



PENSIONS COMMITTEE

Tuesday, 10th September, 2019

at 6.30 pm

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

Members:

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

Co-optees:

Jonathan Malins-Smith

Tim Shields
Chief Executive

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

The press and public are welcome to attend this meeting

AGENDA

Tuesday, 10th September, 2019

ORDER OF BUSINESS

Item No	Title	Page No
1	Apologies For Absence	
2	Declarations of Interest - Members to declare as appropriate	
3	Consideration of The Minutes of The Previous Meeting	1 - 6
4	Training - Actuarial Valuation	7 - 8
5	Quarterly Update	9 - 50
6	Annual Report and Accounts	51 - 272
7	GMP Reconciliation	273 - 302
8	Annual Report of the Pensions Committee	303 - 314
9	TPR Code Compliance	315 - 348
10	Pensions Committee Agendas - Forward Look	349 - 350
11	Brexit Update (Supplementary Paper - To Follow)	
12	Any Other Business Which in The Opinion Of The Chair Is Urgent	
13	<p>Exclusion of The Press And Public</p> <p>Proposed resolution:</p> <p>THAT the press and public be excluded from the proceedings of the Pensions Committee meeting during consideration of Exempt items on the agenda on the grounds that it is likely, in the view of the nature of the business to be transacted, that were members of the public to be present, there would be disclosure of exempt information as defined in Schedule 12A to the Local Government Act 1972 as amended.</p>	

ACCESS AND INFORMATION

Location

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

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

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

Facilities

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

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

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

Copies of the Agenda

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

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

Council & Democracy- www.hackney.gov.uk

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

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

RIGHTS OF PRESS AND PUBLIC TO REPORT ON MEETINGS

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

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

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

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

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

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

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

Providing oral commentary during a meeting is not permitted.

ADVICE TO MEMBERS ON DECLARING INTERESTS

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

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

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

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

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

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

- 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;
- 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
- 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:

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

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

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

- i. It relates to an external body that you have been appointed to as a Member or in another capacity; or
- ii. It relates to an organisation or individual which you have actively engaged in supporting.

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

- i. Declare the existence and nature of the interest (in relation to the relevant agenda item) as soon as it becomes apparent to you.
- ii. You may remain in the room, participate in any discussion or vote provided that contractual, financial, consent, permission or licence matters are not under consideration relating to the item in which you have an interest.
- iii. If you have an interest in a contractual, financial, consent, permission or licence matter under consideration, you must leave the room unless you have obtained a dispensation from the Monitoring Officer or Standards Committee. You cannot stay in the room or public gallery whilst discussion of the item takes place and you cannot vote on the matter. In addition, you must not seek to improperly influence the decision. Where members of the public are allowed to make representations, or to give evidence or answer questions about the matter you may, with the permission of the meeting, speak on a matter then leave the room. Once you have finished making your representation, you must leave the room whilst the matter is being discussed.
- iv. If you have been granted dispensation, in accordance with the Council's dispensation procedure you may remain in the room. If dispensation has been granted it will stipulate the extent of your involvement, such as whether you can only be present to make representations, provide evidence or whether you are able to fully participate and vote on the matter in which you have a non pecuniary interest.

Further Information

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



FS 566728



MINUTES OF A MEETING OF THE PENSIONS COMMITTEE

TUESDAY, 25TH JUNE, 2019

Councillors Present: Councillor Robert Chapman in the Chair
Cllr Michael Desmond (Vice-Chair), Kam Adams,
Cllr Ben Hayhurst and Cllr Rebecca Rennison

Apologies: Cllr Polly Billington

Officers in Attendance: Ian Williams (Group Director of Finance and Corporate Resources), Michael Honeysett (Director of Financial Management), Rachel Cowburn (Head of Investment & Actuarial Services), Julie Stacey (Head of Pensions Administration) and Sean Eratt (Legal Services).

Also in Attendance: Andrew Johnston – Hymans Robertson
Karen McWilliam – Aon
Mike O'Donnell & Kevin Cullen – London CIV

1 Apologies For Absence

- 1.1 Apologies for absence were received from Councillor Billington.
- 1.2 Apologies for lateness were received from Councillor Rennison.

2 Declarations of Interest - Members to declare as appropriate

- 2.1 Councillor Desmond declared a non-pecuniary interest as a deferred member of the LGPS until further clarification regarding his pension status.

3 Consideration of The Minutes of The Previous Meeting

- 3.1 Councillor Chapman clarified that his pension status had changed and he was no longer a deferred member of the LGPS.

RESOLVED that the minutes of the previous meeting held on 25 March 2019 be agreed as a correct record subject to the above amendment.

4 London CIV Update - Presentation

- 4.1 Rachel Cowburn introduced the report providing an update from the London Collective Investment Vehicle (LCIV) on progress to date and future planning. Representatives from LCIV would provide an update on the company's recent personnel changes and its current work programme including the development of its approach to Responsible Investment.

4.2 Mike O'Donnell, CEO and Kevin Cullen from London CIV provided an update as follows:

- **London CIV update**
 - £18bn of assets within its oversight
 - Over 50% of London's assets are now pooled
 - There are 14 active sub-funds
 - The CEO and CIO were appointed and staff increased by over 65% in the previous year
 - An overview of London CIV from 2015 to 2019
- **Pooling landscape**
 - London pooling landscape
- **Governance and oversight**
 - Governance structure of London CIV: Shareholders Committee; Shareholders General Meeting
 - Oversight of LCIV:
 - Independent oversight – Board
 - External independent oversight – FCA; Depositary; and auditors
 - Government oversight - MHCLG
- **Fund range**
 - Current fund offering
 - Provisional Fund Launch Plan
- **Hackney LCIV portfolio**
 - LCIV sustainable Equity Fund £207.7m

4.3 Mr Cullen advised that the core, private debt and infrastructure sub-funds would be launched soon and CIV would now be focusing on infrastructure.

4.4 Mr Johnston enquired whether LCIV's findings of its 12 month review would be available to the London boroughs. Mr O'Donnell confirmed that the findings would be shared with other London boroughs.

4.5 Councillor Adams asked how London CIV intended to restore trust in the organisation. Mr O'Donnell stated that senior management were working hard attending meetings to engage and build good relationships with the London boroughs. LCIV would be identifying key challenges and engaging with boroughs to ensure its products were fit for purpose and met their investment requirements.

4.6 Councillor Hayhurst asked if there was any evidence of LCIV performance and how it met London Local Authorities pooling requirement. Mr O'Donnell replied that LCIV's successful performance could be measured through its cost savings and the launching of a project concentrating on enhanced cost efficiencies including transition costs and higher returns through different investment opportunities. The LCIV was working with London local authorities to identify their investment requirements and deliver specific funds to meet these needs such as a low carbon fund. In future LCIV would be reviewing its asset allocation and working with London authorities on providing further sub-funds and reviewing the pooling strategy

4.7 Ms Cowburn enquired if the pool had an overarching transition strategy. Mr Cullen indicated that plans were in progress regarding a transition management strategy and that one borough had yet to sign the business purpose letter.

4.8 Mr Malins-Smith asked if Hackney was represented within the London CIV's governance structure and the Shareholder's Committee. Mr Cullen confirmed that the Council's Director of Finance and Corporate Resources was a Treasurer Observer on the London CIV Board and fully participated in its work. The Board reported to the Shareholder Committee, which met quarterly.

4.9 Councillor Rennison enquired how London CIV was complying with responsible investment, in terms of voting rights. Mr O'Donnell stated that Fund Managers currently voted in line with the voting alerts received from LAPFF but this was a challenge. Mr Cullen confirmed that work was being undertaken to produce voting and engagement strategies, and that LCIV needed to develop a new approach to voting and its own voting policy to meet the London authorities' requirement.

4.10 Mr Malins-Smith sought clarification regarding London CIV employees' pensions arrangements. Mr O'Donnell indicated that LCIV was currently reviewing its remuneration policy and whether to leave the LGPS or close membership of the scheme to future employees.

4.11 Councillor Desmond asked about the liquidity of investment funds and enabling Pension Funds to invest in infrastructure. Mr O'Donnell stated that LCIV was currently reviewing its liquidity policy and that some investment funds such as the property fund had non-liquid assets. It was clarified that the property fund was high on the LCIV's agenda and that it had engaged with its existing property fund manager. However, as many boroughs had already invested in property prior to CIV, a property fund would have to complement existing investment. With regard to infrastructure, a Fund Manager had been selected for this fund, which would be launched in the near future and enable authorities to invest in renewables.

4.12 The Chair asked about how LCIV intended to address carbon exposure. Mr O'Donnell stated that many boroughs were measuring carbon exposure and committing to low carbon emissions. LCIV would be addressing this issue when the organisation's resources were in place and ensure that relevant investment funds were available.

RESOLVED to note the report

5 Quarterly Update Report

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

5.2 The Chair advised that an exercise on the layout of information was being undertaken in the coming weeks and indicated that Members should send their comments to Ms Cowburn. Ms Cowburn explained that officers were reviewing the report to include more useful information and presentation of information. Councillor Rennison indicated that the information available in the current report was easy to understand and would like this layout to remain unchanged.

5.3 Councillor Rennison enquired about cash gaps. Mr Johnston explained that the Fund's liabilities were sensitive to interest rates and as gilt yields got lower liabilities would increase. This was partially driven by concerns around Brexit and other factors.

Members were referred to page 30 of the report detailing the impact of gilts movements and funding levels.

5.4 Councillor Adams enquired about the impact of Brexit on gilts. Mr Johnston stated that the more likelihood of uncertainty in the UK economy would result in continued lower interest rates and any future investment in gilts would need to be considered as a long term investment. The Committee would be receiving information on gilts as part of the investment strategy at a future meeting.

5.5 Councillor Desmond referred to LCIV Fund's performance at 13.3% over three months. Mr Johnston stated that the increase had been occurred over three months and had resulted from its asset allocation, World Equity mandate, becoming an asset leader.

5.6 Councillor Rennison queried if there was a set threshold that the Fund's funding level could not to fall below. Ms Cowburn stated that if an estimated funding level significantly dropped there was provision for the government to review how the Fund had carried out its valuation including types of assumptions. Further, a Fund's deficit recovery plan and contribution rate could be challenged if the plan did not repay the deficit.

RESOLVED to note the report.

6 Pension Fund Budget

6.1 Rachel Cowburn introduced the budget for the Pension Fund for 2019/2020 including income and expenditure from various sources and the impact of these for the Pension Fund in the next financial year.

6.2 Ms Cowburn highlighted that the 2019/20 budget set out the Fund's expected income and expenditure across member cashflows, operating costs and investment income. Member cashflow included contribution inflows from members and employers, benefit payments and transfer ins and out. These represented the Fund's significant cashflow but were outside the control of the Fund. Member cashflow had been sensitive to changes in the Fund's membership profile such as the balance of active, deferred and pensioner members. This balance was likely to change over the longer term as the Fund matured and the ratio of pensioner and deferred to active members increased, which would gradually reduce the Fund's net cash inflows. Key assumptions had been made around member cash inflows and member cash outflows.

6.3 Mr Mailins- Smith noted the projection included no material change expected in active members. Ms Cowburn replied that over the longer term as the Fund matured active members would increase, however, it would not be appropriate at this stage to make an assumption about active members that was relatively unknown and not sufficiently accurate and apply that assumption in next year's cashflow.

6.4 Councillor Desmond enquired about the increase in oversight and governance costs. Ms Cowburn clarified that the increase reflected the reclassification of administrative costs and oversight costs, and that the additional governance support had also contributed to the rise in this cost.

RESOLVED to approve the budget for 2019-20.

7 Data Improvement Update (to include update on TPR)

7.1 Rachel Cowburn provided an update on the Fund's engagement with the Pensions Regulator following a breach of law report made in respect of the annual benefit statements for 2017/18 and the actions taken and planned to help both rectify the breach and address its underlying causes.

7.2 The Chair enquired when the long standing issue relating to the Annual Benefits Statement not being sent out would be resolved. Ms Cowburn replied that submitting good quality data to the Pension Fund had been an ongoing problem for the Council and that there had been many challenges with the payroll system providing complete and accurate data within required timescales. However, progress was being made to improve data quality, with payroll being allocated additional resources and also further work being undertaken on the pensions administration and Council's payroll systems. Better quality of data had been received in June 2019 and the Payroll Team were engaging with the Pensions Teams to provide improved end of year reports.

7.3 Mr Malins-Smith asked whether any of the active members that had been issued an apology letter for not being provided their annual benefit statement had requested information. Ms Cowburn confirmed that under ten members had responded to the letter requesting information and that officers considered the failure of issuing these statements a serious issue.

RESOLVED to note the report

8 Pension Fund Administration Annual Report 2018/19

8.1 Rachel Cowburn introduced the report outlining the work undertaken by the London Borough of Hackney as the administering authority and the performance of the Pension Fund's administrators for the financial year 2018/19. Equiniti, the pension administrators had managed the contract for pension administration and payroll with the contract being overseen by the Pensions Administration Team within the Council.

RESOLVED to note the report.

9 Report Strategic Business Plan 2019-2022

9.1 Rachel Cowburn introduced the Fund's Business Plan for the period covering 2019-22. The plan sets out the key tasks the Fund needed to undertake to fulfil its strategic objectives for the next three years, a draft work plan for the Committee and communications plan for the current financial year 2019-20. Ms McWilliam outlined some of the strategic activities to be undertaken.

9.2 In response to a question from the Chair regarding the Fund's investment objective in particular responsible investment in fossil fuel, Ms Cowburn advised that investment in fossil fuel had been factored into the strategy development and that one area to be covered as part of the strategy development would be a review of the actuarial.

RESOLVED to approve the Business Plan for the Pension Fund for 2019-22.

10 Policy Consultation - Changes to the Valuation Cycle and Management of Employer Risk

10.1 Rachel Cowburn introduced the report detailing the policy consultation run by the Ministry of Housing, Communities and Local Government in relation to the changes to the LGPS local valuation cycle and the management of employer risk. The report set out the scope and timescale of the consultation and recommended approach for the Fund to follow in responding.

10.2 It was noted that a draft response would be circulated for Members' comments and that a response had to be submitted within a few weeks.

10.3 Members asked whether there were any benefits in moving from 3 to 4 year valuation cycle. Ms Cowburn stated that there would be no impact on the Pension Fund, however, four years was a long period in terms of managing funding level, valuation and checking on the quality of data.

RESOLVED to agree the approach proposed in Section 6.2 for responding to the consultation.

11 Forward Plan

11.1 Rachel Cowburn outlined the forward plan for the Committee.

11.2 Councillor Desmond requested the inclusion of the LBH Pensions Fund liquidity to be incorporated into the Quarterly update or reported separately. The Chair requested the inclusion of an item entitled responsible investment update.

RESOLVED that the forward plan be noted.

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

12.1 There was no other urgent business.

13 Exclusion of The Press And Public

RESOLVED that the press and public be excluded from the proceedings of the Pensions Committee meeting during consideration of Exempt item 14 on the agenda on the grounds that it is likely, in the view of the nature of the business to be transacted, that were members of the public to be present, there would be disclosure of exempt information as defined in Schedule 12A to the Local Government Act 1972 as amended.

14 Consideration of the Exempt Minutes of the Previous Meeting

RESOLVED that the exempt minutes of the previous meeting held on 25 March 2019 be agreed as a correct record.

Duration of the meeting: 6.30-8.40pm

REPORT OF THE GROUP DIRECTOR OF FINANCE AND CORPORATE RESOURCES		
Training – Actuarial Valuation	Classification PUBLIC	Enclosures None
	Ward(s) affected ALL	AGENDA ITEM NO.
Pensions Committee 10th September 2019		

1. INTRODUCTION

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

2. RECOMMENDATIONS

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

3. RELATED DECISIONS

- Pensions Committee 12th September 2018 – Administering Authority Training Policy

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

- 4.1 Management of the Pension Fund is complex and varied, covering areas including investment, administration, governance and financial management. It is therefore essential that members of both the Pensions Committee and Pension Board are provided with training, to ensure that they are able to meet the various duties placed upon them. The cost of such training is immaterial in the context of the Pension Fund; many of the training sessions are provided free of charge or at minimal cost.
- 4.2 There are no immediate financial implications arising from this report

5. COMMENTS OF THE DIRECTOR OF LEGAL AND GOVERNANCE

- 5.1 Knowledge and skills requirements for the Pensions Committee are set out in CIPFA’s Code of Practice on Public Sector Pensions Finance Knowledge and Skills. Although not statutory, this guidance provides a framework for both Administering Authorities and individual Committee Members to assess their level of understanding and determine any training needs.
- 5.2 One of the areas of Knowledge and Skills set out within the guidance is actuarial methods, standards and practice. Delivery of a training session on the actuarial

valuation process helps ensure Committee Members are meeting this area of the CIPFA Code.

6. BACKGROUND/TEXT OF THE REPORT

- 6.1 The Hackney Pension Fund has adopted the key recommendations of the CIPFA Code of Practice on Public Sector Pension Finance Knowledge and Skills. As such, training for Pensions Committee members is organised in line with the areas of knowledge set out in the Code; these include a section on actuarial methods, standards and practice
- 6.2 It is intended that Pension Board Members should also attend the training session if possible to help ensure that they meet the Knowledge and Understanding requirements set out by the Pensions Act 2004 and The Pensions Regulator's Code of Practice. CIPFA has produced a Technical Knowledge and Skills framework designed for Local Pension Boards, which sets out suggested training requirements for Members. The requirements are very similar to those set out in the Code of Practice on Public Sector Pension Finance Knowledge and Skills.
- 6.3 The training session will provide members with an overview of the valuation process and how it feeds into investment strategy setting.

Ian Williams

Group Director of Finance & Corporate Resources

Report Originating Officers: Rachel Cowburn ☎020-8356 2630

Financial considerations: Michael Honeysett ☎020-8356 3332

Legal comments: Sean Eratt ☎020-8356 6012

REPORT OF THE GROUP DIRECTOR, FINANCE & CORPORATE RESOURCES		
Pension Fund – Quarterly Update	Classification PUBLIC	Enclosures
	Ward(s) affected	Six
Pensions Committee 10th September 2019		

1. INTRODUCTION

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

2. RECOMMENDATIONS

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

3. RELATED DECISIONS

- Pensions Committee 29th March 2017 –2016 Actuarial Valuation and Funding Strategy Statement
- Pensions Committee 29th March 2017 –Investment Strategy Statement
- Pensions Committee 26th March 2019 –Pension Administration Strategy (PAS)

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

- 4.1 The Pensions Committee has delegated responsibility for management of the Pension Fund. Quarterly monitoring of key aspects of the management of the Pension Fund is good practice and assists the Committee in making informed decisions. .
- 4.2 Monitoring the performance of the Fund’s investment managers is essential to ensure that managers are achieving performance against set benchmarks and targets. Performance of the Fund’s assets will continue to have a significant influence on the valuation of the scheme’s assets going forward. The investment performance of the Fund is a key factor in the actuarial valuation process and therefore directly impacts on the contributions that the Council is required to make into the Pension Scheme.
- 4.3 The Committee’s responsibilities include setting a budget for the Pension Fund and monitoring financial performance against the budget. Quarterly monitoring of the budget helps to ensure that the Committee is kept informed of the progress of the Fund and can provide the Committee with early warning signals of cashflow issues and cost overruns.
- 4.4 Reporting on administration is included within the quarterly update for Committee as best practice. Monitoring of key administration targets and ensuring that the

administration functions are carried out effectively will help to minimise costs and ensure that the Fund is achieving value for money.

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

5. COMMENTS OF THE DIRECTOR OF LEGAL AND GOVERNANCE

- 5.1 The Pensions Committee's Terms of References sets out its responsibility for management of the Pension Fund. The Committee has delegated responsibility:
- To make arrangements for the triennial actuarial valuation, monitor liabilities and to undertake any asset/liability and other relevant studies as required.
 - To monitor the performance and effectiveness of the investment managers and their compliance with the Statement of Investment Principles (Investment Strategy Statement).
 - To set an annual budget for the operation of the Pension Fund and to monitor income and expenditure against budget.
 - To act as Scheme Manager for the Pension Fund
- 5.2 Given these responsibilities, it is appropriate for the Committee to consider a regular quarterly update covering funding and investment matters, budget monitoring and scheme administration and governance.

6. FUNDING UPDATE

- 6.1 The Fund's actuary, Hymans Robertson, provides a quarterly update on the funding position of the Fund illustrating how the overall position has changed since the last actuarial valuation. The actuarial valuation as at 31st March 2016 set the contribution rates which have been applied from 1st April 2017. As at the end of June 2019, the funding level was 77.6% compared to 77% as at the end of March 2016. This represents a slight increase relative to the previous quarter (76.5%).
- 6.2 The funding level of 77.6% at 30th June 2019 is based on the position of the Fund having assets of £1,573m and liabilities of £2,027m, i.e. for every £1 of liabilities the Fund has the equivalent of 77.6p of assets. The monetary deficit remains high, increasing from £350m in March 2016 to £454m in June 2019. The liabilities are a summation of all the pension payments which have been accrued up to the valuation date in respect of all scheme members, pensioners, deferred members and active members. These will be paid over the remaining lifetime of all members, which could stretch out beyond 60 years. The actuary then calculates the contributions which would be required in order for the Fund to meet its liabilities in respect of benefits accruing and to recover any deficit which has arisen.
- 6.3 The progress of the funding level on both an ongoing and yield curve basis is shown in the Actuary's Funding and Risk Report at Appendix 1 to this report. The report also highlights the asset risks to which the Fund is exposed, providing a basic breakdown of the Fund's asset allocation along with returns of major asset classes since 31st March 2016.

7. GOVERNANCE UPDATE

- 7.1 MHCLG released a consultation on the LGPS fund valuation cycle in May 2019. The

consultation asked respondents if the local fund valuation cycle for LGPS funds should be changed from triennial to quadrennial to align with the public sector scheme valuation cycles. It also asked respondents to consider proposed regulation changes connected to exit payments and credits. The Fund submitted a response to this consultation in July, recommending that local funding valuations continue to be carried out on a triennial basis, rather than switching to quadrennial.

- 7.2 Officers of the Fund provided individual responses to a governance survey issued by Hymans Robertson. The survey was commissioned by the LGPS Scheme Advisory Board and asked respondents to consider the governance of the LGPS and potential conflicts of interest between the pensions function of administering authorities and their host local authority. The survey focused on financial decision-making and the role of the s151; officers considered that a number of the suggestions represented good practice (e.g. approval of pension fund budgets by pensions committees) but recommended against radical change to existing structures.
- 7.3 The responses to the survey and Hymans Robertson's initial report are now under consideration by the Scheme Advisory Board. The Board has invited the Hymans Robertson project team to assist the Secretariat in taking forward the next stage of the good governance project. Two working groups are being established, one to focus on defining good governance outcomes and the guidance needed to clearly set them out and the other to focus on options for the independent assessment of outcomes and mechanisms to improve the delivery of those outcomes. Both groups will comprise a wide range of scheme stakeholders to ensure a full range of views and options are considered. The aim is for an options report to be ready for the Board's consideration when it meets in November. Any proposals agreed by the Board would be subject to a full stakeholder consultation before being put to MHCLG.
- 7.4 During the quarter, officers of the Fund also provided information and sought legal advice to feed into the Council's response to HM Treasury's consultation on restricting exit payments in the public sector. The proposed cap of £95,000 on exit payments includes strain cost payable on early release of pension; whilst there is no direct impact on the pension fund (as strain is payable by the employer), the outcome will impact active scheme members made redundant over the age of 55. The Council's response highlighted a number of issues with the proposed legislation. The consultation closed on 3rd July and the responses are currently being analysed by government.

8. INVESTMENT UPDATE

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

9. RESPONSIBLE INVESTMENT UPDATE

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

- 9.2 The LAPFF Quarterly Engagement report is attached at Appendix 3 to this report, setting out LAPFF's engagement activity over the Quarter in relation to environmental, social and governance issues. Following the restructuring of its equity portfolio, the Fund no longer retains any segregated mandates and therefore has no direct holdings in the companies referenced. It does, however, retain exposure via its pooled passive funds to a large number of the companies LAPFF engages with.
- 9.3 During the quarter, Committee Chair Cllr Rob Chapman represented the LAPFF at ArcelorMittal's AGM. Addressing the company chair, Mr Mittal. Cllr Chapman welcomed progress made by the company during the year towards development of a strategy consistent with the goals of the Paris Agreement. He asked the company that scenario planning be developed to allow for a range of policy and climate positions including a 1.5 degree scenario and that Mr Mittal consider personally joining the Chairs of Rio Tinto and Royal Dutch Shell in the Energy Transitions Commission (ETC) which focusses on decarbonising hard-to-abate sectors.
- 9.4 Mr Mittal responded that the company now plans to join the ETC and that they are looking at scenarios including the 1.5 degree scenario. Since the AGM, ArcelorMittal has brought out its Climate Action Report which sets out the company's ambition to significantly reduce CO2 emissions globally and be carbon neutral in Europe by 2050.
- 9.5 The Fund is now engaging with its new pooled fund managers (BlackRock and the London CIV) to develop a new approach to voting and engagement which is practical to implement in a pooled fund context. This process commenced late in 2018; the Fund has begun a programme of specific engagement with LCIV to help drive the introduction of robust voting and engagement processes. The Fund is also working with other London Authorities on this project to help establish broad support and drive consensus-building.

10. RISK MONITORING

- 10.1 Quarterly risk monitoring for Q1 2019/20 is included at Appendix 5. The reports cover the key risks faced by the Fund across 3 categories – Investment & Funding, Admin & Comms, and Governance. The reports highlight key and new risks, as well as any that have changed status relative to their target during the quarter.
- 10.2 The most significant change to note is a decrease in the likelihood rating for the 'poor membership data' risk. Whilst the risk remains a high level risk, improvements to the Council's year end reporting have resulted in improvements to the data held.

11. BUDGET MONITORING

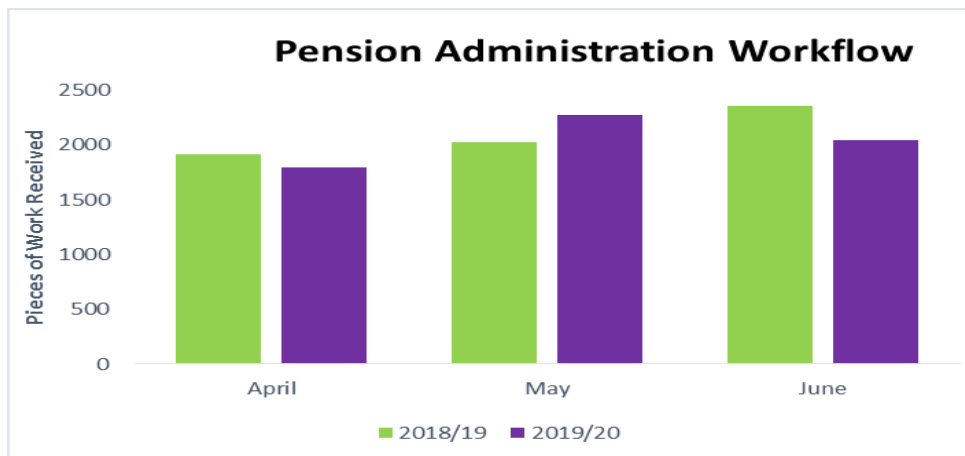
- 11.1 Budget Monitoring for Q1 2019/20 is presented at Appendix 6 to this report. The monitoring forecasts a reduced surplus on dealings with members relative to budget (£16.9m against a budgeted £20.9m). The key drivers behind this forecast reduction are transfers in and transfers out; the forecast for transfers in is significantly lower than budgeted (£5.4m against a budgeted £8.8m) whilst transfers out are forecast at £8.3m against a budget of £4.2m. It should be remembered that both items are entirely dependent on member decisions and are highly volatile as a result; these forecasts are likely to change significantly over the course of the year.
- 11.2 Certain items, most notably investment income and investment management fees, are still being forecast using the original budget estimates. Making a reliable estimate of

investment costs and income is challenging at this early stage in the year, given that both are dependent to a certain extent on investment performance.

12. PENSION ADMINISTRATION

12.1 Pension Administration Management Performance

During Q1 2019/20, the administrators received a total of 6,111 new cases compared to 6,295 during Q1 in 2018/19. A comparison of the monthly workflow between Q1 2018/19 and the reporting quarter is set out below:-

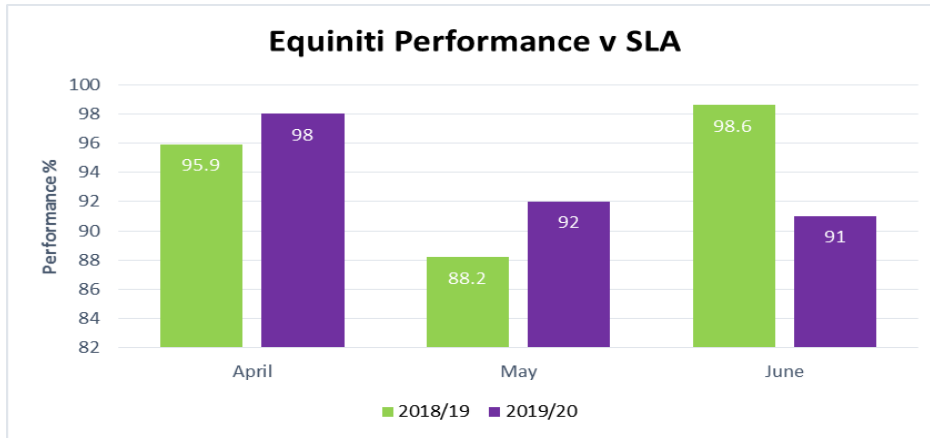


The average number of pieces of work received per month during Q1 2019/20 was 2,037, only a very slightly different to the average number during the same period in 2018/19 of 2,098.

Since the last report, there has been progress made on the payroll interface in terms of getting the correct format, and all 7 of the required files have now been completed. However, a recent test run has revealed that only 5 of the 7 are loadable to the administration system due to some further data issues. Work will continue on the development of these files, but due to prioritising the data cleanse work to produce the annual benefit statements in time for August, further developments and testing have thus far made slow progress. This will pick up after the year-end processes have been completed.

The performance of the external pension administrators is monitored by the administering authority's pension team at Hackney on a monthly basis. As reported in previous quarters, Equiniti remain working under a 'relaxed SLAs' regime due to the number of data queries taking priority over the business as usual (BAU).

Therefore performance against the service level agreement (SLA) is being monitored against priority work only (death grants, bank detail changes, pension into payment; i.e. all work relating to financials), and remains at an average of 93.6% for Q1 2019/20, compared to 94.2% for the same quarter last year. The administrator's monthly performance against the SLA during Q1 2019/20 and Q1 of 2018/19 is set out below:



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

It was hoped the introduction of the Council’s new payroll system, and the development of a monthly interface, would help to significantly improve the flow of data from the employer to the administrator and thus correct the errors to member’s records. However, there still remains some formatting and data collection issues on 2 of the interface files and until these are rectified the interface testing cannot progress.

As the production of the 2019 annual benefit statements (ABSs) is taking priority at present, the work on the interface has been suspended until the ABS programme of work is completed.

At the time of writing this report (August 2019), Equiniti have confirmed the deferred benefit statements were dispatched on 20 August, and they expect to issue c5,800 active benefit statements on 30 August 2019. Members who will not be receiving an ABS by end of August will be receiving an apology letter, and once data cleansing is completed on the remaining active records, it is anticipated a further c500 statements will be issued by the end of October 2019.

12.2 New Starters and Opt-Outs

	Total Active Membership at end of Quarter	Total Opt Outs for Quarter
Q1 2019/20	6,715	113
Q1 2018/19	6,920	115

The administering authority’s in-house pension administration team facilitated at weekly induction sessions for 135 new employees during Q1 2019/20. These sessions continue to receive very positive feedback with respondents rating the presentations as ‘Very Good’ or ‘Excellent’, and those who attended the sessions have said they now have a greater understanding of the benefits of being in the scheme.

The number of employees who decided to opt-out in Q1 2019/20 remain in-line with previous months/quarters, and still average around 100 per month.

12.3 III Health Pension Benefits.

The release of ill health benefits fall into 2 main categories, being those for deferred and active members. The administration team at Hackney process all requests for the release of deferred members' benefits on the grounds of ill health, as well as assisting the Council's Human Resources team with the process for the release of active members' benefits on the grounds of ill health.

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

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

- Tier 1 - the pension benefits are fully enhanced to the member's normal retirement date and is typically only paid to those with very serious health conditions or life limiting health problems – paid for life, no review
- Tier 2 – the pension benefits are enhanced by 25% of the years left to the member's normal retirement date - paid for life, no review
- Tier 3 - the pension benefits accrued to date of leaving employment - paid for a maximum of 3 years and a review is undertaken once the pension has been in payment for 18months.

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

The table sets out the number of cases that have been processed during Q1 of 2019/20, compared to the same period in the previous year:-

DEFERRED MEMBER'S ILL HEALTH RETIREMENT CASES					
	CASES RECEIVED	SUCCESSFUL	UNSUCCESSFUL	ONGOING	WITHDRAWN
Q1 2019/20	2	0	0	1	1
Q1 2018/19	2	0	0	2	0

ACTIVE MEMBER'S ILL HEALTH RETIREMENT CASES					
	CASES RECEIVED	BENEFITS RELEASED ON TIER 1	BENEFITS RELEASED ON TIER 2	BENEFITS RELEASED ON TIER 3	UNSUCCESSFUL
Q1 2019/20	2	2	0	0	0
Q1 2018/19	1	1	0	0	0

12.4 Internal Disputes Resolution Procedure (IDRP)

This is the procedure used by the Fund for dealing with appeals from members both active and deferred. The majority of the appeals are in regard to either disputes around

scheme membership or the non-release of ill health benefits. The process is in 2 stages:-

- Stage 1 IDRPs are reviewed and determinations made by a senior technical specialist at the Fund's pension administrators, Equiniti.
- Stage 2 IDRPs are determined by the Group Director, Finance & Corporate Resources taking external specialist technical advice from the Fund's benefits consultants.

There were no cases at Stage 1, however there were 2 cases submitted under Stage 2 of the IDRPs and they were concluded as follows:-

- 1) Pensioner member appeal against the administrators request to repay to the Fund an overpaid lump sum increase made to the member in error.
Decision - Appeal at Stage 2 not upheld as the Fund had made the correct steps to correct the error and recover the overpayment as soon as it was discovered. However, there was evidence of mal-administration and a small compensatory award was offered to the member.
- 2) Dependant member appeal against non-award of cohabiting partner pension.
Decision – Appeal at Stage 2 not upheld as deceased member's pension was in payment before the regulation change, so no cohabiting partner pension can be awarded. However, there was evidence of mal-administration and a small compensatory award was offered to the member.

12.5 Other work undertaken in Q1 2019/20

Third Party Administration Implementation update

Good progress is still being made over the last quarter on finalising the delivery of the new contract specification. At the time of writing, (August 2019) there are now only 3 points of delivery on the new service specification that remain outstanding, and the agreed joint effort to get these delivered to the expected standard is proving productive and good progress is being made. Performance rectification and resolution planning has been agreed by both parties and added to the new contract

New & Ceasing Employers

During Q1, the Fund has admitted 1 new admitted body; no employer contracts ceased during this period: breakdown is as follows:

Employer	Date Joined	Date Ceased	Deficit upon Ceasing Y/N
PJ Naylor – Grasmere School cleaning contract	01/04/2019	-	-

Redundancy Exercises for Departmental Budget Purposes

In Q1 of 2019/20, the pensions' administration team at Hackney have received a total of 114 redundancy estimate requests, compared to 105 for Q4 2018/19; some of these are for members over the age of 55 who will have pension released. Of the 114

requests, only 11 employees received final paperwork and left the organisation in this quarter.

Pre-retirement workshops

The in-house Pensions Team have set up a series of 'Pre-retirement workshops' in conjunction with a company called Affinity Connect. Affinity provide the facilitator, learning material and bookings for the seminars/workshops free of charge to the Fund and are aimed at members who are thinking of retiring within the next 2 to 5 years. The first workshop this year was held on 8 April 2019 and the feedback from the session has been very positive. Further sessions are set for 8 July, 14 October and 13 January 2020.

13. REPORTING BREACHES

- 13.1 The breaches register for Q1 2019/20 is attached at Appendix 4 to this report. There were 5 breaches during the period, all relating to contributions and all rated green; none are considered reportable.

Ian Williams

Group Director of Finance & Corporate Resources

Appendices:

Appendix 1 –Funding & Risk Report (Hymans Robertson – Actuary)

Appendix 2 – Manager Performance Report (Hymans Robertson – Investment Consultant)

Appendix 3 – LAPFF Quarterly Engagement Report

Appendix 4 – Breaches Register

Appendix 5 – Risk Reporting

Appendix 6 – Budget Monitoring

Report Originating Officers: Rachel Cowburn ☎020-8356 2630

Financial considerations: Michael Honeysett ☎020-8356 3332

Comments of the Director of Legal and Governance: Sean Eratt ☎020-8356 6012

This page is intentionally left blank

London Borough of Hackney Pension Fund

Funding and risk report as at 30 June 2019

Reliances and limitations

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

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

Important note regarding our funding update at 30 June 2019

This funding update report shows an estimated funding level at 30 June 2019 that is slightly higher than the 2016 published funding level.

It is worth emphasising that this assessment of the health of the whole fund is a crude one - produced by a single, simple, mechanical projection of the 2016 position allowing for market changes (i.e. asset returns, market yields).

As part of the 2019 valuation, we will not only collect new membership data to refresh our analysis, but are also revisiting the actuarial assumptions that are to be used in our calculations.

One interesting aspect of the 2019 valuation will be the impact of increasing scrutiny. Whilst setting contributions continues to be the key output from the valuations, there will be continuing interest in the "health of the Fund" and how that it is presented to the various different scrutineers – the existing declaration of the health via a single funding level will be reviewed and may change from the current approach.

	30 June 2019	Ongoing funding basis
Assets		£1,573m
Liabilities		£2,027m
Surplus/(deficit)		(£454m)
Funding level		77.6%

Summary

This funding update is provided to illustrate the estimated development of the funding position from 31 March 2016 to 30 June 2019, for the London Borough of Hackney Pension Fund ("the Fund"). It is addressed to the London Borough of Hackney in its capacity as the Administering Authority of the Fund and has been prepared in our capacity as actuarial advisers to the Fund.

At the last formal valuation (31 March 2016) the Fund assets were £1,172m and the liabilities were £1,522m. This represented a deficit of £350m and equated to a funding level of 77%. As detailed in the table above, the estimated funding position on the ongoing basis at 30 June 2019 is showing a slight increase in funding level.

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

Should you have any queries, please do contact us.

Craig Alexander FFA

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

CURRENT POSITION

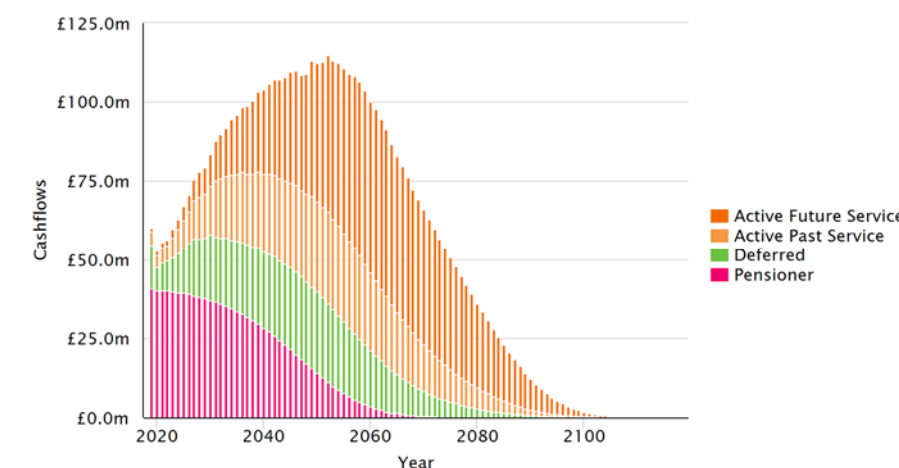
30 June 2019	Yield Curve Basis
Assets	£1,573m
Liabilities	£2,143m
Surplus/(deficit)	(£570m)
Funding level	73.4%

Surplus/(deficit)	£m
Surplus/(deficit) as at 31/03/2016	(405)
Contributions (less benefits accruing)	39
Interest on surplus/(deficit)	(32)
Excess return on assets	225
Impact of change in yields & inflation	(398)
Surplus/(deficit) as at 30/06/2019	(570)

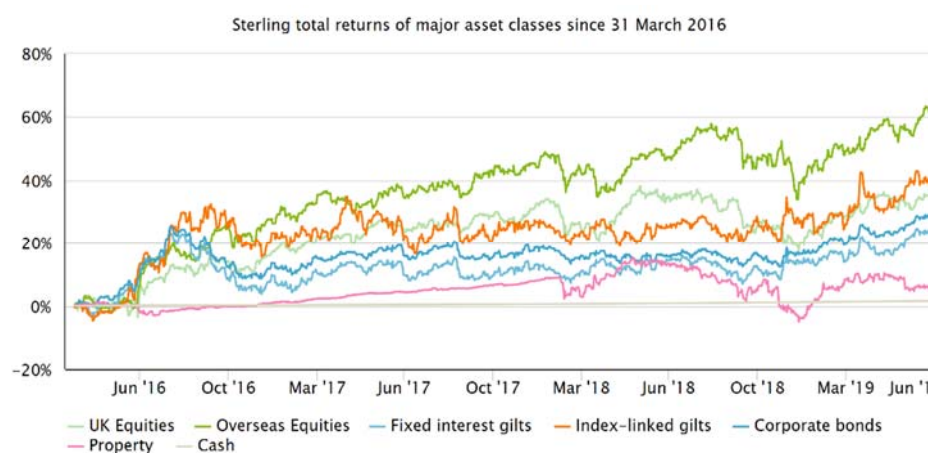
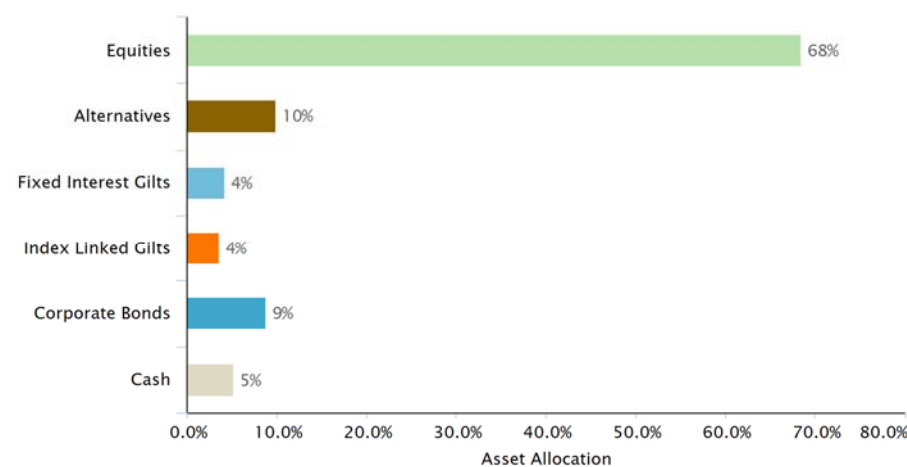
	31 March 2016	31 March 2019	30 June 2019
Market Yields (p.a)			
Fixed Interest Gilts	2.17%	1.48%	1.40%
Index-linked Gilts	-0.96%	-1.81%	-1.84%
Implied Inflation	3.16%	3.35%	3.30%
AA Corporate Bonds	3.36%	2.36%	2.25%
Price Indices			
FTSE All Share	3,395	3,978	4,057
FTSE 100	6,175	7,279	7,426

Page 20

PROGRESS



ASSETS AND RISKS



Sensitivity Matrix as at 30 June 2019 for Ongoing funding basis (£m)

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

	5,198 -30%	5,341 -20%	6,683 -10%	7,426	8,168 +10%	8,911 +20%	9,653 +30%
+0.6	(636)	(513)	(390)	(267)	(144)	(20)	103
+0.4	(695)	(572)	(449)	(325)	(202)	(79)	44
+0.2	(757)	(634)	(511)	(388)	(264)	(141)	(18)
0.0	(823)	(700)	(577)	(454)	(330)	(207)	(84)
-0.2	(894)	(770)	(647)	(524)	(401)	(278)	(154)
-0.4	(968)	(845)	(722)	(599)	(476)	(352)	(229)
-0.6	(1,048)	(925)	(802)	(679)	(556)	(432)	(309)

Legend for Shift in bond yields (% p.a.):

- less than 50%
- 50% - 85%
- 85% - 95%
- 95% - 100%
- 100% - 105%
- 105% - 115%
- greater than 115%

London Borough of Hackney Pension Fund

Page 21

Q2 2019 Investment Monitoring Report

Andrew Johnston, Partner
Anna Hawkins, Investment Consultant
Rahul Sudan, Investment Analyst

Executive Summary

The objective of this page is to set out some key metrics on the Fund.

Over the quarter the fund has outperformed the benchmark.

The high level asset allocation is broadly in line with target.

Definitions

Growth

Growth assets are designed to provide return in the form of capital growth. They may include investments in company shares, alternative investments and property. Growth assets tend to carry higher levels of risk compared to other assets yet have the potential to deliver higher returns over the long term.

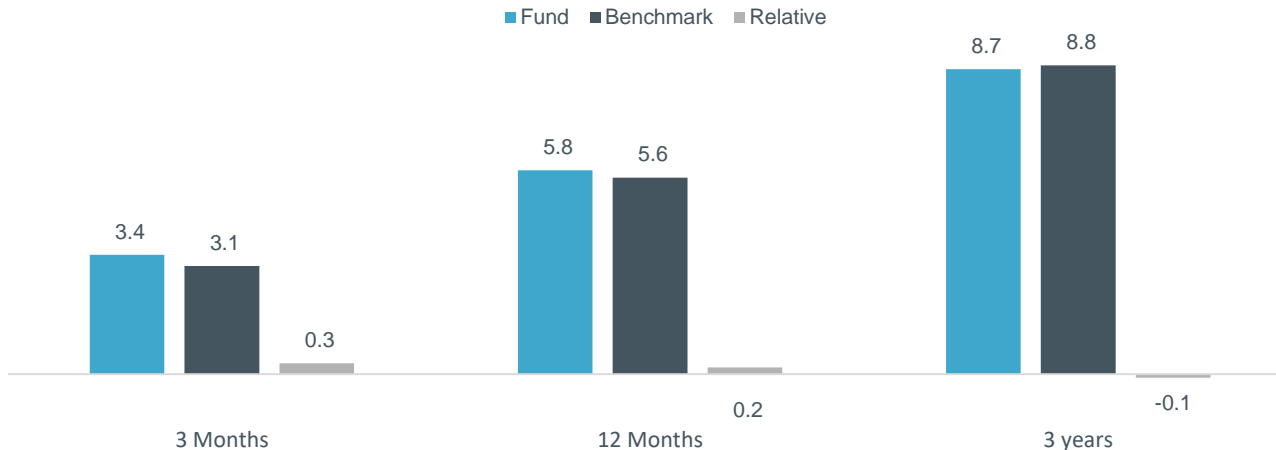
Income

Income producing assets are investments which produce recurring revenue. They may include investments in interest paying bonds, property leases and dividend paying stocks. The income generated may be fixed or variable.

Protection

Protection assets aim to secure your investment and typically take less risk compared to other asset types. As a result the growth generated tends to be lower over the long term. Protection assets may include investment grade fixed income and cash. Derivative strategies may also be used to hedge unexpected investment losses.

Performance



Growth, Income & Protection Allocation

Growth, Income & Protection	Actual	Benchmark	Relative
Growth	68.4%	67.5%	0.9%
Income	10.8%	11.0%	-0.1%
Protection	20.7%	21.5%	-0.8%

Asset Allocation

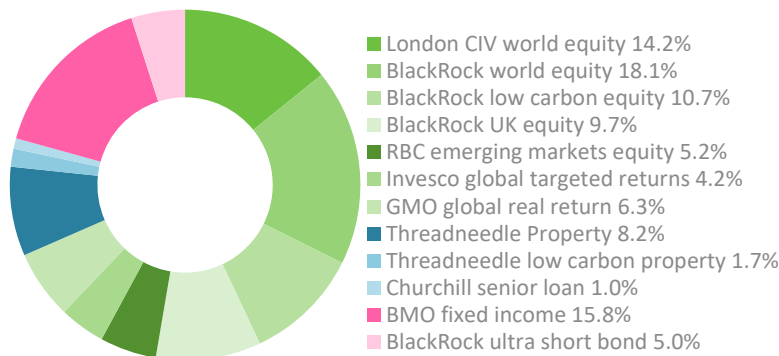
This section sets out the Scheme's high level asset valuation and strategic allocation.

This page includes;

- Start and end quarter mandate valuations.
- Asset allocation breakdown relative to benchmark for rebalancing purposes.
- Asset allocation breakdown pie chart.

Manager	Active/Passive	Mandate	Valuation (£m)		Actual Proportion	Benchmark	Relative
			Q1 2019	Q2 2019			
London CIV	Active	Sustainable World Equity	207.7	223.2	14.2%	13.0%	1.2%
BlackRock	Passive	World Equity	275.7	285.2	18.1%	17.5%	0.6%
BlackRock	Passive	Low Carbon	155.6	167.8	10.7%	10.0%	0.7%
BlackRock	Passive	UK Equity	147.8	152.6	9.7%	10.0%	-0.3%
RBC	Active	Emerging Markets	79.1	81.9	5.2%	4.5%	0.7%
Invesco	Active	DGF	66.0	66.2	4.2%	5.0%	-0.8%
GMO	Active	DGF	98.7	99.7	6.3%	7.5%	-1.2%
Total Growth			1,030.6	1,076.7	68.4%	67.5%	0.9%
Columbia Threadneedle	Active	Property	128.7	129.3	8.2%	10.0%	-0.1%
Columbia Threadneedle	Active	Low Carbon Property	26.4	26.1	1.7%		
Churchill*	Active	Senior Loans	8.4	15.1	1.0%	1.0%	0.0%
Total Income			163.5	170.5	10.8%	11.0%	-0.2%
BMO	Active	Bonds	243.0	247.8	15.8%	17.0%	-1.2%
BlackRock	Passive	Bonds	77.8	78.0	5.0%	4.5%	0.5%
Total Protection			320.8	325.8	20.7%	21.5%	-0.7%
Total Scheme			1,514.9	1,573.0	100.0%	100.0%	

Asset class exposures



Source: Investment Managers

*The Churchill allocation is being drawn down over a period of time. The ultimate target allocation is 10%. In the interim period the assets are held in the BlackRock World Equity and Ultra Short Bond Funds.

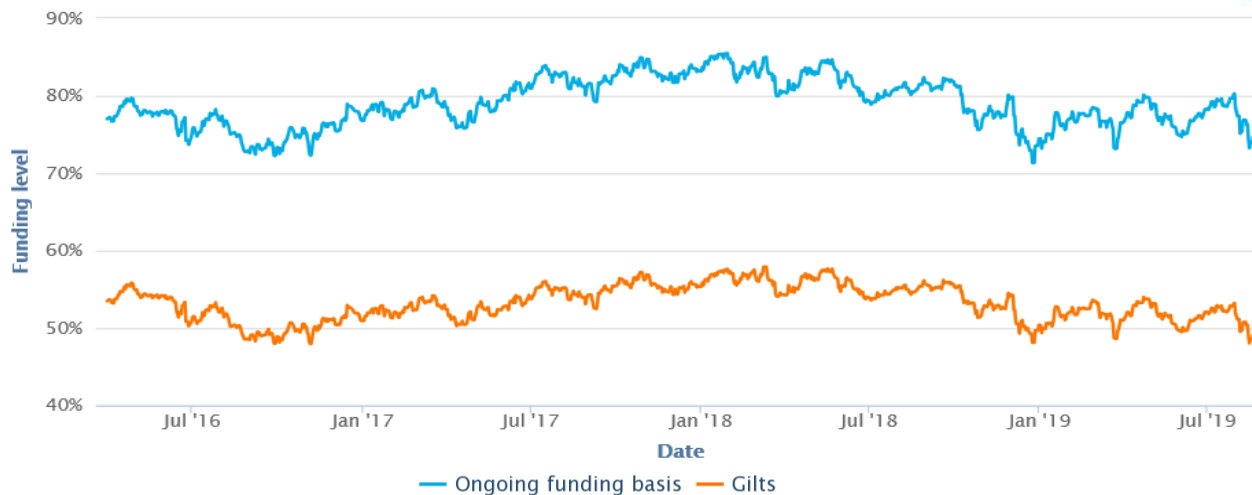
This page is used to show funding information, both historic and projected.

This page includes;

- Funding level progressions on different bases.
- Analysis of Surplus table.
- Over the quarter the deficit has decreased by £25.2m mainly as a result of an increase the excess return on assets.
- The current objective is to reach a fully funded position by 2031 on an ongoing basis of 1.65% over gilts.

Page 24

Funding level progression



Funding level reconciliation

Quarter

Surplus/(deficit)	£m
Surplus/(deficit) as at 31 March 2019	(466.2)
Contributions (less benefits accruing)	1.9
Interest on surplus/(deficit)	(3.8)
Excess return on assets	52.2
Impact of change in yields & inflation	(25.1)
Surplus/(deficit) as at 30 June 2019	(441.0)

Since previous valuation

Surplus/(deficit)	£m
Surplus/(deficit) as at 31 March 2016	(350.2)
Contributions (less benefits accruing)	52.2
Interest on surplus/(deficit)	(42.6)
Excess return on assets	178.6
Impact of change in yields & inflation	(279.0)
Surplus/(deficit) as at 30 June 2019	(441.0)

- This section shows the Scheme's manager performance.
- The table shows a summary of the full Scheme performance over different time periods.

Manager performance

Manager	Active/Passive	Mandate	3 months (%)			12 months (%)			Last 3 years (% p.a.)		
			Fund	B'mark	Relative	Fund	B'mark	Relative	Fund	B'mark	Relative
Growth											
London CIV	Active	Sustainable World Equity	7.4	6.5	0.8	12.8	10.3	2.3	n/a	n/a	n/a
			7.4	7.0	0.4	12.8	12.3	0.4	n/a	n/a	n/a
BlackRock	Passive	World Equity	3.5	3.3	0.1	6.0	5.4	0.6	n/a	n/a	n/a
BlackRock	Passive	Low Carbon	7.8	7.6	0.2	10.4	10.1	0.3	n/a	n/a	n/a
BlackRock	Passive	UK Equity	3.3	3.3	0.0	0.6	0.6	0.1	n/a	n/a	n/a
RBC	Active	Emerging Markets	3.7	3.0	0.6	7.3	5.0	2.2	11.0	12.5	-1.3
			0.2	0.2	0.0	-1.3	0.8	-2.1	1.1	0.6	0.5
Invesco	Active	DGF	0.2	1.5	-1.2	-1.3	5.8	-6.8	1.1	5.6	-4.3
			1.0	0.7	0.3	1.0	1.0	0.0	3.3	1.2	2.0
GMO	Active	DGF	1.0	1.9	-0.9	1.0	6.0	-4.7	3.3	6.2	-2.8
			Income								
Columbia Threadneedle	Active	Property	0.3	0.6	-0.3	3.0	3.4	-0.4	0.1	6.3	-5.9
			0.3	0.9	-0.5	3.0	4.4	-1.3	0.1	7.3	-6.8
Columbia Threadneedle	Active	Low Carbon Property	-0.3	0.6	-0.9	1.6	3.4	-1.8	n/a	n/a	n/a
			-0.3	0.9	-1.1	1.6	4.4	-2.7	n/a	n/a	n/a
Churchill	Active	Senior Loans	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	
Protection											
BMO	Active	Bonds	2.0	1.8	0.2	6.6	6.4	0.2	4.5	3.8	0.7
			2.0	2.0	0.0	6.6	7.4	-0.8	4.5	4.8	-0.3
BlackRock	Passive	Bonds	0.2	0.2	0.0	n/a	n/a	n/a	n/a	n/a	n/a
Total			3.4	3.1	0.3	5.8	5.6	0.2	8.7	8.8	-0.1

Source: Fund performance provided by Investment Managers and is net of fees except for the BlackRock and BMO funds and the Low Carbon Property fund which are gross of fees. Benchmark performance provided by Investment Managers and DataStream.

* The London Collective Investment Vehicle, Invesco, GMO and BMO Funds have targets above that of their benchmark's. The table above shows two performance rows for these funds, the top row showing the Fund vs Benchmark and the second row (highlighted in pink) showing the Fund vs Target Return.

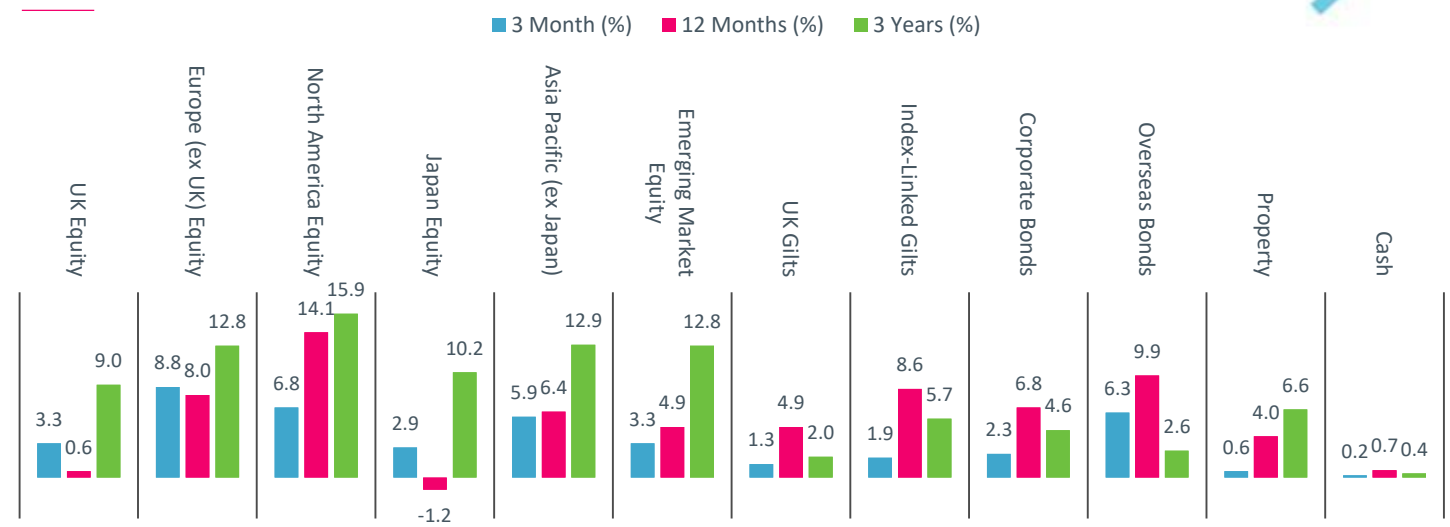
Long term returns are calculated by rolling up historic quarterly returns and include the contribution of all current and historical mandates over the period. These include returns from funds held over the period which are no longer held by the Fund.

While US GDP growth remained resilient in Q1, Q2 data suggests a large share of this growth was spurred by inventory building amid trade uncertainty. Indications in the UK also suggest that the economy might stagnate or even contract in the second quarter as stockpiling provided a temporary boost to Q1 figures. Weaker external demand has impacted the large export and manufacturing oriented portions of the Eurozone and Japanese economies. Amidst the heightened UK political uncertainty, Sterling has depreciated against the major developed currencies over the quarter, weakening by around 3.5% in trade weighted terms.

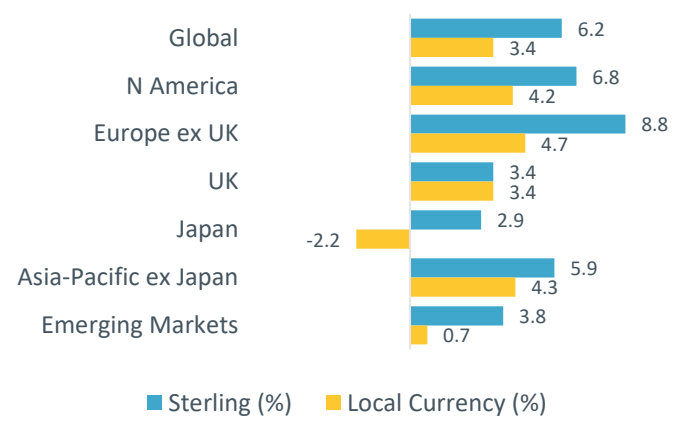
A shift in the messaging from global central banks towards looser monetary policy to support their economies, if required, has been well established. The Bank of England has been more equivocal, reluctant to commit to tightening or easing amidst the Brexit uncertainty. In the US, markets continue to price in a greater extent of interest rate cuts than the most recent Fed rate-setter's voting intentions suggest.

It was a positive quarter for financial markets with both risk seeking assets and government bonds delivering a positive return to investors. Yields on UK conventional gilts and index-linked gilts continued to fall over the quarter with the later touching new record lows in early June.

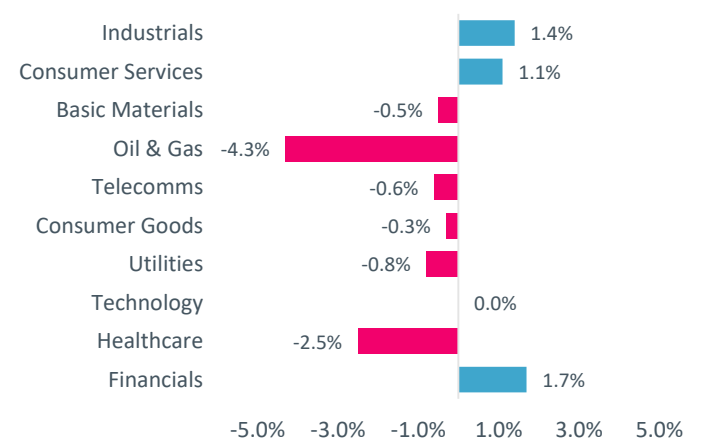
Historic returns for world markets [1]



Regional equity returns [2]



Global equity sector returns (%)



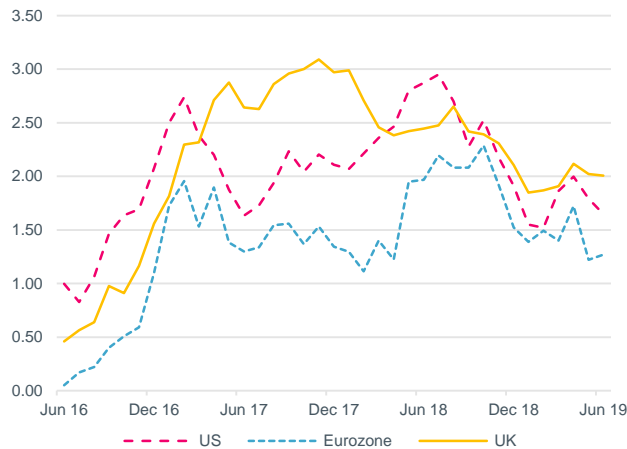
[1] All returns are in Sterling terms. Indices shown (from left to right) are as follows: FTSE All Share, FTSE AW Developed Europe ex-UK, FTSE North America, FTSE Japan, FTSE AW Developed Asia Pacific ex-Japan, S&P/IFCI Composite, FTSE Fixed Gilts All Stocks, FTSE Index-Linked Gilts All Maturities, iBoxx Corporates All Investment Grade All Maturities, JP Morgan GBI Overseas Bonds, MSCI UK Monthly Property Index; UK Interbank 7 Day. [2] FTSE All World Indices.

Global credit markets largely ignored the escalation in US-China trade tensions and the potential negative implications for growth as spreads continued to narrow over the quarter. The picture was more mixed across sub investment grade credit markets with European high yield experiencing the greatest tightening in spreads across corporate credit markets.

The equity market momentum of the first quarter of 2019 continued in Q2. After a brief pull-back in May, equity markets recovered in June and the US market reached another all-time high. The equity rally was broad-based, with most major equity regions producing strong returns. European (ex UK) equities were the best performing region in local currency terms as financials posted strong returns, while Japanese and Emerging Market equities lagged global indices. Japanese equities have been hindered by the strength of the yen, while Emerging Market equities suffered from their exposure to global trade.

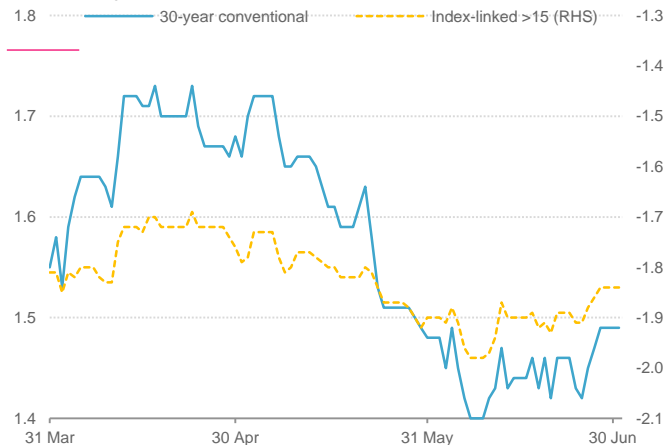
In the two months to the end of May, UK property produced total returns of 0.5%, with the return from income more than offsetting a fall of 0.4% in the capital growth index. Rental growth has been flat over the period.

Annual CPI Inflation (% p.a.)



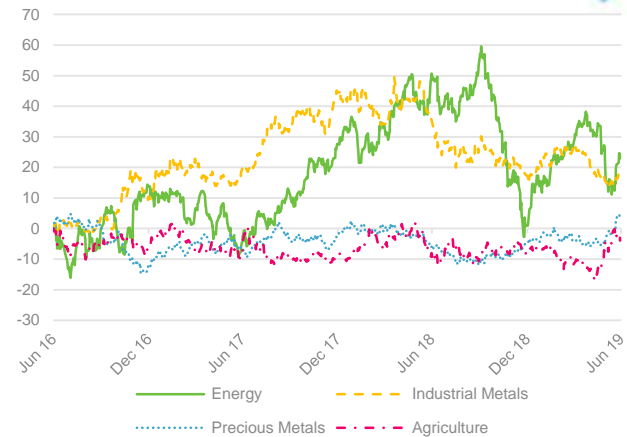
Higher CPI inflation can lead to higher income on CPI-linked assets like property, but will also lead to higher benefit payments

Gilt yields chart



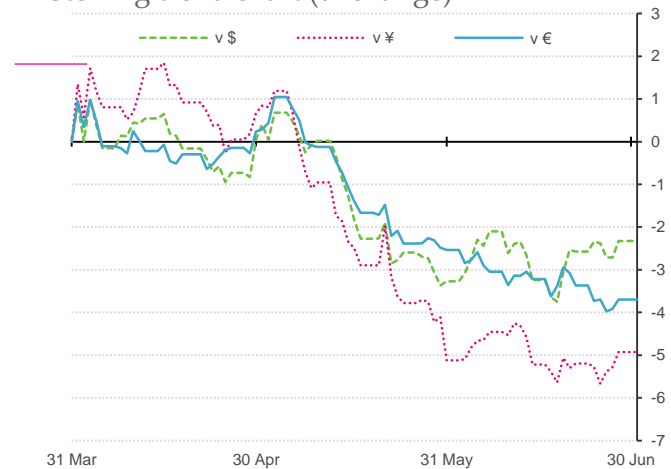
Gilt (UK government bond) yields are often used as a basis for valuing liabilities. When gilt yields increase the value of the liabilities decreases, as does the value of any bonds held by the Fund.

Commodity Prices



Funds which have exposure to commodities will benefit when the prices go up.

Sterling trend chart (% change)



Funds invested in unhedged overseas assets are exposed to exchange rate risks. If the Sterling strengthens against other currencies the value of unhedged overseas investments will increase.

Risk Warning

Please note the value of investments, and income from them, may fall as well as rise. This includes equities, government or corporate bonds, and property, whether held directly or in a pooled or collective investment vehicle. Further, investment in developing or emerging markets may be more volatile and less marketable than in mature markets. Exchange rates may also affect the value of an investment. As a result, an investor may not get back the amount originally invested. Past performance is not necessarily a guide to future performance.

In some cases, we have commercial business arrangements/agreements with clients within the financial sector where we provide services. These services are entirely separate from any advice that we may provide in recommending products to our advisory clients. Our recommendations are provided as a result of clients' needs and based upon our independent research. Where there is a perceived or potential conflict, alternative recommendations can be made available.

Hymans Robertson LLP has relied upon third party sources and all copyright and other rights are reserved by such third party sources as follows: DataStream data: © DataStream; Fund Manager data: Fund Manager; Morgan Stanley Capital International data: © and database right Morgan Stanley Capital International and its licensors 2018. All rights reserved. MSCI has no liability to any person for any losses, damages, costs or expenses suffered as a result of any use or reliance on any of the information which may be attributed to it; Hymans Robertson data: © Hymans Robertson. Whilst every effort has been made to ensure the accuracy of such estimates or data - including third party data - we cannot accept responsibility for any loss arising from their use. © Hymans Robertson LLP 2019.

Geometric v Arithmetic Performance

Hymans Robertson are among the investment professionals who calculate relative performance geometrically as follows:

$$\frac{(1 + \text{Fund Performance})}{(1 + \text{Benchmark Performance})} - 1$$

Some industry practitioners use the simpler arithmetic method as follows:

$$\text{Fund Performance} - \text{Benchmark Performance}$$

The geometric return is a better measure of investment performance when compared to the arithmetic return, to account for potential volatility of returns.

The difference between the arithmetic mean return and the geometric mean return increases as the volatility increases.



Quarterly
Engagement
report

April-June
2019



Tailings dams, Persimmon, Centrica, BP, ArcelorMittal, Imperial Brands

TAILINGS DAMS

Investors call for action after Brazilian mining disaster

LAPFF uses community engagement to link stakeholder input to investor value

Objective: Improve responsibility and accountability within the mining sector

Achieved: Formation of a database to promote oversight and accountability of tailings dams.

In progress: Sector-wide collection of tailings dam data

The Investor Mining & Tailings Safety Initiative was created following the failure of a tailings dam at the Córrego do Feijão mining facility in Brumadinho, Brazil. The collapse occurred on January 25 and led to the loss of around 300 lives. The initiative, led by a group of investors with combined assets under management of around \$12.5 trillion, is governed through a steering committee chaired by the **Church of England Pensions Board** and the **Swedish Council of Ethics** of the AP Funds. LAPFF has played a significant role in supporting and liaising with the affected communities through this initiative, ensuring that the community voice forms part of ongoing narrative.

LAPFF was also a signatory to a letter that went to 683 companies requesting data on tailings storage facilities for which they are responsible. There is currently not a consolidated global register making assessing the risks associated with tailings storage facilities difficult. However, responses to this disclosure request are now coming in, with 197 companies submitting data so far and 114 companies stating that they do not have tailings dams.

As a result of the disclosure request a number of companies have now posted their tailings dam data. These companies include **Anglo American**, **Glencore** and

“Not only is the human impact of these dam collapses devastating, but we are starting to understand the extent to which failure to ensure dam safety has created risks for our investment portfolios. LAPFF is pleased to be part of the Investor Initiative on Mining and Tailings Safety, both to support safer dams and communities and to help build stronger companies that create better shareholder value for our beneficiaries.”

Councillor Doug McMurdo,
LAPFF Chair

“I’ve been to most of these investor meetings now. Seeing and hearing from community members about the horrific impacts of these dam collapses has been eye-opening and alarming. These disasters are good examples of how community interests, environmental interests and investor interests align in a need for better ESG practices by companies.”

Councillor Rob Chapman,
LAPFF Vice-Chair

Rio Tinto. Disclosures are of varying quality, from complete to substantially incomplete. The Forum had offered to provide funding for the creation and maintenance of the tailings dam disclosure database, but the concept of what the database will encompass has grown significantly. Consequently, an alternative organisation - Norwegian foundation, Grid Arendal, a scientific group supported by the United Nations - will undertake this work.

Professor Bruno Oberle has been appointed Chair of the Global Independent Review on tailings dams, which is being led by UNEP, PRI and ICMM. Professor Oberle is Chair for Green Economy and Resource Governance and Academic Director of the International Risk Governance Center at L’Ecole Polytechnique Fédérale de Lausanne (EPFL), Switzerland, a panel member of the International Resource Panel and a member of the Leadership Council of the Sustainable Development Solutions Network. The Review has had its first meeting and reported back to the investor initiative on 10 June.

LAPFF continues to play an active role in the investor initiative, both through the steering committee and as affected stakeholder liaison. One main request from the community has been to have investors visit the sites of the Samarco and Brumadinho dam collapses in Brazil. Professor Oberle has now visited, and other investors are planning visits too. ●

TAILINGS DAMS



▲ The owner of British Columbia's Mount Polley mine confirms it has been served with search warrants as an investigation continues into the failure of a dam and possible Fisheries Act breaches. The dam's collapse in the early hours of Aug. 4 last year sent 24 million cubic metres of wastewater gushing into nearby lakes and streams. Contents from a tailings pond is pictured going down the Hazelton Creek into Quesnel Lake near the town of Likely, B.C. on August, 5, 2014.



▲ Disruption of Samarco dams in Mariana, Minas Gerais, southeastern Brazil, on November 9, 2015. On the fourth day, after breaking two tailings dam, Long Bar is still taken by the mud. The dams are between the municipalities of Mariana and Ouro Preto, about 60 kilometers from Long Bar.



COMPANY ENGAGEMENT



Cllr Chapman with CA100 representation at ArcelorMittal AGM

THE CLIMATE CRISIS: CLEAN ENERGY AND STRATEGIC RESILIENCE

ArcelorMittal commits to being carbon neutral in Europe by 2050

LAPFF's engagement with the largest global steel company, ArcelorMittal, continued with attendance at the AGM in Luxembourg. Addressing the company chair, Mr Mittal, Cllr Rob Chapman welcomed progress made by the company during the year towards development of a strategy consistent with the goals of the Paris Agreement. This has included exploring industrial-scale use of hydrogen at their Hamburg plant and testing circular and low carbon technologies across a number of sites. Cllr Chapman asked the company that scenario planning be developed to allow for a range of policy and climate positions including a 1.5 degree scenario and that Mr Mittal consider personally joining the Chairs of Rio Tinto and Royal Dutch Shell in the Energy Transitions Commission (ETC) which focusses on decarbonising hard-to-abate sectors. Mr Mittal responded that the company now plans to join the ETC and that they are looking at scenarios including the 1.5

CONTEXT

After chemicals, steel production is the second largest energy consumer among industrial sectors and the most carbon-intensive sector. Having had a couple of meetings last year and earlier this year with ArcelorMittal representatives, the company had showed some progress, including starting an industrial scale trial of using hydrogen in Hamburg in the electric arc process, initially using 'grey' hydrogen produced from natural gas, but with the potential to use hydrogen generated from renewable sources.

degree scenario. Meeting with Mr Mittal immediately after the AGM, LAPFF, with fellow Climate Action 100+ investors followed up on asking for a review of the companies lobbying and membership of trade associations, and about the adoption of science-based targets. Mr Mittal's clear message on the required transition was the need for a level playing field globally, and for the EU to implement a green border tax adjustment to address climate change whilst securing the competitiveness of European steel mills.

Since the AGM, ArcelorMittal has brought out its Climate Action Report which sets out the company's ambition

to significantly reduce CO₂ emissions globally and be carbon neutral in Europe by 2050.

Attendance at ArcelorMittal's SRI Roadshow provided useful context to their recently issued Climate Action report. Discussions covered developments in their hydrogen technology, partnerships with car companies, liaising with customers on the Steligence' concept for high-performance buildings and construction techniques and the challenges of different regional policy dimensions and how to report on these.

GOVERNANCE RISK

Persimmon headline

In his last engagement as LAPFF chair, Cllr Paul Doughty attended the Persimmon AGM. The company chair, Roger Devlin, apologised for the previous chief executive's pay award. Presentations from the chief executive and chair focused on how the company was seeking to change, including committing to paying the Living Wage and undertaking a review of customer care. Cllr Doughty asked, given the reputational damage the company had suffered and to safeguard against similar problems in the future, whether the board would consider appointing an employee to the board. This had been raised previously in engagement with the company. In response, Mr Devlin stated that he first wanted to see and understand how employee representatives would work in practice and that the company were keeping it under review.

Imperial Brands

Cllr Glyn Caron met with Imperial Brands to discuss the company's 'Next Generation Products' such as vaping. The meeting focused on how the company was diversifying its products away from traditional tobacco products and seeking to reduce harm. The discussion covered issues around the safety of new products, targets for shifting to less harmful products and marketing to children. Cllr Caron also asked about the company's approach to the emerging legal cannabis market.

COMPANY ENGAGEMENT



VOTING ALERTS

LAPFF issued voting alerts ahead of the **Facebook**, **Twitter** and **Alphabet** general meetings. The alerts recommended that members support shareholder proposals that the companies produce reports into the governance and management of inappropriate and illegal user-generated content. The Forum also supported a resolution for the appointment of an employee director at Alphabet (the parent company of Google) following several workforce-related problems.

LAPFF also issued voting alerts ahead of the **General Motors** and **Ford** meetings regarding their lobbying

activities on climate change and whether they were aligned with the Paris Agreement. The shareholder proposals received the backing of a large number of shareholders (29% and 16% respectively). These alerts followed collaborative engagements with the companies on climate change and federal reforms which are set to result in lower and more fragmented emissions standards in the US. There appeared to be progress on this front as the carmakers themselves have recently written to both President Trump and the Governor of California calling on them to resurrect discussions about a unified standard. At this point the White House has rejected the call by the sector. Nevertheless, with the encouragement of investors there remains an opportunity to find separate agreements between the car manufacturers and individual states to lower emissions.

Other climate-related voting alerts were issued in relation to the **BP**, **Rio Tinto**, **Andarko**, **Chevron** and **ExxonMobil** Annual General Meetings. Engagement with BP has been long-term, with ten LAPFF members co-filing the resolution to the company that requested it report on its strategy consistent with the Paris Agreement. Disclosure requested included how the Company evaluates the consistency of each new capex investment in exploration, acquisition or development

of oil and gas resources and reserves. The resolution was the outcome of engagement co-ordinated by the Climate Action 100+ (CA100) investor group. It outlined investor expectations relating to the consequences of the Company's strategy for its future business model and, after garnering support from the BP Board, it passed with 99% shareholder support. LAPFF is also a member of the CA100+ Exxon investor group. The two lead investors, the **New York State Common Retirement Fund** and the **Church Commissioners for England**, together with at least one LAPFF member fund, co-filed a shareholder proposal asking ExxonMobil to disclose short, medium and long-term targets for GHG emissions. In response, Exxon sought and obtained no action relief from SEC staff, and subsequently declined to include the proposal in its proxy materials for the 2019 annual general meeting. Consequently LAPFF recommended that member funds vote against the entire Board based on the company's inadequate approach to climate change. Previous engagement with Exxon concerning carbon emissions has failed to result in an adequate response by the company. This is in contrast to many of its industry peers who have taken active and transparent steps in an attempt to manage the energy transition and in doing so are better placed to protect and preserve value.

COMPANY ENGAGEMENT

Daejan Holdings

A meeting with the chair of Daejan Holdings and other investor representatives of the 30% Club Investor Group explored the approach to gender diversity across the company, including gender pay differentials and the approach to recruitment. Daejan Holdings is the only FTSE 350 company that has never had a woman on the board. Three directors were appointed to the board in 2017, all male. The chair considers that the board appoints on merit and no commitment was made to appointing a female director.

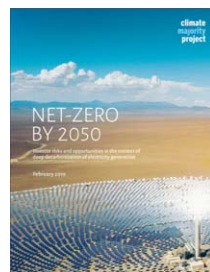
Climate Action 100+

LAPFF participated in a Climate Action 100+ investor meeting with the new chair of Centrica plc, Charles Berry. Taking on the role in February, his background indicates he is likely to take a pro-active stance in ensuring the strategic resilience of the company. His experience includes stints at SSE, Drax and Scottish Power, the latter company announcing late last year that it is set to switch to completely clean energy, replacing coal and gas with wind. He spoke about his focus on strategy, capital allocation and business decisions. The investor ask was articulated as a need for ambition by **Centrica** to show its long-term vision for decarbonisation, particularly of heat, and that it is committed to net-zero. It was considered Centrica could articulate its policy stance more strongly and draw in the concept of the 'Just Transition' in its relationship with employees and when any changes are made to the investment portfolio. These were noted by the chair.

Climate Majority Project

In the first quarter of 2019, as part of its involvement in the Climate Majority Project, LAPFF joined US investors in calling for the 20 largest carbon emitting utilities companies based in the US to commit to achieving net-zero carbon emissions by 2050. Responses have come in from a number of companies including **Entergy Corporation, NextEra, NRG Energy, WEC Energy Group** and **Xcel Energy**. **Entergy's** most recent climate report and two-degree scenario analysis includes the latest carbon emissions reduction goal of

“Decarbonization can also create significant new opportunities for the electric power sector, as electrification of the economy can drive substantial demand growth just as the costs of renewable energy generation and battery storage are plummeting. Investors therefore have both a fiduciary interest and obligation to ensure that the electric utility industry is on track to achieve



net-zero carbon emissions by 2050 at the latest”

50 percent reduction in the emission rate by 20130 from a 2000 base. NextEra is the world's largest producer of energy from wind and solar, and set out its target to reduce its own emissions by 65% by 2021, from a 2001 starting point. A response from NRG Energy reiterated the science-based targets set in 2014 for absolute operational emission reductions of 50% by 2030 and 90% by 2050. Customer emission reduction goals were provided in absolute amounts rather than a percentage figure, so it was more difficult to discern how stringent these are in reality. WEC Energy Group reports it will achieve a near term goal of emission reductions of 40% below 2005 levels well ahead of the 2030 target, and its 2050 goal is to reduce emissions by 80%. In 2018, Xcel achieved 38% reductions in carbon emissions associated with electricity provided to customers from a 2005 base, and announced a two-part carbon goal for its electricity business, namely 80% emission reduction by 2030 and carbon-free electricity by 2050.

After a meeting in March, follow-up correspondence to the **Southern Company** asked the company to commit to net-zero emissions by 2050 and to communicate this intention by September 2019 with corresponding details to be disclosed on board oversight responsibilities, the associated transition plan,

executive compensation mechanisms and the alignment of policy spending, trade association and lobbying activities.

CLlr Rob Chapman joined a collaborative call organised by the Climate Majority Project (formerly the 50/50 Climate Project) with US utility company **Dominion Energy**. The meeting focused on setting a net zero emissions target by 2050 and moves by the company to low and no carbon energy production. The discussion also covered board oversight of climate change, aligning executive compensation with a net zero target and alignment of political spending and membership of trade associations with meeting its stated objectives on emissions reduction.

General Motors and Ford

LAPFF has been engaging with General Motors and Ford about their approach to climate change and emissions standards following proposed weakening of regulations by the US administration. In June, GM and Ford co-signed a letter to the President urging the US government to negotiate a solution on emissions standards supported by California. LAPFF wrote to both GM and Ford welcoming the move and that while engagement at a federal level has not yet been forthcoming, calling on the companies continue to work with California to find solutions to reducing greenhouse gases. GM responded to a separate correspondence from the investor coalition outlining their investment in electric vehicles and stating that they were encouraging a negotiated national solution. A bipartisan group of lawmakers has also urged the **US Department of Transportation, the US Environmental Protection Agency, and the California Air Resources Board** to return to good faith negotiating to work toward one national programme on fuel economy.

Chipotle

In January, LAPFF co-signed a letter directed to six of the largest global fast food companies. As part of a collaborative engagement facilitated by Ceres and FAIRR, LAPFF was lead investor in a collaborative meeting with American fast food giant Chipotle Mexican Grill. In a discussion with the company's Chief Corporate Responsibility Officer, Director of Sustainability and Director of Procure-

COMPANY ENGAGEMENT

ment, LAPFF quizzed Chipotle on its approach to managing water risk, board oversight and supply chain management. LAPFF also set out its expectations as an investor, challenging the company's practices in areas in which it was deemed to lag behind industry peers.

SOCIAL RISK

Tailings Dam Initiative

The investor tailings dam initiative which has developed out of the collapse of the Vale tailings dam in Brumadinho, Brazil, in late January is moving quickly. The disclosure request on tailings dams has gone to 680 mining companies, and a number of companies have now posted their tailings dam data on their website. These companies include Anglo American, Glencore and Rio Tinto. Disclosures are of varying quality, from complete to substantially incomplete. The Forum had offered to provide funding for the creation and maintenance of the tailings dam disclosure database, but the concept of what the database will encompass has grown significantly. Consequently, an alternative organisation - Norwegian foundation, Grid Arendal, a scientific group supported by the United Nations - will undertake this work.

LAPFF continues to play an active role in the investor initiative, both through the steering committee and liaising with representatives from the affected communities. One main request from the community has been to have investors visit the sites of the Samarco and Brumadinho dam collapses in Brazil. Professor Oberle has now visited, and other investors are planning visits too.

Professor Bruno Oberle has been appointed Chair of the Global Independent Review on tailings dams, which has had its first meeting. Professor Oberle is Chair for Green Economy and Resource Governance and Academic Director of the International Risk Governance Center at L'Ecole Polytechnique Fédérale de Lausanne (EPFL), Switzerland, a panel member of the International Resource Panel and a member of the Leadership Council of the Sustainable Development Solutions Network. The Review has had its first meeting and reported back to the investor initiative in early June.



Engagement related to the war in Yemen

The Forum has written to nine defence contracting companies identified as having significant weapons sales to Saudi Arabia. These companies are: Boeing, General Dynamics, Raytheon, BAE, Lockheed Martin, Textron, Thales, Airbus and General Electric. LAPFF has asked the companies if they have undertaken human rights impact assessments in respect of their contracts with Saudi Arabia given the country's role in the war in Yemen. An additional request for information went to Boeing in relation to the crashes of the company's 737 MAX aircraft in Indonesia and Ethiopia.

EVENTS

In June, LAPFF attended the first annual Workforce Disclosure Initiative (WDI) conference in London. This included a panel on how better workforce disclosure can benefit companies, investors and the workforce. There were also breakout sessions on board-level gender equality and living wages in low-income countries, both specific areas of interest for the WDI. Overall, delegates seemed engaged and positive about the initiative.

“We would never have been in this situation if people had stuck to the basics such as true and fair view, going concern, and recording things at recoverable value - which is one of the four basic prudence principles in accounting”

Senator Gerry Horkan

RELIABLE ACCOUNTS

Irish Parliament

In 2012 LAPFF produced 'UK and Irish Banks Capital Losses - Post Mortem' setting out how the accounting framework for listed companies in the UK and Ireland, both under the Financial Reporting Council (FRC) had allowed major banks to keep substantial losses out of their reported net income and mask insolvency. The banking crisis in Ireland led to the country seeking assistance from the International Monetary Fund and liquidity support from the European Central Bank. Cormac Butler, an IFRS expert from Ireland, presented on this topic at the 2012 LAPFF annual conference. He has remained a vocal commentator on reporting standards in Ireland. He and

COMPANY ENGAGEMENT

Tim Bush of PIRC, were asked to appear before a joint committee of the lower and upper houses of the Irish Parliament on 28 May 2019.

John McGuinness TD, chairman of the joint committee, said the Irish public had picked up the €30bn tab for the banking system bailout that they should never have entered into, due to a potentially flawed and illegal accounting model. “We are paying back a debt that we should not be paying back” he said and “we are imposing austerity on people in the pursuit of repayment of that debt that we should not do”.

Senator Gerry Horkan, who is a Chartered Accountant said, “We would never have been in this situation if people had stuck to the basics such as true and fair view, going concern, and recording things at recoverable value - which is one of the four basic prudence principles in accounting that one learns on one’s first day. They should have taken the hit when it was realised. If they had, we would not have had all these issues with promissory notes and so on.”

Senator Rose Conway-Walsh referred to the impact that the collapse of Carillion in the UK had had on the SME sector in Ireland.

The Committee also asked Tim Bush for views on reform of the accounting profession and competition issues given the recent flurry of enquiries in the UK. Tim Bush suggested that the committee made contact with the BEIS Select Committee in the UK, which the Committee agreed to. The Committee also indicated that it would wish to see Cormac Butler and Tim Bush again.

Local Authority Pension Performance Analytics

At the Local Authority Pension Funds All Party Parliamentary Group meeting in April, Neil Sellstrom of PIRC’s Local Authority Pension Performance Analytics (LAPPA) service provided a presentation on LGPS investment performance and varying trends among 63 local authority funds. Cllr Paul Doughty then provided an overview of the new statutory guidance on LGPS asset pooling followed by discussion. The presentation and meeting minutes are available at the APPG website.

FRC

In May, LAPFF submitted a response to the independent review of the FRC. The purpose of the consultation was to gather views on the recommendations made by the review to create a new regulator responsible for audit, corporate reporting and corporate governance. LAPFF made clear that an effective regulator needs an effective purpose and, as the Brydon Review aims to ‘reset’ the delivery of audits, LAPFF believes this is only achieved by reconnecting with the law. This principle should also drive the model for the setting up and development of the Audit, Reporting and Governance Authority (ARGA).

Media coverage: Audit market reform

LAPFF blames ‘defective’ accounting rules for 2008 Irish banking crisis – IPE, 7 June 2019

Local authority pension funds back UK audit market reform proposals – IPE, 24 April 2019.

PAPERS AND REPORTS

LAPFF published the first of its kind report into employees on company boards. The new Corporate Governance Code includes a section on board level employee representation, with instructions to have an employee on the board, have a designated non-executive director or a workforce panel. To understand how



The Board Body believes that better employee representation can improve the quality of decision making. The benefits of listening to employees and engaging them in both consultation and decision making are already widely recognised.” *Share Group, Annual Report, Picked above a Annual History, the Board Group employee director*

Employees on boards
Modernising governance

A LAPFF survey of FTSE All-Share companies
● May 2019 / lapfforum.org

companies were approaching this element of the new code LAPFF undertook a survey of the FTSE.

The Forum had a great response rate with over 20% of FTSE 100 completing the survey as well as companies across the FTSE all share. The results in the report highlight that the majority of companies were planning to comply with the requirement (rather than explaining why not) and no respondent viewed the inclusion of board level employee representation in code as a negative step. The vast majority of those who were going to comply were seeking to do so by appointing a designated NED to the board and very few were intending to have a worker director. In this sense the results suggests there was a missed opportunity but from engagements we know the issue remains under review at many companies.

Media coverage: Workers on boards

Should more companies give employees a seat on their boards? – Telegraph, 29 May 2019

Businesses are resisting worker representation on boards –

Personnel Today, 3 May 2019

With rich investment managers in charge, shareholder vetos on exec pay are meaningless – Left Foot Forward, 16 May 2019

Corporate Britain drops the ball on worker directors in favour of government cop outs – Independent, 1 May 2019.

Worker directors increasingly prominent in debates on corporate governance reform - Involvement & Participation Association, N/D

Capita appoints two employees to its board – ShareCast, 13 June

Capita set to join club of companies with worker directors on the board –

The Times, 6 May

Media coverage: Voting

LAPFF supports majority of Amazon shareholder resolutions – Professional Pensions, 20 May 2019

COMPANY PROGRESS REPORT

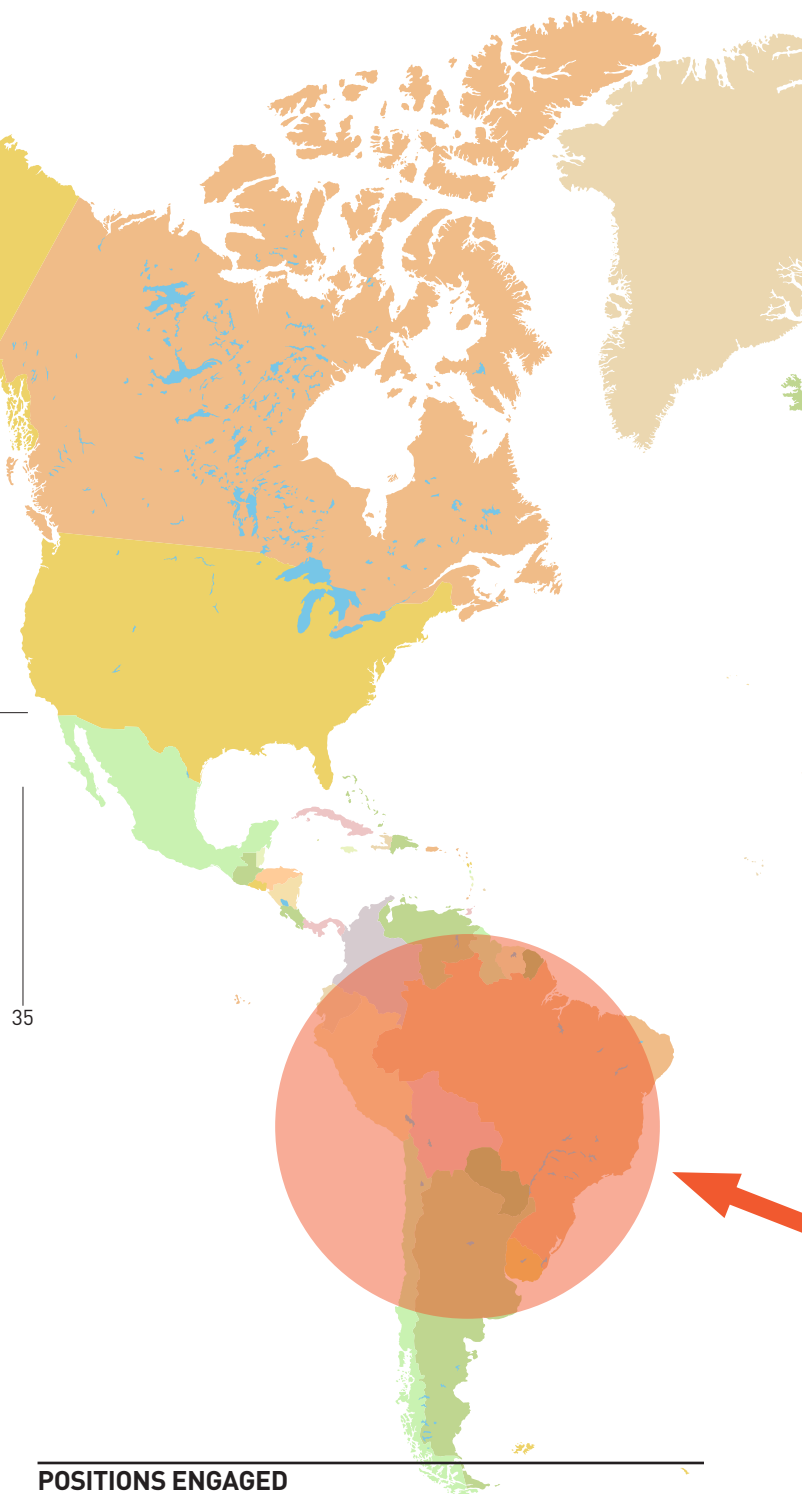
62 Company engagements over the quarter

Company/Index	Activity	Topic	Outcome
AMAZON.COM INC. (2)	Alert Issued	Audit Practices	No Improvement
ANADARKO PETROLEUM CORPORATION (2)	Alert Issued/ Sent Letter	Climate Change	No Improvement
ANGLO AMERICAN PLC	Meeting	Governance (General)	Change in Process
ARCELORMITTAL SA (3)	Meeting/AGM	Climate Change	Substantial Improvement
AVEVA GROUP PLC	Sent Letter	Board Composition	Awaiting Response
BHP GROUP PLC (GBR)	Meeting	Human Rights	Small Improvement
BP PLC	Alert Issued	Climate Change	Substantial Improvement
CENTRICA PLC	Meeting	Climate Change	Small Improvement
CHEVRON CORPORATION	Alert Issued	Governance (General)	No Improvement
CHIPOTLE MEXICAN GRILL INC	Meeting	Climate Change	Moderate Improvement
DAEJAN HOLDINGS PLC (2)	Meeting	Board Composition	No Improvement
DOMINION ENERGY INC	Meeting	Climate Change	Change in Process
ENTERGY CORPORATION	Received Letter	Climate Change	Moderate Improvement
EXXON MOBIL CORPORATION	Alert Issued	Climate Change	No Improvement
FDM GROUP (HOLDINGS) PLC	Sent Letter	Board Composition	Awaiting Response
GENERAL MOTORS COMPANY (3)	Received Letter/ Alert Issued	Climate Change	Small Improvement
HSBC HOLDINGS PLC	AGM	Climate Change	No Improvement
IMPERIAL BRANDS PLC	Meeting	Governance (General)	Moderate Improvement
JD WETHERSPOON PLC	Meeting	Board Composition	No Improvement
MICRO FOCUS INTERNATIONAL PLC	Sent Letter	Board Composition	Awaiting Response
NEXTERA ENERGY INC	Received Letter	Climate Change	Small Improvement
NRG ENERGY INC	Received Letter	Climate Change	Moderate Improvement
PERSIMMON PLC	AGM	Board Composition	No Improvement
PLAYTECH PLC	Sent Letter	Board Composition	Awaiting Response
RIO TINTO GROUP (AUS) (3)	Meeting/Alert Issued	Climate Change/Human Rights	Small Improvement
ROYAL DUTCH SHELL PLC (2)	Meeting	Remuneration	Small Improvement
SIME DARBY PLANTATION	Meeting	Environmental Risk	Small Improvement
SOUTHERN COMPANY	Sent Letter	Climate Change	Substantial Improvement
TESCO PLC	Sent Letter	Climate Change	Awaiting Response
THE SAGE GROUP PLC	Sent Letter	Board Composition	Awaiting Response
WEC ENERGY GROUP	Received Letter	Climate Change	Moderate Improvement
XCEL ENERGY INC.	Received Letter	Climate Change	Substantial Improvement

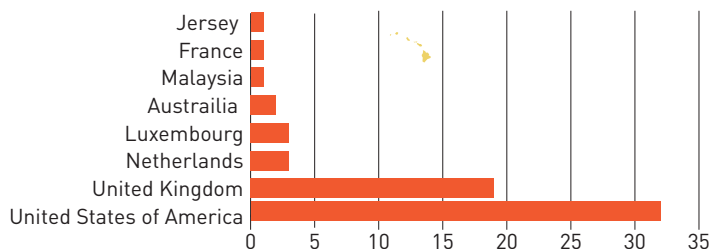
ENGAGEMENT DATA

During the quarter LAPFF has also opened or continued dialogue with the following companies:

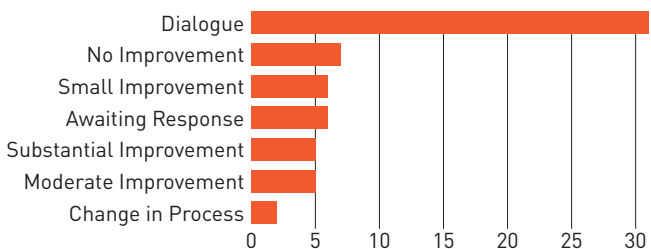
Airbus se, Alphabet inc, Bae Systems plc, Caterpillar inc., Facebook inc, Ford Motor Company, General Dynamics Corporation, General Electric Company, Glencore plc, Motorola Solutions inc., Raytheon Company, SSE plc, Tesla inc, Textron inc, Thales, The Boeing Company, Twitter inc.



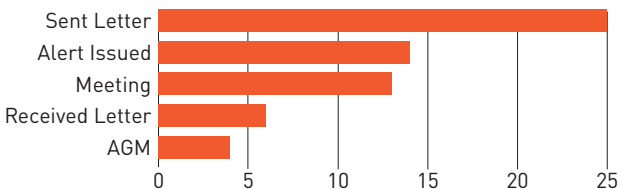
COMPANY DOMICILES



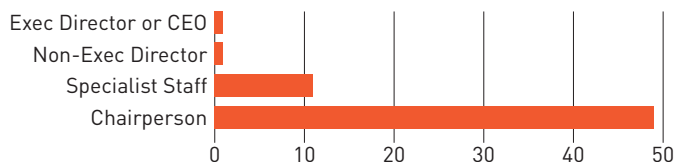
MEETING ENGAGEMENT OUTCOMES



COMPANY ENGAGEMENT ACTIVITIES



POSITIONS ENGAGED



ENGAGEMENT DATA

LOCAL AUTHORITY PENSION FUND FORUM MEMBERS



683

letters were sent to mining companies requesting information on tailings dams.



- Avon Pension Fund
- Barking and Dagenham Pension Fund
- Barnet Pension Fund
- Bedfordshire Pension Fund
- Border to Coast Pensions Partnership
- Brunei Pensions Partnership
- Cambridgeshire Pension Fund
- Camden Pension Fund
- Cardiff & Glamorgan Pension Fund
- Cheshire Pension Fund
- City of London Corporation Pension Fund
- Clwyd Pension Fund (Flintshire CC)
- Cornwall Pension Fund
- Croydon Pension Fund
- Cumbria Pension Fund
- Derbyshire Pension Fund
- Devon Pension Fund
- Dorset Pension Fund
- Durham Pension Fund
- Dyfed Pension Fund
- Ealing Pension Fund
- East Riding Pension Fund
- East Sussex Pension Fund
- Enfield Pension Fund
- Environment Agency Pension Fund
- Falkirk Pension Fund
- Gloucestershire Pension Fund
- Greater Gwent Pension Fund
- Greater Manchester Pension Fund
- Greenwich Pension Fund
- Gwynedd Pension Fund
- Hackney Pension Fund
- Hammersmith and Fulham Pension Fund
- Haringey Pension Fund
- Harrow Pension Fund
- Havering Pension Fund
- Hertfordshire Pension Fund
- Hounslow Pension Fund
- Islington Pension Fund
- Kingston upon Thames Pension Fund
- Lambeth Pension Fund
- Lancashire County Pension Fund
- Leicestershire Pension Fund
- Lewisham Pension Fund
- LGPS Central
- Lincolnshire Pension Fund
- London CIV
- London Pension Fund Authority
- Lothian Pension Fund
- Merseyside Pension Fund
- Merton Pension Fund
- Newham Pension Fund
- Norfolk Pension Fund
- North East Scotland Pension Fund
- North Yorkshire Pension Fund
- Northern LGPS
- Northamptonshire Pension Fund
- Northumberland Pension Fund
- Nottinghamshire Pension Fund
- Oxfordshire Pension Fund
- Powys Pension Fund
- Redbridge Pension Fund
- Rhondda Cynon Taf Pension Fund
- Shropshire Pension Fund
- Somerset Pension Fund
- South Yorkshire Pension Authority
- Southwark Pension Fund
- Staffordshire Pension Fund
- Strathclyde Pension Fund
- Suffolk Pension Fund
- Surrey Pension Fund
- Sutton Pension Fund
- Swansea Pension Fund
- Teesside Pension Fund
- Tower Hamlets Pension Fund
- Tyne and Wear Pension Fund
- Wales Pension Partnership
- Waltham Forest Pension Fund
- Wandsworth Borough Council Pension Fund
- Warwickshire Pension Fund
- West Midlands ITA Pension Fund
- West Midlands Pension Fund
- West Yorkshire Pension Fund
- Westminster Pension Fund
- Wiltshire Pension Fund
- Worcestershire Pension Fund

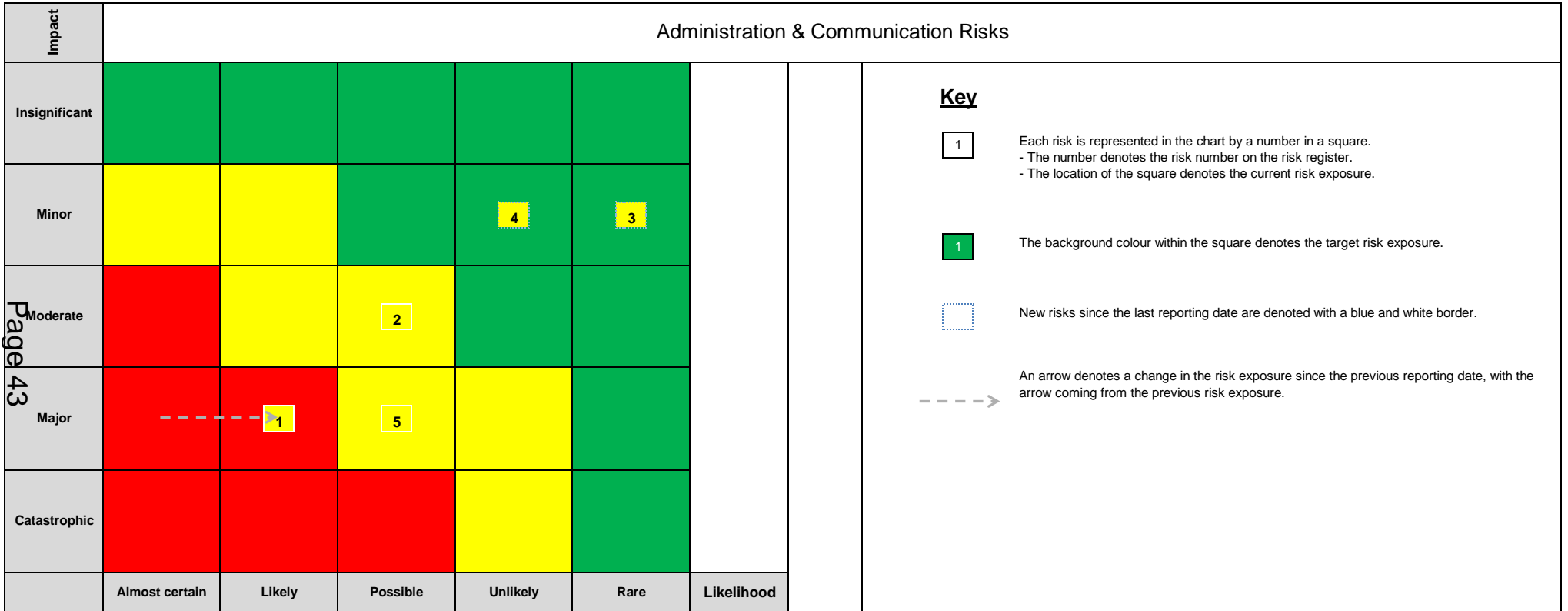
This page is intentionally left blank

LB Hackney Pension Fund - Breaches Register

Quarter	Date	Category (e.g. administration, contributions, funding, investment, criminal activity)	Employer / Org.	Description of breach	Cause of breach	Possible effect of breach and wider implications	Reaction of relevant parties to breach	Traffic Light System	Reported / Not reported (with justification if not reported and dates)	Outcome of report and/or investigations	Outstanding actions
Q1	Apr-19	Contributions	Manor House Development Trust	Contributions received late	Employer has missed the prescribed period for contributions	Late contributions could affect member queries & ABS	Employer notified of regulations to provide contributions on time and warned of breach	G	Not reported	Contributions payment received late on 26/04/2019. Levy raised for £65	Monitor going forward
Q1	Apr-19	Contributions	Westgate cleaning services	HK221 received late	Employer has missed the prescribed period for contributions	Late contributions could affect member queries & ABS	Employer notified of regulations to provide contributions on time and warned of breach	G	Not reported	HK221 received late (date unknown). Levy raised for £65.	Monitor going forward
Q1	May-19	Contributions	Peabody	HK221 and Payment received late	Late supporting documents	Late supporting documents could affect member queries & ABS	Employer has been warned of breach	G	Not reported	First offence for the year, an email has been sent to the employer reminding them of the deadlines.	Monitor going forward
Q1	May-19	Contributions	Westgate cleaning services	HK221 and Payment received late	Late supporting documents	Late supporting documents could affect member queries & ABS	Employer has been warned of breach	G	Not reported	First offence for the year, an email has been sent to the employer reminding them of the deadlines.	Monitor going forward
Q1	Jun-19	Contributions	Sport Gayhurst	Contributions received late	Employer has missed the prescribed period for contributions	Late contributions could affect member queries & ABS	Employer notified of regulations to provide contributions on time and warned of breach	G	Not reported	First offence for the year, an email has been sent to the employer reminding them of the deadlines.	Monitor going forward

This page is intentionally left blank

Administration and Communication Risks Heat Map and Summary



Hackney Pension Fund - Control Risk Register

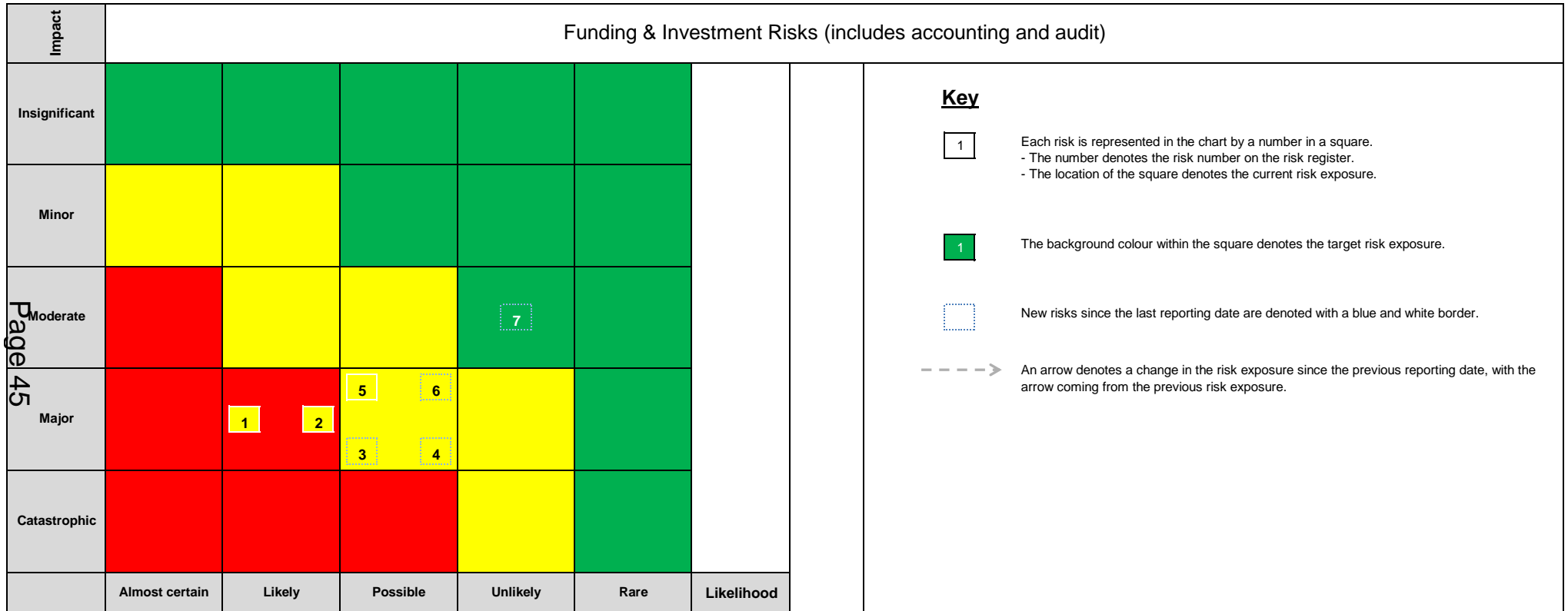
Administration & Communication Risks

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	Likely	High	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	Medium	☹️ Current impact 1 too high Current likelihood 1 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	30/09/2019	30/06/2019
2	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	Medium	1 - Range of communication options for members and employers 2 - Provision of employer support to new or struggling employers	Moderate	Unlikely	Low	☹️ Current likelihood 1 too high	01/12/2018	Dec 2019	1 - Roll out member self service (JS) 2 - Roll out employer portal (JS) 3 - Carry out scheme member satisfaction surveys (JS)	Julie Stacey	30/09/2019	30/06/2019
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	Low	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	Low	😊			1 - Existence checks due April 2019 (JS)	Julie Stacey	30/09/2019	30/06/2019
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	Low	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	Low	😊				Julie Stacey	30/09/2019	30/06/2019
5	Poor delivery of administration service	Risk that third party administrator does not deliver in accordance with contractual requirements	A1-5	Major	Possible	Medium	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	Medium	☹️ 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	30/09/2019	30/06/2019

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



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	30/09/2019	31/03/2019
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 gov 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	31/12/2019	30/06/2019
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 of new providers) (RC)	Rachel Cowburn	30/09/2019	31/03/2019
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 development/respond to consultations - 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 of 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	30/09/2019	31/03/2019
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 development of monitoring of fossil fuel risk (formal review of target summer 2019) 2 - Liaise with managers to improve wider ESG risk reporting	Rachel Cowburn	30/09/2019	30/06/2019
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 meet 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	30/09/2019	30/06/2019
7	Employer Covenant/Affordability risks	Employer Covenant 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	30/09/2019	31/03/2019

Page 46

All Fund Risk Heat Map and Summary of Governance Risks



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 Retention - 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	High	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	Low	☺ 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	30/09/2019	31/03/2019
2	Knowledge and Skills - insufficient knowledge and skills amongst those charged with Fund Management	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 knowledge and skills amongst those charged with its management	G1, G3, G4	Moderate	Possible	High	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	Low	☺ Current likelihood 1 too high	01/12/2018	Dec 2019	1 - Review of training programme and requirements underway (MH/RC)	Rachel Cowburn	30/09/2019	30/06/2019
3	Conflicts of Interest - actual conflicts of interest permitted to materialise	Failure to adequately monitor and disclose conflicts of interest results in potential conflicts not being managed	G5	Insignificant	Unlikely	Low	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	Low	☺				Rachel Cowburn	30/09/2019	31/03/2019
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	Low	1 - Segregation of duties for key roles 2 - Regular scrutiny from internal audit 3 - Annual external audit of the Pension Fund	Moderate	Unlikely	Low	☺				Rachel Cowburn	30/09/2019	31/03/2019
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	High	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 6 - Redaction of personal information where required 7 - 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	Low	☺ 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 user friendly secure data transmission 4 - explore further secure email options as current offer not user friendly	Julie Stacey/Rachel Cowburn	31/12/2019	30/06/2019
6	Reliance on external systems - potential for system failure (including cybercrime)	Heavy reliance on external systems including following systems: Cedar (accounting), HSBCnet (custodian), LloydsLink, Compendia results in crucial action not being taken in the event of system failure	G4	Moderate	Possible	High	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	Low	☺ 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	31/12/2019	30/06/2019

Page 48

Appendix 6 - Pension Fund Budget Monitoring Q1 2019/20

Pension Fund Budget & Forecast 2019-20						Explanation of variance
	2019/20	2019/20	2019/20	2019/20	2019/20	
	Budget	YTD I&E	FY Forecast	FY Variance	FY Variance	
	£000	£000	£000	£000	%	
Members Income						
Employers Contributions	(61,169)	(10,554)	(63,324)	(2,155)	4%	Within tolerance
Employees Contributions	(12,882)	(2,202)	(13,212)	(330)	3%	Within tolerance
Transfers In	(8,841)	(1,340)	(5,360)	3,481	-39%	Cannot be reliably estimated - dependent on member decisions
	(82,892)	(14,096)	(81,896)	996		
Members Expenditure						
Pensions	45,849	12,399	45,696	(153)	0%	Within tolerance
Lump Sum Commutations & Death Grants	11,692	2,705	10,820	(872)	-7%	Within tolerance
Transfers Out	4,224	2,065	8,260	4,036	96%	Cannot be reliably estimated - dependent on member decisions
Refund of Contributions	194	53	212	18	9%	Cannot be reliably estimated - dependent on member decisions
	61,959	17,222	64,988	3,029		
Net (additions)/withdrawals from dealings with members	(20,934)	3,126	(16,908)	4,026		
Management Expenses						
Administrative Costs	779	388	779	0	0%	Forecast estimated based on prior year actuals plus estimates for specific projects (e.g.GMP rectification) - no current evidence for change
Investment Management Expenses	6,578	25	6,578	0	0%	Forecast based on prior year actual given difficulty of producing a reliable estimate - insufficient evidence to change
Oversight & Governance Costs	887	65	900	13	1%	Within tolerance
	8,244	478	8,257	13	0	
Net (surplus)/deficit from operations	(12,690)	3,604	(8,651)	4,039		
Investment Income						
Investment Income	(12,316)	(52)	(12,316)	0	0%	Awaiting information. Forecast based on prior year actuals - currently insufficient information to change estimate
Net Investment Income/Expenditure	(12,316)	(12,316)	(12,316)	(12,316)		
Cash flow before Investment Performance	(25,006)	(8,712)	(20,967)	(8,277)		

This page is intentionally left blank

REPORT OF THE GROUP DIRECTOR OF FINANCE AND CORPORATE RESOURCES

Pension Fund Annual Report and Accounts 2018/19

Pensions Committee
10th September 2019

Classification
Public

Ward(s) affected

ALL

Enclosures
Seven

1. INTRODUCTION

- 1.1 This report introduces the post audit Annual Report and Accounts of the London Borough of Hackney Pension Fund for the year ended 31st March 2019, which are attached.

2. RECOMMENDATIONS

2.1 The Committee is recommended to:

- Note this version of the Pension Fund Annual Report and Accounts
- Approve publication and distribution to interested parties, pending a final update on asset pooling to be provided by the London CIV.

3. RELATED DECISIONS

- Pensions Committee 12th September 2018 – Pension Fund Annual Report & Accounts 2017/18.

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

- 4.1 The Pension Fund Annual Report and Accounts sets out the financial position of the Pension Fund as at 31st March 2019 and acts as the basis for understanding the financial wellbeing of the Pension Fund. It enables Members to manage and monitor the Scheme effectively, helping to ensure that they are able to fully understand the financial implications of the decisions they make.

5. COMMENTS OF THE DIRECTOR OF LEGAL AND GOVERNANCE

- 5.1 Pursuant to the Local Government Pension Scheme (Administration) Regulations 2013 (“The Regulations”), the Council, in its capacity as the administering authority for the pension fund, is obliged to prepare a pension fund annual report. The report must be published by 1 December following the year end and must be prepared in line with the Regulations and with regard to guidance published by the Secretary of State. The requirements specified in the Regulations are set out in paragraph 6.1 of this report.

- 5.2 The Council’s Constitution makes it the responsibility of the Pensions Committee to

receive and approve the Annual Report prior to publication.

6. BACKGROUND/TEXT OF THE REPORT

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

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

- (a) a report about the management and financial performance during the year of each of the pension funds maintained by the authority;
- (b) a report explaining the authority's investment policy for each of those funds and reviewing the performance during the year of the investments of each fund;
- (c) a report of the arrangements made during the year for the administration of each of those funds;
- (d) for each of those funds, a statement by the actuary who carried out the most recent valuation of the assets and liabilities of the fund in accordance with [regulation 62 \(actuarial valuations of pension funds\)](#), of the level of funding disclosed by that valuation;
- (e) the current version of the statement under [regulation 55 \(governance compliance statement\)](#);
- (f) for each of the funds, the fund account and net asset statement with supporting notes and disclosures prepared in accordance with proper practices;
- (g) an annual report dealing with—
 - (i) the extent to which the authority and [the Scheme](#) employers in relation to which it is the [administering authority](#) have achieved any levels of performance set out in a pension administration strategy in accordance with [regulation 59 \(pension administration strategy\)](#), and
 - (ii) such other matters arising from a pension administration strategy as it considers appropriate;
- (h) the current version of the statement referred to in [regulation 58 \(funding strategy statement\)](#);
- (i) the current version of the investment strategy under regulation 7 (investment strategy statement) of the Local Government Pension Scheme (Management and Investment of Funds) Regulations 2016
- (j) the current version of the statement under [regulation 61 \(statements of policy concerning communications with members and Scheme employers\)](#); and

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

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

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

- 6.2 For 2018/19, CIPFA has produced new guidance for funds on the production of the annual report; this has the status of statutory guidance in England and Wales. Guidance on the annual report was last produced in 2014; since then, asset pools, new legislation on investing, governance and benefits, and changes to year-end financial reporting have all brought new challenges and there is a continued focus on funding levels and investment management costs. Changes to the guidance since 2014 reflect national developments in terms of the following:
- New governance arrangements introduced by the Public Service Pensions Act 2013.
 - CIPFA's working group on pension fund administration.
 - Post Pool Reporting Guidance (for England and Wales)
- 6.3 The Hackney Pension Fund annual report is largely compliant with the new guidance, with the notable exception of some of the sections concerning asset pooling. These are due to be provided by the London CIV later in September; the annual report will be updated accordingly and distributed to the Committee for final sign-off prior to publication.
- 6.4 The audit of the Pension Fund accounts is complete and a draft certificate provided. The certificate cannot be formally issued until the auditors have completed their review of the annual report, which will be carried out once the additional pooling information is provided by the London CIV.
- 6.5 The Fund's auditors, Mazars, have issued an unqualified opinion, without modification, on the Pension Fund financial statements included within the Council's accounts. They also anticipate concluding that the Pension Fund financial statements within the Pension Fund's Annual Report are consistent with the Pension Fund financial statements within the Statement of Accounts of the Council.
- 6.6 The version being presented in these papers is therefore a draft version of the Pension Fund Report and Accounts 2018/19. The only remaining change to be made is the addition of the pooling information to be provided by the London CIV. The Committee are asked to approve this version, acknowledging that the required pooling information will be provided later in September. The finalised version will then be circulated to the Committee via email for final approval prior to publication.
- 6.7 Once formally adopted the Pension Fund Report and Accounts will be circulated to employers in the Pension Fund with a copy sent to the Ministry of Housing, Communities and Local Government.

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

List of Appendices

Appendix 1 – Pension Fund Annual Report 2018/19

London Borough of Hackney Pension Fund

Report and Accounts 2018-19

CONTENTS

CHAIR'S FOREWORD - CLLR ROBERT CHAPMAN-----	1
PENSIONS COMMITTEE-----	3
PENSION BOARD-----	4
STAFF, ADVISERS & INVESTMENT MANAGERS-----	5
GOVERNANCE AND OVERSIGHT REVIEW -----	9
LONDON BOROUGH OF HACKNEY PENSION BOARD ANNUAL REPORT 2018/19---- ERROR! BOOKMARK NOT DEFINED.	
KNOWLEDGE AND SKILLS POLICY STATEMENT -----	13
SCHEME DETAILS -----	17
ADMINISTRATION REVIEW-----	23
RISK MANAGEMENT REVIEW-----	40
INVESTMENT REVIEW-----	42
ACTUARIAL REVIEW -----	49
REPORT OF THE FUND ACTUARY -----	51
AUDIT OPINION -----	54
STATEMENT OF RESPONSIBILITIES -----	57
STATEMENT OF ACCOUNTS 2018/19 -----	58
INVESTMENT STRATEGY STATEMENT -----	94
FUNDING STRATEGY STATEMENT-----	106
GOVERNANCE POLICY AND COMPLIANCE STATEMENT-----	149
COMMUNICATIONS POLICY STATEMENT -----	164
PENSION ADMINISTRATION STRATEGY 2018/19 -----	177
CONTACT DETAILS-----	216

Chair's Foreword - Cllr Robert Chapman

It is my pleasure, as Chair of the Pensions Committee, to introduce the London Borough of Hackney Pension Fund Annual Report and Accounts for 2018/19. The Pensions Committee is responsible for the management of all aspects of the Pension Fund, including investment, administration and governance of the Fund.



2018/19 has been a busy year for the Hackney Pension Fund, with significant changes made to the Fund's investment portfolio during the year to help meet asset pooling and carbon reduction commitments. We have also introduced a new third party administration contract, and continued a significant program of work to improve member data ahead of the 2019 valuation.

In 2017, the Hackney Pension Fund committed to reducing its exposure to fossil fuel reserves by 50%, reducing the Fund's exposure to carbon risk and aligning it with the 2 degrees scenario set out in the Paris Agreement. During 2018/19 we made significant changes to our equity portfolio to help meet this target, making substantial investments in two different strategies aimed at reducing our carbon exposure.

Firstly, we have invested 10% (approx. £150m) of the Fund's assets in Blackrock's MSCI Low Carbon Target Fund, to help reduce our exposure to fossil fuels and carbon emissions while maintaining exposure to a wide range of global markets. The allocation has been funded by reducing exposure to the FTSE Allshare Index, which represented the Funds most significant exposure to fossil fuel companies. We have also invested £195m in RBC GAM's Global Sustainable Equity strategy via the London CIV, which invests in companies with long term, sustainable revenues, with a strong focus on Environmental, Social and Governance (ESG) factors.

The restructure of our equity portfolio also included other changes to facilitate asset pooling, with a £145m UK passive allocation and a £340m global passive allocation invested with BlackRock. In addition to the restructure of the equity portfolio, we have made a significant allocation to private debt during the year, with mandates of £95m and £65m awarded to Permira and Churchill respectively.

Looking to investment more generally, 2018/19 has been a volatile one in investment markets; political uncertainty, escalating tensions between the US and China and uncertainty over Brexit all affected investor sentiment. The Fund experienced modest gains of 5.7% during the year, underperforming against its customised benchmark, which returned 7.2%. The key driver of this underperformance was the Fund's allocation to diversified growth funds, which returned -2.6%. The Fund's strongest performer in absolute terms was its equity allocation, which returned 6.4% overall. As set out above, we introduced a number of new investment mandates during the year, making significant changes to the equity portfolio and adding an allocation to private debt.

We have seen considerable fluctuation in the funding level over the year, driven not only by volatility in asset values but also by rising liability values as a result of changes in inflation and gilt yields. Since the Committee approved the 2016 valuation in March 2017, the Fund has

seen a slight decrease in its funding from 77% at the valuation date to 76.5% at 31 March 2019. The funding level has fluctuated considerably over the year, with the primary cause of the decrease in funding level being falling gilt yields during the year. The Council's contribution rate reduced from 34.9% in 2017/18 to 34.0% in 2018/19, with a further reduction to 33% planned for 2019/20.

2018/19 has also been a busy year for our administration team. The team have implemented a new contract with Equiniti, our third party administrator, during the year, which offers significant improvements to the Fund's administration service. The improvements include a full update to member communications and scheme guides, an updated and improved employer guide and a new fund website. Further improvements to our online presence are planned for the future, including online member and employer self-service.

The team have also continued a major program of work with the Council's payroll and ICT teams to help improve the quality of data submitted to the Fund. The team have assisted in the development of a new interface for the Council to submit data, as well as working to reconcile and cleanse the Fund's data ahead of the 2019 valuation. We have experienced significant issues with data quality in recent years and, whilst there is still a great deal of work to be done, the quality of data being submitted has improved markedly in recent months.

I would like to take this opportunity of expressing my personal appreciation for the hard work and commitment to the Hackney Pension Fund that the rest of my Committee Members have put in, given the considerable challenges that we face in managing a £1.58 billion pension fund during a period of considerable upheaval for both the LGPS and the wider economy. I would also like to thank the hard work put in by our specialist advisors, the Group Director of Finance and Corporate Resources and his staff over the past year.

Pensions Committee

The London Borough of Hackney Pension Fund is part of the Local Government Pension Scheme (LGPS). The LGPS is governed by statute with the LGPS falling under the remit of the Ministry of Housing, Communities and Local Government (MHCLG).

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

The Pensions Committee during 2017/18 was made up of 6 Councillor Members and a Scheme Member Representative.

Pension Committee Members



**Councillor
Robert
Chapman**
Chair



**Councillor
Michael
Desmond**
Vice Chair

**Councillor
Rebecca
Rennison**

**Councillor
Polly
Billington**



**Councillor
Kam
Adams**

**Councillor
Ben
Hayhurst**



**Jonathan
Malins-Smith**
Scheme Member
Representative

Contact details for the Pensions Committee:-

Pensions Committee
Hackney Town Hall, Mare Street,
London, E8 1EA

Pension Board

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

The Pension Board during 2018/19 was made up of 4 members – 2 scheme member representatives and 2 employer representatives.

Pension Board Members



Samantha Lloyd

Scheme member representative

(Chair of the Board)



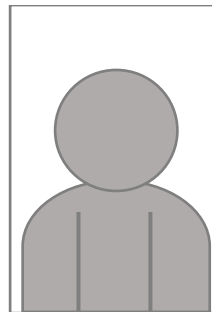
Kay Brown

Employer Member Representative



Michael Hartney

Scheme Member Representative



Henry Colthurst

Employer Member Representative

Contact details for the Pension Board:-

Pension Board
Financial Services
4th Floor, Hackney Service Centre
1 Hillman Street
London
E8 1DY

The Annual Report of the Pension Board for 2018/19 can be found [here <link to be inserted>](#)

Staff, Advisers & Investment Managers

The management and administration of the Pension Fund as at 31st March 2019 was delegated to the Group Director of Finance and Corporate Resources, with the Financial Services Section (within the Finance and Corporate Resources Directorate) having responsibility for the day-to-day management of the Fund.

London Borough of Hackney Responsible Officers

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

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

Michael Honeysett – *Director, Financial Management*

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

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

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

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

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

Sam Masters – *Group Accountant, Financial Services*

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



Auditors – Mazars LLP

Tower Bridge House
St Katharine's Way
London
E1W 1DD



Consulting Actuary – Hymans Robertson

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



AVC Provider – Prudential

Prudential AVC Customer Services
Lancing
BN15 8GB



Investment Consultant to the Fund – Hymans Robertson

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



Benefits & Governance Consultant to the Fund – AON

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



Legal Advisers

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



Pension Administration Services - Equiniti

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



Lloyds Bank
Lloyds Bank PLC
25 Gresham Street
London
EC2V 7HN



Custodial Services – HSBC
HSBC Bank Plc
8 Canada Square
London E14 5HQ

Asset Pool and Investment Managers



Asset Pool Operating Company
London CIV Ltd
4th Floor, 22 Lavington Street
London
SE1 0NZ



Global and UK Passive Equities
Blackrock Investment Management
12 Throgmorton Avenue
London
EC2N 2DL



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



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



Multi Asset
GMO UK Ltd
1 London Bridge
London
SE1 9BG



Global and Emerging Market Equities
RBC Global Asset Management
Riverbank House
2 Swan Lane
London
EC4R 3BF



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

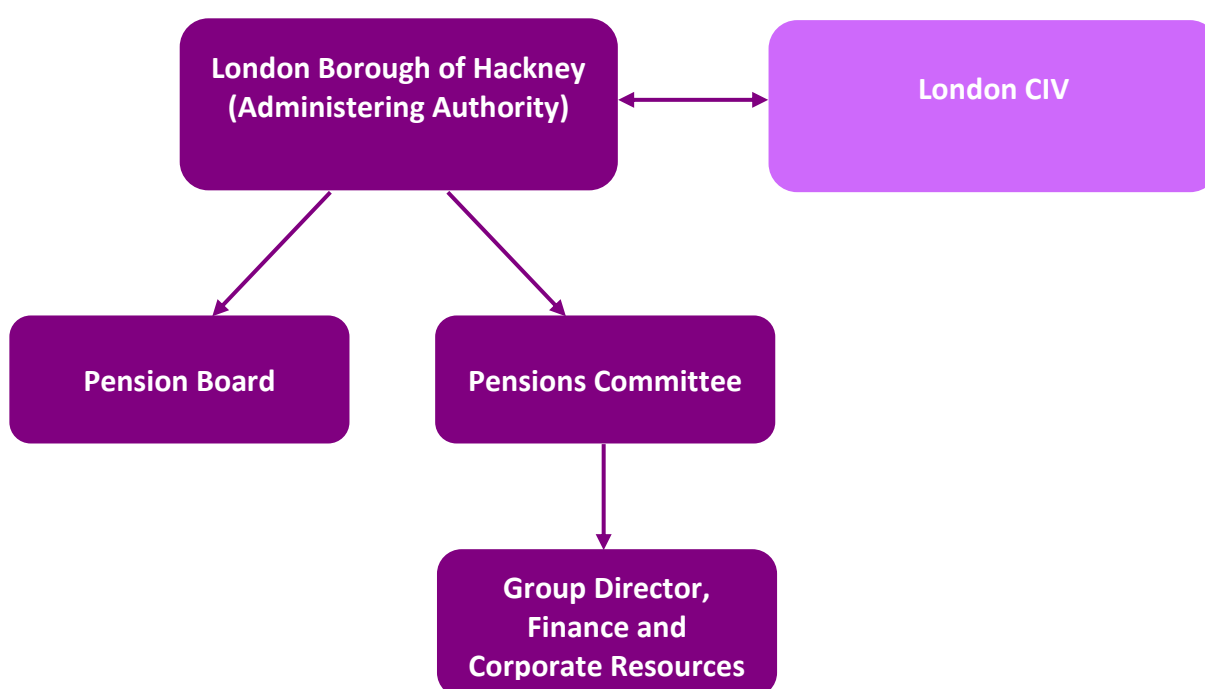


Private Equity
Churchill Asset Management
430 Park Avenue
New York
NY 10022
USA

Governance and Oversight Review

Governance of the Pension Fund

The London Borough of Hackney, as the Administering Authority of the Pension Fund, has delegated responsibility for the management of the Pension Fund to the Pensions Committee. In line with the Local Government Pension Scheme (LGPS) Regulations 2013, the Pension Board assists the Authority in ensuring compliance with the regulations and helps oversee the work of the Pensions Committee and how the Fund is administered. The Fund's governance structure for the 2018/19 financial year is depicted in the chart below.

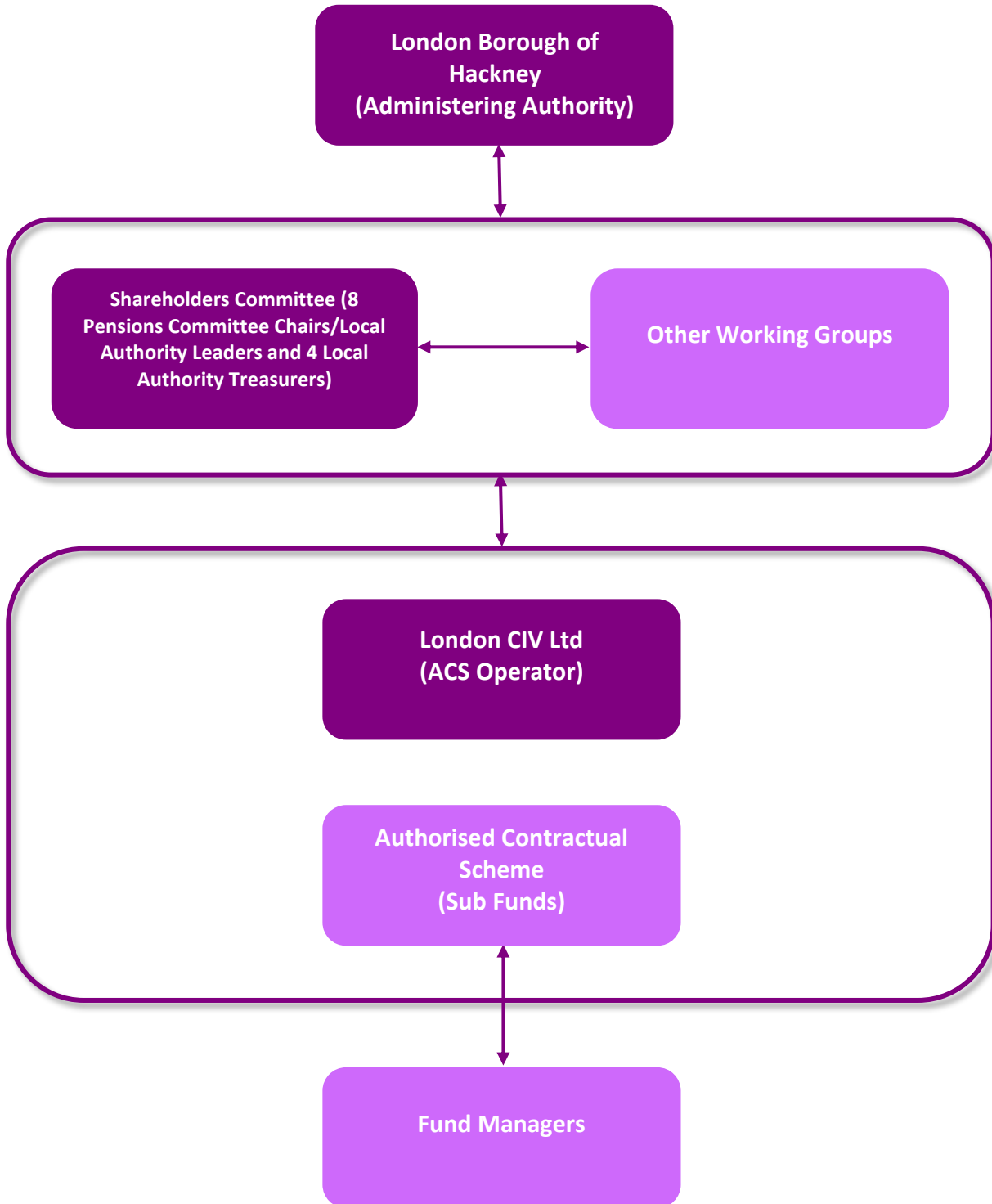


The Fund is a participating scheme in the London Collective Investment Vehicle (London CIV). The London CIV has been operational for some time and has opened a range of equity, bond and multi-asset sub funds, with other asset classes to follow. At the reporting date, the Fund held 1 active equity portfolio directly via the CIV and 3 passive equity portfolios with BlackRock with oversight from the CIV.

The governance structure of the CIV is designed to provide both formal and informal routes to engage with all the Authorities as both shareholders and investors. During 2018/19, the CIV made changes to its governance structure, replacing the previous London Councils' Pensions CIV Sectoral Joint Committee ("PCSJC") with a Shareholders Committee. The PCSJC comprised nominated Member representatives from each London local authority, whereas the Shareholders Committee comprises 12 members, 8 of whom are local authority pensions committee chairs (or council leaders) and 4 of whom are local authority treasurers. The Fund is currently represented within the governance structure of the CIV by Cllr Robert Chapman (Pensions Committee Chair) and Ian Williams (S151 Officer), both of whom sit on the Shareholders Committee.

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

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



Pensions Committee

Attendance

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

Committee Members Attendance 2018/19										
	23rd July		12th September		12th December		29th March			
	Meetin g	Trainin g	Meetin g	Trainin g	Meetin g	Training	Meetin g	Trainin g		
Cllr Robert Chapman (Chair)	P	P	P	P	P	P	P	P		
Cllr Michael Desmond (Vice Chair)	P	P	P	P	P	P	P	P		
Cllr Kam Adams	P	P	P	P	P	P	P	P		
Cllr Polly Billington	P	P	P	P	P	P	A	A		
Cllr Rebecca Rennison	P	P	P	P	P	P	P	P		
Cllr Ben Hayhurst	P	P	A	A	P	P	P	P		
Co-Opted Members										
Jonathan Malins-Smith	P	P	P	P	P	P	P	P		
<table border="1"> <tr> <td>P = Present</td> </tr> <tr> <td>A = Absent</td> </tr> </table>									P = Present	A = Absent
P = Present										
A = Absent										

Training

Training was provided to the Committee with a dedicated time slot at the Committee meetings. The topics covered in the training programme for the Committee in 2018/19 were provided in line with the CIPFA Knowledge and Skills Framework to help ensure that the Committee are able to achieve high levels of the specialist knowledge required of them. Topics covered during the financial year were:

- Introduction to Fund Governance (KSF1)
- Alternative Credit (KSF4, KSF5)
- Responsible Investment (KSF4, KSF5)
- Longevity and Scheme Liabilities KSF6)

Members are also encouraged to attend relevant external training opportunities as set out in the Fund's training policy. Events attended during 2018/19 included:

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

Pension Board

Attendance

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

Pension Board Members Attendance 2018/19 at PB				
	29th November		20th March	
	Meeting	Training	Meeting	Training
Samantha Lloyd (Chair)	P	P	P	P
Kay Brown	P	P	P	P
Henry Colthurst	A	A	P	P
Michael Hartney	P	P	P	P
P = Present				
A = Absent				

Training

Pension Board members are invited to attend Committee as observers and to participate in the training. However, to ensure that suitable training is fully accessible to all Board members, Board meetings also include a regular training session at the start of each meeting. The topics covered in the training programme for the Board in 2018/19 were provided in line with the CIPFA Knowledge and Skills Framework to help ensure that the Board are able to achieve high levels of the specialist knowledge required of them. Topics covered during the financial year were:

- GDPR & Cyber Security
- Fund Governance and The Pensions Regulator

Governance Issues – Management of Conflict of Interest

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

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

Knowledge and Skills Policy Statement

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

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

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

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

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

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

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

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

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

2018/19 Reporting on Knowledge and Skills Framework

How the Frameworks have been applied

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

Pension Board members are also invited to attend Committee as observers and to participate in the training. However, to ensure that suitable training is fully accessible to all Board members, Board meetings also include a regular training session at the start of each meeting.

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

Assessment of Training Needs

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

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

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

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

The Fund's training programme is designed around the guidance set out above, and around feedback from the 'Self-assessment and assessment of advisors survey' sent to the Committee at the start of each financial year.

The Committee programme for 2018/19 concentrated on introducing new Committee members to the Hackney Pension Fund and the legal framework it operates within. Dedicated training covered a broad range of topics, including fund governance, investment strategy and responsible investment. The first training session of the financial year was an introduction to fund governance, covering the statutory framework within which the Fund operates and the role of the Committee in ensuring good governance. Specific training on alternative credit was delivered at the September 2018 to assist the Committee in making investment strategy decisions around private debt.

The third training session focused on responsible investment and engagement; as the Fund embarked on a review of its stewardship arrangements. The move to asset pooling has required the Committee to consider how the fund can discharge its responsibilities as an asset owner within pooled investment structures; the training focused on how the Committee can engage with its new providers to help meet its needs. The March 2019 training session considered scheme liabilities and member longevity. The Fund uses Club Vita to assess its demographic profile and how this influences its liabilities, and this training sessions provided a useful introduction for members.

The Pension Board programme for 2018/19 focused on pooling governance and risk management. Understanding the Fund's relationship with the CIV and how it makes decisions in a pooled environment is key for the Board to ensure they can carry out their overview role effectively.

The dedicated training programmes for 2018/19 were supplemented by additional information contained within the main agenda items.

Training Delivered against identified training needs

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

Dedicated Training - Committee	Date
Introduction to Fund Governance (KSF 1)	23/07/2018
Investment Strategy/Alternative Credit (KSF4, KSF5)	12/09/2018
Responsible Investment (KSF4, KSF5)	12/12/2018
Scheme liabilities and member longevity (KSF6)	26/03/2019
Supplemental Training - Committee	Date
Equity Restructure - Post Completion Report (KSF4, KSF5)	23/07/2018
London CIV Update (KSF1, KSF5)	23/07/2018
TPR Code Compliance (KSF1)	12/09/2018
Pension Fund Report and Accounts (KSF2)	12/09/2018
Alternative Credit - Strategy Decision (KSF4, KSF5)	12/12/2018

Pension Fund Risk Register (KSF1, KSF4, KSF6)	12/12/2018
Actuarial Valuation – Introduction (KSF6)	26/03/2019
Dedicated Training - Additional	Date
Private Debt - In depth product training (KSF5)	31/10/2018

Attendance at Committee and Board meetings and training sessions is monitored by officers and a record of attendance is included within the earlier Governance & Oversight Review for 2018/19.

A full training programme is scheduled for 2019/20 and includes a wide range of topics, focussing particularly on areas where the Committee is required to make longer term strategic decisions, or where the Committee have requested additional training.

Training Policy

The Pensions Committee formally approved an updated Training Policy at its Committee meeting in September 2018 which sets out its commitment to ensuring that Members of the Pensions Committee, Pension Board and senior officers with responsibility for managing the Pension Fund should undergo a rigorous training programme. The Training Policy has been created to provide a formal framework and greater transparency on the training regime in accordance with the national requirements. It is intended to aid existing and future Pensions Committee members, Pension Board members and senior officers in their personal development and performance in their individual roles, providing a structure which will ensure that the Pension Fund is managed by individuals with the appropriate level of knowledge and skills.

Scheme Details

Overview of the Scheme

The London Borough of Hackney Pension Fund is part of the Local Government Pension Scheme (LGPS) and is governed by Statute. The main regulations governing the operation of the scheme are the Superannuation Act 1972 and the Local Government Pension Scheme Regulations 2013. The fund's approach to investment is regulated through the Local Government Pension Scheme (Management and Investment of Funds) Regulations 2016.

The London Borough of Hackney is the Administering Authority for the Pension Fund and pensions and entitlement to benefits are fully protected in law. Membership of the Scheme is open to all employees of the Council and academy schools, with the exception of teachers (who have their own pension scheme). Other employers may also be admitted to the Fund under certain circumstances.

Employee contributions are determined by central government and are between 5.5% and 12.5% of pensionable pay. Employer rates are set by the Fund actuary every 3 years following a valuation of the assets and liabilities of the Fund, with the next valuation due to take place covering year end as at 31 March 2019.

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

The Pension Scheme applying during the financial year 2017/18 was a defined benefit career average revalued earnings scheme which aligns LGPS retirement age with an individual's state pension age. The key benefits of the scheme are outlined below:

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

- An entitlement to have pension paid early on medical grounds.
- Pensions increase annually in line with the cost of living.

The above is not an exhaustive list and certain conditions must be met for an individual to be entitled to the benefits outlined.

The above benefit structure came into effect on 1 April 2014. The previous LGPS introduced in 2008 was a defined benefit final salary scheme and was in operation until 31 March 2014; a large number of scheme members have benefits accrued under both schemes and some under the pre-2008 scheme. The key benefits under the 2008 scheme are outlined below:

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

Employers in the Pension Fund

There were 37 employers with active scheme members in the Pension Fund during the financial year 2018/19, including the London Borough of Hackney itself. During the year 2 new employers were admitted, whilst 2 previous employers ceased. Employers in the Fund fall into either 'Scheduled body' or 'Admitted body' status.

LONDON BOROUGH OF HACKNEY PENSION FUND ANNUAL REPORT AND ACCOUNTS 2018-19

The following Table outlines the membership profile for all of the employers in the Fund.
Membership Profile as at 31st March 2019

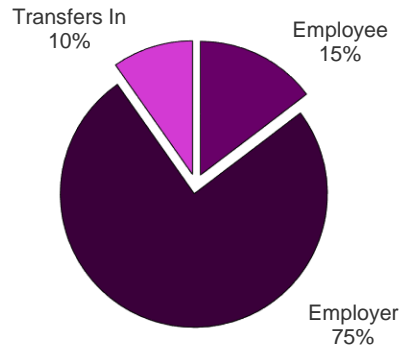
Employer Name	Active	Deferred Benefit	Pensioner	Total
LONDON BOROUGH OF HACKNEY	6,066	8,606	6,237	20,909
MOSSBOURNE COMMUNITY ACADEMY	77	101	6	184
BRIDGE ACADEMY	73	72	3	148
PETCHEY ACADEMY	72	160	5	237
SKINNERS ACADEMY	50	53	1	104
CITY ACADEMY	48	56	2	106
BROOKE HOUSE 6TH FORM COLLEGE	42	78	13	133
MOSSBOURNE VICTORIA PARK ACADEMY	36	15	0	51
CLAPTON GIRLS ACADEMY	33	41	2	76
MOSSBOURNE PARKSIDE ACADEMY	31	13	1	45
LUBAVITCH MULTI ACADEMY TRUST	31	2	0	33
NORTHWOLD ACADEMY	28	11	4	43
HACKNEY NEW SCHOOL	25	19	0	44
LUBAVITCH FOUNDATION	15	0	0	15
GREENWICH LEISURE LTD	14	11	2	27
KIER GROUP	13	7	8	28
MOSSBOURNE RIVERSIDE ACADEMY	12	4	0	16
CITY OF LONDON ACADEMY SHOREDITCH PARK	12	1	0	13
BOXING ACADEMY	8	4	0	12
MULALLEY COMPANY LTD	7	0	1	8
RENAISI LTD	4	39	12	55
CATERLINK	4	1	1	6
CIS SECURITY LTD	4	0	0	4
PEABODY TRUST	3	4	0	7
PJ NAYLOR LTD (DAUBENEY SCHOOL)	3	1	2	6
TURNERS CLEANING (SERVEST GROUP LTD)	2	0	0	2
FIT FOR SPORT (GAYHURST SCHOOL)	2	4	0	6
SND CLEANING SERVICES LTD (OUR LADY & ST JOSEPHS)	2	0	0	2
PJ NAYLOR LTD (BADEN POWELL SCHOOL)	2	0	0	2
PJ NAYLOR LTD (GRASMERE SCHOOL)	2	0	0	2
RM EDUCATION PLC	1	4	1	6
MANOR HOUSE DEVELOPMENT TRUST	1	1	0	2
SND CLEANING SERVICES (HOLMLEIGH SCHOOL)	1	0	0	1
SND CLEANING SERVICES LTD (SHOREDITCH PARK)	1	0	0	1
BIRKIN CLEANING SERVICES	1	1	0	2
PRIDE CATERING PARTNERSHIP (NIGHTINGALE SCHOOL)	1	0	0	1
WESTGATE CLEANING SERVICES	1	0	0	1
CEASED EMPLOYERS	0	1,043	741	1,784
Total	6,728	10,352	7,042	24,122

Financial Performance Review

Member Cashflows

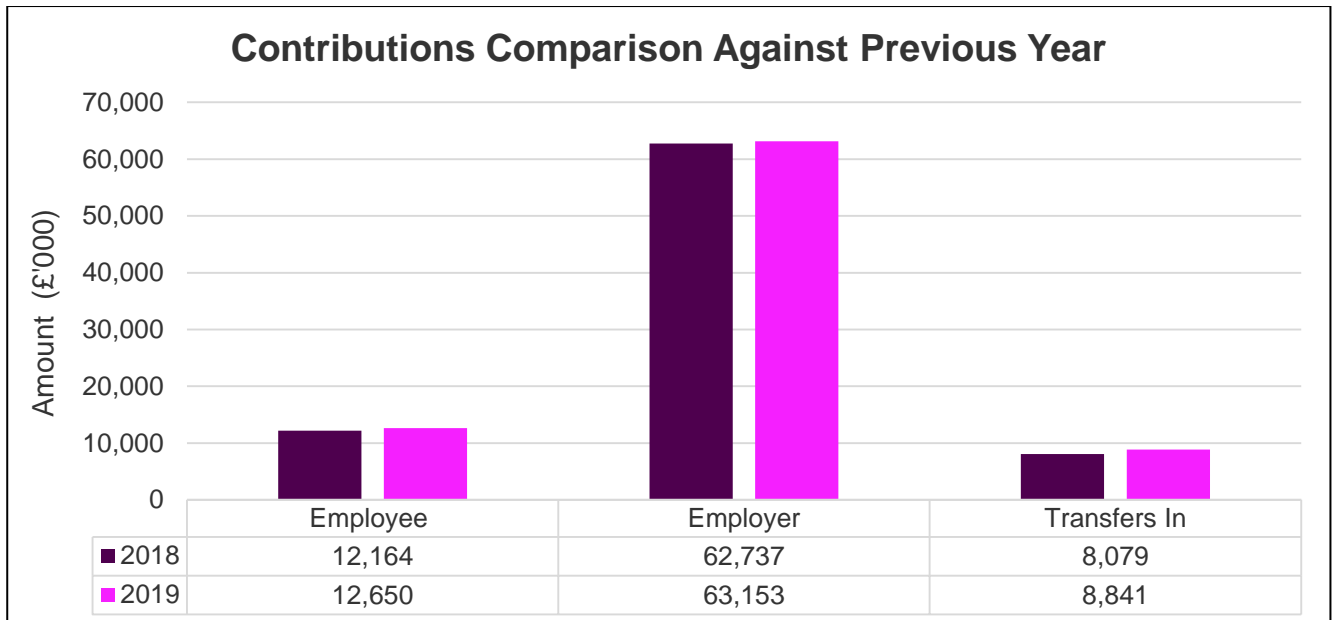
Contributions

Total contributions (including transfers) into the Fund during 2018/19 amounted to £84.6 million compared to £83.0 million for 2017/18. Contributions paid by employees are set by statute and during 2018/19 were in a range of 5.5% up to 12.5% dependent on pensionable pay. Employer contribution rates are set by the Fund's Actuary; the rate applying for the year was 34%, set at the 2016 valuation.



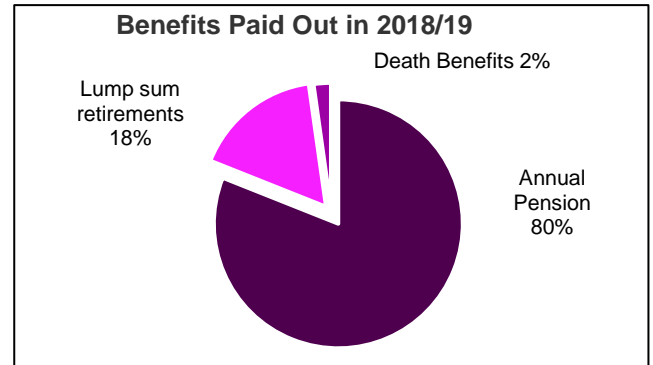
As can be seen from the chart the largest source of contributions remains employers (on behalf of employees and former employees). Employer contributions amounted to 74.6% of contribution income during the financial year.

The chart below shows the actual sums being contributed by employees and employers and the value of transfers-in during the 2018/19 financial year along with comparators for the previous financial year.

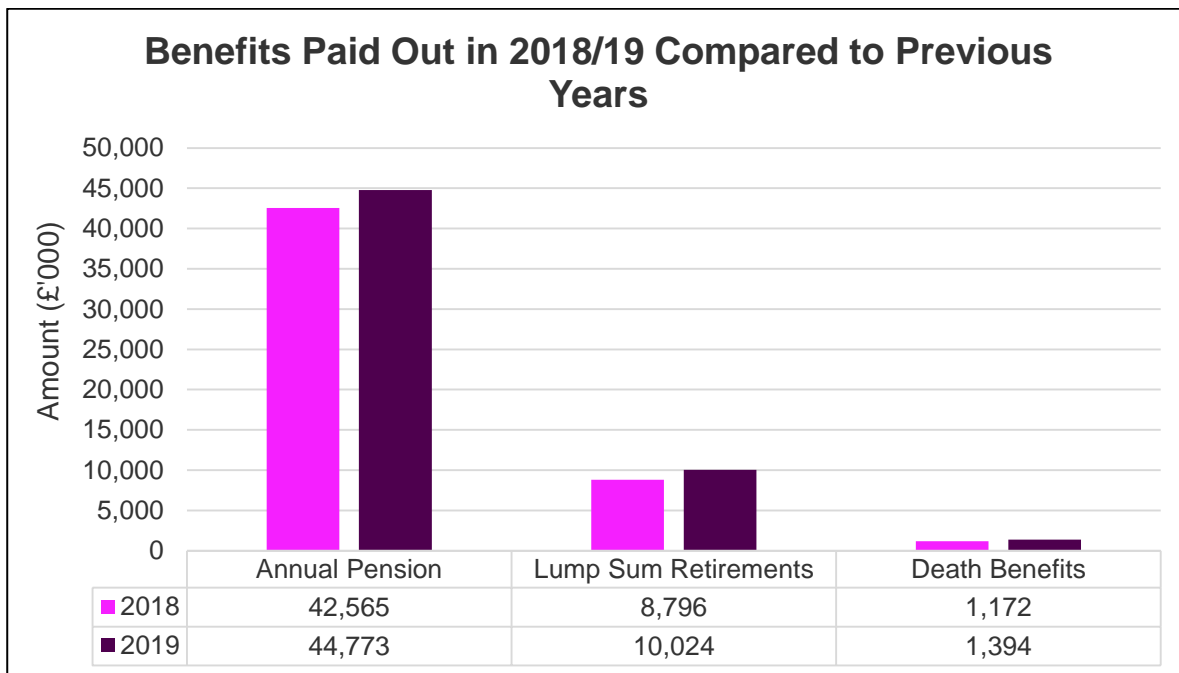


Benefits

The benefits paid out from the Fund comprise annual pensions, lump sum payments on retiring and, where applicable, death in service payments, whereby lump sums equivalent to 3x final salary are paid out to nominated beneficiaries. Total benefits paid out during 2018/19 amounted to £56.1 million compared to £52.5 million for the year 2017/18.

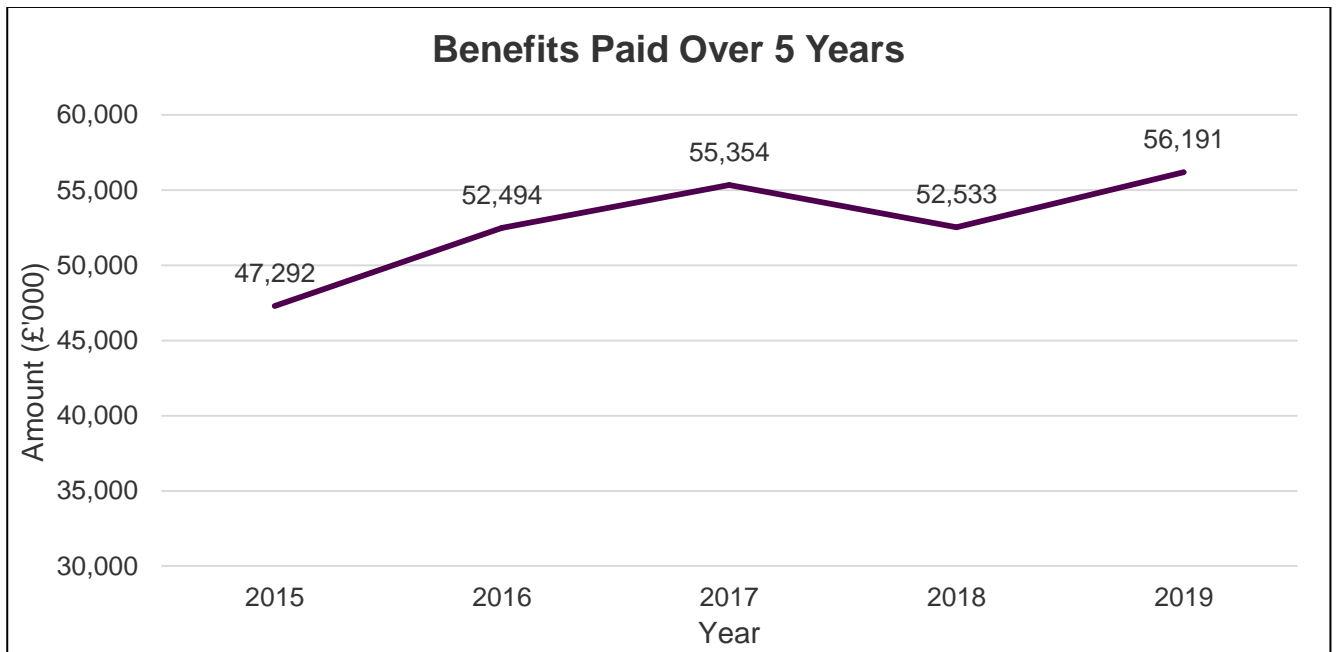


Looking at the year-on-year changes, annual pension payments increased by 5.2%, reflecting a slight increase in the number of pensioners. Lump sum payments increased by 14.0% over the year whilst Lump sum death benefits increased by 18.9%.



Pension benefits being paid out of the Fund increased steadily between 2015 and 2017, before falling slightly in 2018. In 2019 it increased from £52.5m to £56.1m. Much of the steady increase in previous years was driven by inflationary increases rather than a large increase in the number of pensioners.

The chart below highlights how benefit payments have been increasing for the Fund over the five year period.

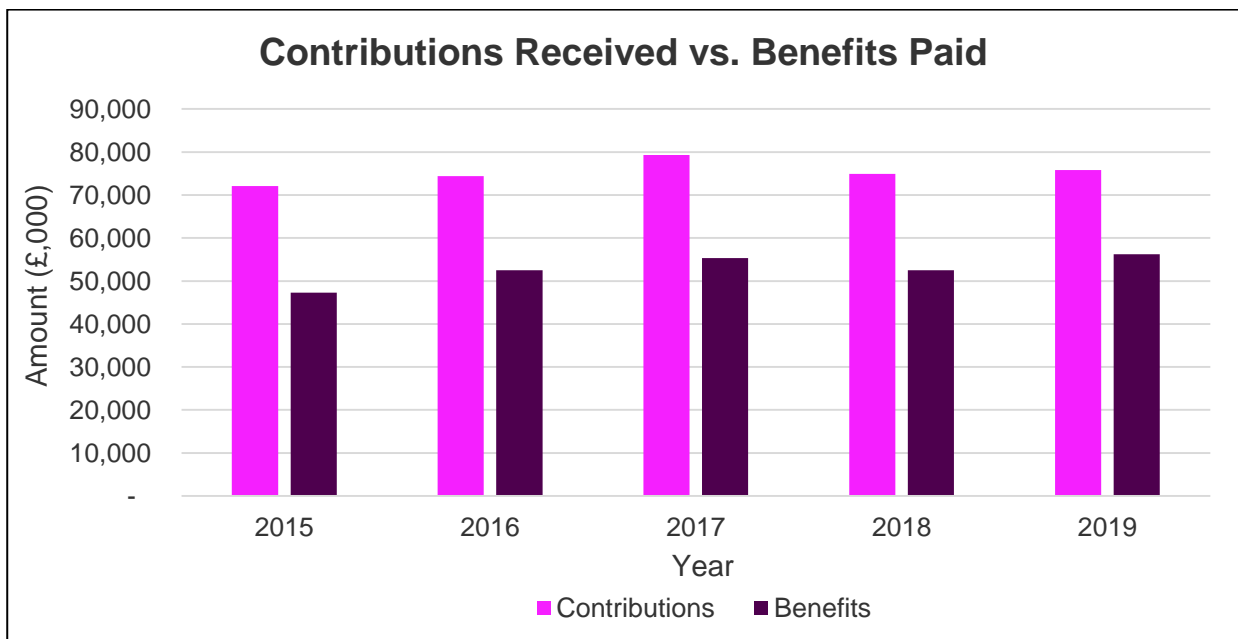


Transfers in and out

Transfers into the Fund during the year totalled £8.8m, compared to £8.1m during 2017/18. The Fund has also paid refunds to members who have opted out of the scheme and made individual transfers to other schemes. For 2018/19 the total value of payments to and on account of leavers was £4.41 million, compared to £5.75 million in 2017/18.

Overall Member Cashflows

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



Management Expenses

Management expenses incurred during the year totalled £8.7m (£8.2m in 2017/18), which comprised administrative costs of £826k (£776k in 2017/18), oversight and governance costs of £655k (£822k in 2017/18) and investment management costs of £7,248k (£6,578k in 2017/18).

Administration costs increased relative to 2017/18 as a result of data cleansing activity, additional work associated with the fund's GMP reconciliation exercise and work associated with the introduction of the Fund's new third party administration contract.

Investment management costs also increased from 2017/18. The key driver of the rise in costs has been an increase in assets under management during the year, as well as transaction costs incurred during the transition of the Fund's equity portfolio to pooled arrangements.

Current Assets and Liabilities

2019/20 Budget

The Pensions Committee agrees the budget for the Pension Fund on an annual basis and monitors progress quarterly, taking into consideration anticipated income and expenditure for the forthcoming year along with a comparison to the forecast set in the previous year. The summary below presents the budget for 2019/20 relative to the 2018/19 outturn and sets out the key assumptions made.

Net cash inflows from members are expected to reduce from £24,034k in 2018/19 to £20,934k in 2019/20, driven partly by a forecast reduction in employer contributions and partly by a forecast increase in benefits payable. The budgeted net inflow is made up of £82,892k in member income (including employer and employee contributions, plus transfers in) and £61,959k in member expenditure (including pensions payable, lump sum commutation and death grants, and transfers out).

Key assumptions made around member cash inflows are as follows:

- Employee and employer contributions are assumed to be increased by a 2% pay increase for Hackney employees for 2019/20
- No material change in active member numbers is assumed, with no significant movement between contribution bands
- Employer contribution rates have been adjusted for 2019/20; the most significant change is a reduction in Hackney's contribution rate from 34% to 33% of pensionable pay. This has driven the bulk of the reduction in employer contributions

Key assumptions made around member cash outflows are as follows:

- Annual pension and lump sum payments are assumed to increase by 2.4% in line with the Consumer Prices Index (CPI), driving the forecast increase in pensions payable.
- No material change in pensioner numbers, profile or number of deaths is assumed.
- No significant change to lump sum commutation rates is assumed, thus maintaining the pre-existing balance between annual pensions payable and lump sum payments.

Member cashflows are sensitive to changes in the membership profile of the Fund (e.g. the balance between active, deferred and pensioner members). No allowance has been made in the budget for changes in this balance as the in-year impact cannot be reliably estimated. However, over the longer term, the Fund is maturing and the ratio of pensioner and deferred to active members is increasing. Over time, this effect will reduce the Fund's net cash inflows, as contribution payments reduce relative to benefits paid out.

Operating costs are forecast to increase slightly from £8,176k in 2018/19 to £8,244k in 2019/20. The forecast increase is driven primarily by an increase in oversight and governance costs, which are forecast to increase as a result of the 2019 actuarial valuation. The increase in actuarial costs is slightly offset by a forecast reduction in governance consultancy costs, as the administration contract implementation project comes to an end.

Administration costs are forecast to remain relatively stable at £779k for 2019/20, versus £776 for 2018/19. Key costs drivers for the year are the Fund's third party administration costs and the ongoing GMP reconciliation project. The costs of GMP reconciliation are challenging to estimate, as the extent of work required for each case is not known in advance.

Given the difficulty of producing a reliable estimate, investment management costs are forecast on the basis of the 2018/19 outturn. The majority of investment management fees are charged on the basis of assets under management; as these can fluctuate significantly during the year depending on market conditions, producing a reliable estimate is challenging. Significant increases in asset values during the year would improve the Fund's funding position but would result in an increase in investment management fees relative to budget.

Volatility in the Fund's investment income level makes producing a reliable full year estimate challenging; the 2018/19 outturn has therefore been used as the budgeted amount for 2019/20.

Overall, the 2019/20 budget indicates a slight reduction in the Fund's net cash inflows, from £28,174k in 2018/19 to £25,006k in 2019/20. The most significant drivers of this reduction are the reduction in the Council's contribution rate from 34% to 33%, and the inflationary increase in the cost of pension payments.

Pension Fund Budget & Forecast 2019-20			
	2017/18	2018/19	2019/20
	FY Outturn	FY Outturn	FY Forecast
	£	£	
<u>Members Income</u>			
Employers Contributions	(62,737)	(63,154)	(61,169)
Employees Contributions	(12,164)	(12,649)	(12,882)
Transfers In	(8,079)	(8,841)	(8,841)
	(82,980)	(84,644)	(82,892)
<u>Members Expenditure</u>			
Pensions	42,565	44,774	45,849
Lump Sum Commutations & Death Grants	9,968	11,418	11,692
Transfers Out	5,580	4,224	4,224
Refund of Contributions	174	194	194
	58,287	60,610	61,959
Net (additions)/withdrawals from dealings with members	(24,693)	(24,034)	(20,934)
<u>Management Expenses</u>			
Administrative Costs	826	776	779
Investment Management Expenses	7,248	6,578	6,578
Oversight & Governance Costs	655	822	887
	8,729	8,176	8,244
Net (surplus)/deficit from operations	(15,964)	(15,858)	(12,690)
<u>Investment Income</u>			
Investment Income	(15,683)	(12,316)	(12,316)
Net Investment Income/Expenditure	(15,683)	(12,316)	(12,316)
Cash flow before Investment Performance	(31,647)	(28,174)	(25,006)

Administration Review

Scheme Administration Arrangements

Pension administration and pension payroll was managed externally during the year, by the Fund's pension administrator Equiniti, with the contract being overseen by the Financial Services Section based at London Borough of Hackney. The original contract commenced on 1 April 2009; Equiniti were reappointed as the Fund's 3rd party pension administration provider during Q1 2017/18, with the terms of the new contract taking effect from 1 July 2018.

The Fund's contract with Equiniti covers a range of services, including record keeping for the Fund's active, deferred and pensioner members, benefits administration and payroll, maintenance of a separate bank account and accounting for member cashflows. The cost of the administration contract in 2018/19 was £776k, compared to £827k in 2017/18. This decrease was the result of the reduced contractual costs under the new administration contract, although overall the cost remains slightly high due to the continued work being carried out a the GMP reconciliation exercise that are charged directly to the Fund.

Since 1 July 2018, there has been significant progress made on the new service specifications;

- Payroll Interface - meaningful progress has now been made on development of a new interface for the Council; however, this is likely to generate a significant backlog of data queries for Equiniti once up and running
- Communications suite (member letters, member factsheets, forms etc) – fully updated and improved for automation
- Scheme guides – both brief and full versions for members have been updated but not quite complete
- Employer's Guide to LGPS Pension Administration – electronic version complete and being load to website with links to forms and other useful guides
- Static website – a completely new website has been designed with access to Fund and LGPS information, member and employer on-line services
- MSS (member self-service) – secure access to pension data, testing completed and ready to launch October 2019
- ESS (employer self-service) – a secure portal for employers to upload member data directly to administration system; data validation at the point of entry and rejected if not within set parameters
- Employer reporting – enhanced reporting on employer administration performance
- Breaches reporting – enhanced 'breaches of the law' reporting enabling Fund to better assess material/non-material breaches

The developments currently being made under the new contract, will ensure that savings and efficiencies are achieved throughout the service with the introduction of:

- member self-service – secure log on facility enabling them to run their own early and normal retirement estimates, check their personal and service details and view ABSs

- employer self-service - secure log on facility to enable the upload and instant validation of monthly member data from scheme employers, thus improving the quality of data being received by the Fund
- better and quicker access to scheme guides and relevant LGPS forms – all available on the new user friendly website reducing member and employer postal requests and phone calls for information
- payroll interfaces, most importantly for the main employer in the Fund, London Borough of Hackney, – will improve data quality for the majority of the membership and the timeliness of information received by the Fund

The performance of the pension fund administrator, Equiniti, is monitored by the Pensions Administration Team within Financial Services Section at Hackney Council. The team monitor Equiniti's performance with reference to the Service Level Agreement (SLA) and Key Performance indicators (KPI) as set out in the new contract. Meetings are held monthly to discuss performance against the SLA, workflows, data cleanse issues and planning of future work projects. Meetings also include discussion of specific administration cases and recommendations for enhancements to the service provision both to Hackney and to members of the scheme.

The administrators have developed a new pension website which is available for members, employers, and non-members, to find information pertaining to the LGPS www.hackneypension.co.uk. The site includes a members' area, with details of the benefits of being in the scheme, pension forms, a series of FAQs, a glossary of terms, relevant news items and how to contact either Equiniti or the in-house administering authority's pension team. The employers area is still being updated (at the time of writing), and will have detailed LGPS procedure notes and administration guides, as well as employer forms and links to other useful websites e.g. LGA, HMRC, Pension Regulator, Pension Ombudsman, Age UK etc.

The website also provides access to copies of the Fund's LGPS administration, governance and investment policies e.g. Pension Fund Report & Accounts, Investment Strategy Statement (ISS), Funding Strategy Statement (FSS), Communications Policy and the Pension Administration Policy (PAS), as well as details of how the scheme is run.

The Fund has a procedure for dealing with disputes from members (both active and deferred) called the Internal Disputes Resolution Procedure (IDRP). These arise mainly in relation to either scheme membership or the non-release of ill-health benefits. The process for members is as follows:

- Stage 1 - appeal to the Specified Person appointed by the Fund who will assess the case to ensure due process has been followed.
- Stage 2 – if still dissatisfied, the member can appeal to the Administering Authority, who will appoint a Specified Person who will again assess the case and make a determination.
- Stage 3 - if still dissatisfied, the member can appeal to the Pension Ombudsman, who will make the final determination on the case. The findings of the Ombudsman are legal and binding and no further action can be taken by the individual.

Full details of who to contact at Stage 1 & 2 are contained in the factsheet - IDRP – Internal Disputes Resolution Procedure - available on the pension website at <https://hackneypension.co.uk/documents-library/member-factsheets>, or copies can be

obtained either from Equiniti or the administering authority’s in-house pension team at the London Borough of Hackney. The factsheet also provides full details of how and when to contact the Pension Advisory Service, and the Pension Ombudsman, if members are wanting to seek some additional guidance and assistance with the appeal process.

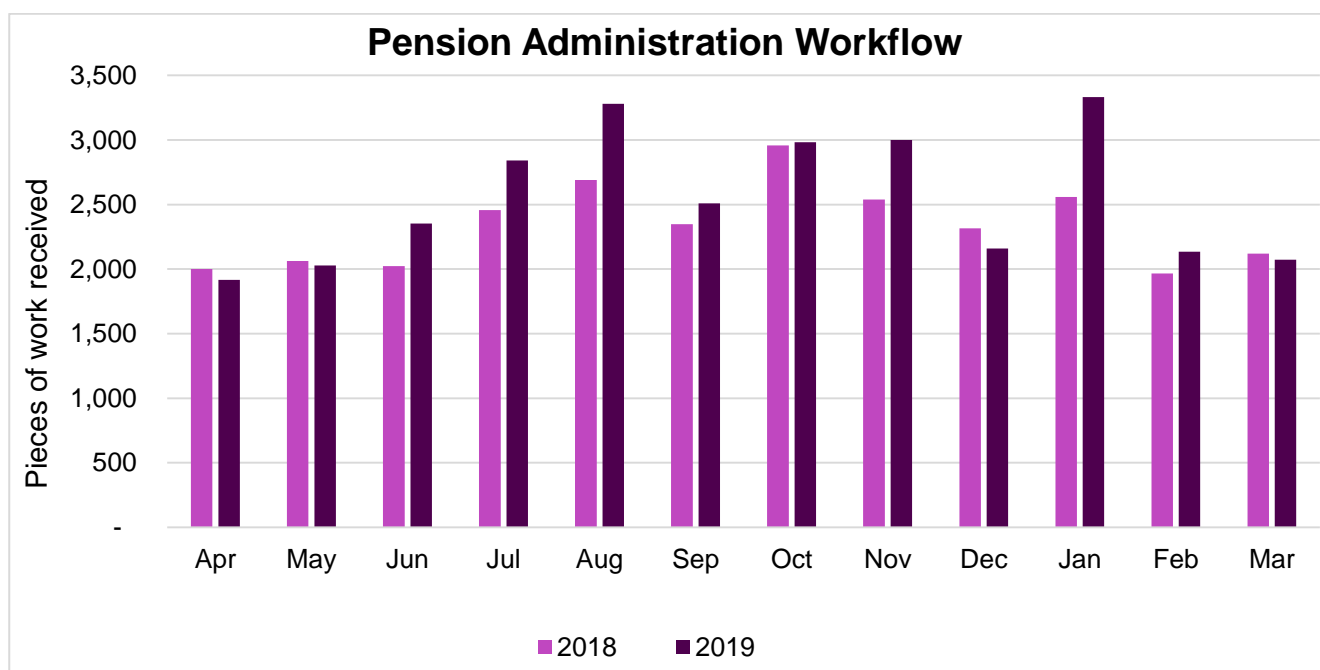
The number of completed IDRPs cases in the year was 4. The analysis is as follows:-

Case Type	Resolution
Non release of benefits under ill health	Not Upheld
Non release of benefits under ill health	Not Upheld
Non release of benefits under ill health	Not Upheld
Overpayment of pension	Not Upheld

Administration Management Performance

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

Over the last year the total cases received by the administrators has increased from 28,161 cases in 2017/18, to 30,608 in 2018/19, an increase of 2,447 cases. The average number of cases received monthly has increased to 2,550 from 2,346 in 2017/18. The workload for 2018/19 in comparison to 2017/18 is shown in the chart below:-



The increase in workflow is due to the continued lack of a monthly payroll interface from the Council, the largest employer, which means all starters, opt-outs, leavers and change

notifications are being processed manually. Intensive work was undertaken from June to August to correct member data and issue as many active benefit statements as possible within the statutory deadline. However, due to the data complexity and the number of affected records, the Fund took the decision to only issue statements at the time to those active members who are not employed by London Borough of Hackney, and to continue data cleaning and verification of the Hackney membership.

Therefore, the Fund only issued 627 active statements in early September 2018 and as such the workflow increased from October 2018 right through to year-end in order to correct the remaining member records and recalculate benefits. A further batch of 3,616 active benefit statements was dispatched at the end of November 2018, with further batches sent as soon as the data was cleansed and verified.

The lack in quality data received from the main employer in the Fund, London Borough of Hackney, still continues to have a significant impact on workloads, with data cleansing and validation, again being the focus and priority throughout the year in order to produce the annual benefit statements. Considerable problems still remain with the Council's payroll system set up which is prohibiting the running of the necessary reports for pension purposes. The failure to produce a year-end file this year has meant the administrator once again using extrapolated data from a month 12 report and incorporating data cleansing reports provided by the administering authority's pension team, to update member records sufficiently to produce some of the annual benefit statements for members of this employer.

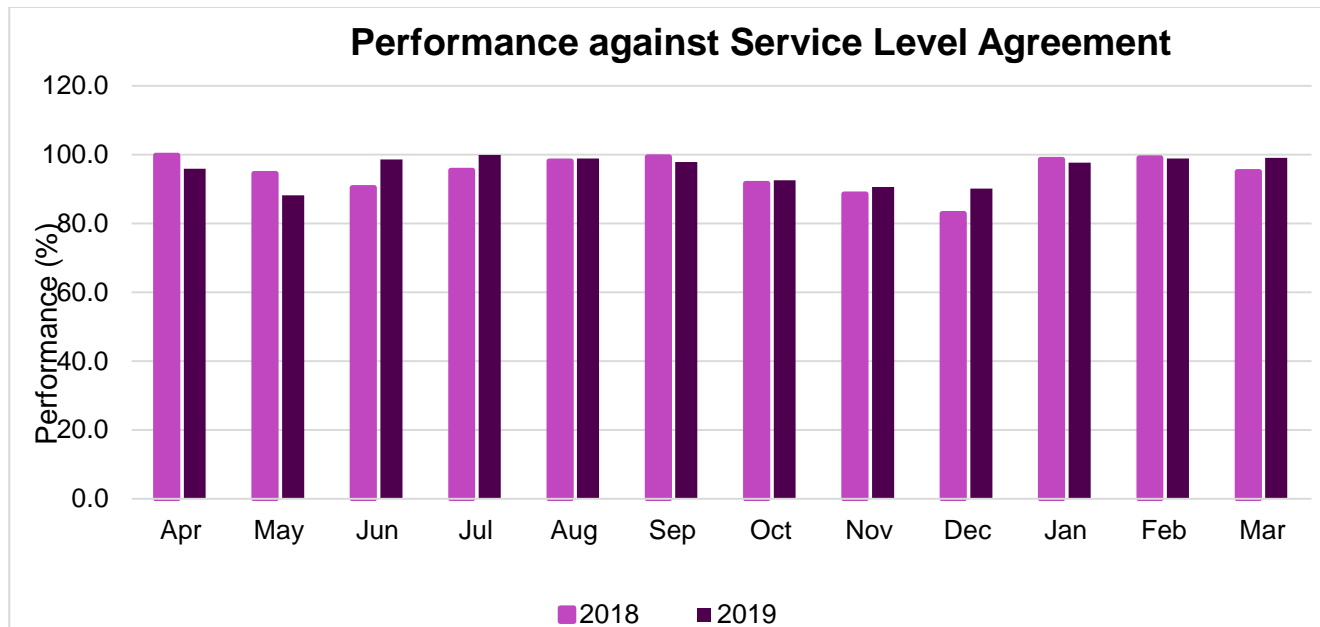
As a year-end file was not provided by the London Borough of Hackney, the Fund was not able to comply with its regulatory duty of providing annual benefit statements to **all** of its active members by the end of August 2018, and the Fund was obliged, again, to report itself to the Pensions Regulator (tPR), setting out what had happened and the steps taken/being taken to correct the issue. At this time, no further action was taken by tPR, however the Regulator requested that regular updates be provided on the progress of the data cleanse and dispatch of statements.

There were a total of 13 complaints made against the administrator from members of the Fund in the reporting year, which equates to 0.042% of the total workload. Of the 13 complaints, only 4 were upheld and a correction made by the administrator.

The cost of administration in 2018/19 was £776k, compared to £827k in 2017/18. The cost is made up of the third party administration contract, including the administration of the pension payroll, and the internal costs associated with administering the Fund. This year the average cost of administering the Fund per member was £32.17 based on the current cost and membership at 31 March 2019, compared to £36.07 per member at 31 March 2018.

Members are free to contact the pension administrator, Equinti, at any time with any queries or questions they may have in regard to their record and/or their future benefits. Newsletters, the website and scheme updates provide contact details for Equiniti in respect of member record queries and the administering authority's in-house pension team at the London Borough of Hackney for any other questions, or to arrange a 1-2-1 meeting. Any contact is kept strictly confidential and secure in accordance with GDPR standards. All members were issued with a GDPR Privacy Notice providing them with details of the roles and responsibilities of data controllers, and the updated data protection laws, in May 2018.

Performance under the pension administration contract when compared to the service level agreement (SLA), was 94.4% for 2017/18 as a whole, and performance has slightly increased to 95.7% for the year 2018/19. The administration performance v SLA over 2017/18 in comparison to 2018/19 is shown in the chart below:-



Summary of other Activities Undertaken by the Fund

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

- The year-end pension payroll process has been completed for both the monthly and annual payrolls including the application of the pension increase (PI), reconciliation of the payrolls, production of P60s and reporting to HMRC
- System year end update of pension increase; Lifetime Allowance and Annual Allowance earnings and contribution histories was completed
- Data submissions:
 - FRS17 data submitted to the Actuary for 15 employers
 - Data submission for Club Vita longevity studies
 - 2 cessation valuation calculations for ceased employers
 - Monthly HEAT data capture report to the Actuary
- Overpayment of pensions - identified overpayments to a value of £32,564.26. These were as a result of late death notifications and re-employment cases. To date £17,251.72 has been recovered.

Below is the number and trend of the top case types the administrators have dealt with in the year 2018/19:-

Case Type	Number in Year
Death Notifications	271
Leavers including opt outs	2,758
New Entrants	1,669
Transfer In	203
Transfer Out	199
Retirement Quote	900
Retirement Finalisations	257
GMP	1,341
Divorce	27

GMP Reconciliation exercise – Officers continue to work 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.

As at the end of February 2019, the Funds records were 92% reconciled, with the remaining 8%, equating to 2,160 records. A breakdown of all outstanding queries by member type, including some ‘disputed membership’, is provided below:

Member Type	Count
Active	352
Deferred	1,366
Dependant	99
Pensioner	334
*Unknown	6
TOTAL	2,160

**The unknown cases are CAT5 (incomplete) cases from HMRC where we haven’t yet received a response.*

And a breakdown of the ‘disputed membership’ queries by member type, (1,532 cases and are included in the table above), is provided below:

Not on the Fund’s Admin system:

Member Type	Count
Active	118
Deferred	990
Dependant	81
Pensioner	254
*Unknown	7
TOTAL	1,450

Not on HMRC’s NICO system:

Member Type	Count
Active	11
Deferred	58
Dependant	1
Pensioner	12
TOTAL	82

HMRC are still investigating these records, however responses from them have significantly slowed in recent months due to the volumes of work they received prior to the closing of their GMP reconciliation service deadline last year. It is now envisaged that these case may not be responded to until end of May 2019. Once the responses come back to Equiniti, further validations will need to be undertaken either on a case-by-case basis, or by bulk upload.

Quarterly Newsletter (Employers/Schools) - Due to other work pressures, the pension team were only able to produce 2 newsletters in the last year – 1 in April 2018 & 1 in December 2018 - for the employers and schools in the Fund. However, the newsletters continue to provide up to date hot- topics from the world of pensions and have covered details of State Pension Age increases; details of ScamSmart and what to look out for: AVC information; feedback on the employer forum and details of the year-end processes and information needed to produce the 2018 annual benefit statements. Feedback on the newsletter has been positive and it is well received.

Pre-retirement workshops - The Pensions Team arranged a series of 'Pre-retirement workshops', aimed at members who are thinking of retiring within the next 2 to 5 years. These workshops began in May 2018 and run bi-monthly until January 2019. They were facilitated by Affinity Connect, who specialise in providing seminars/workshops on various aspects of pension and employment issues, such as retirement, mid-career financial planning and redundancy. Affinity provide the facilitator, learning material and bookings for the seminars/workshops free of charge to the Fund. Feedback on these has been extremely good, so they will continue into 2020/21.

Annual Employers' Forum - The annual Employers' Forum was held on 7 March 2019, and was attended by 4 of the Fund employers, including 2 schools and 3 academies. The Forum's agenda was varied and covered subjects from the Fund overview, employer discretion policies and the year-end data timetable & processes for the annual benefit statements. AON gave us some insight into 'pension hot topics' and Hymans (the Funds actuary) spoke about the forthcoming 2019 Valuation exercise. Equiniti guided us through a demo of the new on-line self-service facilities for both employers and employees/members to use, together with an overview of our new LGPS website – all of which will be launched in the latter half of of 2019.

New & Ceasing Employers - During the year the Fund has admitted 2 new scheduled employers and 3 new admitted employers and 2 contracts have ceased; breakdown is as follows:

Employer	Date Joined	Date Ceased	Deficit upon Ceasing Y/N
Lubavitch MAT	01/04/2018		
Lubavitch Foundation	01/04/2018		
Westgate Cleaning Services (Simon Marks school)	01/05/2018		
Birkin Cleaning (Randal Cremer school)		20/07/2018	N
G4S (security services)		03/08/2018	N
CIS - Security	04/08/2018		
P J Naylor Cleaning Services (Grasmere school)	01/10/2018		

Redundancy Exercises for Departmental Budget Purposes - In 2018/19, the administering authority's pension team received a total of 228 redundancy estimate requests, some of these were for members over the age of 55 who will have pension released. The team provided leaver paperwork for 32 employees who were made redundant. A breakdown by age group is provided below:-

Age Group	Redundancy Estimate Requested	Leaver Paperwork Provided
Under 55 – without pension	113	14
Over 55 – with pension	115	18
Total	228	32

III-Health Retirements

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

III Health Retirements April 2018 to March 2019			
Deferred to Ill Health	Active to Tier 1	Active to Tier 2	Active to Tier 3
8	4	0	1

Pension Administration Strategy (PAS)

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

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

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

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

The Pension Administration Strategy (PAS) is reviewed and updated on an annual basis, or as and when regulations change. The updated PAS 2018/19 was applied during the last financial year.

During the year a number of training sessions have been run for employers and individual schools on how to complete paperwork and the background to the LGPS regulations to enhance overall understanding and administration flows. Through a rolling programme of training, site visits and seminars, the Liaison Officer- Pensions, has continued to enhance the relationship between employers, payrolls and the administrators which has helped to promote a better understanding amongst employers of what their responsibilities are towards the Fund and their own employees. Particular attention has been paid to ensuring that schools are aware of their responsibilities towards employees during the year.

Dedicated 1-2-1 sessions for scheme members continue to be popular and help to clarify any issues concerning their personal situation in regard to their pension benefits. The in-house Pensions team have worked hard to explain the provisions of Scheme to both employers and scheme members. The team have also presented at weekly induction sessions for 503 new employees, ensuring they are provided with information on the benefits of the Pension Scheme. Feedback from these sessions continues to be extremely positive, with 428 of those who attended felt the sessions were either 'excellent' or 'very good' and leave the sessions having a better understanding of the scheme and its benefits

Monitoring of Employers

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

During 2018/19, the Fund sought to recoup additional administration costs from several employers and schools not complying with the Pensions Administration Strategy. Where there are instances of non-compliance, additional administration costs are recouped directly from those employers and schools concerned in regard to data irregularities, late payment of contributions or late submissions of data during the year. Contribution collections are subject

to rigorous monitoring and the pursuit of correct payments and supporting documentation remains of paramount importance to the administrators.

Employers and schools administration performance has been monitored over the year, and assistance and additional training has been provided to help support them with administering the scheme. Additional administration charges were issued to a number of employers in the year, but only where persistent failure to deliver accurate and timely information, despite the additional support, has arisen.

The monthly contribution payment and supporting data is due to the Fund by the 19th of the following month. In the last year, submissions have only been delayed for a period of 1 or 2 days, and if a first offence the employer is not usually charged. However, the persistent late submission of payments and data, does incur a penalty charge in accordance with the Fund's administration strategy.

All member data including from the Fund's employers, including the monthly contribution payment and supporting data, is only sent to Equiniti using the secure upload facility Sharefile. Sharefile can only be accessed by authorised users at each employer, and employers can only access their own folder within the system. This ensures the secure and timely transfer of personal data between all parties.

A breakdown of late submissions in relation to contributions and supporting data, is provided below:-

Month	Description	Number of Late Submissions
Apr-18	contributions	1
	HK221 data	1
	contribution & HK221	0
May-18	contributions	1
	HK221 data	3
	contribution & HK221	0
Jun-18	contributions	0
	HK221 data	2
	contribution & HK221	2
Jul-18	contributions	3
	HK221 data	2
	contribution & HK221	2
Aug-18	contributions	0
	HK221 data	5
	contribution & HK221	0
Sep-18	contributions	0
	HK221 data	2
	contribution & HK221	0
Oct-18	contributions	2
	HK221 data	1
	contribution & HK221	0
Nov-18	contributions	2
	HK221 data	0
	contribution & HK221	1
Dec-18	contributions	2
	HK221 data	2
	contribution & HK221	0
Jan-19	contributions	1
	HK221 data	2
	contribution & HK221	0
Feb-19	contributions	1
	HK221 data	0
	contribution & HK221	0
Mar-19	contributions	0
	HK221 data	4
	contribution & HK221	0

A continuous programme of improving the relationships between employers, payroll providers and Equiniti, the scheme administrators, has assisted in ensuring employers' are aware of the importance of correct reporting and the timely submission of data. The future introduction of ESS – employer self-service – will further enhance the quality and timeliness of employer data, thus improving the common data scores as reported the Pension Regulator, the latest of which (run in November 2018), was 93%. From the results of this common data report, a number of issues and associated risks were identified and a data improvement plan has been developed and implemented to improve the data in the interim, until ESS can be fully rolled out.

The impact of these on-going data improvements will be reflected in future common and scheme specific data reports and also the up-coming 2019 scheme valuation exercise, with the submission of improved and more accurate membership data to the Fund's actuary. The emphasis for the Fund will therefore remain on building relationships with employers and ensuring that the data supplied in respect of employees is accurate.

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

The Pensions Regulator maintains a Public Service Code of Practice to help maintain and improve the governance and administration of public service pension schemes. The Code is directed at Scheme Managers (Funds) and the local Pension Boards. The role of each local Pension Board is to help ensure their scheme complies with governance and administration requirements as defined by the Code.

The Code requires Schemes to report breaches of the law to the Regulator where they have reasonable cause to believe that:

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

Therefore, in accordance with the above Code, and as the March 2018 annual benefit statements could not be issued to **all** active members within the regulatory timescales due to the non-receipt of data from the Fund's main employer in the Fund, the London Borough of Hackney, the Fund was required to report itself to the tPR for non-compliance for the 4th year running.

The following provides some of the detail the Fund was required to provide to the Regulator:

- **Q2 2018/19:-**
The Fund experienced a breach relating to Annual Benefits Statements which was reported to TPR. The Fund breached the statutory deadline for statements for approximately 6,000 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 year-end data by the deadlines requested.
- **Q3 2018/19:-**
A further 3,616 additional benefits statements for active members were sent out by Equiniti for distribution in early November 2018. Equiniti continued to work on the production of statements for the remaining 1,600 (approx.) active members.
- **Q4 2018/19:-**
The Fund provided a further update to the Regulator, via a conference call, in March 2019, discussing progress towards rectifying the breach and preventing recurrence in the future. Following the call, the Fund were requested to provide the Regulator with copies of all data improvement plans, evidence of the Fund invoking their pension administration strategy levies and expected delivery dates to comply with legislation.

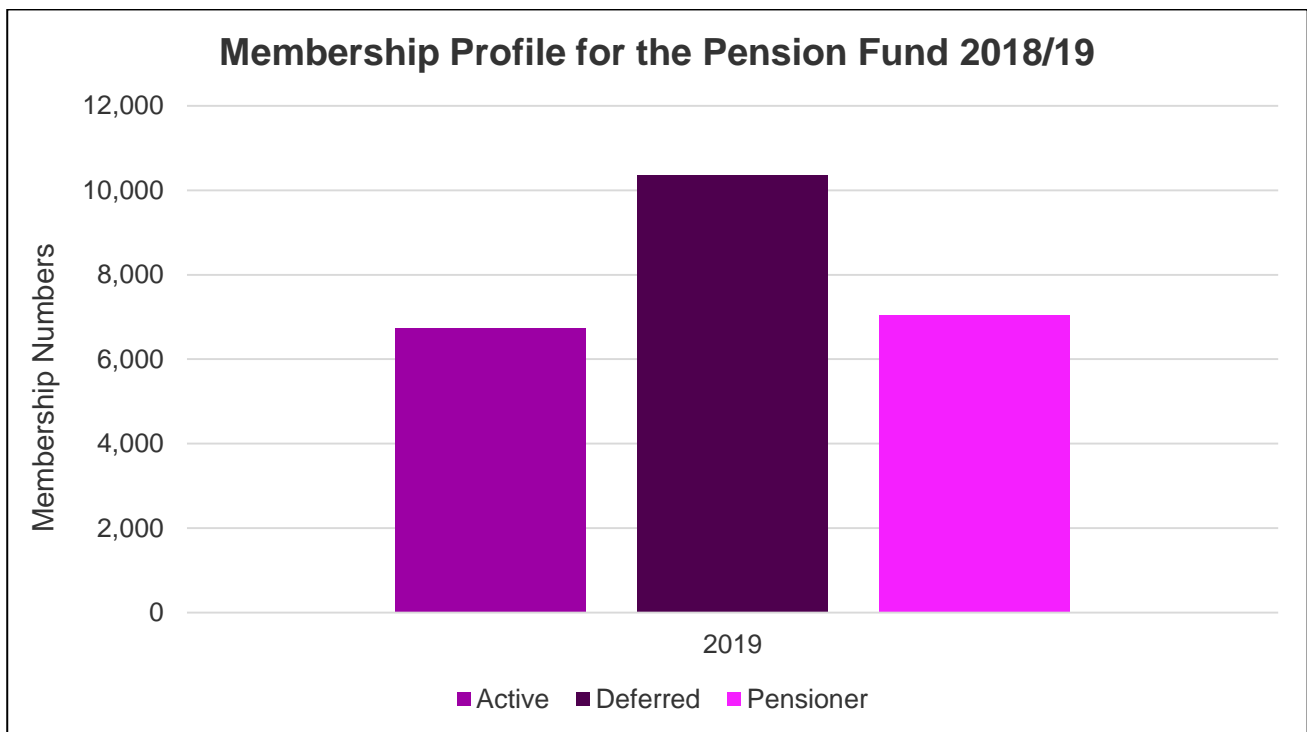
At the time of writing this report (June 2019), the investigations on remaining 1,600 data queries were completed and a further 472 active benefits were dispatched at the end of May 2019, and 1,276 apology letters were dispatched to those members for whom the Fund was not able to provide a statement to. This was either due to complex data problems or calculation issues

that could not be resolved in time for a statement to be issued before work was scheduled to begin on the 2019 year-end processes.

General Scheme Membership

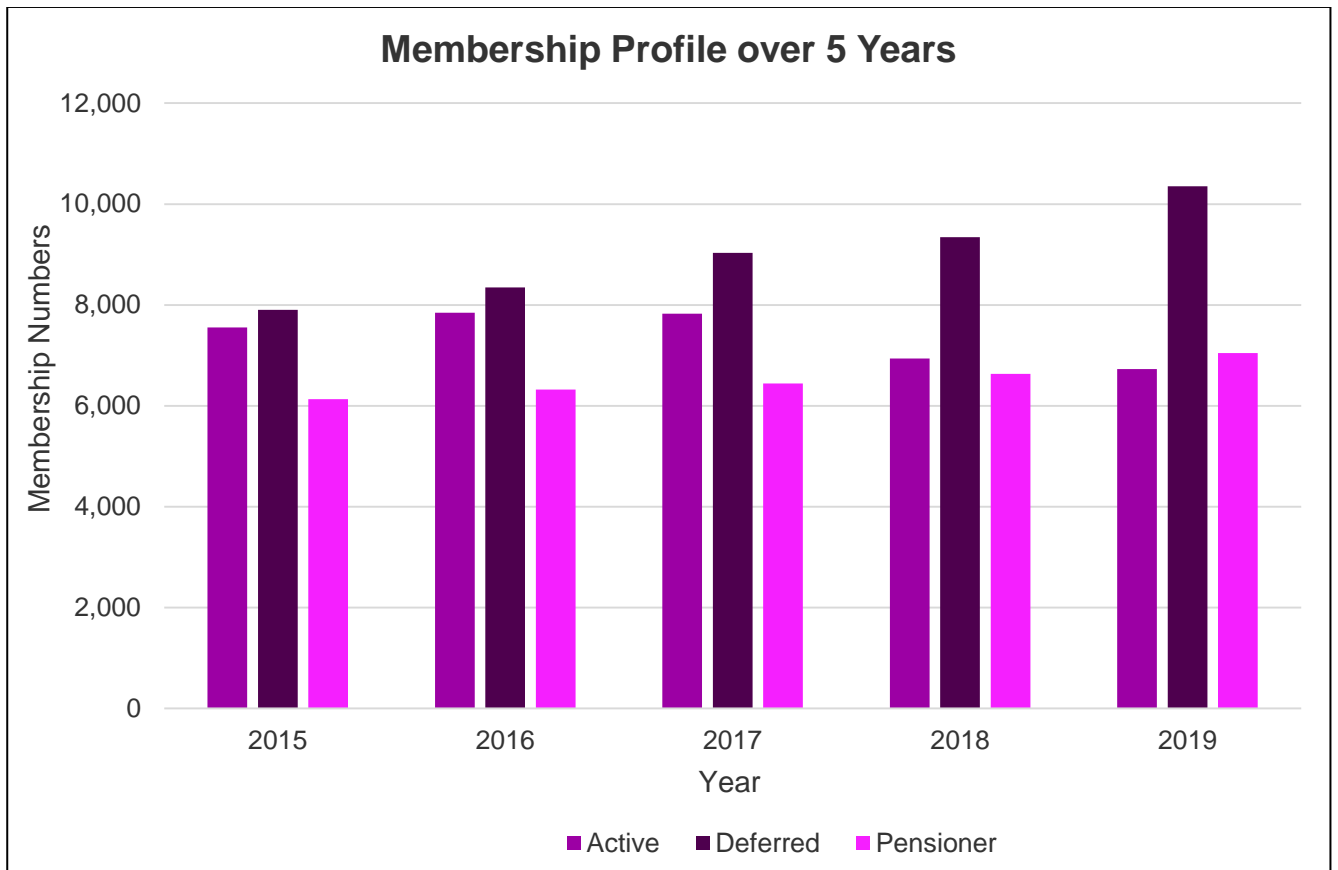
Membership of the scheme is split between the active members (still employed and contributing to the scheme), deferred members (no longer active but with accrued benefits to be held until either retirement, or transfer to a new employer’s scheme) and pensioner members, comprising both former employees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

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



As can be seen from the following chart, Active membership has declined by 3% over the last financial year. Some of this change has resulted from an ongoing data cleansing exercise being carried out by the Fund. Deferred memberships have increased by 10.79% and Pensioners by 6.17%. Overall, membership has increased by 5.28%, from 22,913 to 24,122 members.

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



Membership of the scheme increased consistently between 2015 and 2017, with 2018 and 2019 showing a decrease in both active and overall membership. Some of this decrease is the result of a data cleansing exercise being carried out by the Fund, which has seen work carried out to ensure that 'no liability' records are properly classified.

Risk Management Review

Risk Register

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

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

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

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

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

The Pensions Committee's quarterly update report includes a section on risk management which summarises the risks faced by the Fund and the controls in place, and highlights high-level, new and deteriorating risks. The most recent formal review of the full risk register took place in December 2018.

The key risks identified on the Fund's risk register include:

- asset risks;
- poor membership data;
- funding risks
- other provider risk
- asset pooling risk

- ESG risk

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

- Monitoring longevity and ongoing discussions with the Fund actuary on how best to manage the impact on the Fund from people living longer. Changes brought in with the 2014 CARE Scheme also mean that retirement ages will increase in line with the state pension age going forward.
- Close monitoring of regulatory changes and release of Government guidance
- Quarterly monitoring of investment performance, funding and budget monitoring and regular reviews of asset allocation to ensure that it remains appropriate for the Fund taking into account the appropriate investment advice from the Pension Fund's investment consultant.
- Contract monitoring and performance reviews.
- Working closely with employers to resolve issues with membership data and develop employer links with Equiniti, the Fund's administrators.
- Transition planning to ensure that assets are transition effectively to pooled arrangements within appropriate timeframes
- Regulator monitoring of the Fund's cash flow, working in conjunction with the fund actuary and investment consultant to develop up to date cash flow projections.

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

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

Investment Policy and Performance Review

Asset Allocation

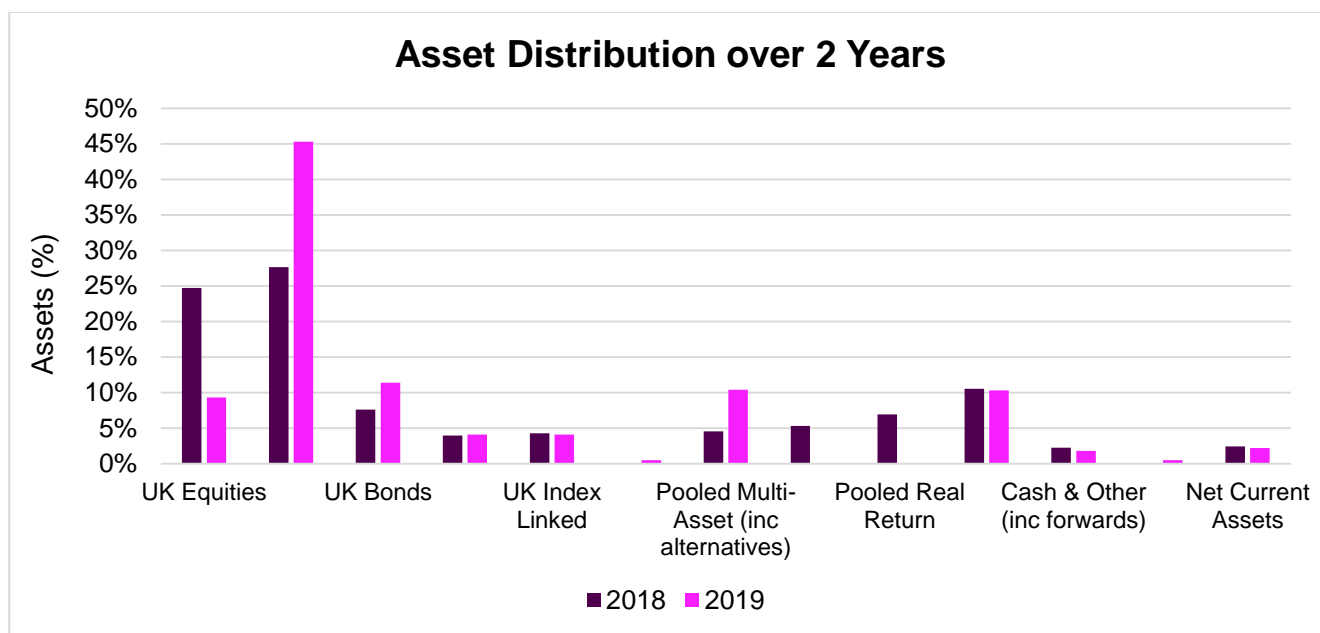
The table below sets out the Fund's target asset allocation as per its Investment Strategy Statement (ISS) relative to its actual asset allocation as at 01 April 2018 and 31 March 2019.

Asset Class	Target Allocation	Actual Allocation 01/04/2018	Actual Allocation 31/03/2019
UK Equities	10.0%	23.0%	9.5%
Global Equities (inc. UK)	36.0%	32.6%	41.3%
Emerging Market Equities	4.5%	5.4%	5.1%
Total Equities	50.5%	61.0%	55.9%
Property	10.0%	10.8%	10.5%
Multi Asset	12.5%	11.7%	10.7%
Bonds	17.0%	16.2%	20.7%
Alternative Credit	10.0%	0.0%	0.5%
Other investments (inc. MMFs)	0.0%	0.3%	1.7%
Total	100.0%	100.0%	100.0%

The Fund made significant changes to its asset allocation in year, in line with its Investment Strategy Statement (ISS). The Fund's ISS sets out a planned overall reduction in the Fund's equity exposure from 60.5% to 50.5%, with the proceeds to be used to fund a 10% allocation to alternative credit. The ISS also sets out a reduction in the Fund's UK equity exposure from 25% to 10%, with the balance re-weighted in favour of global equities.

The Fund has to date reached an interim point in this restructure. The reduction in the Fund's UK equity exposure has been completed, and the Fund's has appointed 2 private debt managers to manage its alternative credit allocation. This allocation will be funded over a period of approximately 2 years, and will be funded from the Fund's global equity and bond portfolios. The Fund is therefore currently overweight global equities and bonds relative to its target allocation.

The following chart sets out how the distribution across the various asset classes has changed between the end of March 2018 and the end of March 2019.



The Fund also made significant changes to its investment managers during the year as part of the allocation changes described above. The changes helped the Fund to meet both asset pooling and carbon reduction commitments. The table below sets out the Fund’s managers and the asset classes they manage as at 31 March 2018 and 31 March 2019.

Fund Manager	Value £'000	% of total fund	Value £'000	% of total fund
	2018/19	2018/19	2017/18	2017/18
Lazard (Global Equities)	0	0.0%	235,053	16.3%
Wellington (Global Equities)	0	0.0%	234,649	16.3%
UBS (UK Equity Index)	0	0.0%	330,881	23.0%
BlackRock (UK Equity Index)	147,685	9.5%	0	0.0%
BlackRock (Global Equity Index)	430,961	27.8%	0	0.0%
BlackRock (Ultra Short Bond Fund)	77,781	5.0%	0	0.0%
LCIV/RBC (Global Active Equity)	207,750	13.4%	0	0.0%
RBC (Global Emerging Market Equities)	79,063	5.1%	78,130	5.4%
BMO (Fixed Interest)	242,721	15.7%	233,195	16.2%
Threadneedle (Property)	162,676	10.5%	155,106	10.8%
GMO (Global Real Return)	98,748	6.4%	101,857	7.1%
Invesco (Global Multi Asset)	66,009	4.3%	66,883	4.6%
Churchill (Private Debt)	8,376	0.5%	0	0.0%
Other investments (including MMFs)	26,050	1.7%	4,110	0.3%
Total	1,547,819	100%	1,439,864	100%

The Fund’s custodian throughout the year was HSBC.

Market Review

2018/19 was a volatile year in financial markets. The first half of the year saw a rally in risk assets despite significant geo-political tensions. Equity markets reached all-time highs at the start of October, but this was swiftly followed by the most significant sell-off since the global financial crisis. The start of 2019, however, saw risk assets rally, despite weak global growth and ongoing geopolitical tensions.

The news during Q1 was dominated by escalating trade tensions between the US and China as tariffs were imposed on over \$50bn worth of goods. Despite this, the US saw a rally in equity markets and produced robust economic growth data, resulting in a rate rise from the Federal Reserve in June. Treasury yields ticked up as investors absorbed the Fed's revised forecasts. Meanwhile, Asian equity markets fell under the escalating political tensions, with several currencies also struggling. In Europe, disappointing growth data led the ECB to maintain rates and its commitment to the bond-buying programme. Lacklustre growth in the UK saw the Bank of England also choose to maintain interest rates, despite previous market expectations that a rate rise was almost certain.

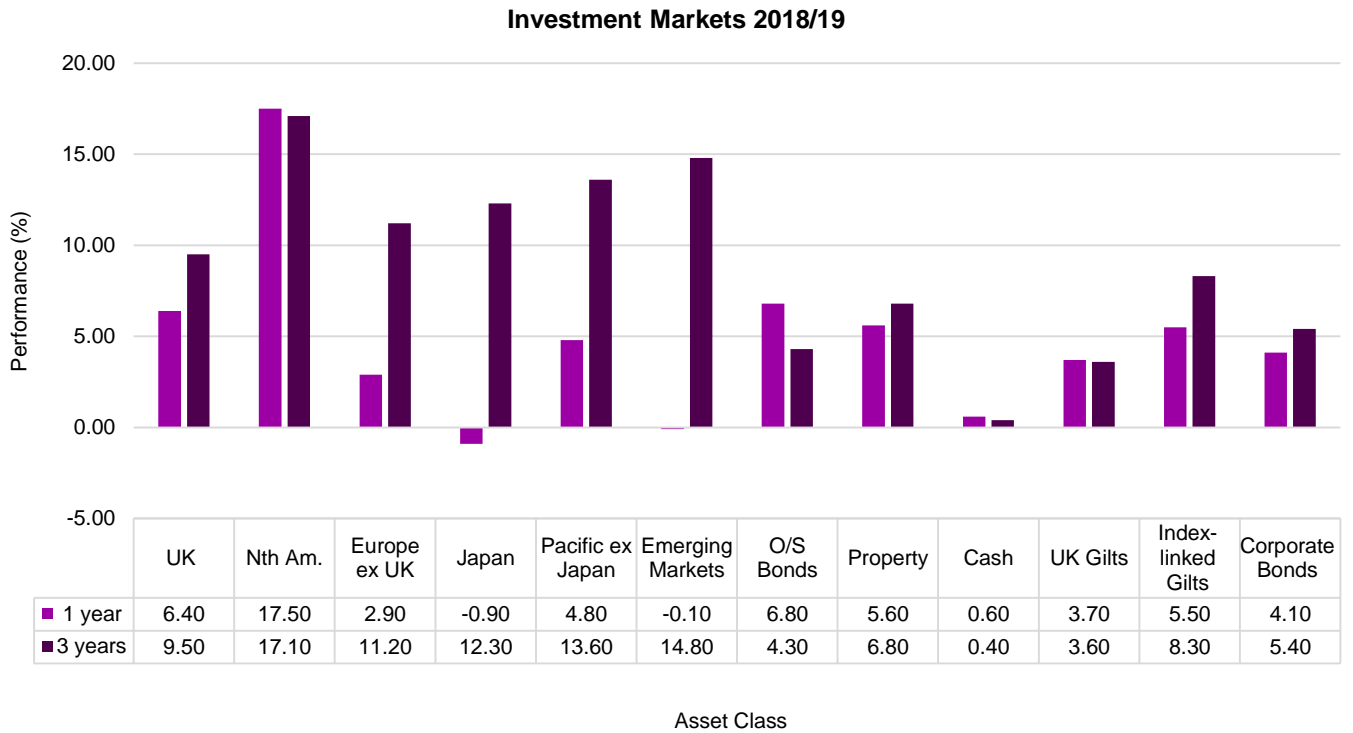
Q2 was a somewhat contradictory quarter. The rally in risk assets continued in the US, with equity markets reaching fresh highs and a number of companies posting earnings above expectations. The US and Europe reached a degree of consensus on trade, with an agreement between presidents Juncker and Trump to work towards tariff free trade. However, tensions between the US and China continued to simmer. A number of emerging markets struggled, as speculation around a rate rise by the Fed exposed weaknesses in economies with large quantities of dollar-denominated debt. Developed market bond yields generally rose over the quarter, ticking up noticeably during August and September.

The start of Q3 saw US equity markets hit all-time highs; however, the good news was short lived as markets soon entered their most significant sell-off since the global financial crisis. The sell-off was driven by a number of factors; poor earnings figures from the US tech sector, a former star performer, concern over the Fed's potential interest rate rise and ever-increasing concerns around the potential impact of the US-China trade dispute on global growth. Political headwinds were also prevalent in Europe, with a budget dispute between the Italian government and the EU and the inability of the UK government to pass its proposed Brexit deal through Parliament. Only Latin America saw positive performance from its equity markets, where the election of Bolsonaro as president in Brazil boosted performance. Commodities also struggled during the quarter, with oil prices slumping by 40%.

After the slump during Q3, Q4 brought good news for equity markets, which recovered strongly. Risk assets saw the strongest recovery, with cyclical stocks outperforming more defensive sectors. However, central banks generally adopted a dovish stance despite the recovery. Given that speculation over rate rises was perceived to have contributed to the equity market slump during Q3, and that growth figures remained sluggish, the Fed indicated that interest rates would be maintained for the year, whilst the ECB indicated no rate rises until 2020.

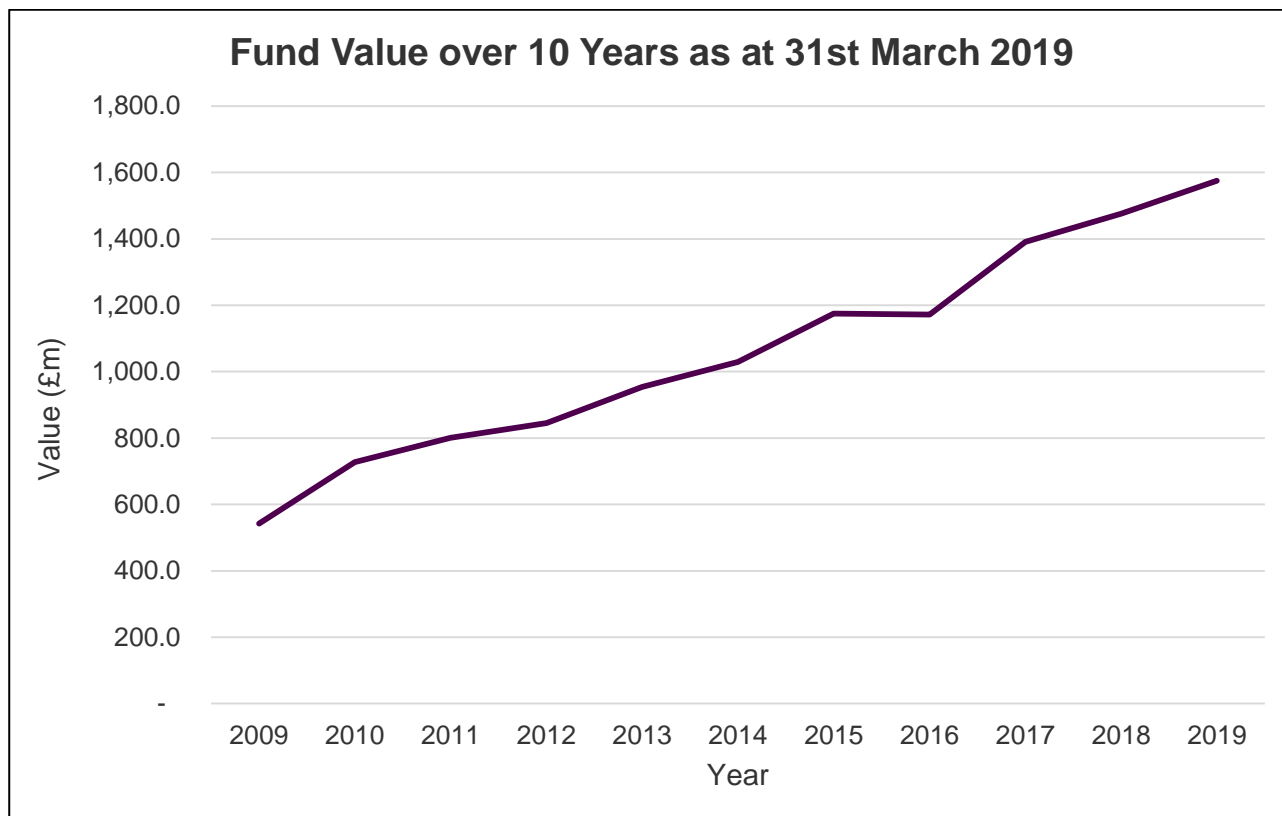
Market Performance

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



Fund Performance

During the year, the value of the Fund increased from £1,475.3 million at 31 March 2018 to £1,575.2 million at 31 March 2019. This represents an increase over the year of 6.77%. The graph below shows the progress of the Fund's assets over the last ten years as at the 31st March in each year.



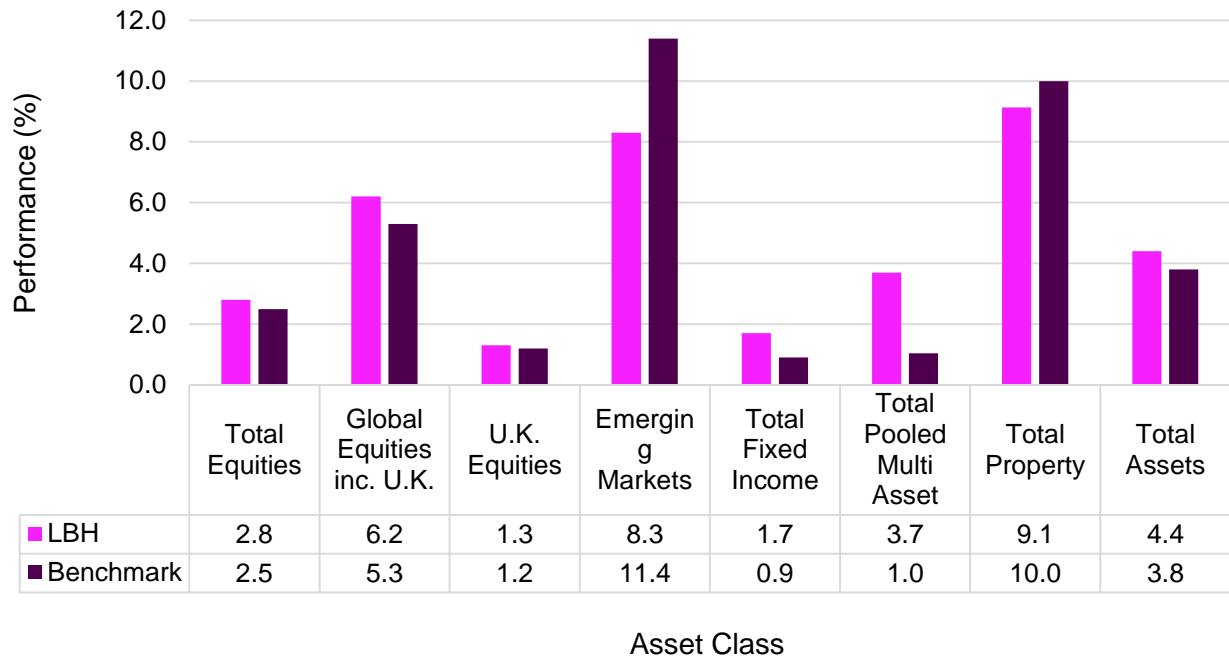
The investment strategy and performance of the Fund is reported on a quarterly basis to the Pensions Committee. Fund managers present to the Committee when requested by the Chair, whilst officers of the Fund meet with individual managers on a more regular basis. The investment performance of the Fund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

Over the year to 31st March 2019, the Fund returned 5.7%, underperforming its customised benchmark by 1.4%. The average performance of funds within the PIRC LGPS performance universe during the year was 6.6%; the Hackney Pension Fund ranked in the 68th percentile.

The Fund's equity portfolio returned 7.7% during the year against a benchmark of 7.6%. Bonds returned 4.2% against a benchmark of 4.3%. The multi asset allocation, which was the most significant contributor to the overall underperformance, returned -2.6%, significantly under the benchmark of 0.9%. The Fund's property portfolio returned 4.8% against a benchmark of 4.9%.

The Fund's performance across the different asset classes is shown in the chart below:

Pension Fund Performance Vs Benchmark



Investment Management Expenses

Investment management expenses for the year to 31 March 2019 were £6.56 million, which represents decrease of £0.69m on 2017/18. The Fund has made changes to the disclosure of transaction costs and other non-invoiced management fees following the introduction of the LGPS Advisory Board Code of Transparency Template. Investment management expenses cover the fees charged by the Fund's individual investment managers and the Fund's custodian.

Pool Reporting

Add pool reporting here

Actuarial Review

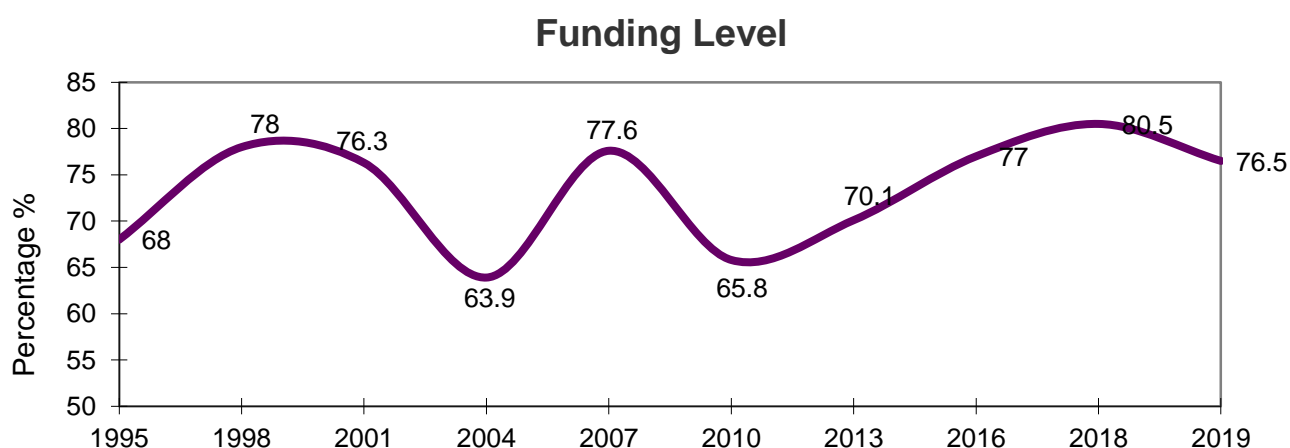
Background

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

Actuarial Valuation

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

Over the longer term the Fund is targeting a funding level of 100% and has set out its strategy for achieving this in the Funding Strategy Statement included within this Report and Accounts. The Funding Strategy Statement (pages **Error! Bookmark not defined.** to 146) was approved by the Pensions Committee in March 2017. The Fund's historic long-term funding picture is shown in the graph below and includes estimated positions as at 31 March 2017, 31 March 2018 and 31 March 2019.



The triennial valuation also determines contribution rates for the Fund. The most recent valuation was carried out as at 31 March 2016, which set contribution rates for 2017/18, 2018/19 and 2019/20.

The 2016 valuation, which applied during the year, assessed the whole fund primary contribution rate as being 15.8%, with a secondary rate monetary contribution of £36.051m. These figures are for the Fund as a whole and individual employer rates can vary significantly from the overall Fund level. Individual contribution rates payable by employers are set out in the Rates and Adjustment Certificate.

The employer contribution rate for the Council, the largest employer in the Fund was 34.0% for the year ending 31 March 2019.

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

A summary of the assumptions used in the actuarial valuation is included in the actuary's report in the following pages and a full copy of the valuation can be found on the Pension Fund website; <https://hackneypension.co.uk/>. Alternatively a copy can be obtained from the Financial Services Section, 4th Floor, Hackney Service Centre, 1 Hillman Street, London, E8 1DY

Report of the Fund Actuary

London Borough of Hackney Pension Fund (“the Fund”)

Introduction

CIPFA's Code of Practice on Local Authority Accounting 2018/19 requires Administering Authorities of LGPS funds that prepare pension fund accounts to disclose what IAS26 refers to as the actuarial present value of promised retirement benefits. I have been instructed by the Administering Authority to provide the necessary information for the London Borough of Hackney Pension Fund (“the Fund”).

The actuarial present value of promised retirement benefits is to be calculated similarly to the Defined Benefit Obligation under IAS19. There are three options for its disclosure in the pension fund accounts:

- showing the figure in the Net Assets Statement, in which case it requires the statement to disclose the resulting surplus or deficit;
- as a note to the accounts; or
- by reference to this information in an accompanying actuarial report.

If an actuarial valuation has not been prepared at the date of the financial statements, IAS26 requires the most recent valuation to be used as a base and the date of the valuation disclosed. The valuation should be carried out using assumptions in line with IAS19 and not the Fund's funding assumptions.

Present Value of Promised Retirement Benefits

Year ended	31 Mar 2019 £m	31 Mar 2018 £m
Active members	1,058*	852
Deferred members	670	611
Pensioners	720	716
Present value of Promised Retirement Benefits	2,448	2,179

* Incorporates an allowance for the potential increase in liabilities arising from the Mcloud judgment.

The promised retirement benefits at 31 March 2019 have been projected using a roll forward approximation from the latest formal funding valuation as at 31 March 2016. The approximation involved in the roll forward model means that the split of benefits between the three classes of member may not be reliable. However, I am satisfied that the total figure is a reasonable estimate of the actuarial present value of benefit promises.

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

It should be noted the above figures are appropriate for the Administering Authority only for preparation of the pension fund accounts. They should not be used for any other purpose (i.e. comparing against liability measures on a funding basis or a cessation basis).

Assumptions

The assumptions used are those adopted for the Administering Authority's IAS19 report and are different as at 31 March 2019 and 31 March 2018. I estimate that the impact of the change in financial assumptions to 31 March 2019 is to increase the actuarial present value by £183m. There is no impact from any change in the demographic and longevity assumptions because they are identical to the previous period.

Financial assumptions

Year ended	31 Mar 2019 % p.a.	31 Mar 2018 % p.a.
Inflation/Pensions Increase Rate	2.5%	2.4%
Salary Increase Rate	3.6%	3.5%
Discount Rate	2.4%	2.7%

Longevity assumption

Life expectancy is based on the Fund's VitaCurves with improvements in line with the CMI 2013 model, assuming the current rate of improvements has reached a peak and will converge to a long term rate of 1.25% p.a. Based on these assumptions, the average future life expectancies at age 65 are summarised below:

	Males	Females
Current Pensioners	22.2 years	24.2 years
Future Pensioners (assumed to be aged 45 at the latest formal valuation)	23.6 years	25.7 years

Please note that the longevity assumptions have not changed since the previous IAS26 disclosure for the Fund.

Commutation assumption

An allowance is included for future retirements to elect to take 50% of the maximum additional tax-free cash up to HMRC limits for pre-April 2008 service and 75% of the maximum tax-free cash for post-April 2008 service.

Sensitivity Analysis

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

Sensitivity to the assumptions for the year ended 31 st March 2019	Approximate % increase to liabilities	Approximate monetary amount (£m)
0.5% p.a. increase in the Pension Increase Rate	9%	206
0.5% p.a. increase in the Salary Increase Rate	1%	32
0.5% p.a. decrease in the Real Discount Rate	10%	253

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

Professional notes

This paper accompanies my covering report titled 'Actuarial Valuation as at 31 March 2019 for accounting purposes'. The covering report identifies the appropriate reliance's and limitations for the use of the figures in this paper, together with further details regarding the professional requirements and assumptions.

Prepared by:-



Geoff Nathan FFA

22 July 2019

For and on behalf of Hymans Robertson LLP

Audit Opinion - DRAFT

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

Opinion on the financial statements of London Borough of Hackney Pension Fund

We have audited the financial statements of London Borough of Hackney Pension Fund ('the Pension Fund') for the year ended 31 March 2019, which comprise the Fund Account, the Net Assets Statement and notes to the financial statements, including a summary of significant accounting policies. The financial reporting framework that has been applied in their preparation is applicable law and the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2018/19.

In our opinion the financial statements:

- give a true and fair view of the financial transactions of London Borough of Hackney Pension Fund during the year ended 31 March 2019, and the amount and disposition of the Pension Fund's assets and liabilities as at 31 March 2019; and
- have been properly prepared in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2018/19.

Basis for opinions

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law. Our responsibilities under those standards are further described in the Auditor's responsibilities section of our report. We are independent of the Council and the Pension Fund in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the FRC's Ethical Standard as applicable to public interest entities, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinions.

Conclusions relating to going concern

We have nothing to report in respect of the following matters in relation to which the ISAs (UK) require us to report to you where:

- The Group Director of Finance and Corporate Resources' use of the going concern basis of accounting in the preparation of the Council's and the Pension Fund's financial statements is not appropriate; or
- The Group Director of Finance and Corporate Resources has not disclosed in the financial statements any identified material uncertainties that may cast significant doubt about the Council's or the Pension Fund's ability to continue to adopt the going concern basis of accounting for a period of at least twelve months from the date when the financial statements are authorised for issue.

Other information

The Group Director of Finance and Corporate Resources is responsible for the other information. The other information comprises the information included in the Statement of Accounts, other than the financial statements and our auditor's report thereon. Our opinions

on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in our report, we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether there is a material misstatement in the financial statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact.

We have nothing to report in this regard.

Responsibilities of the Group Director of Finance and Corporate Resources for the financial statements

As explained more fully in the Statement of the Group Director of Finance and Corporate Resources' Responsibilities, the Group Director of Finance and Corporate Resources is responsible for the preparation of the Statement of Accounts, which includes the Council's and Pension Fund's financial statements, in accordance with proper practices as set out in the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2018/19, and for being satisfied that they give a true and fair view. The Group Director of Finance and Corporate Resources is also responsible for such internal control as the Group Director of Finance and Corporate Resources determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

The Group Director of Finance and Corporate Resources is required to comply with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2018/19 and prepare the financial statements on a going concern basis, unless the Council is informed of the intention for dissolution without transfer of services or function to another entity. The Group Director of Finance and Corporate Resources is responsible for assessing each year whether or not it is appropriate for the Council and the Pension Fund to prepare the accounts on the going concern basis and disclosing, as applicable, matters related to going concern.

Auditor's responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the Council's and Pension Fund's financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinions. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists.

Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

A further description of our responsibilities for the audit of the financial statements is located on the Financial Reporting Council's website at www.frc.org.uk/auditorsresponsibilities. This description forms part of our auditor's report.

Matters on which we are required to report by exception under the Code of Audit Practice

We are required by the Code of Audit Practice to report to you if:

- we issue a report in the public interest under section 24 of the Local Audit and Accountability Act 2014;
- we make a recommendation under section 24 of the Local Audit and Accountability Act 2014; or
- we exercise any other special powers of the auditor under sections 28, 29 or 31 of the Local Audit and Accountability Act 2014.

We have nothing to report in these respects.

Lucy Nutley
For and on behalf of Mazars LLP
Tower Bridge House
St Katharine's Way
London E1W 1DD

Statement of Responsibilities

The Authority's Responsibilities

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

- Make arrangements for the proper administration of its financial affairs and to secure that one of its Officers (the Chief Financial Officer) has responsibility for the administration of those affairs.
- Manage its affairs to secure economic, efficient and effective use of resources and safeguard its assets; and
- Approve the Statement of Accounts.

The Chief Financial Officer's Responsibilities

The Chief Financial Officer is responsible for the preparation of the Statement of Accounts (which includes the financial statements) in accordance with proper practices as set out in the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom ('the Code').

In preparing this Statement of Accounts, the Chief Financial Officer has:

- selected suitable accounting policies and then applied them consistently;
- made judgements and estimates that were reasonable and prudent;
- complied with the Code
- kept proper accounting records which were up to date;
- taken reasonable steps for the prevention and detection of fraud and other irregularities;
- assessed the Authority's [and the Group's] ability to continue as a going concern, disclosing, as applicable, matters related to going concern;
- used the going concern basis of accounting on the assumption that the functions of the Authority [and the Group] will continue in operational existence for the foreseeable future; and
- maintained such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error,

I certify that the Statement of Accounts gives a true and fair view of the financial position of the Authority at 31 March 2019 and of its income and expenditure for the year then ended

Ian Williams, CPFA
Group Director, Finance and Corporate Resources

Statement of Accounts 2018/19

Fund Account

2017/18 £'000		Notes	2018/19 £'000
	Dealings with members, employers and others directly involved in the Scheme		
(74,901)	Contributions	7	(75,803)
<u>(8,079)</u>	Transfers in from other pension funds	8	<u>(8,841)</u>
(82,980)			(84,644)
52,533	Benefits	9	56,192
5,754	Payments to and on account of leavers	10	4,418
<u>0</u>	Group Transfers out to other Pension Schemes	10	<u>0</u>
58,287			60,610
(24,693)	Net (additions)/withdrawals from dealings with members		(24,034)
8,729	Management Expenses	11	8,176
	Returns on investments		
(15,683)	Investment income	12	(12,316)
(52,664)	(Profit) and losses on disposal of investments and changes in the market value of investments	13c	(71,953)
<u>81</u>	Taxes on Income		<u>204</u>
(68,266)	Net returns on investments		(84,065)
(84,230)	Net (increase)/decrease in the Fund during the year		(99,923)
1,391,079	Opening net assets of the Scheme		1,475,309
1,475,309	Closing net assets of the Scheme		1,575,232

Net Assets Statement

2017/18			2018/19
£'000		Notes	£'000
1,414,799	Investment Assets	13a	1,522,217
150	Long-Term Investment		150
<u>33,132</u>	Cash Deposits	13a	<u>26,817</u>
1,448,081			1,549,184
(8,217)	Investment Liabilities	13a	(1,365)
1,439,864	Net Value of Investment Assets	13a	1,547,819
39,162	Current Assets	18	33,366
<u>(3,717)</u>	Current Liabilities	19	<u>(5,952)</u>
35,445			27,413
1,475,309	Net Assets of the Fund available to fund benefits at the period end		1,575,232

NOTES TO THE ACCOUNTS

1. DESCRIPTION OF THE FUND

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

The following description of the Fund is a summary only. For more detail, reference should be made to the Hackney Pension Fund Annual Report 2018/19, the Pension Fund website <http://hackney.xpmemberservices.com/Home.aspx> and the underlying statutory powers underpinning the Scheme, namely the Public Service Pensions Act 2013 and the Local Government Pension Scheme (LGPS) Regulations.

a) General

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

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

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

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

b) Membership

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

Organisations participating in the Hackney Pension Fund include:

- Scheduled bodies, which include the local authority and similar aligned bodies whose staff are automatically entitled to be members of the Fund. It also includes Academy and Free School non-teaching staff.
- Admitted bodies, which are other organisations that participate in the Fund under an admission agreement between the Fund and the relevant organisation. Admitted bodies include voluntary, charitable and similar bodies or private contractors undertaking a local

authority function following outsourcing to the private sector. As at 31st March 2019 there are 37 active employer organisations within the Fund, including the London Borough of Hackney.

London Borough of Hackney Pension Fund	31 March 2019	31 March 2018
Number of Employers with active members	37	35
Number of Employees in scheme		
Council	6,066	6,288
Scheduled bodies	581	561
Admitted bodies	81	87
Total	6,728	6,936
Number of pensioners		
Council	6,237	6,106
Scheduled bodies	37	33
Admitted bodies	27	22
Ceased Employers	741	472
Total	7,042	6,633
Deferred members		
Council	8,606	7,723
Scheduled bodies	629	522
Admitted bodies	74	68
Ceased Employers	1,043	1,031
Total	10,352	9,344

c) Funding

Benefits are funded by contributions and investment earnings. Contributions are made by active members of the Fund in accordance with the LGPS Regulations 2013 and range from 5.5% to 12.5% of pensionable pay for the financial year ending 31 March 2019. Employee contributions are matched by employers' contributions which are set based on the triennial actuarial funding valuations. The last such valuation was at 31 March 2016 with the next valuation due to take place at 31 March 2019. Current employer contribution rates can be found in the Statement to the Rates and Adjustments Certificate in the Hackney Pension Fund Annual Report and Accounts 2018/19 or within the Actuarial valuation on the Pension Fund Website:- <https://hackneypension.co.uk/>

d) Benefits

Prior to 1 April 2014, pension benefits under LGPS were based on final pensionable pay and length of service.

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

Details of the schemes are summarised below:

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

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

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

2. BASIS OF PREPARATION

The Statement of Accounts summarises the Fund's transactions for the 2018/19 financial year and its position at year-end as at 31 March 2019. The accounts have been prepared in accordance with the *Code of Practice on Local Authority Accounting in the United Kingdom*

2018/19 which is based upon International Financial Reporting Standards (IFRS), as amended for the UK public sector.

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

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Fund Account – revenue recognition

a) Contributions income

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

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

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

b) Transfers to and from schemes

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

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

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

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

c) Investment income

i) Interest income

Interest income is recognised in the Fund account as it accrues, using the effective interest rate of the financial instrument as at the date of acquisition or origination.

Income includes the amortisation of any discount or premium, transaction costs (where material) or other differences between the initial carrying amount of the instrument and its amount at maturity calculated on an effective interest rate basis.

ii) Dividend income

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

iii) Distributions from pooled funds

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

iv) Movement in the net market value of investments

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

Fund account – expense items

d) Benefits payable

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

e) Taxation

The Fund is a registered public service scheme under section 1(1) of Schedule 36 of the Finance Act 2004 and as such is exempt from UK income tax on interest received and from capital gains tax on the proceeds of investments sold. Income from overseas investments suffers withholding tax in the country of origin, unless exemption is permitted. Irrevocable tax is accounted for as a fund expense as it arises. All income and expenditure in the Statement of Accounts is net of VAT, where recoverable.

f) Management expenses

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

i) Administrative expenses

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

ii) Oversight and governance costs

All oversight and governance expenses are accounted for on an accruals basis. All staff costs associated with governance and oversight are charged direct to the fund. Associated management, accommodation and other overheads are apportioned to this

activity and charged as expenses to the fund. The cost of obtaining investment advice from external consultants is included in oversight and governance charges.

iii) Investment management expenses

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

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

Where an investment manager's invoice has not been received by the balance sheet date, an estimate based upon the market value of their mandate as at the end of the year is used for inclusion in the fund account. In 2018/19, there were no fees based on such estimates (2017/18 no fees estimated). A similar procedure is used for custodian fees, and in 2018/17 there were no fees payable (2017/18: no fees estimated).

The Fund requests that non-invoiced investment management fees (plus other associated costs such as transaction costs) are disclosed via the LGPS Transparency Code template. Where cost information is not readily available for the year ending 31st March 2019 (e.g. for pooled funds using different accounting dates), an estimate will be made using the most recent information available.

Net Assets Statement

g) Financial assets

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

The values of investments as shown in the net assets statement have been determined at fair value in accordance with the requirements of the Code and IFRS 13 (see Note 16). For the purposes of disclosing levels of fair value hierarchy, the fund has adopted the classification guidelines recommended in Practical Guidance on Investment Disclosures (PRAG/Investment Association, 2016).

The Fund has contributed £150k of Regulatory Capital to the London Collective Investment Vehicle (LCIV), required from each member of the pool. The investment is carried at cost as:

- the shares held in the LCIV do not constitute a joint venture or group arrangements due to lack of control
- the investment is not repayable on demand and does not meet FVOCI requirements and
- the fund is of the view that fair value at 31st March 2019 cannot reliably be measured.

h) Foreign currency transactions

Dividends, interest and purchases and sales of investments in foreign currencies have been accounted for at the spot market rates at the date of transaction. End-of-year spot market

exchange rates are used to value cash balances in foreign currency bank accounts, market values of overseas investments and purchases and sales outstanding at the end of the reporting period.

i) Derivatives

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

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

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

j) Cash and cash equivalents

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

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

k) Financial liabilities

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

l) Actuarial present value of promised retirement benefits

The actuarial present value of promised retirement benefits is assessed on a triennial basis by the Scheme actuary in accordance with the requirements of IAS19 and relevant actuarial standards.

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

m) Additional Voluntary Contributions (AVCs)

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

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

4. CRITICAL JUDGEMENTS IN APPLYING ACCOUNTING POLICIES

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

Pension fund liability

The Pension Fund carries out a funding valuation on a triennial basis, the assumptions underpinning the valuation are agreed with the actuary and are summarised in note 16.

In addition to the triennial funding valuation, the Fund's actuary also undertakes an accounting valuation of the Fund's liabilities on an IAS 19 basis every year. This uses membership data from the funding valuation with economic assumptions adjusted for the current financial year. This valuation is used for statutory accounting purposes and uses different assumptions from the triennial funding valuation; the assumptions used are summarised in Note 17.

Valuation of Financial instruments carried at fair value – Level 2

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

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

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

The pension fund liability shown in Note 17 is calculated on an IAS19 basis, with economic assumptions updated annually. It is therefore subject to a significant risk of material adjustment in forthcoming financial years. The table below presents a sensitivity analysis, setting out the likely impact of changes to key economic assumptions on the carrying amount of the liability shown in Note 17.

Change in assumptions at 31 March 2019	Approximate % increase to Pension Fund Liability	Approximate monetary amount (£m)
0.5% decrease in 'real discount rate'	8%	206
0.5% increase in the 'salary increase rate'	1%	32

0.5% increase in the 'pension increase rate'	10%	253
--	-----	-----

- In order to quantify the impact of a change in the financial assumptions used, the Fund's actuary has calculated and compared the value of scheme liabilities as at 31 March 2019 on varying bases. The approach taken is consistent with that adopted for IAS19.
- The principal demographic assumption is the longevity assumption (i.e. member life expectancy). For sensitivity purposes, it has been estimated that a one year increase in life expectancy would approximately increase the Employer's Defined Benefit Obligation by around 3-5%.
- In practice the actual cost of a one year increase in life expectancy will depend on the structure of the revised assumption (i.e. if improvements to survival rates predominantly apply at younger or older ages).
- Please note that the above figures have been derived based on the membership profile of the Employer as at the date of the most recent actuarial valuation.

6. EVENTS AFTER THE BALANCE SHEET DATE

There have been no events since 31 March 2019 and up to the date when these accounts were authorised, which require any adjustments to these accounts.

7. CONTRIBUTIONS RECEIVABLE

By Category	2018/19	2017/18
	£'000	£'000
Employers' Contributions split by:		
Normal Funding	(29,246)	(26,442)
Deficit Funding	(33,907)	(36,295)
Members' Contributions	(12,650)	(12,164)
Total	(75,803)	(74,901)
By Employer	2018/19	2017/18
	£'000	£'000
London Borough of Hackney	(70,144)	(71,274)
Scheduled Bodies	(4,040)	(2,980)
Admitted Bodies	(1,619)	(647)
Total	(75,803)	(74,901)

8. TRANSFERS IN

	2018/19	2017/18
	£'000	£'000
Individual Transfers	(8,841)	(8,079)
Total	(8,841)	(8,079)

9. BENEFITS PAYABLE

By Category	2018/19	2017/18
	£'000	£'000
Pensions	44,773	42,565
Commutation and Lump Sum Retirement Benefits	10,024	8,796
Lump Sum Death Benefits	1,394	1,172
Total	56,192	52,533

By Employer	2018/19	2017/18
	£'000	£'000
London Borough of Hackney	52,108	47,343
Scheduled Bodies	2,768	2,553
Admitted Bodies	1,315	2,637
Total	56,192	52,533

10. PAYMENTS TO AND ON ACCOUNT OF LEAVERS

	2018/19	2017/18
	£'000	£'000
Refunds to Members leaving service	194	174
Payments for Members joining state scheme	-	-
Group Transfers	-	-
Individual Transfers	4,223	5,580
Total	4,418	5,754

11. MANAGEMENT EXPENSES

	2018/19	2017/18
	£'000	£'000
Administrative Costs	776	826
Investment Management Expenses*	6,578	7,248
Oversight and Governance Costs	822	655
Total	8,176	8,729

The investment management expenses disclosed above include non-invoiced transaction and other costs paid/payable to the Fund's investment managers of £4,562k (£4,582k in 17/18). The disclosure of the non-invoiced costs is made to the Fund via the LGPS Cost Management Template. The introduction of the template is helping to ensure more accurate fee disclosures by managers, with greater detail provided with regards to transaction costs. Audit Fees of £16k (£21k in 2017-18) were incurred and are included in Oversight and Governance Costs in the above table.

Investment Management Expenses*	2018/19	2017/18
	£'000	£'000

Management Fees	5,449	7,208
Performance Related Fees	81	0
Custody and Banking Fees	247	40
Transaction Costs	801	0
Total	6,578	7,248

12. INVESTMENT INCOME

	2018/19	2017/18
	£'000	£'000
Fixed Interest Securities	(4,199)	(4,423)
Equity Dividends	(6,610)	(9,968)
Index Linked Securities	(392)	(386)
Pooled Investment Income	(209)	0
Interest on Cash Deposits	(108)	(102)
Other Income	(798)	(804)
Total	(12,316)	(15,683)

2018-19 Investment Income is inclusive of withholding tax of £204k compared to £81k in 2017-18.

13. INVESTMENTS

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

a. Analysis of Investments

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

Investment type	Market value 31 March 2019 £'000	Market value 31 March 2018 £'000
Investment Assets:		
Fixed Interest Securities		
	UK	
	Public Sector - quoted	53,357
	Corporate - quoted	32,444
	Overseas	
	Public Sector – quoted	6,822
	Corporate - quoted	58,090
	150,713	152,901
Index Linked Securities		
	UK	
	Public Sector - quoted	65,269
	Corporate - quoted	-
	Overseas	
	Public Sector – quoted	-
	Corporate - quoted	7,621
	72,891	62,780
Equities		
	UK - quoted	193
	Overseas - quoted	0
	193	441,332
Pooled Investments		
	Corporate Fixed Interest	94,665
	Diversified Growth Funds	164,757
	Property	162,676
	EM Equity - Active	79,063
	Global Equity - Active	207,750
	Global Equity -Passive	430,961
	UK Equity – Passive	147,657
	Private Debt	8,376
	1,295,903	750,043
Other Investments		
	Derivative Contracts:	
	Forward Currency	0
	Futures	319
	Cash deposits	26,817
	Other Investment balances	2,348
	29,484	41,025
Total investment assets	1,549,184	1,448,081
Investment Liabilities:		
	Derivative Contracts: Forward Currency	(342)
	Futures	(982)
	Other investment balances	(42)
	(1,366)	(8,217)
Total investment liabilities	(1,366)	(8,217)

Net Investment Assets	1,547,819	1,439,864
------------------------------	------------------	------------------

b. Investments analysed by fund managers

As at 31 March 2019 the Fund's investments are managed by eight principal Investment Managers according to defined benchmarks which are set out in the Statement of Investment Principals (SIP). The following is a breakdown of the investments between the Investment Managers.

Fund Manager	Value £'000	% of total fund	Value £'000	% of total fund
	2018/19	2018/19	2017/18	2017/18
Lazard (Global Equities)	0	0.0%	235,053	16.3%
Wellington (Global Equities)	0	0.0%	234,649	16.3%
UBS (UK Equity Index)	0	0.0%	330,881	23.0%
BlackRock (UK Equity Index)	147,685	9.5%	0	0.0%
BlackRock (Global Equity Index)	430,961	27.8%	0	0.0%
BlackRock (Ultra Short Bond Fund)	77,781	5.0%	0	0.0%
LCIV/RBC (Global Active Equity)	207,750	13.4%	0	0.0%
RBC (Global Emerging Market Equities)	79,063	5.1%	78,130	5.4%
BMO (Fixed Interest)	242,721	15.7%	233,195	16.2%
Threadneedle (Property)	162,676	10.5%	155,106	10.8%
GMO (Global Real Return)	98,748	6.4%	101,857	7.1%
Invesco (Global Multi Asset)	66,009	4.3%	66,883	4.6%
Churchill (Private Debt)	8,376	0.5%	0	0.0%
Other investments (including MMFs)	26,050	1.7%	4,110	0.3%
Total	1,547,819	100%	1,439,864	100%

c. Reconciliation of movements in investments and derivatives

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

Investment type	Market Value 31/03/2018 £'000	Purchases during the year and derivative payments £'000	Sales during the year and derivative receipts £'000	Change in Market Value during the year £'000	Market Value 31/03/2019 £'000
Fixed Interest Securities	152,902	100,536	(104,583)	1,859	150,714
Index Linked Securities	62,780	12,068	(5,614)	3,656	72,891
Equities	441,332	1,388,273	(1,860,021)	30,609	193
Pooled Investment Vehicles	750,042	1,790,800	(1,287,891)	42,951	1,295,903
Derivative Contracts					
Forward Currency Contracts	68	19,731	(9,575)	(10,566)	(342)
Futures	(369)	3,202	(2,123)	(1,372)	(662)
	1,406,755	3,314,610	(3,269,806)	67,137	1,518,695
Other Investment balances:					
Cash Deposits	33,132				26,817

Receivable for Sales	3,755	809
Investment Income due	3,056	1,538
Payable for Purchases	(6,834)	(42)

Net Investment Assets 1,439,863 67,137 1,547,819

The change in market value of £67,137k is £4,816k lower than the change in market value on the Fund Account of £71,953k, as a result of the netting off of indirect manager fees.

Investment type	Market Value 31/03/2017 £'000	Purchases during the year and derivative payments £'000	Sales during the year and derivative receipts £'000	Change in Market Value during the year £'000	Market Value 31/03/2018 £'000
Fixed Interest Securities	150,333	167,138	(163,770)	(800)	152,901
Index Linked Securities	59,670	30,910	(28,134)	335	62,780
Equities	432,957	131,678	(126,132)	2,829	441,332
Pooled Investment Vehicles	698,030	24,367	(4,120)	31,765	750,042
Derivative Contracts					
Forward Currency Contracts	3,931	7,605	(26,695)	15,227	68
Futures	249	2,461	(2,164)	(915)	(369)
	1,345,170	364,159	(351,014)	48,440	1,406,755
Other Investment balances:					
Cash Deposits	11,096				33,132
Receivable for Sales	1,898				3,755
Investment Income due	3,349				3,056
Payable for Purchases	(2,920)				(6,834)
Net Investment Assets	1,358,592				1,439,864

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

d. Objectives and policies for holding derivatives

The Fund may hold derivatives for risk management purposes, or to facilitate efficient portfolio management. The use of derivatives is managed in line with the investment management agreements agreed between the Fund and its investment managers. The Fund does not hold derivatives for speculative purposes.

Forward currency contracts

To maintain appropriate diversification and take advantage of overseas investment income, a proportion (maximum 30%) of the Fund's bond portfolio can be held in overseas bonds. Within the portfolio, the Fund permits a maximum allowance to non-sterling currencies of 5%. The Fund's bond manager (BMO) therefore makes use of forward currency contracts to hedge non-sterling exposure, but is not permitted to create currency positions through derivatives alone.

Forward foreign exchange contracts are disclosed in the accounts at fair value which is the gain or loss that would arise from closing out the contract at the balance sheet date by entering into an equal and opposite contract at that date. A breakdown of forward contracts held by the Fund as at 31 March 2019 is given below.

Open forward currency contracts

Settlement	Currency Bought	Local Value £'000	Currency Sold	Local Value £'000	Fair Value £'000
Assets					
		0		0	0
Total Assets					0
Liabilities					
One to six months	GBP	7,416	EUR	(8,697)	(86)
	GBP	7,414	EUR	(8,697)	(88)
	GBP	4,102	USD	(5,425)	(55)
	GBP	4,100	USD	(5,425)	(57)
	GBP	4,101	USD	(5,425)	(56)
Total Liabilities					(342)
Net Forward Contracts 2018/19					(342)

Settlement	Currency Bought	Local Value £'000	Currency Sold	Local Value £'000	Fair Value £'000
Assets					
One to six months	GBP	74,053	USD	(103,086)	631
	GBP	15,727	EUR	(17,710)	191
	GBP	6,164	JPY	(911,000)	56
	GBP	6,068	EUR	(6,897)	16
	GBP	6,068	EUR	(6,897)	16
Total Assets					909
Liabilities					
Up to one month	GBP	10,467	EUR	(11,947)	(13)
	GBP	8,377	USD	(11,907)	(104)
	GBP	57,814	USD	(82,155)	(700)
	GBP	7,054	JPY	(1,052,467)	(3)
One to six months	GBP	1,740	USD	(2,452)	(6)
	GBP	1,739	USD	(2,452)	(7)
	GBP	1,739	USD	(2,452)	(7)
Total Liabilities					(841)
Net Forward Contracts 2017/18					68

Futures

The Fund's bond manager, BMO, is permitted to use bond futures for both risk management purposes and to facilitate efficient portfolio management. Specifically, the mandate permits BMO to use bond futures to make adjustments to the portfolio yield curve, with the restriction that total portfolio duration may not be negative in the following maturity buckets: 0-5yrs, 5-10yrs, 10-15yrs, 15-20yrs, 20+yrs.

The Outstanding futures contracts are as shown below. The economic exposure represents the notional asset value purchased under futures contracts and is therefore subject to market movements.

Investment Type	Expires	Economic Exposure	Market value 31-Mar-19	Economic Exposure	Market value 31-Mar-18
		£'000	£'000	£'000	£'000
Assets					
UK Bonds	Under one year	7,892	202	13,019	146
Overseas Bond	Under one year	3,319	117	6,989	27
Total Assets			319		173
Liabilities					
UK Bonds	Under one year	0	0	0	0
	Under one year	(36,643)	(981)	(23,314)	(542)
Total Liabilities			(981)		(542)
Net Futures			(662)		(369)

e. Investments exceeding 5% of net assets

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

Security	Market Value 31 March 2019	% of total fund	Market Value 31 March 2018	% of total fund
	£'000		£'000	
UBS UK Equities Index Tracker Fund	0	0%	330,881	23.0%
Threadneedle Property Fund (TPEN)	136,226	8.8%	129,505	9.53%
GMO (Global Real Return)	98,748	6.4%	101,857	7.1%
BlackRock Aquila Life UK Equity Fund	147,685	9.5%		
BlackRock ACS World Low Carbon Equity Fund	155,496	10.1%		
BlackRock Aquila Life MSCI World Equity Fund	275,465	17.8%		
LCIV RBC Sustainable Equity Fund	207,750	13.4%		

f. Stock Lending

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

14. FINANCIAL INSTRUMENTS

a. Classification of financial instruments

Accounting policies describe how different asset classes of financial instruments are measured, and how income and expenses, including fair value gains and losses, are recognised. The following table analyses the carrying amounts of financial assets and liabilities by category. During the period, the Fund reclassified its investments in pooled property funds – these were included in the ‘Pooled Investments’ category in 2017/18

Investment type	2018/2019			2017/2018		
	Designated as Fair Value through Profit & Loss	Financial Assets at amortised costs	Financial Liabilities at amortised costs	Designated as Fair Value through Profit & Loss	Financial Assets at amortised costs	Financial Liabilities at amortised costs
	£'000	£'000	£'000	£'000	£'000	£'000
Financial Assets						
Fixed Interest Securities	150,713	0	0	152,901	0	0
Index Linked Securities	72,891	0	0	62,780	0	0
Equities	0	0	0	441,304	0	0
Pooled Investments	1,133,421	0	0	750,072	0	0
Pooled Property funds	162,676	0	0		0	0
Derivative Contracts	319	0	0	1082	0	0
Cash	0	27,086	0	0	57,799	0
Other Investment Balances	26,197	0	0	9,627	0	0
Debtors	0	9,247	0		11,678	0
	<u>1,546,217</u>	<u>36,333</u>	<u>0</u>	<u>1,417,766</u>	<u>69,477</u>	<u>0</u>
Financial Liabilities						
Derivative Contracts	(1,324)	0	0	(1,383)	0	0
Other Investment Balances	(42)	0	0	(6,834)	0	0
Creditors	0	0	(5,952)	0	0	(3,717)
	<u>(1,365)</u>	<u>0</u>	<u>(5,952)</u>	<u>(8,217)</u>	<u>0</u>	<u>(3,717)</u>
Total	1,544,852	36,333	(5,952)	1,409,549	69,477	(3,717)
Grand Total		1,575,232			1,475,309	

b. Net gains and losses on financial instruments

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

	31 March 2019	31 March 2018
	£'000	£'000
Fair Value through Profit and Loss	67,029	48,338
Financial Assets measured at amortised cost	108	102
Financial Liabilities measured at amortised cost	-	-
Total	67,137	48,440

The change in market value of £67,137k is £4,816k lower than the change in market value on the Fund Account of £71,953k, as a result of the netting off of indirect manager fees.

c. Fair Value of financial instruments and liabilities

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

	31 March 2019		31 March 2018	
	Carrying Value	Fair Value	Carrying Value	Fair Value
	£'000	£'000	£'000	£'000
Financial Assets				
Fair Value through Profit and Loss	1,546,217	1,546,217	1,417,766	1,417,766
Financial Assets measured at amortised cost	36,333	36,333	69,477	69,477
Total Financial Assets	1,582,550	1,582,550	1,487,243	1,487,243
Financial Liabilities				
Fair Value through Profit and Loss	(1,365)	(1,365)	(8,217)	(8,217)
Financial Liabilities measured at amortised cost	(5,952)	(5,952)	(3,717)	(3,717)
Total Financial Liabilities	(7,318)	(7,318)	(11,934)	(11,934)
Grand Total	1,575,232		1,475,309	

d. Valuation of Financial instruments carried at fair value

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

Level 1

Financial instruments at Level 1 are those where the fair values are derived from unadjusted quoted prices in active markets for identical assets or liabilities. Products classified as Level 1 comprise quoted equities, quoted fixed securities, quoted index linked securities and unit trusts. Listed investments are shown at bid prices. The bid value of the investment is based on the bid market quotation of the relevant stock exchange.

Level 2

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

Level 3

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

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

	Quoted market price	Using observable inputs	With significant unobservable inputs
Values at 31 March 2019	Level 1 £'000	Level 2 £'000	Level 3 £'000
Financial Assets			
Fair Value through Profit and Loss	26,516	1,511,065	8,635
Financial Assets measured at amortised cost	36,333	0	0
Total Financial Assets	62,849	1,511,065	8,635
Financial Liabilities			
Fair Value through Profit and Loss	(1,024)	(342)	0
Financial Liabilities measured at amortised cost	0	(5,952)	0
Total Financial Liabilities	(1,024)	(6,294)	0

Net Financial Assets	61,826	1,504,771	8,635
-----------------------------	---------------	------------------	--------------

	Quoted market price	Using observable inputs	With significant unobservable inputs
Values at 31 March 2018	Level 1 £'000	Level 2 £'000	Level 3 £'000
Financial Assets			
Fair Value through Profit and Loss	451,104	966,524	138
Financial Assets measured at amortised cost	69,477	-	-
Total Financial Assets	520,581	966,524	138
Financial Liabilities			

Fair Value through Profit and Loss	(7,376)	(841)	-
Financial Liabilities measured at amortised cost		(3,717)	-
Total Financial Liabilities	(7,376)	(4,558)	-

Net Financial Assets	513,205	961,966	138
-----------------------------	----------------	----------------	------------

The following assets have been carried at cost:

Values at 31 March 2019	Level 1 £'000	Level 2 £'000	Level 3 £'000
Investment in London CIV Ltd (asset pool)			150
Pooled investment – private debt			8,376
Investments held at cost	0	0	8,526

Unquoted equities in the London CIV asset pool are valued at cost, i.e. transaction price. The inputs available to the Fund to calculate fair value are limited, and the fund considers that the original transaction price represents an appropriate estimate of fair value. The Fund's investment in pooled private debt has also been valued at cost, as the cash drawdown in respect of this investment was only made in February 2019 and the first set of audited accounts was not yet available at the reporting date. A fair value therefore cannot be otherwise established for these assets as at 31 March 2019 as the reliability of any observable or unobservable inputs used to calculate fair value cannot as yet be assessed with certainty.

All other investments are held at fair value in accordance with the requirements of the Code and IFRS 13. The valuation bases are set out below. All assets have been valued using fair value techniques based on the characteristics of each instrument, with the overall objective of maximising the use of market-based information.

Description of asset	Valuation Hierarchy	Basis of Valuation	Observable and Unobservable Inputs	Key Sensitivities Affecting Valuations
Fixed Interest Securities	Level 2	Market Value based on current yields		Not required
Index Linked Securities	Level 2	Market Value based on current yields		Not required
Pooled investments – Equity funds (unit-linked insurance policies and ACS funds)	Level 2	Published bid market price at end of the accounting period	NAV per share	Not required
Pooled investments – Ultra short bonds	Level 2	Published bid market price at end of the accounting period	NAV per share	Not required
Pooled investments – Diversified growth funds	Level 2	Published bid market price at end of the accounting period	NAV per share	Not required
Pooled investments – Property funds	Level 2	Closing single price at end of the accounting period	NAV per share	Not required
Pooled investments – Private debt	Level 3	Most recent valuations updated for cashflow transactions and foreign exchange	Cashflow transactions, i.e. distributions or capital calls, foreign exchange	Material events between the date of the financial statements provided and the pension

		movements to the end of the accounting period	movements. Audited financial statements for underlying assets	fund's own reporting date; differences between audited and unaudited accounts
--	--	---	---	---

15. NATURE AND EXTENT OF RISKS ARISING FROM FINANCIAL INSTRUMENTS

Risk and Risk Management

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

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

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

a) Market Risk

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

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

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

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

Other Price Risk

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

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

Other Price Risk – Sensitivity Analysis

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

Asset class	1 year expected volatility (%)	% of Fund
UK Equities	16.6	9.7
Global Equities (ex UK)	16.9	42.1
Emerging Market Equities	25.3	5.2
Property	14.3	10.7
Corporate Bonds (short term)	4.4	3.5
Corporate Bonds (medium term)	10.5	2.7
Corporate Bonds (long term)	12.8	1.2
UK Fixed Gilts (medium term)	9.7	0.1
UK Fixed Gilts (long term)	12.9	3.6
UK Index Linked Gilts (medium term)	7.2	2.0
UK Index Linked Gilts (long term)	9.2	2.8
Cash	0.5	4.8
Diversified Growth Fund	12.5	10.6
Senior Loans	5.9	0.6
Total fund volatility	10.3	100

The volatilities for each asset class and correlations used to create the total fund volatility have been estimated using the Economic Scenario Service, a proprietary stochastic asset model maintained by Hymans Robertson LLP. The model uses probability distributions to project a range of possible outcomes for the future behaviour of asset returns and economic variables. The overall fund volatility has been calculated based on the asset valuations provided by the Fund’s custodian, HSBC, and market values (bid) provided by the Administering Authority, as at 31 March 2018. The calibration of the model is based on a combination of historical data, economic theory and expert opinion. Liability values are not taken into account in calculating the volatilities.

31 March 2019	£'000	Percentage change %	Value on Increase £'000	Value on Decrease £'000
Net Investment Assets	1,547,819	10.3	1,707,244	1,388,394
	1,439,864	10.7	1,593,929	1,285,799

31 March 2018	£'000	Percentage change %	Value on Increase £'000	Value on Decrease £'000
Net Investment Assets	1,439,864	10.7	1,592,929	1,285,799
Total assets available to pay benefits	1,358,592	10.5	1,501,244	1,215,940

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

Interest Rate Risk

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

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

The Fund's direct exposure to interest rate movement as at 31 March 2017 and 31 March 2018 is set out below. These disclosures present interest rate risk based on the underlying financial assets at fair value:

Asset Type	Balance at 31 March 2019 £'000	Balance at 31 March 2018 £'000
Cash Deposits	26,817	33,132
Cash Balances	18,348	27,484
Fixed Interest Securities	245,380	170,089
Total	290,544	230,705

Interest Rate Risk – Sensitivity Analysis

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

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

Asset Type	Carrying amount as at 31 March 2019 £'000	Change in year in the net assets available to pay benefits	
		+100 bps	-100 bps £'000
Cash & Cash Equivalents	26,817	268	(268)
Cash Balances	18,348	183	(183)
Fixed Interest Securities*	245,380	(31,507)	31,507
Total	290,544	(31,055)	31,055

Asset Type	Carrying amount as at 31 March 2018 £'000	Change in year in the net assets available to pay benefits	
		+100 bps	-100 bps £'000
Cash & Cash Equivalents	33,132	331	(331)
Cash Balances	27,484	275	(275)
Fixed Interest Securities*	170,087	(21,839)	21,839
Total	230,703	(21,233)	21,233

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

Currency Risk

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

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

The following table summarises the Fund's fair value exposure to assets denominated in currencies other than pound sterling as at 31 March 2019 and as at the previous period end:

Currency Exposure – asset type	Asset Value as at 31 March 2019	Asset Value as at 31 March 2018
	£'000	£'000
Equities	0	407,762
Fixed Interest Securities	19,936	19,487
Indexed Linked Securities	7,621	0
Pooled Investment Vehicle	8,375	0
Cash and Deposits	502	668
Total	36,434	427,917

Currency Rate Risk – Sensitivity Analysis

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

31 March 2019	Potential Change v GBP	Value on increase	Value on decrease
£'000	%	£'000	£'000
Currency Exposure	10	40,077	32,791
Total change in assets		3,643	3,643

31 March 2018	Potential Change v GBP	Value on increase	Value on decrease
£'000	%	£'000	£'000
Currency Exposure	10	470,708	385,125
Total change in assets		42,792	42,792

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

b) Credit Risk

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

The Pension Fund reviews its exposure to credit and counterparty risk through its external Investment Managers by reviewing the Managers' annual internal control reports. This ensures that Managers exercise reasonable care and due diligence in their activities for the Pension

Fund, such as in the selection and use of brokers, clearing houses, counterparties and other appointees with whom transactions on behalf of the Fund take place.

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

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

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

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

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

Summary	Rating (Fitch)	Balance at 31 March 2019 £'000	Balance at 31 March 2018 £'000
Cash (Current Assets)			
Lloyds Plc	A+	18,348	27,484
Cash Deposits (Investment Assets)			
<i>Cash held outside fund managers and custodian</i>			
Money Market Funds (Various)	AAA	23,850	2,817
<i>Cash held by fund managers and custodian</i>			
Cash	AA-	2,967	30,315
Call Accounts (Various)	AA- to A	-	-
Total		45,165	60,616

c) Liquidity Risk

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

The Fund's investments are substantially made up of listed securities which are considered readily realisable as they are listed on major security exchanges. The Fund's key exposure to illiquid assets is via its private debt mandate, currently valued at £8,376. Whilst the Fund has no

direct property exposure, it is invested in a single-priced, open-ended property fund. Whilst the Fund itself offers daily liquidity, the illiquid nature of the underlying assets exposes the Fund to a degree of liquidity risk

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

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

16. FUNDING ARRANGEMENTS

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

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

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

- To ensure the long-term solvency of the Fund as a whole and the solvency of each of the notional sub-funds allocated to the individual employers.
- To ensure that sufficient funds are available to meet all benefits as they fall due for payment.
- Not to restrain unnecessarily the investment strategy of the Fund so that the Administering Authority can seek to maximise investment returns (and hence minimise the cost of the benefits) for an appropriate level of risk.
- To help employers recognise and manage pension liabilities as they accrue with consideration to the effect on the operation of their business where the Administering Authority considers this appropriate.
- To minimise the degree of short-term change in the level of each employer's contributions where the Administering Authority considers it reasonable to do so.
- To use reasonable measures to reduce the risk to other employers and ultimately to the council tax payer from an employer ceasing participation or defaulting on its pension obligations.
- To address the different characteristics of the disparate employers or groups of employers to the extent that this is practical and cost-effective.
- To maintain the affordability of the Fund to employers as far as is reasonable over the longer term.

The 2016 valuation was based on a market value of the Fund's assets as at 31 March 2016, which amounted to £1,172 million and revealed a pension deficit of £349 million, representing a funding level of 77.1% of the pension liability.

The valuation takes account of the amount of current and future pension liabilities of the Fund, the expected contributions received by the Fund and the expected rate of investment returns held by the Fund. Other factors which influence the valuation and are taken into account by the actuary include anticipated pay, pension inflation, and mortality rates. The whole fund primary contribution rates applying from 1 April 2017 until 31 March 2020 and based on the 2016 valuation report are as follows:

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

The rates payable by the London Borough of Hackney and other participating scheduled and admission bodies vary from the contribution rate for the Fund as a whole according to the employer's individual circumstances.

The Fund's actuary, Hymans Robertson, has calculated the contribution rate using the Projected Unit Method. This assesses the cost of benefits (as a percentage of pay) accruing to existing members during the year following the valuation, allowing for future salary increases.

The minimum required contributions (both primary and secondary) payable by each employer are set out in the Rates and Adjustments Certificate. Each employer must pay the percentage rate or monetary amount specified in the certificate, whilst the frequency of payment is prescribed by the Local Government Pension Scheme Regulations 2013.

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

Financial Assumptions based on 2016 Valuation Report

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

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

Mortality Assumptions

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

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

Commutation Assumption

An allowance is included for future retirements to elect to take 50% of the maximum additional tax-free cash up to HMRC limits for pre-April 2008 service and 75% of the maximum tax-free cash for post-April 2008 service.

17. ACTUARIAL PRESENT VALUE OF PROMISED RETIREMENT BENEFITS

In addition to the triennial funding valuation, the Fund's actuary also undertakes an accounting valuation of the Fund's liabilities on an IAS 19 basis every year. This uses membership data from the funding valuation with economic assumptions adjusted for the current financial year. This valuation is used for statutory accounting purposes and uses different assumptions from the triennial funding valuation, (see Note 16), which is used to determine the contribution rates payable by employers.

The actuarial present value of promised retirement benefits at the accounting date, calculated in line with IAS 19 assumptions, is estimated to be £2,448 million (£2,179 million in 2017/18). This incorporates an allowance for the potential increase in liabilities arising from the McCloud judgement. The Fund accounts do not take account of liabilities to pay pensions and other benefits in the future.

The financial assumptions used for the IAS 19 2019 valuation have been revised from the 2018 valuation report as set out in the table below:

Assumption	2019	2018
Pension increase rate assumption	2.5%	2.4%
Salary increase rate*	3.6%	3.5%
Discount rate	2.4%	2.7%
Inflation rate based on CPI**	2.5%	2.4%

* Also includes an additional allowance for promotional pay increases

** CPI is based on RPI less 1.0% at 31 March 2019

18. CURRENT ASSETS

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

	31 March 2019 £'000	31 March 2018 £'000
Debtors:		
Contributions due	6,065	5,830
Sundry debtors	3,099	5,848
Cash Balances	24,119	27,484
VAT	83	0
Total	33,366	39,162

19. CURRENT LIABILITIES

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

Creditors	31 March 2019 £'000	31 March 2018 £'000
Benefits Payable	(793)	(647)
Sundry Creditors	(5,159)	(3,070)
Total	(5,952)	(3,717)

20. ADDITIONAL VOLUNTARY CONTRIBUTIONS

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

The total value of sums invested in the AVC funds as at 31 March 2019 was £5.453 million (£5.323 million as at 31 March 2018). Contributions received into the AVC facility during the year amounted to £0.47 million (£0.21 million in 2017/18). The efficiency and effectiveness of the provider is monitored on a periodic basis to assess performance.

21. RELATED PARTY TRANSACTIONS

London Borough of Hackney

The Fund is administered by the London Borough of Hackney. The Council is also the single largest employer of members of the pension fund and contributed £53.85 million to the Fund in 2018/19 (2017/18: £56.39 million). Consequently there is a strong relationship between the Council and the Pension Fund.

The Council incurred costs of £0.35 million in 2018/19 (£0.29 million in 2017/18) in relation to administration of the Fund and was consequently reimbursed by the Fund for these expenses. Part of the Pension Fund cash holdings are invested on the money markets by the treasury management operations of the London Borough of Hackney in line with the Treasury Management Strategy.

London Collective Investment Vehicle

The London CIV is a collective investment vehicle established by London Councils on behalf of the London Boroughs and the City of London Corporation. It consists of an ACS (Authorised Contractual Scheme) Operator, which is a limited company wholly owned by the 32 participating authorities, and the ACS fund itself. The Council is therefore a shareholder in the operating company. During 2015/16, the Pension Fund made an investment of £150k in the CIV to provide it with sufficient regulatory capital.

The Fund incurred costs of £90k in 2018/19 in relation to charges from the London CIV Ltd (the operating company).

Governance

Cllrs Robert Chapman (Chair) and Michael Desmond are pensioner and deferred members respectively of the Hackney Pension Fund.

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

22. KEY MANAGEMENT PERSONNEL

Several employees of the London Borough of Hackney hold key positions in the financial management of the Fund. As at 31 March 2019 these employees included:

Ian Williams	Group Director of Finance and Corporate Resources
Michael Honeysett	Director, Financial Management
Rachel Cowburn	Head of Pension Fund Investment
Julie Stacey	Head of Pensions Administration
Sam Masters	Group Accountant, Financial Services

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

	31 March 2019	31 March 2018
	£'000	£'000
Short term benefits	207	137
Long term/post-retirement benefits	32	21
Total	158	184

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

23. CONTINGENT ASSETS, LIABILITIES AND CONTRACTUAL COMMITMENTS

Outstanding capital commitments (investments) at 31 March 2019 were £151.623m (31 March 2018: £0). These commitments relate to outstanding call payments due on unquoted limited partnership funds held in the private debt parts of the portfolio. The amounts 'called' by these funds are irregular in both size and timing over a period of between one and three years from the date of each original commitment.

24. IMPAIRMENT LOSSES

During 2018/19 there were £7k impairment losses to recognise (2017/18: £0k) for non-recovery of pension overpayments.

Investment Strategy Statement

1 Introduction

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

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

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

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

2 Background to the Fund

2.1 The Legal Requirements

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

The Statement must include:

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

2.2 The Scheme

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

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

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

3 The suitability of particular investments and types of investments

3.1 Fund Objectives

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

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

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

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

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

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

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

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

4 Investment of money in a wide variety of investments

4.1 Asset Classes

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

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

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

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

4.2 . Fund Allocation

4.2.1 Current Fund Allocation

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

4.2.2 Target Fund Allocation (following 2016 Investment Strategy Review)

Asset Class	Target Allocation %
UK Equities	10%
Global Equities	36%
Global Emerging Market Equities	4.5%
Total Equities	50.5%
Property	10%
Multi-Asset	12.5%
Bonds	17%
Multi Asset credit	10%
Total	100%

4.3 Managers

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

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

5 Restrictions on investment

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

5.1 Investment Restrictions

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

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

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

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

6.1 Funding Risks

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

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

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

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

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

6.2 Asset Risks

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

The Committee measures and manages asset risks as follows.

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

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

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

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

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

6.3 Other Provider Risk

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

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

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

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

7.1 Assets to be invested in the Pool

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

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

At the time of preparing this statement the Fund has no assets invested through the Pool

The Fund currently holds 23.4% (£297.6m) of its assets in life funds and intends to retain these outside of the London CIV in accordance with government guidance on the retention of life funds outside pools for the time being. The Fund agrees for the London CIV to monitor the passive funds as part of the broader pool

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

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

Asset Class	Manager	% of Fund assets	Benchmark and performance objectives	Reason for not investing via the XYZ Pool
Property	Threadneedle – Low Carbon Workplace Fund	1.53% (£19.5m)	IPD Quarterly index total return – office sector. Targets outperformance of the benchmark by 1% over rolling 3 year periods.	Units do not become redeemable until 5 years from the date of issue. Investment is via a Jersey unit trust – whilst it could be held within an ACS structure, the transfer of the property assets would incur significant stamp duty. The Fund has invested in the LCW fund in 2 tranches (May 2016 and October 2016).
Property	Threadneedle - TPEN	8.41% (£106.8m)	IPD Quarterly index total return Targets outperformance of the benchmark by 1% over rolling 3 year periods.	Investment is via a unit linked life vehicle which cannot be transferred to the ACS structure. No suitable alternative currently exists through the London CIV, and the Fund wishes to maintain its strategic allocation to property.
UK Equities	UBS	23.4% (£297.6m)	Index fund tracking the FTSE All share	Passively managed via a life fund and therefore covered by Government guidance on the retention of Life funds outside the pool for the present.

Fixed Income	BMO	17.6% (£224.0m)	Outperform a customised benchmark (37.5 FTA Govt All Stocks; 37.5% ML £ Non-Gilt All Stocks Index; 25% FTA Govt IL >5yrs) by 1% over a rolling 3yr period	No suitable alternative currently available through the London CIV; the Fund wishes to maintain its strategic allocation to fixed income.
--------------	-----	--------------------	---	---

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

7.2 Structure and governance of the London CIV

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

The submission to Government set out the structure and governance of the Pool as follows:

London LGPS CIV Limited (“London CIV”) is fully authorised by the FCA as an Alternative Investment Fund Manager (AIFM) with permission to operate a UK based Authorised Contractual Scheme fund (ACS Fund). FCA firm registered as London LGPS CIV Ltd, Reference Number 710618.

Approval for the structure has been signed off by the 32 participating London Authorities

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

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

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

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

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

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

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

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

- Reduce the Fund's relative exposure to future emissions from fossil fuel reserves (measured in MtCO₂e – million tonnes of CO₂ emissions) by 50% over 2 valuation cycles (6 years)
- Measure the reduction relative to the Fund's position as at July 2016 (7.11MtCO₂e) and adjusted for Assets Under Management (£AUM)

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

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

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

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

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

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

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

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

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

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

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

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

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

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

London Borough of Hackney Pension Fund Funding Strategy Statement

1 Introduction

1.1 What is this document?

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

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

1.2 What is the LBH Pension Fund?

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

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

The roles and responsibilities of the key parties involved in the management of the Fund are summarised in [Appendix B](#).

1.3 Why does the Fund need a Funding Strategy Statement?

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

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

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

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

There are also regulatory requirements for an FSS, as given in [Appendix A](#).

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

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

1.4 How does the Fund and this FSS affect me?

This depends on who you are:

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

1.5 What does the FSS aim to do?

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

- to ensure the long-term solvency of the Fund, using a prudent long term view. This will ensure that sufficient funds are available to meet all members'/dependants' benefits as they fall due for payment;
- to ensure that employer contribution rates are reasonably stable where appropriate;
- to minimise the long-term cash contributions which employers need to pay to the Fund, by recognising the link between assets and liabilities and adopting an investment strategy which balances risk and return (**NB** this will also minimise the costs to be borne by Council Tax payers);

- to reflect the different characteristics of different employers in determining contribution rates. This involves the Fund having a clear and transparent funding strategy to demonstrate how each employer can best meet its own liabilities over future years; and
- to use reasonable measures to reduce the risk to other employers and ultimately to the Council Tax payer from an employer defaulting on its pension obligations.

1.6 How do I find my way around this document?

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

In [Section 3](#) we outline how the Fund calculates the contributions payable by different employers in different situations.

In [Section 4](#) we show how the funding strategy is linked with the Fund's investment strategy.

In the [Appendices](#) we cover various issues in more detail if you are interested:

- A. the regulatory background, including how and when the FSS is reviewed,
- B. who is responsible for what,
- C. what issues the Fund needs to monitor, and how it manages its risks,
- D. some more details about the actuarial calculations required,
- E. the assumptions which the Fund actuary currently makes about the future,
- F. a [glossary](#) explaining the technical terms occasionally used here.

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

2 Basic Funding Issues

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

2.1 How does the actuary measure the required contribution rate?

In essence this is a three-step process:

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

2.2 What is each employer's contribution rate?

This is described in more detail in [Appendix D](#). Employer contributions are normally made up of two elements:

- a) the estimated cost of benefits being built up each year, after deducting the members' own contributions and including administration expenses. This is referred to as the "*Primary rate*", and is expressed as a percentage of members' pensionable pay; plus
- b) an adjustment for the difference between the Primary rate above, and the actual contribution the employer needs to pay, referred to as the "*Secondary rate*". In broad terms, payment of the Secondary rate will aim to return the employer to full funding over an appropriate period (the "time horizon"). The Secondary rate may be expressed as a percentage of pay and/or a monetary amount in each year.

The rates for all employers are shown in the Fund's Rates and Adjustments Certificate, which forms part of the formal Actuarial Valuation Report. Employers' contributions are expressed as minima, with employers able to pay contributions at a higher rate. Account of any higher rate will be taken by the Fund actuary at subsequent valuations, i.e. will be reflected as a credit when next calculating the employer's contributions.

2.3 What different types of employer participate in the Fund?

Historically the LGPS was intended for local authority employees only. However over the years, with the diversification and changes to delivery of local services, many more types and numbers of employers now participate.

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

The LGPS Regulations define various types of employer as follows:

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

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

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

Other employers are able to participate in the Fund via an admission agreement, and are referred to as 'admission bodies'. These employers are generally those with a "community of interest" with another scheme employer – **community admission bodies** ("CAB") or those providing a service on behalf of a scheme employer – **transferee admission bodies** ("TAB"). CABs will include housing associations and charities, TABs will generally be contractors. The Fund is able to set its criteria for participation by these employers and can refuse entry if the requirements as set out in the Fund's admissions policy are not met. (NB The terminology CAB and TAB has been dropped from recent LGPS Regulations, which instead combine both under the single term 'admission bodies'; however, we have retained the old terminology here as we consider it to be helpful in setting funding strategies for these different employers.)

2.4 How does the measured contribution rate vary for different employers?

All three steps above are considered when setting contributions (more details are given in [Section 3](#) and [Appendix D](#)).

1. The **funding target** is based on a set of assumptions about the future, (e.g. investment returns, inflation, pensioners' life expectancies). However, if an employer is approaching the end of its participation in the Fund then its funding target may be set on a more prudent basis, so that its liabilities are less likely to be spread among other employers after its cessation;
2. The **time horizon** required is, in broad terms, the period over which any deficit is to be recovered. A shorter period will lead to higher contributions, and vice versa (all other things being equal). Employers may be given a lower time horizon if they have a less permanent anticipated membership, or do not have tax-raising powers to increase contributions if investment returns under-perform; and
3. The **probability of achieving** the funding target over that time horizon will be dependent on the Fund's view of the strength of employer covenant and its funding profile. Where an employer is considered to be weaker, or potentially ceasing from the Fund, then the required probability will be set higher, which in turn will increase the required contributions (and vice versa).

For some employers it may be agreed to pool contributions, see [3.4](#).

Any costs of non ill-health early retirements must be paid by the employer, see [3.6](#).

Costs of ill-health early retirements are covered in [3.7](#) and [3.8](#).

2.5 How is a deficit (or surplus) calculated?

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

- the market value of the employer's share of assets (see [Appendix D](#), section [D5](#), for further details of how this is calculated), to
- the value placed by the actuary on the benefits built up to date for the employer's employees and ex-employees (the "liabilities"). The Fund actuary agrees with the Administering Authority the assumptions to be used in calculating this value.

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

It is important to note that the deficit/surplus and funding level are only measurements at a particular point in time, on a particular set of assumptions about the future. Whilst we recognise that various parties will take an interest in these measures, for most employers the key issue is how likely it is that their contributions will be sufficient to pay for their members' benefits (when added to their existing asset share and anticipated investment returns).

In short, deficits and funding levels are short term measures, whereas contribution-setting is a longer term issue.

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

The Administering Authority and the Fund actuary are acutely aware that, all other things being equal, a higher contribution required to be paid to the Fund will mean less cash available for the employer to spend on the provision of services. For instance:

- Higher Pension Fund contributions may result in reduced council spending, which in turn could affect the resources available for council services, and/or greater pressure on council tax levels;
- Contributions which Academies pay to the Fund will therefore not be available to pay for providing education; and
- Other employers will provide various services to the local community, perhaps through housing associations, charitable work, or contracting council services. If they are required to pay more in pension contributions to the LGPS then this may affect their ability to provide the local services at a reasonable cost.

Whilst all this is true, it should also be borne in mind that:

- The Fund provides invaluable financial security to local families, whether to those who formerly worked in the service of the local community who have now retired, or to their families after their death;

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

Overall, therefore, there is clearly a balance to be struck between the Fund's need for maintaining prudent funding levels, and the employers' need to allocate their resources appropriately. The Fund achieves this through various techniques which affect contribution increases to various degrees (see [3.1](#)). In deciding which of these techniques to apply to any given employer, the Administering Authority takes a view on the financial standing of the employer, i.e. its ability to meet its funding commitments and the relevant time horizon.

The Administering Authority will consider a risk assessment of that employer using a knowledge base which is regularly monitored and kept up-to-date. This database will include such information as the type of employer, its membership profile and funding position, any guarantors or security provision, material changes anticipated, etc.

For instance, where the Administering Authority has reasonable confidence that an employer will be able to meet its funding commitments, then the Fund will permit options such as stabilisation ([see 3.3 Note \(b\)](#)), a longer time horizon relative to other employers, and/or a lower probability of achieving their funding target. Such options will temporarily produce lower contribution levels than would otherwise have applied. This is permitted in the expectation that the employer will still be able to meet its obligations for many years to come.

On the other hand, where there is doubt that an employer will be able to meet its funding commitments or withstand a significant change in its commitments, then a higher funding target, and/or a shorter deficit recovery period relative to other employers, and/or a higher probability of achieving the target may be required.

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

3 Calculating contributions for individual Employers

3.1 General comments

A key challenge for the Administering Authority is to balance the need for stable, affordable employer contributions with the requirement to take a prudent, longer-term view of funding and ensure the solvency of the Fund. With this in mind, the Fund's three-step process identifies the key issues:

1. What is a suitably (but not overly) prudent funding target?
2. How long should the employer be permitted to reach that target? This should be realistic but not so long that the funding target is in danger of never actually being achieved.
3. What probability is required to reach that funding target? This will always be less than 100% as we cannot be certain of future market movements. Higher probability "bars" can be used for employers where the Fund wishes to reduce the risk that the employer ceases leaving a deficit to be picked up by other employers.

These and associated issues are covered in this Section.

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

3.2 The effect of paying lower contributions

In limited circumstances the Administering Authority may permit employers to pay contributions at a lower level than is assessed for the employer using the three step process above. At their absolute discretion the Administering Authority may:

- extend the time horizon for targeting full funding;
- adjust the required probability of meeting the funding target;
- permit an employer to participate in the Fund's stabilisation mechanisms;
- permit extended phasing in of contribution rises or reductions;
- pool contributions amongst employers with similar characteristics; and/or
- accept some form of security or guarantee in lieu of a higher contribution rate than would otherwise be the case.

Employers which are permitted to use one or more of the above methods will often be paying, for a time, contributions less than required to meet their funding target, over the appropriate time horizon with the required likelihood of success. Such employers should appreciate that:

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

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

[Section 3.4](#) onwards deals with various other funding issues which apply to all employers.

3.3 The different approaches used for different employers

Type of employer	Scheduled Bodies			Community Admission Bodies and Designating Employers		Transferee Admission Bodies
Sub-type	Local Authorities	Academies	Colleges	Open to new entrants	Closed to new entrants	(all)
Funding Target Basis used	Ongoing, assumes long-term Fund participation (see Appendix E)			Ongoing, but may move to “gilts basis” - see Note (a)		Ongoing, assumes fixed contract term in the Fund (see Appendix E)
Primary rate approach	(see Appendix D – D.2)					
Stabilised contribution rate?	Yes - see Note (b)	No	No	No	No	No
Maximum time horizon – Note (c)	20 years	15 years	10 years	15 years	15 years	Outstanding contract term
Secondary rate – Note (d)	% of payroll or monetary amount	% of payroll or monetary amount	% of payroll or monetary amount	% of payroll or monetary amount	Monetary amount	% of payroll or monetary amount
Treatment of surplus	Covered by stabilisation arrangement	Reductions will be permitted by the Admin Authority by spreading the surplus over a 3 year period or by stepped decreases.	Preferred approach: contributions kept at Primary rate. However, reductions may be permitted by the Admin. Authority		Reduce contributions by spreading the surplus over the remaining contract term	
Probability of achieving target – Note (e)	66%	66%	66%	75%	75%	70%
Phasing of contribution changes	Covered by stabilisation arrangement	3 years	3 years	3 years	3 years	None
Review of rates – Note (f)	Administering Authority reserves the right to review contribution rates and amounts, and the level of security provided, at regular intervals between valuations					Particularly reviewed in last 3 years of contract
New employer	n/a	Note (g)	n/a	Note (h)		Notes (h) & (i)
Cessation of participation: cessation debt payable	Cessation is assumed not to be generally possible, as Scheduled Bodies are legally obliged to participate in the LGPS. In the rare event of cessation occurring (machinery of Government changes for example), the cessation debt principles applied would be as per Note (j) .			Can be ceased subject to terms of admission agreement. Cessation debt will be calculated on a basis appropriate to the circumstances of cessation – see Note (j) .		Participation is assumed to expire at the end of the contract. Cessation debt (if any) calculated on ongoing basis. Awarding Authority will be liable for future deficits and contributions arising.

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

In the circumstances where:

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

the Administering Authority may set a higher funding target (e.g. using a discount rate set equal to gilt yields) by the time the agreement terminates or the last active member leaves, in order to protect other employers in the Fund. This policy will increase regular contributions and reduce, but not entirely eliminate, the possibility of a final deficit payment being required from the employer when a cessation valuation is carried out.

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

Note (b) (Stabilisation)

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

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

The current stabilisation mechanism applies if:

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

The Fund currently has a strong net cash inflow and can therefore take a medium to long term view on determining employer contribution rates to meet future liabilities through operating a fund with an investment strategy that reflects this long term view. It allows short term investment markets volatility to be managed so as not to cause volatility in employer contribution rates.

On the basis of extensive modelling carried out for the 2016 valuation exercise (see [Section 4](#)), Hackney Council will steadily reduce contributions from the 36.9% of pay currently in payment in 2016/17 to 33.0% of pay, over each year from 1 April 2017 to 31 March 2020.

The stabilisation criteria and limits will be reviewed at the 31 March 2019 valuation, to take effect from 1 April 2020. However the Administering Authority reserves the right to review the stabilisation criteria and limits at any time before then, on the basis of membership and/or employer changes as described above.

Note (c) (Maximum time horizon)

The maximum time horizon starts at the commencement of the revised contribution rate (1 April 2017 for the 2016 valuation). The Administering Authority would normally expect the same period to be used at successive triennial valuations, but would reserve the right to propose alternative time horizons, for example where there were no new entrants.

Note (d) (Secondary rate)

For employers where stabilisation is not being applied, the Secondary contribution rate for each employer covering the three year period until the next valuation will often be set as a percentage of salaries. However, the Administering Authority reserves the right to amend these rates between valuations and/or to require these payments in monetary terms instead, for instance where:

- the employer is relatively mature, i.e. has a large Secondary contribution rate (e.g. above 15% of payroll), or
- there has been a significant reduction in payroll due to outsourcing or redundancy exercises, or
- the employer has closed the Fund to new entrants.

Note (e) (Probability of achieving funding target)

Each employer has its funding target calculated, and a relevant time horizon over which to reach that target. Contributions are set such that, combined with the employer's current asset share and anticipated market movements over the time horizon, the funding target is achieved with a given minimum probability. A higher required probability bar will give rise to higher required contributions, and vice versa.

The way in which contributions are set using these three steps, and relevant economic projections, is described in further detail in [Appendix D](#).

Different probabilities are set for different employers depending on their nature and circumstances: in broad terms, a higher probability will apply due to one or more of the following:

- the Fund believes the employer poses a greater funding risk than other employers,
- the employer does not have tax-raising powers;
- the employer does not have a guarantor or other sufficient security backing its funding position; and/or
- the employer is likely to cease participation in the Fund in the short or medium term.

Note (f) (Regular Reviews)

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

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

Note (g) (New Academy conversions)

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

- i. The new academy will be regarded as a separate employer in its own right and will not be pooled with other employers in the Fund. The only exception is where the academy is part of a Multi Academy Trust (MAT) in which case the academy's figures will be calculated as below but can be combined with those of the other academies in the MAT;
- ii. The new academy's past service liabilities on conversion will be calculated based on its active Fund members on the day before conversion. For the avoidance of doubt, these liabilities will include all past service of those members, but will exclude the liabilities relating to any ex-employees of the school who have deferred or pensioner status;
- iii. The new academy will be allocated an initial asset share from the ceding council's assets in the Fund. This asset share will be calculated using the estimated funding position of the ceding council at the date of academy conversion. The share will be based on the active members' funding level, having first allocated assets in the council's share to fully fund deferred and pensioner members. The asset allocation will be based on market conditions and the academy's active Fund membership on the day prior to conversion;

- iv. The new academy's initial contribution rate will be calculated using market conditions, the council funding position and membership data, all as at the day prior to conversion;
- v. As an alternative to (iv), the academy will have the option to elect to pay contributions initially in line with the ceding LEA instead. However, this election will not alter its asset or liability allocation as per (ii) and (iii) above. Ultimately, all academies remain responsible for their own allocated deficit.

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

Note that other than in exceptional circumstances, an Academy that is less than 100% funded at the formal valuation would not usually be allowed a decrease to their contribution rate.

Note (h) (New Admission Bodies)

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

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

Transferee Admission Bodies: For all TABs, the security must be to the satisfaction of the Administering Authority as well as the letting employer, and will be reassessed on an annual basis. See also [Note \(i\)](#) below.

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

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

Note (i) (New Transferee Admission Bodies)

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

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

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

- i) Pooling
Under this option the contractor is pooled with the letting employer. In this case, the contractor pays the same rate as the letting employer, which may be under a stabilisation approach.
- ii) Letting employer retains pre-contract risks
Under this option the letting employer would retain responsibility for assets and liabilities in respect of service accrued prior to the contract commencement date. The contractor would be responsible for the future liabilities that accrue in respect of transferred staff. The contractor’s contribution rate could vary from one valuation to the next. It would be liable for any deficit at the end of the contract term in respect of assets and liabilities attributable to service accrued during the contract term.
- iii) Fixed contribution rate agreed
Under this option the contractor pays a fixed contribution rate and does not pay any cessation deficit.

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

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

Note (j) (Admission Bodies Ceasing)

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

- Last active member ceasing participation in the Fund (NB recent LGPS Regulation changes mean that the Administering Authority has the discretion to defer taking action for up to three years, so that if the employer acquires one or more active Fund members during that period then cessation is not triggered. The current Fund policy is that this is left as a discretion and may or may not be applied in any given case);
- The insolvency, winding up or liquidation of the Admission Body;
- Any breach by the Admission Body of any of its obligations under the Agreement that they have failed to remedy to the satisfaction of the Fund;
- A failure by the Admission Body to pay any sums due to the Fund within the period required by the Fund; or
- The failure by the Admission Body to renew or adjust the level of the bond or indemnity, or to confirm an appropriate alternative guarantor, as required by the Fund.

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

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

- (a) Where a guarantor does not exist then, in order to protect other employers in the Fund, the cessation liabilities and final deficit will normally be calculated using a “gilts cessation basis”, which is more prudent than the ongoing basis. This has no allowance for potential future investment outperformance above gilt yields, and has added allowance for future improvements in life expectancy. This could give rise to significant cessation debts being required.
- (b) Where there is a guarantor for future deficits and contributions, the details of the guarantee will be considered prior to the cessation valuation being carried out. In some cases the guarantor is simply guarantor of last resort and therefore the cessation valuation will be carried out consistently with the approach taken had there been no guarantor in place. Alternatively, where the guarantor is not simply guarantor of last resort, the cessation may be calculated using the ongoing basis as described in [Appendix E](#);

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

Under (a) and (b), any shortfall would usually be levied on the departing Admission Body as a single lump sum payment. If this is not possible then the Fund would spread the payment subject to there being some security in place for the employer such as a bond indemnity or guarantee.

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

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

Note (k) (Phasing in of contribution changes)

All phasing is subject to the Administering Authority being satisfied as to the strength of the employer's covenant. Transferee Admission Bodies are not eligible for phasing in contribution rates but other employers may opt to phase in contribution rises or reductions.

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

3.4 Pooled contributions

From time to time, with the advice of the Actuary, the Administering Authority may set up pools for employers with similar or complementary characteristics. This will always be in line with its broader funding strategy.

With the advice of the Actuary the Administering Authority allows smaller employers of similar types to pool their contributions as a way of sharing experience and smoothing out the effects of costly but relatively rare events such as ill-health retirements or deaths in service.

Community Admission Bodies that are deemed by the Administering Authority to have closed to new entrants are not usually permitted to participate in a pool.

Transferee Admission Bodies are usually also ineligible for pooling.

Smaller admitted bodies may be pooled with the letting employer, provided all parties (particularly the letting employer) agree. The Administering Authority may allow smaller employers to pool their contributions as a way of sharing experience and smoothing out the effects of costly but relatively rare events such as ill-health retirements or deaths in service. The Administering Authority may specify the maximum number of active members to participate in a pool.

3.5 Additional flexibility in return for added security

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

Such flexibility includes a reduced rate of contribution, an extended time horizon, or permission to join a pool with another body (e.g. the Council).

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

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

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

3.6 Non ill health early retirement costs

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

Employers must make these additional contributions as a one off payment to the fund immediately on awarding the early retirement. The exception to this rule are statutory bodies with tax raising powers, where, depending on the circumstances, the Administering Authority may at its absolute discretion agree to spread the payment over a period not exceeding 5 years. If this is agreed, interest will be charged, using factors provided by the actuary. In any event the spread period cannot exceed the period to the member's normal retirement date if this is shorter than 5 years.

3.7 Ill health early retirement costs

In the event of a member's early retirement on the grounds of ill-health, a funding strain will usually arise, which can be very large. Such strains are currently met by each employer, although individual employers may elect to take external insurance (see [3.8](#) below).

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

3.8 External Ill health insurance

If an employer provides satisfactory evidence to the Administering Authority of a current external insurance policy covering ill health early retirement strains, then:

- the employer's contribution to the Fund each year is reduced by the amount of that year's insurance premium, so that the total contribution is unchanged, and
- there is no need for monitoring of allowances.

The employer must keep the Administering Authority notified of any changes in the insurance policy's coverage or premium terms, or if the policy is ceased.

3.9 Employers with no remaining active members

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

- a) The employer's asset share runs out before all its ex-employees' benefits have been paid. In this situation the other Fund employers will be required to contribute to pay all remaining benefits: this will be done by the Fund actuary apportioning the remaining liabilities on a pro-rata basis at successive formal valuations;
- b) The last ex-employee or dependant dies before the employer's asset share has been fully utilised. In this situation the remaining assets would be apportioned pro-rata by the Fund's actuary to the other Fund employers.
- c) In exceptional circumstances the Fund may permit an employer with no remaining active members to continue contributing to the Fund. This would require the provision of a suitable security or guarantee, as well as a written ongoing commitment to fund the remainder of the employer's obligations over an appropriate period. The Fund would reserve the right to invoke the cessation requirements in the future, however. The Administering Authority may need to seek legal advice in such cases, as the employer would have no contributing members.

3.10 Policies on bulk transfers

Each bulk transfer payment into, out of and within the Fund, will be treated on its own merits, but in general:

- The Fund will not pay bulk transfers greater than the lesser of (a) the asset share of the transferring employer in the Fund, and (b) the value of the past service liabilities of the transferring members;

- The Fund will not grant added benefits to members bringing in entitlements from another Fund unless the asset transfer is sufficient to meet the added liabilities; and
- The Fund may permit shortfalls to arise on bulk transfers if the Fund employer has suitable strength of covenant and commits to meeting that shortfall in an appropriate period. This may require the employer's Fund contributions to increase between valuations.

4 Funding strategy and links to investment strategy

4.1 What is the Fund's investment strategy?

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

Investment strategy is set by the administering authority, after consultation with the employers and after taking investment advice. The precise mix, manager make up and target returns are set out in the Statement of Investment Principles (being replaced by an Investment Strategy Statement under new LGPS Regulations), which is available to members and employers.

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

The same investment strategy is currently followed for all employers.

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

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

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

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

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

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

4.4 How does this differ for a large stable employer?

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

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

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

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

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

Whilst the current stabilisation mechanism is to remain in place until 2020, it should be noted that this will need to be reviewed following the 2019 valuation.

4.5 Does the Fund monitor its overall funding position?

The Administering Authority monitors the relative funding position, i.e. changes in the relationship between asset values and the liabilities value, quarterly. It reports this to the regular Pensions Committee meetings, and also to employers Employers Forums.

5 Statutory reporting and comparison to other LGPS Funds

5.1 Purpose

Under Section 13(4)(c) of the Public Service Pensions Act 2013 (“Section 13”), the Government Actuary’s Department must, following each triennial actuarial valuation, report to the Department of Communities & Local Government (DCLG) on each of the LGPS Funds in England & Wales. This report will cover whether, for each Fund, the rate of employer contributions are set at an appropriate level to ensure both the solvency and the long term cost efficiency of the Fund.

This additional DCLG oversight may have an impact on the strategy for setting contribution rates at future valuations.

5.2 Solvency

For the purposes of Section 13, the rate of employer contributions shall be deemed to have been set at an appropriate level to ensure solvency if:

- (a) the rate of employer contributions is set to target a funding level for the Fund of 100%, over an appropriate time period and using appropriate actuarial assumptions (where appropriateness is considered in both absolute and relative terms in comparison with other funds); and either
- (b) employers collectively have the financial capacity to increase employer contributions, and/or the Fund is able to realise contingent assets should future circumstances require, in order to continue to target a funding level of 100%; or
- (c) there is an appropriate plan in place should there be, or if there is expected in future to be, a material reduction in the capacity of fund employers to increase contributions as might be needed.

5.3 Long Term Cost Efficiency

The rate of employer contributions shall be deemed to have been set at an appropriate level to ensure long term cost efficiency if:

- i. the rate of employer contributions is sufficient to make provision for the cost of current benefit accrual,
- ii. with an appropriate adjustment to that rate for any surplus or deficit in the Fund.

In assessing whether the above condition is met, DCLG may have regard to various absolute and relative considerations. A relative consideration is primarily concerned with comparing LGPS pension funds with other LGPS pension funds. An absolute consideration is primarily concerned with comparing Funds with a given objective benchmark.

Relative considerations include:

1. the implied deficit recovery period; and
2. the investment return required to achieve full funding after 20 years.

Absolute considerations include:

1. the extent to which the contributions payable are sufficient to cover the cost of current benefit accrual and the interest cost on any deficit;
2. how the required investment return under “relative considerations” above compares to the estimated future return being targeted by the Fund’s current investment strategy;
3. the extent to which contributions actually paid have been in line with the expected contributions based on the extant rates and adjustment certificate; and
4. the extent to which any new deficit recovery plan can be directly reconciled with, and can be demonstrated to be a continuation of, any previous deficit recovery plan, after allowing for actual Fund experience.

DCLG may assess and compare these metrics on a suitable standardised market-related basis, for example where the local funds’ actuarial bases do not make comparisons straightforward.

Appendix A – Regulatory framework

A1 Why does the Fund need an FSS?

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

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

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

The requirement to maintain and publish a FSS is contained in LGPS Regulations which are updated from time to time. In publishing the FSS the Administering Authority has to have regard to any guidance published by Chartered Institute of Public Finance and Accountancy (CIPFA) (most recently in 2016) and to its Statement of Investment Principles / Investment Strategy Statement.

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

A2 Does the Administering Authority consult anyone on the FSS?

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

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

- a) A draft version of the FSS was issued to all participating employers in January 2017 for comment;
- b) Comments were requested within 30 days;
- c) There was an Employers Forum in February 2017 at which questions regarding the FSS could be raised and answered;
- d) Following the end of the consultation period the FSS was updated where required and then published, in March 2017.

A3 How is the FSS published?

The FSS is made available through the following routes:

- Published on the website, at <http://hackney.xpmemberservices.com/Library/Pension-Fund-and-Investment.aspx>;

- A copy sent by e-mail to each participating employer in the Fund;
- A full copy included in the annual report and accounts of the Fund;
- Copies sent to investment managers and independent advisers;
- Copies made available on request.

A4 How often is the FSS reviewed?

The FSS is reviewed in detail at least every three years as part of the triennial valuation. This version is expected to remain unaltered until it is consulted upon as part of the formal process for the next valuation in 2019.

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

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

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

A5 How does the FSS fit into other Fund documents?

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

These documents can be found on the web at

<http://hackney.xpmemberservices.com/Library/Pension-Fund-and-Investment.aspx>

Appendix B – Responsibilities of key parties

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

B1 The Administering Authority should:-

- operate the Fund as per the LGPS Regulations;
- effectively manage any potential conflicts of interest arising from its dual role as Administering Authority and a Fund employer;
- collect employer and employee contributions, and investment income and other amounts due to the Fund;
- ensure that cash is available to meet benefit payments as and when they fall due;
- pay from the Fund the relevant benefits and entitlements that are due;
- invest surplus monies (i.e. contributions and other income which are not immediately needed to pay benefits) in accordance with the Fund's Statement of Investment Principles/Investment Strategy Statement (SIP/ISS) and LGPS Regulations;
- communicate appropriately with employers so that they fully understand their obligations to the Fund;
- take appropriate measures to safeguard the Fund against the consequences of employer default;
- manage the valuation process in consultation with the Fund's actuary;
- provide data and information as required by the Government Actuary's Department to carry out their statutory obligations (see [Section 5](#));
- prepare and maintain a FSS and a SIP/ISS, after consultation;
- notify the Fund's actuary of material changes which could affect funding (this is covered in a separate agreement with the actuary); and
- monitor all aspects of the fund's performance and funding and amend the FSS and SIP/ISS as necessary and appropriate.

B2 The Individual Employer should:-

- deduct contributions from employees' pay correctly;
- pay all contributions, including their own as determined by the actuary, promptly by the due date;
- have a policy and exercise discretions within the regulatory framework;
- make additional contributions in accordance with agreed arrangements in respect of, for example, augmentation of scheme benefits, early retirement strain; and
- notify the Administering Authority promptly of all changes to its circumstances, prospects or membership, which could affect future funding.

B3 The Fund Actuary should:-

- prepare valuations, including the setting of employers' contribution rates. This will involve agreeing assumptions with the Administering Authority, having regard to the FSS and LGPS Regulations, and targeting each employer's solvency appropriately;
- provide data and information as required by the Government Actuary's Department to carry out their statutory obligations (see [Section 5](#));
- provide advice relating to new employers in the Fund, including the level and type of bonds or other forms of security (and the monitoring of these);
- prepare advice and calculations in connection with bulk transfers and individual benefit-related matters;
- assist the Administering Authority in considering possible changes to employer contributions between formal valuations, where circumstances suggest this may be necessary;
- advise on the termination of employers' participation in the Fund; and
- fully reflect actuarial professional guidance and requirements in the advice given to the Administering Authority.

B4 Other parties:-

- investment advisers (either internal or external) should ensure the Fund's SIP/ISS remains appropriate, and consistent with this FSS;
- investment managers, custodians and bankers should all play their part in the effective investment (and dis-investment) of Fund assets, in line with the SIP/ISS;
- auditors should comply with their auditing standards, ensure Fund compliance with all requirements, monitor and advise on fraud detection, and sign off annual reports and financial statements as required;
- governance advisers may be appointed to advise the Administering Authority on efficient processes and working methods in managing the Fund;
- legal advisers (either internal or external) should ensure the Fund's operation and management remains fully compliant with all regulations and broader local government requirements, including the Administering Authority's own procedures;
- the Department for Communities and Local Government (assisted by the Government Actuary's Department) and the Scheme Advisory Board, should work with LGPS Funds to meet Section 13 requirements.

Appendix C – Key risks and controls

C1 Types of risk

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

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

C2 Financial risks

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

Pay and price inflation significantly more than anticipated.	The focus of the actuarial valuation process is on real returns on assets, net of price and pay increases. Inter-valuation monitoring, as above, gives early warning. Some investment in bonds also helps to mitigate this risk. Employers pay for their own salary awards and should be mindful of the geared effect on pension liabilities of any bias in pensionable pay rises towards longer-serving employees.
Effect of possible increase in employer's contribution rate on service delivery and admission/scheduled bodies	An explicit stabilisation mechanism has been agreed as part of the funding strategy. Other measures are also in place to limit sudden increases in contributions.
Orphaned employers give rise to added costs for the Fund	The Fund seeks a cessation debt (or security/guarantor) to minimise the risk of this happening in the future. If it occurs, the Actuary calculates the added cost spread pro-rata among all employers – (see 3.9).

C3 Demographic risks

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

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

C4 Regulatory risks

Risk	Summary of Control Mechanisms
Changes to national pension requirements and/or HMRC rules e.g. changes arising from public sector pension's reform.	The Administering Authority considers all consultation papers issued by the Government and comments where appropriate. The results of the most recent reforms were built into the 2013 valuation. Any changes to member contribution rates or benefit levels will be carefully communicated with members to minimise possible opt-outs or adverse actions.
Time, cost and/or reputational risks associated with any DCLG intervention triggered by the Section 13 analysis (see Section 5).	Take advice from Fund Actuary on position of Fund as at prior valuation, and consideration of proposed valuation approach relative to anticipated Section 13 analysis.
Changes by Government to particular employer participation in LGPS Funds, leading to impacts on funding and/or investment strategies.	The Administering Authority considers all consultation papers issued by the Government and comments where appropriate. Take advice from Fund Actuary on impact of changes on the Fund and amend strategy as appropriate.

C5 Governance risks

Risk	Summary of Control Mechanisms
Administering Authority unaware of structural changes in an employer's membership (e.g. large fall in employee members, large number of retirements) or not advised of an employer closing to new entrants.	The Administering Authority has a close relationship with employing bodies and communicates required standards e.g. for submission of data. The Actuary may revise the rates and Adjustments certificate to increase an employer's contributions between triennial valuations. Deficit contributions may be expressed as monetary amounts.
Actuarial or investment advice is not sought, or is not heeded, or proves to be insufficient in some way	The Administering Authority maintains close contact with its specialist advisers. Advice is delivered via formal meetings involving Elected Members, and recorded appropriately. Actuarial advice is subject to professional requirements such as peer review.

Risk	Summary of Control Mechanisms
<p>Administering Authority failing to commission the Fund Actuary to carry out a termination valuation for a departing Admission Body.</p>	<p>The Administering Authority requires employers with Best Value contractors to inform it of forthcoming changes. Community Admission Bodies' memberships are monitored and, if active membership decreases, steps will be taken.</p>
<p>An employer ceasing to exist with insufficient funding or adequacy of a bond.</p>	<p>The Administering Authority believes that it would normally be too late to address the position if it was left to the time of departure. The risk is mitigated by:</p> <ul style="list-style-type: none"> Seeking a funding guarantee from another scheme employer, or external body, wherever possible (see Notes (h) and (i) to 3.3). Alerting the prospective employer to its obligations and encouraging it to take independent actuarial advice. Vetting prospective employers before admission. Where permitted under the regulations requiring a bond to protect the Fund from various risks. Requiring new Community Admission Bodies to have a guarantor. Reviewing bond or guarantor arrangements at regular intervals (see Note (f) to 3.3). Reviewing contributions well ahead of cessation if thought appropriate (see Note (a) to 3.3).

Appendix D – The calculation of Employer contributions

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

All three steps above are considered when setting contributions (more details are given in [Section 3](#) and [Appendix D](#)):

1. The **funding target** is based on a set of assumptions about the future, eg investment returns, inflation, pensioners' life expectancies. However, if an employer is approaching the end of its participation in the Fund then its funding target may be set on a more prudent basis, so that its liabilities are less likely to be spread among other employers after its cessation of participation;
2. The **time horizon** required is, in broad terms, the period over which any deficit is to be recovered. A shorter period will lead to higher contributions, and vice versa (all other things being equal). Employers may be given a lower time horizon if they have a less permanent anticipated membership, or do not have tax-raising powers to increase contributions if investment returns under-perform;
3. The required **probability of achieving** the funding target over that time horizon will be dependent on the Fund's view of the strength of employer covenant and its funding profile. Where an employer is considered to be weaker, or potentially ceasing from the Fund, then the required probability will be set higher, which in turn will increase the required contributions (and vice versa).

The calculations involve actuarial assumptions about future experience, and these are described in detail in [Appendix E](#).

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

Employer contributions are normally made up of two elements:

- a) the estimated cost of ongoing benefits being accrued, referred to as the "Primary contribution rate" (see [D2](#) below); plus
- b) an adjustment for the difference between the Primary rate above, and the actual contribution the employer needs to pay, referred to as the "Secondary contribution rate" (see [D3](#) below).

The contribution rate for each employer is measured as above, appropriate for each employer's funding position and membership. The whole Fund position, including that used in reporting to DCLG (see section 5), is calculated in effect as the sum of all the individual employer rates. DCLG currently only regulates at whole Fund level, without monitoring individual employer positions.

D2 How is the Primary contribution rate calculated?

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

The Primary rate is calculated separately for all the employers, although employers within a pool will pay the contribution rate applicable to the pool as a whole. The Primary rate is calculated such that it is projected to:

1. meet the required funding target for all future years' accrual of benefits*, excluding any accrued assets,
2. within the determined time horizon (see [note 3.3 Note \(c\)](#) for further details),
3. with a sufficiently high probability, as set by the Fund's strategy for the category of employer (see [3.3 Note \(e\)](#) for further details).

* The projection is for the current active membership where the employer no longer admits new entrants, or additionally allows for new entrants where this is appropriate.

The projections are carried out using an economic modeller developed by the Fund's actuary Hymans Robertson: this allows for a wide range of outcomes as regards key factors such as asset returns (based on the Fund's investment strategy), inflation, and bond yields. The measured contributions are calculated such that the proportion of outcomes meeting the employer's funding target (by the end of the time horizon) is equal to the required probability.

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

D3 How is the Secondary contribution rate calculated?

The combined Primary and Secondary rates aim to achieve the employer's funding target, within the appropriate time horizon, with the relevant degree of probability.

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

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

The Secondary rate is calculated as the balance over and above the Primary rate, such that the total is projected to:

- meet the required funding target relating to combined past and future service benefit accrual, including accrued asset share (see [D5](#) below)
- within the determined time horizon (see [3.3 Note \(c\)](#) for further details)
- with a sufficiently high probability, as set by the Fund's strategy for the category of employer (see [3.3 Note \(e\)](#) for further details).

The projections are carried out using an economic modeller developed by the Fund Actuary Hymans Robertson: this allows for a wide range of outcomes as regards key factors such as asset returns (based on the Fund's investment strategy), inflation, and bond yields. The measured contributions are calculated such that the proportion of outcomes with at least 100% solvency (by the end of the time horizon) is equal to the required probability.

D4 What affects a given employer's valuation results?

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

1. past contributions relative to the cost of accruals of benefits;
2. different liability profiles of employers (e.g. mix of members by age, gender, service vs. salary);
3. the effect of any differences in the funding target, i.e. the valuation basis used to value the employer's liabilities;
4. any different time horizons;
5. the difference between actual and assumed rises in pensionable pay;
6. the difference between actual and assumed increases to pensions in payment and deferred pensions;
7. the difference between actual and assumed retirements on grounds of ill-health from active status;
8. the difference between actual and assumed amounts of pension ceasing on death;
9. the additional costs of any non ill-health retirements relative to any extra payments made; and/or
10. differences in the required probability of achieving the funding target.

D5 How is each employer's asset share calculated?

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

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

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

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

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

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

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

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

Appendix E – Actuarial assumptions

E1 What are the actuarial assumptions?

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

Changes in assumptions will affect the measured funding target. However, different assumptions will not of course affect the actual benefits payable by the Fund in future.

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

E2 What basis is used by the Fund?

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

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

E3 What assumptions are made in the ongoing basis?

a) Investment return / discount rate

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

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

For the purpose of the triennial funding valuation at 31 March 2016 and setting contribution rates effective from 1 April 2017, the Fund actuary has assumed that future investment returns earned by the Fund over the long term will be 1.65% per annum greater than gilt yields at the time of the valuation (this is higher than the assumed rate of 1.45% used at the 2013 valuation). In the opinion of the Fund actuary, based on the current investment strategy of the Fund, this asset out-performance assumption is within a range that would be considered acceptable for the purposes of the funding valuation.

b) Salary growth

Pay for public sector employees is currently subject to restriction by the UK Government until 2020. Although this “pay freeze” does not officially apply to local government and associated employers, it has been suggested that they are likely to show similar restraint in respect of pay awards. Based on long term historical analysis of the membership in LGPS funds, and continued austerity measures, the salary increase assumption at the 2016 valuation has been set to be a blended rate combined of:

1. 1% p.a. until 31 March 2020, followed by
2. 1% above the retail prices index (RPI) per annum p.a. thereafter.

This is a change from the previous valuation, which assumed a flat assumption of RPI plus 1.0% per annum. The change has led to a reduction in the funding target (all other things being equal).

c) Pension increases

Since 2011 the consumer prices index (CPI), rather than RPI, has been the basis for increases to public sector pensions in deferment and in payment. Note that the basis of such increases is set by the Government, and is not under the control of the Fund or any employers.

As at the previous valuation, we derive our assumption for RPI from market data as the difference between the yield on long-dated fixed interest and index-linked government bonds. This is then reduced to arrive at the CPI assumption, to allow for the “formula effect” of the difference between RPI and CPI. At this valuation, we propose the difference between RPI and CPI to be 1.0% per annum. This is a larger difference than at 2013, which will serve to reduce the funding target (all other things being equal). (Note that the reduction is applied in a geometric, not arithmetic, basis).

d) Life expectancy

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

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

It is acknowledged that future life expectancy and, in particular, the allowance for future improvements in life expectancy, is uncertain. There is a consensus amongst actuaries, demographers and medical experts that life expectancy is likely to improve in the future. Allowance has been made in the ongoing valuation basis for future improvements in line with the 2013 version of the Continuous Mortality Investigation model published by the Actuarial Profession and a 1.25% per annum minimum underpin to future reductions in mortality rates. This is a similar allowance for future improvements that was made in 2013.

The approach taken is considered reasonable in light of the long term nature of the Fund and the assumed level of security underpinning members' benefits.

e) General

The same financial assumptions are adopted for most employers, in deriving the funding target underpinning the Primary and Secondary rates: as described in [\(3.3\)](#), these calculated figures are translated in different ways into employer contributions, depending on the employer's circumstances.

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

Appendix F – Glossary

Actuarial assumptions/basis	The combined set of assumptions made by the actuary, regarding the future, to calculate the value of the funding target . The main assumptions will relate to the discount rate , salary growth, pension increases and longevity. More prudent assumptions will give a higher target value, whereas more optimistic assumptions will give a lower value.
Administering Authority	The council with statutory responsibility for running the Fund, in effect the Fund's "trustees".
Admission Bodies	Employers where there is an Admission Agreement setting out the employer's obligations. These can be Community Admission Bodies or Transferee Admission Bodies. For more details (see 2.3).
Covenant	The assessed financial strength of the employer. A strong covenant indicates a greater ability (and willingness) to pay for pension obligations in the long run. A weaker covenant means that it appears that the employer may have difficulties meeting its pension obligations in full over the longer term.
Designating Employer	Employers such as town and parish councils that are able to participate in the LGPS via resolution. These employers can designate which of their employees are eligible to join the Fund.
Discount rate	The annual rate at which future assumed cashflows (in and out of the Fund) are discounted to the present day. This is necessary to provide a funding target which is consistent with the present day value of the assets. A lower discount rate gives a higher target value, and vice versa. It is used in the calculation of the Primary and Secondary rates .
Employer	An individual participating body in the Fund, which employs (or used to employ) members of the Fund. Normally the assets and funding target values for each employer are individually tracked, together with its Primary rate at each valuation .
Funding target	The actuarially calculated present value of all pension entitlements of all members of the Fund, built up to date. This is compared with the present market value of Fund assets to derive the deficit . It is calculated on a chosen set of actuarial assumptions .
Gilt	A UK Government bond, ie a promise by the Government to pay interest and capital as per the terms of that particular gilt, in return for an initial payment of capital by the purchaser. Gilts can be "fixed interest", where the interest payments are level throughout the gilt's term, or "index-linked" where the interest payments vary each year in line with a specified index (usually RPI). Gilts can be bought as assets by the Fund, but their main use in funding is as an objective measure of solvency.
Guarantee guarantor	/ A formal promise by a third party (the guarantor) that it will meet any pension obligations not met by a specified employer. The presence of a guarantor will mean, for instance, that the Fund can consider the employer's covenant to be as strong as its guarantor's.

Letting employer	An employer which outsources or transfers a part of its services and workforce to another employer (usually a contractor). The contractor will pay towards the LGPS benefits accrued by the transferring members, but ultimately the obligation to pay for these benefits will revert to the letting employer. A letting employer will usually be a local authority, but can sometimes be another type of employer such as an Academy.
LGPS	The Local Government Pension Scheme, a public sector pension arrangement put in place via Government Regulations, for workers in local government. These Regulations also dictate eligibility (particularly for Scheduled Bodies), members' contribution rates, benefit calculations and certain governance requirements. The LGPS is divided into 101 Funds which map the UK. Each LGPS Fund is autonomous to the extent not dictated by Regulations, e.g. regarding investment strategy, employer contributions and choice of advisers.
Maturity	A general term to describe a Fund (or an employer's position within a Fund) where the members are closer to retirement (or more of them already retired) and the investment time horizon is shorter. This has implications for investment strategy and, consequently, funding strategy.
Members	The individuals who have built up (and may still be building up) entitlement in the Fund. They are divided into actives (current employee members), deferred (ex-employees who have not yet retired) and pensioners (ex-employees who have now retired, and dependants of deceased ex-employees).
Primary contribution rate	The employer contribution rate required to pay for ongoing accrual of active members' benefits (including an allowance for administrative expenses). See Appendix D for further details.
Profile	The profile of an employer's membership or liability reflects various measurements of that employer's members , i.e. current and former employees. This includes: the proportions which are active, deferred or pensioner; the average ages of each category; the varying salary or pension levels; the lengths of service of active members vs their salary levels, etc. A membership (or liability) profile might be measured for its maturity also.
Rates and Adjustments Certificate	A formal document required by the LGPS Regulations, which must be updated at least every three years at the conclusion of the formal valuation . This is completed by the actuary and confirms the contributions to be paid by each employer (or pool of employers) in the Fund for the three year period until the next valuation is completed.
Scheduled Bodies	Types of employer explicitly defined in the LGPS Regulations, whose employers must be offered membership of their local LGPS Fund. These include Councils, colleges, universities, academies, police and fire authorities etc., other than employees who have entitlement to a different public sector pension scheme (e.g. teachers, police and fire officers, university lecturers).
Secondary contribution rate	The difference between the employer's actual and Primary contribution rates . In broad terms, this relates to the shortfall of its asset share to its funding target . See Appendix D for further details.

Stabilisation	Any method used to smooth out changes in employer contributions from one year to the next. This is very broadly required by the LGPS Regulations, but in practice is particularly employed for large stable employers in the Fund. Different methods may involve: probability-based modelling of future market movements; longer deficit recovery periods; higher discount rates; or some combination of these.
Valuation	An actuarial investigation to calculate the liabilities and contribution rates for a Fund, and usually individual employers too. This is normally carried out in full every three years (last done as at 31 March 2016), but can be approximately updated at other times. The assets value is based on market values at the valuation date, and the liabilities value and contribution rates are based on long term bond market yields at that date also.

Annex A – Rates and Adjustment Certificate

In accordance with regulation 62(4) of the Regulations we have made an assessment of the contributions that should be paid into the Fund by participating employers for the period 1 April 2017 to 31 March 2020 in order to maintain the solvency of the Fund.

The method and assumptions used to calculate the contributions set out in the Rates and Adjustments certificate are detailed in the Funding Strategy Statement.

The required minimum contribution rates are set out below.

Employer code	Employer name / Pool Name	Primary Rate (%)	Secondary Rate (% / £)			Total Contribution Rate (% / £)		
		1 April 2017 – 31 March 2020	2017/18	2018/19	2019/20	2017/18	2018/19	2019/20
350	London Borough of Hackney	15.6%	19.3%	18.4%	17.4%	34.9%	34.0%	33.0%
351	Renaisi	18.8%	£33,000	£34,000	£36,000	18.8% plus £33,000	18.8% plus £34,000	18.8% plus £36,000
360	Brooke House Sixth Form College	20.6%	2.4%	2.6%	2.8%	23.0%	23.2%	23.4%
367	Mossbourne Community	16.9%	0.2%	-0.2%	-0.6%	17.1%	16.7%	16.3%
368	Greenwich Leisure Ltd	27.7%	-1.1%	-0.2%	0.7%	26.6%	27.5%	28.4%
373	Petchey Academy	16.1%	0.2%	-0.3%	-0.8%	16.3%	15.8%	15.3%
374	Bridge Academy	16.5%	-0.2%	-0.2%	-0.2%	16.3%	16.3%	16.3%
375	City Academy	14.4%	1.1%	1.1%	1.1%	15.5%	15.5%	15.5%
376	Mouchel Babcock Education	28.6%	-1.1%	0.1%	1.2%	27.5%	28.7%	29.8%
377	RM Education PLC	25.5%	2.1%	0.7%	-0.7%	27.6%	26.2%	24.8%
378	Servest Group Ltd	30.8%	-8.5%	-8.5%	-8.5%	22.3%	22.3%	22.3%
379	Skinners Academy	16.2%	5.1%	5.1%	5.1%	21.3%	21.3%	21.3%
380	Clapton Girls Academy	16.2%	14.8%	13.8%	12.8%	31.0%	30.0%	29.0%
382	Family Mosaic	29.3%	-29.3%	-29.3%	-	0.0%	0.0%	-
383	Caterlink	29.9%	-3.9%	-3.9%	-3.9%	26.0%	26.0%	26.0%
384	Family Solutions	22.2%	2.0%	2.0%	2.0%	24.2%	24.2%	24.2%
385	Hackney New School	16.4%	3.5%	2.5%	1.5%	19.9%	18.9%	17.9%
416	Mossbourne Victoria Park Academy	15.4%	4.4%	3.4%	2.4%	19.8%	18.8%	17.8%
420	G4S	30.5%	-4.4%	-4.4%	-4.4%	26.1%	26.1%	26.1%

LONDON BOROUGH OF HACKNEY PENSION FUND ANNUAL REPORT AND ACCOUNTS 2017/18

Employer code	Employer name / Pool Name	Primary Rate (%)	Secondary Rate (% / £)			Total Contribution Rate (% / £)		
		1 April 2017 – 31 March 2020	2017/18	2018/19	2019/20	2017/18	2018/19	2019/20
421	Outward	33.5%	-8.3%	-8.3%	-8.3%	25.2%	25.2%	25.2%
422	Manor House Development Trust	23.9%	0.0%	-1.7%	-3.4%	23.9%	22.2%	20.5%
423	SND Cleaning Services Ltd – Holmleigh	27.7%	-7.8%	-7.8%	-7.8%	19.9%	19.9%	19.9%
424	Northwold Primary School	16.8%	18.1%	17.2%	16.2%	34.9%	34.0%	33.0%
426	Birkin Cleaning Services	31.1%	-6.9%	-9.6%	-12.2%	24.2%	21.5%	18.9%
429	Mossbourne Parkside	17.7%	10.8%	8.8%	6.8%	28.5%	26.5%	24.5%
430	Mossbourne Riverside	13.8%	10.4%	8.4%	6.4%	24.2%	22.2%	20.2%
431	P J Naylor Cleaning Services – Daubeney	28.9%	-28.9%	-	-	0.0%	-	-
433	Mulalley	28.4%	-2.4%	-2.4%	-2.4%	26.0%	26.0%	26.0%
436	SND Cleaning – Our Lady	27.8%	-27.8%	-27.8%	-	0.0%	0.0%	-

Notes

Contributions expressed as a percentage of pensionable payroll and monetary amounts should be paid into London Borough of Hackney Pension Fund ('the Fund') at a frequency in accordance with the requirements of the Regulations.

Further sums should be paid to the Fund to meet the costs of any early retirements and/or augmentations using methods, calculations and factors specified by us from time to time.

Further sums may be required to be paid to the Fund by employers to meet the capital costs of any ill-health retirements that exceed those included within my assumptions.

The certified contribution rates represent the minimum level of contributions to be paid. Employing authorities may pay further amounts at any time and future periodic contributions may be adjusted on a basis approved by the Fund actuary.

The monetary contributions set out in the certificate above can be repaid in advance with appropriate adjustments for interest as and when agreed with the Administering Authority. Under these circumstances a revised Rates and Adjustments certificate may be issued reflecting any advance payments.

If an employer has ill health liability insurance in place with a suitable insurer and provides satisfactory evidence to the administering authority, then their Minimum Total Contribution Rate may be reduced by their insurance premium, for the period the insurance is in place.

London Borough of Hackney Pension Fund Governance Policy and Compliance Statement

Administering Authority

The London Borough of Hackney Council is the Administering Authority of the London Borough of Hackney Pension Fund and administers the Local Government Pension Scheme on behalf of participating employers.

Regulation 55 of the Local Government Pension Scheme Regulations 2013 requires Local Government Pension Scheme (LGPS) Administering Authorities to publish a Governance Compliance Statement setting out information relating to how the Administering Authority delegates its functions under those regulations and whether it complies with guidance given by the Secretary of State for Communities and Local Government. It also requires the Authority to keep the statement under review, to make revisions as appropriate and, where such revisions are made, to publish a revised statement.

Aims and Objectives

Hackney Council recognises the significance of its role as Administering Authority to the London Borough of Hackney Pension Fund on behalf of its stakeholders, which include:

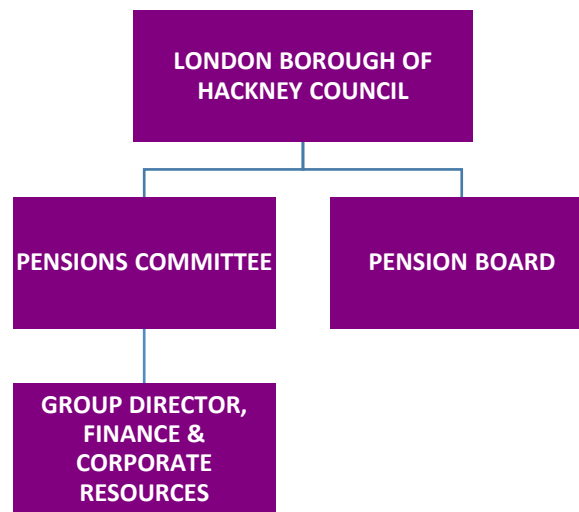
- around 22,000 current and former members of the Fund, and their dependants
- over 20 employers within the Hackney Council area or with close links to Hackney Council
- local taxpayers within the London Borough of Hackney.

In relation to the governance of the Fund, our objectives are to ensure that:

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

Structure

The Constitution of the Council sets out how the Council operates, how decisions are made, the procedures which are followed to ensure that those decisions are efficient and transparent and that those who made the decisions are accountable to local people. The Constitution sets out the framework under which the Pension Fund is to be administered. This framework is depicted in the diagram below.



Terms of Reference for the Pensions Committee

The Constitution allows for the appointment of a Pensions Committee which has responsibility for the discharge of all non-executive functions assigned to it. The following are the terms of reference for the Pensions Committee:

1. To act as Trustees of the Council's Pension Fund, consider pension matters and meet the obligations and duties of the Council under the Superannuation Act 1972, the Public Service Pensions Act 2013, and the various pension legislation.
2. To make arrangements for the appointment of and to appoint suitably qualified pension fund administrators, actuaries, advisers, investment managers and custodians and periodically to review those arrangements.
3. To formulate and publish a Statement of Investment Principles.
4. To set the overall strategic objectives for the Pension Fund, having taken appropriate expert advice, and to develop a medium term plan to deliver the objectives.
5. To determine the strategic asset allocation policy, the mandates to be given to the investment managers and the performance measures to be set for them.
6. To make arrangements for the triennial actuarial valuation, to monitor liabilities and to undertake any asset/liability and other relevant studies as required.
7. To monitor the performance and effectiveness of the investment managers and their compliance with the Statement of Investment Principles.
8. To set an annual budget for the operation of the Pension Fund and to monitor income and expenditure against budget.
9. To receive and approve an Annual Report on the activities of the Fund prior to publication.
10. To make arrangements to keep members of the Pension Fund informed of performance and developments relating to the Pension Fund on an annual basis.
11. To keep the terms of reference under review.
12. To determine all matters relating to admission body issues.
13. To focus on strategic and investment related matters at two Pensions Committee meetings.
14. To review the Pension Fund's policy and strategy documents on a regular basis and review performance against the Fund's objectives within the business plan
15. To maintain an overview of pensions training for Members.

In addition the Pensions Committee will also co-opt a non-voting employer representative and a non-voting scheme member representative.

Membership of the Pensions Committee

The Council decides the composition and makes appointments to the Pensions Committee. Currently the membership of the Pensions Committee is a minimum of 5 elected Members from Hackney Council on a politically proportionate basis. The Pensions Committee will elect a Chair and Vice Chair. All Hackney Council elected Members have voting rights on the Committee; two voting members of the Committee are required to deem the meeting quorate.

In addition the membership includes two co-opted non-voting members representing employer and scheme member interests. Although the co-opted representatives do not have voting rights they are treated as equal members of the Committee and have access to all Committee advisers, officers, meetings and training as if they were Council Members and have the opportunity to contribute to the decision making process. Voting rights are restricted to elected Members as they are deemed to be fulfilling the role of Trustees of the Pension Fund with all the legal responsibilities that this entails. It was therefore not felt to be appropriate to apply the same legal definition to the lay members of the Committee; hence their role as non-voting members.

Members of the Pensions Committee, including co-opted members, are required to declare any interests that they have in relation to the Pension Fund or items on the agenda at the commencement of the meeting.

The Fund is aware that good governance means an organisation is open in its dealings and readily provides information to interested parties; meetings are open to members of the public who are welcome to attend. However, there may be occasions when members of the public are excluded from meetings; this will be the case when it is likely in view of the nature of the business to be transacted or the nature of the proceedings that confidential information would be disclosed.

Meetings

The Pensions Committee shall meet at least four times a year in the ordinary course of business and additional meetings may be arranged as required to facilitate its work. Work for the year will be agreed with the Committee and will include dedicated training sessions for Committee members.

Agendas for meetings will be agreed with the Chair and will be circulated with supporting papers to all members of the Committee, Officers of the Council as appropriate and the Fund's Investment Advisor and Benefits Consultant.

The Council will give at least five clear working days' notice of any meeting by posting details of the meeting at the Hackney Town Hall and on the Council's website. The Council will make copies of the agenda and reports open to the public available for inspection at least five clear working days before the meeting. If an item is added to the agenda later, the revised agenda will be open to inspection from the time the item was added to the agenda. The reason for lateness will be specified in the report.

There may on occasions be items which may be exempt from the agenda, reports and minutes of the meetings when it is likely in view of the nature of the business to be transacted or the nature of the proceedings that confidential information would be disclosed. Items which are most likely to be excluded are issues where to disclose information would contravene an individual's privacy or where there are financial interests which may be compromised as a result of disclosure for example discussions surrounding contracts.

The Council will make available copies of the minutes of the meeting and records of decisions taken for six years after a meeting. Minutes of meetings and records of decisions are available for inspection on the Council's website www.hackney.gov.uk.

Other Delegations of Powers

The Pensions Committee act as quasi trustees and oversee the management of the Pension Fund. As quasi trustees the Committee have a clear fiduciary duty in the performance of their functions; they must ensure that the Fund is managed in accordance with the regulations and to do so prudently and impartially and to ensure the best possible outcomes for the Pension Fund, its participating employers, local taxpayers and Scheme members. Whilst trustees can delegate some of their powers, they cannot delegate their responsibilities as trustees. Appendix C outlines the areas that the Pensions Committee has currently delegated though these may be added to from time to time.

Under the Council's Constitution delegated powers have been given to the Group Director, Finance & Corporate Resources in relation to all other pension fund matters, in addition to his role as Chief Financial Officer (often called S151 Officer). As Chief Financial Officer he is responsible for the preparation of the Pension Fund Annual Report & Accounts and ensuring the proper financial administration of the Fund. As appropriate the Group Director, Finance & Corporate Resources will delegate aspects of the role to other officers of the Council including the Director, Financial Management, the Head of Pensions Administration and the Head of Pension Fund Investment and to professional advisors within the scope of the LGPS Regulations.

Pension Board

From 1 April 2015, each Administering Authority has been required to establish a local Pension Board to assist them with

- securing compliance with the LGPS Regulations and any other legislation relating to the governance and administration of the Scheme, and requirements imposed in relation to the LGPS by the Pensions Regulator
- ensuring the effective and efficient governance and administration of the Pension Fund

Such Pension Boards are not local authority committees; as such the Constitution of Hackney Council does not apply to the Pension Board unless it is expressly referred to in the Board's terms of reference. The Hackney Pension Board established by Hackney Council and the full terms of reference of the Board can be found within the Council's Constitution. The key points are summarised below.

Role of the Pension Board

The Council has charged the Pension Board with providing oversight of the matters outlined above. The Pension Board, however, is not a decision making body in relation to the management of the Pension Fund. The Pension Fund's management powers and responsibilities which have been delegated by the Council to the Pensions Committee or otherwise remain solely the powers and responsibilities of the Council and Committee, including but not limited to the setting and delivery of the Fund's strategies, the allocation of the Fund's assets and the appointment of contractors and advisors as required.

Membership of the Pension Board

The Pension Board consists of either 4 or 5 members as follows:

- Two Employer Representatives, one of which must be from Hackney Council
- Two Scheme Member Representatives, one of which must be a member of the London Borough of Hackney Pension Fund
- One Independent Member (non-voting) to act as chair of the Pension Board, which is an optional position that may be utilised if it is considered that the other members of the Board do not have the requisite knowledge and skills to undertake this position at the time of appointment.

The members of the Board are appointed by an Appointments Panel which consists of:

- the Lead Member for Finance
- the Group Director, Corporate Finance and Resources
- the Director, Financial Management
- the Director, Legal

Pension Board members, (excluding any Independent Member), have individual voting rights but it is expected the Pension Board will as far as possible reach a consensus.

A meeting of the Pension Board is only quorate when two of the four Employer and Scheme Member Representatives are present. If the Board has an Independent Member they must also be present.

Members of the Pension Board are required to declare any interests that they have in relation to the Pension Fund or items on the agenda at the commencement of the meeting.

Meetings

The Pension Board meets at least twice a year in the ordinary course of business and additional meetings may be arranged as required to facilitate its work.

The Pension Board will be treated in the same way as a Committee of Hackney Council and, as such, members of the public may attend and papers will be made public in the same way as described above for the Pension Committee.

Policy Documents

In addition to the foregoing, there are a number of other documents which are relevant to the Governance and management of the Pension Fund. Brief details of these are listed below and the full copies of all documents can either be found on the Pension Fund Website <http://hackney.xpmemberservices.com>, by emailing the Financial Services Department pensions@hackney.gov.uk or by writing to the address given at the end of this document.

Funding Strategy Statement

The Funding Strategy Statement forms part of the framework for the funding and management of the Pension Fund. It sets out how the Fund will approach its liabilities and contains a schedule of the minimum contribution rates that are required of individual employers within the Fund. The Funding Strategy Statement (FSS) is drawn up by the Administering Authority in collaboration with the Fund's actuary and after consultation with the Fund's employers. The FSS forms part of a broader framework which covers the Pension Fund and applies to all employers participating in the Fund. The FSS represents a summary of the Fund's approach to funding the liabilities of the Pension Fund

Investment Strategy Statement

The Local Government Pension Scheme (Management and Investment of Funds) (Amendment) Regulations 2016 require pension fund administering authorities to formulate an investment strategy which must be in accordance with guidance issued by the Secretary of State

The Investment Strategy Statement required by the regulations must include:-

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

The Investment Strategy Statement must also set out the maximum percentage of the total value of all investments of fund money that it will invest in particular investments or classes of investment.

Governance and Compliance Statement

This sets out the Pension Fund's compliance with the Secretary of State's Statutory Guidance on Governance in the LGPS. This is attached as Appendix A and shows where the Fund is compliant or not compliant with best practice and the reasons why it may not be compliant.

Training Policy

Hackney Council has a Training Policy which has been put in place to assist the Fund in achieving its governance objectives and all Pensions Committee members, Pension Board members and senior officers are expected to continually demonstrate their own personal commitment to training and to ensuring that the governance objectives are met.

To assist in achieving these objectives, the London Borough of Hackney Pension Fund aims to comply with:

- the CIPFA Knowledge and Skills Frameworks and
- the knowledge and skills elements of the Public Service Pensions Act 2013 and the Pensions Regulator's (TPR) Code of Practice for Public Service Schemes

As well as any other LGPS specific guidance relating to the knowledge and skills of Pensions Committee members, Pension Board members or pension fund officers which may be issued from time to time.

Members of the Pensions Committee, Pension Board and officers involved in the management of the Fund will receive training to ensure that they meet the aims of the Training Policy with training schedules drawn up and reviewed on at least an annual basis.

Annual Report and Accounts

As part of the financial standing orders it is the duty of the Chief Financial Officer to ensure that record keeping and accounts are maintained by the Pension Fund. The Pension Fund accounts are produced in accordance with CIPFA's Code of Practice on Local Authority Accounting, which transposes various IFRS requirements for the public sector. The financial statements summarise the transactions of the Scheme and deal with the net assets of the Scheme. The statement of accounts is reviewed by the Pensions Committee and the Audit Committee and incorporated in the Statement of Accounts for the Council. Full copies of the Report and Accounts are distributed to employers in the Fund and other interested parties and a copy placed on the website <http://hackney.xpmemberservices.com>. A briefing note prepared from the annual report and accounts of the pension fund is distributed to scheme members annually.

Communication Policy

This document sets out the communications policy of the administering authority and sets out the strategy for ensuring that all interested parties are kept informed of developments in the Pension Fund. This helps to ensure transparency and an effective communication process for all interested parties. A copy of the policy can be found on the Pensions website <http://hackney.xpmemberservices.com>

Discretions Policies

Under the Local Government Pension Scheme regulations, the Administering Authority has a level of discretion in relation to a number of areas. The Administering Authority reviews these policies as appropriate and will notify interested parties of any significant changes. Employing Authorities are also required to set out their discretions policies in respect of areas under the Regulations where they have a discretionary power. Copies of both the Administering Authority and the London Borough of Hackney's Employing Authority Discretions can be found on the website <http://hackney.xpmemberservices.com>

Pension Administration Strategy and Employer Guide

In order to assist with the management and efficient running of the Pension Fund, the Pension Administration Strategy and Employer Guide encompassing administrative procedures and responsibilities for the Pension Fund for both the Administering Authority and Employing Authorities has been distributed to employers within the Fund following consultation and can be found on the website <http://hackney.xpmemberservices.com>. This represents part of the process for ensuring the ongoing efficient management of the Fund and maintenance of accurate data and forms part of the overall governance procedures for the Fund.

Approval, Review and Consultation

This Governance Policy and Statement was approved at the London Borough of Hackney Pensions Committee meeting on 27/06/2017 following consultation with all the participating employers in the Fund and other interested parties. It will be formally reviewed and updated at least every year or sooner if the governance arrangements or other matters included within it merit reconsideration.

Contact Information

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

London Borough of Hackney Pension Fund
Financial Services
4th Floor, Hackney Service Centre
1 Hillman Street
London E8 1DY

Telephone: 020 8356 2745

Email:

pensions@hackney.gov.uk (Governance)

hackney.pensions@equiniti.com (Administration)

Pension Fund Website:

<http://hackney.xpmemberservices.com>

Hackney Council Website: www.hackney.gov.uk

(Minutes, Agendas, etc.)

Appendix A Governance Best Practice – Compliance Statement

Regulation 55 of the Local Government Pension Scheme Regulations 2013 requires Local Government Pension Scheme (LGPS) Administering Authorities to measure their governance arrangements against the standards set out in the Statutory Guidance issued by the Secretary of State for Communities and Local Government.

The following compliance statement has been approved by the Pensions Committee. This sets out where the Pension Fund is compliant with the guidance and where it is not compliant provides an explanation for non-compliance.

Structure

a) The management of the administration of benefits and strategic management of fund assets clearly rests with the main committee established by the appointing council. *Fully compliant – Council Constitution delegates responsibility for the Pension Fund to the Pension Committee in respect of these matters.*

b) That representatives of participating LGPS employers, admitted bodies and scheme members (including pensioner and deferred members) are members of either the main or secondary committee established to underpin the work of the main committee. *Fully compliant – Employer and Scheme member representatives are appointed to the Pension Committee.*

c) That where a secondary committee or panel has been established, the structure ensures effective communication across both levels. *Fully Compliant – no secondary committee.*

d) That where a secondary committee or panel has been established, at least one seat on the main committee is allocated for a member from the secondary committee or panel. *Fully Compliant – no secondary committee.*

	Not Compliant*			Fully Compliant	
a)					✓
b)					✓
c)					✓
d)					✓

* Please use this space to explain the reason for non-compliance: *N/A*

Please use this space if you wish to add anything to explain or expand on the ratings given above:

Decision taken by Committee not to hold a secondary committee and that employer and scheme member representatives may participate at main Committee.

Representation

a) That all key stakeholders are afforded the opportunity to be represented within the main or secondary committee structure. These include:-

- i) employing authorities (including non-scheme employers, e.g., admitted bodies);
- ii) scheme members (including deferred and pensioner scheme members);
- iii) where appropriate, independent professional observers; and
- iv) expert advisers (on an ad-hoc basis).

Fully Compliant – (i) Employing authorities are represented by an employer representative with responsibility for representing the interests of all employers participating in the Fund. (ii) Scheme members are represented by an individual with responsibility for representing the interest of all Scheme members. (iii) At this stage the Pensions Committee has determined that there is no requirement for an independent professional observer. (iv) Expert advisers – investment consultant participates at all meetings of the Committee and other expert advisors are invited to attend as and when required.

b) That where lay members sit on a main or secondary committee, they are treated equally in terms of access to advisers and meetings, training and are given full opportunity to contribute to the decision making process, with or without voting rights. *Fully Compliant – All members are sent Committee papers ahead of meetings, are invited to training and are able to fully contribute to the decision making process.*

	Not Compliant*			Fully Compliant	
a)					✓
b)					✓

* Please use this space to explain the reason for non-compliance : N/A

Please use this space if you wish to add anything to explain or expand on the ratings given above:

(i) & (ii) Co-opted members of the Pensions Committee have been charged with representing the interests of the groups that they have been co-opted onto the Committee for.

Selection and role of lay members

a) That committee or panel members are made fully aware of the status, role and function they are required to perform on either a main or secondary committee. *Fully Compliant – see Governance Policy*

b) That at the start of any meeting, committee members are invited to declare any financial or pecuniary interest related to specific matters on the agenda. *Fully Compliant – Members of the Committee declare interests at the start of each meeting.*

	Not Compliant*			Fully Compliant	
a)					✓
b)					✓

* Please use this space to explain the reason for non-compliance: N/A

Please use this space if you wish to add anything to explain or expand on the ratings given above: N/A

Voting

a) The policy of individual administering authorities on voting rights is clear and transparent, including the justification for not extending voting rights to each body or group represented on main LGPS committees. *Fully Compliant – See Governance Statement*

	Not Compliant*			Fully Compliant	
a)					✓

* Please use this space to explain the reason for non-compliance: N/A

Please use this space if you wish to add anything to explain or expand on the ratings given above:
 Whilst the co-opted employer and scheme member representatives do not have voting rights, they are encouraged to fully participate in the meetings and decision making process.

Training/Facility Time/Expenses

- a) That in relation to the way in which statutory and related decisions are taken by the administering authority, there is a clear policy on training, facility time and reimbursement of expenses in respect of members involved in the decision-making process. *Fully Compliant.*
- b) That where such a policy exists, it applies equally to all members of committees, advisory panels or any other form of secondary forum. *Fully Compliant.*
- c) That the administering authority considers the adoption of annual training plans for committee members and maintains a log of all such training undertaken. *Fully Compliant.*

	Not Compliant*			Fully Compliant	
a)					✓
b)					✓
c)					✓

* Please use this space to explain the reason for non-compliance : N/A

Please use this space if you wish to add anything to explain or expand on the ratings given above:
 Please see the Fund’s Training Policy.

Meetings (frequency/quorum)

- a) That an administering authority’s main committee or committees meet at least quarterly. *Fully Compliant.*
- b) That an administering authority’s secondary committee or panel meet at least twice a year and is synchronised with the dates when the main committee sits. *Fully Compliant – only main Committee.*

c) That an administering authority that does not include lay members in their formal governance arrangements must provide a forum outside of those arrangements by which the interests of key stakeholders can be represented. *Fully compliant – Employer and scheme member interests are represented at the main Pensions Committee.*

	Not Compliant*			Fully Compliant	
a)					✓
b)					✓
c)					✓

* Please use this space to explain the reason for non-compliance: N/A

Please use this space if you wish to add anything to explain or expand on the ratings given above:

Access

a) That subject to any rules in the council's constitution, all members of main and secondary committees or panels have equal access to committee papers, documents and advice that falls to be considered at meetings of the main committee. *Fully Compliant – Committee papers are despatched 5 clear working days prior to a Committee meeting.*

	Not Compliant*			Fully Compliant	
a)					✓

* Please use this space to explain the reason for non-compliance: N/A

Please use this space if you wish to add anything to explain or expand on the ratings given above: N/A

Scope

a) That administering authorities have taken steps to bring wider scheme issues within the scope of their governance arrangements. *Fully Compliant – The Committee reviews all aspects of Pension Fund management.*

	Not Compliant*			Fully Compliant	
a)					✓

* Please use this space to explain the reason for non-compliance: N/A

Please use this space if you wish to add anything to explain or expand on the ratings given above : N/A

Publicity

a) That administering authorities have published details of their governance arrangements in such a way that stakeholders with an interest in the way in which the scheme is governed, can express an interest in wanting to be part of those arrangements. *Fully Compliant – Governance Policy and Compliance Statement published in full in the Pension Fund Annual Report & Accounts and on the Pensions website <http://hackney.xpmemberservices.com>*

	Not Compliant*			Fully Compliant	
a)					✓

* Please use this space to explain the reason for non-compliance: N/A

Please use this space if you wish to add anything to explain or expand on the ratings given above:

Appendix B

Delegation of Functions to Officers by Pensions Committee

Key:

PC – Pensions Committee

GDFCR – Group Director, Finance & Corporate Resources

DFM –Director, Financial Management

HPA – Head of Pensions Administration

HPFI – Head of Pension Fund Investment

IC – Investment Consultant

FA – Fund Actuary

Advisers – Investment, actuarial and/or benefits consultants as appropriate

Function delegated to PC	Further Delegation to Officer(s)	Delegated Officer(s)	Communication and Monitoring of Use of Delegation
To formulate & publish a Statement of Investment Principals and to monitor performance and effectiveness of investment managers	Implementation of strategic allocation including use of both rebalancing and conditional ranges	HPFI (having regard to ongoing advice of the GDFCR, DFM and advisers and in consultation with the Chair of PC)	High level monitoring at PC with more detailed monitoring by HPFI and GDFCR
To set the overall strategic objectives for the Pension Fund, having taken appropriate expert advice and develop a medium term plan to deliver the objectives	Implementation of the agreed Flightpath triggers	DFM, HPFI and GDFCR (having regard to ongoing advice of the FA and IC)	High level monitoring at PC with more detailed monitoring by HPFI and GDFCR
To determine the strategic asset allocation policy, the investment strategies to be selected and the performance measures to be set for them.	To consider investment strategies and to recommend these for consideration by PC	DFM, HPFI and GDFCR (having regards to ongoing advice of advisers)	High level monitoring at PC with more detailed monitoring by advisers

Function delegated to PC	Further Delegation to Officer(s)	Delegated Officer(s)	Communication and Monitoring of Use of Delegation
Selection, appointment and dismissal of the Fund's suppliers, including actuary, benefits consultants, investment consultants, global custodian and pension funds administrator.	Ongoing monitoring of suppliers	HPFI/HPA and GDFCR (having regard to ongoing advice of advisers) and subject to ratification by PC	High level monitoring at PC with more detailed monitoring by advisers
	Selection, appointment and termination of suppliers following approval by PC	DFM, HPFI/HPA and GDFCR (having regard to ongoing advice of advisers) and subject to ratification by PC	Notified to PC via ratification process.
To determine all matters relating to admission body issues.	Agreeing the terms and payment of bulk transfers into and out of the Fund where there is a bulk transfer of staff from the Fund. Making decisions relating to employers joining and leaving the Fund and compliance with the Regulations and policies. This includes which employers are entitled to join the Fund, any requirements relating to their entry, ongoing monitoring and the basis for leaving the Fund where the employer.	DFM, HPFI/HPA and GDFCR after taking appropriate advice from the FA.	Ongoing reporting to PC for noting
To review the Pension Fund's policy and strategy documents on a regular cycle and review performance against the Fund's objectives within the business plan	Changes to Administering Authority discretionary policies necessitated by changes to regulations - authority to amend the policies to reflect the requirements of such new regulations, subject to those decisions having no significant financial implications.	GDFCR and the Director, Legal	Copy of policy to be circulated to PC members once approved.

Function delegated to PC	Further Delegation to Officer(s)	Delegated Officer(s)	Communication and Monitoring of Use of Delegation
Agreeing the Administering Authority responses to consultations on LGPS matters and other matters where they may impact on the Fund or its stakeholders.	Agreeing the Administering Authority responses where the consultation timescale does not provide sufficient time for a draft response to be approved by PC.	HPFI/HPA, DFM and GDFCR, subject to agreement with Chairman and Deputy Chairman (or either, if only one available in timescale)	PC advised of consultation via e-mail (if not already raised previously at PC) to provide opportunity for other views to be fed in. Copy of consultation response provided at following PC for noting.
To maintain an overview of pensions training for Members - overall responsibility for the Fund's Knowledge and Skills Policy for all Pension Fund Committee members and for all officers of the Fund, including determining the Fund's knowledge and skills framework, identifying training requirements, developing training plans and monitoring compliance with the policy.	Implementation of the requirements of the CIPFA Code of Practice ¹	GDFCR and DFM	Regular reports provided to PC and included in Annual Report and Accounts.
The Committee may delegate a limited range of its functions to one or more officers of the Authority. The Pension Fund Committee will be responsible for outlining expectations in relation to reporting progress of delegated functions back to the Pension Fund Committee.	Other urgent matters as they arise	HPFI/HPA, DFM and GDFCR, subject to agreement with Chairman and Deputy Chairman (or either, if only one is available in timescale)	PC advised of need for delegation via e-mail as soon as the delegation is necessary. Result of delegation to be reported for noting to following PC.
	Other non-urgent matters as they arise	Decided on a case by case basis	As agreed at PC and subject to monitoring agreed at that time.

¹ CIPFA Code of Practice recommends each administering authority delegates responsibility for implementation to a senior officer.

London Borough of Hackney Pension Fund Communications Policy Statement

Legislative Background

This document sets out the Communications Policy of the Administering Authority of the London Borough of Hackney Pension Fund as required under the Local Government Pension Scheme Regulations (2013), Regulation 61.

The Public Service Pensions Act 2013 also introduced a framework for the governance and administration of public sector service pension schemes and provided an extended regulatory oversight of the LGPS to the Pensions Regulator. The Regulator's Code of Practice No14 has detailed guidance on providing good quality communications to members and others, with reference to the Occupational & Personal Pensions Scheme (Disclosure of Information) Regulations 2013 and HM Treasury Directions 2014 on Information about Benefits.

Communication Strategy

The aim of this communications strategy is to make sure that all stakeholders are kept informed of developments within the Pension Fund. We want to ensure transparency and an effective communication process will help to maintain the efficient running of the Scheme. Regulations require each Administering Authority to prepare, maintain and publish a



statement setting out their policy on communicating with the following stakeholders and organisations:

Communications Methodology

The administering authority has at its disposal a wide range of options for communicating with the diverse groups that it needs to serve. The method of communication will vary depending on what needs to be communicated and to whom. The methods used by the Administering Authority to communicate with all interested parties are detailed below.

General Communications

We use a range of methods to communicate including a variety of paper-based and electronic means. The Fund has a dedicated Pensions website: hackney.xpmemberservices.com and the use of a secure portal 'Sharefile' for employers to upload confidential information.

We will accept some communications electronically and will respond electronically where possible. For security reasons, we will not use email for communicating sensitive information or where it is necessary to verify the address or identity of the sender

- **Pension Scheme Administrators** – The Fund's administrators, Equiniti, will assist with the overall administration of the scheme to ensure the smooth operation of the administrative function.

They can be contacted via the helpline number - 01293 603085 or by email:-

- for Members of the scheme – hackney.pensions@equiniti.com
- for Administration staff – hackney.employers@equiniti.com
- **Website** – Communication in the form of a dedicated Pension Fund website is available which contains a wide range of information for not only scheme members but also scheme employers and other interested parties. The website can be accessed via hackney.xpmemberservices.com. The website contains copies of scheme guides, newsletters and other relevant information pertaining to the LGPS
- **Policy Documents** – These are available for all stakeholders to access either on the website at hackney.xpmemberservices.com, in hard copy or electronically on application. Copies of all policy documents are held within the Financial Services Section, Finance and Resources Directorate.
- **Posters** – These will be designed to help those who are both members and non-members of the LGPS, to understand the full range of benefits when participating in the scheme, and providing guidance on how to obtain more information and also how to join the scheme.
- **Council Intranet** – Updates on the scheme and any other relevant news in regards to LGPS is available through communication updates via the Council intranet, which is the Fund's largest employer.

Branding

As the pension fund is administered by Equiniti, all literature and communications will include a combination of the branding of the London Borough of Hackney, Hackney Pensions and Equiniti.



Data Protection Statement

To protect any personal information held on computer, the London Borough of Hackney Pension Fund and the pension administrators, Equiniti, are registered under the Data Protection Act 1998. This allows members to check that their details held are accurate.

The Fund may, if it chooses, pass certain details to a third party, if the third party is carrying out an administrative function of the Fund, for example, the Fund's AVC provider. Members who wish to apply to access their data on Data Protection grounds should contact the pension administrators, Equiniti, on 01293 603085 or by email hackney.pensions@equiniti.com

National Fraud Initiative (NFI)

This authority is under a duty to protect the public fund it administers, and to this end may use information for the prevention and detection of fraud. This includes our participation in the Government's National Fraud Initiative (NFI), and it may also share information with other bodies responsible for auditing, or administering public funds, solely for the purposes of preventing and/or detecting fraud.

Policy on Communicating with Contributing (active) Scheme Members, Deferred and Pensioner Members

All members of the Scheme (active, deferred and pensioner members) will be kept informed about their benefits, developments in the Scheme and any changes to the scheme of a regulatory or operational nature. This includes consultation with representative groups as required.

- **Scheme Guides** – There are scheme guides available for members setting out the conditions of membership and main scheme benefits that apply under the Local Government Pension Scheme (LGPS). A copy of these will be provided to new employees of the scheme and at other times on request. The scheme guides can also be found on the Pension Fund website at hackney.xpmemberservices.com which is available for any member to access.

- **Member Self-Service** – Via the Fund’s website, all scheme members can securely access their pension details held on the pension administrator’s database. This facility allows scheme members to check their personal details and advise the administrators of any changes. It also has the ability for scheme members to produce an estimate of their potential LGPS benefits due to them at retirement. Pensioner members will be able to view payslips and P60’s and their address details.
- **Annual Benefit Statements** – Active and deferred scheme members are entitled to an annual benefit statement detailing the benefits that they might expect at retirement. These are issued annually and would normally be issued within 5 months of the financial year end (31st March). These contain vital information for scheme members and enable individuals to make informed choices about their retirement options.
- **Pension Surgeries** – based at Hackney Service Centre, 1 Hillman Street, London, E8 1DY. Pension Officers can be contacted by email pensions@hackney.gov.uk or alternatively contact by telephone 020 8356 2521/2507/4266, for members (active, deferred and pensioners) to make an appointment to discuss their benefits, retirement issues and the options available in the Scheme.
- **Pension Roadshows/Presentations** – Roadshows and presentations are used to target specific topics or when major scheme changes occur, enabling all members of the LGPS to have access to information. General meetings and presentations will be held at intervals to communicate the benefits and options available to scheme members and prospective members.
- **Pre-retirement seminars** – Presentations on the scheme and benefit choices at pre-retirement seminars that are facilitated by the London Borough of Hackney Human Resources Department, to help scheme members approaching retirement prepare for the financial and lifestyle changes retirement brings.
- **Newsletters** – These will be sent to scheme members to communicate changes in regulations, developments in the fund and to inform members of changes in policy. The exact timing and nature of these newsletters will vary depending on what developments are taking place. However if there are regulatory changes which are likely to impact on individuals benefits or scheme membership in any significant way, then newsletters will be sent to members in sufficient time for them to be able to act upon that information. An annual accounts newsletter is sent to all scheme members providing information on the state of the fund, performance of the fund and any major changes which have taken place during the year.
- **Pensioner Payslips** – All pensioners receive a payslip each month along with their P60 at the end of the year. Electronic payslips are also available to those registered for self-service.
- **Pension Increase notifications** – The notification of the annual increase to pensioner benefits is sent out to every member in receipt of a pension each April.

- **Certificates of Continued Entitlement to Pensions (Life Certificates)** – The Fund will undertake an annual exercise, conducted through correspondence, in order to establish the continued existence of the following pensioners:
 - All pensioners living abroad (outside the UK).
 - Those over the age of 80
 - Those pensioners receiving pension benefits by cheque
 - Those retired on ill health grounds.

This exercise will also be undertaken every 3 years to establish the continued existence of ALL members in receipt of a pension.

- **Pension Fund Report and Accounts Summary** – This provides a summary of the Pension Fund during the financial year and will be distributed annually to all scheme members

Policy on Communicating with Prospective Scheme Members

We will make information available to all prospective scheme members, new employees and prospective employees. All new employees will be contractually enrolled into the LGPS where their employer is a scheduled body or a contractor has an open admission agreement, the terms of which are to enrol new members and will receive information regarding the scheme. They can still choose to opt-out should they choose to do so.

- **Initial Contact** - All permanent new members of staff are contractually enrolled into the LGPS, where the employer is a scheduled body or open admission agreement contractor. Each new member is sent a welcome letter statutory notice by the pension administrators confirming their membership of the LGPS along with a scheme guide.
- **Induction seminars** – Presentation on the scheme and its benefits at the weekly induction seminars for all new employees of the Council, which are facilitated by HR, providing prospective new members of the scheme information in order for them to make an informed decision in regard to membership of the scheme. Induction seminars are also provided for other employers on request.
- **Liaison Officer, Pensions** – based at Hackney Service Centre, 1 Hillman Street, London E8 1DY, the Liaison Officer, Pensions is easily contactable by email: pensions@hackney.gov.uk telephone 020 8356 6802, or letter. It is also possible to arrange a one-to-one meeting to discuss the benefits and options available to prospective members.
- **Scheme Guides** – There are scheme guides available for prospective members setting out the conditions of membership and main scheme benefits that apply under the Local Government Pension Scheme (LGPS). A copy of these will be provided electronically to new employees and prospective members of the scheme, and at other times, on request. The scheme guides can also be found on the Pension Fund website hackney.xpmemberservices.com which is available for any member to access.

Policy on Communicating with Employers participating in the Fund

We will keep employers in the Pension Fund informed about developments in the Scheme and consult on changes to the Scheme as required. Potential scheme employers will also have access to information about the Pension Fund to ensure that they are fully informed in their relationship with the Fund.

- **Employer Guide** – This is a guide for scheme employers outlining the details of the scheme and the administrative arrangements for the scheme. This has been distributed to all employers in the scheme and all new employers will receive copies. Training on procedures in relation to the employer guide is also available upon request.
- **Employer Seminars/Meetings** – Annual employer forums are held to update employers of relevant current issues, policy changes and investment updates. Further seminars/meetings will be held as appropriate to communicate changes in policy within the Scheme or to discuss major issues affecting all employers such as the triennial actuarial review. Individual meetings with separate employers will be held annually or as required. Employers will also be notified in writing of any changes which affect them or the way that the scheme is administered.
- **Email** – Periodic emails are sent to keep scheme employers up to date with topical pension matters, and payroll issues that may have an effect on pensions, including articles from LGA Circulars and Bulletins, and any relevant external training courses they may wish to attend
- **Quarterly Newsletter** – A quarterly newsletter is sent to all Employers and Schools to ensure that the scheme employers are aware of current issues, policy changes and amendments to pension matters that affect themselves and/or their members
- **Secure Portal** – The Fund has a secure portal ‘Sharefile’ which facilitates the transfer of sensitive information and data between the Fund and Employers electronically. Access rights are strictly controlled by the pension administrators, Equiniti.
- **Website** – The website has a dedicated area for Scheme Employers and is used to access detailed information on procedures which must be followed to administer the LGPS and holds a wide range of information in regard to Employer Guides, pension forms, newsletters and policies. The website can be accessed via hackney.xpmemberservices.com.
- **Pensions Administration Strategy (PAS)** – The administration strategy sets out the roles and responsibilities of the Administering Authority (the London Borough of Hackney), the third party administrator and employers in the Pension Fund and can be found on the website at: hackney.xpmemberservices.com. It sets out the service level agreement and targets which all are expected to meet.
- **Employer Training** – The Fund offers all Scheme Employers training on the LGPS and their role in the administration of the scheme. This covers the full range of administrative and regulatory duties under the scheme regulations.
- **Annual Report and Accounts** – This contains details of the Pension Fund during the financial year, income and expenditure as well as other related details. This is a detailed and lengthy document and will therefore not be routinely distributed, except to employers participating in the Fund or on request. The full document will be published on the website at hackney.xpmemberservices.com.

Policy on Communicating with Elected Members

Information will be provided to Council Members in order for them to be able to fulfil their duties under the role of administering authority.

- **Access to Pensions Committee** – The Pensions Committee is the Committee which has delegated power to review, administer and monitor the Pension Fund. The Committee meets a minimum of four times a year or more frequently, as required. Meetings are open to members of the public, although there may be occasions when members of the public are excluded due to the confidential nature of matters under discussion.
- **Committee Reports** – Reports to Pensions Committee and to other Committees as necessary, for example Corporate Committee and Council, ensures that Council Members are kept informed of developments in relation to Pension Fund issues and the impact that these can have on overall Council policies and procedures. These are published on the Council's website. The agenda, reports and minutes of the meetings are available on the Council's website at <http://www.hackney.gov.uk/l-mayor-cabinet-councillors.htm>
- **Training** – Committee Member training is a standing agenda item and the Committee liaise with Officers on training needed and received on an on-going basis each year. They are also kept informed of any relevant external training course
- **Presentations** – Officers and advisers to the Fund deliver presentations on investment and administration matters to the Committee

Policy on Communicating with the Pensions Board

The Pension Board will meet at least twice a year in the ordinary course of business and additional meetings may be arranged as required to facilitate its work.

- **Reports to The Pensions Board** - The Pension Board will be treated in the same way as a Committee of Hackney Council and, as such, members of the public may attend and papers will be made public in the same way as described above for the Pension Committee.
- **Training** – The Pension Board will be provided with, and be required to undertake, appropriate training, either provided internally by Officers or externally.

Policy on Communicating with Other Bodies

There are a number of other interested parties with whom we will communicate with as required, this includes:

- **The Department for Communities and Local Government (DCLG)** – regular contact with DCLG as regulator of the scheme, participating and responding to consultations as required.
- **Trade Unions** – we will work with relevant trade unions to ensure the Scheme is understood by all interested parties. Efforts will be made to ensure all pension related issues are communicated effectively with the trade unions.
- **Employer Representatives** - we will work with relevant employer representative bodies to ensure that the Fund's views are represented to employer groups.
- **Pension Fund Investment Managers, Advisers and Actuaries** –
 - Regular meetings with the Fund Managers who invest funds on behalf of the Fund.
 - Regular meetings with Investment Advisers who provide help and advice on the asset allocation and investments of the Fund
 - Regular meetings with the Fund Actuary to discuss funding levels, employer contributions and valuation of the assets and liabilities of the Fund
- **Pension Fund Custodian** – The Fund's Custodian is HSBC, who ensures the safekeeping of the Funds investment transactions and all related share certificates.
- **AVC Provider** – Additional Voluntary Contributions (AVC) are a way to top up your pension benefits, and in some instances provide tax free lump sum depending on the policy, and are held and invested separately from the LGPS. The Funds preferred AVC provider is Prudential
- **Pensions and Lifetime Savings Association (PLSA) (previously known as NAPF)** – The Fund is a member of PLSA, which provides an opportunity for administering authorities to discuss issues of common interest and share best practice.
- **Local Authority Pension Fund Forum (LAPFF)** – The Fund is a member of LAPFF which was established to help local authority funds share information and ideas about socially responsible investing.
- **London Pension Officers Group (LPOG) & London Pension Officers Forum (LPOF)** – the Fund is a member of these voluntary groups. Meetings are held on a quarterly basis to share information and ensure standardised interpretation of LGPS regulations and best practice.
- **Requests for Information (FOI)** - Requests for information either under the Freedom of Information Act or otherwise, will be dealt with as openly and swiftly as allowed providing that such information does not breach confidentiality.

- **Consultations** – There are occasions when the administering authority will consult with interested parties either as a result of potential changes to the regulations governing the LGPS or specific policy changes relating to the London Borough of Hackney Pension Scheme. In these instances, the most effective way of communicating with interested parties is to hold a period of consultation, during which, they are given the opportunity to respond to specific changes. Interested parties and representative groups will be approached to provide feedback to the policy changes before amendments are enacted.
- **Minority Groups** – It is recognised that there may be occasions when some minority groups may not be able to access all the information available to others. The Pension Fund will try to ensure that information is available to the widest possible audience and as such will try to ensure that minority groups do have access to information. This is however a developing area, but feedback on how to promote better access for all minority groups is welcome.

Communication Material

The table below shows the Fund communications along with their publication frequency and the format in which they are available to their intended audience.

Communication Material	Paper form	Electronic form	Website	Frequency	Intended Audience (active, deferred, pensioner, prospective members, employers or ALL)
Annual Benefit Statements	✓	✓	✗	Annually	Active, Deferred
Annual Newsletter	✓	✓	✓	Annually	ALL
Pension Updates	✓	✓	✓	When details available	Active, Prospective, Employers
Ad hoc Newsletters	✓	✓	✓	As required	ALL
Newsletter	✗	✓	✓	Quarterly	Employers (& schools)
Payslips	✓	✓	✗	Monthly	Pensioners
Notice of Pension Increase (PI)	✓	✗	✓	Annually (April)	Pensioners

LONDON BOROUGH OF HACKNEY PENSION FUND ANNUAL REPORT AND ACCOUNTS 2017/18

Scheme Updates/Changes workshop	✓	✓	✗	As required	Active members/ Employers (& schools)
Scheme Guides	✓	✓	✓	When requested	ALL
Induction Sessions	✓	✓	✗	Weekly	Prospective
Pre-Retirement Seminars	✗	✓	✗	As required	Active
Employer Forum	✗	✓	✓	Annually	Employers
Pensions Administration Strategy (PAS)	✓	✓	✓	Annually (April)	Employers (& schools)
Pension Committee	✓	✓	✓	4 to 6 meetings per financial year	ALL
Pension Board	✓	✓	✓	2 meetings per financial year	ALL
Communications Policy Statement	✓	✓	✓	Annually (April)	ALL
Full Report & Accounts	✓	✓	✓	Annually (November)	ALL
Summary Report & Accounts	✓	✓	✓	Annually	Active, Deferred, Pensioner
Statement of Investment Principles	✓	✓	✓	Annually (April)	ALL
Ad-Hoc Queries	✓	✓	✗	Within set timescales	ALL

Feedback

The Fund welcomes comments and feedback from scheme members, scheme employers, prospective members and other interested parties. The mechanisms for feedback include consultation periods, direct communication with the scheme administrators and direct communication with the Financial Services Section which oversees all aspects of the Pension Fund. Contact details are provided below for the relevant departments.

General administrative queries relating to pension scheme membership issues should be addressed to:

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

Tel No: 01293 603085

To contact them by email -

- for members of the scheme - hackney.pensions@equiniti.com
- for Administration staff – hackney.employers@equiniti.com

For other queries and feedback issues:

Financial Services Section
Finance and Resources Directorate
4th Floor Hackney Service Centre
1 Hillman Street
London
E8 1DY

Email: pensions@hackney.gov.uk

Review of the Communications Policy

This policy document will be reviewed annually and updated as required when there are significant changes to be made and, if appropriate, will be consulted upon with the relevant stakeholders.

Local Government Pension Scheme Regulations 2013

Below is the relevant extract from the Local Government Pension Scheme Regulations 2013, Regulation 61, which sets out the requirements of the Communications Policy for LGPS Funds

Statements of policy concerning communications with members and Scheme employers

61. (1) An administering authority must prepare, maintain and publish a written statement setting out its policy concerning communications with—

- (a) members;
- (b) representatives of members;
- (c) prospective members; and
- (d) Scheme employers.

(2) In particular the statement must set out its policy on—

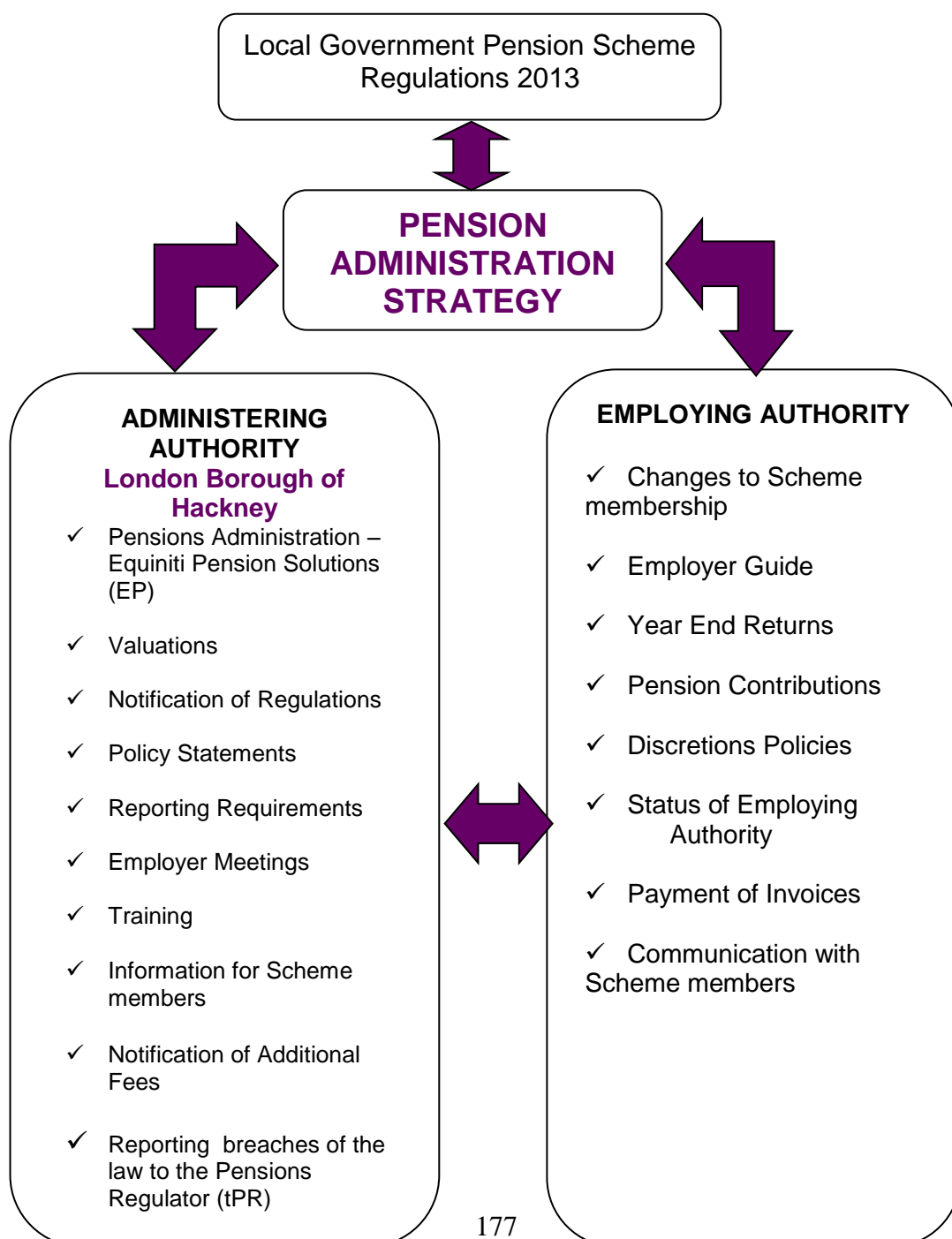
- (a) the provision of information and publicity about the Scheme to members, representatives of members and Scheme employers;
- (b) the format, frequency and method of distributing such information or publicity; and
- (c) the promotion of the Scheme to prospective members and their employers.

(3) The statement must be revised and published by the administering authority following a material change in their policy on any of the matters referred to in paragraph (2).

London Borough of Hackney Pension Fund Pension Administration Strategy 2018/19

Introduction

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



Aims and Objectives

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

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

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

For the Administering Authority, effective administration means:

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

For Employing Authorities, effective administration means:

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

For Scheme members, efficient administration means:

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

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

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

Implementation

The Administration Strategy is effective from 1 April 2018.

Regulatory basis

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

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

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

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

Administration in The London Borough Of Hackney

Responsibility

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

In addition the Pensions Board, will assist and advise the Administering Authority in ensuring compliance with the Regulations and will receive reports on the Administration Strategy and its effectiveness.

Objective

The Fund's objective in relation to administration is to deliver an efficient, quality and value for money service to its scheme employers and scheme members. Operationally the administration of the Fund is partly outsourced to Equiniti Pension Solutions and partly carried out by Council staff.

The Council and Equiniti Pension Solutions staff work together to provide a seamless service to scheme employers and scheme members.

Communications

The Fund has published a Communication Strategy Statement, which describes the way the Fund communicates with:-

- scheme members
- members representatives
- prospective members
- scheme employers
- other stakeholders/interested parties

The latest version of the Communication Strategy Statement can be obtained from the Fund website:- <http://hackney.xpmemberservices.com>

The table below summarises the current methods the Fund uses to communicate:

Website http://hackney.xpmemberservices.com	Information about the Fund, the LGPS, administrative procedures, policies and forms for use
Newsletters	Annual newsletter and additional newsletters issued as may be necessary to highlight new issues and forthcoming events
Employer meetings	Held annually to provide Employers with a forum to address the Fund's staff and advisers
Helplines:- Equiniti Pension Solutions London Borough of Hackney Pensions Team	01293 603085 020 8356 2521
E-mail addresses: For the Equiniti Pension Solutions team: Hackney.pensions@equinitipaymaster.com For the London Borough of Hackney team: pensions@hackney.gov.uk	To answer day to day questions about administering the Scheme
Individual Employer meetings	Offered to Employers who need advice about how to carry out the day to day administration of the Scheme
Annual Benefit Statements	Sent to active and deferred scheme members
Individual Scheme member meetings	1-2-1 meetings available with a member of the Pensions team as required
Pension Presentations	Presentations to staff, managers, new employees, etc. on pension related matters

Training and Engagement

The objectives of the Fund have always been to keep stakeholders informed of new developments by sending emails and newsletters, and by providing training, forums and workshops for Employers when new Regulations are implemented or are under consideration. Additionally training is offered on an ongoing basis to new scheme employers or relevant new HR/Payroll staff.

It is important that Employers ensure that their staff have the right level of skills and knowledge to support any changes, starting with a sound foundation of existing regulations and administrative processes. There is an ongoing need to continuously maintain the quality of member records and the administrative processes by improving the quality of information received from Employers.

The aims of this approach are therefore:-

- To maintain a high standard of customer service for members and Employers
- To ensure that relevant staff within each Employer have sufficient knowledge and skills to effectively discharge administrative processes
- To ensure that Employers are fully aware of the risks involved in poor administration and maintenance of member pension records and if they fail to discharge of their discretionary functions
- To provide ongoing training on relevant employer responsibilities
- To support the implementation of new technology within the Fund to enable self-service for the Employer and streamlined administration

To achieve this, the Fund will:-

- Work with Employers' Human Resources, Payroll and other staff to help develop relevant skills and knowledge by providing appropriate assistance, guidance and training
- Organise workshops and forums for Employers to debate new issues as they emerge

This strategy will ensure that Employers have a common understanding of their obligations under the Local Government Pension Scheme, and that administrative processes are designed to maximise efficiency and effectively manage risk.

The Fund will provide training for Employers' relevant staff, to build up and maintain a level of professional expertise which will enable Employers to deliver information required by the Fund to efficiently administer the Scheme.

Performance Standards

The Scheme prescribes that certain decisions be taken by either the Fund or the scheme employer, in relation to the rights and entitlements of individual scheme members. In order to meet these obligations in a timely and accurate manner, and also to comply with overriding disclosure requirements, the Fund has agreed levels of performance between itself and scheme employers which are set out below:

Overriding Legislation

Scheme employers will, as a minimum, comply with overriding legislation, including:

- Local Government Pension Scheme Regulations
- Pensions Acts 2004 & 2011 and associated disclosure legislation
- Public Service Pensions Act 2013 and associated record keeping legislation
- Freedom of Information Act 2000
- Equality Act 2010
- Data Protection Act 2003
- Finance Act 2013
- Relevant Health and Safety legislation
- Any other legislation that may apply at current time

Internal Quality Standards

The Fund and scheme employers will ensure that all functions and tasks are carried out to agreed quality standards. In this respect the standards to be met are:

- compliance with all requirements set out in the Employers' Guide
- all information required by the Fund to be provided in the required format and/or on the appropriate forms referred to in the Employers' Guide which are accessible from the Fund website at <http://hackney.xpmemberservices.com>
- information to be legible and accurate
- communications to be in a plain language style
- information provided to be checked for accuracy by an appropriately qualified member of staff
- information provided to be authorised by an appropriate officer
- actions carried out, or information provided, within the timescales set out in this Administration Strategy.

Timeliness

Overriding legislation dictates minimum standards that pension schemes should meet in providing certain pieces of information to the various parties associated with the Scheme. The Scheme itself sets out a number of requirements for the Fund and scheme employers to provide information to each other, scheme members and prospective scheme members, dependants, other pension arrangements or other regulatory bodies. The following sections on responsibilities set out the locally agreed timescales for these requirements.

Fund Responsibilities

The London Borough of Hackney is the Administering Authority of the London Borough of Hackney Pension Fund and has delegated powers to the Pensions Committee to oversee the management of the Pension Fund. The role of the Administering Authority is to administer the Pension Fund and act as a quasi-trustee body for the management of the Pension Fund.

The Pensions Board comprising equal numbers of employer and scheme member representatives will assist the Administering Authority in ensuring compliance with the regulations and in particular as this affects the administration of the Pension Fund and will therefore review the effectiveness of the Fund's Pension Administration Strategy on an annual basis.

This section outlines the key responsibilities of the Fund and the performance standards scheme employers and scheme members should expect. It is focussed on the key activities which scheme employers and scheme members are involved in and should not be viewed as a complete list of all activities. It includes the performance standards that the Administering Authority has agreed with the pension administrators, Equiniti Pension Solutions (EP).

Administering Authority - Fund Administration

This section details the functions which relate to the whole Fund, rather than individual scheme members' benefits.

Function/Task	Performance Target
Publish and keep under review the Fund's Administration Strategy .	Consult with employers following any significant revisions to the Administration Strategy Notify employers of agreed Strategy within 2 months of being agreed by the Pensions Committee
Publish and keep up to date the scheme guide and Employers' Guide .	30 working days from any significant revision.
Publish and keep up to date all forms required for completion by scheme members, prospective scheme members or scheme employers.	30 working days from any significant revision.
Upon receipt of accurate information on the appropriate form, the provision of 1 estimate per employee, per year, in relation to retirement of an active member due to age, redundancy, efficiency or flexible retirement	20 working days from date of receipt of estimate request (refer Monitoring Performance & Compliance – page 21)

Function/Task	Performance Target
Host a meeting for all scheme employers.	Annually
Organise training sessions for scheme employers.	Upon request from scheme employers, or as required.
Notify scheme employers and scheme members of changes to the scheme rules.	Within two months of the change(s) coming into effect.
Notify a scheme employer of issues relating to the scheme employer's unsatisfactory performance .	As soon as a performance issue becomes apparent.
Notify a scheme employer of decisions to recover additional costs associated with the scheme employer's unsatisfactory performance (including any interest that may be due).	Within 10 working days of scheme employer's failure to improve performance, as agreed.
Issue annual benefit statements to active and deferred members as at 31 March each year.	To be issued no later than five months after the end of the Scheme year to which it relates.
Issue formal valuation results (including individual employer details).	10 working days from receipt of results from the Fund's actuary (but in any event no later than 31 March following the valuation date).
Carry out interim valuation exercises on cessation of admission agreements or a scheme employer ceasing participation in the Fund.	Upon each cessation or occasion where a scheme employer ceases participation on the Fund.
Arrange for calculation of FRS17/IAS19 valuations for employers as required	Within 10 working days from receipt of results from the Fund's actuary
Arrange for the setting up of separate admission agreement , where required (including the allocation of assets and notification to the Secretary of State).	Within 3 months of agreement to set up
Publish, and keep under review, the Fund's Governance Policy and Compliance Statement .	Within 30 working days of policy being agreed by the Pensions Committee.
Publish and keep under review the Fund's Funding Strategy Statement .	To be reviewed at each triennial valuation, following consultation with scheme employers and the Fund's actuary. Revised statement to be published at the same time as the final valuation report is issued.
Publish the Fund's Annual Report and Accounts and any report from the auditor.	By 30 September following the year end or following the issue of the auditor's opinion

Function/Task	Performance Target
Publish and keep under review the Fund's Communications Policy Statement .	Within 30 working days of policy being agreed by the Pensions Committee
Publish and keep under review the Fund's Statement of Investment Principles .	Within 30 working days of policy being agreed by the Pensions Committee
Publish and keep under review the Administering Authority Discretions Policies	Within 30 working days of policy being agreed by the Pensions Committee
Agree with integrated bodies (e.g. maintained & VA schools) the arrangements with regards to statutory auto-enrolment communications for each 3 year auto-enrolment cycle, and provide written confirmation of those arrangements.	No less than 6 weeks prior to the staging date

Third Party Administration Service



Provider - Equiniti Pension Solutions

Service Standards Agreement

The following provisions apply to the operation of the Service Standards in relation to Services provided: -

- All Service Standards are quoted in Working Days unless otherwise indicated.
- All Service Standards are net of any third party action and from receipt of correct data/information.

Category	Task	Actions	Service Standards
Calculations Active Members	Retirement of Active member due to redundancy	Provision of retirement quotation.	10 days from receipt of request for quotation.
		Finalisation of retirement and issue of tax-free cash sum	5 days from receipt of complete data
	Late retirement of active member	Provision of retirement quotation.	10 days from receipt of request for quotation
		Finalisation of retirement and issue of tax-free cash sum	5 days from receipt of complete data

Deferred Members	Early Retirement of Deferred member	Provision of early retirement quotation.	10 days from receipt of request for quotation.
		Finalisation of retirement and issue of tax-free cash sum.	5 days from receipt of complete data
	Normal Retirement of Deferred Member	Provision of a provisional statement of retirement benefits	3 months prior to member's NRD
Provision of final statement of benefits		10 days from receipt of request for quotation	
Finalisation of retirement and issue of tax-free cash lump sum.		5 days from receipt of complete data	

Deferred Members cont'd...	Ill health retirement of Deferred Member	Provision of Ill health retirement quotation. Finalisation of retirement and issue of tax-free cash sum	10 days from receipt of confirmation that retirement has been approved and is to proceed. 5 days from receipt of complete data
	Late Retirement of a Deferred Member	Provision of retirement quotation. Finalisation of retirement and issue of tax-free cash sum	10 days from receipt of request for quotation. 5 days from receipt of complete data
Ad Hoc Quotations	Ad-hoc quotation requests	Provision of quotation as requested	10 days from receipt of request for quotation

Category	Task	Actions	Service Standards
Calculations Active Members cont'd....	Refund of Contributions	Provide a statement of contributions and a refund cheque	10 days from receipt of complete data
	Deferred Benefits	Provide a statement of deferred benefits.	10 days from receipt of complete data
	Early retirement of active member	Provision of early retirement quotation.	10 days from receipt of request for quotation.
		Finalisation of retirement and issue of tax-free cash sum.	5 days from receipt of complete data.
	Ill health retirement of active member	Provision of Ill health retirement quotation.	10 days from receipt of request for quotation.
Finalisation of retirement and issue of tax-free cash sum		5 days from receipt of confirmation that retirement has been approved and is to proceed.	
Normal Retirement of Active member	Provision of a provisional statement of retirement benefits	3 months prior to member's NRD	
	Provision of final statement of benefits.	10 days from receipt of complete data.	
	Finalisation of retirement and issue of tax-free cash sum	5 days from receipt of complete data.	

Category	Task	Actions	Service Standards
Transfer Values	Transfer In Quotation	Obtain transfer details.	10 days from receipt of request for quotation
		Calculate and provide quotation to member.	20 days from receipt of complete data
	Acceptance of Transfer In	Request Transfer Value.	5 days from receipt of confirmation that TV is to go ahead
		Establish benefits and record.	10 days from receipt of transfer cheque
	Transfer Out Quotation	Provision of details of Transfer Value available to member	10 days from receipt of request for quotation
Payment of Transfer Value	Provision of payment for transfer value to nominated recipient	5 days from receipt of confirmation that the transfer value is to be paid	
Divorce proceedings	Earmarking Order received, Pension sharing Order	5 days from receipt of order	
Deaths	Active Member – Death in Service	Calculation of death benefits. Establishment of beneficiaries.	5 days from receipt of notification of death
		Payment of death benefits as directed.	1 day from instruction to pay
	Deferred Member – Death in Deferment	Calculation of death benefits. Establishment of beneficiaries.	5 days from receipt of notification of death
		Payment of death benefits as directed.	1 day from instruction to pay
Pensioner – Death in Retirement	Calculation of death benefits. Establishment of beneficiaries.	5 days from receipt of notification of death	
	Payment of death benefits as directed.	1 day from instruction to pay	
Death of Spouse	Calculation of death benefits. Establishment of beneficiaries.	5 days from receipt of notification of death	
	Payment of death benefits as directed.	1 day from instruction to pay	
Category	Task	Actions	Service Standards

Data	Maintenance of database	Amendment of member records and issue of acknowledgement	10 days from receipt of notification of change to data.
	Cheque Receipt	Acknowledgement of receipt of cheque	1 day from receipt of cheque
	New Entrant	Addition of new member to database. Issue of letter of acknowledgement.	10 days from receipt of completed application form.
	Annual Pension increases	Calculation of increases Notification to pensioners	For implementation on scheduled payment date Not more than one month before scheduled payment date.
AVCs	AVC Set Up	Establishment of AVC record on database. Notification sent to Payroll dept.	10 days from receipt of completed application form.
	AVC Quotation	Provision of an AVC quotation	10 days from receipt of complete data
Valuation	Production of various information	Supply of valuation information to the Actuary.	As agreed with the Client and Actuary.
FRS17/IAS19 Valuations	Production of various information	Supply of valuation information to the Actuary.	As agreed with the Client and Actuary.
Payroll	Payments	Issue BACS payments to pensioners designated bank accounts	To be received in the designated bank account on the due pay date
		Issue payslips to pensioners' home addresses	To be issued second class post via the Royal Mail so as to be expected to be received at the pensioners' home address on the due pay date
		Undertake relevant investigation for returned payments and action to Pensioner Record and inform Administration when relevant	Within 10 working days of receipt

Category	Task	Actions	Service Standards
----------	------	---------	-------------------

Payroll cont'd...	Payments cont'd....	Payment of PAYE to HMRC	To be received electronically by the Collection Office by the 22 nd of the month following deduction.
		Pay statutory/voluntary deductions to relevant recipients.	To be issued within one week of the pay date
	Record Amendments	Establish new pensioner record	By first available payment date following date of notification
		General amendments to pensioner records in accordance with instructions provided	By next available payment date
	Enquiries	Respond to pensioner enquiries in writing	Within 10 working days of receipt
		Respond to third party enquiries in writing	Within 10 working days of receipt
	Year-end	Issue P60s to pensioners	By 31 st May following tax year end
Issue P35/P14 year-end returns to HMRC		By 19 th May following tax year end	
Legislation and Regulations	PAYE regulations	All regulations and legislation regarding PAYE will be complied with	
Pension Verification Process	One verification exercise per year to include life certificates, NFI, or any other method which may be agreed	As agreed with the Council	

Scheme Employer Responsibilities

This section outlines the responsibilities of all scheme employers in the Fund and the performance standards scheme employers are expected to meet to enable the Fund to deliver an efficient, quality and value for money service.

External Providers

Scheme employers must ensure that appropriate record-keeping is maintained and where they outsource their payroll, HR or pension administration functions to a third party, the legal responsibility for the provision of pension data to the Administering Authority or the third party pension administrator, lies with the Scheme employer and not the third party.

Any external service providers with responsibility for carrying out any functions relating to the administration of the Local Government Pension Scheme must be made aware of the standards that are to be met.

Scheme employers must therefore ensure, as part of any contract entered into with a third party, that the third party has sufficiently robust processes in place to fulfil the statutory duties of the Scheme and the performance levels set out in the Pension Administration Strategy.

All information must be provided in the format prescribed by the Fund and within the prescribed timescales. Information and guidance is provided in the Employers' Guide which is available from the funds web site <http://hackney.xpmemberservices.com>

Employer Responsibilities/Functions

This section details the functions which relate to employers responsibilities and tasks:

Function/Task	Performance Target
Confirm a nominated representative to receive information from the Fund and to take responsibility for disseminating it within the organisation. Ensure the Fund is kept up to date with any change to the nominated representative.	30 working days of employer joining fund or change to nominated representative.
Formulate, publish and update (as necessary) an Employer Discretions Policy in relation to all areas where the employer may exercise a discretion within the LGPS Regulations. A copy of the Employer Discretions Policy must be provided to the Fund.	Within 30 working days of policy being agreed the employer. Failure to provide the Fund with a copy of your policies could impact on the release/payment of individuals' benefits.
Respond to enquiries from the Fund	10 working days from receipt of enquiry.
Attend administration training provided on admission to the Fund.	On agreed date

<p>Pay over employer and employee contributions to the Fund and provide schedule of payments in the format stipulated by the Fund.</p>	<p>Cleared funds to be received by 19th calendar day of month after deduction.</p>
<p>NOTE</p> <p>Late payment of pension contributions by Scheme employers is a serious offence and the Pensions Regulator or the Pensions Ombudsman has significant powers of sanction.</p> <p>Scheme managers must report payment failures which are likely to be of material significance to the Pensions Regulator within a reasonable period, in the case of employee contributions; and as soon as reasonably practicable in the case of employer contributions</p> <p>The Pensions Regulator can impose fines of up to £50,000 for each instance of persistent offence. Recent changes to the Pensions Act have made it easier to prosecute employers for late payment of contributions.</p> <p>Any fines imposed on the Fund by the Regulator, which is deemed to be the fault of an Employer, will be passed on to that Employer</p>	
<p>Implement changes to employer contribution rates as instructed by the Fund.</p> <p>Note - Employer contributions are expressed as a percentage of pensionable pay and are payable at such rate(s) as may be advised by London Borough of Hackney Pension Fund following the completion of each triennial actuarial valuation of the pension fund.</p>	<p>At date specified on the actuarial advice received by the Fund.</p>
<p>Provide year end information required by the Fund in the format stipulated in the instructions issued to the nominated representative in March each year.</p>	<p>By 30 April following the year end.</p>
<p>To provide any additional information that may be requested by the Fund for the production of the annual benefit statements in each year</p>	<p>By the timescale stated by the Fund at the time of the request</p>
<p>To ensure all errors highlighted by the Fund from the contribution information and year end information, are responded to and the corrective action is taken promptly.</p>	<p>By the timescale stated by the Fund at the time of the request</p>
<p>Function/Task</p>	<p>Performance Target</p>
<p>Ensure that any staff who are not already scheme members are assessed for Auto-enrolment according to their age and earnings.</p>	<p>Assessment to be made according to pay periods (e.g. staff paid monthly should be monitored on a monthly basis)</p>

Ensure that any staff who are not scheme members are auto-enrolled within statutory deadlines if they become an Eligible Jobholder and none of the statutory exceptions apply.	With effect from the employee's auto-enrolment date
Where employers are providing their own Automatic Enrolment communications, they must ensure that any staff affected by AE (including new starters) are provided with the necessary AE information within statutory deadlines	Within 6 weeks of the date they become eligible for automatic enrolment
Where auto-enrolment (AE) communications are provided by the Fund, employers must provide AE data sufficient to permit the production of the necessary staff letters within statutory deadlines.	Within 5 working days of the payroll date
Contact the Fund if considering contracting out services which will involve a TUPE transfer of staff to another organisation.	At the very beginning of the tender process so that important pension information can be provided for inclusion in the tender documentation.
Work with the Fund to arrange for an admission agreement to be put in place when contracting out a service and assist in ensuring it is complied with.	Agreement to be in place by the time the service is contracted out.
Distribute any information provided by the Fund to scheme members/potential scheme members	Within 15 days of its receipt or on joining the scheme
Provide new/prospective scheme members with a starter form and a scheme guide (or refer them to the Fund website).	5 working days of commencement of employment or change in contractual conditions.
Payment of additional fund payments in relation to early payment of benefits from ill health, flexible retirement, redundancy or business efficiency retirement, where a strain cost applies	Within 30 working days of receipt of invoice from the Fund.
Ensure payment of additional costs to the Fund associated with the poor performance of the scheme employer.	Within 30 working days of receipt of invoice from the Fund.

Scheme Administration

This section details the employer responsibilities and tasks which relate to scheme member benefits from the Scheme.

Function/Task	Performance Target
<p>To ensure that all employees subject to automatic or contractual enrolment are brought in to the Scheme from their employment start date.</p> <p>Complete a starter form for each new employee admitted to the pension scheme and ensure that the employee completes their element of the process.</p> <p>Where there is more than one contract of employment with the same employer, each contract must have its own starter form as each employment and pension membership must be maintained separately under the Regulations.</p>	<p>Within 15 working days of employee start date.</p>
<p>Arrange for the correct deduction of employee contributions from a scheme member's actual pensionable pay (including overtime) on becoming a scheme member.</p>	<p>Immediately on joining the scheme, opting in or change in circumstances.</p>
<p>Ensure correct employee contribution rate is applied in accordance with the LGPS contribution bandings</p>	<p>Immediately upon commencing scheme membership and in line with the employer's policy and as a minimum in each April payroll thereafter.</p>
<p>To apply the correct employee contribution rate according to the scheme the member is in – either 50/50 or the main scheme (100/100). To reassess employee contribution rate in line with employer's policy on adjusting employee contribution rates and notify the employee of their change in rate.</p>	<p>Review as per policy and notification within 10 working days of change in rate.</p>
<p>After receipt of the appropriate forms, commence deduction of Additional Pension Contributions (APC) or amend such deductions, as appropriate.</p>	<p>Month following election to pay contributions or notification received from the Fund</p>

Function/Task	Performance Target
After receipt of the appropriate forms, cease deduction of Additional Regular Contributions (ARC) or Additional Pension Contributions (APC) .	Immediately following receipt of election form from scheme member.
Arrange for the deduction of AVCs via your payroll provider and the payment over of contributions to the approved AVC provider(s)	Commence deduction of AVCs in month following the month of election Pay over contributions to the AVC provider(s) by the 19 th of the month following the month of election.
<i>Failure to provide the Fund with a schedule of additional pension payments – added years, ARCs, APCs, AVCs - by the target date and/or not in the correct format stipulated by the Fund, could result in additional administration costs being levied against you.</i>	
<p>NOTE</p> <p>Monthly AVC deductions should be paid directly to the AVC provider (Prudential) as soon as the payrolls are processed. A schedule must be sent with the payment, giving details of all contributions paid over to Prudential which must reach Prudential by the 19th day of the month following the month they were deducted.</p> <p>Scheme managers must report payment failures which are likely to be of material significance to the Pensions Regulator within a reasonable period, in the case of employee contributions; and as soon as reasonably practicable in the case of employer contributions</p> <p>Failure to do so is in breach of legislation and may be reported to the Pensions Regulator. Any fines imposed on the Fund by the Regulator, which is deemed to be the fault of an Employer, will be passed on to that Employer</p>	
Refund via your own payroll provider , any employee contributions that have been deducted in error .	Month following month of incorrect deduction.
Using the appropriate form, notify the Fund when any employees opt out of the scheme within 3 months of their start date. Cease deduction of employee contributions where a scheme member opts to leave the Scheme.	Month following month of election, or such later date specified by the scheme member.
Refund employee contributions, via your own payroll provider , where the member has opted out of the Scheme within 3 months and does not have previous LGPS membership.	Month following month of election to opt out.

<p>Using the appropriate form, provide the Fund with details of all contractual changes to scheme members conditions of service: e.g.</p> <ul style="list-style-type: none"> • contractual hours • actual pay – including overtime • remuneration changes due to promotion or regrading • honorariums • contribution rate • election to join 50/50 section of the scheme • election, or move, into the main scheme (100/100) 	<p>Within 20 working days of change.</p>
<p>Using the appropriate form, notify the Fund of material changes in employees' personal circumstances: e.g.</p> <ul style="list-style-type: none"> • marital or civil partnership status • change of name • national insurance number 	<p>Immediately following notification by the scheme member of a change in circumstances</p>

Function/Task	Performance Target
<p>Using the appropriate forms, notify the Fund of any periods of reduced pay or nil pay as a result of:</p> <ul style="list-style-type: none"> • sickness • injury • or relevant child related leave – <ul style="list-style-type: none"> - ordinary maternity, paternity or adoption leave - paid shared parental leave - any additional maternity or adoption leave <p>then Assumed Pensionable Pay (APP) MUST be applied for pension purposes. Both employee and employer contributions must be deducted against the amount of APP.</p> <p>Employers must notify the Fund of the date the reduction is effect from for sickness or injury OR the date from which the relevant child related leave began.</p>	<p>Within 20 working days of notice from employee.</p>

<p>Using the appropriate forms, notify the Fund of any periods of reduced pay or nil pay as a result of:</p> <ul style="list-style-type: none"> unpaid additional maternity, paternity or adoption leave unpaid shared parental leave taken at the end of the relevant child related leave, as Assumed Pensionable Pay (APP) does NOT apply. This is treated as unpaid leave. 	<p>Within 20 working days of notice from employee.</p>
<p>Using the appropriate forms, notify the Fund of any periods of reduced pay or nil pay as a result of:</p> <ul style="list-style-type: none"> authorised/unauthorised unpaid leave of absence (sabbatical etc.) industrial action <p>as Assumed Pensionable Pay (APP) does NOT apply. This is treated as unpaid leave.</p>	<p>Within 20 working days of notice from employee.</p>
<p>Using the appropriate form, notify the Fund when a scheme member leaves your employment – this must include an accurate assessment of their final pay.</p>	<p>Within 15 working days of month end of leaving.</p>

Function/Task	Performance Target
<p>Using the appropriate form, notify the Fund when a scheme member is due to retire, including an accurate assessment of their final pay.</p> <p>You must also provide the authorisation form, stating the reason for retirement, signed by the employer as agreement to meet any associated costs with the retirement.</p>	<p>Within 15 working days before retirement date.</p>
<p>Notify the Fund immediately of the death of a scheme member, or when a member is suffering from a potentially terminal illness, as this will enable the Fund to ensure next of kin details are held and any benefits due are paid in accordance with the members' wishes, if appropriate.</p>	<p>As soon as practicable, but within 5 working days.</p>
<p>Appoint an independent medical practitioner qualified in occupational health medicine, in order to consider all ill health retirement applications and agree appointment of such with the Fund</p>	<p>Within one month of commencing participation in the scheme or date of resignation of existing medical adviser</p>

<p>To determine, based in medical opinion from your independent medical practitioner and assistance from the Administering Authority, whether ill health retirement benefits are to be awarded and to determine which tier of benefits are to be paid e.g. Tier 1, 2 or 3.</p> <p>Once determination has been made, to submit all relevant paperwork to the Fund in order for the pension benefits to be put into payment.</p>	<p>Within one month of the final determination being made.</p> <p>Refer to page 35 – ill health retirements & tier 3 awards – if you require any assistance</p>
<p>To keep a record of all Tier 3 ill health retirements, to undertake a review once the pension has been in payment for 18mths to assess if the former employee is gainfully employed and to notify the Fund to cease payments, and to arrange subsequent appointments with the independent medical practitioner qualified in occupational health medicine, to assess whether an increase in benefits is applicable.</p>	<p>Notify the Fund as soon as the process is completed in accordance with the LGPS regulations, and to provide all necessary paperwork for the Fund to either continue or cease payments or to increase the level of benefits to be paid.</p> <p>Refer to page 35 – ill health retirements & tier 3 awards – if you require any assistance</p>

Monitoring Performance And Compliance

Ensuring compliance with the Scheme regulations and this Administration Strategy is the responsibility of the Fund **and** Scheme Employers. We will work closely with all Scheme employers to ensure compliance with all statutory requirements, whether they are specifically referenced in the LGPS Regulations, in overriding legislation or in this Administration Strategy.

This section describes the ways in which performance and compliance will be monitored.

The Pension Board, the National Scheme Advisory Board & the Pensions Regulator (tPR)

The Public Service Pensions Act 2013 established the requirement for local Pension Boards in the LGPS with responsibility for assisting the Administering Authority in relation to the following:

- Securing compliance with the scheme regulations
- Ensuring the effective and efficient governance and administration of the scheme
- Securing compliance with the requirements imposed in relation to the LGPS by the Pensions Regulator; and
- Such other matters as the LGPS regulations may specify.

As a result the Local Pension Board of the London Borough of Hackney Pension Fund was established from 1 April 2015. A key aim of the Pension Board is to raise the standard of management and administration of public service pension schemes and to achieve more effective representation of employer and employee interests in that process.

In addition, the Pensions Regulator's remit was extended to include the public sector, and a national Scheme Advisory Board was created. The Administering Authority and scheme employers are expected to fully comply with any guidance produced by the Scheme Advisory Board and the Pensions Regulator. Any recommendations made by any of these entities will be considered by the Administering Authority, and where appropriate duly implemented (following discussions with employers where necessary).

Audit

The Fund is subject to an annual external audit of the accounts and, by extension the processes employed in calculating the figures for the accounts, by KPMG. The key findings of their work are presented to the Pensions Committee in an Annual Governance Report and the Fund is set an action plan of recommendations to implement.

In addition the Fund is subject to internal audits by the Council of its processes and internal controls. Any subsequent recommendations made are considered by the Fund and where appropriate duly implemented (following discussions with scheme employers where necessary).

Performance monitoring

The Fund monitors Equiniti Pension Solutions' performance against the contract with them and the agreed Service Level Agreement. Monitoring occurs on a monthly basis and Equiniti Pension Solutions are asked to explain variations from agreed Service Level Agreement targets.

Feedback from employers

Employers who wish to provide feedback on the performance of the Fund against the standards in this Administration Strategy should e-mail comments to the following address: pensions@hackney.gov.uk . This will be acknowledged within 5 working days and an investigation of the matter will then be undertaken. Following the investigation a response will be provided to the scheme employer within 15 working days of the initial acknowledgment.

Annual report on the strategy

The Scheme regulations require the Fund to undertake a formal review of performance against the Administration Strategy on an annual basis. This report details the performance of the pension administrators and the Fund's Employers. It is presented to Pensions Committee, Pensions Board and is included within the Pension Fund Annual Report and Accounts.

Role Of The Pensions Regulator (tPR)

The Pensions
Regulator

Background

Section 17 and Schedule 4 of the Public Service Pensions Act 2013 extended the role of the Pensions Regulator to include public sector pension schemes including the Local Government Pension Scheme (LGPS) from 1 April 2015. With regard to the LGPS, the Pensions Regulator now has responsibilities in relation to governance and particularly administration.

Schedule 4 of the Public Service Pensions Act 2013 requires the Pensions Regulator to issue a Code of Practice or Codes of Practice in respect of certain specified matters. In response to this requirement, the Pensions Regulator Code of Practice No 14 "**Governance and administration of public service pension schemes**" which came into effect from 1 April 2015.

This Code of Practice is applicable both to the Pension Fund and the individual Employers within the Fund.

Code of Practice No 14

Governance and Administration of Public Service Pension Schemes

Code of Practice No 14 covers the following:-

Governing your scheme

- Knowledge and understanding required by pension board members
- Conflicts of interest and representation
- Publishing information about schemes

Managing risks

- Internal Controls

Administration

- Scheme record-keeping
- Maintaining contributions
- Providing information to members

Resolving issues

- Internal dispute resolution
- Reporting breaches of the law

It is crucial that all Employers within the London Borough of Hackney Pension Fund are aware of, and comply with, the legal requirements and standards covered in the Code.

Failures by an Employer to fulfil legal requirements and follow the expected standards within the Code may result in that Employer (rather than the Pension Fund) being subject to legal enforcement action by the Pensions Regulator.

Sections that have particular relevance for Employers in the Fund are Administration and Resolving Issues

Administration

Scheme Record-Keeping

Key points

- The Scheme should work with employers to ensure they understand what information they're required to provide and when they need to do this.
- The Scheme should work with participating employers to seek to ensure they understand the key events and information they need to provide, and have processes in place to provide timely and accurate data.
- If an employer fails to provide the required information (meaning that they and/or the Scheme Manager may not be complying with legal requirements), the Scheme should consider whether to report the breach to the Pensions Regulator (tPR).

Schemes require participating employers to provide them with timely and accurate data in order for the scheme manager to be able to fulfil their legal obligations. Schemes should seek to ensure that employers understand the main events which require information about members to be passed from the employer to the scheme and/or another employer, such as when an employee:

- joins or leaves the scheme
- changes their rate of contributions
- changes their name, address or salary
- changes their member status, and
- transfers employment between scheme employers.

If any Employer fails persistently to act according to the procedures set out in this Pension Administration Strategy, meaning that they and/or the Fund may not be complying with legal requirements, the Fund will assess whether there has been a relevant breach and take action as necessary to report breaches of the law to the Regulator under Section 70 of the Pensions Act 2004.

Maintaining Contributions

Reporting Payment Failures

The Scheme must report payment failures that are likely to be of 'material significance' to the Pensions Regulator (tPR) as soon as possible – usually within 10 working days.

A late payment is likely to be of material significance where it was caused by:

- the employer not being willing or able to pay contributions
- possible dishonesty or misuse of assets or contributions
- fraudulent evasion of the duty to pay contributions
- the employer having inadequate procedures or systems in place to ensure the correct and timely payment of contributions due, for example where there are repetitive and regular payment failures,
- contributions having been outstanding for more than 90 days

If any Employer has 5 or more repetitive or regular payment failures in any one financial year, the Fund will deem this as being of 'material significance' and in-line with its legal responsibilities, report this to the Pensions Regulator (tPR). The Employer may then be subject to legal enforcement action by the Pensions Regulator.

Resolving Issues

Internal Dispute Resolution (IDRP)

Where a person with an interest in the scheme isn't satisfied with any matter relating to the scheme, they have the right to ask for that matter to be reviewed.

A person has an interest in the scheme if they:

- are a member or surviving non-dependant beneficiary of a deceased member of the scheme
- are a widow, widower, surviving civil partner or surviving dependant of a deceased member of the scheme
- are a prospective member of the scheme
- have ceased to be a member, beneficiary or prospective member or
- claim to be in one of the categories mentioned above and the dispute relates to whether they are such a person.
-

The Fund has a clear internal disputes resolution procedure (IDRP) set out for members of the LGPS which can be found on the Pension Fund's website <http://hackney.xpmemberservices.com>. Scheme employers are however, required to nominate an adjudicator to deal with disputes at Stage 1 of the process.

Scheme employers are asked to supply the details of their Stage 1 adjudicator as part of their discretionary policy statement and should advise the Fund immediately of changes made in this regard.

Where a Scheme employer is in dispute with a decision or action taken by the Fund, the Fund will in the first instance attempt to resolve the matter internally and may seek an independent senior mediator from within London Borough of Hackney as the Administering Authority to make a final determination. Should this prove to be unsuccessful, a suitable, mutually agreeable and independent third party shall be appointed to determine the outcome of the matter.

Policy On The Recovery Of Additional Administration Costs From Employers

The Scheme regulations provide pension funds with the ability to recover from a scheme employer any additional costs associated with the administration of the Scheme incurred as a result of the unsatisfactory level of performance of that Scheme Employer.

Where a fund wishes to recover any such additional costs they must give written notice stating:

- The reasons in their opinion that the Scheme Employer's unsatisfactory level of performance contributed to the additional cost
- The amount of the additional cost incurred
- The basis on how the additional cost was calculated
- The provisions of the Administration Strategy relevant to the decision to give notice.

Circumstances where costs might be recovered

It is the policy of the Fund to recover additional costs incurred in the administration of the Scheme as a direct result of the unsatisfactory level of performance of any scheme employer (including the Council) or third party service provider. This includes the payment of fees levied against the scheme employer.

The circumstances where such additional costs will be recovered from the scheme employer are:

- persistent failure to provide relevant information to the Fund, scheme member or other interested party in accordance with specified performance targets in this Administration Strategy (either as a result of timeliness of delivery or accuracy/quality of information)
- failure to pass relevant information to the scheme member or potential members, either due to poor quality of information or not meeting the agreed timescales outlined in the performance targets in this Administration Strategy
- failure to deduct and pay over correct employee and employer contributions to the Fund within the stated timescales
- instances where the performance of the scheme employer results in fines being levied against the Fund by the Pension Regulator (tPR), Pensions Ombudsman or other regulatory body.

For the avoidance of doubt, "accuracy/quality" in this Strategy is defined as when we have received a completed form, or transfer of information, with no gaps in mandatory areas and with no information which is either contradictory or which we need to query.

Approach To Be Taken By The Fund

The Fund will seek, at the earliest opportunity, to work closely with scheme employers in identifying any areas of unsatisfactory performance, provide the necessary training and put in place appropriate processes to improve the level of service delivery in the future.

Consideration for seeking additional administration costs where persistent failure occurs and no improvement is demonstrated by a scheme employer would be seen as a failure and will only be taken once the steps described below are taken to resolve the situation:

1. Write to the scheme employer, setting out area(s) of concern and offer training.
2. If no improvement is seen within one month of the training or no response is received to the initial letter, the scheme employer will be asked to attend a meeting with representatives of the Fund to discuss area(s) of concern and to agree an action plan to address them. Where appropriate, the originating employer will be informed and expected to work with the Fund to resolve the issues.
3. If no improvement is seen within one month or a scheme employer is unwilling to attend a meeting to resolve the issue, the Fund will issue a formal written notice, setting out the area(s) of concern that have been identified, the steps taken to resolve those area(s) and notice that the additional costs will now be reclaimed.
4. An invoice will then be issued to the scheme employer clearly setting out the calculations of any loss resulting to the Fund, or additional cost, taking account of time and resources in resolving the specific area(s) of unsatisfactory performance, in accordance with the fee scale set out in this document.
5. An annual report will be presented to the Pensions Committee meeting detailing any fees levied against scheme employers and outstanding payments.

Fees For Additional Administration

The table below sets out the fees which the Fund will levy on a scheme employer whose performance falls short of the standards set out in this document. Each task is referenced to the Employer Responsibilities section. Charging is a last resort and the approach outlined above will be followed before a fee is levied.

Employer Responsibility	Charge
<p>Monthly Contributions - Late payment of employee and employer contributions to the administrators by the 19th calendar day of month following deduction</p>	<p>£65 plus interest*, calculated on a daily basis until contributions received.</p> <p><i>*Interest will be charged in accordance with regulation 44 of the LGPS Administration regulations, which states interest should be charged at Bank of England Base Rate plus 1%.</i></p>
<p>Monthly Contributions – Non-provision of the correct schedule of payments in the format stipulated by the Fund, accompanying the contributions by the 19th calendar day of month following deduction</p>	<p>£65 per occasion</p>
<p>NOTE - Any fines imposed on the Fund by the Pensions Regulator, in relation to employer, employee and AVC contributions which is deemed to be the fault of the Employer, will be passed on to that Employer</p>	<p>Re-charge amount to be paid within 30 days of receipt</p>
<p>Change Notifications – failure to notify the administrators of any change to a members working hours, leave of absence with permission (maternity, paternity, career break) or leave of absence without permission (strike, absent without permission) – within 20 days of the change in circumstance.</p>	<p>£65 per form, per occasion</p>
<p>Year End Data – failure to provide year end data by 30th April following the year end or the non-provision of year end information or the accuracy/quality of the year end data is poor requiring additional data cleansing</p> <p><i>For the avoidance of doubt “accuracy/quality” in this Strategy is defined as when we have received a</i></p>	<p>Late receipt - initial fee of £300 then a fee of £150 for every month the information remains outstanding</p> <p>Quality/format of data – fee of £150 should data provided not be in the correct format and/or the quality is poor</p>

<i>completed form or transfer of information with no gaps in mandatory areas and with no information which is either contradictory or which we need to query</i>	
Year End Data Queries – failure to respond to the administrators requests for information to resolve data queries within the prescribed timescale	Initial fee of £65 per occasion, then a fee of £35 for each month the information requested remains outstanding
New Starter(s) - failure to notify the administrators of new starter(s) and the late or non-provision of starter form(s) – within 15 days of employee joining the scheme	Initial fee of £65 per form, then a fee of £35 per form for each month the form(s) remains outstanding
Automatic Enrolment (AE) – failure to provide the administrators full details of staff affected by Automatic Enrolment on a monthly basis - within 6 weeks of the date they become eligible for automatic enrolment NOTE - Any fines imposed on the Fund by the Pensions Regulator due to failure to provided information for Auto enrolment process, which is deemed to be the fault of the Employer, will be passed on to that Employer	Initial fee of £100 then a fee of £50 for every month the information remains outstanding Re-charge amount to be paid within 30 days of receipt
Leaver(s) – failure to notify the administrators of any leaver(s) and the late or non-provision of leaver form(s) including an accurate assessment of final pay – within 15 days of employee leaving the scheme or employment	Initial fee of £65 per form, then a fee of £35 per form for each month the form(s) remains outstanding
Retirees – failure to notify the administrators when a scheme member is due to retire 15 working days before the retirement date - including an accurate assessment of final pay and authorisation of reason for retirement.	Initial fee of £65 per form, then a fee of £35 per form for each month the form(s) remains outstanding
Late payment of pension benefits - as a result of the employers failure to notify the administrators of a scheme members retirement, interest becomes payable on any lump sum paid. The administrators will recharge the total amount of interest paid to the employer	*Interest is calculated in accordance with regulation 44 of the LGPS Administration Regulations 2008

*Interest will be charged in accordance with regulation 44 of the LGPS Administration regulations, which states interest should be charged at Bank of England Base Rate plus 1%.

Employer Contribution Rates / Additional Employer Assistance & Associated Costs

Employers Contribution Rates

Employers' contribution rates are not fixed. Employers are required to pay whatever is necessary to ensure that the portion of the fund relating to their organisation is sufficient to meet its liabilities.

The London Borough of Hackney has an actuarial valuation undertaken every 3 years by the Fund's actuary. The actuary balances the fund's assets and liabilities in respect of each employer, and assesses the appropriate contribution rate for each employer to be applied for the subsequent 3 years.

Additional Employer Assistance & Associated Costs

The cost of running the London Borough of Hackney Pension Fund is charged directly to the Fund, and the actuary takes these costs into account in assessing the employers' contribution rates.

If an employer wishes the London Borough of Hackney to carry out work not attributable to pension's administration they will be charged directly for the cost of that work.

The following functions have been designated Employer Functions – this means that they are outside of the normal scope of pension administration responsibilities for the Fund but the Administering Authority is willing to assist employers with these services.

They will be subject to a charge depending on the level of work required and whether external suppliers have to be engaged such as the Fund's Actuary, Occupational Health, etc.

Function/Task	Description & Associated cost
*Redundancy & Severance calculations (excluding/including pension calculation)	Information, guidance, calculations and the preparation of associated paperwork for employee signature and payroll instructions
*Efficiency Retirements	Cost – 1 estimate per employee, per rolling 12 month period is provided free of charge. Subsequent requests from the employer due to a change of circumstance (e.g. last day of service, change of earnings) will be charged at £50 per case
*Flexible Retirements	
Ill health retirements - Tier 3 awards.	Monitor and review tier 3 ill health awards to cessation, liaise with Occupational Health Services, and provide support at the IHRP meetings to determine cessation of benefits or a potential uplift in benefits

	Cost – as charged by the Occupational Health Service used for each case
Injury payments	<p>Calculation and payment of injury awards</p> <p>Cost – standard administration charge £100 plus any cost as invoiced from the Actuary + any chargeable Actuary time as invoiced</p>
FRS17/IAS19	<p>Provision of data required for FRS17/IAS19 calculations to the Actuary, plus any chargeable Actuary time</p> <p>Cost – standard administration charge £100 Plus as invoiced from the Actuary + any chargeable Actuary time as invoiced</p>
Admission Agreements	<p>Setting up and amendment of admission agreements for Contractors/new Employers admitted to the Fund</p> <p>Cost – standard administration charge of £100 plus as invoiced from the Actuary/Legal + any chargeable Actuary/Legal time as invoiced, if required</p>
Cessation & Interim Valuations	<p>Provision of data required for interim and/provision of data required for interim and/or cessation valuations</p> <p>Cost – as invoiced from the Actuary + any chargeable Actuary time as invoiced</p>
Academy Conversions	<p>Any work related to this requiring input from the Administering Authority</p> <p>Cost – as invoiced from the Actuary + any chargeable Actuary time as invoiced</p>
Legal Work & non-standard actuarial work	<p>Any work in relation to this requiring input from the Administering Authority – e.g. contract review on outsourcing, employer policies, TUPE & future pension provision etc.</p> <p>Cost – as invoiced from the Actuary + any chargeable Actuary time as invoiced</p>

* the London Borough of Hackney Pensions Team, upon receipt of **accurate information** on the **appropriate estimate request form** in relation to an active member, or employee not in the LGPS, retiring due to age, redundancy, efficiency or flexible retirement, can provide 1 free estimate per member/employee, per 12 month rolling period.

Estimates are normally returned to the requesting employer within 20-30 working days of the receipt of the request – timeframe is dependent on checking employee employment/pension records, complexity of each case and the number of requests received at any one time.

Service And Communication Improvement Planning

As set out earlier in this Administration Strategy, the Fund's objective in relation to administration is to deliver an efficient, quality and value for money service to its scheme employers and scheme members. This can only be achieved through continuously reviewing and improving the service. Communication between the Fund and scheme employers is key to providing the service and is therefore an important aspect of service improvement planning.

Equiniti Pension Solutions and the Council's in-house staff work together on a programme of continuous improvement to the service.

The monitoring of the performance standards set out in this document will inform the programme going forward and feedback from scheme employers on the service and the way in which the Fund communicates is welcomed in developing plans. Feedback should be e-mailed to: pensions@hackney.gov.uk.

The Fund will take responsibility for improving the service and determining the balance between implementing service improvements and the goal of providing a value for money service for the Fund.

Employers will be informed of any changes to the service provision which affect the way they interact with the Fund.

Consultation And Review Process

In preparing this Administration Strategy the Fund has consulted with all the scheme employers with active contributors in the Fund. The strategy will be reviewed every 2 years and more frequently if there are changes to the Scheme regulations or requirements. All scheme employers will be consulted before any changes are made to this document.

The latest version of this document can be accessed from the Fund website <http://hackney.xpmemberservices.com>

Local Government Pension Scheme Regulations 2013

The Regulations in relation to the **Pension Administration Strategy** are contained in the **Local Government Pension Scheme Regulations 2013**, and are set out below:

Pension Administration Strategy

59. (1) An administering authority may prepare a written statement of the authority's policies in relation to such of the matters mentioned in paragraph (2) as it considers appropriate ("its pension administration strategy") and, where it does so, paragraphs (3) to (7) apply.

(2) The matters are—

(a) procedures for liaison and communication with Scheme employers in relation to which it is the administering authority ("its Scheme employers");

(b) the establishment of levels of performance which the administering authority and its Scheme employers are expected to achieve in carrying out their Scheme functions by—

(i) the setting of performance targets,

(ii) the making of agreements about levels of performance and associated matters, or

(iii) such other means as the administering authority considers appropriate;

(c) procedures which aim to secure that the administering authority and its Scheme employers comply with statutory requirements in respect of those functions and with any agreement about levels of performance;

(d) procedures for improving the communication by the administering authority and its Scheme employers to each other of information relating to those functions;

(e) the circumstances in which the administering authority may consider giving written notice to any of its Scheme employers under regulation 70 (additional costs arising from Scheme employer's level of performance) on account of that employer's unsatisfactory performance in carrying out its Scheme functions when measured against levels of performance established under sub-paragraph (b);

(f) the publication by the administering authority of annual reports dealing with—

(i) the extent to which that authority and its Scheme employers have achieved the levels of performance established under sub-paragraph (b), and

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

(g) such other matters as appear to the administering authority after consulting its Scheme employers and such other persons as it considers appropriate, to be suitable for inclusion in that strategy.

(3) An administering authority must—

- (a) keep its pension administration strategy under review; and
- (b) make such revisions as are appropriate following a material change in its policies in relation to any of the matters contained in the strategy.

(4) In preparing or reviewing and making revisions to its pension administration strategy, an administering authority must consult its Scheme employers and such other persons as it considers appropriate.

(5) An administering authority must publish—

- (a) its pension administration strategy; and
- (b) where revisions are made to it, the strategy as revised.

(6) Where an administering authority publishes its pension administration strategy, or that strategy as revised, it must send a copy of it to each of its Scheme employers and to the Secretary of State as soon as is reasonably practicable.

(7) An administering authority and its Scheme employers must have regard to the pension administration strategy when carrying out their functions under these Regulations.

(8) In this regulation references to the functions of an administering authority include, where applicable, its functions as a Scheme employer

Payment By Scheme Employers To Administering Authorities

69.—(1) Every Scheme employer must pay to the appropriate administering authority on or before such dates falling at intervals of not more than 12 months as the appropriate administering authority may determine—

- (a) all amounts received from time to time from employees under regulations 9 to 14 and 16 (contributions);
- (b) any charge payable under regulation 68 (employer's further payments) of which it has been notified by the administering authority during the interval;
- (c) a contribution towards the cost of the administration of the fund; and
- (d) any amount specified in a notice given in accordance with regulation 70 (additional costs arising from Scheme employer's level of performance).

(2) But—

- (a) a Scheme employer must pay the amounts mentioned in paragraph (1)(a) within the prescribed period referred to in section 49(8) of the Pensions Act 1995**(41)**; and
- (b) paragraph (1)(c) does not apply where the cost of the administration of the fund is paid out of the fund under regulation 4(5) of the Local Government Pensions Scheme (Management and Investment of Funds) Regulations 2009 (management of pension fund)**(42)**.

(3) Every payment under paragraph (1)(a) must be accompanied by a statement showing—

(a) the total pensionable pay received by members during the period covered by the statement whilst regulations 9 (contributions) applied (including the assumed pensionable pay members were treated as receiving during that period),

(b) the total employee contributions deducted from the pensionable pay referred to in sub-paragraph (a),

(c) the total pensionable pay received by members during the period covered by the statement whilst regulation 10 applied (including the assumed pensionable pay members were treated as receiving during that period),

(d) the total employee contributions deducted from pensionable pay referred to in sub-paragraph (c),

(e) the total employer contributions in respect of the pensionable pay referred to in sub-paragraphs (a) and (c),

(f) the total additional pension contributions paid by members under regulation 16 (additional pension contributions) during the period covered by the statement, and

(g) the total additional pension contributions paid by the employer under regulation 16 (additional pension contributions) during the period covered by the statement.

(4) An administering authority may direct that the information mentioned in paragraph (3) shall be given to the authority in such form, and at such intervals (not exceeding 12 months) as it specifies in the direction.

(5) If an amount payable under paragraph (1)(c) or (d) can not be settled by agreement, it must be determined by the Secretary of State.

Additional Costs Arising From Scheme Employer's Level Of Performance

70. (1) This regulation applies where, in the opinion of an administering authority, it has incurred additional costs which should be recovered from a Scheme employer because of that employer's level of performance in carrying out its functions under these Regulations.

(2) The administering authority may give written notice to the Scheme employer stating—

(a) the administering authority's reasons for forming the opinion mentioned in paragraph (1);

(b) the amount the authority has determined the Scheme employer should pay under regulation 69(1)(d) (payments by Scheme employers to administering authorities) in respect of those costs and the basis on which the specified amount is calculated; and

(c) where the administering authority has prepared a pension administration strategy under regulation 59, the provisions of the strategy which are relevant to the decision to give the notice and to the matters in sub-paragraphs (a) or (b).

Contact Details

For further information on pension issues please contact:

Financial Services
Finance and Corporate Resources Directorate
4th Floor, Hackney Service Centre
1 Hillman Street
London
E8 1DY

Email: pensions@hackney.gov.uk

Telephone: 020 8356 2521

For further information on investment issues please contact:

Financial Services
Finance and Corporate Resources Directorate
4th Floor, Hackney Service Centre
1 Hillman Street
London
E8 1DY

Email: pension.investments@hackney.gov.uk

Telephone: 020 8356 2630

For pension benefit and administration issues please contact:

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

Email: hackney.pensions@equiniti.com

Telephone: 012 9360 3085

REPORT OF THE GROUP DIRECTOR, FINANCE & CORPORATE RESOURCES		
GMP Reconciliation - Update	Classification PUBLIC	Enclosures Three (Exempt)
	Ward(s) affected ALL	
Pensions Committee 10th September 2019		

1. INTRODUCTION

- 1.1 This report provides the Pensions Committee with an update on the Fund’s GMP reconciliation (Guaranteed Minimum Pensions) exercise, which is being undertaken to ensure that scheme member records for periods spent contracted out of the second state pension are properly accounted for. The report provides an update on the progress of Phase 2 of the reconciliation exercise and outlines factors for considering and agreeing to begin the next phase of Phase 3c – Pilot Phase.

2. RECOMMENDATIONS

2.1 The Pensions Committee is recommended to:

- **Approve additional budget of £15k to allow Phase 3c – Pilot Phase to commence**

3. RELATED DECISIONS

- Pension Committee 20th March 2019 – GMP reconciliation exercise
- Pension Committee 21st March 2018 – GMP reconciliation exercise
- Pension Committee 29th March 2017 – GMP reconciliation exercise
- Pension Board 20th March 2017 – GMP Reconciliations
- Pension Board 26th January 2016 – GMP Reconciliations – Update and Training

4.1 COMMENTS OF THE GROUP DIRECTOR, FINANCE AND CORPORATE RESOURCES

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

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

4.3 The Pensions Committee is requested to approve spend of approximately £15k, which is necessary to ensure the next Phase can be completed of the project.

5. COMMENTS OF THE DIRECTOR OF LEGAL AND GOVERNANCE

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

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

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

6. GMP RECONCILIATION - BACKGROUND

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

6.2 HMRC offered a service whereby schemes can check their GMP records against those held by HMRC and resolve any differences. However, HMRC withdrew the Scheme Reconciliation Service (SRS) at the end of October 2018 and no further support is offered for GMP queries. Pension 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 As at the end of July 2019, the Funds records were 97%, see Appendix A for the latest position and progress report, and the spend so far on Phase 2 of the project is £339k, with c£20k remaining in the agreed budget. Indications are that the remaining budget should be sufficient to complete this Phase, however close monitoring of the budget tracker will continue to allow this Phase to be completed on the remaining pensioner and deferred members, and those active members with pre-1997 service.

8. PHASE 3 UPDATE & PROPOSAL

8.1 Phase 3 of the project is the Certification and Rectification of the Fund's administration data and benefits and the Pensions Committee agreed at its meeting on 20 March 2019 to provide additional budget of £60k in order to commence Phase 3. This 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 Phase 3 has commenced and to date the Initiation work (Phase 3a) has been completed and the 'Certification' of records (Phase 3b) has also commenced, with 2 cycles of 10,755 cases having taken place, followed by the verifying and '*stamping*' of member GMP records as accurate. Work will continue to approve cases that require a change on the administration system and analysis will be done all outstanding cases. Budget remaining to complete Phase 3a & 3b of the project is £9K and the expectation is that this should be sufficient, however this is based on current information and decisions, which may be subject to change.

8.3 It was made clear to the Committee in March, that until that Phase 3a to 3c were completed it would not be possible to provide a detailed timescale and budget

estimate for the Rectification work required in Phase 3d. However in order to provide some indication of the number of GMP cases that will require Rectification, the tolerances the Rectification will operate under, and the potential change in the Fund's cash-flow, work on Phase 3c – Pilot Phase needs to commence.

- 8.4 The Pilot Phase is difficult to put a precise timescale or cost on, as the work undertaken during this exercise is complex and will involve a number of decisions to be made by the Fund as each stage of the Pilot Phase is progressed. However, because of the challenges in this next Phase, it is proposed a minimum number of hours 'notification cap' be put in place that will allow sufficient effort to be exercised to get the Pilot well established and underway.
- 8.5 The work on the Pilot Phase will be charged on a time-cost basis at an hourly rate of £96, with a notification cap of 150 hours (excluding project management costs), this will equate to an additional cost of c£15,000, however, investing in this exercise will, without a doubt, reduce both costs and effort in the longer term. Therefore Pension Committee are required to approve commencement of Phase 3c - Pilot and the additional cost of £15,000.
- 8.6 A copy of the Phase 3c Pilot proposal is attached as Appendix B, and as Phase 3 progresses, any decisions and policies required during this process will be brought back to the Committee and Board as necessary.

Ian Williams

Group Director, Corporate Finance and Resources

Report Originating Officer: Julie Stacey ☎020-8356 3565

Financial considerations: Michael Honeysett ☎020-8356 3332

Comments of the Director of Legal, Sean Eratt, Lawyer, Legal Services ☎020-8356 6012

Appendices

Appendix 1 – EXEMPT – Progress Report

Appendix 2 – EXEMPT – Data Snapshot

Appendix 3 – EXEMPT – Phase 3 – Pilot Proposal

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

REPORT OF THE GROUP DIRECTOR OF FINANCE AND CORPORATE RESOURCES		
ANNUAL REPORT OF THE PENSIONS COMMITTEE 2018-2019	Classification PUBLIC	Enclosures One
	Ward(s) affected ALL	
Pensions Committee 10th September 2019		

1. INTRODUCTION

- 1.1 The purpose of this report is to detail the role of the Pensions Committee and summarise the key activities and achievements in 2018/19 that demonstrate how the Committee has fulfilled its role as the Scheme Manager for the London Borough of Hackney Pension Fund. This report will be presented to full Council in due course as a summary of the Committee's activities

2. RECOMMENDATIONS

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

3. RELATED DECISIONS

- Pensions Committee (25th June 2019) – Business Plan

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

- 4.1 The Pensions Committee acts as Scheme Manager for the London Borough of Hackney Pension Fund and is responsible for the management of approximately £1.58 billion worth of assets and for ensuring the effective and efficient running of the Pension Fund.
- 4.2 The decisions taken by the Committee impact directly on the financial standing of the Fund and can therefore affect its funding level and its ability to meet its liabilities. These decisions could therefore also impact on the contribution rates payable by employers participating in the Fund, including the Council itself.
- 4.3 There are no immediate financial implications arising from this report.

5. COMMENTS OF THE DIRECTOR OF LEGAL AND GOVERNANCE

- 5.1 The Council's Constitution gives the Pensions Committee responsibility for a wide range of functions relating to management of the Council's Pension fund. In carrying out those functions the Committee must have regard to the various legislative

obligations imposed on the Council as the Fund's Administering Authority, particularly by the Local Government Pension Scheme (LGPS) Regulations 2013.

- 5.2 The annual report of the Pensions Committee's activities demonstrates how it has undertaken and fulfilled its statutory and constitutional responsibilities during 2018/19.

6. BACKGROUND/TEXT OF THE REPORT

- 6.1 Delegated powers under the Council Constitution have been given to the Pensions Committee to oversee the management of the Pension Fund as the Scheme Manager and are set out in the Terms of Reference for the Committee.
- 6.2 The Pensions Committee is a committee of the Council and reports annually on the work undertaken at Committee. The attached report covers the 2018/19 Financial Year, during which the Committee has met 4 times to cover a broad spectrum of pension related business. The full programme of work and training undertaken by the Committee is set out in the Appendix to this report.
- 6.3 Members continued with an extensive training programme during the year which reflected the key requirements laid down in the CIPFA Knowledge and Skills Framework.
- 6.4 The Annual Report of the Committee evidences the work that the Committee has undertaken and demonstrates that it has discharged its responsibilities effectively both in terms of its legal responsibilities under the LGPS Regulations and the Committee's Terms of Reference.
- 6.5 The coming year will continue to provide the Committee with an extensive work programme which includes work on the Fund's 2019 actuarial valuation and development of its new investment strategy. The Committee will continue to consider how best to meet its carbon reduction target as well as considering the Fund's approach to infrastructure investment. The Committee will also continue to closely monitor the quality of membership data submitted to the Fund, with ongoing work for officers on process improvements within the Council. A number of policy reviews will also be undertaken to update current arrangements. Ongoing training for the Committee in relation to both the Knowledge and Skills Framework and pertinent investment and governance issues will continue to be a regular feature as will monitoring of funding levels and investment performance

Ian Williams

Group Director of Finance & Corporate Resources

Report Originating Officers: Rachel Cowburn ☎020-8356 2630

Financial considerations: Michael Honeysett ☎020-8356 3332

Legal comments: Sean Eratt ☎020-8356-6012

APPENDIX

Annual Report of the Pensions Committee 2018-19

APPENDIX 1

Annual Report of the Pensions Committee
2018-2019

ANNUAL REPORT OF THE PENSIONS COMMITTEE 2017/18

1. CHAIR'S INTRODUCTION – COUNCILLOR ROBERT CHAPMAN

1.1 The Pensions Committee is responsible for the management of the Pension Fund and acts on behalf of the London Borough of Hackney as the administering authority. We have responsibility for all aspects of managing the Pension Fund, including the Fund's investments, maintaining member records and ensuring that governance arrangements are appropriate. This is a considerable responsibility; the Pension Fund was valued at £1,575m at 31 March 2019 and has over 24,000 members.

1.2 2018/19 has been a busy year for the Hackney Pension Fund, with significant changes made to the Fund's investment portfolio during the year to help meet asset pooling and carbon reduction commitments. We have also introduced a new third party administration contract, and continued a significant program of work to improve member data ahead of the 2019 valuation.

1.3 The Fund remains strongly cash flow positive with contributions and transfers in outstripping benefits paid and transfers out by £24.0 million plus a further net inflow from investments of £12.3 million. This is an area in which the Pensions Committee maintains strong oversight given the maturity profile of the Fund and the ongoing restrictions on local government funding.

1.4 We have seen considerable fluctuation in the funding level over the year, driven not only by volatility in asset values but also by rising liability values as a result of changes in inflation and gilt yields. Since the Committee approved the 2016 valuation in March 2017, the Fund has seen a slight decrease in its funding from 77% at the valuation date to 76.5% at 31 March 2019.

1.5 Responsible Investment remained a key priority for the Committee during 2018/19, with a particular focus on understanding and managing the risks posed to the Fund by climate change. In 2017, the Hackney Pension Fund committed to reducing its exposure to fossil fuel reserves by 50%, reducing the Fund's exposure to carbon risk and aligning it with the 2 degrees scenario set out in the Paris Agreement. During 2018/19 we made significant changes to our equity portfolio to help meet this target, making substantial investments in two different strategies aimed at reducing our carbon exposure. We are currently carrying out a full refreshed carbon footprinting exercise in order that the Committee can fully understand the actual Impact these changes have had to date on reaching its stated target

1.6 The Committee agrees a training programme each year to ensure that it is able to evidence it has met the requirements of the CIPFA Knowledge and Skills programme and is able to fulfil the governance role with which it is charged. The Committee takes this aspect extremely seriously and training forms a key part of the agenda for each meeting, along with Committee Members and officers attending additional external training on a regular basis.

1.7 Details on the work and training undertaken by Committee during the municipal year 2018/19 are set out in section 3 of this report. Section 4 provides an outline of the anticipated work for the forthcoming year.

1.8 I would like to take this opportunity of expressing my personal appreciation for the hard work and commitment to the Hackney Pension Fund that the rest of my Committee Members have put in, given the considerable challenges that we face in managing a £1.58 billion pension fund during a period of considerable upheaval for both the LGPS and the wider economy. I would also like to thank the hard work put in by our specialist advisors, the Group Director of Finance and Corporate Resources and his staff over the past year.

2. COMMITTEE MEMBERSHIP AND ATTENDANCE

2.1 The following Councillors were members of the Committee during the 2018/19 municipal year –

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

In addition, Jonathan Malins-Smith is co-opted to the Committee as the Scheme Member Representative. The position of Employer Representative remained vacant during the year; however, a new representative is now being sought.

2.2 The table below outlines Members' attendance at Pensions Committee meetings during the 2018/19 municipal year and the training sessions at which members were in attendance. It is noted that Members have a large number of commitments, including other public meetings and ward commitments, and are therefore not always available to attend meetings of the Committee.

Committee Members Attendance 2018/19										
	23rd July		12th September		12th December		29th March			
	Meeting	Training	Meeting	Training	Meeting	Training	Meeting	Training		
Cllr Robert Chapman (Chair)	P	P	P	P	P	P	P	P		
Cllr Michael Desmond (Vice Chair)	P	P	P	P	P	P	P	P		
Cllr Kam Adams	P	P	P	P	P	P	P	P		
Cllr Polly Billington	P	P	P	P	P	P	A	A		
Cllr Rebecca Rennison	P	P	P	P	P	P	P	P		
Cllr Ben Hayhurst	P	P	A	A	P	P	P	P		
Co-Opted Members										
Jonathan Malins-Smith	P	P	P	P	P	P	P	P		
<table border="1" style="width: 100%;"> <tr> <td style="background-color: #d9ead3;">P = Present</td> </tr> <tr> <td style="background-color: #d9ead3;">A = Absent</td> </tr> </table>									P = Present	A = Absent
P = Present										
A = Absent										

2.3 Three Members, Cllr Polly Billington, Cllr Rebecca Rennison and Cllr Ben Hayhurst joined the Committee at the start of the municipal year. We would like to welcome them to the Committee and thank them for investing their time in this important and challenging area of work for the Council.

3. WORK UNDERTAKEN DURING 2018/19

3.1 The Pensions Committee has responsibility for the strategic management of the Pension Fund, which by the end of the financial year held £1.58bn worth of assets with 24,122 scheme members. We are responsible for deciding the broad asset allocation of the Pension Fund along with its strategic direction and for ensuring the long term solvency of the Fund, i.e. the ability to pay the pensions of all past, present and future scheme members. During the year, we have considered a wide range of issues and taken a number of key decisions affecting the Pension Fund. The work of the Committee has broadly fallen under the following categories during the year:

3.2 Governance and Administration

3.2.1 We have seen considerable fluctuation in the funding level over the year, driven not only by volatility in asset values but also by rising liability values as a result of changes in inflation and gilt yields. Since the Committee approved the 2016 valuation in March 2017, the Fund has seen a slight decrease in its funding from 77% at the valuation date to 76.5% at 31 March 2019. The funding level has fluctuated considerably over the year, with the primary cause of the decrease in funding level being falling gilt yields during the year. In line with the outcome of the last triennial valuation, the Council's overall employer contribution rate reduced from 34.9% in 2017/18 to 34.0% in 2018/19, with a further reduction to 33% planned for 2019/20.

3.2.2 Compliance with The Pension Regulator's Code of Practice has continued to feature on our agenda during 2017/18. Although following the Code itself is not a legal requirement, it sets out how the Regulator expects the requirements of the Public Sector Pensions Act 2013 to be met. The Regulator has the power to take action if the requirements of the Act are not met and uses the Code to help decide what action to take. As part of our responsibility for the governance of the Fund, we use a compliance checklist to help monitor whether or not the Fund is meeting the required standards. We reviewed this checklist in detail in September 2018, and requested additional work in the few areas in which the Fund has not yet achieved full compliance.

3.2.3 In recent years, the Fund has experienced significant issues with the quality of membership data supplied by its employers and particularly that supplied by the Council, the Fund's largest employer. The Council has experienced difficulties with data provision since the introduction of the new Local Government Pension Scheme (LGPS) in 2014. It changed payroll provider in July 2017 and, whilst improvements are in progress, has struggled to provide adequate data since. We have monitored this situation closely for some time, particularly as the Fund was required to make a further report to the Pensions Regulator concerning late issuance of Annual Benefits Statements (ABSs) to members for 2018. Given the long-standing nature of its data problems, the Fund has entered into a formal engagement with the Pensions Regulator regarding its data quality and the issuance of ABSs for 2019.

3.2.4 During the year, we have monitored officers' progress in working with both the Council and Equiniti, the Fund administrator, to develop new processes for data provision. A new format for the provision of year end data is now in place, and significant progress has been made in developing an automated interface process to provide data on a monthly basis. Although work is not yet complete, we are pleased to note that significant progress has been made, both in terms of the timeliness and accuracy of data provision and the relationship between the Council's payroll and ICT teams and the Pension Fund. This progress can be seen in the significant improvement in the number of ABSs for active members issued on time. In 2018, only 627 statements were issued by the deadline; for 2019, this had increased to over 5000 statements.

3.2.5 The administration team have implemented a new contract with Equiniti, our third party administrator, during the year, which offers significant improvements to the Fund's administration service. The improvements include a full update to member communications and scheme guides, an updated and improved employer guide and a new fund website. Further improvements to our online presence are planned for the future, including online member and employer self-service.

3.2.6 At the start of the municipal year, we reviewed the business plan for the year, setting out a timetable for both activities required to meet the Fund's objectives for the year and for the regular review of policy documents. The Business Plan also sets out draft Committee agendas for review to ensure that key items of business are dealt with at appropriate intervals.

3.3 Investments/Asset Allocation

3.3.1 2018/19 has been a volatile year in investment markets; political uncertainty, escalating tensions between the US and China and uncertainty over Brexit all affected investor sentiment. The Fund experienced modest gains of 5.7% during the year, underperforming against its customised benchmark, which returned 7.2%. The key driver of this underperformance was the Fund's allocation to diversified growth funds, which returned -2.6%. The Fund's strongest performer in absolute terms was its equity allocation, which returned 6.4% overall. We introduced a number of new investment mandates during the year, making significant changes to the equity portfolio and adding an allocation to private debt.

3.3.2 We completed a significant equity transition exercise during Q1 2018/19, in line with the changes set out in our Investment Strategy Statement. The transition reduced the Fund's exposure to UK equities with a move to BlackRock's MSCI Low Carbon Target index fund (£150m), and also established our first holding with the London CIV via the RBC Global Sustainable Equity Strategy (£195m). The changes were accompanied by other shifts in the fund's current active and passive equity portfolios to facilitate asset pooling, with a £150m UK passive allocation (FTSE Allshare) to be invested with BlackRock. The Fund also made a £325m allocation to BlackRock's passive global equity fund (MSCI World).

3.3.3 In addition to the restructure of the equity portfolio, we have made a significant allocation to private debt during the year, with mandates of £95m and £65m awarded

to Permira and Churchill respectively. These will be funded from the Fund's passive global equity allocation, over a period of approximately 2 years. More details on how the change in our asset allocation impacts the Fund's carbon reduction target can be found in the Responsible Investment section (section 3.5)

3.4 LGPS Structural Reform and the London CIV

3.4.1 Asset pooling is now firmly underway across the LGPS, with all 8 assets pools in England and Wales now operational. Decisions around manager selection are now moving to asset pools where suitable strategies are available; however, investment strategy decisions remain firmly with individual funds. Asset allocation and investment strategy decisions for the Hackney Pension Fund are therefore still made by the Pensions Committee as the body responsible for the management of the Fund.

3.4.2 The Fund's Investment Strategy Statement sets out its medium term plans for moving its assets to the London CIV. With no common mandates with other London boroughs, the Fund had no assets moved to the pool automatically. During Q1 2018/19, we established our first mandate with the London CIV, investing via the Global Sustainable Equity fund managed by RBC. We have also invested in 3 passive equity funds managed by BlackRock, which, whilst they sit outside of the London CIV's investment platform, are considered by Government to be pooled.

3.4.3 The gradual move from voluntary to mandatory asset pooling for LGPS funds exposed a number of issues with the Governance of the London CIV. These were reviewed during 2017/18 and a number of recommendations were made. Following this review, it was decided that the CIV's original governance body, the Pensions CIV Sectoral Joint Committee, should be dissolved and replaced by a smaller Shareholder Committee.

3.4.4 The new Committee was established in July 2018 and is made up of 8 Local Authority Pension Committee Chairs and 4 Local Authority Treasurers. The Chair of the Board of London CIV is also a member of the Committee. Cllr Robert Chapman, Chair of the Hackney Pensions Committee, and Ian Williams, S151 officer for Hackney, have both been selected to sit on the Shareholder Committee.

3.4.5 The move to mandatory asset pooling has created a number of challenges for both LGPS funds and asset pools themselves. We have been generally supportive of the move to asset pooling; we have looked to maintain a positive relationship with the London CIV whilst challenging where appropriate to ensure that the CIV acts in the interests of its client funds and helps us to deliver our strategic investment requirements.

3.5 Responsible Investment

3.5.1 As a Committee, we take very seriously the Fund's responsibilities as a shareholder in the companies that it holds, and considerable time and discussion has taken place on ways to improve the Fund's stewardship arrangements. One issue particularly recognised is that of fossil fuels and their impact on climate change. We recognise that these issues present systemic risks to the planet, but could also have

a material impact on the financial position of the Pension Fund. We therefore have a long running work plan in place to ensure that this issue is addressed within the Fund's investment strategy.

3.5.2 In 2017, we committed to reducing the Fund's exposure to fossil fuel reserves by 50%, reducing the Fund's exposure to carbon risk and aligning it with the 2 degrees scenario set out in the Paris Agreement. During 2018/19 we made significant changes to our equity portfolio to help meet this target, making substantial investments in two different strategies aimed at reducing our carbon exposure.

3.5.3 Firstly, we have invested 10% (approx. £150m) of the Fund's assets in Blackrock's MSCI Low Carbon Target Fund, to help reduce our exposure to fossil fuels and carbon emissions while maintaining exposure to a wide range of global markets. The allocation has been funded by reducing exposure to the FTSE Allshare Index, which represented the Funds most significant exposure to fossil fuel companies. We have also invested £195m in RBC GAM's Global Sustainable Equity strategy via the London CIV, which invests in companies with long term, sustainable revenues, with a strong focus on Environmental, Social and Governance (ESG) factors.

3.5.4 In addition to the restructure of the equity portfolio, we have made a significant allocation to private debt during the year, with mandates of £95m and £65m awarded to Permira and Churchill respectively. This move to private debt will result in a shift from holding cap listed equities to lending to mid-sized companies. Whilst the new strategies do not specifically exclude all fossil fuel exposure, the nature and size of the companies involved means the Pension Fund will be reducing its exposure to large multinational fossil fuel companies. The move will therefore help the Fund lower its exposure to fossil fuel reserves, as set out in the Fund's carbon reduction target.

3.5.5 The Fund has reaffirmed its membership of the Local Authority Pension Fund Forum (LAPFF), which is a collection of Local Authority funds who by acting collectively are able to apply pressure to management of companies to improve their governance standards. Cllr Rob Chapman, the Chair of the Pensions Committee, now sits as part of the LAPFF executive.

3.5.6 During the year, we commenced a review of the Fund's Responsible Investment approach, helping to ensure that the Fund is able to push for effective outcomes within its new, pooled mandates. To start this work, we have focused on engagement with the London CIV to help the pool company develop its approach to stewardship. We have seen an increase in the profile of Responsible Investment at the London CIV during the year and hope to see continued progress during 2019/20.

3.6 Financial Monitoring including Annual Report and Accounts

3.6.1 At the Pensions Committee meeting on 12th September the Committee were presented with the 2017/18 Pension Fund Annual Report and Accounts for approval post-audit. The audit confirmed that there were no major issues with the accounts and that the auditors were satisfied with their findings.

3.6.2 The Committee reviewed and approved an updated Treasury Management Strategy for the Pension Fund at its meeting on 12th December 2018.

3.8 Training

3.8.1 To enable Committee Members to meet their fiduciary and regulatory responsibilities, the Committee were provided with a training session prior to each meeting. The CIPFA Knowledge and Skills Framework sets out in considerable detail the level of knowledge and skills that are expected of Committee Members who hold responsibility for the management of LGPS Funds; it is therefore vital to ensure that appropriate levels of training are available to the Committee.

3.8.2 The topics covered in the training programme for Members were provided in line with the Knowledge and Skills Framework to help ensure that the Committee are able to achieve the level of specialist knowledge required of them.

3.8.3 The topics covered during the year in line with the Knowledge and Skills Framework are outlined in the table below:

Dedicated Training - Committee	Date
Introduction to Fund Governance (KSF 1)	23/07/2018
Investment Strategy/Alternative Credit (KSF4, KSF5)	12/09/2018
Responsible Investment (KSF4, KSF5)	12/12/2018
Scheme liabilities and member longevity (KSF6)	26/03/2019
Supplemental Training - Committee	Date
Equity Restructure - Post Completion Report (KSF4, KSF5)	23/07/2018
London CIV Update (KSF1, KSF5)	23/07/2018
TPR Code Compliance (KSF1)	12/09/2018
Pension Fund Report and Accounts (KSF2)	12/09/2018

Alternative Credit - Strategy Decision (KSF4, KSF5)	12/12/2018
Pension Fund Risk Register (KSF1, KSF4, KSF6)	12/12/2018
Actuarial Valuation – Introduction (KSF6)	26/03/2019
Dedicated Training - Additional	Date
Private Debt - In depth product training	31/10/2018

3.9 Ad-hoc Projects

3.9.1 The Committee also reviewed a number of other projects during the municipal year covering a range of topics as set out below:

- Pension Fund Risk Register – The Committee considered an updated Pension Fund Risk Register at its Committee meeting in December, ensuring a good understanding of the wider risks facing the Fund. Following advice from the Pension Board, the Fund made changes to the structure of the risk register to focus on key strategic and changing risks and to present information more clearly
- Policy Reviews – Both the Communications Policy and the Pensions Administration Strategy were reviewed and approved by the Committee during the year as part of a rolling programme to ensure that policy documents are reviewed on a regular basis and any necessary changes are considered and approved.

4. WORK PROGRAMME 2019/20

4.1 During the 2019/20 municipal year, the following reports are expected to be submitted to the Committee for consideration –

- Report and Accounts 2018/19
- 2020/21 Budget
- Business Plan 2019/22
- London CIV Update
- Actuarial Valuation report & Funding Strategy Statement
- Strategic Asset/liability review
- Infrastructure Investment
- Quarterly monitoring – covering Funding, Investment, Governance, Administration
- Membership data quality update/
- GMP reconciliation exercise
- Regulatory changes and consultations
- Pension Fund Risk Register
- Training Programme
- Policy reviews

This page is intentionally left blank

REPORT OF THE GROUP DIRECTOR OF FINANCE AND CORPORATE RESOURCES		
The Pensions Regulator Code of Practice Compliance Checklist Pensions Committee 10th September 2019	Classification PUBLIC <hr style="border: 0; border-top: 1px solid black;"/> Ward(s) affected ALL	Enclosures One

1. INTRODUCTION

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

2. RECOMMENDATIONS

- 2.1 **The Pensions Committee is recommended to:**
 - **Note the Code of Compliance Checklist and where further work is required and being undertaken.**

3. RELATED DECISIONS

- Pensions Committee 4th December 2017 – Pension Fund Risk Register
- Pensions Committee 11th September 2017 – TPR Code Compliance Checklist
- Pensions Committee 27th June 2017 - Employer Data Audit

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 Committee was last provided with the completed checklist in September 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 Committee. As can be seen in many areas, the Fund is generally able to demonstrate good levels of compliance with the Code and these are highlighted in green. This has improved from the previous update, largely thanks to improvements in scheme documentation e.g. around IDRPs. There are still a number of areas associated with the Pensions Board showing as yellow – in many cases these are areas associated with training, a review of training policy implementation is still underway.
- 6.6 The section concerning the issuance annual benefit statements has been upgraded from 'non-compliant' to 'partially compliant'. The Fund has experienced well documented issues with the provision of ABSs for a number of years; these issues have not been fully resolved but we have seen significant improvements in the timeliness and accuracy of data provision, which is reflected in a significant increase in the number of statements issued by the deadline. The Fund has entered in to a formal engagement with the Regulator on this issue and is providing regular updates on progress.
- 6.7 Significant improvement can also be seen in the section concerned with publishing information. The Fund now has a new public website which has been updated with relevant details around the governance of the Fund and the Pensions Committee and Board. The new website represents a significant improvement on the previous version, and ongoing improvements are still underway.

Ian Williams

Group Director of Finance & Corporate Resources

Report Originating Officers: Rachel Cowburn ☎020-8356 2630

Financial considerations: Michael Honeysett ☎020-8356 3332

Legal comments: Sean Eratt ☎020-8356 6012

Appendices

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

This page is intentionally left blank

The Pension Regulator's and Scheme Advisory Board Compliance Checklist

Date of Completion: 30/08/2019

Contents

Introduction	.....
Summary Results Dashboard	.....
A - Reporting Duties	.....
B - Knowledge and Understanding	.....
C - Conflicts of interest	.....
D - Publishing information about schemes	.....
E - Managing risk and internal controls	.....
F - Maintaining accurate member data	.....
G - Maintaining contributions	.....
H - Providing information to members and others	.....
I - Internal Dispute Resolution	.....
J - Reporting breaches of the law	.....
K - Scheme Advisory Board - Guidance on the creation and operation of Local Pension Boards in England and Wales	.....

Introduction

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

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

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

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

Key

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

Page 320

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	Not yet relevant	Not yet relevant

Definitions:

<i>PSPA13</i>	Public Service Pensions Act 2013
<i>LGPS</i>	Local Government Pension Scheme
<i>TPR</i>	The Pensions Regulator
<i>TPR Code</i>	The Pensions Regulator’s Code of Practice No 14 Governance and administration of public service pension schemes
<i>Scheme Manager</i>	For the London Borough of Hackney Pension Fund, this is Hackney Council.
<i>Administering Authority</i>	The LGPS specific term for Scheme Manager. For the London Borough of Hackney Pension Fund, this is Hackney Council.
<i>IDRP</i>	Internal Dispute Resolution Procedure
<i>SAB</i>	The national LGPS Scheme Advisory Board
<i>PC</i>	Pensions Committee
<i>PB</i>	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	Fully completed	Fully 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	Fully completed	Fully compliant
C6	Fully completed	Fully compliant
C7	Fully completed	Fully compliant
C8	Fully completed	Fully compliant
C9	Fully completed	Fully compliant
C10	Fully completed	Fully compliant
C11	Fully completed	Fully compliant
Publishing Information		
D1	Fully completed	Fully compliant
D2	Fully completed	Fully compliant
D3	Fully completed	Fully compliant
D4	Fully completed	Fully compliant

No.	Completed	Compliant
Risk and Internal Controls		
E1	Fully completed	Fully compliant
E2	Fully completed	Fully compliant
E3	Fully completed	Fully compliant
E4	Fully completed	Fully compliant
E5	Fully completed	Fully compliant
E6	Fully completed	Fully compliant
E7	Fully completed	Fully compliant
E8	Fully completed	Fully compliant
Maintaining Accurate Member Data		
F1	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	Fully completed	Fully compliant
F10	Fully completed	Fully compliant
F11	Fully completed	Fully compliant
Maintaining Contributions		
G1	Fully completed	Fully compliant
G2	Fully completed	Fully compliant
G3	Fully completed	Fully 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 - Partially compliant
H2	Fully completed	Fully compliant
H3	Fully completed	Fully compliant
H4	In progress	Partially 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	Fully completed	Fully compliant
H12	Fully completed	Fully compliant
H13	Fully completed	Fully compliant
Internal Dispute Resolution		
I1	Fully completed	Fully compliant
I2	Fully completed	Fully compliant
I3	Fully completed	Fully compliant
I4	Fully completed	Fully compliant
I5	Fully completed	Fully compliant
I6	Fully completed	Fully 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	In progress	Partially compliant
K10	Fully completed	Fully compliant
K11	Fully completed	Fully compliant
K12	In progress	Partially compliant
K13	Fully completed	Fully compliant

H5	Fully completed	Fully compliant
H6	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)	
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)	

No.	TPR Requirement	London Borough of Hackney Approach / Evidence	Frequency of Review	Last Review Date	Review Completed	Compliant	Notes	Action
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)	01/03/2019	In progress	Partially compliant	Full induction pack currently being developed as part of review of training needs currently underway	Complete development of induction pack - November 2019
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		

No.	TPR Requirement	London Borough of Hackney Approach / Evidence	Frequency of Review	Last Review Date	Review Completed	Compliant	Notes	Action
B8	Are all pension board members investing sufficient time in their learning and development?	Training plans are agreed each June as part of the PC business plan. Monitoring of attendance at training is undertaken in accordance with Training Policy and recorded annually in governance update in annual report and accounts.	Ongoing (annual check - Jun)	31/10/2018	Fully completed	Fully compliant	Training sessions provided at each Board meeting	
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)	01/03/2019	In progress	Partially compliant	Full induction pack currently being developed as part of review of training needs currently underway	Complete development of induction pack - November 2019
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)	01/03/2019	In progress	Partially compliant	Training needs reviewed annually but new checklist to be developed for 2019/20 assessment	Develop new checklist - November 2019
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)	01/03/2019	In progress	Partially compliant		Develop new checklist - November 2019
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)	01/03/2019	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)	31/08/2019	In progress	Partially compliant	Completed returns now due 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	01/03/2019	Fully completed	Fully compliant	Conflicts of Interest Policy last reviewed in 2015 - now due for review (every 3 years)	Conflicts of Interest Policy to be reviewed at March 2019 Pensions Committee

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 Q2 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)	31/08/2019	Fully completed	Fully compliant	Relevant information now published on new website	Ensure regular maintenance of website
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)	31/08/2019	Fully completed	Fully compliant	Relevant information now published on new website	Ensure regular maintenance of website
D3	Is all the information about the Pension Board kept up-to-date?	Information regularly checked.	Ongoing (annual check - Jan)	31/08/2019	Fully completed	Fully compliant	Relevant information now published on new website	Ensure regular maintenance of 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)	31/08/2019	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, IDRPs 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		

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?	<p>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.</p> <p>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.</p> <p>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.</p> <p>Going forward Equiniti will providing an annual statement confirming they are adhering to this requirement on the accuracy and completeness of the data.</p>	Annual	31/08/2019	In progress	Partially compliant	<p>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.</p> <p>The Triennial valuation 2016-17 is complete</p> <p>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.</p>	<p>Ongoing work on interface development project to improve processes at both Hackney Council and Equiniti</p> <p>Updated data improvement plan issued in March 2019</p>

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	31/12/2018	Fully completed	Fully compliant	PAS reviewed 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: <ul style="list-style-type: none"> - 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	01/03/2019	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	01/03/2019	Fully completed	Fully compliant	Formal data improvement plan in place	
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?	<p>Ensure all those involved with data understand the DPA:</p> <ul style="list-style-type: none"> - 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 <p>Evidence of processes includes:</p> <ul style="list-style-type: none"> - 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 (19 th day of the month, or 22 nd 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	31/08/2019	Fully completed	Fully compliant	New contribution reconciliation processes now in place	
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		
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		

No.	TPR Requirement	London Borough of Hackney Approach / Evidence	Frequency of Review	Last Review Date	Review Completed	Compliant	Notes	Action
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 sufficient quality employers may be charged or extreme cases reported to the pensions regulator	Annual	31/08/2019	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 submitted 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 place identify 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	31/08/2019	In progress	Employers - Partially compliant	The Pension Fund has entered in to a formal enagement with the Regulator re: the 2018/19 statements. Issues not fully resolved but significant improvements made to year end data. Not all satatements due to be sent out by 31/08/2019 but the number is expected to improve significantly on previous years. Regular updates are being provided to the 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		
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 new starter information to members once picked up from the contribution spreadsheets even if they have not yet received a starter form from 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 administration contract. New members also need to be guided to the LBH Pension website once the improvements have been made to ensure all information 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 statement	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	31/08/2019	Fully completed	Fully compliant	New starter forms updated with new website address	
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	Fully completed	Fully compliant		Tracing exercises will be carried out on a periodic basis

I - Internal Dispute Resolution

Legal requirements

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

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

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

The Act also states that the procedure must include:

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

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

No.	TPR Requirement	London Borough of Hackney Approach / Evidence	Frequency of Review	Last Review Date	Review Completed	Compliant	Notes	Action
I1	Has the Administering Authority put in place an internal dispute resolution procedure?	An IDRP procedure is in place with leaflets available setting out the process	Ongoing (annual check - Jun)	31/10/2018	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)	01/03/2019	Fully completed	Fully compliant	IDRP member guide now updated	
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
16	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 IDRPs information.	Ongoing (annual check - Jun)	01/03/2019	Fully completed	Fully compliant		
17	Are the notification requirements in relation to TPAS and the Pensions Ombudsman being adhered to?	Guide enclosed when acknowledging receipt of an IDRPs. Notifications always include information about TPAS/PO in the decision letter.	Ongoing (annual check - Jan)	31/10/2018	Fully completed	Fully compliant		
18	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		
19	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.

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 - Jan)	31/01/2019	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)	31/01/2019	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)	31/01/2019	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)	31/01/2019	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)	31/08/2019	In progress	Partially compliant	Training plan in place - training to be provided to Pension Board members at PC meetings and separate PB training	PB & PC members to attend fundamentals training course if possible
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)	31/01/2019	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)	31/08/2019	In progress	Partially compliant	Training needs analysis included on Nov 2018 PB agenda - now developing personalised training plans for Board & Committee	A model is being developed to capture individual training needs against CIPFA requirements/TPR toolkits and to monitor against those specific 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)	01/03/2019	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)	31/08/2019	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
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)	31/01/2019	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)	31/01/2019	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)	31/08/2019	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)	31/01/2019	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)	31/01/2019	Fully completed	Fully compliant	PB Annual report published 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)	31/01/2019	Fully completed	Fully compliant	Statement carried forward to 2016/17 Annual Report	

This page is intentionally left blank

Pensions Committee Agendas – Forward Plan

October 2019 – Special Meeting

1. Apologies for Absence
2. Declarations of Interest
3. Consideration of minutes of previous meeting
4. Trucost carbon risk audit
5. Carbon risk – next steps

December 2019

1. Apologies for Absence
2. Declarations of Interest
3. Consideration of minutes of previous meeting
4. Training – Infrastructure
5. Infrastructure Investment
6. Quarterly Update
7. Strategic Asset/Liability Review
8. Actuarial Valuation and Funding Strategy Statement
9. Longevity Monitoring – Club Vita
10. Training Policy Update/Knowledge and Skills self-assessment
11. Governance Policy & Compliance Statement Review
12. Conflicts of Interest Policy

March 2020

1. Apologies for Absence
2. Declarations of Interest
3. Consideration of minutes of previous meeting
4. Training – Currency Hedging
5. Currency Hedging – operational arrangements
6. Quarterly Update
7. Actuarial Valuation – Final report sign off
8. Investment Strategy Statement Review
9. Pension Administration Strategy
10. Employer Data Audit
11. AVC Review

June 2020

1. Apologies for Absence
2. Declarations of Interest
3. Consideration of minutes of previous meeting
4. Training – TBC
5. Quarterly Update
6. Pension Fund Business Plan
7. Pension Fund Administration – Annual Report
8. Pension Fund Budget – 2020/21
9. London CIV Update

This page is intentionally left blank