Hackney

REPORT OF THE GROUP DIRECTOR, FINANCE & CORPORATE RESOURCES		
PENSION FUND – QUARTERLY UPDATE **Pensions Committee** **27th June 2017**	**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

- Pensions Committee 29th March 2017 – Approval of Pension Fund Budget 2017/18
- Pensions Committee 29th March 2017 – Approval of 2016 Actuarial Valuation and Funding Strategy Statement

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

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

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

4.3 The Committee's responsibilities include setting a budget for the Pension Fund and monitoring financial performance against the budget. Quarterly monitoring of the budget helps to ensure that the Committee is kept informed of the progress of the Fund and can provide the Committee with early warning signals of cashflow issues and cost overruns.

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

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

5. COMMENTS OF THE DIRECTOR, 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. The last valuation was carried out as at 31st March 2016, with the next due in 2019. There is no requirement for the Administering Authority to undertake interim valuations, although it has the ability to do so. Nevertheless, given the volatility of the financial markets it is a matter of good governance and best practice to monitor funding levels between formal valuations to ensure that all necessary steps can be taken in advance of any valuation.

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

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

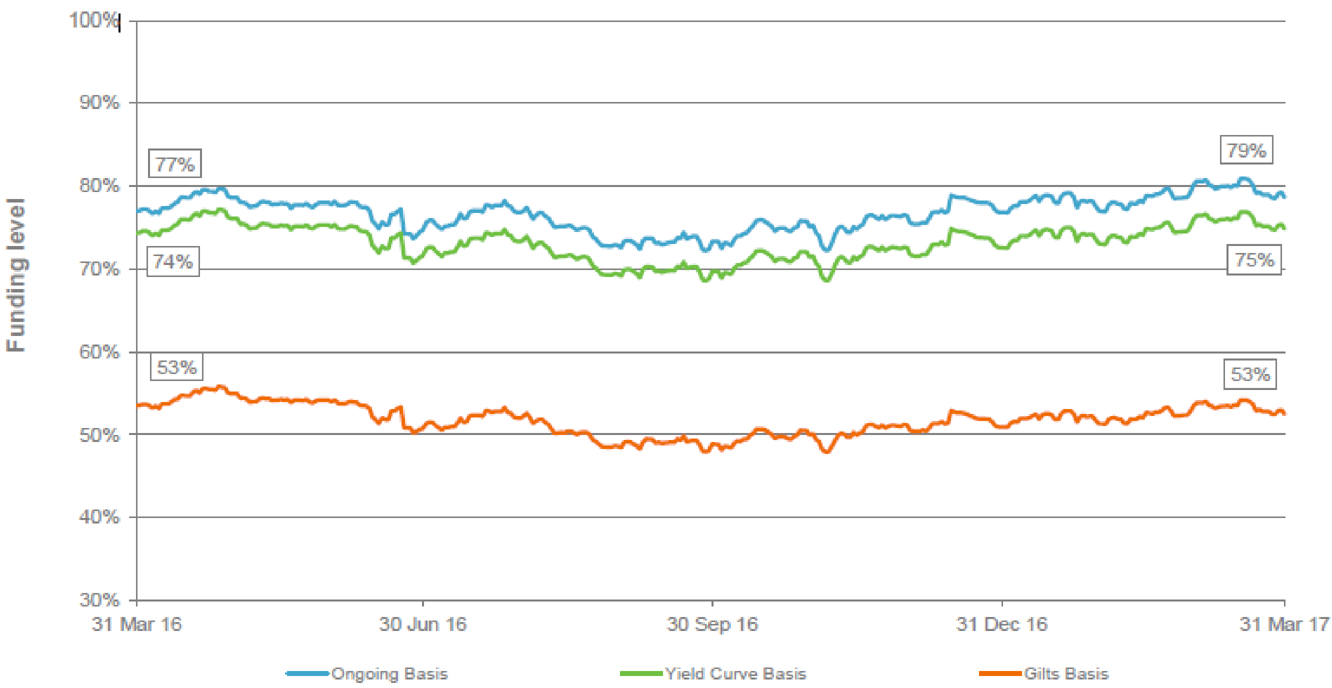
5.5 There are no immediate legal implications arising from this report.

6. FUNDING POSITION BASED ON 2016 TRIENNIAL VALUATION

6.1 The Fund's actuary, Hymans Robertson, provides a quarterly update on the funding position of the Fund illustrating how the overall position has changed since the last actuarial valuation. The actuarial valuation as at 31st March 2016 set the contribution rates which have been applied from 1st April 2017. As at the end of March 31st 2017, the funding level was 79% compared to 77% as at the end of March 2016.

6.2 The chart below highlights the funding position as at 31st March 2016 (77%) compared to 31st March 2017 (79%) showing a slight decrease in the funding position at the start of the period, followed by recovery, then an increase towards the end.

Progression of Funding Level from 31st March 2016 to 31st March 2017



6.3 The funding level of 79% at 31st March 2017 is based on the position of the Fund having assets of £1,409m and liabilities of £1,790m, i.e. for every £1 of liabilities the Fund has the equivalent of 79p of assets. It should be noted that the monetary deficit remains high, and has increased from £350m in March 2016 to £382m in March 2017, an increase of £32m. 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.

7. GOVERNANCE UPDATE

7.1 During 2015/16 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 2016 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. Together with Aon, the Fund has conducted a review of the initial audit to assess where improvements have been made and where further progress is required; this is discussed in more detail in a dedicated paper.

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 have been 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.

7.3 Whilst the Pensions Team have been working with the Council's payroll provider and Master Data team to improve the quality of data provided, the year-end data for 2015/16 provided by the Council was not sufficient to produce annual benefit statements for all active members by the 31st August 2016 deadline. All statements for deferred members were sent by the deadline, as were approximately 4000 statements for active members. Equiniti issued the majority of the remaining statements by 31st December 2016. This breach was reported to the Pensions Regulator

7.4 Officers of the Fund and Equiniti staff have been working closely with the iTrent implementation team and Midland HR to test reporting outputs from the Council's new payroll system. This work is still ongoing, and testing is being conducted on the new outputs during the parallel run period. Equinti have worked closely with the Fund on the new reports, and have made changes to streamline their own reporting requirements.

7.5 The ongoing concerns over data quality have been discussed with the Pension Board, who have asked that officers closely monitor the provision of year end data for 2016/17 and provide the Board with an update on progress. This report is being made alongside ongoing work on implementation of the new payroll contract with Midland HR; this is being worked on by officers from the Pensions Administration team in conjunction with Equiniti.

8. INVESTMENT UPDATE

8.1 Asset Allocation Q1 2017/18

The following table sets out the Fund's asset allocation as at 31 March 2017 against the target allocation. The valuations have been provided by the Scheme's investment managers

Manager	Mandate	Asset Allocation £	Asset Allocation %	Target Allocation %	Relative %
UBS	UK Equity	325,051,000	24.2	25.0	-0.8
Lazard	Global Equities	218,088,008	16.2	15.5	0.7
Wellington	Global Value	223,086,896	16.6	15.5	1.1
RBC	Global Emerging Markets Equities	72,133,372	5.4	4.5	0.9
Total Equities		**838,279,276**	**62.3**	**60.5**	**1.8**
BMO	Fixed Income	229,321,00	17.0	17.0	0.0
Columbia Threadneedle	Property	106,789,134	8.2	10.0	0.0
Columbia Threadneedle	Low Carbon Property	24,372,816	1.8		
Invesco	Multi-Asset	56,654,834	4.2	5.0	-0.8
GMO	Multi-Asset	86,762,446	5.4	7.5	-1.1
Total Fund			**100.0**	**100.0**	-

Note: Numbers may not sum due to rounding

8.2 Performance summary

The following table sets out the performance of the Scheme's investment mandates as at 31st March 2017 against their respective benchmarks. Details of the performance benchmarks for each mandate are set out in Appendix 1.

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

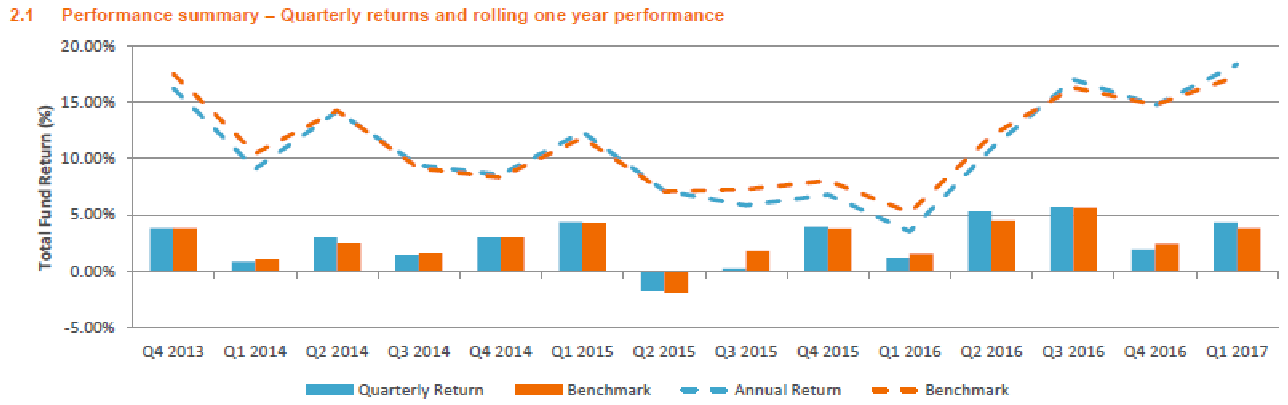
		Wellington Global Eq	Lazard Global Eq	UBS UK Eq	RBC EM Eq	Columbia Threadneedle Property	Columbia Threadneedle LCW	BMO Fixed income	GMO Multi asset	Invesco Multi asset	Total Scheme
Q1 17 (%)	Fund	5.5	6.2	4.1	10.2	2.0	0.7	2.1	4.2	1.9	4.3
	Benchmark	5.8	5.8	4.0	10.1	2.0	2.0	1.8	0.6	0.1	3.8
	Relative	-0.3	0.4	0.1	0.1	0.0	-1.3	0.3	3.6	1.8	0.5
12 month (%)	Fund	32.4	23.0	22.0	33.9	3.6	n/a	12.6	6.5	5.1	18.9
	Benchmark	26.1	26.1	22.0	34.7	3.7		11.5	1.7	0.5	17.5
	Relative	5.0	-2.5	0.0	-0.6	-0.1		1.0	4.8	4.6	1.1
3 years (% p.a.)	Fund	14.5	10.5	7.7	n/a	10.9	n/a	9.5	0.7	n/a	9.7
	Benchmark	12.3	12.3	7.7		10.2		9.5	0.9		9.3
	Relative	2.0	-1.6	0.0		0.6		0.0	-0.2		0.4
Since Inception (% p.a.)	Fund	10.5	8.8	8.7	36.9	6.7	2.3	7.1	3.0	5.3	
	Benchmark	10.0	10.0	8.7	40.3	5.8	3.6[1]	6.8	1.1	0.5	
	Relative	0.5	-1.1	0.0	-2.4	0.9	-1.3	0.3	1.9	4.8	
Since inception dates		April 2010	April 2010	August 2003	December 2015	March 2004	May 2016	September 2003	September 2012	December 2015	

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

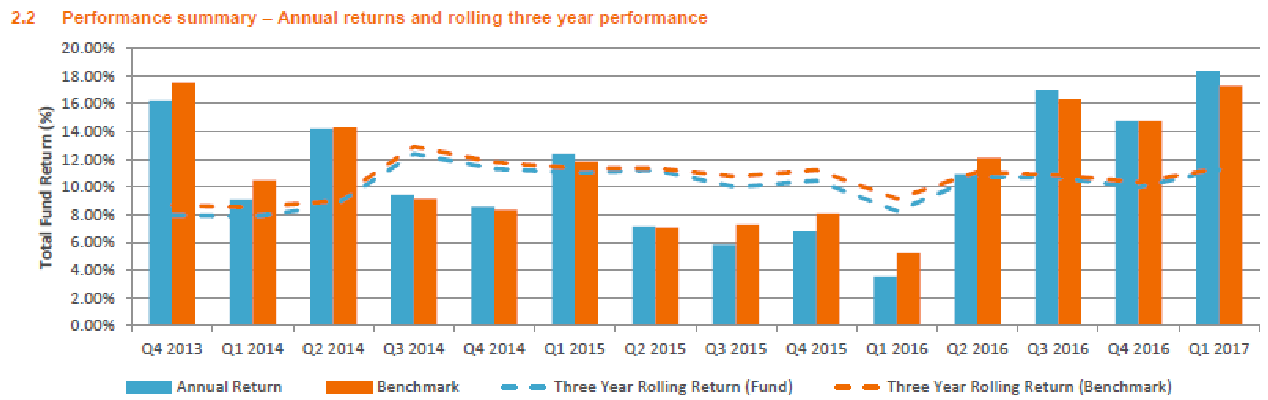
[1] The benchmark only measures performance quarterly, therefore the benchmark return is shown from June 2016.

8.3 The tables below show quarterly and annual returns, together with rolling 1 and 3 year performance respectively

<u>Performance Summary – Quarterly returns and rolling one year performance</u>



<u>Performance Summary – Annual returns and rolling three year performance</u>



8.4 Performance analysis

The table below represents the manager performance over the quarter and illustrates Stock Selection contributions from each of the Fund's managers and the impact from over/underweight positions relative to benchmark/target weighting (Asset Allocation).

Manager	Asset Class	Benchmark	Market Value £'000 31 Mar	Weight % 31 Mar	Target %	Fund Return %	Benchmark Return %	Asset Allocation	Stock Selection
UBS	UK Equities	FTSE All Share	325,051	24.2%	25.0%	4.1	4.0	0.00	0.02
Lazard	Global Equities	MSCI AC World (50% hedged)	218,008	16.2%	15.5%	6.2	5.8	0.01	0.06
Wellington	Global Equities	MSCI AC World (50% hedged)	223,087	16.6%	15.5%	5.5	5.8	0.02	-0.05
RBC	Global Emerging Market Equities	MSCI Emerging Markets	72,133	5.4%	4.5%	10.2	10.1	0.04	0.00
Total Equities			**838,279**	**62.3%**	**60.5%**	**5.5**	**5.4**	**0.06**	**0.04**
BMO	Bonds	Bonds Composite [1]	229,321	17.0%	17.0%	2.1	1.8	-0.01	0.05
Threadneedle	Property	IPD UK Quarterly All Balanced Property Index	110,486	8.2%	8.5%	2.0	2.0	0.00	0.00
Threadneedle	Low Carbon Property	IPD UK Quarterly All Balanced Property Index	24,373	1.8%	1.5%	0.7	2.0	0.00	-0.02
Invesco	Targeted Return	£LIBOR 3M	56,655	4.2%	5.0%	1.7	0.1	0.02	0.07
GMO	Absolute Return	OECD CPI G7 (GBP)	86,762	6.4%	7.5%	4.2	0.6	0.03	0.23
Total Scheme			**1,345,876**	**100**	**100**	**4.3**	**3.8**	**0.11**	**0.38**

1. BMO benchmark is 37.5% FTA Govt All stocks; 37.5% ML £ Non-Gilt All Stocks Index; 25% FTA Govt IL >5yrs
Note: We do not have the details of the cash held in the trustee bank account. As a result, the effective asset allocation may differ from that shown in the table above.

- At the end of March 2017, the Fund was overweight to equities.

<u>Positives</u>

- Outperformance from Lazard, Invesco, and BMO.
- Overweight to equities.

Negatives

- Underperformance from Wellington and Threadneedle Low Carbon Property.

The table below represents the manager performance over the **12 months to 31st March 2017** and illustrates Stock Selection contributions from each of the Fund's managers and the impact from over/underweight positions relative to benchmark/target weighting (Asset Allocation).

Manager	Asset Class	Benchmark	Market Value £'000 31 Mar	Weight % 31 Mar	Target %	Fund Return %	Benchmark Return %	Asset Allocation	Stock Selection
UBS	UK Equities	FTSE All Share	325,051	24.2%	25.0%	22.0	22.0	-0.05	0.00
Lazard	Global Equities	MSCI AC World (50% hedged)	218,008	16.2%	15.5%	23.0	26.1	0.01	-0.39
Wellington	Global Equities	MSCI AC World (50% hedged)	223,087	16.6%	15.5%	32.4	26.1	0.01	0.78
RBC	Global Emerging Market Equities	MSCI Emerging Markets	72,133	5.4%	4.5%	33.9	34.7	0.04	-0.03
Total Equities			**838,279**	**62.3%**	**60.5%**	**25.9**	**25.0**	**0.01**	**0.37**
BMO	Bonds	Bonds Composite [1]	229,321	17.0%	17.0%	12.6	11.5	-0.05	0.19
Threadneedle	Property	IPD UK Quarterly All Balanced Property Index	110,486	8.2%	8.5%	3.6	3.7	-0.21	-0.01
Threadneedle	Low Carbon Property	IPD UK Quarterly All Balanced Property Index	24,373	1.8%	1.5%	n/a	n/a	0.00	-0.02
Invesco	Targeted Return	£LIBOR 3M	56,655	4.2%	5.0%	5.1	0.5	0.03	0.22
GMO	Absolute Return	OECD CPI G7 (GBP)	86,762	6.4%	7.5%	6.5	1.7	0.04	0.34
Total Scheme			**1,345,876**	**100**	**100**	**18.9**	**17.5**	**-0.18**	**1.09**

1. BMO benchmark is 37.5% FTA Govt All stocks; 37.5% ML £ Non-Gilt All Stocks Index; 25% FTA Govt IL >5yrs

Note: We do not have the details of the cash held in the trustee bank account. As a result, the effective asset allocation may differ from that shown in the table above.

Positives:

- Outperformance from Wellington, BMO, Invesco and GMO.

Negatives:

- Underperformance from Lazard and RBC

The table below represents the manager performance over the **3 years to 31st March 2017** and illustrates Stock Selection contributions from each of the Fund's managers and the impact from over/underweight positions relative to benchmark/target weighting (Asset Allocation).

Manager	Asset Class	Benchmark	Market Value £'000 31 Mar	Weight % 31 Mar	Target %	Fund Return %	Benchmark Return %	Asset Allocation	Stock Selection
UBS	UK Equities	FTSE All Share	325,051	24.2%	25.0%	7.7	7.7	0.02	0.00
Lazard	Global Equities	MSCI AC World (50% hedged)	218,008	16.2%	15.5%	10.5	12.3	0.03	-0.30
Wellington	Global Equities	MSCI AC World (50% hedged)	223,087	16.6%	15.5%	14.5	12.3	0.04	0.38
RBC	Global Emerging Market Equities	MSCI Emerging Markets	72,133	5.4%	4.5%	n/a	n/a	0.04	-0.01
Total Equities			**838,279**	**62.3%**	**60.5%**	**10.7**	**10.4**	**0.13**	**0.06**
BMO	Bonds	Bonds Composite [1]	229,321	17.0%	17.0%	9.5	9.5	0.04	0.01
Threadneedle	Property	IPD UK Quarterly All Balanced Property Index	110,486	8.2%	8.5%	10.9	10.2	-0.11	0.08
Threadneedle	LCW	IPD UK Quarterly All Balanced Property Index	24,373	1.8%	1.5%	n/a	n/a	0.00	-0.02
Invesco	Targeted Return	£LIBOR 3M	56,655	4.2%	5.0%	n/a	n/a	0.03	0.07
GMO	Absolute Return	OECD CPI G7 (GBP)	86,762	6.4%	7.5%	0.7	0.9	0.10	-0.01
Total Scheme			**1,345,876**	**100**	**100**	**9.7**	**9.3**	**0.20**	**0.19**

1. BMO benchmark is 37.5% FTA Govt All stocks; 37.5% ML £ Non-Gilt All Stocks Index; 25% FTA Govt IL >5yrs

2. Asset Allocation and Stock Selection for RBC and Invesco mandates are the 12 month period to 31 December 2016.

Positives

- Outperformance from Wellington, Threadneedle Property.
- Overweight to equities for the majority of the 3 year period to 31st March 2017.

Negatives

- Underperformance from Lazard.
- Underweight to Threadneedle Property foe the majority of the 3 year period to March 2017.

9. BUDGET MONITORING

9.1 The final outturn position on the 2016/17 budget is detailed in the table below, along with explanations for the most significant variances. By far the most significant is that on contributions – this forecast was adjusted mid-year, as a forecast reduction in the active membership of the Fund did not materialise.

9.2 The Budget for 2017/18 was approved at the March 2017 Committee meeting; reporting against this budget will be provided from September 2017.

Description	2016-17 Budget	2016-17 Q3 Forecast for the year	2016-17 Year end actual	2016-17 Variance	Explanation for variance
	£'000	£'000	£'000	£'000	
Member Income					
Employers Contributions	56,590	62,796	67,162	10,572	Very high variance as budgeted decrease in active membership did not materialise - forecast updated in year. Changes to deficit repayments from ceased employers also drove an increase in contribution income.
Employees Contributions	11,767	12,171	12,155	388	
Transfers In	4,871	3,560	4,719	-152	Outside the Fund's control
Member Income Total	**73,228**	**78,527**	**84,036**	**10,808**	
Member Expenditure				0	
Pensions	-40,239	-41,646	-41,807	-1,568	Within tolerance
Lump Sum Commutations and Death Grants	-11,057	-13,333	-13,546	-2,489	
Transfer Out	-4,717	-6,633	-5,632	-915	Outside the Fund's control
Refund Of Contributions	-176	-176	-201	-25	Within tolerance
Member Expenditure Total	**-56,189**	**-61,789**	**-57,123**	**-934**	
Net Member Surplus	**17,039**	**16,738**	**26,913**	**9,874**	
Admin Management Expenditure				0	
Finance Recharge and Pension Admin	-789	-764	-784	5	Within tolerance
Oversight and Governance Costs	-425	-366	-474	-49	Within tolerance

Pension Audit Fee and Miscellaneous Costs	-37	-37	-21	16	Expenditure better classified as oversight and governance
Net Administration Expenditure	-1,250	-1,166	-1,279	-29	
				0	
Surplus from Operations	**15,788**	**15,572**	**25,634**	**9,846**	
Investment Income/Expenditure				**0**	
Investment Income	14,338	13,105	14,423	85	Within tolerance
Investment Expenses and Management Fees	-2,557	-3,714	-4,590	-2,033	Previous budgets have not included an allowance for performance and transaction fees. As the Fund has now improved its reporting of these within the accounts, an estimate will be made in the budget to reflect non-invoiced fee expenditure.
Net Investment Income/Expenditure	**11,782**	**9,391**	**9,833**	**-1,949**	
				0	
Cash flow before Investment Performance	**27,570**	**24,962**	**35,467**	**7,897**	
				0	
Total Investment Assets and Liabilities				**0**	

10. ENGAGEMENT AND CORPORATE GOVERNANCE

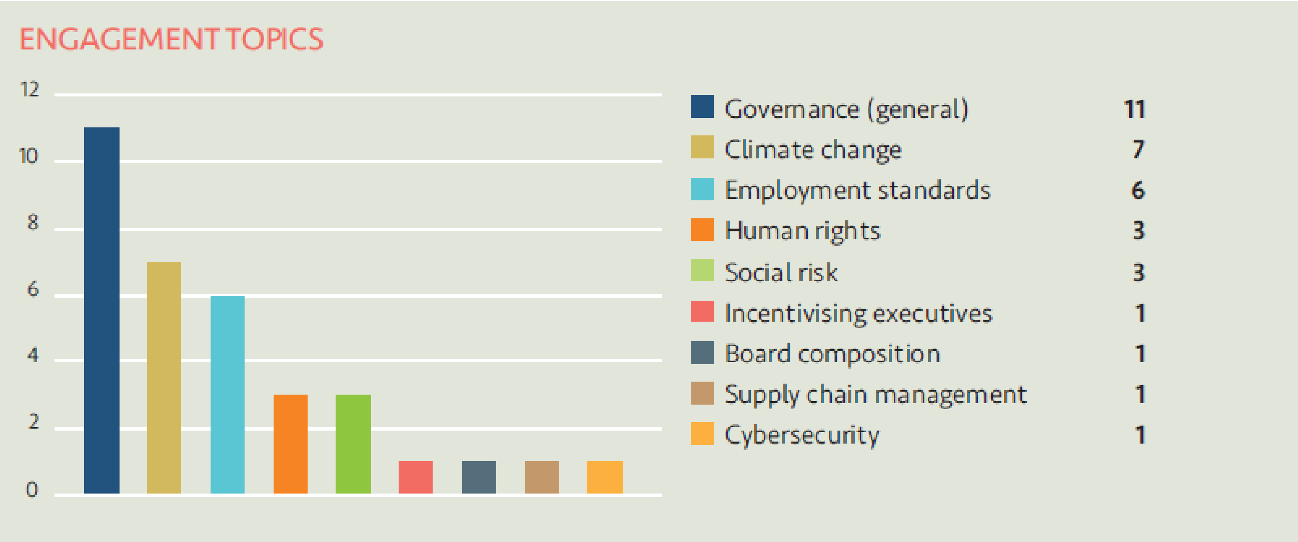
10.1 The Pensions Committee has looked to increase the level of engagement with the underlying companies in which it invests. This includes taking a more proactive role in encouraging managers to take into consideration the voting recommendations of the Local Authority Pension Fund Forum (LAPFF). This 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.

10.3 A key element of the planned work programme was a carbon footprinting exercise – the results of this were delivered at the 19th September Committee meeting, and it has since been used to inform a carbon reduction commitment contained within the Investment Strategy Statement (ISS). With the ISS now approved, work has begun on implementation of the commitment to consider low carbon options for a proportion of the Fund's passive equity investments. Officers are working with Hymans Robertson to consider available options with an update due at the September 2017 meeting of the Pensions Committee.

10.4 The agenda for this Committee includes an update on the Fund's approach to voting and engagement, with a recommendation for the Committee to approve the use of the National LGPS Stewardship Advisory Services Framework to procure an engagement overlay service. The paper also briefly summarises some of the likely difficulties of implementing the Fund's voting policy in a pooled environment and sets out the need to work with other London funds and the London CIV to ensure that the Fund's priorities are achieved.

10.5 The table below shows LAPFF's engagement activities over the quarter, listed by company, area of interest and engagement activity. LAPFF members conducted 34 engagements over the quarter; Key topics of engagement included governance, climate change, employment standards and human rights.



10.6 Of the companies discussed in the report, the Fund's only holding through a segregated mandate is Shell. LAPFF welcomed the news that Shell was divesting most of its oil sands interests in Canada and at a collaborative meeting with Chad Holliday, the Shell chairman, asked how the company could better illustrate how action to mitigate exposure to carbon risk is integrated into Shell's business model and strategic planning.

10.7 The Fund holds a number of other companies referenced through its FTSE All share index tracker, most notably BP and Sports Direct. In a collaborative call with LAPFF the chair of the BP remuneration committee, Professor Ann Dowling, gave an update on the proposed new pay arrangements at the company and how these linked into company strategic action on climate. Part of the performance indicators for the long term incentive plan now include a reflection of strategic priorities to support a lower carbon future with the focus on 'value over volume'. In doing so, the use of the 'reserves replacement ratio' criticised in the past, has been removed as a metric for remuneration.

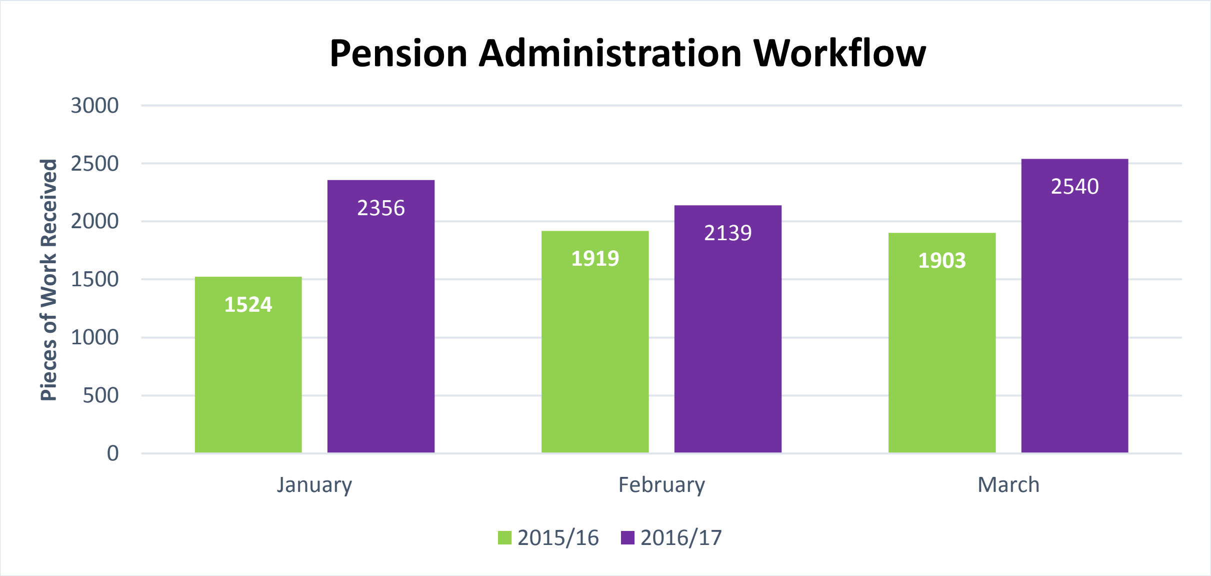
10.8 LAPFF has had a number of engagements with Sport Direct, and had previously agreed a meeting with the company. Despite best efforts from LAPFF, this did not take place, with no apology forthcoming. LAPFF have continued to try to engage; Communications stressed concerns that Keith Hellawell was re-appointed as chairman at the EGM despite overwhelming opposition from independent shareholders. They also highlighted the falling holdings in Sport Direct of LAPFF members and concerns by some members that the drop in the company's financial performance was being driven by governance and workplace concerns. LAPFF was told that engagement would be discussed at a February 2017 board meeting. The Forum has since followed up to enquire about the results of that discussion but has received no response from any Sports Direct representative.

11 PENSION ADMINISTRATION

11.1 Pension Administration Management Performance

The case load for the administrators during Q4 2016/17 has significantly increased in comparison to the same period in 2015/16. A total of 7,035 new cases were received during the current quarter, compared to 5,346 during Q4 in 2015/16.

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

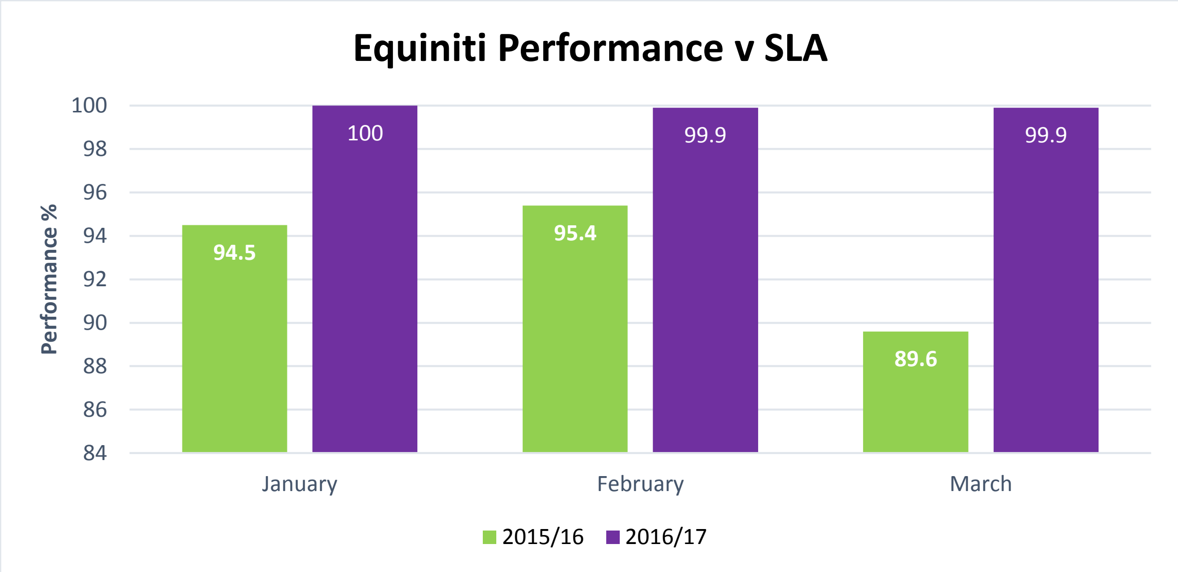


The average number of pieces of work received per month during Q4 2016/17 was 2,345 compared to an average of 1,782 received during the same period in 2015/16.

Much of the increased workload during the period continues to be in relation to the administrators having to continually resolve data issues. The fact that the Council, the Funds largest employer, did not submitted a year end file to the administrators within the regulatory timeframe, and lack of monthly interface continues to exacerbate the problems.

The performance of the pension administrators is monitored by the Financial Services Section at Hackney on a monthly basis.

The administrator's performance against the SLA for Q4 2015/16 and Q4 of the reporting period 2016/17 is set out below:



As previously report to Committee (Sept 2016), the Fund agreed to a relaxation of Equiniti's SLAs in response to the continued increase of manual work-around to member records, with the majority of the additional work being caused by the continued lack of an interface from the Council's payroll provider that is fit for purpose. The Council is the largest employer in the Fund and therefore has the majority of the work.

Despite the additional work load, the administrators continue to deliver their service at the highest level and performance against the service level agreement (SLA) was an average of 99.9% for Q4 2016/17 compared to 93% for the same period in the previous year.

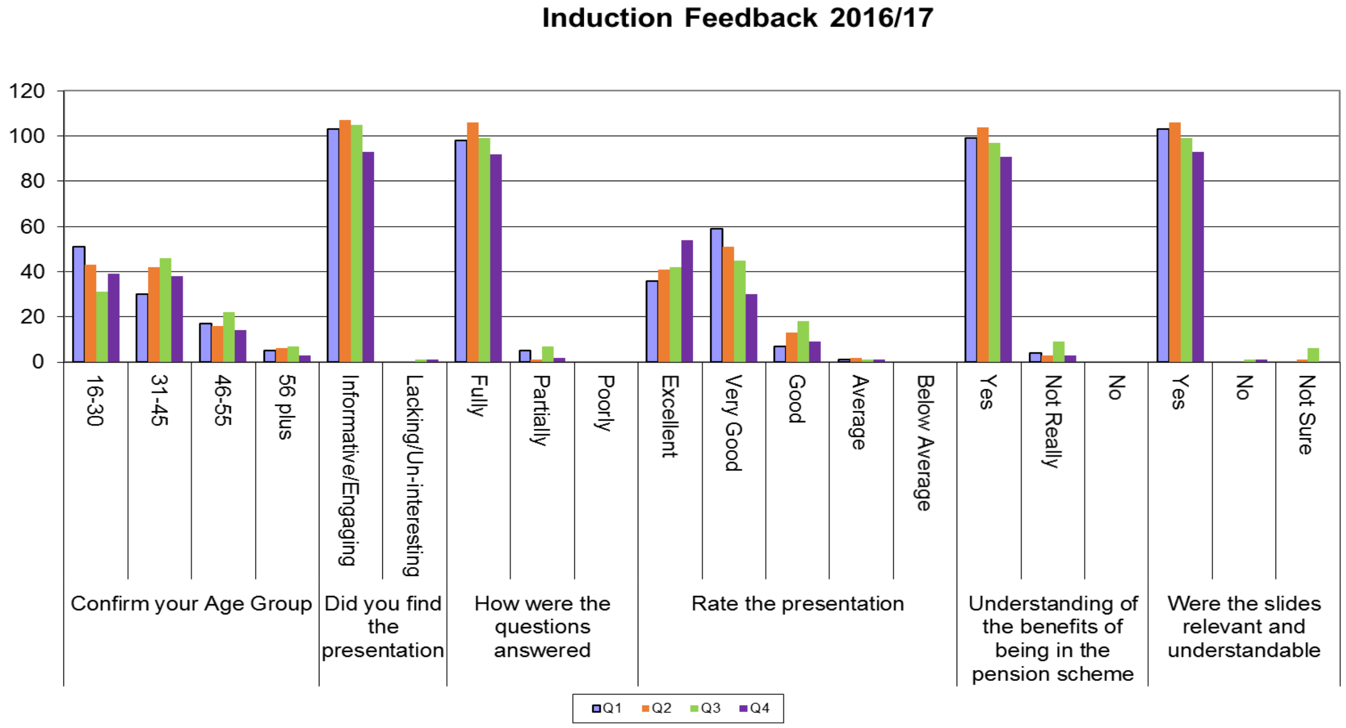
11.2 New Starters and Opt Outs

Following the completion of the Councils mandatory Re-Enrolment duties in Q2 where numbers of opt outs peaked at 308, the number of opt outs in Q4 2016/17 have normalised, and records indicate a total of 100 employees opted out during this quarter.

	Total Active Membership at End of Quarter	Total Opt Outs For Quarter
Q4 2015/16	7,715	120
Q4 2016/17	7,685	100

11.3 Scheme Administration

The in-house pension team facilitated at weekly induction sessions for 94 new employees during the reporting period. These sessions continue to receive very positive feedback with respondents rating the presentations as ‘Very Good’ or ‘Excellent’.



Of those who attended the sessions in this quarter, 96% said they now have a greater understanding of the benefits of being in the scheme.

11.4 Ill Health Pension Benefits.

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

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

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

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

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

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

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

The chart below sets out the number of ill-health cases, both active and deferred, that have been processed during Q4 of 2016/17, compared to the same period in the previous year.

DEFERRED MEMBER'S ILL HEALTH RETIREMENT CASES					
	CASES RECEIVED	SUCCESSFUL	UNSUCCESSFUL	ONGOING	WITHDRAWN
Q4 2015/16	10	3	2	4	1
Q4 2106/17	3	0	1	2	0

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 2015/16	3	2	0	1	0
Q4 2016/17	1	1	0	0	0

11.5 Internal Disputes Resolution Procedure (IDRP)

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

- Stage 1 IDRP's are reviewed and determinations made by a senior technical specialist at the Fund's pension administrators, Equiniti.

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

There were 2 IDRP cases in the 4th quarter of 2016/17;

Stage 1

Both Stage 1 appeals were in regard to members appealing against the award of Tier 3 ill health benefits, and requesting the employer to uplift the benefits and award Tier 2.

Both appeals were unsuccessful and not up-held by the appointed person at Stage 1 of the appeal process.

11.6 Other work undertaken in Q4 2016/17

Voluntary Redundancy - update

As previously reported, the Chief Executive announced a Voluntary Redundancy (VR) Scheme that launched on 1 October 2015, and all staff (apart from essential services) were eligible to apply. After completing their statutory notice period, 179 members of staff left the organisation during Q4 of 2015/16, the majority left on 29 February with the remainder leaving on or by 31 March 2016.

Staff have continued to leave the organisation on a monthly basis as part of this Scheme up to 31 March 2017, and during Q4 2016/17 there were 4 members of staff who left.

Employer Audit 2016/17

At the end of Q3 2016/17, the Funds Benefits & Governance Consultants, AON Hewitt were again asked to carry out a review the quality of data being supplied to the Pension Fund from its employers. During Q4, Equiniti and officers at the Council have been co-operating fully with AON in regard to data gathering and providing relevant evidence for the report.

The results of the report will not be known until May 2017, and the findings will be reported to Pensions Committee in June 2017.

Employer Forum

The annual Employer Forum was held on 22 February 2017, and was attended by 8 of the Fund employers. The Forums agenda was varied and covered subjects from an outlook on the economy; employer roles and responsibilities; the triannual valuation results and individual employer rates; pension 'hot topics'; London CIV; and a presentation from the Prudential on AVCs.

Pensions Administration Strategy (PAS)

During Q4 of the reporting period, an updated PAS was finalised and brought to Pensions Committee in March 2017 prior to its distribution to schools and employers in the Fund. The updated PAS includes greater emphasis on the role of the Regulator (tPR) and its powers of enforcement, and also the responsibility of the Fund to report material failures of employers, and breaches of the law, to the tPR.

Third Party Administration contract (TPA contract)

In January 2017 the Fund issued a tender for the procurement of a new third party administrator, via the National LGPS Framework. Closing date for bids was 10 March 2017, with moderation and site visits taking place during mid/late March. Work on the tender was completed during Q1 2017/18, with Equiniti reappointed as the Fund's administrator.

12 REPORTING BREACHES

12.1 Reported Breaches Q4 2016/17

None

12.1 Unreported Breaches Q4 2016/17

Quarter	Date	Category (e.g. administration, contributions, funding, investment, criminal activity)	Employer / Org.	Description of breach	Traffic Light Syste	Reported / Not reported (with justification if not reported and dates)	Outcome of report and/or investigatio	Outstanding actions
Q4	Feb-17	Contributions	Manor House Development Trust	Payment received 27/03/2017	A	Not reported		

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: Stephen Rix ☎020-8356 6122

Background papers
None