Hackney

REPORT OF THE GROUP DIRECTOR OF FINANCE & CORPORATE RESOURCES		
Pension Fund – Quarterly Monitoring Report **Pensions Committee** **27th June 2016**	**Classification** **PUBLIC** **Ward(s) affected** **ALL**	**Enclosures** **None**

1. INTRODUCTION

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

2. RECOMMENDATIONS

2.1 The Pensions Committee is recommended to note the report.

3. RELATED DECISIONS

3.1 Pensions Sub-Committee 17th March 2014 – Approval of 2013 Actuarial Valuation and Funding Strategy Statement

3.2 Pensions Sub-Committee 23rd March 2016 – Approval of Pension Fund Budget 2016/17.

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

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

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

4.3 The Committee's responsibilities include setting a budget for the Pension Fund and monitoring financial performance against the budget. Quarterly monitoring of the budget helps to ensure that the Committee is kept informed of the progress of the

Fund and can provide the Committee with early warning signals of cashflow issues and cost overruns.

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

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

5. COMMENTS OF THE DIRECTOR, LEGAL

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

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

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

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

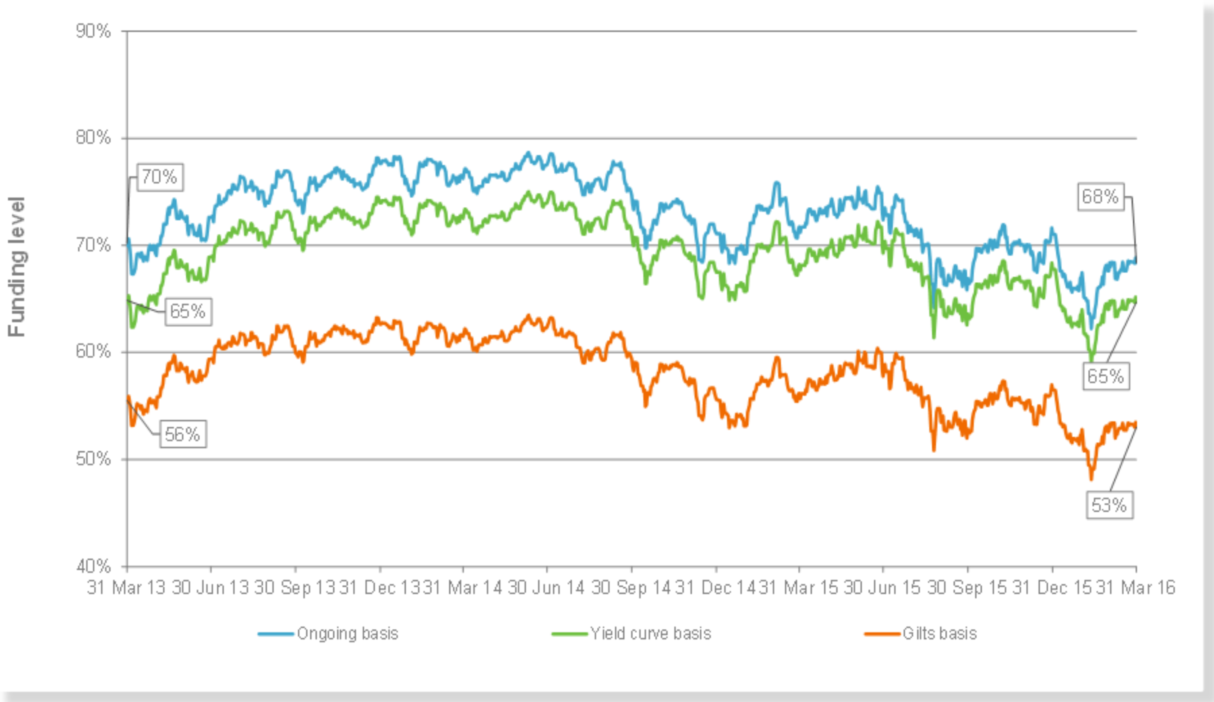
5.5 There are no immediate legal implications arising from this report.

6. FUNDING POSITION

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 2013 set the contribution rates which have been applied from 1st April 2014. As at the end of March 2016, the funding level was 68% compared to 71% as at the end of December 2015.

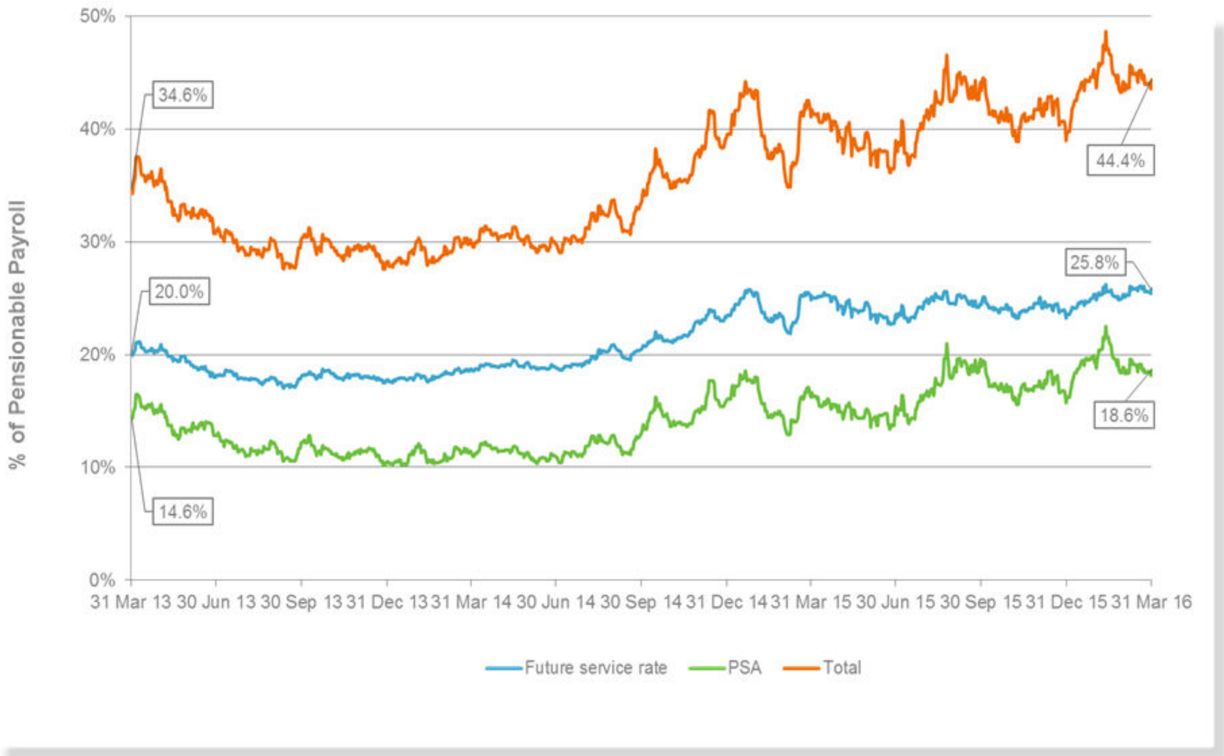
6.2 The chart below highlights the funding position as at 31st March 2013 (70%) compared to 31st March 2016 (68%) showing a slight decrease in the funding position over that period

Progression of Funding Level from 31st March 2013 to 31st March 2016



6.3 The funding level of 68% at 31st March 2016 is based on the position of the Fund having assets of £1,115m and liabilities of £1,631m, i.e. for every £1 of liabilities the Fund has the equivalent of 68p of assets. It should be noted that the monetary deficit remains high, and has increased from £449m in December 2015 to £516m in March 2016, an increase of £67m. This represents an increase in the deficit of £111m since the 2013 valuation. 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.

Progression of Employer's contribution rate from 31st March 2013 to 31st March 2016



6.4 The overall contribution rate at a whole Fund level as at 31st March 2016 is 44.4%, up from 34.6% at the last valuation on 31st March 2013, although this is based on a roll forward of the actuarial assumptions and the data supplied at that time The future service rate calculates the contribution rate required to meet the pension benefits for existing staff going forwards and as at the end of March 2016, would result in a contribution rate of 25.8% up from 20.0% at the previous valuation. The historic service cost (or deficit funding rate) which has seen an increase since the last valuation is currently standing at 18.6%, up from 14.6% at the 31st March 2013. The historic service cost impacts most heavily on the Council, as it is the Council that has the biggest exposure to this area. When new admission bodies are established and staffs are subject to TUPE transfer, the historic liabilities are traditionally retained by the Council, with new bodies being established on a 100% funding basis.

7. GOVERNANCE UPDATE

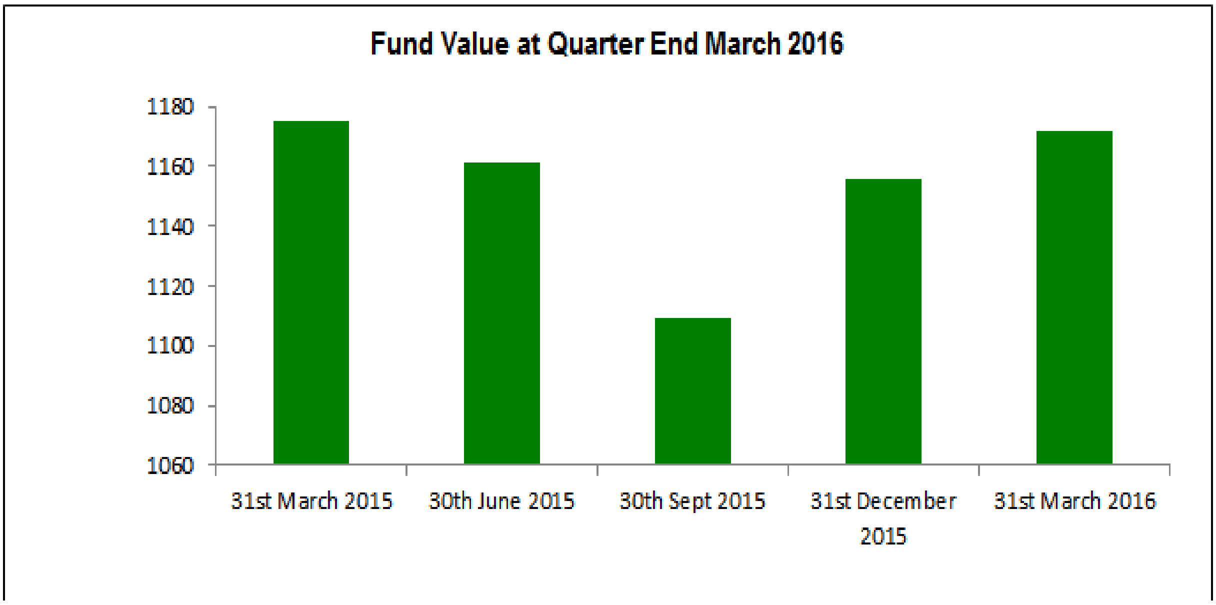
7.1 During 2015 The Fund's Benefit Consultants, AON, were asked to carry out an audit of the administration arrangements for LGPS 2014. The audit covered both the performance of the third party administrators, Equiniti, and the quality and timeliness of data being supplied to the Fund by Employers. The results were reviewed at the January meeting of the Pensions Committee. The audits highlighted both positive aspects and some areas for improvement; whilst many employers are providing good quality data, others have struggled to provide data by requested deadlines and to the quality standards expected.

7.2 The Pensions Regulator has raised this as a national issue, as many payroll providers have struggled since the introduction of LGPS 2014. Officers have been working closely with the relevant parties to resolve the issues; new data checking procedures are being put in place by both the Hackney Pensions Team and Equiniti to ensure that errors in monthly returns are detected and followed up more quickly. Additionally, the Pensions Team are working with the Council's payroll provider and Master Data team to improve the quality of data provided. Testing of new reports will be carried out over the next few weeks.

7.3 Looking to the longer term, work has begun on implementation of the Council's new payroll contract. The Pensions team is represented on both the Project Board and Working Group, to ensure that reporting requirements for the Fund are taken into account from the start of the project.

8. INVESTMENT UPDATE

8.1 Set out below is the context of the environment in which the Fund has operated over the quarter to 31st March 2016 and the year as a whole, and the impact this has had on the Fund's investments. The Fund's value has increased by 1.39% to £1,172m at 31st March 2016 from £1,156m at 31st December 2015.

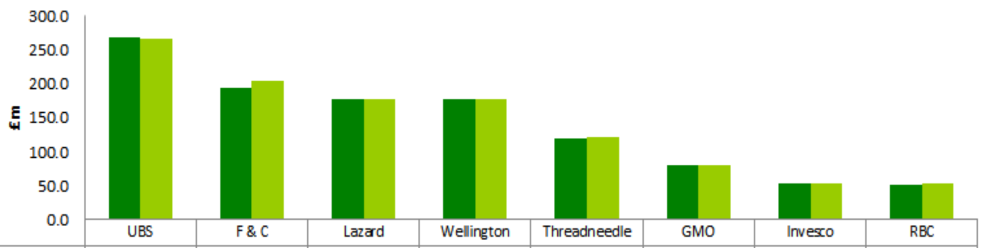


8.2 The most important event in the UK over the quarter was the Prime Minister's announcement of a date for the referendum on EU membership, which will now take place on June 23rd this year. With polls showing a close race, the risk of a potential exit from the EU has started to materialise in market data and business sentiment, with some firms explicitly quoting it as one of the causes of a dip in expectations. The UK labour market continued to fare well; the unemployment rate fell to the lowest level since 2006 over the quarter. Consumer confidence remained at record high levels and mortgage approvals climbed ahead of a stamp duty increase in April. The Quarterly Inflation Report from the Bank of England was more dovish than expected, and the now unanimous decision to keep rates on hold may reflect expectations of a more prolonged period of low inflation.

8.3 Deteriorating economic data worried investors over the opening weeks of the year. With manufacturing doing badly and exports weak, the market began to entertain the possibility of a recession in the US economy. While data remained weaker over the quarter, survey indicators strengthened as 2016 commenced. This suggests the loss of economic momentum was temporary and less likely to continue into Q2 2016. Core CPI inflation continued on an upward trend and reached the highest level in almost four years. While the Federal Reserve (Fed) remained relatively positive on the domestic economy, it seems to have become more dovish with risks from a possible Chinese slowdown being a particular concern. As a result, the market become much less convinced of the likelihood of a series of interest rate hikes as the year progresses.

8.4 The European Central Bank (ECB) delivered a better than expected set of measures to strengthen the continuing QE program, cutting rates on deposit further while expanding asset purchases and including investment grade credit for the first time. Economic momentum picked up towards the end of the quarter from very low levels in previous months. Whilst there is evidence that ECB easing is finding its way to the real economy and domestic demand is supportive, weakness in global activity remains a drag. Political risk continued to weigh heavily over the bloc. There was political stalemate in Spain, uncertainty over the likelihood of Brexit ahead of the planned referendum in the summer and continued tension between member states such as Austria and Greece over the ongoing migrant situation.

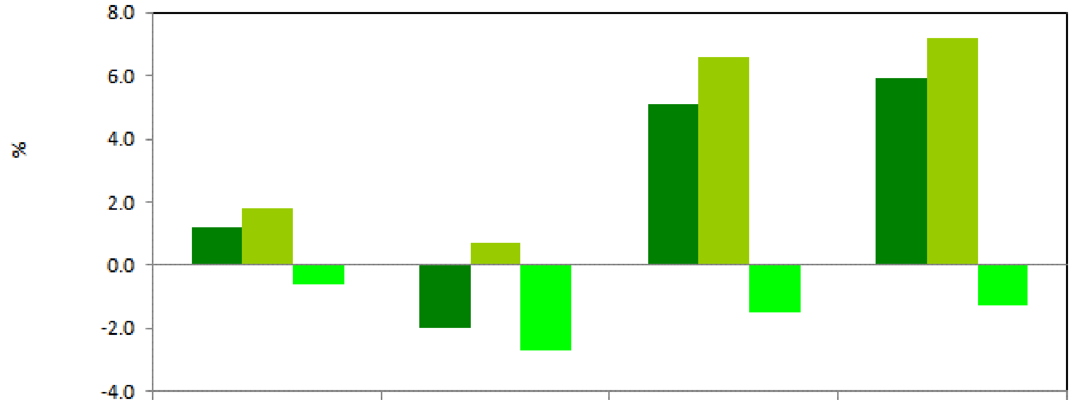
8.5 The breakdown by manager is shown in the chart below and largely reflects the performance of the markets over the period.



	UBS	F & C	Lazard	Wellington	Threadneedle	GMO	Invesco	RBC
December	267.4	194.9	177.6	177.2	120.0	81.5	53.3	50.7
March	266.4	203.6	177.3	177.6	122.5	81.4	53.9	53.9

8.6 The Fund's performance over the latest quarter, 12 months, and the annualized 3 and 5 year performances, both absolute and relative to the Fund's customised benchmark are set out in the table below:

Fund Performance over the quarter ending 31st March 2016

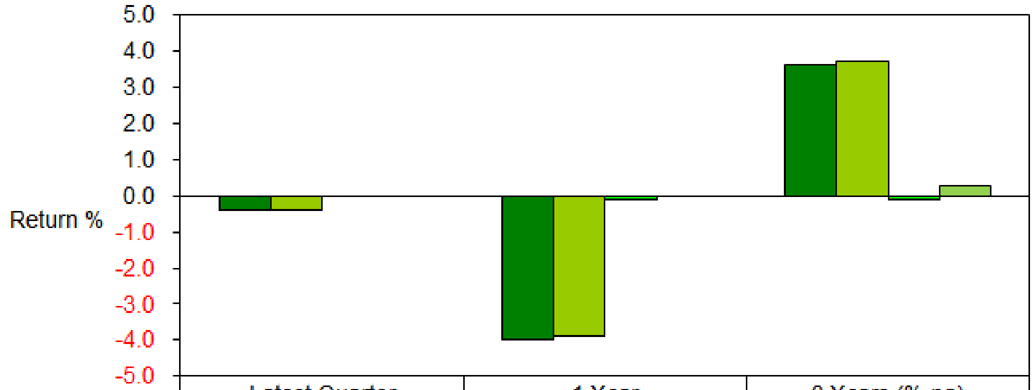


	Latest Quarter	12 Months	3 years % pa	5 years % pa
Fund	1.2	-2.0	5.1	5.9
Benchmark	1.8	0.7	6.6	7.2
Relative Return	-0.6	-2.7	-1.5	-1.3

8.7 The performance of individual fund managers and commentaries on performance are set out below:

- **UBS – Index Linked UK Equities – 23% of the fund**

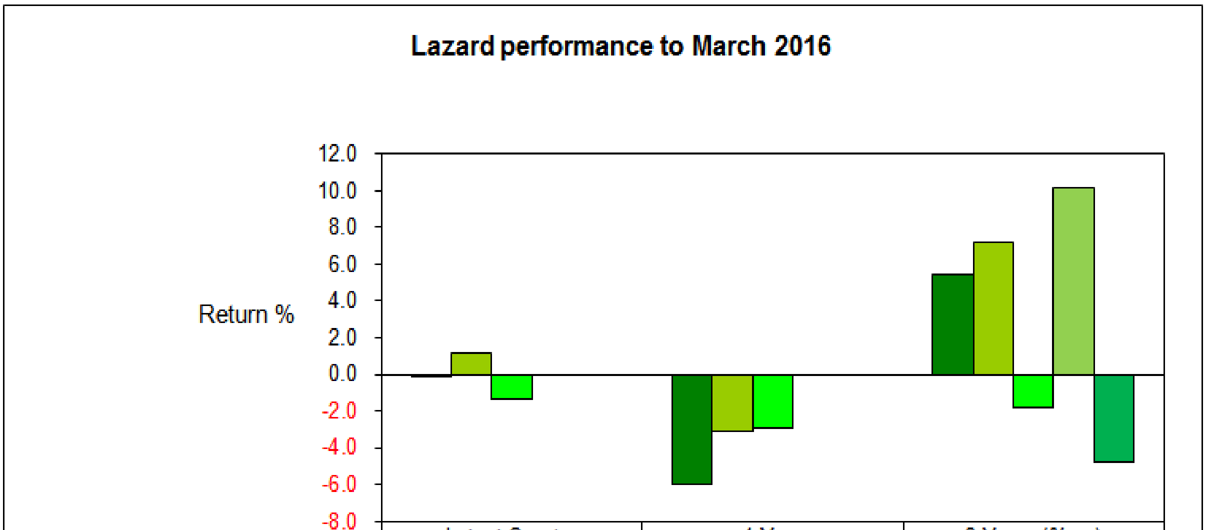
UBS performance to March 2016



	Latest Quarter	1 Year	3 Years (% pa)
Return	-0.4	-4.0	3.6
Benchmark	-0.4	-3.9	3.7
Tracking Error	0.0	-0.1	-0.1
Target Tracking Error (+/-)			0.25

Following the FTSE quarterly review in March, six stocks were added to the index and one stock was deleted from the index, along with various changes in the shares in issue of the index constituents. Two-way turnover totalled 0.7%.

- **Lazard Asset Management – Global Equities – 16% of the fund**

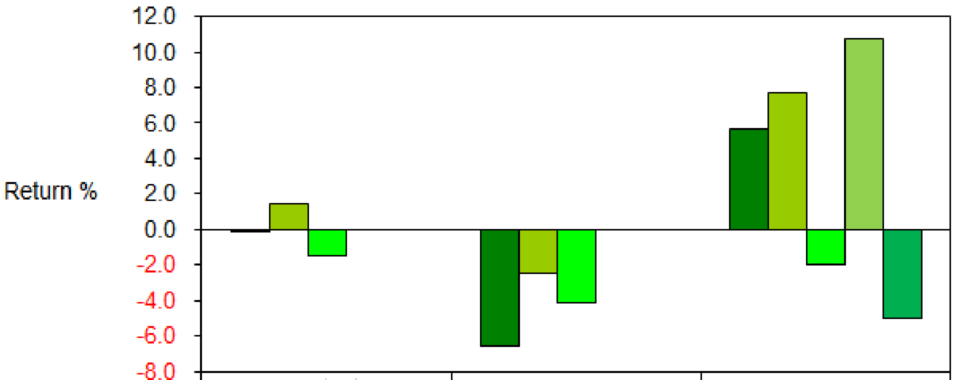


	Latest Quarter	1 Year	3 Years (% pa)
Return	-0.1	-6.0	5.4
Benchmark	1.2	-3.1	7.2
Relative Return against Benchmark	-1.3	-2.9	-1.8
Target (3 year rolling)			10.2
Relative Return against Target			-4.8

The portfolio declined in value and underperformed against the benchmark index during the quarter. Over a 1 year period, the fund underperformed against benchmark by -2.9%. In the fourth quarter all themes contributed positively to the return with the exception of Information in systems – R&D Productivity, Japan (Antimatter) and National Platforms. Over the longer term, the performance is below benchmark and has shown significant underperformance relative to target.

- **Wellington Management – Global Equities – 16% of the fund**

Wellington performance to March 2016

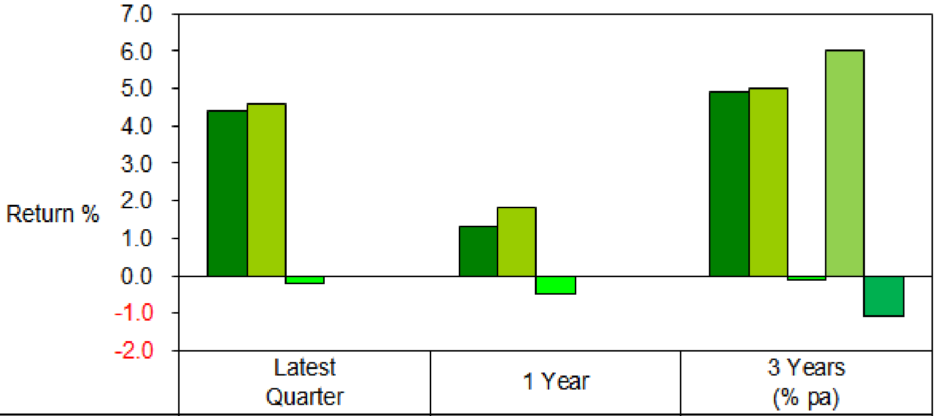


	Latest Quarter	1 Year	3 Years (% pa)
Return	-0.1	-6.6	5.7
Benchmark	1.4	-2.5	7.7
Relative Return against Benchmark	-1.5	-4.1	-2.0
Target (3 year rolling)			10.7
Relative Return against Target			-5.0

Over the quarter the fund has underperformed the benchmark by -1.5% and over a 1 year period, the fund has underperformed the benchmark by -4.1%. Both stock selection and allocation made negative contributions over the period. Over the longer term, the mandate has underperformed significantly against both benchmark and target, by 2.0% and 5.0% respectively.

- **F&C – Fixed Income – 18% of the fund**

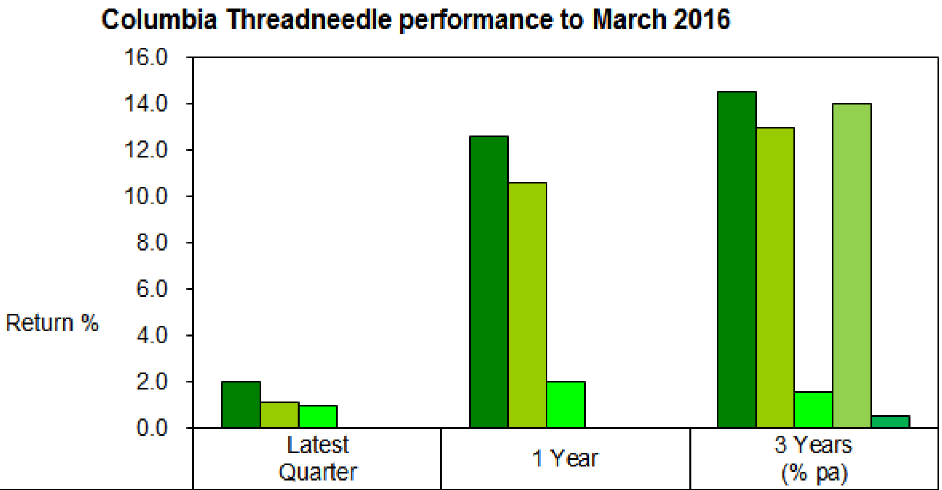
F&C performance to March 2016



	Latest Quarter	1 Year	3 Years (% pa)
Return	4.4	1.3	4.9
Benchmark	4.6	1.8	5.0
Relative Return against Benchmark	-0.2	-0.5	-0.1
Target (3 year rolling)			6.0
Relative Return against Target			-1.1

Over the quarter, F&C underperformed the benchmark by -0.2%. Negative performance was mainly driven by the overweight credit position and short duration positions. Duration shorts and underweight 10-year positions on the curve also subtracted from performance. Over the longer term, the mandate has underperformed against both benchmark and target by 0.1% and 1.1% respectively

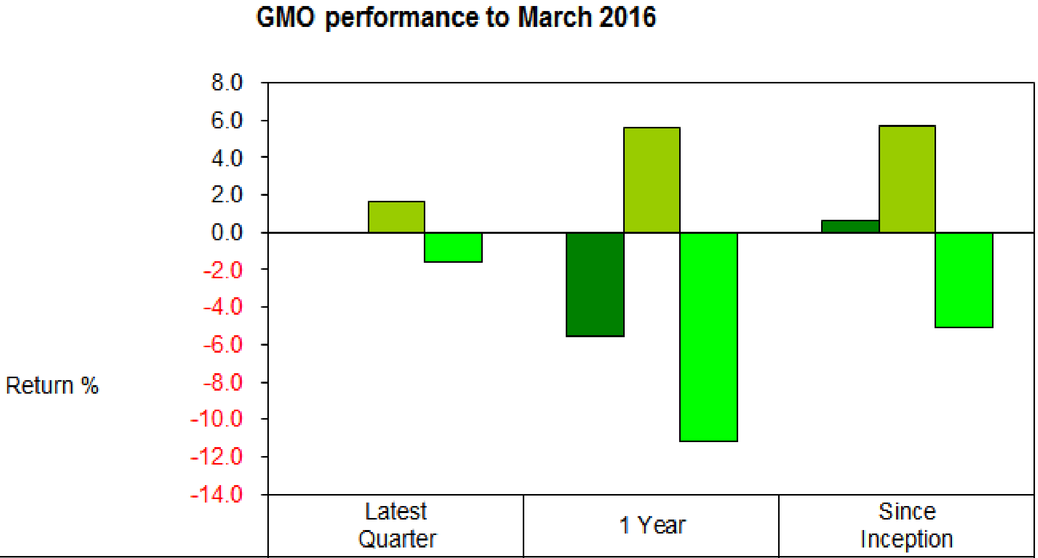
- **Columbia Threadneedle – Property Unit Trust – 11% of the fund**



	Latest Quarter	1 Year	3 Years (% pa)
Return	2.0	12.6	14.5
Benchmark	1.1	10.6	13.0
Relative Return against Benchmark	0.9	2.0	1.5
Target (3 year rolling)			14.0
Relative Return against Target			0.5

In the last quarter of 2015/16, the fund generated a total return of 2.0% outperforming the benchmark by 0.9%. For the year ending 31 March 2016, the fund generated a total return of 12.6% outperforming the benchmark by 2.0%. Outperformance over 12 months can be attributed to marginally higher than average capital value growth, specifically in the Fund's London assets, combined with an above average income return.

- **GMO – Global Real Return – 7% of the fund**



	Latest Quarter	1 Year	Since Inception
Return	0.0	-5.6	0.6
Target	1.6	5.6	5.7
Relative Return against Target	-1.6	-11.2	-5.1

Over the last quarter of the 2015/16 financial year, GMO underperformed its target by 1.6%, with the neutral performance of equity and poor performances of alternative strategies have detracting from the fund's overall position. Over one year period the performance against target is down by 11.2%.

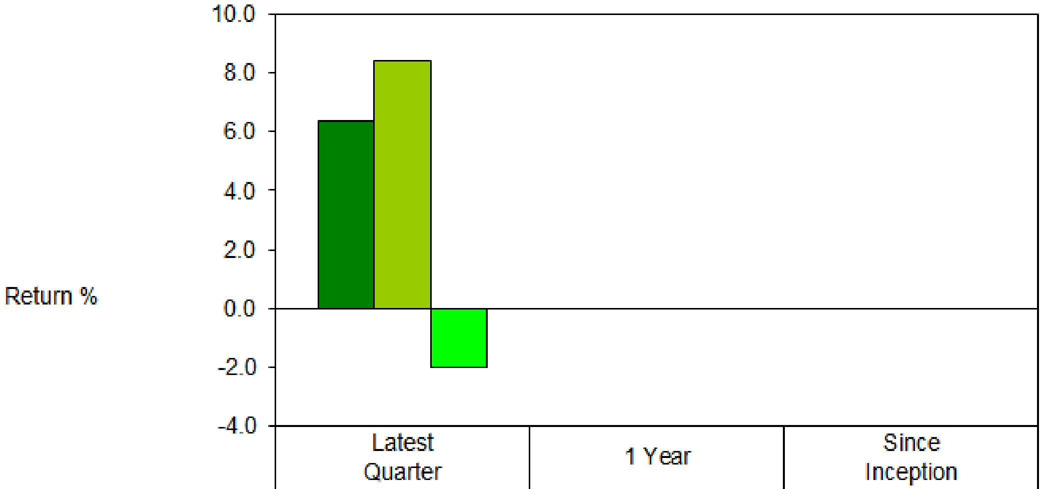
GMO have recently announced a number of changes to their management team and strategy. Firstly, they have made a decision to focus on quantitative stock selection methods in the portfolio, and to discontinue fundamental stock selection. They feel this change to quantitative methods to be more in line with the core philosophy of the fund. Additionally, the fixed income allocation within the fund will also focus on quantitative inputs, moving away from alternative selection strategies.

The management of the fund will also be changing from January 2017. The current structure comprises 2 experienced co-managers, one of whom will be leaving at the end of the year, leaving in place a single portfolio manager/head of asset allocation.

Our investment advisor from Hymans Robertson will be available at the meeting to discuss their view of the above changes and to advise on any action that might be appropriate by the Pensions Committee.

- **RBC – Global Emerging Markets – 5% of the Fund**

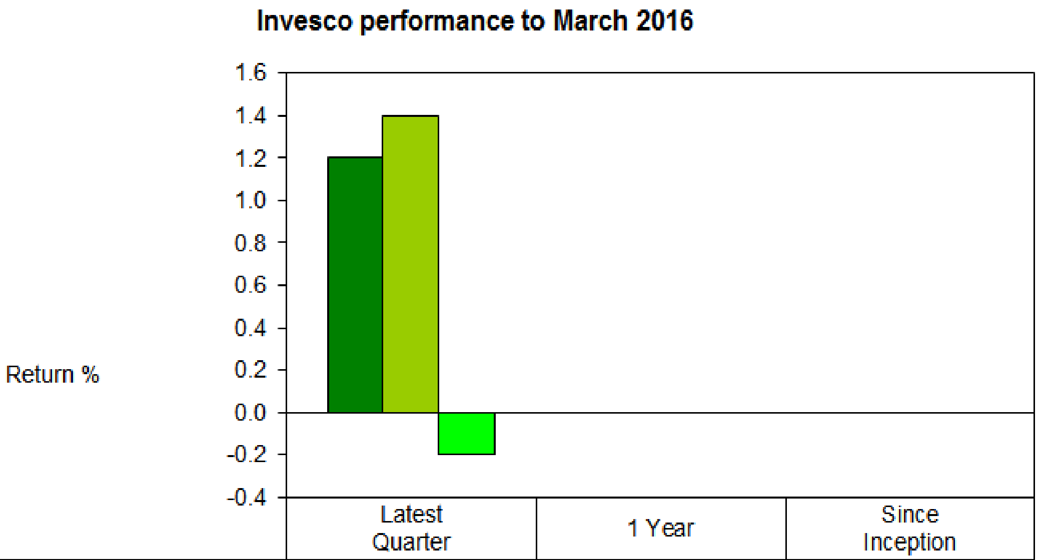
RBC performance to March 2016



	Latest Quarter	1 Year	Since Inception
Return	6.4		
Target	8.4		
Relative Return against Target	-2.0	0.0	0.0

RBC were appointed in December 2015, as an emerging markets equity manager in order to add diversification to the fund's equity allocation, as agreed by the Pension Committee on 31st March 2015. Over the first quarter of measurable performance since RBC's mandate was introduced in December 2015, the fund has generated a return of 6.4%. The mandate underperformed the benchmark by 2.0% over the quarter.

- **Invesco – Multi Asset – 5% of the Fund**



	Latest Quarter	1 Year	Since Inception
Return	1.2		
Target	1.4		
Relative Return against Target	-0.2	0.0	0.0

Invesco were appointed in December 2015, as a complimentary multi-asset manager to GMO in accordance with the decision made by the Pension Committee on the 31st March 2015. Over the first quarter of measurable performance since Invesco's mandate was introduced in December 2015, the fund has generated a return of 1.2%, underperforming the given benchmark by -0.2%. Some of more 'risk on' ideas were unsurprisingly the biggest detractors, with more directional equity ideas and proving a drag on performance. 'Equity – Global', 'Equity – Germany', 'Equity – Japan' and 'Equity – UK' ideas contributed negatively over the quarter, mirroring the performance of their respective equity markets.

9. BUDGET MONITORING

9.1 2016-17, 2017-18 and 2018-19 rolling budgets:

The Pension Fund budget was approved by pensions Committee at its 23rd March
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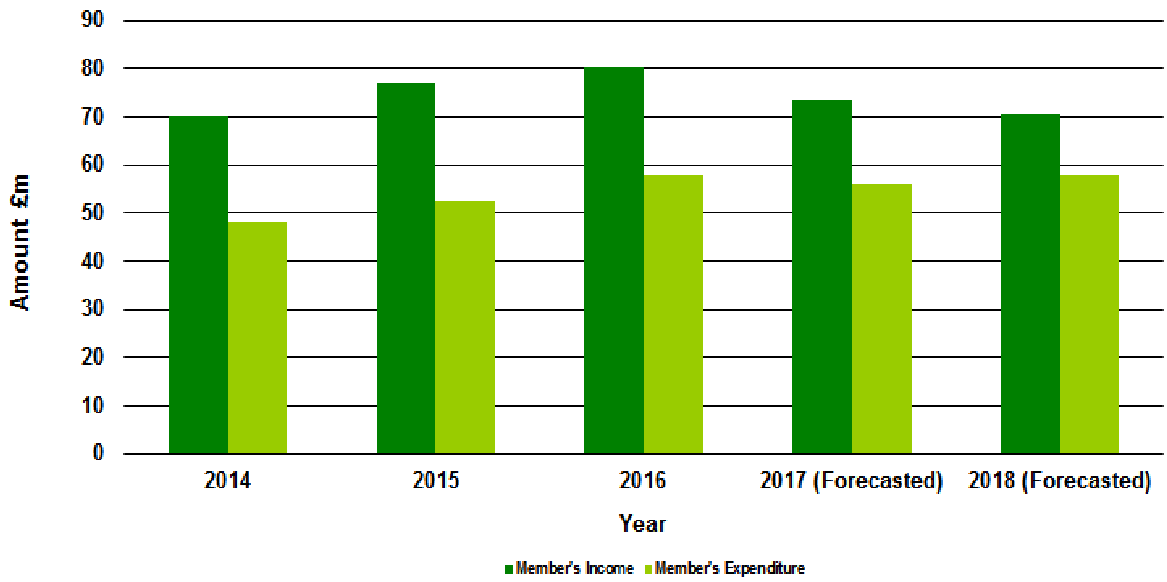

9.2 2015-16 Budget Monitoring

The current position on the budget is detailed in the table below. At the time of writing, the first quarter of the financial year has not yet closed and as such, we are unable to comment on financial performance for 2016/17 and are projecting all categories to align with the budgeted figures. Information for Q1 of the current financial year will be available in the next committee papers

Description	2015-16 Budget £'000	2015-16 Outturn £'000	2015-16 Variance £'000	2016-17 Budget £'000	2016-17 Forecasted Outturn £'000	2016-17 Expected Variance £'000
Member Income						
Employers' Contribution	61,594	62,162	568	56,590	56,590	0
Employees' Contribution	12,566	12,259	(307)	11,767	11,767	0
Transfers In	3,863	5,917	2,054	4,871	4,871	0
Member Income Total	**78,023**	**80,338**	**2,315**	**73,228**	**73,228**	**0**
Member Expenditure						
Pensions	(44,545)	(39,576)	4,969	(40,239)	(40,239)	0
Lump Sum Commutations and Death Grants	(8,787)	(12,919)	(4,132)	(11,057)	(11,057)	0
Refund of Contributions	(102)	(165)	(63)	(176)	(176)	0
Transfers Out	(8,729)	(4,999)	3,730	(4,717)	(4,717)	0
Member Expenditure Total	**(62,163)**	**(57,659)**	**4,504**	**(56,189)**	**(56,189)**	**0**
Net Member Surplus	**15,860**	**22,679**	**6,819**	**17,039**	**17,039**	**0**
Management Expenses						
Administration, Investment Management and Governance & Oversight	(3,948)	(5,257)	(1,309)	(3,807)	(3,807)	0
Net Administration Expenditure	**(3,948)**	**(5,257)**	**(1,309)**	**(3,807)**	**(3,807)**	**0**
Surplus from Operations	**11,912**	**17,422**	**5,510**	**13,232**	**13,232**	**0**
Investment Income/Expenditure						
Investment Income	14,700	14,751	51	14,338	14,338	0
Net Investment Income/Expenditure	**14,700**	**14,751**	**51**	**14,338**	**14,338**	**0**
Cash Flow before Investment Performance	**26,612**	**32,173**	**5,561**	**27,570**	**27,570**	**0**

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The final outturn figures for the 2015/16 financial year are shown above compared against the Pension Fund Budget for the year. Below are the explanations of the key variances:

Membership Income:

The contribution figures presented in this budget update for the current financial year reflect slightly higher levels of member income than budgeted. Employer and employee contributions are largely in line with the budget, showing variances of £568k and (£307k) respectively, both of which are within tolerance.

The ‘transfers in’ outturn came in roughly £2m more than projected in the budget, which makes up the bulk of the year end variance in membership income. As has been the case over previous years, this activity is subject to considerable volatility/unpredictability due to the uncertain nature of staff turnover and the subjectivity of staff member decisions with regards to transferring in.

Membership Expenditure

At £39.6m, the outturn for pensions paid appears to be below the budgeted level of £44.5m, however, the majority of the change can be accounted for by the removal of the cost of unfunded pensions from this reporting line, (which were included in error in the 2015/16 original budget) to bring the budget report in line with the statement of accounts. The outturn is slightly above the actual figure of £38.6m for 2014/15, in line with the 2015 Pension Increase figure of 1.2%, plus relatively little change in the number of pensioners.

The outturn for lump sum commutations and death grants is above the budgeted amount, at £12.9m compared to £8.8m; however, these are outside of the Fund’s control and cannot be accurately forecasted. At £4.9m, transfers out are forecasted to be far lower than the £8.7m budgeted. The budget was doubled for 2015/16 as a result of the Government’s Freedom and Choice agenda; however, the expected increase in transfers out has not materialised, and rates remain consistent with previous years.

Management Expenses:

Management expenses include expenditure on Pension Administration, Investment Management and Governance & Oversight. The final expenditure for these costs were £1.3m over budget. This variance has resulted largely from the expenses associated with the introduction of the two new fund managers, RBC and Invesco, taken on in December 2015, and from the audit of LGPS 2014 administration arrangements, which has pushed up oversight and governance costs.

Investment Income:

Investment Income proved to be largely as projected throughout 2015/16, only showing a small variance against budgeted income due to market volatility and movements during the year.

10. ENGAGEMENT AND CORPORATE GOVERNANCE

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

10.2 A further special strategy meeting of the Pensions Committee took place at the end of January 2016 to consider the Fund's approach to fossil fuel investment. The outcome of this meeting was a series of resolutions around future workstreams designed to help the Fund fully understand its carbon footprint and the risks this poses and, over the longer term, promote decarbonisation of the portfolio through positive investment in low carbon or clean energy funds. Work on meeting the resolutions began in Q4 2015/16, with a review of the options for switching some of the existing property mandate into a low carbon property fund. By June 2016, £10m had been moved from the Fund's existing Threadneedle TPEN Property mandate into the Threadneedle Low Carbon Workplace Fund, with further investments to be made as and when the Fund has projects available for investment.

10.3 Work is scheduled to commence shortly on carbon footprinting for the Fund, which is a key element of the programme. An understanding of the Fund's carbon footprint is key to understanding the extent to which it is exposed to climate risk, and will help to inform the other workstreams in the future.

10.4 The table below shows LAPFF's engagement activities over the quarter, listed by company, area of interest and engagement activity. LAPFF members engaged with 13 companies over the quarter, attending 6 meetings. Topics of engagement included tax, social/environmental risk, climate change, remuneration and Board composition.

Q1 2016 ENGAGEMENT DATA

	Company	Topics	Activity/Outcome	Domicile
1	**Dixons Carphone**	Tax	No Improvement	United Kingdom
2	**Admiral Group**	Tax	Small Improvement	United Kingdom
3	**SSE**	Tax	Dialogue	United Kingdom
4	**BHP Billiton**	Social Risk/Environment	Satisfactory Response	UK/Australia
5	**P&G**	Climate Change	Dialogue	United States
6	**ITV**	Tax	Dialogue	United Kingdom
7	**Kier Group**	Remuneration	Moderate Improvement	United Kingdom
8	**Tesco**	Tax	Dialogue	United Kingdom
9	**Google**	Tax	Dialogue	United States
10	**Weir Group**	Board Composition	Dialogue	United Kingdom
11	**Direct Line**	Tax	Moderate Improvement	United Kingdom
12	**Nestlé**	Employment Standards/ Board Composition	Moderate Improvement	Switzerland
13	**BP**	Climate Change	Moderate Improvement	United Kingdom

its FTSE All-share index tracker, managed by UBS. During the quarter, LAPFF engaged with 6 of the above companies, with regards to their tax affairs, through the Forum's Corporate Tax Transparency Initiative (CTTI) questionnaire. LAPFF received questionnaire responses from Dixons Carphone, Admiral Group and SSE during Q4 and met with ITV, Tesco and Direct Line Group to discuss what needs to happen for companies to report more fully on their tax practices. LAPFF has employed eminent tax expert, Richard Murphy to consult on this engagement, and the outcomes of these discussions are starting to feed into ideas for overcoming a disclosure barrier on tax.

10.6 LAPFF also met with Kier Group to discuss the Company's remuneration practices following on from an initial meeting in 2014 regarding Kier's past involvement with blacklisting. The latest meeting took place with Amanda Mellor, the chair of Kier's remuneration committee. LAPFF reports that the meeting achieved its aims of gaining an understanding of the Company's approach to its specific remuneration challenges; providing support for challenges to the status quo in executive pay, and pressing where LAPFF considers Kier could move further in the direction of the Forum's beliefs on executive pay.

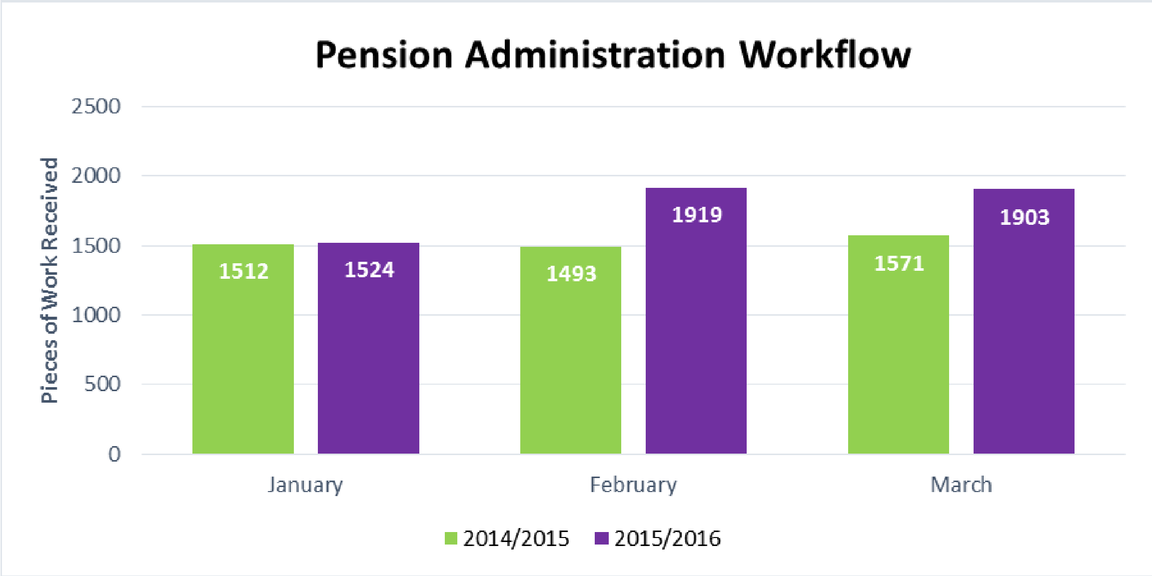
10.7 LAPFF also continued its engagement with BP to assess how the company is responding to the resolution requests from last year. A meeting with a number of BP's senior management took place at the end of February with colleagues from the Aiming for A coalition. Cllr Richard Greening attended on behalf of LAPFF. While BP was supportive of the resolution ahead of last year's AGM, LAPFF was concerned that its commitment to implementing the requests in the resolution was stalling. BP's disclosure of its 'faster transition' was a therefore a welcome response to one of the resolution's components.

PENSION ADMINISTRATION

11.1 Pension Administration Management Performance

The case load for the administrators during Q4 2015/16 significantly increased in comparison to the same period in 2015/16. A total of 5,346 new cases were received during the current quarter, compared to 4,576 during Q4 in 2014/15.

A comparison of the workflow for the administrators between Q4 2015/16 and Q4 2014/15 is set out below:-

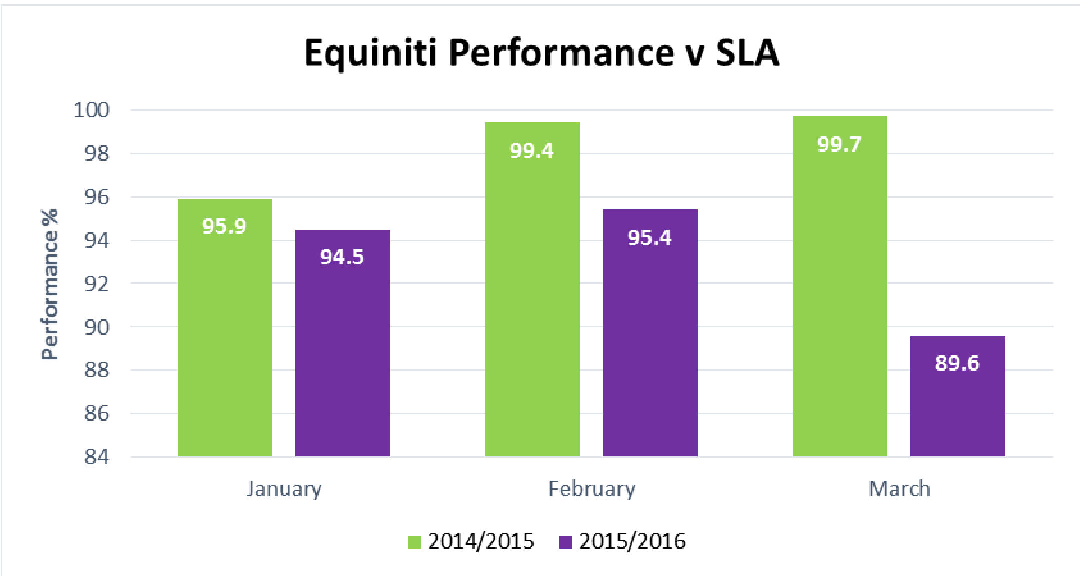


The average number of pieces of work received per month during Q4 2015/16 was 1,782 compared to an average of 1,525 received during the same period in 2014/15. A possible driver of this increase is the clearance of a backlog of late starter and leaver forms from the Council as the Fund's largest employer.

Much of this workload has been done manually as there is still no suitable working interface from the Council's payroll system that Equiniti can use to update member records automatically.

The performance of the pension administrators is monitored by the Financial Services Section at Hackney on a monthly basis. Performance against the service level agreement (SLA) was an average of 93.1% for Q4 2015/16 compared to 98.3% for the same period in the previous year.

The administrator's performance against the SLA for Q4 2014/15 and Q4 2015/16 is set out below:



It should be noted that the administrators' performance for the last quarter of 2015/16 was unusually low in comparison to the same quarter last year, which can be attributed to the increased level of manual work-around that continues to be done to member records, as well as the high number of work items received The main driver of the increased need for manual work-arounds is the continued lack of an interface from the Council's payroll provider that is fit for purpose as well as the complexities of the CARE scheme. As discussed above, a backlog of starter and leaver forms received from the Council has impacted on the number of work items.

Without up to date data from all employers and their payroll providers, the pension administrators cannot ensure that member records are correct without manually checking records line-by-line, which is time consuming and takes considerable resourcing.

The lack of accurate and timely data continues to cause major issues at Equiniti, however, as we are aware of this, no further concerns or issues were raised in regard to the SLA's.

11.2 New Starters and Opt Outs

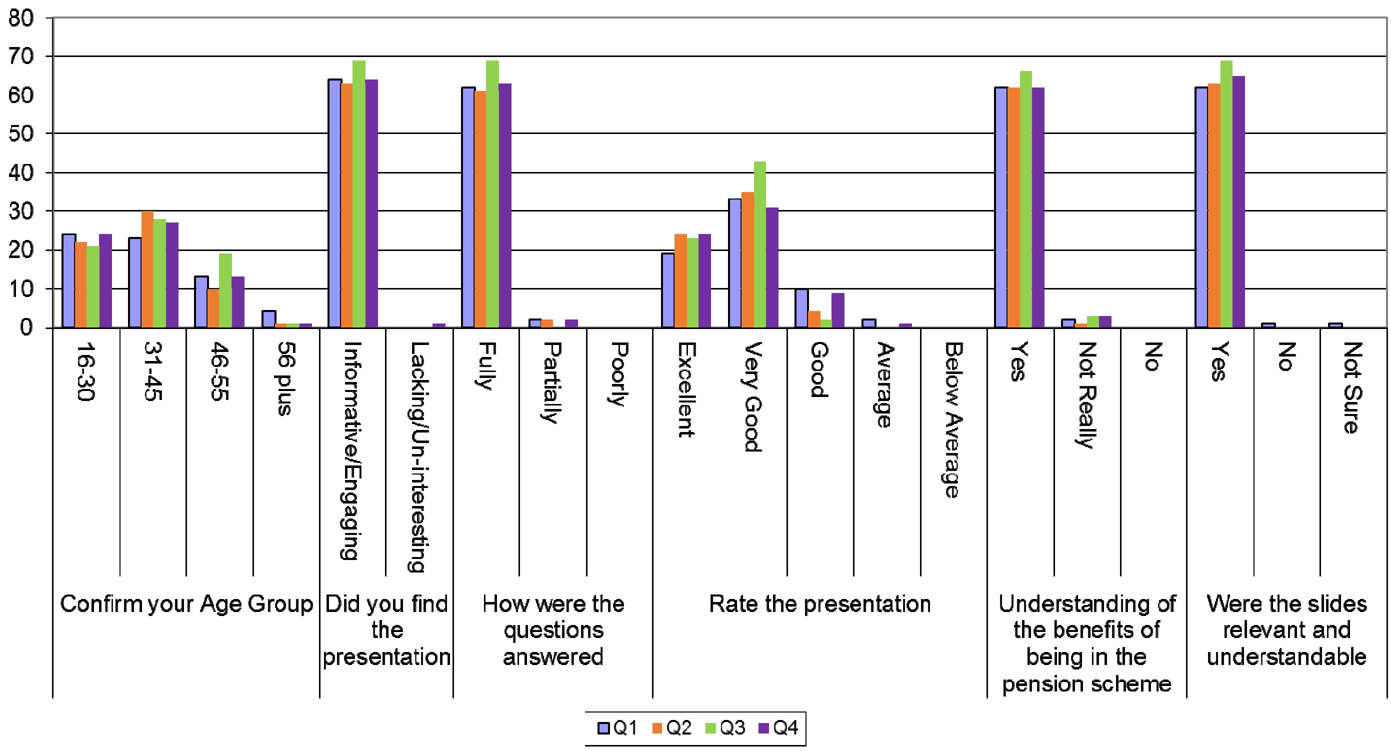
	Total Active Membership at End of Quarter	Total Opt Outs For Quarter
Q4 2014/15	7,532	92
Q4 2015/16	7,715	120

The opt outs in Q4 2015/16 are only slightly higher compared to Q4 2014/15, but the trend remains that on average around 100 employees choose to opt out of the scheme each quarter. There were 183 more active members at the end of Q4 2015/16 than there were in the same quarter of 2014/15.

11.3 Scheme Administration

The Financial Services in-house pension team facilitated at weekly induction sessions for 65 new employees during the reporting period. These sessions continue to receive very positive feedback with respondents rating the presentations as 'Very Good' or 'Excellent'. And 95% of those who attended the sessions, have said they now have a greater understanding of the benefits of being in the scheme

Induction Feedback



11.4 Ill Health Pension Benefits.

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

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

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

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

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

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

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

The chart below sets out the number of ill-health cases that have been processed during Q4 of 2015/16, compared to the same period in the previous year.

DEFERRED MEMBER'S ILL HEALTH RETIREMENT CASES					
	CASES RECEIVED	SUCCESSFUL	UNSUCCESSFUL	ONGOING	WITHDRAWN
Q4 2014/15	8	5	1	0	2
Q4 2015/16	10	3	2	4	1

ACTIVE MEMBER'S ILL HEALTH RETIREMENT CASES					
	NUMBER OF CASES	BENEFITS RELEASED ON TIER 1	BENEFITS RELEASED ON TIER 2	BENEFITS RELEASED ON TIER 3	UNSUCCESSFUL
Q4 2014/15	2	1	0	1	0
Q4 2015/16	3	2	0	1	0

11.5 Internal Disputes Resolution Procedure (IDRP)

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

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

The following case was concluded in the 4th quarter 2015/16:

Stage 2

Member's transfer value from another scheme was not calculated correctly at the time of transfer, and member's pension and lump sum was disadvantaged.
Review of calculation using HMRC data and values, found in favour of the member. Backdated pension and lump sum adjusted accordingly.

11.6 Other work undertaken in Q4 2015/16

Voluntary Redundancy

We reported in Q2 2015/16 that the Chief Executive announced that as part of a Council wide savings programme, a Voluntary Redundancy (VR) Scheme would be launched from 1 October 2015, and all staff (apart from essential services) would be eligible to apply.

Circa 600 redundancy and pension estimates were calculated for VR applicants, panels were held and approximately 300 individuals were issued with redundancy offer letters in advance of the end of Q3.

Following their acceptance of the offer, and completing their statutory notice period, 179 members of staff left the organisation during Q4, with the majority leaving at 29 February and the rest by 31 March 2016. Also under the scheme, there are a further 67 members of staff set to leave the organisation from April 2016 to the end of March 2017

12 REPORTING BREACHES

12.1 Reported Breaches Q2 2015/16

There were no reported breaches for the Q4 to the end of March 2016. However, a formal breach has been notified to the Pensions Regulator during 2015/16 in respect of just over 1,000 active annual benefit statements only being issued to scheme members in January, due to lack of accurate data from employers.

12.2 Unreported Breaches Q4 2015/16

In Q4 of 2015/16 there have been a number of unreported breaches by employers in the Fund that are to be noted by the Pension Committee.

With each payment of monthly contributions, employers must under Regulation 69(3), supply monthly pensionable pay information for members of the scheme as part of their remittance. However, from January to end March 16, 3 employers (including individual schools) failed to provide the data required with their remittance. Equiniti were informed of problems with the submission in advance in 2 of these instances, and no levy was raised. In one instance no explanation was given, and a levy was raised accordingly.

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BACKGROUND PAPERS
None