed	G5	Insignificant	Unlikely		1 - Conflicts of interest policy and register maintained 2 - Standing item requesting disclosure at all Committee/Board meetings 3 - Annual update to declarations required	Insignificant	Unlikely						Rachel Cowburn	01/09/2019	01/03/2019
4	Internal Fraud - financial loss resulting from actions of employee	Pensions team involved with the management of significant financial resources - potential for internal fraud	G4	Moderate	Unlikely		1 - Segregation of duties for key roles 2 - Regular scrutiny from internal audit 3 - Annual external audit of the Pension Fund	Moderate	Unlikely						Rachel Cowburn	01/09/2019	01/03/2019
5	Data Protection - failure to adequately protect member details	Non-compliance with the GDPR results in a failure to adequately protect member details, with a potential financial impact on members	G4	Moderate	Possible		1 - Compliance with the Council's ICT policy 2 - Use of encrypted email for sensitive data 3 - Use of confidential waste disposal 4 - Use of secure courier to transmit sensitive hard copy files 5 - Appropriate access control measures 5 - Redaction of personal information where required 6 - Tailored training to be provided to Financial Services staff, Pensions Committee and Pension Board Members Contracts with third party suppliers acting as joint data processors must ensure that: 1 - Third parties are GDPR compliant 2 - Secure methods of transfer for sensitive data transmission/storage built into contract 3 - Appropriate risk sharing between the Council and the third party supplier is in place.	Moderate	Unlikely		Current likelihood 1 too high	01/12/2018	Dec 2019	1 - Ensure all pensions team staff fully trained on GDPR 2 - Ensure TLS links in place with third party suppliers where possible 3 - Roll out employer portal to ensure more userl friendly secure data transmission 4 - explore further secure email options as current offer not user friendly	Julie Stacey/Rachel Cowburn	01/06/2019	01/03/2019
6	Reliance on external systems - potential for system failure (including cybercrime)	Heavy reliance on external systems includinge following systems: Cedar (accounting), HSBCnet (custodian), LloydsLink, Compendia results in crucial action not being taken in the event of system failure	G4	Moderate	Possible		1 - All teams complete a Business Impact Analysis to assess timescales/impact of system failure etc. 2 - The Pension Investments and Pensions Administration Business Continuity Plans detail actions to take in the event of system failure	Moderate	Unlikely		Current likelihood 1 too high	01/12/2018	Aug 2019	1 - Internal training required on cybercrime risk 2 - Check cybercrime insurance 3 - Receive written assurances from all suppliers re: management of cybercrime	Julie Stacey/Rachel Cowburn	01/06/2019	01/03/2019

London Borough of Hackney

Pension Fund

Risk Policy

Introduction

This is the Risk Policy of the London Borough of Hackney Pension Fund, which is managed and administered by Hackney Council (the Administering Authority). The Risk Policy details the risk management strategy for the London Borough of Hackney Pension Fund, including:

- the risk philosophy for the management of the Fund, and in particular attitudes to, and appetite for, risk
- how risk management is implemented
- risk management responsibilities
- the procedures that are adopted in the Fund's risk management process
- the key internal controls operated by the Administering Authority and other parties responsible for the management of the Fund.

Hackney Council recognises that effective risk management is an essential element of good governance in the LGPS. By identifying and managing risks through an effective policy and risk management strategy, the Administering Authority can:

- demonstrate best practice in governance
- improve financial management
- minimise the risk and effect of adverse conditions ▪ identify and maximise opportunities that might arise ▪ minimise threats.

The Administering Authority adopts best practice risk management, which supports a structured and focused approach to managing risks, and ensures risk management is an integral part in the governance of the London Borough of Hackney Pension Fund at a strategic and operational level.

To whom this Policy Applies

This Risk Policy applies to all members of the Pensions Committee and the local Pension Board, including scheme member and employer representatives. It also applies to all members of the Hackney Council Pension Fund Management Team and the Chief Finance Officer (Section 151 Officer).

Less senior officers involved in the daily management of the Pension Fund are also integral to managing risk for the London Borough of Hackney Pension Fund and will be required to have appropriate understanding of risk management relating to their roles, which will be determined and managed by the Head of Financial Services.

Advisers and suppliers to the London Borough of Hackney Pension Fund are also expected to be aware of this Policy, and assist officers, Committee members and Board members as required, in meeting the objectives of this Policy.

Aims and Objectives

In relation to understanding and monitoring risk, the Administering Authority aims to:

- integrate risk management into the culture and day-to-day activities of the Fund
- raise awareness of the need for risk management by all those connected with the management of the Fund (including advisers, employers and other partners)
- anticipate and respond positively to change
- minimise the probability of negative outcomes for the Fund and its stakeholders

- establish and maintain a robust framework and procedures for identification, analysis, assessment and management of risk, and the reporting and recording of events, based on best practice
- ensure consistent application of the risk management methodology across all Fund activities, including projects and partnerships.

To assist in achieving these objectives in the management of the Fund the Administering Authority will aim to comply with:

- the CIPFA Managing Risk publication and
- the Pensions Act 2004 and the Pensions Regulator's Code of Practice for Public Service Pension Schemes as they relate to managing risk.

Risk Management Philosophy

The Administering Authority recognises that it is not possible or even desirable to eliminate all risks.

Accepting and actively managing risk is therefore a key part of the risk management strategy for the London Borough of Hackney Pension Fund. A key determinant in selecting the action to be taken in relation to any risk will be its potential impact on the Fund's objectives in the light of the Administering Authority's risk appetite, particularly in relation to investment matters. Equally important is striking a balance between the cost of risk control actions against the possible effect of the risk occurring.

In managing risk, the Administering Authority will:

- ensure that there is a proper balance between risk taking and the opportunities to be gained
- adopt a system that will enable the Fund to anticipate and respond positively to change
- minimise loss and damage to the Fund and to other stakeholders who are dependent on the benefits and services provided
- make sure that any new areas of activity (new investment strategies, joint-working, framework agreements etc.), are only undertaken if the risks they present are fully understood and taken into account in making decisions.

The Administering Authority also recognises that risk management is not an end in itself; nor will it remove risk from the Fund or the Administering Authority. However it is a sound management technique that is an essential part of the Administering Authority's stewardship of the Fund. The benefits of a sound risk management approach include better decision-making, improved performance and delivery of services, more effective use of resources and the protection of reputation.

CIPFA and The Pensions Regulator's Requirements

CIPFA Managing Risk Publication

CIPFA has published technical guidance on managing risk in the LGPS. The publication explores how risk manifests itself across the broad spectrum of activity that constitutes LGPS financial management and administration, and how, by using established risk management techniques, those risks can be identified, analysed and managed effectively.

The publication also considers how to approach risk in the LGPS in the context of the role of the administering authority as part of a wider local authority and how the approach to risk might be communicated to other stakeholders.

The Pension Regulator's Code of Practice

The Public Service Pensions Act 2013 added the following provision to the Pensions Act 2004 related to the requirement to have internal controls in public service pension schemes.

> *"**249B Requirement for internal controls: public service pension schemes***
>
> *(1) The scheme manager of a public service pension scheme must establish and operate internal controls which are adequate for the purpose of securing that the scheme is administered and managed—*
>
> *(a) in accordance with the scheme rules, and (b)*
>
> *in accordance with the requirements of the law.*
>
> *(2) Nothing in this section affects any other obligations of the scheme manager to establish or operate internal controls, whether imposed by or by virtue of any enactment, the scheme rules or otherwise.*
>
> *(3) In this section, "enactment" and "internal controls" have the same meanings as in section 249A."*

Section 90A of the Pensions Act 2004 requires the Pensions Regulator to issue a code of practice relating to internal controls. The Pensions Regulator has issued such a code in which he encourages scheme managers to employ a risk based approach to assess the adequacy of their internal controls and to ensure that sufficient time and attention is spent on identifying, evaluating and managing risks and developing and monitoring appropriate controls.

The Pensions Regulator's code of practice guidance on internal controls requires scheme managers to carry out a risk assessment and produce a risk register which should be reviewed regularly. The risk assessment should begin by:

- setting the objectives of the scheme
- determining the various functions and activities carried out in the running of the scheme, and ▪ identifying the main risks associated with those objectives, functions and activities.

The code of practice goes on to say that schemes should consider the likelihood of risks arising and the effect if they do arise when determining the order of priority for managing risks and focus on those areas where the impact and likelihood of a risk materialising is high. Schemes should then consider what internal controls are appropriate to mitigate the main risks they have identified and how best to monitor them. The code of practice includes the following examples as issues which schemes should consider when designing internal controls to manage risks:

- how the control is to be implemented and the skills of the person performing the control
- the level of reliance that can be placed on information technology solutions where processes are automated
- whether a control is capable of preventing future recurrence or merely detecting an event that has already happened
- the frequency and timeliness of a control process
- how the control will ensure that data are managed securely, and
- the process for flagging errors or control failures, and approval and authorisation controls.

The code states that risk assessment is a continual process and should take account of a changing environment and new and emerging risks. It further states that an effective risk assessment process will provide a mechanism to detect weaknesses at an early stage and that schemes should periodically review the adequacy of internal controls in:

- mitigating risks
- supporting longer-term strategic aims, for example relating to investments
- identifying success (or otherwise) in achieving agreed objectives, and
- providing a framework against which compliance with the scheme regulations and legislation can be monitored.

Under section 13 of the Pensions Act 2004, 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 internal controls are not being adhered to.

Application to the London Borough of Hackney Pension Fund

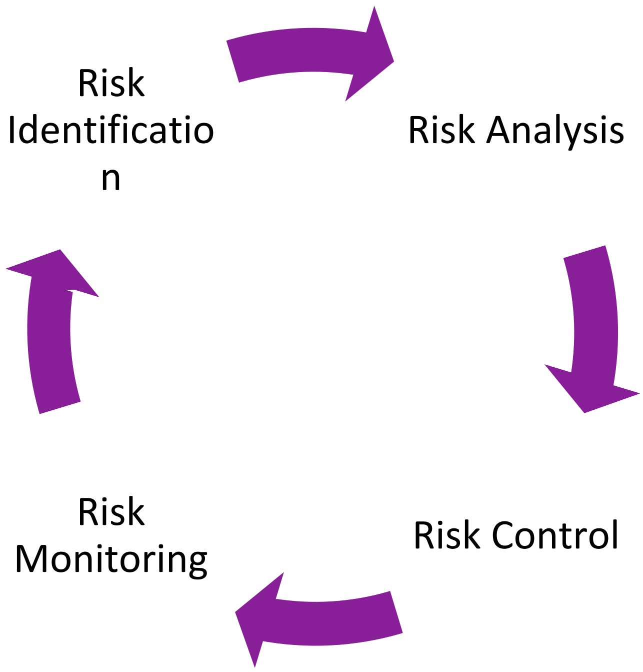
Hackney Council adopts the principles contained in CIPFA's Managing Risk in the LGPS document and the Pension Regulator's code of practice in relation to London Borough of Hackney Pension Fund. This Risk Policy highlights how the Administering Authority strives to achieve those principles through use of risk management processes and internal controls incorporating regular monitoring and reporting.

Responsibility

The Administering Authority for the London Borough of Hackney Pension Fund must be satisfied that risks are appropriately managed. For this purpose, the Head of Financial Services is the designated individual for ensuring the process outlined below is carried out, subject to the oversight of the Pensions Committee.

However, it is the responsibility of each individual covered by this Policy to identify any potential risks for the Fund and ensure that they are fed into the risk management process.

The London Borough of Hackney Pension Fund Risk Management Process



Risk identification

Risks are identified by a number of means including, but not limited to:

- formal risk assessment exercises managed by the Pensions Committee
- performance measurement against agreed objectives
- monitoring against the Fund's business plan
- findings of internal and external audit and other adviser reports
- feedback from the local Pension Board, employers and other stakeholders
- informal meetings of senior officers or other staff involved in the management of the Fund
- liaison with other organisations, regional and national associations, professional groups, etc.

Risk analysis

Once potential risks have been identified, the next stage of the process is to analyse and profile each risk. Risks will be assessed by considering the likelihood of the risk occurring and the effect if it does occur, with the score for likelihood multiplied by the score for impact to determine the current overall risk rating, as illustrated in the table below.

Potential impact if risk occurred						
	5 Catastrophic	5	10	15	20	25
	4 Major	4	8	12	16	20
	3 Moderate	3	6	9	12	15
	2 Minor	2	4	6	8	10
	1 Insignificant	1	2	3	4	5
		1 Rare	2 Unlikely	3 Possible	4 Likely	5 Almost certain

Likelihood of risk occurring

When considering the risk rating, the Administering Authority will have regard to the existing controls in place and these will be summarised on the risk register. A summary of some of the Fund's key internal controls are also appended to this Risk Policy.

Risk control

The Head of Pension Fund Investment, in liaison with the Head of Pension Administration where appropriate, will review the extent to which the identified risks are covered by existing internal controls and determine whether any further action is required to control the risk including reducing the likelihood of a risk event occurring or reducing the severity of the consequences should it occur. Before any such action can be taken, Pensions Committee approval may be required where appropriate officer delegations are not in place. The result of any change to the internal controls could result in any of the following:

- Risk elimination – for example, ceasing an activity or course of action that would give rise to the risk.
- Risk reduction – for example, choosing a course of action that has a lower probability of risk or putting in place procedures to manage risk when it arises.
- Risk transfer – for example, transferring the risk to another party either by insurance or through a contractual arrangement.

The Fund's risk register details all further action in relation to a risk and the owner for that action. Where necessary the Administering Authority will update the Fund's business plan in relation to any agreed action as a result of an identified risk.

Risk monitoring

Risk monitoring is the final part of the risk management cycle and will be the responsibility of the Pensions Committee. In monitoring risk management activity, the Committee will consider whether:

- the risk controls taken achieved the desired outcomes
- the procedures adopted and information gathered for undertaking the risk assessment were appropriate
- greater knowledge of the risk and potential outcomes would have improved the decision-making process in relation to that risk
- there are any lessons to be learned for the future assessment and management of risks.

Reporting and monitoring of this Policy

Progress in managing risks will be monitored and recorded on the risk register. A high level risk summary will be provided to the Committee on a quarterly basis. The full underlying risk register will be maintained by officers and brought to the Committee for full review at least every 3 years, or following a significant change to internal controls or risk management process.

The risk summary will provide the Pensions Committee with updates on an ongoing basis in relation to any new risks or significant changes to risks (for example where a risk's score is deteriorating relative to its target).

As a matter of course, the local Pension Board will be provided with the same information as is provided to the Pensions Committee and they will be able to provide comment and input to the management of risks.

In order to identify whether the objectives of this policy are being met, the Administering Authority will review the delivery of the requirements of this Policy on an annual basis taking into consideration any feedback from the local Pension Board.

Key risks to the effective delivery of this Policy

The key risks to the delivery of this Policy are outlined below. The Pensions Committee will monitor these and other key risks and consider how to respond to them.

- Risk management becomes mechanistic, is not embodied into the day to day management of the Fund and consequently the objectives of the Policy are not delivered
- Changes in Pensions Committee and/or local Pension Board membership and/or senior officers mean key risks are not identified due to lack of knowledge
- Insufficient resources being available to satisfactorily assess or take appropriate action in relation to identified risks
- Risks are incorrectly assessed due to a lack of knowledge or understanding, leading to inappropriate levels of risk being taken without proper controls
- Lack of engagement or awareness of external factors means key risks are not identified.
- Conflicts of interest or other factors leading to a failure to identify or assess risks appropriately

Costs

All costs related to this Risk Policy are met directly by the London Borough of Hackney Pension Fund.

Approval, Review and Consultation

This Risk Policy was approved at the London Borough of Hackney Pensions Committee meeting on 24 June 2015. It will be formally reviewed and updated at least every three years or sooner if the risk management arrangements or other matters included within it merit reconsideration.

Further Information

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

Rachel Cowburn
London Borough of Hackney Pension Fund
4th Floor, Hackney Service Centre
1 Hillman Street
London E8 1DY
E-mail rachel.cowburn@hackney.gov.uk

Telephone 020 8356 2630

Further information on the London Borough of Hackney Pension Fund can be found as shown below:

Email: pensions@hackney.gov.uk (Governance)

hackney.pensions@equiniti.com (Administration)

Pension Fund Website: http://hackney.xpmemberservices.com

Hackney Council Website: www.hackney.gov.uk (Minutes, Agendas, etc.)

Appendix: Key Internal Controls

	Control Objective	Description of Control Procedures
Authorising and processing transactions	Benefits payable are calculated in accordance with the Regulations and are paid on a timely basis	• Fully tested and regularly audited administration system for automated calculations. Checking of calculations and other processes is carried out. • Procedures to ensure appropriate authority in place prior to processing payments.
Maintaining financial and other records	Member records are up-to-date and accurate	• Annual and monthly reconciliation of information supplied by employers and administration records. Reconciliation of member movements • Pensioner existence checks carried out every 2 to 3 years • Members provided with annual benefit statements and asked to confirm if any details are incorrect
	All cashflows and transactions are recorded in the correct period	• Accounting journals are automatically created as part of the workflow system. • Regular bank reconciliations and cash flow forecasting are carried out • The administration records and treasury/accounting records are regularly reconciled
Safeguarding assets	Member, employer and Fund information is appropriately stored to ensure security and protection from unauthorised access.	• Password security in place and enforced • Access to member and Fund data restricted to authorised personnel • Member correspondence scanned and stored in secure systems
	Cash is safeguarded and payments are suitably authorised and controlled	• Separate bank account maintained for the Fund • Access controlled and authentication required. Cash movements recorded daily • Regular bank reconciliations carried out and pensioner payroll reconciled each pay period • Pensioner existence checks are carried out every 2 to 3 years, annually if overseas and all pensioners paid only by BACs.
	Investment purchases and sales are correctly recorded and valuations are correct	• Regular reconciliation of information provided by fund managers and custodian and Fund's records • Assets held separately from LB Hackney by Custodian. • Only authorised individuals, within specified signing limits can instruct / disinvest funds. • All investment/disinvestment instructions are drafted by investment managers and advice taken from Fund's investment advisers prior to authorisation and action

	Control Objective	Description of Control Procedures
Monitoring compliance	Contributions are received in accordance with the Regulations and rate and adjustments certificate	• Payment dates monitored against expected / due dates and late payments notified • Employer contributions reconciled annually against Rates and Adjustments Certificate • Member contributions regularly reconciled against pay data received • Take up of the 50/50 option monitored and compared to contributions received • Rates and Adjustments Certificate updated as required when exit valuations carried out
	Outsourced activities are properly managed and monitored	• Monthly report provided by third party administrator, including a report on performance against the SLA. • Monthly meetings between third party administrator and Hackney Council officers and quarterly reporting to Pensions Committee. • All suppliers subject to regular review as part of tender and appointment process. • Annual monitoring of suppliers at Pensions Committee.
Reporting to stakeholders	Reports to members and employers are accurate, complete and within required timescales Annual reports and accounts are prepared in accordance with regulations and guidance Regulatory reports are made if needed	• Detailed planning of annual benefit statement exercise and testing carried out in advance • Timetable agreed for production of annual report and accounts, in consultation with auditors. Analytical reviews carried out regularly during the year. • Policies in place to ensure all staff aware of regulatory requirements relating to whistleblowing, money laundering and bribery • Reports to regulatory authorities such as SAB and DCLG provided in a timely manner.
Information technology	Access is restricted to authorised individuals and tightly controlled	• Access to Council and Equiniti offices and IT systems restricted to authorised individuals. • Password security protocols in place and enforced • Any changes to user details or access rights require authorisation
	Appropriate measures are implemented to counter the threat from malicious electronic attach	• Antivirus software used and updated regularly and firewalls in place • IT security reviews carried out regularly by external experts • Filters in place to manage email spam and viruses. Protocols in place to block certain emails (size or content)
	IT processing is authorised appropriately and exceptions identified and resolved in a timely manner	• All IT processes documented and monitored • Changes to systems can only be made by authorised staff

	Control Objective	Description of Control Procedures
	Data transmission is complete, accurate, timely and secure	• Secure file transfer protocols available for transmitting data externally • Sensitive date transmitted via encrypted or password protected email • All staff trained on data security protocols
	Measures are in place to ensure continuity	• Data and systems backed up regularly, retained off-site and regularly tested for recoverability • Business continuity arrangements in place and regularly tested
	Physical IT equipment maintained in a controlled environment	• IT infrastructure rooms protected against fire, power failure and unauthorised access • Offset data centre has appropriate security measures in place • IT asset register maintained • Laptops and mobile devices encrypted or password protected
Maintaining and developing systems hardware and software	Development and implementation of new systems, applications and software or changes to existing systems are authorised, tested and approved	• Project controls in place prior to agreeing system update • Test administration system environment used for developing system updates • Appropriate authorisation required before updates are made live after functionality and user acceptance testing •
	Data migration or modification tested and reconciled back to data source	• Change management procedures in pace for any data migration or modification • Scheme data reconciliations carried out as part of process
Recovery from processing interruptions	Data and systems are regularly backed up, retained offsite and regularly tested for recoverability	• Servers are replicated to an offsite datacentre or backed up to tapes daily and taken to an offsite data storage facility. • Recoverability testing is undertaken on a regular basis
	IT hardware and software issues monitored and resolved in a timely manner	• Group IT Service Desk facility to log all incidents with prioritisation • Service is monitored against Service Level Agreements
Appropriate governance	The Fund is managed with appropriate direction and oversight by the Pensions Committee	• Business plan in place and updates provided to each Pensions Committee • All key strategies and policies in place and regularly reviewed by Pensions Committee • Update reports to each Pensions Committee highlighting progress against key objectives • Risk management policy in place and regular updates to Pensions Committee • Local Pension Board in place providing assistance with compliance

This page is intentionally left blank

Hackney

REPORT OF THE GROUP DIRECTOR, FINANCE AND CORPORATE RESOURCES		
REVIEW OF PENSIONS COMMITTEE WORK – October 2018 – February 2019 **Pension Board** **20th March 2019**	**Classification** **PUBLIC** **Ward(s) affected** **ALL**	**Enclosures** **None** **AGENDA ITEM NO.**

1. INTRODUCTION

1.1 The purpose of this report is for the Pension Board to consider the work undertaken by the Pensions Committee at its meetings in the period from October 2018 to February 2019 and to note items that are relevant to the work of the Pension Board. It also includes a forward look at the upcoming work of the Committee during 2019.

2. RECOMMENDATIONS

2.1 The Pension Board is recommended to note the report

3. RELATED DECISIONS

- Pensions Committees (12th December 2018)

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

4.1 Understanding the remit of and decisions taken by the Pensions Committee helps the Pension Board to assist Hackney Council as the administering authority in ensuring the efficient and effective governance and administration of the Fund, in line with its statutory duties. Good governance of the Fund helps to ensure its long term financial health and that of its stakeholders, including the Council.

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

5. COMMENTS OF THE DIRECTOR OF LEGAL AND GOVERNANCE

5.1 The role of the Pension Board is prescribed by Section 106 of the Local Government Pension Scheme Regulations 2013 and includes the following:

- Securing compliance with the Local Government Pension Scheme Regulations 2013 and any other legislation relating to the governance and administration of the Scheme and any connected scheme
- Securing compliance with any requirements imposed by the Pensions Regulator in relation to the Scheme and any connected scheme
- Ensuring the effective and efficient governance and administration of the Scheme and any connected scheme

5.2 Further details of the suggested functions of local pension boards are provided by statutory guidance ((Local Government Pension Scheme (LGPS) Guidance on the creation and operation of Local Pension Boards in England and Wales). This guidance suggests that reviewing the pension fund risk register might be included by administering authorities within the remit of their local pension board

5.3 Taking into account the role of the Pension Board as set out in the Regulations and statutory guidance, the consideration of the risks associated with administering the Pension Fund would appear to properly fall within the Board's remit

6. REVIEW OF DECEMBER 2018 MEETING

6.1 Whilst not a decision making body for the Pension Fund, the Board does have a broad remit to review the decision-making process of the Pensions Committee and in particular, matters relating to scheme administration and governance. Members have been provided with copies of the reports considered at the Pensions Committee meeting held on the 12th December 2018: http://mginternet.hackney.gov.uk/ieListMeetings.aspx?CId=499&Year=0

6.2 At its meeting on 12th December 2018, the Pensions Committee considered reports covering a wide range of issues including responsible investment, alternative credit, risk management and pensions administration. Where Pensions Committee work has specific relevance to the Pension Board and where the subject matter is such that it would be helpful for the Board to consider it in greater detail, these have become dedicated papers for the Board agenda. In other areas, it is worth highlighting either reports or elements of Committee reports that are of relevance to the Board.

6.3 The quarterly monitoring report provides both the Pensions Committee and the Board with an update on the key facts pertaining to the Pension Fund. Updates are provided on funding, investment performance, budget monitoring, responsible investment, pensions administration and reporting of breaches. Key to the role of the Board is ensuring that the Fund is being administered in accordance with the regulations and the quarterly report helps demonstrate that the Committee receives regular updates a number of issues covered by statute. Of particular relevance to the Board are the sections on administration performance and reporting breaches.

6.4 One key item from the 23rd July meeting included a decision to commit 10% of fund assets to two private debt mandates. The Committee made an initial decision to allocate to alternative credit during 2017; this was reaffirmed during 2018, with the Committee deciding to focus on an allocation to private debt. Two collaborative options were considered, one offered by the London CIV, and one put together by five other London Boroughs, supported by the investment consultant bfinance. The Committee made the decision to allocate to the managers selected by the five London Boroughs, committing £95m to Permira (European) and £65m to Churchill (US). The decision was made with support from the Fund's investment consultant, Hymans Robertson, which included the provision of additional training to members.

6.5 The Committee also considered a report on Responsible Investment at its December meeting. The report focused on the Fund's approach to voting and engagement, and the potential challenges and opportunities posed by asset pooling. The Committee agreed to focus initially on liaising with the London CIV to ensure that the pool company is delivering on the proposals set out in its Responsible Investment policy.

6.6 An update on improvements to the Fund's training offer was also considered at the 12th December meeting. Members requested 1-2-1 meetings with officers to discuss training requirements; 4 of 6 meetings have now been held. An update on changes proposed will be provided once al requested meetings have been held.

6.7 Another key item from the 12th December Committee meeting was the Pension Fund Risk Register, which has been included as a separate item on the Pension Board agenda.

7. UPCOMING WORK

7.1 Over the coming months, the focus of the Committee will move towards the 2019 valuation and subsequent investment strategy review. The Committee will consider the proposed assumptions underlying the valuation of liabilities in addition to the asset liability modelling outcomes that will form the basis of the Fund's investment strategy development. The Committee will consider a paper introducing the valuation process at its 26th March meeting, with further papers to follow during the 2019/20 financial year. The Committee must approve the actuary's final valuation report and rates and adjustments certificate no later than 31st March 2020.

7.2 At the 26th March meeting, the Committee will also consider a report on Climate Risk and the monitoring of the Fund's target to reduce exposure to carbon reserves by 50% by 2022. With a full valuation cycle having passed since the introduction of the target, the Committee are now asked to consider commissioning a further carbon footprinting exercise to assess the Fund's exposure to reserves.

7.3 The Committee will also be considering a number of policy updates during the meeting. Updates are due to the Pensions Administration Strategy (PAS) (final version), Communications Policy (final version) and the Admissions Policy. The Board have already reviewed the PAS and Communications Policy in draft; no significant changes are proposed for the final versions. The Admissions Policy is included as a separate item within the Board agenda.

Ian Williams
Group Director, Finance and Corporate Resources

Report Originating Officers: Rachel Cowburn ☎020-8356 2630
Financial considerations: Michael Honeysett ☎020-8356 3332
Legal comments: Sean Eratt ☎020-8356 6012

This page is intentionally left blank

REPORT OF THE GROUP DIRECTOR, FINANCE & CORPORATE RESOURCES		
Pension Fund Admissions Policy – Admitted Bodies (2019) **Pension Board** **20th March 2019**	**Classification** **Public** **Ward(s) affected** **ALL**	**Enclosures** **1** **AGENDA ITEM NO.**

1. INTRODUCTION

1.1 This report introduces an update to the Pension Fund Admissions Policy. The 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 Pension Board is recommended to:

- Review the Admissions Policy, Employer Admissions to the Fund (2019) prior to approval by the Pensions Committee

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 The role of the Pension Board is prescribed by Section 106 of the LGPS Regulations 2013 and includes the following:

- Securing compliance with the Local Government Pension Scheme Regulations 2013 and any other legislation relating to the governance and administration of the Scheme and any connected scheme
- Securing compliance with any requirements imposed by the Pensions Regulator in relation to the Scheme and any connected scheme
- Ensuring the effective and efficient governance and administration of the Scheme and any connected scheme

5.3 Further details of the suggested functions of local pension boards are provided by statutory guidance ((Local Government Pension Scheme (LGPS) Guidance on the creation and operation of Local Pension Boards in England and Wales). The guidance considers the review of documents recording policy about the administration of the scheme as appropriate for the remit of local pension boards.

5.4 Taking into account the role of the Pension Board as set out in the Regulations and statutory guidance, the consideration of the Pension Fund admissions policy would appear to properly fall within the Board's remit

6. OVERVIEW OF CHANGES

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 to 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.

List of Appendices
Appendix 1 - London Borough of Hackney Pension Fund, Admissions Policy, Employer Admissions to the Fund (2019)

Ian Williams
Group Director, Finance & Corporate Resources

Report Originating Officers: Julie Stacey ☎020-8356 3565
Financial considerations: Michael Honeysett ☎020-8356 3332
Legal comments: Sean Eratt ☎020-8356 6012

Hackney

pensions@hackney

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 -

Schedule 2 Part 3

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.

<u>Fund Policy</u>

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.

Fund Policy

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).

Fund Policy

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.

Those with links to the Scheme employer –
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.

This page is intentionally left blank

Hackney

REPORT OF THE GROUP DIRECTOR OF FINANCE AND CORPORATE RESOURCES		
The Pensions Regulator Code of Practice Compliance Checklist **Pension Board** **20th March 2019**	**Classification** **PUBLIC** **Ward(s) affected** **ALL**	**Enclosures** **One** **AGENDA ITEM NO.**

1. INTRODUCTION

1.1 From 1st April 2015 the Pensions Regulator (TPR) assumed responsibility for public service pension schemes and put in place codes of practice for public service pension schemes covering a number of areas relating to the management of schemes. The Code of Practice for Public Service Pension Schemes came into force from 1st April and all schemes must now consider whether they comply with the Code.

1.2 This report covers an updated Compliance Checklist for the London Borough of Hackney Pension Fund.

2. RECOMMENDATIONS

2.1 The Pension Board is recommended to:

- Note the Code of Compliance Checklist and where further work is required and being undertaken.

3. RELATED DECISIONS

- Pensions Committee 12th September 2018 – TPR Code Compliance Checklist

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

4.1 In recent years there has been much greater focus on the standard of governance within LGPS funds. This increased focus can be seen in The Pensions Regulator's (TPR) recently introduced powers of oversight, as well as in the introduction of local pension boards. TPR's Code of Practice no. 14, for public service pension schemes, is a useful guide to the standards of governance expected by the Regulator; measuring the Fund's compliance with it on a regular basis helps to ensure that good practice is understood and maintained.

4.2 A good standard of governance is crucial in minimising the key risks involved in managing the Pension Fund. Although the greater powers of oversight granted to TPR should ultimately benefit schemes through driving improvements in governance, ensuring compliance with the updated requirements results in additional work for officers and advisers of the Fund. Whilst delivering the requirements of the Code of Practice and the related legal changes are therefore associated with increased costs, these are immaterial in comparison with the risks of failing to ensure that scheme governance is of a high standard and compliant with all necessary regulation and guidance.

4.3 The risks of non-compliance include both financial penalties issued by TPR, which can be considerable, and the longer term costs to the Council likely to ensue in the event of poor management of the Pension Fund, including a potentially increased employer contribution rate.

5. COMMENTS OF THE DIRECTOR OF LEGAL AND GOVERNANCE

5.1 The Public Service Pensions Act (2013) introduced a legal framework for the governance and administration of public service pension schemes and provided for extended regulatory oversight by TPR. The 2013 Act requires TPR to issue one of more Codes of Practice setting out the legal requirements in respect of the management of the schemes; the Regulator has discharged this duty by issuing the Code of Practice for Public Service Pension Schemes.

5.2 The Code of Practice is not a statement of the law and there is no penalty for failing to comply with it. However, any alternative approach to that appearing in the Code will need to meet the underlying legal requirements of the Public Service Pensions Act 2013 and a penalty may be imposed by the Regulator if those requirements are not met.

5.3 The Code of Practice contains practical guidance and sets out standards of conduct and practice expected of those who exercise functions in relation to those legal requirements. It is therefore appropriate for both the Pensions Committee and the Pension Board to consider the Hackney Pension Fund’s adherence to the Code of Practice at regular intervals.

6. BACKGROUND TO THE REPORT

6.1 TPR finalised its 14th Code of Practice in January 2015 following a consultation with interested parties on the original draft and the Regulator's new powers under the Public Services Pensions Act 2013 (the 2013 Act).

6.2 Although following the code itself is not a regulatory requirement, should TPR identify a situation where the legal requirements are being breached, he will use the code as a core reference document when deciding appropriate action.

6.3 The matters covered by Code 14 are:

- knowledge and understanding for members of pension boards;
- conflicts of interest;
- publication of information about pension boards, governance and administration;
- internal controls;
- record-keeping;
- late payment of employer and employee contributions;
- information about member benefits and disclosure of information to members;
- internal dispute resolution, and
- reporting breaches of the law.

6.4 Given the powers of oversight granted to TPR and the increased focus on the governance of public service pension schemes, it is appropriate to assess if the management of the London Borough of Hackney Pension Fund meets the requirements of the Public Service Pensions Act 2013 and the recommended ways of working outlined in TPR's Code of Practice. The Board were last provided with the completed checklist in November 2018, showing where the Fund was able to demonstrate Compliance with the Code.

6.5 The full updated checklist is attached for review by the Board. As can be seen in many areas, the Fund is generally able to demonstrate good levels of compliance with the Code and these are highlighted in green. This has improved from the previous update, largely thanks to improvements in scheme documentation e.g. around IDRP. There are still a number of areas associated with the Pensions Board showing as yellow – in many cases these are areas associated with training, as officers are currently undertaking a full review of training policy implementation.

6.6 There is one area where the Fund is failing to meet the requirements of the Code, which relates to the issuance of Annual Benefits Statements to active scheme members. Statements to deferred members were produced and issued by the deadline of 31st August. However, only 627 statements to actives were issued by the deadline, with 3,616 sent in early November, leaving approximately 1,600 still to be issued. The primary cause of the breach was a failure by the Council, as the Fund's main employer, to submit an adequate year end return. The vast majority of active statements for other employers were sent out by the deadline.

6.7 A breach report was submitted to tPR in November 2018 and officers have continued to liaise with the Regulator. The in house administration team has undertaken significant data cleansing on the 1600 queried records to ensure delivery of the remaining statements as soon as possible. Further details of the work undertaken are provided in the 'Data Update' report provided as part of this agenda pack.

6.8 The issue of payment of AVC contributions has been upgraded from 'non-compliant' to 'partially compliant' thanks to the introduction of new reconciliation processes by the in house administration team. Further work remains to ensure that additional contributions are correctly classified by the Council and that any warnings over non-payment are followed up in a timely fashion, hence the classification as 'partially compliant.

Ian Williams
Group Director of Finance & Corporate Resources

List of appendices:
Appendix 1- The Pensions Regulator's Code of Practice – Compliance Checklist

Report Originating Officers: Rachel Cowburn ☎020-8356 2630
Financial considerations: Michael Honeysett ☎020-8356 3332
Legal comments: Sean Eratt ☎020-8356 6012

This page is intentionally left blank

The Pension Regulator's and Scheme Advisory Board Compliance Checklist

Date of Completion: 11/03/2019

Contents

Introduction

This document outlines how Hackney Council complies with the Pensions Regulator's (TPR) Code of Practice No 14 Governance and administration of public service pension schemes ('the TPR Code') in relation to the management of the London Borough of Hackney Pension Fund which is part of the Local Government Pension Scheme (LGPS). It will be updated regularly by officers of the Fund and reported annually to the Pensions Committee and Pension Board (generally in June/July each year).

This document highlights all the key elements of the TPR Code and then evidences whether Hackney Council meets these areas of best practice. As part of this evidence it shows when the element was last checked and whether, at that point, it was considered fully, partially or not compliant. Where they are partially or not compliant, it also highlights whether the Council have identified actions to be carried out to improve their current practices. Where an element is not yet active, the commentary will generally still highlight where advanced progress is being made.

Those reading this document should be mindful that the TPR Code applies equally to all public service pension schemes and therefore it is generic in nature. There may be a number of elements that are more specifically stipulated within LGPS legislation and it is not the purpose of this compliance checklist to consider that level of detail.

Further, Hackney Council may also incorporate key elements of national guidance from the LGPS Scheme Advisory Board into this compliance checklist. This version contains the checklists included as part of the Shadow Scheme Advisory Boards "Guidance on the creation and operation of Local Pension Boards in England and Wales".

Key

Frequency of review and last review date: Where a process, policy or practice is officially reviewed at a set interval, the actual interval will be shown as well as the last interval date. However, in many circumstances processes and procedures are ongoing and part of the day – to - day operation of the Fund. In these circumstances, an annual check will be carried out to ensure that the ongoing process meets the TPR Code expectations and therefore the date shown will be the date that annual check was carried out and the frequency will be shown as "ongoing (annual check)".

Completed:	**Compliant:**	**Where responsibility relates to employers:**
Fully completed	Fully compliant	Employers - Fully compliant
In progress	Partially compliant	Employers - Partially compliant
Not started	Non-compliant	Employers - Non-compliant
Not yet relevant	Net yet relevant	Not yet relevant

Definitions:

PSPA13	Public Service Pensions Act 2013
LGPS	Local Government Pension Scheme
TPR	The Pensions Regulator
TPR Code	The Pensions Regulator's Code of Practice No 14 Governance and administration of public service pension schemes
Scheme Manager	For the London Borough of Hackney Pension Fund, this is Hackney Council.
Administering Authority	The LGPS specific term for Scheme Manager. For the London Borough of Hackney Pension Fund, this is Hackney Council.
IDRP	Internal Dispute Resolution Procedure
SAB	The national LGPS Scheme Advisory Board
PC	Pensions Committee
PB	Pension Board

Summary Dashboard

A dashboard showing the summary of the results of the latest compliance checklist is shown below:

No.	Completed	Compliant
Reporting Duties		
A1	Fully completed	Fully compliant
A2	Fully completed	Fully compliant
A3	Fully completed	Fully compliant
A4	Fully completed	Fully compliant
Knowledge and Understanding		
B1	Fully completed	Fully compliant
B2	Fully completed	Fully compliant
B3	In progress	Partially compliant
B4	Fully completed	Fully compliant
B5	Fully completed	Fully compliant
B6	Fully completed	Fully compliant
B7	Fully completed	Fully compliant
B8	In progress	Partially compliant
B9	In progress	Partially compliant
B10	In progress	Partially compliant
B11	In progress	Partially compliant
B12	In progress	Partially compliant
Conflicts of Interest		
C1	Fully completed	Fully compliant
C2	Fully completed	Fully compliant
C3	In progress	Partially compliant
C4	Fully completed	Fully compliant
C5	In progress	Partially compliant
C6	Fully completed	Fully compliant
C7	Fully completed	Fully compliant
C8	Fully completed	Fully compliant
C9	Fully completed	Fully compliant
C10	Fully completed	Fully compliant
C11	Fully completed	Fully compliant
Publishing Information		
D1	In progress	Partially compliant
D2	In progress	Partially compliant
D3	In progress	Partially compliant
D4	Fully completed	Fully compliant

No.	Completed	Compliant
Risk and Internal Controls		
E1	Fully completed	Fully compliant
E2	Fully completed	Fully compliant
E3	Fully completed	Fully compliant
E4	Fully completed	Fully compliant
E5	Fully completed	Fully compliant
E6	Fully completed	Fully compliant
E7	Fully completed	Fully compliant
E8	Fully completed	Fully compliant
Maintaining Accurate Member Data		
F1	In progress	Partially compliant
F2	Fully completed	Fully compliant
F3	Fully completed	Fully compliant
F4	Fully completed	Fully compliant
F5	Fully completed	Fully compliant
F6	Fully completed	Fully compliant
F7	Fully completed	Fully compliant
F8	In progress	Partially compliant
F9	In progress	Partially compliant
F10	Fully completed	Fully compliant
F11	Fully completed	Fully compliant
Maintaining Contributions		
G1	Fully completed	Fully compliant
G2	Fully completed	Fully compliant
G3	In progress	Partially compliant
G4	Fully completed	Fully compliant
G5	Fully completed	Fully compliant
G6	Fully completed	Fully compliant
G7	In progress	Employers - Partially compliant
G8	Fully completed	Fully compliant
G9	Fully completed	Fully compliant
Providing Information to Members and Others		
H1	In progress	Employers - Non-compliant
H2	Fully completed	Fully compliant
H3	Fully completed	Fully compliant
H4	In progress	Partially compliant
H5	Fully completed	Fully compliant
H6	Fully completed	Fully compliant

No.	Completed	Compliant
H7	Fully completed	Employers - Fully compliant
H8	In progress	Partially compliant
H9	Fully completed	Fully compliant
H10	Fully completed	Fully compliant
H11	In progress	Partially compliant
H12	Fully completed	Fully compliant
H13	In progress	Partially compliant
Internal Dispute Resolution		
I1	Fully completed	Fully compliant
I2	Fully completed	Fully compliant
I3	In progress	Partially compliant
I4	Fully completed	Fully compliant
I5	Fully completed	Fully compliant
I6	In progress	Partially compliant
I7	Fully completed	Fully compliant
I8	Fully completed	Fully compliant
I9	Fully completed	Fully compliant
Reporting Breaches		
J1	Fully completed	Fully compliant
J2	Fully completed	Fully compliant
J3	In progress	Partially compliant
Scheme Advisory Board Requirements		
K1	Fully completed	Fully compliant
K2	Fully completed	Fully compliant
K3	Fully completed	Fully compliant
K4	Fully completed	Fully compliant
K5	In progress	Partially compliant
K6	Fully completed	Fully compliant
K7	In progress	Partially compliant
K8	Fully completed	Fully compliant
K9	Fully completed	Partially compliant
K10	Fully completed	Fully compliant
K11	Fully completed	Fully compliant
K12	In progress	Partially compliant
K13	Fully completed	Fully compliant
K14	Fully completed	Fully compliant
K15	Fully completed	Fully compliant

A - Reporting Duties

Note the requirements in this section are not included in the TPR Code but they are a fundamental to the relationship with TPR.

Legal Requirements

All public service pension schemes have to be registered with TPR. In addition, all schemes must provide a regular scheme return to TPR, containing prescribed information. A return is required when the scheme receives a scheme return notice from the regulator. The scheme manager must also keep the regulator informed of any changes to registrable scheme details.

Note the requirements in this section are not included in the TPR Code but are a requirement for all schemes.

No.	TPR Requirement	London Borough of Hackney Approach / Evidence	Frequency of Review	Last Review Date	Review Completed	Compliant	Notes	Action
A1	Is your scheme registered with the Pension Regulator?	New registration will only be required if a new LGPS is created that is deemed to be a separate scheme Check annually to see if new registration is required	Annual (March)	01/03/2019	Fully completed	Fully compliant		
A2	Is the information held on the Pensions Regulator's website about the scheme up-to-date?	Update as employers join or leave the scheme and check annually for overall accuracy.	Ongoing (annual check)	02/11/2018	Fully completed	Fully compliant	Last scheme return submitted to TPR 02/11/2018 TPR up-to-date with employer details & Pension Board member details (Nov 18)	

No.	TPR Requirement	London Borough of Hackney Approach / Evidence	Frequency of Review	Last Review Date	Review Completed	Compliant	Notes	Action
A3	Have you completed this latest Scheme Return in the required timescale?	TPR return to be submitted as and when needed	As and when received	02/11/2018	Fully completed	Fully compliant	Last scheme return submitted to TPR 02/11/2018 TPR up-to-date with employer details & Pension Board member details (Nov 18)	
A4	Have you responded to the latest TPR public service pension scheme survey /questionnaire?	Intention is to respond to any such survey that is received, including on a voluntary basis.	As and when received.	31/12/2018	Fully completed	Fully compliant	Last survey received and completed December 2018	

B - Knowledge and Understanding

Legal Requirements

A member of the pension board of a public service pension scheme must be conversant with:

- the rules of the scheme, and
- any document recording policy about the administration of the scheme which is for the time being adopted in relation to the scheme.

A member of a pension board must have knowledge and understanding of:

- the law relating to pensions, and
- any other matters which are prescribed in regulations.

The degree of knowledge and understanding required is that appropriate for the purposes of enabling the individual to properly exercise the functions of a member of the pension board.

No.	TPR Requirement	London Borough of Hackney Approach / Evidence	Frequency of Review	Last Review Date	Review Completed	Compliant	Notes	Action
B1	Are there policies and arrangements in place to support pension board members in acquiring and retaining knowledge and understanding?	Pension Fund Training Policy with appropriate objectives and measurements in place.	Annual (Jun)	31/10/2018	Fully completed	Fully compliant	Adopted by Pension Board at its first meeting in July 2015. Training Policy reviewed Sept 2018	
B2	Has a person been designated to take responsibility for ensuring the framework is developed and implemented?	In training policy. Responsibility delegated to the Group Director of Finance and Corporate Resources.	Ongoing (annual check - Jun)	31/10/2018	Fully completed	Fully compliant		
B3	Is the Fund providing assistance to pension board members to determine the degree of knowledge and understanding required?	Dedicated induction training will be provided based on CIPFA requirements and TPR Toolkit also incorporated – final details to be determined. Also all new members will be provided with key documents as per Training Policy Ongoing PB members will be required to go to the training for Pension Committee in addition to carrying out additional ad - hoc training as other needs arise. Annual self -assessment will be completed through the effectiveness survey.	Ongoing (annual check - Jun)	31/10/2018	In progress	Partially compliant	Training needs analysis part of agenda for Nov 2018	Work to ensure full induction processes in place by end 2018 e.g. full induction pack and arrangements should new members join the Board.
B4	Are the roles and responsibilities of pension boards and members of pension board clearly set out in scheme documentation?	Including in the PB Terms of Reference.	Ongoing (annual check - Jun)	31/10/2018	Fully completed	Fully compliant		
B5	Are pension board members aware of their legal responsibility in terms of Knowledge and Understanding?	Articulated in Training Policy and part of Induction Training. All members to be provided with copy of Training Policy as part of induction pack and reminded of Policy on an annual basis.	Ongoing (annual check - Jun)	31/10/2018	Fully completed	Fully compliant	3 new board members made aware when recruited [completed during application process] 1st meeting with all 3 new members on 20th March 2017 - Discussed legal responsibilities	Legal responsibilities to be reviewed annually
B6	Have all pension board members got access to copies of the scheme rules and relevant Fund documentation?	Will be part of induction training including welcome pack with key documents included. Ongoing training part of normal Committee business (which PB members be given access to).	Ongoing (annual check - Jun)	31/10/2018	Fully completed	Fully compliant		
B7	Is there an up-to-date list of the Fund specific documents with which pension board members need to be conversant in?	Induction list in Training Policy	Ongoing (annual check - Jun)	31/10/2018	Fully completed	Fully compliant		
B8	Are all pension board members investing sufficient time in their learning and development?	Training plans are agreed each June as part of the PC business plan. Monitoring of attendance at training is undertaken in accordance with Training Policy and recorded annually in governance update in annual report and accounts.	Ongoing (annual check - Jun)	31/10/2018	In progress	Partially compliant	Dedicated Pension Board training is provided at each meeting. However, more detail of training needs required to understand indivdual requirements, which will vary across the Board.	Review responses from Trainin Needs Analysis in early 2019 and customise training plans appropriately

No.	TPR Requirement	London Borough of Hackney Approach / Evidence	Frequency of Review	Last Review Date	Review Completed	Compliant	Notes	Action
B9	Does the Fund offer pre-appointment training for new pension board members or mentoring by existing members?	Induction process in Training Policy including providing all with copies of key documents.	Ongoing (annual check - Jun)	31/10/2018	In progress	Partially compliant	Provision of full induction training for new can be challenging depending on time of year/avilability of courses.	- Training to be set up for PC, PB and senior staff. This will be induction training for new members and refresher training for existing members. -Needs to take into account the outcome of the Training Needs Analysis
B10	Is there a process in place for regularly assessing the pension board members' level of knowledge and understanding is sufficient for their role, responsibilities and duties?	There is a Training Plan (annual) which is focussed at whole PC/PB level. Annual self-assessment already carried out for PC members and will be extended to PB going forward.	Ongoing (annual check - Jun)	31/10/2018	In progress	Partially compliant	A new training needs analysis checklist is now in place and included on the agenda for Nov 2018. Members are asked to complete the analysis for Jan 2019.	Discuss Training Needs Analysis as part of Nov 2018 meeting - issue questionnaire and await responses.
B11	Are records of learning activities being maintained?	This is included in the annual report and accounts at whole PC/PB level.	Ongoing (annual check - Jun)	31/10/2018	In progress	Partially compliant	A model has now been developed to capture this information at individual level. The Nov 2018 agenda includes a training needs analysis to capture training requirements on an individual level.	Populate model with records of training activities to date.
B12	Have the pension board members completed the Pension Regulator's toolkit for training on the Code of Practice number 14?	It is the intention that all PB and PC members complete the ToolKit	Ongoing (annual check - Jun)	31/10/2018	In progress	Partially compliant	Pensions Board appointed and provided with information on TPR Toolkit. First Board meeting included breaches and conflict module.	Follow up to ensure TPR Toolkit has been completed by all Members

C - Conflicts of interest

Legal Requirements

The Public Service Pensions Act 2013 sets out the legal requirements for scheme managers and pension boards for conflicts of interest.

In relation to the pension board, scheme regulations must include provision requiring the scheme manager to be satisfied:

- that a person to be appointed as a member of the pension board does not have a conflict of interest and
- from time to time, that none of the members of the pension board has a conflict of interest.

Scheme regulations must require each member or proposed member of a pension board to provide the scheme manager with such information as the scheme manager reasonably requires for the purposes of meeting the requirements referred to above.

Scheme regulations must include provision requiring the pension board to include employer representatives and member representatives in equal numbers.

No.	TPR Requirement	London Borough of Hackney Approach / Evidence	Frequency of Review	Last Review Date	Review Completed	Compliant	Notes	Action
C1	Does the Fund have a conflict of interest policy and procedure, which include identifying, monitoring and managing potential conflicts of interest?	Pension Fund Conflict Policy with appropriate objectives and measurements in place which includes procedures to identify, monitor and manage potential conflicts of interest. Conflicts of interest register records conflicts of interest declared by PB & PC members	Annual (Jan)	31/01/2019	Fully completed	Fully compliant	Adopted by Pensions Board at first meeting	
C2	Do pension board members have a clear understanding of their role, the circumstances in which they may have a conflict of interest and how to manage potential conflicts?	PC & PB members must complete a declaration which requires them to sign that they understand the requirements. Declarations must be completed by all PB members and reaffirmed annually. In addition, opportunity for new declarations is provided at the start of each meeting. Training on conflicts planned for first PB meeting and they will adopt the conflicts policy at first PB meeting	Annual (March)	01/03/2019	Fully completed	Fully compliant		
C3	Have all Pension Board members provided appropriate information for the Administering Authority to determine whether a conflict exists (on appointment and from time to time)?	Policy requires each PC & PB member to complete a declaration on appointment and annually. The Head of PF Investments will ensure that all are received and collated within six weeks of the first meeting. The register is reviewed annual to ensure conflicts are being registered at the earliest opportunity.	Annual (March)	01/03/2019	In progress	Partially compliant	Completion dates realigned to March for both Committee and Board, to apply to next financial year (e.g. sign by 31st March 2019 for 2019/20)	
C4	Does the appointment process for pension board members require disclosure of interests and responsibilities which could become conflicts of interest?	The Policy and procedures and the declarations require PB members to highlight potential, as well as actual, conflicts. The procedure requires declaration at interview, annually and at each meeting (if not already declared). The Head of PF Investments has responsibility for ensuring the procedure is followed.	Ongoing (annual check - Jan)	31/01/2019	Fully completed	Fully compliant	Potential conflicts of interest have been highlighted by members of the Pensions Board - none have yet become actual conflicts	
C5	Is the conflicts policy regularly reviewed?	Every three years or earlier if considered appropriate	Triennially	31/10/2018	In progress	Partially compliant	Conflicts of Interest Policy last reviewed in 2015 - now due for review (every 3 years)	Conflicts of Interest Policy to be reviewed March 2019

No.	TPR Requirement	London Borough of Hackney Approach / Evidence	Frequency of Review	Last Review Date	Review Completed	Compliant	Notes	Action
C6	Does the Fund have a conflicts register and it is circulated for ongoing review and published?	There is a register of interests which is updated on an ongoing basis based on information in individual declarations and provided to the Chair prior to each meeting. The information is incorporated in annual report and accounts and available on request. All declarations made at meetings will be recorded in the minutes which are public. Refer to policy – regularly reviewed (annual basis etc).	Ongoing (annual check - Jan)	31/01/2019	Fully completed	Fully compliant	Published annually in accounts but consider inclusion on website.	Review for inclusion on new website Q1 2019.
C7	Is appropriate information included in the register?	Register of interests updated on an ongoing basis but this will be reviewed annually to ensure it is being used correctly. Register includes all this information and is included as an appendix to the Conflicts policy.	Ongoing (annual check - Jan)	31/01/2019	Fully completed	Fully compliant		
C8	Is there a standing item on the agenda for declaring conflicts of interest?	Part of standard PC meeting agenda and intention to be part of PB meeting agenda too.	Ongoing (annual check - Jan)	31/01/2019	Fully completed	Fully compliant	Declarations are part of standard agenda for PB	
C9	Do those involved know how to report a conflict of interest?	Members trained on appointment and provided with copy of Conflicts Policy annually. Also Policy referred to at start of each meeting	Ongoing (annual check - Jan)	31/01/2019	Fully completed	Fully compliant	Pension Board provided with background on Conflicts Policy and referred to in meetings	
C10	Is the number of employer and member representatives on the board in line with legal requirements?	Outlined in the terms of reference.	Ongoing (annual check - Sep)	30/09/2018	Fully completed	Fully compliant		
C11	Is the board made up of the appropriate mix of representatives in order to minimise potential conflicts?	To be completed as part of appointment process and then reviewed annually to ensure this continues. Appointment Process completed including appointments panel interview to assess capacity of individuals to fulfil role as Pension Board Member.	Ongoing (annual check - Sep)	30/09/2018	Fully completed	Fully compliant	Pension Board members were required to submit statement outlining skills appropriate to their role on the Board. Interviews were conducted to select most suitable Board Members	

D - Publishing information about schemes

Legal Requirements

The scheme manager for a public service scheme must publish information about the pension board for the scheme(s) and keep that information up-to-date.

The information must include:

- who the members of the pension board are
- representation on the board of members of the scheme(s), and
- the matters falling within the pension board's responsibility

No.	TPR Requirement	London Borough of Hackney Approach / Evidence	Frequency of Review	Last Review Date	Review Completed	Compliant	Notes	Action
D1	Does the Administering Authority publish information about the pension board?	See - http://hackney.xpmemberservices.com/Scheme/Pensions-Board.aspx	Ongoing (annual check - Jan)	31/01/2019	In progress	Partially compliant	Names of Pension Board members are published, but website information re: the roles of the Board and Committee needs updating. Full review of website is underway with new site to go online Q2 2019	Continue website review work prior to go live
D2	Does the Administering Authority publish other useful related information about the pension board?	See - http://hackney.xpmemberservices.com/Scheme/Pensions-Board.aspx Already has appointment process, terms of reference and roles and responsibilities.	Ongoing (annual check - Jan)	31/01/2019	In progress	Partially compliant	Deatil of Pension Board members are published, but website information re: the roles of the Board and Committee needs updating. Full review of website is underway with new site to go online Q2 2019	Ensure relevant information included as part of Governance page of new website
D3	Is all the information about the Pension Board kept up-to-date?	Information regularly checked.	Ongoing (annual check - Jan)	31/01/2019	In progress	Partially compliant	See above - information being updated as part full website review	Ensure relevant information included as part of Governance page of new website
D4	Does the Administering Authority public information about pension board business?	All pension board meetings are public meetings and information will be contained on the Hackney Council website.	Ongoing (annual check - Jan)	31/01/2019	Fully completed	Fully compliant	Pension Board Agenda and papers are published on Council website	

E - Managing risk and internal controls

Legal Requirements

The scheme manager must establish and operate internal controls which adequately ensure the scheme is administered and managed in accordance with the scheme rules and the requirements of the law.

Internal controls are defined in the legislation as:

- arrangements and procedures to be followed in the administration and management of the scheme
- systems and arrangements for monitoring that administration and management
- arrangements and procedures to be followed for the safe custody and security of the assets of the scheme

The legal requirements apply equally where a scheme outsources services connected with the running of the scheme.

No.	TPR Requirement	London Borough of Hackney Approach / Evidence	Frequency of Review	Last Review Date	Review Completed	Compliant	Notes	Action
E1	Is there an agreed process for identifying and recording scheme risks?	A risk management policy is in place that outlines the procedure for identifying, managing and recording risk. It covers all the key areas identified by the TPR Code.	Annual (Dec)	31/12/2018	Fully completed	Fully compliant	Risk management policy agreed in 2015; policy is updated every 3 years - last updated at December 2018 Pensions Committee	
E2	Does the Fund have an adequate process to evaluate risks and establish internal controls?	The risk management process includes how risks are to be evaluated and internal controls established. It makes use of a RAG status based on impact and likelihood and the associated control is then shown as part of the risk register. The risk management policy also lists the key internal controls.	Annual (Dec)	31/12/2018	Fully completed	Fully compliant		
E3	Does the Administering Authority have a risk register to record all risks identified and action taken?	Risk register is in place which includes all internal controls and action taken. Risk Register last reviewed at Pensions Committee meeting in January 2017.	Annual (Dec)	31/12/2018	Fully completed	Fully compliant	Form of risk register recently updated - move moved to updates at each Committee/Board meeting.	
E4	Does the Administering Authority review the effectiveness of the risk management and internal control systems of the Fund?	Our risk management and internal controls are continually reviewed for effectiveness as part of a number of processes including: - The ongoing updating of the risk register which includes the control of those risks - Issues identified through regular monitoring reports such as performance monitoring for PC, IDRP updates, monthly reports from Equiniti and breaches notifications. - The triennial (at least) review of the risk management policy which includes a list of the key controls - Regular internal and external audit reports. - Annual internal control reports from Equiniti, custodian and fund managers. - Annual update of TPR Code compliance checklist. - Periodic ad-hoc reviews (e.g. LGPS2014 audit).	Annual (Dec)	31/12/2018	Fully completed	Fully compliant		
E5	Does the Administering Authority regularly review the risk register?	Risk management is ongoing and therefore the register can be updated as a result of risk identification through a number of means including: - annual review at pensions committee - performance measurement against agreed objectives - monitoring against the Fund's business plan - findings of internal and external audit and other adviser reports - feedback from the local Pension Board, employers and other stakeholders - informal meetings of senior officers or other staff involved in the management of the Fund - liaison with other organisations, regional and national associations, professional groups, etc.	Annual	31/12/2018	Fully completed	Fully compliant	Format and content of risk register currently being updated for Dec 2018 Pensions Committee. Last reviewed in Dec 2017	Updates to be reviewed at Dec 2018 Pensions Committee

No.	TPR Requirement	London Borough of Hackney Approach / Evidence	Frequency of Review	Last Review Date	Review Completed	Compliant	Notes	Action
E6	Is there a standing item on the Pension Board agenda to review scheme risks?	It is a standing item on the Pensions Committee each January and, as a matter of course, is then shared with the Pension Board.	Annual	31/12/2018	Fully completed	Fully compliant	Risks reviewed annually - next review due March 2019	Complete updates ahead of review by Committee/Board (Dec 2018 - Mar 2019)
E7	Does the Administering Authority have adequate systems, arrangements and procedures (internal controls) in place for the administration and management of the Fund and are they documented ?	It is considered that there are adequate internal controls in place. These are articulated in the risk register and many of the key ones outlined in the appendix to the Risk Management Policy.	Annual (Dec)	31/12/2018	Fully completed	Fully compliant		
E8	Do these procedures apply equally to outsourced services, are internal controls reflected in contracts with third party providers and is there adequate reporting in relation to those controls?	The key outsourced services for this purpose are Equiniti (third party administration), HSBC (custodian) and Fund managers. These providers are required to provide annual internal control reports and a control sheet is used to ensure they are received and reviewed.	Annual (Dec)	31/12/2018	Fully completed	Fully compliant		

F - Maintaining accurate member data

Legal Requirements

Scheme managers must keep records of information relating to:

- member information
- transactions, and
- pension board meetings and decisions.

The legal requirements are set out in the Public Service Pensions (Record Keeping and Miscellaneous Amendments) Regulations 2014 ('the Record Keeping Regulations').

The Data Protection Act 1998 and the data protection principles set out additional requirements for using, holding and handling personal information. Other requirements are set out in the:

- Pensions Act 1995 and 2004
- Pensions Act 2008 and the Employers' Duties (Registration and Compliance) Regulations 2010
- Occupational Pension Schemes (Scheme Administration) Regulations 1996 (SI 1996/1715)
- Occupational Pension Schemes (Scheme Administration) Regulations (Northern Ireland) 1997 (SR 1997 No 94)
- Registered Pension Schemes (Provision of Information) Regulations 2006 (SI 2006/567)

No.	TPR Requirement	London Borough of Hackney Approach / Evidence	Frequency of Review	Last Review Date	Review Completed	Compliant	Notes	Action
F1	Do member records record the information required as defined in the Record Keeping Regulations and is it accurate?	Scheme member records are maintained by Equiniti our third party administrators. Therefore much of the information here and in later questions relates to the records they hold on Hackney's behalf. However, as the scheme manager, Hackney is required to be satisfied the regulations are being adhered to. Checks were carried out in relation to each of the requirements in the Record Keeping Regulations and all were considered compliant except for in relation to clause 4(3) which relates to information for members who pay AVCs. This is held and maintained by Prudential with an annual update provided to Hackney Council/Equiniti. Hackney are currently investigating gaining access to view these AVC records. Data accuracy and completeness reports are also received via the triennial valuation, which cover some of these elements. In the autumn of 2015, Aon Hewitt carried out a audit of employer provided data. It highlighted a number of issues with the quality of data being provided by employers. Going forward Equiniti will providing an annual statement confirming they are adhering to this requirement on the accuracy and completeness of the data.	Annual	31/10/2018	In progress	Partially compliant	The member records held by Equiniti on behalf of the Hackney Pension Fund do not fully meet the requirements set out in the Record Keeping Regulations. The information provided by the Fund's main employer (Hackney Council) is not currently sufficient to allow records to be updated quickly and accurately. A full review of data provision and maintenance is now underway. The Triennial valuation 2016-17 is complete Access to AVC information has been partially gained as the Pru now provides monthly listings of new AVC contracts and any amendments to existing contracts.	Ongoing work on interface development project to improve processes at both Hackney Council and Equiniti An updated data improvement plan will be issued in early 2019

No.	TPR Requirement	London Borough of Hackney Approach / Evidence	Frequency of Review	Last Review Date	Review Completed	Compliant	Notes	Action
F2	Does the Fund have the appropriate processes in place so employers can provide timely and accurate information?	The Fund's Pension Administration Strategy includes a list of all employer responsibilities and duties including timescales. Employer performance is measured against the PAS with appropriate action taken to ensure compliance.	Annual	31/10/2018	Fully completed	Fully compliant	PAS due for review by Pensions Committee Dec 2018.	
F3	Does the Fund keep records of and reconcile transactions as required by the Record Keeping Regulations?	All info on scheme records and also on the client cash manager (Lloyds pension fund bank account with Equiniti) that then flows across to the Hackney PF account and all feeds into annual report and accounts. This includes all write offs. There are also some spreadsheets that are used for further checks (e.g. transfers in, overpayments). There is reconciliation between actual and expected costs with a quarterly update against budget in PC papers.	Annual	31/10/2018	Fully completed	Fully compliant		

No.	TPR Requirement	London Borough of Hackney Approach / Evidence	Frequency of Review	Last Review Date	Review Completed	Compliant	Notes	Action
F4	Are records kept of pension board meetings as required by the Record Keeping Regulations?	Full minutes are maintained and published on the Hackney Council website. Annual check to ensure this continues to be the case.	Annual	31/10/2018	Fully completed	Fully compliant		
F5	Are records kept of decisions made by the pension board, outside of meetings as required by the Record Keeping Regulations?	We do not expect there to be decisions outside of the PB. The secretary (R Cowburn) will monitor the situation.	Annual	31/10/2018	Fully completed	Fully compliant		

No.	TPR Requirement	London Borough of Hackney Approach / Evidence	Frequency of Review	Last Review Date	Review Completed	Compliant	Notes	Action
F6	Are records retained for as long as they are needed?	Hackney consider it necessary to retain records for long as is possible due to the number of enquiries from employees relating to periods many decades ago. Accordingly personal records are maintained in addition to other data such as contribution lists, spreadsheets of old cases and pensions increases reports.	Annual	31/10/2018	Fully completed	Fully compliant	Fully compliant as appropriate systems are in place. Discussions are in progress about the retention of data as the Council transitions payroll system	
F7	Does the Administering Authority have policies and processes to monitor data on an ongoing basis?	There are a number of separate processes in place to monitor data on an ongoing basis (generally carried out by Equiniti) including: - Monthly HK221 spreadsheets to check against changes received from employers - Year-end annual returns provide a further opportunity to highlight any data discrepancies - All data entry is checked for input accuracy - Various tolerance checks such as changes in pay - Processes if pensioner payslips are returned (including suspension of pension on second return), using only BACs payments for pensioners and life certificate exercises (overseas and over a certain age annually and then all cases every 2 or 3 years) and national fraud initiative every 2 years. - Triennial valuation highlights data issues. Process exists for warning and charging levies to employers if incomplete monthly data is provided or if provided late - Checks on ‘common’ data (ad-hoc)	Annual	31/10/2018	Fully completed	Fully compliant		

No.	TPR Requirement	London Borough of Hackney Approach / Evidence	Frequency of Review	Last Review Date	Review Completed	Compliant	Notes	Action
F8	Does the Administering Authority carry out a data review at least annually?	Annual year end reconciliations as described above plus for annual report and accounts, pensions increases and benefit statements. Equiniti carry out a common data and intend to commence a conditional data review.	Annual	31/10/2018	In progress	Partially compliant	Both common and scheme specific data reporting carried out for 2018 Scheme Return. Awaiting full scheme specific data report from Equiniti.	Equiniti to provide LBH with a written report on the conditional data analysis
F9	Is a data improvement plan in place which is being monitored with a defined end date?	Monthly meeting held between Equiniti and Hackney where some elements of improvement are discussed and actions/timescales agreed. However, a clear statement of all improvement areas with a plan is not currently in place. Employers are charged an administration fee where they fail to meet standards.	Annual	31/10/2018	In progress	Partially compliant	Formal data improvement plan being developed - to be in place Q4 2018/Q1 2019	Complete review of Data Improvement Plan
F10	Are processes and policies in place to reconcile scheme data with employer data?	Monthly and year end spreadsheets assist with reconciling data.	Annual	31/10/2018	Fully completed	Fully compliant		

No.	TPR Requirement	London Borough of Hackney Approach / Evidence	Frequency of Review	Last Review Date	Review Completed	Compliant	Notes	Action
F11	Do the Administering Authority's member data processes meet the requirements of the Data Protection Act 1998 and the data protection principles?	Ensure all those involved with data understand the DPA: - Equiniti get annual training - Hackney staff periodic training but some staff have not received yet received training - DPA officer at both Equiniti and Hackney - Council data protection policy in place and guidance on intranet Evidence of processes includes: - Share file is used for data transfer with all employers, Equiniti and Hackney - Focalpoint used for data transfer with actuary - Actuary – use focalpoint. - Otherwise any sensitive e-mails are generally encrypted unless scheme member insists otherwise.	Annual	31/10/2018	Fully completed	Fully compliant	New GDPR (Data Protection Reform) will have direct effect in May 2018 despite Brexit. LGPS Funds need to demonstrate in a meaningful way that both the overall governance structure for data protection compliance and the Processes updated for GDPR	DPA training to be arranged for all Hackney pension team staff members, including ensuring all understand the process if a breach occurs.

G - Maintaining contributions

Legal requirements

Contributions must be paid as detailed below, and where not done, they should be reported to TPR in circumstances where the scheme manager has reasonable cause to believe that the failure is likely to be of material significance to TPR in the exercise of any of its functions. Reporting must be carried out as detailed below.

Contribution Type	Contributions must be paid	When a failure should be reported
Employer	On or before the due date as defined by the scheme regulations	To The Regulator: As soon as reasonably practicable
Employee	Paid within the prescribed period (19th day of the month, or 22nd day if paid electronically) or earlier date if required by the scheme regulations	Regulator: Within a reasonable period – 10 working days

No.	TPR Requirement	London Borough of Hackney Approach / Evidence	Frequency of Review	Last Review Date	Review Completed	Compliant	Notes	Action
G1	Does the Fund have procedures and processes in place to identify payment failures?	There is a master spreadsheet where all contributions received are entered and monitored by Equiniti. All payments are made by electronic transfer to reduce risk of payment failure. Hackney Council and Equiniti hold monthly meetings to determine how to deal with any issues arising.	Annual	31/10/2018	Fully completed	Fully compliant	There has been an improvement in monitoring contributions by sample testing the data in supporting documents.	Further communication with employers to submit supporting documents in specified format.
G2	Do those processes and procedures include a contributions monitoring record to determine whether contributions are paid on time and in full?	The spreadsheet highlights where a payment is not received by 19th each month. It also highlights if contributions could be incorrect by comparing salary vs contribution rate to give employee and employer rates. The HK221 detailed information (per employee) is used to cross check the amounts that are coming through correctly to the gross totals. Interest is automatically charged for late contributions in accordance with LGPS regulations and discretionary policy. Details of the charges applied and the interest are provided in the administration strategy.	Annual	31/10/2018	Fully completed	Fully compliant	There is a robust monitoring process in place and the capability to receive interest on late contributions in the PAS. The PAS could be more strictly enforced	New charges within the PAS to be enforced on employers submitting poor data or late payments
G3	Do those processes and procedures include monitoring payments against the contributions monitoring record on an ongoing basis?	The process includes reconciliation with the payment received and shown in the financial system. No process is currently in place in relation to reconciling AVC payments with contributions record.	Annual	31/10/2018	In progress	Partially compliant	Marked as partially compliant in relation to a significant issue reconciling AVC contributions incorrectly paid to Equiniti, resulting in contribution not being properly invested with Prudential. Only one known membr affected but failure occurred over a significant time period and could have had significant financial consequences for the member if not detected.	Pensions Team have in place processes for both new/amended AVC contracts to ensure that they are set up on Payroll correctly & in a timely manner. Also process to ensure that the correct contract codings are being applied by Payroll against members salary
G4	Are these procedures regularly reviewed to ensure they are effective?	Payments are generally always on time. Monthly meeting between Equiniti and Hackney consider any late cases. Within Equiniti, the finance team meet every Monday to discuss what is expected, what is coming up, timetables, including highlighting any late payments and escalating to service review meetings.	Annual	31/10/2018	Fully completed	Fully compliant	Ongoing contribution reconciliations needs to be explored so that each members contributions are rec'd each month. Prudential's processes need to be explored as LBH are not 100% confidence all notifications are coming through.	

No.	TPR Requirement	London Borough of Hackney Approach / Evidence	Frequency of Review	Last Review Date	Review Completed	Compliant	Notes	Action
G5	Do the Administering Authority's processes include managing overdue contributions in line with TPR's suggested approach?	For main scheme contributions, monitoring spreadsheet maintained by Equiniti and separately by Hackney Council. Identification and escalation process, however, needs to be formalised. Prudential automatically notify the scheme manager if any AVC payments are received late from employers (very few – only 4 or 5 in last 10 years).	Annual	31/10/2018	Fully completed	Fully compliant		
G6	Does the Fund maintain a record of any investigations and communications with employers?	Information is collated in individual records relating to each employer. A summary of late payments is included in annual report and accounts (although employers are not specifically named). Information is also available on the historic monitoring spreadsheets. Equiniti system Compendia stores email and letter communications with employers	Annual	31/10/2018	Fully completed	Fully compliant		
G7	Do employers provide sufficient information to monitor contributions and is this in accordance with the LGPS regulations?	There is monitoring of the format that employers provide information and this is being checked against the PAS. Training is provided to employers but where information is not of suffient quality employers may be charged or extreme cases reported to the pensions regulator	Annual	31/10/2018	In progress	Employers - Partially compliant	There are ongoing issues with employers not providing sufficient information on spreadsheets. This is all captured on the Equiniti spreadsheet including what action has been taken and whether escalated to the Council. Year-end returns were received from the majority of employers to verify the information, and queries responded to, to enable reconciliation of member contributions with service.	Ongoing work with employers to ensure data is received in accordance with requirements, including a long-term project to improve the quality of data subnitted by the Council.
G8	Is there a satisfactory process in place to assess the materiality of any payment failures and ensure that those which are material are reported to the Regulator within a reasonable period?	Existing spreadsheets in placeidentify late payments, the PAS sets out processes in regards to late payments and the use of reporting breaches is available if required to report to the regulator.	Annual	31/10/2018	Fully completed	Fully compliant		
G9	If the administration of contributions outsourced to a service provider, is there a process in place to obtain regular information on the payment of contributions to the scheme?	Yes, for main scheme (administered by Equiniti), spreadsheet maintained and shared monthly with Hackney Council and discussed as part of monthly service review meeting. Contribution monitoring is a requirement of service provision by Equiniti. In relation to AVCs (administered by Prudential), all late payments are notified directly to Hackney Council.	Annual	31/10/2018	Fully completed	Fully compliant		

H - Providing information to members and others

Legal requirements

The law requires schemes to disclose information about benefits and scheme administration to scheme members and others. This includes requirements relating to benefit statements and certain other information which must be provided under the requirements of the 2013 Act, HM Treasury directions and the Occupational and Personal Pension Schemes (Disclosure of Information) Regulations 2013 ('the Disclosure Regulations 2013'). In addition to these duties, there are other legal requirements relating to the provision of information to members and others under other legislation.

No.	TPR Requirement	London Borough of Hackney Approach / Evidence	Frequency of Review	Last Review Date	Review Completed	Compliant	Notes	Action
H1	Has an annual benefit statement been provided to all active members within the required timescales?	Sent annually by Eauiniti following receipt of year end data returns from employers due each April. Process commences in February with reminders to Employers.	Annual	31/10/2018	In progress	Employers - Non-compliant	Delay in issuing 2017-18 statements was due to Hackney Council payroll information not being submitted within the specified timeframes. Breach reported to the Pensions Regulator	- Ongoing work with Hackney Council to improve data. A new payroll interface is currently in test - once live, a full data cleanse will need to be carried out on Compendia - Monitor issue of remaining active statements.
H2	Do these meet the legal requirements in relation to format?	A compliance review spreadsheet has been set up to monitor all areas under the legislation, which is being reviewed against the new ABS template	Annual	31/10/2018	Fully completed	Fully compliant	Statements meet the legal requirements in relation to format	

No.	TPR Requirement	London Borough of Hackney Approach / Evidence	Frequency of Review	Last Review Date	Review Completed	Compliant	Notes	Action
H3	Has a benefit statement been provided to all active, deferred and pension credit members who have requested one within the required timescales?	Benefit statements are issued automatically to all active and deferred members annually, which is more proactive than this provision (which just relates to issuing them on request). Active statements issued by October 2016. Deferred statements issued August 2016. For 2017 statements are currently being run with target date of 31 August Pension credit statements issued within 10 working days. It is monitored that they meet the 10 working day deadline on Equiniti workflow system Pulse.	Annual	31/10/2018	Fully completed	Fully compliant		
H4	Does this meet the legal requirements in relation to format?	The information in the standard active and deferred statements does not fully comply with the disclosure requirements for information to be provided on request. However, it is possible information provided on individual requests is more compliant but this needs further investigated.	Annual	31/10/2018	In progress	Partially compliant		Further investigation and discussion required to decide whether to change format of statements to adhere to Disclosure Requirements or just to apply those requirements for individual requests.
H5	Has an annual benefit statement been provided to all members with AVCs within the required timescales?	The Prudential send annual AVC statements to all AVC members by post	Annual	31/10/2018	Fully completed	Fully compliant	2015-16 statements sent 26/05/16 2016-17 statements sent 31/05/17	
H6	Do these meet the legal requirements in relation to format?	Statement provided by Prudential checked against requirements and all appropriate information is included.	Annual	31/10/2018	Fully completed	Fully compliant		
H7	Is basic scheme information provided to all new and prospective members within the required timescales?	New starter information is issued by Equiniti. This is done by issuing a notification of joining with a nomination form, transfer form and a link to the LGPS website. Equiniti aim to provide this information within 10 working days of being notified of joiners by employers (which is the official SLA as part of their contract). However, because the SLA relates to when notified, it does not necessarily mean the legal timescale has been met which is within 2 months of joining the scheme. Equiniti often identify cases from contribution spreadsheets and auto-enrolment reports to chase outstanding information from employers with a review to improving this process. Equiniti will also send out the ne starter infomration to members once picked up form the contribution spreadsheets even if they have not yet recevied a starter form form the employer. From October 2016 the LBH pension team use a monitoring spreadsheet to track all new starters to ensure that the starter forms are going across within the set timescales and that Equiniti have actioned new starter information.	Annual	31/10/2018	Fully completed	Employers - Fully compliant		There is ongoing work to improve transfer of information from employers to Equiniti, including developing interfaces and charging administration cost for late notifications.
H8	Does this meet the legal requirements in relation to format?	A check against the requirements has been carried out. In the main the new joiner information is compliant but some areas are excluded or not as explicit as they might be, for example, in relation to the lack of charges for scheme members, what happens when a member leaves and the fact the scheme is registered by HMRC.	Annual	31/10/2018	In progress	Partially compliant		The joiner information is to be reviewed as part of the quality compliance review which is due to take place under the new amdinistration contract. New members also need to be guided to the LBH Pension website once the improvements have been made to ensure all infomration is up to date and compliant.

No.	TPR Requirement	London Borough of Hackney Approach / Evidence	Frequency of Review	Last Review Date	Review Completed	Compliant	Notes	Action
H9	Is all other information provided in accordance with the legal timescales?	Equiniti are asked to provide an annual statement confirming that they have met these requirements in relation to the main scheme for the previous financial year. Prudential (the AVC provider) are asked to provide an annual statement confirming they have met the requirements in relation to lifestyling. All standard communications to members from Hackney Council and Equiniti provide the postal contact details and the pensions@hackney.gov.uk email address.	Annual	31/10/2018	Fully completed	Fully compliant	Equiniti have confirmed that Compendia automatically highlights the disclosure dates/requirements. The monthly Equiniti reports now have a statement saying they have not breached disclosure requirements, or if they have what. The Pru have confirmed that these requirements have been met for 2016-17 and that they inform members on an annual basis whether they are in the growth or accumulation phase of lifestyle via their annual benefit statment	Although compliant the disclosure reporting on the monthly report could be improved and this will be looked at.
H10	Is all other information provided in the format and methods required by law?	Equiniti are asked to provide an annual statement confirming that they have met these requirements for the main scheme in relation to the previous financial year. Prudential (the AVC provider) are asked to provide an annual statement confirming they have met the requirements in relation to lifestyling.	Annual	31/10/2018	Fully completed	Fully compliant	Equiniti have confirmed that Compendia automatically highlights the disclosure dates/requirements. The monthly Equiniti report now has a statement saying they have not breached disclosure requirements, or if they have what. The Pru have confirmed that the requirements are met and that they inform members but inclusion on their website, enclosing an AVC leaflet with the main scheme ABSs for 2016-17.	Although compliant the disclosure reporting on the monthly report could be improved and this will be looked at.
H11	Where any information is only provided electronically (i.e. instead of any hard copy) does it comply with the legal requirements?	Everything is hard copy (including info leaflets such as Freedom changes) except the basic scheme information which must be provided for new starters. In these circumstances a hard copy statutory notice is provided directing them to the information on the website.	Annual	31/10/2018	In progress	Partially compliant	The new starter notification contains an out of date website address and therefore this has been marked at this review as partially compliant. Also the funds website is currently being updated to verify that all information is current and compliant.	The new starter notice needs to be changed so that an up to date website address is given. The website is being updated to ensure fully up to date
H12	Does the Administering Authority aim to design and deliver communications in a way that ensures scheme members are able to engage with their pension provision?	Objectives are included in the Communications Strategy that focus on these requirements. Currently only feedback is in relation to a survey from induction presentations. Results for 2016-17 Induction sessions covered 417 New Employees and found that 98% found the presentation informative & engaging and that 94% now have a better understanding of being in the scheme.	Annual	31/10/2018	Fully completed	Fully compliant		Equiniti are planning further surveys with scheme members to gather wider feedback as part of their engagement strategy.
H13	Does the Administering Authority use a tracing service?	Pensioners – if a pensioner becomes untraceable, Equiniti use the DWP tracing service. Deferred and frozen refunds – tracing service used in summer 2016. Originally 1,600 unknown addresses have now been reduced to 473.	Annual	31/10/2018	In progress	Partially compliant	It is unclear as to what critera was used in the 2016 tracingf exercise as there have been several data breaches fir the deferred statements issyed in 2017 & 2018	Tracing exercise needs to be undertaken by Equiniti which must have more rigorous existence checks in place

I - Internal Dispute Resolution

Legal requirements

The Pensions Act 1995 requires scheme managers to set up and implement an Internal Dispute Resolution Procedure (IDRP) to help resolve disputes between the scheme manager and people with an interest in the scheme.

The act states that a person has an interest in the scheme if they:

- are a member or beneficiary
- are a prospective member
- have ceased to be a member, beneficiary or prospective member
- claim to be any of the above and the dispute relates to this claim.

The Act also states that the procedure must include:

- how an application is to be made
- what must be included in an application
- how decisions are to be reached and notified
- a specified period (which is reasonable) within which applications must be made.

The procedure may require people with an interest in the scheme to first refer matters in dispute to a 'specified person' in order for that person to consider and give their decision on those matters. This decision may then be confirmed or replaced by the decision taken by the scheme manager after reconsideration of the matters. However, legislation provides flexibility for scheme managers to decide the details of these.

No.	TPR Requirement	London Borough of Hackney Approach / Evidence	Frequency of Review	Last Review Date	Review Completed	Compliant	Notes	Action
I1	Has the Administering Authority put in place an internal dispute resolution procedure?	An IDRP procedure is in place with leaflets available setting out the process	Ongoing (annual check - Jun)	31/10/2018	Fully completed	Fully compliant	Leaflets are available on the website which set out the procedure	
I2	Does the Administering Authority's process highlight or consider whether a dispute is exempt?	An IDRP procedure is in place with leaflets available setting out the process, but does not currently include this information	Ongoing (annual check - Jun)	31/10/2018	Fully completed	Fully compliant		
I3	Does the information made available to applicants about the procedure clearly state the procedure and process to apply for a dispute to be resolved including: - who it applies to - who the specified person (stage 1) is - the timescales for making applications - who to contact with a dispute - the information that an applicant must include - the process by which decisions are reached?	Member leaflet outlining IDRP procedure includes some of this information.	Ongoing (annual check - Jun)	31/10/2018	In progress	Partially compliant	More detailed information is needed setting out: Who can apply (215) The name & job title of stage 1 specified person/who to contact (237)	IDRP member guide will be updated to include the missing information
I4	Has the Administering Authority ensured that employers who make first stage decisions also have IDRP in place?	Where the employer has not responded with their own stage 1 person, the Council's stage 1 person is undertaking the role. This is communicated regularly including: - mentioned at employer forum in February 2017. - PAS sent to employers in April 2017 which sets out need for stage 1 person to be included in their discretions policy.	Ongoing (annual check - Jun)	31/10/2018	Fully completed	Fully compliant	We have not been notified that any employers carry out their own process. Accordingly Equiniti act as stage 1 by default.	Once new Employer IDRP guide has been finalised this will be sent to Employers again
I5	Are the timescales in the procedure adhered to including sending an acknowledgment on receipt of an application?	Acknowledgements issued within 2 days and responses are sent within 2 month deadline (albeit usually within 6 weeks due to SLA). This will be checked annually for both stages 1 and 2.	Ongoing (annual check - Jun)	31/10/2018	Fully completed	Fully compliant	EQ have confirmed that timescales are still adhered too	

No.	TPR Requirement	London Borough of Hackney Approach / Evidence	Frequency of Review	Last Review Date	Review Completed	Compliant	Notes	Action
I6	Does the Administering Authority notify and advertise the procedure appropriately?	Leaflet included on the website (which is where joining information also is). Not all notification of benefit letters currently includes this (e.g. missing from refund and death benefits) but all other benefit notification include it. The administration strategy, updated in 2017, includes IDRP information.	Ongoing (annual check - Jun)	31/10/2018	In progress	Partially compliant	Admin Strategy was updated in April 2017 and includes IDRP information (PAS). This is still not contained in the Communications strategy, but can be included in the 2018 review.	Communications strategy will be updated in 2018. IRDP information to be added to refund and death notification letters.
I7	Are the notification requirements in relation to TPAS and the Pensions Ombudsman being adhered to?	Guide enclosed when acknowledging receipt of an IDPR. Notifications always include information about TPAS/PO in the decision letter.	Ongoing (annual check - Jan)	31/10/2018	Fully completed	Fully compliant		
I8	Does the Administering Authority regularly assess the effectiveness of its arrangements?	Information included in Pension Committee quarterly reporting. More formal review of the arrangements on an annual basis as part of the annual administration report	Ongoing (annual check - Jun)	31/10/2018	Fully completed	Fully compliant		
I9	Does the Administering Authority regularly assess the effectiveness where employers carry out a stage one process?	We have not been notified that any employers carry out their own process. Accordingly Equiniti act as stage 1 by default.	Ongoing (annual check - Jun)	31/10/2018	Fully completed	Fully compliant		

J - Reporting breaches of the law

Legal Requirements

Certain people are required to report breaches of the law to the regulator where they have reasonable cause to believe that:

- a legal duty which is relevant to the administration of the scheme has not been, or is not being, complied with
- the failure to comply is likely to be of material significance to the regulator in the exercise of any of its functions.

People who are subject to the reporting requirement ('reporters') for public service pension schemes are:

- scheme managers
- members of pension boards
- any person who is otherwise involved in the administration of a public service pension scheme
- employers: in the case of a multi-employer scheme, any participating employer who becomes aware of a breach should consider their statutory duty to report, regardless of whether the breach relates to, or affects, members who are its employees or those of other employers
- professional advisers including auditors, actuaries, legal advisers and fund managers: not all public service pension schemes are subject to the same legal requirements to appoint professional advisers, but nonetheless the regulator expects that all schemes will have professional advisers, either resulting from other legal requirements or simply as a matter of practice
- any person who is otherwise involved in advising the managers of the scheme in relation to the scheme.

The report must be made in writing as soon as reasonably practicable.

No.	TPR Requirement	London Borough of Hackney Approach / Evidence	Frequency of Review	Last Review Date	Review Completed	Compliant	Notes	Action
J1	Is the Administering Authority satisfied that those responsible for reporting reaches under the legal requirements and TPR guidance understand the requirements?	Training at PC in June 2015 and at July PB. Procedure will be shared with all PB, PC and key officers & put on website.	Ongoing (annual check - Sep)	31/10/2018	Fully completed	Fully compliant	Procedure in place and periodically reviewed	
J2	Does the Administering Authority have appropriate procedures in place to meet their legal obligations for identifying and assessing breaches?	Breaches procedure is in place (developed May 2015).	Annual (Sep)	31/10/2018	Fully completed	Fully compliant		
J3	Are breaches being recorded in accordance with the agreed procedures?	Procedure launched May/June 2015 so no historical recording. The Head of Pension Fund Investment and Actuarial Services will maintain a record of breaches and this is included in the quarterly PC governance update report including a comment on whether any breaches are systemic and action taken. Some details may need to be withheld for confidentiality reasons. Some concerns at the moment in relation to insufficient monitoring and recording of breaches at Equiniti.	Ongoing (annual check - Sep)	31/10/2018	In progress	Partially compliant	Both reported and unreported breaches are included within the Quarterly Report to Pensions Committee and provided to the PB.	- Ongoing work with Equiniti to ensure all breaches are identified, notified and recorded.

K - Scheme Advisory Board - Guidance on the creation and operation of Local Pension Boards in England and Wales

Legal Requirements
Clause 7 of the Public Service Pensions Act provides that the national Scheme Advisory Board (SAB) may provide advice to scheme managers or pension boards in relation to the effective and efficient administration and management of the scheme.

It also provides that a person to whom advice is given by virtue of subsection (1) or (2) must have regard to the advice.

The Scheme Advisory Board has published guidance on the creation and operation of Local Pension Boards in England and Wales which incorporates a number of action point check lists at the end of some of the sections. The following are the items in those checklists.

Page 95

No.	SAB Requirement	SAB Section	London Borough of Hackney Approach / Evidence	Frequency of Review	Last Review Date	Review Completed	Compliant	Notes	Action
K1	Administering Authority to have approved the establishment (including Terms of Reference) of the Local Pension Board by 1 April 2015.	5	Hackney Council approved 27/2/15.	Ongoing (annual check - Feb)	31/10/2018	Fully completed	Fully compliant		
K2	The Local Pension Board must be operational (i.e. had its first meeting no later than 4 months after the 1 April 2015).	5	First meeting planned for 16/7/15.	Ongoing (annual check - Jan)	31/10/2018	Fully completed	Fully compliant		
K3	Once established a Local Pension Board should adopt a knowledge and understanding policy and framework (possibly in conjunction with the Pensions Committee if appropriate).	6	Training Policy approved by PC 14/1/15. Will be part of agenda of first meeting on 16/7/15 and it is then reviewed annually.	Annual (Jan)	31/10/2018	Fully completed	Fully compliant		
K4	A Local Pension Board should designate a person to take responsibility for ensuring that the knowledge and understanding policy and framework is developed and implemented.	6	Designated to Corporate Director of Finance & Resources as part of Training Policy which will be adopted by the Board.	Ongoing (annual check - Jan)	31/10/2018	Fully completed	Fully compliant		
K5	The Administering Authority should offer access to high quality induction training and provide relevant ongoing training to the appointed members of the Local Pension Board.	6	Training plan being developed including induction training for all board members.	Ongoing (annual check - Jan)	31/10/2018	In progress	Partially compliant	Training plan in place - training to be provided to Pension Board members at PC meetings and separate PB training	PB members to attend fundamentals training course
K6	A Local Pension Board should prepare (and keep updated) a list of the core documents recording policy about the administration of the Fund and make the list and documents (as well as the rules of the LGPS) accessible to its members.	6	Part of Training Policy. Documents part of induction pack and on website.	Ongoing (annual check - Jan)	31/10/2018	Fully completed	Fully compliant		
K7	Members of a Local Pension Board should undertake a personal training needs analysis and put in place a personalised training plan.	6	There is a Training Plan (annual) but it is focussed at whole PC/P B level. Annual self -assessment will be completed through effectiveness survey.	Ongoing (annual check - Jan)	31/10/2018	In progress	Partially compliant	Training needs analysis included on Nov 2018 PB agenda	A model is being developed to capture individual training needs against CIPFA requirements/TPR toolkits and to monitor against those specific requirements. Each June PC/Summer PB will highlight any individuals with outstanding requirements.

No.	SAB Requirement	SAB Section	London Borough of Hackney Approach / Evidence	Frequency of Review	Last Review Date	Review Completed	Compliant	Notes	Action
K8	An Administering Authority should prepare a code of conduct and a conflicts policy for its Local Pension Board for approval in accordance with the Administering Authority's constitution and at the first meeting of the Local Pension Board. The Local Pension Board should keep these under regular review.	7	Code of conduct is part of PB Terms of Reference. Conflicts of Interest Policy approved by PC on 31/3/15 is going to first meeting for adoption.	Annual (Mar)	31/10/2018	Fully completed	Fully compliant	Adopted by Pension Board at its first meeting	
K9	Training should be arranged for officers and members of a Local Pension Board on conduct and conflicts.	7	Planned for first PB meeting	Ongoing (annual check - Jan)	31/10/2018	Fully completed	Partially compliant	Training plan in place - training to be provided to Pension Board members at PC meetings and separate PB training	PB members to attend fundamentals training course
K10	A Local Pension Board should establish and maintain a register of interests for its members.	7	Included as part of Policy requirements.	Ongoing (annual check - Jan)	31/10/2018	Fully completed	Fully compliant		
K11	An Administering Authority should agree the ongoing reporting arrangements between the Local Pension Board and the Administering Authority.	8	Outlined in PB Terms of Reference	Ongoing (annual check - Jan)	31/10/2018	Fully completed	Fully compliant		
K12	A Local Pension Board should understand the Administering Authority's requirements, controls and policies for FOIA compliance so that the Local Pension Board is aware of them and can comply with them.	8	Copy of Council's FOI policy will be provided to all PB members as part of induction pack.	Ongoing (annual check - Jan)	31/10/2018	In progress	Partially compliant		Council's FOI policy to be provided to new PB members
K13	A Local Pension Board should put in place arrangements to meet the duty of its members to report breaches of law.	8	Planned for first PB meeting	Ongoing (annual check - Jan)	31/10/2018	Fully completed	Fully compliant	Breaches policy agreed by PB and breaches included in quarterly reporting	
K14	A Local Pension Board should consider (with its Administering Authority) the need to publish an annual report of its activities.	8	A requirement outlined in PB Terms of Reference	Annual (Summer)	31/10/2018	Fully completed	Fully compliant	PB Annual report piublished in 2017/18 accounts	
K15	An Administering Authority should consult on, revise and publish its governance compliance statement to include details of the terms, structure and operational procedures relating to its Local Pension Board.	8	Completed and updated at March 2015 PC.	Annual (Mar)	31/10/2018	Fully completed	Fully compliant	Statement carried forward to 2016/17 Annual Report	

Hackney

REPORT OF THE GROUP DIRECTOR, FINANCE & CORPORATE RESOURCES		
GMP Reconciliation **Pension Board** **20th March 2019**	**Classification** **PUBLIC** **Ward(s) affected** **ALL**	**Enclosures** **Four (Exempt)** **AGENDA ITEM NO.**

1. INTRODUCTION

1.1 This report provides the Pension Board 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 Pension Board is recommended to note the report

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 Board 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 There are no direct financial implications resulting from this report; however, it should be noted that the Pension Board are asked to review a proposal for the Pensions Committee to approve spend of approximately £115k.

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 The role of the Pension Board is prescribed by Section 106 of the LGPS Regulations 2013 and includes the following:

- Securing compliance with the Local Government Pension Scheme Regulations 2013 and any other legislation relating to the governance and administration of the Scheme and any connected scheme
- Securing compliance with any requirements imposed by the Pensions Regulator in relation to the Scheme and any connected scheme
- Ensuring the effective and efficient governance and administration of the Scheme and any connected scheme

5.3 Taking into account the role of the Pension Board as set out in the Regulations, review of the Fund's GMP reconciliation exercise would appear to properly fall within the Board's remit

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. It is therefore proposed to seek a further increase in budget from the Pensions Committee to complete the phase. 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 approve 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 are 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 are 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
Legal comments: Sean Eratt ☎020-8356 6012
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

This page is intentionally left blank

Hackney

<table>
<tr><td colspan="3">REPORT OF THE GROUP DIRECTOR, FINANCE AND CORPORATE RESOURCES</td></tr>
<tr><td rowspan="2">Pension Fund Actuarial Valuation 2019 - Introduction

Pension Board
20th March 2019</td><td>Classification
PUBLIC</td><td rowspan="2">Enclosures
4
AGENDA ITEM NO.</td></tr>
<tr><td>Ward(s) affected

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

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 Pension Board 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 DIRECTIOR 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 The role of the Pension Board is prescribed by Section 106 of the LGPS Regulations 2013 and includes the following:

- Securing compliance with the Local Government Pension Scheme Regulations 2013 and any other legislation relating to the governance and administration of the Scheme and any connected scheme
- Securing compliance with any requirements imposed by the Pensions Regulator in relation to the Scheme and any connected scheme
- Ensuring the effective and efficient governance and administration of the Scheme and any connected scheme

5.3 Further details of the suggested functions of local pension boards are provided by statutory guidance ((Local Government Pension Scheme (LGPS) Guidance on the creation and operation of Local Pension Boards in England and Wales). The guidance considers the triennial valuation as being appropriate for the remit of local pension boards.

5.4 Taking into account the role of the Pension Board as set out in the Regulations and statutory guidance, the consideration of the 2019 valuation process would appear to properly fall within the Board'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 The process and assumptions used for the valuation will be considered in detail by the Pensions Committee at its June 2019 meeting. A further update will be provided to the Board in November 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
Legal comments: Sean Eratt ☎020-8356 6012

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

This page is intentionally left blank

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

This page is intentionally left blank

Shadow Advisory Board

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

Summary

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.

Shadow Advisory Board Secretariat
Local Government House, Smith Square, London SW1P 3HZ **T** 020 7187 7344 **E** Elaine.english@local.gov.uk www.local.gov.uk

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 Secretariat
Local Government House, Smith Square, London SW1P 3HZ **T** 020 7187 7344 **E** Elaine.english@local.gov.uk www.local.gov.uk

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.

Shadow Advisory Board Secretariat
Local Government House, Smith Square, London SW1P 3HZ **T** 020 7187 7374 **E** Elaine.english@local.gov.uk www.local.gov.uk

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 Secretariat
Local Government House, Smith Square, London SW1P 3HZ T 020 7187 7344 E Elaine.english@local.gov.uk www.local.gov.uk

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.

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.

Shadow Advisory Board Secretariat
Local Government House, Smith Square, London SW1P 3HZ T 020 7187 7344 E Elaine.english@local.gov.uk www.local.gov.uk

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**

This page is intentionally left blank

Document is Restricted

This page is intentionally left blank

Document is Restricted

This page is intentionally left blank

Document is Restricted

This page is intentionally left blank

Document is Restricted

This page is intentionally left blank

Document is Restricted

This page is intentionally left blank