London Borough of Hackney Pension Fund

Report and Accounts 2011-12

CONTENTS

Chair's Foreword - Cllr Samantha Lloyd

It is my pleasure, as Chair of the Pensions Sub-Committee to introduce the London Borough of Hackney Pension Fund Annual Report and Accounts for 2011/12. The Pensions Sub-Committee act in the capacity of trustees for the Pension Fund with all the responsibilities that entails.

Investment markets have been very volatile over the year with the summer months into early autumn proving to be very difficult for equity markets as concern mounted over the European currency. Greece saw two bailouts but uncertainty remains as to whether it will remain in the Euro and what the repercussions would be if they were to exit the Euro. Governments continued to provide liquidity in the form of quantitative easing, although economic recovery remained muted in the West. Bond markets around the globe continued to be regarded as the safe haven with most putting in a strong performance over the year. The Fund increased in value to £845m as at 31st March 2012, although due to the continuing strength in bond markets, this would have impacted on the value of the Fund's liabilities putting further pressure on the funding level ahead of the 2013 actuarial valuation.

Following the issue of the Independent Public Sector Pensions Commission report by Lord Hutton, public sector pension reform has been in the news during the year. There was concern that proposed increases in employee contributions to the pension scheme could lead to high levels of opt-outs which could have had serious ramifications for the Local Government Pension Scheme, impacting on funding levels. Over the course of the year, the Government came to recognise the unique nature of the LGPS amongst public sector schemes and as a consequence, unlike other schemes, there has been no increase in LGPS scheme member contributions in April 2012. Instead agreement was reached to implement scheme reform one year earlier than the other schemes with changes due in 2014 for the LGPS. The changes due to come into effect on 1st April 2014 will see significant changes to the LGPS moving from a final salary to a Career Average Revalued Earnings (CARE) basis. Scheme members will also have the opportunity to opt for a lower cost/lower benefit option. Whilst the changes are still to be consulted upon, the proposals have been negotiated by both the employers and unions and it is therefore anticipated that only limited changes from the proposals are likely to be forthcoming.

There has also been increased focus on governance and it is expected that a second stream of changes to further improve governance of the LGPS will be forthcoming. The Committee will of course remain alert to such changes and strives to be at the forefront of good governance. During the course of the year the Committee completed its training of the Knowledge and Skills Framework including an assessment of its own competance as governing body of the Pension Fund reaching high standards.

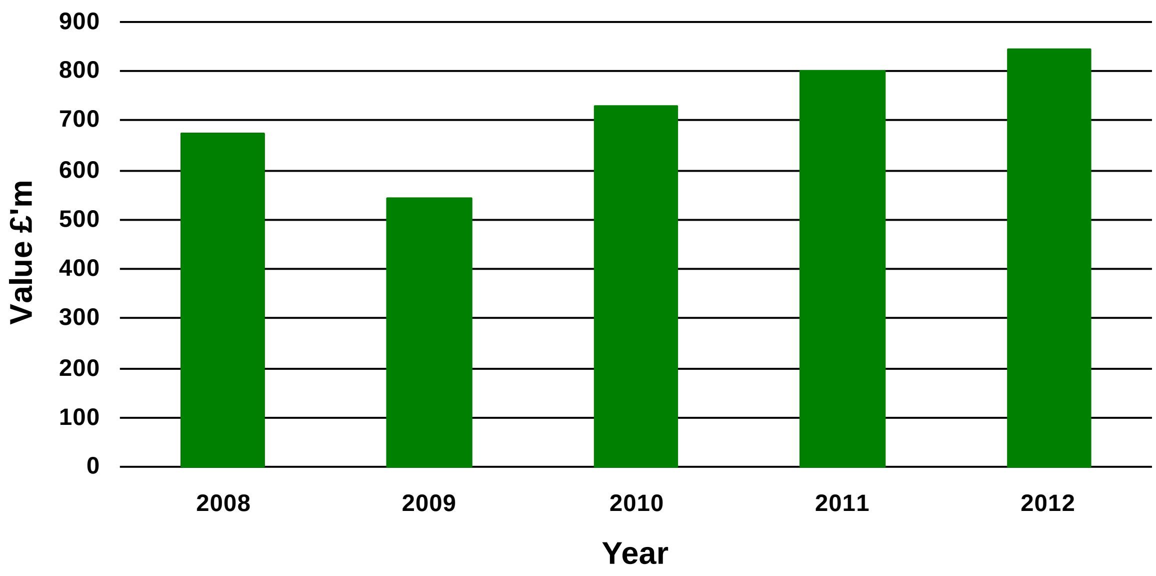
I would also like to take this opportunity of expressing my personal appreciation to the members of the Sub-Committee, our specialist advisors, the Corporate Director of Finance and Resources and his staff for all their hard work over the past year.

Councillor Samantha Lloyd

2011-2012 Highlights

The value of the Fund increased in value by 5.5% in 2011/12 and ended the year at a record high of £844.7m.

Fund Value over 5 Years to 31st March



Whilst the Fund saw an increase in value over the year, markets were volatile with economic recovery faltering due to the sovereign debt crisis in the Eurozone. Governments have continued with a policy of low interest rates and quantitative easing, which has pushed down bond yields impacting on the value of the Fund's liabilities.

The Fund exited from active currency in the third quarter of the year following poor performance from the asset class. The decision was taken to invest further into alternative asset classes to add diversification and the Committee considered a range of options before agreeing to an investment in absolute return mandates with allocations to the new asset classes expected in the new financial year.

The active membership of the Fund remained relatively constant over the year, as a number of services were bought in-house by some of the Fund's employers and staff numbers stabilised following the reductions in staffing of the previous year. The Fund remains strongly cashflow positive with contributions into the Fund exceeding benefits paid by £14.2m over the last financial year. Due to the increasing maturity of the most LGPS Funds cashflow has become an area of focus and was increasingly so, when employee contributions increases were proposed for April 2012 as there were concerns that scheme members could opt out in large numbers putting pressure on already stretched Funds. The Government's recognition of the difference of the LGPS as a funded scheme was an important step forward and has allowed the Scheme to develop its own proposals for reform which will avoid or minimise the level contribution increases for a large proportion of the membership.

Management Structure

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 Communities and Local Government Department (CLG).

The London Borough of Hackney is the Administering Authority for the London Borough of Hackney Pension Fund. The Pensions Sub-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 Corporate Director of Finance and Resources has delegated authority for the day to day running of the Fund.

The Pensions Sub-Committee during 2011/12 was made up of 7 Councillor Members, an Employer Representative and a Scheme Member Representative.

Councillor Samantha Lloyd – Chair

Councillor Geoff Taylor

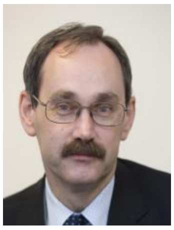
Councillor Robert Chapman – Vice Chair

Councillor Patrick Vernon

Councillor Abraham Jacobson

Councillor Alan Laing

Councillor Daniel Kemp



Neil Isaac (Employer Representative)

Jonathan Malins-Smith (Scheme Member Representative)

<u>Contact details for the Pensions Sub-Committee:</u>-

Pensions Sub-Committee
Hackney Town Hall
Mare Street
London
E8 1EA

Staff, Advisers & Investment Managers

The management and administration of the Pension Fund is delegated to the Corporate Director of Finance and Resources with the Financial Services Section within the Finance and Resources Directorate, having responsibility for the day to day management of the Fund.

London Borough of Hackney Responsible Officers

Ian Williams* - *Corporate Director of Finance & Resources

Finance & Resources
Keltan House, 89-115 Mare Street
London
E8 4RU

Michael Honeysett* - *Assistant Director, Financial Management

Financial Management
Finance & Resources
Keltan House, 89-115 Mare Street
London
E8 4RU

Jill Davys* – *Head of Financial Services

Financial Services Section
Finance & Resources
Keltan House, 89-115 Mare Street
London
E8 4RU

Auditors

Audit Commission
1st Floor
Millbank Tower,
London
SW1P 4HQ

Consulting Actuary – Hymans Robertson

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

AVC Provider – Prudential

Prudential AVC Customer Services
Prudential
Craigforth
FK9 9UE

Bank

Co-Operative Bank PLC
1 Balloon Street
Manchester
M60 4EP

Investment Consultant to the Fund – Hymans Robertson

Linda Selman
Partner
Hymans Robertson LLP
20 Waterloo Street, Glasgow

Legal Advisers

Legal Services
London Borough of Hackney
298 Mare Street
Hackney
E8 1EA

Pension Administration Services

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

Custodial Services

Investor Services
State Street Bank and Trust Company
525 Ferry Road
Edinburgh
EH5 2AW

Investment Managers

Global Equities

Lazard Asset Management Ltd
50 Stratton Street
London
W1J 8LL

Wellington Management International Ltd
Cardinal Place
80 Victoria Street
London
SW1 5JL

UK Equities

UBS Global Asset Management (UK) Ltd
London
21 Lombard Street
EC3V 9AH

Fixed Interest

F&C Investments
Exchange House
Primrose Street
London
EC2A 2NY

Property

Threadneedle Investments Ltd
60 St Mary Axe
London
EC3A 8JQ

Global Tactical Asset Allocation

BlackRock
Murray House
1 Royal Mint Court
London
EC3N 4HH

Performance Measurement Services

WM Performance Services
525 Ferry Road
Edinburgh

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, the Local Government Pension Scheme (Members, Contributions and Benefits) Regulations 2007, Local Government Pension Scheme (Administration) Regulations 2008 and the Local Government Pension Scheme (Transition) Regulations 2008.

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 with the exception of teachers (who have their own pension scheme) and casual employees. Other employers are admitted to the Pension Fund and depending on their status, their employees may also be able to participate in the LGPS. Employee contributions are determined by central government and are currently between 5.5% and 7.5% based on 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 as at 31st March 2013.

The conditions of the Local Government Pension Scheme (LGPS) Regulations set out in clear terms the benefits that are payable to Scheme members and as such the benefits are guaranteed for those members and therefore members are 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 is a final salary, defined benefit scheme and provides significant benefits for its members and compares favourably with many private sector schemes. The core benefits of the Scheme are outlined below:-

- A guaranteed pension based on final pay and length of time in the scheme.

- Tax free lump sum on benefit accumulated prior to 1st April 2008 and option to convert some of the pension into tax free lump sum on post 1st April 2008 service

- Life assurance cover 3x member final pay applicable from the day of joining scheme

- Pensions for spouses/civil and co-habiting partners and children

- An entitlement to have pension paid early on medical grounds

- Pensions increase annually in line with the CPI

It should be noted that the foregoing is not an exhaustive list and that certain conditions have to be met for an individual to be entitled to the benefits outlined.

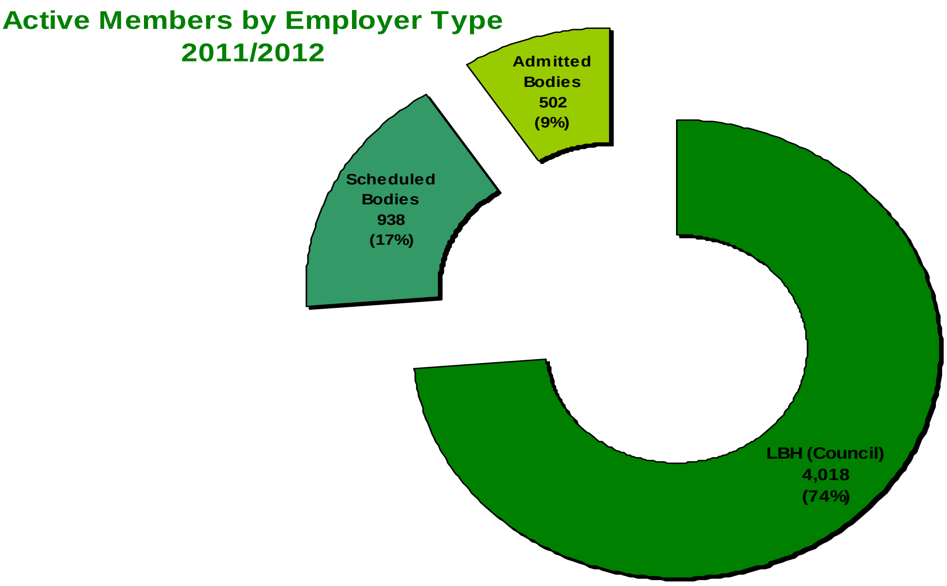
Employers in the Pension Fund

The Pension Fund had twenty one employers in the Fund during the financial year 2011/12, which includes the London Borough of Hackney itself. Other employers in the Fund fall into either scheduled body status or admitted body status. The table below outlines the membership profile for all of the employers in the Fund as well as their status within the Fund.

Membership by Employer 31/03/12						
		Members				
Employer	**Status**	**Active**	**Deferred**	**Pensioner**	**Total**	**%**
London Borough of Hackney	Scheduled	4,018	5,677	5,505	15,200	84.5%
Hackney Homes	Scheduled	732	91	97	920	5.1%
The Learning Trust	Admission	433	533	91	1,057	5.9%
Brooke House	Scheduled	39	32	3	74	0.4%
Hanover Housing	Admission	4	26	27	57	0.3%
Mossbourne Academy	Scheduled	45	31	1	77	0.4%
Renaisi	Admission	16	34	5	55	0.3%
Greenwich Leisure Ltd	Admission	20	3	1	24	0.1%
Bridge Academy	Scheduled	21	10	1	32	0.2%
Petchey Academy	Scheduled	48	53	0	101	0.6%
KGB Cleaning (Schools)	Admission	1	1	0	2	0.0%
Sanctuary Housing	Admission	1	3	3	7	0.1%
Guinness South	Admission	1	4	0	5	0.0%
City Academy	Scheduled	17	6	0	23	0.1%
Mouchel Babcock Ed	Admission	13	3	1	17	0.1%
RM Holdings	Admission	1	2	0	3	0.0%
Turners Cleaning	Admission	2	0	0	2	0.0%
Skinners Academy	Scheduled	19	6	0	25	0.2%
Clapton Girls Academy	Scheduled	17	0	0	17	0.1%
Family Mosaic	Admission	7	0	0	7	0.0%
Busy Bee	Admission	3	0	0	3	0.0%
Employers no longer active	Ceased	0	236	49	285	1.6%
Total Membership		**5,458**	**6,751**	**5,784**	**17,993**	**100%**

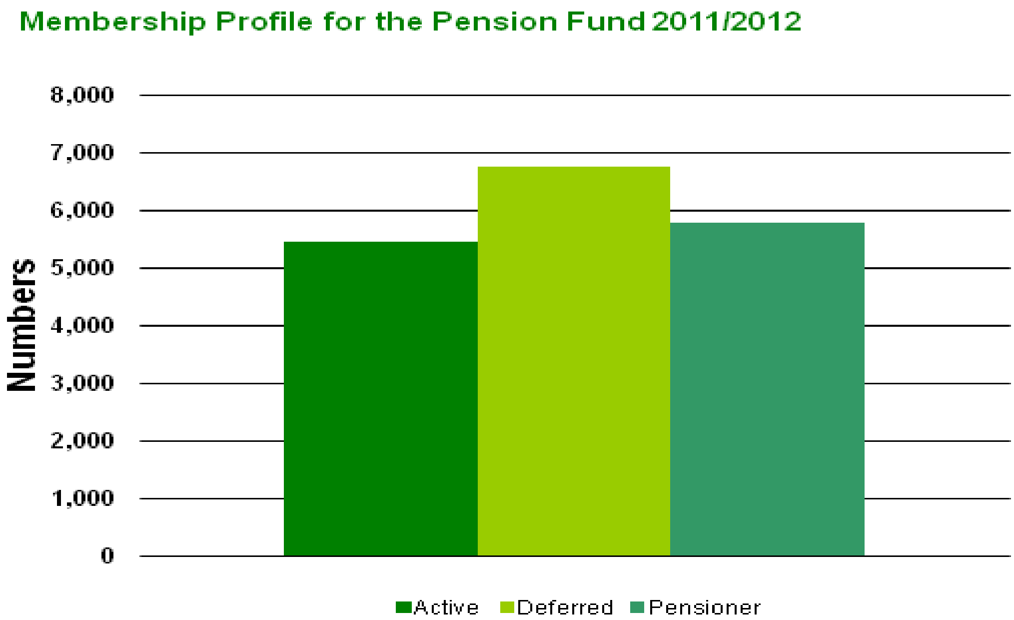
Active Membership in the Fund

The breakdown of the active membership (i.e. those contributing to the Pension Scheme) of the Pension Fund by type of employer as at 31st March 2012 is shown below:



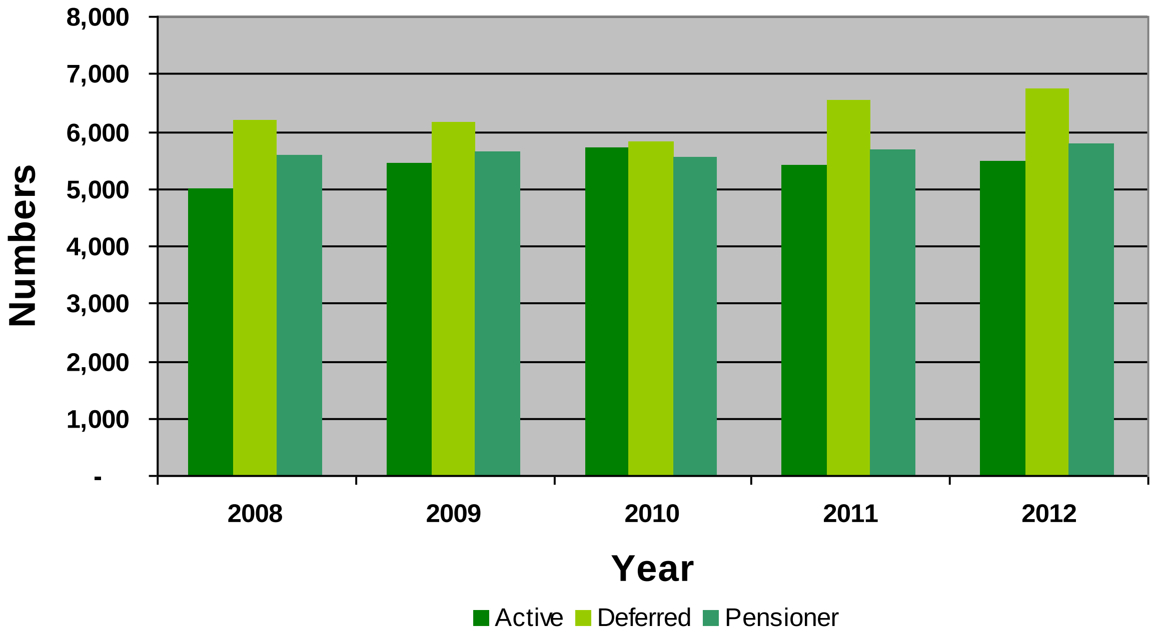
General Scheme Membership

Membership of the Scheme is split between the active members i.e. those who are still employed and contributing to the Scheme, deferred members i.e. members who are no longer active but who have benefits held until either retirement or transfer to a new employer's scheme and pensioner members. Pensioner members comprise 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 chart below, active membership had been on a rising trend over the previous 3 years, before seeing a drop off in 2011 as the impact of spending cuts in the public sector led to a decrease in the number of employees. Active membership stabilised in 2012 as some services were in-sourced. In 2011/12 the proportion of deferred members continued to increase as did the numbers of pensioners.

Membership Profile Over 5 Years



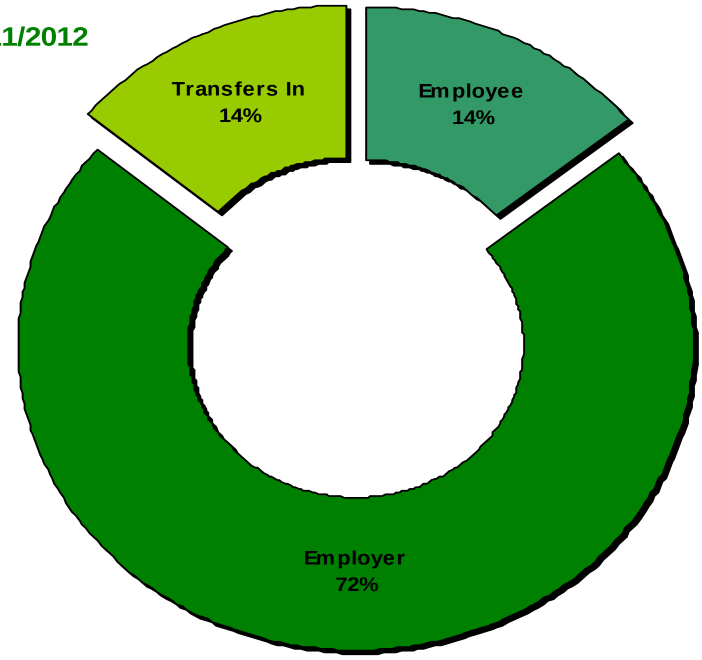
Contributions and Benefits

Contributions

Total contributions (including transfers) into the Fund during 2011/12 amounted to £67.9 million compared to £68.2 million for the comparable period for 2010/11. Contributions paid by employees are set by statute in a range of 5.5% up to 7.5% dependent on pensionable pay. Employer contribution rates are set by the Fund Actuary and for the year 2011/12, the rates that applied were set from the 2010 valuation.

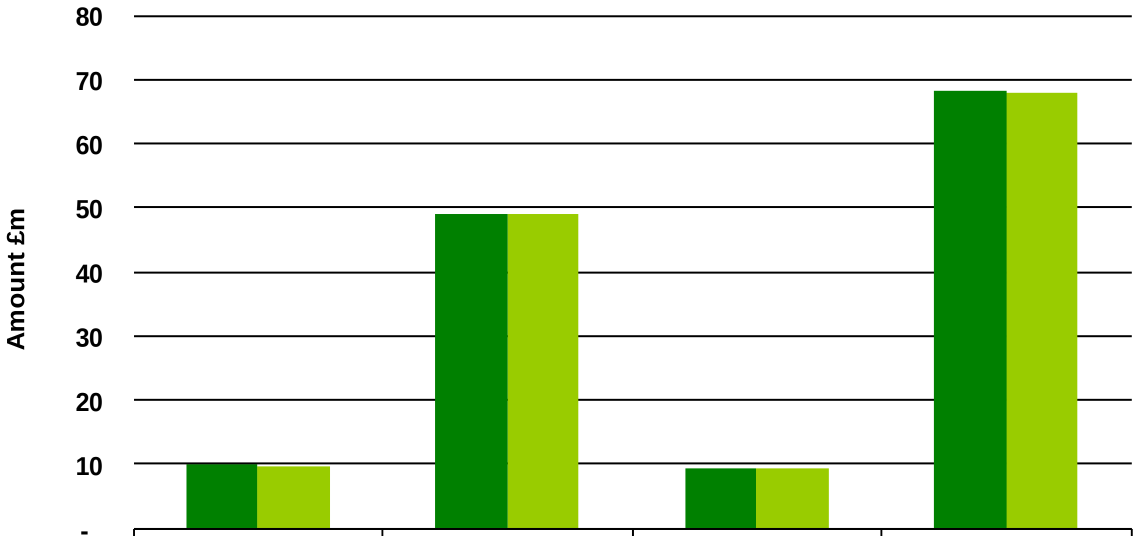
As can be seen from the chart below the largest source of contributions is from employers contributing on behalf of employees and former employees. Transfers in during 2011/12 continued to be high due to an aggregation amnesty under the regulations which allowed the transfer in of any prior periods of LGPS membership not previously transferred by 1st October 2011.

Sources of Contribution 2011/2012



The chart shows the actual sums being contributed by the employee and employer and the value of transfers in during the 2011/12 financial year along with comparatives for the previous financial year.

Contributions Comparison against previous Year

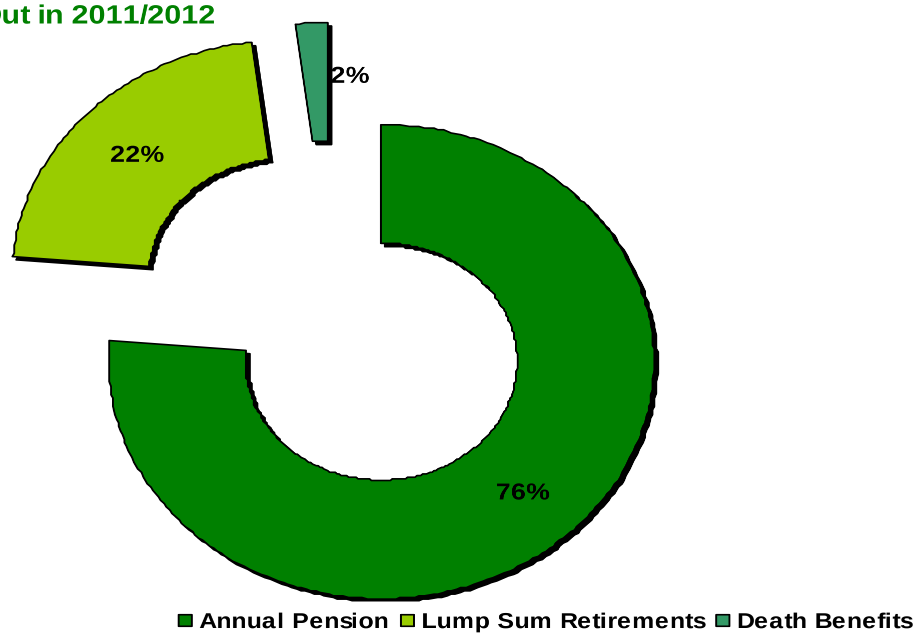


	Employee	Employer	Transfers In	Total
2011	10,015	49,015	9,211	68,241
2012	9,544	48,991	9,371	67,906

Benefits

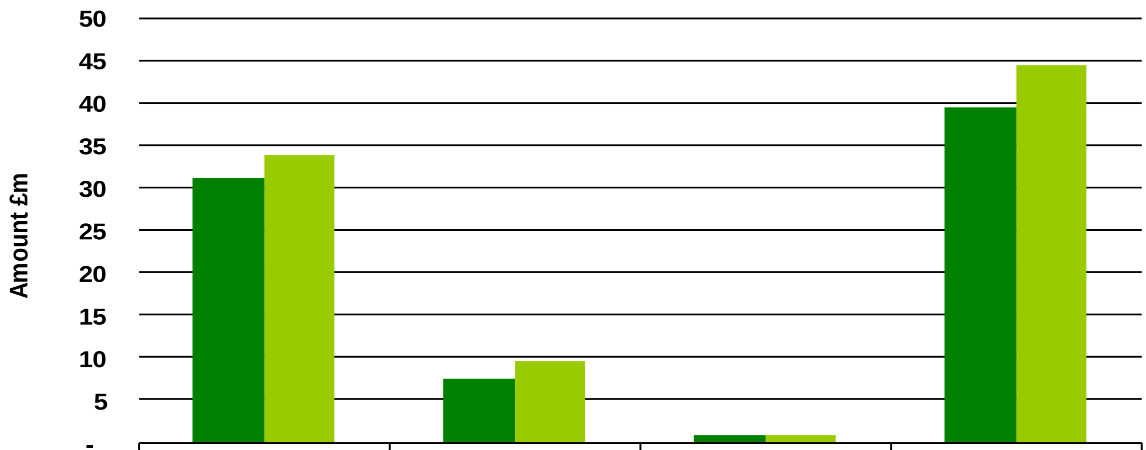
The benefits paid out from the Fund are made up of annual pensions, lump sum payments on retiring and, where applicable, death in service payments, whereby lump sums equivalent to 3x final pay are paid out to nominated beneficiaries. Total benefits paid out during 2011/12 amounted to £44.3 million compared to £39.3 million for the year 2010/11.

Benefits Paid Out in 2011/2012



Looking at the year on year increases, annual pensions increased by close to 9%, reflecting in part the Pensions Increase of 3.1%, and the higher average pensions of those retiring. Lump sum payments increased by close to 30% reflecting the increasing numbers of employees opting to commute a portion of their pension in exchange for a higher tax free lump sum on retirement. Lump sum death benefits saw an increase of just over 6%.

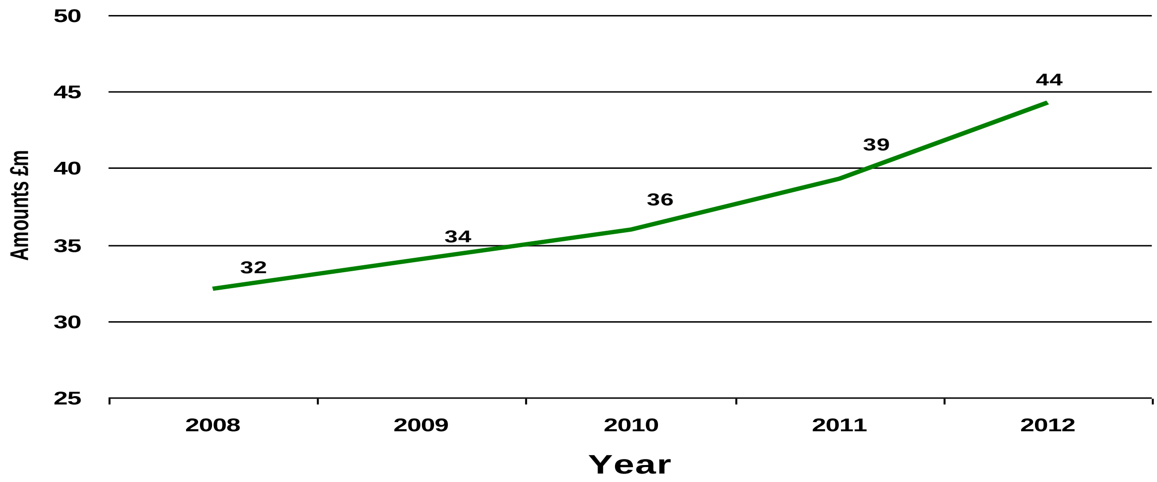
Benefits Paid Out in 2011/2012 Compared to Previous Year



	Annual Pension	Lump Sum Retirements	Death Benefits	Total
2011	31,020	7,447	853	39,320
2012	33,819	9,578	905	44,302

Pension benefits being paid out of the Fund have increased steadily over the last five years from £32.1 million in 2007/08 to £44.3 million in the last financial year. This is in part due to the fact that LGPS pension benefits rise each year in line with inflation more than a reflection of any significant increase in pensioner numbers, which have remained relatively static over the period. The chart below highlights how benefit payments have been increasing for the fund over the five year period.

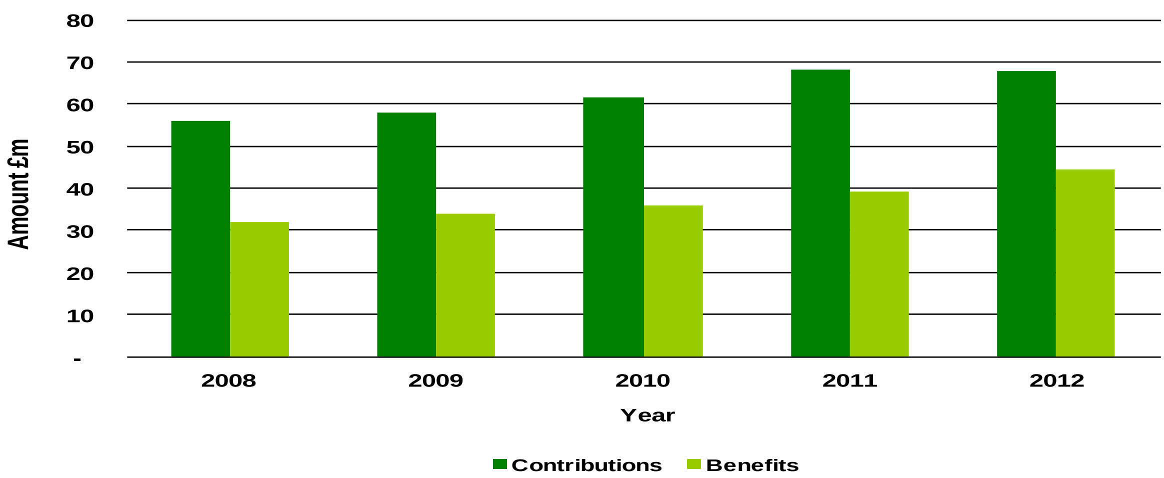
Benefits Paid Over 5 Years



In addition the Fund has also paid refunds to members who have opted out of the scheme which is permissible under the regulations of the Scheme and made transfers to other schemes by way of individual transfers and group transfers. For 2011/12 the total value of payments to and on account of leavers was £7.5 million compared to £9.3 million in 2010/11, partly reflecting larger individual transfers out which have arisen due to the backlog of transfers and the opportunity for employees who have moved to new employers to amalgamate benefits which have hitherto remained separate.

Contributions paid into the Fund continue to exceed the sums paid out in benefits each year, making the Fund strongly cashflow 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.

Contributions Received vs. Benefits Paid



Administration and Finance Review

Administration Expenses

The costs of administering the Fund over the financial year 2011/12 were £0.72 million, which is a small decrease on the previous year. The administration expenses cover the costs involved in administering the Pension Scheme, with both external and internal costs being charged to the Pension Fund along with the Pension Fund audit fee. The contract for pension administration and pension payroll was managed externally during the year by the Fund's pension administrators, Xafinity Paymaster, with the contract being overseen by the Financial Services Section based at London Borough of Hackney. The contract commenced on 1st April 2009.

Pension Administration Strategy

The Local Government Pension Scheme (Administration) Regulations 2008 gives Administering Authorities the discretion to issue a Pension Administration Strategy document. A copy of this statement is included in the annual report (pages 147 to 169). Set out in the section on performance is a record of the number of administration cases that have been processed and the performance against target.

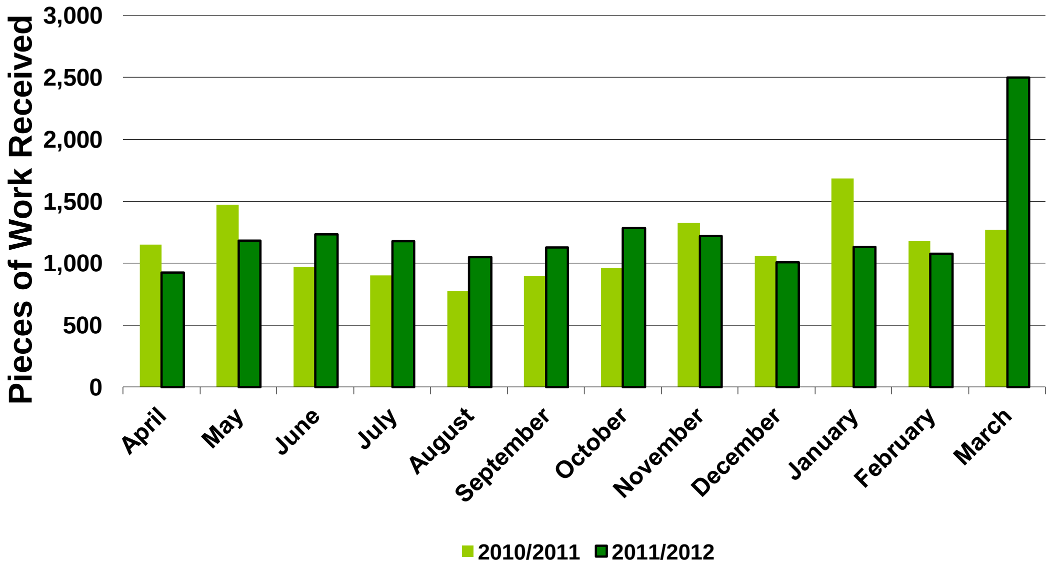
In addition, a number of training sessions have been run for employers and individual schools on how to complete paperwork and the background to the LGPS regulations to enhance overall understanding and administration flows. This included an employer seminar held in November 2011 which covered, amongst other things, general administration issues, tax changes and Automatic Enrolment (Workplace Pensions). Through a rolling programme of training, site visits and seminars, the Pension Liaison Officer 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. There is also an enhanced service provision for individual scheme members of dedicated one-to-one sessions to help clarify any issues concerning their personal situation in regard to their pension benefits. Further work during the coming year is expected to lead to further improvements and better overall efficiency.

Administration Performance

Over the past financial year the case load for the administrators has seen an increase on the prior year with a total of 20,408 cases being handled during 2011/12 compared to 18,794 during 2010/11.

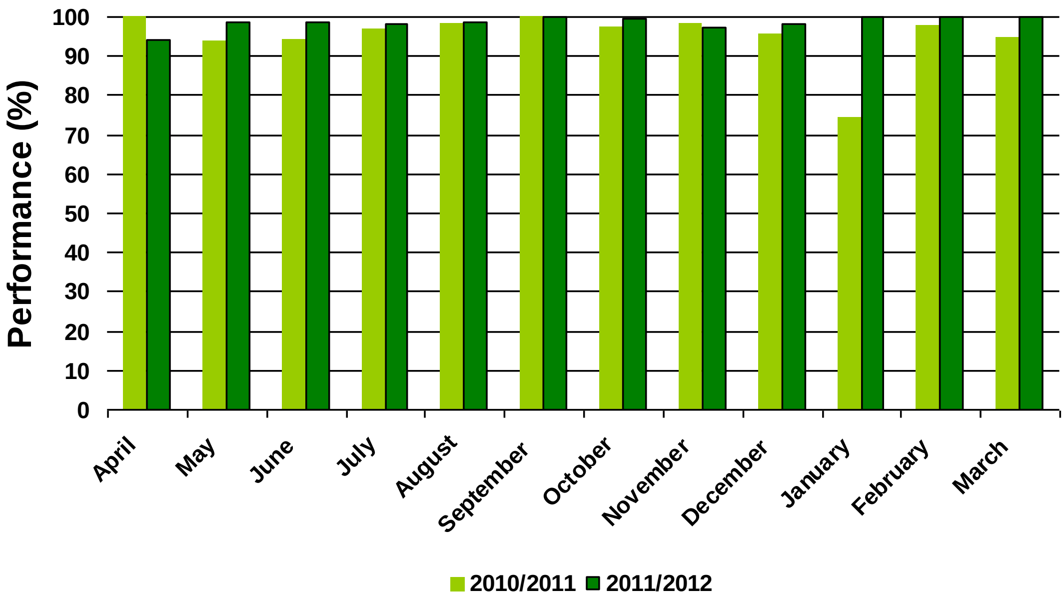
Over the year there has also been an increase in the level of work overall received by the administrators. The average month in 2010/11 saw 1,130 pieces of work; the average monthly workload in 2011/12 has been in excess of 1,500 pieces with a significant shift upwards towards the year end. The increase in March has been partly due to the introduction of a new workflow management system by the administrators and the numbers include the carried over work items from the old system, as well as a large number of new items of post received in the March period. The flow of work over the current year in comparison to 2010/11 is shown in the chart below:

Pension Administration Workflows



The performance of the pension administrators is monitored by the Financial Services Section at Hackney on a monthly basis. Performance under the pension administration contract when compared to the service level agreement was at 98% for the year as a whole, which is up by 4% on the previous year, despite a significant increase in the volume of work received. Service levels are included within the Pensions Administration Strategy document (pages 147 to 169):

Performance Against Service Level Agreement



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

- All Monthly Payrolls balanced and reconciled

- The year end payroll process has been completed for both the monthly and annual payrolls including the application of the pension increase, reconciliation of the payrolls, production of P60s and reporting to HMRC

- System year end update of pension increase, Lifetime Allowance and Annual Allowance and earnings and contribution histories was completed

- Annual Benefit Statements for active members have been issued – 4,680 for employees and 47 for Councillors
- Annual Benefit statements for deferred members have been issued – 4,687
- Data extracts for both the triennial valuation and annual accounting valuations have been carried out and all queries raised by the actuary have been dealt with
- A Scheme Event report has been submitted to HMRC
- Data submissions to central government as requested by Treasury and Communities and Local Government
- National Fraud Initiative exercise has been undertaken – data matching 242 member records
- All benefit, payroll and AVC payments have been made on time
- Work has been completed on the year-end accounts
- All monthly ledger reconciliations completed
- All bank account reconciliations completed
- Life Certificate exercise – Certificates of Continued Entitlement were issued to all 5,584 pensioners both in the UK and overseas. The exercise identified 7 deaths which had not been previously notified and a number of cases where members now require an appointee to manage their affairs.

Monitoring of Employers

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

There were 7 instances of an employer submitting a late or an incorrect payment during 2011/12. There were a small number of instances of late paperwork being submitted for contributions and some minor adjustments required for contributions. Contributions collections have been subject to rigorous monitoring and pursuit of payments as exercised by the administrators and also the continuous programme of improving the relationships between employers, payroll providers and Xafinity Paymaster, the scheme administrators.

In addition there have been significant numbers of year end queries raised with employers to resolve where paperwork has not previously been supplied, for example in relation to changes of part time hours, new starter paperwork and notification of leavers. There were a total of 162 starters and/or leavers where Xafinity Paymaster had not been notified of the changes, this is a marked improvement on the previous year of over 450 starters and/or leavers having missing paperwork. Work continues to take place since the year end to resolve these queries to ensure that accurate data is available, in time, for the actuarial valuation.

Employers have been advised of the importance of providing the administrators with data, and training has also been provided to a wide range of employers throughout the year with more planned for the coming year. However, it is recognised that this may not be sufficient in some cases and that where the Fund continues to be faced with additional costs due to poor administration from some employers, it will be necessary to pass such additional costs direct on to employers.

During 2011/12, the Fund sought to recoup additional administration costs from some Employers not complying with the Pensions Administration Strategy. Where there were instances of non-compliance, additional administration costs are recouped directly from those employers concerned in regard to data irregularities, late payment of contributions or late submissions of data during the year.

Internal Disputes Resolution Procedure

Where a scheme member or an alternative applicant (e.g. dependent) has a disagreement about a matter in relation to the scheme, the Internal Disputes Resolution Procedure (IDRP) can be invoked as a first stage. The first stage is to apply to the Pension Fund Administrators who will appoint an independent individual to review the facts of the disagreement and give a determination on the case. The applicant then has a further right of appeal to a second stage appeal where the appointed person is the London Borough of Hackney Corporate Director of Finance and Resources, who may seek further external advice in reaching their determination. Full details including timescales for making complaints and response times can be obtained from either the Pension Fund administrators, Xafinity Paymaster or from the Financial Services Section at the London Borough of Hackney.

Budget Review

The Pensions Sub-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 of the previous year forecast. The budget includes a forecast of the expected level of employee and employer contributions and estimated transfer values, although the latter is difficult to forecast being dependent to a large extent on staff turnover and individual decisions on whether to transfer benefits into the Hackney Pension Fund. Member expenditure forecasts are based on anticipated inflation increases and also include an estimate of transfers out of the Fund.

Gross income for the Pension Fund was around 6% higher than forecast at the time of the 2011/12 budget report (£67.91m compared to the budget of £64.04m); at the time of the budget, it had been anticipated that there would be further reductions in active members as main employers sought to cut costs. In the event active membership actually marginally increased over the period due to a mix of services being in-sourced and contractors being replaced by permanent staff. Overall member expenditure was slightly higher than projected by 2% (£51.77m compared to budget of £50.89m). The impact of this was a net surplus of 22.7% (£16.14m compared with £13.15m) higher than originally forecast.

Administration expenses for the year ended 31st March 2012 were below forecast at £0.72m compared to a forecast within the 2011/12 budget of £0.79m. Administration costs were lower than anticipated due to a combination of factors, namely lower audit fee, lower central costs and lower external costs as data cleanse work was less than expected. Investment management expenses at £2.42 million were slightly higher than expected due to higher asset values.

Whilst the Fund continues to be cashflow positive, it is recognised that with increasing maturity the Fund could be faced with the prospect of becoming cashflow negative over the coming years, particularly in the event that large scale opt-outs could occur. Consequently during the year a review of projected cashflows under a range of scenarios was undertaken in order to better understand the impact of potential reductions in membership and pension inflation. With stable membership and 3% pension increases, the Fund should remain cashflow positive until the mid 2020's. However in the event that active membership falls sharply, by up to 30% and pension increases run at 5% p.a. then the Fund would become cashflow negative by 2014. This would be seen very much as a worst case scenario, but in the event that there are sudden large scale withdrawals of active membership, then consideration would need to be given to changing the asset mix within the Fund. The Pensions Sub-Committee will continue to monitor the budget and cashflow on a regular basis to ensure that any significant changes are captured and appropriate action taken.

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.

There are four general approaches to treating risk: avoid, reduce, transfer or accept:

- Avoidance of risk – not undertaking the activity that is likely to trigger the risk
- Reducing the risk – controlling the likelihood of the risk occurring, or controlling the impact of the consequences if the risk does occur.
- Transferring the risk – handing the risk on elsewhere, either totally or in part – e.g. through insurance.
- Accepting the risk – acknowledging that the ability to take effective action against some risks may be limited or that the cost of taking action may be disproportionate to the potential benefits gained.

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 Sub-Committee reviews the Pension Fund Risk Register and the controls that it has in place to determine if there is any need to re-categorise existing risks or to add new, previously unidentified risks.

The key risks identified as being high following the latest review are:

- Increasing longevity
- Regulatory
- Poor investment performance
- Reliance on third party operations
- Counterparty risks

The Committee recognises that whilst the above high 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
- Monitoring regulatory changes and responding to consultations on future changes
- Quarterly monitoring of investment performance 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 Consultant
- Contract monitoring and performance reviews
- Ensuring counterparties have adequate ratings and internal controls in place which includes reviewing AAF reports.

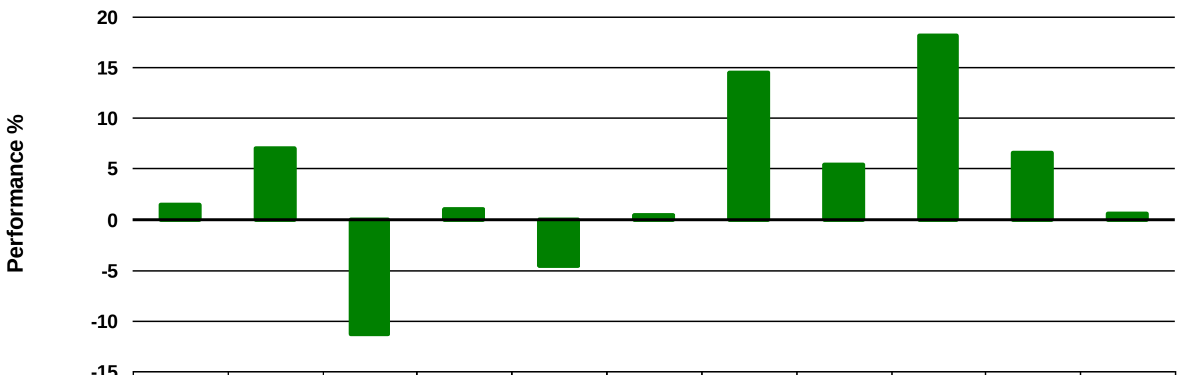
Within the Statement of Accounts, there is a detailed analysis of the extent of risks arising from financial instruments, quantifying the impact of a range of investment risks, including market risk, interest rate risk and currency risk. This provides readers of the accounts with an overview of the impact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

Investment Review

Investment Background

Equity markets were more muted in 2011/12 compared to the previous 2 years as worries about economic growth and sovereign debt crisis in Europe took hold. Equity markets started the year quietly in the first quarter, followed by a significant downturn in the quarter to end September as the Eurozone crisis struck new heights; this was followed by a recovery in the third and fourth quarters. The UK market was basically flat on the year with only a 1.4% increase, whilst the US benefited from signs of a stronger recovery and increased by 6.9%. Given the Greek debt crisis and concerns about a number of other countries, most notably, Spain, Italy and Portugal, Europe was the weakest of the equity markets being down 11.4% over the year. Other equity markets were largely unchanged over the year. The table shows the returns on various markets over the last financial year:

Investment Markets 2011/2012



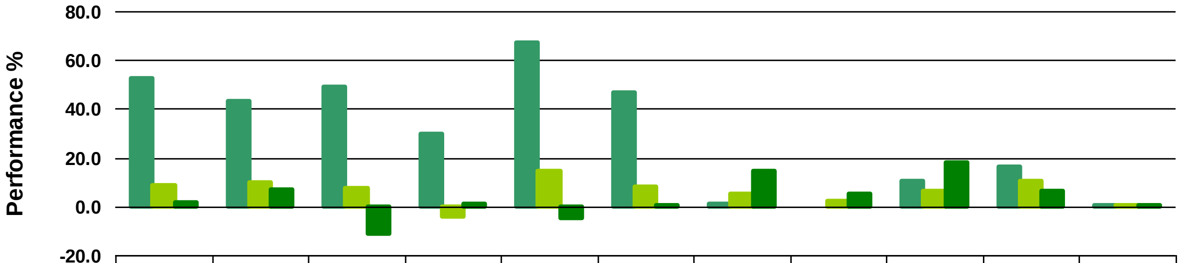
	UK	Nth Am.	Europe	Japan	Pacific	Other Int'l	UK Bonds	O/S Bonds	UK IL	Property	Cash
1 year	1.4	6.9	-11.4	0.9	-4.6	0.4	14.5	5.4	18.1	6.6	0.5

Asset Class

Given the turmoil in the European markets, this led to a flight to safety and hence bond markets around the globe saw strong performances, particularly those outside of the Eurozone, namely UK and US. Property continued to benefit from positive investor sentiment and was a solid performer over the year.

The chart below shows the market performance over the last 3 years highlighting the sharp rebound in equity and property markets in 2009/10 as they recovered from the financial crisis that occurred in 2008/09. 2011/12 built on the gains made in the previous year as some stability returned to investment markets, but as can be seen the most recent financial year has seen a return to concerns over debt most notably in Europe. Bond market performance as shown in the graph was flat as equity markets recovered from the financial crisis, only to return to favour in 2011/12 as debt concerns rose to the surface once again.

Market Perfromance over Three Years

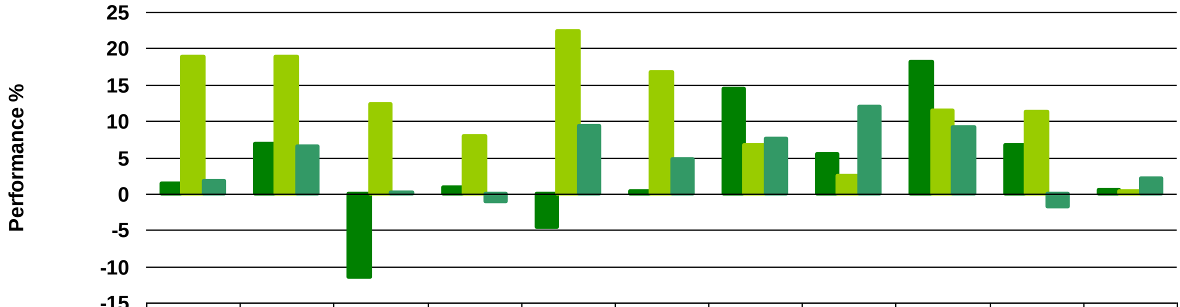


	UK	Nth Am.	Europe	Japan	Pacific	Other Int'l	UK Bonds	O/S Bonds	UK IL	Property	Cash
2010	52.3	43.2	48.8	29.6	67.2	46.8	0.8	0.0	10.3	16.3	0.4
2011	8.7	9.6	7.5	-4.0	14.6	8.2	5.1	2.1	6.5	10.7	0.4
2012	1.4	6.9	-11.4	0.9	-4.6	0.4	14.5	5.4	18.1	6.6	0.5

Asset Class

Looking at the annualised market returns over 1, 3 and 5 years, only the UK and North American equity markets are showing positive returns over all 3 periods. Bond markets and property have all shown strength over the measured time periods as safe havens following the financial crisis in 2008/09.

Market Performance annualised over 1, 3, 5 years



	UK	Nth Am.	Europe	Japan	Pacific	Other Int'l	UK Bonds	O/S Bonds	UK IL	Property	Cash
1 year	1.4	6.9	-11.4	0.9	-4.6	0.4	14.5	5.4	18.1	6.6	0.5
3 years	18.8	18.8	12.3	7.9	22.3	16.8	6.6	2.5	11.5	11.2	0.4
5 years	1.8	6.5	0.1	-1.0	9.3	4.8	7.5	11.9	9.1	-1.8	2.1

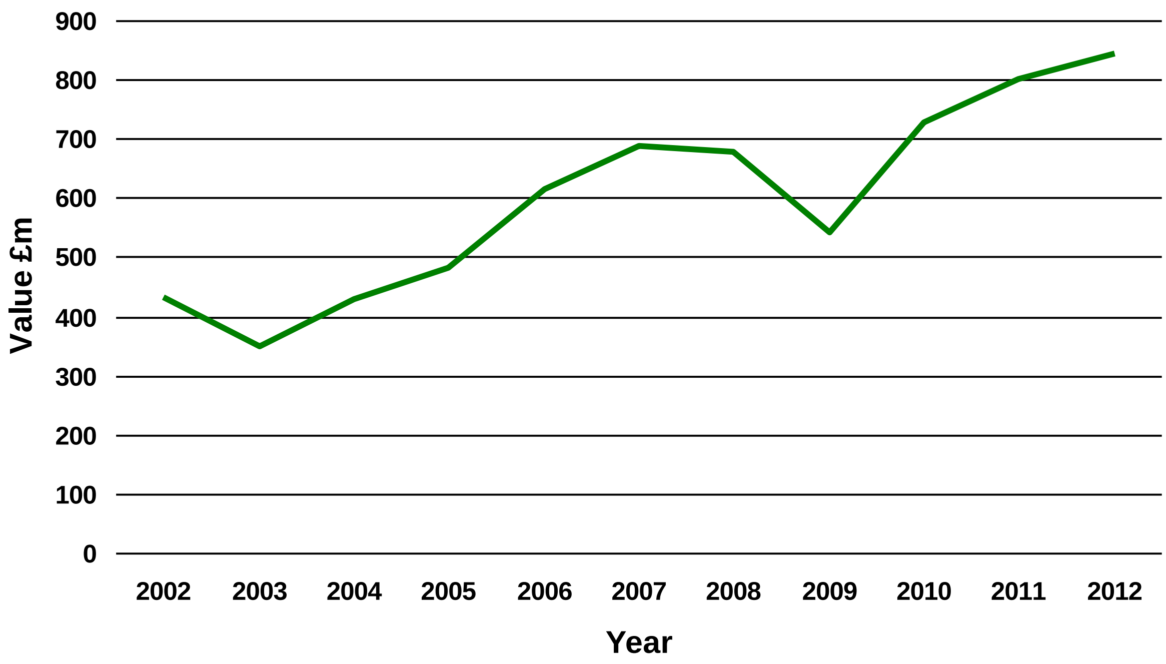
Asset Class

Fund Value

The Pension Fund Revenue Account has continued to benefit from the recovery in the UK and US markets where the largest proportions of the Fund's assets are held along with a strong performance from bonds. The net return on investments during 2011/12 was an increase of £28.7 million. At the end of March 2012, the market value of the Pension Fund's total assets was £844.7 million compared to £800.6 million as at 31st March 2011, showing the ongoing recovery in markets over the year. This represents an increase over the year of 5.5%, reflecting the impact of the continuing recovery and strong cashflows.

The graph below shows the progress of the Fund's assets over the last ten years as at the 31st March in each year.

Fund Value over 10 Years 31st March

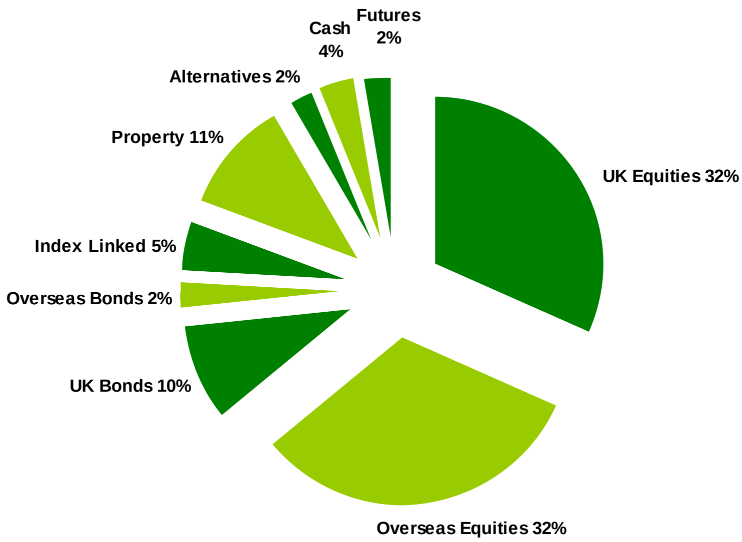


Investment Management

The management of the Fund's assets is determined by the Local Government Pension Scheme (Management and Investment of Funds) Regulations 2009. The regulations enable authorities to appoint investment managers to manage and invest Pension Fund monies on their behalf, subject to being satisfied with their experience, competence and risk control, with appropriate arrangements for monitoring performance. The Local Government Pension Scheme (Administration) Regulations 2008 require the Fund to publish a Statement of Investment Principles (SIP) setting out the main parameters and responsibilities for the management of the Fund. The SIP covers the investment style for fund managers e.g. balanced active/passive, types of investment to be permitted and the relative proportions between them, performance objectives for fund managers, socially responsible investment standards to be applied, and corporate governance matters to be exercised relating to the Fund's shareholding interests. A copy of the current SIP is included within this Report and Accounts (pages 74 to 103).

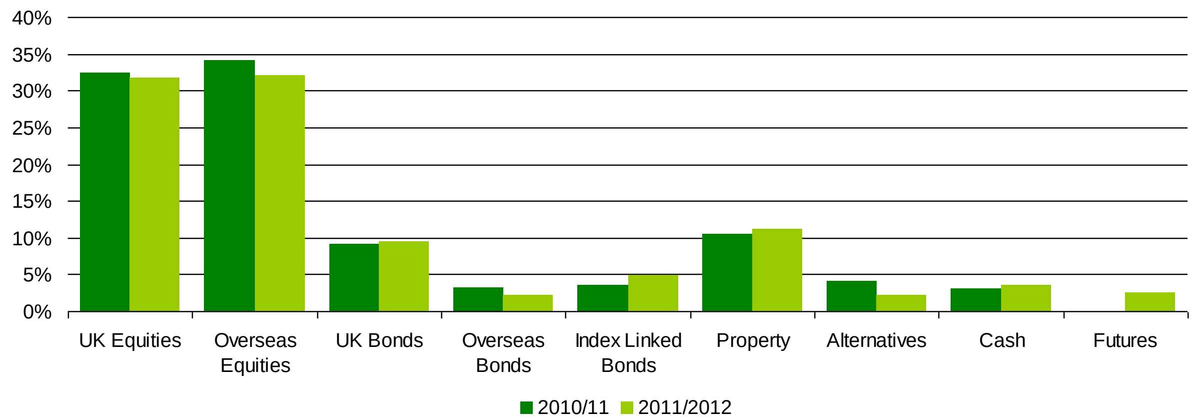
The allocation to the various asset classes as at the end of 2011/12 is as outlined below:

Asset Distribution 2011/12



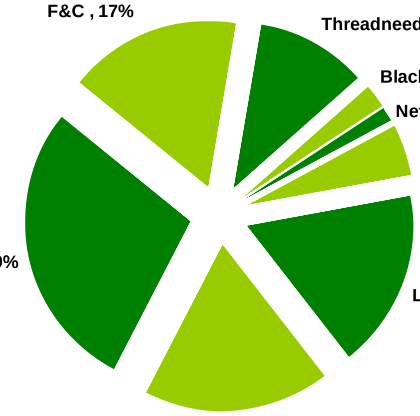
The chart below sets out how the distribution across the various asset classes has moved between the end of the previous financial year, March 2011 and the end of the current financial year, March 2012. The decrease in allocation towards alternative investments is due to the withdrawal from the active currency mandate during the year. The futures position at the end of the year reflects exposure to overseas equity markets as the Fund awaits an allocation to absolute return mandates in 2012/13.

Asset Distribution over 2 Years



During the year the Fund had seven external managers, although following the termination of the active currency mandate, this had fallen to 6 by the year end. The breakdown between managers is set out in the table below:

% Split between Fund Managers



The Fund has three equity managers - one passive UK fund manager, UBS with 31% of the Fund under management, and two active global equity managers, Lazard Asset Management with 19% and Wellington Investment Management with 19% of the Fund as at 31st March 2012. Fixed interest investments were managed by Foreign & Colonial (F&C) with 18% of the Fund and property via a Unit Trust with Threadneedle amounting to 12% of the Fund. BlackRock provided exposure to alternative assets in the form of global tactical asset allocation representing 2% of the Fund's assets. Following the liquidation of the currency mandate and a build up of cash, overseas equity futures positions were put in place pending the investment into the multi-asset absolute return fund(s). The list of Fund Managers and the proportions of assets under management are shown below with comparisons against the prior year:

Fund Manager	Value £'000 2010/11	% of total fund 2010/11	Value £'000 2011/12	% of total fund 2011/12
Lazard (Global Equities)	145,193	18.1%	146,530	17.4%
Wellington (Global Equities)	151,380	18.9%	150,727	17.8%
UBS (UK Equity Index)	229,985	28.7%	241,143	28.5%
F&C (Fixed Interest)	125,540	15.7%	141,426	16.7%
Threadneedle (Property)	82,200	10.3%	91,825	10.9%
FX Concepts (Active Currency)	13,972	1.7%	0	0.0%
BlackRock (GTAA)	18,192	2.3%	17,961	2.1%
Net Current Assets	16,488	2.1%	12,182	1.4%
Other Investments (Including futures)	17,615	2.2%	42,869	5.1%
Total	**800,565**	**100.00%**	**844,663**	**100.00%**

Top Ten holdings by Market Value as at 31st March 2012

The top holdings by market value are shown in the table below.

Top 10 Holdings by Market Value as at 31st March 2012

Holdings	£'000
United Kingdom 3 ¾% Treasury Gilt 07/09/2020	15,927
United Kingdom 4% Treasury Gilt 07/03/2022	8,308
United Kingdom 1 7/8% Index Linked Treasury Gilt 22/11/2022	6,013
United Kingdom 2 ½% Index Linked Treasury Gilt 16/08/2013	4,113
Wells Fargo & Co. Common Stock	3,702
JP Morgan Chase & Co. Common Stock	3,611
United Kingdom 1 1/8% Index Linked Treasury Gilt 22/12/2037	3,495
Google Inc. Class A Common Stock	3,371
Marsh & McLennan Companies Inc, Common Stock	3,288
Zurich Insurance Group AG Common Stock	3,236
Total	**55,064**

The above table excludes pooled investments, the top five of which are shown in the table below.

Top 5 Pooled Investments by Market Value as at 31st March 2012

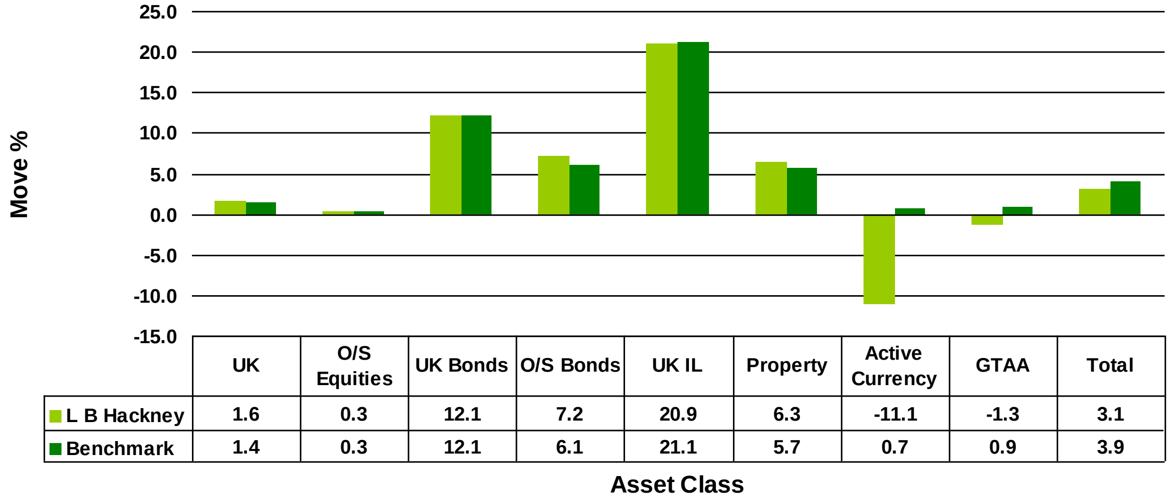
Holdings	£'000
UBS Life UK Equity Tracker	241,143
Threadneedle TPEN Property Fund	91,825
SSgA GBP Liquidity Fund S2	30,678
BlackRock Global Ascent (Sterling) S42 Mutual Fund	17,961
F&C Long Dated Corporate Bond Fund	14,978
Total	**396,585**

Performance of Fund

The investment strategy and performance of the Fund is reported on a quarterly basis to the Pensions Sub-Committee with Fund Managers taking it in turns to present to the Committee. The investment performance of the Fund is measured by the WM Company against a customised benchmark.

The overall investment performance of the Fund for 2011/12 was up by 3.1% marginally underperforming against the customised benchmark which returned 3.9%. The Fund performed broadly in line with benchmark in equities and bonds, outperforming overseas bonds and property. There were negative performances from the alternative asset classes of active currency and GTAA against benchmark. The Fund's performance against the different asset classes is shown in the table below:

Performance Against Benchmark

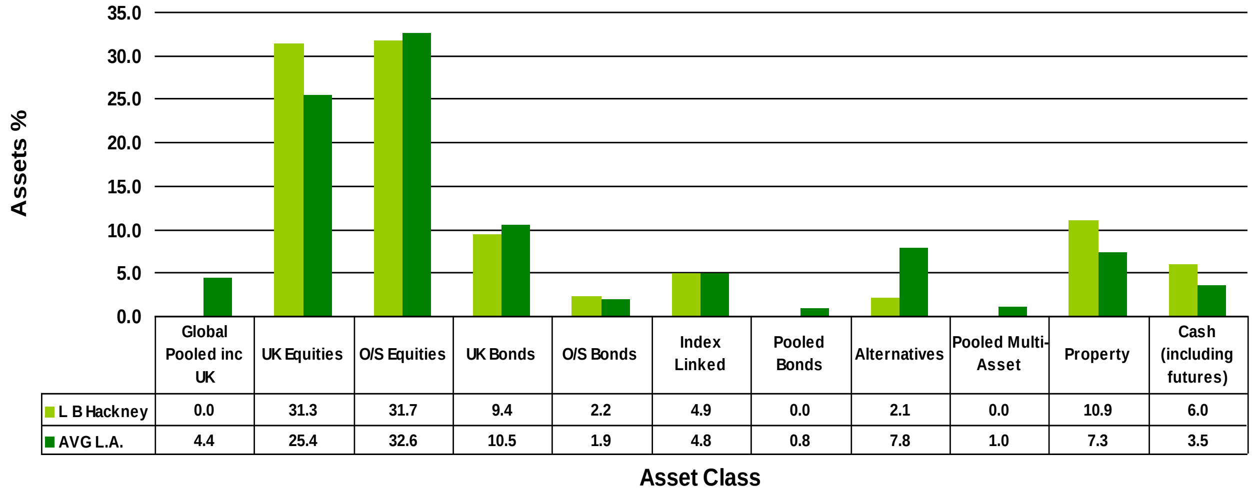


	UK	O/S Equities	UK Bonds	O/S Bonds	UK IL	Property	Active Currency	GTAA	Total
L B Hackney	1.6	0.3	12.1	7.2	20.9	6.3	-11.1	-1.3	3.1
Benchmark	1.4	0.3	12.1	6.1	21.1	5.7	0.7	0.9	3.9

Over the longer term, the Fund has underperformed its customised benchmark over both three and five year periods. The Fund achieved an annualised return of 13.9% compared to the benchmark of 15.4% over three years and over a five year period 1.8% compared to 2.6%.

Whilst the Fund continues to have its own dedicated benchmark set by the Committee against which it measures performance, it continues to monitor its asset allocation compared to the WM Local Authority Universe, which is shown below:

Asset Allocation: London Borough of Hackney vs WM Local Authority Universe



	Global Pooled inc UK	UK Equities	O/S Equities	UK Bonds	O/S Bonds	Index Linked	Pooled Bonds	Alternatives	Pooled Multi-Asset	Property	Cash (including futures)
L B Hackney	0.0	31.3	31.7	9.4	2.2	4.9	0.0	2.1	0.0	10.9	6.0
AVG L.A.	4.4	25.4	32.6	10.5	1.9	4.8	0.8	7.8	1.0	7.3	3.5

Performance against the WM Local Authority Universe shows the Hackney Fund was at the 46th percentile in 2011/12, an improvement on last year's 52nd percentile ranking versus the Local Authority Universe. Over the longer term horizon performance against the WM Universe remains disappointing with the fund at 71st percentile over three years and 81st percentile over five years.

Investment Management Expenses

The investment management expenses for the year to 31st March 2012 were £2.4 million, i.e. slightly down on the previous year's value of £2.7 million. Investment management expenses cover the fees charged by the Fund's individual investment managers, and fees paid to the actuarial advisor, investment advisor and Fund custodian.

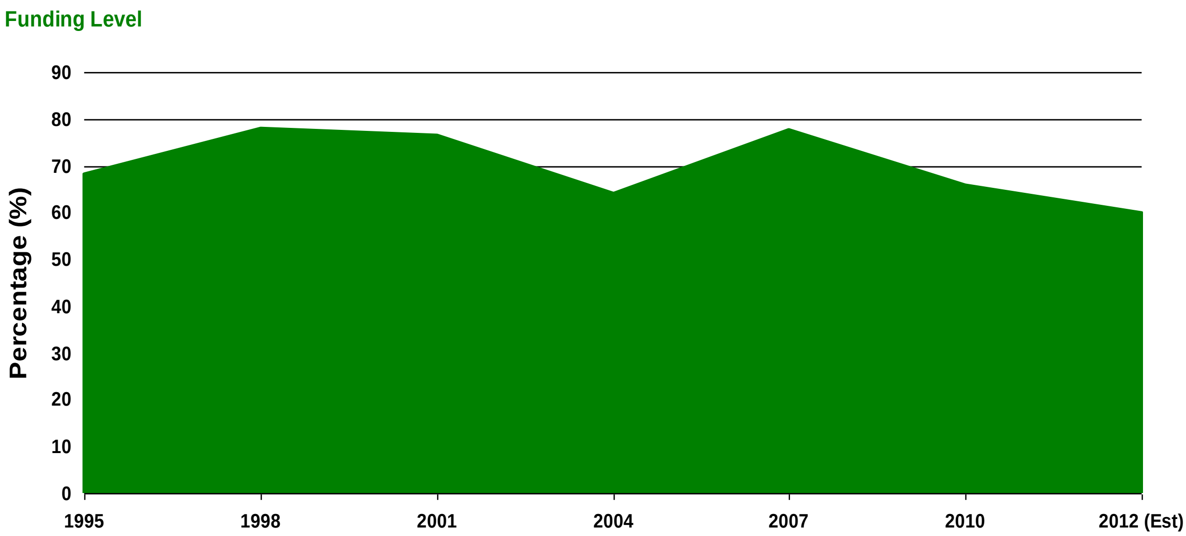
Actuarial Review

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 amount of current and future pension liabilities of the Fund, the expected contributions into the Fund, and the expected investment returns on assets held by the Fund. Other factors taken into account include pay inflation and mortality rates.

Actuarial Valuation

The Fund Actuary, Hymans Robertson, undertook a valuation of the Pension Fund as at the 31st March 2010, which showed that there had been a sharp deterioration in the funding position, from 77.6% to 65.8%, during the intervaluation period. This was due to a combination of poor investment returns between 2007 and 2010; a period which included the financial crisis, resulting in lower than expected returns and a sharp increase in liabilities. 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; http://hackney.xpmemberservices.com/Home.aspx or alternatively a copy can be obtained from the Financial Services Section, Finance and Resources Directorate, Keltan House, 89-115 Mare Street, London, E8 4RU. The longer term funding picture is shown in the graph below and includes an estimated funding position as at 31st March 2012 based on a roll forward of the 2010 valuation:

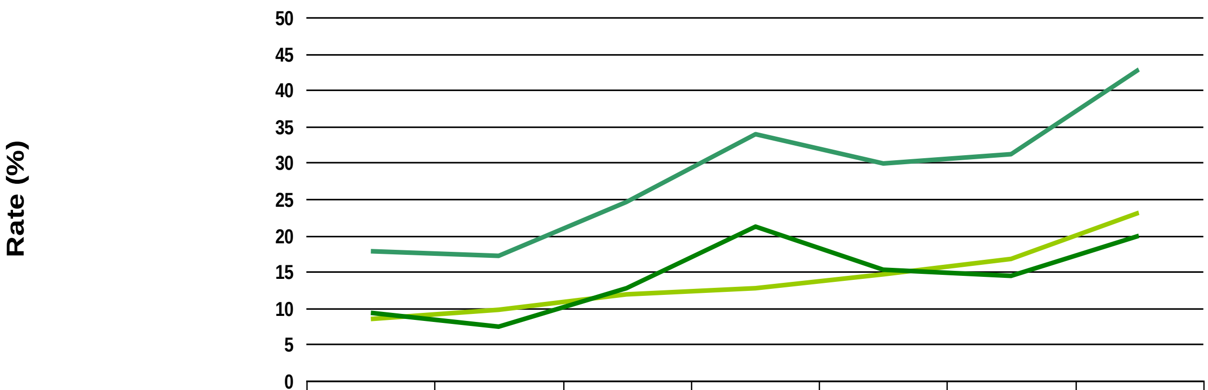


The assumptions and contribution rates applying during the financial year 2011/12 were those set at the 2010 valuation.

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 104 to 125) was approved by the Pensions Sub-Committee in January 2011.

The valuation determines contribution rates for the Fund and the 2010 valuation, which applied during the year, assessed the Common Contribution Rate for the Fund as being 31.1%. Of that, 16.7% represented the future service cost for meeting the pensions of current employees and 14.4% the cost of meeting the historic service deficit. 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. A chart showing how the Common Contribution Rate, future service rate and historic service cost has changed over the last few valuations is shown in the graph below along with the latest estimate of what the rates would be had a formal valuation taken place at 31st March 2012.

Contribution Rates



	1995	1998	2001	2004	2007	2010	2012 (Est)
Common Contribution Rate	17.7	17.25	24.6	33.9	29.9	31.1	42.9
Future Service Rate	8.4	9.75	11.9	12.7	14.7	16.7	23.0
Deficit Funding Rate	9.3	7.5	12.7	21.2	15.2	14.4	19.9

As can be seen from the above graph and that of the funding position, had the valuation been due at the end of March 2012, then the Fund's position and contribution requirements would have significantly worsened since the last formal valuation.

The employer contribution rate for the Council, the largest employer in the Fund, was set at 30% commencing on 1st April 2011 with additional lump sum payments of £6.14 million for the financial year 2011/12.

Report of the Fund Actuary

London Borough of Hackney Pension Fund ("the Fund")

Actuarial Statement for 2011/12

This statement has been prepared in accordance with Regulation 34(1)(d) of the Local Government Pension Scheme (Administration) Regulations 2008, and Chapter 6 of the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the UK 2011/12.

Description of funding policy

The funding policy is set out in the London Borough of Hackney's Funding Strategy Statement (FSS), dated January 2011. In summary, the key funding principles are as follows:

- 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; and
- to maintain the affordability of the fund to employers as far as is reasonable over the longer term.

The FSS sets out how the Administering Authority seeks to balance the conflicting aims of securing the solvency of the Fund and keeping employer contributions stable.

Funding position as at the last formal funding valuation

The most recent actuarial valuation carried out under Regulation 36 of the Local Government Pension Scheme (Administration) Regulations 2008 was as at 31st March 2010. This valuation revealed that the Fund's assets, which at 31st March 2010 were valued at £729 million, were sufficient to meet 65.8% of the liabilities (i.e. the present value of promised retirement benefits) accrued up to that date. The resulting deficit at the 2010 valuation was £378 million.

Individual employers' contributions for the period 1st April 2011 to 31st March 2014 were set in accordance with the Fund's funding policy as set out in its FSS.

Principal actuarial assumptions and method used to value the liabilities

Full details of the methods and assumptions used are described in my valuation report dated 31st March 2011.

Method

The liabilities were assessed using an accrued benefits method which takes into account pensionable membership up to the valuation date, and makes an allowance for expected future salary growth to retirement or expected earlier date of leaving pensionable membership.

Assumptions

A market-related approach was taken to valuing the liabilities, for consistency with the valuation of the Fund assets at their market value.

The key financial assumptions adopted for the 2010 valuation were as follows:

Financial assumptions	31 March 2010	
	% p.a. Nominal	% p.a. Real
Discount rate	5.95%	2.65%
Pay increases *	5.3%	2.0%
Price inflation (CPI)/Pension increases	3.3%	-

* plus an allowance for promotional pay increases. Short term pay growth was assumed to be 1% p.a. for 2010/11 and 2011/12, reverting to 5.3% p.a. thereafter.

The key demographic assumption was the allowance made for longevity. As a member of Club Vita, the baseline longevity assumptions adopted at this valuation were a bespoke set of VitaCurves that were specifically tailored to fit the membership profile of the Fund. Longevity improvements were in line with medium cohort projections and a 1% p.a. underpin effective from 2010. Based on these assumptions, the average future life expectancies at age 65 are as follows:

	Males	Females
Current Pensioners	20.9 years	23.5 years
Future Pensioners	23.0 years	25.4 years

Copies of the 2010 valuation report and Funding Strategy Statement are available on request from the London Borough of Hackney, Administering Authority to the Fund.

Experience since April 2010

The Administering Authority monitors the funding position on a regular basis as part of its risk management programme. The most recent funding update was produced as at 31st March 2012. It showed that the funding level (excluding the effect of any membership movements) had decreased from 65.8% at 31st March 2010 to 59.8% at 31st March 2012.

The next actuarial valuation will be carried out as at 31st March 2013. The Funding Strategy Statement will also be reviewed at that time.

Geoffrey Nathan
Fellow of the Institute and Faculty of Actuaries

For and on behalf of Hymans Robertson LLP
6 June 2012

Hymans Robertson LLP
20 Waterloo Street
Glasgow
G2 6DB

Audit Opinion

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF THE LONDON BOROUGH OF HACKNEY PENSION FUND

Opinion on the pension fund accounting statements

I have audited the pension fund financial statements for the year ended 31 March 2012 under the Audit Commission Act 1998. The pension fund financial statements comprise the Fund Account, the Net Assets Statement and the related notes. 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 2011/12.

This report is made solely to the members of the London Borough of Hackney Pension Fund in accordance with Part II of the Audit Commission Act 1998 and for no other purpose, as set out in paragraph 48 of the Statement of Responsibilities of Auditors and of Audited Bodies published by the Audit Commission in March 2010.

Respective responsibilities of the Corporate Director of Finance and Resources and auditor

As explained more fully in the Statement of the Corporate Director of Finance and Resources' Responsibilities, the Corporate Director of Finance and Resources is responsible for the preparation of the pension fund's financial statements and for being satisfied that they give a true and fair view. My responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require me to comply with the Auditing Practices Board's Ethical Standards for Auditors.

Scope of the audit of the financial statements

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the fund's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the Corporate Director of Finance and Resources; and the overall presentation of the financial statements. In addition, I read all the financial and non-financial information in the annual report to identify material inconsistencies with the audited financial statements. If I become aware of any apparent material misstatements or inconsistencies I consider the implications for my report.

Opinion on financial statements

In my opinion the pension fund's financial statements:

- give a true and fair view of the financial transactions of the pension fund during the year ended 31 March 2012 and the amount and disposition of the fund's assets and liabilities as at 31 March 2012; and
- have been prepared properly in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2011/12.

Opinion on other matters

In my opinion, the information given in the annual report for the financial year for which the financial statements are prepared is consistent with the financial statements.

Matters on which I report by exception

I report to you if, in my opinion the governance compliance statement does not reflect compliance with the Local Government Pension Scheme (Administration) Regulations 2008 and related guidance. I have nothing to report in this respect.

P M Johnstone
District Auditor

1st Floor
Millbank Tower
Millbank
London
SW1P 4HQ

28 September 2012

Statement of 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 has the responsibility for the administration of those affairs. In this Council, that Officer is the Corporate Director of Finance and Resources;
- manage its affairs to secure economic, efficient and effective use of resources and safeguard its assets;
- approve the Statement of Accounts.

Responsibilities of the Corporate Director of Finance and Resources

The Corporate Director of Finance and Resources is responsible for the preparation of the Pension Fund Statement of Accounts in accordance with proper practices as set out in CIPFA's Code of Practice on Local Authority Accounting in the United Kingdom ("the Code of Practice").

In preparing this Statement of Accounts, the Corporate Director of Finance and Resources has:

- selected suitable accounting policies and then applied them consistently;
- made judgements and estimates that were reasonable and prudent; and
- complied with the Code of Practice, except where otherwise stated.

The Corporate Director of Finance and Resources has:

- kept proper accounting records which were up to date; and
- taken reasonable steps for the prevention and detection of fraud and other irregularities.

Responsible Financial Officer's Certificate:

I certify that the Accounts set out on pages 41 - 73 have been prepared in accordance with proper practices and present fairly the transactions of the London Borough of Hackney Pension Fund during the year ended 31st March 2012 and financial position of the Fund at that date of its assets and liabilities, other than liabilities to pay pensions and benefits after the year end.

Ian Williams, CPFA
Corporate Director, Finance and Resources

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 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 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 Corporate Director of Finance and 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 all staff and members charged with the financial administration 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/arrange training for staff and members of the pensions decision making bodies to enable them to acquire and maintain an appropriate level of expertise, knowledge and skills.

2011/12 Reporting on Knowledge and Skills Framework

How the Frameworks have been Applied

The Pensions Sub-Committee is the body that has delegated responsibility for managing all aspects of the London Borough of Hackney Pension Fund. The Pensions Sub-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. Consequently training is provided as 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. 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

Whilst the Committee, during its training programme would have covered to varying degrees most of these topics, it was felt important to ensure that all areas outlined in the Framework were covered in depth before undertaking a further detailed training needs analysis using the Hymans Robertson Training Needs Analysis (TNA) developed in conjunction with CIPFA. Having undertaken training in the 6 key areas and refresher sessions, Committee Members and Officers completed the TNA in March 2012. The results of the TNA indicated that both Committee Members and Officers had high levels of understanding in all areas included in the Knowledge and Skills Framework, with an average score of 65% for Members and 66% for Officers. A tailored training programme to address any areas of weakness will be undertaken in 2012/13.

In addition to the TNA, training needs are also assessed in relation to current relevant decision making programmes, for example in relation to specific asset classes where these are under consideration for investment.

As part of the Committee’s understanding of their own effectiveness and that of their advisers, Committee Members completed a self-assessment in February 2012. The results of the self-assessment showed that Members either had or were provided with sufficient information to be able to undertake their role as decision-makers on behalf of the Pension Fund and that advisers to the Committee were either good or very good at assisting them with that decision making process.

Training Delivered against identified training needs

As outlined in the Assessment of Training Needs, the decision-making body for the Pension Fund, the Pensions Sub-Committee is committed to ensuring that they have the appropriate levels of knowledge and skill to be able to engage in effective decision making. The dedicated training Programme for 2011/12 was supplemented by additional information contained within the main agenda items. An outline of the specific training and supplemental areas is shown in the table below:

Dedicated Training	Date
Investment Performance and Risk Management	27/06/2011
CIPFA KSF Refresher (Governance)	28/09/2011
CIPFA KSF Refresher (Investments)	19/01/2012
Pension Administration	27/03/2012
Supplemental Training	**Date**
UK Equities (UBS)	27/06/2011
Risk Management (Risk Register)	27/06/2011
Alternative Assets within Asset Allocation	28/09/2011
Public Sector Pensions Reform	28/09/2011 & 27/03/12
Cashflow and its impact on Funding	19/01/2012
Longevity and its impact on the Pension Fund	27/03/2012
Procurement and Frameworks	27/03/2012

Attendance at Committee meetings and training sessions is monitored by Officers and a record of attendance is included within the Governance Reporting for 2011/12 (page 139).

A full training programme has been scheduled for the next financial year and will include both areas identified by the TNA and self-assessment along with other areas identified during the year which require decisions to be made by the Pensions Sub-Committee.

Statement of Accounts 2011/12

The Pension Fund Account

2010/11 £'000		Notes	2011/12 £'000
	Dealings with members, employers and others directly involved in the Scheme		
(59,030)	Contributions	7	(58,535)
(9,211)	Transfers in from other pension funds	8	(9,371)
(68,241)			(67,906)
39,320	Benefits payable	9	44,302
9,301	Payments to and on account of leavers	10	7,461
4	Other payments	23	4
764	Administrative expenses	11	715
49,389			52,482
(18,852)	**Net (additions)/withdrawals from dealings with members**		**(15,424)**
	Returns on investments		
(12,391)	Investment income	12	(11,511)
(44,376)	(Profit) and losses on disposal of investments and changes in value of investments	13c	(19,653)
2	Taxes on Income		66
2,662	Investment management expenses		2,424
(54,103)	**Net returns on investments**		**(28,674)**
(72,955)	**Net (increase)/decrease in the Fund during the year**		**(44,098)**
(727,610)	**Opening net assets of the Scheme**		**(800,565)**
(800,565)	**Closing net assets of the Scheme**		**(844,663)**

The Net Assets Statement for the year ended 31 March 2012

2010/11 Restated £'000		Notes	2011/12 £'000
771,421	Investment Assets	13	785,222
23,946	Cash Deposits	13	50,053
795,367			**835,275**
(11,289)	Investment Liabilities	13	**(2,794)**
18,587	Current Assets	18	13,877
(2,099)	Current Liabilities	19	(1,695)
16,488			**12,182**
800,565	**Net Assets of the Fund available to fund benefits at the period end**		**844,663**

Notes to 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 Scheme is a summary only. For more detail, reference should be made to the Hackney Pension Fund Annual Report 2011/12 and the underlying statutory powers underpinning the Scheme, namely the Superannuation Act 1972 and the Local Government Pension Scheme (LGPS) Regulations.

a) General

The Fund is governed by the Superannuation Act 1972. The Fund is administered with the following secondary legislation:

- the Local Government Pension Scheme (Members, Contributions and Benefits) Regulations 2007 (as amended)
- the Local Government Pension Scheme (Administration) Regulations 2008 (as amended)
- the Local Government Pension Scheme (Management and Investment of Funds) Regulations 2009 (as amended)

It is a contributory final salary, 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.

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

b) Membership

All local government employees (except casual employees and teachers) 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 are local authorities and similar bodies whose staff are automatically entitled to be members of the Fund.
- 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 2012 there are 21 active employer organisations within the Fund, including the London Borough of Hackney.

London Borough of Hackney Pension Fund	31 March 2011	31 March 2012
Number of Employers with active members	19	21
Number of Employees in scheme		
Council	3,791	4,018
Scheduled bodies	863	938
Admitted bodies	732	502
Total	**5,386**	**5,458**
Number of pensioners		
Council	5,432	5,505
Scheduled bodies	77	102
Admitted bodies	166	177
Total	**5,675**	**5,784**
Deferred pensioners		
Council	5,611	5,677
Scheduled bodies	177	229
Admitted bodies	747	845
Total	**6,535**	**6,751**

During the year Clapton Girls Academy, Family Mosaic and Busy Bees Cleaning were admitted as new employers to the Fund and Shoreditch Trust ceased as an active employer.

c) Funding

Benefits are funded by contributions and investment earnings. Contributions are made by active members of the Fund in accordance with the LGPS (Benefits, Membership and Contributions) Regulations 2007 and range from 5.5% to 7.5% of pensionable pay for the financial year ending 31st March 2012. Employers also make contributions, which are set based on triennial actuarial funding valuations. The last such valuation was at 31st March 2010. Current employer contribution rates can be found in the Statement to the Rates and Adjustments Certificate in the Hackney Pension Fund Annual Report 2011/12.

d) Benefits

Pension benefits under LGPS are based on final pensionable pay and length of service, summarised below:

	Service pre 1 April 2008	Service post 31 March 2008
Pension	Each year worked is worth 1/80 x final pensionable salary.	Each year worked is worth 1/60 x final pensionable salary.
Lump Sum	Automatic lump sum of 3 x salary. 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.	No automatic lump sum. 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 1st April 2011.

Following the Independent Public Sector Pension Commission, which reported in 2011 and subsequent negotiations on public sector pension reforms, the LGPS is due to see significant changes to the Scheme from 2014 which will impact the benefit structure of the Fund going forwards.

2. Basis of Preparation

The Statement of Accounts summarises the Fund's transactions for the 2011/12 financial year and its position at year-end as at 31st March 2012. The accounts have been prepared in accordance with the *Code of Practice on Local Authority Accounting in the United Kingdom 2011/12* 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 16 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 they relate.

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 Transfers In (see Note 8).

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

c) Investment income

i) Interest income
Interest income is recognised in the fund account as it accrues. Interest from financial assets that are not carried at fair value through profit and loss, i.e. loans and receivables, are calculated using the effective interest 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 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 is disclosed in the Net Assets Statement as a current financial asset.

v) Movement in the net market value of investments
Changes in the net market value of investments are recognised as income and compromise all realised and unrealised profits/loss during the year.

Fund account – expense items

d) Benefits payable

Pensions and lump benefits payable include all 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.

f) Administrative expenses

All administrative expenses are accounted for on an accruals basis. Relevant officer costs and other overheads are apportioned to the Fund.

g) Investment management expenses

All investment management expenses are accounted for 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 fee note 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 2011/12, there were no fees based on such estimates (2010/11: no fees estimated). A similar procedure is used for Custodian fees and in 2011/12, £33k of fees were based on such estimates (2010/11: no fees estimated).

Some investment management expenses within pooled investments are contained within the pricing mechanism. These are disclosed in Note 13.

The cost of obtaining investment advice from external consultants is included in investment management charges. This includes actuarial fees.

Net Assets Statement

h) 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 by the Fund.

The values of investments as shown in the Net Assets Statement have been determined as follows:

i) Market-quoted investments
The value of an investment for which there is a readily available market price is determined by the bid market price ruling on the final day of the accounting period.

ii) Unquoted investments
The fair value of investments for which market quotations are not readily available is determined as follows:
- Valuations of de-listed securities are based on the last sale price prior to delisting, or where subject to liquidation, the amount the Council expects to receive on wind-up, less estimated realisation costs.
- Investments in unquoted property and infrastructure pooled funds are valued based on the Fund's share of the net asset value or a single price advised by the fund manager.
- The Fund has no holdings in private equity funds or unquoted listed partnerships.

iii) Pooled investment vehicles
Pooled investment vehicles are valued at closing bid price if both bid and offer prices are published; or if single priced, at the closing single price. In the case of pooled investment vehicles that are accumulation funds, change in market value also includes income which is reinvested in the fund, net of applicable withholding tax.

iv) Limited partnerships, freehold and leasehold property
The Fund has no holdings in limited partnerships, freehold and leasehold property.

i) 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.

j) Derivatives

Changes in the fair value of derivative contracts are included in change in market value.

The value of futures positions is determined using the single settlement price at the reporting date. Amounts due from or owed to the broker are the amounts outstanding in respect of the initial margin and variation margin.

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.

The Fund has no holdings in exchange traded or over-the-counter options.

k) Cash and cash equivalents

Cash compromises cash in hand and demand deposits.

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

l) 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.

m) 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 IAS 19 and relevant actuarial standards.

As permitted under IAS 26, the Fund has opted to disclose the actuarial present value of promised retirement benefits by way of a note to the Net Assets Statement (Note 17).

n) Additional Voluntary Contributions (AVC's)

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 provider. AVCs are paid by members to the AVC provider and are 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(2)(b) of the Local Government Pension Scheme (Management and Investment of Funds) Regulations 2009 (SI 2009/3093) 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:

- The Pension Fund liability is calculated every three years by the appointed Actuary, with quarterly updates in the intervening years. The methodology used is in line with accepted guidelines. Assumptions underpinning the valuations are agreed with the Actuary and are summarised in Note 16. This estimate is subject to significant variances based on changes to the underlying assumptions.

5. Assumptions Made about The Future and Other Major Sources of Estimation Uncertainty

The Statement of Accounts contains estimated figures that are based on assumptions made by the Fund about the future or that are otherwise uncertain. Estimates are made taking into consideration historical experience, current trends and other relevant factors. However, because balances cannot be determined with certainty, actual results could be materially different from the assumptions and estimates.

The items in the Statement of Accounts 2011/12 for which there is a significant risk of material adjustment in the forthcoming financial years are as follows:

Item	Uncertainties	Effect if actual results differ from assumptions
Actuarial present value of promised retirement benefits	Estimation of the net liability to pay pensions depends on a number of complex judgements relating to the discount rate used, the rate at which salaries are projected to increase, changes in retirement ages, mortality rates and expected returns on pension fund assets. A firm of consulting actuaries is engaged to provide the Fund with expert advice about the assumptions to be applied.	The effects on the net pension liability of changes in individual assumptions can be measured. For instance, a 0.5% decrease in Real Discount Rate assumption would result in an increase in the pension liability of £129 million approximately. A 0.5% increase in Salary Increase Rate would increase the value of liabilities by approximately £29 million, and a one-year increase in assumed life expectancy would increase the liability by approximately £39 million.

6. Events after the Balance Sheet Date

There have been no events since 31st March 2012 and up to the date when these accounts were authorised, which require any adjustments to these accounts.

On 31st May 2012, proposed changes were announced in respect of the LGPS which would see the implementation of a new Career Average Revalued Earnings (CARE) Scheme effective from 1st April 2014. Other proposed changes would include retirement ages linked to a person's state pension age, the move to an accrual rate of 1/49th, higher member contributions for those earning over £34,000 and the option for flexibility over contributions, i.e. a lower contribution for lower benefits. The changes will be consulted upon over the coming months and it is anticipated that new legislation will be put in place before the end of the current financial year. This would enable Fund Actuaries to take the changes into consideration for the next triennial actuarial valuation due to take place at 31st March 2013. At the time of finalising the accounts, it has not been possible to quantify the impact of the proposed changes.

7. Contributions Receivable

By Category	2010/11	2011/12
	£'000	£'000
Employers	(49,015)	(48,991)
Members	(10,015)	(9,544)
Total	**(59,030)**	**(58,535)**

By Employer	2010/11	2011/12
	£'000	£'000
London Borough of Hackney	(45,904)	(43,724)
Scheduled bodies	(6,407)	(8,195)
Admitted bodies	(6,719)	(6,616)
Total	**(59,030)**	**(58,535)**

8. Transfers In

	2010/11	2011/12
	£'000	£'000
Group transfers	0	0
Individual Transfers	(9,211)	(9,371)
Total	**(9,211)**	**(9,371)**

9. Benefits Payable

By Category	2010/11 £'000	2011/12 £'000
Pensions	31,020	33,819
Commutation and Lump sum retirement benefits	7,447	9,578
Lump sum death benefits	853	905
Total	**39,320**	**44,302**

By Employer	2010/11 £'000	2011/12 £'000
London Borough of Hackney	34,384	39,323
Scheduled bodies	1,925	2,642
Admitted bodies	3,011	2,337
Total	**39,320**	**44,302**

10. Payments To and On Account of Leavers

	2010/11 £'000	2011/12 £'000
Refunds to members leaving service	2	5
Payments for members joining state scheme	0	0
Group Transfers	0	0
Individual Transfers	9,299	7,456
Total	**9,301**	**7,461**

11. Administration Expenses

	2010/11 £'000	2011/12 £'000
Finance and Resources Recharge	325	304
Pension Administration	371	344
Subscriptions, Legal and Other Expenses	30	35
Pension Fund Audit Fee	38	32
Total	**764**	**715**

12. Investment Income

	2010/11 £'000	2011/12 £'000
Fixed interest Securities	(3,329)	(3,840)
Equity Dividends	(7,884)	(7,173)
Index Linked Securities	(375)	(341)
Pooled Investment Income	(696)	0
Interest on Cash Deposits	(107)	(157)
Other Income	0	0
Total	**(12,391)**	**(11,511)**

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.

The Pension Fund terminated its Investment Management Agreement with FX Concepts in November 2011. Pending an asset allocation exercise in 2012/13 the proceeds from the liquidation of the manager are invested in equity futures and short term investments.

a. Analysis of Investments

A breakdown of investments held by the Fund's external managers across the various asset classes is shown in the table on the following page:

	Market Value 2010/11 Restated £'000	Market Value 2011/12 £'000
Investment assets		
Fixed Interest Securities		
Fixed interest securities - UK		
Public Sector	37,760	40,754
Other	16,295	22,900
Fixed interest securities - Overseas		
Public Sector	10,300	0
Other	14,573	18,569
Index linked securities		
Public sector - UK	26,952	40,719
Other - UK	113	120
Public sector - Overseas	-	-
Other - Overseas	-	-
Equities		
United Kingdom	23,167	21,925
Overseas - Quoted	266,506	265,899
Pooled Investments		
Corporate Fixed Interest	16,931	14,978
UK Equities	229,902	241,143
Unit Trusts & Managed Funds		
Active Currency	13,972	-
Global Tactical Asset Allocation	18,192	17,961
Property	82,200	91,825
Managed Funds	9	9
Derivative Contracts		
Forward Currency Contracts	846	3,465
Futures	-	399
Cash Deposits	23,946	50,053
Other investment balances	13,702	4,556
Total Investment assets	**795,366**	**835,275**
Investment liabilities		
Derivative contracts		
Forward Currency Contracts	(1,064)	(76)
Futures	-	(37)
Other investment balances	(10,225)	(2681)
Total Investment liabilities	**(11,289)**	**(2,794)**
Net Investment Assets	**784,077**	**832,481**

The 2010/11 comparative figures have been restated where material. This is due to reclassifying the cash deposits invested directly by the Administering Authority from current assets to investment assets (cash deposits) and reclassifications between the analysis as UK or Overseas. In 2010/11 the local currency a security was held in was used to determine whether the security was analysed as UK or Overseas. Due to developments in the reporting available, in 2011/12 the country a security was incorporated was used to determine whether a security was analysed as UK or Overseas. The above have only affected the analysis of investments and the net position of investments for 2010/11 has not changed.

b. Investments analysed by fund managers

As at 31st March 2012 the Fund's investments are managed by six 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 2010/11	% of total fund 2010/11	Value £'000 2011/12	% of total fund 2011/12
Lazard (Global Equities)	145,193	18.1%	146,530	17.3%
Wellington (Global Equities)	151,380	18.9%	150,727	17.8%
UBS (UK Equity Index)	229,985	28.7%	241,143	28.5%
F&C (Fixed Interest)	125,540	15.7%	141,426	16.7%
Threadneedle (Property)	82,200	10.3%	91,825	10.9%
FX Concepts (Active Currency)	13,972	1.7%	0	0.0%
BlackRock (GTAA)	18,192	2.3%	17,961	2.1%
Net Current Assets	16,488	2.1%	12,182	1.4%
Other Investments (Including futures)	17,615	2.2%	42,869	5.1%
Total	**800,565**	**100%**	**844,663**	**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 table below.

Investment type	Market Value 1/04/2011 Restated £'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 31/03/2012 £'000
Fixed Interest Securities	78,928	692,406	(694,577)	5,466	82,223
Index Linked Securities	27,065	36,056	(26,978)	4,696	40,839
Equities	289,673	125,782	(120,726)	(6,905)	287,824
Pooled Investment Vehicles	361,206	5,084	(16,405)	16,031	365,916
Derivative contracts					
Forward Currency Contracts	(218)	8,360	(4,827)	74	3,389
Futures	0	68	(11)	305	362
	756,654	**867,756**	**(863,524)**	**19,667**	**780,553**
Other investment balances:					
Cash Deposits	23,946			(1)	50,053
Receivable for sales	11,480			(11)	2,493
Investment Income due	2,222			(9)	2,063
Payable for purchases	(10,225)			7	(2,681)
Net Investment Assets	**784,077**			**19,653**	**832,481**

Direct transaction costs (i.e. fees, commissions, stamp duty and other fees) associated with purchases and sales of investments were £0.37 million (£0.91 million in 2010/11) and are included in the cost of purchases and in sale proceeds.

Some pooled investments have fees and other indirect costs built into the net asset value; therefore the expense is included in the movement in the net value of investments. In 2011/12 these were £0.3 million (2010/11 £0.7 million).

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. Analysis of Derivative contracts

Most of the holding in derivatives is to hedge liabilities or hedge exposures to reduce risk to the Fund. Derivatives may also be used to gain exposure to an asset more efficiently than holding the underlying asset.

i) Forward currency contracts

In order to maintain appropriate diversification and to take advantage of overseas investment returns, a significant proportion of the Fund is in overseas securities. Consequently the Fund has a passive currency programme in place managed by the investment managers with global mandates (Lazard and Wellington). The purpose of this is to reduce the Fund's exposure to fluctuations in exchange rates.

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 31st March 2012 is given below. All forward contracts held by fund managers are exchange traded.

Open forward currency contracts

Settlement	Currency Bought	Local Value	Currency Sold	Local Value	Fair Value £'000
Assets					
Up to one month	GBP	77,977	JPY	967,800	615
	GBP	42,190	USD	64,499	1,818
One to six months	GBP	8,563	JPY	1,034,296	693
	GBP	28,961	USD	45,721	339
Total Assets					**3,465**
Liabilities					
Up to one month	EUR	1,118	GBP	936	(3)
	GBP	11,170	EUR	13,471	(60)
One to six months	GBP	4,090	EUR	4,921	(13)
Total Liabilities					**(76)**
Net Forward Contracts					**3,389**

ii) Futures

As at 31st March 2012 the Fund was holding significant cash assets as a result of the liquidation of its investment with FX Concepts. In order to ensure this cash was not 'out of the market' the Fund entered into index-based futures contracts. Outstanding exchange traded futures contracts are as follows:

Type	Expires	Economic Exposure £'000	Market Value 31 March 2011 £'000	Economic Exposure £'000	Market Value 31 March 2012 £'000
Assets					
Overseas Equity	Less than one year	-	-	16,744	399
Total Assets				**16,744**	**399**
Liabilities					
Overseas Equity	Less than one year	-	-	3,539	(37)
Total Liabilities				**3,539**	**(37)**
Net Futures				**20,283**	**362**

As at the 31st March 2011, the Pension Fund did not directly hold Global Equity Futures Contracts or UK Equity Futures Contracts.

e. Investments exceeding 5% of net assets

Single Investments exceeding 5% of the net assets of the Fund are held in a pooled fund (Indexed UK equities) managed by UBS (28.5%) and a Property Unit Trust managed by Threadneedle (10.9%).

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. No financial assets were reclassified during the accounting period.

	2010/2011			2011/2012		
Investment type	Designated as Fair Value through Profit & Loss	Loans & Receivables	Financial Liabilities at amortised costs	Designated as Fair Value through Profit & Loss	Loans & Receivables	Financial Liabilities at amortised costs
	£'000	£'000	£'000	£'000	£'000	£'000
Financial Assets						
Fixed interest securities	78,928			82,223		
Index linked securities	27,065			40,839		
Equities	289,673			287,824		
Pooled Investment Vehicles	361,206			365,916		
Derivative contracts	846			3,864		
Cash		34,310			56,683	
Other Investment Balances	13,702			4,556		
Debtors		8,224			7,247	
	771,420	42,534	-	785,222	63,930	-
Financial Liabilities						
Derivative contracts	(1,064)			(113)		
Other Investment Balances	(10,225)			(2,681)		
Creditors			(2,099)			(1,695)
	(11,289)	-	(2,099)	(2,794)	-	(1,695)
	760,131	**42,534**	**(2,099)**	**782,428**	**63,930**	**(1,695)**

b. Net gains and losses on financial instruments

The following table summarises the net gains and losses. As the majority of the financial assets and liabilities are classed as fair value through profit and loss these relate to gains or losses on disposal and changes in market value of investments.

	31 March 2011 £'000	31 March 2012 £'000
Fair Value through profit and loss	44,376	19,654
Loans and Receivables	-	(1)
Financial Liabilities measured at amortised cost	-	-
Total	**44,376**	**19,653**

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 is 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 2011		31 March 2012	
	Carrying Value	Fair Value	Carrying Value	Fair Value
	£'000	£'000	£'000	£'000
Financial Assets				
Fair Value through profit and loss	771,420	771,420	785,222	785,222
Loans and Receivables	42,534	42,534	63,930	63,930
Total Financial Assets	**813,954**	**813,954**	**849,152**	**849,152**
Financial Liabilities				
Fair Value through profit and loss	(11,289)	(11,289)	(2,794)	(2,794)
Financial Liabilities measured at amortised cost	(2,099)	(2,099)	(1,695)	(1,695)
Total Financial Liabilities	**(13,388)**	**(13,388)**	**(4,489)**	**(4,489)**

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 are 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 and 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 2012	**Level 1 £'000**	**Level 2 £'000**	**Level 3 £'000**
Financial Assets			
Fair Value through profit and loss	653,527	131,686	9
Loans & Receivables	63,930	-	-
Total Financial Assets	**717,457**	**131,686**	**9**
Financial Liabilities			
Fair Value through profit and loss	(2,718)	(76)	-
Financial Liabilities measured at amortised cost	(1,695)	-	-
Total financial liabilities	**(4,413)**	**(76)**	**0**
Net Financial Assets	**713,044**	**131,610**	**9**

	Quoted market price	Using observable inputs	With significant unobservable inputs
Values at 31 March 2011	**Level 1 £'000**	**Level 2 £'000**	**Level 3 £'000**
Financial Assets			
Fair Value through profit and loss	633,717	137,694	9
Loans & Receivables	42,534	-	-
Total Financial Assets	**676,251**	**137,694**	**9**
Financial Liabilities			
Fair Value through profit and loss	(10,225)	(1,064)	-
Financial Liabilities measured at amortised cost	(2,099)	-	-
Total financial liabilities	**(12,324)**	**(1,064)**	**0**
Net Financial Assets	**663,927**	**136,630**	**9**

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 it's liabilities, in other words the promised benefits payable to members. The Fund maintains positions in a variety of financial instruments, as dictated by the Statement of Investment Principles (SIP) 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 Pension Fund Sub-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 Pension Fund Sub-Committee and also by Officers on a more frequent basis if required.

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 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 on various markets. The Pension Fund Sub-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 funds' asset allocations.

Asset Type	Potential market Movements (+/-)
Equities	14.80%
UK Bonds	4.90%
Overseas Bonds	5.90%
Index Linked	6.80%
Pooled Property	5.40%
Alternatives	8.30%
Cash and Cash Equivalents	0.02%

The potential volatilities are consistent with a one standard deviation movement in the change in value of the assets over the latest three years. This can then be applied to the period end asset mix as follows:

Asset Type	Balance at 31 March 2012	Percentage change	Value on Increase	Value on Decrease
	£'000	%	£'000	£'000
Investment portfolio assets:				
Equities	528,967	14.8	607,254	450,680
UK Bonds	78,632	4.9	82,485	74,779
Overseas Bonds	18,569	5.9	19,665	17,473
Index Linked	40,840	6.8	43,617	38,063
Pooled Property	91,825	5.4	96,784	86,866
Alternatives	17,969	8.3	19,460	16,478
Cash and Cash Equivalents	50,053	0.0	50,063	50,043
Other Investment Balances	1,874	0.0	1,874	1,874
Derivatives (Net)	3,752	0.0	3,752	3,752
Total assets available to pay benefits	**832,481**		**924,954**	**740,008**

Asset Type	Balance at 31 March 2011	Percentage change	Value on Increase	Value on Decrease
	£'000	%	£'000	£'000
Investment portfolio assets:				
Equities	519,574	14.8	596,471	442,677
UK Bonds	70,986	4.9	74,464	67,508
Overseas Bonds	24,873	5.9	26,341	23,405
Index Linked	27,066	6.8	28,906	25,226
Pooled Property	82,200	5.4	86,639	23,941
Alternatives	32,173	8.3	34,843	77,761
Cash and Cash Equivalents	23,946	0.0	23,951	29,503
Other Investment Balances	3,477	0.0	3,477	3,477
Derivatives (Net)	(218)	0.0	(218)	(218)
Total assets available to pay benefits	**784,077**		**874,874**	**693,280**

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 bench mark. Investment Managers will also manage interest rate risk in line with policies and procedures put in place in the Investment Manager Agreement. Pension Fund cash held by the Administering Authority is invested in accordance with the Pension Fund's Treasury Management Strategy.

The Fund's direct exposure to interest rate movement as at 31st March 2012 and 31st March 2011 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 2011	Balance at 31 March 2012
	£'000	£'000
Cash Deposits	23,946	50,053
Cash Balances	10,363	6,630
Fixed Interest Securities	95,859	97,200
Total	**130,168**	**153,883**

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 110 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 2012	Change in year in the net assets available to pay benefits	
		+100 bps	-100 bps
	£'000		£'000
Cash & Cash Equivalents	50,053	501	(501)
Cash Balances	6,630	66	(66)
Fixed Interest securities	97,200	972	(972)
Total	**153,883**	**1,539**	**(1,539)**

Asset Type	Carrying amount as at 31 March 2011	Change in year in the net assets available to pay benefits	
		+100 bps	-100 bps
	£'000		£'000
Cash & Cash Equivalents	23,946	239	(239)
Cash Balances	10,363	104	(104)
Fixed Interest securities	95,859	959	(959)
Total	**130,168**	**1,302**	**(1,302)**

Currency Risk

The Pension Fund may invest in financial instruments and transact in denominated currencies other than it's 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 31st March 2012 and as at the previous period end:

Currency Exposure	Asset Value as at 31 March 2011	Asset Value as at 31 March 2012
	£'000	£'000
US DOLLAR	147,053	144,358
JAPANESE YEN	29,327	32,860
EURO	35,778	25,470
HONG KONG DOLLAR	21,561	18,352
SWISS FRANC	11,700	10,052
CANADIAN DOLLAR	10,490	7,698
SINGAPORE DOLLAR	6,776	5,212
NORWEGIAN KRONE	6,283	5,072
NEW TAIWAN DOLLAR	5,535	4,436
AUSTRALIAN DOLLAR	2,104	4,113
SWEDISH KRONA	5,404	3,032
BRAZILIAN REAL	0	2,430
MALAYSIAN RINGGIT	1,562	1,999
SOUTH AFRICAN RAND	2,203	1,646
SOUTH KOREAN WON	0	1,432
YUAN RENMINBI	0	1,361
DANISH KRONE	2	2
ISRAELI SHEKEL	562	0
Total	**286,340**	**269,525**

Currency Rate risk – Sensitivity Analysis

Following analysis of historical data in consultation with the Fund's performance measurement service, the estimated volatilities for each currency were assessed and used for the following sensitivity analysis.

Currency Exposure	Asset Value as at 31 March 2012	Potential Change v GBP	Value on increase	Value on decrease
	£'000	%	£'000	£'000
US DOLLAR	144,358	4.9	151,397	137,319
JAPANESE YEN	32,860	6.6	35,044	30,676
EURO	25,470	4.2	26,535	24,405
HONG KONG DOLLAR	18,352	9.6	20,113	16,591
SWISS FRANC	10,052	10.2	11,082	9,022
CANADIAN DOLLAR	7,698	9.6	8,439	6,957
SINGAPORE DOLLAR	5,212	7.5	5,603	4,821
NORWEGIAN KRONE	5,072	10.5	5,606	4,538
NEW TAIWAN DOLLAR	4,436	9	4,834	4,038
AUSTRALIAN DOLLAR	4,113	10.5	4,545	3,681
SWEDISH KRONA	3,032	10.2	3,342	2,722
BRAZILIAN REAL	2,430	12.8	2,742	2,118
MALAYSIAN RINGGIT	1,999	8.3	2,164	1,834
SOUTH AFRICAN RAND	1,646	13.6	1,870	1,422
SOUTH KOREAN WON	1,432	10.3	1,579	1,285
YUAN RENMINBI	1,361	7.8	1,468	1,254
DANISH KRONE	2	8.3	2	2
Total change in assets	**269,525**		**286,365**	**252,685**

Currency Exposure	Asset Value as at 31 March 2011	Potential Change v GBP	Value on increase	Value on decrease
	£'000	%	£'000	£'000
US DOLLAR	147,053	4.9	154,224	139,882
JAPANESE YEN	29,327	6.6	31,276	27,378
EURO	35,778	4.2	37,274	34,282
HONG KONG DOLLAR	21,561	9.6	23,630	19,492
SWISS FRANC	11,700	10.2	12,899	10,501
CANADIAN DOLLAR	10,490	9.6	11,500	9,480
SINGAPORE DOLLAR	6,776	7.5	7,284	6,268
NORWEGIAN KRONE	6,283	10.5	6,944	5,622
NEW TAIWAN DOLLAR	5,535	9	6,032	5,038
AUSTRALIAN DOLLAR	2,104	10.5	2,325	1,883
SWEDISH KRONA	5,404	10.2	5,956	4,852
MALAYSIAN RINGGIT	1,562	8.3	1,691	1,433
SOUTH AFRICAN RAND	2,203	13.6	2,502	1,904
DANISH KRONE	2	8.3	2	2
ISRAELI SHEKEL	562	8.6	610	514
Total change in assets	**286,340**		**304,149**	**268,531**

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. The potential changes factor in the passive hedges for US Dollar, Euro and Japanese Yen currencies that are in place.

b. Credit Risk

Credit risk is the risk that a 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 the review of the Managers’ annual internal control reports to ensure 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 Custodian, StateStreet 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 the Co-operative Bank and Lloyds TSB Bank.

The Pension Fund Sub-Committee and senior officers monitor this risk by monitoring 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 Money Market Funds (MMFs) to provide further diversification.

The Fund’s cash holdings under its treasury management arrangements were held with the following institutions:

Summary	Rating (Fitch)	Balance at 31 March 2011 £'000	Balance at 31 March 2012 £'000
Cash (Current Assets)			
Co-operative Bank Plc	A-	4	8
Lloyds TSB Plc	A	10,359	6,622
Cash Deposits (Investment Assets)			
Money Market Funds			
BlackRock Global Investors	AAA	5,034	2,066
Scottish Widows Investment Partnership	AAA	5,004	2,030
Goldman Sachs	AAA	1	1
Legal & General Investment Managers	AAA	-	1,502
JP Morgan	AAA	-	1,502
BNY Mellon	AAA	-	1,502
Fidelity	AAA	-	1,001
Insight	AAA	-	1,001
Term Deposits			
Co-operative Bank Plc	A-	1,610	4,480
Santander UK Plc	A+	5,000	-
Cash held by fund managers and Custodian			
Cash (StateStreet Global Services)	AA-	7,298	1,432
Call Accounts (Rabobank / CALYON)	AA	-	2,859
Money Market Funds (StateStreet Global Advisors)	AAA	-	30,677
Total		**34,310**	**56,683**

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 has no holdings in private equity or property which can be considered 'illiquid'.

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 Pension Fund Sub-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 31st March 2010. The next valuation will take place as at March 2013.

These 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 Report and Accounts.

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; and
- to maintain the affordability of the Fund to employers as far as is reasonable over the longer term.

The 2010 valuation was based on a market value of the Fund's assets as at 31st March 2010, which amounted to £729 million and revealed a past service deficiency of £378 million. This represents a funding level of 65.8% of past service liabilities.

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 and pension inflation, and mortality rates. 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 rates applying from 1st April 2011 (expressed as a percentage of employees' pensionable pay) are shown below:

Year	Employer Contribution rate
2011/2012	31.1%
2012/2013	31.1%
2013/2014	31.1%

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 resulting rate is adjusted to recover the past service deficit over twenty-two years, as noted above. The principal assumptions were:

Financial Assumptions

Assumption	Rate	Explanation
Investment return (discount rate)	5.95%	Based on 25-Year bond returns extrapolated to reflect the duration of the Fund's liabilities
Inflation	3.3% - CPI	
Salary increases	2.0% pa over CPI	
Pension increases	In line with CPI	Assumed to be 0.5% less than RPI

Mortality Assumptions

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

Mortality assumptions at age 65	Male	Female
Current pensioners	20.9	23.5
Future pensioners (assumed current age 65)	23.0	25.4

Commutation assumption

Future pensioners are assumed to elect to exchange pension for additional tax free cash up to 25% of HMRC limits for service to 31st March 2008 but that 63% of individuals would opt for tax free cash to HMRC limits for service from 1st April 2008.

17. Actuarial Present Value of Promised Retirement Benefits

In addition to the triennial funding valuation, the Fund's Actuaries also undertake a valuation of pension fund liabilities on an IAS 19 basis every year, using the same base data as the funding valuation rolled forward to the current financial year. This figure is used for statutory accounting purposes and differs from the assumptions and calculations contained in the triennial Actuarial Valuation (see Note 16), which is used to determine the contribution rates payable by employers. This is because IAS 19 stipulates a discount rate rather than a rate which reflects market values,

The actuarial value of promised retirement benefits at the accounting date, calculated in line with IAS 19 assumptions, is estimated to be £1,296 million (£1,176 million in 2010/11). 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 valuation are set out in the table below:

Assumption	2011	2012
Inflation/pension increase rate assumption	2.8%	2.5%
Salary increase rate	5.1%**	4.8%*
Discount rate	5.5%	4.8%

* Salary increases are 1% per annum nominal for three years to 31 March 2012 reverting to the long term rate thereafter. ** Salary increases are 1% per annum nominal for the period to 31 March 2012, reverting back to the long term rate thereafter.

18. Current Assets

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

Debtors	31 March 2011	31 March 2012
	£'000	£'000
Contributions due	3,176	3,791
Sundry debtors	5,048	3,456
Cash Balances	10,364	6,630
Total	**18,588**	**13,877**

Analysis of Debtors

	31 March 2011	31 March 2012
	£'000	£'000
Central Government bodies	0	0
Other local authorities	7,314	5,721
NHS Bodies	0	0
Public corporations and trading funds	0	0
Other entities and individuals	910	1,526
Total	**8,224**	**7,247**

19. Current Liabilities

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

Creditors	31 March 2011	31 March 2012
	£'000	£'000
Benefits Payable	(386)	(32)
Sundry Creditors	(1,713)	(1,663)
Total	**(2,099)**	**(1,695)**

Analysis of Creditors

	31 March 2011	31 March 2012
	£'000	£'000
Central Government bodies	(58)	(10)
Other local authorities	(325)	(304)
NHS Bodies	0	0
Public corporations and trading funds	(9)	(6)
Other entities and individuals	(1,707)	(1,375)
Total	**(2,099)**	**(1,695)**

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(2)(b) of the Local Government Pension Scheme (Management and Investment of Funds) Regulations 2009. 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 31st March 2012 was £6.5 million (£6.9 million as at 31st March 2011). Contributions received into the AVC facility during the year amounted to £0.28 million (£0.28 million in 2010/11). 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 £43.7

million to the Fund in 2011/12 (2010/11: £45.9 million). Consequently there is a strong relationship between the Council and the Pension Fund.

The Council incurred costs of £0.3 million in 2011/12 (0.3 million in 2010/11) 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.

Governance

The following Councillors were also members of the Local Government Pension Scheme (LGPS) during the year; Cllr Samantha Lloyd (Chair), Cllr Robert Chapman (Vice Chair), Cllr Geoff Taylor, Cllr Daniel Kemp, Cllr Patrick Vernon and Cllr Abraham Jacobson.

Cllr Samantha Lloyd is a Board Member of Hackney Homes Ltd and is on the Governing Body at Mossbourne Academy (scheduled body employer). Cllr Geoff Taylor is on the Governing Body of Orchard Road Primary School (LBH scheduled body).

Neil Isaac, Employer Representative, is an employee of Hackney Homes Ltd and a member of the Pension Scheme. Jonathan Malins-Smith, became Scheme Member Representative on 28/09/2011, is an employee of the London Borough of Hackney and a member of the Pension Scheme.

Key management personnel

Several employees of the London Borough of Hackney hold key positions in the financial management of the Fund. As at 31st March 2012 these employees included:

Ian Williams	Corporate Director of Finance and Resources
Michael Honeysett	Assistant Director, Financial Management
Jill Davys	Head of Financial Services

All of these managers are also members of the pension scheme.

22. Contingent Assets, Contingent Liabilities and Contractual Commitments

The Pension Fund has no material contingent assets, liabilities or contractual commitments.

23. Impairment Losses

During 2011/12 the Fund recognise an impairment loss of £4k (2010/11: £4k) for possible non-recovery of pension overpayments.

London Borough of Hackney Pension Fund

Statement of Investment Principles

Hackney

Introduction

The London Borough of Hackney is the Administering Authority for the London Borough of Hackney Pension Fund. The Pensions Sub-Committee is the body with delegated powers to administer the Fund. The Committee, comprised of elected representatives of Hackney Council and non-voting employer and scheme member representatives, 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.

1 Background to the Fund

1.1 The Legal Requirements

The Local Government Pension Scheme (Management and Investment of Funds) (Amendment) Regulations 2009 require pension fund administering authorities to prepare, maintain and publish a statement of the principles governing their decisions on the investment of the pension fund.

The Statement must cover the policy on:

(a) the types of investment to be held;
(b) the balance between different types of investments;
(c) risk, including the ways in which risks are to be measured and managed;
(d) the expected return on investments;
(e) the realisation of investments;
(f) the extent (if at all) to which social, environmental or ethical considerations are taken into account in the selection, retention and realisation of investments;
(g) the exercise of the rights (including voting rights) attaching to investments, if the authority has any such policy; and
(h) stock lending.

Regulation 12(3) also requires Administering Authorities to have regard to guidance given by the Secretary of State on investment decision making and to state in their Statement how far they comply with that guidance. This is included as appendix 1.

1.2 The Scheme

The Pension Scheme for the London Borough of Hackney is a final salary 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 (Members, Contributions and Benefits) Regulations

2007, Local Government Pension Scheme (Administration) Regulations 2008 and the Local Government Pension Scheme (Transition) Regulations 2008.

The terms of the Local Government Pension Scheme (LGPS) Regulations set out in clear terms the benefits that are payable to Scheme members and as such the benefits are guaranteed for those members. The contributions payable by Scheme members are also defined in the Regulations and therefore members are not reliant on investment performance for their pension benefits. 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. This means that if the Pension Fund's investments do not perform as well as expected, any shortfall has to be met from Council Tax, other public funds and by other employers participating in the Fund, 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.

1.3 The Fund's Objectives

The objectives of the Fund as laid down in the Funding Strategy Statement include the following:

- To ensure the long-term solvency of the Fund;
- 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;
- 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 defaulting on its pension obligations; and
- To address the different characteristics of the disparate employers or groups of employers to the extent that this is practical and cost-effective.

The primary investment objective of the Fund is to ensure that due regard is paid to the best financial interests of all its stakeholders. Against this background, the Fund's approach to investing is to:

- Optimise the return on investment consistent with a prudent level of risk;
- Ensure that there are sufficient assets to meet the liabilities; and
- Ensure the suitability of assets in relation to the needs of the Fund.

1.4 The Pensions Sub-Committee

The Council has delegated responsibility for the operation and management of the scheme to the Pensions Sub-Committee (a Sub-Committee of the Regulatory Committee).

The Sub-Committee's terms of reference require them to act as Trustees of the Council's Pension Fund within the terms of the Superannuation Act 1972. The terms of reference are included within the Council's Constitution which can be found on the Council's website www.hackney.gov.uk or a copy obtained from the Financial Services Department, Keltan House, 89-115 Mare Street, London E8 4RU.

1.5 Advice

Advice to the Members of the Pension Sub-Committee is given by the executive officers of the Council (including, but not limited to, the Corporate Director of Finance and Resources and the Corporate Director of Law and Democratic Services).

The Pension Fund has access to the use of external providers for actuarial and investment services for advice. The Pension Fund employs the services of an Actuary to provide ongoing actuarial advice and to carry out a valuation of the Fund every three years (the triennial valuation) in accordance with the Administration Regulations. In addition the Fund also uses an appointed Investment Advisor to provide professional advice to the Committee on investment related issues.

The Pensions Sub-Committee monitors the level of fees that are paid to the advisers in order to ensure that the advice is charged at an appropriate level, and represents value for money. The Committee will carry out procurement exercises at appropriate intervals to ensure that this continues to be the case.

1.6 Types of Investment

The Fund invests primarily in Equities (UK and Global) with the balance invested in Bonds (UK, Overseas and Index-Linked), Property, a Global Tactical Asset Allocation Strategy and Active Currency. The Fund 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. Some use of derivatives may also be made. More detail on the types of investment, the balance between the investment types and the managers that the Fund employs is contained within Section 5, Investments.

1.7 The Management of Risk

Whilst the objective of the Fund is to maximise the return on its investments, it recognises that this has to be within certain risk parameters and that no investment is without an element of risk. The Fund acknowledges that its predominantly equity based investment strategy may entail significant risk, particularly due to the short term volatility that equity investments can involve. The longer term nature of the Fund and the expected higher longer term returns expected of equity investments over bonds mean, however, that this remains an appropriate strategy for the Fund. A policy of diversification for its investments and investment managers helps the Fund to lower overall risk. Benchmarks and targets against which Investment Managers are expected to perform are further measures put in place to manage the risks for the Fund. The Fund maintains a Risk Register which is reviewed on an annual basis by the Pensions Sub-Committee.

The Committee monitors risk in two ways. As indicated above, they have set a strategic asset allocation benchmark for the Fund. They assess risk relative to that benchmark by monitoring the Fund's asset allocation and investment returns relative to the benchmark. They also assess risk relative to liabilities by monitoring the delivery of benchmark returns relative to liabilities.

The Committee provides a practical constraint on Fund investments deviating greatly from the Committee's intended approach by adopting a specific asset allocation benchmark and by agreeing benchmark asset allocations and tracking error requirements with their managers which the Committee monitors.

2 Responsibilities

1.8 The Pensions Sub-Committee terms of reference as at the date of the publication of this Statement are as follows:

(a) To act as Trustees of the Council's Pension Fund within the terms of the Superannuation Act 1972, the Local Government Pension Scheme Regulations 2008 (as amended) and the Local Government Pension Scheme (Management and Investment of Funds) Regulations 1998 (as amended).
(b) To make arrangement for the appointment of and appoint suitably qualified pension fund administrators, advisors, investment managers and custodians and to periodically review those arrangements.
(c) To formulate and publish a Statement of Investment Principles
(d) 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.
(e) 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.
(f) To monitor the performance and effectiveness of the investment managers and their compliance with the Statement of Investment Principles.
(g) To set an annual budget for the operation of the Pension Fund and to monitor income and expenditure against budget.
(h) To receive and approve an Annual Report on the activities of the Fund prior to publication.
(i) To keep members of the Pension Fund informed of performance and developments relating to the Pension Fund on an annual basis.
(j) To keep terms of reference under review.
(k) To make recommendations to Regulatory Committee in respect of employer discretions.
(l) To determine all matters in relation to admission body issues.

1.9 The Sub-Committee is also responsible for reviewing performance of the investment managers (including the AVC manager), the expertise and sustainability of the investment process, procedures, risk management, internal controls, transaction costs and key personnel. It is also responsible for reviewing social, environmental and ethical matters and the exercise of rights including voting rights.

1.10 Members of the Sub-Committee receive training in their responsibilities as quasi trustees to the Pension Fund and in the operation of the pension scheme with training primarily provided as part of the formal Committee meeting process to ensure that as many Members as possible are in attendance. The Fund's investment advisor, officers of the Council and other external providers will provide the training itself with the Committee reviewing the programme of training to be administered to ensure that it is appropriate to the Committee's needs.

1.11 The Council's Corporate Director of Finance & Resources is responsible for ensuring the following are provided to the Committee for decision making, where appropriate including: -

(a) Budget setting and monitoring
(b) Annual Report and Accounts
(c) Preparation of Statement of Investment Principles
(d) Obtaining the Actuarial Report
(e) Developing and maintaining the Funding Strategy Statement
(f) Scheme Communications

1.12 The responsibilities of the following are set out below

(a) Investment Manager – Day-to-day decisions on investment of the Fund's assets within the mandates approved by Committee and set out by the Investment Management Agreement. Exercise of corporate actions within the policy set by this Statement of Investment Principles. Reporting to the Executive Officers and Pensions Sub-Committee on performance against established benchmarks.
(b) Custodian – Providing safe keeping for the share certificates and other documents of title to Fund investments. Receiving and accounting for dividends. Taking corporate actions if required to do so. Investing surplus cash.
(c) Actuary – Carrying out the actuarial valuation of the Fund's assets and liabilities every three years in accordance with the regulations. The valuation report specifies the level of funding to cover accrued liabilities and the consequent changes (if any) to the employer's contribution rates. The Actuary is also responsible for negotiating bulk transfer arrangements and determining contribution rates for new employers where these are established between triennial valuations.
(d) Investment Consultant – The investment consultant is there to provide the Pension Sub-Committee and officers of the Council with investment related advice pertinent to the management of the Pension Fund to ensure that it's investments are appropriate and prudent.
(e) Administrators – The Council employs an external Pension Fund administrator to undertake the day to day administration of the Pension Fund, including the payment of pension benefits and maintenance of pension benefit records.

3 Funding Position

3.1 The liabilities of the Pension Fund are the pensions due to be paid to current pensioners and their dependents, deferred members of the Scheme and the future benefits that will be paid to active members of the Scheme. The assets held to meet those liabilities are the investments held by the Pension Fund. The Fund's actuarial advisor undertakes an actuarial valuation once every three years in accordance with the prevailing regulations. This reviews the projected liabilities of the Fund at the valuation date (in respect of benefits accrued up to that point) and the assets held by the Fund to meet those liabilities. Comparing the assets against the projected liabilities establishes the overall funding level that the Fund has.

3.2 The results of the last actuarial valuation carried out as at 31st March 2010 are set out below: -

Liabilities	£m
Pensioners, spouses and other beneficiaries	445.5
Deferred pensioners	331.8
Active members (Fund membership to 31st March 2010)	330.2
Total liabilities	1,107.5
Market value placed on the assets	729.2
Past service shortfall	**(378.3)**
Funding Level	**65.8%**

3.3 The valuation therefore shows a past service deficit of £378.3 million representing a funding level of 66%.

3.4 In the intervening period between valuations the Committee receives regular updates on the overall funding position of the Fund and where appropriate individual employer positions.

3.5 Under the Local Government Pension Scheme (Administration) 2008 Regulations, the Fund is required to publish a Funding Strategy Statement in an actuarial valuation year. This is to set out the principles of how the Fund intends to meet its liabilities and where there is a deficit to set out how it intends to recover that deficit. The latest Funding Strategy Statement can be found on the Pension Fund website http://hackney.xpmemberservices.com/Home.aspx or alternatively a copy can be obtained from the Financial Services Department, Keltan House, 89-115 Mare Street, London E8 4RU.

3.6 The Committee, on advice from the actuarial and investment advisors, will give due consideration to undertaking asset/liability studies to determine the most appropriate asset distribution.

3.7 Pensions are paid by the Fund calculated in accordance with the provisions laid down in the Local Government Pension Scheme (Members, Benefits and Contributions) Regulations 2007 (as amended). Pension benefits are therefore set down by Statute meaning that the level of pension benefits that an individual receives is not affected by the investment returns on the Fund.

3.8 Notwithstanding this, pensions do have to be funded and the main sources of funding are: -

(a) Employee contributions (generally based on a range between 5.5% to 7.5% of salaries for existing and all new members);
(b) Income from investment of funds not needed to meet day to day liabilities; and
(c) Employer contributions to meet future liabilities not met by other means plus any deficit identified in the actuarial review

3.9 This means that employers participating in the Fund, including the Council, have a direct interest in the investment returns achieved for the Fund to the extent that any funding shortfall is met from employer's contributions.

4 Investment Policy

4.1 The investment objectives are to maximise income while managing risk so that the Pension Fund can meet its liabilities with the minimum employers' contributions and give the greatest stability of contributions over the long term. The Committee keeps under review the asset allocation within the Fund to ensure that the Fund has the most appropriate asset distribution to achieve its objectives. The Committee will also review the most appropriate method of reviewing the asset allocation policy to determine whether this should be an asset liability study or a policy of ongoing review of strategy.

4.2 The predominance of equities is based on the evidence that over the long term they have outperformed other asset classes. The central investment scenario (based on 2010 valuation assumptions) is that, after allowing for the higher expenses involved in investing in equities, returns will on average exceed gilt returns by 1.45% p.a.

4.3 The use of fixed interest investments (a combination of conventional, index-linked and corporate bonds) is to hedge liability risks and reduce volatility in the Fund. Similarly property, currency and other alternative investment assets are used as a means of diversifying the portfolio to ensure that there is a sufficient spread of risk. Within this structure the Trustees have sought to balance risk with return by having a spread of investment categories and having a portion of its investments managed passively.

4.4 The structure of seven managers was selected because it represents a good balance between the benefits of manager diversification and the disadvantage of reduced economies of scale on the investment fees charged.

4.5 The strategic benchmarks of the managers are set out in paragraph 5.7 The performance targets and targeted tracking errors are given below: -

	Reporting Frequency	Performance Target	Timeframe	Tracking Error
Global Equities manager A – Lazard	Monthly	+3%	p.a. on rolling 3 year	5-6%
Global Equities manager B – Wellington	Monthly	+2%	p.a. on rolling 3 year	Not Applicable
Passive Equity manager – UBS	Monthly	+/-0.25%	p.a. on rolling 3 year	Not Applicable
Fixed Interest manager – F&C	Monthly	+1%	p.a. on rolling 3 year	Less than 3%
Property Manager – Threadneedle	Quarterly	+1%	p.a. on rolling 3 year	n/a
Currency Manager – FX Concepts	Monthly	+12%	p.a. on rolling 3 year	12-14%
GTAA Manager – BlackRock	Monthly	+15%	p.a. on rolling 3 year	14-16%

4.6 The minutes of each meeting of the Pensions Sub-Committee are published after they have been approved by the following meeting of the Sub-Committee. Copies of the agenda, papers and minutes of all meetings are published on the Council website www.hackney.gov.uk

4.7 The Statement of Investment Principles will be reviewed at least every three years following the triennial valuation or where there are material changes required to be made to the Statement. Where material changes occur the SIP will be revised within six months of such changes.

4.8 The majority of investments held by the Fund will be held within the investments that are realisable within a short time frame with the exception of property which is relatively illiquid and represents less than 15% of the Fund’s assets.

5 Investments

5.1 The general powers and duties of local authorities regarding the investment of Pension Fund monies is contained in the Local Government Pension Scheme (Management and Investment of Funds) Regulations 1998 and any subsequent amending regulations. The main provisions are that an administering authority: -

(a) Must invest any fund money that is not needed immediately to make payments from the fund.
(b) Must obtain proper advice at reasonable intervals about their investments.
(c) Must consider such advice in taking any steps about their investments.
(d) May appoint one or more investment managers to manage and invest fund money instead of managing and investing it themselves.
(e) Must keep the performance of an appointed investment manager under review.
(f) May invest in any investment made in accordance with a Section 11 scheme under the Trustee Investments Act 1961 without any restriction as to quantity.

5.2 The Sub-Committee decided that with the exception of the Currency and GTAA fund managers the other managers will only be allowed to use derivatives for hedging purposes and not for gearing or speculative purposes, although some hedging may be used to be able to maintain market exposure in anticipation of receipt of dividends. The use of index futures must be relevant to the Benchmark.

5.3 Existing arrangements also permit fund managers to make use of corporate bonds. Having considered the issue of balancing risk with return, the Pensions Sub-Committee decided that the minimum credit rating for direct investments in corporate bonds (or Preference Shares) should be no lower than a B with an overall average rating of BBB or higher for the credit portfolio and a limit of 5% maximum of F&C's assets for an allocation to high yield bonds.

5.4 These arrangements followed an extensive review process conducted by the Committee with the advice of expert specialists as described earlier. This has created a structure which is intended to balance risk with return. At this stage no provision has been made for investing in hedge funds or private equity.

5.5 The Pension Sub-Committee accepts, however, that circumstances can change and therefore intends to keep the inclusion of private equity, hedge funds and other alternative asset classes under review.

5.6 Information on the Investment Managers selected by the Pensions Sub-Committee to manage the investment of the fund is given below: -

(a) **Global Equities** - Lazard has a thematic approach to investing, which places a high emphasis on longer term growth trends. Wellington operates a more value based approach looking for undervalued companies in which to invest. Using two managers with differing investment styles reduces the risk of volatility in fund performance. When one style of investment is not performing well, the other should compensate and vice versa. Both managers operate with an MSCI All Countries benchmark which includes an element of active UK investments.

(b) **UK Equities** - UBS has been appointed to invest a proportion of the Fund's assets in UK equities on a passive basis. This means they will not attempt to outperform the index but will invest in the same proportions as the stocks in the index. The Pension Fund is invested through a pooled fund arrangement in its indexed portfolio. The Pension Fund has decided to increase the maximum any one investment manager can invest in any single pooled fund up to 35%. This decision allows for more effective and cost efficient investment arrangements through the increased use of pooled funds and complies with the LGPS (Management and Investment of Funds) Regulations 2009.

(c) **Bonds** - F&C will manage a bond portfolio on an active basis, including corporate and overseas bonds.

(d) **Property** - Threadneedle will manage the Fund's property exposure on an active basis through a pooled fund arrangement.

(e) **Active Currency** - FX Concepts is an active currency manager with the Pension Fund invested through a pooled investment vehicle.

(f) **Global Tactical Asset Allocation** – BlackRock is an active GTAA manager with the Pension Fund invested through a pooled investment vehicle.

5.7 The Pension Fund employs seven external fund managers to handle the investment of the Fund's assets. They have responsibility for making day to day decisions on investments within the constraints of agreements made with the Pension Fund and the terms of this Statement of Investment Principles. The specific mandates given to each manager are summarised below: -

- two active global equity managers (Lazard and Wellington)
- a passive UK equity manager (UBS)

The overall benchmark allocations to each asset class and the index against which performance is measured are set out in the table below. Investment ranges have been set to allow flexibility within investment parameters.

Asset Class	Benchmark Allocation	Index	Investment Ranges
UK Equities	33%	FTSE All Share	30-36%
Global Equities	34%	MSCI All World Index	31-37%
Total	**67%**	**Total Equities**	**61-73%**

The Fund employs an active bond manager, F&C, with the following benchmarks:

Asset Class	Benchmark Allocation	Index	Investment Ranges
UK Fixed Interest (Gilts)	6%	FT Gilt All Stock Index	
Corporate Bonds	5%	Merrill Lynch All Stock Credit Index	
UK index linked bonds	3%	FT Over 5 Years Index-Linked	
Overseas Bonds	3%	J.P. Morgan Global (ex UK and ex Japan) Government Index	
Total	**17%**	**Composite**	**15-19%**

The Fund also employs an active property manager Threadneedle with the benchmark as set out below:

Asset Class	Benchmark Allocation	Index	Investment Ranges
Property	12%	HSBC APUT All Balanced Funds Index	
Total	**12%**		**11-13%**

The Fund employs two managers for investments in alternative asset classes for currency, FX Concepts, and Global Tactical Asset Allocation (GTAA), BlackRock:

Asset Class	Benchmark Allocation	Index	Investment Ranges
Alternative Investments	4%		
Currency	2%	Cash LIBOR	
GTAA	2%	Cash LIBOR	
Total	**4%**		**3-5%**

5.8 All investment managers are required to report performance on at least a quarterly basis with performance also being measured by an independent external performance measurement service. The Pension Sub-Committee reviews the performance of all its investment managers on a quarterly basis and receives reports from officers and investment advisors on that performance. The Committee will also receive presentations from all of its investment managers over the course of a financial year at its regular Committee meetings. In addition the Committee will consider in conjunction with its investment advisors and officers the appropriate asset allocation for the Fund on a regular basis.

6 Risk

6.1 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 in improved financial performance, better delivery of services, improved Fund governance and compliance.

6.2The Fund recognises that the lowest risk strategy would be to fully match its assets against the liabilities which the Fund has and that this would involve a 100% weighting towards index-linked government bonds. The longer term nature of the Fund and the current funding position mean however that such an approach may not be the most cost effective for the Fund and therefore, having sought actuarial and investment advice, the Fund has adopted a more calculated 'higher' risk approach to its investment strategy in order to achieve a higher rate of return over the longer term and therefore reduce the overall cost of funding the scheme. Consequently the Fund operates with an asset distribution which it believes will over the longer term achieve a better rate of return.

6.2The Fund also operates with a policy of diversifying the asset classes it invests in order to assist with the objective of reducing overall risk to the Fund. The Fund also diversifies using a number of investment manages to spread the risk to the Fund of being overly reliant on one manager.

6.3 The management of risk is a key objective of the Fund and as part of that management, the Fund sets it managers with appropriate benchmarks against which they are measured. Managers are also set targets for performance against their benchmark as outlined in the section on investments.

6.4The Fund maintains a risk register which is reviewed annually by the Pensions Sub-Committee. The risk register sets out the nature of the risks which face the fund and an assessment of those risks as to whether they fall into high, medium or low categories. Measures to control and manage risks are included within the risk register and these are also monitored by the Committee.

7 Socially Responsible Investments

7.1 The Pension Sub-Committee acting in their role as quasi Trustees have carefully considered socially responsible investment in the context of their legal and fiduciary duties and obligations.

7.2 In view of the Trustees principal objectives described earlier in this statement, they take the view that non-financial factors should not drive the investment process at the cost of financial return on the Fund. They will not actively disinvest in companies for ethical, social or environmental reasons as this may impact on fund returns and would not accord with their principal objectives.

7.3 The Trustees also believe that they do not have the relevant expertise to make frequent assessment of the financial impact of companies' activities. To that extent, they hold a policy of non-interference with the day-to-day decision making of the investment managers.

7.4 However, the Pension Sub-Committee takes the view that companies that operate socially responsible policies and attempt to find environmentally sustainable ways of meeting customers' needs, will tend to have a more secure future than those that do not. The Committee therefore encourages its active equity investment managers to take a positive view of such companies where their performance on other criteria is similar to that of other comparable companies.

7.5 The London Borough of Hackney is a member of the Local Authority Pension Fund Forum (LAPFF), which currently comprises 52 local authority pension funds with combined assets of £90 billion. The Forum exists to promote the investment interests of local authority pension funds, and in particular to maximise their influence as shareholders to promote corporate social responsibility and high standards of corporate governance amongst the companies in which they invest.

8 Voting Rights

8.1 The Pensions Sub-Committee's policy on corporate governance and proxy voting policy is set out in Appendix 2 to this Statement. Individual investment managers will comply as far as possible with the fund's voting policies.

9 Stock Lending

9.1 The Fund does not currently participate in stock lending, but the position will be subject to review.

10 Compliance

10.1 In accordance with regulation 12(3) of the LGPS (Management and Investment of Funds) Regulations 2009, the Council acting in its capacity as Administering Authority is required to state the extent to which it complies with guidance given by the Secretary of State and where it does not comply the reasons for non-compliance.

10.2 The current guidance relates to that issued by the CIPFA Pensions Panel – Principles for Investment Decision Making and disclosure in the Local Government Pension Scheme in the United Kingdom – A guide to the Application of the 2008 Myners Principles to the Management of LGPS Funds. The Principles revolve around Pension Fund investment, scheme governance, disclosure and consultation and have been set at a relatively high level to give funds flexibility whilst at the same time ensuring that Local Authority Funds have a common set of principles and guidance on which to operate. These Principles have replaced the 10 Myners Principles published in 2001.

10.3 The set of six Myners Principles as they apply to Local Authority Pension Funds are:

- Effective Decision Making
- Clear Objectives
- Risk and Liabilities
- Performance Assessment
- Responsible Ownership
- Transparency and Reporting

10.4 The Principles and the requirements are set out in Appendix 2 to this report. Compliance against these principles is also detailed in the appendix.

10.5 A glossary of technical terms used by investment professionals is attached as Appendix 3.

Appendix 1

PRINCIPLES FOR INVESTMENT DECISION MAKING AND DISCLOSURE IN THE LOCAL GOVERNMENT PENSION SCHEME IN THE UNITED KINGDOM 2009 – APPLICATION OF MYNERS PRINCIPLES 2008 TO THE MANAGEMENT OF THE LGPS FUNDS

The LGPS (Management and Investment of Funds) Regulations 2009, regulation 12(3) require Administering Authorities to state the extent to which they comply with the Guidance given by the Secretary of State and give reasons for non-compliance.

Principle	Compliance Statement
Effective Decision Making Administering Authorities should ensure that: • Decisions are taken by persons or organisations with the skills, knowledge, advice and resources necessary to make them effectively and monitor their implementation • Those persons or organisations have sufficient expertise to be able to evaluate and challenge the advice they receive, and manage conflicts of interest	**Compliant** The Pensions Sub-Committee is the body responsible for the management of the Pension Fund. The Committee receives regular training and seeks and obtains professional advice. The Committee are clear on their fiduciary responsibilities in the management of the Fund. Papers are circulated in advance of meetings and a yearly business plan is presented to Committee at the start of each year. A dedicated training plan to cover the CIPFA Knowledge and Skills Framework has been developed to enable Members of the Committee to assess and meet the required levels of skill and knowledge.
Clear Objectives • An overall investment objective(s) should be set out for the fund that takes account of the scheme's liabilities, the potential impact on local tax payers, the strength of covenant for non-local authority employers, and the attitude to risk of both the administering authority and scheme employers, and these should be clearly communicated to advisers and investment managers.	**Compliant** The Committee's objective for investment is to maximise return within controlled risk parameters. The Committee regularly reviews the asset/liability position of the Fund and seeks the advice of its advisers including the Fund Actuary when determining investment policy. The Fund has set its own benchmark for performance. The Fund's Funding Strategy Statement can be found on the Pension Fund website at: http://hackney.xpmemberservices.com/Home.aspx
Risk and Liabilities	**Compliant**

- In setting and reviewing their investment strategy, administering authorities should take account of the form and structure of liabilities - These include the implications for local tax payers, the strength of the covenant for participating employers, the risk of default and longevity risk	The Fund Actuary undertakes a triennial valuation of the Fund, measuring the gap between the Fund's assets and liabilities. The Committee receives regular updates on the funding position of the Fund, the appropriateness of the assets and benchmarks. The Committee regularly receives updates on the status of employers within the Pension Fund. The Fund has in place a risk register which is reviewed on a regular basis. The Committee is aware of their responsibility to all stakeholders in the Fund including the local tax payers. The Fund is a member of Club Vita which looks at longevity risk specific to the London Borough of Hackney Pension Fund.
Performance Assessment - Arrangements should be in place for the formal measurement of the investments, investment managers and advisers. - Administering Authorities should also periodically make a formal assessment of their own effectiveness as a decision making body and report on this to scheme members.	**Compliant** Formal arrangements are in place for monitoring both quarterly and longer term performance of the Fund's investments and investment managers with the use of external performance measurement services. The Pensions Sub-Committee produce an annual report of the work of the Committee and the training undertaken by the Committee. Members are also involved in a dedicated training programme to ensure that they meet the requirements under the CIPFA Knowledge and Skills Framework.
Responsible Ownership Administering Authorities should: - Adopt or ensure their investment managers adopt, the Institutional Shareholders' Committee Statement of Principles on the responsibilities of shareholders and agents, - Include a statement of their policy on responsible ownership in the Statement of Investment Principles; and - Report periodically to scheme members on the discharge of such responsibilities.	**Compliant** The Fund's Statement of Investment Principles (SIP) contains a statement on the Fund's policy towards socially responsible investment. The Fund's investment managers have adopted the ISC Statement on Responsibilities. The SIP is included in the Pension Fund Annual Report and is also available on the Pension Fund website: http://hackney.xpmemberservices.com/Home.aspx The London Borough of Hackney is a member of the Local Authority Pension Fund Forum (LAPFF), which currently comprises 52 local authority pension funds with combined assets of £90 billion. The Forum exists to promote the investment interests of local authority pension funds, and in particular to maximise their influence as shareholders to promote corporate social responsibility and high standards of corporate governance amongst the companies in which

	they invest
Transparency and Reporting Administering Authorities should: • Act in a transparent manner, communicating with stakeholders on issues relating to their management of investment, its governance and risks, including performance against stated objectives; and • Provide regular communication to scheme members in the form they consider most appropriate.	**Compliant** The Fund's Governance Policy and Compliance Statement and the Fund's Communication Policy Statement setting out the Fund's policies in respect of governance and communicating with stakeholders are available on the Pension Fund website. The Fund holds an annual Employer Forum to ensure all employer's can be updated with issues concerning the Fund and can feedback ideas to the Fund. The Fund produces an Annual Report and Accounts which can be found on the Pension Fund website. The Fund sends an Annual newsletter to all Scheme Members which includes a summary of the Annual Report and Accounts. In addition active and deferred members of the Pension Fund are sent an Annual Benefit Statement. Other newsletters are also sent, as required, to ensure that scheme members are updated with any changes to their benefits. All policy documents can be found on the Pension Fund website: http://hackney.xpmemberservices.com/Home.aspx

Appendix 2

Corporate Governance and Proxy Voting Policy

IMPLEMENTATION AND BENEFITS

Introduction

This document is designed to set out the policy, which directs our proxy voting; to deal with the implementation of the policy; and to outline the benefits that accrue to the Fund by the policy's application.

Principle

The right of shareholders to vote at company meetings is a fundamental link in the chain that binds the owners of the company to those who make the investment decision. The exercise of that vote in an informed way lies at the heart of the regulation and promotion of good corporate governance.

To this end, our Fund managers will be instructed to vote shares in UK companies in accordance with this policy. We retain a commitment to pragmatic and flexible voting and we would instruct our fund managers to contact us on any matters of corporate governance which might be considered contentious.

Policy

Our policy is based on the principles of best practice of corporate governance as laid out in the Combined Code. As such, we will tend to vote in favour of company management except in cases judged to be in breach of the code or when we believe that companies are not acting in the best interests of shareholders. In these cases we will either abstain or vote against resolutions.

In order to avoid the simple box ticking which robs the proxy vote of much of its strength, we assess each resolution on a case-by-case basis and implement our policy in a flexible manner. We consider this especially important in the arena of smaller company voting where standards of proxy voting may be less developed than in larger UK companies. This practical and pragmatic approach allows us to use our voting power to maximum effect.

We will normally vote against:

- Combined roles of chair and chief executive where not publicly justified; and
- The election of executive directors with positions on either remuneration or audit committees.

We will normally abstain on:

- The election of an executive director over the age of 70 where the appointment is not justified in the report and accounts.

We are supportive of initiatives to ensure that all non-executive and executive directors stand for re-election at least once every three years.

Appointment of non executive directors

The election of a powerful constituency of non-executive directors as a counter-balance to executive management is one of the most effective ways of ensuring that the wider interests of shareholders are heard in the boardroom.

Directors

Directors are the stewards of shareholders' capital and should be properly accountable for their actions. Sufficient information should be disclosed in the report and accounts to allow shareholders to judge the success of boards in leading and controlling their company.

We will normally vote in favour of:

- A sufficiency of non executive directors on a board (the code recommends one third as a minimum); and
- A majority within the non-executives of those the Fund Manager considers being independent of the company.

We will normally abstain on:

- The election of non-executive directors over the age of 70 where the remuneration committee does not justify the appointment.

Executive remuneration

One of the most contentious and closely examined areas of corporate governance is that of executive remuneration, comprising directors' service contracts and long-term incentive plans.

Whilst we do not consider it appropriate to comment on the quantum of a director's pay, we believe it is important to ensure that remuneration is linked to results.

Service contracts

The length of directors' service contracts forms a central part of the Combined Code. The code recommends that existing contracts or notice periods be reduced to terms of 12 months rolling or less, and that new contracts should either be established on the same terms or fixed for an initial period and subsequently reduced.

The basic principle of the code is to contain the length of directors' service contracts whilst tying directors into the long-term future of the company by offering incentives for good performance. From the shareholders' point of view, 'reward for results' clearly remunerates directors who enhance the value of their company. At the opposite end of the scale, the reduction in the rolling elements of the contract ensures that shareholders in a company whose management is under performing do not have to suffer the double penalty to having to overpay for the management's removal.

We will normally vote in favour of:

- Rolling contracts of one year's term;
- Two year rolling contracts where justified by the remuneration committee; and
- Fixed contracts up to two years in length with subsequent reductions to 12 month rolling periods.

We will normally vote against:

- Contracts whose terms lie outside any of the above.

Long- term incentive plans

We realise that the corollary of shorter service contracts is that directors be rewarded for exceptional company performance via long-term incentive plans.

We will support long-term incentive plans which;

- Directly align the interests of directors with those of shareholders;
- Establish challenging performance criteria for the plans to vest - performance at or below the median should not be rewarded;
- Measure performance by total shareholder return in relation to the market or a range of comparable companies rather than growth in earnings per share;
- Are long-term in nature (the code recommends a minimum of three years); and
- Encourage long-term ownership of the shares once awarded.

We would ask our Fund Managers to enter into dialogue with companies to try to amend the terms of an incentive plan rather than simply to cast a vote against.

Political donations

We normally consider any political donations to be a misuse of shareholders' funds and we will ***vote against resolutions proposing them***.

Take over bids

The main issue is whether any bid is in the Pension Fund Members' best long-term interests. We would wish to be convinced that this is the case before accepting any bid, whether or not it is contested.

Implementation

We intend our voting policy to be implemented across the FTSE All Share Index. Voting custom and practice and levels of disclosure among overseas companies are not the same as for the UK and it is not possible to vote in accordance with this policy for non-UK equities at the current time. We would, however, look towards implementing our policy overseas when circumstances permit.

Shareholder Resolutions will be considered on their merits and we will ask our Fund managers to contact the company secretary for further information on resolutions deemed to be contentious, if necessary.

The Director of Finance and Resources gives instructions to the Fund managers to vote our shares in accordance with this policy. In addition to our own records, we ask our Fund managers to keep a record of all votes cast so that we may, if required, inspect them for compliance purposes.

The exercise of a proxy vote is a somewhat blunt tool with which to improve standards of corporate governance, but it is not the only way in which we can influence corporate behaviour. Most investment managers meet, on a one to one basis, the senior management of many UK Plc's each year. Although the primary purpose of such meetings is to give management the opportunity to discuss matters of strategic importance, the highly interactive nature of these meetings means that this is a natural forum in which to raise matters such as corporate governance.

Benefits

We believe that the use of these meetings, in conjunction with the disciplined and consistent voting policy detailed above, contributes to higher standards of corporate governance in the UK. Linking the remuneration of directors to the fortunes of their company whilst reducing the rolling elements of contracts is a clear way of aligning the interest of directors with those of shareholders. The establishment of challenging performance criteria, which must be met for incentive plans to vest, reinforces this objective. Importantly, these performance targets can often give an insight into companies' aims and ambitions which can otherwise remain obscure, and it is in this way that the right to vote on resolutions becomes supplementary to the investment process; not just a duty but a benefit.

Appendix 3

Glossary of Technical Terms

Unregistered stock
Unregistered stock describes the common practice of allowing professional investors to trade newly issued shares or bonds before they are registered with the SEC or other national regulatory body. The purpose of this is to speed the issuance of new bonds or shares to professional investors without burdening the issuer with rules that are designed to protect amateur investors. Registration is usually completed a few months after the stock is first issued.

Short sales of stock
Selling a share that the vendor has borrowed and is committed to buy at a future date on the expectation of making a profit as the share price declines.

Margin purchases.
Buying shares with borrowed money, usually from a brokerage. 'Margin' refers to the collateral that needs to be posted to support the borrowing. This collateral requirement is less than the cost of buying shares. The effect of buying 'on margin' is that the investor has greater exposure to the share price rising or falling than the amount of money invested.

Stocklending
The practice of lending stock to other investors. Investors may wish to borrow stock in order to enter into a short sale (see above) or to avoid a settlement failure.

Venture capital
Early stage financing for smaller companies.

Direct venture capital.
Investing directly in an early stage company as opposed to investing in a venture capital fund.

Index futures contracts
An exchange-traded contract that requires delivery of a stock index on terms agreed today but where settlement occurs some months later rather than the following day. Index futures are used to reflect views on the future value of an index, to reduce exposure to index movements, and to effect asset allocation moves. Unlike options (see below), futures oblige both parties to transact. Distinguished from forwards (see below) in that futures are standardised, exchange-traded contracts.

Purchased stock put/call options
Right (but no obligation) to sell (put) or buy (call) an underlying stock at an agreed price. Other party to the contract will have *written* stock put/call options and has sold the option to sell or buy the underlying stock. The writer of the stock put/call option faces the obligation to buy or sell, respectively, at the agreed price. The purchase of a put or call option is often motivated by the desire to decrease or increase the exposure to changes in the value of a holding in the underlying stock.

Purchased index put/call options
Right (but no obligation) to buy or sell the value of an index. See purchased stock put/call options above.

Forward currency trades
A currency forward contract is, in effect, an agreement to exchange currencies on terms agreed today but where settlement occurs some months later rather than the following day. Currency forwards can be used either to take a position on future changes in exchange rates or to reduce the exposure to particular currencies. The forward currency market is large and liquid but transactions are not made on an exchange.

Purchased currency options
Right (but no obligation) to buy or sell an amount of foreign currency at an agreed price before a specific date. The use of currency options may be motivated by the desire to increase or decrease the exposure to changes in particular currency exchange rates.

Bond futures
A bond future is an exchange traded derivative contract. As such the terms of the contract are standardised and trading in the contracts is supervised by the exchange. The purchase of a bond future is perhaps best regarded as the purchase of a basket of bonds with delayed settlement. One common use of bond futures is to effect portfolio positions that reflect duration or yield curve views. Bond futures permit more precise management of bond portfolios and are often a quicker and cheaper way of delivering a devised asset allocation strategy.

Purchased bond put/call options
As purchased stock put/call options above.

Deposit futures
A standardized, transferable, exchange-traded contract that requires delivery of a Certificate of Deposit (CD). CD's are typically short- to medium-term, interest-bearing, insured debt instruments offered by banks. See index futures above.

Purchased deposit put/call options
As purchased stock put/call options above. Certificates of Deposit are the underlying commodity.

Derivatives
A financial instrument whose value is derived from an underlying security or benchmark. (Examples are the options referred to above).

Currency spot and forward contracts
A spot contract is a trade carried out for normal settlement, which is usually the next business day. For currency forward contracts see forward currency trades above.

Options, futures and options on futures.
Options on futures are exchange-traded and can be based on any futures contract. Most often used by investment banks to manage exposure arising from their normal trading activities and by specialist investors wishing to express views on narrow areas of the financial markets.

Investor puts
Investor holds the right to sell a specified stock, index or commodity at an agreed price. (See purchased stock put/calls above)

Traditional equity convertible bonds
A convertible bond is one that can be exchanged for a specified amount of stock at the option of the holder and in some cases the issuer. Today these are traded in the same way as any other bond. Traditional equity convertible bonds are now rare and are no longer being issued but are traded like equities on exchanges.

Callable fixed interest investments
Bonds where the issuer has the option to repay the bond on terms that are set out in the original issue documentation. These terms will specify when the issuer can exercise the option and at what price. Some callable bonds include changes to the bond coupon that are penal to the issuer if they do not exercise their option.

Protective covenants
Requirements placed upon the borrower in the lending agreement, which restrict the ability of the borrower to act against the interests of the lender. Usually require the borrower to maintain agreed levels of solvency and liquidity.

London Borough of Hackney Pension Fund

Funding Strategy Statement

Funding Strategy Statement

1 Introduction

This is the Funding Strategy Statement (FSS) of the London Borough of Hackney Pension Fund ("the Fund"), which is administered by London Borough of Hackney ("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 and is effective from 31 March 2011.

1.1 Regulatory framework

Members' accrued benefits are guaranteed by statute. Members' contributions are fixed in the Regulations at a level that covers only part of the cost of accruing benefits. Employers pay the balance of the cost of delivering the benefits to members. The FSS focuses on the pace at which these liabilities are funded and, insofar as is practical, the measures to ensure that employers or pools of employers pay for their own liabilities.

The FSS forms part of a framework that includes:

- the Local Government Pension Scheme Regulations 1997 (regulations 76A and 77 are particularly relevant);
- the Local Government Pension Scheme (Administration) Regulations 2008 (regulations 35 and 36);
- the Rates and Adjustments Certificate, which can be found appended to the Fund actuary's triennial valuation report;
- actuarial factors for valuing early retirement costs and the cost of buying extra service; and
- the Statement of Investment Principles.

This is the framework within which the Fund's actuary carries out triennial valuations to set employers' contributions, 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.

The key requirements relating to the FSS are that:

- After consultation with all relevant interested parties involved with the Fund, the administering authority will prepare and publish their funding strategy.
- In preparing the FSS, the administering authority must have regard to:
  - FSS guidance produced by CIPFA
  - its statement of investment principles published under Regulation 12 of the Local Government Pension Scheme (Management and Investment of Funds) Regulations 2009.
- The FSS must be revised and published whenever there is a material change in either the policy on the matters set out in the FSS or the Statement of Investment Principles.

The Fund's actuary must have regard to the FSS as part of the fund valuation process.

1.2 Reviews of the FSS

The FSS is reviewed in detail at least every three years ahead of triennial valuations being carried out, with the next full review due to be completed by 31 March 2014. More frequently, Annex A is updated to reflect any changes to employers.

The FSS is a summary of the Fund's approach to funding liabilities. It is not an exhaustive statement of policy on all issues. If you have any queries please contact Jill Davys in the first instance at jill.davys@hackney.gov.uk or on 0208 356 2646.

2 Purpose

2.1 Purpose of the FSS

The Department for Communities and Local Government (CLG) 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. Whilst the position of individual employers must be reflected in the statement, it must remain a single strategy for the Administering Authority to implement and maintain.

This statement sets out how the Administering Authority has balanced the conflicting aims of affordability of contributions, transparency of processes, stability of employers' contributions, and prudence in the approach to funding the scheme's liabilities across a range of employers participating in the Fund.

2.2 Purpose of the Fund

The Fund is a vehicle by which scheme benefits are delivered. The Fund:

- receives contributions, transfer payments and investment income;
- pays scheme benefits, transfer values and administration costs.

One of the objectives of a funded scheme is to reduce the variability of pension costs over time for employers compared with an unfunded (pay-as-you-go) alternative.

The roles and responsibilities of the key parties involved in the management of the pension scheme are summarised in Annex B.

2.3 Aims of the Funding policy

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; and
- to maintain the affordability of the fund to employers as far as is reasonable over the longer term.

3 Solvency issues and target funding levels

3.1 Derivation of employer contributions

Employer contributions are normally made up of two elements:

a) the estimated cost of future benefits being accrued, referred to as the "future service rate"; plus

b) an adjustment for the funding position (or "solvency") of accrued benefits relative to the Fund's solvency target, "past service adjustment". If there is a surplus there may be a contribution reduction; if a deficit a contribution addition, with the surplus or deficit spread over an appropriate period.

The Fund's actuary is required by the regulations to report the Common Contribution Rate[1], for all employers collectively at each triennial valuation. It combines items (a) and (b) and is expressed as a percentage of pay. For the purpose of calculating the Common Contribution Rate, the surplus or deficit under (b) is currently spread over a period of 22 years.

The Fund's actuary is also required to adjust the Common Contribution Rate for circumstances which are deemed "peculiar" to an individual employer[2]. It is the adjusted contribution rate which employers are actually required to pay. The sorts of peculiar factors which are considered are discussed in Section 3.5.

In effect, the Common Contribution Rate is a notional quantity. Separate future service rates are calculated for each employer together with individual past service adjustments according to employer-specific spreading and phasing periods.

For some employers it may be agreed to pool contributions, see Section 3.7.6.

[1] See Regulation 36(5) of LGPS (Administration) Regulations 2008
[2] See Regulation 36(7) of LGPS (Administration) Regulations 2008

Annex A contains a breakdown of each employer's contributions following the 2010 valuation for the financial years 2011/12, 2012/13 and 2013/14. It includes a reconciliation of each employer's rate with the Common Contribution Rate.

Any costs of non ill-health early retirements must be paid as lump sum payments at the time of the employer's decision in addition to the contributions described above (or by instalments shortly after the decision).

Employers' contributions are expressed as minima, with employers able to pay regular contributions at a higher rate. Employers should discuss with the Administering Authority before making one-off capital payments.

3.2 Solvency and target funding levels

The Fund's actuary is required to report on the "solvency" of the whole fund at least every three years.

'Solvency" for ongoing employers is defined to be the ratio of the market value of assets to the value placed on accrued benefits on the Fund actuary's ongoing funding basis. This quantity is known as a funding level.

The ongoing funding basis has traditionally been used for each triennial valuation for all employers in the fund. The ongoing funding basis assumes employers in the Fund are an ongoing concern and is described in the next section.

Where an admission agreement for an admission body that is not a Transferee Admission Body and has no guarantor is likely to terminate within the next 5 to 10 years or lose its last active member within that timeframe, the fund reserves the right to set contribution rates by reference to liabilities valued on a gilts basis (i.e. using a discount rate that has no allowance for potential investment outperformance relative to gilts). The target in setting contributions for any employer in these circumstances is to achieve full funding on a gilts basis by the time the agreement terminates or the last active member leaves in order to protect other employers in the fund. This policy will increase regular contributions and reduce, but not entirely eliminate, the possibility of a final deficit payment being required when a cessation valuation is carried out.

The Fund also reserves the right to adopt the above approach in respect of those non-Transferee 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.

The Fund actuary agrees the financial and demographic assumptions to be used for each such valuation with the administering authority.

The fund operates the same target funding level for all ongoing employers of 100% of its accrued liabilities valued on the ongoing basis. The time horizon of the funding target for community and transferee admission bodies will vary depending on the expected duration of their participation in the fund. Please refer to paragraph 3.8 for the treatment of departing employers.

3.3 Ongoing funding basis

The demographic assumptions are intended to be best estimates of future experience in the Fund based on past experience of LGPS funds advised by the Fund Actuary. It is acknowledged that future life expectancy and in particular, the allowance for future improvements in mortality, is uncertain. Employers should be aware that their contributions are likely to increase in future if longevity exceeds the funding assumptions. The approach taken is considered reasonable in light of the long term nature of the Fund and the assumed statutory guarantee underpinning members' benefits. The demographic assumptions vary by type of member and so reflect the different profiles of employers.

The key financial assumption is the anticipated return on the Fund's investments. The investment return assumption makes allowance for anticipated returns from the Fund's assets in excess of gilts. There is, however, no guarantee that assets will out-perform gilts or even match the return on 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.

In light of the statutory requirement for the Actuary to consider the stability of employer contributions it is therefore normally appropriate to restrict the degree of change to employers' contributions at triennial valuation dates.

Given the very long-term nature of the liabilities, a long term view of prospective returns from equities is taken. For the 2010 valuation, it is assumed that the Fund's investments will deliver an average real additional return of 1.45% a year in excess of the return available from investing in index-linked government bonds at the time of the valuation.

The same financial assumptions are adopted for all ongoing employers. All employers have the same asset allocation.

3.4 Future service contribution rates

The future service element of the employer contribution rate is traditionally calculated on the ongoing valuation basis, with the aim of ensuring that there are sufficient assets built up to meet future benefit payments in respect of future service. The future service rate has been calculated separately for all the employers, although employers within a pool will pay the contribution rate applicable to the pool as a whole. Where it is considered appropriate to do so then the Administering Authority reserves the right to set a future service rate by reference to liabilities valued on a gilts basis (most usually for admission bodies that are not a Transferee Admission Body and that have no guarantor in place). The approach used to calculate each employer's future service contribution rate depends on whether or not new entrants are being admitted. Employers should note that it is only Admission Bodies that may have the power not to admit automatically all eligible new staff to the Fund, depending on the terms of their Admission Agreements and employment contracts.

3.4.1 Employers that admit new entrants

The employer's future service rate will be based upon the cost (in excess of members' contributions) of the benefits that employee members earn from their service each year. Technically these rates will be derived using the Projected Unit Method with a one year control period.

If future experience is in line with assumptions, and the employer's membership profile remains stable, this rate should be broadly stable over time. If the membership of employees matures (e.g. because of lower recruitment) the rate would rise.

3.4.2 Employers that do not admit new entrants

Certain Admission Bodies have closed the scheme to new entrants. This is expected to lead to the average age of employee members increasing over time and hence, all other things being equal, the future service rate is expected to increase as the membership ages.

To give more long term stability to such employers' contributions, the Attained Age funding method is normally adopted. This will limit the degree of future contribution rises by paying higher rates at the outset.

Both funding methods are described in the Actuary's report on the valuation.

Both future service rates will include expenses of administration to the extent that they are borne by the Fund and include an allowance for benefits payable on death in service and ill health retirement. Adjustments for individual employers

Adjustments to individual employer contribution rates are applied both through the calculation of employer-specific future service contribution rates and the calculation of the employer's funding position.

The combined effect of these adjustments for individual employers applied by the Fund actuary relate to:

- past contributions relative to the cost of accruals of benefits;
- different liability profiles of employers (e.g. mix of members by age, gender, manual/non manual);
- the effect of any differences in the valuation basis on the value placed on the employer's liabilities;
- any different deficit/surplus spreading periods or phasing of contribution changes;
- the difference between actual and assumed rises in pensionable pay;
- the difference between actual and assumed increases to pensions in payment and deferred pensions;
- the difference between actual and assumed retirements on grounds of ill-health from active status;
- the difference between actual and assumed amounts of pension ceasing on death;
- the additional costs of any non ill-health retirements relative to any extra payments made;

over the period between the 2007 and 2010 valuations and each subsequent triennial valuation period.

Actual investment returns achieved on the Fund between each valuation are applied proportionately across all employers. 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 occurring in the period since the last formal valuation [see section 3.6 below], 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.

3.5 Asset share calculations for individual employers

The Administering Authority does not account for each employer's assets separately. The Fund's actuary is required to apportion the assets of the whole fund between the employers (or pool of employers) at each triennial valuation using the income and expenditure figures provided for certain cash flows for each employer or pool of employers. 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". 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 having regard to the extra administration cost of building in new protections, it considers that the Fund actuary's approach addresses the risks of employer cross-subsidisation to an acceptable degree.

3.6 Stability of employer contributions

3.6.1 Solvency issues and target funding levels

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, there are a number of prudential strategies that the Administering Authority may deploy in order to maintain employer contribution rates at as nearly a constant rate as possible. These include:-

- capping of employer contribution rate increases / decreases within a pre-determined range ("Stabilisation")
- the pooling of contributions amongst employers with similar characteristics
- the use of extended deficit recovery periods
- the phasing in of contribution increases / decreases

3.6.2 Stabilisation

There can be occasions when, despite the deployment of contribution stabilising mechanisms such as pooling, phasing and the extension of deficit recovery periods, the theoretical employer contribution rate is not affordable or achievable. This can occur in times of tight fiscal control or where budgets have been set in advance of new employer contribution rates being available. The Administering Authority has in conjunction with the Fund Actuary reviewed the possibility of adopting a stabilisation approach but has decided not to use this mechanism at this time, but will continue to keep stabilisation options under review for future valuations.

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.

The LGPS regulations require the longer term funding objectives to be to achieve and maintain assets to meet the projected accrued liabilities. The role of the Fund Actuary in performing the necessary calculations and determining the key assumptions used, is an important feature in determining the funding requirements. The approach to the actuarial valuation and key assumptions used at each triennial valuation form part of the consultation undertaken with the FSS.

3.6.3 Deficit recovery periods

The Administering Authority instructs the actuary to adopt specific deficit recovery periods for all employers when calculating their contributions.

The Administering Authority normally targets the recovery of any deficit over a period not exceeding 22 years. However, these are subject to the maximum lengths set out in the table below:

Type of Employer	***Maximum* Length of Deficit Recovery Period**
Statutory bodies with tax raising powers	a maximum period 22 years
Admission Bodies with funding guarantees	a period to be agreed with each employer not exceeding 22 years
Transferee Admission Bodies	the period from the start of the revised contributions to the end of the employer's contract
Community Admission Bodies that are closed to new entrants whose admission agreements continue after last active member retires.	a period equivalent to the expected future working lifetime of the remaining scheme members allowing for expected leavers
All other types of employer	a period equivalent to the expected future working lifetime of the remaining scheme members

This *maximum* period is used in calculating each employer's *minimum* contributions. Employers may opt to pay higher regular contributions than these minimum rates.

The deficit recovery period starts at the commencement of the revised contribution rate (1 April 2011 for 2010 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 spreading periods, for example to improve the stability of contributions.

3.6.4 Surplus spreading periods

Following the completion of the 2010 valuation, some employers may have a funding level greater than 100%.

These employers will have a choice not afforded to many other employers in the fund. Any employers deemed to be in surplus may be permitted to reduce their contributions below the cost of accruing benefits, by spreading the surplus element over the maximum periods shown above for deficits in calculating their minimum contribution. However if they take the full benefit of their surplus re-payments then their ability to withstand future adverse shocks in the 2013 valuation will be diminished. Employers should consider carefully whether or not to take the full benefit of their current surplus. It is recommended that employers in surplus do not reduce their contribution rate from the rate certified at the 2010 valuation.

3.6.5 Phasing in of contribution rises

Transferee Admission Bodies are not eligible for phasing in of contribution rises. Other employers may opt to phase in contribution rises as follows:

- for employers contributing at or above its future service rate in 2010/11, phasing in the rise in employer contributions over a period of three years;
- for employers contributing at less than its future service rate in 2010/11 phasing in the rise in contributions rises over a period of three years.

3.6.6 Phasing in of contribution reductions

Any contribution reductions will be phased in over six years for all employers except Transferee Admission Bodies who can take the reduction with immediate effect.

3.6.7 The effect of opting for longer spreading or phasing-In

Employers that are permitted and elect to use a longer deficit spreading period than was used at the 2007 valuation or to phase-in contribution changes will be assumed to incur a greater loss of investment returns on the deficit by opting to defer repayment. Thus, deferring paying contributions is expected to lead to higher contributions in the long-term (depending on the actual financial and demographic performance of the Fund relative to the valuation assumptions).

However any adjustment is expressed for different employers, the overriding principle is that the discounted value of the contribution adjustment adopted for each employer will be equivalent to the employer's deficit.

3.6.8 Pooled contributions

a. Smaller employers

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.

Community Admission Bodies that are deemed by the Administering Authority to have closed to new entrants are not permitted to participate in a pool. Transferee Admission Bodies are also ineligible for pooling.

At the 2007 valuation there were no pools for smaller employers.

b. Other contribution pools

Schools are pooled with Hackney Council.

3.7 Admission bodies ceasing

Admission Agreements for Transferee Admission Body contractors are assumed to expire at the end of the contract.

Admission Agreements for other employers are generally assumed to be open-ended and to continue until all the benefits have been paid in full. Contributions, expressed as capital payments, can continue to be levied after all the employees have retired. These Admission Agreements can however be terminated at any point subject to the terms of the agreement.

- The Fund, however, considers any of the following as triggers for the termination of an Admission Agreement:
- Last active member ceasing participation in the LGPS;
- 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 appropriate alternative guarantor as required by the Fund.

In addition either party can voluntarily terminate the admission agreement by giving the appropriate period of notice as set out in the Admission Agreement to the other party (or parties in the case of a Transferee Admission Body).

If an Admission Body's admission agreement is terminated, the Administering Authority instructs the Fund actuary to carry out a special valuation to determine whether there is any deficit.

The assumptions adopted to value the departing employer's liabilities for this valuation will depend upon the circumstances. For example:

a) For Transferee Admission Bodies, the assumptions would be those used for an ongoing valuation to be consistent with the assumptions used to calculate the initial transfer of assets to accompany the active member liabilities transferred.

b) For admission bodies that are not Transferee Admission Bodies whose participation is voluntarily ended either by themselves or the Fund, or which triggers a cessation event, the Administering Authority must look to protect the interests of other ongoing employers and will require the actuary to adopt valuation assumptions which, to the extent reasonably practicable, protect the other employers from the likelihood of any material loss emerging in future. Where there is a guarantor, the cessation valuation will normally be calculated using an ongoing valuation basis appropriate to the investment strategy. 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" with no allowance for potential future investment outperformance and with an allowance for further future improvements in life expectancy. This approach results in a higher value being placed on the liabilities than would be the case under a valuation on the ongoing funding basis and could give rise to significant payments being required.

c) For Admission Bodies with guarantors, it is possible that any deficit could be transferred to the guarantor in which case it may be possible to simply transfer the former Admission Bodies members and assets to the guarantor, without needing to crystallise any deficit.

Under (a) and (b), any shortfall would be levied on the departing Admission Body as a capital payment.

In the event that the Fund is not able to recover the required payment in full directly from the Admission Body or from any bond or indemnity or guarantor, then:

a) In the case of Transferee Admission Bodies the awarding authority will be liable. At its absolute discretion, the Administering Authority may agree to recover any outstanding amounts via an increase in the awarding authority's contribution rate over an agreed period.

b) In the case of admission bodies that are not Transferee Admission Bodies and have no guarantor, the unpaid amounts fall to be shared amongst all of the employers in the Fund. This will normally be reflected in contribution rates set at the formal valuation following the cessation date

As an alternative to (b) above 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 to accept an appropriate alternative security to be held against any funding deficit and to carry out the cessation valuation on an ongoing valuation basis. This approach would be monitored as part of each triennial valuation and the Fund reserves the right to revert to a "gilts cessation basis" and seek immediate payment of any funding shortfall identified.

3.8 Early retirement costs

3.8.1 Non ill-health retirements

The actuary's funding basis makes no allowance for premature retirement except on grounds of ill-health. Employers are required to pay additional contributions wherever an employee retires before attaining the age at which the valuation assumes that benefits are payable.

It is assumed that members' benefits on age retirement 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. Members receiving their pension unreduced before this age other than on ill-health grounds are deemed to have retired early.

The additional costs of premature retirement are calculated by reference to these ages.

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.

3.8.2 Ill-health monitoring

The Fund monitors each employer's, or pool of employers, ill health experience on an ongoing basis. If the cumulative number of ill health retirement in any financial year exceeds the allowance at the previous valuation, the employer may be charged additional contributions on the same basis as apply for non ill-health cases.

3.9 New admitted bodies

The Fund requires the following from any potential Admission Bodies wishing to join the Fund.

Transferee Admission Bodies will be required to have a guarantee from the transferring scheduled body and also provide a bond/or asset backed security if requested by the Administering Authority. The bond is required to cover the following:

- the strain cost of any redundancy early retirements resulting from the premature termination of the employer's contract
- allowance for the risk of asset underperformance
- allowance for the risk of a fall in gilt yields

The employer may also be required to include their current deficit within the bond amount. The bond will be reassessed on an annual basis.

The Administering Authority will only consider requests from Community Admission Bodies to join the Fund if they are sponsored by a scheduled body with tax raising powers, guaranteeing their liabilities and also provide a bond if requested.

This reduces the risk to the Fund of potentially having to pick up any shortfall in respect of Admission Bodies.

4 Links to investment strategy

Funding and investment strategy are inextricably linked. Investment strategy is set by the Administering Authority, after consultation with the employers' representatives and after taking investment advice.

4.1 Investment strategy

The investment strategy currently being pursued is described in the Fund's Statement of Investment Principles.

The investment strategy is set for the long-term, but is reviewed from time to time, normally every three years, to ensure that it remains appropriate to the Fund's liability profile. The Administering Authority has adopted a benchmark, which sets the proportion of assets to be invested in key asset classes such as equities, bonds and property. As at 31 March 2010, the proportion held in equities and property was 74% of the total Fund assets.

The investment strategy of lowest risk would be one which provided cashflows which replicate the expected benefit cashflows (i.e. the liabilities). Equity investment would not be consistent with this.

The Fund's benchmark includes a significant holding in equities in the pursuit of long-term higher returns than from index-linked bonds. The Administering Authority's strategy recognises the relatively immature liabilities of the Fund and the secure nature of most employers' covenants.

The same investment strategy is currently followed for all employers. The Administering Authority does not currently have the facility to operate different investment strategies for different employers. Funding differing investment strategies for individual employers will require investment in new systems and higher ongoing costs which would have to be borne by the employers. The potential benefits of multiple investment strategies need to be assessed against the cost.

4.2 Consistency with funding basis

The funding policy currently adopts an asset out-performance assumption of 1.45% per annum over and above the redemption yield on index-linked gilts. This resulted in a return on the Fund's assets of 6.0% p.a. to be adopted for the 2007 and 2010 formal valuation. The Fund's investment strategy is as currently outlined in the Fund's Statement of Investment Principles. The Fund's Actuary considers that the funding basis does conform to the requirements to take a "prudent longer-term" approach to funding.

The Administering Authority has sought specific advice from the Fund's Actuary on the interaction between funding and investment strategy. In particular, the Administering Authority will consider the implications of the combined strategy on the key objectives of stability of contributions, affordability for employers, transparency of process and method, and prudence. The Administering Authority considers that its funding and investment policy appropriately balances these objectives.

The Administering Authority is aware that, in the short term – such as the three yearly assessments at formal valuations – the proportion of the Fund invested in equities brings the possibility of considerable volatility and there is a material chance that in the short term and even medium term, the asset returns will fall short of the out-performance target. The stability measures described in Section 3 will dampen 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.

4.3 Balance between risk and reward

Prior to implementing its current investment strategy, the Administering Authority considered the balance between risk and reward by altering the level of investment in potentially higher yielding, but more volatile, asset classes like equities. This process was informed by the use of Strategic Benchmarking techniques to model the range of potential future solvency levels and contribution rates.

4.4 Inter-valuation monitoring of funding position

The Administering Authority monitors investment performance relative to the growth in the liabilities by means of methods such as quarterly interim valuations designed to indicate if current investment strategy remains optimal given the liability profile. It intends to report back to employers via regular meetings with employers in order to keep them updated as to the estimated movement in funding levels since the formal valuation.

5 Key risks and controls

5.1 Types of risk

The Administering Authority's has an active risk management programme in place. The measures that the Administering Authority has in place to control key risks are summarised below under the following headings:

- financial;
- demographic;
- regulatory; and
- governance.

5.2 Financial risks

Risk	Summary of Control Mechanisms
Fund assets fail to deliver returns in line with the anticipated returns underpinning valuation of liabilities over the long-term	*Only anticipate long-term return on a relatively prudent basis to reduce risk of under-performing.* *Analyse progress at three yearly valuations for all employers.* *Inter-valuation roll-forward of liabilities between formal valuations subject to market experience*
Inappropriate long-term investment strategy	*Set Fund-specific benchmark, informed by Asset-Liability modelling of liabilities.* *Consider measuring performance relative to bond based target, absolute returns or a Liability Benchmark Portfolio and not relative to indices*
Fall in risk-free returns on Government bonds, leading to rise in value placed on liabilities	*Inter-valuation monitoring, as above.* *Some investment in bonds helps to mitigate this risk.*
Active investment manager under-performance relative to benchmark	*Short term (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 index-linked bonds also helps to mitigate this risk.* *Employers pay for their own salary awards and are reminded 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	*Seek feedback from employers on scope to absorb short-term contribution rises.* *Mitigate impact through deficit spreading and phasing in of contribution rises.*

5.3 Demographic risks

Risk	Summary of Control Mechanisms
Pensioners living longer.	*Set mortality assumptions with some allowance for future increases in life expectancy.* *Fund actuary monitors combined experience of around 50 funds to look for early warnings of lower pension amounts ceasing than assumed in funding.* *Participation in fund specific mortality monitoring services.* *Administering Authority encourage any employers concerned at costs to promote later retirement culture. Each 1 year rise in the average age at retirement would save roughly 5% of pension costs.*
Deteriorating patterns of early retirements	*Employers are charged the extra capital cost of non ill health retirements following each individual decision.* *Employer ill health retirement experience is monitored.*
A company admitted to the Fund as an admission body may become financially unviable	*A surety bond is required to cover the potential risk of the admitted body becoming insolvent and the value of this surety or bond is reviewed regularly to ensure it provides adequate cover for the financial risks involved.*
Ill-health retirements significantly more than anticipated	*Monitoring of each employer's ill-health experience on an ongoing basis. The employer may be charged additional contributions if this exceeds the ill-health assumption built in.*

5.4 Regulatory

Risk	Summary of Control Mechanisms
Changes to regulations, e.g. more favourable benefits package, potential new entrants to scheme, e.g. part-time employees	*The Administering Authority is alert to the potential creation of additional liabilities and administrative difficulties for employers and itself.* *It considers all consultation papers issued by the CLG and comments where appropriate.* *The Administering Authority will consult employers where it considers that it is appropriate.* *In all circumstances where it appears that changes may impact on the Fund's solvency the Administrating Authority will consider seeking actuarial advice to mitigate or manage the impact of such changes.*
Changes to national pension requirements and/or HM Revenue and Customs rules e.g. effect of abolition of earnings cap for post 1989 entrants from April 2006, abolition of 85 year rule, new 2008 scheme, tax simplification and budget changes for higher earners.	

5.5 Governance

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).	*The Administering Authority monitors membership movements on a quarterly basis, via a report from the administrator at quarterly meetings.* *The Actuary may be instructed to consider revising the Rates and Adjustments certificate to increase an employer's contributions (under Regulation 38) between triennial valuations* *Deficit contributions are expressed as monetary amounts (see Annex A).*
Administering Authority not advised of an employer closing to new entrants.	
Administering Authority failing to commission the Fund Actuary to carry out a termination valuation for a departing Admission Body and losing the opportunity to call in a debt.	*In addition to the Administering Authority monitoring membership movements on a quarterly basis, it requires employers with Transferee Admission Agreements to inform it of forthcoming changes.* *It also operates a diary system to alert it to the forthcoming termination of Transferee Admission Agreements.* *Setting a minimum limit of 5 employees for prospective employers.*
An employer ceasing to exist with insufficient funding or adequacy of a bond.	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: • *Seeking a funding guarantee from another scheme employer, or external body, where-ever possible.* • *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 scheme from the extra cost of early retirements on redundancy if the employer failed.*

Annex A – Statement to the Rates and Adjustments Certificate

The Common Rate of Contribution payable by each employing authority under regulation 36(4)(a) of the Administration Regulations for the period 1 April 2011 to 31 March 2014 is 31% of pensionable pay (as defined in Appendix B).
Individual Adjustments are required under regulation 36(4)(b) of the Administration Regulations for the period 1 April 2011 to 31 March 2014 resulting in Minimum Total Contribution Rates expressed as a percentage of pensionable pay are as set out below:

Employer Code	Employer	Minimum contributions for the year ending			Additional deficit contributions (£)		
		31 March 2012	31 March 2013	31 March 2014	31 March 2012	31 March 2013	31 March 2014
350	London Borough of Hackney	16.5%	16.5%	16.5%	20.4% (18,000K)	20.4% (18,900K)	20.4% (19,845K)
351	Renaisi	15.2%	15.2%	15.2%	18,000	18,000	18,000
353	Sanctuary Housing	27.3%	27.3%	27.3%	20,000	20,000	20,000
358	Guinness South Ltd	28.1%	28.1%	28.1%	15,000	15,000	15,000
359	The Learning Trust	16.6%	16.6%	16.6%	1,658K	1,658K	1,658K
360	The 6th Form College Brooke House	17.2%	17.2%	17.2%	55,000	55,000	55,000
361	Hanover Housing Association	22.7%	22.7%	22.7%	61,000	61,000	61,000
366	Shoreditch Trust	14.4%	14.4%	14.4%	32,000	-	-
367	Mossbourne Community Academy	16.0%	16.0%	16.0%	-	-	-
368	Greenwich Leisure Ltd	19.5%	19.5%	19.5%	4,000	4,000	4,000
371	KGB Cleaning (Education)	24.0%	24.0%	24.0%	-	-	-
372	Hackney Homes Ltd	18.7%	18.7%	18.7%	956K	956K	956K
373	Petchey Academy	12.8%	12.8%	12.8%	-	-	-
374	Bridge Academy	16.1%	16.1%	16.1%	-	-	-
375	City Academy	14.1%	14.1%	14.1%	-	-	-
376	Mouchel Babcock Education	20.6%	20.6%	20.6%	-	-	-
377	RM Education Plc	16.9%	16.9%	16.9%	-	-	-
378	Turners Cleaning	22.3%	22.3%	22.3%	-	-	-
379	Skinners Academy	20.1%	20.1%	20.1%	-	-	-

Notes

Contributions expressed as a percentage should be paid into London Borough of Hackney Pension Fund (‘the Fund’) at a frequency in accordance with the requirements of the Regulations.

The bracketed figures shown for London Borough of Hackney are the minimum additional amounts which should be paid in each of the years shown.

Further sums should be paid to the Fund to meet the costs of any early retirements and/or augmentation using methods and factors issued by me from time to time.

Further sums should be paid to the Fund by employers to meet the capital costs of any ill-health retirements that exceed those included within our 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.

Further comments

Ill health liability insurance

Note that, 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.

Annex B – Responsibilities of Key Parties

The Administering Authority should:-

- collect employer and employee contributions;
- invest surplus monies in accordance with the regulations;
- ensure that cash is available to meet liabilities as and when they fall due;
- manage the valuation process in consultation with the fund's actuary;
- prepare and maintain and FSS and a SIP, both after proper consultation with interested parties; and
- monitor all aspects of the fund's performance and funding and amend FSS/SIP

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;
- 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 authorities promptly of all changes to membership or, as may be proposed, which affect future funding.

The Fund actuary should:-

- prepare valuations including the setting of employers' contribution rates after agreeing assumptions with the Administering Authority and having regard to the FSS; and
- prepare advice and calculations in connection with bulk transfers and individual benefit-related matters.

London Borough of Hackney Pension Fund

Governance Policy and Compliance Statement

Hackney

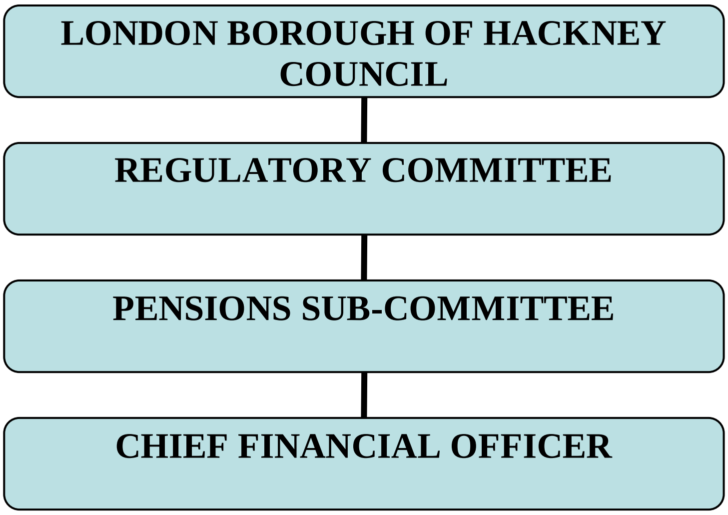
Governance Statement– Administering Authority

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.

The Local Government Pension scheme (Administration) Regulations 2008 – Regulation 31 and its predecessor, Regulation 73A of the LGPS Regulations 1997 (as amended), requires Local Government Pension Scheme (LGPS) Administering Authorities to publish Governance Compliance Statements. It also requires the Authority to keep the statement under to review and to make revisions as appropriate and where such revisions are made to publish a revised statement.

Structure

The Constitution of the Council published on 16th June 2011 sets out how the Council operates, how decisions are made and the procedures which are followed to ensure that these are efficient, 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 as shown in the diagram below.



The Constitution allows for the appointment of a Regulatory Committee which has responsibility for the discharge of all non-executive functions assigned to it. The Regulatory Committee may appoint other Sub-Committees as it considers appropriate to discharge any of its functions. The terms of reference for the Regulatory Committee delegated to the Committee in relation to the Pension Fund are set out below:

> *Responsibility for the appointment of a Pensions Sub-Committee, including approval of its terms of reference and membership*
>
> *To receive performance monitoring information on matters within the remit of the Pensions Sub-Committee*

To develop, review, monitor and maintain a strategic overview of the Council's regulatory function

Terms of Reference for the Pensions Sub-Committee

The following are the terms of reference for the Pensions Sub-Committee, last reviewed and updated in June 2011:

1. To act as Trustees of the Council's Pension Fund within the terms of the Superannuation Act 1972, the Local Government Pension Scheme Regulations 1997 (as amended) and the Local Government Pension Scheme (Management and Investment of Funds) Regulations 1998 (as amended).
2. To make arrangements for the appointment of and to appoint suitably qualified pension fund administrators, advisers, investment managers and custodians and to periodically 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 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 monitor the performance and effectiveness of the investment managers and their compliance with the Statement of Investment Principles.
7. To set an annual budget for the operation of the Pension Fund and to monitor income and expenditure against budget.
8. To receive and approve an Annual Report on the activities of the Fund prior to publication.
9. To make arrangements to keep members of the Pension Fund informed of performance and developments relating to the Pension Fund on an annual basis.
10. To keep the terms of reference under review.
11. To make recommendations to Cabinet in respect of employer discretions.
12. To determine all matters relating to admission body issues.

Membership of the Pensions Sub-Committee

The membership of the Pensions Sub-Committee is a minimum of 5 elected Members on a politically proportionate basis who will elect a Chair and Vice Chair. All elected Members have voting rights on the Committee and two voting members of the Committee are required to be able to deem the meeting quorate. In addition there are 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, they have access to all Committee papers, 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 as the Pension Fund with all the legal responsibilities that this entails, it was not felt appropriate to apply the same legal definition to the lay members of the Committee and hence their role as non-voting members.

Members of the Pensions Sub-Committee 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 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.

Training

Members of the Pensions Sub-Committee will receive training in aspects of the management of the Pension Fund including the CIPFA (Chartered Institute of Public Finance Accountancy) Knowledge and Skills Framework, with training schedules drawn up and reviewed on at least an annual basis. Training sessions will be held in advance of Committee meetings to allow as many members to attend as possible, with training provided by both external and internal advisors. Additional training for both individual members and as a Committee can be arranged on an ad hoc basis. Costs of training will be met by the Pension Fund budget.

The objective of training is to ensure that both existing and new members of the Committee have access to information, training and advice in order to discharge their role as trustees of the Pension Fund effectively.

Meetings

The Pensions Sub-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 to 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.

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 .

Delegation of Powers

The Pensions Sub-Committee act as trustees and oversee the management of the Pension Fund. As trustees the Committee has a clear fiduciary duty in the performance of their functions, they have to 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.

Delegated powers have been given to the Director of Finance & Resources in addition to his role as Section 151 Officer and as such he is responsible for the preparation of the Pension Fund Annual Report & Accounts and ensuring the proper administration of the Fund. As appropriate the Director of Finance & Resources will delegate aspects of the role to other officers of the Council including the Assistant Director, Financial Management and the Head of Financial Services and to professional advisors within the scope of the LGPS Regulations.

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 or 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

Statement of Investment Principles

The Local Government Pension Scheme (Management and Investment of Funds) (Amendment) Regulations 2009 require pension fund administering authorities to prepare, maintain and publish a statement of the principles governing their decisions on the investment of the pension fund.

The areas covered in the statement of investment principles are as follows –

- Types of investments to be held.
- Balance between different types of investments.
- Risk.
- Expected return on investments.
- Realisation of investments.
- The extent to which social, ethical and environmental considerations are taken into account.
- The extent to which the Council complies with the 6 Myners principles of investment practice (2008).

Governance Compliance Statement

This sets out the Pension Fund's compliance with the Governance Compliance Statement on best practice showing where the Fund is compliant or not compliant with best practice and the reasons why it may not be compliant.

Annual Report and Accounts

As part of the financial standing orders it is the duty of the Finance Director & Resources to ensure that record keeping and accounts are maintained by the Pension Fund. The Pension Fund accounts are produced in accordance with the accounting recommendations of the Financial Reports of Pension Schemes - Statement of Recommended Practice. 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 both the Pensions Sub-Committee and the Audit Sub-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.

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 Department
Finance & Resources Directorate
Keltan House
89-115 Mare Street
London
E8 4RU

Telephone: 020 8356 2745

Fax: 020 8356 3035

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

hackney.pensions@xafinitypaymaster.com (Administration)

Website: http://hackney.xpmemberservices.com

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

Governance Best Practice – Compliance Statement

The Local Government Pension scheme (Administration) Regulations 2008 (as amended) – Regulation 31 and its predecessor, Regulation 73A of the LGPS Regulations 1997 (as amended), 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 Communities and Local Government Department.

The following compliance statement has been approved by the Corporate Director of Finance & Resources. This sets out where the Pension Fund is compliant with the guidance and where it is not compliant provides an explanation for non-compliance.

The Council's Constitution delegates the Council's functions relating to local government pensions to the Pensions Sub-Committee within its terms of reference: sections 3.2.9 and the Table at 3.2.14. The Terms of Reference for the Pensions Sub-Committee are broad and are set out in full in the Governance Policy above.

All other functions are delegated to the Corporate Director of Finance and Resources. The Chief Executive and all Corporate Directors may take decisions on the exercise of discretion in individual cases, provided that this is in consultation with the Corporate Director Legal and Democratic Services, the Corporate Director Finance and Resources and the Assistant Director Human Resources and Organisational Development.

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 Sub-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 Sub-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 (regulation 73A(1)(c)/1997 Regulations/regulation 31(3)(c)/2008 Regulations)

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, employer and scheme member representatives to 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, eg, admitted bodies);
ii) scheme members (including deferred and pensioner scheme members),
iii) where appropriate, independent professional observers, and
iv) expert advisors (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 Sub-Committee has been determined that there is no requirement for an independent professional observer. (iv) Expert advisers – investment consultant participates at all meetings of the Committee, where necessary 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 papers 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 (regulation 73A(1)(c)/1997 Regulations/regulation 31(3)(c)/2008 Regulations)

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 Sub-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 (regulation 73A(1)(c)/1997 Regulations/regulation 31(3)(c)/2008 Regulations)

Please use this space if you wish to add anything to explain or expand on the ratings given above :-

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 (regulation 73A(1)(c)/1997 Regulations/regulation 31(3)(c)/2008 Regulations)

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, sub-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 (regulation 73A(1)(c)/1997 Regulations/regulation 31(3)(c)/2008 Regulations)

Please use this space if you wish to add anything to explain or expand on the ratings given above :-

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 who 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 Sub-Committee.

	Not Compliant*				Fully Compliant
a)					✓
b)					✓
c)					✓

* Please use this space to explain the reason for non-compliance (regulation 73A(1)(c)/1997 Regulations/regulation 31(3)(c)/2008 Regulations)

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 (regulation 73A(1)(c)/1997 Regulations/regulation 31(3)(c)/2008 Regulations)

Please use this space if you wish to add anything to explain or expand on the ratings given above :-

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 (regulation 73A(1)(c)/1997 Regulations/regulation 31(3)(c)/2008 Regulations)

Please use this space if you wish to add anything to explain or expand on the ratings given above :-

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 (regulation 73A(1)(c)/1997 Regulations/regulation 31(3)(c)/2008 Regulations)

Please use this space if you wish to add anything to explain or expand on the ratings given above :-

Pensions Sub-Committee – Governance Reporting 2011/12

Attendance

The table below sets out the schedule of Pensions Sub-Committee meetings during the last financial year and the attendance at those meetings by the members of the Committee, including the training sessions attended:

Members	Meeting Dates							
	27/06/11		28/09/11		19/01/12		27/03/12	
	Meeting	Training	Meeting	Training	Meeting	Training	Meeting	Training
Samantha Lloyd	P	P	P	P	P	P	P	P
Robert Chapman	A	A	A	A	P	P	P	P
Abraham Jacobson	P	P	A	A	P	P	P	P
Daniel Kemp	A	A	P	P	A	A	P	P
Alan Laing	A	A	P	P	A	A	N/A	N/A
Geoffrey Taylor	P	P	P	P	P	P	A	A
Patrick Vernon	P	P	A	A	P	P	P	P
Co-opted Members								
Neil Isaac	P	P	P	P	P	P	P	P
Jonathan Malins-Smith	N/A	N/A	P	P	P	P	P	P

Key:
P = Present
A = Absent
N/A = Not Applicable (not serving on Committee at that time)

Training

Training was provided to the Committee with a dedicated time slot at the Committee meetings. The training provided to the Committee in 2011/12 was focused on the CIPFA Knowledge and Skills Framework and covered the following topics:

- Investment Performance and Risk Management
- CIPFA Knowledge & Skills Framework Refresher (Part 1 – Governance)
- CIPFA Knowledge & Skills Framework Refresher (Part 2 – Investments)
- Pension Administration

Governance Issues – Management of Conflict of Interest

Prior to the commencement of Committee meetings, Committee members are required to make declarations of interest 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 an interest.

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.

London Borough of Hackney Pension Fund

Communications Policy Statement

Communications Statement

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 (Administration) Regulations 2008.

Objectives

The aim of this communications strategy is to make sure that all stakeholders are kept informed of developments within the Pension Fund. We want to ensure transparency for all stakeholders and an effective communication process will help to maintain the efficient running of the Scheme and ensure that all parties are aware of both their rights and obligations within the Scheme. We will target:

- **Scheme 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.
- **Prospective Scheme Members** – We will make information available to all prospective scheme members, new employees and prospective employees. We will also provide information to those employees who may choose not to join the scheme at the start of their employment or who choose to opt out of the scheme during employment, thereby ensuring that individuals are making an informed decision before opting out of the scheme
- **Scheme Employers** – 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 Council.
- **Council 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.
- **Pension Scheme Administrators** – The Fund's administrators will assist with the overall administration of the scheme to ensure the smooth operation of the administrative function.
- **Other Stakeholders** – 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 (CLG), Revenue and Customs, the Pensions Advisory Service and other pension providers.
- **Requests for Information** - 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.

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.

- **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.
- **Scheme Guides** – There are scheme guides available for members and potential 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 and prospective members of the scheme and at other times on request. A scheme guide is also available for members who may be leaving the scheme for a variety of reasons such as moving employment, retirement or opting out. These provide information on the options and benefits available when leaving the scheme. The scheme guides also form part of the Pension Fund website **http://hackney.xpmemberservices.com** which is available for any member or potential member to access.
- **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 **http://hackney.xpmemberservices.com** . The website contains copies of scheme guides, copies of newsletters and other relevant information pertaining to the LGPS.
- **Annual Benefit Statements** – All scheme members, active and deferred, are entitled to an annual benefit statement detailing the benefits that they might expect at normal retirement date (65). These are issued annually and would normally be issued within 8 months of the financial year end (31st March), but ultimately by the end of the following financial year end. These contain vital information for scheme members and enable individuals to make informed choices about their retirement options.
- **Pension Liaison Officer** – Located at Keltan House, the Pension Liaison Officer is easily contactable by email, telephone, or letter. It is also possible to arrange a one-to-one meeting to discuss the benefits and options available to members and prospective members.
- **Presentations /Meetings** – Whilst it is not always possible for a scheme member to have an individual meeting with the Pension Liaison Officer, general meetings and presentations will be held at intervals to communicate the benefits and options available to scheme members and prospective members.
- **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.
- **Pensions Administration Strategy –** 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.

It sets out the service level agreement and targets which all are expected to meet.

- **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.
- **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.
- **Access to Pensions Sub-Committee** – The Pensions Sub-Committee is the Committee which has delegated power to review, administer and monitor the Pension Fund. The Committee meets 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. 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** .
- **Committee Reports** – Reports to Pensions Sub-Committee and to other Committees as necessary, for example Regulatory Committee and Cabinet, 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.
- **Policy Documents** – These are available for stakeholders to access either on the website at **http://hackney.xpmemberservices.com** , in hard copy or electronically on application. Copies of all policy documents are held within the Financial Services Department, Finance and Resources Directorate.
- **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 **http://hackney.xpmemberservices.com** . A summary document as detailed below will be distributed.
- **Pension Fund Report and Accounts Summary** – This provides a summary of the Pension Fund during the financial year and will be distributed annually to scheme members.

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 Department. Contact details are provided below for the relevant departments.

General administrative queries relating to Pension Scheme membership issues, these should be addressed to:

London Borough of Hackney Pensions
Xafinity Paymaster
Russell Way
Crawley
West Sussex
RH10 1UH

Tel No: 01293 603085

Email:

For members of the scheme - **hackney.members@xafinitypaymaster.com**

For Administration staff – **hackney.employers@xafinitypaymaster.com**

For other queries and feedback issues:

Financial Services
Finance and Resources Directorate
Keltan House
89-115 Mare Street
London
E8 4RU

Email: **pensions@hackney.gov.uk**

Review Process

This policy document will be reviewed and updated as required, when there are significant changes to be made and if appropriate will be consulted upon with the relevant stakeholders.

Communications Policy – Reporting 2011-2012

Scheme Member Communications

Scheme Presentations

Pension induction sessions for new employees have been held throughout the year both for the main employer, the London Borough of Hackney and Hackney Homes. Other ad hoc scheme presentations have been undertaken in schools and with other employers as required. In addition presentations have been provided at pre-retirement courses to support employees with their move into retirement.

Scheme members have also been offered the opportunity to seek individual appointments with a pension specialist and this has proved to be extremely popular with an average of around 5 such sessions occurring each week.

Annual Benefit Statements

Annual benefit statements have been provided to 4,727 active members (including Councillors) and 4,687 deferred members.

Annual Newsletter

An annual newsletter is distributed to all scheme members, including deferred and active members. This was sent out with Annual Benefit Statements and again included information about the scheme changes along with an update on the Fund itself.

Employer Communications

Employer Forum

An employer forum was held in November which included a presentation on the economy from one of the Fund’s investment managers, an update from the Pension Fund actuarial adviser, the pension administrators along with presentations from Pension Fund officers.

General Communications

The Fund responded to a consultation issued by CLG concerning proposed contribution increases for scheme members and also kept employers and scheme members informed of developments on proposed scheme changes.

Pensions Liaison Officer

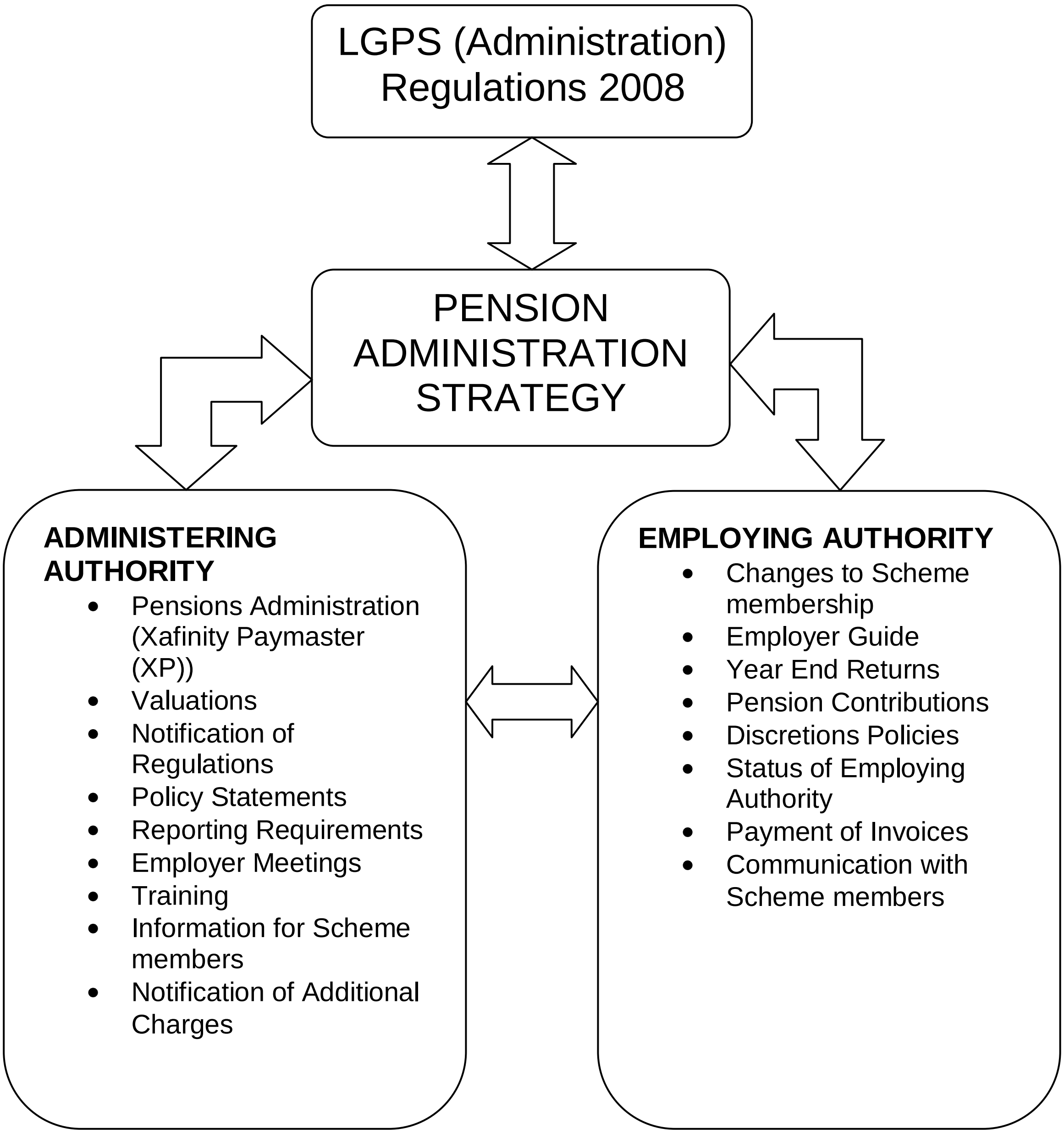
The Pension Liaison Officer has been active throughout the year in communicating with individual scheme members, employers and payroll providers to improve the level of service provided by the Administering Authority.

London Borough of Hackney Pension Fund

Pensions Administration Strategy

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 (the Scheme), which is administered by the London Borough of Hackney (LBH) and Xafinity Paymaster (XP). Below is a diagram showing the roles and responsibilities of the parties in the administration of the scheme



Aims

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. 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 2010.

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)

Regulation 65(1) of the Local Government Pension Scheme (Administration) Regulations 2008 enables a Local Government Pension Scheme Fund to prepare a document ("the 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 43 of the Administration 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 Sub-Committee. The Pension Sub-Committee will monitor the implementation of this Administration Strategy on an annual basis.

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 Xafinity Paymaster and partly carried out by Council staff. The Council and Xafinity Paymaster 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, scheme employers and other stakeholders. The latest version is accessible from the Fund website http://hackney.xpmemberservices.com

The table below summarises the current methods the Fund uses to communicate with scheme employers:

Website http://hackney.xpmemberservices.com	Information about procedures, policies and forms to use
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
Helpline	01293 603085
E-mail addresses: For the Xafinity Paymaster team: Hackney.pensions@xafinitypaymaster.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

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 Act 1995 and associated disclosure legislation
- Freedom of Information Act 2000
- Age Discrimination Act 2006
- Data Protection Act 1998
- Disability Discrimination Act 1995
- Finance Act 2004
- 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 Sub-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 assets.

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 pensions administrators, XP.

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 Sub-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 either 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)
Host a meeting for all scheme employers.	Annually (usually during February each year).
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 poor performance.	As soon as a performance issue becoming apparent.
Notify a scheme employer of decisions to recover additional costs associated with the scheme employer's poor performance (including any interest that may be due).	Within 10 working days of scheme employer failure to improve performance, as agreed.

Fund Administration

This details the functions which relate to the whole Fund, rather than individual scheme members' benefits

XAFINITY PAYMASTER SERVICE STANDARDS AGREEMENT

Issue annual benefit statements to active and deferred members as at 31 March each year.	By the following 31st March at the latest.
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 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 Statement.	Within 30 working days of policy being agreed by the Pensions Sub-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
Publish and keep under review the Fund's Communications Policy Statement.	Within 30 working days of policy being agreed by the Pensions Sub-Committee
Publish and keep under review the Fund's Statement of Investment Principles.	Within 30 working days of policy being agreed by the Pensions Sub-Committee
Publish and keep under review the Administering Authority Discretions Policies	Within 30 working days of policy being agreed by the Pensions Sub-Committee

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.

(1) Administration Services

Category	Task	Actions	Service Standards
Calculations - Active Members	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. 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.
	Ill health retirement of active member	Provision of Ill health 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 confirmation that retirement has been approved and is to proceed.
	Normal Retirement of Active member	Provision of a provisional statement of retirement benefits Provision of final statement of benefits. Finalisation of retirement and issue of tax-free cash sum	3 months prior to member's NRD 10 days from receipt of complete data. 5 days from receipt of complete data.

Category	Task	Actions	Service Standards
Calculations - Active Members cont'd….	Retirement of Active member due to redundancy	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
	Late retirement of active 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

Deferred Members	Early Retirement of Deferred member	Provision of early 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
	Normal Retirement of Deferred Member	Provision of a provisional statement of retirement benefits Provision of final statement of benefits Finalisation of retirement and issue of tax-free cash lump sum.	3 months prior to member's NRD 10 days from receipt of request for quotation 5 days from receipt of complete data
	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
Transfer Values	Transfer In Quotation	Obtain transfer details. Calculate and provide quotation to member.	10 days from receipt of request for quotation 20 days from receipt of complete data
	Acceptance of Transfer In	Request Transfer Value. Establish benefits and record.	5 days from receipt of confirmation that TV is to go ahead 10 days from receipt of transfer cheque

	Transfer Out Quotation Payment of Transfer Value	Provision of details of Transfer Value available to member Provision of payment for transfer value to nominated recipient	10 days from receipt of request for quotation 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. Payment of death benefits as directed.	5 days from receipt of notification of death 1 day from instruction to pay
	Deferred Member – Death in Deferment	Calculation of death benefits. Establishment of beneficiaries. Payment of death benefits as directed.	5 days from receipt of notification of death 1 day from instruction to pay
	Pensioner – Death in Retirement	Calculation of death benefits. Establishment of beneficiaries. Payment of death benefits as directed.	5 days from receipt of notification of death 1 day from instruction to pay
	Death of Spouse	Calculation of death benefits. Establishment of beneficiaries. Payment of death benefits as directed.	5 days from receipt of notification of death 1 day from instruction to pay
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.

Category	Task	Actions	Service Standards
Annual Processes	Annual Renewal	Request renewal information	1 month before renewal date
	Data Load, Year End, and issue Benefit Statements	Enter and validate salary, contributions, COEs, leavers and new entrants. Calculation of Benefit Statement figures. Production and	3 months after receipt of complete and accurate data.

		distribution of Statements	
	Pension Validation	Review of Children's pension and ill health pension in payment	As agreed with client
	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 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
		Payment of PAYE to HMRC	To be received electronically by the Collection Office by the 22nd 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 31st May following tax year end
		Issue P35/P14 year end returns to HMRC	By 19th 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 Employers Responsibility

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.

All information must be provided in the format prescribed by the Fund 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

Function/Task	Performance Target
Confirm a nominated representative to receive information from the Fund and to take responsibility for disseminating it within the organisation.	30 working days of employer joining fund or change to nominated representative.
Formulate and publish policies in relation to all areas where the employer may exercise discretion within the Scheme (including providing a copy of the policy decision(s) to the Fund).	Within 30 working days of policy being agreed the employer.
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
Pay over employer and employee contributions to the Fund and provide schedule of payments in the format stipulated by the Fund.	Cleared funds to be received by 19th calendar day of month after deduction.
Implement changes to employer contribution rates as instructed by the Fund.	At date specified on the actuarial advice received by the Fund.
Provide year end information required by the Fund in the format stipulated in the instructions issued to the nominated representative in March each year.	By 30 April following the year end.
Function/Task	**Performance Target**
Distribute any information provided by the Fund to scheme members/ potential scheme members	Within 15 days of its receipt or on joining the scheme
Notify the Fund if contracting out services which will involve a TUPE transfer of staff to another organisation.	At the time of deciding to tender so that information can be provided to assist in the decision.
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.

Notify the Fund if the employer ceases to admit new scheme members or is considering terminating membership of the Fund.	As soon as the decision is made, so that the Fund can instruct the actuary to carry out calculations if applicable.
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.	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 functions which relate to scheme member benefits from the Scheme.

Function/Task	Performance Target
Complete a starter form for each new employee admitted to the pension scheme and ensure that the employee completes their element of the process.	15 working days of scheme member joining.
Arrange for the correct deduction of employee contributions from a scheme member's pensionable pay on becoming a scheme member.	Immediately on joining the scheme, opting in or change in circumstances.
Ensure correct employee contribution rate is applied (including the transitional arrangements for former "manual" staff).	Immediately upon commencing scheme membership and in line with the employer's policy and as a minimum in each April payroll thereafter.
Arrange for reassessment of employee contribution rate in line with employer's policy and notify the employee of the change in rate.	Review as per policy and notification within 10 working days of change in rate.
Arrange for reassessment of employee contribution rate in line with employer's policy and notify the employee of the change in rate.	Review as per policy and notification within 10 working days of change in rate.

Function/Task	Performance Target
Arrange for reassessment of employee contribution rate in line with employer's policy and notify the employee of the change in rate.	Review as per policy and notification within 10 working days of change in rate.
Ensure correct deduction of pension contributions during any period of child related leave, trade dispute or other forms of leave or absence from duty.	Immediately, following receipt of election from scheme member to make the necessary pension contributions.
Commence deduction of additional regular contributions or amend such deductions, as appropriate.	Month following election to pay contributions or notification received from the Fund.
Cease deduction of additional regular contributions.	Immediately following receipt of election from scheme member.
Arrange for the deduction of AVCs and payment over of contributions to 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.
Refund any employee contributions deducted in error.	Month following month of deduction.
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 payroll where the member has opted out within 3 months and doesn't have previous LGPS membership.	Month following month of election to opt out.
Provide the Fund with details of all contractual changes to scheme members working hours.	20 working days of change.
Notify the Fund of other material changes in employees' circumstances (e.g. marital or civil partnership status)	Immediately following notification by the scheme member of a change in circumstances.
Notify the Fund of leaves of absence with permission (maternity, paternity, career break etc.).	Within 20 working days of notice from employee.
Notify the Fund of leaves of absence without permission (e.g. strike or absent without permission)	Within 20 working days of notice from employee.
Notify the Fund when a scheme member leaves employment including an accurate assessment of final pay.	15 working days of month end of leaving.

Function/Task	Performance Target
Notify the Fund when a scheme member is due to retire including an accurate assessment of final pay and authorisation of reason for retirement.	15 working days **before** retirement date.
Notify the Fund of the death of a scheme member.	As soon as practicable, but within 5 working days.
Appoint an independent medical practitioner qualified in occupational health medicine, in order to consider all ill health retirement applications and agree appointment with the Fund	Within one month of commencing participation in the scheme or date of resignation of existing medical adviser

Monitoring Performance and Compliance

Ensuring compliance with the Scheme regulations and this Administration Strategy is the responsibility of the Fund and scheme employers. This section describes the ways in which performance and compliance will be monitored.

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 the Audit Commission. The key findings of their work are presented to the Pensions Sub-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 Xafinity Paymaster's performance against the contract with them and the agreed Service Level Agreement. Monitoring occurs on a monthly basis and Xafinity Paymaster 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 will be produced annually and included within the Pension Fund Annual Report and Accounts.

Provision of Retirement Estimates

Upon receipt of accurate information on the appropriate form, provision of an estimate will be on the basis of one estimate per employee, per year, in relation to an active member retiring due to age, redundancy, efficiency or flexible retirement. Any further requests in excess of the above will lead to a charge being levied against the requesting employer of £50 per estimate.

Policy on Charging Employers for Poor Performance

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 poor 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 poor 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 poor performance of any scheme employer (including the Council). This includes the payment of charges 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 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, Pensions Ombudsman or other regulatory body.

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 poor 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 poor performance 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 poor performance 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 poor performance 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 poor performance, in accordance with the charging scale set out in this document.

5. An annual report will be presented to the Pensions Sub-Committee meeting detailing charges levied against scheme employers and outstanding payments.

Charging scales for administration

The table below sets out the charges which the Fund will levy on a scheme employer whose performance falls short of the standards set out in this document. Each item is referenced to the Employer Responsibilities section. Charging is a last resort and the approach outlined above will be followed before a charge is levied.

Item	Charge
Late payment of employee and employer contributions	£50 plus interest*
Non provision of the correct schedule accompanying the contributions	£50 per occasion
Underpayment of employee or employer contributions	£50 plus interest*
Late or non provision of year end information or the poor quality of year end information	£250 plus £100 for every month the information is late
Late or non provision of starter forms	£50 per month for forms not received or late
Late or non provision of leaver forms	£50 per month for forms not received or late

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 one percent.

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.

Xafinity Paymaster 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 (Administration) Regulations 2008

The Regulations in relation to the Pension Administration Strategy are contained in the Local Government Pension Scheme (Administration) Regulations 2008, regulation 65 and are set out below:

65.—(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 employing authorities in relation to which it is the administering authority ("its employing authorities");
(b) the establishment of levels of performance which the administering authority and its employing authorities 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 employing authorities 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 employing authorities 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 employing authorities under regulation 43(2) on account of that authority'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 employing authorities 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 employing authorities 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 employing authorities 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) When an administering authority publishes its pension administration strategy, or that strategy as revised, it must send a copy of it to each of its employing authorities and to the Secretary of State.

(7) An administering authority and its employing authorities must have regard to the current version of any pension administration strategy when carrying out their Scheme functions.

(8) In this regulation references to the functions of an administering authority include, where applicable, its functions as an employing authority.

CONTACT DETAILS

For further information on pension issues please contact:

Financial Services Section
Finance and Resources Directorate
Keltan House
89-115 Mare Street
London
E8 4RU

Email: pensions@hackney.gov.uk
Telephone 020 8356 2646

For pension benefit and administration issues please contact:

London Borough of Hackney Pensions
Xafinity Paymaster
Russell Way
Crawley
West Sussex
RH10 1UH

Email: hackney.pensions@xafinitypaymaster.com
Telephone: 01293 603085