London Borough of Hackney Pension Fund

Report and Accounts 2013-14

Fund of the Year
(Above £750 million)

Knowledge and Skills Award

CONTENTS

Chair's Foreword - Cllr Robert Chapman

The Pensions Committee[1] has responsibility for the management of all aspects of the Pension Fund and it is my pleasure, as Chair of the Pensions Committee to introduce the London Borough of Hackney Pension Fund Annual Report and Accounts for 2013/14.

I would however, like to start by recognising the contribution made to the Pension Fund by my predecessor as Chair, Cllr Samantha Lloyd. She was Chair of the Pensions Sub-Committee for 12 years and has recently stood down from being a local Councillor. She demonstrated real leadership for the Sub-Committee leading the Fund through some challenging times including volatile investment markets, changes to the Local Government Pensions Scheme and the need to make difficult decisions. She was an advocate of good governance for the Fund and introduced training for all Sub-Committee Members early on in her leadership, amply demonstrated by the award in 2013 by the LGC for Knowledge and Skills. She has ensured that the Fund is well positioned to meet the challenging times ahead, with the Fund being an early advocate of collaborative working to deliver benefits not just to this Fund but also the wider LGPS community. The hard work and dedication of the Chair and the rest of the Sub-Committee and officers was further recognised in the 'Fund of the Year' Award (funds over £750m) at last year's LGC awards. I would personally like to thank her for valued leadership over the last 12 years and look forward to moving forwards from the good starting point that has passed to me.

The last financial year has certainly been a busy one, with the actuarial valuation being carried out to set new contribution rates from 1st April and the introduction of a new scheme for the LGPS based on a career average and coming into force on 1st April 2014, a full year ahead of other public sector pension scheme reforms. During the year the Fund's two largest employers also implemented auto-enrolment, starting on 1st July 2013, which has not been without its challenges. The Fund has continued to see growth in assets over the year with major western equity markets continuing to post gains over the year, building on the previous year's rises. At the end of March 2014, the Fund value had increased by around 7.8% closing the year at £1.029bn, making it one of the larger funds in London.

Public sector pensions have continued to be the focus of media attention over the last year and in particular the LGPS which has also seen the calls for structural reform from the Department of Communities and Local Government Minister. Whist we do not yet know the outcome of the consultations for reform, the Fund has not sat still waiting for change to come, instead it has fully engaged with the agenda for improving collaborative working and efficiency improvements to try to ensure that the Fund is in a position to help shape the future of the Scheme. We have been heavily involved in the National LGPS Procurement

Frameworks and also in developments for a collective investment vehicle in London. We have also looked at what are likely to be new requirements from the Pensions Regulator and governance requirements for a new local Pensions Board. It seems that Pensions are in a constant state of change and whilst it would be good to have a period of stability to ‘bed in’ all the recent changes, this is unlikely and that the Fund and the Committee will have to ensure that they are ready to meet the challenges going forwards.

I would also like to take this opportunity of expressing my personal appreciation to the fellow members of the [1]Committee, our specialist advisors, the Corporate Director of Finance and Resources and his staff for all their hard work over the past year.

Councillor Robert Chapman

[1] The Pensions Committee replaced the Pensions Sub-Committee on 16 June 2014.

2013-2014 Highlights

The value of the Fund increased in value by 7.9% in 2013/14 and ended the year at a record high of £1,029m.

Economic recovery, particularly in the West helped by low interest rates, meant that these areas saw further rises in equity markets, although uncertainty about Chinese growth meant that the Far Eastern markets and other emerging economies was somewhat weaker than in the West. Bond markets slipped backwards as worries over financial stability eased, although it would seem that investors remain alert to the dangers of a sustainable recovery as the markets have seen periods of volatility during the year. Property in the UK saw strong growth and confidence in an economic recovery started to take hold.

The actuarial valuation based on 31st March 2013 was carried out and whilst it showed a welcome improvement in funding level to 70.1% from the 65.8% as at the 2010 valuation, the actual deficit marginally increased over the 3 years to £406m up by £28m. Despite this, the contribution rate for the main employer, the Council, was able to remain stable. As with other areas of the LGPS, there are calls for greater transparency over the valuation results of funds, however, it is anticipated that the prudent approach adopted by this Fund will mean that the Fund is relatively well positioned. However, the main focus remains as set out in the Funding Strategy Statement, reviewed and agreed during 2013, to reach a target level of 100% funding over 20 years remains one of the Fund's prime objectives.

Running concurrently with the actuarial valuation was a review of longer term options for the Fund in terms of de-risking in order to try to ensure that it is able to meet the objective of reaching a fully funded position. This has resulted in the Fund setting a de-risking strategy in place; as the funding level improves and reaches pre-set targets, then agreement has been reached to reduce the levels of risk i.e. reliance on growth assets, increasing liability type matching or absolute return strategies.

Membership of the Scheme increased significantly over the year as a consequence of the two largest employers reaching their staging dates for auto-enrolment, resulting in an increase in active membership of just over 22% over the year. It is too early to tell if there is any impact from the introduction of the new LGPS 2014 scheme either in terms of increased opt-outs as a result of higher contributions for the higher paid or a shift towards members opting for the 50/50 scheme where they are able to pay 50% of the main scheme contributions to accrue 50% of the benefits.

As reported last year, the Fund remains strongly cash flow positive and that is the case in 2013/14 with contributions into the Fund exceeding benefits paid by £20.1m over the last financial year and in addition received £13.8m investment income. Clearly the Fund cannot afford to be complacent and monitors its cash flow position closely to ensure that should this position deteriorate then, it may need to review its investment strategy, although clearly at this time the Fund remains in a strong position.

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 2013/14 was made up of 7 Councillor Members, an Employer Representative and a Scheme Member Representative.

Councillor Samantha Lloyd

Chair

Councillor Geoff Taylor

Councillor Daniel Kemp

Councillor Robert Chapman

Vice Chair

Councillor Brian Bell

Jonathan Malins-Smith

Scheme Member Representative

Councillor Abraham Jacobson

Councillor Philip Glanville

Neil Isaac

Employer 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

Julie Stacey* – *Treasury & Pensions Manager, Financial Services

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

Richard Law-Deeks* – *Group Accountant, Financial Services

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

Auditors - KPMG

KPMG
15 Canada Square
London
E14 5GL

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

Lloyds Bank PLC
25 Gresham Street
London
EC2V 7HN

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
Equiniti 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
21 Lombard Street
London
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

Global Multi Asset

PIMCO
PIMCO Europe LTD
Nations House
103 Wigmore Street
London
W1U 1QS

Real Return

GMO
GMO UK Ltd
One Angel Court
Throgmorton Street
London
EC2R 7HJ

Performance Measurement Services

WM Performance Services
525 Ferry Road
Edinburgh
EH5 2AW

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 during the year were 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. In addition the Local Government Pension Scheme (Management and Investment of Funds) Regulations 2009 covers the investment aspects of the funds. Following the year end, the introduction of the new LGPS 2014 Scheme on the 1 April 2014 came into effect under the Local Government Pension Scheme Regulations 2013 covering new arrangements for membership, contributions and benefits and the administration of the Scheme.

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). 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 up until 31 March 2014 were between 5.5% and 7.5% based on pensionable pay. From the 1 April 2014 the employee contribution rates now applying are between 5.5% and 12.5% of pensionable pay. Employer rates are set by the Fund Actuary every 3 years following a valuation of the assets and liabilities of the Fund, with the next valuation due to take place as at 31 March 2016.

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 as applying during the financial year 2013/14 was a final salary defined benefit scheme providing 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 and an accrual rate of 1/60th per annum.

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

- Life assurance cover 3x member final pay applicable from the day of joining scheme.
- Pensions for spouses/civil and co-habiting partners and children.
- An entitlement to have pension paid early on medical grounds.
- Pensions increase annually in line with the CPI.

From the 1 April 2014, following the year end, the new LGPS 2014 Scheme came into effect. This changed the structure from a defined benefit to a career average revalued earnings scheme and aligns LGPS retirement age with an individual's state pension age. The key benefits of the new scheme are outlined below:

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

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

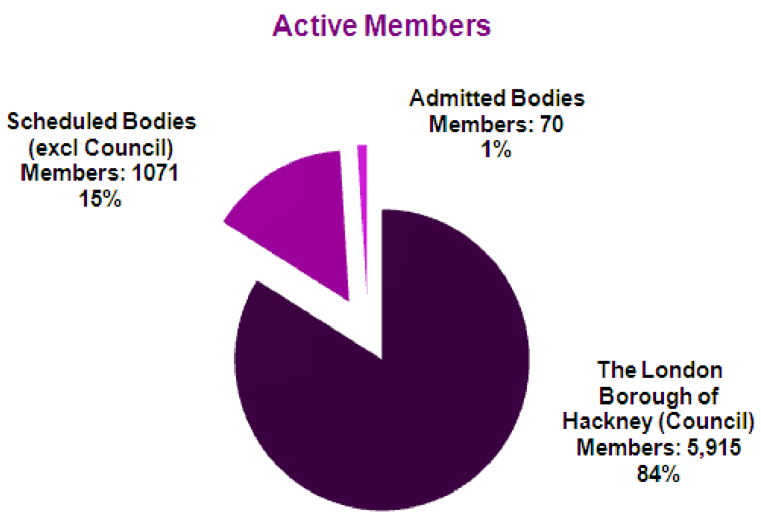
The Pension Fund had twenty two employers in the Fund during the financial year 2013/14, which includes the London Borough of Hackney itself. During the year Family Solutions, Outward, G4S and Hackney New School were admitted as new employers to the Fund and Busy Bee ceased as an active employer. Employers in the Fund fall into either 'Scheduled body' or 'Admitted body' status. The following Table outlines the membership profile for all of the employers' in the Fund as well as their status within the Fund.

Membership by Employer as at 31 March 2014

		Members				
Employer	**Status**	**Active**	**Deferred**	**Pensioner**	**Total**	**%**
London Borough of Hackney	Scheduled	5,915	6,206	5,637	17,758	86.15%
Hackney Homes	Scheduled	755	175	164	1,094	5.31%
Petchey Academy	Scheduled	59	82	-	141	0.68%
Brooke House 6th Form College	Scheduled	53	40	5	98	0.48%
Mossbourne Academy	Scheduled	56	40	2	98	0.48%
City Academy	Scheduled	46	19	3	68	0.33%
Bridge Academy	Scheduled	38	21	3	62	0.30%
Renaisi	Admitted	10	38	9	57	0.27%
Hanover Housing Asso	Admitted	1	27	28	56	0.27%
Skinners Academy	Scheduled	32	15	-	47	0.23%
Clapton Girls Academy	Scheduled	22	7	1	30	0.15%
Greenwich Leisure Ltd	Admitted	18	6	1	25	0.12%
Mouchel Babcock Ed	Admitted	19	4	2	25	0.12%
Hackney New School	Scheduled	10	-	-	10	0.05%
Family Mosaic	Admitted	3	4	-	7	0.03%
RM Education Plc	Admitted	2	4	-	6	0.03%
Caterlink	Admitted	5	-	-	5	0.02%
KGB Cleaning (Education)	Admitted	3	1	-	4	0.02%
Family Solutions	Admitted	3	-	1	4	0.02%
G4S	Admitted	3	-	-	3	0.02%
Turners Cleaning Co	Admitted	2	-	-	2	0.01%
Outward	Admitted	1	-	-	1	0.00%
Employers no longer active	Ceased	-	826	187	1,013	4.91%
Total Membership		**7,056**	**7,515**	**6,043**	**20,614**	**100%**

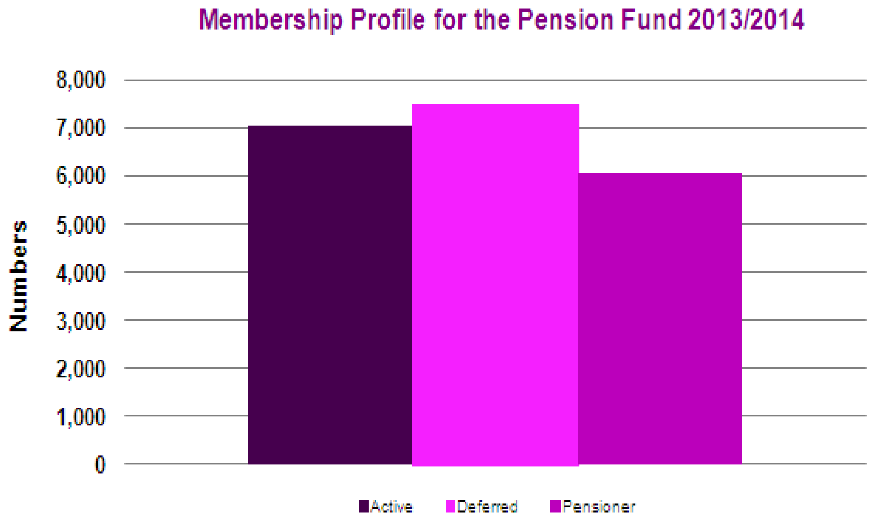
Active Membership in the Fund

The breakdown of the active membership (i.e. those contributing to the Pension Scheme) of the Pension Fund by type of employer as at 31 March 2014 is shown alongside, with the Council being the largest employer in the Fund by a considerable margin.



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.

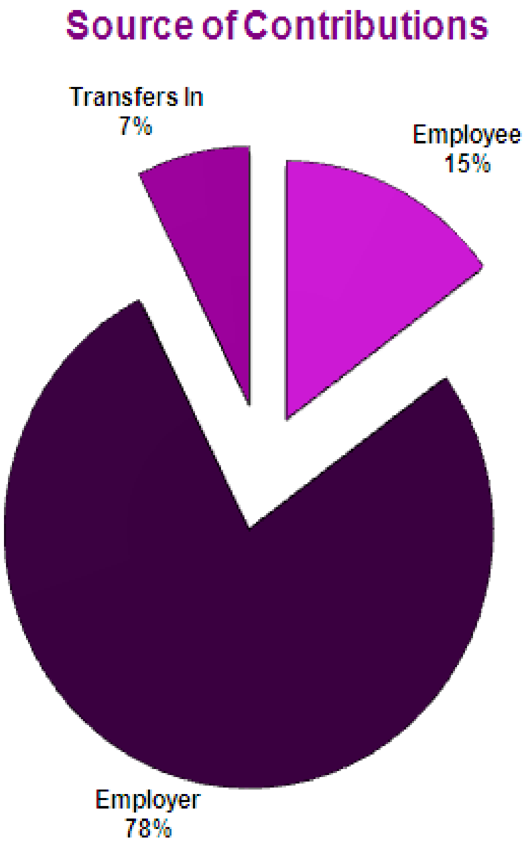


As can be seen from the following chart, active membership increased significantly over the previous year as a result of the two largest employers, namely the Council and Hackney Homes, reaching their staging dates for auto-enrolment in July 2013 and it would appear that the majority of those auto-enrolled have chosen to remain in the scheme rather than opt-out. Active membership increased by over 1,000 and overall membership increased year on year by 10.1% over the year to 20,614 scheme members.

Contributions and Benefits

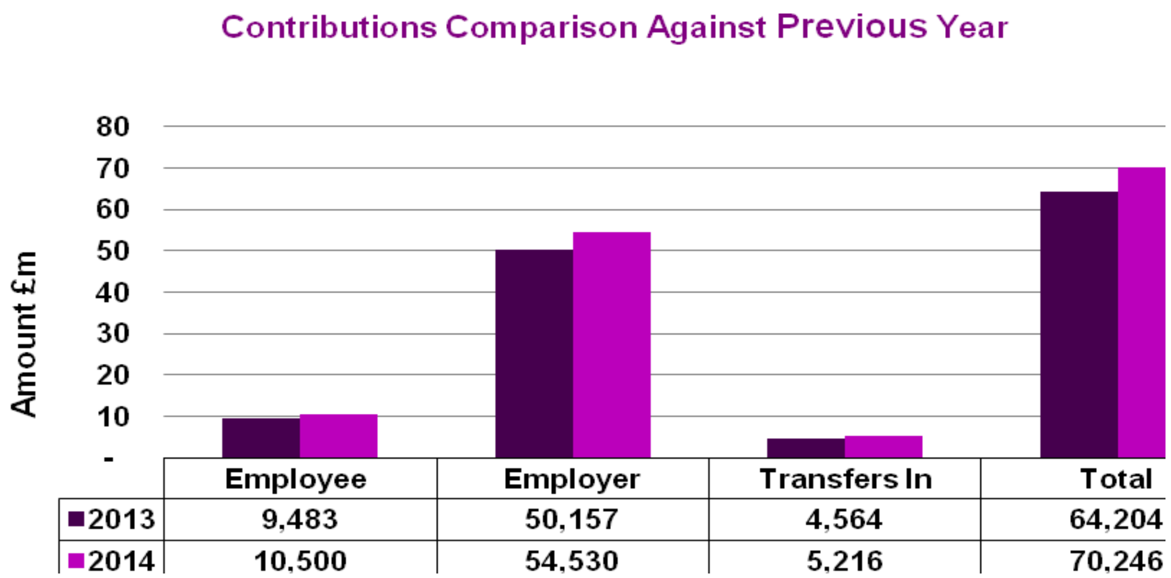
Contributions

Total contributions (including transfers) into the Fund during 2013/14 amounted to £70.2 million compared to £64.2 million for the comparable period 2012/13. Contributions paid by employees are set by statute and during 2013/14 were 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 2013/14, the rates that applied were set from the 2010 valuation.



As can be seen from the chart above the largest source of contributions remains: employers - on behalf of employees and former employees, and amounted to 78% of contribution income during the financial year.

The chart below shows the actual sums being contributed by the employee and employer and the value of transfers-in during the 2013/14 financial year along with comparators for the previous financial year.



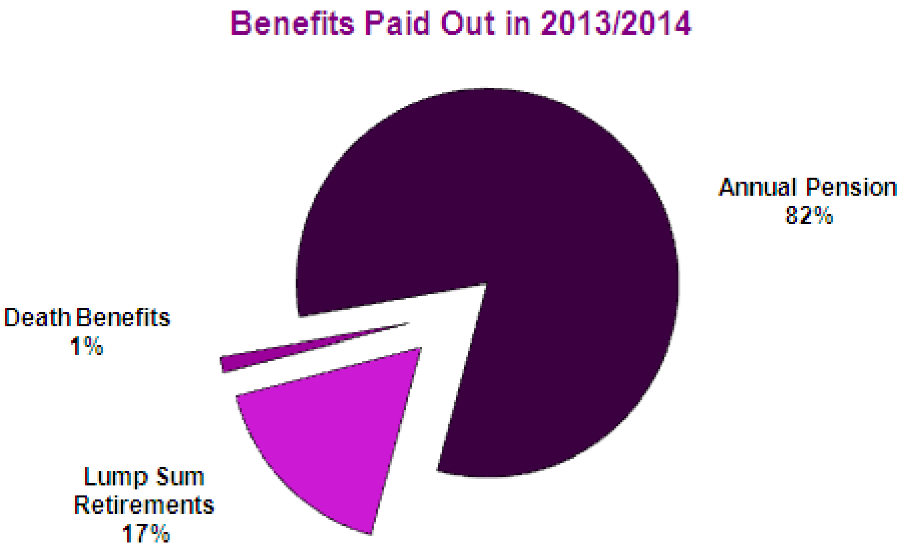
The table below outlines the contributions for all of the employers in the Fund:

Contributions by Employer for the year to 31 March 2014

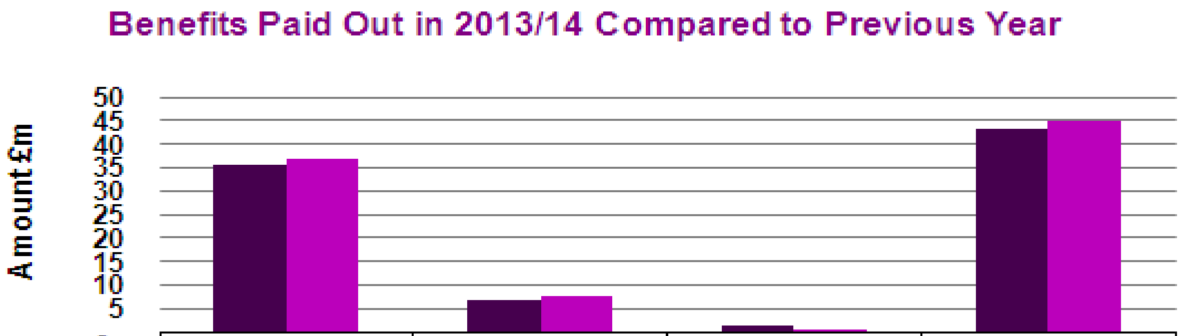
Employer	Status	Members £'000	Employers £'000	Total £'000
London Borough of Hackney	Scheduled	8,422	47,256	55,678
Hackney Homes	Scheduled	1,506	5,494	7,000
Petchey Academy	Scheduled	66	135	201
Brooke House 6th Form College	Scheduled	117	228	345
Mossbourne Academy	Scheduled	73	381	454
Shoreditch Our Way	Admitted	-	(37)	(37)
City Academy	Scheduled	53	117	170
Bridge Academy	Scheduled	56	141	197
Renaisi	Admitted	29	80	109
Hanover Housing Association	Admitted	1	65	66
Skinners	Scheduled	50	152	202
Clapton Girls Academy	Scheduled	41	227	268
Greenwich Leisure Ltd	Admitted	27	86	113
Mouchel Babcock Education	Admitted	35	110	145
Hackney New School	Scheduled	4	13	17
Family Mosaic	Admitted	4	21	25
RM Education Plc	Admitted	5	12	17
KGB Cleaning (Education)	Admitted	1	4	5
Caterlink	Admitted	4	18	22
Family Solutions	Admitted	3	10	13
G4S	Admitted	2	9	11
Turners Cleaning Company	Admitted	-	2	2
Busy Bee	Admitted	-	2	2
Outward	Admitted	1	4	5
Total Membership		**10,500**	**54,530**	**65,030**

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 salary are paid out to nominated beneficiaries. Total benefits paid out during 2013/14 amounted to £45 million compared to £43.3 million for the year 2012/13.

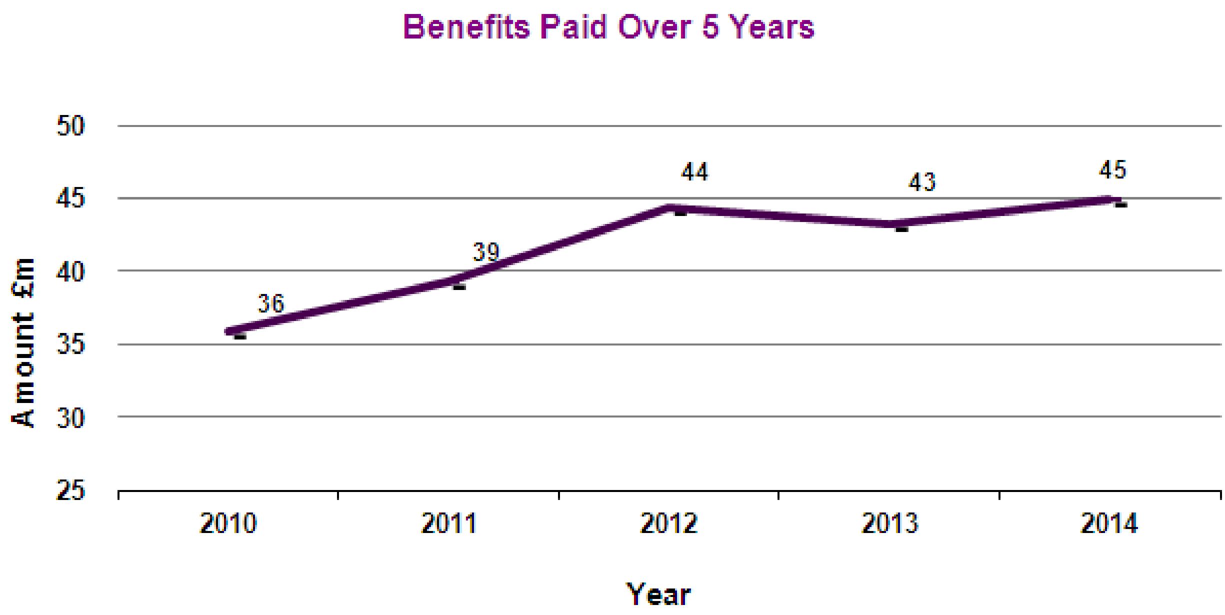


Looking at the year on year increases, annual pension payments increased by close to 4.1%, partly reflecting the 'Pensions Increase' of 2.2%, but also a rise in the number of retirements. Lump sum payments increased by 11.5% reflecting a rise in the number of retirements, some of which reflected restructuring exercises within the main employer, the Council. Lump sum death benefits saw a reduction of just over 46% reflecting a lower incidence of deaths in service during the year.



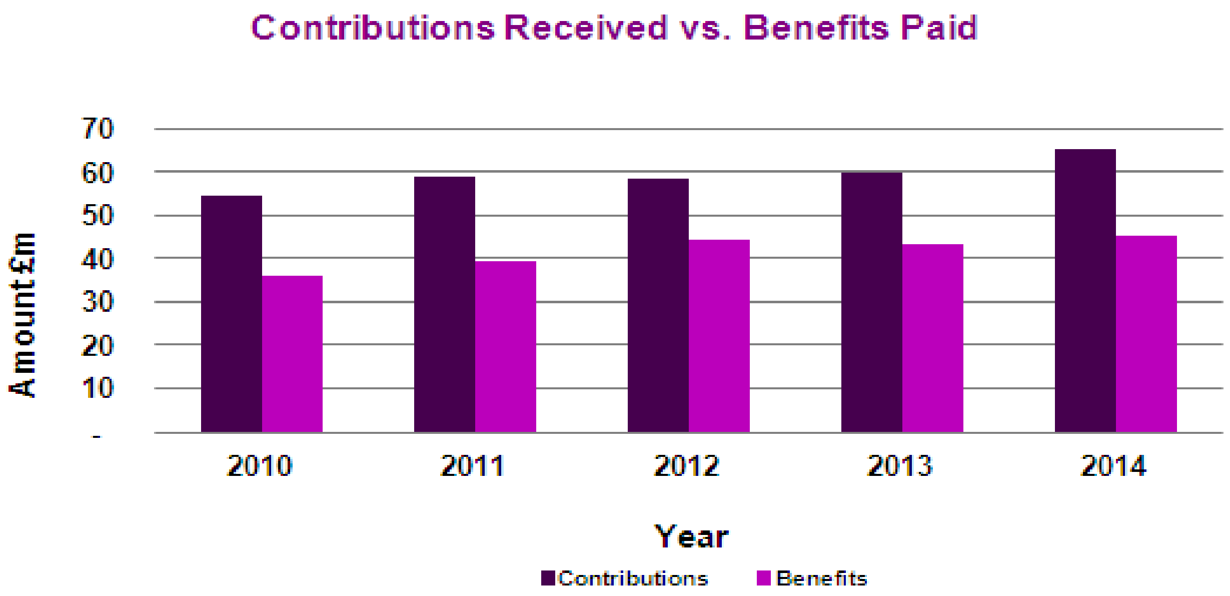
	Annual Pension	Lump Sum Retirements	Death Benefits	Total
2013	35,439	6,736	1,081	43,256
2014	36,883	7,513	579	44,975

Pension benefits being paid out of the Fund have increased steadily over the last five years from £36 million in 2009/10 to £45m in 2013/14. 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.



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 2013/14 the total value of payments to and on account of leavers was £3.1 million, comparable to £3.3 million (2012/13).

Contributions (excl transfers) paid into the Fund continue to exceed the sums paid out in benefits each year, making the Fund strongly cash flow positive. The chart below provides readers with the comparison of contributions paid in to the Fund over the last 5 years compared to the levels of benefits paid out. As the Scheme matures, there is likely to be a narrowing of the gap over time.



Administration and Finance Review

Scheme Administration

The contract for pension administration and pension payroll was managed externally during the year by the Fund's pension administrators, Equiniti Paymaster, with the contract being overseen by the Financial Services Section based at London Borough of Hackney. The contract commenced on 1 April 2009 and the contract extended for a further 3 years on 1 April 2014.

The costs of administering the Fund over financial year 2013/14 were £0.82 million. They cover the internal staff costs involved in administering the Pension Scheme, the external administrator costs and the Pension Fund audit fee. A breakdown of costs can be found at Note 11.

The administrators have a comprehensive website available for members, employers and non-members to find information pertaining to the LGPS http://hackney.xpmemberservices.com/Home.aspx including a members self service area. The members' area has an electronic version of the scheme guide providing details of the benefits of the scheme, pension membership forms, a series of FAQs, a glossary of terms and relevant news items. The employers' area provides all of the above and also copies of Pension Sub-Committee reports, the Pension Fund Report & Accounts, Statement of Investment Principals (SIP), Funding Strategy Statement (FSS), Communications Policy and the Pension Administration Policy (PAS).

The Fund has a procedure for dealing with disputes from members both active and deferred called the Internal Disputes Resolution Procedure (IDRP). These are mainly in regard to either their scheme membership or the non release of ill-health benefits. The process for members is at Stage 1, to first appeal to the Specified Person appointed by the Fund who will assess the case to ensure due process has been followed. Should the member still be dissatisfied after this, they can then appeal to the Administering Authority (Stage 2), who will appoint a Specified Person who will again assess the case and make a determination. If the member remains dissatisfied, they can then appeal to the Pension Ombudsman (Stage 3), who will then make the final determination on the case. The findings of the Ombudsman are legal and binding and no further action can be taken by the individual.

The number of completed IDRP cases in reporting period was 10. The analysis is as follows:

Case Type	*Resolution*
Ill Health – request uplift from Tier 3 to Tier 2	Not upheld
Ill Health - Early Release of Pension	Not upheld
Ill Health - Early Release of Pension	Not upheld
Continue receiving Ill Health Tier 3	Not upheld
Pension Start date – request backdated	Upheld
Pension Start date – request backdated	Upheld
Late Transfer In - request	Not upheld
Late Transfer In - request	Not upheld
GMP - Overpayment	Not upheld
Late Transfer In - request	Not upheld

Administration Management Performance

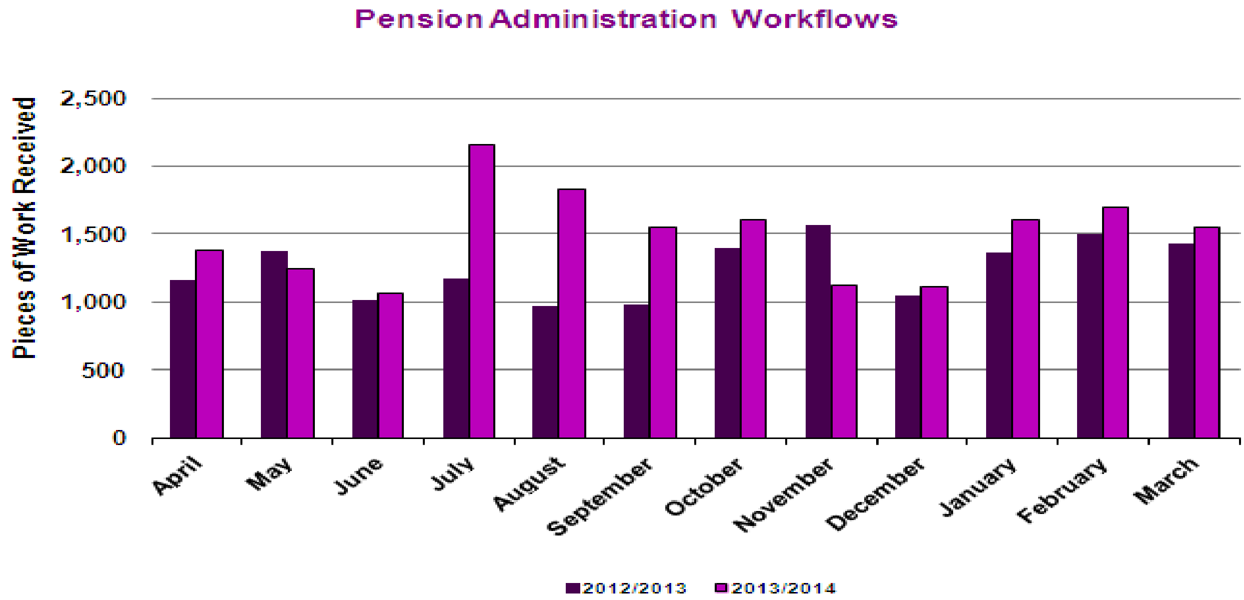
2013/14 saw a significant increase in the workload for the pension administrators, to a large extent this was due to auto-enrolment taking place in the 2 main employers in July. There were 17,919 pieces of work sent to the pension administrators in the year an increase of 19.8% from last year's caseload of 14,963. There were a total of 9 complaints in the current year, which equates to 0.05% of the total workload.

Below is the number and trend of the top case types the administrators have dealt with in the year 2013/14:

Case Type	Number per Year
Death Notifications	256
Leavers	1892
New Entrants	2425
Transfer In	95
Transfer Out	149
Retirement Quote	282
Retirement Finalisations	255
GMP	906
Divorce	61

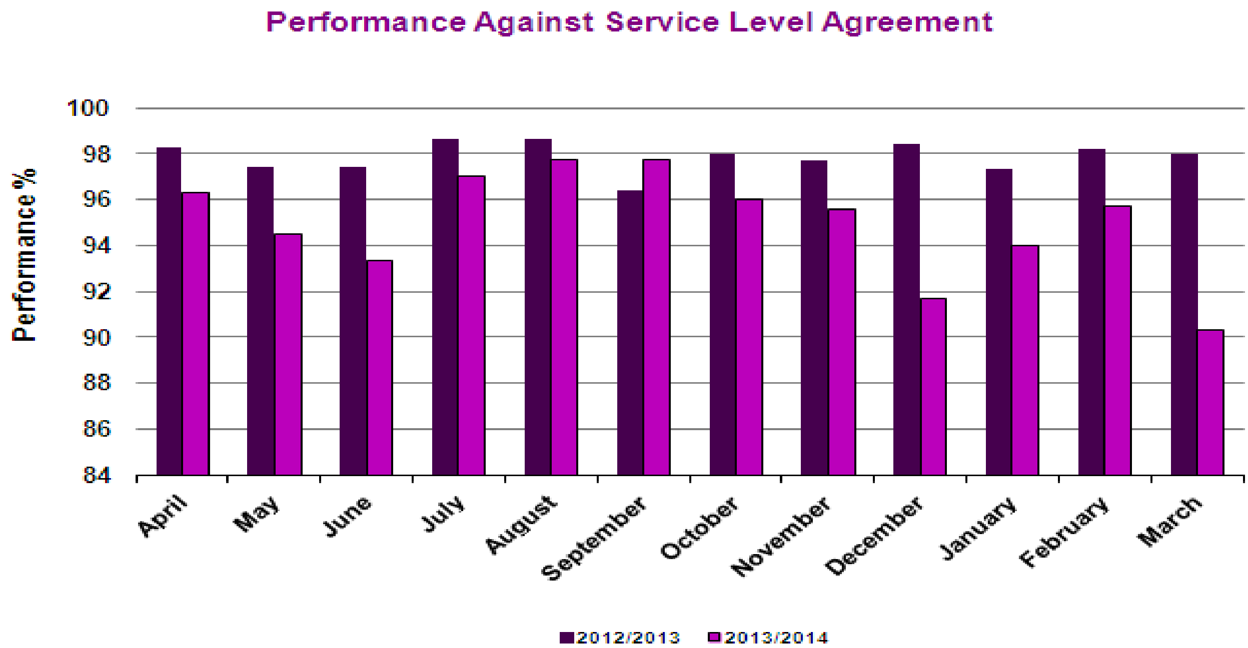
The average monthly workload in 2013/14 has been in the region of 1,493 transactions, fluctuating between a low of just over a 1,000 in June to a high of over 2,100 in July.

The flow of work over the current year in comparison to 2012/13 is shown in the chart below:



Obvious peaks in the workflow came as a result of auto-enrolment being carried out for the Council and Hackney Homes in July, which also followed through into August, although with a couple of exceptions, the workflows have been consistently above the previous year.

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 an average of 95% for the year as a whole, slightly down on the previous year, but this is reflective of the significantly higher levels of work being processed. Service levels are included within the Pensions Administration Strategy document (pages 178 to 206).



In addition to dealing with the day to day administration cases, Equiniti 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.

- A system year end update of pension increases; Lifetime Allowance and Annual Allowance and earnings, and contribution histories were completed.

- A Scheme Event report has been submitted to HMRC.

- Data submissions to central government as requested by Treasury and Communities and Local Government.

- 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.

- 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.

- Annual Benefits Statements for year ending March 2013, were issued in September 2013 to:

Actives	5,321
Deferred	5,593
Councillors	46

- National Fraud Initiative - 94 members who were identified from the national fraud initiative data match as still in receipt of a pension but potentially deceased. 20 are still under investigation.

- Overpayment of pension - identified overpayments to a value of £25,849. These were as a result of late death notifications and errors made by the previous administrators. To date £8,930 has been recovered.

The total scheme membership, analysed by age, as at 31 March 2014 is shown below:

Age	Active	Deferred	Pensioner	Total
1 - 5	-	-	2	**2**
6 - 10	-	-	11	**11**
11 - 15	-	-	20	**20**
16 - 20	56	6	41	**103**
21 - 25	355	128	16	**499**
26 - 30	686	387	-	**1073**
31 - 35	897	597	2	**1496**
36 - 40	808	648	5	**1461**
41 - 45	963	943	25	**1931**
46 - 50	1169	1650	69	**2888**
51 - 55	1135	1720	151	**3006**
56 - 60	666	1095	478	**2239**
61 - 65	282	304	1090	**1676**
66 - 70	34	26	1251	**1311**
71 - 75	4	8	955	**967**
76 - 80	1	1	834	**836**
81 - 85	-	1	623	**624**
86 - 90	-	1	331	**332**
91 - 95	-	-	126	**126**
96 - 100	-	-	13	**13**
Total	**7,056**	**7,515**	**6,043**	**20,614**

Pension Administration Strategy

The Local Government Pension Scheme (Administration) Regulations 2008 gave Administering Authorities the discretion to issue a Pension Administration Strategy document. The provisions in respect of the Pension Administration Strategy have been carried forward into the 2013 Regulations, effective 1 April 2014.

The Pension Administration Strategy was reviewed and updated following a period of consultation with stakeholders and agreed by Pensions Sub-Committee and came into effect on 1 April 2013 and applied during the last financial year. The Strategy has been further updated to reflect the 2013 Regulations. A copy of this statement is included in the Annual Report (pages 178 to 206). 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 including the changes required for the 2014 Scheme and auto-enrolment.

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. Particular attention has been paid to ensuring that schools are aware of their responsibilities towards employees during the year

Dedicated one-to-one sessions for scheme members continue to be popular and help to clarify any issues concerning their personal situation in regard to their pension benefits. The Pensions team have worked hard to explain both auto-enrolment and the provisions of Scheme 2014 to both employers and scheme members and these have been rated highly by attendees.

Ill-Health Retirements

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

Ill Health Retirements April 2013 to March 2014			
Deferred to Ill Health	Active Tier 1	Active Tier 2	ActiveTier 3
6	10	-	6

Monitoring of Employers

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

There were twenty instances of an employer submitting a late or an incorrect payment or late supporting paperwork for contributions during 2013/14. Of the twenty instances, eleven were for late submission of supporting documentation on contributions and 9 were late payments, although these were almost all restricted to one or two days late. Contribution collections are subject to rigorous monitoring and the pursuit of correct payments and supporting documentation remains of paramount importance to the administrators. A continuous programme of improving the relationships between employers, payroll providers and Equiniti Paymaster the scheme administrators, has assisted in ensuring employers are aware of the importance of correct reporting and the timely submission of data.

During 2013/14, the Fund sought to recoup additional administration costs from several employers and schools not complying with the Pensions Administration Strategy. Where there were instances of non-compliance, additional administration costs are recouped directly from those employers and schools concerned in regard to data irregularities, late payment of contributions or late submissions of data during the year.

Going forward, the Pensions Regulator will have a clearly defined role for public sector pension schemes and this is likely to result in ever closer scrutiny of the accuracy of the data held by pension schemes. The emphasis will therefore remain on building relationships with employers and ensuring that the data supplied in respect of employee data is accurate.

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 to the forecast set in the previous year. The budget includes a forecast of the expected level of employee and employer contributions and estimated transfer values, although the latter is difficult with the 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 pension increases and will also include an estimate for transfers out of the Fund.

The Table below sets out the budget, set at the start of the financial year 2013/14, and the outturn for the year and includes a brief analysis of the reasons for the differences between the budget and the outturn.

(Expenditure) /Income	2013-14 Budget	2013-14 Outturn	Outturn vs. Budget % (under) / over spend	Comments
Member Income	**69,725**	**70,246**	**(1)**	**Well within the tolerance level of 10%**
Member Expenditure	**(59,771)**	**(48,055)**	**(20)**	**Lower than expected pensions, lump sum (inc commutations) and transfers-out being paid**
Net Member Surplus	**9,954**	**22,191**	**(123)**	**Higher member surplus mainly due to lower member expenditure reflected above**
Net Administration Expenditure	**(890)**	**(816)**	**(8)**	**Lower costs reflecting a focus on ensuring efficiency – within tolerance level**
Surplus from Operations	**9,064**	**21,375**	**(136)**	**Higher surplus due to lower outgoings than forecast**
Investment Income/Expenditure				
Investment Income	12,000	13,827	(15)	Higher levels of dividend payouts than forecast
Investment Expenses & Management Fees	(2,306)	(3,025)	31	Higher costs due largely to an increase in 'value of funds' under management
Net Investment Income/Expenditure	**9,694**	**10,802**	**(11)**	**Due to higher than forecast investment income**
Cash flow before Investment Performance	**18,758**	**32,177**	**(72)**	**Higher than budgeted due mainly to lower than forecasted member expenditure. Also, higher dividend income and lower costs contributed.**

Gross income for the Pension Fund was less than 1% higher than forecast at the time of the 2013/14 budget report (£70.2 million compared to the budget of £69.7 million). Overall member expenditure was lower than projected by 20% reflecting a combination of lower than expected benefits, commutations and lump sums paid and transfers out. The impact of this was a net surplus of £21.4 million, significantly higher than budgeted for.

Administration expenses for the year ended 31 March 2014 were slightly below forecast at £0.82million compared to budget of £0.89million, due mainly to lower internal admin costs and a lower audit fee.
Investment income and costs were higher than expected largely reflecting increased assets under management on which investment management fees are charged.

The Pension Fund as a consequence remained significantly cash flow positive both before and after taking investment income into account. The Pensions Committee will continue to monitor the budget and cash flow on a regular basis to ensure that any significant changes are captured and appropriate action taken. The budget for 2014/15 has been set and is forecasting a cash flow surplus for the year of £14.7m before investment income.

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, with the most formal recent review having taken place at the Committee meeting held in January 2014.

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

- 2014 LGPS Scheme changes;
- Increasing longevity;
- Asset/Liability mismatch;
- Poor investment performance;
- Funding Risks;
- Regulatory.

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 and in particular the current debate around structural reform.
- Quarterly monitoring of investment performance, funding and budget monitoring and regular reviews of asset allocation to ensure that it remains appropriate for the Fund taking into account the appropriate investment advice from the Pension Fund consultant.
- Contract monitoring and performance reviews.

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 in terms of both increases and decreases under the scenarios where standard deviations apply.

Whilst the Fund maintains a Risk Register, it is recognised that whilst this is reviewed annually, it is the day-to-day management of risks that remains key to understanding and controlling risks for the Pension Fund.

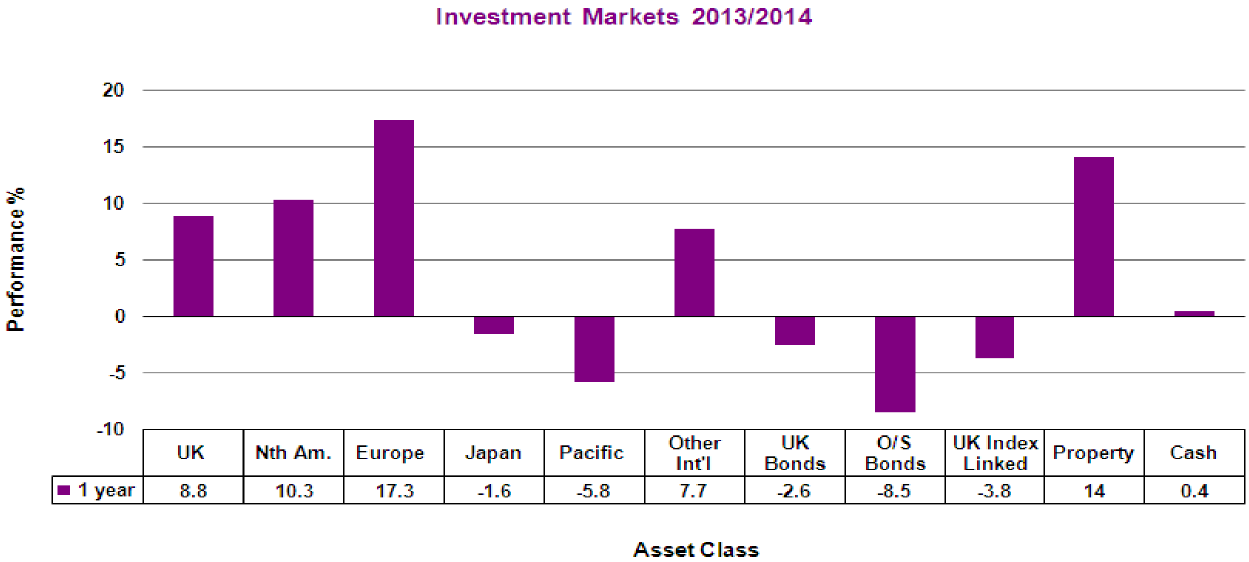
Investment Review

Investment Background

Equity markets were more muted in 2013/14 following the strong gains made in 2012/13, with further gains made in the western markets, whilst the emerging markets and the far eastern markets saw minor setbacks. A stronger US recovery helped to also drive recovery and confidence in growth in both the UK and Eurozone. However, concerns over Chinese growth and lower demand for commodities and the geopolitical tensions in the Ukraine meant that emerging markets were particularly volatile and these areas suffered varying levels of setback.

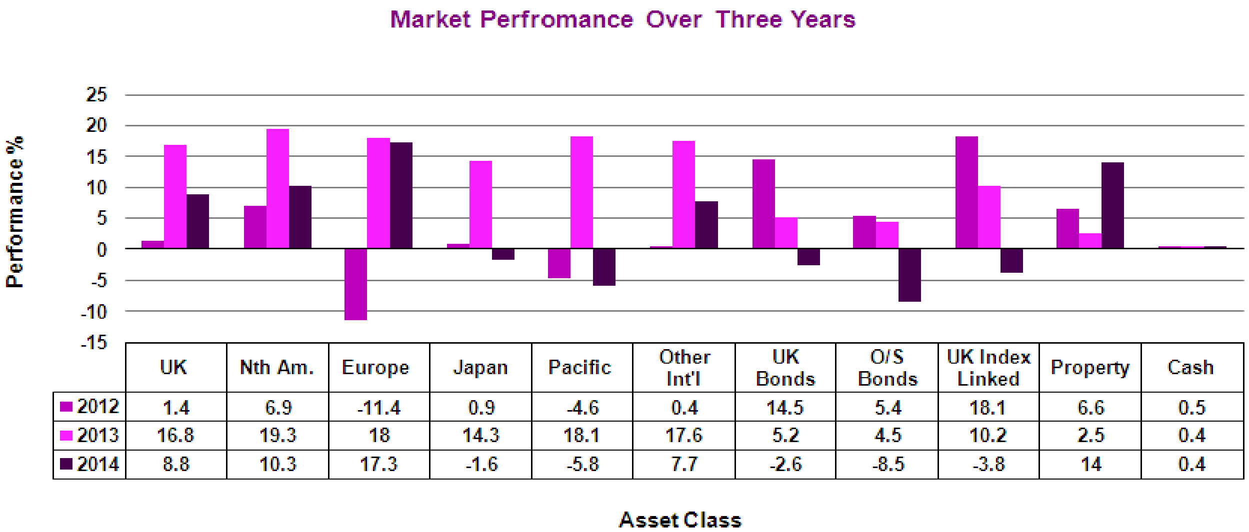
The UK market posted gains of 8.8% over the year reflecting confidence in the growing economic recovery and the Bank of England indications that interest rates would continue to stay low for longer. By the year end concerns were being raised about the extent to which the recovery was being based on growth in the housing sector supported by the funding for lending scheme and subsequently the Bank of England has expressed concerns about the strength of the housing sector particularly in London and the South East. The North American market saw gains of just over 10% over the year, although this disguises some volatility during the year. In the first quarter the Federal Reserve upset markets by indicating the intention to start tapering its asset purchases, although when tapering finally occurred in the third quarter, markets took the move relatively calmly, instead focusing on the steady growth being seen in the US. The Eurozone was the strongest equity market over the year with gains of just over 17% over the year following a cut in interest rates, the election victory of Chancellor Merkel in Germany and economic recovery clearly coming through. Japanese equities were basically flat over the year, although again this does not reflect the volatility seen in the Japanese market over the year. Bond markets finally saw a setback after a number of years of positive returns as the economic recovery gathered pace in the US and it became clear that quantitative easing was coming to an end there and that rates would at some point have to rise. Hence the poorer performance from overseas bond markets compared to the UK where the Bank of England stance on quantitative easing and interest rates meant that returns here whilst down were only marginally so. The strength of the recovery in the UK and in particular the housing and construction sectors meant that property by comparison put in a relatively strong performance, being up 14% over the year.

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



	UK	Nth Am.	Europe	Japan	Pacific	Other Int'l	UK Bonds	O/S Bonds	UK Index Linked	Property	Cash
1 year	8.8	10.3	17.3	-1.6	-5.8	7.7	-2.6	-8.5	-3.8	14	0.4

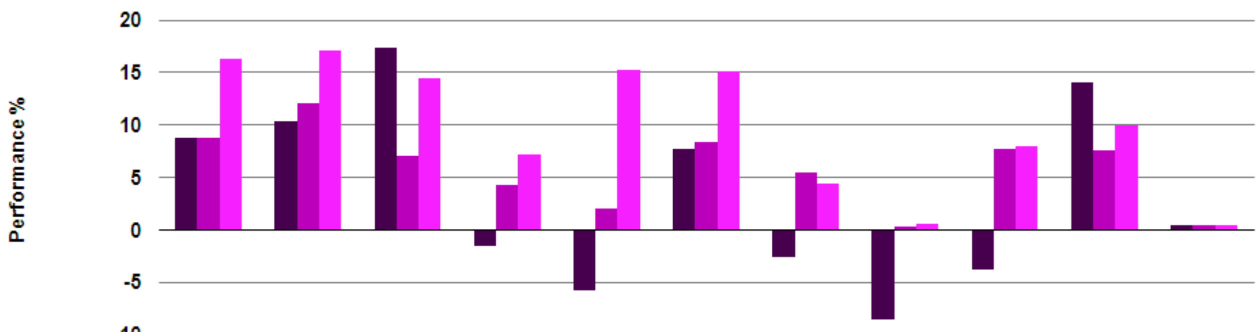
The chart below shows the market performance over the last 3 years highlighting the sharp rebound in equity markets in 2012/13 as the financial crisis eased and the ongoing recovery in the West in 2013/14. Bond markets have finally seen a setback in the last year compared to a strong market in the previous 2 years. The low returns on cash reflect the ongoing low interest rate environment.



	UK	Nth Am.	Europe	Japan	Pacific	Other Int'l	UK Bonds	O/S Bonds	UK Index Linked	Property	Cash
2012	1.4	6.9	-11.4	0.9	-4.6	0.4	14.5	5.4	18.1	6.6	0.5
2013	16.8	19.3	18	14.3	18.1	17.6	5.2	4.5	10.2	2.5	0.4
2014	8.8	10.3	17.3	-1.6	-5.8	7.7	-2.6	-8.5	-3.8	14	0.4

Looking at the annualised market returns over 1, 3 and 5 years, shows the recovery in equity markets since the financial crisis in 2008 and in particular the economic recovery now underway. Bond markets, despite the recent downturn, are still showing positive returns over the 3 and 5 year periods. Property is showing a consistently positive picture and reflects the recovery that the sector has made since the financial crisis.

Market Performance Annualised Over 1, 3, 5 years



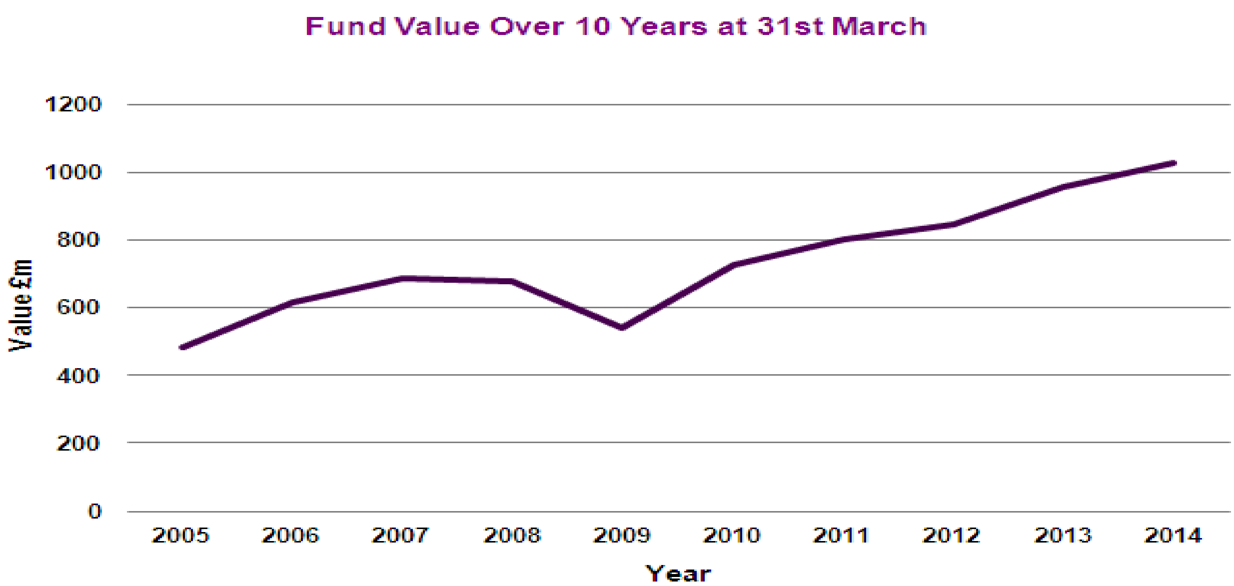
	UK	Nth Am.	Europe	Japan	Pacific	Other Int'l	UK Bonds	O/S Bonds	UK Index Linked	Property	Cash
1 year	8.8	10.3	17.3	-1.6	-5.8	7.7	-2.6	-8.5	-3.8	14	0.4
3 years	8.8	12.0	7.0	4.3	2.0	8.3	5.5	0.3	7.8	7.6	0.4
5 years	16.3	17.1	14.4	7.2	15.3	15.1	4.5	0.6	8.0	9.9	0.4

Asset Class

Fund Value

The Pension Fund Revenue Account has continued to benefit from the recovery in growth assets, namely equities where the largest proportion of the Fund's assets continue to be held. At the end of March 2014, the market value of the Pension Fund's total assets was £1,029.4 million compared to £954.3 million as at 31 March 2013. This represents an increase over the year of 7.9%, reflecting the impact of the continuing recovery and strong cash flows.

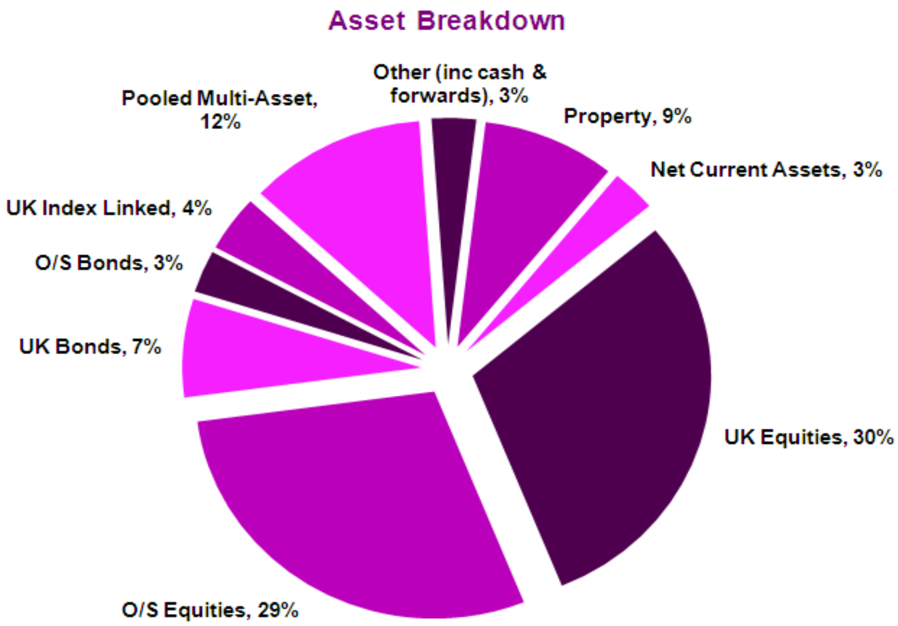
The graph below shows the progress of the Fund's assets over the last ten years as at the 31 March in each year.



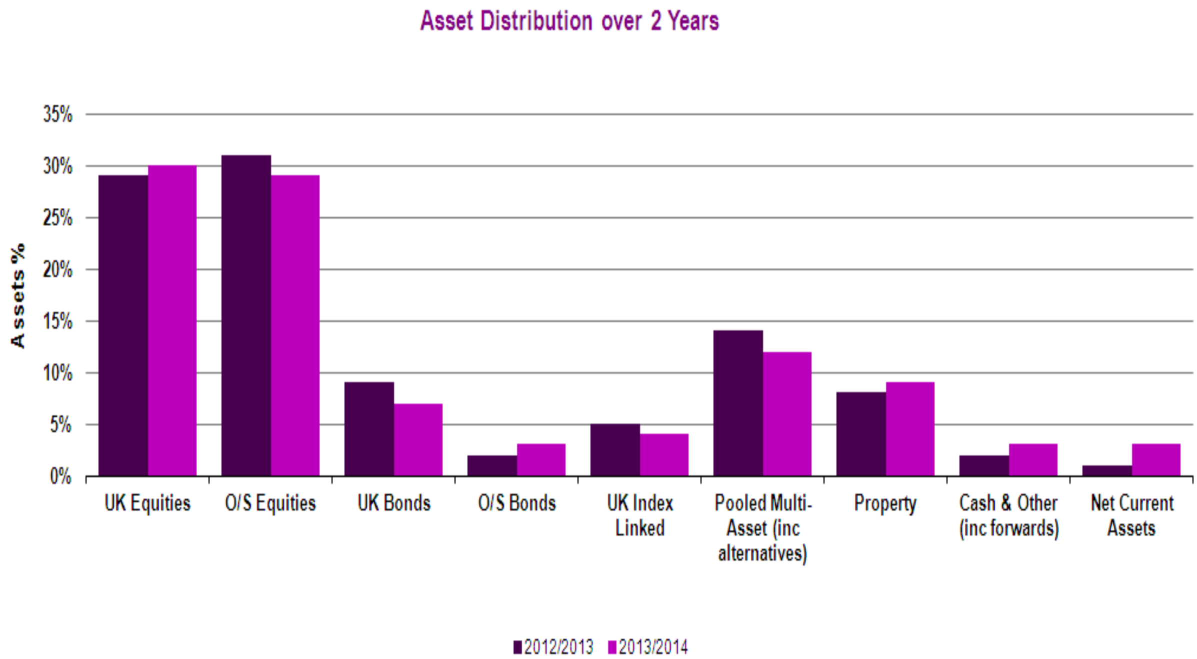
Investment Management

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 new 2013 LGPS Regulations carry the same provisions through into the new Scheme regarding the requirements for the publication of a SIP. 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 83 to 111).

The allocation to the various asset classes as at the end of 2013/14 is as outlined below:

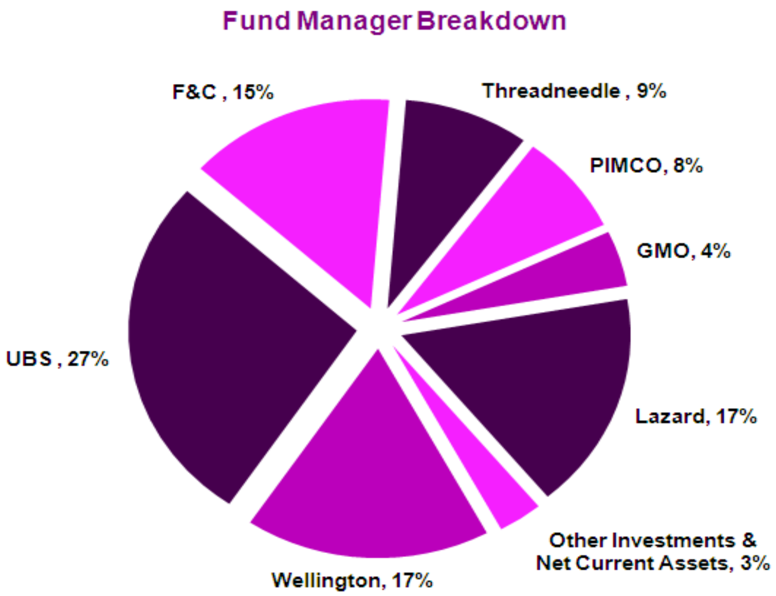


The following chart sets out how the distribution across the various asset classes has moved between the end of the previous March 2013 and current March 2014 financial years.



During the year the Fund had eight external managers, following investment in two new multi-asset absolute return strategies. By year end it had disinvested its holdings in BlackRock. The breakdown between managers is set out in the chart below.

The Fund has three equity managers split between: one passive UK fund manager - UBS with 27% of the Fund under management, and two active global equity managers - Lazard Asset Management with 17% and Wellington Investment Management with 17% of the Fund as at 31 March 2014. Fixed interest investments were managed by Foreign & Colonial (F&C) with 15% of the Fund and property via a Unit Trust with Threadneedle amounting to 9% of the Fund. Absolute return strategies were managed by PIMCO with 8% of the Fund and GMO with 4% of the Fund. Other investments (including futures) and net current assets represent the remaining 3% of the Fund's assets.



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 2013/14	% of total fund 2013/14	Value £'000 2012/13	% of total fund 2012/13
Lazard (Global Equities)	172,591	16.77%	161,667	16.9%
Wellington (Global Equities)	178,092	17.30%	163,400	17.1%
UBS (UK Equity Index)	280,425	27.24%	255,900	26.8%
F&C (Fixed Interest)	150,448	14.62%	151,382	15.9%
Threadneedle (Property)	91,008	8.84%	80,832	8.5%
PIMCO (Global Multi-Asset)	80,259	7.80%	77,262	8.1%
GMO (Global Real Return)	44,237	4.30%	33,434	3.5%
BlackRock (GTAA)	-	-	17,373	1.8%
Net Current Assets	25,763	2.50%	10,434	1.1%
Other Investments (Including futures)	6,529	0.63%	2,585	0.3%
Total	**1,029,352**	**100%**	**954,269**	**100%**

Top Ten holdings by Market Value as at 31 March 2014

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

Holdings	£'000
UK TSY 5 2014 BONDS REGS 09/14 5	7,956
UK TSY 5 2014 BONDS REGS 09/14 5	7,815
TSY 2 1/2 2020I/L STOCK BONDS REGS 04/20 2.5	6,279
UNITED KINGDOM GILT BONDS REGS 09/23 2.25	5,662
MERCK + CO. INC. COMMON STOCK USD.5	5,140
TSY 1 7/8 2022 I/L GILT BONDS REGS 11/22 1.875	4,582
UK TSY 4 1/4 2049 BONDS REGS 12/49 4.25	4,345
UK TSY 4 1/2 2042 BONDS REGS 12/42 4.5	3,862
MAXIM INTEGRATED PRODUCTS COMMON STOCK USD.001	3,654
TSY 0 1/2 2050 I/L GILT BONDS REGS 03/50 0.5	3,344
Total	**52,639**

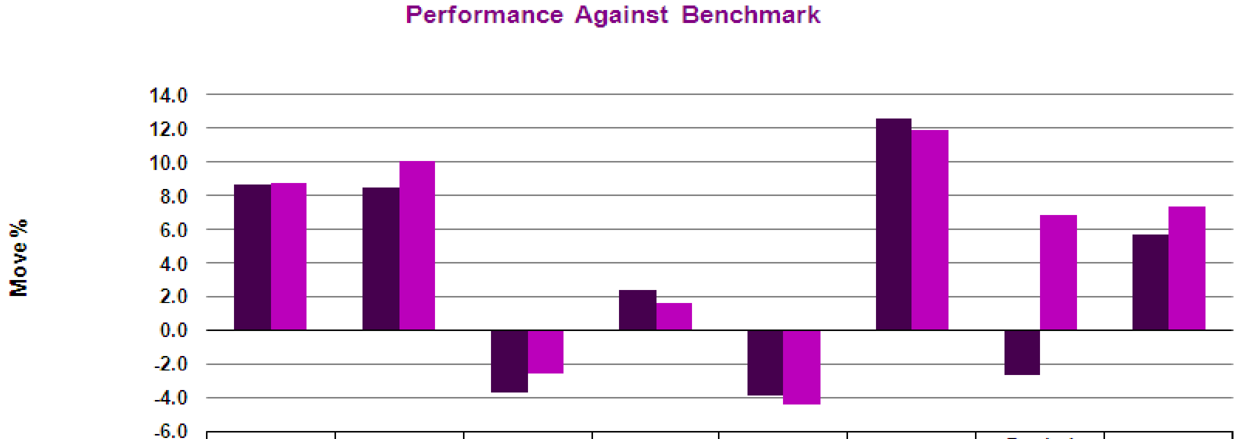
The above table excludes pooled investments, the top four of which are shown in the table below.

Holdings	£'000
UBS LIFE UK EQUITY TRACKER UBS LIFE UK EQUITY	280,396
TPN PROPERTY A INVESTMENT TRUST	91,008
PIMCO FUNDS GLOBAL INVESTORS S PIMCO GIS GL MULTI	80,259
GMO FUNDS PLC GLOBAL REAL RE GMO GLOBAL REAL	44,237
Total	**495,900**

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 2013/14 was up by 5.7% underperforming against the customised benchmark which returned 7.4%. The Fund performed in line against benchmark in the UK primarily due to the Fund's index tracking position. Performance against benchmark was disappointing in the global markets, although property performance remained positive. Poor performance from one of the two multi-asset managers dragged down performance in this area. The Fund's performance against the different asset classes is shown in the table below:



	UK	Global Equities	UK Govt Bonds	Corporate Bonds	UK Index Linked	Property	Pooled Multi Asset	Total
L B Hackney	8.7	8.5	-3.7	2.4	-3.9	12.6	-2.7	5.7
Benchmark	8.8	10.1	-2.6	1.6	-4.4	11.9	6.8	7.4

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 6.7% compared to the benchmark of 7.8% over three years and over a five year period 11.7% compared to 13.1%. Over the long term, 20 years, the Fund has however, performed in line with its benchmark achieving an annualised return of 7.3%, the same as the benchmark.

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:

Performance Measurement: London Borough of Hackney vs WM Local Authority Universe

	Global Pooled inc UK	UK Equities	O/S Equities	Total Equities	UK Bonds	O/S Bonds	UK Index Linked	Total Bonds plus Index Linked	Pooled Multi-Asset	Property	Cash (excl. currency forwards)
L B Hackney	8.5	8.4	4.4	6.4	0.0	6.1	-3.9	-1.0	-2.7	12.6	-1.4
AVG L.A.	8.6	11.3	6.4	8.4	0.4	-6.1	-4.0	-1.6	3.1	11.4	1.4

Asset Class

Performance against the WM Local Authority Universe shows the Hackney Fund was at the 65th percentile in 2013/14, compared to last year's 91st percentile ranking versus the Local Authority Universe. Over the longer term horizon performance against the WM Universe remains with the fund at 83rd percentile over three years and 81st percentile over five years.

Investment Management Expenses

The investment management expenses for the year to 31 March 2014 were £3 million, higher than last year's value of £2.8 million. This increase relates primarily to the increase in investment assets under management. 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.

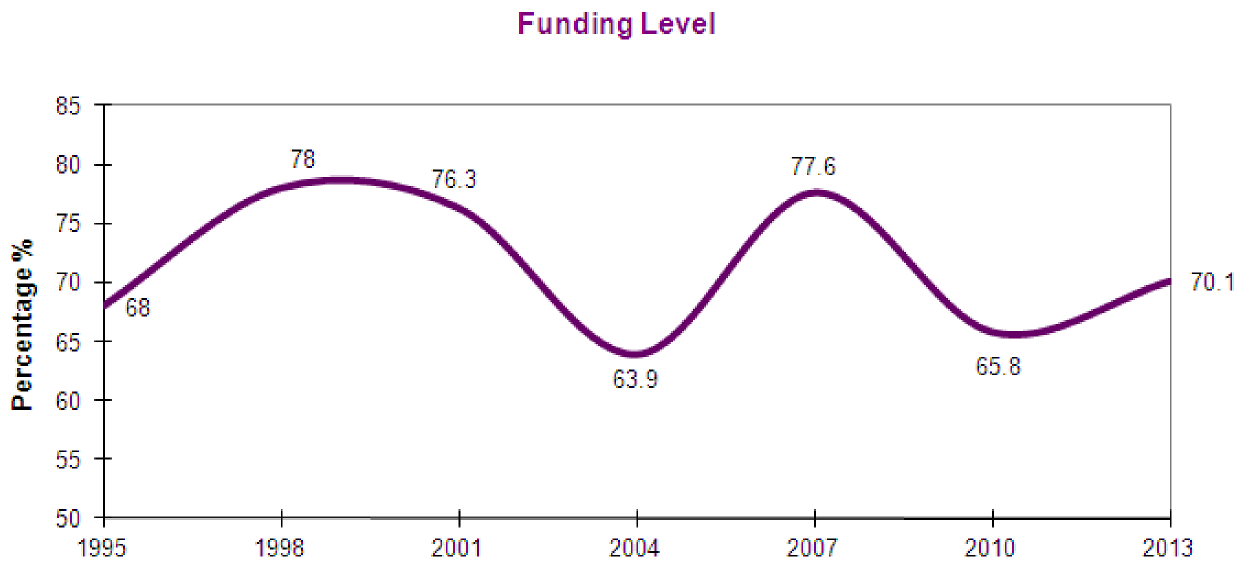
Actuarial Review

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 31 March 2013, which shows there had been an improvement in the funding position, from 65.8% to 70.1%%, since the last valuation in 2010. This was mainly due to investment returns being better than expected and an increase in contributions. Notwithstanding, there has been an increase in the overall pension deficit from £378million in March 2010 to £406million in March 2013, due mainly to a decrease in the discount rate applicable during the period. 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 next actuarial valuation will be based as at 31 March 2016. The 2013 valuation results will be used to assess the updated funding position and to determine contribution rates payable by employers from 1 April 2014.The historic long-term funding picture is shown in the graph below:

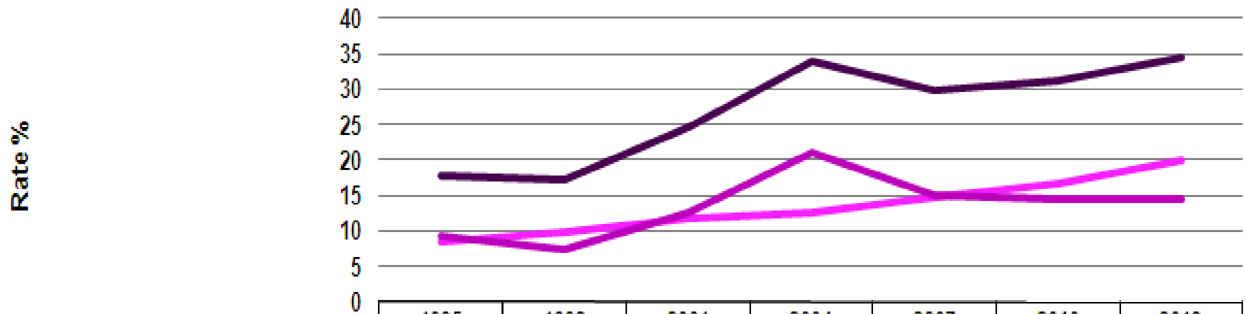


The assumptions and contribution rates applying during the financial year 2013/14 were those set at the 2010 valuation.

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 114 to 151) was approved by the Pensions Sub-Committee in March 2014.

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 on page 151. The Fund undertook an actuarial valuation as at the end of March 2013 and it is this valuation that sets the future employer contribution rates effective from 1 April 2014. A chart showing how the Common Contribution Rate, future service rate and historic service cost has changed over the last few valuations including the most recent one is shown in the graph below:

Contribution Rates



	1995	1998	2001	2004	2007	2010	2013
Common Contribution Rate	17.7	17.25	24.6	33.9	29.9	31.1	34.5
Future Service Rate	8.4	9.75	11.9	12.7	14.7	16.7	19.9
Deficit Funding Rate	9.3	7.5	12.7	21.2	15.2	14.4	14.6

The employer contribution rate for the Council, the largest employer in the Fund was 36.9% for year ending 31 March 2014.

Report of the Fund Actuary

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

Actuarial Statement for 2013/14

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 2013/14.

Description of funding policy

The funding policy is set out in the administering authority's Funding Strategy Statement (FSS), dated March 2014. In summary, the key funding principles are as follows:

- to ensure the long-term solvency of the Fund, using a prudent long term view. This will ensure that sufficient funds are available to meet all members'/dependents' benefits as they fall due for payment;
- to ensure that employer contribution rates are reasonably stable where appropriate;
- to minimise the long-term cash contributions which employers need to pay the Fund, by recognising the link between assets and liabilities and adopting an investment strategy which balances risk and return (NB this will also minimise costs to be borne by Council Tax payers);
- to reflect the different characteristics of different employers in determining contribution rates. This involves the Fund having a clear and transparent funding strategy to demonstrate how each employer can best meet its own liabilities over future years; and
- to use reasonable measures to reduce the risk to other employers and ultimately to the Council Tax payer from an employer defaulting on pension obligations.

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 31 March 2013. This valuation revealed that the Fund's assets, which at 31 March 2013 were valued at £954 million, were sufficient to meet 70.1% of the liabilities (i.e. the present value of promised retirement benefits) accrued up to that date. The resulting deficit at the 2013 valuation was £406 million.

Individual employers' contributions for the period 1 April 2014 to 31 March 2017 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 the valuation report dated 28 March 2014.

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 2013 valuation were as follows:

Financial assumptions	31 March 2013	
	% p.a. Nominal	% p.a. Real
Discount rate	4.45%	1.95%
Pay increases	4.3%	1.8%
Price inflation (CPI)/Pension increases	2.5%	-

The key demographic assumption was the allowance made for longevity. The life expectancy assumptions are based on the Fund's VitaCurves with improvements in line with the CMI_2010 model, assuming the current rate of improvements has reached a peak and will converge to long term rate of 1.25% p.a. Based on these assumptions, the average future life expectancies at age 65 are as follows:

	Males	Females
Current Pensioners	21.5 years	23.7 years
Future Pensioners*	23.6 years	25.8 years

*Currently aged 45

Copies of the 2013 valuation report and Funding Strategy Statement are available on request from London Borough of Hackney, the administering authority to the Fund.

Experience over the period since April 2013

Experience has been slightly better than expected since the last valuation (excluding the effect of any membership movements). Real bond yields have risen and asset returns have been broadly in line with that expected meaning that funding levels are likely to have improved since the 2013 valuation.

The next actuarial valuation will be carried out as at 31 March 2016. 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
27 May 2014

Hymans Robertson LLP
20 Waterloo Street
Glasgow
G2 6DB

Audit Opinion

Independent auditor's report to the members of London Borough of Hackney Pension Fund

We have examined the pension fund financial statements for the year ended 31 March 2014 on pages 47 to 81.

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 in accordance with applicable law and the Code of Practice on Local Authority Accounting in the United Kingdom 2013/14.

Our responsibility is to report to you our opinion on the consistency of the pension fund financial statements included in the pension fund annual report with the pension fund financial statements included in the annual published statement of accounts of the London Borough of Hackney, and their compliance with applicable law and the Code of Practice on Local Authority Accounting in the United Kingdom 2013/14.

In addition, we read the information given in the pension fund annual report to identify material inconsistencies with the pension fund financial statements. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

We conducted our work in accordance with guidance issued by the Audit Commission. Our report on the administering authority's annual published statement of accounts describes the basis of our opinion on those financial statements.

Opinion

In our opinion, the pension fund financial statements are consistent with the pension fund financial statements included in the annual published statement of accounts of the London Borough of Hackney for the year ended 31 March 2014 and comply with applicable law and the Code of Practice on Local Authority Accounting in the United Kingdom 2013/14.

Matters on which we are required to report by exception

The Code of Audit Practice for Local Government Bodies 2010 requires us to report to you if:

- the information given in the pension fund annual report for the financial year for which the financial statements are prepared is not consistent with the financial statements; or

- any matters relating to the pension fund have been reported in the public interest under section 8 of Audit Commission Act 1998 in the course of, or at the conclusion of, the audit.

We have nothing to report in respect of these matters.

Andrew Sayers

for and on behalf of KPMG LLP, Appointed Auditor

Chartered Accountants

15 Canada Square, London, E14 5GL

25 September 2014

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 48 - 81 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 31 March 2014 and financial position of the Fund at that date of its assets and liabilities, other than liabilities to pay pensions and benefits accruing 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, scheme governance and decision-making can only be achieved where those involved have the requisite knowledge and skills.

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

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

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

This organisation has delegated responsibility for the implementation of the requirements of the CIPFA Code of Practice to the 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 it has the necessary resources to discharge its pensions administration responsibilities and that all staff and members charged with the financial administration, governance and decision-making with regard to the pension scheme are fully equipped with the knowledge and skills to discharge the duties and responsibilities allocated to them.

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

2013/14 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.

The LGC recognised the work carried out by the Sub-Committee to ensure that its members were appropriately trained with high levels of knowledge and skill with an award in December 2013 won against strong competition from other funds.

Assessment of Training Needs

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

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

The training programme for 2013/14 focussed on specific areas where the Sub-Committee were required to make decisions and where key projects were being delivered. This was particularly the case for the introduction of the new LGPS 2014 and also anticipated likely changes to governance requirements which includes the setting up of a Pensions Board under the Public Service Pensions Act. In addition, given the focus on funding due to the actuarial valuation and the interaction that this has with investment strategy and cash flow, a lot of the time devoted to both the dedicated training and the supplemental training revolved around actuarial methods, risk management and investment strategy. This has helped the Sub-Committee to agree a de-risking framework for the Pension Fund and understand key triggers to implementing this programme.

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 2013/14 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
Procurement & Relationship Management (KSF3)	19/06/13
LGPS 2014 (KSF1)	09/09/13
Pension Fund Governance (KSF1)	16/01/14
Multi-Asset Funds (KSF5)	20/03/14
Supplemental Training	**Date**
Regulatory – Discretions (KSF 1)	16/01/14 & 20/03/14
Pension Fund Report & Accounts and Audit (KSF2)	19/06/13 & 09/09/13
Procurements (KSF 3)	27/03/13 & 20/03/14
Investment Strategy & De-Risking Framework (KSF4)	16/01/14
Review of Investments (KSF5)	19/06/13
Funding & Investment Modelling (KSF5 & 6)	09/09/13
Cash flow & Investment Strategy (KSF5 & 6)	27/11/13
Fixed Interest (KSF5)	27/11/13
Global Equities (KSF5)	16/01/14
Longevity Monitoring (KSF6)	20/03/14

Attendance at Sub-Committee meetings and training sessions is monitored by officers and a record of attendance is included within the Governance Reporting for 2013/14 (page 166).

A full training programme has been scheduled for the next financial year and will include a wide range of topics, primarily focussing on areas where the Committee is required to make longer term strategic decisions in order to assist with the governance role.

Statement of Accounts 2013/14

The Pension Fund Account

2012/13 £'000		Notes	2013/14 £'000
	Dealings with members, employers and others directly involved in the Scheme		
(59,640)	Contributions	7	(65,030)
(4,564)	Transfers in from other pension funds	8	(5,216)
(64,204)			(70,246)
43,256	Benefits	9	44,975
3,303	Payments to and on account of leavers	10	3,080
693	Administrative expenses	11	816
47,252			48,871
(16,952)	**Net (additions)/withdrawals from dealings with members**		**(21,375)**
	Returns on investments		
(13,324)	Investment income	12	(13,827)
(82,172)	(Profit) and losses on disposal of investments and changes in the market value of investments	13c	(42,908)
7	Taxes on Income	11	2
2,835	Investment management expenses	11	3,025
(92,654)	**Net returns on investments**		**(53,708)**
(109,606)	**Net (increase)/decrease in the Fund during the year**		**(75,083)**
(844,663)	**Opening net assets of the Scheme**		**(954,269)**
(954,269)	**Closing net assets of the Scheme**		**(1,029,352)**

The Net Assets Statement for the year ended 31 March 2014

2012/13 £'000		Notes	2013/14 £'000
936,101	Investment Assets	14	980,290
13,974	Cash Deposits	14	24,538
950,075			**1,004,828**
(6,240)	Investment Liabilities	13	**(1,239)**
12,297	Current Assets	18	27,515
(1,863)	Current Liabilities	19	(1,752)
10,434			**25,763**
954,269	**Net Assets of the Fund available to fund benefits at the period end**		**1,029,352**

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 Fund is a summary only. For more detail, reference should be made to the Hackney Pension Fund Annual Report 2013/14, the Pension Fund website http://hackney.xpmemberservices.com/Home.aspx 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) Regulation 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, teachers and those eligible to be members of the NHS Pension Scheme) are automatically entered into the Scheme. However membership of the LGPS is voluntary and employees are free to choose whether to opt out, remain in the Scheme or make their own personal arrangements outside the Scheme.

Organisations participating in the Hackney Pension Fund include:

- Scheduled bodies, which include the local authority and similar aligned bodies whose staff are automatically entitled to be members of the Fund. Also it includes Academy and Free School non-teaching staff.
- Admitted bodies, which are other organisations that participate in the Fund under an admission agreement between the Fund and the relevant organisation. Admitted

bodies include voluntary, charitable and similar bodies or private contractors undertaking a local authority function following outsourcing to the private sector. As at 31 March 2014 there are 22 active employer organisations within the Fund, including the London Borough of Hackney.

London Borough of Hackney Pension Fund	31 March 2014	31 March 2013
Number of Employers with active members	22	19
Number of Employees in scheme		
Council	5,915	4,706
Scheduled bodies	1,071	897
Admitted bodies	70	112
Total	**7,056**	**5,715**
Number of pensioners		
Council	5,637	5,574
Scheduled bodies	178	137
Admitted bodies	228	220
Total	**6,043**	**5,931**
Deferred members		
Council	6,206	5,917
Scheduled bodies	399	273
Admitted bodies	910	933
Total	**7,515**	**7,123**

During the year Family Solutions, Outward, G4S and Hackney New School were admitted as new employers to the Fund and Busy Bee 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 31 March 2014. Employers also make contributions, which are set based on the triennial actuarial funding valuations. The last such valuation was at 31 March 2013 with the next valuation due to take place at 31 March 2016. Current employer contribution rates can be found in the Statement to the Rates and Adjustments Certificate in the Hackney Pension Fund Annual Report and Accounts 2013/14 or within the Actuarial valuation on the Pension Fund Website:- http://hackney.xpmemberservices.com/Home.aspx

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 pensionable 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 1 April 2011.

e) LGPS 2014

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

2. Basis of Preparation

The Statement of Accounts summarises the Fund's transactions for the 2013/14 financial year and its position at year-end as at 31 March 2014. The accounts have been prepared in accordance with the *Code of Practice on Local Authority Accounting in the United Kingdom 2013/14* 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 in Transfers In (see Note 8).

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

c) Investment income

i) Interest income
Interest income is recognised in the fund account as it accrues, using the effective interest rate of the financial instrument as at the date of acquisition or origination.
Income includes the amortisation of any discount or premium, transaction costs or other differences between the initial carrying amount of the instrument and its amount at maturity calculated on an effective interest rate basis.

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

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

iv) Movement in the net market value of investments

- Changes in the net market value of investments relating to unrealised profits/losses during the year.
- Realised profit/losses relating to the sale of investments during the year.

Fund account – expense items

d) Benefits payable

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

e) Taxation

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

f) 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 on an accruals basis.

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

Where an investment manager's 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 2013/14, there were no fees based on such estimates (2012/13: no fees estimated). A similar procedure is used for custodian fees and in 2013/14 there were no fees payable (2012/13: £12k of fees).

The cost of obtaining investment advice from external consultants is included in investment management charges.

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) Fixed interest securities
Fixed interest securities are recorded at net market value based on their current yields.

iii) 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 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 valuation of these pools or directly held securities is undertaken by the investment manager or responsible entity and advised as a unit or security price. The valuation standards followed in these valuations adhere to industry guidelines or to standards set by the constituent documents of the pool or the management agreement.
- The Fund has no holdings in private equity funds or unquoted listed partnerships.

iv) 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.

v) 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

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

The 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 direct holdings in exchange traded or over-the-counter options.

k) Cash and cash equivalents

Cash comprises cash in hand and deposits payable on demand.

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

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 only (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 used specifically for providing additional benefits for individual contributors. Each AVC contributor receives an annual statement showing the amount held in their account and the movements in the year.

AVCs are not included in the accounts in accordance with section 4(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. Estimates are made taking into consideration historical experience, current trends and other relevant factors. However, no one can predict the future with certainty and it is unlikely that future experience will match all of our assumptions.

The future therefore presents a variety of risks to the Fund and some of the potential implications of the actuarial assumptions not being borne out in practice are listed below:

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 consulting actuary's firm 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% increase in the Discount Rate assumption would result in a decrease in the pension liability of approximately £117 million. A 0.5% increase in Salaries increases the liability by approximately £30 million, and a one-year increase in assumed life expectancy would increase the liability by around £40 million.

6. Events after the Balance Sheet Date

There have been no events since 31 March 2014 and up to the date when these accounts were authorised, which require any adjustments to these accounts. However, as noted in Section 1 (e), the Local Government Pension Scheme has changed from 1 April 2014 with the benefit structure now based on a career average revalued earnings basis rather than a final salary basis with an option for employees to choose 50/50 scheme which would see them accruing 50% of the pension benefits for 50% of normal contributions. Scheme members will also have the option to retire from age 55 without employer consent although this is likely to be subject to an actuarial reduction. The new Scheme design has been built to lower the future costs of the Scheme, although it is too early to assess the impact of some of the changes at this point in time. The 2013 Triennial Actuarial Valuation undertaken during the year has built in the changes to the Scheme and the valuation has set employer contribution rates to be paid from 1 April 2014.

7. Contributions Receivable

By Category	2013/14 £'000	2012/13 £'000
Employers	(54,530)	(50,157)
Members	(10,500)	(9,483)
Total	**(65,030)**	**(59,640)**

By Employer	2013/14 £'000	2012/13 £'000
London Borough of Hackney	(55,678)	(47,958)
Scheduled Bodies	(8,854)	(8,234)
Admitted Bodies	(498)	(3,448)
Total	**(65,030)**	**(59,640)**

8. Transfers In

	2013/14 £'000	2012/13 £'000
Group Transfers	-	-
Individual Transfers	(5,216)	(4,564)
Total	**(5,216)**	**(4,564)**

9. Benefits Payable

By Category	2013/14 £'000	2012/13 £'000
Pensions	36,883	35,439
Commutation and Lump Sum Retirement Benefits	7,513	6,736
Lump Sum Death Benefits	579	1,081
Total	**44,975**	**43,256**

By Employer	2013/14 £'000	2012/13 £'000
London Borough of Hackney	39,350	37,466
Scheduled Bodies	3,236	2,430
Admitted Bodies	2,389	3,360
Total	**44,975**	**43,256**

10. Payments To and On Account of Leavers

	2013/14 £'000	2012/13 £'000
Refunds to Members leaving service	4	13
Payments for Members joining state scheme	-	2
Group Transfers	-	-
Individual Transfers	3,076	3,288
Total	**3,080**	**3,303**

11. Administration and Investment Expenses

Administration Expenses	2013/14 £'000	2012/13 £'000
Finance and Resources Recharge	303	303
Pension Administration	457	352
Subscriptions and Training	32	15
Audit Fees	21	21
Legal and Other Expenses	3	2
Total	**816**	**693**

Audit fees comprise of £21k invoiced by the External Auditor (£21k in 2012/13 has been restated from 19k to exclude a rebate of £2k from the Audit Commission).

Investment Expenses	2013/14 £'000	2012/13 £'000
Investment Management Fees	2,646	2,445
Custody and Banking Fees	155	148
Actuarial, Consultant and Legal Fees	196	214
Performance Measurement	24	20
Subscriptions and Other Expenses	4	8
Total	**3,025**	**2,835**

12. Investment Income

	2013/14 £'000	2012/13 £'000
Fixed Interest Securities	(3,724)	(3,591)
Equity Dividends	(7,814)	(7,437)
Index Linked Securities	(540)	(616)
Pooled Investment Income	(1,560)	(1,490)
Interest on Cash Deposits	(106)	(190)
Other Income	(83)	-
Total	**(13,827)**	**(13,324)**

13. Investments

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

a. Analysis of Investments

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

31 March 2014	Quoted Prices in Active Markets	Prices not quoted in Active Markets	Total	%
	£'000	£'000	£'000	
Asset Category				
Equity Securities				
Consumer	62,783		62,783	6%
Manufacturing	50,717		50,717	5%
Energy & Utilities	53,606		53,606	5%
Financial Institutions	70,018		70,018	7%
Health & Care	51,357		51,357	5%
Information Technology	42,053		42,053	4%
Debt Securities				
Corporate Bonds (investment grade)		55,336	55,336	6%
Corporate Bonds (non investment grade)		2,326	2,326	0%
UK Government		75,076	75,076	8%
Real Estate				
UK Property		91,008	91,008	9%
Investment Funds and Unit Trusts				
Equities		280,396	280,396	28%
Bonds		15,341	15,341	2%
Commodities	1,603		1,603	0%
Other		124,511	124,511	13%
Derivatives				
Foreign Exchange		251	251	0%
Cash and Cash Equivalents	24,538		24,538	2%
Other Investment Balances		2,669	2,669	0%
Total Investment Assets	**356,675**	**646,914**	**1,003,589**	**100%**

	31 March 2013			
	Quoted Prices in Active Markets	Prices not quoted in Active Markets	Total	%
	£'000	£'000	£'000	
Asset Category				
Equity Securities				
Consumer	51,260		51,260	5%
Manufacturing	53,063		53,063	6%
Energy & Utilities	46,588		46,588	5%
Financial Institutions	80,783		80,783	9%
Health & Care	40,540		40,540	4%
Information Technology	44,649		44,649	5%
Debt Securities				
Corporate Bonds (investment grade)		41,768	41,768	4%
Corporate Bonds (non investment grade)		1,783	1,783	0%
UK Government		89,777	89,777	9%
Real Estate				
UK Property		80,832	80,832	9%
Investment Funds and Unit Trusts				
Equities		255,909	255,909	27%
Bonds		15,019	15,019	2%
Commodities	2,196		2,196	0%
Other		128,069	128,069	14%
Derivatives				
Foreign Exchange		(2,604)	(2,604)	0%
Cash and Cash Equivalents	13,974		13,974	1%
Other Investment Balances		229	229	0%
Total Investment Assets	**333,053**	**610,782**	**943,835**	**100%**

b. Investments analysed by fund managers

As at 31 March 2014 the Fund's investments are managed by eight principal Investment Managers according to defined benchmarks which are set out in the Statement of Investment Principals (SIP). The following is a breakdown of the investments between the Investment Managers.

Fund Manager	Value £'000	% of total fund	Value £'000	% of total fund
	2013/14	2013/14	2012/13	2012/13
Lazard (Global Equities)	172,591	16.77%	161,667	16.9%
Wellington (Global Equities)	178,092	17.30%	163,400	17.1%
UBS (UK Equity Index)	280,425	27.24%	255,900	26.8%
F&C (Fixed Interest)	150,448	14.62%	151,382	15.9%
Threadneedle (Property)	91,008	8.84%	80,832	8.5%
PIMCO (Global Multi-Asset)	80,259	7.80%	77,262	8.1%
GMO (Global Real Return)	44,237	4.30%	33,434	3.5%
BlackRock (GTAA)	-	-	17,373	1.8%
Net Current Assets	25,763	2.50%	10,434	1.1%
Other Investments (including futures)	6,529	0.63%	2,585	0.3%
Total	**1,029,352**	**100%**	**954,269**	**100%**

c. Reconciliation of movements in investments and derivatives

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

Investment type	Market Value 1/04/2013	Purchases during the year and derivative payments	Sales during the year and derivative receipts	Change in Market Value during the year	Market Value 31/03/2014
	£'000	£'000	£'000	£'000	£'000
Fixed Interest Securities	86,762	168,935	(161,616)	(3,439)	90,642
Index Linked Securities	46,564	26,589	(28,481)	(2,575)	42,097
Equities	319,078	113,818	(107,272)	6,528	332,152
Pooled Investment Vehicles	479,831	16,915	(16,170)	30,664	511,240
Derivative Contracts					
Forward Currency Contracts	(2,604)	-	-	2,855	251
Futures	-	-	-	-	-
	929,631	**326,257**	**(313,539)**	**34,033**	**976,382**
Other Investment balances:					
Cash Deposits	13,974			8,894	24,538
Receivable for Sales	1,100			4	1,377
Investment Income due	2,483			(20)	2,455
Payable for Purchases	(3,353)			(3)	(1,163)
Net Investment Assets	**943,835**			**42,908**	**1,003,589**

Investment type	Market Value 1/04/2012 Restated	Purchases during the year and derivative payments	Sales during the year and derivative receipts	Change in Market Value during the year	Market Value 31/03/2013
	£'000	£'000	£'000	£'000	£'000
Fixed Interest Securities	82,223	305,578	(306,497)	5,458	86,762
Index Linked Securities	40,839	29,013	(26,810)	3,522	46,564
Equities	287,824	102,139	(106,027)	35,142	319,078
Pooled Investment Vehicles	365,916	124,592	(51,731)	41,054	479,831
Derivative Contracts					
Forward Currency Contracts	3,389	7,657	(11,011)	(2,639)	(2,604)
Futures	362	1,754	(2,114)	(2)	-
	780,553	**570,733**	**(504,190)**	**82,535**	**929,631**
Other Investment Balances:					
Cash Deposits	50,053			(371)	13,974
Receivable for Sales	2,493			(1)	1,100
Investment Income due	2,063			5	2,483
Payable for Purchases	(2,681)			4	(3,353)
Net Investment Assets	**832,481**			**82,172**	**943,835**

Direct transaction costs (i.e. fees, commissions, stamp duty and other fees) associated with purchases and sales of investments were £0.38 million (£0.33 million in 2012/13) and are included in the cost of purchases and in sale proceeds.

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 class 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 segregated global mandates (F&C, 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 31 March 2014 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	5,384	EUR	6,504	6
	GBP	10,378	JPY	1,776,423	28
	GBP	36,294	USD	60,308	112
	GBP	5,659	USD	9,405	16
One to six months	GBP	8,694	EUR	10,420	76
	GBP	43,732	USD	72,717	89
Total Assets					**327**
Liabilities					
Up to one month	GBP	4,054	EUR	4,921	(15)
	USD	221	GBP	133	0
One to six months	GBP	9,288	JPY	1,603,500	(61)
Total Liabilities					**(76)**
Net Forward Contracts 2013/14					**251**

Settlement	Currency Bought	Local Value	Currency Sold	Local Value	Fair Value
					£'000
Assets					
Up to one month	GBP	2,515	EUR	2,963	8
	GBP	5,957	JPY	841,800	60
	GBP	2,493	USD	3,777	6
One to six months	GBP	4,203	EUR	4,921	37
	GBP	30,296	USD	45,721	172
Total Assets					**283**
Liabilities					
Up to one month	EUR	6,620	GBP	5,600	(0)
	GBP	5,397	EUR	6,620	(203)
	GBP	423	JPY	61,100	(5)
	GBP	43,390	USD	69,858	(2,619)
	JPY	902,900	GBP	6,326	(1)
	USD	69,858	GBP	46,012	(2)
One to six months	EUR	640	GBP	556	(14)
	GBP	6,329	JPY	902,900	(1)
	GBP	9,152	JPY	1,310,749	(39)
	GBP	5,603	EUR	6,620	(1)
	GBP	46,023	USD	69,858	(2)
Total Liabilities					**(2,887)**
Net Forward Contracts 2012/13					**(2,604)**

e. Investments exceeding 5% of net assets

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

Security	Market Value 31 March 2014 £'000	% of total fund	Market Value 31 March 2013 £'000	% of total Fund
UBS UK Equities Index Tracker Fund	280,425	27.2%	255,900	23.8%
Threadneedle Property Fund	91,008	8.8%	80,832	8.5%
PIMCO Global Multi-Asset Fund	80,259	7.8%	77,262	8.1%

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.

Investment type	2013/2014 Designated as Fair Value through Profit & Loss	2013/2014 Loans & Receivables	2013/2014 Financial Liabilities at amortised costs	2012/2013 Designated as Fair Value through Profit & Loss	2012/2013 Loans & Receivables	2012/2013 Financial Liabilities at amortised costs
	£'000	£'000	£'000	£'000	£'000	£'000
Financial Assets						
Fixed Interest Securities	90,642			86,762		
Index Linked Securities	42,097			46,564		
Equities	332,152			319,078		
Pooled Investments	511,240			479,831		
Derivative Contracts	327			283		
Cash		44,529			18,728	
Other Investment Balances	3,832			3,583		
Debtors		7,524			7,543	
	980,290	52,053	-	936,101	26,271	-
Financial Liabilities						
Derivative Contracts	(76)			(2,887)		
Other Investment Balances	(1,163)			(3,353)		
Creditors			(1,752)			(1,863)
	(1,239)	-	(1,752)	(6,240)	-	(1,863)
	979,051	**52,053**	**(1,752)**	**929,861**	**26,271**	**(1,863)**

b. Net gains and losses on financial instruments

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

	31 March 2014	31 March 2013
	£'000	£'000
Fair Value through Profit and Loss	42,908	82,172
Loans and Receivables	-	-
Financial Liabilities measured at amortised cost	-	-
Total	**42,908**	**82,172**

c. Fair Value of financial instruments and liabilities

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

	31 March 2014		31 March 2013	
	Carrying Value	Fair Value	Carrying Value	Fair Value
	£'000	£'000	£'000	£'000
Financial Assets				
Fair Value through Profit and Loss	980,290	980,290	936,101	936,101
Loans and Receivables	52,053	52,053	26,271	26,271
Total Financial Assets	**1,032,343**	**1,032,343**	**962,372**	**962,372**
Financial Liabilities				
Fair Value through Profit and Loss	(1,239)	(1,239)	(6,240)	(6,240)
Financial Liabilities measured at amortised cost	(1,752)	(1,752)	(1,863)	(1,863)
Total Financial Liabilities	**(2,991)**	**(2,991)**	**(8,103)**	**(8,103)**

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

	Quoted market price	Using observable inputs	With significant unobservable inputs
Values at 31 March 2014	**Level 1 £'000**	**Level 2 £'000**	**Level 3 £'000**
Financial Assets			
Fair Value through Profit and Loss	335,983	644,308	(1)
Loans & Receivables	52,053	-	-
Total Financial Assets	**388,036**	**644,308**	**(1)**
Financial Liabilities			
Fair Value through Profit and Loss	(1,163)	(76)	-
Financial Liabilities measured at amortised cost	(1,752)	-	-
Total Financial Liabilities	**(2,915)**	**(76)**	**-**
Net Financial Assets	**385,121**	**644,232**	**(1)**

	Quoted market price	Using observable inputs	With significant unobservable inputs
Values at 31 March 2013	**Level 1 £'000**	**Level 2 £'000**	**Level 3 £'000**
Financial Assets			
Fair Value through Profit and Loss	322,661	613,431	9
Loans & Receivables	26,271	-	-
Total Financial Assets	**348,932**	**613,431**	**9**
Financial Liabilities			
Fair Value through Profit and Loss	(3,353)	(2,887)	-
Financial Liabilities measured at amortised cost	(1,863)	-	-
Total financial liabilities	**(5,216)**	**(2,887)**	**-**
Net Financial Assets	**343,716**	**610,544**	**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 its liabilities, in other words, the promised benefits payable to members. The Fund maintains positions in a variety of financial instruments, as dictated by the 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 the value of the instrument will fluctuate as a result of changes in market prices (other than those arising from interest rate risk or currency risk).

Price risk is managed by constructing a diversified portfolio of investments traded in various markets. The 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 class	1 year expected volatility (%)	% of Fund
UK Equities	16.6	31.1
Global Equities (ex UK)	19.4	30.0
Property	14.7	9.1
Corporate Bonds (short term)	7.2	1.2
Corporate Bonds (medium term)	9.6	4.3
Corporate Bonds (long term)	18.0	1.7
UK Fixed Gilts (short term)	3.1	1.6
UK Fixed Gilts (medium term)	6.9	0.6
UK Fixed Gilts (long term)	12.3	1.2
UK Index Linked Gilts (short term)	2.3	0.2
UK Index Linked Gilts (medium term)	5.0	1.1
UK Index Linked Gilts (long term)	8.5	2.8
Cash*	0.6	2.7
Absolute Return/Diversified Growth	11.8	12.4
Total fund volatility	**11.9**	**100**

*includes exposure to Currency Forwards (£0.3m)

The volatilities for each asset class and correlations used to create the total fund volatility have been estimated using standard deviations of 5,000 simulated one-year total returns using HRAM, the economic scenario generator maintained by Hymans Robertson LLP. The overall fund volatility has been calculated based on the asset valuations provided by the Fund's custodian, State Street, and market values (bid) provided by the Administering Authority, as at 31 March 2014. The calibration of the model is based on a combination of historical data, economic theory and expert opinion. Liability values are not taken into account in calculating the volatilities.

31 March 2014		Percentage change	Value on Increase	Value on Decrease
	£'000	%	£'000	£'000
Net Investment Assets	1,003,589	11.7	1,121,008	886,406
Total assets available to pay benefits	**1,003,589**		**1,121,008**	**886,406**

31 March 2013		Percentage change	Value on Increase	Value on Decrease
	£'000	%	£'000	£'000
Net Investment Assets	943,835	11.7	1,054,264	833,406
Total assets available to pay benefits	**943,835**		**1,054,264**	**833,406**

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

Interest Rate Risk

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

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

The Fund's direct exposure to interest rate movement as at 31 March 2013 and 31 March 2014 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 2014	Balance at 31 March 2013
	£'000	£'000
Cash Deposits	24,538	13,974
Cash Balances	19,991	4,754
Fixed Interest Securities	105,983	101,781
Total	**150,512**	**120,509**

Interest Rate Risk – Sensitivity Analysis

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

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

Asset Type	Carrying amount as at 31 March 2014	Change in year in the net assets available to pay benefits	
		+100 bps	-100 bps
	£'000		£'000
Cash & Cash Equivalents	24,538	245	(245)
Cash Balances	19,991	200	(200)
Fixed Interest Securities	105,983	(12,506)	12,506
Total	**150,512**	**(12,061)**	**12,061**

Asset Type	Carrying amount as at 31 March 2013	Change in year in the net assets available to pay benefits	
		+100 bps	-100 bps
	£'000		£'000
Cash & Cash Equivalents	13,974	140	(140)
Cash Balances	4,754	48	(48)
Fixed Interest Securities	101,781	(12,010)	12,010
Total	**120,509**	**(11,822)**	**11,822**

Note that an increase in the interest rates results in a decrease in the value of the bond portfolio and vice versa. Unlike for cash and its equivalents the change is due both to the impact of the duration (between 11-12 years) period of the bonds and the inverse relationship between bond prices and interest rates.

Currency Risk

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

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

The following table summarises the Fund's fair value exposure to assets denominated in currencies other than pound sterling as at 31 March 2014 and as at the previous period end:

Currency Exposure	Asset Value as at 31 March 2014	Asset Value as at 31 March 2013
	£'000	£'000
US DOLLAR	188,987	173,712
JAPANESE YEN	35,949	33,830
EURO	33,226	23,184
HONG KONG DOLLAR	14,704	17,872
SWISS FRANC	15,119	17,450
CANADIAN DOLLAR	5,532	5,588
SINGAPORE DOLLAR	3,197	5,227
NORWEGIAN KRONE	2,700	2,771
NEW TAIWAN DOLLAR	-	3,634
AUSTRALIAN DOLLAR	830	2,548
SWEDISH KRONA	1,950	3,025
BRAZILIAN REAL	211	1,876
MALAYSIAN RINGGIT	1,216	1,624
SOUTH AFRICAN RAND	-	282
SOUTH KOREAN WON	3,481	3,886
THAILAND BAHT	3,317	1,259
INDONESIAN RUPIAH	815	1,139
Total	**311,234**	**298,907**

Currency Rate risk – Sensitivity Analysis

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

31 March 2014		Potential Change v GBP	Value on increase	Value on decrease
	£'000	%	£'000	£'000
Currency Exposure	311,234	13	351,694	270,774
Total change in assets			**40,460**	**(40,460)**

31 March 2013		Potential Change v GBP	Value on increase	Value on decrease
	£'000	%	£'000	£'000
Currency Exposure	298,907	13	337,765	260,049
Total change in assets			**38,858**	**(38,858)**

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

b. Credit Risk

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

The Pension Fund reviews its exposure to credit and counterparty risk through its external Investment Managers by 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 Fund’s 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 a liquidity fund to provide further diversification.

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

Summary	Rating (Fitch)	Balance at 31 March 2014	Balance at 31 March 2013
		£'000	£'000
Cash (Current Assets)			
Co-operative Bank Plc	BBB+	(83)	67
Lloyds TSB Plc	A	20,074	4,688
Cash Deposits (Investment Assets)			
Cash held outside fund managers and Custodian			
Money Market Funds (Various)	AAA	-	-
Term Deposits (Co-operative Bank Plc)	BBB+	3,911	2,200
Cash held by fund managers and Custodian			
Cash (StateStreet Global Services)	AA-	247	334
Call Accounts (Various)	AA- to A	1,240	1,580
Money Market Funds (StateStreet Global Advisors)	AAA	19,140	9,857
Total		**44,529**	**18,726**

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, infrastructure or direct 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 31 March 2013. The next valuation will take place as at 31 March 2016.

The contribution rates are set at a level sufficient to meet the cost of future benefits accruing and to eliminate, over a period of time, the deficit arising from past service. The valuation is carried out in accordance with the Fund's Funding Strategy Statement (FSS) a copy of which can be found on the Pension Fund website http://hackney.xpmemberservices.com/ and a copy is also included in the Pension Fund 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 2013 valuation was based on a market value of the Fund's assets as at 31 March 2013, which amounted to £954 million and revealed a pension deficit of £406million, representing a funding level of 70.1% of the pension liability.

The valuation takes account of the amount of current and future pension liabilities of the Fund, the expected contributions received by the Fund and the expected rate of investment returns held by the Fund. Other factors which influence the valuation and are taken into account by the Actuary include anticipated pay 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 1 April 2011 until 31 March 2014 and based on the 2010 valuation report (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 2013 valuation report assumptions which will inform the contributions rate from 1 April 2014 were:

Financial Assumptions 2013

Assumption	Rate	Explanation
Investment return (discount rate)	4.45%	Based on 25-Year bond returns extrapolated to reflect the duration of the Fund's liabilities
Inflation	2.5% - CPI	
Salary increases*	1.8% pa over CPI	
Pension increases	In line with CPI	Assumed to be 0.8% less than RPI

* plus an allowance for promotional pay increases. The long term assumption for salary increases is RPI plus 1% p.a which translates to CPI plus 1.8% p.a.

Mortality Assumptions

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

Mortality assumptions at age 65	Male	Female
Current pensioners	21.5	23.7
Future pensioners (assumed current age 45)	23.6	25.8

Commutation assumption

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

17. Actuarial Present Value of Promised Retirement Benefits

In addition to the triennial funding valuation, the Fund's Actuary also undertakes 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 present value of promised retirement benefits at the accounting date, calculated in line with IAS 19 assumptions, is estimated to be £1,535 million (£1,526 million in 2012/13). 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 2014 valuation have been revised from the 2013 valuation report as set out in the table below:

Assumption	2013	2014
Inflation/pension increase rate assumption	2.8%	2.8%
Salary increase rate	4.6%*	5.0%
Discount rate	4.3%	4.5%

* Salary increases are assumed to be 1% per annum until March 2016 reverting to the long term assumption shown thereafter.

18. Current Assets

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

Debtors	31 March 2014 £'000	31 March 2013 £'000
Contributions due	5,408	4,782
Sundry debtors	2,116	2,761
Cash Balances	19,991	4,754
Total	**27,515**	**12,297**

Analysis of Debtors

	31 March 2014 £'000	31 March 2013 £'000
Central Government Bodies	104	-
Other Local Authorities	7,383	6,965
NHS Bodies	-	-
Public Corporations and Trading Funds	-	-
Other Entities and Individuals	37	578
Total	**7,524**	**7,543**

19. Current Liabilities

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

Creditors	31 March 2014 £'000	31 March 2013 £'000
Benefits Payable	(253)	(431)
Sundry Creditors	(1,499)	(1,432)
Total	**(1,752)**	**(1,863)**

Analysis of Creditors

	31 March 2014 £'000	31 March 2013 £'000
Central Government Bodies	(467)	(436)
Other Local Authorities	(303)	(305)
NHS Bodies	-	-
Public Corporations and Trading Funds	-	-
Other Entities and Individuals	(982)	(1,122)
Total	**(1,752)**	**(1,863)**

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 31 March 2014 was £6.2 million (£6.3 million as at 31 March 2013). Contributions received into the AVC facility during the year amounted to £0.2 million (£0.26 million in 2012/13). 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 £55.68 million to the Fund in 2013/14 (2012/13: £47.96 million). Consequently there is a strong relationship between the Council and the Pension Fund.

The Council incurred costs of £0.3 million in 2013/14 (0.3 million in 2012/13) 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 Brian Bell, Cllr Robert Chapman (Vice Chair), Cllr Abraham Jacobson Cllr Daniel Kemp and Cllr Geoff Taylor.
Cllr Samantha Lloyd is a Board Member of Hackney Homes Ltd and is on the Governing Body at Mossbourne Academy (scheduled body employer). Cllr Brian Bell is Chair of Governors at Parkwood Primary School (LBH scheduled body). 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, Scheme Member Representative, 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 31 March 2014 these employees included:

Ian Williams	Corporate Director of Finance and Resources
Michael Honeysett	Assistant Director, Financial Management
Jill Davys	Head of Financial Services
Julie Stacey	Treasury and Pension Manager, Financial Services
Richard Law-Deeks	Group Accountant, Financial Services

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

	31 March 2014	31 March 2013
	£'000	£'000
Short term benefits	110	124
Long term/post retirement benefits	17	20
Total	**127**	**144**

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

22. Contingent Assets, Contingent Liabilities and Contractual Commitments

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

23. Impairment Losses

During 2013/14 the Fund recognise an impairment loss of £0k (2012/13: £0k) 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 Committee is the body with delegated powers to administer the Fund. Comprised of elected representatives of Hackney Council and a non-voting employer and scheme member representatives, the Committee 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 Regulations 2013.
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, as are the benefits and therefore members are not reliant on investment performance for their pensions in retirement. 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 (CPI).

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, using a prudent long term view. This will ensure that sufficient funds are available to meet all members'/dependants' benefits as they fall due for payment;
- to ensure that employer contribution rates are reasonably stable where appropriate;
- to minimise the long-term cash contributions which employers need to pay to the Fund, by recognising the link between assets and liabilities and adopting an investment strategy which balances risk and return (**NB** this will also minimise the costs to be borne by Council Tax payers);
- to reflect the different characteristics of different employers in determining contribution rates. This involves the Fund having a clear and transparent funding strategy to demonstrate how each employer can best meet its own liabilities over future years; and
- to use reasonable measures to reduce the risk to other employers and ultimately to the Council Tax payer from an employer defaulting on its pension obligations.

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 Committee

The Council has delegated responsibility for the operation and management of the scheme to the Pensions Committee.

The Committee's terms of reference require them to act as quasi 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, email: pensions@hackney.gov.uk .

1.5 Advice

Advice to the Members of the Pension 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 Legal, HR and Regulatory 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 Local Government Pension Scheme Regulations 2013. In addition the Fund also uses an appointed Investment Advisor to provide professional advice to the Committee on investment related issues.

The Pensions 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 and Alternatives (Multi-Asset Absolute Return). 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 it's 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

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

TERMS OF REFERENCE

The Pensions Committee will be responsible for the functions set out below:

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 periodically to review those arrangements.

3) To formulate and publish a Statement of Investment Principles.

4) To set the overall strategic objectives for the Pension Fund, having taken appropriate expert advice, and 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 determine all matters relating to admission body issues.

12) To focus on strategic and investment related matters at two Pensions Committee meetings.

13) To review the Pension Fund's policy and strategy documents on a regular cycle and review performance against the Fund's objectives within the business plan

14) To maintain an overview of pensions training for Members.

15) The Pension Committee will also Co-opt a non voting employer representative and a non-voting scheme representative.

2.2 The 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.

2.3 Members of the 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. The Pensions Committee has embraced the CIPFA Knowledge and Skills Framework and has undertaken a training programme to ensure that Committee Members have the requisite knowledge and skills to be able to fulfil their responsibilities as 'trustees' of the Pension Fund.

2.4 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; and
(f) Scheme Communications.

2.5 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 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 its 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 of the Fund.

3.2 The results of the last actuarial valuation carried out as at 31st March 2013 are set out below:

Liabilities	£m
Pensioners, spouses and other beneficiaries	575
Deferred pensioners	382
Active members (Fund membership to 31st March 2013)	403
Total liabilities	1,360
Market value placed on the assets	954
Past service shortfall	**(406)**
Funding Level	**70.1%**

3.3 The valuation therefore shows past service deficit of £406 million representing a funding level of 70 %.

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 Regulations 2013, 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, email: pensions@hackney.gov.uk

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. Following an assessment of the Fund's approach to meeting its liabilities and modeling the 'flight path' to full funding, the Fund has set in place a de-risking strategy.

3.7 Pensions are paid by the Fund calculated in accordance with the provisions laid down in the Local Government Pension Scheme Regulations 2013. 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:

- Employee contributions (generally based on a range between 5.5% to 12.5% of salaries for existing and all new members);
- Income from investment of funds not needed to meet day to day liabilities; and
- 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 employers' 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 strategy review.

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 2013 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 objective of fixed interest investments (a combination of conventional, index-linked and corporate bonds) is to "stabilise" investment returns and reduce funding level volatility of the Fund. Similarly property and absolute return 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 six 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/Volatility
Global Equities manager A – Lazard	Monthly	+3%	p.a. on rolling 3 year	Not Applicable
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	Not Applicable
Multi-Asset Absolute Return - GMO	Monthly	+3-5%	p.a. on rolling 3 year	5-10%

4.6 The minutes of each meeting of the Pensions 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 in 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 are contained in the Local Government Pension Scheme (Management and Investment of Funds) Regulations 2009 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 pooled mandate managed by GMO invests in accordance with the restrictions set out in the UCITS regulations. The Committee decided that 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 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. In addition a maximum of 10% of F&C's assets may be invested in sub-investment grade bonds and emerging market debt (20% in total).

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 Pensions Committee accepts, however, that circumstances can change and therefore intends to keep the inclusion of private equity, infrastructure, hedge funds and other alternative asset classes under review.

5.6 Information on the Investment Managers selected by the Pensions 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) **Multi-Asset Absolute Return Fund** – GMO is an active multi-asset absolute return fund designed to provide the Fund with equity like returns with a focus on capital preservation. The investment is through a pooled investment vehicle.

5.7 The Pension Fund employs six 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	26.2%	FTSE All Share	24-30%
Global Equities*	32.8%	MSCI AC World Index	30-37%
Total	**59%**	**Total Equities**	**54-67%**

*Global equity allocation includes 3.3% UK Equities bringing the effective Fund target benchmark allocation to 29.5% UK Equities / 29.5% Overseas Equities.

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

Asset Class	Benchmark Allocation	Index	Investment Ranges
UK Fixed Interest (Gilts)	6.4%	FT Gilt All Stock Index	
Corporate Bonds	6.4%	Merrill Lynch Sterling Non-Gilts Index	
UK index linked bonds	4.2%	FT Over 5 Years Index-Linked	
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	10%	AREF/IPD All Balanced Property Funds Index	
Total	**10%**		**9-11%**

The Fund employs one manager for investments in a multi asset absolute return fund, GMO:

Asset Class	Benchmark Allocation	Index	Investment Ranges
Alternative Investments	14%	CPI	
Total	**14%**		**8-16%**

NB. The current allocation to alternative assets (June 2014) is below the benchmark allocation following disinvestment from a previous manager and pending a procurement exercise or redistribution of benchmarks.

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 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 its investment managers over the course of a financial year at its regular Committee meetings with officers also meeting with investment managers on a more regular basis. 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.

6.2 The 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.

6.3 The 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 managers to spread the risk to the Fund so as not being overly reliant on one manager.

6.4 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.

6.5 The Fund maintains a risk register which is reviewed annually by the Pensions 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 Pensions 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 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 55 local authority pension funds with combined assets of £115 billion. The Forum exists to promote the investment interests of local authority pension funds, and in particular to maximize their influence as shareholders to promote corporate social responsibility and high standards of corporate governance amongst the companies in which they invest.

7.6 The Administering Authority of the London Borough of Hackney recognises that the public health role of the principle employer in the Penison Fund may be seen to be in conflict with the Pension Fund's investment in certain stocks or sectors. At this time, the Fund does not believe that a screening policy to specifically exclude or include companies should be put in place as this would conflict with the fiduciary responsibilities of managing the Fund.

8 VOTING RIGHTS

8.1 The Pensions 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 undertake any direct stock lending, but the position will be subject to review. The Fund does recognise however, that within pooled funds, investment managers may engage in stock lending activities.

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 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 is 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 • 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.	**Compliant** 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 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.	**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

• Include a statement of their policy on responsible ownership in the Statement of Investment Principles. • Report periodically to scheme members on the discharge of such responsibilities.	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 £115 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. • 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 employers' 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 chairman 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 were 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***.

Takeover 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 PLCs' 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

Hackney

INTRODUCTION

1.1 What is this document?

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. It is effective from 1 April 2014.

1.2 What is the London Borough of Hackney Pension Fund?

The Fund is part of the national Local Government Pension Scheme (LGPS). The LGPS was set up by the UK Government to provide retirement and death benefits for local government employees, and those employed in similar or related bodies, across the whole of the UK. The Administering Authority runs the London Borough of Hackney Pension Fund, in effect the LGPS for the London Borough of Hackney area, to make sure it:

- receives the proper amount of contributions from employees and employers, and any transfer payments;
- invests the contributions appropriately, with the aim that the Fund's assets grow over time with investment income and capital growth;
- uses the assets to pay Fund benefits to the members (as and when they retire, for the rest of their lives), and to their dependants (as and when members die), as defined in the LGPS Regulations. Assets are also used to pay transfer values and administration costs;
- One of the objectives of a funded scheme is to reduce the variability of pension costs over time for an employer compared with an unfunded (pay-as-you-go) alternative.

The roles and responsibilities of the key parties involved in the management of the Fund are summarised in Appendix B.

1.3 Why does the Fund need a Funding Strategy Statement?

Employees' benefits are guaranteed by the LGPS Regulations, and do not change with market values or employer contributions. Investment returns will help pay for some of the benefits, but probably not all, and certainly with no guarantee. Employees' contributions are fixed in those Regulations also, at a level which covers only part of the cost of the benefits.

Therefore, employers need to pay the balance of the cost of delivering the benefits to members and their dependants.

The FSS focuses on how employer liabilities are measured, the pace at which these liabilities are funded, and how employers or pools of employers pay for their own liabilities. This statement sets out how the Administering Authority has balanced the conflicting aims of:

- affordability of employer contributions;
- transparency of processes;

- stability of employers' contributions; and
- prudence in the funding basis.

There are also regulatory requirements for an FSS, as given in Appendix A.

The FSS is a summary of the Fund's approach to funding its liabilities, and this includes reference to the Fund's other policies; it is not an exhaustive statement of policy on all issues. The FSS forms part of a framework of which includes:

- the LGPS Regulations;
- the Rates and Adjustments Certificate (confirming employer contribution rates for the next three years) which can be found in an appendix to the formal valuation report;
- the Fund's policies on admissions, cessations and bulk transfers;
- actuarial factors for valuing individual transfers, early retirement costs and the costs of buying added service; and
- the Fund's Statement of Investment Principles (see Section 4).

1.4 How does the Fund and this FSS affect me?

This depends who you are:

- a member of the Fund, i.e. a current or former employee, or a dependant: the Fund needs to be sure it is collecting and holding enough money so that your benefits are always paid in full;
- an employer in the Fund (or which is considering joining the Fund): you will want to know how your contributions are calculated from time to time, that these are fair by comparison to other employers in the Fund, and in what circumstances you might need to pay more. Note that the FSS applies to all employers participating in the Fund;
- an Elected Member whose council participates in the Fund: you will want to be sure that the council balances the need to hold prudent reserves for members' retirement and death benefits, with the other competing demands for council money;
- a Council Tax payer: your council seeks to strike the balance above, and also to minimise cross-subsidies between different generations of taxpayers.

1.5 What does the FSS aim to do?

The FSS sets out the objectives of the Fund's funding strategy, such as:

- to ensure the long-term solvency of the Fund, using a prudent long term view. This will ensure that sufficient funds are available to meet all members'/dependants' benefits as they fall due for payment;
- to ensure that employer contribution rates are reasonably stable where appropriate;
- to minimise the long-term cash contributions which employers need to pay to the Fund, by recognising the link between assets and liabilities and adopting an investment strategy which balances risk and return (**NB** this will also minimise the costs to be borne by Council Tax payers);

- to reflect the different characteristics of different employers in determining contribution rates. This involves the Fund having a clear and transparent funding strategy to demonstrate how each employer can best meet its own liabilities over future years; and
- to use reasonable measures to reduce the risk to other employers and ultimately to the Council Tax payer from an employer defaulting on its pension obligations.

1.6 How do I find my way around this document?

In Section 2 there is a brief introduction to some of the main principles behind funding, i.e. deciding how much an employer should contribute to the Fund from time to time.

In Section 3 we outline how the Fund calculates the contributions payable by different employers in different situations.

In Section 4 we show how the funding strategy is linked with the Fund's investment strategy.

In the Appendices we cover various issues in more detail if you are interested:

a) the regulatory background, including how and when the FSS is reviewed;

b) who is responsible for what;

c) what issues the Fund needs to monitor, and how it manages its risks;

d) some more details about the actuarial calculations required;

e) the assumptions which the Fund actuary currently makes about the future;

f) a glossary explaining the technical terms occasionally used here.

If you have any other queries please contact Jill Davys in the first instance at e-mail address jill.davys@hackney.gov.uk or on telephone number 020 8356 2646.

2. BASIC FUNDING ISSUES

(More detailed and extensive descriptions are given in Appendix D).

2.1 How does the actuary calculate a contribution rate?

Employer contributions are normally made up of two elements:

a) the estimated cost of future benefits being built up from year to year, referred to as the "*future service rate*"; plus

b) an adjustment for the difference between the assets built up to date and the value of past service benefits, referred to as the "*past service adjustment*". If there is a deficit the past service adjustment will be an increase in the employer's total contribution; if there is a surplus there may be a reduction in the employer's total contribution. Any past service adjustment will aim to return the employer to full funding over an appropriate period (the "deficit recovery period").

2.2 How is a deficit (or surplus) calculated?

An employer's "funding level" is defined as the ratio of:

- the market value of the employer's share of assets, to
- the value placed by the actuary on the benefits built up to date for the employer's employees and ex-employees (the "liabilities"). The Fund actuary agrees with the Administering Authority the assumptions to be used in calculating this value.

If this is less than 100% then it means the employer has a shortfall, which is the employer's deficit; if it is more than 100% then the employer is said to be in surplus. The amount of deficit or shortfall is the difference between the asset value and the liabilities value.

A larger deficit will give rise to higher employer contributions. If a deficit is spread over a longer period then the annual employer cost is lower than if it is spread over a shorter period.

2.3 How are contribution rates calculated for different employers?

The Fund's actuary is required by the Regulations to report the *Common Contribution Rate*, for all employers collectively at each triennial valuation, combining items (a) and (b) above. It is expressed as a percentage of pay and for the purpose of calculating the Common Contribution Rate, the surplus or deficit under (b) is currently spread over a period of 20 years. This is based on actuarial assumptions about the likelihood, size and timing of benefit payments to be made from the Fund in the future, as outlined in Appendix E.

The Fund's actuary is also required to adjust the *Common Contribution Rate* for circumstances specific to each individual employer. The sorts of specific circumstances which are considered are discussed in Section 3. It is this adjusted contribution rate which the employer is actually required to pay, and the rates for all employers are shown in the Fund's Rates and Adjustments Certificate.

In effect, the *Common Contribution Rate* is a notional quantity, as it is unlikely that any employer will pay that exact rate. Separate future service rates are calculated for each employer together with individual past service adjustments according to employer-specific circumstances.

Details of the outcome of the Actuarial Valuation as at 31 March 2013 can be found in the formal valuation report dated 31 March 2014, including an analysis at Fund Level of the *Common Contribution Rate*. Further details of individual employer contribution rates can also be found in the formal report.

2.4 What else might affect the employer's contribution?

Employer covenant and likely term of membership are also considered when setting contributions: more details are given in Section 3.

For some employers it may be agreed to pool contributions, see 3.4.

Any costs of non ill-health early retirements must be paid by the employer, see 3.6.

If an employer is approaching the end of its participation in the Fund then its contributions may be amended appropriately, so that the assets meet (as closely as possible) the value of its liabilities in the Fund when its participation ends.

Employers' contributions are expressed as minima, with employers able to pay contributions at a higher rate. Account of the higher rate will be taken by the Fund Actuary at subsequent valuations.

2.5 What different types of employer participate in the Fund?

Historically the LGPS was intended for local authority employees only. However over the years, with the diversification and changes to delivery of local services, many more types and numbers of employers now participate. There are currently more employers in the Fund than ever before, a significant part of this being due to new academies.

In essence, participation in the LGPS is open to public sector employers providing some form of service to the local community. Whilst the majority of members will be local authority employees (and ex-employees), the majority of participating employers are those providing services in place of (or alongside) local authority services: academy schools, contractors, housing associations, charities, etc.

The LGPS Regulations define various types of employer as follows:

Scheduled bodies - councils, and other specified employers such as academies and further education establishments. These must provide access to the LGPS in respect of their employees who are not eligible to join another public sector scheme (such as the Teachers Scheme). These employers are so-called because they are specified in a schedule to the LGPS Regulations.

It is now possible for Local Education Authority schools to convert to academy status, and for other forms of school (such as Free Schools) to be established under the academies legislation. All such academies, as employers of non-teaching staff, become separate new employers in the Fund. As academies are defined in the LGPS Regulations as "Scheduled Bodies", the Administering Authority has no discretion over whether to admit them to the Fund, and the academy has no discretion whether to continue to allow its non-teaching staff to join the Fund. There has also been guidance issued by the DCLG regarding the terms of academies' membership in LGPS Funds.

Designating employers - employers such as town and parish councils are able to participate in the LGPS via resolution (and the Fund cannot refuse them entry where the resolution is passed). These employers can designate which of their employees are eligible to join the scheme.

Other employers are able to participate in the Fund via an admission agreement, and are referred to as 'admission bodies'. These employers are generally those with a "community of interest" with another scheme employer – **community admission bodies** ("CAB") or those providing a service on behalf of a scheme employer – **transferee admission bodies** ("TAB"). CABs will include housing associations and charities, TABs will generally be contractors. The Fund is able to set its criteria for participation by these employers and can refuse entry if the requirements as set out in the Fund's admissions policy are not met.

2.6 How does the Fund recognise that contribution levels can affect council and employer service provision, and council tax?

The Administering Authority and the Fund actuary are acutely aware that, all other things being equal, a higher contribution required to be paid to the Fund will mean less cash available for the employer to spend on the provision of services. For instance:

- higher pension fund contributions may result in reduced council spending, which in turn could affect the resources available for council services, and/or greater pressure on council tax levels;
- contributions which academies pay to the Fund will therefore not be available to pay for providing education;
- other employers will provide various services to the local community, perhaps through housing associations, charitable work, or contracting council services. If they are required to pay more in pension contributions to the LGPS then this may affect their ability to provide the local services.

Whilst all this is true, it should also be borne in mind that:

- the Fund provides invaluable financial security to local families, whether to those who formerly worked in the service of the local community who have now retired, or to their families after their death;
- the Fund must have the assets available to meet these retirement and death benefits, which in turn means that the various employers must each pay their own way. Lower contributions today will mean higher contributions tomorrow: deferring payments does not alter the employer's ultimate obligation to the Fund in respect of its current and former employees;
- each employer will generally only pay for its own employees and ex-employees (and their dependants), not for those of other employers in the Fund;
- the Fund strives to maintain reasonably stable employer contribution rates where appropriate and possible;
- the Fund wishes to avoid the situation where an employer falls so far behind in managing its funding shortfall that its deficit becomes unmanageable in practice: such a situation may lead to employer insolvency and the resulting deficit falling on

the other Fund employers. In that situation, those employers' services would in turn suffer as a result;

- council contributions to the Fund should be at a suitable level, to protect the interests of different generations of council tax payers. For instance, underpayment of contributions for some years will need to be balanced by overpayment in other years; the council will wish to minimise the extent to which council tax payers in one period are in effect benefitting at the expense of those paying in a different period.

Overall, therefore, there is clearly a balance to be struck between the Fund's need for maintaining prudent funding levels, and the employers' need to allocate their resources appropriately. The Fund achieves this through various techniques which affect contribution increases to various degrees (see 3.1). In deciding which of these techniques to apply to any given employer, the Fund will consider a risk assessment of that employer using a knowledge base which is regularly monitored and kept up-to-date. This database will include such information as the type of employer, its membership profile and funding position, any guarantors or security provision, material changes anticipated, etc. This helps the Fund establish a picture of the financial standing of the employer, i.e. its ability to meet its long term Fund commitments.

For instance, where an employer is considered relatively low risk then the Fund will permit greater smoothing (such as stabilisation or a longer deficit recovery period relative to other employers) which will temporarily produce lower contribution levels than would otherwise have applied. This is permitted in the expectation that the employer will still be able to meet its obligations for many years to come.

On the other hand, an employer whose risk assessment indicates a less strong covenant will generally be required to pay higher contributions (for instance, with a more prudent funding basis or a shorter deficit recovery period relative to other employers). This is because of the higher probability that at some point it will fail or be unable to meet its pension contributions, with its deficit in the Fund then falling to other Fund employers.

The Fund actively seeks employer input, including to its funding arrangements, through various means: see Appendix A.

3 Calculating contributions for individual Employers

3.1 General comments

A key challenge for the Administering Authority is to balance the need for stable, affordable employer contributions with the requirement to take a prudent, longer-term view of funding and ensure the solvency of the Fund. With this in mind, there are a number of methods which the Administering Authority may permit, in order to improve the stability of employer contributions. These include, where circumstances permit:-

- capping of employer contribution rate changes within a pre-determined range ("stabilisation");
- the use of extended deficit recovery periods;
- the phasing in of contribution rises or reductions;
- the pooling of contributions amongst employers with similar characteristics;
- use of some form of security or guarantee to justify a lower contribution rate than would otherwise be the case.

These and associated issues are covered in this Section.

The Administering Authority recognises that there may occasionally be particular circumstances affecting individual employers that are not easily managed within the rules and policies set out in the Funding Strategy Statement. Therefore the Administering Authority may, at its sole discretion, direct the actuary to adopt alternative funding approaches on a case by case basis for specific employers.

3.2 The effect of paying contributions below the theoretical level

Employers which are permitted to use one or more of the above methods will often be paying, for a time, contributions less than the theoretical contribution rate. Such employers should appreciate that:

- their true long term liability (i.e. the actual eventual cost of benefits payable to their employees and ex-employees) is not affected by the choice of method;
- lower contributions in the short term will be assumed to incur a greater loss of investment returns on the deficit. Thus, deferring a certain amount of contribution will lead to higher contributions in the long-term; and
- it will take longer to reach full funding, all other things being equal.

Overleaf (3.3) is a summary of how the main funding policies differ for different types of employer, followed by more detailed notes where necessary.

Section 3.4 onwards deals with various other funding issues which apply to all employers.

3.3 The different approaches used for different employers

Type of employer	**Scheduled Bodies**		**Community Admission Bodies and Designating Employers**		**Transferee Admission Bodies**
Sub-type	**Local Authorities**	**Academies**	**Open to new entrants**	**Closed to new entrants**	**(all)**
Basis used	Ongoing, assumes long-term Fund participation (see Appendix E).		Ongoing, but may move to "gilts basis" - see Note (a)		Ongoing, assumes fixed contract term in the Fund (see Appendix E)
Future service rate	Projected Unit Credit approach (see Appendix D – D.2)			Attained Age approach (see Appendix D – D.2)	Projected Unit Credit approach (see Appendix D – D.2)
Stabilised rate?	Yes - see Note (b)	No-	No	No	No
Maximum deficit recovery period – Note (c)	20 years	10 years	15 years	15 years	Outstanding contract term
Deficit recovery payments – Note (d)	% of payroll or Monetary Amount	% of payroll or Monetary Amount	% of payroll or Monetary Amount	Monetary amount	% of payroll or Monetary Amount
Treatment of surplus	Covered by stabilisation arrangement.	Reduce contributions by spreading the surplus over the remaining contract term.	Preferred approach: contributions kept at future service rate. However, reductions may be permitted by the Admin Authority.		Reduce contributions by spreading the surplus over the remaining contract term.
Phasing of contribution changes	Covered by stabilisation arrangement.	3 years	3 years - Note (e)	3 years - Note (e)	None
Review of rates – Note (f)	Administering Authority reserves the right to review contribution rates and amounts, and the level of security provided, at regular intervals between valuations.				Particularly reviewed in last 3 years of contract
New employer	n/a		Note (g)	Note (h)	Notes (h) & (i)
Cessation of participation: cessation debt payable	Cessation is assumed not to be generally possible, as Scheduled Bodies are legally obliged to participate in the LGPS. In the rare event of cessation occurring (machinery of Government changes for example), the cessation debt principles applied would be as per Note (j).		Can be ceased subject to terms of admission agreement. Cessation debt will be calculated on a basis appropriate to the circumstances of cessation – see Note (j).		Participation is assumed to expire at the end of the contract. Cessation debt (if any) calculated on ongoing basis. Awarding Authority will be liable for future deficits and contributions arising.

Note (a) (Basis for CABs and Designating Employers closed to new entrants)

In the circumstances where:

- the employer is a Designating Employer, or an Admission Body but not a Transferee Admission Body; and
- the employer has no guarantor; and
- the admission agreement is likely to terminate, or the employer is likely to lose its last active member, within a timeframe considered appropriate by the Administering Authority to prompt a change in funding.

The Administering Authority may vary the discount rate used to set employer contribution rate. In particular contributions may be set for an employer to achieve full funding on a more prudent basis (e.g. using a discount rate set equal to gilt yields) by the time the agreement terminates or the last active member leaves, in order to protect other employers in the Fund. This policy will increase regular contributions and reduce, but not entirely eliminate, the possibility of a final deficit payment being required from the employer when a cessation valuation is carried out.

The Administering Authority also reserves the right to adopt the above approach in respect of those Designating Employers and Admission Bodies with no guarantor, where the strength of covenant is considered to be weak but there is no immediate expectation that the admission agreement will cease or the Designating Employer alters its designation.

Note (b) (Stabilisation)

Stabilisation is a mechanism where employer contribution rate variations from year to year are kept within a pre-determined range, thus allowing those employers' rates to be relatively stable. In the interests of stability and affordability of employer contributions, the Administering Authority, on the advice of the Fund Actuary, believes that stabilising contributions can still be viewed as a prudent longer-term approach. However, employers whose contribution rates have been "stabilised" (and may therefore be paying less than their theoretical contribution rate) should be aware of the risks of this approach and should consider making additional payments to the Fund if possible.

This stabilisation mechanism allows short term investment market volatility to be managed so as not to cause volatility in employer contribution rates, on the basis that a long term view can be taken on net cash inflow, investment returns and strength of employer covenant.

The current stabilisation mechanism applies if:

- the employer satisfies the eligibility criteria set by the Administering Authority (see below) and;
- there are no material events which cause the employer to become ineligible, e.g. significant reductions in active membership (due to outsourcing or redundancies), or changes in the nature of the employer (perhaps due to Government restructuring).

The Fund currently has a strong net cash inflow and can therefore take a medium to long term view on determining employer contribution rates to meet future liabilities through operating a fund with an investment strategy that reflects this long term view. It allows short term investment markets volatility to be managed so as not to cause volatility in employer contribution rates.

On the basis of extensive modelling carried out for the 2013 valuation exercise (see Section 4), the stabilised details are as follows:

Type of employer	"Standard" Council	"Mature" Council
Max cont increase	+1% of pay	+2%
Max cont decrease	-1% of pay	-2%

The stabilisation criteria and limits will be reviewed at the 31 March 2016 valuation, to take effect from 1 April 2017. This will take into account the employer's membership profiles, the issues surrounding employer security, and other relevant factors.

Note (c) (Deficit Recovery Periods)

The deficit recovery period starts at the commencement of the revised contribution rate (1 April 2014 for the 2013 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 where there were no new entrants.

Where stabilisation applies, the resulting employer contribution rate would be amended to comply with the stabilisation mechanism.

For employers with no (or very few) active members at this valuation, the deficit should be recovered by a fixed monetary amount over a period to be agreed with the body or its successor, not to exceed 20 years.

Note (d) (Deficit Recovery Payments)

For employers where stabilisation is not being applied, the deficit recovery payments for each employer covering the three year period until the next valuation will often be set as a percentage of salaries. However, the Administering Authority reserves the right to amend these rates between valuations and/or to require these payments in monetary terms instead, for instance where:

- the employer is relatively mature, i.e. has a large deficit recovery contribution rate (e.g. above 15% of payroll), in other words its payroll is a smaller proportion of its deficit than is the case for most other employers; or
- there has been a significant reduction in payroll due to outsourcing or redundancy exercises; or
- the employer has closed the Fund to new entrants.

Note (e) (Phasing in of contribution changes)

All phasing is subject to the Administering Authority being satisfied as to the strength of the employer's covenant. Transferee Admission Bodies are not eligible for phasing in contribution rates but other employers may opt to phase in contribution rises or reductions.

Employers which have no active members at this valuation will not be phased.

Note (f) (Regular Reviews)

Such reviews may be triggered by significant events including but not limited to: significant reductions in payroll, altered employer circumstances, Government restructuring affecting the employer's business, or failure to pay contributions or arrange appropriate security as required by the Administering Authority.

The result of a review may be to require increased contributions (by strengthening the actuarial assumptions adopted and/or moving to monetary levels of deficit recovery contributions), and/or an increased level of security or guarantee.

Note (g) (New Academy employers)

At the time of writing, the Fund's policies on academies' funding issues are as follows:

a) The new academy will be regarded as a separate employer in its own right and will not be pooled with other employers in the Fund. The only exception is where the academy is part of a Multi Academy Trust (MAT) in which case the academy's figures will be calculated as below but can be combined with those of the other academies in the MAT.

b) The new academy's past service liabilities on conversion will be calculated based on its active Fund members on the day before conversion. For the avoidance of doubt, these liabilities will include all past service of those members, but will exclude the liabilities relating to any ex-employees of the school who have deferred or pensioner status.

c) The new academy will be allocated an initial asset share from the ceding council's assets in the Fund. This asset share will be calculated using the estimated funding position of the ceding council at the date of academy conversion. The share will be based on the active members' funding level, having first allocated assets in the council's share to fully fund deferred and pensioner members. The asset allocation will be based on market conditions and the academy's active Fund membership on the day prior to conversion.

d) The new academy's initial contribution rate will be calculated using market conditions, the council funding position and, membership data, all as at the day prior to conversion.

e) As an alternative to (d), the academy will have the option to elect to pay contributions initially in line with the ceding LEA instead. However, this election will not alter its asset or liability allocation as per (b) and (c) above. Ultimately, all academies remain responsible for their own allocated deficit.

The Fund's policies on academies are subject to change in the light of any amendments to DCLG guidance. Any changes will be notified to academies, and will be reflected in a subsequent version of this FSS. In particular, policies (d) and (e) above will be reconsidered at each valuation.

Note (h) (New Admission Bodies)

With effect from 1 October 2012, the LGPS 2012 Miscellaneous Regulations introduced mandatory new requirements for all Admission Bodies brought into the Fund from that date. Under these Regulations, all new Admission Bodies will be required to provide some form of security, such as a guarantee from the letting employer, an indemnity or a bond. The security is required to cover some or all of the following:

- the strain cost of any redundancy early retirements resulting from the premature termination of the contract;
- allowance for the risk of asset underperformance;
- allowance for the risk of a fall in gilt yields;
- allowance for the possible non-payment of employer and member contributions to the Fund;
- the current deficit.

For all new Transferee Admission Bodies, the security must be to the satisfaction of the Administering Authority as well as the letting employer, and will be reassessed on an annual basis.

The Administering Authority will only consider requests from Community Admission Bodies (or other similar bodies, such as section 75 NHS partnerships) to join the Fund if they are sponsored by a Scheduled Body with tax raising powers, guaranteeing their liabilities and also providing a form of security as above.

The above approaches reduce the risk to other employers in the Fund, of potentially having to pick up any shortfall in respect of Admission Bodies ceasing with an unpaid deficit.

Note (i) (New Transferee Admission Bodies)

A new TAB usually joins the Fund as a result of the letting/outsourcing of some services from an existing employer (normally a Scheduled Body such as a council or academy) to another organisation (a “contractor”). This involves the TUPE transfer of some staff from the letting employer to the contractor. Consequently, for the duration of the contract, the contractor is a new participating employer in the Fund so that the transferring employees maintain their eligibility for LGPS membership. At the end of the contract the employees revert to the letting employer or to a replacement contractor.

Ordinarily, the TAB would be set up in the Fund as a new employer with responsibility for all the accrued benefits of the transferring employees; in this case, the contractor would usually be assigned an initial asset allocation equal to the past service liability value of the employees’ Fund benefits. The quid pro quo is that the contractor is then expected to ensure that its share of the Fund is also fully funded at the end of the contract: see Note (j).

Employers which “outsource” have flexibility in the way that they can deal with the pension risk potentially taken on by the contractor. In particular there are three different routes that such employers may wish to adopt. Clearly as the risk ultimately resides with the employer letting the contract, it is for them to agree the appropriate route with the contractor:

i) Pooling

Under this option the contractor is pooled with the letting employer. In this case, the contractor pays the same rate as the letting employer, which may be under the stabilisation approach.

ii) Letting employer retains pre-contract risks

Under this option the letting employer would retain responsibility for assets and liabilities in respect of service accrued prior to the contract commencement date. The contractor would be responsible for the future liabilities that accrue in respect of transferred staff. The contractor's contribution rate could vary from one valuation to the next. It would be liable for any deficit at the end of the contract term in respect of assets and liabilities attributable to service accrued during the contract term.

iii) Fixed contribution rate agreed

Under this option the contractor pays a fixed contribution rate and doesn't pay any cessation deficit.

The Administering Authority is willing to administer any of the above options as long as the approach is documented in the Admission Agreement as well as the transfer agreement. The Admission Agreement should ensure that some element of risk transfers to the contractor where it relates to their decisions and it is unfair to burden the letting employer with that risk. For example the contractor should typically be responsible for pension costs that arise from:

- above average pay increases, including the effect in respect of service prior to contract commencement even if the letting employer takes on responsibility for the latter under (ii) above;
- redundancy and early retirement decisions.

Note (j) (Admission Bodies Ceasing)

Notwithstanding the provisions of the Admission Agreement, the Administering Authority may consider any of the following as triggers for the cessation of an admission agreement with any type of body:

- last active member ceasing participation in the Fund;
- the insolvency, winding up or liquidation of the Admission Body;
- any breach by the Admission Body of any of its obligations under the Agreement that they have failed to remedy to the satisfaction of the Fund;
- a failure by the Admission Body to pay any sums due to the Fund within the period required by the Fund; or
- the failure by the Admission Body to renew or adjust the level of the bond or indemnity, or to confirm an appropriate alternative guarantor, as required by the Fund.

On cessation, the Administering Authority will instruct the Fund actuary to carry out a cessation valuation to determine whether there is any deficit or surplus. Where there is a deficit, payment of this amount in full would normally be sought from the Admission Body; where there is a surplus it should be noted that current legislation does not permit a refund payment to the Admission Body.

For non-Transferee Admission Bodies whose participation is voluntarily ended either by themselves or the Fund, or where a cessation event has been triggered, the Administering Authority must look to protect the interests of other ongoing employers. The actuary will therefore adopt an approach which, to the extent reasonably practicable, protects the other employers from the likelihood of any material loss emerging in future:

a) where there is a guarantor for future deficits and contributions, the cessation valuation will normally be calculated using the ongoing basis as described in Appendix E;

b) alternatively, it may be possible to simply transfer the former Admission Body's liabilities and assets to the guarantor, without needing to crystallise any deficit. This approach may be adopted where the employer cannot pay the contributions due, and this is within the terms of the guarantee;

c) where a guarantor does not exist then, in order to protect other employers in the Fund, the cessation liabilities and final deficit will normally be calculated using a "gilts cessation basis", which is more prudent than the ongoing basis. This has no allowance for potential future investment outperformance above gilt yields, and has added allowance for future improvements in life expectancy. This could give rise to significant cessation debts being required.

Under (a) and (c), any shortfall would usually be levied on the departing Admission Body as a single lump sum payment. If this is not possible then the Fund would look to any bond, indemnity or guarantee in place for the employer.

In the event that the Fund is not able to recover the required payment in full, then the unpaid amounts fall to be shared amongst all of the other employers in the Fund. This may require an immediate revision to the Rates and Adjustments Certificate affecting other employers in the Fund, or instead be reflected in the contribution rates set at the next formal valuation following the cessation date.

As an alternative, where the ceasing Admission Body is continuing in business, the Fund at its absolute discretion reserves the right to enter into an agreement with the ceasing Admission Body. Under this agreement the Fund would accept an appropriate alternative security to be held against any deficit, and would carry out the cessation valuation on an ongoing basis: deficit recovery payments would be derived from this cessation debt. This approach would be monitored as part of each triennial valuation: the Fund reserves the right to revert to a "gilts cessation basis" and seek immediate payment of any funding shortfall identified. The Administering Authority may need to seek legal advice in such cases, as the Body would have no contributing members.

3.4 Pooled contributions

From time to time the Administering Authority may set up pools for employers with similar characteristics. This will always be in line with its broader funding strategy.

With the advice of the Actuary the Administering Authority allows smaller employers of similar types to pool their contributions as a way of sharing experience and smoothing out the effects of costly but relatively rare events such as ill-health retirements or deaths in service.

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

Smaller admitted bodies may be pooled with the letting employer, provided all parties (particularly the letting employer) agree. The Administering Authority may specify the maximum number of active members to participate in a pool.

At the 2013 valuation there were no pools for smaller employers.

Employers who are permitted to enter (or remain in) a pool at the 2013 valuation will not normally be advised of their individual contribution rate unless agreed by the Administering Authority.

Schools generally are also pooled with their funding Council. However there may be exceptions for specialist or independent schools.

Those employers which have been pooled are identified in the Rates and Adjustments Certificate.

3.5 Additional flexibility in return for added security

The Administering Authority may permit greater flexibility to the employer's contributions if the employer provides added security to the satisfaction of the Administering Authority.

Such flexibility includes a reduced rate of contribution, an extended deficit recovery period, or permission to join a pool with another body (e.g. the Local Authority).

Such security may include, but is not limited to, a suitable bond, a legally-binding guarantee from an appropriate third party, or security over an employer asset of sufficient value.

The degree of flexibility given may take into account factors such as:

- the extent of the employer's deficit;
- the amount and quality of the security offered;
- the employer's financial security and business plan;
- whether the admission agreement is likely to be open or closed to new entrants.

3.6 Non ill-health early retirement costs

It is assumed that members' benefits are payable from the earliest age that the employee could retire without incurring a reduction to their benefit (and without requiring their employer's consent to retire). (**NB** the relevant age may be different for different periods of service, following the benefit changes from April 2008 and April 2014). Employers are required to pay additional contributions ('strain') wherever an employee retires before attaining this age. The actuary's funding basis makes no allowance for premature retirement except on grounds of ill-health.

Employers must make these additional contributions as a one off payment to the fund immediately on awarding the early retirement. The exception to this rule are statutory bodies with tax raising powers, where, depending on the circumstances, the Administering Authority may at its absolute discretion agree to spread the payment over a period not exceeding 5 years. If this is agreed, interest will be charged, using factors provided by the actuary. In any event the spread period cannot exceed the period to the member's normal retirement date if this is shorter than 5 years.

3.7 Ill-health early retirement costs

Admitted Bodies will usually have an 'ill-health allowance'; Scheduled Bodies may have this also, depending on their agreement terms with the Administering Authority. The Fund monitors each employer's ill-health experience on an ongoing basis. If the cumulative cost of ill health retirement in any financial year exceeds the allowance at the previous valuation, the employer will be charged additional contributions on the same basis as apply for non ill-health cases. Details will be included in each separate Admission Agreement.

3.8 Ill-health insurance

If an employer provides satisfactory evidence to the Administering Authority of a current insurance policy covering ill health early retirement strains, then:

- the employer's contribution to the Fund each year is reduced by the amount of that year's insurance premium, so that the total contribution is unchanged, and
- there is no need for monitoring of allowances.

The employer must keep the Administering Authority notified of any changes in the insurance policy's coverage or premium terms, or if the policy is ceased.

3.9 Employers with no remaining active members

In general an employer ceasing in the Fund, due to the departure of the last active member, will pay a cessation debt on an appropriate basis (see 3.3, Note (j)) and consequently have no further obligation to the Fund. Thereafter it is expected that one of two situations will eventually arise:

a) the employer's asset share runs out before all its ex-employees' benefits have been paid. In this situation the other Fund employers will be required to contribute to pay all remaining benefits: this will be done by the Fund actuary apportioning the remaining liabilities on a pro-rata basis at successive formal valuations;

b) the last ex-employee or dependant dies before the employer's asset share has been fully utilised. In this situation the remaining assets would be apportioned pro-rata by the Fund's actuary to the other Fund;

c) in exceptional circumstances the Fund may permit an employer with no remaining active members to continue contributing to the Fund. This would require the provision of a suitable security or guarantee, as well as a written ongoing commitment to fund the remainder of the employer's obligations over an appropriate period. The Fund would reserve the right to invoke the cessation requirements in the future, however. The Administering Authority may need to seek legal advice in such cases, as the employer would have no contributing members.

3.10 Policies on bulk transfers

The Fund has a separate written policy which covers bulk transfer payments into, out of and within the Fund. Each case will be treated on its own merits, but in general:

- the Fund will not pay bulk transfers greater than the lesser of (a) the asset share of the transferring employer in the Fund, and (b) the value of the past service liabilities of the transferring members;
- the Fund will not grant added benefits to members bringing in entitlements from another Fund unless the asset transfer is sufficient to meet the added liabilities;
- the Fund may permit shortfalls to arise on bulk transfers if the Fund employer has suitable strength of covenant and commits to meeting that shortfall in an appropriate period. This may require the employer's Fund contributions to increase between valuations.

4 Funding strategy and links to investment strategy

4.1 What is the Fund's investment strategy?

The Fund has built up assets over the years, and continues to receive contribution and other income. All of this must be invested in a suitable manner, which is the investment strategy.

Investment strategy is set by the administering authority, after consultation with the employers and after taking investment advice. The precise mix, manager make up and target returns are set out in the Statement of Investment Principles (SIP), which is available to members and can be found on the Pension Fund website: http://hackney.xpmemberservices.com/Library/Pension-Fund-and-Investment.aspx .

The investment strategy is set for the long-term, but is reviewed from time to time. Normally a full review is carried out after each actuarial valuation, and is kept under review annually between actuarial valuations to ensure that it remains appropriate to the Fund's liability profile.

The same investment strategy is currently followed for all employers.

4.2 What is the link between funding strategy and investment strategy?

The Fund must be able to meet all benefit payments as and when they fall due. These payments will be met by contributions (resulting from the funding strategy) or asset returns and income (resulting from the investment strategy). To the extent that investment returns or income fall short, then higher cash contributions are required from employers, and vice versa.

Therefore, the funding and investment strategies are inextricably linked.

4.3 How does the funding strategy reflect the Fund's investment strategy?

In the opinion of the Fund actuary, the current funding policy is consistent with the current investment strategy of the Fund. The asset outperformance assumption contained in the discount rate (see E3) is within a range that would be considered acceptable for funding purposes; it is also considered to be consistent with the requirement to take a "prudent longer-term view" of the funding of liabilities as required by the UK Government (see A1).

However, in the short term – such as the three yearly assessments at formal valuations – there is the scope for considerable volatility and there is a material chance that in the short-term and even medium term, asset returns will fall short of this target. The stability measures described in Section 3 will damp down, but not remove, the effect on employers' contributions.

The Fund does not hold a contingency reserve to protect it against the volatility of equity investments.

4.4 How does this differ for a large stable employer?

The Actuary has developed four key measures which capture the essence of the Fund's strategies, both funding and investment:

- prudence - the Fund should have a reasonable expectation of being fully funded in the long term;

- affordability – how much can employers afford;
- stewardship – the assumptions used should be sustainable in the long term, without having to resort to overly optimistic assumptions about the future to maintain an apparently healthy funding position;
- stability – employers should not see significant moves in their contribution rates from one year to the next, and this will help to provide a more stable budgeting environment.

The key problem is that the key objectives often conflict. For example, minimising the long term cost of the scheme (i.e. keeping employer rates affordable) is best achieved by investing in higher returning assets e.g. equities. However, equities are also very volatile (i.e. go up and down fairly frequently in fairly large moves), which conflicts with the objective to have stable contribution rates.

Therefore a balance needs to be maintained between risk and reward, which has been considered by the use of Asset Liability Modelling: this is a set of calculation techniques applied by the Fund's actuary, to model the range of potential future solvency levels and contribution rates.

The Actuary was able to model the impact of these four key areas, for the purpose of setting a stabilisation approach (see 3.3 Note (b)). The modelling demonstrated that retaining the present investment strategy, coupled with constraining employer contribution rate changes as described in 3.3 Note (b), struck an appropriate balance between the above objectives. In particular the stabilisation approach currently adopted meets the need for stability of contributions without jeopardising the Administering Authority's aims of prudent stewardship of the Fund.

Whilst the current stabilisation mechanism is to remain in place until 2017, it should be noted that this will need to be reviewed following the 2016 valuation.

4.5 Does the Fund monitor its overall funding position?

The Administering Authority monitors the relative funding position, i.e. changes in the relationship between asset values and the liabilities value, quarterly. It reports this to the regular Pensions Committee meetings, and also to employers through newsletters and Employers Forums.

Appendix A – Regulatory framework

A1 Why does the Fund need an FSS?

The Department for Communities and Local Government (DCLG) has stated that the purpose of the FSS is:

- *"to establish a* ***clear and transparent fund-specific strategy*** *which will identify how employers' pension liabilities are best met going forward;*
- *to support the regulatory framework to maintain* ***as nearly constant employer contribution rates as possible****; and*
- *to take a* ***prudent longer-term view*** *of funding those liabilities."*

These objectives are desirable individually, but may be mutually conflicting.

The requirement to maintain and publish a FSS is contained in LGPS Regulations which are updated from time to time. In publishing the FSS the Administering Authority has to have regard to any guidance published by Chartered Institute of Public Finance and Accountancy (CIPFA) (most recently in 2012) and to its Statement of Investment Principles.

This is the framework within which the Fund's actuary carries out triennial valuations to set employers' contributions and provides recommendations to the Administering Authority when other funding decisions are required, such as when employers join or leave the Fund. The FSS applies to all employers participating in the Fund.

A2 Does the Administering Authority consult anyone on the FSS?

Yes. This is required by LGPS Regulations. It is covered in more detail by the most recent CIPFA guidance, which states that the FSS must first be subject to "consultation with such persons as the authority considers appropriate", and should include "a meaningful dialogue at officer and elected member level with council tax raising authorities and with corresponding representatives of other participating employers".

In practice, for the Fund, the consultation process for this FSS was as follows:

a) a draft version of the FSS was issued to all participating employers in January for comment;

b) comments were requested within [30] days;

c) there was an Employers Forum on January at which questions regarding the FSS could be raised and answered;

d) following the end of the consultation period the FSS was updated where required and then published, in March.

A3 How is the FSS published?

The FSS is made available through the following routes:

- published on the Pension website, at: http://hackney.xpmemberservices.com/Library/Pension-Fund-and-Investment.aspx
- a copy sent by e-mail to each participating employer in the Fund;
- a copy sent to employee/pensioner representatives;

- a summary issued to all Fund members;
- a full copy included in the annual report and accounts of the Fund;
- copies sent to investment managers and independent advisers;
- copies made available on request.

A4 How often is the FSS reviewed?

The FSS is reviewed in detail at least every three years as part of the triennial valuation. This version is expected to remain unaltered until it is consulted upon as part of the formal process for the next valuation in 2016.

It is possible that (usually slight) amendments may be needed within the three year period. These would be needed to reflect any regulatory changes, or alterations to the way the Fund operates (e.g. to accommodate a new class of employer). Any such amendments would be consulted upon as appropriate:

- trivial amendments would be simply notified at the next round of employer communications;
- amendments affecting only one class of employer would be consulted with those employers;
- other more significant amendments would be subject to full consultation.

In any event, changes to the FSS would need agreement by the Pensions Committee and would be included in the relevant Committee Meeting minutes.

A5 How does the FSS fit into other Fund documents?

The FSS is a summary of the Fund's approach to funding liabilities. It is not an exhaustive statement of policy on all issues, for example there are a number of separate statements published by the Fund including the Statement of Investment Principles, Governance Strategy and Communications Strategy. In addition, the Fund publishes an Annual Report and Accounts with up to date information on the Fund.

These documents can be found on the web at:
http://hackney.xpmemberservices.com/Library/Pension-Fund-and-Investment.aspx

Appendix B – Responsibilities of key parties

The efficient and effective operation of the Fund needs various parties to each play their part.

B1 The Administering Authority should:

- operate the Fund as per the LGPS Regulations;
- effectively manage any potential conflicts of interest arising from its dual role as Administering Authority and a Fund employer;
- collect employer and employee contributions, and investment income and other amounts due to the Fund;
- ensure that cash is available to meet benefit payments as and when they fall due;
- pay from the Fund the relevant benefits and entitlements that are due;
- invest surplus monies (i.e. contributions and other income which are not immediately needed to pay benefits) in accordance with the Fund's Statement of Investment Principles (SIP) and LGPS Regulations;
- communicate appropriately with employers so that they fully understand their obligations to the Fund;
- take appropriate measures to safeguard the Fund against the consequences of employer default;
- manage the valuation process in consultation with the Fund's actuary;
- prepare and maintain a FSS and a SIP, after consultation;
- notify the Fund's actuary of material changes which could affect funding (this is covered in a separate agreement with the actuary); and
- monitor all aspects of the fund's performance and funding and amend the FSS/SIP as necessary and appropriate.

B2 The Individual Employer should:

- deduct contributions from employees' pay correctly;
- pay all contributions, including their own as determined by the actuary, promptly by the due date;
- have a policy and exercise discretions within the regulatory framework;
- make additional contributions in accordance with agreed arrangements in respect of, for example, augmentation of scheme benefits, early retirement strain; and
- notify the Administering Authority promptly of all changes to its circumstances, prospects or membership, which could affect future funding.

B3 The Fund Actuary should:

- prepare valuations, including the setting of employers' contribution rates. This will involve agreeing assumptions with the Administering Authority, having regard to the FSS and LGPS Regulations, and targeting each employer's solvency appropriately;
- provide advice relating to new employers in the Fund, including the level and type of bonds or other forms of security (and the monitoring of these);

- prepare advice and calculations in connection with bulk transfers and individual benefit-related matters;
- assist the Administering Authority in considering possible changes to employer contributions between formal valuations, where circumstances suggest this may be necessary;
- advise on the termination of Admission Bodies' participation in the Fund; and
- fully reflect actuarial professional guidance and requirements in the advice given to the Administering Authority.

B4 Other parties:

- investment advisers (either internal or external) should ensure the Fund's SIP remains appropriate, and consistent with this FSS;
- investment managers, custodians and bankers should all play their part in the effective investment (and dis-investment) of Fund assets, in line with the SIP;
- auditors should comply with their auditing standards, ensure Fund compliance with all requirements, monitor and advise on fraud detection, and sign off annual reports and financial statements as required;
- governance advisers may be appointed to advise the Administering Authority on efficient processes and working methods in managing the Fund;
- legal advisers (either internal or external) should ensure the Fund's operation and management remains fully compliant with all regulations and broader local government requirements, including the Administering Authority's own procedures.

Appendix C – Key risks and controls

C1 Types of risk

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

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

C2 Financial risks

Risk	Summary of Control Mechanisms
Fund assets fail to deliver returns in line with the anticipated returns underpinning valuation of liabilities over the long-term.	Only anticipate long-term return on a relatively prudent basis to reduce risk of under-performing. Assets invested on the basis of specialist advice, in a suitably diversified manner across asset classes, geographies, managers, etc. Analyse progress at three yearly valuations for all employers. Inter-valuation roll-forward of liabilities between valuations at whole Fund level.
Inappropriate long-term investment strategy.	Overall investment strategy options considered as an integral part of the funding strategy. Used asset liability modelling to measure 4 key outcomes. Consider measuring performance relative to bond based target, absolute returns or a Liability Benchmark Portfolio and not relative to indices. Chosen option considered to provide the best balance.
Fall in risk-free returns on Government bonds, leading to rise in value placed on liabilities.	Stabilisation modelling at whole Fund level allows for the probability of this within a longer term context. Inter-valuation monitoring, as above. Some investment in bonds helps to mitigate this risk.

Risk	Summary of Control Mechanisms
Active investment manager under-performance relative to benchmark.	Quarterly investment monitoring analyses market performance and active managers relative to their index benchmark.
Pay and price inflation significantly more than anticipated.	The focus of the actuarial valuation process is on real returns on assets, net of price and pay increases. Inter-valuation monitoring, as above, gives early warning. Some investment in bonds also helps to mitigate this risk. Employers pay for their own salary awards and should be mindful of the geared effect on pension liabilities of any bias in pensionable pay rises towards longer-serving employees.
Effect of possible increase in employer's contribution rate on service delivery and admission/scheduled bodies.	An explicit stabilisation mechanism has been agreed as part of the funding strategy. Other measures are also in place to limit sudden increases in contributions. Seek feedback from employers on scope to absorb short-term contribution rises. Mitigate impact through deficit spreading and phasing in of contribution rises.
Orphaned employers give rise to added costs for the Fund.	The Fund seeks a cessation debt (or security/guarantor) to minimise the risk of this happening in the future. If it occurs, the Actuary calculates the added cost spread pro-rata among all employers – (see 3.9).

C3 Demographic risks

Risk	Summary of Control Mechanisms
Pensioners living longer, thus increasing cost to Fund.	Set mortality assumptions with some allowance for future increases in life expectancy. The Fund Actuary has direct access to the experience of over 50 LGPS funds which allows early identification of changes in life expectancy that might in turn affect the assumptions underpinning the valuation. 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.
Maturing Fund – i.e. proportion of actively contributing employees decline relative to retired employees.	Continue to monitor at each valuation, consider seeking monetary amounts rather than % of pay and consider alternative investment strategies.
Deteriorating patterns of early retirements.	Employers are charged the extra cost of non ill-health retirements following each individual decision. Employer ill-health retirement experience is monitored, and insurance is an option.
Reductions in payroll causing insufficient deficit recovery payments.	In many cases this may not be sufficient cause for concern, and will in effect be caught at the next formal valuation. However, there are protections where there is concern, as follows: Employers in the stabilisation mechanism may be brought out of that mechanism to permit appropriate contribution increases (see Note (b) to 3.3). For other employers, review of contributions is permitted in general between valuations (see Note (f) to 3.3) and may require a move in deficit contributions from a percentage of payroll to fixed monetary amounts.

Risk	Summary of Control Mechanisms
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.

C4 Regulatory risks

Risk	Summary of Control Mechanisms
Changes to national pension requirements and/or HMRC rules e.g. changes arising from public sector pension reform.	The Administering Authority considers all consultation papers issued by the Government and comments where appropriate. The results of the most recent reforms have been built into the 2013 valuation. Any changes to member contribution rates or benefit levels will be carefully communicated with members to minimise possible opt-outs or adverse actions.

C5 Governance risks

Risk	Summary of Control Mechanisms
Administering Authority unaware of structural changes in an employer's membership (e.g. large fall in employee members, large number of retirements) or not advised of an employer closing to new entrants.	The Administering Authority has a close relationship with employing bodies and communicates required standards e.g. for submission of data. The Actuary may revise the Rates and Adjustments certificate to increase an employer's contributions (under Regulation 38) between triennial valuations. Deficit contributions may be expressed as monetary amounts.
Actuarial or investment advice is not sought, or is not heeded, or proves to be insufficient in some way.	The Administering Authority maintains close contact with its specialist advisers. Advice is delivered via formal meetings involving Elected Members, and recorded

Risk	Summary of Control Mechanisms
	appropriately. Actuarial advice is subject to professional requirements such as peer review.
Administering Authority failing to commission the Fund Actuary to carry out a termination valuation for a departing Admission Body.	The Administering Authority requires employers with Best Value contractors to inform it of forthcoming changes. Community Admission Bodies' memberships are monitored and, if active membership decreases, steps will be taken. 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, although the Administering Authority reserves the right to amend the limit accordingly.
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 (see Notes (h) and (j) to 3.3). Alerting the prospective employer to its obligations and encouraging it to take independent actuarial advice. Vetting prospective employers before admission. Where permitted under the regulations requiring a bond to protect the Fund from various risks. Requiring new Community Admission Bodies to have a guarantor. Reviewing bond or guarantor arrangements at regular intervals (see Note (f) to 3.3). Reviewing contributions well ahead of cessation if thought appropriate (see Note (a) to 3.3).

Appendix D – The calculation of Employer contributions

In Section 2 there was a broad description of the way in which contribution rates are calculated. This Appendix considers these calculations in much more detail.

The calculations involve actuarial assumptions about future experience, and these are described in detail in Appendix E.

D1 What is the difference between calculations across the whole Fund and calculations for an individual employer?

Employer contributions are normally made up of two elements:

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

b) an adjustment for the funding position of accrued benefits relative to the Fund's solvency target, "*past service adjustment*". If there is a surplus there may be a reduction in the employer's contribution rate. If there is a deficit there will be an increase in the employer's contribution rate, with the surplus or deficit spread over an appropriate period. The aim is to return the employer to full funding over that period. See Section 3 for deficit recovery periods.

The Fund's actuary is required by the regulations to report the *Common Contribution Rate*[2], for all employers collectively at each triennial valuation. It combines items (a) and (b) and is expressed as a percentage of pay; it is in effect an average rate across all employers in the Fund.

The Fund's actuary is also required to adjust the Common Contribution Rate for circumstances which are deemed "peculiar" to an individual employer[3]. It is the adjusted contribution rate which employers are actually required to pay. The sorts of "peculiar" factors which are considered are discussed below.

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 past service deficit spreading and increased employer contribution phasing periods.

D2 How is the Future Service Rate calculated?

The future service element of the employer contribution rate is calculated with the aim that these contributions will meet benefit payments in respect of members' **future** service in the Fund. This is based upon the cost (in excess of members' contributions) of the benefits which employee members earn from their service each year.

The future service rate is calculated separately for all the employers, although employers within a pool will pay the contribution rate applicable to the pool as a whole. The calculation is on the "ongoing" valuation basis (see Appendix E), but where it is considered appropriate to do so the Administering Authority reserves the right to set a future service rate by reference to liabilities valued on a more prudent basis (see Section 3).

[2] See LGPS (Administration) Regulations 36(5).
[3] See LGPS (Administration) Regulations 36(7).

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 and Designating Employers that may have the power not to automatically admit all eligible new staff to the Fund, depending on the terms of their Admission Agreements and employment contracts.

a) Employers which admit new entrants

These rates will be derived using the "Projected Unit Method" of valuation with a one year period, i.e. only considering the cost of the next year's benefit accrual and contribution income. 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 over time.

b) Employers which do not admit new entrants

To give more long term stability to such employers' contributions, the "Attained Age" funding method is normally adopted. This measures benefit accrual and contribution income over the whole future anticipated working lifetimes of current active employee members.

Both approaches include expenses of administration to the extent that they are borne by the Fund, and include allowances for benefits payable on death in service and ill health retirement.

D3 How is the Solvency / Funding Level calculated?

The Fund's actuary is required to report on the "solvency" of the whole Fund in a valuation which should be carried out at least once every three years. As part of this valuation, the actuary will calculate the solvency position of each employer.

'Solvency" is defined to be the ratio of the market value of the employer's asset share to the value placed on accrued benefits on the Fund actuary's chosen assumptions. This quantity is known as a funding level.

For the value of the employer's asset share, see D5 below.

For the value of benefits, the Fund actuary agrees the assumptions to be used with the Administering Authority – see Appendix E. These assumptions are used to calculate the present value of all benefit payments expected in the future, relating to that employer's current and former employees, based on pensionable service to the valuation date only (i.e. ignoring further benefits to be built up in the future).

The Fund operates the same target funding level for all employers of 100% of its accrued liabilities valued on the ongoing basis, unless otherwise determined (see Section 3).

D4 What affects a given employer's valuation results?

The results of these calculations for a given individual employer will be affected by:

- past contributions relative to the cost of accruals of benefits;
- different liability profiles of employers (e.g. mix of members by age, gender, service vs. salary);
- 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 each triennial valuation.

Actual investment returns achieved on the Fund between each valuation are applied proportionately across all employers, to the extent that employers in effect share the same investment strategy. Transfers of liabilities between employers within the Fund occur automatically within this process, with a sum broadly equivalent to the reserve required on the ongoing basis being exchanged between the two employers.

D5 How is each employer's asset share calculated?

The Administering Authority does not account for each employer's assets separately. Instead, the Fund's actuary is required to apportion the assets of the whole Fund between the employers, at each triennial valuation.

This apportionment uses the income and expenditure figures provided for certain cash flows for each employer. This process adjusts for transfers of liabilities between employers participating in the Fund, but does make a number of simplifying assumptions. The split is calculated using an actuarial technique known as "analysis of surplus".

The Fund actuary does not allow for certain relatively minor events, including but not limited to:

- the actual timing of employer contributions within any financial year;
- the effect of the premature payment of any deferred pensions on grounds of incapacity.

These effects are swept up within a miscellaneous item in the analysis of surplus, which is split between employers in proportion to their liabilities.

The methodology adopted means that there will inevitably be some difference between the asset shares calculated for individual employers and those that would have resulted had they participated in their own ring-fenced section of the Fund.

The asset apportionment is capable of verification but not to audit standard. The Administering Authority recognises the limitations in the process, but it considers that the Fund actuary's approach addresses the risks of employer cross-subsidisation to an acceptable degree.

Appendix E – Actuarial assumptions

E1 What are the actuarial assumptions?

These are expectations of future experience used to place a value on future benefit payments (“the liabilities”). Assumptions are made about the amount of benefit payable to members (the financial assumptions) and the likelihood or timing of payments (the demographic assumptions). For example, financial assumptions include investment returns, salary growth and pension increases; demographic assumptions include life expectancy, probabilities of ill-health early retirement, and proportions of member deaths giving rise to dependants’ benefits.

Changes in assumptions will affect the measured value of future service accrual and past service liabilities, and hence the measured value of the past service deficit. However, different assumptions will not of course affect the actual benefits payable by the Fund in future.

The combination of all assumptions is described as the “basis”. A more optimistic basis might involve higher assumed investment returns (discount rate), or lower assumed salary growth, pension increases or life expectancy; a more optimistic basis will give lower liability values and lower employer costs. A more prudent basis will give higher liability values and higher employer costs.

E2 What basis is used by the Fund?

The Fund’s standard funding basis is described as the “ongoing basis”, which applies to most employers in most circumstances. This is described in more detail below. It anticipates employers remaining in the Fund in the long term.

However, in certain circumstances, typically where the employer is not expected to remain in the Fund long term, a more prudent basis applies: see Note (a) to 3.3.

E3 What assumptions are made in the ongoing basis?

- **Investment return / discount rate**

  The key financial assumption is the anticipated return on the Fund’s investments. This “discount rate” assumption makes allowance for an anticipated out-performance of Fund returns relative to long term yields on UK Government bonds (“gilts”). There is, however, no guarantee that Fund returns will out-perform gilts. The risk is greater when measured over short periods such as the three years between formal actuarial valuations, when the actual returns and assumed returns can deviate sharply.

  Given the very long-term nature of the liabilities, a long term view of prospective asset returns is taken. The long term in this context would be 20 to 30 years or more.

  For the purpose of the triennial funding valuation at 31 March 2013 and setting contribution rates effective from 1 April 2014, the Fund actuary has assumed that future investment returns earned by the Fund over the long term will be 1.45% per annum greater than gilt yields at the time of the valuation (this is the same as that used at the 2010 valuation). In the opinion of the Fund actuary, based on the current investment strategy of the Fund, this asset out-performance assumption is within a range that would be considered acceptable for the purposes of the funding valuation.

- **Salary growth**

Pay for public sector employees is currently subject to restriction by the UK Government until 2016. Although this "pay freeze" does not officially apply to local government and associated employers, it has been suggested that they are likely to show similar restraint in respect of pay awards. Based on long term historical analysis of the membership in LGPS funds, the salary increase assumption at the 2013 valuation has been set to 1% above the retail prices index (RPI) per annum. This is a change from the previous valuation, which assumed a two year restriction at 1% per annum followed by longer term growth at RPI plus 1.5% per annum.

- **Pension increases**

Since 2011 the consumer prices index (CPI), rather than RPI, has been the basis for increases to public sector pensions in deferment and in payment. This change was allowed for in the valuation calculations as at 31 March 2010. Note that the basis of such increases is set by the Government, and is not under the control of the Fund or any employers.

As at the previous valuation, we derive our assumption for RPI from market data as the difference between the yield on long-dated fixed interest and index-linked government bonds. This is then reduced to arrive at the CPI assumption, to allow for the "formula effect" of the difference between RPI and CPI. At this valuation, we propose a reduction of 0.8% per annum. This is a larger reduction than at 2010, which will serve to reduce the value placed on the Fund's liabilities (all other things being equal).

- **Life expectancy**

The demographic assumptions are intended to be best estimates of future experience in the Fund based on past experience of LGPS funds which participate in Club Vita, the longevity analytics service used by the Fund, and endorsed by the actuary.

The longevity assumptions that have been adopted at this valuation are a bespoke set of "VitaCurves", produced by the Club Vita's detailed analysis, which are specifically tailored to fit the membership profile of the Fund. These curves are based on the data provided by the Fund for the purposes of this valuation.

It is acknowledged that future life expectancy and, in particular, the allowance for future improvements in life expectancy is uncertain. There is a consensus amongst actuaries, demographers and medical experts that life expectancy is likely to improve in the future. Allowance has been made in the ongoing valuation basis for future improvements in line with "medium cohort" and a 1.25% per annum minimum underpin to future reductions in mortality rates. This is a higher allowance for future improvements than was made in 2010.

The combined effect of the above changes from the 2010 valuation approach, is to add around 1 year of life expectancy on average. The approach taken is considered reasonable in light of the long term nature of the Fund and the assumed level of security underpinning members' benefits.

- **General**

The same financial assumptions are adopted for all employers, in deriving the past service deficit and the future service rate: as described in (3.3), these calculated figures are translated in different ways into employer contributions, depending on the employer's circumstances.

The demographic assumptions, in particular the life expectancy assumption, in effect vary by type of member and so reflect the different membership profiles of employers.

Appendix F – Glossary

Actuarial assumptions / basis	The combined set of assumptions made by the actuary, regarding the future, to calculate the value of **liabilities**. The main assumptions will relate to the **discount rate**, salary growth, pension increases and longevity. More prudent assumptions will give a higher liability value, whereas more optimistic assumptions will give a lower value.
Administering Authority	The Council with statutory responsibility for running the Fund, in effect the Fund's "trustees".
Admission Bodies	Employers which voluntarily participate in the Fund, so that their employees and ex-employees are **members**. There will be an Admission Agreement setting out the employer's obligations. For more details (see 2.5).
Common contribution rate	The Fund-wide **future service rate** plus **past service adjustment**. It should be noted that this will differ from the actual contributions payable by individual **employers**.
Covenant	The assessed financial strength of the employer. A strong covenant indicates a greater ability (and willingness) to pay for pension obligations in the long run. A weaker covenant means that it appears that the employer may have difficulties meeting its pension obligations in full over the longer term.
Deficit	The shortfall between the assets value and the **liabilities** value. This relates to assets and liabilities built up to date, and ignores the future build-up of pension (which in effect is assumed to be met by future contributions).
Deficit repair/recovery period	The target length of time over which the current **deficit** is intended to be paid off. A shorter period will give rise to a higher annual **past service adjustment** (deficit repair contribution), and vice versa.
Designating Employer	Employers such as town and parish councils that are able to participate in the LGPS via resolution. These employers can designate which of their employees are eligible to join the Fund.
Discount rate	The annual rate at which future assumed cash flows (in and out of the Fund) are discounted to the present day. This is necessary to provide a **liabilities** value which is consistent with the present day value of the assets, to calculate the **deficit**. A lower discount rate gives a higher liabilities value, and vice versa. It is similarly used in the calculation of the **future service rate** and the **common**

contribution rate.

Employer An individual participating body in the Fund, which employs (or used to employ) **members** of the Fund. Normally the assets and **liabilities** values for each employer are individually tracked, together with its **future service rate** at each **valuation**.

Funding level The ratio of assets value to **liabilities** value: for further details (see 2.2).

Future service rate The actuarially calculated cost of each year's build-up of pension by the current active **members**, excluding members' contributions but including Fund administrative expenses. This is calculated using a chosen set of **actuarial assumptions**.

Gilt A UK Government bond, i.e. a promise by the Government to pay interest and capital as per the terms of that particular gilt, in return for an initial payment of capital by the purchaser. Gilts can be "fixed interest", where the interest payments are level throughout the gilt's term, or "index-linked" where the interest payments vary each year in line with a specified index (usually RPI). Gilts can be bought as assets by the Fund, but their main use in funding is as an objective measure of solvency.

Guarantee / guarantor A formal promise by a third party (the guarantor) that it will meet any pension obligations not met by a specified employer. The presence of a guarantor will mean, for instance, that the Fund can consider the employer's **covenant** to be as strong as its guarantor's.

Letting employer An employer which outsources or transfers a part of its services and workforce to another employer (usually a contractor). The contractor will pay towards the LGPS benefits accrued by the transferring members, but ultimately the obligation to pay for these benefits will revert to the letting employer. A letting employer will usually be a local authority, but can sometimes be another type of employer such as an Academy.

Liabilities The actuarially calculated present value of all pension entitlements of all **members** of the Fund, built up to date. This is compared with the present market value of Fund assets to derive the **deficit**. It is calculated on a chosen set of **actuarial assumptions**.

LGPS The Local Government Pension Scheme, a public sector pension arrangement put in place via Government Regulations, for workers in local government. These Regulations also dictate eligibility (particularly for Scheduled Bodies), members' contribution rates, benefit calculations and certain governance requirements. The LGPS is divided into 101 Funds which map the UK. Each LGPS Fund is autonomous to the extent not dictated by Regulations, e.g. regarding investment strategy, employer contributions and choice of advisers.

Maturity	A general term to describe a Fund (or an employer's position within a Fund) where the members are closer to retirement (or more of them already retired) and the investment time horizon is shorter. This has implications for investment strategy and, consequently, funding strategy.
Members	The individuals who have built up (and may still be building up) entitlement in the Fund. They are divided into actives (current employee members), deferrers (ex-employees who have not yet retired) and pensioners (ex-employees who have now retired, and dependants of deceased ex-employees).
Past service adjustment	The part of the employer's annual contribution which relates to past service **deficit** repair.
Pooling	Employers' may be grouped together for the purpose of calculating contribution rates, so that their combined membership and asset shares are used to calculate a single contribution rate applicable to all employers in the pool. A pool may still require each individual employer to ultimately pay for its own share of **deficit**, or (if formally agreed) it may allow **deficits** to be passed from one employer to another. For further details of the Fund's current pooling policy (see 3.4).
Profile	The profile of an employer's membership or liability reflects various measurements of that employer's **members**, i.e. current and former employees. This includes: the proportions which are active, deferred or pensioner; the average ages of each category; the varying salary or pension levels; the lengths of service of active members vs. their salary levels, etc. A membership (or liability) profile might be measured for its **maturity** also.
Rates and Adjustments Certificate	A formal document required by the LGPS Regulations, which must be updated at least every three years at the conclusion of the formal **valuation**. This is completed by the actuary and confirms the contributions to be paid by each employer (or pool of employers) in the Fund for the three year period until the next valuation is completed.
Scheduled Bodies	Types of employer explicitly defined in the LGPS Regulations, whose employers must be offered membership of their local LGPS Fund. These include Councils, colleges, universities, academies, police and fire authorities etc, other than employees who have entitlement to a different public sector pension scheme (e.g. teachers, police and fire officers, university lecturers).
Solvency	In a funding context, this usually refers to a 100% **funding level**, i.e. where the assets value equals the **liabilities** value.
Stabilisation	Any method used to smooth out changes in employer contributions from one year to the next. This is very broadly required by the LGPS

Regulations, but in practice is particularly employed for large stable employers in the Fund. Different methods may involve: probability-based modelling of future market movements; longer deficit recovery periods; higher discount rates; or some combination of these.

Theoretical contribution rate The employers' contribution rate, including both **future service rate** and **past service adjustment**, which would be calculated on the standard **actuarial basis**, before any allowance for **stabilisation** or other agreed adjustment.

Valuation An actuarial investigation to calculate the liabilities, future service contribution rate and common contribution rate for a Fund, and usually individual employers too. This is normally carried out in full every three years (last done as at 31 March 2013), but can be approximately updated at other times. The assets value is based on market values at the valuation date, and the liabilities value and contribution rates are based on long term bond market yields at that date also.

Annex A – 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 2014 to 31 March 2017 is 34.5% 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 2014 to 31 March 2017 resulting in Minimum Total Contribution Rates expressed as a percentage of pensionable pay are as set out below.

The contributions shown include expenses and the expected cost of lump sum death benefits but exclude early retirement strain and augmentation costs which are payable by Fund employers in addition.

Employer code		Minimum Contributions for the Year Ending			Additional Lump Sum Deficit Repayments (£000's)		
	Employer name	31 March 2015	31 March 2016	31 March 2017	31 March 2015	31 March 2016	31 March 2017
350	London Borough of Hackney	19.6%	19.6%	19.6%	17.3% (20,860)	16.8% (21,128)	16.3% (21,381)
372	Hackney Homes	22.4%	22.4%	22.4%	818		
351	Renaisi	21.5%	21.5%	21.5%	18	18	18
361	Hanover in Hackney Limited	22.7%	22.7%	22.7%	100	100	81
368	Greenwich Leisure	25.6%	25.6%	25.6%	-	-	-
371	KGB Holdings (Education)	24.0%	24.0%	24.0%	-	-	-
376	Mouchel Babcock Education	26.3%	26.3%	26.3%	-	-	-
377	RM Education PLC	29.0%	29.0%	29.0%	-	-	-
378	Turners	22.3%	22.3%	22.3%	-	-	-
382	Family Mosaic	20.0%	20.0%	20.0%	-	-	-
383	Caterlink	26.0%	26.0%	26.0%	-	-	-
360	Sixth Form College - Brooke House	22.8%	22.8%	22.8%	-	-	-
367	Mossbourne Academy	17.6%	17.6%	17.6%	-	-	-
373	Petchey Academy	16.9%	16.9%	16.9%	-	-	-
374	Bridge Academy	16.3%	16.3%	16.3%	-	-	-
375	City Academy	15.5%	15.5%	15.5%	-	-	-
379	Skinners Academy	21.3%	21.3%	21.3%	-	-	-
380	Clapton Girls	32.0%	32.0%	32.0%	-	-	-

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.

London Borough of Hackney Pension Fund

Governance Policy and Compliance Statement

Hackney

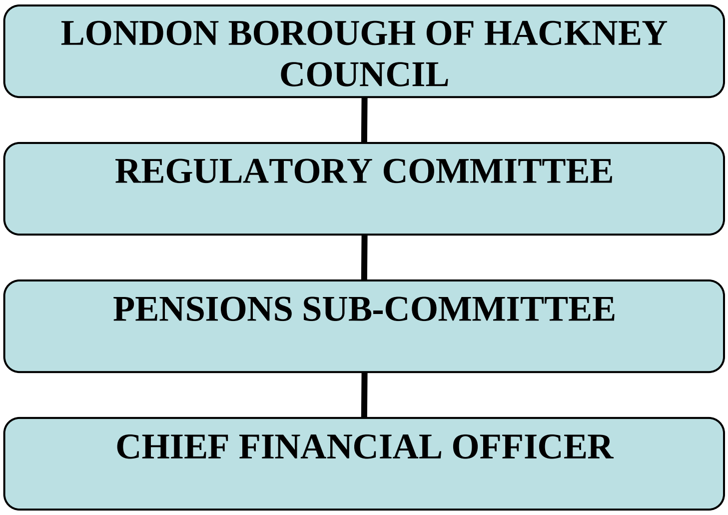
Governance Statement– Administering Authority

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 16 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@equiniti.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, e.g., 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 that does not include lay members in their formal governance arrangements must provide a forum outside of those arrangements by which the interests of key stakeholders can be represented. *Fully compliant – Employer and scheme member interests are represented at the main Pensions 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*](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 2013/14

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:

Committee Members Attendance Record 2013/14									
`	19th June		9th September		27th November (Strategy)	16th January		20th March	
Member	**Meeting**	**Training**	**Meeting**	**Training**	**Meeting**	**Meeting**	**Training**	**Meeting**	**Training**
Samantha Lloyd (Chair)	P	P	P	P	P	P	P	P	P
Robert Chapman (Vice Chair)	P	P	P	P	P	P	P	P	P
Brian Bell	P	P	A	A	P	P	P	P	P
Philip Glanville	A	A	P	P	P	P	P	P	P
Abraham Jacobson	A	A							
Danel Kemp	A	A	A	A	A	A	A	A	A
Geoffrey Taylor	P	P	P	P	P	P	P	P	P
Co-Opted Members									
Neil Isaac	P	P	P	P	P	P	P	P	P
Jonathan Malins-Smith	P	P	P	P	P	P	P	P	P
P = Present									
A = Absent									
Resigned from Committee									

Training

Training was provided to the Committee with a dedicated time slot at the Committee meetings. The topics covered in the training programme for the Committee in 2013/14 were provided in line with the Knowledge and Skills Framework to help ensure that the Committee are able to achieve high levels of the specialist knowledge required of them. Topics covered during the financial year were:

- Procurement and Relationship Management (KSF3);
- LGPS 2014 (KSF1);
- Governance (KSF1);
- Multi-Asset Fund Management (KSF5).

Governance Issues – Management of Conflict of Interest

Prior to the commencement of Committee meetings, Committee members are required to make declarations of interest both in relation to membership of the Local Government

Pension Scheme and relationship to any employer bodies within the Pension Fund. Further declarations are required as and when agenda items arise where a member may have a conflict of interest.

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

Communication Policy Statement

Hackney

COMMUNICATIONS POLICY 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. It is effective from 1 April 2014.

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 and an effective communication process will help to maintain the efficient running of the Scheme. Regulations require each Administering Authority to prepare, maintain and publish a statement setting out their policy on communicating with the following stakeholders and organisations:

- Contributing Scheme Members – active members;
- Deferred Scheme Members;
- Pensioner Scheme Members and Dependants;
- Prospective Scheme Members;
- Employers participating in the Fund;
- Elected Members (Trustees);
- Other Bodies.

Communications Methodology

The administering authority has at its disposal a wide range of options for communicating with the diverse groups that it needs to serve. The method of communication will vary depending on what needs to be communicated and to whom. The methods used by the Administering Authority to communicate with all interested parties are detailed below.

General Communications

We use a range of methods to communicate including a variety of paper-based and electronic means. The Fund has a dedicated Pensions website: **http://hackney.xpmemberservices.com** and the use of a secure portal 'Sharefile' for employers to upload confidential information.

We will accept some communications electronically and will respond electronically where possible. For security reasons, we will not use email for communicating sensitive information or where it is necessary to verify the address or identity of the sender.

- **Pension Scheme Administrators** – The Fund's administrators, Equiniti Paymaster (EP), will assist with the overall administration of the scheme to ensure the smooth operation of the administrative function.

  They can be contacted via the helpline number - 01293 603085 or by email:

  For Members of the scheme - **http://hackney.pensions@equinitipaymaster.com**

For Administration staff – **http:// hackney.employers@equinitipaymaster.com**

- **Website** – Communication in the form of a dedicated Pension Fund website is available which contains a wide range of information for not only scheme members but also scheme employers and other interested parties. The website can be accessed via **http://hackney.xpmemberservices.com**. The website contains copies of scheme guides, newsletters and other relevant information pertaining to the LGPS.

- **Policy Documents** – These are available for all stakeholders to access either on the website at **http://hackney.xpmemberservices.com**, in hard copy or electronically on application. Copies of all policy documents are held within the Financial Services Section, Finance and Resources Directorate.

- **Posters** – These will be designed to help those who are both members and non-members of the LGPS, to understand the full range of benefits when participating in the scheme, and providing guidance on how to obtain more information and also how to join the scheme.

- **Council Intranet** – Updates on the scheme and any other relevant news in regards to LGPS is available through communication updates via the Council intranet, which is the Fund's largest employer.

Branding

As the pension fund is administered by Equiniti Paymaster (EP), all literature and communications will include the branding of the London Borough of Hackney and EP.

Policy on Communicating with Contributing (active) Scheme Members, Deferred and Pensioner Members

All members of the Scheme (active, deferred and pensioner members) will be kept informed about their benefits, developments in the Scheme and any changes to the scheme of a regulatory or operational nature. This includes consultation with representative groups as required.

- **Scheme Guides** – There are scheme guides available for members setting out the conditions of membership and main scheme benefits that apply under the Local Government Pension Scheme (LGPS). A copy of these will be provided to new employees of the scheme and at other times on request. The scheme guides also form part of the Pension Fund website **http://hackney.xpmemberservices.com** which is available for any member to access.

- **Member Self-Service** – Via the Fund's website, all scheme members can securely access their pension details held on the pension administrator's database. This facility allows scheme members to check their personal details and advise the administrators of any changes. It also has the ability for scheme members to produce an estimate of their potential LGPS benefits due to them at retirement. Pensioner members will be able to view payslips and P60's and their address details.

- **Annual Benefit Statements** – Active and deferred scheme members are entitled to an annual benefit statement detailing the benefits that they might expect at retirement. These are issued annually and would normally be issued within 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 Surgeries** – Located at Keltan House, 89-115 Mare Street, London, E8 4RU. Pension Officers can be contacted by email **pensions@hackney.gov.uk** to make an appointment, alternatively contact by telephone 020 8356 2507/4266. It is possible to arrange a one-to-one meeting to discuss the benefits and options available to members.

- **Pension Road shows/Presentations** – Road shows and presentations are used to target specific topics or when major scheme changes occur, enabling all members of the LGPS to have access to information. General meetings and presentations will be held at intervals to communicate the benefits and options available to scheme members and prospective members.

- **Pre-retirement seminars –** Presentations on the scheme and benefit choices at pre-retirement seminars that are facilitated by HR, to help scheme members approaching retirement prepare for the financial and lifestyle changes retirement brings.

- **Newsletters** – These will be sent to scheme members to communicate changes in regulations, developments in the Fund and to inform members of changes in policy. The exact timing and nature of these newsletters will vary depending on what developments are taking place. However if there are regulatory changes which are likely to impact on individuals benefits or scheme membership in any significant way, then newsletters will be sent to members in sufficient time for them to be able to act upon that information. An annual accounts newsletter is sent to all scheme members providing information on the state of the fund, performance of the fund and any major changes which have taken place during the year.

- **Pensioner Payslips –** All pensioners receive a payslip each month along with their P60 at the end of the year. Electronic payslips are also available to those registered for self-service.

- **Pension Increase notifications –** The notification of the annual increase to pensioner benefits is sent out to every member in receipt of a pension each April.

- **Certificates of Continued Entitlement to Pensions (Life Certificates) –** The Fund will undertake an annual exercise, conducted through correspondence, in order to establish the continued existence of the following pensioners:

    - All pensioners living abroad (outside the UK);
    - Those over the age of 80;
    - Those pensioners receiving pension benefits by cheque;
    - Those retired on ill health grounds.

This exercise will also be undertaken every 3 years to establish the continued existence of ALL members in receipt of a pension.

- **Pension Fund Report and Accounts Summary** – This provides a summary of the Pension Fund during the financial year and will be distributed annually to all scheme members.

Policy on Communicating with Prospective Scheme Members

We will make information available to all prospective scheme members, new employees and prospective employees. Since the introduction of Auto-Enrolment, all new employees will be contractually enrolled into the LGPS and will receive information regarding the scheme. They can still choose to opt-out should they choose to do so.

- **Initial Contact** - All permanent new members of staff are contractually enrolled into the LGPS. Each new member is sent a welcome letter statutory notice by the pension administrators confirming their membership of the LGPS along with a scheme guide.

- **Induction seminars** – Presentation on the scheme and its benefits at the weekly induction seminars for all new employees of the Council, which are facilitated by HR, providing prospective new members of the scheme information in order for them to make an informed decision in regard to membership of the scheme. Induction seminars are also provided for other employers on request.

- **Pension Liaison Officer** – Located at Keltan House, 89-115 Mare Street, London E8 4RU, the Pension Liaison Officer is easily contactable by email: **pensions@hackney.gov.uk** telephone 020 8356 2745, or letter. It is also possible to arrange a one-to-one meeting to discuss the benefits and options available to prospective members.

- **Scheme Guides** – There are scheme guides available for prospective members setting out the conditions of membership and main scheme benefits that apply under the Local Government Pension Scheme (LGPS). A copy of these will be provided to new employees and prospective members of the scheme and at other times on request. The scheme guides also form part of the Pension Fund website **http://hackney.xpmemberservices.com** which is available for any member to access.

Policy on Communicating with Employers participating in the Fund

We will keep employers in the Pension Fund informed about developments in the Scheme and consult on changes to the Scheme as required. Potential scheme employers will also have access to information about the Pension Fund to ensure that they are fully informed in their relationship with the Fund.

- **Employer Guide** – This is a guide for scheme employers outlining the details of the scheme and the administrative arrangements for the scheme. This has been distributed to all employers in the scheme and all new employers will receive copies.

Training on procedures in relation to the employer guide is also available upon request.

- **Employer Seminars/Meetings** – Annual employer forums are held to update employers of relevant current issues, policy changes and investment updates. Further seminars/meetings will be held as appropriate to communicate changes in policy within the Scheme or to discuss major issues affecting all employers such as the triennial actuarial review. Individual meetings with separate employers will be held annually or as required. Employers will also be notified in writing of any changes which affect them or the way that the scheme is administered.

- **Secure Portal** – The Fund has a secure portal 'Sharefile' which facilitates the transfer of sensitive information and data between the Fund and Employers electronically. Access rights are strictly controlled by the pension administrators, Equiniti Paymaster

- **Website** – The website has a section for Scheme Employers and is used to distribute detailed information on procedures which must be followed to administer the LGPS and holds a wide range of information in regard to Employer Guides, pension forms, newsletters and policies. The website can be accessed via **http://hackney.xpmemberservices.com**.

- **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 and can be found on the website at: **http://hackney.xpmemberservices.com**. It sets out the service level agreement and targets which all are expected to meet.

- **Employer Training –** The Fund offers all Scheme Employers training on the LGPS and their role in the administration of the scheme. This covers the full range of administrative and regulatory duties under the scheme regulations.

- **Annual Report and Accounts** – This contains details of the Pension Fund during the financial year, income and expenditure as well as other related details. This is a detailed and lengthy document and will therefore not be routinely distributed, except to employers participating in the Fund or on request. The full document will be published on the website at **http://hackney.xpmemberservices.com** .

Policy on Communicating with Elected Members

Information will be provided to Council Members in order for them to be able to fulfil their duties under the role of administering authority.

- **Access to Pensions 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 on Communicating with Other Bodies

There are a number of other interested parties with whom we will communicate with as required, this includes:

- **The Department for Communities and Local Government (DCLG)** – regular contact with DCLG as regulator of the scheme, participating and responding to consultations as required.

- **Trade Unions –** we will work with relevant trade unions to ensure the Scheme is understood by all interested parties. Efforts will be made to ensure all pension related issues are communicated effectively with the trade unions.

- **Employer Representatives** - we will work with relevant employer representative bodies to ensure that the Fund's views are represented to employer groups.

- **Pension Fund Investment Managers, Advisers and Actuaries:** –

  - Regular meetings with the Fund Managers who invest funds on behalf of the Fund;
  - Regular meetings with Investment Advisers who provide help and advise on the asset allocation and investments of the Fund;
  - Regular meetings with the Fund Actuary to discuss funding levels, employer contributions and valuation of the assets and liabilities of the Fund.

- **Pension Fund Custodian** – The Fund's Custodian is State Street, who ensures the safekeeping of the Funds investment transactions and all related share certificates.

- **AVC Provider** – Additional Voluntary Contributions (AVC) are a way to top up your pension benefits and tax free lump sum, and are held and invested separately from the LGPS. The Funds preferred AVC provider is Prudential.

- **National Association of Pension Funds (NAPF)** – The Fund is a member of NAPF, which provides an opportunity for administering authorities to discuss issues of common interest and share best practice.

- **Local Authority Pension Fund Forum (LAPFF)** – The Fund is a member of LAPFF which was established to help local authority funds share information and ideas about socially responsible investing.

- **London Pension Officers Group (LPOG) & London Pension Officers Forum (LPOF) –** the Fund is a member of these groups. Meetings are held on a quarterly basis to share information and ensure standardised interpretation of LGPS regulations and best practice.

- **Requests for Information (FOI)** - Requests for information either under the Freedom of Information Act or otherwise, will be dealt with as openly and swiftly as allowed providing that such information does not breach confidentiality.

- **Consultations** – There are occasions when the administering authority will consult with interested parties either as a result of potential changes to the regulations governing the LGPS or specific policy changes relating to the London Borough of Hackney Pension Scheme. In these instances, the most effective way of communicating with interested parties is to hold a period of consultation, during which, they are given the opportunity to respond to specific changes. Interested parties and representative groups will be approached to provide feedback to the policy changes before amendments are enacted.

- **Minority Groups** – It is recognised that there may be occasions when some minority groups may not be able to access all the information available to others. The Pension Fund will try to ensure that information is available to the widest possible audience and as such will try to ensure that minority groups do have access to information. This is however a developing area, but feedback on how to promote better access for all minority groups is welcome.

Communication Material

The table below shows the Fund communications along with their publication frequency and the format in which they are available to their intended audience.

Communication Material	Paper form	Electronic form	Website	Frequency	Intended Audience (active, deferred, pensioner, prospective members, employers or ALL)
Annual Benefit Statements	✓	✓	✗	Annually (September/October)	Active, Deferred
Annual Newsletter	✓	✓	✓	Annually (September/ October)	ALL
Pension Updates	✓	✓	✓	When details available	Active, Prospective, Employers
Newsletters	✓	✓	✓	As required	ALL
Payslips	✓	✗	✗	Monthly	Pensioners
Notice of Pension Increase (PI)	✓	✗	✓	Annually (April)	Pensioners

2014 Scheme Changes/workshops	✓	✓	✓	January 2014 onwards/as required	Active
Scheme Guides	✓	✓	✓	When requested	ALL
Induction Sessions	✗	✓	✗	Weekly	Prospective
Pre-Retirement Seminars	✗	✓	✗	As required	Active
Employer Forum	✗	✓	✓	Annually (November/December)	Employers
Pensions Administration Strategy	✓	✓	✓	Annually (January/March)	Employers/Schools
Committee Meetings	✓	✓	✓	4 to 6 meetings per financial year	ALL
Communications Policy Statement	✓	✓	✓	Annually – (January/March)	ALL
Full Report & Accounts	✓	✓	✓	Annually (November)	ALL
Summary Report & Accounts	✓	✓	✓	Annually (November)	Active, Deferred, Pensioner
Statement of Investment Principles	✓	✓	✓	Annually (January/March)	ALL
Ad-Hoc Queries	✓	✓	✗	Within set timescales	ALL

Feedback

The Fund welcomes comments and feedback from scheme members, scheme employers, prospective members and other interested parties. The mechanisms for feedback include consultation periods, direct communication with the scheme administrators and direct communication with the Financial Services Section which oversees all aspects of the Pension Fund. Contact details are provided below for the relevant departments.

General administrative queries relating to pension scheme membership issues should be addressed to:

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

Tel No: 01293 603085

Email:

For members of the scheme: **http://hackney.pensions@equinitipaymaster.com**

For Administration staff: **http:// hackney.employers@equinitipaymaster.com**

For other queries and feedback issues:

Financial Services Section
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 annually and updated as required, when there are significant changes to be made and if appropriate will be consulted upon with the relevant stakeholders.

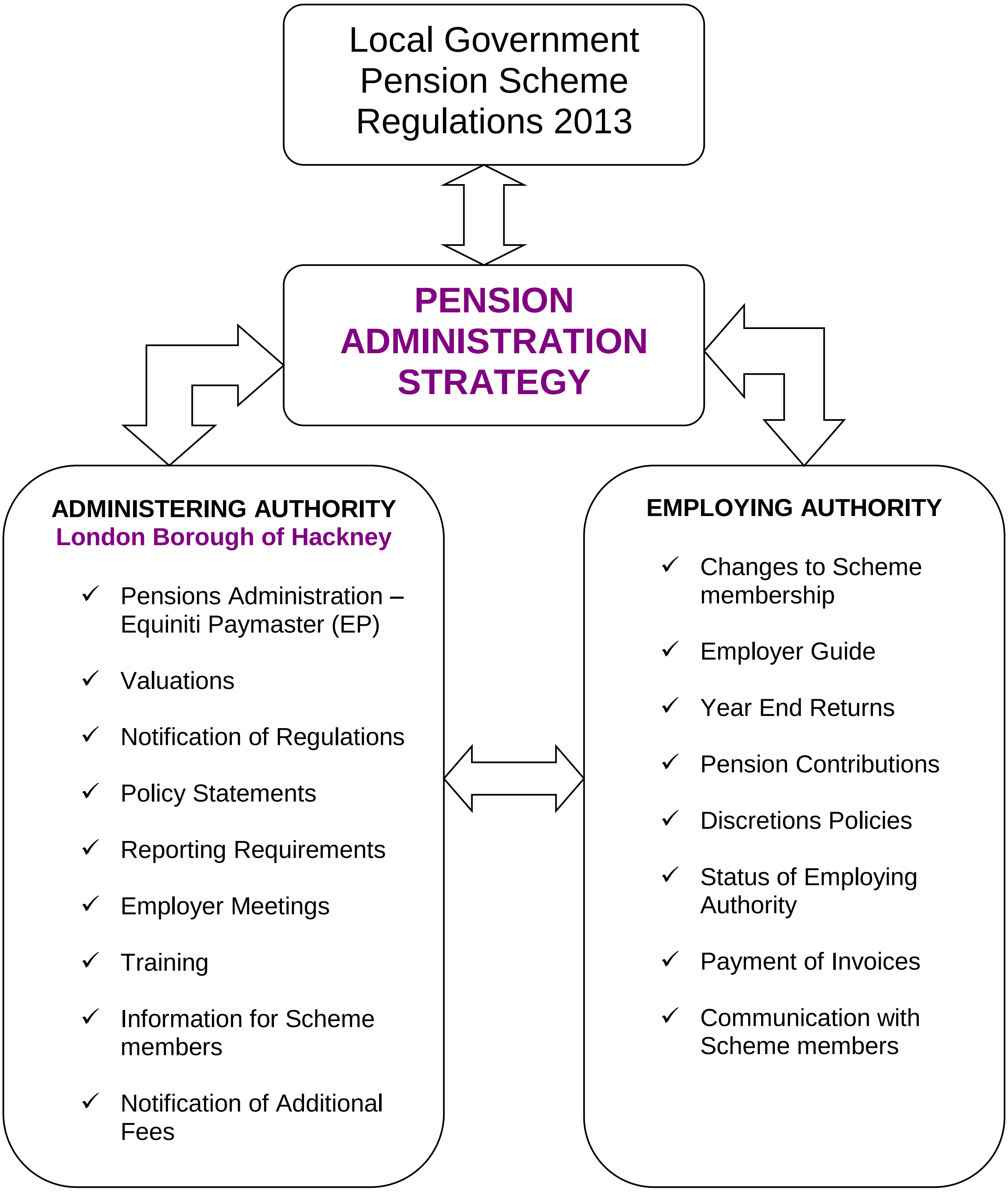
London Borough of Hackney Pension Fund

Pension Administration Strategy

Hackney

INTRODUCTION

This is the Administration Strategy Statement of the London Borough of Hackney Pension Fund (the Fund) in relation to the Local Government Pension Scheme (LGPS – the Scheme), which is administered by the London Borough of Hackney (LBH) and Equiniti Paymaster (EP). It is effective from 1 April 2014. 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 2014.

Regulatory basis

The Scheme is a statutory scheme, established by an Act of Parliament. The following regulations governing the Scheme are shown below:

- Local Government Pension Scheme (Benefits, Membership and Contributions) Regulations 2007 (as amended);
- Local Government Pension Scheme (Administration) Regulations 2008 (as amended);
- Local Government Pension Scheme (Transitional Provisions) Regulations 2008 (as amended);
- Local Government Pension Scheme Regulations 2013 – and any transitional regulations as and when issued.

Regulation 59(1) of the Local Government Pension Scheme Regulations 2013, enables a Local Government Pension Scheme Fund to prepare a written statement of the authority's policies ("its pension administration strategy") as one of the tools which can help in delivering a high quality administration service to its scheme members and other interested parties.

In addition, Regulation 59(2)e of the 2013 regulations, allows a fund to recover additional costs from a scheme employer where, in its opinion, they are directly related to the poor performance of that scheme employer. Where this situation arises the fund is required to give written notice to the scheme employer, setting out the reasons for believing that additional costs should be recovered, the amount of the additional costs, together with the basis on which the additional amount has been calculated.

ADMINISTRATION IN THE LONDON BOROUGH OF HACKNEY

Responsibility

The London Borough of Hackney has delegated responsibility for the management of the Pension Fund to the Pension 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 Equiniti Paymaster and partly carried out by Council staff. The Council and Equiniti 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:

Website http://hackney.xpmemberservices.com	Information about the Fund, the LGPS, administrative procedures, policies and forms for use
Newsletters	Annual newsletter and additional newsletters issued as may be necessary to highlight new issues and forthcoming events
Employer meetings	Held annually to provide Employers with a forum to address the Fund's staff and advisers
Helpline	01293 603085
E-mail addresses: For the Equiniti Paymaster team: Hackney.pensions@equinitipaymaster.com For the London Borough of Hackney team: pensions@hackney.gov.uk	To answer day to day questions about administering the Scheme
Individual Employer meetings	Offered to Employers who need advice about how to carry out the day to day administration of the Scheme

Annual Benefit Statements	Sent to active and deferred scheme members
Individual Scheme member meetings	1-2-1 meetings available with a member of the Pensions team as required
Pension Presentations	Presentations to staff, managers, new employees, etc on pension related matters

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 2011 and associated disclosure legislation;
- Freedom of Information Act 2000;
- Equality Act 2010;
- Data Protection Act 2003;
- Finance Act 2013;
- Relevant Health and Safety legislation;
- Any other legislation that may apply at current time.

Internal quality standards

The Fund and scheme employers will ensure that all functions and tasks are carried out to agreed quality standards. In this respect the standards to be met are:

- compliance with all requirements set out in the Employers' Guide;
- all information required by the Fund to be provided in the required format and/or on the appropriate forms referred to in the Employers' Guide which are accessible from the Fund website at http://hackney.xpmemberservices.com
- information to be legible and accurate;
- communications to be in a plain language style;
- information provided to be checked for accuracy by an appropriately qualified member of staff;
- information provided to be authorised by an appropriate officer;
- actions carried out, or information provided, within the timescales set out in this Administration Strategy.

Timeliness

Overriding legislation dictates minimum standards that pension schemes should meet in providing certain pieces of information to the various parties associated with the Scheme. The Scheme itself sets out a number of requirements for the Fund and scheme employers to provide information to each other, scheme members and prospective scheme members, dependants, other pension arrangements or other regulatory bodies. The following sections on responsibilities set out the locally agreed timescales for these requirements.

FUND RESPONSIBILITIES

The London Borough of Hackney is the Administering Authority of the London Borough of Hackney Pension Fund and has delegated powers to the Pensions 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.

This section outlines the key responsibilities of the Fund and the performance standards scheme employers and scheme members should expect. It is focussed on the key activities which scheme employers and scheme members are involved in and should not be viewed as a complete list of all activities. It includes the performance standards that the Administering Authority has agreed with the pension administrators, Equiniti Paymaster (EP).

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 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 195)
Host a meeting for all scheme employers.	Annually (usually during November 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 unsatisfactory 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 unsatisfactory performance (including any interest that may be due).	Within 10 working days of scheme employer's failure to improve performance, as agreed.

Function/Task	Performance Target
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

Fund Administration

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

EQUINITI PAYMASTER SERVICE STANDARDS AGREEMENT

The following provisions apply to the operation of the Service Standards in relation to Services provided: -

- All Service Standards are quoted in Working Days unless otherwise indicated.
- All Service Standards are net of any third party action and from receipt of correct data/information.

(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	Provision of details of Transfer Value available to member.	10 days from receipt of request for quotation.
	Payment of Transfer Value	Provision of payment for transfer value to nominated recipient.	5 days from receipt of confirmation that the transfer value is to be paid.
	Divorce proceedings	Earmarking Order received, Pension sharing Order.	5 days from receipt of order.
Deaths	Active Member – Death in Service	Calculation of death benefits. Establishment of beneficiaries. 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.

Category	Task	Actions	Service Standards
Data	Maintenance of database	Amendment of member records and issue of acknowledgement.	10 days from receipt of notification of change to data.
	Cheque Receipt	Acknowledgement of receipt of cheque.	1 day from receipt of cheque.
	New Entrant	Addition of new member to database. Issue of letter of acknowledgement.	10 days from receipt of completed application form.
	Annual Pension increases	Calculation of increases. Notification to pensioners.	For implementation on scheduled payment date. Not more than one month before scheduled payment date.
AVCs	AVC Set Up	Establishment of AVC record on database. Notification sent to Payroll dept.	10 days from receipt of completed application form.
	AVC Quotation	Provision of an AVC quotation.	10 days from receipt of complete data.
Valuation	Production of various information	Supply of valuation information to the Actuary.	As agreed with the Client and Actuary.
FRS17 Valuations	Production of various information	Supply of valuation information to the Actuary.	As agreed with the Client and Actuary.
Payroll	Payments	Issue BACS payments to pensioners designated bank accounts	To be received in the designated bank account on the due pay date.
		Issue payslips to pensioners' home addresses.	To be issued second class post via the Royal Mail so as to be expected to be received at the pensioners' home address on the due pay date
		Undertake relevant investigation for returned payments and action to Pensioner Record and inform Administration when relevant.	Within 10 working days of receipt

Category	Task	Actions	Service Standards
Payroll cont…	Payments cont….	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. Respond to third party enquiries in writing.	Within 10 working days of receipt Within 10 working days of receipt
	Year-end	Issue P60s to pensioners. Issue P35/P14 year end returns to HMRC.	By 31st May following tax year end. 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 EMPLOYER RESPONSIBILTIES

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.
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.

Function/Task	Performance Target
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	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 19th 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 KPMG. 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 Equiniti Paymaster's performance against the contract with them and the agreed Service Level Agreement. Monitoring occurs on a monthly basis and Equiniti 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 THE RECOVERY OF ADDITIONAL ADMINISTRATION COSTS FROM EMPLOYERS

The Scheme regulations provide pension funds with the ability to recover from a scheme employer any additional costs associated with the administration of the Scheme incurred as a result of the unsatisfactory level of performance of that Scheme Employer. Where a fund wishes to recover any such additional costs they must give written notice stating:

- The reasons in their opinion that the Scheme Employer's unsatisfactory level of performance contributed to the additional cost.
- The amount of the additional cost incurred.
- The basis on how the additional cost was calculated.
- The provisions of the Administration Strategy relevant to the decision to give notice.

Circumstances where costs might be recovered

It is the policy of the Fund to recover additional costs incurred in the administration of the Scheme as a direct result of the unsatisfactory level of performance of any scheme employer (including the Council). This includes the payment of fees levied against the scheme employer.

The circumstances where such additional costs will be recovered from the scheme employer are:

- persistent failure to provide relevant information to the Fund, scheme member or other interested party in accordance with specified performance targets in this Administration Strategy (either as a result of timeliness of delivery or 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 unsatisfactory performance, provide the necessary training and put in place appropriate processes to improve the level of service delivery in the future. Consideration for seeking additional administration costs where persistent failure occurs and no improvement is demonstrated by a scheme employer would be seen as a failure and will only be taken once the steps described below are taken to resolve the situation:

1. Write to the scheme employer, setting out area(s) of concern and offer training.

2. If no improvement is seen within one month of the training or no response is received to the initial letter, the scheme employer will be asked to attend a meeting with representatives of the Fund to discuss area(s) of concern and to agree an action plan to address them. Where appropriate, the originating employer will be informed and expected to work with the Fund to resolve the issues.

3. If no improvement is seen within one month or a scheme employer is unwilling to attend a meeting to resolve the issue, the Fund will issue a formal written notice, setting out the area(s) of concern that have been identified, the steps taken to resolve those area(s) and notice that the additional costs will now be reclaimed.

4. An invoice will then be issued to the scheme employer clearly setting out the calculations of any loss resulting to the Fund, or additional cost, taking account of time and resources in resolving the specific area(s) of unsatisfactory performance, in accordance with the fee scale set out in this document.

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

Fees for additional administration

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

Employer Responsibility	Fees
Monthly Contributions - Late payment of employee and employer contributions to the administrators **by the 19th calendar day of month following deduction.**	£60 plus interest*, calculated on a daily basis until contributions received
Monthly Contributions - Non provision of the correct schedule of payments in the format stipulated by the Fund, accompanying the contributions **by the 19th calendar day of month following deduction.**	£60 per occasion
Change Notifications – failure to notify the administrators of any change to a members working hours, leave of absence with permission	£60 per form, per occasion

(maternity, paternity, career break) or leave of absence without permission (strike, absent without permission) – **within 20 days of the change in circumstance.**	
Year End Data – failure to provide year end data **by 30th April** following the year end or the non provision of year end information or the quality of the year end data is poor requiring additional data cleansing	Initial fee of £250 then a fee of £100 for every month the information remains outstanding.
Employer Responsibility	**Fees**
Year End Data Queries – failure to respond to the administrators requests for information to resolve data queries within the prescribed timescale.	Initial fee of £60 per occasion, then a fee of £30 for each month the information requested remains outstanding.
New Starter(s) - failure to notify the administrators of new starter(s) and the late or non provision of starter form(s) – **within 15 days of employee joining the scheme.**	Initial fee of £60 per form, then a fee of £30 per form for each month the form(s) remains outstanding.
Leaver(s) – failure to notify the administrators of any leaver(s) and the late or non provision of leaver form(s) including an accurate assessment of final pay – **within 15 days of employee leaving the scheme or employment.**	Initial fee of £60 per form, then a fee of £30 per form for each month the form(s) remains outstanding.
Retirees – failure to notify the administrators when a scheme member is due to retire **15 working days before** the retirement date - including an accurate assessment of final pay and authorisation of reason for retirement.	Initial fee of £60 per form, then a fee of £30 per form for each month the form(s) remains outstanding.
Late payment of pension benefits - as a result of the employers failure to notify the administrators of a scheme members retirement, interest becomes payable on any lump sum paid. The administrators will recharge the total amount of interest paid to the employer.	Interest is calculated in accordance with regulation 44 of the LGPS Administration Regulations 2008.

Interest will be charged in accordance with regulation 44 of the LGPS Administration regulations, which states interest should be charged at Bank of England Base Rate plus 1%.

Employer contribution rates and administration costs

Employers' contribution rates are not fixed. Employers are required to pay whatever is necessary to ensure that the portion of the fund relating to their organisation is sufficient to meet its liabilities.

The London Borough of Hackney has an actuarial valuation undertaken every three years by the Fund's actuary. The actuary balances the fund’s assets and liabilities in respect of each employer, and assesses the appropriate contribution rate for each employer to be applied for the subsequent three years.

The cost of running the London Borough of Hackney Pension Fund is charged directly to the Fund, and the actuary takes these costs into account in assessing the employers' contribution rates.

If an employer wishes the London Borough of Hackney to carry out work not attributable to pension’s administration they will be charged directly for the cost of that work.

The following functions have been designated Employer Functions – this means that they are outside of the normal scope of pension administration responsibilities for the Fund but the Administering Authority is willing to assist employers with these services, although they will be subject to a charge depending on the level of work required and whether external suppliers have to be engaged such as the Fund’s Actuary, Occupational Health, etc.

Function/Task	Description & Associated cost
Redundancy & Severance Efficiency Payments Flexible Retirements.	Advice, calculations and the preparation of associated paperwork for employee signature and payroll instructions.
Ill health retirements - Tier 3 awards.	Monitor and review tier 3 ill health awards to cessation, liaise with Occupational Health Services, provide support at the IHRP meetings for the award of uplifted benefits.
Injury payments	Calculation and payment of injury awards.
IAS19	Provision of data required for IAS19 calculations to the Actuary, plus any chargeable Actuary time. Cost – as invoiced from the Actuary + any chargeable Actuary time as invoiced plus standard administration charge £100.
Admission Agreements	Setting up and amendment of admission agreements for Contractors/new Employers admitted to the Fund.

Cessation & Interim Valuations	Provision of data required for interim and/provision of data required for interim and/or cessation valuations.
Academy Conversions	Any work related this requiring input from the Administering Authority.
Legal Work & non standard actuarial work.	Any work in relation to this requiring input from the Administering Authority – e.g. contract review on outsourcing, employer policies, TUPE & future pension provision etc.

SERVICE AND COMMUNICATION IMPROVEMENT PLANNING

As set out earlier in this Administration Strategy, the Fund's objective in relation to administration is to deliver an efficient, quality and value for money service to its scheme employers and scheme members. This can only be achieved through continuously reviewing and improving the service. Communication between the Fund and scheme employers is key to providing the service and is therefore an important aspect of service improvement planning.

Equiniti 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 REGULATIONS 2013

The Regulations in relation to the Pension Administration Strategy are contained in the Local Government Pension Scheme Regulations 2013, and are set out below:

Pension administration strategy

59. (1) An administering authority may prepare a written statement of the authority's policies in relation to such of the matters mentioned in paragraph (2) as it considers appropriate ("its pension administration strategy") and, where it does so, paragraphs (3) to (7) apply.

(2) The matters are:

(a) procedures for liaison and communication with Scheme employers in relation to which it is the administering authority ("its Scheme employers");

(b) the establishment of levels of performance which the administering authority and its Scheme employers are expected to achieve in carrying out their Scheme functions by:

(i) the setting of performance targets,

(ii) the making of agreements about levels of performance and associated matters, or

(iii) such other means as the administering authority considers appropriate;

(c) procedures which aim to secure that the administering authority and its Scheme employers comply with statutory requirements in respect of those functions and with any agreement about levels of performance;

(d) procedures for improving the communication by the administering authority and its Scheme employers to each other of information relating to those functions;

(e) the circumstances in which the administering authority may consider giving written notice to any of its Scheme employers under regulation 70 (additional costs arising from Scheme employer's level of performance) on account of that employer's unsatisfactory performance in carrying out its Scheme functions when measured against levels of performance established under sub-paragraph (b);

(f) the publication by the administering authority of annual reports dealing with—

(i) the extent to which that authority and its Scheme employers have achieved the levels of performance established under sub-paragraph (b), and

(ii) such other matters arising from its pension administration strategy as it considers appropriate; and

(g) such other matters as appear to the administering authority after consulting its Scheme employers and such other persons as it considers appropriate, to be suitable for inclusion in that strategy.

(3) An administering authority must—

(a) keep its pension administration strategy under review; and

(b) make such revisions as are appropriate following a material change in its policies in relation to any of the matters contained in the strategy.

(4) In preparing or reviewing and making revisions to its pension administration strategy, an administering authority must consult its Scheme employers and such other persons as it considers appropriate.

(5) An administering authority must publish—

(a) its pension administration strategy; and

(b) where revisions are made to it, the strategy as revised.

(6) Where an administering authority publishes its pension administration strategy, or that strategy as revised, it must send a copy of it to each of its Scheme employers and to the Secretary of State as soon as is reasonably practicable.

(7) An administering authority and its Scheme employers must have regard to the pension administration strategy when carrying out their functions under these Regulations.

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

Payment by Scheme employers to administering authorities

69. (1) Every Scheme employer must pay to the appropriate administering authority on or before such dates falling at intervals of not more than 12 months as the appropriate administering authority may determine:

(a) all amounts received from time to time from employees under regulations 9 to 14 and 16(contributions);

(b) any charge payable under regulation 68 (employer's further payments) of which it has been notified by the administering authority during the interval;

(c) a contribution towards the cost of the administration of the fund; and

(d) any amount specified in a notice given in accordance with regulation 70 (additional costs arising from Scheme employer's level of performance).

(2) But:

(a) a Scheme employer must pay the amounts mentioned in paragraph (1)(a) within the prescribed period referred to in section 49(8) of the Pensions Act 1995**(41)**; and

(b) paragraph (1)(c) does not apply where the cost of the administration of the fund is paid out of the fund under regulation 4(5) of the Local Government Pensions Scheme (Management and Investment of Funds) Regulations 2009 (management of pension fund) **(42)**.

(3) Every payment under paragraph (1)(a) must be accompanied by a statement showing:

> (a) the total pensionable pay received by members during the period covered by the statement whilst regulations 9 (contributions) applied (including the assumed pensionable pay members were treated as receiving during that period);
>
> (b) the total employee contributions deducted from the pensionable pay referred to in sub-paragraph (a);
>
> (c) the total pensionable pay received by members during the period covered by the statement whilst regulation 10 applied (including the assumed pensionable pay members were treated as receiving during that period);
>
> (d) the total employee contributions deducted from pensionable pay referred to in sub-paragraph (c);
>
> (e) the total employer contributions in respect of the pensionable pay referred to in sub-paragraphs (a) and (c);
>
> (f) the total additional pension contributions paid by members under regulation 16 (additional pension contributions) during the period covered by the statement; and
>
> (g) the total additional pension contributions paid by the employer under regulation 16(additional pension contributions) during the period covered by the statement.

(4) An administering authority may direct that the information mentioned in paragraph (3) shall be given to the authority in such form, and at such intervals (not exceeding 12 months) as it specifies in the direction.

(5) If an amount payable under paragraph (1)(c) or (d) cannot be settled by agreement, it must be determined by the Secretary of State.

Additional costs arising from Scheme employer’s level of performance

70. (1) This regulation applies where, in the opinion of an administering authority, it has incurred additional costs which should be recovered from a Scheme employer because of that employer’s level of performance in carrying out its functions under these Regulations.

(2) The administering authority may give written notice to the Scheme employer stating:

(a) the administering authority's reasons for forming the opinion mentioned in paragraph (1);

(b) the amount the authority has determined the Scheme employer should pay under regulation 69(1)(d) (payments by Scheme employers to administering authorities) in respect of those costs and the basis on which the specified amount is calculated; and

(c) where the administering authority has prepared a pension administration strategy under regulation 59, the provisions of the strategy which are relevant to the decision to give the notice and to the matters in sub-paragraphs (a) or (b).

CONTACT DETAILS

For further information on pension issues please contact:

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

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

For further information on investment issues please contact:

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

Email: pension,investments@hackney.gov.uk
Telephone 020 8356 2521

For pension benefit and administration issues please contact:

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

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