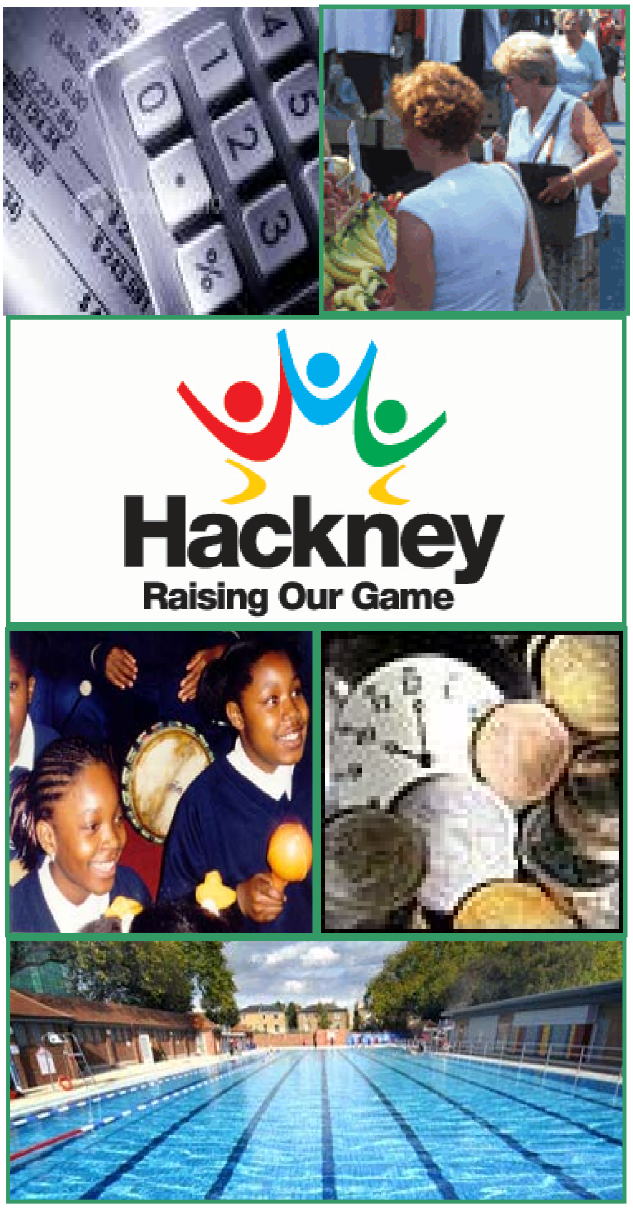
London Borough of Hackney
Pension Fund

Annual Report and Accounts 2007-2008



Hackney

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Annual Report

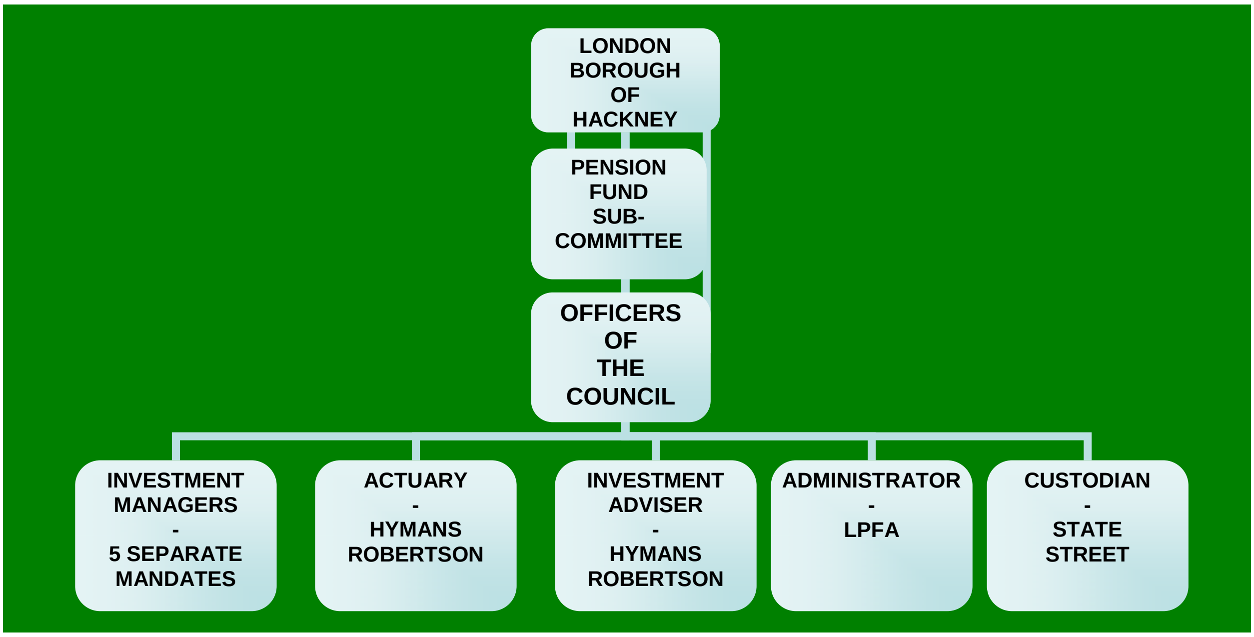
Overview of the Pension Scheme

The London Borough of Hackney (LBH) is responsible for the administration and management of the Pension Fund in accordance with statutory regulations. As the Administering Authority, LBH acts on behalf of the Council and the other employer bodies who have pension scheme members in the Pension Fund. The Pensions Sub-Committee of the Council is responsible for the effective supervision of the Scheme and monitoring of investment performance. The Director of Finance and Resources has delegated authority for the day to day running of the Scheme.

The Pension Scheme for the London Borough of Hackney is a final salary defined benefit scheme and is part of the country wide Local Government Pension Scheme (LGPS). Benefits are determined by a range of statutory provisions. The main regulations during the financial year governing the operation of the Scheme were the LGPS Regulations 1997 (as amended). New Regulations have now been issued to cover contributions, benefits and administration of the Scheme and became effective from 1st April 2008. The regulations set out in detail the establishment and administration of the Fund, covering such areas as admission to the Scheme, employee contributions, benefits payable to employees, discretions available, actuarial valuations and employer obligations. The Local Government Pension Scheme (Management and Investment of Funds) Regulations 1998 (as amended) cover the management of pension funds and the investment powers available to authorities. These have as yet not been replaced by any new provisions.

Management of the Fund

The chart below sets out the management of the Fund, whereby the Council has delegated responsibility for the operation and management of the Scheme to the Pensions Sub-Committee. Officers of the Council report to the Committee, and manage the day to day operations of the Fund. In addition, external organisations provide administrative, advisory and investment management services relating to the operation of the Pension Fund during the year.



Employers in the Pension Fund

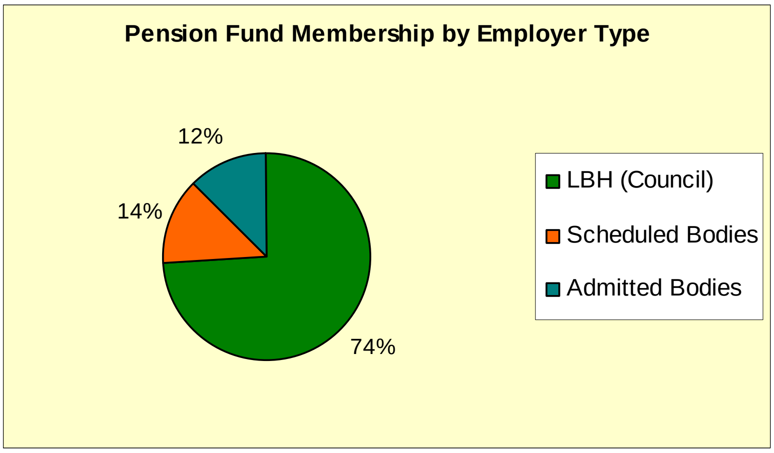
The Pension Fund had 16 employers in the Fund during the financial year 2007/08, which includes the London Borough of Hackney itself. Other employers in the Fund fall into either scheduled body status or admitted body status. The table below outlines the membership profile for all of the employers in the fund as well as their status within the Fund.

Membership by Employer 31/03/08

Employer	**Status**	**Active Members**	**Deferred Members**	**Pensioner Members**	**Total Members**	**%**
LBH (Council)	Scheduled	3,675	5,582	5,447	14,704	89
Hackney Homes	Scheduled	613	42	27	682	4
The Learning Trust	Admission	491	261	48	800	5
Brooke House	Scheduled	37	24	-	61	0
Shoreditch Trust	Admission	36	19	-	55	0
Hanover Housing	Admission	34	12	19	65	0
Mossbourne Academy	Scheduled	27	11	-	38	0
Renaisi	Admission	24	24	1	49	0
Greenwich Leisure Ltd	Admission	15	2	-	17	0
Wetton Cleaning	Admission	9	9	3	21	0
Bridge Academy	Scheduled	5	1	-	6	0
Petchey Academy	Scheduled	4	1	-	5	0
KGB Cleaning (Municipal)	Admission	4	1	2	7	0
KGB Cleaning (Schools)	Admission	1	-	-	1	0
Kingsmead Homes	Admission	1	3	3	7	0
Clapton Community Housing	Admission	1	4	-	5	
Employers no longer active	Ceased		190	28	218	2
Total Membership		**4,977**	**6,186**	**5,578**	**16,741**	**100**

The breakdown of the active membership (i.e. those contributing to the Pension Scheme) of the Pension Fund by type of employer as at 31st March 2008 is shown below.

Employer	%	Active Members
LBH (Council)	73.8	3675
Scheduled Bodies	13.8	686
Admitted Bodies	12.4	616
	100.0	4977



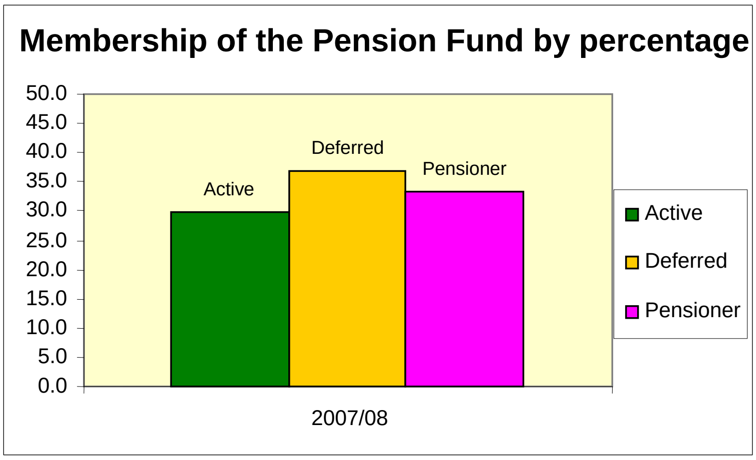
Scheme Membership

Admission to the LGPS is open to all Council and Scheduled Body employees, except for teachers who have their own arrangements for pension benefits, payable through the Teachers Pensions Scheme. Membership into the Council's Scheme is automatic for full and part-time employees (unless they opt out). Admission to the Pension Scheme for employees of Admission Bodies is dependent on the status of the admission agreement, whether it is open i.e. admits new members or closed i.e. does not admit new members.

Membership of the Scheme comprises of three main groups, namely:

- Active Members (those currently paying contributions into the Scheme).
- Deferred Members (those who have left the Scheme, but remain entitled to deferred benefits payable at some point in the future).
- Pensioner Members, including widow(er)s or dependants (those who are currently in receipt of pensions).

The membership of the Scheme analysed over the relevant categories is shown below:



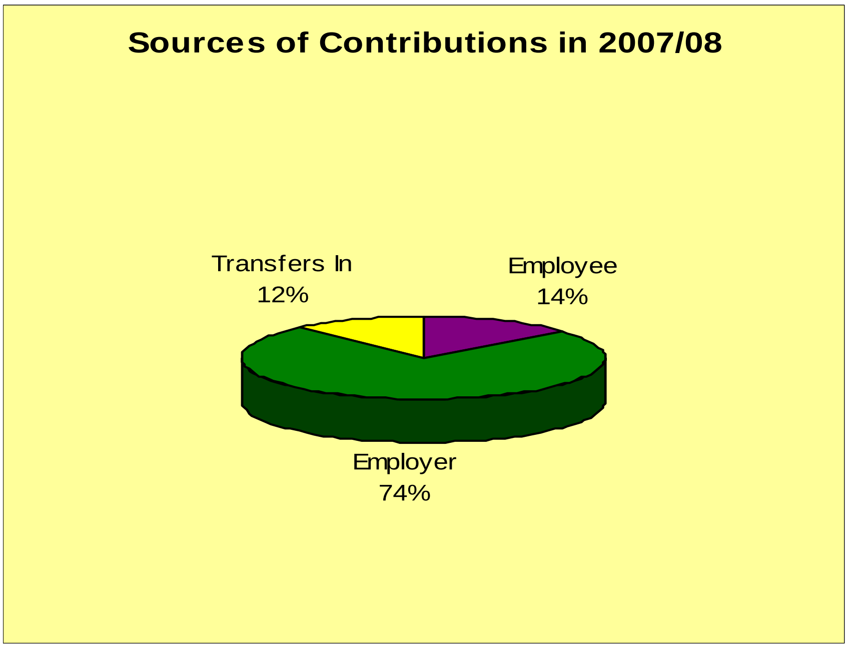
Membership	31/03/2008
Active Members	4,977
Deferred Members	6,186
Pensioners/ Dependants	5,578
Total	16,741

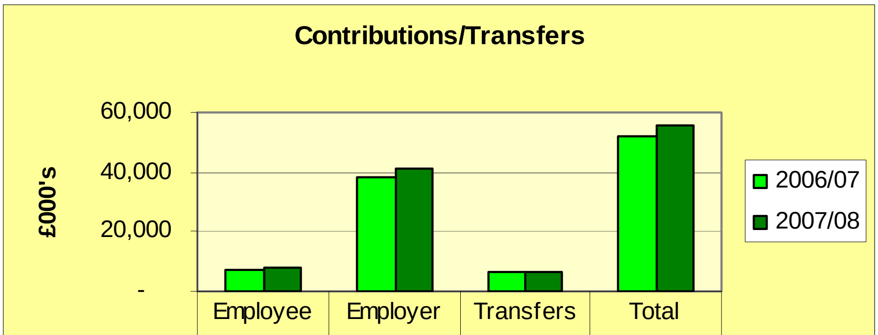
Contributions and Benefits

Contributions into the Fund come from the following sources:

- Employees' contributions which are fixed by statute (6% for all employees, except for those who were employed as manual workers prior to April 1998 who pay 5%).
- Employer's contributions which are set by an actuarial valuation every three years. The rate for the Council for 2007/08 was 15.3% plus an additional monetary contribution of £18.8 million. Other employers paying into the Scheme paid different rates according to their membership profile.
- Transfers into the Fund from employees joining the Scheme and transferring membership from other schemes.

Total contributions into the Fund during 2007/08 amounted to £55.7 million compared to £52.1 million for the comparable period for 2006/07.





	Employee	Employer	Transfers	Total
2006/07	7,045	38,597	6,455	52,097
2007/08	7,728	41,285	6,681	55,694

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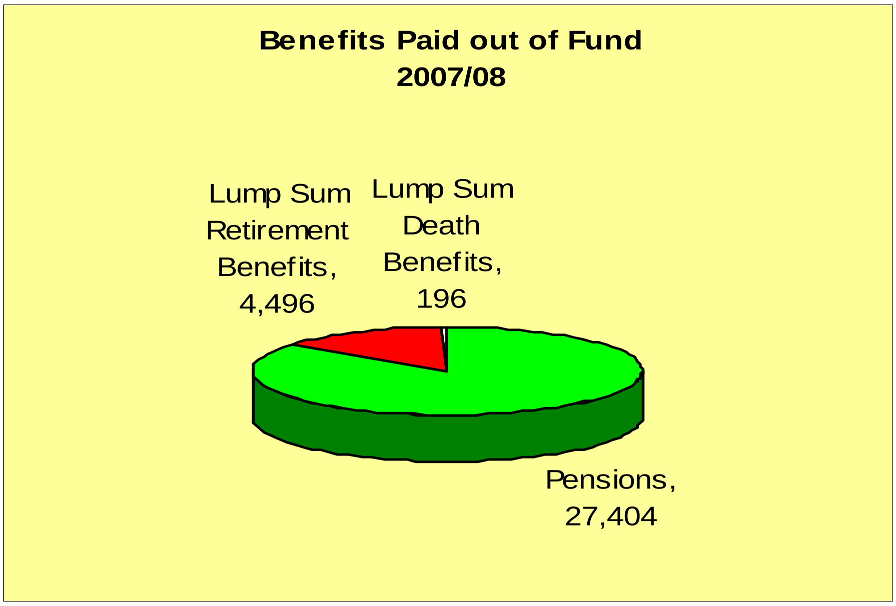
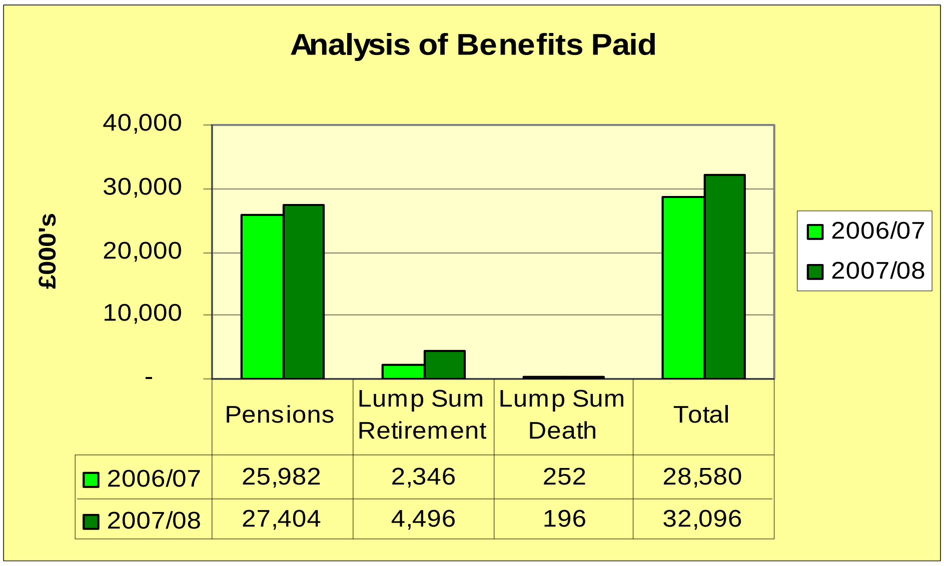
Benefits paid out from the Fund include the following:

- Retirement benefits fixed by statute with some discretion available to authorities to enhance benefits payable.
- Lump sum payments, both retirement and death benefits.

Total benefits paid out during 2007/08 amounted to £32.1 million compared to £28.6m million for the year 2006/07.





	Pensions	Lump Sum Retirement	Lump Sum Death	Total
2006/07	25,982	2,346	252	28,580
2007/08	27,404	4,496	196	32,096

In addition the Fund has also paid refunds to members who have opted out of the scheme under the regulations of the Scheme and made transfers to other schemes by way of individual transfers and group transfers. For 2007/08 the total value of payments to and on account of leavers was £6.1 million compared to £6.5 million in 2006/07.

Administration Expenses

The costs of administering the Fund over the financial year 2007/08 were £0.810 million, virtually unchanged on the previous year ended 31st March 2007 when the administration costs were £0.812. The administration expenses cover the costs involved in administering the Pension Scheme, with both external and internal costs being charged to the Pension Fund. The contract for administration is managed externally by the London Pensions Fund Authority (LPFA) with the contract being overseen by the Treasury and Pensions Section based at London Borough of Hackney.

Investment Management Expenses

The investment management expenses for the year to 31st March 2008 were £2.199 million up marginally from the previous year of £2.124. 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.

Financial Review

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, i.e. future pension payments. An actuarial valuation of the Fund is carried out every 3 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.

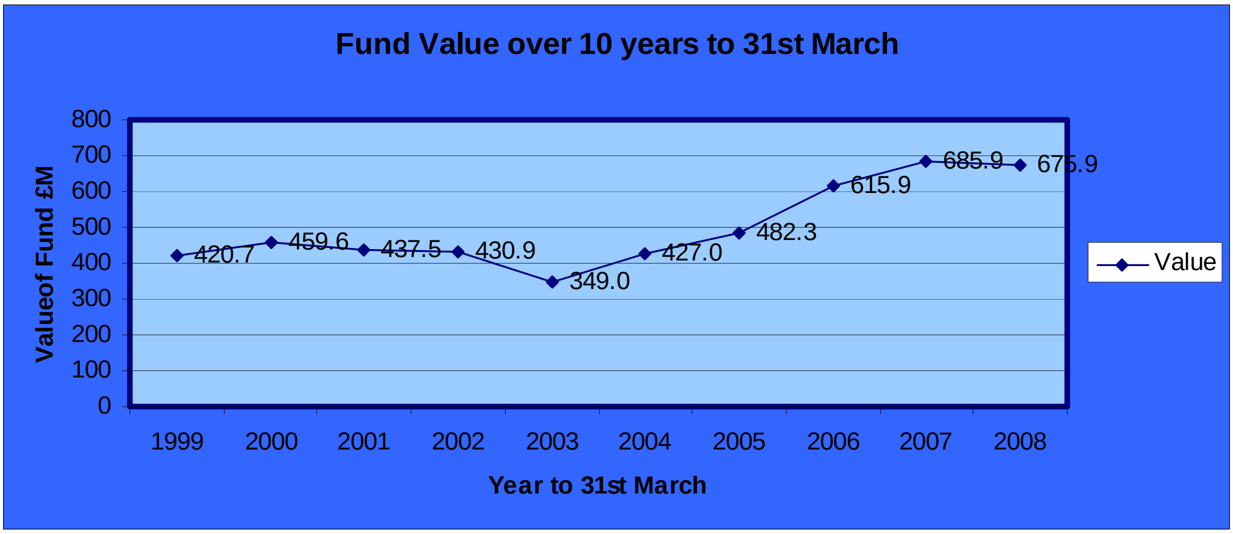
Actuarial Valuation - The actuarial review carried out as at 31st March 2004 showed a funding level of 64%, and set the employer contribution rate for the Council at 11.9% for the three years from 1st April 2005, with additional cash lump sum payments to be made by the Council. Following an interim valuation undertaken by the actuary on behalf of the Fund during the course of 2005, the employer contribution rate was amended for the two years 2006/07 and 2007/08 to 15.3% and the lump sum payments were amended to £18.1 million for 2006/07 and £18.8 million for 2007/08. Employer rates for other employers participating in the Fund reflected their membership base and differed from the rates applied to the Council. These were the rates being applied during the financial year being reported upon.

The Fund Actuary, Hymans Robertson, undertook a valuation of the Pension Fund Assets and Liabilities as at the 31st March 2007. This showed that the funding level had risen to 78% as a result of improved investment markets and high levels of employer contributions. Following discussions with the Actuary, contributions for the forthcoming 3 year period have now been set with rates to be applied shown in the Rates and Adjustments Certificate from the Actuary. Copies of the 2007 Actuarial Valuation can be obtained from the Treasury and Pensions Section, Finance and Resources Directorate, Keltan House, 89-115 Mare Street, London, E8 4RU. Alternatively, a copy of the valuation can be found on the Pension Fund website www.yourpension.org.uk/hackney

The employer contribution rate set for the largest employer in the Fund which is the Council itself has been raised to 20.3% to commence on 1st April 2008 with additional lump sum payment of £14.6 million for the financial year 2008/09, £15.1 million for 2009/10 and £15.5 million for 2010/211. The next actuarial valuation will take place as at the 31st March 2010 with the rates determined to be applied from 1st April 2011. Following changes to the LGPS regulations employee contribution rates have also changed from 1st April 2008 and employees now pay a contribution rate that is dependent on their level of pay with the lowest rate going forward 5.5% and the highest rate being 7.5%. At the time that the next valuation rates are applied, i.e. from 2011, it is possible that employee contribution rates will also be changed to reflect cost sharing arrangements being proposed by the Department for Communities and Local Government (CLG).

Fund Value - The Pension Fund Revenue Account shows the impact of poor investment market conditions during the financial year 2007/08 with the net return on investments being a negative of £26.7million. This compares to the gains on investments, both realised and unrealised, of £53.9 million that occurred during the financial year 2006/07.

At the end of March 2008, the market value of the Pension Fund's total assets was £675.9 million slightly down compared to the £685.9 million as at 31st March 2007, a decrease over the year of 1.5%, reflecting both the downturn that occurred in investment markets following the credit crunch which started in the middle of 2007. The graph below shows the progress of the Fund's assets over the last 10 years as at the 31st March in each year.



Investment Review

Investment Powers

The Local Government Pension Scheme (Management and Investment of Funds) Regulations 1998 set out the main powers to invest pension fund monies. They permit a wide range of investments, subject to not more than 10% of the fund being invested in a single holding or in unlisted securities, and not more than 10% being deposited with a local authority or with any single bank, institution or person. They also restrict investment in unit trust schemes and open ended collective investment schemes managed by any one body to not more than 25%.

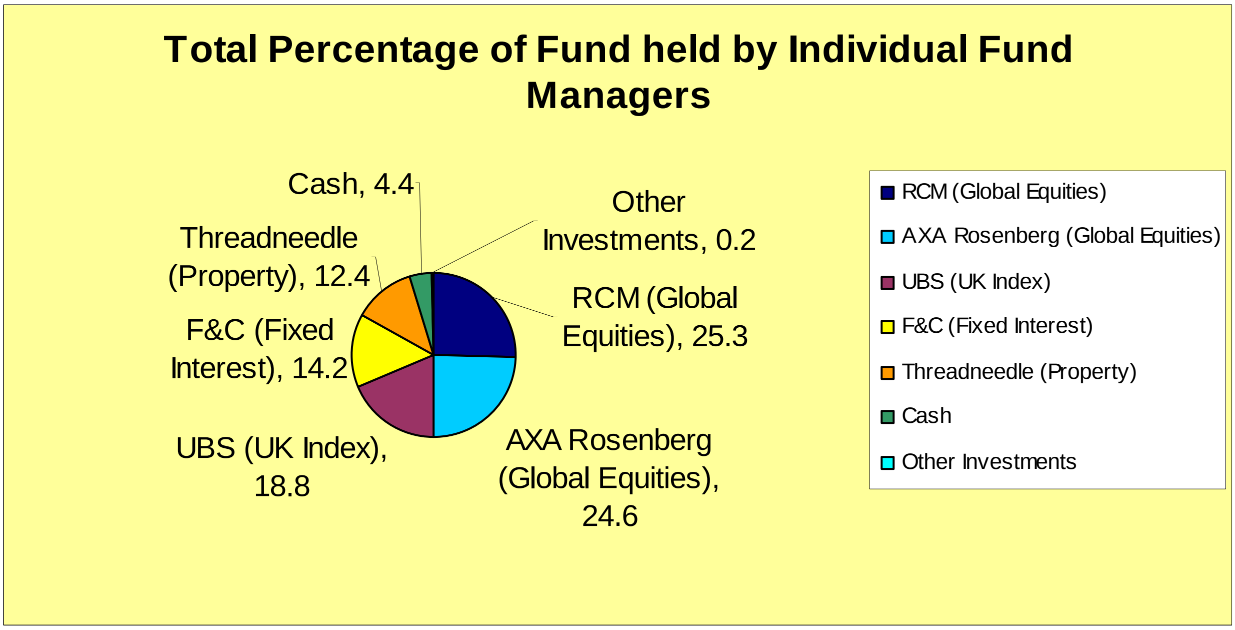
The regulations enable authorities to appoint investment managers to manage and invest Pension Fund monies on their behalf, subject to being satisfied with their experience, competence and risk control, with appropriate arrangements for monitoring performance.

Following the actuarial review as at 31st March 2004, the Fund published a Funding Strategy Statement (FSS) which outlines the Fund's approach to funding its liabilities, and how the deficit will be recovered to meet regulatory requirements. The FSS was approved by the Pensions Sub-Committee at the Committee meeting held on 22nd March 2005, and became effective from 31st March 2005. Following the actuarial valuation at 31st March 2007, the FSS was updated to reflect the changes included in the valuation with the FSS being approved by the Pensions Sub-Committee at it meeting on 7th January 2008 following a consultation period with interested parties. Copies of the FSS can be obtained from the Treasury and Pensions Section, Finance and Resources Directorate, Keltan House, 89-115 Mare Street, London, E8 4RU, or accessed on the Pension Fund website www.yourpension.org.uk/hackney. A copy is also included in the Annual Report and Accounts Publication.

Under the regulations, the Pension Fund is required to publish a Statement of Investment Principles (SIP) setting out the main parameters and responsibilities for the management of the Fund. The SIP covers the investment style for fund managers' e.g. balanced active/passive, types of investment to be permitted and the relative proportions between them, performance objectives for fund managers, socially responsible investment standards to be applied, and corporate governance matters to be exercised relating to the Fund's shareholding interests. Following a review of the SIP, and consultation on a revised Statement, an amended SIP was agreed by the Pensions Sub-Committee in September 2005, and is included as part of this Annual Report to Stakeholders. A review of the SIP is due to be undertaken as part of the work planned by the Pension Sub-Committee for the current financial year.

Investment Structure

During the year 2007/08, the investments of the Fund were managed by five external Fund Managers, with three equity managers - one passive UK fund manager, UBS with 19% of the Fund under management, and two active global equity managers, AXA Rosenberg with 25% and RCM with 25% of the Fund as at 31st March 2008. Fixed interest investments were managed by Foreign & Colonial (F&C) with 14% of the Fund and property via a Unit Trust with Threadneedle amounting to 12% of the Fund. Current assets held as a proportion of the Fund represented 5%, this is cash held outside Fund Manager cash holdings and other current assets. There remained a small proportion of investments in the shape of other direct investments. The list of Fund Managers and the proportions of assets under management are shown below.

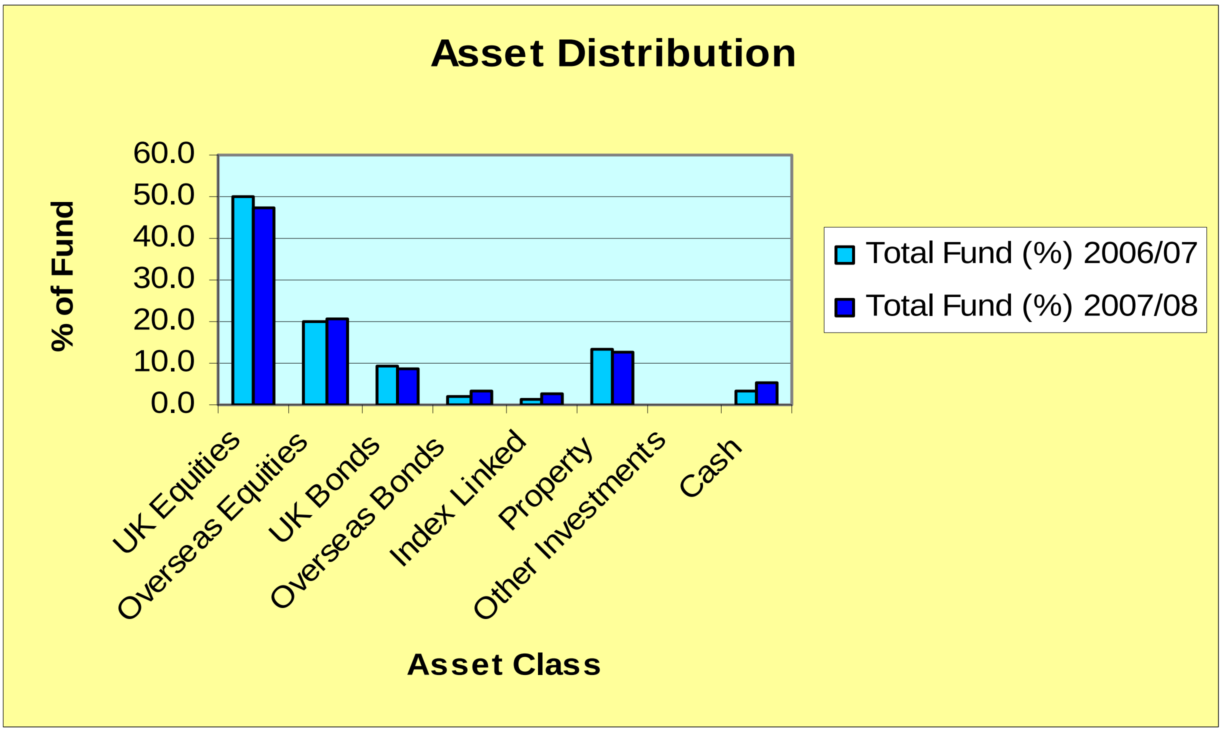


Manager	2006/07 £'000	2006/07 %	2007/08 £'000	2007/08 %
UBS	138,075	20.1	127,377	18.8
AXA	178,236	26.0	166,283	24.6
RCM	172,139	25.1	171,025	25.3
F&C	90,268	13.2	96,140	14.2
Threadneedle	91,405	13.3	83,812	12.4
Cash	14,018	2.0	29.949	4.5
Other	1,749	0.3	1,325	0.2
Total	***685,890***	***100.0***	***675,910***	***100.0***

The tables below reflect the asset distribution of the Fund at 31st March 2008 compared to the position at 31st March 2007. These reflect to a large extent moves in the investment markets themselves with both the UK equity and property weightings seeing a fall as a percentage of the asset values due to the relatively poor performance of these areas over the last financial year.

Asset Breakdown by Asset Class

Asset Category	Value £'000 2006/07	Total Fund (%) 2006/07	Value £'000 2007/08	Total Fund (%) 2007/08
UK Equities	342,576	49.9	318,359	47.1
Overseas Equities	138,601	20.2	140,612	20.8
UK Bonds	62,807	9.2	59,114	8.7
Overseas Bonds	14,420	2.1	20,619	3.1
Index Linked	10,886	1.6	15,942	2.4
Property	91,427	13.3	83,833	12.4
Other Investments	46	0.0	26	0.0
Cash	25,127	3.7	37,405	5.5
	685,891	100.0	675,910	100.0



Investment Background

The investment background for the Pension Fund has been more mixed over the last financial year with the more developed equity markets seeing downturns due to problems in the credit markets arising as a result of the sub-prime housing market in the US. This has also impacted on the property market with that area seeing a downturn in performance for the first time in recent years.

As mentioned it was the developed equity markets that were impacted the most from the credit crisis in the US and also concerns about an economic slowdown. The North American, UK and Japanese markets all experienced negative returns over the year, however continuing growth in China and the other Far East meant that investment returns there were strong with Europe being marginally positive. Returns from fixed interest markets were positive reflecting a flight to quality by investors. Property markets having seen strong performances in recent years were affected by the tightening of the credit markets and saw a sharp downturn during the year.

The UK market saw a reversal of the previous year's outperformance with returns on the year down by 9.9% compared to 11.1% the previous year. The impact of the credit crisis that emanated from the US sub-prime mortgage market and led to the collapse of Northern Rock and wider concerns about exposure in the banking sector impacted upon the UK stock market and in particular the financial sector. Concerns about the consumer coming under pressure also started to surface particularly with evidence of a slowing housing market towards the end of the financial year. Looking at the longer term performance the UK market has shown reasonable strength with returns of 19.5% p.a. over the last 3 years and 14.7% annualised over a five year period, with only Europe and the Pacific Basin showing higher returns.

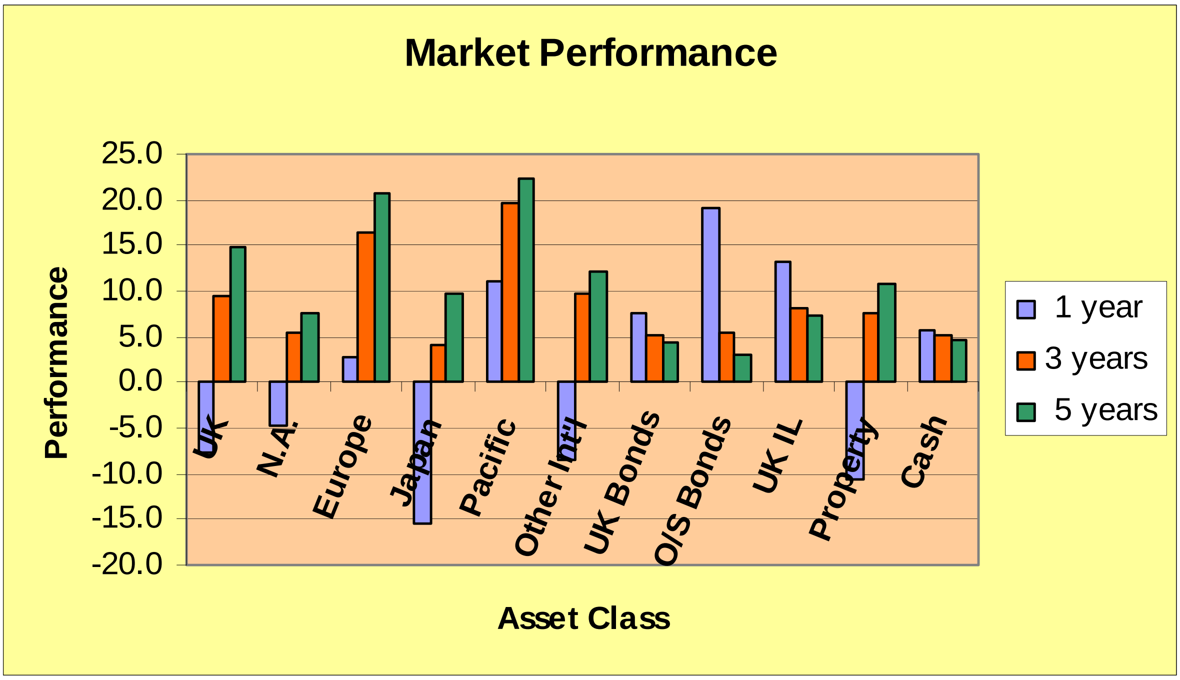
Overseas markets were more mixed with North America and Japan being down on the year with Europe and the Far East posting positive returns. The North American markets were down over the year at -4.8% due to concerns over the sub-prime housing market and large financial institutions coming under severe pressure. The Federal Reserve acted aggressively towards the end of the year cutting rates from 5.5% to 3% both at its normal monthly meetings and in between meetings helping to provide liquidity and support markets. Over the longer time period, North American equities have seen relatively modest returns at an annualised performance of 5.5% over 3 years and annualised 5 year performance of 7.5%.

The Japanese market was the worst performing equity market over the year showing a negative 15.4% over the 12 months following on from a negative return of 9.9% the previous year. Economic concerns impacted on the Japanese market, in particular the high oil price and strong commodity prices generally. Over 3 years Japan has seen returns of 4.1% p.a. with returns of 9.6% p.a. over 5 years. Of the developed markets only the European markets showed a positive return on the year, but only just with a return of 2.8% being less impacted by the housing crisis that was affecting both the US and UK markets. Longer term performance in Europe has been strong posting a performance per annum of 16.3% over 3 years and 20.6% over 5 years. The Pacific Basin, excluding Japan, was the strongest performing region seeing a rise of 11.2% over the last financial year being driven by high economic growth in the region. Over both the 3 year and 5 year periods the region has been the best performing with annualised gains of 19.7% and 22.3% respectively, thus putting the region as the best performing asset class over those periods.

The fixed interest markets had a positive year overall as investors undertook a flight to quality switching into the relative safety of government bonds and anticipating a slowdown in growth. UK bond markets were up by 7.6% over the financial year with overseas bond markets putting in a strong performance with a return of 19.1% on the year. The index linked bonds likewise benefited from concerns in the equity and credit markets posting returns of 13.1% over the year. On a longer term view the performance annualised over 5 years was 4.5% for UK bonds and 7.2% for Index Linked, again partly a reflection of the demand that there has been for these assets by pension funds over the longer term. Overseas bonds are also now showing slightly more respectable returns over the longer term with the 5 year performance figure now standing at 3.1% p.a.

Property saw a sharp reversal of fortunes in the second half of the year having been a flat performer in the first two quarters of the financial year, the problems in the US housing market and the credit crisis in the summer meant that over the year as a whole the property market was down by 10.7% over the year. Whilst the longer term performance is still showing good returns of 7.7% p.a. and 10.7% p.a. over 3 and 5 years respectively, the strong gains of the last few years are in danger of being erased.

The chart below shows the performance of the respective asset classes over the last 1, 3 and 5 year periods months to 31st March 2008.



Performance of Fund

The investment strategy and performance of the Fund is reported on a quarterly basis to the Pension 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 combined Fund and each manager's performance are compared with an index or customised benchmark. At a secondary level, performance is compared against the WM Local Authority Universe average, to provide rankings against the peer group. Performance of the Fund is reviewed on a quarterly basis by the Pension Fund Sub-Committee, both for the overall Fund, and for individual Fund Managers against their individual benchmarks.

The overall investment performance of the Fund for 2007/08 was a negative of 3.9%, marginally outperfperforming the customised benchmark of 5.0%. Over the year there was a negative attribution from asset allocation of 1.4%, whilst stock selection had a positive attribution for the year of 2.7% giving rise to the slight outperformance against benchmark over the year.

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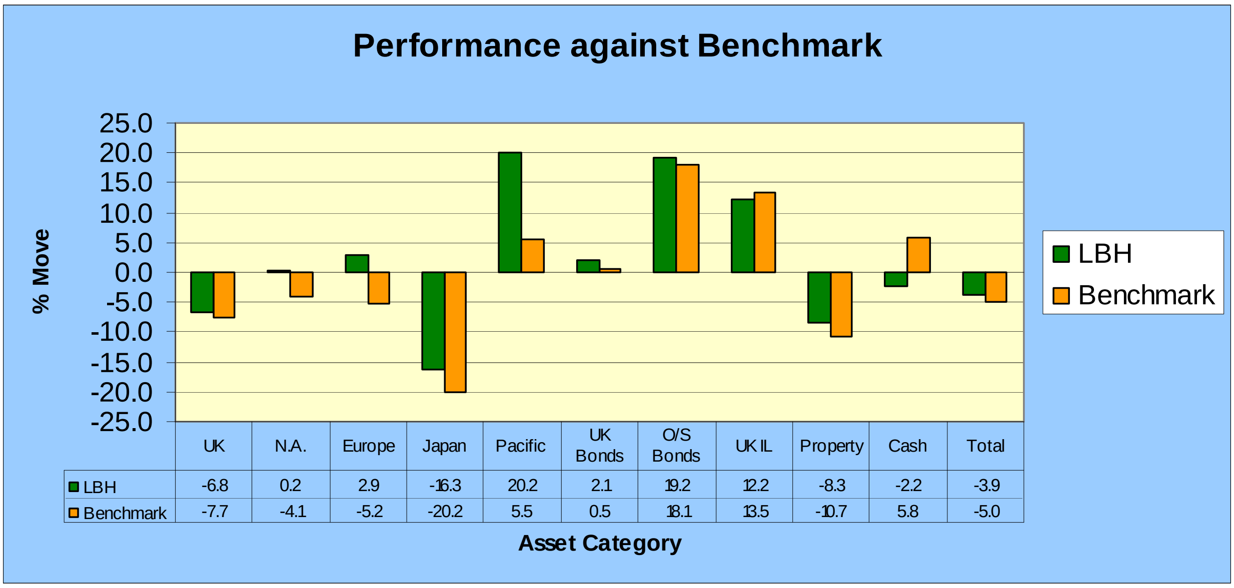
Performance within individual asset classes was positive against the customised benchmarks over the year as shown in the chart below:

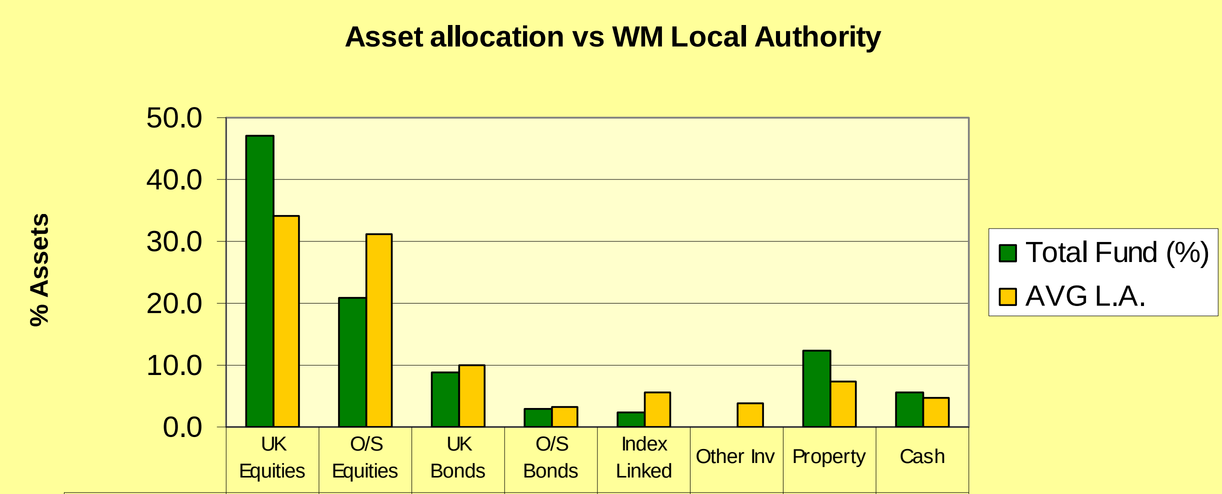


	UK	N.A.	Europe	Japan	Pacific	UK Bonds	O/S Bonds	UK IL	Property	Cash	Total
LBH	-6.8	0.2	2.9	-16.3	20.2	2.1	19.2	12.2	-8.3	-2.2	-3.9
Benchmark	-7.7	-4.1	-5.2	-20.2	5.5	0.5	18.1	13.5	-10.7	5.8	-5.0

Over the longer term, the Fund has outperformed its customised benchmark over a 3 year period with the Fund achieving an annualised return of 9.8% compared to the benchmark of 9.0%. Over a 5 year period the Fund has performed in line with its benchmark with an annualised return of 12.9%.

Performance against the WM Local Authority funds shows the Hackney Fund had a disappointing year compared to its peer group with the average WM fund only seeing a negative return of 2.7 compared to -3.9% for the Hackney Fund. This places the Fund in the 67th percentile versus the local authority universe. This would have been due in part to the relatively high weightings in property and UK equities which performed poorly over the year and the relatively low exposure to bonds compared to the average Fund where the performance of the sector was comparatively strong. Over the longer term, the performance relative to WM universe continues to be positive with a ranking of 28th percentile over 3 years and 18th percentile over 5 years.

The asset allocation versus the WM Local Authority Universe is shown below.



	UK Equities	O/S Equities	UK Bonds	O/S Bonds	Index Linked	Other Inv	Property	Cash
Total Fund (%)	47.1	20.8	8.7	3.1	2.4	0.0	12.4	5.5
AVG L.A.	34.1	31.3	9.9	3.2	5.5	3.9	7.3	4.8

Post Balance Sheet Events

On 1st April 2008 the following regulations came into effect:

- The Local Government Pension Scheme (Members, Benefits and Contributions) Regulations 2007
- The Local Government Pension Scheme (Administration) Regulations 2008
- The Local Government Pension Scheme (Transitional Provisions) Regulations 2008

Where appropriate changes have been implemented in accordance with the regulations to ensure that the Fund is compliant with the new regulations and measures are being undertaken to ensure compliance where further changes are required. The actuarial valuation as at 31st March 2007 setting the contribution rates for the forthcoming year incorporated the changes in particular in relation to the Members, Benefits and Contribution Regulations.

LONDON BOROUGH OF HACKNEY

PENSION FUND

STATEMENT

OF

INVESTMENT PRINCIPLES

1 BACKGROUND TO THE FUND

1.1 The Legal Requirements

The Local Government Pension Scheme (Management and Investment of Funds) (Amendment) Regulations 1998 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 Local Government Pensions Scheme (Management and Investment of Funds) (Amendment) Regulations 2002 require pension fund administering authorities to state the extent to which they comply with the Chartered Institute of Public Finance and Accountancy (CIPFA) Pensions Panel Principles for Investment Decision Making in the Local Government Pension Scheme in the United Kingdom.

1.2 The Scheme

The Pension Scheme for the London Borough of Hackney is a final salary defined benefit scheme. Benefits are determined by a range of statutory provisions. The main regulations governing the operation of the scheme are the Local Government Pension Scheme (Members, Contributions and Benefits) Regulations 2007, Local Government Pension Scheme (Administration) Regulations 2008 and the Local Government Pension Scheme (Transition) Regulations 2008.

The terms of the Local Government Pension Scheme (LGPS) Regulations set out in clear terms the benefits that are payable to Scheme members and as such the benefits are guaranteed for those members. The contributions payable by Scheme members are also defined in the Regulations and therefore members are not reliant on investment performance for their pension benefits. Employing Authorities are required to pay contributions into the Scheme in order to meet the cost of funding employee benefits and as such are required to meet any shortfall in funding the pension liabilities of Scheme members. This means that if the Pensions Fund's investments do not perform as well as expected, any shortfall has to be met from Council Tax, other public funds and employers participating in the Fund, NOT by reducing the amount of pension benefits paid or by increasing employees' contributions.

Within the statutory provisions there are matters over which the Council has discretion. Policy on these matters is determined by Cabinet following recommendations from the Pensions Sub-Committee (see below).

Pension benefits for individuals are increased each year in line with movements in the Retail Prices Index.

1.3 The Fund's Objectives

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

- To ensure the long-term solvency of the Fund;
- To ensure that sufficient funds are available to meet all benefits as they fall due for payment;
- Not to restrain unnecessarily the investment strategy of the Fund so that the Administering Authority can seek to maximise investment returns (and hence minimise the cost of the benefits) for an appropriate level of risk;
- To help employers recognise and manage pension liabilities as they accrue;
- To minimise the degree of short-term change in the level of each employer's contributions where the Administering Authority considers it reasonable to do so;
- To use reasonable measures to reduce the risk to other employers and ultimately to the Council Tax payer from an employer defaulting on its pension obligations; and
- To address the different characteristics of the disparate employers or groups of employers to the extent that this is practical and cost-effective.

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

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

1.4 The Pensions Sub-Committee

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

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

1.5 Advice

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

The Pension Fund has access to the use of external providers for actuarial and investment services for advice. The Pension Fund employs the services of an Actuary to provide ongoing actuarial advice and to carry out a valuation of the Fund every three years (the triennial valuation) in accordance with the Administration

Regulations. In addition the Fund also uses an appointed Investment Advisor to provide advice to the Committee on investment related issues.

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

1.6 Investment Management

The Pension Fund employs seven 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 (AXA Rosenberg and Allianz GI - RCM)
- 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	46%	FTSE All Share	41-51%
Overseas Equities	21%	Composite	19-23%
North America	7%	FTSE Developed North America	
Europe ex. UK	7%	FTSE Developed Europe (ex. UK)	
Japan	3%	FTSE Developed Japan	
Pacific ex. Japan	3%	FTSE Developed Pacific (ex. Japan)	
Emerging Markets	1%	FTSE Advanced Emerging Markets	
Total	**67%**	**Composite**	**60-74%**

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

Asset Class	Benchmark Allocation	Index	Investment Ranges

Hackney

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

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

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

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

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

The Pension Sub-Committee reviews the performance of all its investment managers on a quarterly basis and receives reports from officers and investment advisors on that performance. The Committee will also receive presentations from all of its investment managers over the course of a financial year at its regular Committee meetings. In addition the Committee will consider in conjunction with its investment advisors and officers the appropriate asset allocation for the Fund on a regular basis.

2 RESPONSIBILITIES

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

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

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

2.3 Members of the Sub-Committee receive training in their responsibilities as quaisi 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.

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

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

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

3 FUNDING POSITION

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

3.2 The last actuarial valuation carried out as at 31st March 2007 gave the following results: -

Liabilities	£m
Pensioners, spouses and other beneficiaries	364.0
Deferred pensioners	246.3
Active members (Fund membership to 31st March 2007)	274.5
Total liabilities	884.9
Market value placed on the assets	687.1
Past service shortfall	**(197.8)**
Funding Level	**77.6%**

3.3 The valuation therefore shows a past service deficit of £197.8 million representing a funding level of 78%.

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

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

3.6 Pensions are paid by the Fund calculated in accordance with the provisions laid down in the Local Government Pension Scheme (Members, Benefits and Contributions) Regulations 2007. 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.

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

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

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

4 INVESTMENT POLICY

4.1 The investment objectives are to maximise income while managing risk so that the Pension Fund can meet its liabilities with the minimum employers' contributions and give the greatest stability of contributions over the long term. The asset distribution of the Fund and the benchmarks as set out above was laid down following an asset liability study in 2002. The Committee keeps under review the need to conduct a further study to ensure that the Fund has the most appropriate asset distribution to achieve its objectives.

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 2007 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. Exposure to equities was, however, reduced by comparison with the previous arrangements to reduce volatility in performance without locking in the present level of deficit.

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

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

4.5 The strategic benchmarks of the managers are set out in paragraph 1.5. The performance targets and targeted tracking errors are given below: -

	Reporting Frequency	Performance Target	Tracking Error
Global Equities manager A – RCM	Monthly	+2%	5-6%
Global Equities manager B – AXA Rosenberg	Monthly	+2%	5-6%
Passive Equity manager – UBS	Monthly	+/-0.25%	Not Applicable
Fixed Interest manager – F&C	Monthly	+1%	1-3%
Property Manager – Threadneedle	Quarterly	+1%	n/a
Currency Manager – FX Concepts	Monthly	+12%	12-14%
GTAA Manager – BGI	Monthly	+15%	14-16%

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

4.7 The Statement of Investment Principles can be found on the Pension Fund website www.yourpension.org/hackney or alternatively a copy can be obtained from the Treasury & Pensions Department, Keltan House, 89-115 Mare Street, London E8 4RU. Any subsequent amendments following reviews will be incorporated into the website as soon as possible. Hard copies of the document will be available from the Treasury and Pensions Section, Finance Directorate at Keltan House, 89 – 115 Mare Street, London E8 4RU.

4.8 The Statement of Investment Principles will be reviewed every three years following the triennial valuation or where there are material changes required to be made to the Statement.

5 INVESTMENTS

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

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

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

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

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

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

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

(a) AXA Rosenberg has a quantitative value approach to investing and RCM operates a more qualitative approach with a bias toward growth style companies. Using two managers with diametrically opposed 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.
(b) 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.
(c) F&C will manage a bond portfolio on an active basis, including corporate and overseas bonds.
(d) Threadneedle will manage the Fund's property exposure on an active basis through a pooled fund arrangement.
(e) FX Concepts is an active currency manager with the Pension Fund invested through a pooled investment vehicle.
(f) BGI is an active GTAA manager with the Pension Fund invested through a pooled investment vehicle.

6 SOCIALLY RESPONSIBLE INVESTMENTS

6.1The Pension Sub-Committee acting in their role as quasi Trustees have carefully considered socially responsible investment in the context of their legal and fiduciary duties and obligations.

6.2 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.

6.3 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.

6.4However, the Pension Sub-Committee takes the view that companies that operate socially responsible policies and attempt to find environmentally sustainable ways of meeting customers' needs, will tend to have a more secure future than those that do not. The Committee therefore encourages its active equity investment managers to take a positive view of such companies where their performance on other criteria is similar to that of other comparable companies.

7 VOTING RIGHTS

7.1 The Pensions Sub-Committee's policy on corporate governance and proxy voting policy is set out in Appendix 1 to this Statement. Individual investment managers will comply as far as possible with the fund's voting policies.

8 COMPLIANCE

8.1 In accordance with regulation 9A(3A) of the LGPS (Management and Investment of Funds) Regulations 1998, as amended by S.I. 2002/1852, the Council is required to state the extent to which it complies with the ten principles of investment practice issued by the Government in October 2001 in response to the recommendations of the Review of Institutional Investment in the UK undertaken by Paul Myners. This statement is attached as Appendix 2 to this Statement.

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

APPENDIX 1

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 where justified by the remuneration committee; and
- Fixed contracts up to two years in length with subsequent reductions to 12 month rolling periods.

We will normally vote against:

- Contracts whose terms lie outside any of the above.

Long- term incentive plans

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

We will support long-term incentive plans which;

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

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

Political donations

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

Take over bids

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

Implementation

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

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

The Director of Finance and Resources gives instructions to the Fund managers to vote our shares in accordance with this policy. In addition to our own records, we ask our

Fund managers to keep a record of all votes cast so that we may, if required, inspect them for compliance purposes.

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

Benefits

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

APPENDIX 2

Compliance Checklist

The LGPS (Management and Investment of Funds) (Amendment) Regulations 2002 require authorities to state the extent to which they comply with the ten principles of investment practice set out in the publication "CIPFA Pensions Panel Principles for Investment Decision Making in the Local Government Pension Scheme in the UK" and give reasons for not complying where they do not do so.

The London Borough of Hackney complies as follows:

Compliance Requirement	***Compliant Yes/No***	***Notes***
Effective Decision Making		
Are decision makers defined?	Yes	
Are Members sufficiently skilled?	Yes	Members have completed trustee training
Is appropriate training being provided?	Yes	Education and training is provided at the point of need.
Is in-house staffing support sufficient?	Yes	
Is there an established investment committee with appropriate terms of reference?	Yes	Pension Sub-Committee
Is there a business plan?	Yes	Business plan is set out for the Sub – Committee

Compliance Requirement	Compliant Yes/No	Notes
Clear Objectives		
Are overall investment objectives specific only to the Fund's liabilities?	Yes	They also take into account the requirement to maintain a low cost over the long term.
Are parameters determined for employer contributions?	Yes	
Are attitudes to risk and limits specified?	Yes	
Are performance expectations and timing of evaluation specified?	Yes	
Has a liability related benchmark been set?	Yes	A specific benchmark relating to the liabilities of the fund is in use. A peer group benchmark is used for comparison purposes only
Asset Allocation		
Is priority given to strategic asset allocation decisions?	Yes	
Have all asset classes permitted within investment regulations been considered?	Yes	
Is asset allocation compatible with liabilities and diversification requirements?	Yes	
Expert Advice		
Are separate contracts in place for actuarial services and investment advice?	Yes	Separate contracts are in place for each service.
Are the terms of reference specified?	Yes	
Is the role of the S.151 Officer specified in relation to advisers?	Yes	
Are tender procedures followed without cost constraint factors?	Yes	

Compliance Requirement	Compliant Yes/No	Notes
Explicit Mandates		
Is a written mandate included in the management contract containing elements specified?	Yes	
Are constraints on the types of investments in line with regulations?	Yes	
Is soft commission discontinued?	Yes	
Activism		
Have the US Principles on Activism been incorporated in mandates?	Yes	The Fund has developed a proxy voting policy and instructs its managers to comply with it.
Have external voting agencies been engaged.	No	The Council's policy is stated in the SIP and communicated to its external investment managers who vote on behalf of the Council on its investments, with voting policies monitored by the Pensions Sub-Committee.
Have manager strategies on shareholder activism been reviewed?	Yes	Manager strategies on shareholder activism were assessed at the time of appointment and are kept under review.
Have means been established to measure effectiveness.	No	The Pensions Sub-Committee believes that shareholder participation has a positive impact on the management of companies. However measuring effectiveness is a developing area and there is insufficient information to compare the effect of policies currently.
Appropriate Benchmarks		
Have benchmarks been considered?	Yes	]
Are the limits on divergence from the index relevant?	Yes	Limits on divergence from the respective indices are reviewed by the Pension Sub-Committee
Was active or passive management considered/	Yes	Both methods are employed in the management of the Fund.
Do targets and risk controls reflect performance expectations?	Yes	

Compliance Requirement	Compliant	Notes

	Yes/No	
Performance Measurement		
Is a structure for regular monitoring in operation?	Yes	Independent performance measurement of the investment managers by the WM company is in place and reported quarterly to the Sub-Committee.
Are arrangements in place to assess procedures and decisions of members?	Yes	The Pension Sub Committee reports its decisions and actions, where relevant, to the Cabinet and thereafter to Council and is therefore subject to Scrutiny by all Council Members.
Are similar arrangements in place for advisers and managers?	No	Performance of the investment managers in monitored as outlined above.
Transparency		
Is the SIP updated as specified?	Yes	Date of last revision June 2008
Was consultation taken on amendments?	Yes	Consultation with Fund advisors, Investment Managers and employers in the Fund
Have changes been notified to Stakeholders?	Yes	A copy of the SIP can be accessed on the Pension website www.yourpension.org.uk/hackney
Regular Reporting		
Are changes to the SIP published and its availability made known?	Yes	Through the Pension Fund Report and Accounts and through the Annual Report to Scheme Members with updated versions maintained on the website
Is monitoring information identified and reported.	Yes	Monitoring information is included in the Annual Report to Scheme Members and is available on the Council website www.hackney.gov.uk in the form of published minutes from the Pension Sub-Committee meetings.
Are scheme members informed of key monitoring data and compliance with principles?	Yes	Monitoring data through the Pension Sub-Committee minutes on the Council website and compliance through the SIP itself.

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.

FUNDING STRATEGY STATEMENT

(Approved by the Pensions Sub-Committee Meeting 22nd March 2005)

1. Introduction

This is the Funding Strategy Statement (FSS) of the London Borough of Hackney Pension Fund "the Fund"), which is administered by the London Borough of Hackney ("the Administering Authority").

It has been prepared by the Administering Authority in collaboration with the Fund's actuary, Douglas Anderson of Hymans Robertson and after consultation with the Fund's employers and investment adviser and is effective from 31 March 2005.

1.1 Regulatory Framework

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

The FSS forms part of a framework which includes:

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

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

1.2 Reviews of FSS

The FSS is reviewed in detail at least every three years ahead of triennial valuations being carried out, with the next full review due to be completed by 31 March 2008. More frequently, Annex A is updated to reflect any changes to employers.

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

2. Purpose

2.1 Purpose of FSS

The Office of the Deputy Prime Minister (ODPM) 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.
This statement sets out how the Administering Authority has balanced the conflicting aims of affordability of contributions, transparency of processes, stability of employers' contributions, and prudence in the funding basis.

2.2 Purpose of the Fund

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

- receives contributions, transfer payments and investment income;

- pays scheme benefits, transfer values and administration costs.

One of the objectives of a funded scheme is to reduce the variability of pension costs over time for employers compared with an unfunded (pay-as-you-go) alternative.
The roles and responsibilities of the key parties involved in the management of the pension scheme are summarised in Annex B.

2.3 Aims of the Funding Policy

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

- to ensure the long-term solvency of the Fund;

- to ensure that sufficient funds are available to meet all benefits as they fall due for payment;

- not to restrain unnecessarily the investment strategy of the Fund so that the Administering Authority can seek to maximise investment returns (and hence minimise the cost of the benefits) for an appropriate level of risk;

- to help employers recognise and manage pension liabilities as they accrue;

- to minimise the degree of short-term change in the level of each employer's contributions where the Administering Authority considers it reasonable to do so;

- to use reasonable measures to reduce the risk to other employers and ultimately to the Council Tax payer from an employer defaulting on its pension obligations; and

- to address the different characteristics of the disparate employers or groups of employers to the extent that this is practical and cost-effective.

3. Solvency Issues and Target Funding Levels

3.1 Derivation of Employer Contributions

Employer contributions are normally made up of two elements:

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

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

The Fund's actuary is required by the regulations to report the *Common Contribution Rate*[1], for all employers collectively at each triennial valuation. It combines items (a) and (b) and is expressed as a percentage of pay. For the purpose of calculating the Common Contribution Rate, the surplus or deficit under (b) is currently spread over a period of 14 years.

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

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

Annex A contains a breakdown of each employer's contributions following the 2004 valuation for the financial years 2005/06, 2006/07 and 2007/08. It includes a reconciliation of each employer's rate with the *Common Contribution Rate*. It also identifies which employers' contributions have been pooled with others.

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

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

[1] See Regulation 77(4)
[2] See Regulation 77(6)

Hackney

3.2 Solvency and Target Funding Levels

The Fund's actuary is required to report on the "solvency" of the whole fund at least every three years.
'Solvency" for ongoing employers is defined to be the ratio of the market value of assets to the value placed on accrued benefits on the Fund actuary's *ongoing funding basis*. This quantity is known as a funding level.
The ongoing funding basis is that used for each triennial valuation and the Fund actuary agrees the financial and demographic assumptions to be used for each such valuation with the administering authority.
The fund operates the same target funding level for all ongoing employers of 100% of its accrued liabilities valued on the ongoing basis. Please refer to paragraph 3.8 for the treatment of departing employers.

3.3 Ongoing Funding Basis

The demographic assumptions are intended to be best estimates of future experience in the Fund. They vary by type of member reflecting the different profile of employers.

The key financial assumption is the anticipated return on the Fund's investments. The investment return assumption makes allowance for anticipated returns from equities in excess of bonds. There is, however, no guarantee that equities will out-perform bonds. 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.
It is therefore normally appropriate to restrict the degree of change to employers' contributions at triennial valuation dates.
Given the long-term nature of the liabilities, a long term view of prospective returns from equities is taken. For the 2004 valuation, it is assumed that the Fund's equity investments will deliver an average additional return of 2% a year in excess of the return available from investing in index-linked government bonds at the time of the valuation.
The same financial assumptions are adopted for all ongoing employers.

3.4 Future Service Contribution Rates

The future service element of the employer contribution rate is calculated on the ongoing valuation basis, with the aim of ensuring that there are sufficient assets built up to meet future benefit payments in respect of future service. The approach used to calculate each employer's future service contribution rate depends on whether or not new entrants are being admitted. Employers should note that it is only Admission Bodies that may have the power not to admit automatically all eligible new staff to the Fund, depending on the terms of their Admission Agreements and employment contracts.

3.4.1 Employers that admit new entrants

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

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

3.4.2 Employers that do not admit new entrants

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

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

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

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

3.5 Adjustments for Individual Employers

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

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

- past contributions relative to the cost of accruals of benefits;
- different liability profiles of employers (e.g. mix of members by age, gender, manual/non manual);
- the effect of any differences in the valuation bases that that used last time 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 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 as no contributions towards these have been made.

over the period between each triennial valuation.
Actual investment returns achieved on the Fund between each valuation are applied proportionately across all employers. Transfers of liabilities between employers within the Fund occur automatically within this process, with a sum broadly equivalent to the reserve required on the ongoing basis being exchanged between the two employers.
The Fund actuary does not allow for certain relatively minor events occurring in the period since the last formal valuation [where Hymans Robertson calculates asset shares – see section 3.6 below], including, but not limited to:

- the actual timing of employer contributions within any financial year;

- the effect of the premature payment of any deferred pensions on grounds of incapacity.

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

3.6 Asset Share Calculations for Individual Employers

The Fund's actuary is required to apportion the assets of the whole fund between the employers at each triennial valuation using 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 methodology adopted means that there will inevitably be some difference between the asset shares calculated for individual employers and those that would have resulted had they participated in their own ring-fenced section of the Fund. The asset apportionment is capable of verification but not to audit standard.
The Administering Authority recognises the limitations in the process, but having regard to the extra administration cost of building in new protections, it considers that the Fund actuary's approach addresses the risks of employer cross-subsidisation to an acceptable degree.

3.7 Stability of Employer Contributions

3.7.1 Deficit Recovery Periods

The Administering Authority instructs the actuary to adopt specific deficit recovery periods for all employers when calculating their contributions.
The Administering Authority normally targets the recovery of any deficit over a period not exceeding 14 years. However, these are subject to the maximum lengths set out in the table below.

Type of Employer	***Maximum* Length of Deficit Recovery Period**
Statutory bodies with tax	a period to be agreed with each employer

raising powers	not exceeding 14 years
Community Admission Bodies with funding guarantees	a period to be agreed with each employer not exceeding 14 years
Best Value Admission Bodies	the period from the start of the revised contributions to the end of the employer's contract
Community Admission Bodies that are closed to new entrants e.g. Bus Companies, whose admission agreements continue after last active member retires	a period equivalent to the expected future working lifetime of the remaining scheme members.
All other types of employer	a period equivalent to the expected future working lifetime of the remaining scheme members

This *maximum* period is used in calculating each employer's *minimum* contributions. Employers may opt to pay higher regular contributions than these minimum rates.
The deficit recovery period starts at the commencement of the revised contribution rate (1 April 2005 for 2004 valuation). The Administering Authority would normally expect the same period to be used at successive triennial valuations, but would reserve the right to propose alternative spreading periods, for example to improve the stability of contributions.

3.7.2 Surplus Spreading Periods

Any employers deemed to be in surplus may be permitted to reduce their contributions below the cost of accruing benefits, by spreading the surplus element over the maximum periods shown above for deficits in calculating their **minimum** contributions.
However, to help meet the stability requirement, employers may prefer not to take such reductions.

3.7.3 Phasing in of Contribution Rises

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

- for employers contributing at or above its future service rate in 2004/05, phasing in the rise in employer contributions over a period of three years;

- for employers contributing at less than its future service rate in 2004/05, phasing in the rise in contribution rises over a period of three years.

3.7.4 Phasing in of Contribution Reductions

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

3.7.5 The Effect of Opting for Longer Spreading or Phasing-In

Employers which are permitted and elect to use a longer deficit spreading period than was used at the 2001 valuation or to phase-in contribution changes will be assumed to incur a greater loss of investment returns on the deficit by opting to defer repayment. Thus, deferring paying contributions will lead to higher contributions in the long-term.
However any adjustment is expressed for different employers the overriding principle is that the discounted value of the contribution adjustment adopted for each employer will be equivalent to the employer's deficit.

3.8 Admission Bodies ceasing

Admission Agreements for Best Value contractors are assumed to expire at the end of the contract.
Admission Agreements for other employers are generally assumed to be open-ended and to continue until the last pensioner dies. Contributions, expressed as capital payments, can continue to be levied after all the employees have retired. These Admission Agreements can however be terminated at any point.
If an Admission Body's admission agreement is terminated, the Administering Authority instructs the Fund actuary to carry out a special valuation to determine whether there is any deficit.
The assumptions adopted to value the departing employer's liabilities for this valuation will depend upon the circumstances. For example:

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

(b) For non Best Value Admission Bodies that elect to voluntarily terminate their participation, the Administering Authority must look to protect the interests of other ongoing employers and will require the actuary to adopt valuation assumptions which, to the extent reasonably practicable, protect the other employers from the likelihood of any material loss emerging in future. This could give rise to significant payments being required.

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

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

3.9 Early Retirement Costs

3.9.1 Non Ill Health retirements

The actuary's funding basis makes no allowance for premature retirement except on grounds of ill-health. Employers are required to pay additional contributions wherever an employee retires before attaining the age at which the valuation assumes that benefits are payable. The current costs of these are specified in early retirement factors supplied by the actuary to The London Borough of Hackney.

It is assumed that members' benefits on age retirement are payable from the earliest age that the employee could retire without incurring a reduction to their benefit and without requiring their employer's consent to retire.

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

4. Links to Investment Strategy

Funding and investment strategy are inextricably linked. Investment strategy is set by the administering authority, after consultation with the employers and after taking investment advice.

4.1 Investment Strategy

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

The investment strategy is set for the long-term, but is reviewed from time to time, normally every three years, to ensure that it remains appropriate to the Fund's liability profile. The Administering Authority has adopted a benchmark, which sets the proportion of assets to be invested in key asset classes such as equities, bonds and property. As at 31 March 2004, the proportion held in equities and property was 80% of the total Fund assets.

The investment strategy of lowest risk – but not necessarily the most cost-effective in the long-term – would be 100% investment in index-linked government bonds.

The Fund's benchmark includes a significant holding in equities in the pursuit of long-term higher returns than from index-linked bonds. The Administering Authority's strategy recognises that pension scheme liabilities are, for the majority of employers, long term in nature and the Administering Authority also recognises the strength of most employers' covenants.

The same investment strategy is currently followed for all employers. The Administering Authority does not currently have the facility to operate different investment strategies for different employers.

4.2 Consistency with Funding Basis

The Fund's investment adviser's current *best estimate* of the long-term return from equities is around 3% a year in excess of the return available from investing in index-linked government bonds.

In order to reduce the volatility of employers' contributions, the funding policy currently anticipates returns of 2% a year, that is 1% a year less than the *best estimate* return.

The anticipated future returns from equities used to place a value on employers' liabilities only relate to the part of the Fund's assets invested in equities (or equity type investments), which is currently assumed to be around 75% of all the Fund's assets.

Non equity assets invested in bonds and cash are assumed to deliver long-term returns of 0.25%pa more than the prevailing redemption yield on Government bonds.

In this way, the employer contributions anticipate returns from Fund assets which in the Fund actuary's opinion there is a better than 50:50 chance of delivering over the long-term (measured over periods in excess of 20 years).

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 5 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.

4.3 Balance between risk and reward

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

Enabling different investment strategies for individual will require investment in new systems and higher ongoing costs which would have to be borne by the employers. The potential benefits of multiple investment strategies need to be assessed against the costs.

4.4 Intervaluation Monitoring of Funding Position

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

5. Key Risks & Controls

5.1 Types of Risk

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

- financial;

- demographic;
- regulatory; and
- governance.

5.2 Financial Risks

Risk	Summary of Control Mechanisms
Fund assets fail to deliver returns in line with the anticipated returns underpinning valuation of liabilities over the long-term	*Only anticipate long-term return on a relatively prudent basis to reduce risk of under-performing.* *Analyse progress at three yearly valuations for all employers.* *Inter-valuation roll-forward of liabilities between formal valuations at an individual employer level, provided on an annual basis*
Inappropriate long-term investment strategy	*Set Fund-specific benchmark, informed by any Asset-Liability modelling of liabilities undertaken.* *Consider measuring performance and setting managers' targets relative to bond based target or absolute returns and not relative to indices.*
Fall in risk-free returns on Government bonds, leading to rise in value placed on liabilities	*Inter-valuation monitoring, as above.* *Some investment in bonds helps to mitigate this risk.*
Active investment manager under-performance relative to benchmark	*Short term (quarterly) investment monitoring analyses market performance and active managers relative to their index benchmark.*
Pay and price inflation significantly more than anticipated	*The focus of the actuarial valuation process is on real returns on assets, net of price and pay increases.* *Inter-valuation monitoring, as above, gives early warning.* *Some investment in bonds also helps to mitigate this risk.* *Employers pay for their own salary awards and are reminded of the geared effect on pension liabilities of any bias in pensionable pay rises towards longer-serving employees.*

Effect of possible increase in employer's contribution rate on service delivery and admission/scheduled bodies	*Seek feedback from employers on scope to absorb short-term contribution rises. Mitigate impact through deficit spreading and phasing in of contribution rises. Consult employers on possibility of paying more (extra administration and higher regular contributions) to enable employer-specific investment strategies to give greater certainty of cost.*

5.3 Demographic Risks

Risk	Summary of Control Mechanisms
Pensioners living longer.	*Set mortality assumptions with some allowance for future increases in life expectancy.* *Fund actuary monitors combined experience of around 50 funds to look for early warnings of lower pension amounts ceasing than assumed in funding.* *Administering Authority encourage any employers concerned at costs to promote later retirement culture. Each 1 year rise in the average age at retirement would save roughly 5% of pension costs.*
Deteriorating patterns of early retirements	*Employers are charged the extra capital cost of non ill health retirements following each individual decision.* *Employer ill health retirement experience is monitored.*

5.4 Regulatory

Risk	Summary of Control Mechanisms
Changes to regulations, e.g. more favourable benefits package, potential new entrants to scheme, e.g. part-time employees	*The Administering Authority is alert to the potential creation of additional liabilities and administrative difficulties for employers and itself.* *It considers all consultation papers issued by the ODPM and comments where appropriate.* *The Administering Authority will consult employers where it considers that it is appropriate.* *Copies of all submissions are available for employers to see at www.inlandrevenue.gov.uk.*
Changes to national pension requirements and/or Inland Revenue rules e.g. effect of abolition of earnings cap for post 1989 entrants from April 2006	

5.5 Governance

Risk	Summary of Control Mechanisms
Administering Authority unaware of structural changes in an employer's membership (e.g. large fall in employee members, large number of retirements). Administering Authority not advised of an employer closing to new entrants.	*The Administering Authority monitors membership movements on a quarterly basis, via a report from the administrator at quarterly meetings.* *The Actuary may be instructed to consider revising the rates and Adjustments certificate to increase an employer's contributions (under Regulation 78) between triennial valuations* *Deficit contributions are expressed as monetary amounts (see Annex A).*
Administering Authority failing to commission the Fund Actuary to carry out a termination valuation for a departing Admission Body and losing the opportunity to call in a debt.	*In addition to the Administering Authority monitoring membership movements on a quarterly basis, it requires employers with Best Value contractors to inform it of forthcoming changes.* *It also operates a diary system to alert it to the forthcoming termination of Best Value Admission Agreements.*
An employer ceasing to exist with insufficient funding or adequacy of a bond.	The Administering Authority believes that it would normally be too late to address the position if it was left to the time of departure. The risk is mitigated by: • *Seeking a funding guarantee from another scheme employer, or external body, where-ever possible.* • *Alerting the prospective employer to its obligations and encouraging it to take independent actuarial advice.* • *Vetting prospective employers before admission.* • *Setting a minimum limit of 5 employees for prospective employers.* • *Where permitted under the regulations requiring a bond to protect the scheme from the extra cost of early retirements on redundancy if the employer failed.* • *Offering lower risk investment strategies – with higher employer contributions - for Best Value*

	Admission Bodies to reduce the risk of volatile contributions and a significant debt crystallising on termination.

Annex A – Employers' Contributions, Spreading and Phasing Periods

Following the 2004 valuation, the minimum employer contributions shown in the Rates and Adjustment certificate attached to the 2004 valuation report are based on the deficit recovery periods and phasing periods shown in the table below. The table also shows the individual adjustments under Regulation 77(6) to each employer's contributions from the 'Common Contribution Rate'.

	Employer	Minimum Contribution for the Year ending 31 March 2006	31 March 2007	31 March 2008	Additional monetary payments	Spreading Period (years)
350	London Borough of Hackney	11.9% plus £19.2m	11.9% plus £20.0m	11.9% plus £21.8m		14.00
351	Renaisi	9.8%	9.8%	9.8%		9.00
353	Kingsmead Homes Ltd	14.9%	19.2%	23.5%		13.00
354	Northgate Information Solutions UK Ltd	16.5%	-	-	£27.8k per month until December 2005	0.73
357	Hoxton Biblio-tech	12.7%	16.4%	20.0%		0.92
358	Clapton Community Housing Trust	17.6%	22.2%	26.7%		5.00
359	The Learning Trust	12.4%	12.4%	12.3%		7.33
360	The 6th Form College Brooke House	11.2%	11.4%	11.6%		14.00
361	Hanover Housing Association	14.8%	14.5%	14.3%		8.00
362	Wetton Cleaning Services Limited LBH Kingsland Estate Cleaners	14.2%	15.6%	17.1%		3.46
363	Wetton Cleaning Services Limited LBH Clapton Estate Cleaners	18.2%	16.8%	15.5%		4.56
365	Dolce Limited	18.6%	16.5%	14.3%		7.00
366	Shoreditch Trust	9.7%	9.7%	9.7%		9.00

Annex B – Responsibilities of Key Parties

The Administering Authority should:-

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

The Individual Employer should:-

- deduct contributions from employees' pay correctly;
- pay all contributions, including their own as determined by the actuary, promptly by the due date;
- exercise discretions within the regulatory framework;
- make additional contributions in accordance with agreed arrangements in respect of, for example, augmentation of scheme benefits, early retirement strain; and
- notify the administering authorities promptly of all changes to membership or, as may be proposed, which affect future funding.

The Fund actuary should:-

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

LONDON BOROUGH OF HACKNEY

PENSION FUND

GOVERNANCE POLICY AND COMPLIANCE STATEMENT

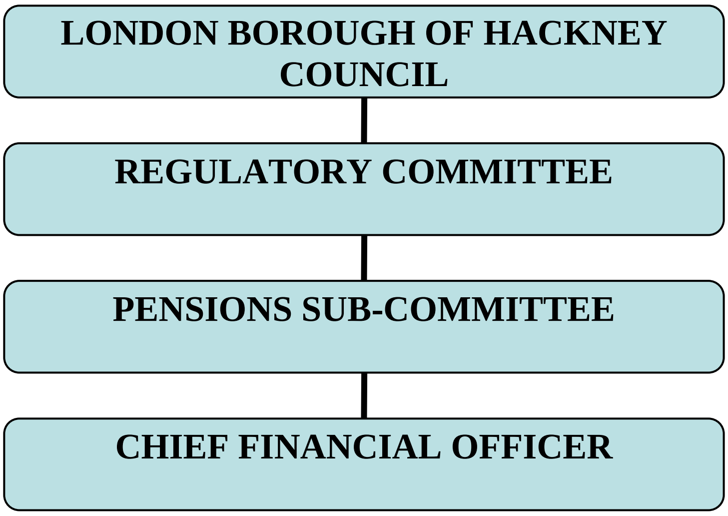
GOVERNANCE STATEMENT – ADMINISTERING AUTHORITY

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 5th September 2007 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 September 2007:

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 seven elected Members on a politically proportionate basis who will elect a Chairman and Vice Chairman. 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. Co-opted members are appointed annually and a small allowance will be paid for attending meetings. 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 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, 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.

Meetings

The Pensions Sub-Committee shall meet at least four times a year in the ordinary course of business and additional meetings 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 independent 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.

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 will delegate aspects of the role to other officers of the Council including the Assistant Director, Financial Management and the Head of Treasury & Pensions 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 www.yourpension.gov.uk\hackney or by emailing the Treasury & Pensions 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 1998 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 10 CIPFA principles of investment practice.

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 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 Regulatory 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. 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.

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.

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 both administrative procedures for the Pension Fund has been distributed to employers within the Fund following consultation. This represents part of the process for ensuring the ongoing management of the Fund 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
Treasury & Pensions Department
Finance Directorate
Keltan House
89-115 Mare Street
London
E8 4RU

Telephone: 020 8356 2646

Fax: 020 8356 3035

Email: pensions@hackney.gov.uk

Website: www.yourpension.org.uk\hackney

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

GOVERNANCE BEST PRACTICE – COMPLIANCE STATEMENT

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 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. *Partially Compliant – Employer and Scheme member representatives are being appointed to the Pension Sub-Committee and will be in place by 31st December 2008.*

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 :-

Partial Compliance as at 9th September 2008 for employer and scheme member representatives but measures in place to ensure compliance by 31st December 2008.

Decision taken by Committee not to hold a secondary committee, employer and scheme member representatives to participate at main Committee.

Representation

a) That all key stakeholders are afforded the opportunity to be represented. within the main or secondary committee structure. These include :-

i) employing authorities (including non-scheme employers, eg, admitted bodies);
ii) scheme members (including deferred and pensioner scheme members),
iii) where appropriate, independent professional observers, and
iv) expert advisors (on an ad-hoc basis).

Fully Compliant – (i) Employing authorities are represented by an employer representative with responsibility for representing the interests of all employers participating in the Fund. (ii) Scheme members are represented by an individual with responsibility for representing the interest of all Scheme members. (iii) At this stage the Pensions Sub-Committee has been determined that there is no requirement for an independent professional observer. (iv) Expert advisers – investment consultant participates at all meetings of the Committee, where necessary other expert advisors are invited to attend as and when required.

b) That where lay members sit on a main or secondary committee, they are treated equally in terms of access to papers and meetings, training and are given full opportunity to contribute to the decision making process, with or without voting rights. *Fully Compliant – All members are sent Committee papers ahead of meetings, are invited to training and are able to fully contribute to the decision making process.*

	Not Compliant*				Fully Compliant
a)				✓	
b)					✓

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

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

(i) & (ii)Co-opted members of the Pensions Sub-Committee have been charged with representing the interests of the groups that they have been co-opted onto the Committee for.

Selection and role of lay members

a) That committee or panel members are made fully aware of the status, role and function they are required to perform on either a main or secondary committee. *Fully Compliant – see Governance Policy*

b) That at the start of any meeting, committee members are invited to declare any financial or pecuniary interest related to specific matters on the agenda. *Fully Compliant – Members of the Committee declare interests at the start of each meeting.*

	Not Compliant*				Fully Compliant
a)					✓
b)					✓

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

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

Voting

a) The policy of individual administering authorities on voting rights is clear and transparent, including the justification for not extending voting rights to each body or group represented on main LGPS committees. *Fully Compliant – See Governance Statement*

	Not Compliant*				Fully Compliant
a)					✓

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

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

Training/Facility time/Expenses

a) That in relation to the way in which statutory and related decisions are taken by the administering authority, there is a clear policy on training, facility time and reimbursement of expenses in respect of members involved in the decision-making process. *Fully Compliant*

b) That where such a policy exists, it applies equally to all members of committees, sub-committees, advisory panels or any other form of secondary forum. *Fully Compliant*

c) That the administering authority considers the adoption of annual training plans for committee members and maintains a log of all such training undertaken. *Fully Compliant*

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

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

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

Meetings (frequency/quorum)

a) That an administering authority's main committee or committees meet at least quarterly. *Fully Compliant*

b) That an administering authority's secondary committee or panel meet at least twice a year and is synchronised with the dates when the main committee sits. *Fully Compliant – only main Committee*

c) That an administering authority who does not include lay members in their formal governance arrangements, must provide a forum outside of those arrangements by which the interests of key stakeholders can be represented. *Partial compliance – representation by lay members has been agreed and representatives will be in place by 31st December 2008.*

	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 :- Partial Compliance as at 9th September 2008 for employer and scheme member representatives but measures in place to ensure compliance by 31st December 2008.

Access

a) That subject to any rules in the councils 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 Report & Accounts and on website www.yourpension.gov.uk\hackney*

	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 :-

COMMUNICATIONS STATEMENT

This document sets out the Communications Policy of the Administering Authority of the London Borough of Hackney Pension Fund as required under the Local Government Pension Scheme Regulations 1997 as amended 14th December 2005 under Statutory Instrument number 3199.

Objectives

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

- **Scheme Members** - All members (including active, deferred and pensioner members of the Scheme) of the Scheme will be kept informed about their benefits, developments in the Scheme and any changes to the scheme of a regulatory or operational nature. This includes consultation with representative groups as required.
- **Prospective Scheme Members** –We will make information available to all prospective scheme members by making information available to new employees and prospective employees. We will also provide information to those employees who may choose not to join the scheme at the start of their employment or who choose to opt out of the scheme during employment, thereby ensuring that individuals are making an informed decision before opting out of the scheme
- **Scheme Employers** – We will keep employers in the Pension Fund informed about developments in the Scheme and consulted on changes to the Scheme as required. Potential scheme employers will also have access to information about the Pension Fund to ensure that they are fully informed in their relationship with the Council.
- **Council Members** – Information will be provided to Council Members in order for them to be able to fulfil their duties under the role of administering authority.
- **Pension Scheme Administrators** – The Fund's administrators will assist with the overall administration of the scheme to ensure the smooth operation of the administrative function.
- **Other Stakeholders** – There are a number of other interested parties with whom we will communicate on a regular basis, this includes the Office of the Deputy Prime Minister (ODPM), Her Majesty's Revenue and Customs, the Pensions Advisory Service and other pension providers.
- **Requests for Information** - Requests for information either under the Freedom of Information Act or otherwise be dealt with as openly and swiftly as allowed providing that such information does not breach confidentiality.

Communications Methodology

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

- **Newsletters** – These will be sent to scheme members to communicate changes in regulations, developments in the fund and to inform members of changes in policy. The exact timing and nature of these newsletters will vary depending on what developments are taking place. However if there are regulatory changes which are likely to impact on individuals benefits or scheme membership in any significant way, then newsletters will be sent to members in sufficient time for them to be able to act upon that information. An annual accounts newsletter is sent to all scheme members providing information on the state of the fund, performance of the fund and any major changes which have taken place during the year.
- **Scheme Guides** – There are scheme guides available for members and potential members setting out the conditions of membership and main scheme benefits that apply under the Local Government Pension Scheme (LGPS). A copy of these will be provided to new employees and prospective members of the scheme and at other times on request. A scheme guide is also available for members who may be leaving the scheme for a variety of reasons such as moving employment, retirement or opting out. These provide information on the options and benefits available when leaving the scheme. The scheme guides also form part of the Pension Fund website which is available for any member or potential member to access.
- **Website** – Communication in the form of a dedicated Pension Fund website is available which contains a wide range of information for not only scheme members but also scheme employers and other interested parties. The website can be accessed via **www.yourpension.org.uk/hackney** . The website contains copies of scheme guides, copies of newsletters and other relevant information pertaining to the LGPS.
- **Annual Benefit Statements** – All scheme members, active and deferred are entitled to an annual benefit statement detailing the benefits that they might expect at normal retirement date (65). These are issued annually and would normally be issued within 8 months of the financial year end (31st March), but ultimately by the end of the following financial year end. These contain vital information for scheme members and enable individuals to make informed choices about their retirement options.
- **Presentations /Meetings** – Whilst it is not always possible for a scheme member to have an individual meeting, general meetings and presentations will be held at intervals to be able to communicate the benefits and options available to scheme members and prospective members.
- **Employer Guide** – This is a guide for scheme employers outlining the details of the scheme and the administrative arrangements for the scheme. This has been distributed to all employers in the scheme and all new employers will receive copies. Training on procedures in relation to the employer guide is also available upon request.
- **Employer Seminars/Meetings** – Seminars/meetings will be held as appropriate to communicate changes in policy within the Scheme or to discuss major issues affecting all employers such as the triennial actuarial review. Individual meetings with separate employers will be held annually or as required. Employers will also

be notified in writing of any changes which affect them or the way that the scheme is administered.

- **Consultations** – There are occasions when the administering authority will consult with interested parties either as a result of potential changes to the regulations governing the LGPS or specific policy changes relating to the London Borough of Hackney Pension Scheme. In these instances the most effective way of communicating with interested parties is to hold a period of consultation when consultees are given the opportunity to respond to specific changes. Interested parties and representative groups will be approached to provide feedback to the policy changes before amendments are enacted.
- **Minority Groups** – It is recognised that there may be occasions when some minority groups may not be able to access all the information available to others. The Pension Fund will try to ensure that information is available to the widest possible audience and as such will try to ensure that minority groups do have access to information. This is however a developing area, but feedback on how to promote better access for all minority groups is welcome.
- **Access to Pensions Sub-Committee** – The Pensions Sub-Committee is the Committee which has delegated power to review, administer and monitor the Pension Fund. The Committee meets six 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 the matter to be discussed. The agenda, reports and minutes of the meetings are available on the Council's website and form part of the communications process and access to information for interested parties.
- **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 Pension Fund issues and the impact that these can have on overall Council policies and procedures.
- **Policy Documents** – These are available for interested parties to access either on the website, in hard copy or electronically on application. Copies of all policy documents are held within the Treasury and Pensions Department, Finance and Resources Directorate.
- **Annual Report and Accounts** – This contains details of the Pension Fund during the financial year, income and expenditure as well as other related details . This is a detailed and lengthy document and will therefore not be routinely distributed except on request. The full document will be published on the website. A summary document as detailed below will be distributed.
- **Pension Fund Report and Accounts Summary** – This provides a summary of the Pension Fund during the financial year and will be distributed annually to scheme members.

Feedback

It is essential that the Fund receives feedback on the services it provides, and that includes the communications that it distributes. 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

Treasury and Pensions Department. Contact details are provided below for the relevant departments.

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

Hackney Pensions Team
London Pension Fund Authority
Dexter House
2 Royal Mint Court
London
EC3N 4LP
Tel: 020 7369 6234
Email: hackney@lpfa.org.uk

For other queries and feedback issues:

Head of Treasury & Pensions
Finance and Resources Directorate
Keltan House
89-115 Mare Street
London
E8 4RU

Review Process

Of necessity the communications policy will be a dynamic policy to take account of the changes taking place in order to be able to determine the most effective way of communicating with all stakeholders and interested parties in the Pension Scheme. The policy will therefore be reviewed on an annual basis to ensure that the forms of communication are most appropriate for the Fund.

Communications need to be open and transparent in order to ensure that the scheme is managed in the most effective and efficient way and feedback will be welcomed in order to be able to improve the way that the Fund communicates.

AUDIT OPINION

The Pension Fund accounts have been audited in accordance with the Audit Commission Act 1998. The formal audit opinion of the Pension Fund audit is included within the London Borough of Hackney's formal Statement of Accounts.

STATEMENT OF RESPONSIBILITES

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 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.

Chief Officer(s) Responsibilities

Each Chief Officer is responsible for:

- maintaining effective financial controls and for securing the accuracy and integrity of financial information and systems operating within their department;
- complying with any procedural instructions issued by the Director of Finance and Resources;

Responsibilities of the Director of Finance and Resources

The 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 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 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 76 to 84 present fairly the Net Assets of the London Borough of Hackney's Pension Fund as at 31st March 2008 and its Income and Expenditure for the year then ended.

Tim Hannam CPFA
Interim Director of Finance and Resources

STATEMENT OF ACCOUNTS

The Pension Fund Account

2006/07 £000		Note	2007/08 £000	2007/08 £000
	Dealings with members, employers and others directly involved in the scheme			
	Contributions receivable from employers	3		
(20,497)	Normal		(22,485)	
0	Special		0	
(18,100)	Deficit Funding		(18,800)	(41,285)
	Contributions receivable from members	3		
(7,045)	Normal			(7,728)
	Transfers in			
(33)	Group transfers in from other schemes and scheme mergers		0	
(6,422)	Individual transfers in from other schemes		(6,681)	(6,681)
	Other income			
0	Claims on term insurance policies		0	
0	Other income		0	0
	Benefits payable	4		
25,982	Pensions		27,404	
2,346	Commutation of pensions and lump sum retirement benefits		4,496	
0	Purchased annuities		0	
252	Lump sum death benefits		196	32,096
	Payments to and on account of leavers			
14	Refunds of contributions		4	
20	State scheme premiums		(28)	
0	Purchased annuities		0	
626	Group transfers out to other schemes		0	
5,860	Individual transfers out to other schemes	5	6,100	6,076
812	Administrative expenses borne by the scheme	6		810
(16,185)	**Net (additions)/withdrawals from dealings with members**			(16,712)
	Returns on investments			
	Investment income			
(1,778)	Interest from fixed interest securities		(6,682)	
(12,771)	Dividends from equities		(10,606)	
(286)	Income from index-linked securities		(176)	
0	Income from pooled investment vehicles		0	
(1)	Net rents from properties		(1)	
(735)	Interest on cash deposits		(835)	
0	Share of profit/losses of associates and joint ventures		0	
(9)	Other investment income		(6)	
(40,487)	Change in market value of investments	7	42,800	
0	Taxation		0	
2,124	Investment management expenses		2,199	
(53,943)	Net returns on investments			26,693
(70,128)	**Net (increase)/decrease in the fund during the year**			9,981
(615,763)	Add: Opening net assets of the scheme			(685,891)
(685,891)	**Closing net assets of the scheme**			(675,910)

Hackney

The Net Assets Statement

2006/07 £000		Note	2007/08 £000	2007/08 £000
	Investment assets			
	Fixed interest securities			
39,906	Public Sector (UK)		32,645	
14,420	Public Sector (overseas)		19,783	
22,901	Other		27,305	79,733
	Equities			
342,577	United Kingdom		318,359	
138,602	Overseas		140,612	458,971
	Index linked securities			
10,458	Public Sector (UK)		11,825	
53	Public Sector (overseas)		3,809	
374	Other		308	15,942
	Pooled investment vehicles			
0	Unit trusts		0	
0	Unitised insurance policies		0	
0	Other managed funds		0	0
	Property			
0	Freehold		0	
91,427	Unit Trusts		83,833	83,833
0	Insurance policies			0
0	Loans			0
7,694	Cash deposits			4,628
46	Other investments			26
3,415	Other investment balances			2,828
671,873	Total Investment assets	8		645,961
0	**Fixed assets**			0
	Borrowings			
0	Sterling		0	
0	Foreign Currency		0	0
	Net current assets and liabilities			
2,666	Contributions due from employer		2,322	
(14)	Unpaid benefits		0	
10,644	Cash balances (not forming part of investment assets)		28,362	
722	Other current assets and liabilities		(735)	
14,018	Total current assets			29,949
685,891				675,910

Hackney

1. Basis of preparation

The financial statements have been prepared in accordance with the accounting recommendations of the Financial Reports of Pension Schemes – a Statement of Recommended Practice. The financial statements summarise the transactions of the Scheme, and deal with net assets at the disposal of the Pensions Sub-Committee. They do not take account of the obligations to pay pensions and benefits which fall due after the end of the Scheme year. The actuarial position of the Scheme, which does take account of such obligations, is dealt with in note 9 of this report, and these financial statements should be read in conjunction with it.

2. Accounting Policies

The London Borough of Hackney Pension Fund is operated under regulations made by the Department for Communities and Local Government (DCLG) under Section 7 of the Superannuation Act 1972. The Pension Fund Accounts have been prepared in accordance with the Code of Practice on Local Authority Accounting in the United Kingdom (ACOP) issued by the Chartered Institute of Public Finance and Accountancy (CIPFA). The Pension Fund statements have been prepared in accordance with the provisions of chapter 2 of the Pensions SORP. The Pension Fund Accounts are not consolidated in the accounts of the Authority. The Pension Fund Accounts have been prepared on an accruals basis, except for transfer values which are accounted for on a cash basis in accordance with ACOP. The Accounts do not take account of pension liabilities, or other liabilities, relating to periods after 31st March 2008.

Investments are shown in the accounts at market values (at the close of business on 31st March 2008) which have been determined as follows.

a) Listed Securities are valued at mid market prices.
b) Unlisted Securities are valued by the respective Fund Managers using the most appropriate financial information.
c) Unit Trusts are valued at the mid point price quoted by their respective Managers, or at the global closing price where there is a single price point.
d) Overseas Investments are valued at their sterling equivalent value at the Balance Sheet date.
e) The fund does not currently hold any direct property holdings and therefore does not employ a separate property valuer at this stage.

3. Contributions Receivable and Transfers In

Employee contributions are prescribed in the Local Government Pension Scheme Regulations 1997. For most employees, the rate is 6% of pensionable pay, although some employees have a lower rate of 5%, if employed before April 1998 in certain occupations.

Employer contributions are determined by the Fund's Actuary on the basis of triennial actuarial valuations of the Fund to take account of the current service cost of future pension liabilities and any deficits in the valuation of the Fund at the valuation date. The employer contribution rate in 2007/08 was 15.3% of pensionable pay plus a lump sum cash payment of £18.8 million.

The number of employees contributing towards the Fund in 2007/08 was 4,977 (4,669 in 2006/07) including employees of external organisations undertaking works or services transferred from the Council, and who were treated as “Admitted Bodies” within the Pension Scheme Regulations. In addition there were five external scheduled bodies. Active members employed by external organisations during 2007/08 were 1,302 (1,174 in 2006/07). The employer contribution rate for admitted bodies and scheduled bodies is set by the Actuary taking into account their respective employee profiles, and the assets and liabilities of those employers.

Contributions for all employers and employees in the Scheme amounted to £49.0 million for 2007/08 (£45.6 million in 2006/07). The contributions received from the respective employers within the Fund and benefits paid are set out below.

2006/07 £000's		2007/08 £000's
	Contributions received	
37,063	LB Hackney	39,288
3,608	Admitted Bodies	3,835
4,971	Scheduled Bodies	5,890
45,642		49,013

Employers in the Fund are set out in the table below:

Employer	**Status**
LBH (Council)	Scheduled
Hackney Homes	Scheduled
The Learning Trust	Admission
Brooke House	Scheduled
Shoreditch Trust	Admission
Hanover Housing	Admission
Mossbourne Academy	Scheduled
Renaisi	Admission
Greenwich Leisure Ltd	Admission
Wetton Cleaning	Admission
Bridge Academy	Scheduled
Petchey Academy	Scheduled
KGB Cleaning (Municipal)	Admission
KGB Cleaning (Schools)	Admission
Kingsmead Homes	Admission
Clapton Community Housing	Admission

In addition to the employer contributions paid as a percentage of annual pensionable pay to the Pension Fund, additional monetary contributions have been paid to reduce the historic service deficit and these amounted to £18.8 million during 2007/08 (£18.1 million in 2006/07).

Group transfers into the Hackney Pension Scheme during 2007/08 were nil (2006/07 – £0.03m).

ACOP requires the analysis of employer and employee contributions to be shown between normal, additional and special contributions. There were no special contributions from either employers or employees during 2007/08 (2006/07 – nil). The analysis of employee contributions between normal and additional is not broken down separately.

4. Benefits Payable

Pensions paid out during the year amounted to £27.4 million (£26.0 million in 2006/07), with lump sum retirement benefits being paid out of £4.5 million (£2.3 million in 2006/07) and lump sum death benefits paid of £0.2 million (£0.3 million in 2006/07). At the end of 2007/08, there were 5,578 persons in receipt of pensions from the Fund (5,827 in 2006/07) including 1,021 (1,160 in 2006/07) who were widow(er)s or dependants of former employees. The respective benefit payments by employer type are set out below:

2006/07 £000's		2007/08 £000's
	Benefits paid	
28,000	LB Hackney	30,101
580	Admitted Bodies	989
0	Scheduled Bodies	1,008
28,580		32,098

5. Payments To and On Account of Leavers

Deferred members of the Pension Fund transferring membership to new employers gave rise to transfer payments out of the Scheme during 2007/08 of £6.1 million (£5.9 million in 2006/07). Group transfers out to other schemes during the year were nil 2007/08 (2006/07 – £0.63 million).

6. Administration Expenses

The costs of investment management and pension administration are charged to the Pension Fund. Investment Management Expenses in 2007/08 were £2.199 million compared to £2.124 million in 2006/07. Administration expenses in 2007/08 were £0.810 million (£0.812 million in 2006/07). An analysis of the breakdown of administrative expenses is shown below:

2006/07 £000's		2007/08 £000's
	Administration Expenses	
280	Finance Department Recharge	327
491	Pension Administration	439
41	Miscellaneous	44
812		810

7. Change in Market Value of Investments

The change in market value of investments during the year comprises all increases and decreases in the market value of investments held at any time during the year including profits and losses on sales of investments during the year.

2006/07 £000's		2007/08 £000's
	Unrealised profits	
(133,197)	Opening balance as at 1st April unrealised (profit)/loss	(138,123)
(138,123)	Closing balance as at 31st March unrealised (profit)/loss	(80,623)
(4,926)	Movement during the year unrealised (profit)/loss	57,500
(35,561)	(Profit)/Loss realised during the year	(14,700)
(40,487)	Net change in market value of investments	42,800

The rate of return on the Fund (capital appreciation/depreciation and investment income) was -3.9% over the financial year ended 31st March 2008.

8. 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; there have been no major asset allocation decisions taken over the year. The breakdown of investments across the various asset classes is shown in the table below.

2006/07 £000's	2006/07 %		2007/08 £000's	2007/08 %
		Investment Asset		
		Fixed Interest Securities (UK)		
39,906	5.94	Government Bonds	32,645	5.05
22,901	3.41	Corporate Bonds	26,469	4.10
		Fixed Interest Securities (Overseas)		
14,420	2.14	Government Bonds	19,783	3.06
-	0.00	Corporate Bonds	836	0.13
		Index Linked Securities (UK)		
10,458	1.56	Government Bonds	11,825	1.83
374	0.05	Corporate Bonds	308	0.05
		Index Linked Securities (Overseas)		
53	0.01	Government Bonds	3,809	0.59
		Equities		
342,577	50.99	United Kingdom	318,359	49.28
138,602	20.63	Overseas	140,612	21.77
		Property		
		Freehold		
91,427	13.61	Unit Trust	83,833	12.98
46	0.01	Unquoted Managed Funds	26	0.00
11,109	1.65	Fund Manager Cash Deposits	7,456	1.15
671,873	100.00		645,961	100.00

9. Fund Management

The Fund's investments are managed by five principal Investment Managers according to defined benchmarks which are set out in the Statement of Investment Principles. See below for breakdown of the investments between the Investment Managers.

2006/07			2007/08	
£000's	%	Investment Manager	£000's	%
172,139	25.62	RCM (Global Equities)	171,025	26.48
178,236	26.53	AXA Rosenberg (Global Equities)	166,283	25.74
138,075	20.55	UBS (Indexed UK Equities)	127,377	19.72
90,269	13.44	F&C (Fixed Interest)	96,140	14.88
91,405	13.61	Threadneedle Property Unit Trust	83,812	12.97
884	0.13	Other Direct Investments	1,068	0.17
94	0.01	Credit Suisse (Direct Property)	93	0.01
771	0.11	London Borough of Hackney	164	0.03
671,873	100.00		645,962	100.00

The value of purchases at cost in 2007/08 was £613.6 million (£358.5 million in 2006/07) and the value of disposals for 2007/08 was £579.9 million (£329.1 million in 2006/07).

10. Actuarial Valuation

The actuarial valuation of the Pension Fund is carried out every three years by an independent actuary appointed by the Fund; the valuation and the contribution rates that applied during the current financial year was undertaken by the Fund actuary Hymans Robertson as at 31st March 2004. 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 Fund's actuary Hymans Robertson used the projected unit method of valuation for the fund as a whole, and for employers who continue to admit new members. For employers who no longer admit new entrants, the attained age method was used. The key financial assumptions adopted by the actuary were as follows:

- Discount Rate – before retirement 6.3% nominal, 3.4% real.
- Discount Rate – after retirement 6.3% nominal, 3.4% real.
- Pay Increases – 4.4% nominal, 1.5% real.
- Price Inflation/Pension Increases – 2.9% nominal, 0% real.

The primary purpose of the valuation is to establish appropriate rates for each employer participating in the Fund, and the rates applied will reflect the experience of each employer during the 3 year intervening period between valuations. The contribution rates for employers paying into the Fund in 2007/08 were determined by the actuary following the valuation carried out as at 31st March 2004. The valuation at that date indicated that the Fund held assets of £427 million but that the anticipated liabilities of the Fund were £668 million, giving rise to a valuation deficit of £241 million, or a funding level equivalent to 64%. Following consultation with the actuary, and targeting a recovery period of 14 years for the Council, an employer contribution rate of 11.9% of pensionable pay was set commencing on 1st April 2005 plus cash lump sum payments of £19.2 million for the financial year to 31st March 2006, £20.9 million for the year ended 31st March 2007, and £21.8 million for the year ended 31st March 2008.

Following the revocation of the '85 year rule in 2005 the actuary undertook an interim valuation of the Fund' to determine the costs to the Fund of the revocation, and to assess the funding level. Following that valuation and subsequent discussions with the actuary, it was agreed by the Pensions Sub-Committee of the Council to increase the contribution rate to 15.3% to better reflect the future service costs of paying for future pensions of current employees. The rate of 15.3% had been applied for the financial year 2007/08, but is effective only for the Council itself. However, to offset this increase, the additional cash lump sum payment was reduced for the financial year 2007/08 to £18.8 million. None of the other employers in the Fund were affected by this change.

The Fund has undergone its triennial valuation as at 31st March 2007 and the results of that valuation can be found on the Pension Fund website www.yourpension.org.uk/hackney or obtained from the Treasury & Pensions Department, Finance and Resources Directorate, Keltan House, 89-115 Mare Street, London, E8 4RU. and will be included within the Annual Report and Accounts. The contribution rates determined by that valuation will be applied from 1st April 2008. The valuation itself showed that the funding level had risen to 78%.

11. Additional Voluntary Contributions (AVCs)

The Fund provides an AVC scheme for its contributors, the assets of which are invested separately from the Fund. Additional voluntary contributions are not included in the Pension Fund Accounts in accordance with regulation 5(2)(c) of the Pension Scheme (Management and Investment of Funds) Regulations 1998. 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. Funds are invested across a range of Funds with the majority of investments being made into a With Profits Cash Accumulation Fund. The total value of sums invested in the AVC funds as at 31st March 2008 was £6.73 million, (2006/07 £6.75 million). Contributions received into the AVC facility during the year amounted to £0.27 million (2006/07 £0.38 million). The efficiency and effectiveness of the provider is monitored on a periodic basis to assess performance.

12. Transactions with Related Parties

The Pension Fund is required to disclose material transactions with related parties – bodies or individuals that have the potential to control or influence the Pension Fund, or to be controlled or influenced by the Pension Fund. Details of the Pension Fund's related party transactions for 2007/08 are as follows:

- Hackney Council Recharge to the Pension Fund included in the Administration costs for £0.33 million (£0.28 million in 2006/07).

- Council Members of the Pensions Sub-Committee - The following Councillors were also members of the Local Government Pension Scheme (LGPS) during the year – Cllr Samantha Lloyd, Cllr Geoff Taylor, Cllr Faizullah Khan, Cllr Matthew Coggins, and Cllr Robert Chapman.
- Cllr Samantha Lloyd is a board member of Hackney Homes Ltd, which was a scheduled body to the pension fund during the financial year 2007/08 and a school governor at Mossbourne Academy which was a scheduled body during the financial year.

13. Statement of Investment Principles

The Pension Fund has a Statement of Investment Principles (SIP) which was last reviewed and consulted upon and was approved by the Pensions Fund Sub-Committee in September 2005. A copy of the SIP is included in this report; alternatively a copy can be found on the pension website www.yourpension.org.uk/hackney or obtained from Treasury and Pensions, Finance and Resources Directorate, Keltan House, 89-115 Mare Street, London, E8 4RU.

The Pension Fund is broadly compliant with the principles laid down by the Myners Report, and is compliant with the ten principles of investment practice set out in the CIPFA pension panel, with the exception of two minor points under Activism: the Fund does not employ an external voting agency and does not believe that there are sufficient means to currently measure the effectiveness of voting activism; also the Fund has yet to comply with the performance measurement for external advisors, other than fund managers.

The new Local Government Pension Scheme (Administration) Regulations 2008 also require the Pension Fund to publish a governance compliance statement in line with guidelines set down by the Communities and Local Government Department. The first such statement is required by 1st August 2008 and the Fund will fulfil this requirement.

14. Post Balance Sheet Events

On 1st April 2008 the following regulations came into effect:

- The Local Government Pension Scheme (Members, Benefits and Contributions) Regulations 2007
- The Local Government Pension Scheme (Administration) Regulations 2008
- The Local Government Pension Scheme (Transitional Provisions) Regulations 2008

Where appropriate changes have been implemented in accordance with the regulations to ensure that the Fund is compliant with the new regulations and measures are being undertaken to ensure compliance where further changes are required. It is not possible at this stage to quantify the impact of these changes on the Pension Fund in financial terms, although the actuarial valuation as at 31st March 2007 setting the contribution rates for the forthcoming year incorporated the changes in particular in relation to the Members, Benefits and Contribution Regulations. It is not, however, possible to fully quantify the effect of these regulations at this time.