



HILLINGDON  
LONDON

A

# Pensions Committee

**Date:** WEDNESDAY, 13 DECEMBER 2023

**Time:** 5.00 PM

**Venue:** COMMITTEE ROOM 5 - CIVIC CENTRE

**Meeting Details:** Members of the Public and Media are welcome to attend.

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## To Members of the Committee:

Stuart Mathers (Chair)  
Tony Burles (Vice-Chair)  
Kaushik Banerjee  
Mohammed Islam  
John Riley

**Published:** Tuesday, 05 December 2023

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# Agenda

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## **PART II - Members Only**

*That the reports in Part 2 of this agenda be declared not for publication because they involve the disclosure of information in accordance with Section 100(A) and Part 1 of Schedule 12 (A) to the Local Government Act 1972 (as amended), in that they contain exempt information and that the public interest in withholding the information outweighs the public interest in disclosing it.*

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# Agenda Item 3

## Minutes

### PENSIONS COMMITTEE

26 September 2023



HILLINGDON  
LONDON

Meeting held at Committee Room 5 - Civic Centre

**Committee Members Present:**  
Councillors Stuart Mathers (Chairman)  
Tony Burles (Vice-Chairman)  
Kaushik Banerjee  
Mohammed Islam

**LBH Officers Present:**  
James Lake, Director of Pensions, Treasury & Statutory Accounts  
Andy Evans, Corporate Director of Finance  
Tunde Adekoya, Pension Fund Accountant  
Steve Clarke, Democratic Services Officer

**Also Present:**  
Marie Stokes, Pension Board Member  
Tony Noakes, Pension Board Member  
Shane Woodhatch, Pension Board Member  
Andrew Singh, Isio  
Clare Scott, Independent Adviser  
Andy Lowe, Hampshire County Council

#### 17. APOLOGIES FOR ABSENCE (Agenda Item 1)

Apologies had been received from Roger Hackett, Chair of the Pension Board. It was also noted that Councillor John Riley was not present.

#### 18. DECLARATIONS OF INTEREST IN MATTERS COMING BEFORE THIS MEETING (Agenda Item 2)

There were none.

#### 19. MINUTES OF THE MEETING DATED 08 JUNE 2023 (Agenda Item 3)

**RESOLVED:** That the minutes of the meeting dated 08 June 2023 be approved as a correct record.

#### 20. TO CONFIRM THAT ITEMS MARKED PART I WILL BE CONSIDERED IN PUBLIC AND THOSE MARKED PART II WILL BE CONSIDERED IN PRIVATE (Agenda Item 4)

It was confirmed that items 5 – 9 were marked as Part 1 and would be considered in public, and that items 10 – 12 were marked as Part 2 and would be considered in private.

#### 21. ADMINISTRATION REPORT (Agenda Item 5)

James Lake, Director of Pensions, Treasury and Statutory Accounts, introduced the item highlighting that the performance of Hillingdon's administration partner, Hampshire County Council, remained at 100% across all key performance indicators and online portal sign-up, which continued to grow, was at 37.5%, 6.5% higher than at the time of leaving the previous administration partner. It was highlighted that the working relationship with Hampshire continued to be pro-active and constructive.

It was also noted that Annual Benefit Statements were currently being issued with 98.69% of active statement issued and 100% of deferred statements issued. The team at Hampshire continued to chase employers for missing data to achieve full issuance of active statements.

Andy Lowe, of Hampshire County Council, the Pensions administrator was present for this item. The Committee commended Hampshire's performance and noted the good pace with which they were tackling the inherited administrative backlog. It was noted that it was difficult to give a timeline on when the backlog could entirely be cleared and that it was dependent on the speed of responses from employers. It was highlighted that the backlog had halved during the two-year administrative relationship, which was positive, however it would be difficult to continue that pace as some of the more difficult cases to clear would inevitably be the final ones tackled. Officers were holding regular meetings with the payroll provider for a significant number of employers in the scheme, this would assist in bringing down the backlog.

**RESOLVED: That the Pensions Committee:**

- 1) Noted the administration update; and,
- 2) Noted the Active and Deferred Benefit Statement update.

**22. INVESTMENT STRATEGY AND FUND MANAGER PERFORMANCE - PART I**  
*(Agenda Item 6)*

James Lake, Director of Pensions, Treasury & Statutory Accounts, introduced the item highlighting that investment performance over the quarter was positive at 1.08%, but behind the benchmark by 0.55%. Longer term 3- and 5-year figures were also positive at 3.95% and 2.83%, however both fell short of the return in the Funding Strategy Statement of 4.1%. Officers highlighted a new funding level reporting tool which updated the valuation inputs and allowed officers to run an interim funding level at any point. The tool showed that, since the triennial valuation in March 2022, when the funding level was at 88%, there had been a steady increase to now being 114% funded as of August 2023. The Committee were informed that this was a snapshot and that the figure would fluctuate.

The Committee commented that the "Outlook" section of the officer report was particularly useful and timely in assisting with discussions on the Fund's new investment strategy.

**RESOLVED: That the Pensions Committee noted the funding and performance update.**

**23. RESPONSIBLE INVESTMENTS UPDATE** *(Agenda Item 7)*

James Lake, Director of Pensions, Treasury and Statutory Accounts, introduced the item highlighting positive news that the Hillingdon Fund was one of two London Boroughs that had once again met the criteria to be approved as a signatory to the UK

Stewardship Code. The report highlighted some areas for improvement which would need to be considered if this status were to be maintained in following years; however, officers highlighted that the Committee should consider the merits of applying to the UK Stewardship Code in future years as it was a cost, time and resource intensive endeavour.

The Committee thanked officers and advisors for their hard work in achieving a successful UK Stewardship Code submission for a second year. On the matter of the resources required to apply, it was noted that numerous sessions had taken place discussing the Fund's values and beliefs, in addition to questionnaires sent out to Committee Members and the work that the advisors had done contacting all fund managers and conducting impact assessments. It was noted to take an extensive amount of time and cost to reach the high bar required. Officers had met with the Local Government Association who had commented on the positive achievement noting that it required an extensive amount of work each year to maintain UK Stewardship Code status which many funds were not willing to do. Advisors noted that guidance on the Task Force on Climate-Related Financial Disclosures (TCFD) was expected soon and it was likely that it would be implemented for the Local Government Pension Scheme; it was noted that there would be an overlap on some of the elements required for the UK Stewardship Code and TCFD.

**RESOLVED That the Pensions Committee:**

- 1) Noted the fund managers' ESG activities and compliance efforts;**
- 2) Noted the successful outcome on 2023 Stewardship Code submission to FRC; and,**
- 3) Noted LAPFF activities.**

**24. PENSION FUND RISK REGISTER (Agenda Item 8)**

James Lake, Director of Pensions, Treasury and Statutory Accounts, introduced the item informing the Committee that there had been no changes to the risk register over the previous quarter however commentary around PEN11 'Failure of the pool in management of funds / access to funds' had been updated. This was in light of a consultation which mentioned a requirement for pools to be a minimum of £50b in size, the London Community Investment Vehicle was smaller than this, but officers deemed that based on discussions they did not believe LCIV would be forced to close, and so the risk rating remained the same.

The Committee discussed PEN12:

'Failure of the Fund's governance to comply with statutory requirements and/or The Pension Regulator expectations including:

- Failure to ensure that Committee members' knowledge and understanding of pension matters is robust and meets statutory requirements.
- Failure to ensure that the Pension Board is effective in carrying out its role.'

Members considered adding in an element of the work being completed by Hillingdon's Internal Audit Team on the audit of the effectiveness of the Pensions Committee. Although it was highlighted that this commentary may not impact the risk rating, it was deemed that it should be noted.

The Committee also discussed PEN13 'Key Officer Risk' seeking to keep an eye on the risk going forward as there appeared to be a reliance on a small number of very key

	<p>staff. Officers noted that plans had been put in place to add layers of contingency due to this risk, actions included recruiting where there was an underspend on staffing and the promotion of officers to shadow senior staff in an effort to provide the needed contingency. Members felt that the risk level was appropriate.</p> <p><b>RESOLVED: That the Pensions Committee considered the Risk Register in terms of the approach, the specific risks identified, and the measures being taken to mitigate those current risks.</b></p>
25.	<p><b>GOVERNANCE REPORT (INCLUDING DISCRETIONS POLICY UPDATE)</b> (Agenda Item 9)</p> <p>James Lake, Director of Pensions, Treasury and Statutory Accounts, introduced the item highlighting the training update and noting that the newest Member of the Pensions Committee, Councillor John Riley, had been advised to notify officers when he had completed the AON CIPFA mandatory training sessions. Officers also highlighted the new workplan layout which allowed Members to see what work was going to be required on an ongoing basis.</p> <p>The Committee were also informed that the Internal Audit Team had finished their audit regarding the effectiveness of the Pensions Committee. One aspect of the audit was questionnaires sent to Committee Members, it was confirmed that of the five questionnaires sent out, three were returned. The Terms of Reference for the audit were available for the Committee and the final report from the Internal Audit Team would be issued in the Committee's December agenda.</p> <p>Officers requested approval for an amendment to the Pensions Discretions Policy in terms of ill health strain costs. Previously it was not clear as to when the pension strain costs should be paid if an employer went against the recommendation of the independent medical practitioner and decided to award ill health. The amended policy now clearly defined that if they did go against the medical opinion, they needed to pay upfront.</p> <p>The Committee were also notified that officers were still awaiting official issue of the TPR General Code and the SAB Good Governance Framework; however, assumptions could be made and advisors had prepared a governance update and made an assessment of areas which should be addressed. It was specifically noted that under 'Skills and Training', the Training Policy was acceptable however delivery of the training policy was of a higher priority.</p> <p><b>RESOLVED That the Pensions Committee:</b></p> <ol style="list-style-type: none"> <li>1) Noted the dates for Pensions Committee meetings;</li> <li>2) Made suggestions for future agenda items, working practices and / or reviews;</li> <li>3) Noted the Committee's training update;</li> <li>4) Noted the Internal Audit 'Effectiveness of the Pension Committee' Terms of Reference;</li> <li>5) Noted and agree actions in Governance Update and Initiatives; and,</li> <li>6) Approved the updated Pension Only Discretions Policy.</li> </ol>
26.	<p><b>LGPS NEXT STEPS ON INVESTMENT - CONSULTATION RESPONSE</b> (Agenda Item 10)</p>

	<i>This item was discussed as a Part II item without the press or public present as the information under discussion contained confidential or exempt information as defined by law in the Local Government (Access to Information) Act 1985. This was because it discussed 'information relating to the financial or business affairs of any particular person (including the authority holding that information)' (paragraph 3 of the schedule to the Act).</i>
27.	<b>INVESTMENT PART II - STRATEGY REVIEW AND MANAGER UPDATES</b> (Agenda Item 11)  <i>This item was discussed as a Part II item without the press or public present as the information under discussion contained confidential or exempt information as defined by law in the Local Government (Access to Information) Act 1985. This was because it discussed 'information relating to the financial or business affairs of any particular person (including the authority holding that information)' (paragraph 3 of the schedule to the Act).</i>
28.	<b>2023/24 BUDGET UPDATE</b> (Agenda Item 12)  <i>This item was discussed as a Part II item without the press or public present as the information under discussion contained confidential or exempt information as defined by law in the Local Government (Access to Information) Act 1985. This was because it discussed 'information relating to the financial or business affairs of any particular person (including the authority holding that information)' (paragraph 3 of the schedule to the Act).</i>
	The meeting, which commenced at 5.00 pm, closed at 7.29 pm.

These are the minutes of the above meeting. For more information on any of the resolutions please contact Democratic Services at [democratic@hillingdon.gov.uk](mailto:democratic@hillingdon.gov.uk). Circulation of these minutes is to Councillors, Officers, the Press and Members of the Public.

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# Agenda Item 5

<b>ADMINISTRATION REPORT</b>		<b>ITEM 5</b>
Committee	Pensions Committee	
Officer Reporting	Tunde Adekoya, Finance	
Papers with this report	1. October 2023 - Hampshire Pensions Services Partnership Report	

## BACKGROUND

Pensions administration services are provided by Hampshire County Council (HCC) under a section 101 agreement.

The attached report provides an update of HCC's performance as at August 2023. Historic monthly reports are included in the member shared drive.

## RECOMMENDATIONS

- 1. That the Pensions Committee note the administration update**
- 2. Note the Cyber Security Vulnerability Update**
- 3. Note Active Benefit Statements Update**

## INFORMATION

Historic key performance indicators show 100% against all indicators, each month since the October 2021 inception.

Member portal registrations continue to improve month-on-month and as of 31 October 2023 show 38.81%, which is ahead of the exiting SCC position of 30.95%

Inherited backlog cases continue to be cleared with total cases reducing from 4,158 at inception to 1,774 as of 01 October 2023.

### Cyber Security

One "High" vulnerability was discovered in the penetration test conducted by 2-sec on the Hampshire Pensions portal in September 2023. This has been addressed and a resolution was put in place by 27<sup>th</sup> October 2023.

Several "Low" vulnerabilities were also identified during the same penetration test in September 2023. Two of these vulnerabilities have been addressed and rectified by Hampshire IT team, three are being tested by same team and five others, regarded as less urgent, are awaiting guidance from Civica for resolutions.

### Active Benefit Statements

The production and publication of active benefits statements continued throughout October 2023. To date 99.15% of statements have been completed and published, whilst investigations are ongoing on case by case basis for the outstanding statements. For reference, as at the statutory deadline in August, 98.69% of statements were issued.

Employers annual return performance was benchmarked and reported by HPS in September 2023.

- 81 employers submitted requested information by deadline date of 30 April 2023. 29 returns were received in the month following the deadline and 8 returns were received significantly later than the deadline.
- Data quality assessment for the returns were considerably worse than the previous year, with 10% employer's recorded as Green and Amber respectively for data quality and the remaining 80% red. Green denotes good data quality, Amber represents minor data quality issues quickly resolved and red highlights major data quality issues/slow response or failure to respond.

Letters were sent to employers advising of their performance and to aid improvements, HPS and Hillingdon Pension Fund have agreed to engage both employers and payroll providers with red data categorisation to support them and address identified reporting issues.

Due to the increased resource allocation in terms of managing the annual return process, resolving issues, and replicating requests for accurate information, the Administration Strategy has been updated to emphasise the potential to levy charges where employers regularly fail to deliver against their requirements.

### **Pension Regulator Scheme Return**

Each year the Fund is required to assess and submit data quality scores to the Pensions Regulator. Two sets of data are recorded: common and conditional.

Category	2023	2022
Common	89%	89%
Conditional	89%	87%

Further details relating to the results and underlying data will be provided by HPS in the next monthly update.

The required information was submitted to the Pension Regulator in November 2023.

For reference, common data consists of:

- National Insurance number
- surname and either forename or initials
- sex
- date of birth
- date pensionable service started, membership/policy start date or first contribution date
- expected retirement/maturity date (target retirement age)
- membership status
- last status event – the date at which the membership status last changed, e.g. from active to deferred – where appropriate, you should also capture the reason for the change in status (eg retired or opted out)
- address including postcode

This data is needed so that a member can be uniquely identified. All schemes should hold this data for all members. If any is missing it may be impossible to identify or trace the member, or their benefits.

### **Scheme-specific data**

You also need to hold other data relating to members and their participation in the scheme. This will depend on factors such as:

- the scheme type, structure and design

- a member's status – for example, the data you need for deferred members may differ to the data for active members
- events that have taken place during membership

## **FINANCIAL IMPLICATIONS**

Financial implications have been previously disclosed.

## **LEGAL IMPLICATIONS**

The legal implications are in the body of the report.

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# Monthly administration report

October 2023



Working in partnership with



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## 1. Summary

1.1. The purpose of this report is to update the London Borough of Hillingdon with the current position of their local government pension scheme membership; performance against service level agreements and to provide other important and current information about the administration of the London Borough of Hillingdon Local Government Pension Fund.

## 2. Background

2.1. Hampshire Pension Services administer the Local Government Pension Scheme (LGPS) on behalf of the London Borough of Hillingdon (LBH) with effect from 27 September 2021.

2.2. Hampshire Pension Services also administer the LGPS for Hampshire County Council, West Sussex County Council and Westminster City Council; the Fire Pension Schemes for both West Sussex and Hampshire, and the Police Pension Schemes for Hampshire.

## 3. Membership

3.1. The table below details the number of members against status for each of the Local Government pension schemes and is correct as of the date this report was prepared. To support the monitoring of change in membership numbers, the table now compares the membership detailed in the OBC with the current month to show the total growth in membership since the start of the partnership.

	Active*	Deferred	Pensioner	Preserved Refunds**	Total
<b>OBC</b>	9,020	11,400	7,036	-	27,456
<b>October 2023</b>	10,863	10,894	8,330	1,591	<b>31,678</b>
<b>Growth</b>	<b>20.43%</b>	<b>-4.43%</b>	<b>18.39%</b>	-	<b>15.37%</b>

\*Leavers which are waiting to be processed are included in the active membership. However, the OBC deferred figure included both 2,045 leavers waiting to be processed and 1,256 preserved refunds.

\*\*The preserved refund members are included for completeness but are not counted for the purposes of reporting membership to the Pensions Regulator and DLUHC (previously MHCLG).

## 4. Administration performance

4.1. Hampshire Pension Services' performance against agreed service level agreements for key processes are monitored monthly. They are calculated based on the number of working days taken to complete the process and are adjusted for time that we are unable to proceed, due to requiring input from the member or third party.

4.2. The table below shows performance from 1<sup>st</sup> October – 31<sup>st</sup> October 2023; the performance target for all cases is 15 days (except Deferred Benefits which is 30 days, and Rejoiners which is 20 days).

**Time to Complete**

Type of Case	0-5 days	6-10 days	11-15 days	16-20 days	21-30 days	31-40 days	Total	% completed on time	Average days to complete process	Total Cases (previous month)	% completed on time (previous month)
<b>Active Retirement</b>	9	2	0	0	0	0	11	100.00%	3	17	100.00%
<b>Deferred Retirement</b>	2	11	6	0	0	0	19	100.00%	9	22	100.00%
<b>Estimates</b>	7	15	3	0	0	0	25	100.00%	7	54	100.00%
<b>Deferred Benefits</b>	1	3	3	8	46	0	61	100.00%	23	149	100.00%
<b>Transfers In &amp; Out</b>	4	2	0	0	0	0	6	100.00%	5	1	100.00%
<b>Divorce</b>	2	0	0	0	0	0	2	100.00%	3	2	100.00%
<b>Refunds</b>	1	3	10	0	0	0	14	100.00%	11	9	100.00%
<b>Rejoiners</b>	2	0	4	3	0	0	9	100.00%	12	11	100.00%
<b>Interfunds</b>	8	12	26	0	0	0	46	100.00%	9	12	100.00%
<b>Death Benefits</b>	9	2	3	0	0	0	14	100.00%	5	5	100.00%
<b>GRAND TOTAL</b>	<b>45</b>	<b>50</b>	<b>55</b>	<b>11</b>	<b>46</b>	<b>0</b>	<b>207</b>	<b>100.00%</b>		<b>326</b>	<b>100.00%</b>

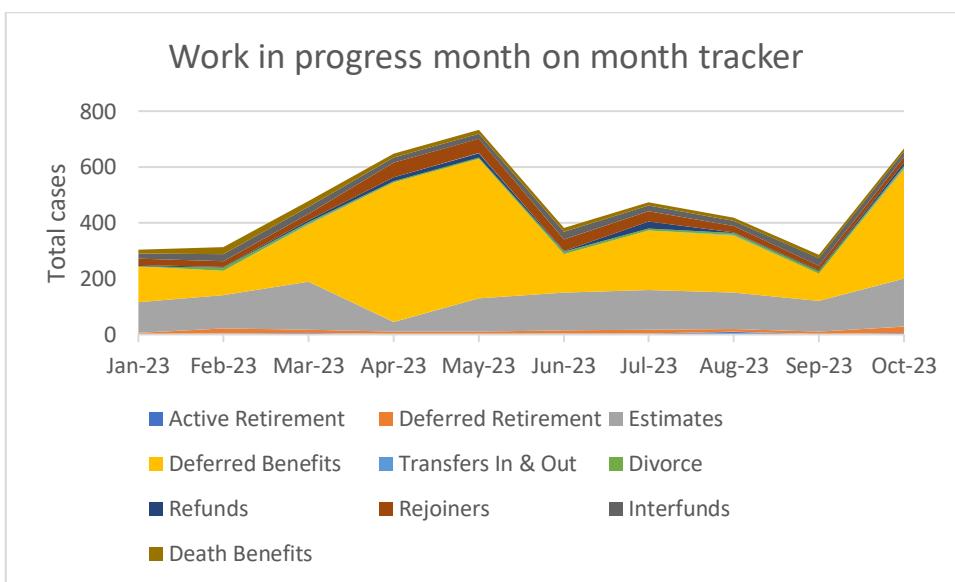
4.3. The table below shows outstanding work as of 31<sup>st</sup> October 2023. The time outstanding reflects the time from date of receipt of the initiating request, and includes time whilst cases are on hold pending further information. Work which has been pended is monitored by the team and is also pushed for review by the system at pre-determined intervals. This means that all pended casework is regularly reviewed, and actions taken to ensure it can be moved and processed.

4.4. Those cases which currently exceed the agreed service level agreement are on hold waiting for information from the member, their employer or another party and the time taken to process will be adjusted once the work has been completed.

Type of Case	Time Outstanding							Total Outstanding (previous month)
	0-5 days	6-10 days	11-15 days	16-20 days	21-30 days	31+ days	Total	
<b>Active Retirement</b>	4	1	0	0	0	0	5	1
<b>Deferred Retirement</b>	14	6	3	0	0	0	23	8
<b>Estimates*</b>	86	64	17	5	0	0	172	111
<b>Deferred Benefits</b>	18	98	101	127	49	0	393	98
<b>Transfers In &amp; Out</b>	1	2	1	0	0	0	4	1
<b>Divorce</b>	2	4	0	1	0	0	7	9
<b>Refunds</b>	7	4	0	0	0	0	11	3
<b>Rejoiners</b>	7	9	5	1	0	0	22	16
<b>Interfunds</b>	8	10	0	0	0	0	18	27
<b>Death Benefits</b>	3	1	4	0	2	0	10	12
<b>GRAND TOTAL</b>	<b>150</b>	<b>199</b>	<b>131</b>	<b>134</b>	<b>51</b>	<b>0</b>	<b>665</b>	<b>286</b>

\*Estimates include all 'quote' calculations for retirement, transfers, divorce, and refunds.

4.5. We have included a tracker below which monitors the movement in work outstanding month on month.



4.6. Following the release of updated 'Club' transfer factors – the fourth set of factors to be updated following the SCAPE discount rate amendment – and the Club Memorandum effective from 1 October 2023, we are currently unable to process Club and Interfund transfers. As it stands, there are currently no cases on hold for LBH.

## 5. Unprocessed historic casework

5.1. At the point of onboarding, there were 3,840 unprocessed leavers – the date of leaving for these members was prior to 1<sup>st</sup> September 2021.

5.2. As of 1<sup>st</sup> October 2023, the unprocessed leavers position is as follows.

Unprocessed Leavers transferred from Surrey, at point of onboarding.	3,840
Additional unprocessed leavers identified since onboarding	318
<b>Total unprocessed leavers</b>	<b>4,158</b>
Leavers processed and records finalised by HPS	2,384
<b>Outstanding leavers to be processed</b>	<b>1,774</b>

5.3. Of the 1,774 cases outstanding, 1,218 of these are Dataplan.

5.4. The top 5 employers with outstanding leavers are as follows:

Employer	Number of leavers outstanding
Charville Primary - Academy	31
Heathrow Primary School	31
Pftrust - Lake Farm Academy	31
Qed - Northwood Academy	31
Pftrust - Wood End Park Academy	30

## 6. Call and email volumes

6.1. The table below sets out the call statistics for Hillingdon for the month of October 2023:

Calls Received	150
Calls Answered	148
Calls Answered Percentage	98.67%
Calls Abandoned	2
Abandoned Percentage	1.33%
Average Wait Time	62 seconds

<b>Calls Answered Within 5 Minutes</b>	145
<b>Calls answered waiting for longer than 5 mins</b>	3
<b>Percentage Of Calls Answered Within 5 Minutes</b>	97.97%

- 6.2. Abandoned calls are caused by the member ending the call before we can answer, and in some cases, this can be because they have heard one of our automatic messages asking them to visit our website or Portal.
- 6.3. The total number of calls received were 3,358 and the statistics above are included in this number.
- 6.4. Our Pension Customer Support Team (PCST) record the number of emails received into our main Pension Services inbox. The table below shows the combined (Hampshire, West Sussex, Westminster, and Hillingdon) volumes, for the current and previous month.

Month	Total Emails Received	Response from PCST	Forms and Emails Forwarded to another team*
September	5,952	5,244	708
October	5,956	5,113	843

- 6.5. Of the emails responded to by PCST, 182 of these were for Hillingdon members.
- 6.6. In October 2023, we received 65 'My Messages' from Hillingdon members via the member portal, which are dealt with via our normal 5 working day response time.

#### **Change to phone availability**

- 6.7. From December our phone lines will be open between 9am - 4.30pm Monday to Friday. The support team is still working and available to answer emails/secure messages between 8.30am and 5pm but this change allows us to focus the resource where there is most demand for it as we receive over 90% of all our calls between 9am-4pm.
- 6.8. Making this small change will make a big difference as we can re-work the rotas within the support team and provide more time for post call work which will also help the quality of the information we hold on the system.

## **7. Online services**

#### **Member Portal**

- 7.1. Active, Deferred and Pensioner members of the LBH LGPS have the ability to register for our Member Portal and update their personal details, death grant nominations, and bank

details; securely view annual benefit statements, payslips and P60s; run online voluntary retirement estimates; and complete their membership option and retirement declaration forms online.

7.2. The table below shows the total number of current registrations for each status as of 30<sup>th</sup> October 2023.

Status	Registrations to date	% of total membership	Registrations to 30/09/2023	% of total membership
Active	4,681	43.09%	4,668	42.07%
Deferred	3,694	33.91%	3,619	33.51%
Pensioner	3,303	39.65%	3,257	39.19%
<b>TOTAL</b>	<b>11,678</b>	<b>38.81%</b>	<b>11,544</b>	<b>38.22%</b>

7.3. The table below sets out the number of Member Portal log ins, for the current month and previous month for comparison.

Month	Active	Deferred	Pensioner
September 2023	622	295	222
October 2023	512	331	272

7.4. The table below shows the number of opt outs of the Member Portal for each membership status. Comparing the number of registrations and opt outs to the total membership allows us to identify the number of members who have not engaged via either route.

Engagement	Active	Deferred	Pensioner	Total
<b>Portal</b>	<b>4,681</b>	<b>3,694</b>	<b>3,303</b>	<b>11,678</b>
<b>Opt out</b>	<b>45</b>	<b>128</b>	<b>1,853</b>	<b>2,026</b>
<b>No contact</b>	<b>6,137</b>	<b>7,072</b>	<b>3,174</b>	<b>16,383</b>
<b>Total</b>	<b>10,863</b>	<b>10,894</b>	<b>8,330</b>	<b>30,087</b>

### **Employer Hub**

7.5. To date we have 118 of 119 LBH employers registered to use the Employer Hub. Of the 119 employers, 118 individual users have access to a Hub account.

## Cyber Security

- 7.6. As explained in last month's report, 2-sec had found one 'High' vulnerability in the last penetration test – this has been addressed, and the resolution in place since 27<sup>th</sup> October.
- 7.7. 2-sec also identified several 'Low' vulnerabilities, two of which have already been addressed by our IT department; three solutions are currently being tested; and we await guidance from Civica for the five that remain. As these are classed as 'Low' vulnerabilities, the solutions are not immediately urgent, but it is still important we get ahead of vulnerabilities, where possible.
- 7.8. The next full penetration security test is booked for w/c 20<sup>th</sup> November and following a re-procurement by IT is being carried out by a new supplier called Intertek – the vulnerability report is expected in December.

## 8. 2023 End of Year timetable

- 8.1. We have agreed the timeline for the 2023-year end, including the production of benefit statements. The table below details the key remaining milestones for each step of the year end process, with an adjustment to the TPR Scheme Return submission date, following last week's notification, although we still intend to share data scores with Partners by 24<sup>th</sup> November.

Completed By	Task
31/12/2023	Life Certificates issued to Overseas Pensioners.
25/01/2024	TPR Scheme Return submission due (assumed, based on previous years) – membership numbers and data scores to be provided to Partners.

- 8.2. **Active Benefit Statements** – The production of active benefit statements has been ongoing, throughout October, and the current position is as follows.

Total Number of Statements Required	Total Number of Statements Produced	Total Number of Statements Missing	Percentage of Statements Produced
12,512	12,406	106	99.15%

- 8.3. We will continue to work on the outstanding active benefit statements by investigating these on a case-by-case basis with the aim of reducing the number of these, by the end of the year. A summary of the reason for outstanding active benefit statements, is below.

Reason	Number of Members
<b>Missing 2023 earnings</b>	79
<b>Missing other/previous year earnings</b>	23
<b>TUPE Transfer in progress</b>	4
<b>Total</b>	<b>106</b>

## 9. McCloud

9.1. The current position of McCloud service/break data sets is summarised below:

- To date we have received 100 out of 122 2014-21 returns due for active employers – 22 remain outstanding. We have received 97 out of 118 2021-22 returns due for active employers, 21 remain outstanding.
- Hampshire Pension Services are no longer pro-actively chasing employers and have referred outstanding returns to the Fund to obtain (details of these are noted in Appendix 1). In the absence of data being received, we will look to estimate service based on pay held on the record.
- The team are about to start uploading employer McCloud data to member records where we are able.
- Details of the position of the largest employers in the Fund are noted in appendix 1.

9.2. DLUHC have circulated a McCloud initial prioritisation policy for retrospective remedy. The policy will be discussed with the McCloud guidance working group and consulted on, before a final version is issued early next year.

9.3. Where necessary, we continue to process deferred and retirement calculations, including the underpin check. As it stands, the calculations we have completed for active and deferred members, since 1 October 2023, have not resulted in the underpin having any effect on benefits.

## 10. Pensions Dashboard Programme (PDP)

10.1. We have recently attended two webinars, held by the PDP, which recapped the current position of the dashboard programme, and expected next steps.

10.2. Guidance is expected in the new year, which will set out the suggested connection dates for each scheme type. Although the latest we can connect is 31 October 2026, the PDP are strongly encouraging schemes to follow the guidance that will be issued, to prevent all schemes connecting at the same time.

10.3. The Dashboard Available Point (DAP) is still to be confirmed, but we will be given at least 6 months' notice of this date.

## 11. 2023/2024 Software Development

- 11.1. The Live implementation of auto-generated email acknowledgements for members, when they have submitted an online form has been completed this month and is working well.
- 11.2. We are working with our colleagues in IT to change our current Member Portal URL to [mypensionportal@hants.gov.uk](mailto:mypensionportal@hants.gov.uk) – as a result of feedback from members and colleagues. The new URL should be in place by the end of the year, and the current URL will redirect for 15 months, to allow plenty of time for letter and email templates to be updated.
- 11.3. Initial discussions around the implementation of an online CETV/Transfer Out quote process are being held in November. We intend to at least make available an online form which initiates a CETV or Transfer Out quote request; but will be investigating the possibility of these calculations being run online, by the member (like the retirement quote).
- 11.4. We are currently agreeing the development plan for April 2024 onwards and will share this with Partners in the new year.

## 12. Audit

- 12.1. The position of our 2023/24 pension audits are as follows:

Audit Area	Timing
<b>Pension Refunds:</b> To assess that there are appropriate arrangements to ensure all refunds are valid, accurate and are paid promptly to the correct recipients following a validated request to withdraw from the schemes administered by HPS.	In Progress
<b>UPM – Application Review:</b> <i>(This has been identified as a new audit review area)</i> Assurance over the management of the UPM application, including supporting infrastructure such as servers, databases, pre-production environments and system changes.	In Progress
<b>Pensions Payroll and Benefit Calculations:</b> Annual review to provide assurance that systems and controls ensure that:- <ul style="list-style-type: none"><li>• Lump sum and on-going pension payments are calculated correctly, are valid and paid to the correct recipients;</li><li>• All changes to on-going pensions are accurate and timely;</li><li>• Pension payroll runs are accurate, complete, timely and secure with all appropriate deductions made and paid over to the relevant bodies.</li></ul>	Quarter 3 / 4

## 13. Scheme legislation updates

- 13.1. Legislation updates that have been received during October 2023 for the Local Government Pension Scheme, are detailed in Appendix 2, including any actions that Hampshire Pension Services have taken.

## 14. Employer and Member Communications

- 14.1. **Employer communications** – In October, a Stop Press was published.
- 14.2. **Member communications** – There were two member communications issued in October. The first one was advising that there would be some periods of downtime in October due to some maintenance work. The second communication related to some telephone issued that had occurred and confirmation that these had been fixed.
- 14.3. **Data Protection Breaches** – There were no data protection breaches in October.

## 15. Compliments and Complaints

- 15.1. There were two complaints in October 2023 from members of the LBH LGPS, neither complaint is yet due a response and the detail will therefore be included in next month's partnership report.
- 15.2. We did not receive any compliments in October from members of the LBH LGPS.



HAMPSHIRE  
PENSION  
SERVICES

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# Agenda Item 6

<b>INTERNAL AUDIT REPORT</b>		<b>ITEM 6</b>
Committee	Pensions Committee	
Officer Reporting	James Lake & Tunde Adekoya, Finance	
Papers with this report		1. Internal Audit Report on the Effectiveness of the Pension Committee

## BACKGROUND

The Pensions Committee is responsible for all decisions concerning administration and investments of the pension fund.

The attached report provides review of the effectiveness of the Pensions Committee and identifies risks that may inhibit its performance and proffer possible steps that may assist with the dispensation of the Committee obligations.

## RECOMMENDATIONS

- 1. That the Pensions Committee note the Internal Audit report**
- 2. That the Pensions Committee consider the implementation of suggested recommendations for the risks highlighted in the report**

## INFORMATION

The main purpose of this review by Internal Audit was to provide assurance to the council's Corporate Management Team (CMT) and Audit committee on potential risks identified.

### Risks

Overall, five main risks were identified by the internal audit team conducting this review and these centered around:

1. Skills/Training & Knowledge
2. Preparation time for committee meetings
3. Benchmarking in relation to Investment performance
4. Conflict of Interests governance
5. Attendance and effective engagement at meetings

### Outcome and Findings

Internal Audit has provided 'Reasonable' assurance and is one level down from the top level in the assurance hierarchy. Internal Audit define 'Reasonable' as:

- The control environment is in need of some improvement in either design or operation. There is a misalignment of the level of residual risk to the objectives and the designated risk appetite. There remains **some risk** that objectives will not be achieved.

Two medium findings were identified by the internal audit team that they perceived may hinder the effectiveness of the Pensions committee. Details are included in the attached report.

These revolved around adequate training and identified training needs for committee members and their understanding of financial and investment terminologies, through an anonymous self-

assessment form/survey of Committee members. In addition, it is recommended that an independent committee member be added to raise the Committee's collective knowledge and experience.

Furthermore, pension fund management were consulted by Internal Audit on the findings and recommended actions to ameliorate the identified medium risks. Management agreed to propose actions for Pension Committee to consider.

The Committee should be aware that the appointment of an independent member would require an amendment to the Council Constitution and Democratic Services has advised on the process.

## **FINANCIAL IMPLICATIONS**

Employing an independent Pension Committee member may incur remuneration costs associated with this position.

## **LEGAL IMPLICATIONS**

There are no legal implications.

Assurance Opinion:			
REASONABLE			
0	2	0	1

## 23.F03: Effectiveness of Pensions Committee

October 2023

<b>Auditor:</b>	Pravesh Mann – Internal Auditor
<b>Assisted By:</b>	Dylan Ward – Apprentice Internal Auditor
<b>Audit Reviewer:</b>	Jack Francis-Kent – Senior Internal Auditor
<b>Review Sponsor:</b>	Andy Evans, Corporate Director of Finance
<b>Report Distribution:</b>	James Lake, Director Pensions, Treasury & Statutory Accounts Mark Braddock, Senior Democratic Services Manager Cllr Stuart Mathers, Chairman Pension Committee

Internal Audit would like to formally thank all the officers contacted during this review for their co-operation and assistance.

*This report is produced on an exception basis, highlighting key aspects from the Internal Audit review. Further detailed findings are available upon specific request.*

*Ownership of all final Internal Audit reports rests with the relevant Audit Sponsor. However, we may disclose final reports to the Audit Committee, Cabinet Members, and the Chief Executive upon their specific request.*



# EFFECTIVENESS OF PENSIONS COMMITTEE AUDIT REPORT

## 1. INTRODUCTION

The purpose of this review is to provide assurance to the Corporate Management Team (CMT) and the Audit Committee over the following potential key risks:

**Risk 1:** If committee members have insufficient skills/training to support them in their role on the committee, it may impact on their confidence and capability to give effective scrutiny and oversight.

*Finding 1*

**Risk 2:** If committee members have insufficient time to review reports and prepare before Committee meetings it may reduce their chance to scrutinise the information, identify questions to raise at the meeting, and lead to poor decision making.

*Finding 2*

**Risk 3:** If robust monitoring and benchmarking mechanisms are not in place in relation to the investment performance there is a risk that the pension fund's performance is not sufficiently monitored, resulting in poor decision making and delayed remedial action from the committee.

*No Findings*

**Risk 4:** If robust conflict of interest governance mechanisms are not in place and functioning effectively there is a risk that the Pensions Committee will not be effective in discharging its fiduciary duty, leading to reputational consequences for Hillingdon Council.

*No Findings*

**Risk 5:** If Committee members do not attend or engage effectively in formal Committee meetings, there is a risk of poor scrutiny over committee decision making, leading to financial and reputational consequences for Hillingdon Council

*No Findings*

## 2. EXECUTIVE SUMMARY

Overall, we are able to give **REASONABLE** assurance over the key risks. The key findings and IA recommendations raised in respect of the risk and control issues identified are set out in the Management Action Plan in [Appendix A](#). Low findings and observations are listed in [Appendix B](#). Definitions of the IA assurance levels and risk ratings are included at [Appendix C](#).

The Pensions Committee plays a pivotal role as the Scheme Manager and Administering Authority for Hillingdon Council's Pension Fund. This committee, consisting of five voting members and supported by key officers and advisers, is entrusted with crucial decisions related to the fund's administration, governance, and investments.

This assurance review was carried under Internal Audit plan for 2023-24. The objective of this review was to measure and monitor the Committee's overall effectiveness and identify areas where additional support might be required.

For the four Pensions Committee meetings reviewed there was an average attendance of 90%, with all meetings being quorate. Internal Audit reviewed the Committee reports for last three quarters and confirmed that all the decisions were documented in part one and part two of the reports, and reports were shared minimum of seven days before the meeting to allow members time to prepare.

Our testing revealed that robust training plans are provided to the Committee members which cover the CIPFA eight core recommendations, and a schedule is in place for this online training.

We confirmed that the Pensions Committee is in alignment with industry-standard practices for fund performance benchmarking and monitoring. Whilst there is no formal KPI policy in place, the use of

## EFFECTIVENESS OF PENSIONS COMMITTEE AUDIT REPORT

benchmark returns is a well-established method of measuring performance and fund managers are expected to meet or exceed these benchmarks. Although fund benchmarks were not achieved in two out of the past three quarters, the Committee had a proactive approach to reviewing and questioning fund managers performance in quarterly meetings as standard agenda item.

An up to date and accessible conflicts of interest policy was in place. Internal Audit noted that the current Committee has not made any declarations of interest via the register however this is accepted as no conflicts of interest were raised within the minutes of Committee meetings.

Internal Audit provides positive assurance over Pension Committee's robust governance structure which is marked by clear delegation of roles and reporting lines which ensures effective oversight. Throughout the year, the Committee has worked collectively alongside the Pension Board to ensure the governance arrangements for the Pension Fund are robust and continue to deliver a responsible and compliant scheme.

Overall, we have identified two medium findings included in Appendix A. One relates to the training policy and training completion the second is based on feedback received from Committee members on the use of jargon within reports and disparity in engagement level among members. The detailed findings and conclusions of our testing which underpin the above IA opinion have been discussed at the exit meeting with James Lake, Director Pensions, Treasury and Statutory Accounts and are available to management upon specific request.

## EFFECTIVENESS OF PENSIONS COMMITTEE AUDIT REPORT

### APPENDIX A - MANAGEMENT ACTION PLAN

No.	MEDIUM FINDING
1	<p><b>We identified the following areas of improvement in relation to training:</b></p> <ul style="list-style-type: none"> <li>• The Committee has a training policy in place and available on SharePoint to outline the training requirements for members of the Committee. The policy was approved on 9 December 2015, however it has not been formally reviewed and updated in the last three years.</li> <li>• In order to be compliant with CIPFA skill and knowledge framework, requisite training for Committee members is provided by AON. However only four of the five members had completed 100% of the these training at the point when the last Committee meeting was held. We acknowledge this finding can be attributed to the recent appointment of a new Committee member who assumed the role in May, however this training should be completed as soon as possible to ensure the Committee's adheres to the CIPFA knowledge and skill framework.</li> </ul> <p>In addition to the requisite AON trainings the Committee is provided with tailored training, with 16 bespoke training sessions held between June 2022 and May 2023 and trainings sessions scheduled up till March 2024. However overall only 88% of the 2022/23 bespoke sessions were completed by Committee members (excluding the member who started in May 2023).</p> <p>In addition, at the time of this review routine member self-assessments were not taking place to ensure the tailored training was aligned to the needs of the Committee members, although we understand management intend to implement this provision moving forward.</p> <p>Risk: If the Committee members have insufficient skills/training to support them in their role on the committee, it may impact on their confidence and capability to give effective scrutiny and oversight.</p>

Recommendation	Management Action Proposed	Risk Owner & Implementation date
<p>Management should:</p> <ol style="list-style-type: none"> <li>1. Update and review the training policy in place.</li> <li>2. Ensure 100% compliance with requisite training requirements before members attend their first formal meeting.</li> <li>3. Consider developing and distributing routine self-assessments to Committee members to further target training needs and areas of development.</li> </ol>	<ol style="list-style-type: none"> <li>1. The training policy will be reviewed and presented to Committee for approval in December 2023.</li> <li>2. Officers request 100% completion, but compliance is reliant and the sole responsibility of Pension Committee members.</li> <li>3. A self-assessment mechanism will be developed and distributed to Pension Committee members. It is essential however that Committee members commit to the assessment and any subsequent training.</li> </ol>	<p>Director of Pensions, Treasury &amp; Statutory Accounts James Lake 31 March 2024</p>

## EFFECTIVENESS OF PENSIONS COMMITTEE AUDIT REPORT

No.	MEDIUM FINDING
2	<p><b>Feedback received from Committee members:</b></p> <p>Internal Audit developed and distributed an anonymous self-assessment form to committee members, at the time of writing this report the self-assessment form has been live for five weeks with a 60% (3/5) response rate.</p> <p>All three responders stated they came across technical jargon and complex language that hinders their understanding, and one reported frequent encounters with such language. Without this specialist knowledge members may find it difficult to interpret and understand the information presented and therefore unable to scrutinise and discuss the reports effectively.</p> <p>Although technical jargon and complex language was consistently highlighted as hindering members' understanding, when Internal Audit reviewed Committee minutes and recordings we noted there was a variance in the number of questions asked by Committee members. For December 2022 and March 2023 a total of 17 questions were asked but only eight of these questions were asked by current members of the Committee, and 75% of those eight were asked by one Committee member.</p> <p>Feedback from the member survey and interviews with other attendees suggested there is a potential gap in specialist knowledge and experience due to experienced committee members stepping down and the current Committee roster being relatively new. Whilst a short-term knowledge gap is expected with a change of committee members, the committee could consider onboarding an experienced independent member to provide additional specialist insight or to bridge the knowledge gap when there are future changes to the Committee membership.</p> <p>Risk: If Committee members find difficult to interpret and understand the reports presented there is a risk that the Committee as a collective will not be effective in scrutinising and making decisions. Consequently, impacting their ability to discharge their duty.</p>

Recommendation	Management Action Proposed	Risk Owner & Implementation date
<p>Management should:</p> <ol style="list-style-type: none"> <li>Provide guidance to members on some of the key technical terminology they should be aware of and guidance to officers responsible for report writing in relation to tailoring the level of technical jargon in the reports.</li> <li>Take steps to increase level of confidence among the Committee members in respect to their skills and knowledge through targeted training and routine self-assessments as identified in Finding 1.</li> <li>Management should consider the possibility of onboarding an experienced independent member to the Pensions Committee to raise the Committee's collective knowledge and experience and also encourage the development of insights and skills for the current members.</li> </ol>	<ol style="list-style-type: none"> <li>Management are not aware of the exact jargon referred to by the survey results, and would encourage committee members to approach officers if they encounter technical jargon that is unclear so it can be explained further. To aid this process officers will also prompt to ensure committee members understand report contents.</li> <li>Officers provide general training and bespoke training sessions prior to any key decisions on technical areas. This should ensure members are fully conversant. However, to ensure training is effective, Committee members need to be engaged and identify areas of clarification. It is also essential that, if possible, Committee members attend the training provided. As noted in finding 1, a needs assessment will take place to help identify any knowledge gaps.</li> <li>Subject to approval through Democratic Services and the Pension Committee; management support the introduction of an independent Pension Committee member. However, this process may take some time hence the June 2024 implementation date.</li> </ol>	<p>Director of Pensions, Treasury &amp; Statutory Accounts James Lake 31 June 2024</p>

## EFFECTIVENESS OF PENSIONS COMMITTEE AUDIT REPORT

### APPENDIX B - LOW RISK FINDINGS & OBSERVATIONS

No.	Key Finding & Risk	Observation / Suggestion
<b>Note 1</b>	<p>At the time of this review the Committee did not have a formal process in place to review their own effectiveness on an ongoing basis to ensure actions are put in place to further improve the performance of the Committee. However, we recognise an annual self-assessment return had already been developed and was due to be implemented going forwards, therefore we have not raised a further management action in relation to this finding. We understand this will include identifying future training needs as highlighted in finding 1.</p>	<p>The Committee should implement the annual self-assessment for committee members and attendees as planned, and ensure any areas of development identified are collated into an improvement action plan.</p> <p>If the self-assessment identifies effective feedback the Committee should also consider sharing this with other Committees across the Council to ensure any learning is duplicated.</p>

**APPENDIX C - INTERNAL AUDIT DEFINITIONS**

ASSURANCE LEVEL	DEFINITION
<b>SUBSTANTIAL</b>	There is a <b>good level of assurance</b> over the management of the key risks to the Council objectives. The control environment is robust with no major weaknesses in design or operation. There is <b>positive assurance</b> that objectives will be achieved.
<b>REASONABLE</b>	There is a <b>reasonable level of assurance</b> over the management of the key risks to the Council objectives. The control environment is in need of some improvement in either design or operation. There is a misalignment of the level of residual risk to the objectives and the designated risk appetite. There remains <b>some risk</b> that objectives will not be achieved.
<b>LIMITED</b>	There is a <b>limited level of assurance</b> over the management of the key risks to the Council objectives. The control environment has significant weaknesses in either design and/or operation. The level of residual risk to the objectives is not aligned to the relevant risk appetite. There is a <b>significant risk</b> that objectives will not be achieved.
<b>NO</b>	There is <b>no assurance</b> to be derived from the management of key risks to the Council objectives. There is an absence of several key elements of the control environment in design and/or operation. There are extensive improvements to be made. There is a substantial variance between the risk appetite and the residual risk to objectives. There is a <b>high risk</b> that objectives will not be achieved.

FINDING RATING	DEFINITION
<b>HIGH</b>	The recommendation relates to a <b>significant threat</b> that impacts the Council's corporate objectives. i.e., a high number of key business risks remain unidentified and/or unmanaged as control systems do not exist and/or do not operate effectively. <b>The risk requires senior management attention as soon as possible</b> as it may result in the breakdown of part/whole of the service.
<b>MEDIUM</b>	The recommendation relates to a <b>potentially significant threat</b> that impacts on either corporate or operational objectives. This includes weaknesses in the control systems that are not considered serious but may have some impact on the service. <b>The risk requires management attention</b> and should be addressed within six months to ensure full compliance with expected controls.
<b>LOW</b>	The recommendation relates to a <b>minor threat</b> that impacts on operational objectives, this includes non-compliance with best practice or local procedures, and minimal impacts on the Service's reputation or budget. <b>The risk may be tolerable in the medium term</b> but management should take action within the next year to improve the control framework to ensure full compliance with expected controls.
<b>OBSERVATION</b>	This includes any items Internal Audit would like to highlight that may not directly relate to a finding. This includes notable performance and innovative controls that <b>should be shared with others</b> , potential concerns raised during the audit that are outside the scope of the review and will be considered separately, and any areas of improvement that had already been addressed by management at the time of the review.

**Control Environment:** The systems of governance, risk management and internal control. Key elements include establishing and monitoring the authority's objectives, facilitating policy and decision-making, ensuring compliance with established policies and procedures, financial management, and performance management.

**Risk Appetite:** The amount of risk that the Council is prepared to accept, tolerate, or be exposed to at any point in time.

**Residual Risk:** The risk remaining after management takes action to reduce the impact and likelihood of an adverse event, including control activities in responding to a risk.

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## INVESTMENT STRATEGY and FUND MANAGER PERFORMANCE (Part I) ITEM 7

Committee	Pensions Committee
Officer Reporting	Babatunde Adekoya, Finance
Papers with this report	NT performance report on shared drive LCIV Performance reporting on shared drive Hymans Interim valuation Report 30 September 2023

### HEADLINES

The overall investment return of the Fund was -0.55% over the quarter which was 0.55% lower than the benchmark of 0.0%. Performance over longer-term periods (3 and 5 years) was 3.53% and 2.50% per annum, which are both behind the set benchmark. The 3-year figure is 0.57% below the 4.1% return required in the Funding Strategy Statement, and the 5- year figure 1.60% below this requirement.

Committee should note that the revised return requirement in the FSS commencing 1 Apr 2023 is 4.1%.

The Fund's asset allocation remains close to the target investment strategy except for LCIV Infrastructure and Private Debt Funds which are yet to be fully drawn. There is also a circa 3% under-allocation to MAC. Whilst equities allocation is 3.11% above the benchmark due to market gains.

### RECOMMENDATIONS

**It is recommended that Pensions Committee:**

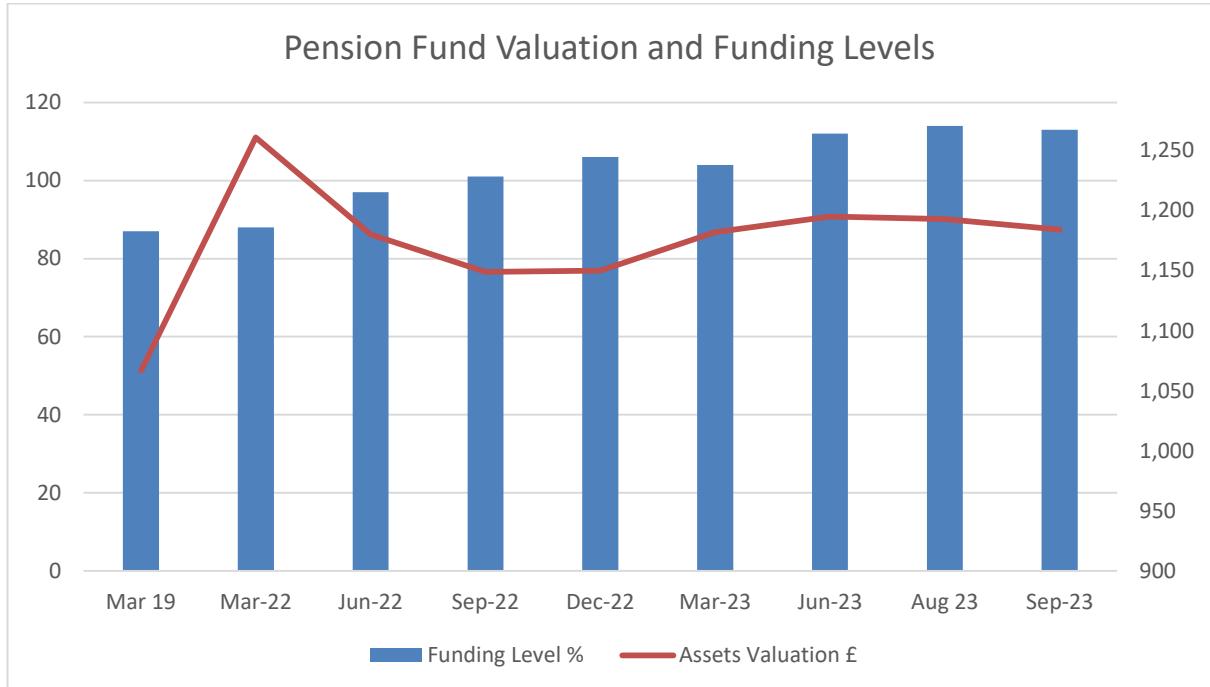
- 1. Note the funding and performance update.**

### SUPPORTING INFORMATION

#### 1. Funding Update

At the last formal valuation as of March 2022, the Fund assets were £1,263m and the liabilities were £1,430m. This represented a deficit of £167m and equated to a funding level of 88%.

An interim funding level update was produced by the actuary on 30 September 2023. it showed funds' assets were £1,184m and equated funding level of 113%, a decrease of 1% from the previous quarter. The primary reason for the reduced funding level is a drop in asset value.



## 2. Fund Performance

Over the last quarter to 30 September 2023, the Fund returned -0.56%, underperforming the benchmark return by 0.55%. The Fund value also decreased over the quarter by £11m, down to £1,184m. Longer term performance is behind the benchmark in all time periods.

Period of measurement	Fund Return %	Benchmark %	Relative Performance
Quarter	-0.56	0.00	-0.55
1 Year	3.37	3.78	-0.39
3 Year	3.53	4.43	-0.86
5 Year	2.50	4.07	-1.51
<b>Since Inception (09/1995)</b>	<b>6.27</b>	<b>6.49</b>	<b>-0.20</b>

Highlights of the investment managers' relative performance are as follows:

- Alternative investment managers contributed to performance in the quarter under review, with Adams Street, LGT and Macquarie outperforming their respective benchmarks by 2.63%, 6.31% and 4.50%. Unfortunately, due to the low holding value it had little impact on total fund returns.
- Macquarie again was the standout manager over one and three-year performance measurements, with 20.07% & 18.18% returns above its set benchmark for both periods.
- Notable relative underperformance continues in the LCIV Global Alpha Paris Aligned Growth Fund and the LGIM LPI Income Property Portfolios. Both portfolios underperformed their respective benchmarks overall performance measurement periods of current quarter, one and three year periods.

### Fund Performance by Manager Relative to Benchmark as of 30 September 2023

	3 Months		1 Year		3 Years		Since Inception	
	Manager	Benchmark	Manager	Benchmark	Manager	Benchmark	Manager	Benchmark
Adam Street	4.29	1.62	-14.73	15.23	8.79	13.51	7.54	0
AEW UK	0.81	-0.42	5.96	-14.31	5.03	3.17	5.85	5.34
LCIV Global Alpha Growth Fund			4.49	14.68				
Paris Aligned	-4.33	1.23			N/A	N/A	-7.64	9.02
LCIV Infrastructure Fund	0.00	2.03	2.74	7.39	5.18	4.82	3.98	4.59
LCIV Mac Fund	0.99	2.37	3.81	8.92	N/A	N/A	2.82	8.28
LCIV Private Debt	0.00	1.47	10.27	6.00	N/A	N/A	4.98	6.00
LCIV Ruffer	-0.75	1.31	-3.82	4.12	4.17	1.63	4.94	1.02
Legal & General World Developed Equity	-0.42	-0.33	14.07	14.12	8.70	8.79	7.72	7.84
Legal & General Index Linked Gilts	-4.69	-4.69	-12.74	-12.75	-13.38	-13.38	-3.03	-2.89
LGIM - Future World Equity IND	0.07	-0.01	10.82	10.50	8.91	8.75	6.96	6.81
LGIM LPI Income Property	-2.57	0.53	-19.46	8.86	-1.35	8.74	-2.15	7.54
LGT Capital	8.04	1.62	-5.24	15.23	10.46	13.51	10.65	0
M&G Investments	-2.38	2.26	-2.99	8.39	13.37	5.82	5.61	4.98
Macquarie	6.62	2.03	28.94	7.39	23.87	4.82	10.24	3.98
Premira Credit	0.96	2.26	6.81	8.39	6.17	5.82	7.02	5.09
UBS Property	-0.16	-0.42	-15.01	-14.31	4.18	3.17	3.50	3.41

### NB: Information from Northern Trust Quarterly performance report

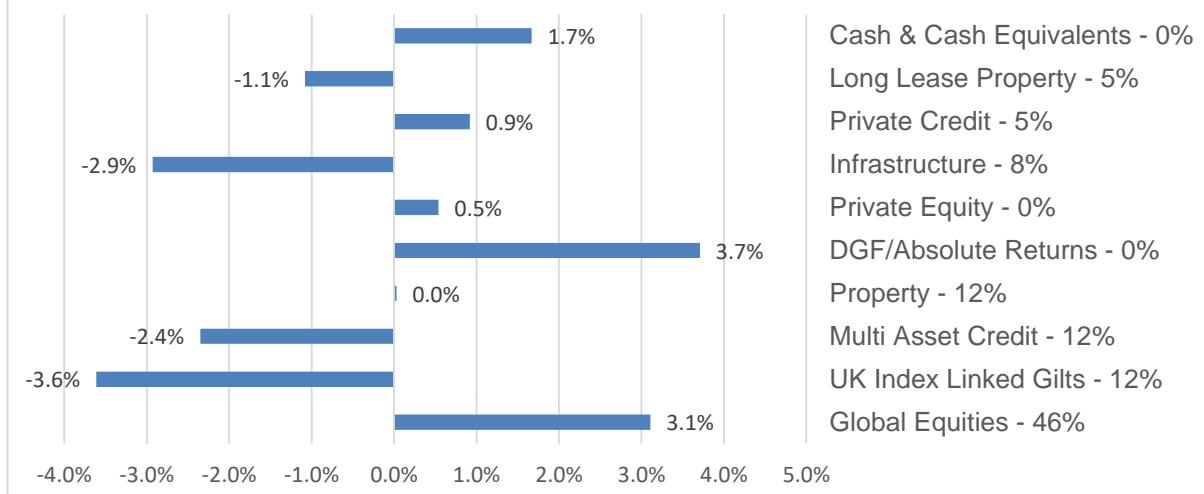
### 3. Asset Allocation

The current asset allocation, the key strategic tool for the Committee, is in the table below.

Current Asset Allocation by Asset Class

ASSET CLASS	Market Value as of 01 April 2023	Actual Asset Allocation as of 01 April 2023	Market Value as of 30 Sept 2023	Actual Asset Allocation as of September 2023	Benchmark Allocation	Market Value as of 30 November 2023
	£'000	%	£'000	%	%	£'000
Global Equities	562,149	48	581,441	49.11	46.00	570,318
UK Index Linked Gilts	111,642	9	99,369	8.39	24.00	98,091
Multi Asset Credit	110,959	9	114,195	9.65		113,579
Property	148,291	13	142,407	12.03	12.00	147,354
DGF/Absolute Returns	47,406	4	43,956	3.71	0.00	44,133
Private Equity	6,666	1	6,367	0.54	0.00	5,897
Infrastructure	54,771	5	60,022	5.07	8.00	59,241
Private Credit	75,923	6	70,061	5.92	5.00	70,738
Long Lease Property	47,386	4	46,351	3.92	5.00	46,724
Cash & Cash Equivalents	16,650	1	19,736	1.67	0.00	19,462
<b>Totals</b>	<b>1,181,843</b>	<b>100.00</b>	<b>1,183,905</b>	<b>100.00</b>	<b>100</b>	<b>1,175,537</b>

## Assets Relative to Benchmark Allocation 30 September 2023



Highlights of transactions during the quarter under review:

Total gross drawdown of £1m by LCIV Infrastructure Fund in the period under review.

- During the quarter, distributions received totalled £4.0m from Permira Private Debt, \$31k & Euro 53k from Private Equity and US\$2.2m from Macquarie Infrastructure.

Undrawn commitments on 30 September 2023 are as follows:

- £3.2m (8% of commitment) awaiting drawdown on Private Credit (Permira).
- £14.7m (27% of commitment) to London CIV Infrastructure Fund. These funds are currently held in the LCIV Ruffer Absolute Return Fund.
- £2.8m in for the AEW Urban Renewal property fund.
- LCIV Private Debt £22.9m (33% of commitment).

## 4. Investment Managers

The assets of the Fund are invested with a number of underlying managers and portfolios and in a range of passive and active mandates, including a mix of liquid and illiquid allocations to reflect the Fund's long-term horizon. The table below provides a breakdown of asset class and manager.

Current Asset Allocation by Manager		Market Value As of 30 Sept 2023	Actual Asset Allocation	Market Value As of 30 November 2023
FUND MANAGER	ASSET CLASS	£'000	%	£'000
ADAMS STREET	Private Equity	4,340	0.37	3,989
LGT	Private Equity	1,986	0.17	1,908
AEW	Property	68,296	5.77	72,960
LCIV MAC Fund	Multi Asset Credit	114,195	9.65	113,579
LCIV - Baillie Gifford	Global Equities	52,704	4.45	53,964
LCIV - RUFFER	DGF/Absolute Returns	43,956	3.71	44,133

LCIV - STEPSTONE	Infrastructure	44,537	3.76	44,604
LCIV - Private Debt	Private Credit	50,938	4.30	50,938
M&G	Private Credit	666	0.06	655
MACQUARIE	Infrastructure	15,485	1.31	14,637
PERMIRA	Private Credit	18,457	1.56	19,145
LGIM	Global Equities	307,443	25.97	299,659
	LPI Property	46,351	3.92	46,724
	Future World	221,265	18.69	216,666
	UK Index Linked Gilts	99,369	8.39	98,091
UBS EQUITIES	UK Equities	29	0.00	29
	Property	22	0.00	22
	Private Equity	41	0.00	0
UBS PROPERTY	Property	74,089	6.26	74,372
	Cash & Cash Equivalents	3,277	0.28	3,034
Non-Custody	Cash & Cash Equivalents	16,459	1.39	16,428
		<b>1,183,905</b>	<b>100</b>	<b>1,175,537</b>

## 5. Market and Investment/Economic outlook (Sept 23 provided by London CIV)

The tug of war between bond and equity investors continued in the third quarter. Equities were firmly in the ascendancy in July. Consistent with the theme in Q2, leadership was concentrated in a small number of companies perceived to be at the vanguard of the commercialisation of artificial intelligence applications.

China was also an important driver because local stocks benefitted from government measures to stimulate growth, shore up local government finances and accelerate the restructuring of the property sector. This helped propel the MSCI Emerging Markets Index to a gain of almost 5% in July (in Sterling terms), 2.8% more than the MSCI World Index. The positive momentum in emerging markets equities proved to be short-lived. Although the MSCI Emerging Markets Index outperformed the MSCI World Index by a small margin in Q3, emerging markets stocks have underperformed developed markets companies (using the MSCI indices as proxies) by more than 9% in the first nine months of 2023.

Bond markets remained volatile, with yields on government debt moving sharply as expectations changed with the release of updated activity and inflation data. Despite the improvement in the trend rate of inflation, tempered partly by rising oil prices, the prevailing theme was one of rising yields, particularly on long dated debt.

The root cause of the big moves in bond markets in Q3 was a change in thinking on the path of monetary policy. In short, the narrative has shifted away from central banks moving to cut benchmark rates in 2024, to rates staying higher for longer to combat persistent inflation linked to factors such as pressure on wages, the cost of adapting supply chains and the cost of implementing decarbonisation measures.

In the United States, the effects of this shift in expectations were amplified by concerns about the high cost of defying recession, specifically deteriorating budget

balances, an explosion of national debt and the risk of more downgrades in credit ratings. The threat of another shutdown of the U.S. federal government also came back into focus.

Rates staying 'higher for longer' is not necessarily inconsistent with the soft-landing scenario which has been a focus in recent months. Indeed, consensus expectations for GDP growth in the G8 economies have increased to 1.5% for 2023, up from 1% in our previous update.

The U.S. has shown that it can continue to expand despite the sharp increase in interest rates. However, the slow effects of policy changes have not fully worked their way through the system yet, and evidence is growing that consumers, and companies which are relatively highly exposed to rising input costs, are struggling.

The U.K. and Europe look fragile in the absence of big fiscal programmes and more persistent sensitivity to pressures on input prices and wages, and Asia is weighed down by sluggishness in the Chinese economy.

The realisation that risks to revenue and earnings growth had increased eventually prompted a reversal in sentiment in the equity markets. Post-summer blues set in and by the end of Q3, the gains recorded by the MSCI World Index had been wiped out. The return was positive in Sterling terms (+0.6%) because of the 4% decline in the value of the currency against the U.S. Dollar during the quarter.

The reversal of stock markets was caused primarily by a contraction in valuation multiples. Forecast earnings growth has not changed much, except perhaps in the consumer discretionary and industrial sectors, despite the risks to the outlook for growth.

The response was similar in credit markets. Spreads on corporate debt didn't change much, and high yield bonds, which are less sensitive to changes in interest rates than investment grade debt, outperformed. Credit investors do not appear to be overly concerned about downside risk, perhaps because valuations are not perceived to be extended. On the other hand, the debate about whether spreads on high yield debt are adequate to compensate for heightened default risk continues.

The moves in Q3 illustrate the effects of regime change: rapid changes in sentiment and capital flows which drive surges in volatility, and at times, anomalies in the valuation of assets. These rapid shifts are challenging for investors, but economies, industries and companies will adapt to the new order at different paces, and different levels of success. This will create opportunities for investors who can take a long-term perspective.

## **Outlook**

The most interesting pockets of value at the time of writing were in government bonds. Real yields have turned positive, and bond and multi-asset investors have more appetite for interest rate risk, whilst being mindful of volatility. Credit spreads are hovering near the mid-point of their long-term valuation ranges, but technical factors are driving anomalies in specific areas, such as in the market for mortgage-backed securities ('MBS'). Allocations to MBS in the LCIV Global Bond Fund and LCIV MAC Fund have increased.

Equities, and growth stocks especially, don't offer a premium for risk. However, broad indices are skewed to the relatively high valuations of North American technology and communications stocks, and there are pockets of value in other sectors and regions. Japanese companies are

back in focus based on valuations and the view that improvements in corporate governance are having a meaningful impact. Emerging markets stocks also look interesting from a valuation perspective after an extended period of underperformance.

LCIV is disappointed with the performance of most of the equity and multi-asset funds on the London CIV platform this year. LCIV has specific concerns about some of their Sub-funds, but the investment managers employed on our behalf have continued to apply the investment philosophies and processes which have served them well over the long-term. They are also taking care to assess climate and other ESG risks and opportunities when making decisions. LCIV is hopeful that the care taken to select investments for our Sub-funds will be reflected in improved performance in the coming quarters.

### **Next Step on Investments Consultation Update**

Alongside a broad range of pensions proposals included in the Autumn Statement, there were references to the LGPS with key points detailed below:

#### **Pooling**

- 2025 stays as the pooling transition deadline for transition of liquid assets to the pool on a comply or explain basis.
- The Government Actuary's Department estimate that the LGPS could reach around £950 billion in assets in 2040, the government is therefore looking towards a smaller number of pools with assets under management averaging £200 billion.
- Revised guidance will include a preferred model of pooling which is expected to be adopted over time based on “characteristics and outcomes” rather than prescribed structures. Inter-pool collaboration encouraged.
- Investment in other pools should only be done via a Fund’s existing pool.
- Greater transparency on reporting to be developed in conjunction with the Scheme Advisory Board (SAB).

#### **Levelling Up**

- Government keen to maintain a broad definition of levelling up but UK wide.
- Where scale for local investment is an issue funds may wish to continue to invest outside the pool.
- 5% investment in levelling up remains an ambition, but recognises it is not a separate asset class.

#### **Private Equity**

- On private equity (PE) the Government remains committed to unlocking capital to support growth businesses. However, “investment in the UK is particularly welcome but it is not proposed to restrict this ambition to investments in private equity in the UK”.
- 10% investment in PE remains an ambition and would not be mandated (need to still take into account fiduciary duty). 10% does relate to PE, but funds can also include other investments in private markets outside of this where appropriate on risk / return grounds.
- Pools to be encouraged to strengthen partnerships with British Business Bank (BBB) to support opportunities in venture capital and growth equity.

#### **CMA Objective Setting for Advisers**

- LGPS regulations will be amended to require objective setting for all advisers including consultants, pools and independent advisers when providing advice on investments, investment strategy statements, strategic asset allocation and manager selection.

## **Governance and Other**

- Requirement to formally publish a training policy for Pension Committee Members and to report on training undertaken.
- LGPS definition of investments amendment to be made in regulations.
- Guidance to be issued to increase consistency of reporting on asset allocation in annual reports, working with the Scheme Advisory Board.

## **FINANCIAL IMPLICATIONS**

The financial implications are contained within the body of the report.

## **LEGAL IMPLICATIONS**

There are no legal implications in the report.

# London Borough of Hillingdon Pension Fund

## Funding update report at 30 September 2023

This report is addressed to the Administering Authority of the London Borough of Hillingdon Pension Fund. This document should be read in conjunction with the fund's current Funding Strategy Statement.

The purpose of this report is to provide the funding position of the London Borough of Hillingdon Pension Fund as at 30 September 2023 and show how it has changed since the previous valuation at 31 March 2022. This report has not been prepared for use for any other purpose and should not be so used. The report should not be disclosed to any third party except as required by law or regulatory obligation or with our prior written consent. Hymans Robertson LLP accept no liability where the report is used by or disclosed to a third party unless such liability has been expressly accepted in writing. Where permitted, the report may only be released or otherwise disclosed in a complete form which fully discloses the advice and the basis on which it is given.

The figures presented in this report are prepared only for the purposes of providing an illustrative funding position and have no validity in other circumstances. In particular, they are not designed to meet regulatory requirements for valuations.

This report also contains the data and assumptions underlying the results and the reliances and limitations which apply to them.

## 1 Results

### 1.1 Funding position update

The table below shows the estimated funding position at 31 March 2022 and 30 September 2023.

Please note that the asset value at 30 September 2023 shown in this report may differ to the actual asset value at that date because it is an estimate based on estimated cashflows (see section 3.2). However, the estimated value is consistent with the liabilities and therefore gives a more reliable estimate of the funding position than the actual asset value at the same date.

The table also shows what assumed investment return would be required at each date for the deficit to be exactly zero, along with the likelihood of the investment strategy achieving this return. An increase in this likelihood corresponds to an improvement in the funding position.

Monetary amounts in £bn	Ongoing basis	
	31 March 2022	30 September 2023
<b>Assets</b>	1.26	1.19
<b>Liabilities</b>		
– Active members	0.39	0.28
– Deferred pensioners	0.37	0.24
– Pensioners	0.67	0.53
<b>Total liabilities</b>	1.43	1.05
<b>Surplus/(deficit)</b>	(0.17)	0.14
<b>Funding level</b>	88%	113%
<b>Required return assumption (% pa) for funding level to be 100%</b>	4.9%	5.6%
<b>Likelihood of assets achieving this return</b>	60%	81%

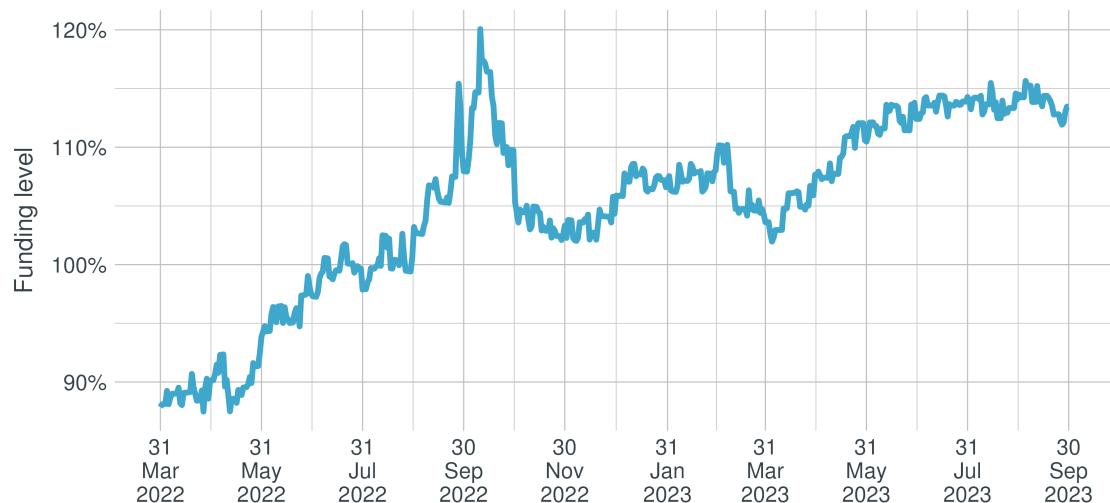
## 1.2 Funding level range chart

The chart below shows how the funding level varies with the assumed rate of future investment returns, comparing the position at 31 March 2022 with the updated position at 30 September 2023. The percentages next to each point show the likelihood of the investment strategy achieving that return (for further details see section 3.4). The solid coloured point indicates the assumed future investment return and funding level on the Ongoing basis.



## 1.3 Funding level progression

The chart below shows the estimated funding level (ratio of assets to liabilities) over time between 31 March 2022 and 30 September 2023. It allows for changes in market conditions and other factors described in Appendix A. If the fund has moved to a different basis since 31 March 2022 this may give rise to step changes in the funding level on the date of the change.



## 2 Next steps

### 2.1 Understanding the results

The results at 30 September 2023 in this report are estimates based on rolling forward the fund's funding position from 31 March 2022. You should understand the methodology and limitations of this approach described in appendices A and B.

Decisions should not be based solely on these results and your Hymans Robertson LLP consultant should be contacted to discuss any appropriate action before any is taken. Please also bear in mind that the information is estimated and consider other factors beyond the funding level or surplus/deficit. These could include, but are not limited to, changes to investment strategy, membership profile and covenant strength (where relevant).

Please get in touch with your usual Hymans Robertson contact if you wish to discuss the results in this report further.

## 3 Data and assumptions

### 3.1 Membership data

The membership data underlying the figures in this report was supplied by the fund for the purpose of the valuation at 31 March 2022 and is summarised below:

31 March 2022	Number	Average age	Accrued benefit (£k pa)	Payroll (£k pa)
<b>Active members</b>	8,691	53.2	23,167	152,450
<b>Deferred pensioners</b>	12,903	53.1	20,151	
<b>Pensioners and dependants</b>	7,675	69.6	42,417	

The membership is assumed to evolve over time in line with the demographic assumptions described in the Funding Strategy Statement. Please see Appendix A for details of the rollforward methodology which includes the estimated changes in membership data which have been allowed for.

### 3.2 Cashflows since the valuation at 31 March 2022

We have allowed for the following cashflows in estimating the assets and liabilities at 30 September 2023. Cashflows are assumed to be paid daily. Contributions are based on the estimated payroll, certified employer contributions (including any lump sum contributions) and the average employee contribution rate at 31 March 2022. Benefits paid are projections based on the membership at 31 March 2022.

Estimated cashflows (£k)	31 March 2022 to 30 September 2023
<b>Employer contributions</b>	59,967
<b>Employee contributions</b>	15,865
<b>Benefits paid</b>	78,803
<b>Transfers in/(out)</b>	0

### 3.3 Investment returns since the valuation at 31 March 2022

Investment returns are based on actual returns where available and index returns otherwise.

Investment strategy	Actual/index	From	To	Return
Whole fund	Actual	1 April 2022	30 September 2023	(5.65%)

The total investment return for the whole period is (5.65%).

### 3.4 Financial assumptions

The financial assumptions used to calculate the liabilities are detailed below. For further details please see the Funding Strategy Statement.

Assumption	31 March 2022	30 September 2023
<b>Funding basis</b>	Ongoing	Ongoing
<b>Discount rate methodology</b>	Expected returns on the Whole Fund strategy over 20 years with a 70% likelihood	Expected returns on the Whole Fund strategy over 20 years with a 70% likelihood
<b>Discount rate (% pa)</b>	4.1%	6.4%
<b>Pension increase methodology</b>	Expected CPI inflation over 20 years with a 50% likelihood	Expected CPI inflation over 20 years with a 50% likelihood
<b>Pension increases (% pa)</b>	2.7%	2.3%

Salary increases are assumed to be 0.5% pa above pension increases, plus an additional promotional salary scale.

### 3.5 Demographic assumptions

Demographic assumptions are set out in the Funding Strategy Statement. All demographic assumptions, including longevity assumptions, are the same as at the most recent valuation at 31 March 2022.

Life expectancies from age 65, based on the fund's membership data at 31 March 2022, are as follows. Non-pensioners are assumed to be aged 45 at that date.

Life expectancy from age 65 (years)	Ongoing basis	
	Male	Female
Pensioners	22.3	24.8
Non-pensioners	23.0	26.0

## Appendix A - Technical information

### A.1 Funding update methodology

The last formal valuation of the fund was carried out as at 31 March 2022. The results in this report are based on projecting the results of this valuation forward to 30 September 2023 using approximate methods. The rollforward allows for

- estimated cashflows over the period as described in section 3.2;
- investment returns over the period (estimated where appropriate) as described in section 3.3;
- changes in financial assumptions as described in section 3.4;
- estimated additional benefit accrual.

The CARE, deferred and pensioner liabilities at 30 September 2023 include a total adjustment of 7.2% to reflect the difference between actual September CPI inflation values (up to 30 September 2022) and the assumption made at 31 March 2022. The adjustment for each year's actual inflation is applied from 31 October that year, cumulative with prior years' adjustments, which may lead to step changes in the funding level progression chart.

In preparing the updated funding position at 30 September 2023 no allowance has been made for the effect of changes in the membership profile since 31 March 2022. The principal reason for this is that insufficient information is available to allow me to make any such adjustment. Significant membership movements, or any material difference between estimated inputs and actual ones, may affect the reliability of the results. The fund should consider whether any such factors mean that the rollforward approach may not be appropriate.

No allowance has been made for any early retirements or bulk transfers since 31 March 2022. There is also no allowance for any changes to Local Government Pension Scheme (LGPS) benefits except where noted in the formal valuation report or Funding Strategy Statement.

### A.2 Sensitivity of results to assumptions

The results are particularly sensitive to the real discount rate assumption (the discount rate net of pension increases) and the assumptions made for future longevity.

If the real discount rate used to value the accrued liabilities was lower than the value placed on those liabilities would increase. For example, if the real discount rate at 30 September 2023 was 1.0% pa lower than the liabilities on the Ongoing basis at that date would increase by 17.6%.

In addition, the results are sensitive to unexpected changes in the rate of future longevity improvements. If life expectancies improve at a faster rate than allowed for in the assumptions then, again, a higher value would be placed on the liabilities. An increase in life expectancy of 1 year would increase the accrued liabilities by around 3-5%.

## Appendix B - Reliances and limitations

The last formal valuation of the fund was carried out as at 31 March 2022 and these calculations rely upon the results of that valuation. The reliances and limitations that applied to that valuation apply equally to these results. The results of the valuation have been projected forward using approximate methods. The margin of error in these approximate methods increases as time goes by. The method may not be appropriate if there have been significant data changes since the previous formal valuation (for example redundancy exercises, significant unreduced early retirements, ill health retirements and bulk transfers). The methodology assumes that actual experience since the valuation at 31 March 2022 has been in line with our expectations.

The data used in this exercise is summarised in section 3. Data provided for the purposes of the formal valuation at 31 March 2022 was checked at the time for reasonableness and consistency with other sources. Data provided since then (eg actual investment returns) has been used as-is. The data is the responsibility of the Administering Authority and the results rely on the data.

The results in this schedule are based on calculations run on 23 November 2023 using the data set out in section 3. Any other factors coming to light after this report was prepared have not been allowed for and could affect the results. If any data has materially changed since 23 November 2023 the results could be materially different if they were recalculated.

Some financial assumptions may be based on projections from our Economic Scenario Service (ESS) model which is only calibrated at each monthend. Results between monthends use the latest available calibration, adjusted in line with the movement in market conditions. This adjustment is approximate and there may be step changes at monthend dates when a new ESS calibration is factored in.

The methodology underlying these calculations mean that the results should be treated as indicative only. The nature of the fund's investments means that the surplus or deficit identified in this report can vary significantly over short periods of time. This means that the results set out should not be taken as being applicable at any date other than the date shown.

As with all modelling, the results are dependent on the model itself, the calibration of the underlying model and the various approximations and estimations used. These processes involve an element of subjectivity and may be material depending on the context. No inferences should be drawn from these results other than those confirmed separately in writing by a consultant of Hymans Robertson LLP.

Decisions should not be based solely on these results and your Hymans Robertson LLP consultant should be contacted to discuss any appropriate action before any is taken. Hymans Robertson LLP accepts no liability if any decisions are based solely on these results or if any action is taken based solely on such results.

This report complies with the relevant Technical Actuarial Standards.

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# Agenda Item 8

## RESPONSIBLE INVESTMENTS UPDATE

## ITEM 8

Committee	Pensions Committee
Officer Reporting	James Lake & Babatunde Adekoya, Finance
Papers with this report	Full manager voting - Shared drive. LGIM Climate Impact Pledge – Shared Drive. LAPFF Business Meeting – Shared Drive LAPFF Quarterly Engagement report – Shared Drive LCIV TCFD Report

### HEADLINES

Environmental, Social, and Governance (ESG) refers to the three central factors in measuring the sustainability and societal impact of an investment in a company or business. These criteria help to better determine the future financial performance of companies (return and risk).

The purpose of this report is to provide information on how managers entrusted with investing the Pension Fund assets are implementing their ESG policies and demonstrate their commitment to ensuring it is a cogent part of their investment process.

In addition, the report details the progress on the UK Stewardship Code project, policy updates and other relevant information.

### RECOMMENDATIONS

**It is recommended that Pensions Committee:**

1. Note the fund managers' ESG activities and compliance efforts
2. Note LAPFF activities

### SUPPORTING INFORMATION

#### Voting and Engagement

Fund managers carry out proxy voting on the Pension Fund's behalf. Below is a breakdown of voting statistics by LGIM, and London CIV (Ruffer and Baillie Gifford). The London CIV itself, through Federated Hermes EOS, also exercised voting rights at 11 meetings.

Fund Managers Voting Breakdown Q3, 2023					
LCIV	Meetings	Resolutions	Votes With	Against	Abstention/Non-Voting
Sep-23					
LCIV - Ruffer	5	67	65	1	1
LCIV - Baillie Gifford	6	88	67	16	5
	11	155	132	17	6
%			85.16	10.97	3.87
LGIM	Meetings	Resolutions	Votes With	Against	Abstention
Jun-23	1,731	14,095	10,849	3,023	223
	1,731	14,095	10,849	3,023	223
%			76.97	21.45	1.58

The volume of meetings attended, and resolutions voted on by all the fund managers shown above encapsulate their commitment to ESG issues and demonstrates alignment of their stewardship activities with their own investment beliefs, policies, and guidelines. Through this approach, they seek to be active owners on behalf of their clients, by encouraging good governance and a high standard of corporate practices.

The voting breakdown above indicates LGIM have voted against proposed management resolutions on 21% of voting opportunities and supported resolutions on approximately 77% of occasions. The London CIV and two equities portfolio managers, Ruffer and Baillie Gifford combined to back various management resolutions on 85% of voting opportunities and about 11% against the resolutions proposed by company managements. Abstentions for LGIM and LCIV were 2% & 4% respectively.

## Engagement

ESG factors play an increasingly important role in determining the performance of certain assets. Pension Fund asset managers, as part of their ESG commitments undertake various engagement activities in their holistic approach in making investment decisions. These activities aim to affect changes within invested companies where it is deemed necessary or to complement existing practices.

## LCIV

During the quarter under review Federated Hermes on behalf of the LCIV engaged 141 companies on 471 issues on ESG and Strategy, Risk and Communications, Globally.

## LGIM

### Holding boards to account

To be successful, companies need to have people at the helm who are well equipped to create resilient long-term growth. By voting and engaging directly with companies, LGIM encourages management to control risks while seeking to benefit from emerging opportunities. The manager aims to safeguard and enhance clients' assets by engaging with companies and holding management to account for their decisions. Voting is an important tool in this process, and one which they use extensively.

## **Creating sustainable value**

LGIM believe it is in the interest of all stakeholders for companies to build sustainable business models that are also beneficial to society. They work to ensure companies are well-positioned for sustainable growth, and to prevent market behaviour that destroys long-term value. Their investment process includes an assessment of how well companies incorporate relevant ESG factors into their everyday thinking. The manager engages directly and collaboratively with companies to highlight key challenges and opportunities, and support strategies that seek to deliver long-term success.

## **Promoting market resilience**

As a long-term investor for its clients, it is essential that markets (and, by extension, the companies within them) are able to generate sustainable value. In doing so, LGIM believe companies should become more resilient amid change and therefore, seek to benefit the whole market. They use their influence and scale to ensure that issues affecting the value of clients' investments are recognised and appropriately managed. This includes working with key policymakers, such as governments and regulators, and collaborating with asset owners to bring about positive change across markets as a whole.

## **Environment**

### **Nature - NA100 collaboration**

LGIM is now a formal member of Nature Action 100 (NA100), a global investor initiative co-led by Ceres and the IIGCC (with support from Finance for Biodiversity and Planet Tracker). Focused on corporate engagement, NA100 aims to encourage greater corporate ambition and action on nature and biodiversity loss, by setting a common agenda and clear set of expectations for companies. 190 institutional investor participants – representing US\$23.6 trillion in assets under management or advice – have joined NA100 and will be participating in direct engagement with 100 companies through the initiative.

Joining NA100 is an important part of acting on the commitments LGIM has made regarding collaboration and knowledge-sharing under the Finance for Biodiversity Pledge, as set out in our biodiversity policy.

As corporate disclosure and assessments of companies' interactions with nature continue to evolve rapidly, LGIM would hope that NA100 membership will provide both resources and insights that will help them develop their expectations and understanding in this area. LGIM also note that NA100 is being framed broadly through a focus on sectors that are major drivers of nature loss through their impact upon natural habitats, overexploitation of resources, and soil, water and solid waste pollution.

## **Social**

### **Income inequality**

#### **Identify and engage**

LGIM believe that failure to address the issues of income inequality and poverty can pose a material risk to investee companies. LGIM focus is on in-work poverty. This includes workers within a company's direct operations and workers within their supply chains. Some of the risks to

a company in perpetuating poverty wages include lower morale and productivity, higher levels of absenteeism and presenteeism, higher rates of staff turnover which results in recruitment and training costs, increase in theft, reputation loss.

LGIM believe paying a living wage to workers present businesses with opportunities such as improved morale, productivity, higher retention rates, improved mental and physical health. Income inequality can also represent a major risk for companies: according to the US Bureau of Labor Statistics, the cost of absenteeism to businesses in the US in 2018 was US\$150 billion per year, and it has been estimated that employees who are demotivated, burned out, or unproductive due to other health reasons cost US\$1,500 billion per year.

Over the quarter, the manager broadened its corporate engagement on income inequality. It launched a first engagement campaign, which carries with it a voting sanction for those companies that fail to meet their minimum expectations. They targeted the food retail sector, as it believes these companies to be generally more resilient due to the community service they provide, and financially less impacted by the COVID-19 pandemic than other sectors. It is also a sector with a high proportion of its workforce earning low wages.

LGIM identified 15 supermarket retailers in developed economies as targets for this campaign. We have chosen these companies because of their size and influence. The companies are:

- North America: Costco, Kroger, Target and Walmart
- UK: Tesco, Sainsbury
- Europe: Ahold Delhaize, Carrefour, Casino, Metro
- Japan: Lawson, Seven & I, Aeon Co.
- Australia: Woolworths, Coles

### **Escalate**

The manager has written to these companies setting out their expectations of them and the timeframe in which they expect these expectations to be met.

LGIM plan to engage directly with these companies over the coming year and assess their progress. If, by 2025, these companies have failed to provide the disclosures set out in our minimum expectations, the manager will:

- Vote against the re-election of the Chair or Chair/CEO or President
- Pre-declare their voting intentions

### **Governance**

#### **Stock exchange engagement campaign**

##### **Identify**

Having begun engagement campaign on diversity in some emerging markets, one of the conclusions was the understanding that engagement between investors and companies needs to be aligned with international capital markets' expectations.

LGIM see a potential opportunity to engage with stock exchanges which have an important role in terms of driving improvements in market standards, from setting listing rules to strengthening disclosure requirements. We hope to leverage their position through engagement on a number of our global investment stewardship themes. Additionally, we aim to raise awareness with these

key stock exchanges of LGIM's work on these material themes, including diversity, governance, climate, nature, and transparency.

LGIM has taken the following factors into consideration when identifying markets for our stock exchange engagement campaign:

- Markets where progress is lagging – referencing UN stock exchange analysis and our transparency theme work outlining own transparency and corporate reporting requirements to reflect the dynamic regulatory environment and increased expectations of companies
- Markets that have not promoted global reporting framework alignment, or markets that need to do more work to improve the quality of disclosure
- Markets where LGIM holds investments on behalf of our clients, and where we have established relationships

The preliminary stock exchanges we are targeting for our campaign include:

- Singapore Stock Exchange (SGX)
- Stock Exchange of Thailand (SET)
- Stock Exchange of Hong Kong (HKEX)
- Tokyo Stock Exchange (TSE) in Japan, Korea Exchange (KRX)
- Bursa Malaysia, and
- São Paulo Stock Exchange

## **Engage and escalate**

In terms of the themes, LGIM will focus on and specific engagement objectives, they have prioritised those where they believe stock exchanges have a fundamental role in driving the positive changes the manager seek. Within these, LGIM will select what they consider to be the most relevant topics and refine their market-specific objective.

LGIM will review the progress of the campaign and adjust as appropriate to reflect progress and the results of our engagement.

## **LAPFF**

During the quarter LAPFF issued a number of voting alerts which have been shared with LGIM for their consideration. (LCIV receive directly)

The Local Authority Pension Fund Forum (LAPFF) recently published its latest quarterly engagement report covering July-September 2023. The report details all the forum's activities over the quarter under review.

Highlights include:

- LAPFF welcomes its new member, the ACCESS pool, bringing the membership to 87 LGPS funds and seven pooled companies.
- LAPFF engages with global insurers on approaches to decarbonisation and natural resources.
- The 'Say on Climate' initiative grows to encourage more companies to put a vote on climate transition plans.
- Mining and Human Rights engagements continue with Anglo American, BHP, Glencore, Rio Tinto, and Vale and with a new mining company, Grupo Mexico, as LAPFF was

approached by community members affected by a 2014 leak at one of the company's tailings ponds in Sonora, Mexico.

- LAPFF's chair, Cllr Doug McMurdo, meets the chairs of three water companies to ensure that reputational risks and regulatory scrutiny around environmental performance are addressed.
- LAPFF meets with Volkswagen and Volvo Group, both for the first time, on the issue of critical mineral sourcing.
- Doug McMurdo meets the chair of Shell to discuss its unsatisfactory Energy Transition Plan.
- LAPFF joins calls with Mizuho Financial Group, China Construction Bank (CCB), and Huaneng Power through Asia Research and Engagement's Energy Transition Platform.

The latest QER can be found alongside others on the LAPFF website here: [Quarterly Engagement Reports | Publications Categories | LAPFF \(lapfforum.org\)](https://lapfforum.org/)

Cllr Mathers and Cllr Burles attended the Mid-Year Conference and Business Meeting on behalf of the Fund. These were held on the same day.

The quarterly engagement report is on the members shared drive and provides details on the initiatives undertaken by LAPFF.

## **London CIV**

The updated LCIV voting tracker to allows members to understand where LCIV and LAPFF are aligned and to highlight any differences which Committee may wish to explore, is due to be updated for Q1 2024 reporting.

In September 2023 London CIV issued their latest Taskforce on Climate Related Financial Disclosure TCFD report. Headlines include:

- 66% of assets under management (AUM) covered in climate risk analysis.
- Net zero target of 2040 and operationally 2025.
- 3.14% of AUM allocated towards renewable energy infrastructure.
- 36.2% carbon intensity reduction in 2022 across direct + first-tier indirect emissions
- 43% relative climate performance of the LCIV consolidated pool against the MSCI World
- The fossil fuel exposure was reduced by 62% to reach 3.18% in 2022
- London CIV is currently aligned with a 2-3°C warming scenario. Emissions are approximately 5% higher than the emissions allowed for a 2°C carbon balance.

## **FINANCIAL IMPLICATIONS**

ESG initiatives circa £95,000 for 22/23.

## **LEGAL IMPLICATIONS**

Legal implications are included in the report.

<b>Pension Fund Risk Register</b>		<b>Item 9</b>
Committee	Pension Committee	
Officer Reporting	Tunde Adekoya, Finance	
Papers with this report	Pension Fund Risk Register	

## HEADLINES

The purpose of this report is to identify to the Pension Committee the main risks to the Pension Fund and to enable them to monitor and review going forward (see Appendix). There are two risks which are red.

## RECOMMENDATIONS

**It is recommended that Pensions Committee:**

- Consider the Risk Register in terms of the approach, the specific risks identified, and the measures being taken to mitigate those current risks.

## SUPPORTING INFORMATION

The specific risk matrix for the Pension Fund allows better classification of the risks than would be possible through the Council's standard risk matrix. The significance of risks is measured by interaction of the likelihood of occurrence (likelihood) and by the potential damage that might be caused by an occurrence (impact). The risks are also RAG rated to identify level.

There are currently 13 risks being reported upon. Whilst there are many more risks which could be identified for the Fund, those identified are the most significant and those which are actively managed.

Each risk has been explained, along with details of the actions in place to mitigate that risk. The progress comment column provides the latest update in respect of the impact of those mitigating actions. The Direction of Travel (DOT) has also been included.

There has been no change in terms of the status of the risks included in the register.

## FINANCIAL IMPLICATIONS

The financial implications are contained in the risk register attached.

## LEGAL IMPLICATIONS

The legal implications are contained in the risk register attached.

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**Pension Fund Risk Register 2023/24**

Description	Actions in Place	Progress Comment	Risk Category / Rating / DOT	Lead Officer / Committee Member	Date of last review
PEN 01 - Fund assets fail to deliver returns in line with the anticipated returns underpinning valuation of liabilities over the long-term	<ol style="list-style-type: none"> <li>1. Anticipate long-term return on a relatively prudent basis to reduce risk of failing to meet return expectations. Funding Strategy outlines key assumptions that must be achieved in agreeing rates with employers for a significant chance of successfully meeting the funding target.</li> <li>2. Analyse progress at three yearly valuations for all employers.</li> <li>3. Undertake Inter-valuation monitoring.</li> </ol>	<p>With the assistance of Hymans quarterly funding report, the position is kept under regular review and Pension Committee is informed of the impact of prevailing market conditions on the funding level</p> <p>The 2022 initial triennial valuation results show a marginal improvement on the 2019 valuation.</p> <p>A revised investment strategy is being developed to be robust in volatile market conditions..</p> <p>The current position should be viewed with caution as there is still much uncertainty relating to economic growth and inflation, however the objectives of the fund are long term and the portfolio is well positioned to withstand volatility over the long term.</p> <p>Officers are closely monitoring developments and liaising with fund managers and advisors.</p> <p>Member cashflow continues to be monitored.</p>	Strategic risk Likelihood = Significant Impact = Large Rating = C2 (Static)	James Lake / Cllr Mathers	13/12/23
PEN 02 - Inappropriate long-term investment strategy	<ol style="list-style-type: none"> <li>1. Set Pension Fund specific strategic asset allocation benchmark after taking advice from investment advisers, balancing risk and reward, based on historical data.</li> <li>2. Keep risk and expected reward from strategic asset allocation under review.</li> <li>3. Review asset allocation formally on an annual basis.</li> <li>4. Asset allocation reported quarterly to committee.</li> <li>5. Officer and advisers actively monitors this risk.</li> </ol>	<p>A separate Officer and Advisor working group regularly monitors the investment strategy and develops proposals for change / adjustment for Pension Committee consideration.</p> <p>The impact of each decision is carefully assessed to ensure that long-term returns are being achieved and are kept in line with liabilities.</p> <p>In May 2021, a new Pension Sub-Group was established to allow Members, advisers and officers to meet regularly and provide a platform for greater oversight and scrutiny of Fund investments.</p> <p>A revised Investment Strategy Statement will be prepared in line with the triennial valuation process.</p>	Strategic risk Likelihood = Low Impact = Large Rating = E2 (Static)	James Lake / Cllr Mathers	13/12/23
PEN 03 - Active investment manager under-performance relative to benchmark	<ol style="list-style-type: none"> <li>1. The structure includes active and passive mandates and several managers are employed to diversify the risk of underperformance by any single manager.</li> <li>2. Short term investment monitoring provides alerts on significant changes to key personnel or changes of process at the manager.</li> <li>3. Regular monitoring measures performance in absolute terms and relative to the manager's index benchmark, supplemented with an analysis of absolute returns against those underpinning the valuation.</li> <li>4. Investment managers would be changed following persistent or severe under-performance.</li> </ol>	<p>The Fund is widely diversified, limiting the impact of any single manager on the Fund.</p> <p>Active monitoring of each manager is undertaken with Advisors and Officers meeting managers on a quarterly basis and communicating regularly.</p> <p>The LCIV as pool is increasingly managing more assets on the funds behalf as per regulation. The Fund has been in consultation with LCIV regarding improved oversight, reporting and communication; requested improvements have mostly been implemented.</p> <p>Comments on whether mandates should be maintained or reviewed are included quarterly and where needed specific performance issues will be discussed and reviewed.</p> <p>Action is taken to remove under-performing managers where appropriate.</p>	Strategic risk Likelihood = Low Impact = Small Rating = E4 (Static)	James Lake / Cllr Mathers	13/12/23
PEN 04 - Inflation - Pay and price inflation significantly more than anticipated	<ol style="list-style-type: none"> <li>1. The focus of the actuarial valuation process is on real returns on assets, net of price and pay increases. The actuarial basis examines disparity between the inflation linking which applies to benefits of Deferred and Pensioner members as well as the escalation of pensionable payroll costs which only applies to active members, and on which employer and employee contributions are based.</li> <li>2. Inter-valuation monitoring gives early warning and investment in index-linked bonds also helps to mitigate this risk.</li> <li>3. 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.</li> <li>4. Covenant's are in place with security of a guarantee or bond for admission agreements.</li> <li>5. Inter-valuation monitoring gives early warning.</li> <li>6. Investment in index-linked bonds helps to mitigate this risk.</li> <li>7. Contribution rate setting as part of the triennial valuation process considers 5000 scenarios in achieving a fully funded position.</li> </ol>	<p>The impact of pay and price inflation is monitored as part of the Council's MTFF processes and any potential impact on pension fund contributions is kept under review and factored into the Council's overall position.</p> <p>The impact of pay inflation is diminishing since the introduction of the CARE benefits in 2014 as there is less linkage to final salary in future liabilities.</p> <p>The impact of inflation is reviewed through all strategic investment decision making, however inflation risk is gaining greater prominence and is raising concern with the potential detrimental impact on liabilities and assets.</p> <p>Inflation linked investments form part of the investment strategy and are aimed at balancing this risk and protecting against the impact of inflation.</p> <p>Ongoing monitoring of inflation forms part of business as usual activities.</p> <p>The Fund's cashflow is constantly monitored and additional cash requirements will be factored into the revised Investment Strategy.</p>	Strategic risk Likelihood = Significant Impact = Large Rating = C2 (Static)	James Lake / Cllr Mathers	13/12/23
PEN 05 - Pensioners living longer	<ol style="list-style-type: none"> <li>1. Mortality assumptions are set with some allowance for future increases in life expectancy. Sensitivity analysis in triennial valuation helps employers understand the impact of changes in life expectancy.</li> <li>2. Club Vita monitoring provides fund specific data for the valuation, enabling better forecasting.</li> </ol>	<p>The Fund is part of Club Vita, a subsidiary of the Fund Actuary, which monitors mortality data and feeds directly into the valuation.</p> <p>Results also feed into the quarterly funding position which is reported to and assessed by Committee Members and officers.</p>	Strategic risk Likelihood = Low Impact = Small Rating = E4 (Static)	James Lake / Cllr Mathers	13/12/23
PEN 06 - Poor Performance of Outsourced Administrator leading to poor quality information supplied to both members and the Fund Actuary	<ol style="list-style-type: none"> <li>1. New partnership in place with HCC.</li> <li>2. Regular service meetings in place.</li> <li>3. Monthly KPI reports are provided to track and monitor performance.</li> <li>4. Critical errors cleared prior to transfer of valuation data to actuary.</li> <li>5. Data Improvement plan will be developed and implemented in 2022.</li> </ol>	<p>Regular meetings will take place between HCC &amp; LBH to ensure the new partnership is working in accordance with expectations and that any issues are addressed. Performance against KPI's and other metrics are also discussed.</p> <p>KPI's have been at 100% since partnership inception and all other levels of service, reporting and interaction have been positive and pro-active.</p> <p>HCC attend and report directly at Committee and Board meetings to allow first-hand scrutiny.</p>	Strategic risk Likelihood = Low Impact = Large Rating = E2 (Static)	James Lake / Cllr Mathers	13/12/23

Description	Actions in Place	Progress Comment	Risk Category / Rating / DOT	Lead Officer / Committee Member	Date of last review
PEN 7 - Cyber Security - Pension schemes hold large amounts of personal data and assets which can make them a target for fraudsters and criminals	<ol style="list-style-type: none"> <li>Council wide policies and processes in place around: acceptable use of devices, email and internet use of passwords and other authentication home and mobile working</li> <li>Risk is on the Corporate risk register with risk mitigation in place.</li> <li>All member and transactional data flowing from HCC and Hillingdon is sent via encryption software or via the employer portal.</li> <li>Data between the fund, HCC and Hymans is distributed via upload to an encrypted portal.</li> <li>Systems at Hillingdon and HCC are protected against viruses and other system threats.</li> <li>HCC are accredited to ISO27001:2013 and signed up to the Pensions Regulator Pensions Pledge. HCC currently undergoing penetration testing to ensure they are PSN compliant.</li> </ol>	<p>This risk has been recognised in response to recommendations by the Pensions Regulator and work carried out by Pensions Board</p> <p>A Data Mapping exercise has been carried out to understand data transfers and risks in this area. The results and undergone an Internal Audit assessment with a reasonable assessment level applied. Recommendations from the audit have been implemented.</p> <p>As a result of work with the Pensions Board in gaining assurance in this area the fund will create a policy to ensure a sufficient action plan is in place.</p> <p>The Fund recently participated in the AON LGPS cyber scorecard exercise which is a high level assessment of the Fund's cyber resilience. The results show the Hillingdon Fund is generally either average or above average. No immediate concerns were highlighted.</p> <p>HCC has a number of cyber controls in place, upgraded the member portal security and has produced a cyber compliance statement which sets out for all partners the controls they have in place and detailing areas of improvement. HCC continue with their programme of security updates.</p> <p>HCC apply a policy of continuous improvement as evidenced in they IT improvement road plan. Twice yearly PEN testing was introduced in Q2 2023.</p> <p>The latest HCC internal audit report on cyber security has been issued in 2023.</p>	Strategic risk Likelihood = Medium Impact = Large <b>Rating = D2 (Static)</b>	James Lake / Cllr Mathers	13/12/23
PEN 8 - ESG - Risk of financial loss through the negative impact of ESG matters	<ol style="list-style-type: none"> <li>The fund have an ESG policy in place as part of the ISS.</li> <li>Active equities within fossil fuel sector have been assessed in relation to the Transition pathway analysis tool to identify those companies transitioning to a lower carbon world.</li> <li>Manger selections take into account ESG policy.</li> <li>Mangers are expected to be signed up to the stewardship Code.</li> <li>Managers are expected to have signed up to the UN Principles for Responsible Investment (UK PRI)</li> <li>ESG Issues are discussed with managers at review meetings.</li> <li>The Fund submitted its application report for the new 2020 UK Stewardship Code ahead of the April 2022 deadline.</li> <li>The Fund has signed up to support TCFD.</li> </ol>	<p>The Pensions Committee has created a stand alone RI policy which supports principles and implementation of the investment portfolio. The policy is a live document and is updated annually through the Stewardship Code 2020 sign-up process. A revised policy was approved by Committee in March 2023.</p> <p>Fund manager engagement now forms part of an annual assessment and engagement process to improve manager ESG credentials.</p> <p>The Fund actively invests in portfolios with an ESG tilt, including the LGIM Future World Global Index and the LCIV Global Alpha Paris Aligned Fund. These actions have considerably reduced the carbon metric of the Fund.</p> <p>The Fund aims to work towards UN SDG 7 &amp; 13 objectives and will start to report on complementing TCFD metrics. The Fund will also collaborate and has signed up to TCFD. The Fund has agreed to be reporting against TCFD.</p> <p>The Fund was granted UK Stewardship Code signatory status in September 2022 and again in August 2023.</p> <p>In March 2023 the fund joined LAPFF to bolster engagement on ESG issues.</p>	Strategic risk Likelihood = Medium Impact = Medium <b>Rating = D3 (Static)</b>	James Lake / Cllr Mathers	13/12/23
PEN 9 - Liquidity on asset management - risk of failure to liquidate assets or meet drawdown calls	<ol style="list-style-type: none"> <li>The fund has an active daily cash management process in place to ensure there is sufficient cash available to meet any drawdown requirements.</li> <li>Cash management includes investing large amounts of surplus cash to balance the investment portfolio or hold in liquid asset classes in anticipation of cash calls.</li> <li>Officers liaise with managers where commitments have been made to keep track of predicted drawdown timescales.</li> <li>The fund is significantly diversified in different asset classes and asset managers to ensure if there is a stop on any one holding then the portfolio will continue to operate as normal.</li> </ol>	<p>There is a detailed cash management process in place. This is signed off daily to ensure liquidity.</p> <p>The fund continues to invest in illiquid asset classes to benefit from illiquidity premium, however this is a relatively small portion of the portfolio and there are other liquid asset classes easily accessible. All trade times are listed in the cash management policy.</p> <p>The Fund has sufficient liquidity should it need to draw on investments or divert income to settle trades.</p>	Strategic risk Likelihood = Low Impact = Large <b>Rating = E2 (Static)</b>	James Lake / Cllr Mathers	13/12/23
Pen 10 - Liquidity on members dealings - risk that the fund is unable to settle member payments	<ol style="list-style-type: none"> <li>The fund has an active daily cash management process in place to ensure there is sufficient cash available to meet all beneficiary payments.</li> <li>The fund is significantly diversified in different asset classes with the option of distribution portfolios.</li> </ol>	<p>There is a detailed cash management process in place. This is signed off daily to ensure liquidity.</p> <p>The fund continues to invest in illiquid asset classes to benefit from illiquidity premium, however this is a relatively small portion of the portfolio and there are other liquid asset classes easily accessible. All trade times are listed in the cash management policy.</p> <p>The Fund has sufficient liquidity should it need to draw on investments or divert income.</p> <p>As part of the Investment Strategy Review options are being discussed to bolster operational income and set out funding streams for any changes in the investment portfolio.</p>	Strategic risk Likelihood = Low Impact = Medium <b>Rating = E3 (Static)</b>	James Lake / Cllr Mathers	13/12/23
PEN 11 - Failure of the pool in management of funds / access to funds	<ol style="list-style-type: none"> <li>Quarterly review meetings held with the pool.</li> <li>Regular reporting out of the pool informing the fund of manager performance.</li> <li>Swift communications received from the pool with staff turnover and concerns the fund may need to be aware.</li> <li>Independent adviser carried out a review of governance for manager selection and manager monitoring to add assurance and discussion points with the pool.</li> <li>Active Shareholder representation at General meeting and AGM.</li> <li>Pool to attend Committee meetings where required, to provide assurance over progress and activity.</li> </ol>	<p>The LCIV CIO, Jason Fletcher has resigned. LCIV advise they have the resources to manage the gap between his departure and the new appointment.</p> <p>Governance remains high on the agenda and Hillingdon have been key in forging improvements. There has been positive progress by LCIV and promised governance improvements have largely been implemented.</p> <p>The Hillingdon Fund has taken the lead in actively managing its underlying Pool investments with action being taken when necessary.</p> <p>LCIV continue to develop a pipeline of investment offerings based on client demand. The Value Equity offering however, has been put on hold due to lack of demand. This will have an impact on the Fund taking this forward resulting in potentially going off-pool or adjusting the strategy.</p> <p>New shareholder agreement and articles of association signed by all relevant parties 10 May 2023. The FCA and LCIV auditors have been advised.</p> <p>Key items to note following the release of the Pooling consultation include the requirement for Pools to be a minimum £50b in size. LCIV are to provide update as they are unlikely to meet this critical mass. LCIV need to create vehicles to allow for the new levelling up and private equity allocations. Note potential conflict with fiduciary duty.</p>	Strategic risk Likelihood = Low Impact = Small <b>Rating = E4 (Static)</b>	James Lake / Cllr Mathers	13/12/23

Description	Actions in Place	Progress Comment	Risk Category / Rating / DOT	Lead Officer / Committee Member	Date of last review
<b>PEN 12 - Failure of the Fund's governance to comply with statutory requirements and/or The Pension Regulator expectations including:</b>  <b>Failure to ensure that Committee members' knowledge and understanding of pension matters is robust and meets statutory requirements</b>  <b>Failure to ensure that the Pension Board is effective in carrying out its role</b>	1. Governance Policy Statement, reviewed every 3 years. 2. Policies on range of issues, reviewed regularly. 3. Compliance with CIPFA Code of Practice on Public Sector Pensions Finance, Knowledge and Skills. 4. Programme of training sessions and access to external events. 5. Use of Regulator's on-line toolkit. 6. A knowledge self-assessment framework for Committee and Board members to identify training requirements. 7. The Fund's Annual Report includes details of Committee and Board members' training activities. 8. Fund Governance Adviser in place. 9. Access is provided to CIPFA K&S Framework training modules.	<p>The Fund has undergone a COP14 Governance review and has been implementing changes to be either fully or partially compliant. Regular reports and updates are presented at Pensions Board.</p> <p>Committee and Board members receive regular training and specific training aligned with decision making where required. Training logs are to be brought to Pensions Committee &amp; Board with a mandatory Committee training programme in place.</p> <p>Mandatory training, in line with the CIPFA K&amp;S Framework, is to be undertaken by all Committee members. A knowledge and skills assessment tool is recommended for procurement to assist the development of a bespoke training plan.</p> <p>The fund has a schedule of policies in place to ensure reviews are carried out at the required intervals.</p> <p>Reviewed Pension Board's Terms of Reference were approved by Council and a new Operations Manual has been developed. Maximum tenure and staggered terms are to be put in place to allow for smooth succession planning.</p> <p>The Fund will monitor progress on the Regulator's new combined Code of</p>	Strategic risk Likelihood = Low Impact = Very Large Rating = E1 (Static)	James Lake / Cllr Mathers	13/12/23
<b>PEN 13 - Key officer risk - small team with specialists knowledge in key roles results in the Fund being vulnerable if staff leave</b>	1. The team endeavours to maintain a broad knowledge across the pension function. 2. The Fund has access to specialist support should it be required. 3. The Fund has access to the interim employment market should it be required.	<p>Succession planning is underway to bolster knowledge.</p> <p>Additions to the team are being considered to expand the resource base.</p>	Strategic risk Likelihood = Medium Impact = Small Rating = D4 (Static)	James Lake / Cllr Mathers	13/12/23

		Risk rating	Score	Risk rating	Score	Risk rating	Score	Risk rating	Score
LIKELIHOOD	Very High (A)	A4	6	A3	12	A2	18	A1	24
	High (B)	B4	5	B3	10	B2	15	B1	20
	Significant (C)	C4	2	C3	4	C2	6	C1	8
	Medium (D)	D4	1	D3	2	D2	3	D1	4
	Low (E)	E4	0	E3	0	E2	0	E1	0
	Very Low (F)	F4	0	F3	0	F2	0	F1	0
Attributes:		Small (4)		Medium (3)		Large (2)		Very Large (1)	
<b>IMPACT</b>									
Financial	up to £500k		Between £500k and £10m		Between £10m and £50m		Over £50m		
Reputation	Minor complaint, no media interest		One off local media interest		Adverse national media interest or sustained local interest		Ministerial intervention, public inquiry, remembered for years		

## GOVERNANCE

## Item 10

Committee	Pensions Committee
Officer Reporting	James Lake, Finance
Papers with report	Pension Committee Workplan Scheme Pays Policy Governance Policy Administration Strategy Training Policy

### HEADLINES

This report is to enable the Pension Committee to review the Committee workplan, note governance updates as well as approval of various triennial and interim policy updates.

### RECOMMENDATIONS

#### That the Committee:

1. Note the dates for Pensions Committee meetings.
2. Make suggestions for future agenda items, working practices and / or reviews.
3. Note Committee's training update.
4. Approve Scheme Pays Policy
5. Approve Governance Policy
6. Approve Administration Strategy for consultation.
7. Approve Training Policy

### SUPPORTING INFORMATION

The Pension Committee workplan has been updated and is now shown as an appendix to this report. The revised presentation is designed to assist with planning and prioritisation of actions.

Committee are asked to review the workplan and make suggestions for consideration and inclusion.

#### Future meeting dates:

- 26 March 2024
- 5 June 2024 (TBC)
- 25 September 2024 (TBC)
- 10 December 2024 (TBC)
- 26 March 2025 (TBC)

### Training

In line with the required competencies set out by CIPFA Knowledge and Skills Framework, Pension Committee members should have a general understanding of areas associated with their LGPS fiduciary role. Upcoming changes in legislation are expected to enforce the need for training and will make it a regulatory requirement for Pension Committee members.

To monitor progress against this requirement a log of member training is shown below. Pension Committee members are asked to complete the AON CIPFA Knowledge & Skills Framework sessions.

### Pensions Committee Training Log 2023/24

Date	Details	Cllr Mathers	Cllr Burles	Cllr Islam	**Cllr Goddard	**Cllr Riley	Cllr Banerjee
<b>Bespoke Sessions</b>							
13 Apr 23	AEW Property	✓	✓	✓	✓	n/a	No
2 May 23	Dislocation Fund and ISS	✓	✓	✓	✓	n/a	✓
10 May 23	LCIV Impact Investing	✓	-	-	-	-	-
12 Jul 23	LAPFF Mid-Year Conference	✓	✓	-	n/a	-	-
22 Aug 23	Pension Fund Pooling	✓	✓	✓	n/a	✓	✓
<b>Mandatory Training (AON CIPFA Knowledge &amp; Skills Framework)</b>							
Introduction to the LGPS	*	*	*	*	*		-
Pension's legislation, guidance, and governance	*	*	*	*	*		*
Local governance and pensions procurement and contract management	*	*	*	*	*		✓
Funding strategy and actuarial methods, and financial, accounting and audit matters	*	*	*	*	*		✓
Investments – Strategy, asset allocation, pooling, performance, and risk management	*	*	*	*	*		✓
Investments - Financial markets and products	*	*	*	*	*		✓
Pensions Administration and Communications	*	*	*	*	*		✓

\*Not applicable as completed Knowledge and Skills training prior to 2023/24 either via AON or the LGA Fundamentals course.

\*\*Cllr Goddard left Pension Committee in May 2023

\*\*Cllr Riley joined Pension Committee in May 2023 – training to be completed.

In line with the expected requirements in the new Single Code and Good Governance Framework, there will be a specific requirement for the Pension Committee, Board, and officers to undertake the appropriate training needed to fulfil their obligations.

As noted in the workplan and Governance Update, officers, along with the Independent Adviser, will develop a training plan and update the Training Policy to incorporate specific items in relation to the expected requirements.

### Scheme Pays Policy

The Scheme Pays Policy provides information to members regarding pension contribution annual allowances and the ability or mandatory rights to utilise 'scheme pays' where the fund settles tax sums due to HMRC which are then offset against future pension payments.

The update reflects a triennial refresh with no fundamental changes to the policy.

## **Governance Policy**

Regulation 55 of the Local Government Pension Scheme Regulations 2013 requires Local Government Pension Scheme (LGPS) Administering Authorities to publish Governance Compliance Statements setting out information relating to how the Administering Authority delegates its functions under those regulations and whether it complies with guidance given by the Secretary of State for Communities and Local Government.

It also requires the Authority to keep the statement under review and to make revisions as appropriate and where such revisions are made to publish a revised statement.

This review provides a general update with major changes including revised constitutions for the Pension Committee and Pension Board as well as the addition of the Pension Sub-Group. The other main change is the updated presentation of the London CIV structure.

## **Administration Strategy**

The 2023 annual return process and subsequent benchmarking exercise highlighted a number of data and performance issues with employers within the fund. This resulted in lengthy data quality due diligence processes and considerable resource allocation by Hillingdon and Hampshire Pensions Services.

The follow-up communications with delinquent employers not only offered further support and training but also highlighted that levies may be raised against employers where they failed to act in accordance with the deadlines set out in the administration strategy.

Following a review of the Hampshire Pension Services Administration Strategy, Hillingdon has taken the opportunity to refresh its own strategy, including the alignment of performance requirements and fees associated with non-compliance.

The Pension Board has reviewed the annual return benchmarking results and endorses the updated amendments in the strategy to help drive better performance and annual return data quality.

Committee is asked to approve the draft strategy for a one-month employer consultation. The consultation responses along with the final strategy will be brought to March 2024 Pension Committee for final approval.

## **Training Policy & Online Self-Assessment**

In line with the triennial policy review and governance review presented at the September Committee meeting, the Training Policy has been updated with revised requirements.

Further to this the governance review and the internal audit recommendations the need for a Pension Committee Member self-assessment exercise is required.

Hymans Robertson provide an online facility based on the CIPFA Knowledge and Skills Framework which will assess Committee and Board members to assist in identifying key areas of training focus and will lead into further development of the training plan.

Committee are asked to approve procurement of the facility which will cost £3,500 for 10 users.

## **FINANCIAL IMPLICATIONS**

Continued training will incur fees dependant on the platform and events attended.

## **LEGAL IMPLICATIONS**

The legal implications included within the body of the report.

## London Borough of Hillingdon Pension Fund - Pensions Committee agenda plan

	Frequency	Last review	Sep-23	Dec-23	Mar-24	Jun-24
<b>Governance</b>						
Business Plan & Budget	Annual		Y			
Business Plan & Budget - Update on progress/outturn	Quarterly		Y	Y	Y	Y
Annual Report and Accounts Draft - unaudited	Annual		Y			
External audit plan	Annual		Y			
External audit results report	Annual			Y		
Internal audit - outcomes	As required			Y		
Local Pensions Board Operating Procedures	Every 3 years	Nov-21				
Local Pensions Board - Annual Report	Annual			Y		
Compliance with Pensions Regulator Code of Practice	Annual			Y		
Benchmarking - Investment; Admin; Funding (Section 13)	Various					
CTI	Annual			Y		
Procurement of services	As required					
Governance Update	Quarterly		Y	Y	Y	Y
Risk register	Quarterly		Y	Y	Y	Y
<b>Policies</b>						
Governance Policy & Compliance Statement inc Governance						
Compliance Statement		Sep-20		Y		
Conflicts of Interests Policy		Mar-23				
Risk Management Policy		Mar-22				
Procedure for Reporting Breaches of the Law		Oct-21				
Funding Strategy Statement		Mar-23				
Investment Strategy Statement	At least every 3 years	Apr-20	Y	Y		
Responsible Investment Policy		Mar-23			Y	
Training Policy		Jul-19		Y		
Pensions Administration Strategy		Sep-21		Y		
Scheme pays policy		Oct-20		Y		
Internal Disputes Resolution Procedure (IDRP) Employees Guide		Oct-22				
Communications Policy		Sep-21				
Discretions Policy		Jun-22	Y			
<b>Pensions Administration</b>						
Pensions Administration Performance	Quarterly		Y	Y	Y	Y
Breaches, Complaints and Appeals	Annually					Y
Data Quality Improvement Plan??	Ad-hoc					
<b>Funding</b>						
Actuarial Valuation	Every 3 years	Mar-23				
<b>Investment</b>						
Review of Investment Strategy	Every 3 years	Jun-23	Y	Y		
Investment update and manager review	Quarterly		Y	Y	Y	Y
Responsible Investment Update	Quarterly		Y	Y	Y	Y
Stewardship Code	Annual			Y		
Climate Risk Dashboard (TCFD)	Every 3 years					

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# **London Borough of Hillingdon Pension Fund**

## **Scheme Pays Policy**



**Date approved: December 2023**

### **Aims and Objectives**

The administration aims and objectives for the administration of the Hillingdon Pension Fund, as outlined in the pensions administration strategy are to:

- Provide a high quality, professional, proactive, timely and customer focussed administration service to the Fund's stakeholders
- Administer the Fund in a cost effective and efficient manner utilising technology appropriately to obtain value for money
- Ensure the Fund's employers are aware of and understand their roles and responsibilities under the LGPS regulations and in the delivery of the administration functions of the Fund
- Ensure the correct benefits are paid to, and the correct income collected from, the correct people at the correct time
- Maintain accurate records and ensure data is protected and has authorised use only.

Having a policy outlining the criteria for the election of scheme pays forms an essential part of the Administering Authority demonstrating these objectives.

### **Annual Allowance**

The Annual Allowance (AA) is the amount by which the value of a scheme members' pensions benefit may increase in any one year without having to pay a tax charge. This is in addition to any income tax paid on pensions once it is in payment. If the value of pension savings in any one year (including pension savings outside of the LGPS) exceeds the annual allowance, the member will be taxed on the excess as income. The annual allowance is set each year by HM Treasury.. The AA amount can be tapered for high earning scheme members.

Where the tax charge incurred is greater than £2,000 the member has a mandatory right under Section 237B of the Finance Act 2004 'Liability of Scheme Administration', to ask the Fund to pay the tax charge. This is known as Mandatory Scheme Pays. The Fund is required to pay the tax charge to the HMRC and reduce future benefits of the member using the calculation guidance issued by the Government Actuarial Department (GAD). Conditions apply which are set out below.

### **Mandatory Scheme Pays**

Where a member has a tax charge as a result of breaching the Annual Allowance they have a right to Mandatory Scheme Pays from the Hillingdon Pension Fund when ALL of the following criteria are met:

- The member's Annual Allowance tax charge exceeds £2,000.
- The member has a Pension Input Amount within the LGPS in England and Wales (2) exceeding the standard Annual Allowance as set by HM Treasury.

- An irrevocable election for Mandatory Scheme Pays is made by 31 July in the year following that in which the tax charge arose (i.e. for a tax charge arising from the 2023/24 year the mandatory Scheme Pays election must be made by 31 July 2025) or before they retire, if earlier.
- The member's full retirement benefits from the Fund are not yet in payment.

The HMRC views the Local Government Pensions Scheme (LGPS) as one scheme though each of the funds in England and Wales are locally managed by different administering authorities. Members should therefore take their benefits across all LGPS schemes into account.

### **Voluntary Scheme Pays**

The list below shows some potential situations in which a member may have incurred a tax charge but does not have an entitlement to Mandatory Scheme Pays. In these situations the member can ask the Fund to consider a Voluntary Scheme Pays election, but the Fund does not have to agree. This list is not intended to be exhaustive:

- The member is subject to the Tapered Annual Allowance or the Money Purchase Annual Allowance, and their Pension Input Amount in the LGPS exceeds their Tapered/Money Purchase Annual Allowance but does not exceed the Standard Annual Allowance (See example below).
- The member is subject to the Tapered Annual Allowance or the Money Purchase Annual Allowance, and their Pension Input Amount in the LGPS exceeds both the Tapered/Money Purchase Annual Allowance and the Standard Annual Allowance – there is a right to Mandatory Scheme Pays in respect of the input above the Standard Annual Allowance, but not for the input between the Tapered/Money Purchase Annual Allowance and the
- The member met all the other criteria for a Mandatory Scheme Pays election, but did not make the election by the 31 July deadline.
- The member has not exceeded the Annual Allowance based on their pension benefits in the LGPS in England and Wales, but in aggregate across all pension arrangements they have exceeded the Annual Allowance and the member's total tax charge when taking input from other arrangements into account is more than £2,000.
- The member has a Mandatory Scheme Pays right in respect of pension input in the LGPS in England and Wales, but also has a tax charge relating to input in a separate pension arrangement and wants to use Voluntary Scheme Pays from the Fund to cover this as well.
- The member's tax charge is less than £2,000. There is no time limit set in the legislation for an election for Voluntary Scheme Pays (if permitted), but members should note that if the tax is not paid by 31 January in the year following the year in which the tax charge arises (i.e. 31 January 2025 for a

tax charge arising in the 2023/24 year) interest and late payment penalties will be due.

Interest and late payment penalties do not apply for tax charges that are settled by Mandatory Scheme Pays, assuming the member provides the appropriate notifications to HMRC via self-assessment or otherwise. The member remains solely liable for any tax due that is not covered by Mandatory Scheme Pays.

### **Hillingdon Pension Fund Policy on Voluntary Scheme Pays**

The Fund will consider applications for Voluntary Scheme Pays in the following circumstances:

- A member is subject to the Tapered Annual Allowance or the Money Purchase Annual Allowance and has a tax charge of more than £2,000 relating to input in the Hillingdon Pension Fund, and the irrevocable election is received by 31 December following the end of the tax year in which the input arises (i.e. 31 December 2024 for input in the 2023/24 year).
- A member meets all the criteria for Mandatory Scheme Pays but was unable to meet the 31 July deadline due to an administrative error or omission by Hillingdon Council (e.g. the member was not notified of their pension input in time for them to meet the deadline). In these circumstances the application for Voluntary Scheme Pays should be made within two months of the member receiving notification of their pension input.
- The member's tax charge relating to pension input in the LGPS in England and Wales is less than £2,000, but they have applied for Voluntary Scheme Pays because their total tax charge when taking input from other arrangements into account is more than £2,000, and the irrevocable election is received by 31 December following the end of the tax year in which the input arises (i.e. 31 December 2024 for input in the 2023/24 year).
- The member has a Mandatory Scheme Pays right in respect of pension input in the LGPS in England and Wales, but has also asked the Fund to pay a tax charge relating to input in a separate pension arrangement, and the irrevocable election is received by 31 December following the end of the tax year in which the input arises (i.e. 31 December 2024 for input in the 2023/24 year). It is the member's responsibility to notify the Fund at this time of the amount of tax due. The Fund cannot calculate this as it does not have details of the input from the member's other arrangements
- The member's total tax charge, including when taking input from other arrangements into account is less than £2,000. Hillingdon Council has not set a minimum level of tax charge that the member must face before they can make an application but will consider each such request on its merits.

A Voluntary Scheme Pays request in any other scenario will be considered on its merits.

Following the acceptance of an election for Voluntary Scheme Pays, the member's future benefits will be reduced using the calculation guidance issued by the Government Actuarial Department (GAD).

### **Members approaching retirement**

There are situations where a member may breach the Annual Allowance in the Pension Input Period in which they retire, even if they retire relatively near the start of the tax year. This could be, for example, where there has been an ill health enhancement (and the member did not meet the severe ill-health condition under S229(4) of the Finance Act 2004) or a large pay increase, bonus or service enhancement before or at retirement.

Where a member breaches the Annual Allowance in the tax year in which they receive their final retirement benefits, Scheme Pays can only be used if the election is made and processed before the benefits are put into payment (or "crystallise"). Otherwise members will have to pay the tax charge directly. Members in this situation may choose to pay the tax charge using any lump sum payable on retirement.

The Fund will issue an individual pension savings statement to those active members who become a pensioner member during the Pension Input Period and who have exceeded the standard Annual Allowance. This will be provided when the retirement benefits are notified rather than under the usual timescales. This gives the member the time to determine whether a Mandatory Scheme Pays option applies and/or whether they wish to make an election for Mandatory or Voluntary Scheme Pays. If the member wishes to use Scheme Pays they should contact Hillingdon Council well before the retirement date so that the relevant reduction can be calculated and applied before the benefits are put into payment.

#### **Please note:**

**It is the member's responsibility to notify the Fund at this time of the amount of tax due. The Fund cannot calculate this as it does not have details of the input from the member's other arrangements.**

**This policy does not in any way constitute finance or tax advice. Members are requested to seek independent advise where appropriate.**

This Scheme Pays Policy was approved by the Pensions Committee, on 13 December 2023 and will be formally reviewed and updated at least every three years or sooner if there are any regulatory changes that require a review.

### **Further Information**

Further information can be found via the links below

<https://www.gov.uk/guidance/pensionschemes-work-out-your-tapered-annual-allowance>

<https://www.gov.uk/tax-on-your-private-pension/annual-allowance>

If you require further information relating to this Scheme Pays Policy, please contact:

James Lake  
Director of Pensions, Treasury & Statutory Accounts  
E-mail – [jlake@hillingdon.gov.uk](mailto:jlake@hillingdon.gov.uk)  
Telephone – 01895 277562

# **London Borough of Hillingdon Pension Fund**

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## **Governance Policy and Compliance Statement**

**December 2023~~September 2020~~**

## **Governance Policy and Compliance Statement– Administering Authority**

London Borough of Hillingdon is the Administering Authority of the London Borough of Hillingdon Pension Fund and administers the Local Government Pension Scheme on behalf of participating employers.

Regulation 55 of the Local Government Pension Scheme Regulations 2013 requires Local Government Pension Scheme (LGPS) Administering Authorities to publish Governance Compliance Statements setting out information relating to how the Administering Authority delegates its functions under those regulations and whether it complies with guidance given by the Secretary of State for Communities and Local Government. It also requires the Authority to keep the statement under review and to make revisions as appropriate and where such revisions are made to publish a revised statement.

### **Aims and Objectives**

The London Borough of Hillingdon recognises the significance of its role as Administering Authority to the London Borough of Hillingdon Pension Fund on behalf of its stakeholders which include (at time of drafting):

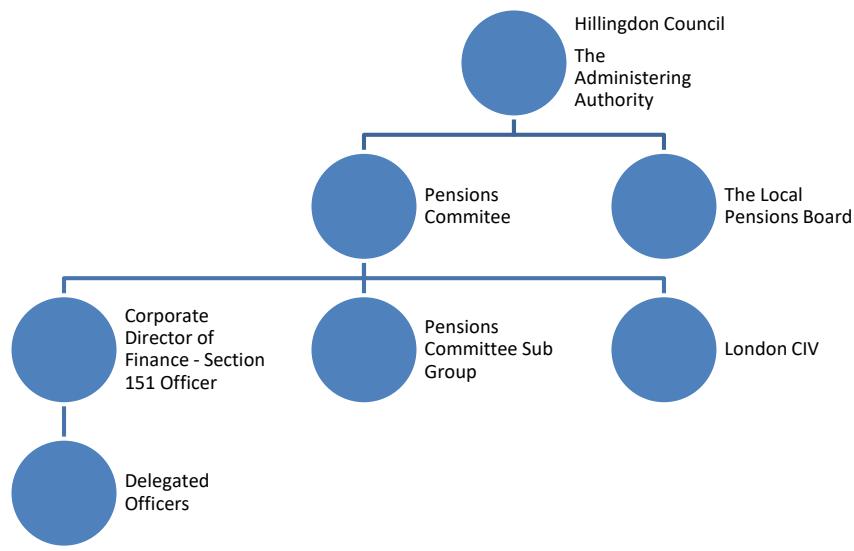
- around 32,000~~23,407~~ current and former members of the Fund, and their dependants
- over 11966 employers within the London Borough of Hillingdon Fund
- local taxpayers within the council areas participating in the London Borough of Hillingdon Pension Fund.

In relation to the governance of the Fund, our objectives are to ensure that:

- all staff and members of the Pensions Committee and Local Pensions Board~~Members~~ charged with the financial administration and decision-making with regard to the Fund are fully equipped with the knowledge and skills to discharge the duties and responsibilities allocated to them
- the Fund is aware that good governance means an organisation is open in its dealings and readily provides information to interested parties
- all relevant legislation is understood and complied with
- the Fund aims to be at the forefront of best practice for LGPS funds
- the Fund manages Conflicts of Interest appropriately.

### **Structure**

The Constitution of the Council 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.



### **Terms of Reference for the Pensions Committee**

The Pensions Committee's principal aim is to carry out the functions of the London Borough of Hillingdon as the **Scheme Manager and Administering Authority** for the London Borough of Hillingdon Pension Fund in accordance with Local Government Pension Scheme regulations and any other relevant legislation.

In its role as the **Administering Authority**, the London Borough of Hillingdon owes fiduciary duties to the employers and members of the **London Borough of Hillingdon Pension Fund** and must not compromise this with its own particular interests. Consequently this fiduciary duty is a responsibility of the Pensions Committee and its members must not compromise this with their own individual interests.

The Pensions Committee operates under the following terms of reference:

#### ***Terms of Reference***

- 1. To review and approve all aspects of investment policy relating to the Pensions Fund, including agreeing the strategic asset allocation and authorisation or prohibition of particular investment activities.**
- 2. To review the Investment Strategy Statement and amend it when necessary.**
- 3. To agree benchmarks and performance targets for the investment of the Fund's assets and review periodically.**
- 4. To agree to transfer funds into mandates managed by the London Collective Investment Vehicle (CIV) as soon as appropriate opportunities become available.**
- 5. To receive regular reports from the London CIV and to agree and resultant actions from a review of the investments held with the London CIV.**
- 6. To keep the performance of the investment managers under regular review and extend or terminate their contracts as required. To appoint new managers when necessary.**
- 7. To agree policy guidelines for the exercise of voting rights attached to the Fund's shares.**
- 8. To review the appointment of specialist advisors and service providers and make new appointments as necessary.**
- 9. To consider the overall implications of the Council's policies for employment and benefits issues and their impact on the Pension Fund and agree any strategic changes.**
- 10. To approve the appointment of persons to hear appeals under the Internal Dispute Resolution Procedure.**
- 11. To consider issues concerning the administration of the Fund, including approving responses to consultation papers.**
- 12. To consider and decide whether to approve proposals for discretionary enhanced early retirement packages for officers.**
- 13. The Corporate Director of Finance be authorised to take urgent decisions in**

~~relation to the pensions fund and investment strategy on behalf of the Committee, reporting back to the Pensions Committee any exercise of these powers for ratification.~~

The Committee considers all issues concerning the administration and investment of the Pension Fund. In particular:

1. To exercise all functions concerning the Pension Fund including, but not limited to: governance; funding; actuarial valuations; policies; accounting and audit; risk management, budgets and resourcing; investment, and administration.
2. To review and approve all aspects of investment policy relating to the Pensions Fund, including agreeing the strategic asset allocation and authorisation or prohibition of particular investment activities.
3. To review the Investment Strategy Statement and amend it when necessary.
4. To agree benchmarks and performance targets for the investment of the Fund's assets and review periodically.
5. To agree to transfer funds into mandates managed by the London Collective Investment Vehicle (CIV) as soon as appropriate opportunities become available.
6. To receive regular reports from investment managers including the London CIV and to agree resultant actions from a review of the investments held.
7. To keep the performance of the investment managers under regular review and extend or terminate their contracts as required. To appoint new managers when necessary.
8. To agree policy guidelines for the exercise of voting rights attached to the Fund's shares.
9. To review the appointment of specialist advisors and service providers and make new appointments as necessary.
10. To approve the appointment of persons to hear appeals under the Internal Dispute Resolution Procedure.
11. To set up a Pensions Sub-Group, should it be required, comprising 3 Elected Members politically balanced and relevant officers and advisors to:
  - i. Be consulted on urgent decisions that are required to be taken by the Corporate Director of Finance in the absence of a Committee meeting;
  - ii. Assist in strategic discussions with regard to the Pensions Fund and Investment Strategy, including the monitoring of fund manager performance and associated actions or investigations and making any recommendations on such matters to the Pensions Committee for decision.
12. The Corporate Director of Finance be authorised to take urgent decisions in relation to the pensions fund and investment strategy on behalf of the Committee, and if established, in consultation with any Pension Sub-Group, reporting back to the Pensions Committee for ratification

#### *Membership of the Pensions Committee*

Councillor membership of the Committee will be 5, will be politically balanced and have voting rights. In addition, the Independent Governance Adviser and Investment Consultant would normally attend meetings along with relevant officers in an advisory, non-voting capacity.

#### *Meetings*

The Council shall agreifix the day of meetings of the Pensions Committee and the ordinary meetings for the Pensions Committee shall be at Hillingdon Civic Centre, but they may arrange to meet elsewhere when they see fit. ~~In April 2020 the Government issued temporary legislation allowing Local Authorities to conduct virtual meetings. This is to enable decisions to continue to be made during the current COVID-19 pandemic where social distancing is required.~~

Pensions Committee meetings are broadcast currently being conducted virtually with

the public section being streamed live on the Council's youtube channel <https://www.youtube.com/user/HillingdonLondon>

The Chair may cancel meetings. The Pensions Committee meets every quarter and the dates are arranged annually in advance. The Chairman of the Committee may call a special meeting if required or ask for a Pension Sub-Group to be convened.

***Access to Agenda, Reports and Minutes of Meetings***

The Council will give at least seven clear working days notice of any meeting by posting details of the meeting at the Hillingdon Civic Centre 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. Minutes of meetings and records of decisions are available for inspection on the Council's website: <http://www.hillingdon.gov.uk>

The Committee's full terms of reference can also be found on the Council's website.

### **Pension Sub-Group**

As set out in the Terms of Reference, The Pension Sub-Group is able to meet as required to discuss urgent investment and other pension related issues; will be politically balanced and be supported by officers and advisers.

### **Scheme of Delegation**

Where Council functions are not specifically reserved to the Pensions Committee in relation to the Pension Fund, the functions are deemed to be delegated to the relevant Chief Officers, or the Corporate Director of Finance in the case of the Pension Fund. The Corporate Director of Finance is responsible for the establishment of a scheme of delegation for their department which includes the Pension Fund function. The scheme of delegation specifies the function, names the post which may carry out that delegated decision and the limits if any on the delegation. The limits on delegation may include the obligation to consult record and/or refer back to the Chief Executive or Corporate Director of Finance in certain circumstances. The Finance Directorate has a scheme of delegation which sets out the delegated powers to individual officers within the directorate. In relation to the Pension Fund the management is delegated to the Corporate Director of Finance and responsible officer for the pension Fund. The scheme of delegation is reviewed regularly by the Council.

### **London CIV**

The London CIV was formed as by the 33 London Boroughs in 2014 to pool their LGPS investments. It received regulatory authorisation from the Financial Conduct Authority in November 2015. The London CIV has been established as a collective investment vehicle for LGPS Funds. The current regulatory permissions allow for operation in public markets as an Authorised Contractual Scheme (ACS) Fund and for private markets via their Exempt Unauthorised Unit Trust Vehicle (EUUT).

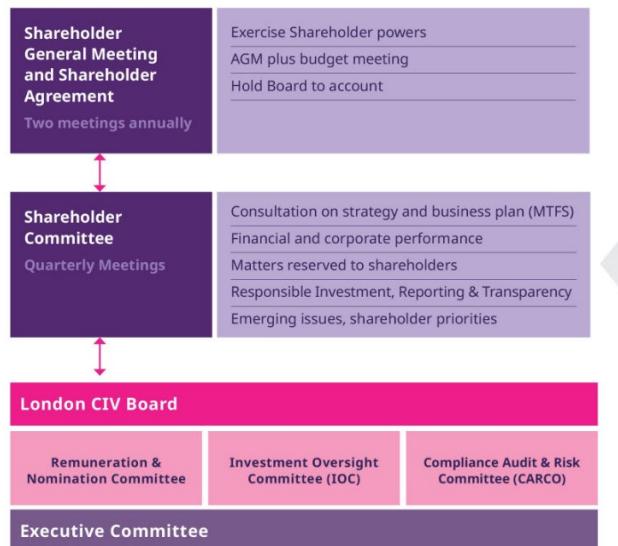
The governance arrangement of LCIV has been enhanced since the last governance policy review, to improve Client Fund engagement in 2019 following a consultation. The changes were particular in respect of arrangements for Client Fund engagement in fund decision-making and Client Fund oversight.

The governance structure of the London CIV has been designed to ensure that there are both formal and informal routes to engage with the investing Funds both as shareholders and investors, making the London CIV accountable at both levels.

Major decisions, including approval of the budget, strategic objectives and business plan are reserved to shareholders in General Meeting as set out in a Shareholder Agreement

## London CIV committee structure

### Formal Governance



Major decisions, including approval of the budget, strategic objectives and business plan are reserved to shareholders in General Meeting as set out in a Shareholder Agreement.

Certain decisions require approval from all (or a majority of) shareholders. There are two meetings each year of all shareholders and quarterly meetings of a Shareholder Committee representative of shareholders. The Committee considers all reserved matters, emerging issues and corporate and financial performance. In addition, there are two shareholder nominated directors who are Leaders of London Local Authorities and a Treasurer Observer (s151 officer) on the Board. Information about individual Board members can be found [here](#).

The overall strategic direction, management and general policy of London CIV is vested in the Board, which is responsible for major decisions unless reserved to shareholders. The Executive Directors, led by the Chief Executive, are responsible for the day to-day management of the company and there is an Executive Committee which is attended by other senior managers in the firm. The Board Committees are an Investment Oversight Committee (IOC); a Compliance, Audit, and Risk Committee (CARCO); and a Remuneration and Nomination Committee (RemNomCo) which includes the Chair of the Shareholder Committee.

amongst its membership. The Shareholder Committee is a consultative committee to the Board. You can read more about the work of the Board and Committee in the Annual Review.



### London CIV Company Board

The Board, (subject to matters reserved to shareholders) include: Strategy and oversight of management of the company, budget and forward plan, reviews of performance, Major contracts and significant decisions including in relation to funds, financial reporting and controls, compliance, risk and internal controls, Key policies—Governance

### London CIV Shareholder Committee

The Shareholder Committee is made up of 8 Councilors, 4 London Treasurers and a trade union observer. The shareholder committee is consulted on London CIV's strategy, budget and business plan (MTFS); financial and corporate performance; all matters reserved to shareholders; emerging issues and shareholder priorities; Responsible Investment, and Reporting & Transparency. This role means that the Shareholder Committee plays an important role in identifying emerging issues and realistic solutions which will ensure that London CIV can deliver pooling to meet the needs of London. It has a key role in reviewing the budget and other matters reserved to shareholders before the Board makes a recommendation to all shareholders. There are 2 meetings each year of all shareholders and quarterly meetings of a Shareholder Committee representative of shareholders.

### London CIV Investment Oversight Committee (IOC)

The IOC is responsible for: overseeing the investment activity of London CIV in line with the Company's strategy and business plan. This includes the appointment of investment managers as part of the fund launch process (subject to approval by the Board), and fund performance including the performance of investment managers.

### London CIV Compliance Audit and Risk Committee (CARCO)

The committee is responsible for: overseeing compliance obligations; for the integrity of financial statements and reporting; auditor engagement; and for the risk and control framework.

### London CIV Remuneration and Nomination Committee

This committee is responsible for: remuneration policy; remuneration of key staff; nomination matters (appointments) and succession planning for key staff and the Board.

### Local Pension Board

In keeping with the Public Service Pensions Act 2013, Hillingdon Council has established a Local Pension Board (LPB). Local Pension Boards are not local authority committees; as such the Constitution of London Borough of Hillingdon, does not apply to the Pension Board unless it is expressly referred to in the Board's terms of reference. The [London Borough of Hillingdon Local](#) Pension Board was established by London Borough of Hillingdon on 1<sup>st</sup> April 2015. The terms of reference of the Board can be found on the Fund's website [hillingdon.gov.uk/pensions](http://hillingdon.gov.uk/pensions).

#### *Role of the Pension Board*

The role of the Board as outlined in the legislation is to assist the [Administering Authority](#) in ensuring the effective and efficient governance and administration of the scheme including:

- securing compliance with the LGPS Regulations and any other legislation relating to the governance and administration of the Scheme, and requirements imposed in relation to the LGPS by the Pensions Regulator and:
- any other matters the LGPS regulation may specify.

The Local Pensions Board is not a decision making body, rather it has a compliance and scrutiny role to ensure the Pensions Committee effectively and efficiently complies with the code of practice on the governance and administration of public service pension schemes issued by the Pension Regulator. Additionally the Local Pension Board will help ensure that the London Borough of Hillingdon Pension Fund is managed and administered effectively and efficiently and complies with the codes of practice on the governance and administration of public service pension schemes issued by the Pension Regulator.

#### *Membership of the Pension Board*

The membership of the Local Pensions Board must be equally split between employer and scheme member representatives with relevant experience and the capacity to represent. Council has determined that membership shall be at least:

- 2 employer representatives - elected Members, appointed on the basis of political balance and appointed annually by Council. No elected Member may sit on both the Pensions Committee and the Pensions Board.
- 2 employee/scheme member representatives - selected at interview by the Chairman and one other Member of the Pensions Committee and a Senior Officer, on the basis of capacity and/or experience. Term of Office to be indefinite

#### *Meetings*

The Local Pension Board meets quarterly in the ordinary course of business and additional meetings may be arranged as required to facilitate its work. It

The Pension Board is treated in the same way as a Committee of the London Borough of Hillingdon and, as such, members of the public may attend and papers will be made public in the same way as described above for the Pensions Committee.

#### *Terms of reference of the Pension Board*

- The Pensions Board will meet at a frequency determined by the Board.
- Reports to the Board will either reflect decisions taken by Pensions Committee or be reports for noting already seen by Pensions Committee.
- The role of the Board will be to assist London Borough of Hillingdon Administering Authority as Scheme Manager: to secure compliance with the LGPS regulations and any other legislation relating to the governance and administration of the LGPS;
- To secure compliance with requirements imposed in relation to the LGPS by the Pensions Regulator; and in such other matters as the LGPS regulations may specify.
- To secure the effective and efficient governance and administration of the LGPS for the London Borough of Hillingdon Pension Fund.
- To provide the Scheme Manager with such information as it requires to ensure that any member of the Pension Board or person to be appointed to the Pension Board does not have a conflict of interest. NB: Being a member of the LGPS is not seen as a conflict of interest.

1. The Pensions Board will meet at a frequency determined by the Board.
2. Reports to the Board will either reflect decisions taken by Pensions Committee or be reports for noting already seen by Pensions Committee.
3. The role of the Board will be to assist London Borough of Hillingdon Administering Authority as Scheme Manager: to secure compliance with the LGPS regulations and any other legislation relating to the governance and administration of the LGPS.
4. To secure compliance with requirements imposed in relation to the LGPS by the Pensions Regulator; and in such other matters as the LGPS regulations may specify.
5. To secure the effective and efficient governance and administration of the LGPS for the London Borough of Hillingdon Pension Fund.
6. To provide the Scheme Manager with such information as it requires to ensure that any member of the Pension Board or person to be appointed to the Pension Board does not have a conflict of interest. NB: Being a member of the LGPS is not seen as a conflict of interest.
7. The Board may agree a more detailed code of practice within the parameters of these Terms of Reference, as to how it operates to comply with other relevant guidelines.

## **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 be found on the Pension Fund Website: [hillingdon.gov.uk/pensions](http://hillingdon.gov.uk/pensions).

### ***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.

### ***Investment Strategy Statement***

The Local Government Pension Scheme (Management and Investment of Funds) (Amendment) Regulations 2016 -require -pension fund -administering -authorities to prepare, maintain and publish a statement of the principles governing their decisions on the investment of the ~~p~~Pension ~~f~~und.

The areas covered in the Investment Strategy Statement are as follows:

- Investment objectives.
- Asset allocation

- Pooling of assets
- Investment implementation
- Investment governance
- Performance management
- Risk Management
- Environment, Social and Governance (ESG) policy

#### *Governance Compliance Statement*

This sets out the Pension Fund's compliance with the Secretary of State's Statutory Guidance on Governance in the LGPS. This is attached as Appendix A and shows where the Fund is compliant or not compliant with best practice and the reasons why it may not be compliant.

#### *Training Policy*

London Borough of Hillingdon has a Training Policy which has been put in place to assist the Fund in achieving its governance objectives and all Pensions Committee members, Pension Board members and ~~senior~~ officers are expected to continually demonstrate their own personal commitment to training and to ensuring that the governance objectives are met.

To assist in achieving these objectives, the London Borough of Hillingdon Pension Fund aims to comply with:

- the CIPFA Knowledge and Skills Frameworks and
- the knowledge and skills elements of the Public Service Pensions Act 2013 and the Pensions Regulator's (TPR) [Codes of Practice for Public Service Schemes](#)

as well as any other LGPS specific guidance relating to the knowledge and skills of Pensions Committee members, Pension Board members or ~~p~~Pension ~~f~~und officers which may be issued from time to time.

Members of the Pensions Committee, [Local](#) Pension Board and officers involved in the management of the Fund will receive training to ensure that they meet the aims of the Training Policy with training schedules drawn up and reviewed on at least an annual basis.

#### *Conflicts of Interest*

The Hillingdon Pension Fund has a Conflicts of Interest Policy that outlines how to identify, monitor and manage conflicts of interest that may occur. A register of interest is also maintained for the [Local](#) Pension Board and declaration of interest in relation to members of the Pensions Committee are available on the Council's website. Fund managers and advisors are also required to submit their organisations conflict of interest policy. Declaration of interests is a standing item on both the Local Pension Board and Pensions Committee agenda.

Conflicts of interest have always existed for those with LGPS administering authority responsibilities as well as for advisers to LGPS funds. This simply reflects the fact that many of those managing or advising LGPS funds will have a variety of other roles and responsibilities, for example as a member of the scheme, as an elected Member of an employer participating in the LGPS or as an adviser to more than one LGPS administering authority. Further any of those persons may have an individual personal, business or other interest which might conflict, or be perceived to conflict, with their

role managing or advising LGPS funds.

It is generally accepted that LGPS administering authorities have both fiduciary and public law duties to act in the best interest of both the scheme beneficiaries and participating employers. This, however, does not preclude those involved in the management of the Fund from having other roles or responsibilities which may result in an actual or potential conflict of interest.

#### *Annual Report and Accounts*

As part of the financial standing orders it is the duty of the Corporate Director of Finance 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 Committee and the Audit 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: [hillingdon.gov.uk/pensions](http://hillingdon.gov.uk/pensions).

#### *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 ~~and the Fund complies with regulatory requirements~~. This helps to ensure transparency and an effective communication process for all interested parties. A copy of the policy can be found on the Pensions website: [hillingdon.gov.uk/pensions](http://hillingdon.gov.uk/pensions).

#### *Discretion Policies*

Under the LGPS regulations, the Administering Authority has a level of discretion in relation to a number of areas, and ~~maintains at the~~ policy document ~~detailing~~ how it will exercise these discretions. The Administering Authority reviews these policies as appropriate and will notify interested parties of any significant changes. Employing Authorities are also required to set out their discretions policies in respect of areas under the Regulations where they have a discretionary power. Copies of both the Administering Authority and London Borough of Hillingdon's Employing Authority Discretions can be found on the website: <http://www.hillingdon.gov.uk>

#### *Pension Administration Strategy*

In order to assist with the management and efficient running of the Pension Fund, the Pension Administration Strategy encompassing administrative procedures and responsibilities for the Pension Fund for both the Administering Authority and Employing Authorities has been distributed to employers within the Fund following consultation and can be found on the website: [hillingdon.gov.uk/pensions](http://hillingdon.gov.uk/pensions). This represents part of the process for ensuring the ongoing efficient management of the Fund and maintenance of accurate data and forms part of the overall governance procedures for the Fund.

#### **Monitoring Governance of the London Borough of Hillingdon Pension Fund**

**The Fund's governance objectives will be monitored as follows:**

<u><b>The Fund's governance objectives will be monitored as follows:</b></u>	<u><b>Monitoring Arrangements</b></u>
<u><b>Objective</b></u>	

Have robust governance arrangements in place, to facilitate informed decision making, supported by appropriate advice, policies and strategies.	<ul style="list-style-type: none"> <li>The Pensions Committee and the section 151 officer make decisions on behalf of the fund.</li> <li>The Committee and Officers are also supported by various fund experts and advisors.</li> <li>The <u>Local</u> Pensions Board has oversight of the decisions made to ensure compliance with relevant legislation and regulations</li> <li>Policy and strategy documents are regularly reviewed and published to ensure they are up to date.</li> </ul>
Ensure the Pension Fund is managed and its services delivered by people who have the appropriate knowledge and expertise	<ul style="list-style-type: none"> <li>A Training Policy is in place together with monitoring of all training by Pensions Committee members and key officers. <u>A knowledge needs assessment takes place to inform the training plan.</u></li> </ul>
Act with integrity and be accountable to our stakeholders for our decisions, ensuring they are robust and well based	<ul style="list-style-type: none"> <li>Pension Committee and <u>Local Pension Board</u> meetings are open to all stakeholders to attend and papers and minutes are published.</li> <li>The <u>Local</u> Pension Board includes representatives from scheme members and employers in the Fund.</li> <li>The <u>Local</u> Pension Board prepares and publishes an annual report which may include comment on decision making.</li> </ul>
Understand and monitor risk	<ul style="list-style-type: none"> <li>A Risk Policy and <u>risk</u> register is in place.</li> <li>Ongoing consideration of key risks at Pensions Committee meetings <u>through the Risk Register.</u></li> </ul>
Strive to ensure compliance with the appropriate legislation and statutory guidance and to act in the spirit of other relevant guidelines and best practice guidance	<ul style="list-style-type: none"> <li>The Governance of the Fund is considered by both the External and Internal Auditors. All External and Internal Audit Reports are reported to <u>Pensions Committee</u>.</li> <li>The Fund maintains a log of all breaches of the law in accordance with the Fund's breaches procedure.</li> </ul>

### Key Risks

The key risks to the delivery of this Strategy are outlined below. Pensions Committee members will monitor these and other key risks and consider how to respond to them.

- Changes in Pensions Committee membership, Pension Board membership and/or key officers resulting in loss of continuity and potentially diminishing knowledge and understanding
- Changes in government / legislative requirements meaning insufficient time allocated to ongoing management, either at Pensions Committee meetings or as part of key officers' duties
- Ineffective delegation of duties and/or presentation of Pensions Committee items resulting in insufficient time spent on key matters
- Poor attendance and/or a lack of engagement at training and/or formal meetings by Committee members, Board members and/or other key officers resulting in a poor standard of decision making and/or monitoring
- Conflicts of interest not being appropriately managed by Committee

members, Board members and/or key officers.

#### **Approval, Review and Consultation**

This Governance Policy and Statement was approved at the London Borough of Hillingdon Pensions Committee meeting on 13 December 2023. Local Pension Board will review 28 October 2020 following consultation with the Hillingdon Local Pension Board~~the policy and~~It will be formally reviewed and updated at least every three years or sooner if the governance arrangements or other matters included within it merit reconsideration.

#### **Contact Information**

Any enquiries in relation to the Fund's governance or the principles or content of this Strategy, or for further information on the Fund, contact:

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London Borough of Hillingdon

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Website: [hillingdon.gov.uk/pensions](http://hillingdon.gov.uk/pensions)

## Appendix A

### Governance Best Practice – Compliance Statement

#### Appendix A – London Borough of Hillingdon Pension Fund Governance Compliance Statement

Best Practice	Compliant or not?	Explanatory Note
<b>A. STRUCTURE &amp; REPRESENTATION</b>		
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	
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.	Non-compliant	Prior to establishment of the <u>Local</u> Pensions Board, both employees and Unions were represented on Pensions Committee. However, membership of the <u>Local</u> Pensions Board now includes pensioner, employer representative, and employee representative. <u>Pensions Board</u> .
<b>B. REPRESENTATION</b>		
a. That all key stakeholders are afforded the opportunity to be represented within the main or secondary committee structure. These include:- i) employing authorities (including non-scheme employers, e.g. admitted bodies); ii) scheme members (including deferred and pensioner scheme members), iii) where appropriate, independent professional observers, and iv) expert advisors (on an ad-hoc basis).	Non-compliant	Council took the decision to only have Council Members as voting members on Committee.  Meetings are open to all to attend, but <u>main</u> -representation comes through <u>Local</u> Pensions Board.  The <u>Local</u> Pension Board <u>members attend</u> <u>Committee meetings and they</u> also reviews all decisions taken by the Committee.

Best Practice	Compliant or not?	Explanatory Note
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.	N/A	
<b>C. SELECTION AND ROLE OF LAY MEMBERS</b>		
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	
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	
<b>D. VOTING</b> 		
<del>a. The policy of individual administering authorities- on voting rights is clear and transparent, and forms part of the Local Government and Housing Act 1989. This includes including the justification for not extending voting rights to co-opted members or other each body or groups represented on main LGPS committees.</del>	Fully Compliant	
<b>E. TRAINING / FACILITY TIME / EXPENSES</b>		
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	

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c. That the administering authority considers the adoption of annual training plans for committee members and maintains a log of all such training undertaken.	<u>C</u> Partially compliant	<u>Following a needs assessment and workplan</u> <del>a</del> No annual training plan as training is developed according to need and workplan. A training log is maintained.
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Best Practice	Compliant or not?	Explanatory Note
<b>F. MEETINGS (FREQUENCY/QUORUM)</b>		
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.	N/A	
c. That an administering authority who do not include lay members in their formal governance arrangements, must provide a forum outside of those arrangements by which the interests of key stakeholders can be represented	Fully compliant	<a href="#">Local Pensions Board</a>
<b>G. ACCESS</b>		
a. That subject to any rules in the council's constitution, all members of main and secondary committees or panels have equal access to committee papers, documents and advice that falls to be considered at meetings of the main committee.	Fully compliant	
<b>H. SCOPE</b>		
a. That administering authorities have taken steps to bring wider scheme issues within the scope of their governance arrangements.	Fully compliant	<a href="#">Pensions Committee remit covers all pension fund matters. Through Pensions Board</a>
<b>I. PUBLICITY</b>		
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	

## Appendix B

### Delegation of Functions to Officers by Pensions Committee

**Key:**

PC – Pensions Committee

CDF – Corporate Director of Finance

FA – Fund Actuary

Advisers – Investment, actuarial and/or benefits consultants as appropriate

Function delegated to PC	Further Delegation to Officer(s)	Delegated Officer(s)	Communication and Monitoring of Use of Delegation
Investment strategy - approving the Fund's Investment Strategy Statement including specific liability profile and risk appetite. Monitoring the implementation of these policies and strategies on an ongoing basis.	Rebalancing and cash management Implementation of strategic allocation	CDF (having regard to ongoing advice of advisers)	High level monitoring at PC with more detailed monitoring by CDF
Selection, appointment and dismissal of the Fund's advisers, including actuary, benefits consultants, investment consultants, global custodian, fund managers, lawyers, Pension Funds administrator, and independent professional advisers.	Ongoing monitoring of Fund Managers	CDF (having regard to ongoing advice of advisers and subject to ratification by PC)	High level monitoring at PC with more detailed monitoring by advisers

Function delegated to PC	Further Delegation to Officer(s)	Delegated Officer(s)	Communication and Monitoring of Use of Delegation
Agreeing the terms and payment of bulk transfers into and out of the Fund.	Agreeing the terms and payment of bulk transfers into and out of the Fund where there is a bulk transfer of staff from the Fund. Exceptions to this would be where there is a dispute over the transfer amount or it relates to significant assets transfers relating to one employer or the Fund as a whole	CDF after taking appropriate advice from the FA.	Ongoing reporting to PC for noting
Making decisions relating to employers joining and leaving the Fund. This includes which employers are entitled to join the Fund, any requirements relating to their entry, ongoing monitoring and the basis for leaving the Fund.	Making decisions relating to employers joining and leaving the Fund and compliance with the Regulations and policies. This includes which employers are entitled to join the Fund, any requirements relating to their entry, ongoing monitoring and the basis for leaving the Fund where the employer.	CDF after taking appropriate advice from the FA.	Ongoing reporting to PC for noting
To <u>setreview</u> the Pension Fund's policy and strategy documents on a regular cycle and review performance against the Fund's objectives within the business plan	Changes to Administering Authority discretionary policies necessitated by changes to regulations - authority to amend the policies to reflect the requirements of such new regulations, subject to those decisions having no significant financial implications.	CDF and the Head of HR	Copy of policy to be circulated to PC members once approved.

<b>Function delegated to PC</b>	<b>Further Delegation to Officer(s)</b>	<b>Delegated Officer(s)</b>	<b>Communication and Monitoring of Use of Delegation</b>
Agreeing the Administering Authority responses to consultations on LGPS matters and other matters where they may impact on the Fund or its stakeholders.	Agreeing the Administering Authority responses where the consultation timescale does not provide sufficient time for a draft response to be approved by PC.	CDF, subject to agreement with Chairman	PC advised of consultation via e-mail (if not already raised previously at PC) to provide opportunity for other views to be fed in. Copy of consultation response provided at following PC for noting.
Overall responsibility the Fund's <a href="#">Knowledge and Skills Training</a> Policy for all Pensions Committee members and for all officers of the Fund, including determining the Fund's knowledge and skills framework, identifying training requirements, developing training plans and monitoring compliance with the policy.	Implementation of the requirements of the <a href="#">The Pensions Regulator codes and the CIPFA Code of Practice</a> <sup>1</sup>	CDF	Regular reports provided to PC
• The Committee may delegate a limited range of its functions to one or more officers of the Authority. The Pensions Committee will be responsible for outlining expectations in relation to reporting progress of delegated functions back to the Pensions Committee.	Other urgent matters as they arise	CDF, subject to agreement with Chairman	PC advised of need for delegation via e-mail as soon as the delegation is necessary. Result of delegation to be reported for noting to following PC.
	Other non-urgent matters as they arise	Decided on a case by case basis	As agreed at PC and subject to monitoring agreed at that time.

<sup>1</sup> CIPFA Code of Practice recommends each administering authority delegates responsibility for implementation to a senior officer.

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# **London Borough of Hillingdon Pension Fund**

## **Pensions Administration Strategy**

| Date approved: 13 December 2023~~28 September 2021~~

| Date of renewal: September 2024

# Administration Strategy

## Introduction and Background

This is the statement outlining the Pension Administration Strategy for the London Borough of Hillingdon Pension Fund ("the Fund") and has been developed following consultation with the Fund's third-party administrators, employers in the Fund, Local Pension Board members and other interested stakeholders.

The aims of the Pension Administration Strategy are to:

- ensure that the parties to which it relates are fully aware of their responsibilities under the Local Government Pension Scheme (LGPS), and
- outline the quality and performance standards expected of the Fund and its scheme employers to ensure the delivery of a high-quality, timely and professional administration service. These performance standards are explained further in the employer admission agreement.

London Borough of Hillingdon (the "Administering Authority") is responsible for the local administration of the Fund, which is part of the Local Government Pension Scheme ("the LGPS"). Operationally, the administration of the Fund is undertaken through a formal delegation agreement by the Hampshire Pensions Services (HPS) team at Hampshire County Council (HCC). HPS and the Fund's officers in Hillingdon work together to provide a seamless service to scheme employers and members.

This Pension Administration Strategy does not supersede any formal agreements between the Administering Authority and the administrators or between the Administering Authority and the employers. However, is it intended to complement such arrangements and provide greater clarity in relation to each party's role and responsibilities.

This Strategy applies to all existing employers in the Fund, and all new employers joining the Fund after the effective date of 13 December 2023~~28 September 2021~~. This Statement sets out the expected levels of administration performance of both the Administering Authority and the employers within the Fund, as well as details on how performance levels will be monitored and the action that might be taken where persistent failure occurs.

## Implementation

This Strategy outlines the level of service the Administering Authority aims to provide to scheme members and employers, as well as the role employers will need to play in providing that quality of service. It is recognised that the aims and objectives in this Strategy are ambitious in some cases and meeting these is dependent on the implementation of some changes in the existing ways of working. This Strategy is being implemented during a period which continues to present a number of challenges, not least:

- the need to carry out a major scheme reconciliation exercise as a result of the introduction of the new State Pension – GMP reconciliation project

- ~~Unknown changes to the scheme structure as a result of the legal ruling in the landmark McCCloud judgement, which found the 2015 pension reforms effecting firefighters and judges to be discriminatory based on age. The Chief Secretary to the Treasury announced that that remedies relating to the McCCloud judgement will be made in relation to all public service pension schemes.~~
- -The unknown impact and implementation of the Local Government Pension Scheme Advisory Board (SAB) cost cap management process
- Implementation of pensions ~~Dashboard~~
- ~~The ongoing impact of COVID-19 on service delivery, staff resources and employer covenant.~~

This Strategy will be effective from ~~13 December 2023~~28 September 2024 and the performance indicators mentioned herein will demonstrate ongoing progress towards the Strategy's aims and objectives.

## Regulatory Basis

The LGPS is a statutory scheme, established by an Act of Parliament. The Local Government Pension Scheme Regulations 2013 provide the conditions and regulatory guidance surrounding the production and implementation of Pensions Administration Strategies.

In carrying out their roles and responsibilities in relation to the administration of the ~~Local Government Pension Scheme~~LGPS, the Administering Authority and employers will, as a minimum, comply with overriding legislation, including:

- Local Government Pension Scheme Regulations
- Pensions Acts 2004 and 2011 and associated disclosure legislation
- Public Service Pensions Act 2013 and associated record keeping legislation
- Freedom of Information Act 2000
- Equality Act 2010
- Data Protection Act 2003
- Finance Act 2013 and
- Relevant Health and Safety legislation.

As a result of the Public Service Pensions Act 2013, the Pensions Regulator now has responsibility for oversight of a number of elements of the governance and administration of Public Service pension schemes including the LGPS. The Regulator has the power to issue sanctions and fines in respect of failings of the Administering Authority, and also where employers in the Fund fail to provide correct or timely information to the Administering Authority. Should this happen, the Administering Authority would recharge any costs back to employers as set out later in this strategy.

More information relating to the requirements of the Local Government Pension Scheme Regulations is included in Appendix A. This statement has been developed

with those provisions in mind, and describes the Administering Authority's approach to meeting these requirements in the delivery of administration.

## **Aims and Objectives**

The primary objectives of the London Borough of Hillingdon Pension Fund are:

- to be known as forward thinking, responsive, proactive, and professional; providing excellent customer focused, reputable and credible service to all customers.
- to have instilled a corporate culture of risk awareness, financial governance, and to provide the highest quality, distinctive services within the resource budget.
- to work effectively with partners, being solution focused with a 'can do' approach.

In addition, there are specific aims and objectives in relation to administration responsibilities as set out below.

### ***Administration Aims and Objectives***

The purpose of this ~~Strategy statement~~ is to set out the quality and performance standards expected of London Borough of Hillingdon in its role as Administering Authority and employer, as well as all other employers within the Fund.

The Administration Strategy has a number of specific objectives, as follows;

- Provide a high quality, professional, proactive, timely and customer focussed administration service to the Fund's stakeholders
- Administer the Fund in a cost effective and efficient manner utilising technology appropriately to obtain value for money
- Ensure the Fund's employers are aware of and understand their roles and responsibilities under the LGPS regulations and in the delivery of the administration functions of the Fund
- Ensure the correct benefits are paid to, and the correct income collected from, the correct people at the correct time
- Maintain accurate records and ensure data is protected and has authorised use only.

## **Delivery of Administration**

London Borough of Hillingdon Pension Fund has delegated responsibility for the management of the Pension Fund to the ~~London Borough of Hillingdon~~ Pensions Committee, ~~taking into consideration the input from~~ assisted by the Local Pensions Board. The Committee will monitor the implementation of this ~~Strategy~~ on a regular basis as outlined ~~below~~ ~~later in this statement~~.

Operationally, the administration of the Fund is undertaken by Hampshire Pensions Services (HPS) through a delegation agreement with Hampshire County Council

(HCC), supported by a small 'in-house' capacity within London Borough of Hillingdon [Pension Fund](#).

The London Borough of Hillingdon [Pension Fund](#) will look for opportunities to work collaboratively with other Administering Authorities to reduce [development costs and enhance](#) the quality of information [such as:.. This might include:](#)

- working with other administering authorities through the Pensions Officer Group networks to produce communications, which can then be customised further where necessary to the needs of the London Borough of Hillingdon Pension Fund
- Utilising economies of scale through procurement of services with other HCC managed funds
- participating in joint training sessions with other administering authorities.

## Performance Standards – Quality

### *Local Standards*

In addition to the legislative and regulatory standards, the Administering Authority and employers ensure that all administration functions and tasks are carried out to agreed [local quality](#) standards. In this respect the standards to be met are:

- compliance with all requirements set out in the employer admission agreement
- information to be provided in the required format and/or on the appropriate forms.
- information to be legible and accurate
- communications to be in a plain language style
- information provided or actions carried out to be checked for accuracy by an appropriately trained member of staff
- information provided or actions carried out to be authorised by an agreed signatory, and
- actions carried out, or information provided, within the timescales set out in this strategy statement.

### *Secure Data Transfer*

The Administering Authority and employers follow London Borough of Hillingdon's data security guidelines when sending any personal data. The pension administration function uses a secure email system to send data when required to prevent any sensitive information from being accidentally sent to unauthorised recipients.

One of the key methods of data transfer relating to the Fund's administration is the submission of information from employers in relation to scheme members. In order to meet the requirements set out in this document in a secure and efficient way (for both employers and the Administering Authority), employers are [strongly](#) encouraged to use the HPS 'Employer Hub'. Any submission of data outside of this method should use a secure means for example encryption to mitigate the risk of compromising data security.

### *Oversight of Compliance and Quality*

Ensuring compliance is the responsibility of the Administering Authority and the employers in the Fund. The Administering Authority has a range of internal controls in place to assist with ensuring compliance and which are articulated in the Fund's risk register and risk management policy. However, there are ways in which the Administering Authority is subject to elements of scrutiny and/or oversight:

#### *Audit*

The Fund is subject to a regular annual audit which includes elements of processes and internal controls. The Administering Authority and the employers are expected to fully comply with any reasonable requests for information from both internal and approved external auditors. Any subsequent recommendations made will be considered by London Borough of Hillingdon, in its role as Administering Authority, and where appropriate duly implemented (following discussions with employers where necessary).

#### *Local Pension Board, the national Scheme Advisory Board and the Pensions Regulator*

The Public Service Pensions Act 2013 introduced greater oversight of LGPS Funds. As a result, the Local Pension Board of the London Borough of Hillingdon Pension Fund was established from 1 April 2015. In addition, the Pensions Regulator's remit was extended to include the public sector, and a national Scheme Advisory Board was created. The Administering Authority and the employers are expected to fully comply with any guidance produced by the Scheme Advisory Board and the Pensions Regulator.

### **Performance Standards – Timeliness and Accuracy**

Overriding legislation, including The Occupational and Personal Pension Schemes (Disclosure of Information) Regulations 2013 (as amended), dictates minimum standards that pension schemes should meet in providing certain pieces of information to the various parties associated with the scheme. Further, the LGPS itself sets out a number of requirements for the Administering Authority or employers to provide information to each other, to scheme members and to prospective scheme members, dependants, other pension arrangements or other regulatory bodies. In addition to the legal requirements, local performance standards have been agreed which cover all aspects of the administration of the London Borough of Hillingdon Pension Fund. In many cases these go beyond the overriding legislative requirements.

The locally agreed performance standards for the Fund are set out in Appendix B. These standards are not an exhaustive list of the Administering Authority's and employers' responsibilities. Employers' responsibilities are provided in more detail in the employers' admission agreement.

Although all the locally agreed performance standards will be monitored on an ongoing basis by the administrating authority, the key standards which will be publicly reported on are extracted and shown in the table below. These elements are measured against:

1. Any legal timescale that should be met ("legal requirement")
2. The overall locally agreed target time ("fund target")

3. The locally agreed target time for the Administering Authority or administrator to complete that task ("LBHPF element target").

Generally, the LBHPF element target will be a sub-section of the overall process, and hence will have a shorter target timescale than that being measured by the legal and ~~E~~fund targets. This is because the legal and fund targets will generally include periods of time when the Administering Authority is waiting for information to be provided by an employer or scheme member. ~~The LBHPF element target then measures the period of time it takes the administrators to carry out their element of work once that information has been received.~~

For the avoidance of doubt "accuracy" in this strategy is defined as when the administrators have received information, for example from an employer, with;

- no gaps in the required areas *and*
- with no information which is either contradictory or which needs to be queried.

*Process maps to explain the flow of information from Schools to the Administrator are in the final stages of development and will be included as Appendix C shortly.*

## Hillingdon Pension Fund Key Performance Indicators

Process	Legal Requirement	LBHPF Administration element target
To send a Notification of Joining the LGPS to a scheme member	2 months from date of joining, or within 1 month of receiving jobholder information where the individual is being automatically enrolled / re-enrolled <sup>1</sup>	Within 20 working days of receipt of all relevant information
To inform members who leave the scheme of their deferred benefit entitlement	As soon as practicable and no more than 2 months from date of initial notification (from employer or from scheme member) <sup>2</sup>	Within 30 working days of receipt of all relevant information
Obtain transfer details for transfer in, and calculate and provide quotation to member	2 months from the date of request <sup>1</sup>	Within 20 working days of receipt of all relevant information
Provide details of transfer value for transfer out, on request	3 months from date of request (CETV estimate) <sup>3</sup> or within a reasonable period (cash transfer sum) <sup>4</sup>	Within 20 working days of receipt of all relevant information
Notification of amount of retirement benefits and payment of tax free cash sum	1 month from date of retirement if on or after Normal Pension Age <sup>1</sup> 2 months from date of retirement if before Normal Pension Age <sup>1</sup>	Within 15 working days of receipt of all relevant information
Providing quotations on request for retirements	As soon as is practicable, but no more than 2 months from date of request unless there has already been a request in the last 12 months <sup>1</sup>	Individual request within 15 working days of receipt of all relevant information
Calculate and notify dependant(s) of amount of death benefits	As soon as possible but in any event no more than 2 months from date of becoming aware of death, or from date of request <sup>1</sup>	Within 15 working days of receipt of all relevant information

1 - The Occupational and Personal Pension Schemes (Disclosure of Information) Regulations 2013, as amended

2 - The Occupational Pension Schemes (Preservation of Benefit) Regulations 1991

3 – Occupational Pension Schemes (Transfer Value) Regulations 1996

4 – Pension Schemes Act 1993

## Employer Support and Performance Monitoring

This Strategy is focussed on good partnership working between the Administering Authority and the Fund's employers. The day-to-day relationship with employers will be supported by HPS and reported to Hillingdon through the 'Employer measurement and improvement' process. The strategic relationship with employers for example admissions, exits and triennial valuation will be managed by the Hillingdon Council.

HPS will support employers in carrying out their statutory role through ongoing communication, guidance and training including:

- six-monthly Employer focus group – covering specific topics and feedback and discussion around key issues/changes. Attended by representative employers from across the Fund.
- regular liaison meetings with key employers and other employers as required
- attendance at local Employer group meetings to provide updates on key Fund and Scheme issues/changes
- supporting and attendance at the Annual Employer Meeting (AEM) ~~to cover off Pensions Administration~~
- where required, specific workshops or meetings with groups of employers.

The HPS team will also proactively review Employer performance to ensure that data quality issues are addressed, that contributions are paid on a timely basis and that employers return member information (e.g. new starters, leavers) in a timely fashion. HPS will report to the Administering Authority on employer performance.

As part of this proactive approach HPS will:

- undertake the annual return process with all Scheme Employers
- address data concerns with Scheme Employers, resulting in reducing outstanding queries ~~by over 50%~~
- benchmark Scheme Employers annual returns based on timeliness, financial control and data quality. Scheme Employers receive a formal letter outlining this and the consequences of no improvement in future years
- request a data validation exercise be carried out by Scheme Employers who are highlighted as a 'significant' concern due to 'major data quality issues' with their previous annual return
- liaise with Finance Team in LBH in respect of any concerns they have about the timeliness of the payment of contributions by employers

## *Circumstances where the Administering Authority may levy costs associated with the Employers' poor performance*

The Administering Authority will work closely with all employers to assist them in understanding all statutory requirements, whether they are specifically referenced in the LGPS Regulations, in overriding legislation, or in this Administration Strategy. The Administering Authority will also work with them to ensure that overall quality and timeliness is continually improved.

The Regulations provide that an Administering Authority may recover from an employer any additional costs associated with the administration of the scheme incurred as a result of the unsatisfactory level of performance of that employer. Where an Administering Authority wishes to recover any such additional costs they must give written notice stating:-

- The reasons in their opinion that the employer's level of performance contributed to the additional cost
- The amount the Administering Authority has determined the employer should pay
- The basis on which this amount was calculated, and
- The provisions of the pension administration strategy relevant to the decision to give notice.

Commitment to the principles of this statement should mean that any non-compliance is addressed promptly, with no need to resort to levy costs a penalty. However, the following actions are possible:

- Where payment over of contributions is late more than once in any 12 month period, the Fund will issue the employer with a written notice of unsatisfactory performance and may levy a charge of £150 for the late payment as well as charge interest on the late payment at a daily rate equal to the Bank of England's base rate plus 1%.
- As required of Scheme Administrators by the Pensions Act 2004, the Fund will report to the Pensions Regulator, failure of an employer to comply with requirements where they are persistent and material.
- Where the employer fails to comply with their scheme duties, including failure to pay contributions due, the Fund reserves the right to notify the member(s) involved and to notify all members employed by the employer in the event of serious or persistent failure.
- If additional and disproportionate resources are deployed by the Fund because of an employer's poor performance, the cost of the additional resources may be re-charged to the employer according to powers available under scheme regulations. Written notice will be given of the reasons for the re-charge, how the cost was calculated, and the part of this statement which, in the Fund's opinion, was contravened. The following table of charges

applies to the annual return and employer performance benchmarking process.

<u>Event</u>	<u>Charge levied</u>
<u>Failure to provide a complete annual return by 30 April</u>	<u>£150 per return, increasing by £150 for each further month this is late</u>
<u>Failure to provide full responses to queries raised through the annual return process within 10 working days</u>	<u>£50 per chaser communication</u>
<u>For Employers who are rated red for data quality as part of annual return benchmarking for 2 or more consecutive years a charge will be incurred on all queries raised</u>	<u>£25 per query</u>
<u>Additional work to correct records due to incorrect submission of annual return data</u>	<u>£35 per hour</u>

- Where orders or instructions issued by The Pensions Regulator, the Pensions Ombudsman or other regulatory body require financial compensation or a fine to be paid by the Fund, or by any officer responsible for it, and it is due to the default, omission or otherwise negligent act of the employer, the sum concerned will be recharged to the employer.
- Where, as a result of the employer's failure to notify the Fund of the final retirement details in a timely manner, payment of any retirement lump sum is not made within 30 days from the date of the member's retirement, the Fund may issue the employer with a written notice of unsatisfactory performance and may charge the employer for the interest payment made.
- Where it is proven that the employer is not responsible for any fine or penalty imposed by The Pensions Regulator or any other statutory body as a result of non-compliance of this Service Level Agreement, any such charge will automatically default to the Fund.
- From time to time, the Fund will offer training and support to employers through 'Employer Days' and workshops. There is no charge made to an employer for attending this event, however the Fund reserves the right to charge a late cancellation fee of £100 + VAT, where at least one week's notice has not been given of non attendance.

~~London Borough of Hillingdon, as the Administering Authority, will generally not recharge to an employer any additional costs incurred by the Fund in the administration of the LGPS as a direct result of such unsatisfactory performance. However:~~

- in instances where the performance of the employer results in fines being levied against the Administering Authority by the Pensions Regulator, Pensions Ombudsman or other regulatory body, an amount no greater than the amount of that fine will be recharged to that employer.
- whether or not interest will be charged on late contributions will be stated within the Administering Authority's separate policy on discretionary provisions.
- in exceptional circumstances, particularly where the improvement plan as outlined in the last section of this statement is not being adhered to, the Pensions Committee may determine that any other additional costs will be recharged. In these circumstances the Pensions Committee will determine the amount to be recharged and how this is to be calculated. The employer in question will be provided with a copy of that report and will be entitled to attend the Pensions Committee when this matter is being considered.

### Measuring whether the Administration Objectives are met

The Administering Authority will monitor performance in carrying out its responsibilities in relation to the scheme, and will regularly monitor performance by benchmarking against other administering authorities, using benchmarking clubs and other comparators where available. How well the Fund performs will be reported in the Fund's Annual Report based on the statistics available at that time.

In addition, the Administering Authority will monitor success against its administration objectives in the following ways:

Objectives	Measurement
Provide a high quality, professional, proactive, timely and customer focussed administration service to the Fund's stakeholders.	Key target service standards (highlighted in table above) achieved in 95% of cases*.
Administer the Fund in a cost effective and efficient manner utilising technology appropriately to obtain value for money.	Cost per member is not in upper quartile when benchmarked against all LGPS Funds using national data (either SF3 or SAB)

<b>Objectives</b>	<b>Measurement</b>
Ensure the Fund's employers are aware of and understand their roles and responsibilities under the LGPS regulations and in the delivery of the administration functions of the Fund.	<p>Annual data checks (including ongoing reconciliations) resulting in few issues that are resolved within 2 months.</p> <p>Key target service standards (highlighted in table above) achieved in 95% of cases*.</p> <p>Issues included in formal improvement notices issued to employers resolved in accordance with plan.</p>
Ensure benefits are paid to, and income collected from, the right people at the right time in the right amount.	<p>Mainly positive results in audit and other means of oversight/scrutiny.</p> <p>Key target service standards (highlighted in table above) achieved in 95% of cases*.</p>
Maintain accurate records and ensure data is protected and has authorised use only.	<p>Annual data checks (including ongoing reconciliations) resulting in few issues that are all resolved within 2 months</p> <p>No breaches of data security protocols</p> <p>Mainly positive results in audit and other means of oversight/scrutiny</p>

\*Employers are expected to meet their targets in 95% of cases.

An overview of performance against these objectives and in particular against target standards for turnaround times will be reported within the Fund's annual report and accounts and also reported on regularly to the Pensions Committee and Pension Board.

Where performance is substantially below standard (whether by a large margin for a short period of time or a small margin for a longer period of time) the Administering Authority will formulate an improvement plan. This will be reported to the Fund's Pensions Committee and Pension Board together with an ongoing update on achievement against the improvement plan.

## Key Risks

The key risks to the delivery of this Strategy are outlined below. The London Borough of Hillingdon [Pensions](#) Officers will work with the Pensions Committee and the [Local](#) Pension Board in monitoring these and other key risks and formulate a response to them.

- Lack or reduction of skilled resources due to difficulty retaining and recruiting staff members and also staff absence due to sickness

- Significant increase in the number of employing bodies causes strain on day to day delivery
- Significant external factors, such as national change, impacting on workload
- Incorrect calculation of members' benefits resulting in inaccurate costs (to employer), through for example, inadequate testing of systems
- Failure of employers to provide accurate and timely information resulting in incomplete and inaccurate records, which could lead to incorrect valuation results and incorrect benefits, which in turn could lead to complaints
- Failure to administer scheme in line with regulations and policies, including due to delays in enhancement to software or regulation guidance (e.g. transfers).
- Failure to maintain proper records leading to inadequate data, which could lead to increased complaints and errors
- Issues in production of annual benefits statements, e.g. wrong address and printing errors due to external supplier
- Unable to deliver a service to pension members due to system unavailability or failure
- Failure to maintain employer database leading to information not being sent to correct person
- Impact of COVID-19 on human resources and employer covenant.

Key Risk areas will be discussed as part of the quarterly liaison meetings with Hampshire Pensions Services

### **Approval and Review**

This Strategy Statement was approved for consultation with stakeholders on 13 December 2023~~15 June 2016~~ by the London Borough of Hillingdon Pensions Committee. It will be reviewed following consultation with a view to the final strategy being agreed by Pension Committee on 26 March 2024~~8 September 2021~~, to become effective from that date.

It will be formally reviewed and updated at least every three years or sooner if the administration management arrangements or other matters included within it merit reconsideration, including if there are any changes to the LGPS Regulations or other relevant Regulations or Scheme Guidance which need to be taken into account.

In preparing this Strategy the Administering Authority has consulted with the relevant employers, the scheme member and employer representatives on the ~~London Borough of Hillingdon Local~~ Pension Board and other persons considered appropriate.

This Strategy Statement will be included within the Fund's Annual Report and Accounts and available on the Administering Authority's website at: <http://www.hillingdon.gov.uk/pensions>.

### **Further Information**

Any enquiries in relation to the day to day administration of the Fund or the principles or content of this Strategy should be sent to:

James Lake, Head of Finance, Statutory Accounting & Pension Fund  
London Borough of Hillingdon  
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High Street  
Uxbridge  
UB8 1UW

e-mail - [jlake@hillingdon.gov.uk](mailto:jlake@hillingdon.gov.uk)  
Telephone - 01895 277562

### **Administration Legal Requirements within the LGPS**

Regulations 72, 74 and 80 of Local Government Pension Scheme Regulations 2013 require the following:

#### **Employer Responsibilities:**

- To decide any rights or liabilities of any person under the LGPS (for example, what rate of contributions a person pays and whether or not a person is entitled to any benefit under the scheme) as soon as is reasonably practicable\*
- To formally notify that person of the decision in relation to their rights or liabilities in writing as soon as is reasonably practicable (including a decision where a person is not entitled to a benefit and why not), including information about their internal dispute resolution procedure
- To inform the Administering Authority of all such decisions made
- To provide the Administering Authority with such information it requires so it can carry out its functions including, within three months of the end of each Scheme year\*\*, the following information in relation to any person who has been an active member of the scheme in the previous year:
  - name and gender
  - date of birth and national insurance number
  - a unique reference number relating to each employment in which the employee has been an active member
  - in respect of each individual employment during that year:
    - the dates during which they were a member of the scheme
    - the normal pensionable pay received and employee contributions paid
    - the pensionable pay received and employee contributions paid whilst there was any temporary reduction in contributions
    - the normal employer contributions paid
    - any additional employee or employer contributions paid
    - any Additional Voluntary Contributions paid by the employee or employer
- To appoint a person to consider complaints under stage 1 of the internal dispute resolution procedure relating to employer decisions (or a lack of a decision)\*\*\*

*\*And at the latest within 1 month of the need for a decision*

*\*\*Note that, in practice, the Administering Authority will require this information by a specific date as outlined in the specific correspondence requesting information in order to meet statutory deadlines on benefit statements*

*\*\*\*Note that, in practice, employers in the London Borough of Hillingdon Pension Fund may use the same person to consider stage 1 IDRP complaints as used by the Administering Authority*

Administering Authority Responsibilities:

- To decide the amount of benefits that should be paid, including whether the person is entitled to have any previous service counting towards this for LGPS purposes, as soon as is reasonably practicable
- To formally notify that person of the decision in relation to the amount of their benefits in writing as soon as is reasonably practicable, including a statement showing how they are calculated and information about their internal dispute resolution procedure
- To appoint a person to consider complaints under stage 1 of the internal dispute resolution procedure relating to Administering Authority decisions (or a lack of a decision)
- To appoint a person to consider complaints under stage 2 of the internal dispute resolution procedure (which covers both employer and Administering Authority decisions or lack of decisions)
- To provide on request any information to an employer about a complaint under the internal dispute resolution procedure that may be required by an employer

Regulation 59(1) enables an LGPS Administering Authority to prepare a written statement ("the pension administration strategy") to assist in delivering a high-quality administration service to its scheme members and other interested parties, by setting out local standards which often go beyond the minimum requirements set out in overriding legislation as outlined above, and which the Administering Authority and employers should comply with. The statement can contain such of the matters mentioned below as they consider appropriate:-

- Procedures for liaison and communication with the relevant employers in their Fund.
- The establishment of levels of performance which the Administering Authority and the employers are expected to achieve in carrying out their functions under the LGPS by-
  - i. the setting of performance targets;
  - ii. the making of agreements about levels of performance and associated matters; or
  - iii. such other means as the Administering Authority consider appropriate;
- Procedures which aim to secure that the Administering Authority and the employers comply with statutory requirements in respect of those functions and with any agreement about levels of performance.
- Procedures for improving the communication by the Administering Authority and the employers to each other of information relating to those functions.
- The circumstances in which the Administering Authority may consider giving written notice to an employer on account of that employer's unsatisfactory performance in carrying out its functions under the LGPS Regulations when measured against the desired levels of performance.

- The publication by the Administering Authority of annual reports dealing with—
  - i. the extent to which the Administering Authority and the employers have achieved the desired levels of performance, and
  - ii. such other matters arising from its pension administration strategy as it considers appropriate
- Such other matters as appear to the Administering Authority to be suitable for inclusion in that strategy.

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

In addition, regulation 59(6) also requires that, where a pension administration strategy is produced, a copy is issued to each of their relevant employers as well as to the Secretary of State. It is a requirement that, in preparing or revising any pension administration strategy, that the Administering Authority must consult its relevant employers and such other persons as it considers appropriate.

Both the Administering Authority and employers must have regard to the current version of the pension administration strategy when carrying out their functions under the LGPS Regulations.

**Detailed Performance Standards**

<b>New Appointments</b>	
<b>Employer's responsibility</b>	<b>Target Service Standard</b>
To ensure that pensions information is included as part of the appointment process of new staff	
To provide each new employee with basic scheme information	Within one month of joining

<b>New Scheme Members</b>	
<b>Employer's responsibility</b>	<b>Target Service Standard</b>
Provide new members with starter forms and scheme guides, where not delegated to the Administering Authority	10 working days
Decide and ensure the correct employee contribution rate is applied	Immediately on joining in line with employer's policy, and each April thereafter (as a minimum)
Provide new starter information to the Administering Authority for each new employee joining the LGPS	10 working days
Forward completed starter forms completed by scheme members to the Administering Authority	3 working days from date of first deduction of contributions
<b>Administering Authority's Responsibility</b>	
To accurately record and update member records on the pension administration system	Within 20 working days from receipt of all relevant information
To apply for any transfer value details from a previous fund or scheme	Within 15 working days from receiving all information
To send a Notification of Joining the LGPS to a scheme member	Within 20 working days from receiving all information

<b>Changes in circumstances</b>	
<b>Employer's responsibility</b>	<b>Target Service Standard</b>
Arrange for reassessment of employee contribution rate in line with employer's policy	If applicable, as per employer's policy
Notify the Administering Authority of any eligible employees who opt out of the scheme within three months of appointment.	10 working days from date of receiving opt out
Notify the Administering Authority of all other relevant changes in the circumstances of employees	10 working days from date of change
Refund any employee contributions deducted in error, or where the member opts out in writing within 3 months with no previous LGPS membership.	Month following the month of election

<b>Administering Authority's Responsibility</b>	
To accurately record and update member records on the pension administration system	Within 15 working days from receiving all information
To send a Notification of Change (or equivalent) if legally required	Within 20 working days from receiving all information

<b>Retirement Estimates (including ill-health)</b>	
<b>Employer's responsibility</b>	<b>Target Service Standard</b>
<del>Provide pay (and other membership) details when a member requests an early retirement estimate</del>	<del>Within 10 working days</del>
<b>Administering Authority's Responsibility</b>	
Providing quotations on request for retirements	Within 15 working days from receipt of all relevant information

<b>Actual Retirements (including ill-health)</b>	
<b>Employer's responsibility</b>	<b>Target Service Standard</b>
<del>Notify the Fund when members are due to retire and reason for retirement (and authorisation where appropriate)</del>	<del>As early as possible and no later than 20 working days before date of retirement</del>
<del>Notify the Fund when a member leaves employment, including an accurate assessment of final pay</del>	<del>Within 10 working days from members final pay date</del>
<del>Send a Notification of Entitlement to Benefit if legally required to a scheme member (including determining tier of ill-health retirement if applicable)</del>	<del>No later than 5 working days before date of retirement</del>
<b>Administering Authority's Responsibility</b>	
To accurately record and update member records on the pension administration system	Within 15 working days from receipt of all relevant information
Notification of amount of retirement benefits and payment of tax free cash sum	Within 15 working days from receipt of all relevant information
Notification of amount of recalculated retirement benefits and payment of any balance tax free cash sum following updated information	Within 15 working days from receipt of all relevant information

<b>III-Health Retirements (additional responsibilities)</b>	
<b>Employer's responsibility</b>	<b>Target Service Standard</b>
<del>Use a qualified independent medical practitioner (from the approved list provided by the Administering Authority) in order to consider all ill health retirement applications and agree this appointment with the Fund.</del>	<del>Within one month of becoming an employer within the Fund</del>
<del>To keep a record of all Tier 3 ill health cases and to review these cases after 18 months</del>	<del>As required</del>
<del>Notify the Fund of the results of any review of Tier 3 ill health cases with appropriate</del>	<del>5 working days of results of review</del>

information to allow the Fund to recalculate benefits if necessary	
Send a Notification of Entitlement to Benefit (or change in benefit) to a scheme member following the review of his/her Tier 3 ill-health benefits	Within 15 working days of results of review

Members leaving before retirement	
<b>Employer's responsibility</b>	<b>Target Service Standard</b>
Notify the Fund of the member's date of (and reason for) cessation of membership, and all other relevant information.	Within 10 working days from member's most recent pay date
<b>Administering Authority's Responsibility</b>	
To accurately record and update member records on the pension administration system	Within 15 working days from receipt of all relevant information
To inform members who leave the scheme of their deferred benefit entitlement	Within 30 working days from receipt of all relevant information
Provide a refund of contributions where requested	Within 15 working days from receipt of all relevant information
Provide a statement of current value of deferred benefits on request	Within 15 working days from receipt of all relevant information

Death Benefits	
<b>Employer's responsibility</b>	<b>Target Service Standard</b>
Notify the Fund of the death of a member and provide details of next of kin where available	5 working days of being notified
<b>Administering Authority's Responsibility</b>	
Write to next of kin or other contact requesting information following the death of a scheme member	Within 5 working days from notification
Calculate and notify dependant(s) of amount of death benefits	Within 15 working days from receipt of all relevant information
Decide who should be recipient(s) of death grant and pay death benefits appropriately as directed	Within 10 working days from receipt of all relevant information

Transfers	
<b>Administering Authority's Responsibility</b>	
Obtain transfer details for transfer in, and calculate and provide quotation to member	Within 15 working days from receipt of all relevant information
Request transfer value upon acceptance of transfer in	Within 10 working days
Notify scheme member of benefits purchased by transfer in on receipt of payment	Within 20 working days from receipt of all relevant information
Provide details of transfer value for transfer out, on request	Within 15 working days from receipt of all relevant information
Provide payment of transfer value to appropriate recipient.	Within 10 working days

<b>Additional Benefits (APCs and AVCs)</b>	
<b>Employer's responsibility</b>	<b>Target Service Standard</b>
Commence, cease or amend (as appropriate) deduction of APCs and AVCs	In month following election
<b>Administering Authority's Responsibility</b>	
To provide information on APCs / AVCs on request to members and employers.	Within 15 working days from request

<b>Various Financial Obligations</b>	
<b>Employer's responsibility</b>	<b>Target Service Standard</b>
<del>Pay the Fund all employee contributions deducted from payroll and all employer contributions.</del>	<del>Immediately when deducted from pay but at the latest by the 19<sup>th</sup> day of the following month.</del>
<del>Pay all rechargeable items to the Fund, including additional fund payments in relation to early payment of benefits.</del>	<del>20 working days from receiving invoice (within standard invoicing terms of 28 calendar days)</del>
<del>Pay all additional costs to the Fund associated with the unsatisfactory performance of the employer</del>	<del>20 working days from receiving invoice (within standard invoicing terms of 28 calendar days)</del>
<b>Administering Authority's Responsibility</b>	
To allocate the received contributions to each employer's cost centre	Prior to closing month end
Issue invoice in relation to additional fund payments in relation to early payment of benefits	Within 10 working days of employer costs being confirmed
Inform the employers of any new contribution banding	At least 1 month prior to the new contribution bands being introduced
Notify calculation and new value of pension following annual pensions increase	No longer than 2 working days before payment of revised pension

<b>Annual Returns, Valuation and Annual Benefit Statements</b>	
<b>Employer's responsibility</b>	<b>Target Service Standard</b>
<del>Provide the Fund with year end information to 31 March each year, and any other information that may be required for the production of Annual Benefit Statements.</del>	<del>By 30 April annually</del>
<b>Administering Authority's Responsibility</b>	
Process employer year end contribution returns	By 31 July each year
Produce annual benefit statements for all active and deferred members.	In line with LGPS regulation timescales Currently by 31 August
Provide Pension Saving Statement to members who have exceeded their annual allowance(Legislative)	By 6 October each year

To provide P60 statements to pensioners (HMRC requirement)	By 31 May each year
Provide information to the Actuary (or GAD as appropriate) for both the triennial valuation and for accounting purposes.	As agreed between the Fund and the Actuary
Provide an electronic copy of the valuation report and associated certificate to each employer, and to answer any questions arising.	Within 10 working days from publication of report

<b>General</b>	
<b>Employer's responsibility</b>	<b>Target Service Standard</b>
<del>Confirm a nominated representative to receive information from the Fund, and to take responsibility for disseminating it within the organisation.</del>	<del>By effective date of admission or within 5 working days of previous representative leaving</del>
<del>Formulate and publish policies regarding all discretions that the employer may exercise, and provide a copy to the Fund.</del>	<del>Within 2 months of joining and also provided to Administering Authority every 3 years or whenever amended</del>
<del>Respond to enquiries from the Fund.</del>	<del>10 working days</del>
<del>Notify the Fund if the employer intends to outsource services that will involve TUPE transfers of staff, and work with the Fund to ensure an admission agreement is put in place and complied with or a bulk transfer arranged.</del>	<del>Initial notification immediately upon becoming aware of potential outsourcing, and at least 3 months prior to the start of the contract</del>
<del>Distribute any information provided by the Fund to members / potential members</del>	<del>5 working days</del>
<del>Put in place a Stage 1 Internal Dispute Resolution Procedure</del>	<del>Within 1 month of joining and before the effective date of any change to the existing procedure (e.g. an appointed person leaving)</del>
<b>Administering Authority's Responsibility</b>	
Arrange for the setting up of an admission agreement where required	As soon as possible following receipt of information and prior to the start of any contract
Publish (on-line) and keep up to date the Short Scheme Guide and Employers' Procedural Guide.	Updates made as soon as possible from notification of any legislation changes but preferably before effective date
Publish and keep up to date all forms that members, prospective members and employers are required to complete.	Updates made as soon as possible from notification of any legislation changes but preferably before effective date
Publish the Fund's annual report and accounts and any report from the auditor	In line with CIPFA Guidance

Provision of other responses to general enquiries from scheme members and employers	Within 10 working days to provide initial response
Put in place a Stage 1 Internal Dispute Resolution Procedure	Before the effective date of any change to the existing procedure (e.g. an appointed person leaving)
Put in place a Stage 2 Internal Dispute Resolution Procedure	Before the effective date of any change to the existing procedure (e.g. an appointed person leaving)

<b>Pension Payments</b>	
<b>Administering Authority's Responsibility</b>	<b>Target Service Standard</b>
Issue pension payments to designated bank accounts	To arrive on due date
Issue payslips to home addresses for those pensions where net pay has changed by £10 or more	Posted so as to arrive on the due date
Investigate returned payments and action appropriately	Within 10 working days from receipt of return
Respond to pensioner queries in writing	Within 10 working days from receipt of query
Implement a change to pension in payment	By next payroll period where change occurs more than 5 days prior to the payment date

The main duties of the employers as set out in the Regulations are set out in the table below, together with timescales for completion where appropriate.

<u>Employer responsibility</u>	<u>Timescale</u>
<u>Decide who is eligible to become a member of the LGPS and the date from which membership of the LGPS starts).</u> <u>Notify HPF of the new member details and provide employee with details of the pension scheme.</u>	<u>Within 10 working days following the end of the month in which the employee joined the LGPS.</u>
<u>Determine the rate of employee contributions to be deducted from the employee's pensionable pay and, where the employee holds more than one post, the rate that should be applied to each post. This should be reviewed at least annually or more often where employer policy states</u>	<u>For the first pay period in which the employee joins the LGPS</u>

<u>Employer responsibility</u>	<u>Timescale</u>
<u>Move employees into the 50:50 section</u>	<u>From the next pay period after receiving the employee's request</u>
<u>Provide an amendment form to advise of change to/from 50:50 section</u>	<u>Within 10 working days following the change</u>
<u>Collect and pay to the HPF the deduction of the correct rate of pension contributions payable by the employee and the employer, including any additional employee contributions of any kind.</u>	<u>Payment over to HPF by 22<sup>nd</sup> of the month following deduction</u>
<u>Complete monthly remittance form containing detail of the contributions payment.</u>	<u>Send to Pension Services with payment of contributions every month</u>
<u>Collect and pay over AVC contributions to the specified AVC provider in accordance with statutory timescales</u> <u>Notify HPF of a member's election to pay, vary or cease AVCs.</u>	<u>Payment over to HPF by 22<sup>nd</sup> of the month following deduction</u>
<u>Refund contributions through the payroll to any employee who opts out of the scheme with less than 3 months membership.</u>  <u>Notify HPF of opt out and refund through payroll by providing a copy of the opt out form</u>	<u>From the next pay period after receiving the employee's request to opt out</u>  <u>Within 10 working days following the end of the month in which the employee left the scheme</u>
<u>Calculate assumed pensionable pay for any employees who met this requirement under the regulations.</u>	<u>As required</u>
<u>Leavers (excluding retirements/casuals)</u>  <u>When an employee's LGPS membership ends, determine the reason for leaving and entitlement to benefit and notify the HPF, supplying timely and accurate information to HPF so that benefits payable from the LGPS are calculated correctly.</u>	<u>Within 10 working days following the end of the month in which the employee was last paid</u>
<u>Leavers (casuals)</u>	<u>Within 10 working days following the end of the month the employer is aware</u>

<u>Employer responsibility</u>	<u>Timescale</u>
<u>When an employee's LGPS membership ends, determine the reason for leaving and entitlement to benefit and notify the HPF, supplying timely and accurate information to HPF so that benefits payable from the LGPS are calculated correctly.</u>	<u>they have left or were last paid</u>
<u>Retirements</u>  <u>When an employee's LGPS membership ends on the grounds of retirement, determine the reason for retirement and entitlement to benefit and notify the HPF, supplying timely and accurate information to HPF so that benefits payable from the LGPS are calculated correctly.</u>	<u>Within 20 working days before an employee's retirement date</u>
<u>Use an independent registered medical practitioner qualified in occupational health medicine in determining requests for ill health retirement.</u>	<u>As required</u>
<u>Write, publish and maintain a policy on areas of the regulations in which employers can exercise their discretion.</u>	<u>In accordance with regulations and then regular review.</u>  <u>Notify HPF and members of any changes to those policies within one month of setting a policy and the changes taking effect.</u>
<u>Appoint a person to consider applications from members regarding decisions, acts or omissions and to decide on those applications.</u>	<u>On entry to the HPF and review as required</u>
<u>Provide annual information to HPF with full details of the contributions paid by members in the year.</u>  <u>Respond to queries on the annual return raised by HPF.</u>	<u>By 30 April each year</u>  <u>Respond to queries within 10 working days of receipt</u>
<u>The employer will maintain employment records for each member for the purposes of determining membership and entitlement to benefits.</u>  <u>The employer must keep a full pay history for the 13 years, ending 31 March, before the member leaves the scheme.</u>	<u>As required</u>
<u>Notify HPF of a member's death and next of kin's details.</u>	<u>Within 5 working days of the member's death.</u>

<u>Employer responsibility</u>	<u>Timescale</u>
<u>Supply details required for completion of an estimate.</u>	<u>Within 10 working days of the member's request</u>
<u>Distribute information relating to the publication of annual benefit statements and any other notifications to active members as requested by HPF.</u>	<u>Within 20 working days of receipt</u>
<u>Notify HPF of any TUPE transfer.</u>  <u>Complete TUPE forms for each member transferring.</u>	<u>Notify HPF of the transfer as soon as possible in advance of the transfer date.</u>  <u>Part A of the TUPE form completed within 10 working days following the end of the month in which the transfer took place.</u>
<u>Notify HPF of any outsourcing arrangements which impact on employees eligible to the LGPS</u>  <u>Where an admission agreement is required, the Scheme employer should complete an 'Outsourcing data capture' form, transferring 'staff data capture' form and 'Undertaking of costs' form</u>  <u>Ensure admission agreement is finalised</u>  <u>Provide individual TUPE forms for transferring staff to HPF</u>	<u>As soon as possible but no later than 20 working days before change</u>  <u>As soon as possible but no later than 20 working days before change</u>  <u>No later than date of transfer</u>  <u>Part A of the TUPE form completed within 10 working days following the end of the month in which the transfer took place</u>

<u>Employer responsibility</u>	<u>Timescale</u>
<p><u>Notify HPF of a change of payroll provider by completing a ‘Employer Change of payroll provider’ form</u></p>	<p><u>As soon as possible but no later than 20 working days before change</u></p>
<p><u>Submit individual ‘Change of payroll provider’ forms to HPF for all transferring employees</u></p>	<p><u>Within 20 working days post transfer</u></p>
<p><u>Provide notification of new payroll numbers (if applicable) to HPF</u></p>	<p><u>Within 20 working days post transfer</u></p>
<p><u>Complete a mid year return if date of change is not 1 April</u></p>	<p><u>Within 40 working days post transfer</u></p>
<p><u>Designate a named individual to act as the main contact for any aspect of administering the LGPS</u></p>	<p><u>Within 30 days of becoming a scheme employer or within one month of the change in officer role.</u></p>
<p><u>Complete and return an ‘Employers contact form’ detailing authorised signatories. Form available by emailing <a href="mailto:pensions.employer@hants.gov.uk">pensions.employer@hants.gov.uk</a></u></p>	<p><u>Within 30 days of becoming a scheme employer or within one month of the change in officer role.</u></p>
<p><u>Fully respond to all queries relating to data submitted to the Fund within 10 working days (or such shorter timescale as required for queries relating to annual returns which are received after the deadline)</u></p>	<p><u>Within 10 working days of receipt of the request.</u></p>



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# **London Borough of Hillingdon**

## **Pension Fund**

### **Training Policy**



**HILLINGDON**  
LONDON

December 2023

# TRAINING POLICY

## Introduction

This is the Training Policy of the London Borough of Hillingdon Pension Fund (the Fund), which is managed and administered by the London Borough of Hillingdon. It details the training strategy for those involved in the management of the Fund.

The Training Policy is established to aid Pensions Committee, Local Pension Board members and senior officers in performing and developing in their individual roles, with the ultimate aim of ensuring that London Borough of Hillingdon Pension Fund is managed by individuals who have the appropriate levels of knowledge, skills and experience.

## Aims and Objectives

London Borough of Hillingdon recognises the significance of its role as Administering Authority to the London Borough of Hillingdon Pension Fund.

In relation to knowledge and skills of those managing the Fund, the Administering Authority's objectives are to ensure that:

- the London Borough of Hillingdon Pension Fund is appropriately managed and that its services are delivered by people who have the requisite knowledge and expertise, and that this knowledge and expertise is maintained.
- those persons responsible for governing the London Borough of Hillingdon Pension Fund have sufficient expertise to be able to evaluate and challenge the advice they receive, ensure their decisions are robust and manage any potential conflicts of interest.

All Pensions Committee, Local Pension Board members and senior officers to whom this Policy applies are expected to continually demonstrate their own personal commitment to training and to ensuring that these objectives are met.

To assist in achieving these objectives, the London Borough of Hillingdon Pension Fund will aim to comply with:

- the CIPFA Knowledge and Skills Frameworks and
- the knowledge and skills elements of the Public Service Pensions Act 2013 and the Pensions Regulator's (tPR) Codes of Practice.

## To whom this Policy Applies

This Training Policy applies to all members of the Pensions Committee and the Local Pension Board, including scheme member and employer representatives. It also applies to all officers in the London Borough of Hillingdon Pension Fund Team and the Section 151 Officer who are required to have appropriate knowledge and skills relating to their roles.

Advisers to the London Borough of Hillingdon Pension Fund are also expected to be able to meet the objectives of this Policy.

Officers of employers participating in the London Borough of Hillingdon Pension Fund who are responsible for pension matters are also encouraged to maintain a high level of knowledge and understanding in relation to LGPS matters, and the London Borough of Hillingdon will provide appropriate training for them. This is covered further in the London Borough of Hillingdon Pension Fund Administration Strategy.

## **Knowledge and Skills Requirements**

### *CIPFA Knowledge and Skills Framework and Code of Practice*

In January 2010 CIPFA launched technical guidance for pension committees and non-executives in the public sector within a knowledge and skills framework. The Framework sets the skill set for those responsible for pension scheme financial management and decision making.

Subsequently, in July 2015 CIPFA launched technical guidance for local pension board members by extending the existing knowledge and skills frameworks in place. This Framework sets the skill set to enable pension board members to properly exercise their functions under Section 248a of the Pensions Act 2004, as amended by the Public Service Pensions Act 2013.

The Framework covers eight areas of knowledge and skills identified as the core requirements (which includes all those covered in the original Committee and non-executives framework):

- Pensions legislation
- Public section pensions governance
- Pensions administration
- Pension accounting and auditing standards
- Financial services procurement and relationship management
- Investment performance and risk management
- Financial markets and products knowledge
- Actuarial methods, standards and practice

CIPFA's Code of Practice recommends (amongst other things) that administering authorities:

- formally adopt the CIPFA Knowledge and Skills Framework (or an alternative training programme)
- ensure that the appropriate policies and procedures are put in place to meet the requirements of the Framework (or an alternative training programme);
- publicly report how these arrangements have been put into practice each year, including what assessment of training needs has been undertaken, and what training has been delivered against the identified needs.

### *The Pensions Regulator's Codes of Practice*

The Pensions Regulator sets out its expectations of the management of the Local Government Pension Scheme, including knowledge and understanding, in its codes of practice. Currently the most relevant code is the Code of Practice 14: Governance and Administration of Public Service Pension Schemes. This is expected to be replaced by a new General Code in the near future.

### *Application to the London Borough of Hillingdon Pension Fund*

London Borough of Hillingdon fully supports the use of the CIPFA Knowledge and Skills Framework, and The Pensions Regulator's Codes of Practice and adopts the principles they set out. This Training Policy highlights how the Administering Authority will strive to achieve those principles, including the draft General Code, through use of a rolling Training Plan together with regular monitoring and reporting.

### **The London Borough of Hillingdon Pension Fund's Approach to Training**

London Borough of Hillingdon recognises that attaining, and then maintaining, relevant knowledge and skills is a continual process. The Fund is committed to providing the necessary training and support. Officers and advisers are available to answer any queries on an ongoing basis including providing access to materials from previous training events.

Our approach is based on the following key elements:



### **Induction for New Members/Officers**

The Pensions Regulator expects members of the Pensions Committee and the Local Pensions Board to be aware that their responsibilities and duties begin from the date they take up their post. Further, members are expected to start on a programme of

learning immediately on appointment, if not before. Officers will endeavour to ensure that these expectations are understood before appointments are confirmed.

A Handbook containing key information about the Fund and the LGPS is provided to all new members and should be read prior to attendance at their first meeting. The Handbook includes a list of items (such as Fund policies) which with members should be familiar. The Handbook is reviewed regularly, at least annually.

In addition, an individual induction plan will be developed to assist each member, Pension Board member or officer to ensure members can demonstrate a basic level of knowledge and understanding within six months of their appointment.

## **Knowledge Assessment**

The Pensions Regulator expects the Fund, and individual members, to review their own knowledge and understanding and be able to identify and address skills gaps. This should be undertaken at least annually, particularly in relation to changes in legislation or their scheme.

An assessment of each member's knowledge will be undertaken six months after appointment and annually thereafter.

## **Training Plan**

Knowledge assessments will be used to develop a plan for maintenance and development of knowledge for the forthcoming year. A framework for developing the plan is included in the Appendix to this document.

Where relevant, the Training plan will be customised on the role of the individual i.e. a Pensions Committee, a Pension Board member or the specific role of the officer.

The Plan will include more advanced learning once a good understanding of the Fund has been obtained and include the development of awareness of industry good practice and standards to assess the performance of the Fund and its service providers.

The Plan will be flexible to allow members to update areas of learning in a manner which suits them best. Training can be delivered through a variety of methods including:

- In-house training days provided by officers and/or external providers
- Training as part of meetings (e.g. Pensions Committee and Pension Board meetings) provided by officers and/or external advisers
- Meetings and events with the London Borough of Hillingdon Pension Fund's investment pool London CIV, other investment managers and advisors
- External training events including seminars and conferences offered by industry-wide bodies. The Plan will outline the events which are most suitable for members.
- Reading material.

Members will be required to undertake to undertake no less than 2 days (14 hours) of training in each financial year which will include a combination of the delivery methods outlined above.

## **Recording and Reporting**

Compliance with this policy will be monitored and reported to Committee, at least annually. The report will include, as appropriate:

- The progress with induction training
- Knowledge assessments
- Annual training plan for the forthcoming year
- Progress in delivery of the plan including training provided and individual attendance.

Compliance with the policy will also be included in the London Borough of Hillingdon Pension Fund's Annual Report and Accounts.

Fund officers will keep records of the learning activities of individual members and the Committee/Board as a whole. To ensure records are accurate, individual members are required to keep records of any alternative or further learning activity (eg reading, attending conferences, sessions with the scheme advisers) and share this with the Fund's officers for reporting purposes.

## **Key Risks**

The key risks to the delivery of this Policy are outlined below. The Pensions Committee, with the assistance of the Pension Board, will monitor these and other key risks and consider how to respond to them.

- Changes in Pensions Committee and/or Pension Board membership and/or senior officers potentially diminishing knowledge and understanding.
- Poor attendance and/or a lack of engagement at training and/or formal meetings by Committee Members, Pension Board Members and/or other senior officers resulting in a poor standard of decision making and/or monitoring.
- Insufficient resources being available to deliver or arrange the required training.
- The quality of advice or training provided is not an acceptable standard.

## **Costs**

All training costs related to this Training Policy are met directly by London Borough of Hillingdon Pension Fund.

## **Approval, Review and Consultation**

This Training Policy was approved at the London Borough of Hillingdon Pensions Committee meeting on 13 December 2023. It will be formally reviewed and updated at least every three years or sooner if the training arrangements or other matters included within it merit reconsideration.

## **Further Information**

If you require further information about anything in or related to this Training Policy, please contact:

James Lake, London Borough of Hillingdon, Chief Accountant, Pensions and Statutory Accounts

Civic Centre, High Street, Uxbridge, Middlesex, UB8 1UW

E-mail - [JLake@hillingdon.gov.uk](mailto:JLake@hillingdon.gov.uk)

Telephone - 01895 277562

## APPENDIX - Framework for development of the annual Training Plan

This framework has been developed to help develop a training plan for members who have completed induction training and can demonstrate a basic level of knowledge and understanding.

Areas deemed suitable for more advanced learning are marked (A) and those particularly relevant for Local Pension Board members are marked (LPB).

### In-house Sessions (generally provided by officers and/or the Fund's providers)

Subject		Relevance [1]
<b>Governance</b>		
	Governance framework/legislation	(LPB)
	The Pensions Regulator and Code of Practice	(LPB)
	Annual report and accounts including Governance Compliance Statement	
	Risk framework	
	In-depth review on specific risks	
<b>Funding</b>	Actuarial valuation	
	Employer funding including admissions and exits	
	Longevity (Club Vita)	(A)
	Benchmarking of funding - Section 13	
<b>Investment</b>		
	Investment strategy	
	Investment manager selection and monitoring	
	The Fund's investment managers <ul style="list-style-type: none"> <li>- London CIV, LGIM &amp; managers with &gt;5%</li> <li>- Managers with &lt;5%</li> </ul>	(A)
	Investment cost transparency	
	Responsible investment <ul style="list-style-type: none"> <li>- General including LCIV and LGIM</li> <li>- LAPFF</li> <li>- Climate reporting</li> </ul>	(A) (A)
	Benchmarking of investments	
<b>Pension Administration</b>		
	Regulatory requirements	(LPB)
	Benefits	(LPB)
	Communications	(LPB)
	Data quality	(LPB)
	AVCs	(A)
	Benchmarking	

[1] LPB = Particularly suitable for Local Pension Board members but also suitable for others; (A) = Advanced learning

## External Sessions

The following events are deemed to be most suitable for members' training plans.

Provider	Event details	Relevance [1]
London CIV	Annual Conference Monthly Business Updates	(A)
Pensions and Lifetime Savings Association	Local Government Conference Investment Conference	(A)
Other industry bodies e.g. LGA, Scheme Advisory Board, CIPFA.	Specific Pension Board events	(LPB)
Local Authority Pension Fund Forum	Annual conference Business meetings	(A)

[1] LPB = Particularly suitable for Local Pension Board members but also suitable for others; (A) = Advanced learning

## Reading Material

- Handbook (including glossary)
- PLSA Made Simple Guides (<https://www.plsa.co.uk/Resources/Made-Simple-guides>)
- LGPS Scheme Advisory Board website (<https://lgpsboard.org/index.php/welcome>)

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<b>DRAFT PENSION FUND ANNUAL REPORT &amp; EY EXTERNAL AUDIT PLAN</b>	<b>Item 11</b>
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Committee	Pensions Committee
Officer Reporting	Tunde Adekoya, Finance
Papers with this report	Draft Pension Fund Annual Report 2022/23 EY External Audit Plan 2022/23

## HEADLINES

The draft Pension Fund Annual Report for 2022/23 is attached to this report for Committee approval. As part of the audit process the external auditor will also verify the consistency of the Annual Report with the Annual Accounts.

The EY plan for the external audit of the Pension Fund accounts is attached for noting.

## RECOMMENDATIONS

**It is recommended that Pensions Committee:**

- 1. Approve the 2022/23 Draft Fund Annual Report**
- 2. Note the EY External Audit Plan**

## SUPPORTING INFORMATION

The Pension Fund is required to produce an Annual Report and publish by 1 December each year. The annual report includes the Pension Fund annual accounts which are normally reviewed by Pensions Committee and are to be formally approved at Audit Committee.

In 2019 CIPFA published guidance “preparing the annual report” to assist funds in producing the annual report in line with the current regulatory framework. The guidance has been adopted by MHCLG as statutory guidance.

Due to national delays relating to the external audit of accounts the audit consistency approval has been delayed. The Fund does however expect the audit to be complete by Q1 2024.

The draft report for 2022/23 contains information on the Fund's activities over the last year. The draft report has been brought to Committee for consideration and approval to publish in December. Once the formal external of the accounts and consistency checks are complete the final version will be published.

## 2022/23 Pension Fund Audit

Attached to this report is the 2022/23 EY Audit Planning report for the Pension Fund. The draft Pension Fund Accounts were prepared in line with guidance issued by the Chartered Institute of Public Finance & Accountancy. The external audit of the Pension Fund began mid-October, with the results and sign-off due at the February 2024 Audit Committee.

**Materiality:** Pension Fund planning materiality remains unchanged on a basis of 1.0% of the prior year's net assets of the fund, which for 2022/23 the materiality is estimated as £11.8m. Based on this amount, EY would expect to report on all unadjusted misstatements greater than £0.6m.

**Key Financial Statement Risks:** The plan highlights the key audit risks, these being the main areas on which specific audit work will focus. There is one new risk for 2022/23 relating to the classification of investments. For 2022/23 the audit risk areas include:

- Misstatement due to fraud or error
- Misstatement of investment amounts through fraudulent journal entries
- Risk of incorrect valuation of Unquoted Investments
- Disclosure on Going Concern
- IAS26 Disclosure Actuarial Present Value of Promised Retirement Benefits.
- Classification of Investments (New)

There are no specific listed areas of audit focus classified as not having significant risk.

## **Fees**

The basic scale fee for the 2022/23 audit is £16,170, with additional fees estimated to be between £9,500 and £11,500 and other fees yet to be advised.

## **FINANCIAL IMPLICATIONS**

Included in the body of the report.

## **LEGAL IMPLICATIONS**

Included in the body of the report.

# London Borough of Hillingdon Pension Fund Annual Report 2022/23

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LONDON

[www.hillingdon.gov.uk](http://www.hillingdon.gov.uk)

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## CHAIRMAN'S FOREWORD

The Pension Fund Committee is responsible for overseeing the governance of the London Borough of Hillingdon Pension Fund, including investment management and pensions administration.

Committee continues to monitor the Fund closely at every meeting and challenges the officers, investment advisers and investment managers as necessary to ensure the Fund's investments are being managed effectively.

The Fund continues to work closely with its LGPS pool, the London Collective Investment Vehicle (LCIV), to achieve efficiencies through pooling of Pension Fund assets. The Fund continues to benefit from the lower fees negotiated by LCIV on its Legal and General Passive Equities Portfolio, as well as benefitting from lower fees in active equity, Diversified Growth, and alternative investment managers. The Fund's proportion of assets pooled now is over 82%, making the London Borough of Hillingdon Pension Fund one of the biggest investors within the London CIV pool.

The Pension Fund is committed to being a responsible investor and in the last year signed up to the UK Stewardship Code to demonstrate our commitment to active and engaged monitoring of corporate governance in the interests of our members. We as a fund to this end actively engage our fund managers to incorporate ESG into investment processes and ensure active engagement with invested companies in key areas of Environmental, Social and Governance. The Hillingdon Pension Fund is only one of the few local authority funds to have signed up and be approved as a signatory to the New UK Stewardship Code.

The Pension Fund launched its inaugural Responsible Investment Policy in 2020, setting out the Fund's commitment to environmental, social and governance factors as a core part of its investment decision making. This Responsible Investment policy is aligned with the Fund's Investment Strategy Statement where a brief overview on ESG and voting is included. In addition, the policy is aligned with the Fund's Funding Strategy Statement with consistency of objectives and return expectations to support the funding level.

The Fund has also reorganised its equity portfolio to reduce its carbon exposure which is a considerable long term investment risk. This has been achieved by transferring its previous active UK equity portfolio from LCIV Epoch Income Fund to the LCIV Global Alpha Paris Aligned Fund managed by Baillie Gifford, which is in alignment with the Paris Climate Agreement by screening out carbon intensive companies that do not, or will not, play a role in the transition to a low-carbon future.

We have also undertaken a review of ESG impact assessment of our portfolios by rating all engaged fund managers on set traditional criteria to determine if they meet expected minimum level rating on an overall basis. All of the Fund's current investment mandates achieve a 'partially meets criteria' rating at a minimum on an overall basis, with a significant number that 'meets traditional criteria'. At an overall level the Fund also meets "meets traditional criteria".

I would like to thank all those involved in the governance of the London Borough of Hillingdon Pension Fund during the year during 2022/23, especially the members of the Pension Fund Committee and the Local Pension Board.

Cllr Stuart Mathers

Chairman Pensions Committee 2022/23

## INTRODUCTION TO THE FUND

The London Borough of Hillingdon Pension Fund is part of the Local Government Pension Scheme (LGPS) and is governed by statute. The scheme moved to a career average revalued earning (CARE) scheme, from a final salary scheme in 2014 because of the Local Government Pension Scheme Regulations 2013. In 2016/17, the regulations surrounding investments were amended with the Local Government Pension Scheme (Management and Investment of Funds) Regulations 2016.

Hillingdon is the Administering Authority for the Fund. Pensions and entitlement to benefits are fully protected in law. Membership of the Scheme is open to all employees of the Council including school employees except for teachers (who have their own pension scheme). Other employers are admitted to the Pension Fund and depending on their status; their employees may also be able to participate in the LGPS. Employee contributions are determined by central government and are between 5.5% and 12.5% of pensionable pay. Employer rates are set by the Fund actuary every 3 years following a valuation of the assets and liabilities of the Fund. Contributions for 2022/23 were set in the Actuarial valuation on 31 March 2019.

The conditions of the Local Government Pension Scheme (LGPS) Regulations set out in clear terms the benefits that are payable to Scheme members. The benefits are guaranteed for those members and therefore members are not reliant on investment performance for their pension benefits. Contributions payable by Scheme members are also defined in the regulations. Employing Authorities are required to pay contributions into the Scheme to meet the cost of funding employee benefits and are required to meet any shortfall in funding the pension liabilities of Scheme members.

The Pension Scheme during the financial year 2022/23 was a defined benefit career average revalued earnings scheme, which aligns LGPS retirement age with an individual's state pension age. The key benefits of the scheme are outlined below:

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

It should be noted that the foregoing is not an exhaustive list and that certain conditions have to be met for an individual to be entitled to the benefits outlined. The foregoing benefit structure came into effect on 1 April 2014 and saw the start of significant changes to the public sector pension schemes, with most other schemes introducing their changes a year later, on 1 April 2015. The previous LGPS introduced in 2008 was a defined benefit final salary scheme and was in operation until 31 March 2014. It should be recognised that many scheme members will have benefits accrued under both schemes and indeed some under the pre-2008 scheme. The key benefits under the 2008 scheme are outlined below:

- A guaranteed pension based on final pay and length of time in the scheme and an accrual rate of 1/60th per annum.
- Tax-free lump sum on benefit accumulated prior to 1 April 2008 and option to convert some of the pension into tax-free lump sum on post 1 April 2008 service.

- Life assurance cover 3x member final pay applicable from the day of joining Scheme.
- Pensions for dependents: - spouses, civil partners and eligible co-habiting partners and eligible children.
- An entitlement to have pension paid early on medical grounds.
- Pensions increase annually in line with the cost of living (CPI).

### **Contracting Out Status (with effect from 1 April 2002 until 5 April 2016)**

The LGPS was contracted-out of the State Second Pension Scheme (S2P), up to 5 April 2016 when contracting-out ceased. This meant that members paid reduced National Insurance contributions and they did not earn a pension under S2P. Instead, the LGPS must guarantee to pay a pension that in general is as high as the pension that would have been earned in the State Earnings Related Pension Scheme (SERPS) / S2P. For contracted-out membership between 6 April 1978 and 5 April 1997, HMRC calculates a Guaranteed Minimum Pension (GMP), which is the minimum pension, which must be paid from the London Borough of Hillingdon Pension Fund to the member. For membership after 5 April 1997, the LGPS has guaranteed that the benefits it provides will generally be no less favourable than those provided under a Reference Scheme prescribed under the Pensions Act 1995.

### **Additional Voluntary Contributions**

A facility is available for scheme members to make Additional Voluntary Contributions (AVCs). The Pension Fund Committee has appointed Prudential as the nominated provider for this purpose. This is run separately to the Hillingdon Pension Fund. Further details are available from the Prudential Pensions Connection Team on 0800 032 6674.

### **Regulations**

The Local Government Pension Scheme Regulations 2013 (as amended)

The Local Government Pension Scheme (Transitional Provisions, Savings and Amendment) Regulations 2014 (as amended)

The Local Government Pension Scheme (Management and Investment of Funds) Regulations 2016

## A: OVERALL FUND MANAGEMENT

### SCHEME MANAGEMENT AND ADVISERS

The London Borough of Hillingdon Pension Fund ('the Fund') is part of the Local Government Pension Scheme (LGPS). The benefits paid out and the regulations are set nationally, but the Fund is administered locally. As the Administering Authority, the London Borough of Hillingdon has legal responsibility for the effective management of the Fund. The Council delegates this responsibility to the Pensions Committee ('the Committee'), which is the formal decision-making body for the Fund. The Corporate Director of Finance has delegated authority for the day-to-day running of the Fund. The local Pension Board ('the Board') was established in 2015 to assist the scheme manager in securing compliance with regulations relating to the governance and administration within the requirements set by the Pension Regulator.

#### Corporate Director of Finance

Andy Evans in his role of Corporate Director of Finance has delegated responsibility for the day-to-day running of the Pension Fund.

#### Officers Responsible for the Fund

The Pensions and Statutory Accounts team ensures that both the Committee and Board receive relevant advice on investment strategy, monitoring of the performance of the Fund and on administration and governance matters, in addition to undertaking the accounting duties of the Fund.

James Lake	Director of Finance - Pensions, Treasury & Statutory Accounts
Tunde Adekoya	Pension Fund Accountant
Seby Carvalho	Pensions Technical Officer
Jean Boeg	Pensions Officer

#### Scheme Administration

Administration of the scheme is contracted out to Hampshire Pension Service (HPS) to provide the pensions administration under delegated authority for the London Borough of Hillingdon. HPS maintains pension scheme membership records and calculates benefits.

Email: [pensions@hants.gov.uk](mailto:pensions@hants.gov.uk)

Telephone: 01962 845588

Address: Hampshire Pension Services

The Castle  
Winchester  
Hampshire  
SO23 8UB

#### Fund Custodian and Performance Monitoring

The Northern Trust Company acts as the global custodian of the Fund's assets. As part of its normal procedures Northern Trust holds all assets in safe custody, settles trades, collects dividend income, provides data for corporate actions, liaises closely with all the investment managers and reports on all activity on a monthly and quarterly basis. Where holdings are in pooled funds, the underlying assets held by the relevant funds' custodian are reported to Northern Trust. Regular service reviews take place with Northern Trust to ensure continuous monitoring of the Fund's requirements. Additionally, Northern Trust provide performance analytics, comparing the performance of the Fund and individual managers to agreed benchmarks and market indices on a monthly, quarterly, and annual basis.

*Northern Trust  
50 Bank Street  
Canary Wharf  
London  
E14 5NT*

### **Fund Actuary**

The Fund's actuary is Hymans Robertson  
*Craig Alexander FFA  
Hymans Robertson LLP  
20 Waterloo Street  
Glasgow  
G2 6DB*

### **Fund Managers**

Day-to-day investment management of the Fund's assets is delegated to specialist managers in accordance with the LGPS (Management and Investment of Funds) Regulations 2016. During 2022/23, the following managers managed the Fund's investments externally:

<b>Fund Manager</b>	<b>Asset Class</b>
Adam Street Partners	Private Equity
AEW UK	UK Core Plus and Urban Real Estate Property
JP Morgan Asset Management	Multi Asset Credit
Legal & General Investment Management	Listed Equities and Index Linked Bonds - (Passive) – Pooled & Property Pooled
London CIV – Baillie Gifford	Global Equity Income - Pooled
London CIV - Ruffer	Absolute Return Fund - Pooled
London CIV - Steppstone	Infrastructure - Pooled
London CIV – Churchill	Private Debt - Pooled
London CIV – CQS & PIMCO	Multi Asset Credit
LGT Capital Partners	Private Equity
M&G Investments (Direct Investment)	Private Debt
Macquarie Investment	Infrastructure
Permira LLP	Private Debt
UBS Global Asset Management	UK Property Fund of Funds

### **Fund Pool and Pool Operator**

The London Borough of Hillingdon is a member of the London CIV Pool. The London CIV Pool is run and managed by the London LGPS CIV Ltd, an FCA authorised and regulated company.

### **Advisors to the Fund**

The Fund's Investment Advisor is Iseran Bidco Ltd trading as Isio, (formally KPMG) who was appointed July 2014. They advise the Committee on the Fund's strategic asset allocation and assist in the monitoring of fund managers.

*David O'Hara  
Partner  
Investment Advisory  
Tax & Pensions  
Iseran Bidco Ltd (Isio)  
10 Norwich Street  
London EC4A 1BD*

In addition, the Fund had an Independent Advisor for 2022/23 – Clare Scott.

AON Hewitt advises and supports the Fund on governance arrangements to the Board.

*Aon Hewitt  
25 Marsh Street  
Bristol  
BS1 4AQ*

**Legal Services**

Legal support to the Fund is provided in-house by the Council. The Council's Borough Solicitor is Glen Egan.

**Auditor**

The Fund's external auditor, appointed by the Public Sector Audit Appointments (PSAA), is Ernst & Young.

*Ernst & Young LLP  
Grosvenor House  
Grosvenor Square  
Southampton SO15 2BE*

**Banker**

Banking services are provided to the Fund by the Council's banker National Westminster Bank (Natwest).

*Natwest Bank Plc  
Unit 227-228 Intu Shopping Centre  
The Chimes  
High Street Uxbridge  
UB8 1LA*

**AVC Provider**

The Fund's provider for additional voluntary contributions is Prudential.

*Prudential AVC Customer Services  
Prudential  
Craigforth  
FK9 9UE*

# RISK MANAGEMENT POLICY

## Risk Management within the Governance Structure

The Administering Authority recognises that effective risk management is an essential element of good governance in the LGPS and is part of the ongoing decision-making process of Committee. By identifying and managing risks, the Administering Authority can:

- demonstrate best practice in governance
- improve financial management
- minimise the risk and effect of adverse conditions
- identify and maximise opportunities that might arise
- minimise threats

The Administering Authority adopts best practice risk management, which supports a structured and focused approach to managing risks and ensures risk management is an integral part in the governance of the Fund at a strategic and operational level.

## To whom this Policy Applies

This Risk Management Policy applies to all members of the Pension Committee and the local Pension Board, including both scheme member and employer representatives. It also applies to senior officers involved in the management of the Fund.

Less-senior officers involved in the daily management of the Fund are also integral to managing risk for the Fund and will be required to have appropriate understanding of risk management relating to their roles, which will be determined and managed by the Head of Finance – Statutory Accounting and Pension Fund.

Advisers and suppliers to the Fund are also expected to be aware of this Policy and assist officers, Committee members and Board members as required, in meeting the objectives of this Policy.

## Aims and Objectives

In relation to understanding and monitoring risk, the Administering Authority aims to:

- integrate risk management into the culture and day-to-day activities of the Fund
- raise awareness of the need for risk management by all those connected with the management of the Fund (including advisers, employers, and other partners)
- anticipate and respond positively to change
- minimise the probability of negative outcomes for the Fund and its stakeholders
- establish and maintain a robust framework and procedures for identification, analysis, assessment and management of risk, and the reporting and recording of events, based on best practice
- ensure consistent application of the risk management methodology across all Fund activities, including projects and partnerships.

To assist in achieving these objectives in the management of the Fund, the Administering Authority will aim to comply with:

- the CIPFA publication, “Managing Risk in the Local Government Pension Scheme”
- the Pensions Act 2004 and the Pensions Regulator’s Code of Practice for Public Service Pension Schemes as they relate to managing risk.

## Responsibility

The Administering Authority must be satisfied that risks are appropriately managed. For this purpose, the Head of Statutory Accounts & Pensions is the designated individual for ensuring the process outlined below is carried out, subject to the oversight of the Pension Committee.

However, it is the responsibility of everyone covered by this Policy to identify any potential risks for the Fund and ensure that they are fed into the risk management process.

### **The London Borough of Hillingdon Pension Fund Risk Management Process**

The Administering Authority's risk management process is in line with that recommended by CIPFA and is a continuous approach which systematically looks at risks surrounding the Fund's past, present and future activities. The main processes involved in risk management are identified in the figure below and detailed in the following sections:



#### **1. Risk Identification**

The risk identification process is both a proactive and reactive one: looking forward i.e., horizon scanning for potential risks, and looking back, by learning lessons from reviewing how previous decisions and existing processes have manifested in risks to the organization.

Risks are identified by several means including, but not limited to:

- formal risk assessment exercises managed by the Pension Committee
- performance measurement against agreed objectives
- findings of internal and external audit and other adviser reports
- feedback from the local Pension Board, employers, and other stakeholders
- informal meetings of senior officers or other staff involved in the management of the Fund
- liaison with other organizations, regional and national associations, professional groups, etc.

Once identified, risks will be documented on the Fund's risk register, which is the primary control document for the subsequent analysis, control and monitoring of those risks.

#### **2. Risk Analysis & Evaluation**

Once potential risks have been identified, the next stage of the process is to analyse and profile each risk. Risks will be assessed by considering the likelihood of the risk occurring and the impact

if it does occur, with the score for likelihood multiplied by the score for impact to determine the current overall risk rating, as illustrated in the table below.

Attributes:				Risk rating	Score	Risk rating	Score	Risk rating	Score	Risk rating	Score	
Greater than 90%	This week	LIKELIHOOD	Very High (A)	A4	6	A3	12	A2	18	A1	24	
70% to 90%	Next week / this month		High (B)	B4	5	B3	10	B2	15	B1	20	
50% to 70%	This year		Significant (C)	C4	2	C3	4	C2	6	C1	8	
30% to 50%	Next year		Medium (D)	D4	1	D3	2	D2	3	D1	4	
10% to 30%	Next year to five years		Low (E)	E4	0	E3	0	E2	0	E1	0	
Less than 10%	Next ten years		Very Low (F)	F4	0	F3	0	F2	0	F1	0	
				Small (4)		Medium (3)		Large (2)		Very Large (1)		
THREATS:		Attributes:		<b>IMPACT</b>								
		Financial	up to £500k		Between £500k and £10m		Between £10m and £50m		Over £50m			
			Reputation		Minor complaint, no media interest		One off local media interest		Adverse national media interest or sustained local interest		Ministerial intervention, public inquiry, remembered for years	

When considering the risk rating, the Administering Authority will have regard to the existing controls in place and these will be summarised on the risk register.

### 3. Risk Control and Response

The Head of Finance – Statutory Accounting and Pension Fund will review the extent to which the identified risks are covered by existing internal controls and determine whether any further action is required to control the risk, including reducing the likelihood of a risk event occurring or reducing the severity of the consequences should it occur. Before any such action can be taken, Pension Committee approval may be required where appropriate officer delegations are not in place. The result of any change to the internal controls could result in any of the following:

- **Tolerate** – the exposure of a risk may be tolerable without any further action being taken; this is partially driven by the Administering Authority's risk 'appetite' in relation to the Pension Fund.
- **Treat** – action is taken to constrain the risk to an acceptable level.
- **Terminate** – some risks will only be treatable, or containable to acceptable levels, by terminating the activity.
- **Transfer** - for example, transferring the risk to another party either by insurance or through a contractual arrangement.

The Fund's risk register details all further action in relation to a risk and the owner for that action.

The Fund has a cautious risk appetite, particularly in relation to investment, reflecting the Fund's preference for safe delivery options that have a low degree of residual risk with a strong control framework in place for investment operations. The Fund will take risks that have been carefully considered and where controls have been implemented to reduce the likelihood of a risk materialising or the impact if one did materialise. This means that the Fund puts processes and systems in place that ensure achievement of planned outcomes, although controls would not be put in place where the cost of these exceeds the value of the expected benefits.

#### **4. Risk Monitoring & Review**

Risk monitoring is the final part of the risk management cycle and will be the responsibility of the Pension Committee. In monitoring risk management activity, the Committee will consider whether:

- the risk controls taken achieved the desired outcomes
- the procedures adopted and information gathered for undertaking the risk assessment were appropriate
- greater knowledge of the risk and potential outcomes would have improved the decision-making process in relation to that risk
- there are any lessons to be learned for the future assessment and management of risks.

#### **5. Risk Reporting**

Progress in managing risks will be monitored and recorded on the risk register. The risk register, including any changes to the internal controls, will be provided to the Pension Committee.

The Pension Committee will be provided with updates on a quarterly basis in relation to any changes to risks and any newly identified risks.

As a matter of course, the local Pension Board will be provided with the same information as is provided to the Pension Committee and they will be able to provide comment and input to the management of risks.

In order to identify whether the objectives of this policy are being met, the Administering Authority will review the delivery of the requirements of this Policy taking into consideration any feedback from the local Pension Board.

The risks identified are of significant importance to the Pension Fund. Where a risk is identified that could be of significance to the Council it would be included in either the Finance Group Register or the Corporate Risk Register.

#### **Key risks to the effective delivery of this Policy**

The key risks to the delivery of this Policy are outlined below. The Pension Committee will monitor these and other key risks and consider how to respond to them.

- Risk management becomes mechanistic, is not embodied into the day-to-day management of the Fund and consequently the objectives of the Policy are not delivered
- Changes in Pension Committee and/or local Pension Board membership and/or senior officers mean key risks are not identified due to lack of knowledge
- Insufficient resources are available to satisfactorily assess or take appropriate action in relation to identified risks
- Risks are incorrectly assessed due to a lack of knowledge or understanding, leading to inappropriate levels of risk being taken without proper controls
- Lack of engagement or awareness of external factors means key risks are not identified.

- Conflicts of interest or other factors lead to a failure to identify or assess risks appropriately.

## **Costs**

All costs related to this Risk Policy are met directly by the Fund.

## **Approval, Review and Consultation**

This Risk Policy was approved at the London Borough of Hillingdon Pension Committee meeting on 15 June 2016 and last amended on 30 March 2022. It will be formally reviewed and updated at least every three years or sooner if the risk management arrangements or other matters included within it merit reconsideration.

## **Third Party risk such as late payment of contributions**

Contribution payments are monitored closely for accuracy and timeliness. A reporting process is in place to escalate any late/inaccurate payments to ensure all payments are received on 19<sup>th</sup> of the subsequent month of payment due date as prescribed by the regulations.

In respect of Investment Managers, internal control reports (AAF 01/06 and SSAE16) are received and reviewed regularly for any non-compliance issues. If management response to non-compliant issues is unsatisfactory, the matter is then addressed directly with the fund manager for further assurance.

## Controls assurance reports

Fund manager	Type of report	Assurance obtained	Reporting accountant
Adams Street Partners	SOC 1	Reasonable Assurance	KPMG LLP
AEW UK Ltd	ISAE 3402	Reasonable Assurance	BDO LLP
JP Morgan Asset management	Non-Provided	N/A	N/A
Legal & General Investments Management	AAF 01/20/ ISAE 3402	Reasonable Assurance	KPMG LLP
LCIV	Third Party Controls Oversight	Reasonable Assurance	N/A
M&G	SOC 1 (IFDS Transfer Agency)	Reasonable Assurance	PWC
Macquarie Infrastructure Real Assets	Internal Controls Report	Reasonable Assurance	RMG Internal Audit (Macquarie Risk Management Group)
Northern Trust Company	SOC 1	Reasonable Assurance	KPMG LLP
Permira LLP	SOC 1- Provided by Alterdomus, the fund's custodians	Reasonable Assurance	Ernst & Young LLP
UBS Asset Management	SOC 1	Reasonable Assurance	Ernst & Young LLP

The risk management policy was introduced during 2016 as part of the work undertaken by the local Pension Board. The Committee regularly review Fund risks through the risk register. The policy is available at:

<https://www.hillingdon.gov.uk/pension-fund-documents#Policy%20documents>

## B: FINANCIAL PERFORMANCE

The London Borough of Hillingdon Pension Fund is open to employees of the Council, non-teaching staff of local authority schools and certain other bodies eligible to join the Fund. Membership of the LGPS is not compulsory, although employees are automatically admitted to the Fund unless they elect otherwise.

### General Scheme membership

Membership of the scheme is split between

- Active members - those still contributing to the scheme.
- Deferred members - those who are no longer active but have accrued benefits to be held until retirement or transfer to a new employer's scheme; and
- Pensioner members - comprise former active members now drawing their benefits and dependents of former active members.

The membership of the scheme analysed over the relevant membership profile is shown below:

#### Membership Summary

	2022/23	2021/22	2020/21	2019/20
Active Members	7,299	6,041	7,768	7,435
Pensioners/Dependants	7,536	7,372	6,861	6,682
Deferred	11,133	12,762	10,225	10,571
<b>Total Membership</b>	<b>25,968</b>	<b>26,175</b>	<b>24,854</b>	<b>24,688</b>

#### CONTRIBUTIONS

Total Employee and Employer contributions (including transfers) into the Fund during 2022/23 amounted to £57.9m compared to £54.9m for the previous year. The 5% Increase from previous year is mainly attributable to the increased active membership and employee's pay increases during the year under review. Employee contributions ranged from 5.5% to 12.5% dependent on pensionable pay. The Fund actuary sets employer contribution rates and the rates that applied during 2022/23 were set from the 2019 valuation.

#### Analytical Review of Performance

	2022/23 £' 000	2021/22 £' 000	2020/21 £' 000	2019/20 £' 000
<b>Pension Fund Account</b>				
<b>Dealings With Members</b>				
Contributions	57,928	54,966	53,484	49,051
Pensions	-56,961	-57,077	-50,752	-54,058
<b>Net Additions/(Withdrawals) from Dealings with members</b>	<b>967</b>	<b>-2,111</b>	<b>2,732</b>	<b>-5,007</b>
Management Expenses	-13,844	-10,832	-10,749	-9,882
Net Investment Returns	11,467	11,858	13,667	23,101
Change In Market Value	-81,851	102,033	170,519	-86,092
Taxes On Income	-28	-35	-22	-48
<b>Net Increase/(Decrease) In Fund</b>	<b>-83,289</b>	<b>100,913</b>	<b>176,147</b>	<b>-77,928</b>

### Analysis of Dealings with Members

	2022/23 £' 000	2021/22 £' 000	2020/21 £' 000	2019/20 £' 000
<b>Contributions Receivable</b>				
Employees	12,262	11,015	10,231	10,109
Employers	41,124	39,654	38,450	37,196
Transfers In - Individual Transfers In	4,542	4,297	4,803	1,746
Transfers In - Bulk Transfer In	0	0	0	0
<b>Total Contributions</b>	<b>57,928</b>	<b>54,966</b>	<b>53,484</b>	<b>49,051</b>
	2022/23 £' 000	2021/22 £' 000	2020/21 £' 000	2019/20 £' 000
<b>Benefits and Other payments</b>				
Pensions	-42,970	-42,557	-39,955	-38,846
Lump Sum Retirements and Death Benefits	-8,439	-9,472	-7,256	-8,342
Transfers Out	-5,347	-4,887	-3,459	-6,767
Refunds	-205	-161	-82	-103
<b>Total Payments</b>	<b>-56,961</b>	<b>-57,077</b>	<b>-50,752</b>	<b>-54,058</b>

The Key variances in members dealings were due to the following:

- Lump Sum Paid in 2022/23 decreased by 11%. This category of payment varies with numbers of payments and or lump sum demands of individuals retiring from the fund.
- Transfers out for 2022/23 increased by 9% compared to previous year. Whilst Transfers In increased by 5% from 2021/2022 due to fewer transactions.

### Analysis of Operational Expenses

	2022/23 £' 000	2021/22 £' 000	2020/21 £' 000	2019/20 £' 000
<b>Administration</b>				
Employees	-274	-384	-397	-324
Outsourced Administration Costs	-779	-954	-545	-481
Support Services Charges	-51	-47	-21	-20
	<b>-1,104</b>	<b>-1,385</b>	<b>-963</b>	<b>-825</b>
<b>Governance and Oversight</b>				
Investment Advisory Services	-53	-84	-113	-95
Governance & Compliance	-5	-29	-42	-36
External Audit	-50	-26	-26	-17
Actuarial Fees	-184	-86	-57	-142
	<b>-292</b>	<b>-225</b>	<b>-238</b>	<b>-290</b>

### Investment Management

Management Fees	-7,158	-5,984	-4,463	-6,485
Performance Fees	-2,267	-1,132	-2,143	-1,080
Transaction Costs	-2,937	-2,046	-2,881	-1,143
Custodian fees	-86	-60	-61	-59
	<b>-12,448</b>	<b>-9,222</b>	<b>-9,548</b>	<b>-8,767</b>
<b>Total Operational Expenses</b>	<b>-13,844</b>	<b>-10,832</b>	<b>-10,749</b>	<b>-9,882</b>

### Investment Management Fees by Category

	Management Fees	Performance Fees	Transaction Costs
LCIV	2,747,226	339,306	810,270
JPM	58,961		
UBS Prop	946,604		563,141
LGIM	478,978		611,772
AEW	2,145,981	41,915	942,930
M&G	23,739		12
Adams Street	56,079	-42,895	8,282
LGT	29,492	7,862	
Permira	357,608	634,727	
Macquarie	312,635	1,285,827	504
Custodian	86,704		
	<b>7,244,006</b>	<b>2,266,741</b>	<b>2,936,912</b>
			<b>12,447,659</b>

The Key points to note from the operational expenses are as follows:

- Transaction costs increased by 43% due to activities by active fund managers within the LCIV and continued deployment of committed capital to both LCIV Private Debt and Infrastructure funds.
- Investment management expenses increase is also attributable to increased alternative investments with London CIV (Infrastructure & Private Debt)
- Increase in performance fees was mainly due to maturity profile and exits from investments by fund managers of alternative assets such as Private Debt (Permira) Infrastructure (Macquarie) and Private Equity (Both LGT and Adams Street). Thus, necessitating payment of performance fees as agreed.

## C: INVESTMENT POLICY AND PERFORMANCE

### Investment Policy

The Pension Fund Committee sets out a broad statement of the principles it has employed in establishing its investment and funding strategy in the Investment Strategy Statement (ISS).

The ISS sets out responsibilities relating to the overall investment policy of the Fund including:

- asset allocations
- restrictions on investment types
- methods of investment management
- performance monitoring.

The ISS also sets out the Fund's approach to Environmental Social Governance issues, and how the Fund demonstrates compliance with the 'Myners Principles'. These principles are a set of recommendations relating to the investment of pension funds originally prepared by Lord Myners in 2001 and subsequently endorsed by Government. The current version of the Myners Principles covers the following areas:

- Effective decision making.
- Clear objectives.
- Risk & liabilities.
- Performance Measurement.
- Responsible ownership.
- Transparency and reporting.

From 2017/18, the LGPS (Management and Investment of Funds) Regulations 2016, requires the Fund to publish an Investment Strategy Statement (ISS), which replaces the Statement of Investment Principles.

The ISS addresses each of the objectives included in the 2016 Regulations, namely:

- The administering requirement to invest Fund money in a wide range of instruments
- The administering authority's assessment of the suitability of investments and types of investment
- The administering authority's approach to risk, including the ways in which risks are to be measured and managed

- The administering authority's approach to pooling investments, including the use of collective investment vehicles
- The administering authority's policy on how social, environmental, or corporate governance considerations are considered in the selection, non-selection, retention, and realisation of investments.

### **Fund Value and Asset allocation**

The strategic asset allocation is agreed by the Pension Fund Committee based on the risk appetite and return on investments required to fulfil its paramount obligation of paying Pensions to members. The strategy benefits from input by both officers and the Fund's investment advisors.

Whilst managers can use their discretion to make minor variations in the allocation of investments between markets, the major movements are a combination of market gains, revised asset allocation and maturation of Private Equity and alternative investments during the year.

Cash movement is incidental as the Fund has a zero cash policy but cash income from alternative investments during the year are received in the custody account pending reinvestment.

The asset allocation as of 01 April 2022 to 31 March 2023 is as follows:

Asset Category	Opening Value 01 April 2022	Strategic Weighting	Actual Weighting	Closing Value 31 March 2023	Strategic Weighting	Actual Weighting
	£'000	%	%	£'000	%	%
Equities	577,692	46	46	562,212	46	48
Diversified Growth Fund	54,528	0	4	47,406	0	4
Bonds	268,297	24	21	222,601	24	19
Property	175,623	12	14	147,050	12	12
<b>Alternatives:</b>						
Private Equity	8,545	0	1	6,346	0	1
Infrastructure	43,208	8	3	54,838	8	5
Private Credit	68,176	5	5	75,907	5	6
Long Lease Property	56,203	5	5	47,386	5	4
Cash	11,928	0	1	16,650	0	1
<b>Total</b>	<b>1,264,200</b>	100	100	<b>1,180,396</b>	100	100

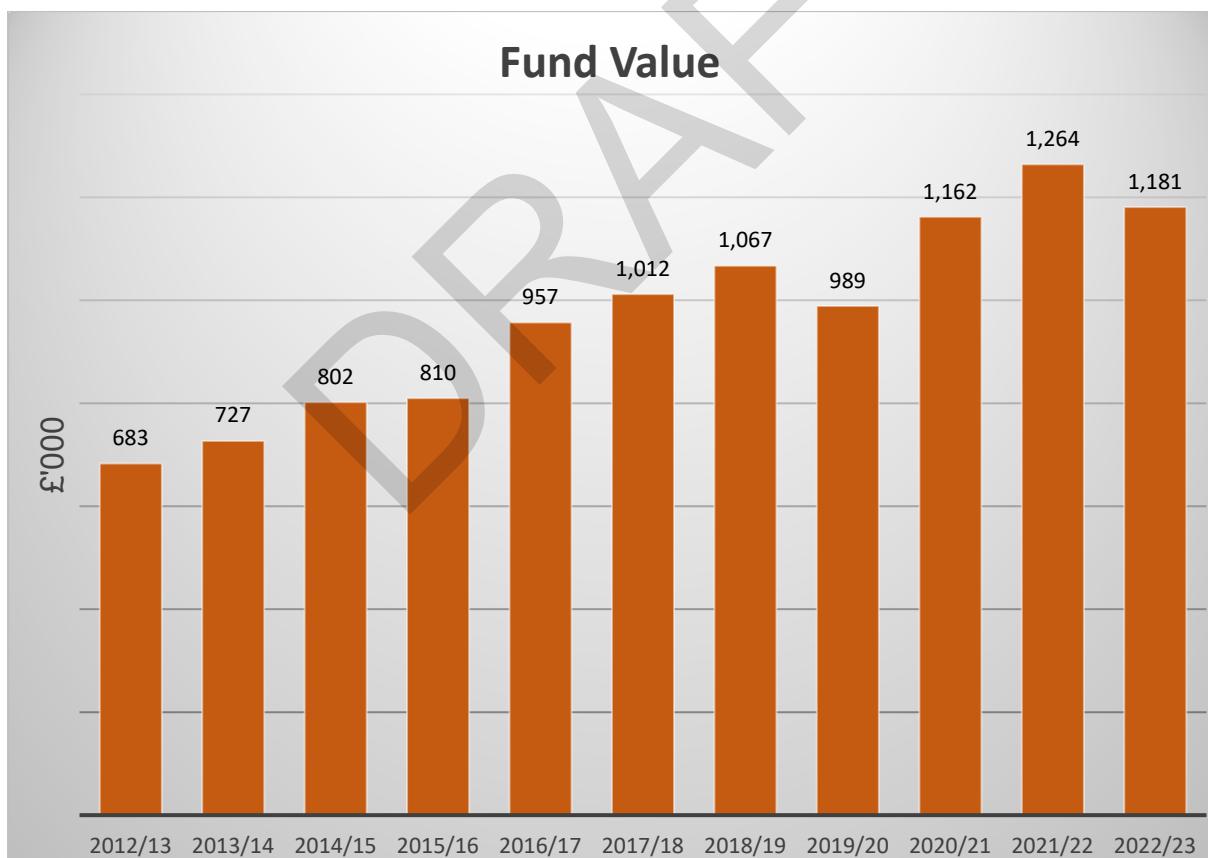
## Asset Allocation Variances

The table above shows 4% variances between Diversified Growth Fund (DGF) strategic and actual weightings compared to its strategic allocation. This attributable to asset allocation decisions taken previously to fund LCIV Infrastructure with DGF allocation reduced to zero.

Weighting difference in Infrastructure is due to the allocated commitments to LCIV- Infrastructure offerings yet to be fully drawn-down and still invested in DGF.

## Fund Value

The Fund value decreased by £83m as turbulent market conditions were witnessed during the year under review. The decrease in value is mainly attributable to the performance of the passive index-linked portfolio managed by LGIM due to high interest rates, hence value moves in opposite direction, Property portfolios managed by both AEW & UBS Asset Management as a result of high interest rates. Lastly, Bailie Gifford portfolio managed by the LCIV underperformed across all measurement timelines, resulting in about 16% loss in value since inception.



## Funding Strategy Statement

The Funding Strategy Statement sets out the aims and purpose of the pension fund and the responsibilities of the administering authority as regards funding the scheme. Its purpose is:

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

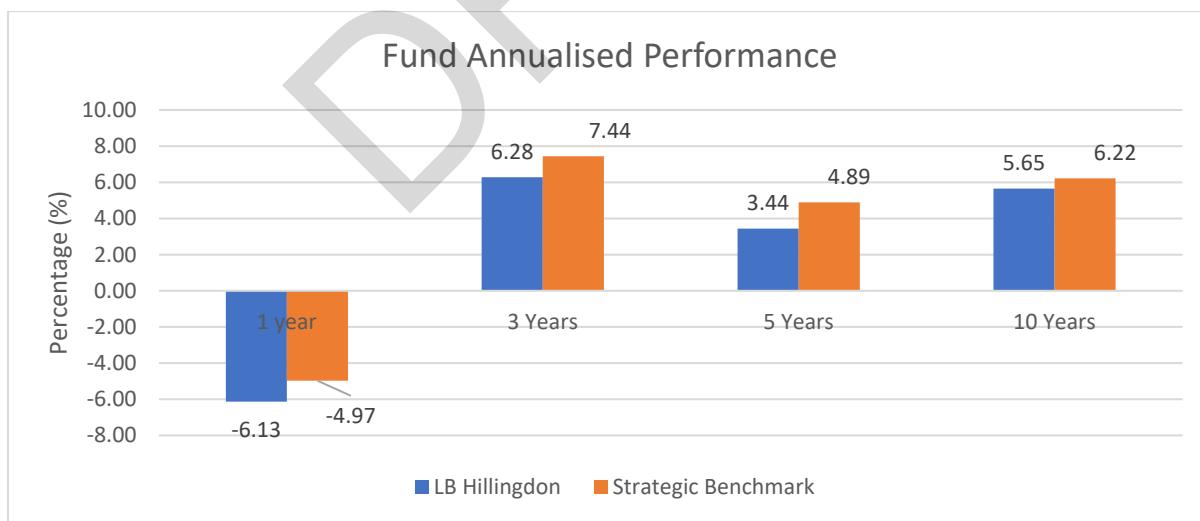
The latest Funding Strategy Statement can be accessed via the Pension Fund Web page.

<https://www.hillingdon.gov.uk/pension-fund-documents#Strategy%20statements>

## Investment Performance

Overall absolute performance of the Fund for the year 2022/23 was 1.16% behind the overall benchmark. Across all performance measurement intervals of one, three and five years, the annualised returns were behind the respective benchmarks as shown in the chart below.

The since inception relative performance was 0.18% behind the benchmark.

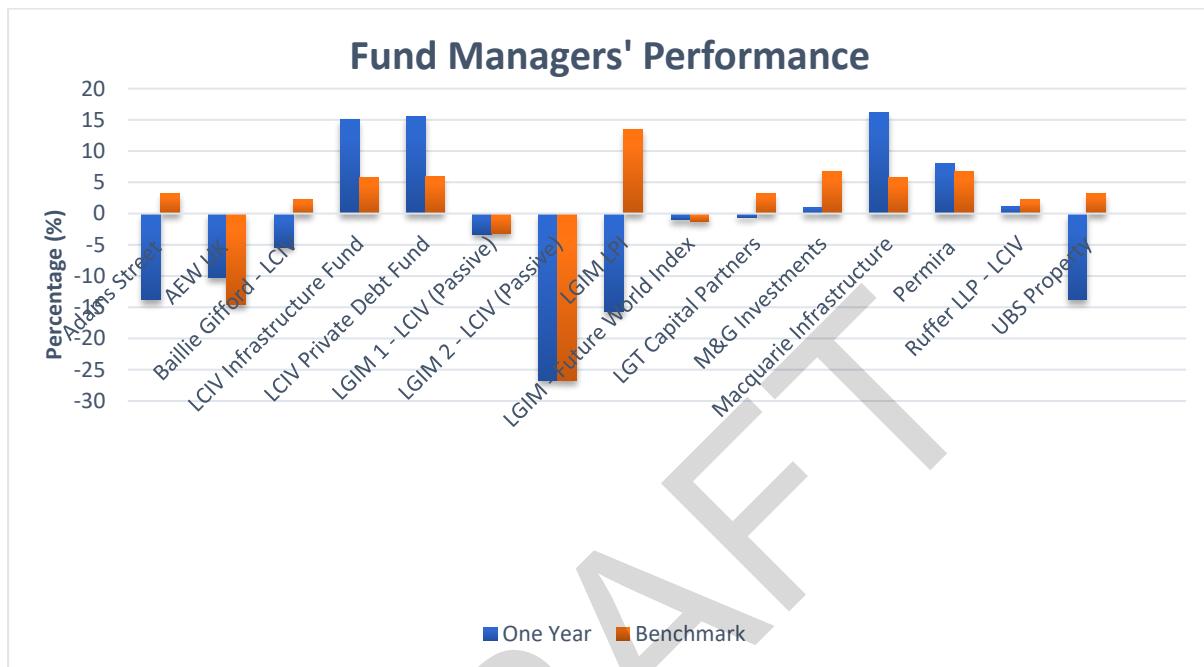


Performance of the Fund is measured against an overall strategic benchmark. Below this, each Fund Manager is given individual performance targets, which are linked to index returns for the assets they manage. Details of these targets can be found in the ISS.

Performance of fund managers is reviewed quarterly by the Pension Fund Committee, which is supported by officers and the Fund's investment and independent advisers.

## Investment Managers' Performance

The overall performance of each manager is measured over rolling three-year periods, as inevitably there will be short-term fluctuations in performance.



Fund Managers' Performance 2022/23		
	One Year	Benchmark
	%	%
Adams Street	-13.77	3.29
AEW UK	-10.18	-14.49
Baillie Gifford - LCIV	-5.37	2.18
LCIV Infrastructure Fund	15.04	5.73
LCIV Private Debt Fund	15.56	6.00
LGIM 1 - LCIV (Passive)	-3.31	-3.14
LGIM 2 - LCIV (Passive)	-26.70	-26.71
LGIM LPI	-15.69	13.51
LGIM - Future World Index	-1.00	-1.22
LGT Capital Partners	-0.62	3.29
M&G Investments	0.98	6.74
Macquarie Infrastructure	16.17	5.73
Permira	8.04	6.74
Ruffer LLP - LCIV	1.13	2.27
UBS Property	-13.77	3.29

The portfolio is a mixture of active and passively managed asset classes:

- Targets for active fund mandates are set to out-perform the benchmark by a set percentage through active stock selection and asset allocation. Fund managers with active fund mandates are Adams Street, AEW UK, Baillie Gifford (LCIV), Churchill (LCIV) JP Morgan, LGT Capital, M&G, Macquarie, Permira, Ruffer (LCIV), Stepstone (LCIV), UBS Property
- Targets for passive funds are set to achieve the benchmark through investment in a stable portfolio. All LGIM mandates are passive.
- Underperformance of the Fund was mainly attributable to underperforming Private Equity, LGIM LPI, M&G and LCIV Global Alpha portfolios.

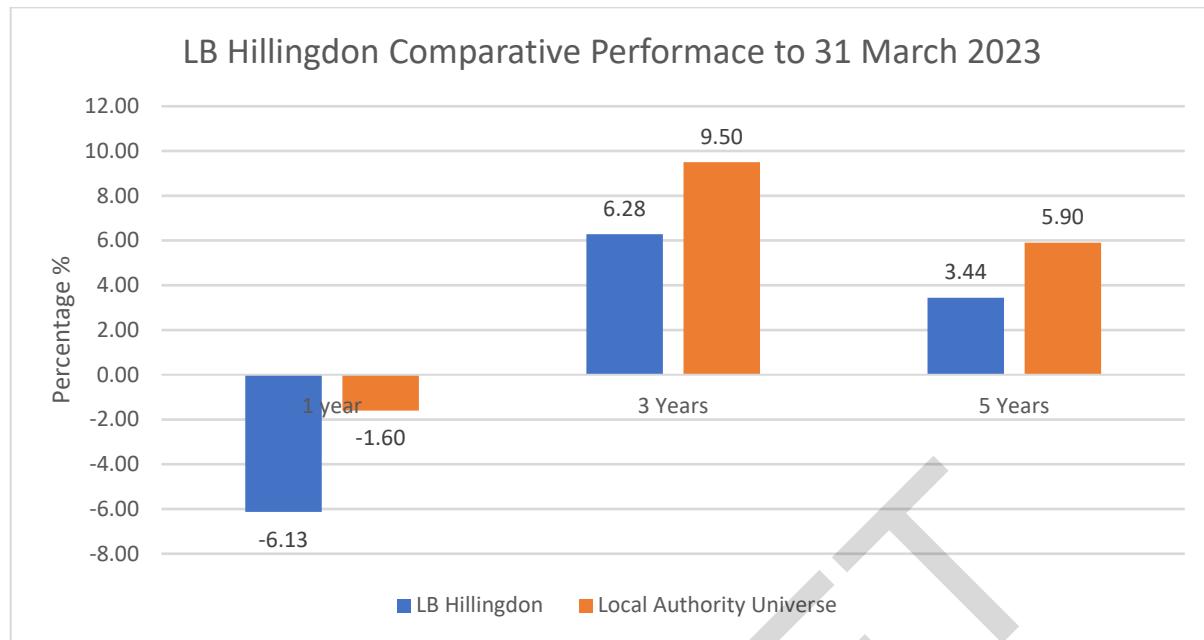
DRAFT

**Absolute Historical Fund Managers' Performance Returns**

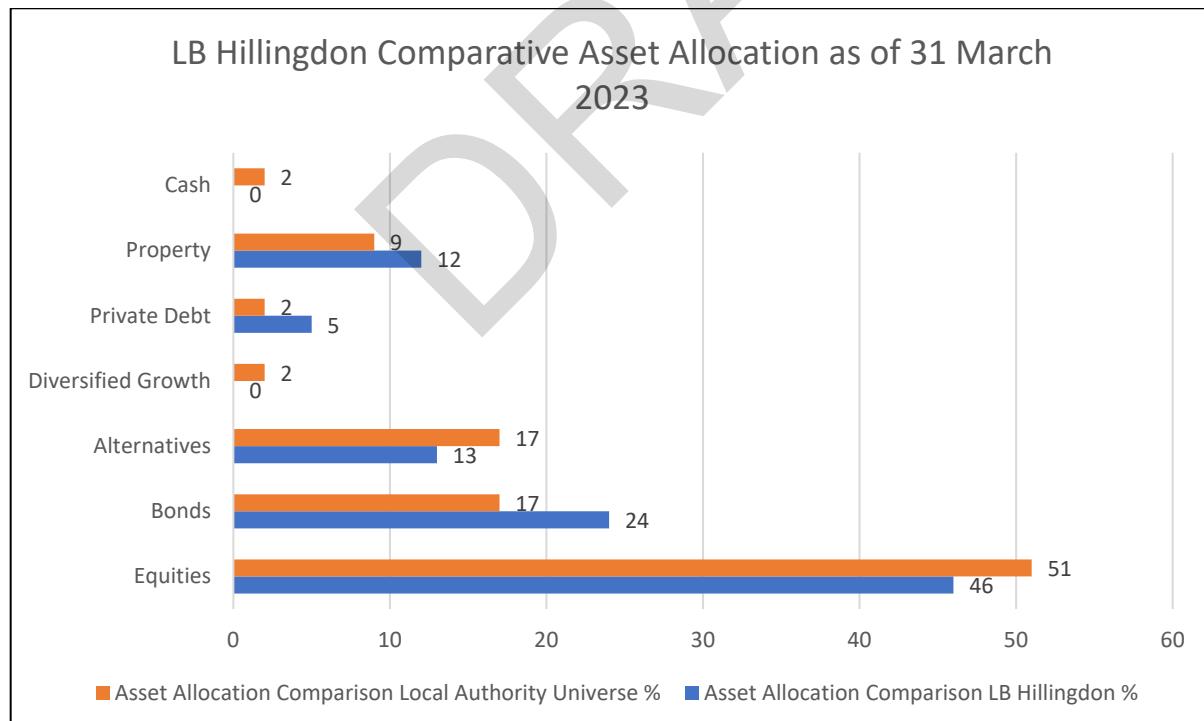
<b>Manager</b>	<b>One Year</b>	<b>Three Years</b>	<b>Five Years</b>	<b>Benchmark</b>
	<b>% Pa</b>	<b>% Pa</b>	<b>% Pa</b>	
Adams Street	-13.77	6.95	11.5	MSCI All Countries World Index
AEW UK	-10.18	8.36	3.52	IPD UK PPFI All Balanced Funds Index
LGIM 1 - LCIV (Passive)	-3.31	15.44	8.37	FTSE World Developed Equity index Currency Hedged, FTSE World Developed Equity index unHedged, FTSE Emerging Markets
LGIM 2 - LCIV (Passive)	-26.7	-7.64	-3.05	Markit iBoxx £ Non-Gilt
LGT Capital Partners	-0.62	7.55	10.54	MSCI All Countries World Index
LCIV Infrastructure Fund	15.04	5.26	0	Sonia 3 Months +3%pa
LCIV Private Debt Fund	11.56	0	0	Absolute Return 6%
M&G Investments	0.98	3.93	3.17	Sonia +4%pa
Macquarie Infrastructure	16.17	14.69	14.74	Sonia +3%pa
Permira	8.04	5.18	5.5	Sonia +4%pa
Ruffer LLP - LCIV	1.13	9.46	6.2	Sonia
UBS Property	-14.79	2.95	2.45	IPD UK PPFI All Balanced Funds Index

The above tables provide information on those managers that manage fund assets and performance return over three different periods and their respective measurement benchmarks.

## Comparative Performance



The graph above shows the Fund's investment returns in comparison with UK Local Authorities average over one, three and five-year periods. The performance difference is partly attributable to the cautious investment philosophy and risk averse asset allocation strategy adopted by the Fund.



## Responsible Investing

The Fund is committed to being a long-term steward of the assets in which it invests and expects this approach to protect and enhance the value of the Fund in the long term. External investment managers are expected to undertake appropriate monitoring of underlying investments with regard to their policies and practices on all issues that could present a material financial risk to the long-term performance of the Fund such as corporate governance and environmental factors, integrating material ESG factors within its investment analysis and decision-making.

The Fund's approach to engagement recognises the importance of working in partnership to magnify the voice and maximise the influence of investors as owners. The Fund expects its investment managers to work collaboratively with others if this will lead to greater influence and deliver improved outcomes for shareholders and more broadly.

The fund appreciates that to gain the attention of companies in addressing governance concerns; collaborating with other investors sharing similar concerns may be an effective tool.

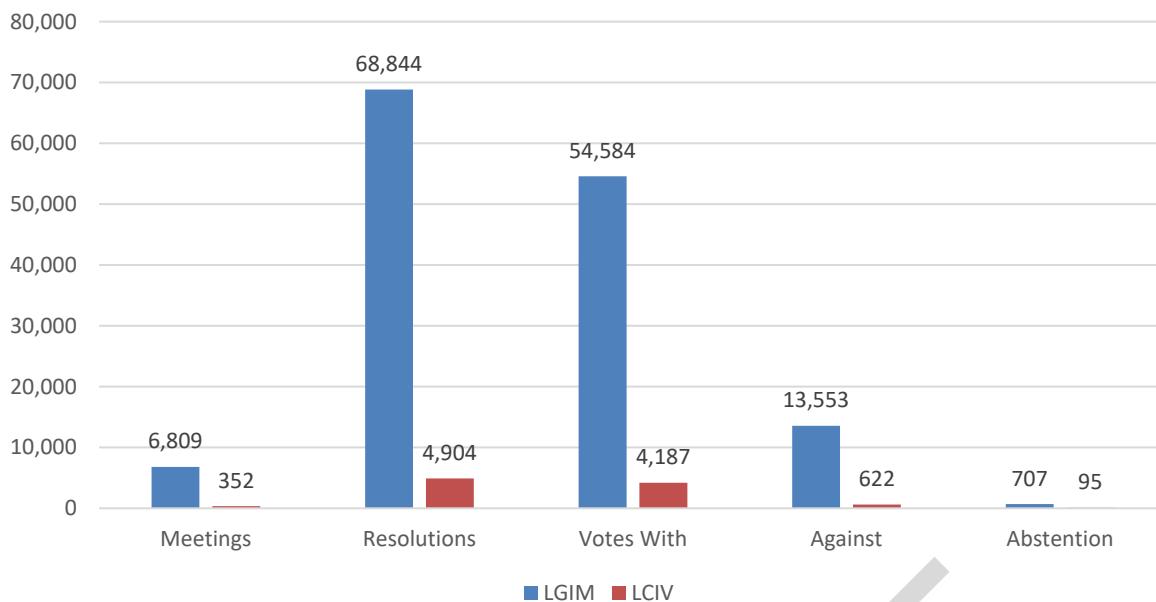
The Fund applied for and was granted signatory status of the 2020 UK Stewardship Code on 02 September 2022. Renewal application was successful and approved by the FRC on 24 August 2023.

### Exercise of voting rights

To ensure effective and consistent use of the voting rights, investment managers are tasked with exercising the voting rights accruing to the Fund. If important issues affecting local residents do emanate from actions of invested companies, the Pensions Committee will contact investment managers in charge of assets of such a company to make their opinion known and ask for such to be presented at meetings with the company or reflected in their voting pattern.

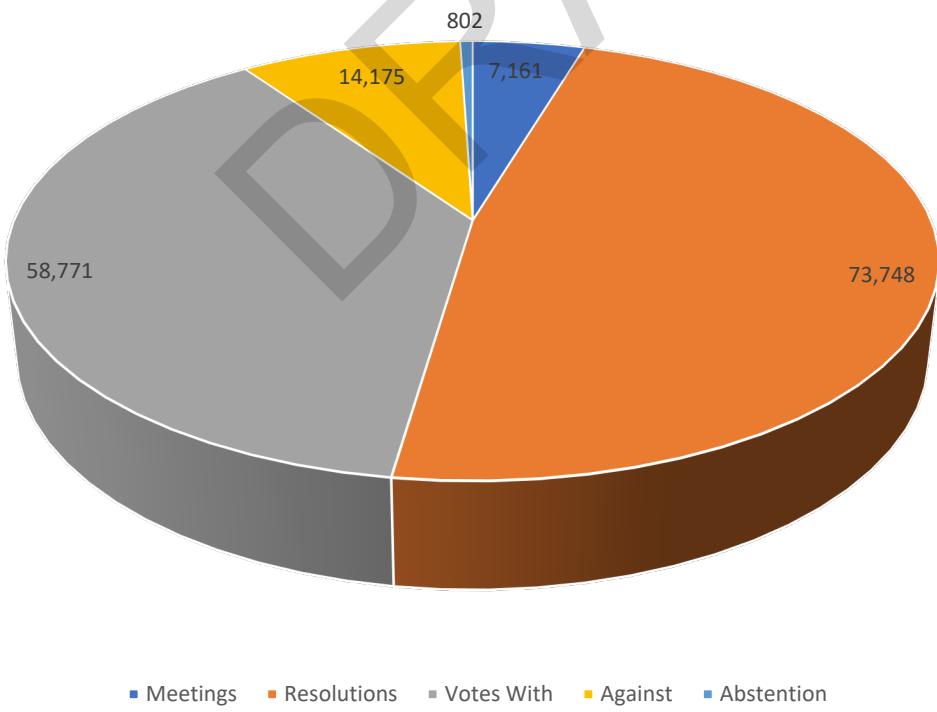
The [\*\*UK Stewardship Code 2020\*\*](#) sets high stewardship standards for those investing money on behalf of UK savers and pensioners, and those that support them. Stewardship is the responsible allocation, management, and oversight of capital to create long-term value for clients and beneficiaries leading to sustainable benefits for the economy, the environment and society. The Fund is now a signatory to the 2020 UK Stewardship Code and has produced a compliance statement to achieve signatory status. The Code comprises a set of 12 'apply and explain' Principles for asset managers and asset owners.

### Fund Managers' Voting Data 2022-23



The graph above shows a breakdown of voting activities by reporting, Fund's investment managers during 2022-23 financial year (LGIM & LCIV). LGIM were the most active in terms of voting activities by attending and voting at 6,809 meetings. All managers' voting activity relates to the managers' votes cast for the funds rather than Hillingdon specific shares.

### Consolidated Voting Breakdown 2022-23



## **Custody**

The Northern Trust Company acts as the global custodian of the Fund's assets. As part of its normal procedures Northern Trust holds all assets in safe custody, settles trades, securities lending, collects dividend income, provides data for corporate actions, liaises closely with all of the investment managers and reports on all activity on a monthly and quarterly basis. Where holdings are in pooled funds, the underlying assets held by the relevant funds' custodian are reported to Northern Trust. Regular service reviews take place with Northern Trust to ensure continuous monitoring of the Fund's requirements.

## **Separation of Responsibilities**

The Fund employs a global custodian (Northern Trust), independent to the investment managers, to be responsible for the safekeeping of all the monies invested. Northern Trust is responsible for the settlement of all investment transactions and the collection of income.

As of the 31<sup>st</sup> of March 2023, the Fund's bank accounts were held with Nat West. Funds not immediately required to pay benefits are held as interest bearing operational cash with the bankers and the custodian.

The actuary, Hymans Robertson is responsible for assessing the long-term financial position of the pension fund and issues a Rates and Adjustments statement following their triennial valuation of the Pension Fund, which sets out the minimum contributions which each employer in the Fund is obliged to pay over the following three years.

## D. SCHEME ADMINISTRATION

### Service Delivery

Administration of the scheme is undertaken under delegated authority by the Pensions team at Hampshire Pension Services. The administrator is responsible for:

- Pensions Administration of the LGPS on behalf of London Borough of Hillingdon as the Administering Authority in accordance with relevant legislation and Committee decisions.
- Exploiting information technology to improve service standards and efficiency.

Hampshire and LB Hillingdon are working closely together to provide a full administration service covering the collecting, and reconciling of pension contributions, transfers of pension rights in to and out of the LGPS and deferred benefits, payment of pensions, calculations for retirements, re-employment, and death benefits.

The agreement with Hampshire details agreed performance targets and key performance indicators are reviewed quarterly at Pensions Committee and Pensions Board.

### PERFORMANCE INDICATORS

The contract with Hampshire Pension Services includes several key performance indicators included to ensure that service to members of the pension fund is effective. The targets are set out below, along with actual performance.

#### Performance indicators for 2022/23

Type of Case	Time to Complete						Total	% completed on time
	0-5 days	6-10 days	11-15 days	16-20 days	21-30 days	31-40 days		
Active Retirement	64	21	35	0	0	0	120	100%
Deferred Retirement	80	68	151	0	0	0	299	100%
Estimates	59	139	405	0	0	0	603	100%
Deferred Benefits	38	19	36	43	983	0	1,119	100%
Transfers In & Out	11	9	8	0	0	0	28	100%
Divorce	3	15	12	0	0	0	30	100%
Refunds	39	86	34	0	0	0	159	100%
Rejoiners	17	7	25	101	0	0	150	100%
Interfunds	39	79	176	0	0	0	294	100%
Death Benefits	122	23	40	0	0	0	185	100%
<b>GRAND TOTAL</b>	<b>472</b>	<b>466</b>	<b>922</b>	<b>144</b>	<b>983</b>	<b>0</b>	<b>2,987</b>	<b>100%</b>

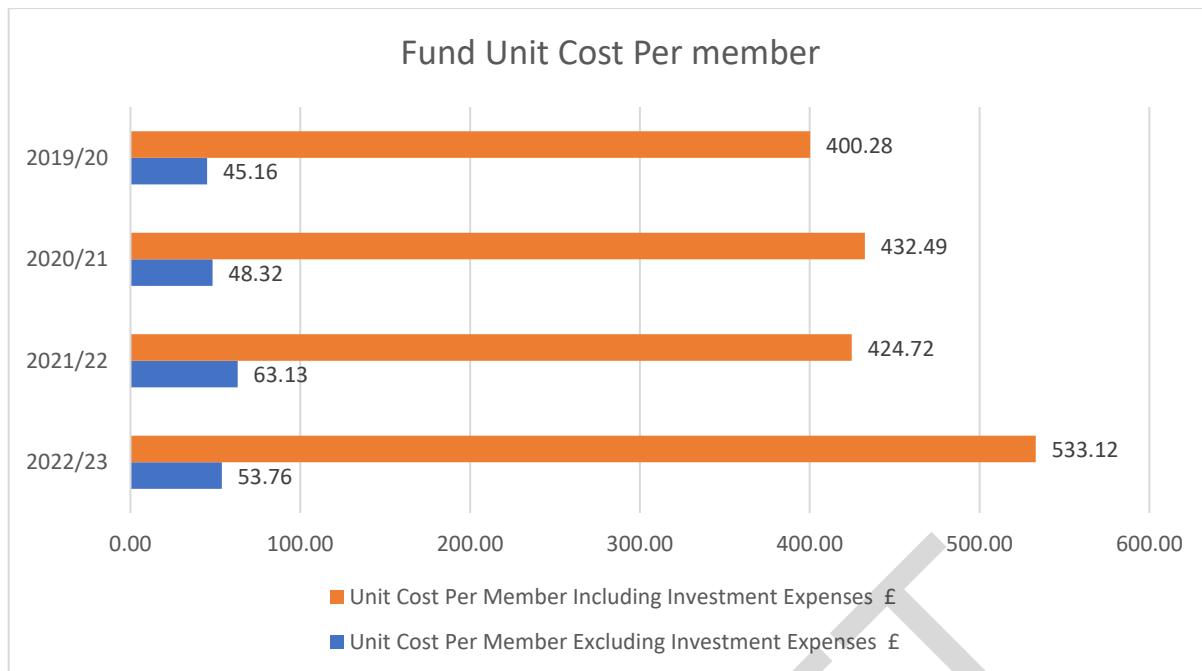
Performance indicators for all measurable metrics improved throughout 2022/23 due largely to the impact of the new administration provider, Hampshire Pension Services (HPS).

### STAFFING COSTS ANALYSIS

The administration of the Fund is outsourced to Hampshire Pension Services, under a partnership. Agreed monthly charges are invoiced to cover the administration charges along with any added costs for software licences incurred by UPM.

2.75 FTE staff are employed by pension Fund to deal with the added internal administration of the Fund and liaise with Hampshire Pension Services on issues or concerns raised by members.

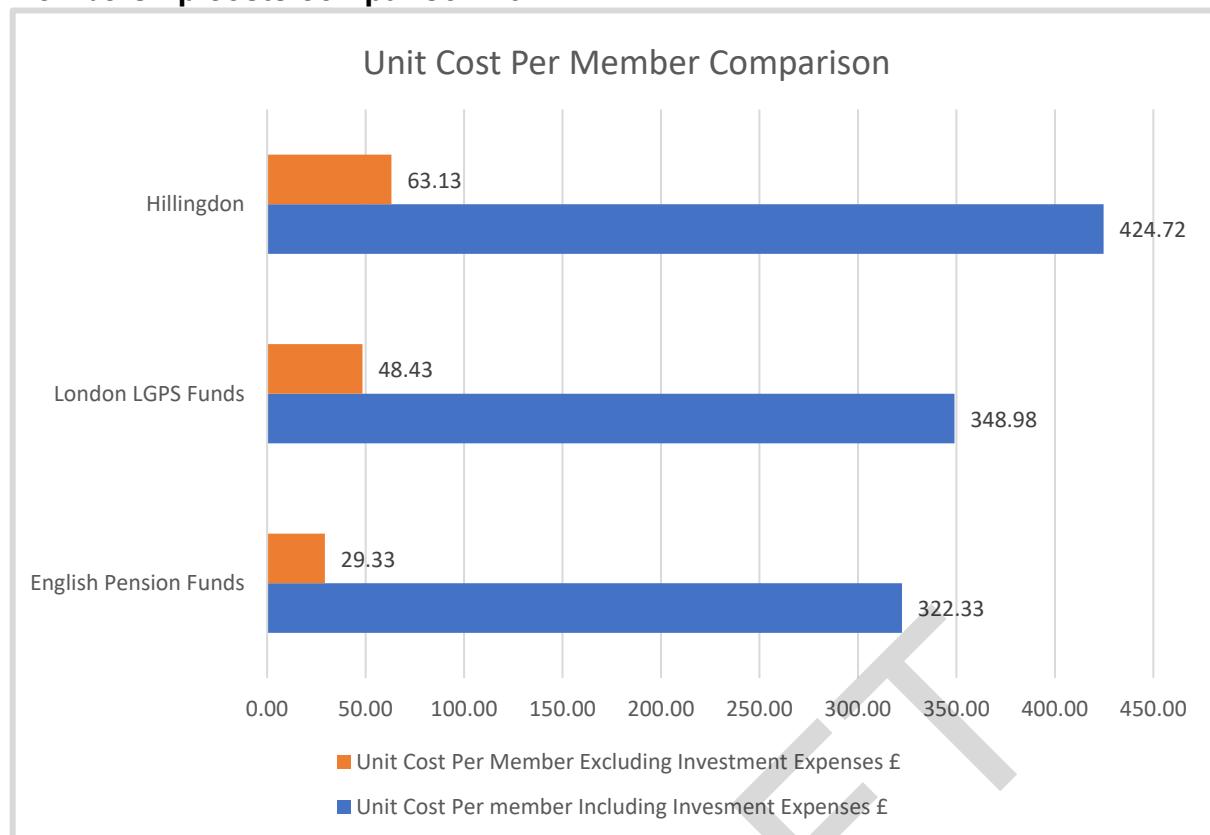
1.50 FTE staff are employed by the Fund to oversee the governance and accounting side of the Fund.



The decrease in costs per member from £63 in 2021/22 to £54 per head in 2022/23 is attributable to reduce administration costs (15%) in the period under review. The maturity profile of alternative investments resulted in increased performance fees paid to investment managers in this asset class as portfolios continued to wind down due to expiration of their respective investment periods.

The cost comparison chart below is the latest comparative figure available from the ONS. At time of publishing this report 2022/23 figures were yet to be released.

## Membership costs comparison 2021/22



For the year 2021/22, the unit cost per member excluding investment expenses is about 54% higher than the average for Pension Funds in England and London Funds' average at £63 per member. The cost per member including Investment management expenses is about £424 per member and comes out higher than most London Pension Funds in comparison.

Based on comparative figures obtained from ONS SF3 available as of 31 March 2023.

## MEMBERSHIP

All categories of membership changed in the year under review as a result of calculation methodology change. The most significant movement year-on-year is the increase in deferred membership by 3,761, as a result of unprocessed leavers forms being project managed and factored into the calculation and removed from Active list. Overall, scheme membership increased year-on-year by 22% from 20,274 to 25,968 in 2022/23. Again, this is due to the unprocessed leavers cases discovered and being processed by Hampshire. The membership profile over the last five years is shown below:



The total number of pensioners in receipt of enhanced benefits due to ill-health or early retirement on the grounds of redundancy or efficiency of the service on 31 March over a five-year period is shown in the table below.

Reasons for leaving	2018/19	2019/20	2020/21	2021/22	2022/23
III Health Retirement	8	10	6	8	21
Redundancy	39	41	34	28	11
<b>Total</b>	<b>47</b>	<b>51</b>	<b>40</b>	<b>36</b>	<b>32</b>

## COMPLAINTS

The Council's complaints procedure is available to any person who wishes to suggest or complain about the service. Number of complaints are reported as part of the administration KPI monitoring quarterly to Pensions Committee.

There is also a two-stage statutory Independent Dispute Resolution Procedure (IDRP) within the LGPS regulations. Details of this procedure are available on the Pensions web pages at [www.hillingdon.gov.uk](http://www.hillingdon.gov.uk) or on request. An application at stage one of the process is to the Chief Accountant, London Borough of Hillingdon.

## CONTRIBUTING EMPLOYERS AND CONTRIBUTIONS RECEIVED

Below is a list of the current active contributing employers and the contributions received for 2022/23 (Figures include early retirement and deficit funding contributions).

Employer	Type	Total Contributions	Contribution Rate %
		£	
London Borough of Hillingdon	Administering Authority	28,705,873.24	24.1
Barnhill School - ACADEMY	Scheduled Body	294,752.30	24.9
MPT - Central Payroll	Scheduled Body	35,251.51	27.3
Belmore Primary School - ACADEMY	Scheduled Body	209,906.11	24.1
Bishop Ramsey C Of E School - ACADEMY	Scheduled Body	311,150.40	24.2
Bishopshalt School - ACADEMY	Scheduled Body	260,681.37	26.5
Charville Primary School	Scheduled Body	180,505.85	23.2
Coteford Academy - QED Academy Trust	Scheduled Body	167,072.09	25.9
Cowley St Laurence - LBDS FRAYS ACADEMY	Scheduled Body	143,631.95	23.7
Cranford Park School - Park Federation Academy	Scheduled Body	291,043.41	22.7
Douay Martyrs School - ACADEMY	Scheduled Body	382,585.81	25.9
The Eden Academy (Payroll Staff - Eden Academy Trust)	Scheduled Body	263,439.89	20.9
VLT - Field End Junior School	Scheduled Body	172,651.19	28.6
Grangewood School - EDEN ACADEMY	Scheduled Body	248,313.29	20.9
Global Academy - Heathrow	Scheduled Body	49,600.01	19.2
Guru Nanak Sikh Secondary - Guru Nanak Academy Trust	Scheduled Body	373,105.71	21.8
Harefield ACADEMY	Scheduled Body	115,693.30	22.5
Haydon Secondary School - ACADEMY	Scheduled Body	469,593.64	23.6
Heathrow Aviation (UTC) Alet	Scheduled Body	44,523.91	20.1
VLT - Hermitage Primary	Scheduled Body	171,207.76	27.6

Hillingdon Primary School - Elliot Foundation Trust	Scheduled Body	242,253.23	21.9
The Skills Hub - Orchard Hill College Academy Trust	Scheduled Body	50,341.18	19.4
John Locke Academy - Elliot Foundation Trust	Scheduled Body	197,927.70	20.3
Lake Farm Academy - Park Federation Academy	Scheduled Body	193,239.24	19.6
Laurel Lane Primary School LDBS FRACTORY ACADEMY BGC FRACTORY TRUST	Scheduled Body	108,359.79	23.7
LHC	Scheduled Body	29,158.01	23.7
Moorcroft Special School - EDEN ACADEMY NANAKSAR PRIMARY - Guru Nanak Academy Trust	Scheduled Body	702,853.57	24.1
Northwood Academy - QED Academy Trust	Scheduled Body	257,719.54	20.9
Park Federation - Academy (Payroll Staff)	Scheduled Body	51,200.41	21.8
Pentland Field School - Eden Academy	Scheduled Body	196,144.47	23.8
Pinkwell Primary School - Elliot Foundation Trust Queensmead Secondary School - QED Academy Trust	Scheduled Body	76,473.97	19.6
Queensmead QED - Naveen Bandari Rosedale College - Rosedale Hewens Academy Trust	Scheduled Body	258,394.69	20.9
Ruislip Academy	Scheduled Body	344,304.82	25.7
Ryefield ACADEMY - Multi Academy Trust	Scheduled Body	280,225.07	21.8
St Martins Primary School St Matthews Primary School - LBDS FRACTORY ACADEMY	Scheduled Body	21,421.37	21.8
Park West Academy	Scheduled Body	417,450.51	22.9
Sunshine House (Eden Academy)	Scheduled Body	370,483.04	25.7
Swakeleys School - ACADEMY	Scheduled Body	123,744.79	31.3
HCUC	Scheduled Body	120,515.65	23.7
Uxbridge High School - ACADEMY	Scheduled Body	105,496.70	23.7
Vyners School - Multi Academy Trust	Scheduled Body	134,455.52	20.7
	Scheduled Body	175,640.07	20.9
	Scheduled Body	233,298.09	21
	Scheduled Body	2,086,937.53	23.4
	Scheduled Body	259,422.58	21
	Scheduled Body	318,253.78	29.7

West Drayton Primary School	Scheduled Body	193,008.58	26.4
William Byrd Primary	Scheduled Body	197,212.70	27.3
Willows Special School - ACADEMY	Scheduled Body	78,750.83	31
Woodend Park School - Park Federation Academy	Scheduled Body	213,499.61	22.2
Pride Academy - Orchard Hill Academy College	Scheduled Body		
Trust	Admitted Body	95,977.12	19.4
AIP - Uxbridge High School	Admitted Body	6,535.98	37.5
BRAYBORNE FAC - Bishop Ramsey			
BISHOP RAMSEY	Admitted Body	4,298.98	35.1
Caterlink - Frays Academy	Admitted Body	16,437.56	30
Caterplus - Genuine Dining	Admitted Body	1,523.03	26
CCS HOMECARE SERVI	Admitted Body	88,437.38	24.1
Cleantec (Harlington School)	Admitted Body	14,106.72	35.5
EcoServe	Admitted Body	2,187.69	25.9
CUCINA - Bishopshalt	Admitted Body	15,329.54	27.7
E/N HERTS NHST	Admitted Body	5,437.89	34.6
ENERGY KIDZ LTD	Admitted Body	9,648.06	34.5
Greenwich Leisure Services	Admitted Body	44,883.80	28
Hayward Services (Highfield)	Admitted Body	1,328.11	34.5
Hayward Services (Hillingdon)	Admitted Body	7,147.35	34
Hayward Services (Ryefield)	Admitted Body	11,276.16	37.3
Hayward Services (Guru Nanak)	Admitted Body	41,283.44	32.5
Hillingdon Care Contract	Admitted Body	18,545.82	26
HEATHROW TRAVEL CARE	Admitted Body	48,875.72	18.9
HERTS CATERING LTD	Admitted Body	2,349.62	35.6
Hillingdon & Ealing Citizens Advice	Admitted Body	28,279.41	23.2
HPS Services FM Ltd	Admitted Body	39,002.99	41.7
PSD Childcare Limited	Admitted Body	1,400.43	34
Service Master (Clean) Belmore Academy	Admitted Body	20,988.42	33.7
West Drayton Primary - Pabulum	Admitted Body	10,006.61	34.4
<b>Total</b>		<b>41,464,057.62</b>	

#### Analysis of Fund Membership Data

The following table summarises the number of employers in the Fund analysed by scheduled bodies and admitted bodies which are active (with active members) and ceased (no active members but with some outstanding liabilities).

Analysis of Fund Membership Data			
	Active	Ceased	Total
Administering Authority	1	0	1
Scheduled Bodies	47	0	47
Admitted Bodies	22	0	22
	<b>70</b>	<b>0</b>	<b>70</b>

# London Borough of Hillingdon Fund (the Fund)

## Actuarial Statement for 2022/23

This statement has been prepared in accordance with Regulation 57(1)(d) of the Local Government Pension Scheme Regulations 2013. It has been prepared at the request of the Administering Authority of the Fund for the purpose of complying with the aforementioned regulation.

### Description of Funding Policy

The funding policy is set out in the Administering Authority's Funding Strategy Statement (FSS). In summary, the key funding principles are as follows:

- take a prudent long-term view to secure the regulatory requirement for long-term solvency, with sufficient funds to pay benefits to members and their dependants
- use a balanced investment strategy to minimise long-term cash contributions from employers and meet the regulatory requirement for long-term cost efficiency
- where appropriate, ensure stable employer contribution rates
- reflect different employers' characteristics to set their contribution rates, using a transparent funding strategy
- use reasonable measures to reduce the risk of an employer defaulting on its pension obligations.

The FSS sets out how the Administering Authority seeks to balance the conflicting aims of securing the solvency of the Fund and keeping employer contributions stable. For employers whose covenant was considered by the Administering Authority to be sufficiently strong, contributions have been stabilised to have a sufficiently high likelihood of achieving the funding target over 20 years. Asset-liability modelling has been carried out which demonstrate that if these contribution rates are paid and future contribution changes are constrained as set out in the FSS, there is at least a 70% likelihood that the Fund will achieve the funding target over 20 years.

### Funding Position as at the last formal funding valuation

The most recent actuarial valuation carried out under Regulation 62 of the Local Government Pension Scheme Regulations 2013 was as of 31 March 2022. This valuation revealed that the Fund's assets, which on 31 March 2022 were valued at £1,263 million, were sufficient to meet 88% of the liabilities (i.e. the present value of promised retirement benefits) accrued up to that date. The resulting deficit at the 2022 valuation was £167 million.

Each employer had contribution requirements set at the valuation, with the aim of achieving their funding target within a time horizon and likelihood measure as per the FSS. Individual employers' contributions for the period 1 April 2023 to 31 March 2026 were set in accordance with the Fund's funding policy as set out in its FSS.

### Principal Actuarial Assumptions and Method used to value the liabilities

Full details of the methods and assumptions used are described in the 2022 valuation report and FSS.

### Method

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

### Assumptions

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

The key financial assumptions adopted for the 2022 valuation were as follows:

Financial assumptions	31 March 2022
Discount rate	4.1% pa
Salary increase assumption	3.2% pa
Benefit increase assumption (CPI)	2.7% pa

The key demographic assumption was the allowance made for longevity. The life expectancy assumptions are based on the Fund's VitaCurves with improvements in line with the CMI 2021 model, with a 0% weighting of 2021 (and 2020) data, standard smoothing (Sk7), initial adjustment of 0.25% and a long-term rate of 1.50% p.a. Based on these assumptions, the average future life expectancies at age 65 are as follows:

	Males	Females
Current Pensioners	22.3 years	24.8 years
Future Pensioners*	23.0 years	26.0 years

\*Aged 45 at the 2022 Valuation.

Copies of the 2022 valuation report and Funding Strategy Statement are available on request from the Administering Authority to the Fund and on the Fund's website.

#### **Experience over the period since 31 March 2022**

Markets continued to be disrupted by the ongoing war in Ukraine and inflationary pressures, impacting on investment returns achieved by the Fund's assets. High levels of inflation in the UK (compared to recent experience), have resulted in a higher-than-expected LGPS benefit increase of 10.1% in April 2023. Despite this, the funding level of the Fund is likely to be higher than reported at the 31 March 2022 funding valuation due to the significant rise in interest rates which reduces the value placed on the Fund's liabilities.

The next actuarial valuation will be carried out as of 31 March 2025. The Funding Strategy Statement will also be reviewed at that time.

Craig Alexander FFA

15 September 2023

For and on behalf of Hymans Robertson LLP

## F: GOVERNANCE

### Pension Committee

The Pensions Committee is the formal decision-making body for the Fund. The Committee consists of five Councillor Members, all with voting rights. During 2022/23 these were:



Councillor  
Stuart Mathers  
(Chairman)



Councillor  
Tony Burles  
(Vice-Chairman)



Councillor  
Mohammed Shoful  
Islam



Councillor  
Kaushik Banerjee



Councillor  
Martin Goddard  
(Conservative Lead)

The Committee meets quarterly to discuss investment strategy, legislative changes and developments that may affect the Fund, and to review the performance of the Fund Managers and the Fund Administrators. Committee training has been incorporated into these quarterly meetings to ensure that Committee Members maintain their knowledge and skills at a sufficient level to enable them to discharge their duties in relation to the Fund.

### Record of Attendance

Name	Meetings attended
Cllr Stuart Mathers	4/4
Cllr Tony Burles	4/4
Cllr Mohammed Islam	4/4
Cllr Martin Goddard	3/4
Cllr Kaushik Banerjee	4/4

### Local Pension Board

The London Borough of Hillingdon local Pension Board was established in 2015 and like the Committee met on a quarterly basis. The Board was reconfigured in November 2017 with a change to membership and terms of reference.

The members of the Board meetings during 2022/23 were:

**Employer Representatives:**

Anil Mehta – Until November 2022

Shane Woodhatch

Marie Stokes – From November 2022

**Scheme Member Representatives:**

Roger Hackett

Tony Noakes

**Record of Attendance**

Three Meetings were held in 2022/23: May 2022, July 2022, November 2022 and January 2023

Name	Meetings attended
Anil Mehta	1/3
Roger Hackett	3/3
Marie Stokes	1/3
Tony Noakes	3/3
Shane Woodhatch	0/3

The Board is not a decision-making body, rather it has a compliance and scrutiny role to ensure the Pensions Committee complies effectively and efficiently with the code of practice on the governance and administration of public service pension schemes issued by The Pensions Regulator, through the codes of Practise. Additionally, the Pension Board will help ensure that the London Borough of Hillingdon Pension Fund is managed and administered effectively and efficiently and complies with the code of practice.

**Knowledge and Skills**

The CIPFA Knowledge and Skills framework has been utilised to track training needs of both Pensions Committee and Pensions Board with some addition categories on asset classes and investment topics for Pension Committee members to ensure investment decisions are supported with knowledge in those areas. All members have been asked to complete a review scoring themselves against each topic from 1-5 of knowledge with 5 being highly skilled and 1 being no knowledge.

The Fund has a training policy in place which is reviewed every 3 years and members are invited on relevant training when courses arise. In addition, training is provided at the start of Pension Committee and Pension Board meetings.

Internal training provision has been focused on topics where members have highlighted, they have low knowledge and skills from their training needs analysis or where complex areas of investment decision making are taking place and the Fund want to ensure the Committee are skilled in making those decisions.

## Training Received in 2022/23

### Pensions Committee Training Log 2022/23

Date	Details	Cllr Mathers	Cllr Burles	Cllr Islam	Cllr Goddard	Cllr Banerjee
<b>Bespoke Sessions</b>						
9 Jun 22	Induction	✓	✓	✓	✓	✓
5&6 Sep 22	LCIV Annual Conference	✓				
7 Sep 22	Inflation & Portfolio Resilience	✓		✓	✓	✓ Part
28 Sep 22	Triennial valuation assumptions and results	✓	✓	✓	✓	✓
20 Oct 22	LGA Fundamentals Day 1		✓			
10 Nov 22	LGA Fundamentals Day 2		✓			
25 Nov 22	Westminster Member Training	✓				
20 Dec 22	LGA Fundamentals Day 3		✓			
8&9 Dec 22	LAPFF Annual Conference	✓				
19 Jan 23	LCIV TCFD	✓	✓	✓	✓	✓
19 Jan 23	LGIM Equity & Long Lease Property	✓	✓	✓	✓	✓
9&28 Feb 23	Isio ESG Beliefs	✓	✓	No	✓	✓
8 Mar 23	Isio Investment Building blocks & Strategy Development (2 sessions)	✓	✓	✓	✓	✓

## 1 Chair's Foreword

Welcome to the Annual Report of the Local Pension Board (LPB) of Hillingdon Pension Fund (HPF). This report covers the period from January to December 2022. At the Board meeting of February 2021, the terms of reference of the Board were changed allowing for the election of a Chair for one year. I was privileged to be elected to serve as Chair of the Board for 2022.

The Board was able to return to face-to-face public meetings from May 22 following the lifting of COVID restrictions to carry out its role of assisting the Administering Authority in securing compliance with regulations. The January 2022 meeting was virtual.

Some of the key achievements the Board oversaw in addition to the regular review of the Pensions Committee reports were:

- The fund achieving full compliance with the Pension Regulators code of Practice 14
- Raising awareness of cyber security and the Cyber scorecard assessment
- Review cyber mapping for assets and data
- Assess Internal Audit outcome and recommendations of cyber mapping exercise
- Monitoring breaches and ensuring corrective actions were implemented
- Undertaking targeted training
- Keeping abreast of Pension Dashboard progress
- Monitoring progress against McCloud, GMP and data cleansing projects
- Closely monitoring service provision of Hampshire Pension Services.
- Monitoring progress and implementation of the triennial valuation and Funding Strategy
- Supporting the Pensions Committee and Officers

The year ahead continues to be met with governance and compliance challenges and the resulting uncertainties in terms of changes in rules that the government may implement.

There are upcoming regulatory changes with which the Fund has to comply and that the Board will oversee; these include:

- The Pensions Regulator's Single Code of Practice
- Good Governance Framework
- The Pensions Dashboard Programme
- The Data Improvement Programme
- Continued implementation of McCloud & GMP

In closing I would like to thank the Pensions Committee, Officers, Advisers and fellow Board Members for their cooperation and support during my time as Chair and I look forward to helping the Fund address the challenges we expect to face in 2023.

Roger Hackett - Chair of Hillingdon Local Pension Board (2022)

## 2 Introduction to the Local Pension Board

The Public Service Pensions Act 2013 introduced the requirement to have a Local Pensions Board to assist in the good governance of the scheme.

The purpose of the Board is to assist the Administering Authority in its role as a Scheme Manager of the Scheme. Such assistance is to:

- Secure compliance with the regulations and any other legislation relating to the governance and administration of the Scheme, and requirements imposed by the Pensions Regulator in relation to the Scheme; and
- To ensure the effective and efficient administration of the Scheme.

London Borough of Hillingdon Council ratified the establishment of the Board on 6<sup>th</sup> November 2014 to commence with effect from 1<sup>st</sup> April 2015. Council at its meeting 02 November 2017 agreed to change the structure of the Board and its membership to improve the overall effectiveness of the Board. The Board meets four times a year and consists of two Employer representatives, and two scheme member representatives.

### **Membership of the Board**

<b>Employer Representatives</b>	<b>Scheme Member Representatives</b>
Marie Stokes (Nov 22-Dec 22)	Roger Hackett
Shane Woodhatch	Tony Noakes
Anil Mehta (Jan 22-Jul22)	

### **Record of Attendance**

Name	Jan -22	May-22	Jul-22	Nov-21
<b>Roger Hackett</b>	Y	Y	Y	Y
<b>Tony Noakes</b>	Y	Y	Y	Y
<b>Marie Stokes</b>	n/a	n/a	n/a	Y
<b>Shane Woodhatch</b>	Y	N	N	N
<b>Anil Mehta</b>	Y	Y	N	n/a

The Scheme Advisory Board's LGPS Guidance on the Creation and Operation of Local Pension Boards in England and Wales recommends that the Board produces a report to the Pensions Committee, on the work undertaken during the year and future work plans. This report covers the work of the 2022 period.

AON Hewitt assisted the Fund on Governance issues and supported the development and work of the Board and attended meetings as necessary.

### **3 Summary of the Work of the Board New**

#### **administration service.**

One of the largest pieces of work for the Board during 2021 was their involvement regarding the transition of pension administration services from Surrey County Council to Hampshire County Council.

2022 saw the first full year with Hampshire and the Board were heavily involved in monitoring of their performance and governance. The Board continue to provide robust challenge to ensure all aspects relating to ongoing issues such as McCloud and Pension Dashboard projects are sufficiently resourced and remain on track.

A key area of interest and compliance was to ensure Hampshire's control framework and ongoing improvements in relation to IT and cyber security remained in line with the Board's and regulators expectations.

The Board are pleased to report that Hampshire has delivered a high level of service, remained at 100% against all key performance indicators and has been pro-active and at the forefront in all governance requirements.

### **TPR code compliance review**

During 2022, the Board has worked closely with officers and the Fund remained in at 100% compliance across all Code of Practice areas.

### **Cyber Security & Pension Scams**

Areas high on the agenda of the Board is cyber security and pension scams.

Throughout 2022 various items have been raised by the Board to understand the Funds position.

The main achievement was the delivery of asset and data mapping exercise to understand the flows between entities and the associated security and sensitivity.

The Board also procured the Council's Internal Audit team to review the maps and provide a level of assurance and recommendations. The results showed a 'Reasonable' level of assurance with only two recommendations which have subsequently been implemented.

### **Pension Committee Engagement**

To meet the Board's obligation to monitor the work of the Pensions Committee they review the work of the Pension Committee at each Board meeting. Pensions Committee members are invited to attend the Board meeting for this item and provide information in order Board members can carry out their due diligence checks. Pension Committee members would withdraw if required to properly consider any concerns that may have arisen. In 2022 PB has not raised any governance or other concerns about the work and role of the Pensions Committee but have offered challenge and requested clarification on a number of items.

Pension Board believe that in 2022 the Pension Committee has been proactive in carrying out its responsibilities, examples of this are the Stewardship Code and TCFD Reporting. Pension Committee invite Pension Board members to attend their committee meetings as observers including PART 2 items and allows Pension Board members to ask questions in the meetings. Pension Board is also very grateful to Pension Committee for this and for allowing them to attend training sessions. This all contributes to helping the Board meet their obligation to ensure their knowledge and understanding of the LGPS up to date.

### **Other key areas of work have been undertaken as outline below**

- Monitoring of the data quality and breaches
- Review of Policy documents to ensure they are kept up to date
- Monitoring the performance of the Pensions Administration
- ESG – Stewardship Code and TCFD progress

## Future Work of the Board

As partly noted in the Chair's foreword, a number of key areas will be monitored in 2023 including:

- The Pensions Regulator's Single Code of Practice
- Good Governance Framework
- The Pensions Dashboard Programme
- The Data Improvement Programme
- Implementation of McCloud and GMP
- Funding Strategy and Investment Strategy implementation
- ESG issues including the UK Stewardship Code and TCFD reporting
- Review and update of the Board's function and responsibilities.
- **Areas Investigated by the Board**

No official investigations were required or undertaken by the Board.

- **Details of any Conflicts of Interest**

The SAB guidance recommends that the Board reports details of any conflicts of interest that have arisen in respect of individual Local Pension Board members and how these have been managed.

Declaration of interest remains on the agenda at the start of each meeting and in addition to the register of interest Pension Board members have been requested to renew their declaration of interest form in line with best practice.

A Conflicts of Interest Policy was also introduced following the TPR CoP review which provides guidance to the Board on how to identify and manage conflicts of

interest. No major conflicts of interests have arisen other than the declarations made at the start of each meeting.

Board members and officers continue to monitor conflicts of interest.

## 6 Areas of Concern or Risk

6.1 **Regulatory changes** – The Board recognises that there are currently many regulatory changes to be implemented in the LGPS. These include McCloud Judgement; Goodwin Judgement; GMP reconciliation, Pensions Dashboard and potentially a new iteration of the Exit Cap.

In addition, the framework under which the Fund will need to operate is also expected to materially change with the new Single Code of Practice and Good Governance implementation.

The Board will continue to monitor and seek assurance from Officers that the changes can be effectively delivered in compliance with the regulatory deadlines.

## 7 Training

7.1 Regular training has been made available to the Board and is a standing item on the quarterly work programme. As a result of the move to virtual meetings, training has been delivered separately from the meetings. The schedule below outlines the training undertaken by the Board.

<b>AON CIPFA Knowledge &amp; Skills Areas of Training</b>	Date	Roger Hackett	Tony Noakes	Anil Mehta (end July 22)	Shane Woodhatch	Marie Stokes (start Nov 2022)
AON - 1, Introduction to the LGPS	On-demand	Y	*	Y	Y	
AON – 2, Pension legislation and guidance, and national governance	On-demand	Y	*	Y	Y	
AON – 3, Local governance and pensions procurement, contract management and relationship matters	On-demand	Y	*	Y	Y	
AON – 4, Funding strategy and actuarial methods, and financial, accounting and audit matters	On-demand	Y	Y	Y	Y	
AON – 5, Investments – Strategy, asset allocation, pooling, performance, and risk management	On-demand	Y	Y	Y	Y	
AON – 6, Investments - Financial markets and products	On-demand	Y	Y	Y	Y	

AON – 7, Pension Administration & Communications	On-demand	Y	*	Y	Y	
<b>Events</b>						
Hymans Robertson – LBH Triennial Valuation	19-Jan-22	Y				
Hyman Robertson Keeping the LGPS Connected -High Inflation and Pension Investments	27-Jan-22	Y				
Hyman Robertson LGPS Valuation 2022. A Spotlight on Climate Risks and S13 Report	28-Jan-22	Y				
Sackers – New Transfer Regime	02-Feb-22	Y				
Baillie Gifford – Investing in an inflationary & COVID environment	9-Feb-22	Y				
Buzzcott - Digital and Cyber Security	9-Feb-22	Y				
Legal & General Investment Management. Inflation- Don't Believe the Hype!	1-Mar-22	Y				
Barnett Waddington. How does life Expectancy affect your Journey Plan	22-Mar-22	Y				
Sackers Quarterly Legal Update	10-May-22	Y				
Hymans Robertson Setting your Funding Strategy – LGPS 2022	20-Jun-22	Y				
The Pensions Regulator – Dashboard Webinar	28-Aug*22	Y				
Isio - Inflation & portfolio construction	7-Sep-22	Y	Y			
Barnett Waddingham – Focus on Members	22-Sep-22	Y				
Barnett Waddingham – What Next for Life Expectancy	27-Sep*22	Y				
Hymans Robertson – Triennial Valuation	28-Sep-22	Y	Y			
Barnett Waddingham Will Climate Change Derail your Journey Plan	4-Oct-22	Y				
Liability Driven Investing	Oct-22		Y			

\*Following the training needs assessment suitable knowledge was demonstrated in these areas.

7.2 The Board will continue training as required during 2022 to address any emerging issues and to ensure it is up to date with any regulatory or guidance requirements.

## 8 Work Plan

The workplan below sets out the tasks undertaken by the Pension Board during 2022

<b>Meetings</b>	<b>Specific topics</b>
26 January 2022	<ul style="list-style-type: none"> <li>• TPR Checklist review &amp; focus areas</li> <li>• Training Update Report</li> <li>• Administration Report</li> <li>• Draft PB Annual Report</li> <li>• Breaches Log</li> <li>• Review of Pension Committee Reports</li> </ul>
11 May 2022	<ul style="list-style-type: none"> <li>• Administration Report</li> <li>• TPR Checklist review &amp; focus areas</li> <li>• Data Cleansing Plan/Update</li> <li>• Training Update Report</li> <li>• Breaches Log</li> <li>• Review of Pension Committee Reports</li> </ul>
20 July 2022	<ul style="list-style-type: none"> <li>• Administration Report</li> <li>• TPR Checklist review &amp; focus areas</li> <li>• Training Update Report</li> <li>• Breaches Log</li> <li>• Cyber Data &amp; Asset Mapping</li> <li>• Review of Pension Committee Reports</li> </ul>
9 November 2022	<ul style="list-style-type: none"> <li>• Administration Report</li> <li>• TPR Checklist review &amp; focus areas</li> <li>• Single Code Update</li> <li>• Training Update Report</li> <li>• Breaches Log</li> <li>• Cyber Data and Asset Mapping</li> <li>• Review of Pension Committee Reports</li> </ul>

The Future workplan of the Board is set out below.

<b>Meetings</b>	<b>Specific topics</b>
18 January 2023	<ul style="list-style-type: none"> <li>• Appointment of Chair</li> <li>• Appointment of Scheme Member</li> <li>• Administration Report (Inc TPR Score)</li> <li>• TPR Checklist review &amp; focus areas</li> <li>• Single Code &amp; Good Governance Update</li> <li>• Training Update Report</li> <li>• Breaches Log</li> <li>• Annual Report of the Board 2022</li> <li>• Cyber Update</li> <li>• Review of Pension Committee Reports</li> </ul>
26 April 2023 tbc	<ul style="list-style-type: none"> <li>• Administration Report</li> <li>• TPR Checklist review &amp; focus areas</li> <li>• Training Update Report</li> </ul>

	<b>7</b> Single Code & Good Governance Update <b>8</b> Breaches Log <b>9</b> Review of Pension Committee Reports
19 July 2023 tbc	<b>8</b> Administration Report <b>9</b> TPR Checklist review & focus areas <b>10</b> Training Update Report <b>11</b> Single Code & Good Governance Update <b>12</b> Breaches Log <b>13</b> Review of Pension Committee
8 November 2023 tbc	<ul style="list-style-type: none"> <li>Administration Report</li> <li>TPR Checklist review &amp; focus areas</li> <li>Training Update Report</li> <li>Single Code &amp; Good Governance Update</li> <li>Breaches Log</li> <li>Review of Pension Committee</li> </ul>
24 January 2024 tbc	<ul style="list-style-type: none"> <li>Appointment of Chair</li> <li>Appointment of Scheme Member</li> <li>Administration Report (Inc TPR Score)</li> <li>TPR Checklist review &amp; focus areas</li> <li>Training Update Report</li> <li>Single Code &amp; Good Governance Update</li> <li>Board Annual Report</li> <li>Breaches Log</li> <li>Review of Pension Committee</li> </ul>
10 April 2024 tbc	<ul style="list-style-type: none"> <li>Administration Report</li> <li>TPR Checklist review &amp; focus areas</li> <li>Training Update Report</li> <li>Single Code &amp; Good Governance Update</li> <li>Breaches Log</li> <li>Review of Pension Committee</li> </ul>

## 9 Expenses

The Board incurred expenses of £200 in relation to its operations in 2022. (This does not include the standard governance support fees).

## **G: FINANCIAL STATEMENTS and INDEPENDENT AUDIT REPORT**

### **Statement of Responsibilities for the Pension Fund Statement of Accounts**

#### **1. Council's Responsibilities**

The Council is required to:

- Make arrangements for the proper administration of its financial affairs and to ensure that one of its officers has the responsibility for the administration of those affairs. In this Council that officer is the Corporate Director of Finance.
- Manage its affairs to secure economic, efficient, and effective use of resources and safeguard its assets; and
- Approve the Pension Fund of Accounts

#### **2. Corporate Director of Finance Responsibilities**

The Corporate Director of Finance is responsible for the preparation of the Pension Fund accounts in accordance with proper practices as set out in the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2022/23 ('the Code').

In preparing this statement of accounts, the Corporate Director of Finance has:

- Selected suitable accounting policies and then applied them consistently.
- Made judgements and estimates that were reasonable and prudent; and
- Complied with the Local Authority Code.

The Corporate Director of Finance has also:

- Kept proper accounting records that were up to date; and
- Taken reasonable steps for the prevention and detection of fraud and other irregularities.

#### **3. Corporate Director of Finance Approval of Pension Fund Accounts**

I certify that these accounts present a true and fair view of the financial position of the London Borough of Hillingdon Pension Fund, in terms of the CIPFA/LASAAC Code of Practice on Local Authority Accounting in United Kingdom ('the Code'), as of 31<sup>st</sup> March 2022 and its income and expenditure for the year then ended.

Andy Evans  
CORPORATE DIRECTOR OF FINANCE  
27 September 2023

**Pension Committee Certificate for the Approval of the Pension Fund Accounts**

I confirm that the draft Pension Fund accounts were considered by Pensions Committee at meetings held on 08-06-2023.

I confirm that this Annual Report was considered and approved for publications by Pensions Committee at the meeting held on 13 December 2023.

Cllr Stuart Mathers  
On behalf of London Borough of Hillingdon Pension Fund  
CHAIRMAN (PENSION COMMITTEE)  
13 December 2023

DRAFT

DRAFT

# Pension Fund Account

## PENSION FUND ACCOUNT

	Note	31 March 2023 £'000	31 March 2022 £'000
Contributions	4	53,386	50,669
Transfers In from other pension funds	5	4,542	4,297
		<b>57,928</b>	<b>54,966</b>
Less: Benefits	6	(51,409)	(52,029)
Less: Payments to and on account of leavers	7	(5,552)	(5,048)
		<b>(56,961)</b>	<b>(57,077)</b>
<b>Net additions/(withdrawals) from dealings with members</b>		<b>967</b>	<b>(2,111)</b>
Less: Management expenses	8	(13,844)	(10,832)
<b>Net additions/(withdrawals) including fund management expenses</b>		<b>(12,877)</b>	<b>(12,943)</b>
<b>Return on investments</b>			
Investment income	9	11,467	11,858
Profit and losses on disposal of investments and changes in market value of investments	10A	(81,851)	102,033
Taxes On Income		(28)	(35)
<b>Net return on investments</b>		<b>(70,412)</b>	<b>113,856</b>
<b>Net Increase/(Decrease) in the fund</b>		<b>(83,289)</b>	<b>100,913</b>
<b>Net Assets at start of year</b>		<b>1,266,115</b>	<b>1,165,202</b>
<b>Net Assets at end of year</b>		<b>1,182,826</b>	<b>1,266,115</b>

	Note	31 March 2023 £'000	31 March 2022 £'000
Investment Assets	10	1,180,396	1,264,200
Investment Liabilities	10	0	0
Total net investments		<b>1,180,396</b>	<b>1,264,200</b>
Current Assets	11	3,180	2,939
Current Liabilities	12	(750)	(1,024)
Net assets of the fund available to fund benefits at the end of the reporting period		<b>1,182,826</b>	<b>1,266,115</b>

The Pension Fund Accounts summarise the transactions of the scheme and show the net assets at the disposal of members. They do not take account of liabilities to pay pensions and other benefits after the period end. The actuarial present value of promised retirement benefits is disclosed at note 18.

Andy Evans  
Corporate Director of Finance  
8 July 2023

# Notes to the Pension Fund Account

## 1. DESCRIPTION OF THE FUND

### a. General

The London Borough of Hillingdon Pension Fund ("the Fund") is part of the Local Government Pension Scheme (LGPS) and is administered by the London Borough of Hillingdon ("the administering body"). The Council is the reporting entity for this pension fund. The Fund is a contributory defined benefits scheme established in accordance with statute to provide benefits to members and retired members of the London Borough of Hillingdon and Admitted and Scheduled bodies in the Fund. Benefits in respect of service from 1 April 2014 are based on career average revalued earnings (CARE) scheme. Benefits in respect of past service up to 31 March 2014 are based on final salary. Pensions move in line with the Consumer Price Index (CPI) annually. Benefits paid out include a pension payable to former members and their dependants, lump sum retirement benefits, payment of death benefits where death occurs in service or retirement, and yearly payment of benefits on medical grounds.

The Fund is governed by the Public Service Pensions Act 2013 and administered in accordance with the following secondary legislation:

- Local Government Pension Scheme Regulations 2013 (as amended)
- Local Government Pension Scheme (Transitional Provisions, Savings and Amendment) Regulations 2014 (as amended)
- Local Government Pension Scheme (Management and Investment of Funds) Regulations 2016

### b. Membership

Membership of the LGPS is voluntary and employees are free to choose whether to join the scheme, remain in the scheme or make their own personal arrangements outside of the scheme. Due to government legislation, since 1 February 2013 all new employees who are not in the scheme are automatically enrolled. Members have the option to opt out of the scheme. Employees who have opted out are then re-enrolled every 3 years, when they can again opt out.

Organisations participating in the London Borough of Hillingdon Pension Fund include the following:

- Scheduled bodies, which are automatically entitled to be members of the Fund.
- Admitted bodies, which participate in the Fund under the terms of an admission agreement between the Fund and the employer. Admitted bodies include voluntary, charitable, and similar not-for-profit organisations, or private contractors undertaking a local authority function following outsourcing to the private sector.

Employers who contribute to the Fund in addition to London Borough of Hillingdon are:

#### **Admitted Bodies:**

AIP – Uxbridge High school

Braybourne Facilities - Bishop Ramsey Cleaners

CCS Homecare Service

Caterlink - Frays Academy

Caterplus – Genuine Dining

Cucina - Bishopshalt

Energy Kidz Ltd

Greenwich Leisure

EcoServe

Cleantec - Harlington School Cleaners

Hayward Services

- Hillingdon School

# Notes to the Pension Fund Account

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- Highfield School
- Guru Nanak School
- Ryefield School

Heathrow Travel Care

Herts Catering

Hillingdon & Ealing Citizens Advice

Hillingdon Care Contract

HPS Services FM Limited

E/N Herts NHST

Pabulum - West Drayton Academy

PSD Childcare Limited

Service Master – Belmore Academy

## **Scheduled Bodies:**

Barnhill Academy

Belmore Academy

Bishop Ramsey Academy

Bishopshalt Academy

Charville Academy

Douay Martyrs Academy

Eden Academy Trust

- Moorcroft School
- Pentland Field School
- Grangewood School
- Sunshine House School

Elliot Foundation Trust

- Hillingdon Primary School
- John Locke Academy
- Pinkwell School

Field End Junior School

Guru Nanak Academy Trust

- Nanak Sar Primary School
- Guru Nanak Sikh Academy

Global Academy

Harefield Academy

Harrow & Uxbridge College

# Notes to the Pension Fund Account

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Haydon Academy

Heathrow Aviation Engineering

Hermitage Primary School

LBDS Frays Academy Trust

- Cowley St. Lawrence Academy
- Laurel Lane Academy
- St. Matthews Primary School
- St. Martins Primary School

London Housing Consortium

Orchard Hill College Academy Trust

- Young Peoples Academy
- Skills HUB

Park Federation Trust

- Cranford Park Academy
- Lake Farm Park Federation

QED Academy Trust

- Wood End Academy
- West Drayton Academy
- Coteford Junior Academy
- Queensmead Academy
- Northwood Academy

Rosedale Hewens Academy Trust

- Rosedale College
- Brookside Primary School

Ruislip Academy

Ryefield Primary School

Vyners Academy

Park Academy West London

Swakeleys Academy

Uxbridge Academy

William Byrd School

Willows Academy

# Notes to the Pension Fund Account

London Borough of Hillingdon Pension Fund	31 March 2023	31 March 2022
Number of employers with active members	70	69
<b>Number of employees in scheme</b>		
London Borough of Hillingdon	4,685	3,858
Other employers	2,614	2,183
<b>Total</b>	<b>7,299</b>	<b>6,041</b>
<b>Number of Pensioners</b>		
London Borough of Hillingdon	6,712	6,651
Other employers	824	721
<b>Total</b>	<b>7,536</b>	<b>7,372</b>
<b>Deferred Pensioners</b>		
London Borough of Hillingdon	7,935	8,995
Other employers	3,198	3,767
<b>Total</b>	<b>11,133</b>	<b>12,762</b>

## c. Funding

The Fund is financed by contributions from the employers, Pension Fund members and by income from the Fund's investments. The Pension Fund accounts do not take account of liabilities to pay pensions and other benefits in the future. The contributions from the London Borough of Hillingdon and other participating employers are set through the triennial actuarial valuation at a rate sufficient to meet the long-term liabilities of the Fund.

Contributions are made by active members of the Fund in accordance with the LGPS Regulations 2013 and range from 5.5 % to 12.5% of pensionable pay for the financial year ending 31 March 2023. Employers also pay contributions into the Fund based on triennial funding valuations. The last such valuation was as of 31 March 2022, this covers the three financial years following 2022/23 (2023/24, 2024/2025 & 2025/26). Currently employer contribution rates range from 18.9% to 42.3% of pensionable pay, as per the 2022 valuation.

## d. Investments

The Pension Fund investments are managed externally by fund managers: Adams Street Partners, AEW UK, JP Morgan Asset Management (until June 2023), Legal & General Investment Management, LGT Capital Partners, London CIV, Macquarie Investments, Permira LLP, and UBS Global Asset Management. In addition, there is one direct investment into pooled funds with M&G Investments.

## e. Governance

The Fund is overseen by the Pensions Committee (comprised of Councillors) and the Pensions Board (comprised of an even number of employer and member representatives). The performance of the fund managers is monitored by the Pensions Committee (Four meetings in 2022-23) and governance is overseen by the Pensions Board (Four meetings in 2022-23). Pensions Committee and Pensions Board consisted of the following members in 2022/23:

### Pensions Committee

Cllr Stuart Mathers (Chairman)	Cllr Martin Goddard
Cllr Tony Burles (Vice-Chairman)	Cllr Kaushik Banerjee
Cllr Mohammed Shofiq Islam	

### Pensions Board

Roger Hackett (Scheme Member Representative)	Anil Mehta – (Employer Representative) Until November 2022
Tony Noakes (Employee Representative)	Shane Woodhatch (Employer Representative)
Marie Stokes (Employer Representative)	From November 2022

# Notes to the Pension Fund Account

## 2. BASIS OF PREPARATION

The accounts have been compiled in accordance with the CIPFA Code of Practice on Local Authority Accounting in the United Kingdom 2022/23, which is based on International Financial Reporting Standards (IFRS) as amended for the public sector and underpinned by the Local Government Pension Scheme Regulations. The accounts have been prepared on an accrual basis, except for transfer values, which are accounted for on a cash basis, and summarise the Fund transactions and report on the net assets available to pay pension benefits as of 31 March 2023.

The accounts do not take into account obligations to pay benefits and pensions that fall due after the reporting date (31 March 2023). The Pension Fund Accounts have been prepared on a going concern basis.

## 3. ACCOUNTING POLICIES

### a. Valuation of assets

- Market quoted investments: Equities are valued at bid market prices available on the final day of the accounting period.
- Fixed income securities including short-term instruments are priced based on evaluated prices provided by independent pricing services.
- For pooled funds, if bid prices are provided by the Fund administrators, then these are used, otherwise the Net Asset Value (NAV) is used. The NAV for pooled funds is derived by subtracting the fund's liabilities from assets and divide the result by total units/shares within the pooled fund.
- Private Equity is valued using the latest audited valuation from the Limited Partner/General Partner. This is adjusted for any capital calls/distributions that have taken place since the date of the statement. Unquoted investments for Private Placements and Infrastructure are priced using discounted cash flow methodology.

b. Foreign currency translation of assets and liabilities and forward foreign exchange contracts are converted into sterling at the closing middle rates of exchange in the Net Assets Statement. Overseas income is converted at rates of exchange ruling when remitted.

c. Acquisition costs of investments occur as brokerage commission when investments are purchased. They are recorded in the cost figure on an accrual basis.

d. Investment management expenses are recorded at cost when the fund managers/custodian invoice the fund on a quarterly basis or provide a fee schedule deducted at source. Expenses are recorded on an accrual basis. Where an investment manager's complete fee schedule has not been received by year end, an estimate based on the previous quarter's amount is included in the accounts. In 2022/23, no such fees are based on estimates (2021/22: No such Fees were based on estimates). The fund also agreed with the following fund managers that their fees include elements of performance, Adams Street Partners, AEW UK, Macquarie Infrastructure Partners and Permira LLP.

e. Administration expenses are paid when invoiced by third party providers through the administering authority's payment system and recharged to the Pension Fund.

f. Interest on property developments - property is held in unit trusts for the Pension Fund, the return received is calculated in accordance with the unit price at the Net Assets Statement date.

### g. Contribution Income

Normal contributions are accounted for on accrual basis as follows:

- Employee contribution rates are set in accordance with LGPS regulations, using common percentage rates for all schemes, that rise according to pensionable pay.
- Employer contributions are set at a percentage rate recommended by the fund actuary for the period which they relate.

Employer deficit funding contributions are accounted for on the basis advised by the fund actuary in the rates and adjustment certificate issued to the relevant body.

Additional employers' contributions in respect of ill-health are accounted for as part of the tri-ennial valuation exercise and employers' contribution rates adjusted accordingly for relevant employers. Early retirement strain costs are accounted for on accrual basis.

# Notes to the Pension Fund Account

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- h. Benefits are accounted for in the period in which they fall due. All benefits are calculated in accordance with the statutory regulations in force at the relevant benefit date.
- i. Transfers are accounted for on a cash basis, as the amount payable or receivable by the scheme is not determined until payment is made and accepted by the recipient. Group transfers are accounted for under the agreement upon which they are made.
- j. Cash and cash equivalents are held in the custody accounts by fund managers as agreed in the individual Investment Management Agreements (IMA). Cash held is at the discretion of the manager but must not exceed the stipulated permitted range in the IMA.
- k. Investment Income - dividends from quoted securities are accrued when the securities are quoted ex-dividend. Interest on cash deposits is accrued on daily basis.

## **Critical Judgements and Uncertainties**

- l. Unquoted Alternative Investments - Fair values of alternative investments are highly subjective in nature. They are inherently based on forward-looking estimates and judgements involving many factors. Unquoted alternative investments are valued by investment managers using methods such as IFRS fair value principles, discounted cash flow method and guidelines set out by the International Private Equity and Venture Capital Association (IPEV), of which the British Venture Capital Association is a founding member. The value of alternative investments as of 31 March 2023 was £178,494k (£168,884k on 31 March 2022).
- m. Assumptions made about the future and other major sources of estimation uncertainty - The Pension Fund accounts contains estimated figures that are based on assumptions made by the Fund about the future or events that are otherwise uncertain. Estimates are made taking into account historical experience, current trends, and other relevant factors. However, because balances cannot be determined with certainty, actual results could be materially different from the assumptions and estimates.

# Notes to the Pension Fund Account

Items where there is a significant risk of material movements in value in the financial year are as follows:

Item	Uncertainties	Effect if actual results differ from assumptions
Private equity	<p>Private equity investments are valued at fair value in accordance with British Venture Capital Association guidelines or commensurate overseas equivalent. These investments are not publicly listed and as such there is a degree of estimation involved in the valuation. The fair value principles employed to value the underlying investments and the valuation policy remains unchanged. Both managers continue to use the latest valuation available from underlying investment managers, adjusting for any known cash flows and take into account any known and measurable impact. It is important to note that given the evolving situation and the quarterly cycle of private equity valuations, additional data needs to be accessible before a more accurate estimate can be made with regard to potential effects of market events on net asset values.</p>	<p>The total private equity investments in the financial statements are £6,346k. There is a risk that this investment may be under or overstated in the accounts.</p>
Infrastructure - Macquarie Infrastructure Real Assets and LCV Stepstone	<p>Infrastructure Valuation represents the fair value of investments held at 31 March 2022. The valuations have been completed by MIRA (Macquarie Infrastructure Real Assets) in accordance with ASC 820-10 (Fair Value Measurements), under which the fair value is determined to be the price that would be received upon sale of the investments in an orderly transaction between market participants. These investments are not publicly listed and as such there is a degree of estimation involved in the valuation.</p>	<p>The total infrastructure alternative investments in the financial statements are £54,838k. There is a risk that this investment may be under or overstated in the accounts. There are no openly traded market prices available for this asset category.</p>
Private Finance - M&G	<p>Private Finance investments are valued at par as they are mostly floating rate notes tied to LIBOR. Final valuation is undertaken by the analysts employed by the fund manager as they are not traded on the open market.</p>	<p>The total private finance investments in the financial statements are £682k. There is a risk that this investment may be under or overstated in the accounts. There are no openly traded market prices available for this asset category.</p>

# Notes to the Pension Fund Account

Item	Uncertainties	Effect if actual results differ from assumptions
Direct Lending - Permira Credit Solutions & LCI Private Debt	Private Debt Investments are valued on a quarterly basis and in accordance with International Private Equity and Venture Capital valuation guidelines. These investments are not publicly listed and as such there is a degree of estimation involved in the valuation.	The total Private Debt investments in the financial statements are £75,225k. There is a risk that this investment may be under or overstated in the accounts. There are no openly traded market prices available for this asset category.
Pooled Property - AEW UK & UBS Property	Pooled property assets are valued independently for the respective managers with a lot of subjective and unobservable inputs that may be affected by prevalent socio-economic issues. The underlying assets do not have the luxury of an open market transactional data like Equities and does result in valuation varying by wide degrees. The Assets Value as at 31 March 2022 were not subject to any uncertainty clauses as the funds had fully recovered from the effects of COVID19.	The total Pooled property investments in the financial statement is £41,362k. There is a risk the investments may be over or understated in the accounts. These asset class of investments are not openly traded and a lot of unobservable inputs are utilised in the valuation of the assets. These unobservable valuation assumptions may have a profound effect on the actual pricing at year end thus skew shown valuation the fund accounts.
Actuarial present value of promised retirement benefits	Estimation of the net liability to pay pensions depends on a number of complex judgements relating to the discount rates used, the rates at which salaries are projected to increase, changes in retirement ages, mortality rates and expected returns on Pension Fund assets. A firm of actuaries, Hymans Robertson, are engaged to provide the fund with expert advice about the assumptions to be applied. The IAS19 balance sheet is based on financial market values and future market expectation indicators as at 31 March 2022 to comply with the accounting standard. The financial markets at the accounting date will have taken into account COVID19 risks (and opportunities) as one of many national and worldwide economic considerations. There has been no explicit additional allowance or adjustment made for COVID19 by Hymans Robertson.	The effects on the net pension liability of changes in individual assumptions can be measured. For instance, an increase in the discount rate assumption would result in a decrease in pension liability. An increase in assumed earnings would increase the value of liabilities and an increase in assumed life expectancy would increase the liability. This would not effect the Fund Account or Net Asset Statement, but would impact the Council Accounts. Below are the details of the sensitivity analysis to the method of assumptions used for year ended 31 March 2022 by the fund's actuaries.

# Notes to the Pension Fund Account

Sensitivity to Unquoted Alternative Assets valuation and Pricing: Information on sensitivities of the valuation and pricing methodologies of these asset classes are disclosed in notes 14 and 16.

## Sensitivity Analysis

Sensitivity to the assumptions for the year ended 31 March 2023	Approximate % increase to liabilities	Approximate monetary amount (£'000)
0.1% p.a increase in the Discount Rate	2%	19,526
1 year increase in member life expectancy	4%	49,221
0.1% p.a. increase in the Salary Increase Rate	0%	1,313
0.1% p.a. increase in the Pension Increase Rate	2%	1,805

The principal demographic assumption is the longevity assumption. For sensitivity purposes, it is estimated that a 1-year increase in life expectancy would approximately increase the liabilities of the Pension Fund by around 3-5%.

## 4. CONTRIBUTIONS

By category	31 March 2023 £'000	31 March 2022 £'000
Employees	12,262	11,015
<b>Employers Contributions:</b>		
Normal	34,920	33,824
Deficit Funding	6,204	5,830
	<b>53,386</b>	<b>50,669</b>

Deficit Funding: At the actuarial valuation on 31 March 2022 the Fund was 88% funded, with the remaining 12% deficit to be recovered over a period of 20 years.

By authority	31 March 2023 £'000	31 March 2022 £'000
LB Hillingdon	37,628	35,181
Scheduled Bodies	15,222	14,889
Admitted Bodies	536	599
	<b>53,386</b>	<b>50,669</b>

## 5. TRANSFERS IN

	31 March 2023 £'000	31 March 2022 £'000
Individual transfers in from other schemes	4,542	4,297
	<b>4,542</b>	<b>4,297</b>

# Notes to the Pension Fund Account

## 6. BENEFITS

	31 March 2023 £'000	31 March 2022 £'000
<b>By category</b>		
Pensions	(42,970)	(42,557)
Commutations and Lump Sum Retirement Benefits	(7,234)	(8,024)
Lump Sum Death Benefits	(1,205)	(1,448)
	<b>(51,409)</b>	<b>(52,029)</b>
<b>By authority</b>		
LB Hillingdon	(46,184)	(47,038)
Scheduled Bodies	(4,802)	(4,439)
Admitted Bodies	(423)	(552)
	<b>(51,409)</b>	<b>(52,029)</b>

## 7. PAYMENTS TO AND ON ACCOUNT OF LEAVERS

	31 March 2023 £'000	31 March 2022 £'000
Refunds to members leaving service	(205)	(161)
Individual transfers out to other schemes	(5,347)	(4,887)
	<b>(5,552)</b>	<b>(5,048)</b>

## 8. MANAGEMENT EXPENSES

The administering authority incurred costs in managing the Fund for the period ending 31 March 2023 as follows:

	31 March 2023 £'000	31 March 2022 £'000
Administrative Costs	(1,104)	(1,385)
Investment Management Expenses	(12,448)	(9,222)
Oversight and Governance	(292)	(225)
	<b>(13,844)</b>	<b>(10,832)</b>

# Notes to the Pension Fund Account

## 8A. INVESTMENT MANAGEMENT EXPENSES BREAKDOWN

2022/2023	£'000			
	Total	Management Expenses	Performance Fees	Transaction Costs
Equities	0	0	0	0
Pooled Investments	(7,399)	(3,740)	(2,260)	(1,399)
Pooled Property Investments	(4,904)	(3,332)	(42)	(1,530)
Private Equity	(59)	(86)	35	(8)
	<b>(12,362)</b>	<b>(7,158)</b>	<b>(2,267)</b>	<b>(2,937)</b>
Custody Fees/Investment Advice	(86)			
<b>Total</b>	<b>(12,448)</b>			

2021/2022	£'000			
	Total	Management Expenses	Performance Fees	Transaction Costs
Equities	0	0	0	0
Pooled Investments	(5,703)	(3,464)	(979)	(1,260)
Pooled Property Investments	(3,361)	(2,449)	(148)	(764)
Private Equity	(98)	(71)	(5)	(22)
	<b>(9,162)</b>	<b>(5,984)</b>	<b>(1,132)</b>	<b>(2,046)</b>
Custody Fees	(60)			
<b>Total</b>	<b>(9,222)</b>			

## 8B. EXTERNAL AUDIT COSTS

	31 March 2023 £'000	31 March 2022 £'000
Payable in Respect of External Audit	(49)	(26)
	<b>(49)</b>	<b>(26)</b>

External Audit costs are included in Oversight and Governance within Management Expenses

# Notes to the Pension Fund Account

## 9. INVESTMENT INCOME

	31 March 2023 £'000	31 March 2022 £'000
Income from Equities	70	57
Pooled Property Investments	3,071	3,104
Pooled Investments- Unit trusts and other managed funds	8,014	8,546
Interest on cash deposits	172	42
Other (for example from stock lending or underwriting)	140	109
	<b>11,467</b>	<b>11,858</b>

## 10. INVESTMENTS

	31 March 2023 £'000	31 March 2022 £'000
<b>Investment Assets</b>		
Equities	29	29
Pooled investments	962,935	1,011,872
Pooled property investments	194,436	231,826
Private equity	6,346	8,545
<b>Other Investment balances</b>		
Cash deposits	16,510	11,821
Investment income due	140	107
<b>Total investment assets</b>	<b>1,180,396</b>	<b>1,264,200</b>
<b>Net investment assets</b>	<b>1,180,396</b>	<b>1,264,200</b>

# Notes to the Pension Fund Account

## 10A. RECONCILIATION OF MOVEMENTS IN INVESTMENTS AND DERIVATIVES

2022/23	Value 1 April 2022 £'000	Purchases at cost £'000	Sales proceeds £'000	Profits and losses on disposal of investments and Changes in market value of investments £'000	Value 31 March 2023 £'000
Equities	29	0	0	0	29
Pooled Investments	1,011,872	166,017	(159,358)	(55,596)	962,935
Pooled Property Investments	231,826	1,364	(1,808)	(36,946)	194,436
Private Equity	8,545	76	(1,804)	(471)	6,346
	<b>1,252,272</b>	<b>167,457</b>	<b>(162,970)</b>	<b>(93,013)</b>	<b>1,163,746</b>
<b>Other investment balances</b>	<b>1,252,272</b>	<b>167,457</b>	<b>(162,970)</b>	<b>(93,013)</b>	<b>1,163,746</b>
Cash Deposits	11,821				16,510
Investment Income Due	107				140
Adjustments to Market Value Changes	0			11,162	0
<b>Total Investment Assets</b>	<b>1,264,200</b>			<b>(81,851)</b>	<b>1,180,396</b>
2021/22	Value 1 April 2021 £'000	Purchases at cost £'000	Sales proceeds £'000	Profits and losses on disposal of investments and Changes in market value of investments £'000	Value 31 March 2022 £'000
Equities	42	0	0	(13)	29
Pooled Investments	943,976	422,330	(414,496)	60,062	1,011,872
Pooled Property Investments	188,926	12,294	(3,060)	33,666	231,826
Private Equity	13,369	122	(5,763)	817	8,545
	<b>1,146,313</b>	<b>434,746</b>	<b>(423,319)</b>	<b>94,532</b>	<b>1,252,272</b>
<b>Other investment balances</b>	<b>1,146,313</b>	<b>434,746</b>	<b>(423,319)</b>	<b>94,532</b>	<b>1,252,272</b>
Cash Deposits	15,166				11,821
Investment Income Due	89				107
Outstanding Sales	0				0
Adjustments to Market Value Changes	0			7,501	0
<b>Total Investment Assets</b>	<b>1,161,568</b>			<b>102,033</b>	<b>1,264,200</b>

# Notes to the Pension Fund Account

## 10B. ANALYSIS OF INVESTMENTS

	31 March 2023 £'000	31 March 2022 £'000
<b>Equities</b>		
<b>UK</b>		
Quoted	29	29
	<b>29</b>	<b>29</b>
<b>Pooled funds - additional analysis</b>		
Fixed income unit trust	222,601	268,297
Diversified Growth Funds	47,406	54,528
Infrastructure Funds	54,838	43,208
Global Equity	562,183	577,640
Limited liability partnerships	75,907	68,176
	<b>962,935</b>	<b>1,011,849</b>
<b>Other Investments</b>		
Pooled property Investments	194,436	231,849
Private equity	6,346	8,545
	<b>200,782</b>	<b>240,394</b>
<b>Cash deposits</b>		
Investment income due	16,510	11,821
	<b>16,510</b>	<b>11,821</b>
<b>Total investment assets</b>	<b>1,180,396</b>	<b>1,264,200</b>
<b>Net investment assets</b>	<b>1,180,396</b>	<b>1,264,200</b>

## 10C. INVESTMENTS ANALYSED BY FUND MANAGER

Fund Manager	Market Value 31 March 2023 £'000	%	Market Value 31 March 2022 £'000	%
<b>Investments Managed by London CIV Pool</b>				
Legal & General Investment Management	667,754	57	729,696	58
London CIV Asset Pool	300,566	25	166,219	13
	<b>968,320</b>	<b>82</b>	<b>895,915</b>	<b>71</b>
<b>Investments Managed Outside of London CIV</b>				
Adams Street Partners	4,282	1	5,823	0
AEW UK	71,848	6	82,349	7
JP Morgan Asset Management	0	0	115,979	9
LGT Capital Partners	2,064	0	2,722	0
M&G Investments	682	0	1,641	0
Macquarie Infrastructure	14,214	1	17,853	1
Permira Credit Solutions	27,042	2	36,624	3
UBS Global Asset Management (Equities)	92	0	93	0
UBS Global Asset Management (Property)	77,771	7	93,954	7
Other*	14,081	1	11,247	1
	<b>212,076</b>	<b>18</b>	<b>368,285</b>	<b>29</b>
<b>Total</b>	<b>1,180,396</b>	<b>100</b>	<b>1,264,200</b>	<b>100</b>

\* Other includes pending trades, accrued income and cash held in custody accounts, independent of fund managers not mandated to hold cash.

\* No single holding within an investment represents more than 5% of total assets

# Notes to the Pension Fund Account

## 10D. STOCK LENDING

The Fund's investment strategy sets the parameters for the Fund's stock-lending programme. At the year-end, the value of quoted equities on loan was £29k (31 March 2022: £29k). These equities continue to be recognised in the Fund's financial statements.

Counterparty risk is managed through holding collateral at the Fund's custodian bank. At the year-end the Fund held collateral (via the custodian) at fair value of £31k (31 March 2022: £31k) representing 106% of stock lent. Collateral consists of acceptable securities and government debt.

Stock-lending commissions are remitted to the Fund via the custodian. During the period the stock is on loan, the voting rights of the loaned stock pass to the borrower. There are no liabilities associated with the loaned assets.

## 11. CURRENT ASSETS

	31 March 2023 £'000	31 March 2022 £'000
Debtors		
Employers' contributions due	22	374
Employees' contributions due	75	107
Other	0	83
Cash balances	3,083	2,375
	<b>3,180</b>	<b>2,939</b>

## 12. CURRENT LIABILITIES

	31 March 2023 £'000	31 March 2022 £'000
Creditors		
Other local authorities (LB Hillingdon)	(133)	(244)
Other entities	(617)	(780)
	<b>(750)</b>	<b>(1,024)</b>

Note: Other entities liabilities are due from the Pension Fund to bodies external to the government e.g., fund managers.

## 13. ADDITIONAL VOLUNTARY CONTRIBUTIONS

Additional Voluntary Contributions paid by scheme members are not included in the accounts. The additional voluntary contributions are paid by scheme members directly to Prudential Assurance Company, who manage these monies independently of the fund and, as determined by the fund actuary, do not form part of the Fund valuation.

According to information provided by Prudential, £106k was received in additional voluntary contributions by members, in 2021/22 (£154k 2020/21) and AVC Fund value was £4,997k (£5,175k 2020/21). Any transfer of additional contributions into the Fund during the year are included in the employee contributions value as detailed in note 4.

Prudential Assurance Company

Market Value 31 March 2023 £'000	Market Value 31 March 2022 £'000
2,267	4,997
<b>2,267</b>	<b>4,997</b>

# Notes to the Pension Fund Account

## 14. FAIR VALUE - BASIS OF VALUATION

The basis of the valuation of each class of investment asset is set out below. There has been no change in the valuation techniques used during the year. All assets have been valued using fair value techniques which represent the highest and best price available at the reporting date.

Description of asset	Valuation hierarchy	Basis of valuation	Observable and unobservable inputs	Key sensitivities affecting the valuations provided
Market quoted investments	Level 1	Published bid market price ruling on the final day of accounting period.	Not required	Not required
Quoted bonds	Level 1	Fixed interest securities are valued at market value based on current yields.	Not required	Not required
Pooled investments - overseas unit trusts and property funds	Level 2	Closing bid price where bid and offer prices are published. Closing single price where single price is published.	NAV-based pricing set on a forward pricing basis	Not required
Unquoted equity and Property	Level 3	Comparable valuation of similar companies in accordance with International Private Equity and Venture Capital Valuation Guidelines (2012)	EBITDA multiple Revenue multiple Discount for lack of marketability Control premium	Valuations could be affected by material events occurring between the date of the financial statements provided and the pension fund's own reporting date, by changes to expected cashflows, and by any differences between audited and unaudited accounts.

Having analysed historical data and current market trends, and consulted with fund managers, the Fund has determined that the valuation methods described above are likely to be accurate to within the following ranges and has set out below the consequent potential impact on the closing value of investments held on 31 March 2023.

It is worth noting the sensitivity analysis below is just one of the possible changes to assets value due to the impact of factors affecting valuation methodology employed by the fund managers. Sensitivity being measured in this note differs from those in note 16 (other price risks).

# Notes to the Pension Fund Account

## Sensitivity of assets valued at level 3

	Valuation range (+/-)	Market Value 31 March 2023 £'000	Value on Increase £'000	Value on Decrease £'000
Pooled investments - Limited Liability Partnerships (Infrastructure) a	10%	54,838	60,322	49,354
Pooled investments - Limited Liability Partnerships (Private Credit) b	10%	75,907	83,498	68,316
Pooled Property - UBS Property & AEW UREF	10%	41,362	45,498	37,226
Private Equity - d	5%	6,346	6,663	6,029
Venture Capital	5%	41	43	39
<b>Total</b>		<b>178,494</b>	<b>196,024</b>	<b>160,964</b>

- a) The potential movement of 10% represents a combination of the following factors, which could all move independently in different directions: i) material changes in economic and financial assumptions. ii) discounted equity cash flow rate.
- b) The assumed movement is based on pricing of loans in the secondary leveraged loan market, with widening/narrowing spreads resulting in price changes either way.
- c) The assumed movement is based fluctuations in market prices for comparable assets, real estate market illiquidity and counterparty default.
- d) Movement in the assessed valuation range derive from changes in the underlying profitability of component companies, the range in the potential movement of 5% is caused by unexpected changes to cash flow forecast and discounts for lack of potential bids.

## 14A. FAIR VALUE HIERARCHY

Asset and liability valuations have been classified into three levels, according to the quality and reliability of information used to determine fair values. Transfers between levels are recognised in the year in which they occur.

### Level 1

Assets and liabilities at level 1 are those where the fair values are derived from unadjusted quoted prices in active markets for identical assets or liabilities. Products classified as level 1 comprise quoted equities, quoted fixed securities, quoted index linked securities and unit trusts.

### Level 2

Assets and liabilities at level 2 are those where quoted market prices are not available; for example, where an instrument is traded in a market that is not considered to be active, or where valuation techniques are used to determine fair value.

### Level 3

Assets and liabilities at level 3 are those where at least one input that could have a significant effect on the instrument's valuation is not based on observable market data.

# Notes to the Pension Fund Account

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

Values as at 31 March 2023	Quoted Market Price	Using Observable Inputs	With Significant Unobservable Inputs	Total £'000
	Level 1 £'000	Level 2 £'000	Level 3 £'000	
<b>Financial Assets at Fair Value through Profit and Loss</b>				
Equities	29	0	0	29
Pooled Investments	0	832,149	130,786	962,935
Pooled Property Investments	0	153,074	41,362	194,436
Private Equity	0	0	6,346	6,346
	<b>29</b>	<b>985,223</b>	<b>178,494</b>	<b>1,163,746</b>
<b>Financial Liabilities at Fair Value through Profit and Loss</b>				
<b>Total</b>	<b>29</b>	<b>985,223</b>	<b>178,494</b>	<b>1,163,746</b>

Values as at 31 March 2022	Quoted Market Price	Using Observable Inputs	With Significant Unobservable Inputs	Total £'000
	Level 1 £'000	Level 2 £'000	Level 3 £'000	
<b>Financial Assets at Fair Value through Profit and Loss</b>				
Equities	29	0	0	29
Pooled Investments	0	900,445	111,427	1,011,872
Pooled Property Investments	0	182,914	48,912	231,826
Private Equity	0	0	8,545	8,545
	<b>29</b>	<b>1,083,359</b>	<b>168,884</b>	<b>1,252,272</b>
<b>Financial Liabilities at Fair Value through Profit and Loss</b>				
<b>Total</b>	<b>29</b>	<b>1,083,359</b>	<b>168,884</b>	<b>1,252,272</b>

# Notes to the Pension Fund Account

## 14B. RECONCILIATION OF FAIR VALUE MEASUREMENTS WITHIN LEVEL 3

### Level 3 Assets Reconciliation

Fund Managers & Asset Categories	Value 1 April 2022	Transfers Out of Level 3	Purchases at cost	Sales proceeds	Unrealised gains/(losses)	Realised gains/(losses)	Value 31 March 2023
	£'000	£'000	£'000	£'000	£'000	£'000	£'000
Private Equity - Adams Street Partners, LGT Capital Partners & UBS	8,545	0	76	(1,804)	(1,751)	1,280	6,346
Private Finance - M&G	1,641	0	0	(1,232)	(136)	409	682
Infrastructure - Maquarie & LCV	43,208	0	14,400	(7,433)	(877)	5,540	54,838
Venture Capital - UBS	41	0	0	0	0	0	41
Property - UBS Property, & AEW UREF	48,912	0	0	0	(7,550)	0	41,362
Direct Lending - Permira & LCV Private Debt	66,537	0	22,682	(15,633)	(253)	1,892	75,225
<b>Total Level 3 Assets</b>	<b>168,884</b>	<b>0</b>	<b>37,158</b>	<b>(26,102)</b>	<b>(10,567)</b>	<b>9,121</b>	<b>178,494</b>

There were no transfers out of level 3 assets in 2022/23.

# Notes to the Pension Fund Account

## 14C. LEVEL 3 PRICING HIERARCHY DISCLOSURES

### *Quantitative Information on Significant unobservable inputs*

#### **Private Equity: Adams Street & LGT capital**

The significant unobservable inputs used in the fair value measurement of privately held securities are Revenue multiples, EBITDA multiple, net income multiple and discount for lack of marketability and potential bids.

#### **Private Finance: M&G**

The assets are mostly floating rate notes and held at par value.

#### **Infrastructure: Macquarie**

The following quantitative information are considered for significant unobservable inputs, in valuation of infrastructure assets:

- The acquisition financial model is used as a base case.
- Update for any material changes in economic, operational, and financial assumptions.
- Discount equity cash flows at the sum of the risk-free rate and the appropriate risk premium (as determined by the implied risk premium at acquisition unless there is an inherent change in the riskiness of the underlying investments which may necessitate a change in the risk premium).

#### **Direct Lending: Permira**

The following key terms are confirmed as inputs for each yield analysis calculation:

- Cash / PIK (Payment in Kind) margin
- Frequency of interest payments
- Commitment and settlement date
- Contracted and expected maturity date

#### **Pooled Property: AEW, UBS Property & LGIM LPI**

Fair value is primarily derived using recent market transactions on arm's length terms, where available and discounted cashflow of future earnings are taking into consideration, alongside observable and unobservable inputs.

### **Description of Valuation Process**

#### **Private Equity**

The fair value of financial instruments that are not traded in an active market are determined by using valuation techniques. Private equity investments for which market quotations are not readily available are valued at their fair values by the Board of Directors. Private equity valuations are usually generated by the managers of the underlying portfolio of investments on a quarterly basis and are actually received with a delay of at least one-to-two months after the quarter end date. As a result, the year-end net asset value predominantly consists of portfolio valuations provided by the investment managers of the underlying funds at a specific date, adjusted for subsequent capital calls and distributions. If the Board of Directors comes to the conclusion upon recommendation of the Investment Manager (after applying the above-mentioned valuation methods), that the most recent valuation reported by the manager/administrator of a Fund investment is materially misstated, it will make the necessary adjustments using the results of its own review and analysis. The valuation adjustments relate to events subsequent to the last capital account valuation statement received but based upon information provided by the investment manager and all other available unobservable inputs. In estimating the fair value of fund investments, the Investment Manager in its valuation recommendation to the Board of Directors considers all appropriate and applicable factors.

#### **Private Finance: M&G**

These assets are floating rate and are held to maturity, they are valued at par unless suffering from impairment. Impairments may be applied if an asset's credit rating deteriorates.

#### **Direct Lending: Permira**

- In each case, valuations are prepared in accordance with International Private Equity & Venture Capital Valuation ("IPEV") Guidelines
- All direct lending investments are valued on a mark-to-market basis at the date of valuation
- Where an investment is considered illiquid (level 3), a yield analysis is performed to infer a fair market value for that investment.

# Notes to the Pension Fund Account

- Each valuation is reviewed to ensure:

- Third party evidence to support pricing (such as Market data, broker quotes or Bloomberg pricing, as well as latest financials and capital structure; and any other adjustments to value) was evidenced.
- That the valuations are prepared in a consistent manner with previous valuations and that any changes in methodology or valuation are clearly explained; and valuations are derived using methodology consistent with the IPEV guidelines.

## **Infrastructure: Macquarie**

Valuations are calculated by the individual asset teams on a quarterly basis. The valuation process follows the British Venture Capital Association (BVCA) guidelines and is compliant with International Financial Reporting Standards (IFRS). The most generally accepted methodology of valuing infrastructure assets is by way of a discounted cash flow (DCF) analysis.

## **DCF-Based Market Valuation Process**

### **Financial Model**

The acquisition financial models of all the Fund's underlying investments will be externally audited prior to financial close. They will be used as the initial base financial models for the DCF analysis.

### **Update for Economic, Operational and Financial Assumptions**

The economic assumptions in the financial models are adjusted every three months to reflect current market conditions. The main economic variables relate to interest rates, exchange rates and inflation.

The initial operational assumptions in each of the financial models are the acquisition forecasts. Any historical information (e.g., distributions received in an intervening period and year-to-date performance) will be updated within the model. In relation to forward-looking assumptions, the acquisition assumptions will continue to be used unless there is a material inconsistency between these assumptions and:

- The actual operational results to date
- The revised forecasts provided by management or approved by the board.

The financial assumptions in the model (e.g., cost of debt and capital structure) are also updated to reflect the actual debt put into place, current base rates and any material change in outlook with regards to future leverage.

### **Discount Rate**

Equity cash flows are discounted at the acquisition internal rate of return, which is adjusted for changes in the relevant risk-free rate. The acquisition internal rate of return is the return, which is forecast under the acquisition case and price, reflecting the risks inherent in each of the investments. The difference between the acquisition internal rate of return and the risk-free rate at the date of acquisition equates to the risk premium, which is the risk compensation to equity holders.

Most of the Fund's assets are likely to see some decrease in the risk premium as assets are de-risked following acquisition. Such projects may have a changing risk "life-cycle", whereby the risk changes as the asset matures. In addition, if there is a change in the inherent risk of an investment, then the risk premium may need to be reconsidered.

## **Pooled Property: AEW, UBS Property & LGIM LPI**

Pooled properties have been valued in accordance with RICS valuation – Professional Standards VPS4 (7.1) fair value and VPGA 1 valuations for inclusion in financial statements, which adopts the definition of fair value used by the International Accounting Standards Board:

*"The price that would be received to sell an asset, or paid to transfer a liability, in an orderly transaction between market participants at the measurement date."*

The properties are valued individually, and the details of tenure, tenancies and floor area are considered for valuation purposes.

## **Narrative and Quantitative description of sensitivity to changes in valuation methods and market conditions:**

# Notes to the Pension Fund Account

## Private Equity

Market valuation method applied to investments is sensitive to four main components:

- i) changes in actual market prices.
- ii) interest rate risk;
- iii) foreign currency movements; and
- iv) other price risks

## Private Finance (M&G)

The only possible sensitivity associated with private finance valuations and methodology is credit rating. This may result in an analyst impairing an asset if there is a change in the asset's credit rating.

## Infrastructure: Macquarie

The economic assumptions in the financial models are adjusted every three months in order to reflect current market conditions. The main economic variables relate to interest rates, exchange rates and inflation.

## Infrastructure: LCIV

See Direct Lending, LCIV Private Debt below

## Direct Lending: Permira

The yield analysis methodology used to value the level 3 assets are sensitive to the following inputs:

- EURIBOR swap rates (up to 7 years)
- LIBOR swap rates (up to 7 years)
- ELLI (3 year discounted spread data)

These inputs are sourced directly from Bloomberg feeds or independently from Duff & Phelps (ELLI data) relevant to each period end date.

These inputs impact on: (1) the implied IRR calculations at the period end valuation date; (2) the forecast cash and/or PIK yields that track LIBOR or EURIBOR; and (3) ultimately the implied asset price calculated from these inputs as the period end to determine the valuation price.

## Direct Lending: LCIV Private Debt

Investments are initially recognized at cost and subsequently measured at fair value. Investments are valued on a basis that the Manager considers fair and reasonable having considered the latest available valuation provided by the investment entity. The level of estimation uncertainty is significant and actual values may differ significantly from estimates.

Purchases and sales are recognised when a legally binding and unconditional right to obtain, or an obligation to deliver, an asset or liability arises. All realised and unrealised gains and losses on investments are recognized as net capital gains/(losses) in the Statement of Total Return. Unrealised gains and losses comprise changes in the fair value of investments for the period.

## Pooled Property – AEW, UBS Property & LGIM LPI

Prevalent economic conditions may affect occupancy rate or possible default in rent payments and conversely affecting transaction values. Local authority intentions, planning proposals and onerous restrictions are some of the other factors to which Pooled Property assets transactions may be sensitive towards. These are:

- i) Market price risk: Future values of investments in direct property and related property investments will fluctuate due to changes in market prices.
- ii) Real Estate valuation changes: Property investments are illiquid assets and valuing is difficult.
- iii) Credit risk: counterparty (to a financial instrument) or tenant (of a property) will cause a financial loss to the Fund by failing to meet a commitment it has entered into with the Fund.

# Notes to the Pension Fund Account

## 15. CLASSIFICATION OF FINANCIAL INSTRUMENTS

The following table analyses the carrying amounts of financial instruments by category and net assets statement heading. No financial instruments were reclassified during the accounting period.

	Designated as fair value through P&L	Assets at amortised cost	Financial Liabilities at Amortised Cost	Total	Designated as fair value through P&L	Assets at amortised cost	Financial Liabilities at Amortised Cost	Total
	31 March 2023 £'000	31 March 2023 £'000	31 March 2023 £'000	31 March 2023 £'000	31 March 2022 £'000	31 March 2022 £'000	31 March 2022 £'000	31 March 2022 £'000
	Financial Assets							
Equities	29			29	29	0	0	29
Pooled Investments	962,935			962,935	1,011,872	0	0	1,011,872
Pooled property investments	194,436			194,436	231,826	0	0	231,826
Private Equity	6,346			6,346	8,545	0	0	8,545
Cash		16,510		16,510	0	11,821	0	11,821
Other Investment balances		140		140	0	107	0	107
<b>Total</b>	<b>1,163,746</b>	<b>16,650</b>	<b>0</b>	<b>1,180,396</b>	<b>1,252,272</b>	<b>11,928</b>	<b>0</b>	<b>1,264,200</b>

## 15A. NET GAINS AND LOSSES ON FINANCIAL INSTRUMENTS

Financial Assets	31 March 2023	31 March 2022
	£000's	£000's
	Designated at Fair Value through profit or loss	
	(81,851)	102,033
	<b>(81,851)</b>	<b>102,033</b>

## 16. NATURE & EXTENT OF EXPOSURE TO RISKS ARISING FROM FINANCIAL INSTRUMENTS

### Risk and Risk Management

The Fund's primary long-term risk is that the Fund's assets will fall short of its liabilities. Therefore, the aim of investment risk management is to minimise the risk of an overall reduction in the value of the Fund and to maximise the opportunity for gains across the whole Fund portfolio. The Fund achieves this through asset diversification to reduce exposure to market risk (price risk, currency, and interest rate risks) and credit risk to an acceptable level. In addition, the Fund manages its liquidity risk to ensure there is sufficient liquidity to meet the Fund's forecast cash flows.

Responsibility for the Fund's risk management strategy rests with the Pensions Committee. Risk management policies are established to identify and analyse the risks faced by the Council's pensions operations. Policies are reviewed regularly to reflect changes in activity and in market conditions.

### Market risk

The risk that the fair value of cash flows of a financial instrument will fluctuate due to changes in market prices. Market risk reflects interest rate risk, currency risk and other price risks. To mitigate against market risk the Pension Fund invests in a diversified pool of assets to ensure a reasonable balance between different categories. The management of the assets are placed with a number of fund managers with different performance targets and investment strategies. Each fund manager is expected to maintain a diversified portfolio in each asset class. Risks associated with the strategy and investment returns are included as part of the quarterly reporting to Pensions Committee where they are monitored and reviewed.

# Notes to the Pension Fund Account

## Other price risk

Other price risk represents the risk that the value of a financial instrument will fluctuate as a result of changes in market prices (other than those arising from interest rate risk or foreign exchange risk), whether those changes are caused by factors specific to the individual instruments or its issuer, or factors affecting all such instruments in the market. The Fund is exposed to share and derivative price risk. This arises from investments held by the Fund for which the future price is uncertain. All securities investments present a risk of loss of capital. Except for shares sold short, the maximum risk resulting from financial instruments is determined by the fair value of the financial instruments. The potential losses from shares sold short are unlimited. The Fund's investment managers mitigate this price risk through diversification and the selection of securities and other financial instruments is monitored by the Council to ensure it is within limits specified in the Fund Investment Strategy Statement.

## Other price risk - Sensitivity Analysis

Following analysis of historical data and expected investment return movement during the financial year, the Fund has determined that the following potential change in market price risk are reasonably possible for the relevant reporting periods.

Potential price changes are determined based on the observed historical volatility of asset class returns. 'Riskier' assets such as equities will display greater potential volatility than bonds as an example, so the overall outcome will depend largely on Fund asset allocations. The potential volatilities are consistent with one standard deviation movement of the change in value of assets over the last three years. This can then be applied to period end asset mix.

Had the market price of the Fund investments increased or decreased in line with the percentage change below, the change in the net assets available to pay benefits in the market price would have been as follows (the prior year comparator is shown below).

Asset Type	Value as at 31 March 2023 £'000	Percentage Change %	Value on Increase £'000	Value on Decrease £'000
Global Equity	609,526	13.10%	689,374	529,678
UK Equity	29	13.10%	33	25
Bonds	222,601	6.70%	237,515	207,687
Alternatives	137,134	3.60%	142,071	132,197
Property	194,458	8.20%	210,404	178,512
<b>Total</b>	<b>1,163,748</b>		<b>1,279,396</b>	<b>1,048,100</b>

Note: Bonds valuation in the table above includes pooled fund held bonds.

Asset Type	Value as at 31 March 2022 £'000	Percentage Change %	Value on Increase £'000	Value on Decrease £'000
Global Equity	632,167	15.00%	726,992	537,342
UK Equity	29	15.00%	33	25
Bonds	268,297	6.60%	286,005	250,589
Alternatives	119,931	3.50%	124,129	115,733
Property	231,848	5.50%	244,600	219,096
<b>Total</b>	<b>1,252,272</b>		<b>1,381,758</b>	<b>1,122,786</b>

Note: Bonds valuation in the table above includes pooled fund held bonds.

**Interest Rate Risk** - The risk to which the Pension Fund is exposed to changes in interest rates and relates to its holdings in bonds and cash. Based on interest received on fixed interest securities, cash, and cash equivalents.

The Fund's direct exposure to interest rate movements as of 31 March 2023 and 31 March 2022 is set out below. These disclosures present interest rate risk based on the underlying financial assets at fair value.

# Notes to the Pension Fund Account

## Interest Rate Risk Sensitivity Analysis

The Fund recognises that interest rates can vary and can affect both income to the Fund and the value of net assets available to pay benefits. A 120 basis points (1.2%) movement in interest rates is consistent with the level of sensitivity applied as part of the Fund's risk management strategy.

The analysis that follows assumes that all other variables, in particular exchange rates remain constant, and shows the effect in the year on the net assets available to pay benefits of a +/- 1% change in interest rates.

	Value as at 31 March 2023	Potential movement on 1% change in interest rates	Value on increase	Value on decrease
	£'000	£'000	£'000	£'000
<b>Assets exposed to interest rate risks</b>				
Cash balances	16,510	165	16,675	16,345
Bonds - pooled funds	222,601	2,226	224,827	220,375
<b>Total change in assets available</b>	<b>239,111</b>	<b>2,391</b>	<b>241,502</b>	<b>236,720</b>

	Value as at 31 March 2022	Potential movement on 1.2% change in interest rates	Value on increase	Value on decrease
	£'000	£'000	£'000	£'000
<b>Assets exposed to interest rate risks</b>				
Cash balances	11,821	142	11,963	11,679
Bonds - pooled funds	268,297	3,220	271,517	265,077
<b>Total change in assets available</b>	<b>280,118</b>	<b>3,361</b>	<b>283,479</b>	<b>276,757</b>

**Currency Risk** - The risk to which the pension fund is exposed to fluctuations in foreign currency exchange rates.

The Pension Fund has the ability to set up a passive currency hedge where these risks are perceived to be adverse. As of 31 March 2023, the Fund had no currency hedge in place for those managers who do not hedge their own portfolios. The following table summarises the fund's currency exposure as of 31 March 2023 and as at the previous period ending 31 March 2022.

## Currency exposure by asset type

### Currency risk sensitivity analysis

Following analysis of historical data in consultation with PIRC Ltd, the Funds data provider, the Fund considers the likely volatility associated with foreign exchange rate movements to be 6.70%, based on the data provided by PIRC. A 6.70% fluctuation in the currency is considered reasonable based on PIRC's analysis of historical movements in month end exchange rates over a rolling twelve-month period. This analysis assumes that all variables, in particular interest rates, remain constant. Managers that hedge against currency risk are not included in this sensitivity analysis. A 6.70% strengthening/weakening of the pound against various currencies in which the Fund holds investments would increase/decrease the net assets available to pay benefits as follows:

Assets exposed to currency risk	Asset Value 31 March 2023	Potential market movement	Value on increase	Value on decrease
	£'000	£'000	£'000	£'000
	6.70%			
Pooled Funds	508,725	34,085	542,810	474,640
Private Equity/Infrastructure	61,283	4,106	65,389	57,177
<b>Total</b>	<b>570,008</b>	<b>38,191</b>	<b>608,199</b>	<b>531,817</b>

Assets exposed to currency risk	Asset Value 31 March 2022	Potential market movement	Value on increase	Value on decrease
	£'000	£'000	£'000	£'000
	5.30%			
Pooled Funds	521,174	27,622	548,796	493,552
Private Equity/Infrastructure	51,753	2,743	54,496	49,010
<b>Total</b>	<b>572,927</b>	<b>30,365</b>	<b>603,292</b>	<b>542,562</b>

# Notes to the Pension Fund Account

**Credit Risk** - Credit risk represents the risk that the counterparty to a transaction or a financial instrument will fail to discharge an obligation and cause the fund to incur a financial loss. The market values of investments generally reflect an assessment of credit in their pricing and consequently the risk of loss is implicitly provided for in the carrying value of the Fund's financial assets and liabilities.

The Pension Fund's entire investment portfolio is exposed to some form of credit risk, except for the derivative position, where the risk equates to the net market value of a positive derivative position. Credit risk can be minimised through careful selection of high-quality counterparties, brokers, and financial institutions. The Pension Fund is also exposed to credit risk through Securities Lending, Forward Currency Contracts, and its daily treasury activities. The Securities Lending programme is run by the Fund's custodian Northern Trust which assigns four different risk management oversight committees to control counterparty risk, collateral risk, and the overall securities lending programme. The minimum level of collateral for securities on loan is 102%, however more collateral may be required depending on the type of transaction. To further mitigate risks, the collateral held on behalf of the pension fund is ring fenced from Northern Trust. Securities lending is capped by investment regulations and statutory limits are in place to ensure no more than 25% of eligible assets can be on loan at any one time.

The prime objective of the Pension Fund treasury management activity is the security of principal sums invested. As such it will take a prudent approach to organisations employed as the banker and deposit taker. The Pension Fund will ensure it has adequate but not excessive cash resources in order to meet its objectives. The bank accounts are held with NatWest Bank, which holds an S&P long-term credit rating of A. Deposits are placed in the AAAm rated Northern Trust Money Market Fund which is ring fenced from the administering company. Credit ratings, market indicators and media coverage are monitored to ensure credit worthiness is maintained. The Fund's cash holding under its treasury management arrangements on 31 March 2023 was £19,593k (31 March 2022: £14,196k) and this was held with the following institutions:

Summary	Rating S&P	Balances as at 31 March 2023 £'000	Rating S&P	Balances as at 31 March 2022 £'000
<b>Money market funds</b> Northern Trust	AAAm	16,510	AAAf S1+	11,821
<b>Bank current accounts</b> NatWest	A	3,083	A	2,375
<b>Total</b>		<b>19,593</b>		<b>14,196</b>

**Liquidity Risk** - The risk the Pension Fund will have difficulties in paying its financial obligations when they fall due.

The Pension Fund holds a working cash balance in its own bank accounts with NatWest as well as Money Market Funds to which it has instant access to cover the payment of benefits and other lump sum payments (£3,083k). At an investment level the fund holds a large proportion of assets in instruments which can be liquidated at short notice, normally three working days. As of 31 March 2023, these assets totalled £832,051k, with a further £16,510k held in cash in the Custody accounts at Northern Trust.

## Refinancing risk

The key risk is that the fund will be bound to replenish a significant proportion of its financial instruments at a time of unfavourable interest rates. The Fund does not have any financial instruments that have a refinancing risk as part of its investment strategy.

# Notes to the Pension Fund Account

## 17. FUNDING ARRANGEMENTS

In line with the Local Government Pension Scheme Regulations 2013, the Fund's actuary undertakes a revaluation every three years for the purpose of setting employer contribution rates for the forthcoming triennial period. The last valuation took place as of 31 March 2022 setting rates for the period April 2023 to March 2026. The next triennial valuation will take place as of 31 March 2025.

In line with the triennial valuation the Fund updates its Funding Strategy Statement every three years. The key elements of the funding strategy are:

1. to ensure the long-term solvency of the fund, i.e., that sufficient funds are available to meet all pension liabilities as they fall due for payment.
2. to ensure that employer contribution rates are as stable as possible.
3. to minimise the long-term cost of the scheme by recognising the link between assets and liabilities and adopting an investment strategy that balances risk and return.
4. to reflect the different characteristics of employing bodies in determining contribution rates where it is reasonable to do so.
5. to use reasonable measures to reduce the risk to other employers and ultimately to the Council taxpayer from an employer defaulting on its pension obligations.

The funding level is the ratio of assets to liabilities at the valuation date. A funding level of less/more than 100% implies that there is a deficit/surplus in the Fund at the valuation date against the funding target. Funding plans are set to eliminate any deficit (or surplus) over the set time horizon and therefore get back to a funding level of 100%. To do so, additional contributions may be required to be paid into the Fund; these contributions are known as the "secondary rate".

At the 2022 actuarial valuation, the Fund was assessed as 88% funded (87% at the March 2019 valuation). This corresponded to a deficit of £181m (2016 valuation: £161m) at that time. The slight improvement in funding position between 2019 and 2022 is mainly due to investment performance over the inter-valuation period. The liabilities have also increased due to a reduction in the future expected investment return, although this has partially been offset by lower-than-expected pay and benefit growth (both over the inter-valuation period and forecast to continue into the long term). A new actuarial valuation will be carried out based on assets and liabilities value as of 31 March 2023, with the results expected to be published later in the year.

### Significant events

The figures in this report are based on our understanding of the benefit structure of the LGPS in England and Wales as of 31 March 2022. Details can be found at <http://www.lgpsregs.org/>.

### Contribution rates

The table below summarises the whole Fund Primary and Secondary Contribution rates at this triennial valuation. These rates are the payroll weighted average of the underlying individual employer primary and the total of employer secondary rates expressed as a monetary amount, calculated in accordance with the Regulations and CIPFA guidance.

Primary Rate (%) 1 April 2023 - 31 March 2026	Secondary Rate (£)		
	2023/24	2024/25	2025/26
19.60%	£6,682,000	£6,897,000	£7,120,000

The Primary rate above includes an allowance for administration expenses of 0.8% of pay. The employee average contribution rate is 6.7% of pay.

At the previous formal valuation on 31 March 2019, a different regulatory regime was in force. Therefore, a contribution rate that is directly comparable to the rates above is not provided.

The valuation of the Fund has been undertaken using a risk-based approach, this approach recognises the uncertainties, and risks posed to funding and follows the process outlined below:

# Notes to the Pension Fund Account

Step 1: The Fund sets a funding target (or funding basis) which defines the target amount of assets to be held to meet the future cash flows. The assumptions underlying the funding target are discussed further in the next section. A measurement is made at the valuation date to compare the assets held with the funding target.

Step 2: The Fund sets the time horizon over which the funding target is to be reached.

Step 3: The Fund sets contributions that give a sufficiently high likelihood of meeting the funding target over the set time horizon.

## Assumptions

Due to the long-term nature of the Fund, assumptions about the future are required to place a value of the benefits earned to date (past service) and the cost of benefits that will be earned in the future (future service). Assumptions fall into three categories when projecting and placing a value on the future benefit payments and accrual – financial, demographic and Commutation.

### Financial Assumptions

A summary of the financial assumptions underpinning the target funding basis and adopted during the assessment of the liabilities of the Fund as of 31 March 2022 (alongside those adopted at the previous valuation for comparison) are shown below.

Description	31 March 2022	31 March 2019
Funding Basis Discount Rate	4.1%	4.0%
Benefit Increases (CPI)	2.7%	2.3%
Salaries Increases	3.2%	2.6%

### Demographic Assumptions

The main demographic assumption to which the valuation results are most sensitive is that relating to the longevity of the Fund's members. The longevity assumptions result in the following typical future life expectancies from age 65. For this valuation, the Fund has adopted assumptions which give the following sample average future life expectancies for members:

Description	31 March 2022	31 March 2019
Male		
Pensioners	22.3 years	22.1 years
Non- Pensioners	23.0 years	22.8 years
Female		
Pensioners	24.8 years	24.3 years
Non- Pensioners	26.0 years	25.5 years

### Commutation assumptions

An allowance is included for future retirements to elect to take 65% of the maximum additional tax-free cash up to HMRC limits for pre-April 2008 service and 85% of the maximum tax-free cash for post-April 2008 service.

## 18. ACTUARIAL PRESENT VALUE OF PROMISED RETIREMENT BENEFITS

In addition to the triennial funding valuation, the Fund's actuary also undertakes a valuation of the Pension Fund liabilities, on an IAS 19 basis, every year using the same base data as the funding valuation rolled forward to the current financial year taking account of changes in membership numbers and updating assumptions to the current year. This valuation is not carried out on the same basis as that used for setting Fund contribution rates and the Fund accounts do not take account of liabilities to pay pensions and other benefits in the future.

The IAS19 balance sheet is based on financial market values and future market expectation indicators as of 31 March 2022 to comply with the accounting standard.

# Notes to the Pension Fund Account

## Description

Inflation /Pensions Increase Rate  
Salary Increase Rate  
Discount Rate

31 March 2023 % per annum	31 March 2022 % per annum
3.0%	3.2%
3.5%	3.7%
4.8%	2.7%

An IAS 19 valuation was carried out for the Fund as of 31 March 2023 by Hymans Robertson with the following results:

## Description

Present Value of Promised Retirement Benefits  
Active Members  
Deferred Members  
Pensioners

31 March 2023 £m	31 March 2022 £m
1,457	1,965
426	787
371	530
660	648

*\*Incorporates an allowance for the potential increase in liabilities arising from the McCloud judgement and GMP indexation*

These figures are presented as required by IAS 26. They are not relevant for the calculations undertaken for funding purposes or other statutory purposes under UK pension legislation. This item is not recognised in the Net Asset Statement, hence is considered not to be in opposition to the assertion included in the Net Asset Statement surrounding future liabilities of the Fund.

The promised retirement benefits on 31 March 2022 have been projected using a roll forward approximation from the latest formal funding valuation as of 31 March 2019. The above figures include both vested and non-vested benefits, although the latter is assumed to have a negligible value.

Note that the above figures on 31 March 2022 (and 31 March 2021) include an allowance for the “McCloud ruling”, i.e., an estimate of the potential increase in past service benefits arising from this case affecting public service pension schemes.

## Net Liability

The table below shows the total net liability of the Fund as of 31 March 2022. The figures have been prepared by Hymans Robertson, the Fund's actuary, only for the purposes of providing the information required by IAS26. In particular, they are not relevant for calculations undertaken for funding purposes or for other statutory purposes under UK pension's legislation. In calculating the required numbers, the actuary adopted methods and assumptions that are consistent with IAS19.

## Description

Present Value of Promised Retirement Benefits  
Fair Value of Scheme Assets (bid value)  
**Net Liability**

31 March 2023 £m	31 March 2022 £m
(1,457)	(1,965)
1,180	1,261
<b>(277)</b>	<b>(704)</b>

# Notes to the Pension Fund Account

## 19. Going Concern

The Pension Fund accounts, and Notes have been prepared on a going concern basis. The concept of a going concern assumes that an authority's functions and services will continue in operational existence for the foreseeable future. The provisions in the Code (Code of Practice on Local Authority Accounting in the United Kingdom 2022/23) in respect of going concern reporting requirements reflect the economic and statutory environment in which local authorities operate. These provisions confirm that, as authorities cannot be created or dissolved without statutory prescription, they must prepare their financial statements on a going concern basis of accounting.

The Fund's triennial valuation on 31 March 2022 reported a funding level of 88%. Currently, contributions and investment income are sufficient to fund benefits as they fall due without the need to liquidate investments. The Fund is currently operating with a cash flow surplus. If a need to obtain liquidity arises, approximately 71% of the Fund's assets are held in liquid investments.

A cash flow forecast covering a 12-month period has been produced to confirm the solvent position and outlook of the Pension Fund over the period stated above.

## 20. RELATED PARTY TRANSACTIONS

It is required under IAS 24 "Related Party Disclosures" that material transactions with related parties which are not disclosed elsewhere should be included in a note to the financial statements. The London Borough of Hillingdon is a related party to the Pension Fund, represented by the Pensions Committee members. The committee is responsible for management of fund assets, including investment directions and administration of the fund. List of committee members may be found in Note 1C. The revenue contributions the Council has made into the Pension Fund are set out in note 4 to the Pension Fund accounts. No senior officer or Pension Committee member had any interest with any related parties to the Pension Fund.

### Key Management Personnel

Three employees of the London Borough of Hillingdon held key positions in the financial management of the London Borough of Hillingdon Pension Fund. These employees are the Section 151 officer, the Deputy Director, Corporate Finance, and the Head of Statutory Accounts & Pensions. Total remuneration payable to key management personnel is set out below:

Short term benefits  
Post employment benefits

	31 March 2023 £'000	31 March 2022 £'000
Short term benefits	127	94
Post employment benefits	142	155
	<b>269</b>	<b>249</b>

The Pensions Committee of the London Borough of Hillingdon Pension Fund ("the Fund") has prepared an Investment Strategy Statement (ISS) in accordance with the MHCLG Guidance on Preparing and Maintaining an Investment Strategy Statement.

As set out in the Local Government Pension Scheme (Management and Investment of Funds) Regulations 2016, the Pensions Committee will review this Statement from time to time, but at least every three years, and revise it as necessary. Also, in the event of a significant change, changes will be reflected within three months of the change occurring. The current version of the ISS is available on the pension fund pages of the Council's website: [www.hillingdon.gov.uk](http://www.hillingdon.gov.uk) and included in the Annual Report.

## 21. BULK TRANSFER

There were no bulk transfers in 2022-23.

# Notes to the Pension Fund Account

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## 22. CONTRACTUAL COMMITMENTS

Outstanding capital commitments (investments) as of 31 March 2023 totalled £56,803k (£85,428k on 31 March 2022).

These commitments relate to outstanding call payments due on unquoted limited partnership funds held in the Private Equity, Infrastructure, Property and Private Credit parts of the portfolio. The amounts called by these funds vary both in size and timing over a period of up to six years from the date of each original commitment.

## 23. CONTINGENT ASSETS

Six admitted body employers in the London Borough of Hillingdon Pension Fund hold insurance bonds to guard against the possibility of being unable to meet their pension obligations. These bonds are drawn in favour of the Pension Fund and payment will only be triggered in the event of employer default. Total value of bonds held come to £244,000.00.

## 24. POST BALANCE SHEET EVENTS

Events taking place after the 31st of March 2023 are not reflected in the financial statements or notes, unless they are of such importance that non-disclosure would affect the ability of users to make proper evaluations and decisions. Where events taking place before this date provided information about conditions existing on 31 March 2023, the figures in the financial statements and notes have been adjusted in all material respects to reflect the impact of this information.

There are no events to report after the Balance Sheet date that deem adjustment or disclosure in the accounts.

## **H. ASSET POOLS (LCIV)**

In 2015 the Department of Housing Communities and Local Government (now Ministry of Housing Communities and Local Government) issued the LGPS: Investment Reform Criteria and Guidance which set out how the government expected the LGPS to establish a number of pools to deliver:

- Benefits of scale.
- Strong governance and decision making.
- Reduced costs and excellent value for money; and
- Improved capacity to invest in infrastructure.

All administering authorities were invited to submit proposals for pooling of their investments by February 2016 including a commitment to pooling and a description of their progress towards formalising their arrangements with other authorities.

Hillingdon made the decision at Council in February 2016 to join the London CIV (LCIV), to provide the Fund with a mechanism to pool investments with other London Boroughs.

Initial share capital investment of £150k was made on joining the pool in February 2016 as well as £50k for Hillingdon's share of set up costs. In addition to set up costs the fund pays an annual charge to support the work of the LCIV which is currently £25k.

Hillingdon Council delegated functions necessary for the proper functioning of the London CIV company, including the effective oversight of the ACS Operator to the Joint Committee (now the Shareholder Committee). The Chairman of Pensions Committee was appointed to have power to act for the Council in exercising its rights as a shareholder at any general meetings of the LCIV Company.

Delegated authority was given to the Chairman of Pensions Committee to make urgent investment decisions. This delegated authority was to enable the transition of existing mandates into the LCIV once the Fund's existing managers have reached a stage to be included in the LCIV pool. This power was approved to include signing contracts, transferring funds to ensure the relevant sub funds within the LCIV pool would be launched on time. This power was delegated purely to transition existing mandates with existing fund managers to the equivalent with the LCIV and not for any wider investment decision which remains with the Pensions Committee.

In creation of the pools, the individual fund through the Pension Committee remains responsible for the Fund's Investment Strategy and for asset allocation; however, manager selection to meet the strategic asset allocation is managed by the pool. In December 2015 the London CIV opened its first sub-fund.

At the start of 2022/23 the London CIV had the following sub funds available for Hillingdon to invest.

<b>Fund Name</b>	<b>Manager</b>	<b>Launch Date</b>
<b>Global Equities</b>		
LCIV Global Alpha Growth Paris Aligned Fund	Baillie Gifford & Co	13-Apr-21
LCIV Global Alpha Growth Fund	Baillie Gifford & Co	11-Apr-16
LCIV Passive Equity Progressive Paris Aligned Fund	State Street Global Advisors Limited	01-Dec-21
LCIV LV Global Equity Fund	Longview Partners	17-Jul-17
LCIV NW Global Equity Fund	Newton Investment Management	22-May-17
LCIV RBC Sustainable Equity Fund	RBC Global Asset Management (UK) Limited	18-Apr-18
LCIV Sustainable Equity Exclusion Fund	RBC Global Asset Management (UK) Limited	11-Mar 2020
LCIV Global Equity Quality Fund	Morgan Stanley Investment Management	21-Aug-2020
<b>Emerging Market Equities</b>		
LCIV Emerging Market Equity Fund	J.P. Morgan Asset Management	11-Jan-18
<b>Multi-Asset</b>		
LCIV Diversified Growth Fund	Baillie Gifford & Co	15-Feb-16
LCIV NW Real Return Fund	Newton Investment Management	16-Dec-16
LCIV PY Global Total Return Fund	Pyrford International Limited	17-Jun-16
LCIV RF Absolute Return Fund	Ruffer LLP	21-Jun-16
<b>Fixed Income</b>		
LCIV Global Bond Fund	Pimco	30-Nov-18
LCIV Alternative Credit Fund	CQS	31-Jan-22
LCIV MAC Fund	London CIV	31-May-18
<b>Infrastructure</b>		
LCIV Infrastructure Fund	Stepstone Infrastructure and Real Assets	31-Oct-19
LCIV Renewable Infrastructure Fund	Blackrock, Stonepeak, Quinbrook and Foresight	30-Mar-21

<b>Property</b>		
LCIV Real Estate Long Income Fund	Aviva Investors	11-Jun-20
The London Fund	LPPI	16-Dec-20
<b>Private Debt</b>		
LCIV Private Debt Fund	Churchill and Pemberton	30-Mar-21

In addition, the pool enabled access to Legal and General Investment Management and Blackrock passive investment products, under negotiated fees, to sit alongside the ACS structure with governance of the assets from the pool.

The Fund had total LCIV holdings of £968m on 31 March 2023, accounting for almost 82.03% of total assets of the Pension Fund. This was invested in Ruffer (Multi Asset) Epoch (Global Equity), Stepstone (Infrastructure) on the LCIV platform and LGIM Passive.

#### **Pooled assets**

<b>Sub Fund</b>	<b>Value £'000 31/03/2022</b>	<b>Opening Proportion %</b>	<b>Value £'000 31/03/2023</b>	<b>Closing Proportion %</b>
LCIV Global Alpha Growth Paris Aligned Fund (Formerly Epoch)	56,423	4.46	53,395	4.52
LCIV RF Absolute Return Fund	54,528	4.31	47,406	4.02
LCIV Stepstone Infrastructure Fund	25,355	2.01	40,623	3.44
LCIV Private Debt	29,914	2.37	48,183	4.08
LCIV MAC Fund	0	0	110,959	9.40
LGIM Passive Equities	521,174	41.23	508,725	43.10
LGIM Passive Bonds	152,319	12.05	111,642	9.46
LGIM LPI Property	56,203	4.45	47,387	4.01
	<b>895,916</b>	<b>70.88</b>	<b>968,320</b>	<b>82.03</b>

## Post pool reporting

The costs set out in the table below represents the initial costs of creating the London CIV (LCIV) pool as advised by the LCIV, which the Hillingdon fund is a member.

LONDON CIV WHOLE POOL SET UP COSTS	Total Direct Costs
	£000s
<b>Set Up Costs:</b>	
Recruitment	200
Legal	700
Procurement	200
Other support costs e.g. IT, accommodation	200
Staff costs	400
<b>TOTAL SET UP COSTS</b>	<b>1,700</b>

## LB Hillingdon Annual Pool Set up Costs Breakdown and Fee Savings

	2017/18	2018/19	2019/20	2020/21	2021/22	2022/23	Cumulative to date
<b>Set Up Costs</b>	<b>£000s</b>						
Development Charge	75	65	65	85	85	85	460
Annual Service Charge including establishment of pool	25	25	25	25	25	25	150
Share Capital Costs	0	0	0	0	0	0	0
Transition Costs	132	0	0	0	0	0	132
Fee Savings	-167	-181	-115	-96	-150	-806	-1,515
<b>Net (Savings)/Cost Realised</b>	<b>65</b>	<b>-91</b>	<b>-25</b>	<b>14</b>	<b>-40</b>	<b>-696</b>	<b>-773</b>

The figures in the table above represents the service and development costs charges levied on the fund as a member of the London CIV pool. Transition costs refer to costs incurred in transfer of assets currently managed directly by the London CIV and passive portfolios negotiated by the CIV with LGIM. Fee savings represents the current costs of investments managed within the pool and LGIM compared with pre-pooling charges based on current asset valuations.

As at the end of 2022/23 the fund shows a net savings overall from pooling, if share capital is further excluded as it is still a fund asset then the fund has made a significant saving. As fund manager fees of the sub funds Hillingdon invests currently, are lower than before pooling, over time, the fund should show a cumulative saving in the long term.

### **Ongoing Investment Management Fees**

The table below shows the fees paid to managers alongside the combined returns of those managers and the net impact (i.e., considering both fees and performance) on the value of Fund assets.

	Asset Pool			Non-Asset Pool			Fund Total
	Direct	Indirect	Total	Direct	Indirect	Total	
	£'000	£'000s	£'000	£'000	£'000s	£'000	£'000
<b>Management Fees</b>							
Ad Valorem	20	2,642	2,662	4,430	0	4,430	<b>7,092</b>
Performance	0	339	339	1,928	0	1,928	<b>2,267</b>
Transaction Costs	0	810	810	2,127	0	2,127	<b>2,937</b>
Custody	0	0	0	42	0	42	<b>42</b>
Other	110	0	110	0	0	0	<b>110</b>
<b>Total £'000</b>	<b>130</b>	<b>3,791</b>	<b>3,921</b>	<b>8,527</b>	<b>0</b>	<b>8,527</b>	<b>12,448</b>

In response to the Scheme Advisory Board Transparency Code the Fund contacted all managers regardless of whether they have signed up to the Code and requested that they complete the Transparency Code template for 2022/23 and future years to allow more transparent reporting. London CIV Ltd, in selecting Managers for the pool, also set this as a requirement that Fund Managers, they select are signed up to the Transparency Code. Information from the completed templates were utilised to compile the overall Investment management costs for 2022/23.

## Asset Allocation and Performance 2022/23

Asset Category	Opening Value		Closing Value		Performance 1 Year	
					Gross	Net
	£'000	%	£'000	%	%	%
<b>Asset Pool Managed Investments</b>						
Active listed Equity	56,423	4	53,395	5	-5.37	-5.37
Passive listed Equity	521,174	41	508,725	43	-4.31	-4.31
Passive Listed Fixed Income	152,319	12	111,642	9	-26.70	-26.70
Multi-asset funds/diversified growth funds	54,528	4	47,406	4	1.13	1.13
MAC Fund	0	0	110,959	9	N/A	N/A
Private Debt	29,914	2	48,183	4	11.56	11.56
Infrastructure	25,355	2	40,623	3	15.04	15.04
Passive LPI Property	56,203	4	47,387	4	-15.69	-15.69
<b>Total</b>	<b>895,916</b>	<b>71</b>	<b>968,320</b>	<b>82</b>		
<b>Non-asset pool managed investments</b>						
Active listed Equity	29	0	29	0	N/A	N/A
Active listed Fixed Income	115,979	9	0	0	N/A	N/A
Private Debt	1,641	0	682	0	0.98	0.98
Private Debt	36,624	3	27,042	2	8.04	8.04
Property	82,349	7	71,848	6	-10.18	-10.18
Property	93,315	7	75,224	6	-14.79	-14.79
Unlisted Equity	5,845	0	4,282	0	-13.77	-13.77
Unlisted Equity	2,722	0	2,104	0	-0.62	-0.62
Infrastructure	17,852	1	14,215	1	15.04	15.04
Cash	11,928	1	16,650	1	N/A	N/A
<b>Total</b>	<b>368,284</b>	<b>29</b>	<b>212,076</b>	<b>18</b>		

## Savings

	<b>2018/19</b>	<b>2019/20</b>	<b>2020/21</b>	<b>2021/22</b>	<b>2022/23</b>
	<b>£</b>	<b>£</b>	<b>£</b>	<b>£</b>	<b>£</b>
<b>Price Variance</b>	181,063	113,505	96,045.54	150,643.40	806,000.00

The price variance in the table measures the extent to which fee rates have generated savings based on the year end value of the assets under management by holding the assets in a sub fund run by the pool. In each case for Hillingdon's pooled assets the fee rate is lower than the fee rate before pooling, this is in part due to a direct transfer of asset class and economies of scale achieved through the pool on negotiating power.

Where assets transfer into different classes this would result in a different fee structure that would not be comparable.

The increase in fee savings in 2022/23 compared to 2021/22 is mainly due to increased fund value of Private Market and LCIV MAC pooled funds over the period. The above savings do not consider additional charges serviced on the fund because of investment in the pool sub funds, which are direct costs of us investing in the pool, for example auditing, FCA regulation and depositary costs.

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# **London Borough of Hillingdon Pension Fund**

## **Administration Strategy**

**Date approved: 28 September 2021**

**Date of renewal: September 2024**

# Administration Strategy

## Introduction and Background

This is the statement outlining the Pension Administration Strategy for the London Borough of Hillingdon Pension Fund ("the Fund") and has been developed following consultation with the Fund's administrators, employers in the Fund, Local Pension Board members and other interested stakeholders.

The aims of the Pension Administration Strategy are to:

- ensure that the parties to which it relates are fully aware of their responsibilities under the Scheme, and
- outline the quality and performance standards expected of the Fund and its scheme employers to ensure the delivery of a high-quality, timely and professional administration service. These performance standards are explained further in the employer admission agreement.

London Borough of Hillingdon (the "Administering Authority") is responsible for the local administration of the Fund, which is part of the Local Government Pension Scheme ("the LGPS"). Operationally, the administration of the Fund is undertaken through a formal delegation agreement by the Hampshire Pensions Services (HPS) team at Hampshire County Council (HCC). HPS and the Officers in Hillingdon work together to provide a seamless service to scheme employers and members.

This Pension Administration Strategy does not supersede any formal agreements between the Administering Authority and the administrators or between the Administering Authority and the employers. However, is it intended to complement such arrangements and provide greater clarity in relation to each party's role and responsibilities.

This Strategy applies to all existing employers in the Fund, and all new employers joining the Fund after the effective date of 28 September 2021. This Statement sets out the expected levels of administration performance of both the Administering Authority and the employers within the Fund, as well as details on how performance levels will be monitored and the action that might be taken where persistent failure occurs.

## Implementation

This Strategy outlines the level of service the Administering Authority aims to provide to scheme members and employers, as well as the role employers will need to play in providing that quality of service. It is recognised that the aims and objectives in this Strategy are ambitious in some cases and meeting these is dependent on the implementation of some changes in the existing ways of working. This Strategy is being implemented during a period which continues to present a number of challenges, not least:

- the need to carry out a major scheme reconciliation exercise as a result of the introduction of the new State Pension – GMP reconciliation project

- Unknown changes to the scheme structure as a result of the legal ruling in the landmark McCloud judgment, which found the 2015 pension reforms effecting firefighters and judges to be discriminatory based on age. The Chief Secretary to the Treasury announced that that remedies relating to the McCloud judgement will be made in relation to all public service pension schemes.
- The unknown impact and implementation of the Local Government Pension Scheme Advisory Board (SAB) cost cap management process
- Implementation of pensions Dashboard
- The ongoing impact of COVID-19 on service delivery, staff resources and employer covenant.

This Strategy will be effective from 28 September 2021 and the performance indicators mentioned herein will demonstrate ongoing progress towards the Strategy's aims and objectives.

## Regulatory Basis

The LGPS is a statutory scheme, established by an Act of Parliament. The Local Government Pension Scheme Regulations 2013 provide the conditions and regulatory guidance surrounding the production and implementation of Administration Strategies.

In carrying out their roles and responsibilities in relation to the administration of the Local Government Pension Scheme the Administering Authority and employers will, as a minimum, comply with overriding legislation, including:

- Local Government Pension Scheme Regulations
- Pensions Acts 2004 and 2011 and associated disclosure legislation
- Public Service Pensions Act 2013 and associated record keeping legislation
- Freedom of Information Act 2000
- Equality Act 2010
- Data Protection Act 2003
- Finance Act 2013 and
- Relevant Health and Safety legislation.

As a result of the Public Service Pensions Act 2013, the Pensions Regulator now has responsibility for oversight of a number of elements of the governance and administration of Public Service pension schemes including the LGPS. The Regulator has the power to issue sanctions and fines in respect of failings of the Administering Authority, and also where employers in the Fund fail to provide correct or timely information to the Administering Authority. Should this happen, the Administering Authority would recharge any costs back to employers as set out later in this strategy.

More information relating to the requirements of the Local Government Pension Scheme Regulations is included in Appendix A. This statement has been developed with those provisions in mind, and describes the Administering Authority's approach to meeting these requirements in the delivery of administration.

## **Aims and Objectives**

The primary objectives of the London Borough of Hillingdon Pension Fund are:

- to be known as forward thinking, responsive, proactive, and professional; providing excellent customer focused, reputable and credible service to all customers.
- to have instilled a corporate culture of risk awareness, financial governance, and to provide the highest quality, distinctive services within the resource budget.
- to work effectively with partners, being solution focused with a 'can do' approach.

In addition, there are specific aims and objectives in relation to administration responsibilities as set out below.

### ***Administration Aims and Objectives***

The purpose of this strategy statement is to set out the quality and performance standards expected of London Borough of Hillingdon in its role as Administering Authority and employer, as well as all other employers within the Fund.

The Administration Strategy has a number of specific objectives, as follows;

- Provide a high quality, professional, proactive, timely and customer focussed administration service to the Fund's stakeholders
- Administer the Fund in a cost effective and efficient manner utilising technology appropriately to obtain value for money
- Ensure the Fund's employers are aware of and understand their roles and responsibilities under the LGPS regulations and in the delivery of the administration functions of the Fund
- Ensure the correct benefits are paid to, and the correct income collected from, the correct people at the correct time
- Maintain accurate records and ensure data is protected and has authorised use only.

## **Delivery of Administration**

London Borough of Hillingdon has delegated responsibility for the management of the Pension Fund to the London Borough of Hillingdon Pensions Committee, taking into consideration the input from the Pensions Board. The Committee will monitor the implementation of this strategy on a regular basis as outlined later in this statement.

Operationally, the administration of the Fund is undertaken by Hampshire Pensions Services (HPS) through a delegation agreement with Hampshire County Council (HCC), supported by a small 'in-house' capacity within London Borough of Hillingdon.

The London Borough of Hillingdon will look for opportunities to work collaboratively with other Administering Authorities to reduce development costs and enhance the quality of information. This might include:

- working with other administering authorities through the Pensions Officer Group networks to produce communications, which can then be customised further where necessary to the needs of the London Borough of Hillingdon Pension Fund
- Utilising economies of scale through procurement of services with other HCC managed funds
- participating in joint training sessions with other administering authorities.

## **Performance Standards – Quality**

### *Local Standards*

In addition to the legislative and regulatory standards, the Administering Authority and employers ensure that all administration functions and tasks are carried out to agreed local quality standards. In this respect the standards to be met are:

- compliance with all requirements set out in the employer admission agreement
- information to be provided in the required format and/or on the appropriate forms.
- information to be legible and accurate
- communications to be in a plain language style
- information provided or actions carried out to be checked for accuracy by an appropriately trained member of staff
- information provided or actions carried out to be authorised by an agreed signatory, and
- actions carried out, or information provided, within the timescales set out in this strategy statement.

### *Secure Data Transfer*

The Administering Authority and employers follow London Borough of Hillingdon's data security guidelines when sending any personal data. The pension administration function uses a secure email system to send data when required to prevent any sensitive information from being accidentally sent to unauthorised recipients.

One of the key methods of data transfer relating to the Fund's administration is the submission of information from employers in relation to scheme members. In order to meet the requirements set out in this document in a secure and efficient way (for both employers and the Administering Authority), employers are encouraged to use the HPS 'Employer Hub'. Any submission of data outside of this method should use a secure means for example encryption to mitigate the risk of compromising data security.

### *Oversight of Compliance and Quality*

Ensuring compliance is the responsibility of the Administering Authority and the employers in the Fund. The Administering Authority has a range of internal controls in

place to assist with ensuring compliance and which are articulated in the Fund's risk register and risk management policy. However, there are ways in which the Administering Authority is subject to elements of scrutiny and/or oversight:

#### *Audit*

The Fund is subject to a regular annual audit which includes elements of processes and internal controls. The Administering Authority and the employers are expected to fully comply with any reasonable requests for information from both internal and approved external auditors. Any subsequent recommendations made will be considered by London Borough of Hillingdon, in its role as Administering Authority, and where appropriate duly implemented (following discussions with employers where necessary).

#### *Local Pension Board, the national Scheme Advisory Board and the Pensions Regulator*

The Public Service Pensions Act 2013 introduced greater oversight of LGPS Funds. As a result, the Local Pension Board of the London Borough of Hillingdon Pension Fund was established from 1 April 2015. In addition, the Pensions Regulator's remit was extended to include the public sector, and a national Scheme Advisory Board was created. The Administering Authority and the employers are expected to fully comply with any guidance produced by the Scheme Advisory Board and the Pensions Regulator.

### **Performance Standards – Timeliness and Accuracy**

Overriding legislation, including The Occupational and Personal Pension Schemes (Disclosure of Information) Regulations 2013 (as amended), dictates minimum standards that pension schemes should meet in providing certain pieces of information to the various parties associated with the scheme. Further, the LGPS itself sets out a number of requirements for the Administering Authority or employers to provide information to each other, to scheme members and to prospective scheme members, dependants, other pension arrangements or other regulatory bodies. In addition to the legal requirements, local performance standards have been agreed which cover all aspects of the administration of the London Borough of Hillingdon Pension Fund. In many cases these go beyond the overriding legislative requirements.

The locally agreed performance standards for the Fund are set out in Appendix B. These standards are not an exhaustive list of the Administering Authority's and employers' responsibilities. Employers' responsibilities are provided in more detail in the employers' admission agreement.

Although all the locally agreed performance standards will be monitored on an ongoing basis by the administrating authority, the key standards which will be publicly reported on are extracted and shown in the table below. These elements are measured against:

1. Any legal timescale that should be met ("legal requirement")
2. The overall locally agreed target time ("fund target")
3. The locally agreed target time for the Administering Authority or administrator to complete that task ("LBHPF element target").

Generally, the LBHPF element target will be a sub-section of the overall process, and hence will have a shorter target timescale than that being measured by the legal and fund targets. This is because the legal and fund targets will generally include periods of time when the Administering Authority is waiting for information to be provided by an employer or scheme member. The LBHPF element target then measures the period of time it takes the administrators to carry out their element of work once that information has been received.

For the avoidance of doubt “accuracy” in this strategy is defined as when the administrators have received information, for example from an employer, with;

- no gaps in the required areas *and*
- with no information which is either contradictory or which needs to be queried.

*Process maps to explain the flow of information from Schools to the Administrator are in the final stages of development and will be included as Appendix C shortly.*

## Hillingdon Pension Fund Key Performance Indicators

Process	Legal Requirement	LBHPF Administration element target
To send a Notification of Joining the LGPS to a scheme member	2 months from date of joining, or within 1 month of receiving jobholder information where the individual is being automatically enrolled / re-enrolled <sup>1</sup>	Within 20 working days of receipt of all relevant information
To inform members who leave the scheme of their deferred benefit entitlement	As soon as practicable and no more than 2 months from date of initial notification (from employer or from scheme member) <sup>2</sup>	Within 30 working days of receipt of all relevant information
Obtain transfer details for transfer in, and calculate and provide quotation to member	2 months from the date of request <sup>1</sup>	Within 20 working days of receipt of all relevant information
Provide details of transfer value for transfer out, on request	3 months from date of request (CETV estimate) <sup>3</sup> or within a reasonable period (cash transfer sum) <sup>4</sup>	Within 20 working days of receipt of all relevant information
Notification of amount of retirement benefits and payment of tax free cash sum	1 month from date of retirement if on or after Normal Pension Age <sup>1</sup> 2 months from date of retirement if before Normal Pension Age <sup>1</sup>	Within 15 working days of receipt of all relevant information
Providing quotations on request for retirements	As soon as is practicable, but no more than 2 months from date of request unless there has already been a request in the last 12 months <sup>1</sup>	Individual request within 15 working days of receipt of all relevant information
Calculate and notify dependant(s) of amount of death benefits	As soon as possible but in any event no more than 2 months from date of becoming aware of death, or from date of request <sup>1</sup>	Within 15 working days of receipt of all relevant information

1 - The Occupational and Personal Pension Schemes (Disclosure of Information) Regulations 2013, as amended

2 - The Occupational Pension Schemes (Preservation of Benefit) Regulations 1991

3 – Occupational Pension Schemes (Transfer Value) Regulations 1996

4 – Pension Schemes Act 1993

## **Employer Support and Performance Monitoring**

This Strategy is focussed on good partnership working between the Administering Authority and the Fund's employers. The day-to-day relationship with employers will be supported by HPS and reported to Hillingdon through the 'Employer measurement and improvement' process. The strategic relationship with employers for example admissions, exits and triennial valuation will be managed by the Hillingdon Council.

HPS will support employers in carrying out their statutory role through ongoing communication, guidance and training including:

- six-monthly Employer focus group – covering specific topics and feedback and discussion around key issues/changes. Attended by representative employers from across the Fund.
- regular liaison meetings with key employers and other employers as required
- attendance at local Employer group meetings to provide updates on key Fund and Scheme issues/changes
- supporting and attendance at the Annual Employer Meeting (AEM) to cover off Pensions Administration
- where required, specific workshops or meetings with groups of employers

The HPS team will also proactively review Employer performance to ensure that data quality issues are addressed, that contributions are paid on a timely basis and that employers return member information (e.g. new starters, leavers) in a timely fashion.

As part of this proactive approach HPS will:

- undertake the annual return process with all Scheme Employers
- address data concerns with Scheme Employers, resulting in reducing outstanding queries by over 50%
- benchmark Scheme Employers annual returns based on timeliness, financial control and data quality. Scheme Employers receive a formal letter outlining this and the consequences of no improvement in future years
- request a data validation exercise be carried out by Scheme Employers who are highlighted as a 'significant' concern due to 'major data quality issues' with their previous annual return
- liaise with Finance Team in LBH in respect of any concerns they have about the timeliness of the payment of contributions by employers

### *Circumstances where the Administering Authority may levy costs associated with the Employers' poor performance*

The Administering Authority will work closely with all employers to assist them in understanding all statutory requirements, whether they are specifically referenced in the LGPS Regulations, in overriding legislation, or in this Administration Strategy. The Administering Authority will also work with them to ensure that overall quality and timeliness is continually improved.

The Regulations provide that an Administering Authority may recover from an employer any additional costs associated with the administration of the scheme incurred as a result of the unsatisfactory level of performance of that employer. Where an Administering Authority wishes to recover any such additional costs they must give written notice stating:-

- The reasons in their opinion that the employer's level of performance contributed to the additional cost
- The amount the Administering Authority has determined the employer should pay
- The basis on which this amount was calculated, and
- The provisions of the pension administration strategy relevant to the decision to give notice.

London Borough of Hillingdon, as the Administering Authority, will generally not recharge to an employer any additional costs incurred by the Fund in the administration of the LGPS as a direct result of such unsatisfactory performance. However:

- in instances where the performance of the employer results in fines being levied against the Administering Authority by the Pensions Regulator, Pensions Ombudsman or other regulatory body, an amount no greater than the amount of that fine will be recharged to that employer.
- whether or not interest will be charged on late contributions will be stated within the Administering Authority's separate policy on discretionary provisions.
- in exceptional circumstances, particularly where the improvement plan as outlined in the last section of this statement is not being adhered to, the Pensions Committee may determine that any other additional costs will be recharged. In these circumstances the Pensions Committee will determine the amount to be recharged and how this is to be calculated. The employer in question will be provided with a copy of that report and will be entitled to attend the Pensions Committee when this matter is being considered.

## Measuring whether the Administration Objectives are met

The Administering Authority will monitor performance in carrying out its responsibilities in relation to the scheme, and will regularly monitor performance by benchmarking against other administering authorities, using benchmarking clubs and other comparators where available. How well the Fund performs will be reported in the Fund's Annual Report based on the statistics available at that time.

In addition, the Administering Authority will monitor success against its administration objectives in the following ways:

Objectives	Measurement
Provide a high quality, professional, proactive, timely and customer focussed administration service to the Fund's stakeholders.	Key target service standards (highlighted in table above) achieved in 95% of cases*.
Administer the Fund in a cost effective and efficient manner utilising technology appropriately to obtain value for money.	Cost per member is not in upper quartile when benchmarked against all LGPS Funds using national data (either SF3 or SAB)
Ensure the Fund's employers are aware of and understand their roles and responsibilities under the LGPS regulations and in the delivery of the administration functions of the Fund.	Annual data checks (including ongoing reconciliations) resulting in few issues that are resolved within 2 months.  Key target service standards (highlighted in table above) achieved in 95% of cases*.  Issues included in formal improvement notices issued to employers resolved in accordance with plan.
Ensure benefits are paid to, and income collected from, the right people at the right time in the right amount.	Mainly positive results in audit and other means of oversight/scrutiny.  Key target service standards (highlighted in table above) achieved in 95% of cases*.
Maintain accurate records and ensure data is protected and has authorised use only.	Annual data checks (including ongoing reconciliations) resulting in few issues that are all resolved within 2 months  No breaches of data security protocols  Mainly positive results in audit and other means of oversight/scrutiny

\*Employers are expected to meet their targets in 95% of cases.

An overview of performance against these objectives and in particular against target standards for turnaround times will be reported within the Fund's annual report and accounts and also reported on regularly to the Pensions Committee and Pension Board.

Where performance is substantially below standard (whether by a large margin for a short period of time or a small margin for a longer period of time) the Administering Authority will formulate an improvement plan. This will be reported to the Fund's Pensions Committee and Pension Board together with an ongoing update on achievement against the improvement plan.

## **Key Risks**

The key risks to the delivery of this Strategy are outlined below. The London Borough of Hillingdon Pensions Officers will work with the Pensions Committee and the Pension Board in monitoring these and other key risks and formulate a response to them.

- Lack or reduction of skilled resources due to difficulty retaining and recruiting staff members and also staff absence due to sickness
- Significant increase in the number of employing bodies causes strain on day to day delivery
- Significant external factors, such as national change, impacting on workload
- Incorrect calculation of members' benefits resulting in inaccurate costs (to employer), through for example, inadequate testing of systems
- Failure of employers to provide accurate and timely information resulting in incomplete and inaccurate records, which could lead to incorrect valuation results and incorrect benefits, which in turn could lead to complaints
- Failure to administer scheme in line with regulations and policies, including due to delays in enhancement to software or regulation guidance (e.g. transfers).
- Failure to maintain proper records leading to inadequate data, which could lead to increased complaints and errors
- Issues in production of annual benefits statements, e.g. wrong address and printing errors due to external supplier
- Unable to deliver a service to pension members due to system unavailability or failure
- Failure to maintain employer database leading to information not being sent to correct person
- Impact of COVID-19 on human resources and employer covenant.

Key Risk areas will be discussed as part of the quarterly liaison meetings with Hampshire Pensions Services

## **Approval and Review**

This Strategy Statement was approved for consultation with stakeholders on 15 June 2016 by the London Borough of Hillingdon Pensions Committee. It will be reviewed following consultation with a view to the final strategy being agreed by Pension Committee on 28 September 2021, to become effective from that date.

It will be formally reviewed and updated at least every three years or sooner if the administration management arrangements or other matters included within it merit reconsideration, including if there are any changes to the LGPS Regulations or other relevant Regulations or Scheme Guidance which need to be taken into account.

In preparing this Strategy the Administering Authority has consulted with the relevant employers, the scheme member and employer representatives on the London Borough of Hillingdon Pension Board and other persons considered appropriate.

This Strategy Statement will be included within the Fund's Annual Report and Accounts and available on the Administering Authority's website at: <http://www.hillingdon.gov.uk/pensions>.

### **Further Information**

Any enquiries in relation to the day to day administration of the Fund or the principles or content of this Strategy should be sent to:

James Lake, Head of Finance, Statutory Accounting & Pension Fund  
London Borough of Hillingdon  
Civic Centre  
High Street  
Uxbridge  
UB8 1UW

e-mail - [jlake@hillingdon.gov.uk](mailto:jlake@hillingdon.gov.uk)  
Telephone - 01895 277562

### **Administration Legal Requirements within the LGPS**

Regulations 72, 74 and 80 of Local Government Pension Scheme Regulations 2013 require the following:

#### **Employer Responsibilities:**

- To decide any rights or liabilities of any person under the LGPS (for example, what rate of contributions a person pays and whether or not a person is entitled to any benefit under the scheme) as soon as is reasonably practicable\*
- To formally notify that person of the decision in relation to their rights or liabilities in writing as soon as is reasonably practicable (including a decision where a person is not entitled to a benefit and why not), including information about their internal dispute resolution procedure
- To inform the Administering Authority of all such decisions made
- To provide the Administering Authority with such information it requires so it can carry out its functions including, within three months of the end of each Scheme year\*\*, the following information in relation to any person who has been an active member of the scheme in the previous year:
  - name and gender
  - date of birth and national insurance number
  - a unique reference number relating to each employment in which the employee has been an active member
  - in respect of each individual employment during that year:
    - the dates during which they were a member of the scheme
    - the normal pensionable pay received and employee contributions paid
    - the pensionable pay received and employee contributions paid whilst there was any temporary reduction in contributions
    - the normal employer contributions paid
    - any additional employee or employer contributions paid
    - any Additional Voluntary Contributions paid by the employee or employer
- To appoint a person to consider complaints under stage 1 of the internal dispute resolution procedure relating to employer decisions (or a lack of a decision)\*\*\*

\*And at the latest within 1 month of the need for a decision

\*\*Note that, in practice, the Administering Authority will require this information by a specific date as outlined in the specific correspondence requesting information in order to meet statutory deadlines on benefit statements

\*\*\*Note that, in practice, employers in the London Borough of Hillingdon Pension Fund may use the same person to consider stage 1 IDRP complaints as used by the Administering Authority

Administering Authority Responsibilities:

- To decide the amount of benefits that should be paid, including whether the person is entitled to have any previous service counting towards this for LGPS purposes, as soon as is reasonably practicable
- To formally notify that person of the decision in relation to the amount of their benefits in writing as soon as is reasonably practicable, including a statement showing how they are calculated and information about their internal dispute resolution procedure
- To appoint a person to consider complaints under stage 1 of the internal dispute resolution procedure relating to Administering Authority decisions (or a lack of a decision)
- To appoint a person to consider complaints under stage 2 of the internal dispute resolution procedure (which covers both employer and Administering Authority decisions or lack of decisions)
- To provide on request any information to an employer about a complaint under the internal dispute resolution procedure that may be required by an employer

Regulation 59(1) enables an LGPS Administering Authority to prepare a written statement ("the pension administration strategy") to assist in delivering a high-quality administration service to its scheme members and other interested parties, by setting out local standards which often go beyond the minimum requirements set out in overriding legislation as outlined above, and which the Administering Authority and employers should comply with. The statement can contain such of the matters mentioned below as they consider appropriate:-

- Procedures for liaison and communication with the relevant employers in their Fund.
- The establishment of levels of performance which the Administering Authority and the employers are expected to achieve in carrying out their functions under the LGPS by-
  - i. the setting of performance targets;
  - ii. the making of agreements about levels of performance and associated matters; or
  - iii. such other means as the Administering Authority consider appropriate;
- Procedures which aim to secure that the Administering Authority and the employers comply with statutory requirements in respect of those functions and with any agreement about levels of performance.
- Procedures for improving the communication by the Administering Authority and the employers to each other of information relating to those functions.
- The circumstances in which the Administering Authority may consider giving written notice to an employer on account of that employer's unsatisfactory performance in carrying out its functions under the LGPS Regulations when measured against the desired levels of performance.

- The publication by the Administering Authority of annual reports dealing with—
  - i. the extent to which the Administering Authority and the employers have achieved the desired levels of performance, and
  - ii. such other matters arising from its pension administration strategy as it considers appropriate
- Such other matters as appear to the Administering Authority to be suitable for inclusion in that strategy.

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

In addition, regulation 59(6) also requires that, where a pension administration strategy is produced, a copy is issued to each of their relevant employers as well as to the Secretary of State. It is a requirement that, in preparing or revising any pension administration strategy, that the Administering Authority must consult its relevant employers and such other persons as it considers appropriate.

Both the Administering Authority and employers must have regard to the current version of the pension administration strategy when carrying out their functions under the LGPS Regulations.

## Appendix B

### Detailed Performance Standards

<b>New Appointments</b>	
<b>Employer's responsibility</b>	<b>Target Service Standard</b>
To ensure that pensions information is included as part of the appointment process of new staff	
To provide each new employee with basic scheme information	Within one month of joining

<b>New Scheme Members</b>	
<b>Employer's responsibility</b>	<b>Target Service Standard</b>
Provide new members with starter forms and scheme guides, where not delegated to the Administering Authority	10 working days
Decide and ensure the correct employee contribution rate is applied	Immediately on joining in line with employer's policy, and each April thereafter (as a minimum)
Provide new starter information to the Administering Authority for each new employee joining the LGPS	10 working days
Forward completed starter forms completed by scheme members to the Administering Authority	3 working days from date of first deduction of contributions
<b>Administering Authority's Responsibility</b>	
To accurately record and update member records on the pension administration system	Within 20 working days from receipt of all relevant information
To apply for any transfer value details from a previous fund or scheme	Within 15 working days from receiving all information
To send a Notification of Joining the LGPS to a scheme member	Within 20 working days from receiving all information

<b>Changes in circumstances</b>	
<b>Employer's responsibility</b>	<b>Target Service Standard</b>
Arrange for reassessment of employee contribution rate in line with employer's policy	If applicable, as per employer's policy
Notify the Administering Authority of any eligible employees who opt out of the scheme within three months of appointment.	10 working days from date of receiving opt out
Notify the Administering Authority of all other relevant changes in the circumstances of employees	10 working days from date of change
Refund any employee contributions deducted in error, or where the member opts out in writing within 3 months with no previous LGPS membership.	Month following the month of election

<b>Administering Authority's Responsibility</b>	
To accurately record and update member records on the pension administration system	Within 15 working days from receiving all information
To send a Notification of Change (or equivalent) if legally required	Within 20 working days from receiving all information

<b>Retirement Estimates (including ill-health)</b>	
<b>Employer's responsibility</b>	<b>Target Service Standard</b>
Provide pay (and other membership) details when a member requests an early retirement estimate	Within 10 working days
<b>Administering Authority's Responsibility</b>	
Providing quotations on request for retirements	Within 15 working days from receipt of all relevant information

<b>Actual Retirements (including ill-health)</b>	
<b>Employer's responsibility</b>	<b>Target Service Standard</b>
Notify the Fund when members are due to retire and reason for retirement (and authorisation where appropriate)	As early as possible and no later than 20 working days before date of retirement
Notify the Fund when a member leaves employment, including an accurate assessment of final pay	Within 10 working days from members final pay date
Send a Notification of Entitlement to Benefit if legally required to a scheme member (including determining tier of ill-health retirement if applicable)	No later than 5 working days before date of retirement
<b>Administering Authority's Responsibility</b>	
To accurately record and update member records on the pension administration system	Within 15 working days from receipt of all relevant information
Notification of amount of retirement benefits and payment of tax free cash sum	Within 15 working days from receipt of all relevant information
Notification of amount of recalculated retirement benefits and payment of any balance tax free cash sum following updated information	Within 15 working days from receipt of all relevant information

<b>III-Health Retirements (additional responsibilities)</b>	
<b>Employer's responsibility</b>	<b>Target Service Standard</b>
Use a qualified independent medical practitioner (from the approved list provided by the Administering Authority) in order to consider all ill health retirement applications and agree this appointment with the Fund.	Within one month of becoming an employer within the Fund As required
To keep a record of all Tier 3 ill-health cases and to review these cases after 18 months	
Notify the Fund of the results of any review of Tier 3 ill-health cases with appropriate	5 working days of results of review

information to allow the Fund to recalculate benefits if necessary	
Send a Notification of Entitlement to Benefit (or change in benefit) to a scheme member following the review of his/her Tier 3 ill-health benefits	Within 15 working days of results of review

<b>Members leaving before retirement</b>	
<b>Employer's responsibility</b>	<b>Target Service Standard</b>
Notify the Fund of the member's date of (and reason for) cessation of membership, and all other relevant information.	Within 10 working days from member's most recent pay date
<b>Administering Authority's Responsibility</b>	
To accurately record and update member records on the pension administration system	Within 15 working days from receipt of all relevant information
To inform members who leave the scheme of their deferred benefit entitlement	Within 30 working days from receipt of all relevant information
Provide a refund of contributions where requested	Within 15 working days from receipt of all relevant information
Provide a statement of current value of deferred benefits on request	Within 15 working days from receipt of all relevant information

<b>Death Benefits</b>	
<b>Employer's responsibility</b>	<b>Target Service Standard</b>
Notify the Fund of the death of a member and provide details of next of kin where available	5 working days of being notified
<b>Administering Authority's Responsibility</b>	
Write to next of kin or other contact requesting information following the death of a scheme member	Within 5 working days from notification
Calculate and notify dependant(s) of amount of death benefits	Within 15 working days from receipt of all relevant information
Decide who should be recipient(s) of death grant and pay death benefits appropriately as directed	Within 10 working days from receipt of all relevant information

<b>Transfers</b>	
<b>Administering Authority's Responsibility</b>	
Obtain transfer details for transfer in, and calculate and provide quotation to member	Within 15 working days from receipt of all relevant information
Request transfer value upon acceptance of transfer in	Within 10 working days
Notify scheme member of benefits purchased by transfer in on receipt of payment	Within 20 working days from receipt of all relevant information
Provide details of transfer value for transfer out, on request	Within 15 working days from receipt of all relevant information
Provide payment of transfer value to appropriate recipient.	Within 10 working days

<b>Additional Benefits (APCs and AVCs)</b>	
<b>Employer's responsibility</b>	<b>Target Service Standard</b>
Commence, cease or amend (as appropriate) deduction of APCs and AVCs	In month following election
<b>Administering Authority's Responsibility</b>	
To provide information on APCs / AVCs on request to members and employers.	Within 15 working days from request

<b>Various Financial Obligations</b>	
<b>Employer's responsibility</b>	<b>Target Service Standard</b>
Pay the Fund all employee contributions deducted from payroll and all employer contributions.	Immediately when deducted from pay but at the latest by the 19 <sup>th</sup> day of the following month.
Pay all rechargeable items to the Fund, including additional fund payments in relation to early payment of benefits.	20 working days from receiving invoice (within standard invoicing terms of 28 calendar days)
Pay all additional costs to the Fund associated with the unsatisfactory performance of the employer	20 working days from receiving invoice (within standard invoicing terms of 28 calendar days)
<b>Administering Authority's Responsibility</b>	
To allocate the received contributions to each employer's cost centre	Prior to closing month end
Issue invoice in relation to additional fund payments in relation to early payment of benefits	Within 10 working days of employer costs being confirmed
Inform the employers of any new contribution banding	At least 1 month prior to the new contribution bands being introduced
Notify calculation and new value of pension following annual pensions increase	No longer than 2 working days before payment of revised pension

<b>Annual Returns, Valuation and Annual Benefit Statements</b>	
<b>Employer's responsibility</b>	<b>Target Service Standard</b>
Provide the Fund with year-end information to 31 March each year, and any other information that may be required for the production of Annual Benefit Statements.	By 30 April annually
<b>Administering Authority's Responsibility</b>	
Process employer year end contribution returns	By 31 July each year
Produce annual benefit statements for all active and deferred members.	In line with LGPS regulation timescales Currently by 31 August
Provide Pension Saving Statement to members who have exceeded their annual allowance(Legislative)	By 6 October each year

To provide P60 statements to pensioners (HMRC requirement)	By 31 May each year
Provide information to the Actuary (or GAD as appropriate) for both the triennial valuation and for accounting purposes.	As agreed between the Fund and the Actuary
Provide an electronic copy of the valuation report and associated certificate to each employer, and to answer any questions arising.	Within 10 working days from publication of report

<b>General</b>	
<b>Employer's responsibility</b>	<b>Target Service Standard</b>
Confirm a nominated representative to receive information from the Fund, and to take responsibility for disseminating it within the organisation.	By effective date of admission or within 5 working days of previous representative leaving
Formulate and publish policies regarding all discretions that the employer may exercise, and provide a copy to the Fund.	Within 2 months of joining and also provided to Administering Authority every 3 years or whenever amended
Respond to enquiries from the Fund.	10 working days
Notify the Fund if the employer intends to outsource services that will involve TUPE transfers of staff, and work with the Fund to ensure an admission agreement is put in place and complied with or a bulk transfer arranged.	Initial notification immediately upon becoming aware of potential outsourcing, and at least 3 months prior to the start of the contract
Distribute any information provided by the Fund to members / potential members	5 working days
Put in place a Stage 1 Internal Dispute Resolution Procedure	Within 1 month of joining and before the effective date of any change to the existing procedure (e.g. an appointed person leaving)
<b>Administering Authority's Responsibility</b>	
Arrange for the setting up of an admission agreement where required	As soon as possible following receipt of information and prior to the start of any contract
Publish (on-line) and keep up to date the Short Scheme Guide and Employers' Procedural Guide.	Updates made as soon as possible from notification of any legislation changes but preferably before effective date
Publish and keep up to date all forms that members, prospective members and employers are required to complete.	Updates made as soon as possible from notification of any legislation changes but preferably before effective date
Publish the Fund's annual report and accounts and any report from the auditor	In line with CIPFA Guidance

Provision of other responses to general enquiries from scheme members and employers	Within 10 working days to provide initial response
Put in place a Stage 1 Internal Dispute Resolution Procedure	Before the effective date of any change to the existing procedure (e.g. an appointed person leaving)
Put in place a Stage 2 Internal Dispute Resolution Procedure	Before the effective date of any change to the existing procedure (e.g. an appointed person leaving)

<b>Pension Payments</b>	
<b>Administering Authority's Responsibility</b>	<b>Target Service Standard</b>
Issue pension payments to designated bank accounts	To arrive on due date
Issue payslips to home addresses for those pensions where net pay has changed by £10 or more	Posted so as to arrive on the due date
Investigate returned payments and action appropriately	Within 10 working days from receipt of return
Respond to pensioner queries in writing	Within 10 working days from receipt of query
Implement a change to pension in payment	By next payroll period where change occurs more than 5 days prior to the payment date

London Borough of Hillingdon Pension Fund  
Funding Strategy Statement  
March 2023

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# 1 Welcome to London Borough of Hillingdon Pension Fund's funding strategy statement

This document sets out the funding strategy statement (FSS) for London Borough of Hillingdon Pension Fund.

The London Borough of Hillingdon Pension Fund is administered by London Borough of Hillingdon, known as the administering authority. London Borough of Hillingdon worked with the fund's actuary, Hymans Robertson, to prepare this FSS which is effective from 1 April 2023.

There's a regulatory requirement for London Borough of Hillingdon to prepare an FSS. You can find out more about the regulatory framework in [Appendix A](#). If you have any queries about the FSS, contact [pensions@hillingdon.gov.uk](mailto:pensions@hillingdon.gov.uk).

## 1.1 What is the London Borough of Hillingdon Pension Fund?

The London Borough of Hillingdon Pension Fund is part of the Local Government Pension Scheme (LGPS). You can find more information about the LGPS at [www.lgpsmember.org](http://www.lgpsmember.org). The administering authority runs the fund on behalf of participating employers, their employees and current and future pensioners. You can find out more about roles and responsibilities in [Appendix B](#).

## 1.2 What are the funding strategy objectives?

The funding strategy objectives are to:

- take a prudent long-term view to secure the regulatory requirement for long-term solvency, with sufficient funds to pay benefits to members and their dependants
- use a balanced investment strategy to minimise long-term cash contributions from employers and meet the regulatory requirement for long-term cost efficiency
- where appropriate, ensure stable employer contribution rates
- reflect different employers' characteristics to set their contribution rates, using a transparent funding strategy
- use reasonable measures to reduce the risk of an employer defaulting on its pension obligations.

## 1.3 Who is the FSS for?

The FSS is mainly for employers participating in the fund, because it sets out how money will be collected from them to meet the fund's obligations to pay members' benefits.

Different types of employers participate in the fund:

### Scheduled bodies

Employers who are specified in a schedule to the LGPS regulations, including councils and employers like academies and further education establishments. Scheduled bodies must give employees access to the LGPS if they can't accrue benefits in another pension scheme, such as another public service pension scheme.

### Designating employers

Employers like town and parish councils can join the LGPS through a resolution. If a resolution is passed, the fund can't refuse entry. The employer then decides which employees can join the scheme.

### Admission bodies

Other employers can join through an admission agreement. The fund can set participation criteria for them and can refuse entry if the requirements aren't met. This type of employer includes contractors providing outsourced services like cleaning or catering to a scheduled body.

Some existing employers may be referred to as **community admission bodies** (CABs). CABs are employers with a community of interest with another scheme employer. Others may be called **transferee admission bodies** (TABs), that provide services for scheme employers. These terms aren't defined under current regulations but remain in common use from previous regulations.

#### **1.4 How does the funding strategy link to the investment strategy?**

The funding strategy sets out how money will be collected from employers to meet the fund's obligations. Contributions, assets and other income are then invested according to an investment strategy set by the administering authority. You can find the investment strategy statement at [www.hillingdon.gov.uk/pension-fund-documents](http://www.hillingdon.gov.uk/pension-fund-documents).

The funding and investment strategies are closely linked. The fund must be able to pay benefits when they are due – those payments are met from a combination of contributions (through the funding strategy) and asset returns and income (through the investment strategy). If investment returns or income fall short the fund won't be able to pay benefits, so higher contributions would be required from employers.

#### **1.5 Does the funding strategy reflect the investment strategy?**

The funding policy is consistent with the investment strategy. Future investment return expectations are set with reference to the investment strategy, including a margin for prudence which is consistent with the regulatory requirement that funds take a 'prudent longer-term view' of funding liabilities (see [Appendix A](#))

#### **1.6 How is the funding strategy specific to the London Borough of Hillingdon Pension Fund?**

The funding strategy reflects the specific characteristics of the fund employers and its own investment strategy.

## 2 How does the fund calculate employer contributions?

### 2.1 Calculating contribution rates

Employee contribution rates are set by the LGPS regulations.

Employer contributions are made up of three elements:

- **the primary contribution rate** – contributions payable towards future benefits
- **the secondary contribution rate** – the difference between the primary rate and the total employer contribution

The primary rate also includes an allowance for the fund's expenses.

The fund actuary uses a model to project each employer's asset share over a range of future economic scenarios. The contribution rate takes each employer's assets into account as well as the projected benefits due to their members. The value of the projected benefits is worked out using employer membership data and the assumptions in [Appendix D](#).

The total contribution rate for each employer is then based on:

- **the funding target** – how much money the fund aims to hold for each employer
- **the time horizon** – the time over which the employer aims to achieve the funding target
- **the likelihood of success** – the proportion of modelled scenarios where the funding target is met.

This approach takes into account the maturing profile of the membership when setting employer contribution rates.

**Table 1: contribution rate calculation for individual or pooled employers**

Type of employer	Scheduled bodies			CABs and designating employers		TABs
Sub-type	Local authority	Academies	Other scheduled bodies	Open to new entrants	Closed to new entrants	Without pass-through agreements*
<b>Funding target*</b>	Ongoing	Ongoing	Ongoing	Ongoing, but may move to low-risk exit basis		Ongoing
<b>Minimum likelihood of success</b>	70%	70%	75%	75%	75%	75%
<b>Maximum time horizon</b>	20 years	20 years	20 years	15 years	15 years or future working lifetime, if less	15 years or contract length, if less
<b>Primary rate approach</b>	The contributions must be sufficient to meet the cost of benefits earned in the future with the required likelihood of success at the end of the time horizon					
<b>Secondary rate</b>	% of payroll	% of payroll	% of payroll	% of payroll	Monetary amount	% of payroll

Type of employer	Scheduled bodies			CABs and designating employers		TABs
Sub-type	Local authority	Academies	Other scheduled bodies	Open to new entrants	Closed to new entrants	Without pass-through agreements*
Stabilised contribution rate?	Yes	No	No	No	No	No
Treatment of surplus (assessed at valuation date)	Total contribution rate must be set at least at the primary rate. However, reductions may be permitted by the administering authority subject to additional consideration of any funding surplus			Total contribution rate must be set at least at the primary rate. However, reductions may be permitted by the administering authority subject to additional consideration of the low-risk exit basis* position		Total contribution rate must be set at least at the primary rate. However, reductions may be permitted by the administering authority subject to additional consideration of any funding surplus
Phasing of contribution changes	Covered by stabilisation arrangement	Discretion of administering authority			None	

\* Employers participating in the Fund under a pass-through agreement will pay a contribution rate as agreed between the contractor and letting employer, subject to administering authority approval. For pass-through arrangements let by London Borough of Hillingdon, the contribution rate is set at 26% of pay.

\*\* See [Appendix D](#) for further information on funding targets.

## 2.2 Making contribution rates stable

Making employer contribution rates reasonably stable is an important funding objective. Where appropriate, contributions are set with this objective in mind. The fund may adopt a stabilised approach to setting contributions for individual employers, which keeps contribution variations within a pre-determined range from year-to-year. Stabilisation criteria and limits are reviewed during each triennial valuation process.

The administering authority believes a stabilised approach is a prudent long-term strategy and the robustness of this approach was once again tested by extensive asset liability modelling (ALM) carried out by the Fund actuary at the 31 March 2022 funding valuation.

**Table 1: current stabilisation approach**

Type of employer	Local authority
Maximum contribution increase per year	+1% of pay
Maximum contribution decrease per year	-1% of pay

### 2.3 Reviewing contributions between valuations

The fund may amend contribution rates between formal valuations, in line with its policy on contribution reviews. The Fund's policy is available in [Appendix E](#). The purpose of any review is to establish the most appropriate contributions. A review may lead to an increase or decrease in contributions.

### 2.4 What is pooling?

The administering authority may operate contribution rate pools for similar types of employers. Contribution rates can be volatile for smaller employers that are more sensitive to individual membership changes – pooling across a group of employers minimises this. In a contribution rate pool, contributions are set to target full funding for the pool as a whole, rather than for individual employers.

Employers in a pool maintain their individual funding positions, tracked by the fund actuary. That means some employers may be better funded or more poorly funded than the pool average. If pooled employers used stand-alone funding rather than pooling, their contribution rates could be higher or lower than the pool rate. Setting contributions in this way means that while the fund receives the contributions required, the risk that employers develop a surplus or deficit increases.

Pooled employers are identified in the rates and adjustments certificate and only have their pooled contributions certified. Individual contribution rates aren't disclosed to pooled employers, unless agreed by the administering authority.

### 2.5 What are the current contribution pools?

- Council – the council pool includes various employers associated with the council including maintained schools.
- Multi Academy Trusts – academies in the Fund who operate under the same multi academy trust (MAT) are permitted to pay a MAT contribution rate.

### 2.6 Administering authority discretion

Individual employers may be affected by circumstances not easily managed within the FSS rules and policies. If this happens, the administering authority may adopt alternative funding approaches on a case-by-case basis.

Additionally, the administering authority may allow greater flexibility to the employer's contributions if added security is provided. Flexibility could include things like a reduced contribution rate, extended time horizon, or permission to join a pool. Added security may include a suitable bond, a legally binding guarantee from an appropriate third party, or security over an asset.

The fund may permit the prepayment of employer contributions in specific circumstances. Further details are available on request.

## 3 What additional contributions may be payable?

### 3.1 Pension costs – awarding additional pension and early retirement on non ill-health grounds

If an employer awards additional pension as an annual benefit amount, they pay an additional contribution to the fund as a single lump sum. The amount is set by guidance issued by the Government Actuary's Department and updated from time to time.

If an employee retires before their normal retirement age on unreduced benefits, employers will be asked to pay additional contributions called strain payments.

Employers typically make strain payments as a single lump sum, though strain payments may be spread over an appropriate period if the administering authority agrees.

### 3.2 Pension costs – early retirement on ill-health grounds

If a member retires early due to ill-health, an additional funding strain will usually arise, which can be very large. Such strain costs are the responsibility of the member's employer to pay.

To mitigate this risk, individual employers may elect to use external insurance.

The Fund is reviewing its policy with regards to early retirements on ill-health grounds, and this is expected to be available in 2023.

## 4 How does the fund calculate assets and liabilities?

### 4.1 How are employer asset shares calculated?

The fund adopts a cashflow approach to track individual employer assets.

Each fund employer has a notional share of the fund's assets, which is assessed yearly by the actuary. The actuary starts with assets from the previous year-end, adding cashflows paid in/out and investment returns to give a new year-end asset value. The fund actuary makes a simplifying assumption, that all cashflow and investment returns have been paid uniformly over the year. This assumption means that the sum of all employers' asset values is slightly different from the whole fund asset total over time. This minimal difference is split between employers in proportion to their asset shares at each valuation.

If an employee moves one from one employer to another within the fund, assets equal to the cash equivalent transfer value (CETV) will move from the original employer to the receiving employer's asset share. These are calculated on an annual basis.

Alternatively, if employees move when a new academy is formed or an outsourced contract begins, the fund actuary will calculate assets linked to the value of the liabilities transferring.

### 4.2 How are employer liabilities calculated?

The fund holds membership data for all active, deferred and pensioner members. Based on this data and the assumptions in [Appendix D](#), the fund actuary projects the expected benefits for all members into the future. This is expressed as a single value – the liabilities – by allowing for expected future investment returns.

Each employer's liabilities reflect the experience of their own employees and ex-employees.

### 4.3 What is a funding level?

An employer's funding level is the ratio of the market value of asset share against liabilities. If this is less than 100%, the employer has a shortfall: the employer's deficit. If it is more than 100%, the employer is in surplus. The amount of deficit or surplus is the difference between the asset value and the liabilities value.

Funding levels and deficit/surplus values measure a particular point in time, based on a particular set of future assumptions. While this measure is of interest, for most employers the main issue is the level of contributions payable. The funding level does not directly drive contribution rates. See section 2 for further information on rates.

## 5 What happens when an employer joins the fund?

### 5.1 When can an employer join the fund

Employers can join the fund if they are a new scheduled body or a new admission body. New designated employers may also join the fund if they pass a designation to do so.

On joining, the fund will determine the assets and liabilities for that employer within the Fund. The calculation will depend on the type of employer and the circumstances of joining.

A contribution rate will also be set. This will be set in accordance with the calculation set out in Section 2, unless alternative arrangements apply (for example, the employer has agreed a pass-through arrangement). More details on this are in Section 5.4 below.

### 5.2 New academies

New academies (including free schools) join the fund as separate scheduled employers. Only active members of former council schools transfer to new academies. Free schools do not transfer active members from a converting school but must allow new active members to transfer in any eligible service.

Liabilities for transferring active members will be calculated (on the ongoing basis) by the fund actuary on the day before conversion to an academy. Liabilities relating to the converting school's former employees (ie members with deferred or pensioner status) remain with the ceding council.

New academies will be allocated an asset share based on the estimated funding level of the ceding council's active members, having first allocated the council's assets to fully fund their deferred and pensioner members. This funding level will then be applied to the transferring liabilities to calculate the academy's initial asset share, capped at a maximum of 100%.

The council's estimated funding level will be based on market conditions on the day before conversion. The fund treats new academies as separate employers in their own right, who are responsible for their allocated assets and liabilities.

For contribution rate purposes there are two options:

- The new academies' individual contribution rate will be calculated based on the current funding strategy (set out in section 2) and the transferring membership.
- If they are part of a MAT, the new academy can be combined with the other academies in the same MAT to set a combined MAT contribution rate.

If an academy leaves one MAT and joins another, all active, deferred and pensioner members transfer to the new MAT.

The fund's policies on academies may change based on updates to guidance from the Department for Levelling Up, Housing and Communities or the Department for Education. Any changes will be communicated and reflected in future funding strategy statements.

### 5.3 New admission bodies as a results of outsourcing services

New admission bodies usually join the fund because an existing employer (usually a scheduled body like a council or academy) outsources a service to another organisation (a contractor). This involves TUPE transfers of staff from the letting employer to the contractor. The contractor becomes a new participating fund employer for the duration of the contract and transferring employees remain eligible for LGPS membership. At the end of the contract, employees typically revert to the letting employer or a replacement contractor.

Liabilities for transferring active members will be calculated by the fund actuary on the day before the outsourcing occurs.

New contractors will be allocated an asset share equal to the value of the transferring liabilities. The admission agreement may set a different initial asset allocation, depending on contract-specific circumstances.

There is flexibility for outsourcing employers when it comes to pension risk potentially taken on by the contractor. You can find more details on outsourcing options from the administering authority or in the contract admission agreement.

The Fund is reviewing its policy with regards to pass-through arrangements, and this is expected to be available in 2023.

#### **5.4 Other new employers**

There may be other circumstances that lead to a new admission body entering the fund, e.g. set up of a wholly owned subsidiary company by a local authority. Calculation of assets and liabilities on joining and a contribution rate will be carried out allowing for the circumstances of the new employer.

New designated employers may also join the fund. These are usually town and parish councils. Contribution rates will be set using the same approach as other designated employers in the fund.

#### **5.5 Risk assessment for new admission bodies**

Under the LGPS regulations, a new admission body must assess the risks it poses to the fund if the admission agreement ends early, for example if the admission body becomes insolvent or goes out of business. In practice, the fund actuary assesses this because the assessment must be carried out to the administering authority's satisfaction.

After considering the assessment, the administering authority may decide the admission body must provide security, such as a guarantee from the letting employer, an indemnity or a bond.

This must cover some or all of the:

- strain costs of any early retirements, if employees are made redundant when a contract ends prematurely
- allowance for the risk of assets performing less well than expected
- allowance for the risk of liabilities being greater than expected
- allowance for the possible non-payment of employer and member contributions
- admission body's existing deficit.

## 6 What happens if an employer has a bulk transfer of staff?

Bulk transfer cases will be looked at individually, but generally:

- the fund won't pay bulk transfers greater in value than either the asset share of the transferring employer in the fund, or the value of the liabilities of the transferring members, whichever is lower
- the fund won't grant added benefits to members bringing in entitlements from another fund, unless the asset transfer is enough to meet the added liabilities
- the fund may permit shortfalls on bulk transfers if the employer has a suitable covenant and commits to meeting the shortfall in an appropriate period, which may require increased contributions between valuations.

## 7 What happens when an employer leaves the fund?

### 7.1 What is a cessation event?

Triggers for considering cessation from the fund are:

- the last active member stops participation in the fund. The administering authority, at their discretion, can defer acting for up to three years by issuing a suspension notice. That means cessation won't be triggered if the employer takes on one or more active members during the agreed time
- insolvency, winding up or liquidation of the admission body
- a breach of the agreement obligations that isn't remedied to the fund's satisfaction
- failure to pay any sums due within the period required
- failure to renew or adjust the level of a bond or indemnity, or to confirm an appropriate alternative guarantor
- termination of a deferred debt arrangement (DDA).

If no DDA exists, the administering authority will instruct the fund actuary to carry out a cessation valuation to calculate if there is a surplus or a deficit when the fund leaves the scheme.

### 7.2 What happens on cessation?

The administering authority must protect the interests of the remaining fund employers when an employer leaves the scheme. The actuary aims to protect remaining employers from the risk of future loss. The funding target adopted for the cessation calculation is below. These are defined in [Appendix D](#).

- (a) Where there is no guarantor, cessation liabilities and a final surplus/deficit will usually be calculated using a low-risk basis, which is more prudent than the ongoing participation basis. The low-risk exit basis is defined in [Appendix D](#).
- (b) Where there is a guarantor, the guarantee will be considered before the cessation valuation. Where the guarantor is a guarantor of last resort, this will have no effect on the cessation valuation. If this isn't the case, cessation may be calculated using the same basis that was used to calculate liabilities (and the corresponding asset share) on joining the fund.
- (c) Depending on the guarantee, it may be possible to transfer the employer's liabilities and assets to the guarantor without crystallising deficits or surplus. This may happen if an employer can't pay the contributions due and the approach is within guarantee terms.

If the fund can't recover the required payment in full, unpaid amounts will be paid by the related letting authority (in the case of a ceased admission body) or shared between the other fund employers. This may require an immediate revision to the rates and adjustments certificate or be reflected in the contribution rates set at the next formal valuation.

The fund actuary charges a fee for cessation valuations and there may be other cessation expenses. Fees and expenses are at the employer's expense.

The cessation policy is in [Appendix F](#).

### 7.3 What happens if there is a surplus?

If the cessation valuation shows the exiting employer has more assets than liabilities – an exit credit – the administering authority can decide how much will be paid back to the employer based on:

- the surplus amount

- the proportion of the surplus due to the employer's contributions
- any representations (like risk sharing agreements or guarantees) made by the exiting employer and any employer providing a guarantee or some other form of employer assistance/support
- any other relevant factors.

#### **7.4 How do employers repay cessation debts?**

If there is a deficit, full payment will usually be expected in a single lump sum or in exceptional circumstances:

- spread over an agreed period, if the employer enters into a deferred spreading agreement (DSA)
- if an exiting employer enters into a deferred debt agreement (DDA), it stays in the fund and pays contributions until the cessation debt is repaid. Payments are reassessed at each formal valuation.

These employer flexibilities are set out in the cessation policy ([Appendix F](#)).

#### **7.5 What if an employer has no active members?**

When employers leave the fund because their last active member has left, they may pay a cessation debt, receive an exit credit or enter a DDA/DSA. Beyond this they have no further obligation to the fund and either:

- a) their asset share runs out before all ex-employees' benefits have been paid. The other fund employers will be required to contribute to the remaining benefits. The fund actuary will portion the liabilities on a pro-rata basis at each formal valuation
- b) the last ex-employee or dependant dies before the employer's asset share is fully run down. The fund actuary will apportion the remaining assets to the other fund employers.

## 8 What are the statutory reporting requirements?

### 8.1 Reporting regulations

The Public Service Pensions Act 2013 requires the Government Actuary's Department to report on LGPS funds in England and Wales after every three-year valuation, in what's usually called a section 13 report. The report should include confirmation that employer contributions are set at the right level to ensure the fund's solvency and long-term cost efficiency.

### 8.2 Solvency

Employer contributions are set at an appropriate solvency level if the rate of contribution targets a funding level of 100% over an appropriate time, using appropriate assumptions compared to other funds. Either:

- (a) employers collectively can increase their contributions, or the fund can realise contingencies to target a 100% funding level
  - or
- (b) there is an appropriate plan in place if there is, or is expected to be, a reduction in employers' ability to increase contributions as needed.

### 8.3 Long-term cost efficiency

Employer contributions are set at an appropriate long-term cost efficiency level if the contribution rate makes provision for the cost of current benefit accrual, with an appropriate adjustment for any surplus or deficit.

To assess this, the administering authority may consider absolute and relative factors.

Relative factors include:

1. comparing LGPS funds with each other
2. the implied deficit recovery period
3. the investment return required to achieve full funding after 20 years.

Absolute factors include:

1. comparing funds with an objective benchmark
2. the extent to which contributions will cover the cost of current benefit accrual and interest on any deficit
3. how the required investment return under relative considerations compares to the estimated future return targeted by the investment strategy
4. the extent to which contributions paid are in line with expected contributions, based on the rates and adjustment certificate
5. how any new deficit recovery plan reconciles with, and can be a continuation of, any previous deficit recovery plan, allowing for fund experience.

These metrics may be assessed by GAD on a standardised market-related basis where the fund's actuarial bases don't offer straightforward comparisons.

# Appendices

## Appendix A – The regulatory framework

### A1 Why do funds need a funding strategy statement?

The Local Government Pension Scheme (LGPS) regulations require funds to maintain and publish a funding strategy statement (FSS). According to the Department for Levelling Up, Housing and Communities (DLUHC) the purpose of the FSS is to document the processes the administering authority uses to:

- establish a **clear and transparent fund-specific strategy** identifying how employers' pension liabilities are best met going forward
- support the regulatory framework to maintain **as nearly constant employer contribution rates as possible**
- ensure the fund meets its **solvency and long-term cost efficiency** objectives
- take a **prudent longer-term view** of funding those liabilities.

To prepare this FSS, the administering authority has used guidance by the Chartered Institute of Public Finance and Accountancy (CIPFA).

### A2 Consultation

Both the LGPS regulations and most recent CIPFA guidance state the FSS should be prepared in consultation with “*persons the authority considers appropriate*”. This should include ‘*meaningful dialogue... with council tax raising authorities and representatives of other participating employers*’.

The consultation process included issuing a draft version to participating employers and inviting comments.

### A3 How is the FSS published?

The FSS is published on the fund's website at [www.hillingdon.gov.uk/pension-fund-documents](http://www.hillingdon.gov.uk/pension-fund-documents) and copies are made available on request.

### A4 How often is the FSS reviewed?

The FSS is reviewed in detail at least every three years as part of the valuation. Amendments may be made before then if there are regulatory or operational changes. Any amendments will be consulted on, agreed by the Pensions Committee and included in the Committee meeting minutes.

### A5 How does the FSS fit into the overall fund documentation?

The FSS is a summary of the fund's approach to funding liabilities. It isn't exhaustive – the fund publishes other statements like the statement of investment principles, investment strategy statement, governance strategy and communications strategy. The fund's annual report and accounts also includes up-to-date fund information.

You can see all fund documentation at [www.hillingdon.gov.uk/pension-fund-documents](http://www.hillingdon.gov.uk/pension-fund-documents).

## Appendix B – Roles and responsibilities

### **B1 The administering authority:**

- 1 operates the fund and follows all Local Government Pension Scheme (LGPS) regulations
- 2 manages any conflicts of interest from its dual role as administering authority and a fund employer
- 3 collects employer and employee contributions, investment income and other amounts due
- 4 ensures cash is available to meet benefit payments when due
- 5 pays all benefits and entitlements
- 6 invests surplus money like contributions and income which isn't needed to pay immediate benefits, in line with regulation and the investment strategy
- 7 communicates with employers so they understand their obligations
- 8 safeguards the fund against employer default
- 9 works with the fund actuary to manage the valuation process
- 10 provides information to the Government Actuary's Department so they can carry out their statutory obligations
- 11 consults on, prepares and maintains the funding and investment strategy statements
- 12 tells the actuary about changes which could affect funding
- 13 monitors the fund's performance and funding, amending the strategy statements as necessary
- 14 enables the local pension board to review the valuation process.

### **B2 Individual employers:**

- 1 deduct the correct contributions from employees' pay
- 2 pay all contributions by the due date
- 3 have appropriate policies in place to work within the regulatory framework
- 4 make additional contributions as agreed, for example to augment scheme benefits or early retirement strain
- 5 tell the administering authority promptly about any changes to circumstances, prospects or membership which could affect future funding.
- 6 make any required exit payments when leaving the fund.

### **B3 The fund actuary:**

- 1 prepares valuations, including setting employers' contribution rates, agreeing assumptions, working within FSS and LGPS regulations and appropriately targeting fund solvency and long-term cost efficiency
- 2 provides information to the Government Actuary Department so they can carry out their statutory obligations
- 3 advises on fund employers, including giving advice about and monitoring bonds or other security
- 4 prepares advice and calculations around bulk transfers and individual benefits

- 5 assists the administering authority to consider changes to employer contributions between formal valuations
- 6 advises on terminating employers' participation in the fund
- 7 fully reflects actuarial professional guidance and requirements in all advice.

**B4 Other parties:**

- 1 internal and external investment advisers ensure the investment strategy statement (ISS) is consistent with the funding strategy statement
- 2 investment managers, custodians and bankers play their part in the effective investment and dis-investment of fund assets in line with the ISS
- 3 auditors comply with standards, ensure fund compliance with requirements, monitor and advise on fraud detection, and sign-off annual reports and financial statements
- 4 governance advisers may be asked to advise the administering authority on processes and working methods
- 5 internal and external legal advisers ensure the fund complies with all regulations and broader local government requirements, including the administering authority's own procedures
- 6 the Department for Levelling Up, Housing and Communities, assisted by the Government Actuary's Department and the Scheme Advisory Board, work with LGPS funds to meet Section 13 requirements.

## Appendix C – Risks and controls

### C1 Managing risks

The administering authority has a risk management programme to identify and control financial, demographic, regulatory and governance risks.

Details of the key fund-specific risks and controls are set out in the Fund's Risk Management Policy, which can be found on the fund's website at [www.hillingdon.gov.uk/pension-fund-documents](http://www.hillingdon.gov.uk/pension-fund-documents).

The local pension board assists the Fund in managing its risks and the full role of the local pension board is set out in the London Borough of Hillingdon constitution which can be found at

[www.hillingdon.gov.uk/article/2513/Council-constitution-and-delegations](http://www.hillingdon.gov.uk/article/2513/Council-constitution-and-delegations).

### C2 Employer covenant assessment and monitoring

Many of the employers participating in the fund, such as admitted bodies (including TABs and CABs), have no local tax-raising powers. The fund assesses and monitors the long-term financial health of these employers to assess an appropriate level of risk for each employer's funding strategy.

### C3 Climate risk and TCFD reporting

The fund has considered climate-related risks when setting the funding strategy. To consider the resilience of the strategy the fund has included climate scenario stress testing in the contribution modelling exercise at the 2022 valuation. The modelling results under the stress tests were slightly worse than the core results but were still within risk tolerance levels, particularly given the severity of the stresses applied. The results provide assurance that the modelling approach does not significantly underestimate the potential impact of climate change and that the funding strategy is resilient to climate risks. The results of these stress tests may be used in future to assist with disclosures prepared in line with Task Force on Climate-Related Financial Disclosures (TCFD) principles.

## Appendix D – Actuarial assumptions

The fund's actuary uses a set of assumptions to determine the strategy, and so assumptions are a fundamental part of the funding strategy statement.

### D1 What are assumptions?

Assumptions are used to estimate the benefits due to be paid to members. Financial assumptions determine the amount of benefit to be paid to each member, and the expected investment return on the assets held to meet those benefits. Demographic assumptions are used to work out when benefit payments are made and for how long.

The funding target is the money the fund aims to hold to meet the benefits earned to date.

Any change in the assumptions will affect the funding target and contribution rate, but different assumptions don't affect the actual benefits the fund will pay in future.

### D2 What assumptions are used to set the contribution rate?

The fund doesn't rely on a single set of assumptions when setting contribution rates, instead using Hymans Robertson's Economic Scenario Service (ESS) to project each employer's assets, benefits and cashflows to the end of the funding time horizon.

ESS projects future benefit payments, contributions and investment returns under 5,000 possible economic scenarios, using variables for future inflation and investment returns for each asset class, rather than a single fixed value.

For any projection, the fund actuary can assess if the funding target is satisfied at the end of the time horizon.

**Table: Summary of assumptions underlying the ESS, 31 March 2022**

		Annualised total returns											Inflation (CPI)
		Cash	Index Linked Gilts (medium)	Developed World ex UK Equity	Private Equity	Property	Emerging Markets Equity	Diversified Growth Fund (low equity beta)	Multi Asset Credit	All World Equity GBP Hedged	All World ex UK Equity in GBP Unhedged	Direct Lending (private debt) GBP Hedged	
5 years	16th %ile	0.7%	-2.2%	-3.2%	-5.0%	-2.5%	-5.9%	0.6%	0.3%	-2.8%	-2.9%	0.8%	2.3%
	50th %ile	1.5%	0.8%	5.3%	9.5%	4.0%	5.6%	2.9%	3.1%	5.7%	5.7%	5.8%	3.9%
	84th %ile	2.3%	4.0%	14.0%	24.1%	11.0%	17.9%	5.2%	5.7%	14.1%	14.1%	10.7%	5.5%
10 years	16th %ile	0.8%	-1.9%	-0.7%	-1.2%	-0.6%	-2.5%	1.4%	1.7%	-0.3%	-0.4%	2.7%	1.6%
	50th %ile	1.8%	0.2%	5.6%	9.4%	4.4%	5.8%	3.2%	3.5%	5.9%	5.8%	6.0%	3.3%
	84th %ile	2.9%	2.4%	11.7%	20.1%	9.5%	14.4%	5.1%	5.2%	11.9%	11.9%	9.2%	4.9%
20 years	16th %ile	1.0%	-1.5%	1.5%	2.4%	1.4%	0.1%	2.1%	2.8%	1.9%	1.8%	4.3%	1.2%
	50th %ile	2.4%	0.1%	6.1%	10.0%	5.0%	6.3%	3.8%	4.4%	6.4%	6.3%	6.8%	2.7%
	84th %ile	4.0%	1.9%	10.8%	17.6%	8.9%	12.8%	5.7%	6.0%	11.0%	11.1%	9.2%	4.3%

### D3 What financial assumptions were used?

#### Future investment returns and discount rate

The fund uses a risk-based approach to generate assumptions about future investment returns over the funding time horizon, based on the investment strategy.

The discount rate is the annual rate of future investment return assumed to be earned on assets after the end of the funding time horizon. The discount rate assumption is set as a margin above the risk-free rate.

Assumptions for future investment returns depend on the funding objective.

Employer type	Margin above risk-free rate
<b>Ongoing basis</b>	All employers except transferee admission bodies and closed community admission bodies
<b>Low-risk exit basis</b>	Community admission bodies closed to new entrants

#### Discount rate (for funding level calculation as at 31 March 2022 only)

For the purpose of calculating a funding level at the 2022 valuation, a discount rate of 4.1% applies. This is based on a prudent estimate of investment returns, specifically, that there is a 70% likelihood that the fund's assets will achieve future investment returns of at least 4.1% over the 20 years following the 2022 valuation date.

#### Pension increases and CARE revaluation

Deferment and payment increases to pensions and revaluation of CARE benefits are in line with the Consumer Price Index (CPI) and determined by the regulations. The CPI assumption is based on Hymans Robertson's ESS model. The median value of CPI inflation from the ESS was 2.7% pa on 31 March 2022.

#### Salary growth

The salary increase assumption at the latest valuation has been set to 0.5% above CPI pa plus a promotional salary scale.

#### D4 What demographic assumptions were used?

Demographic assumptions are best estimates of future experience. The fund uses advice from Club Vita to set demographic assumptions, as well as analysis and judgement based on the fund's experience.

Demographic assumptions vary by type of member, so each employer's own membership profile is reflected in their results.

#### Life expectancy

The longevity assumptions are a bespoke set of member level VitaCurves produced by detailed analysis and tailored to fit the fund's membership profile.

Allowance has been made for future improvements to mortality, in line with the 2021 version of the continuous mortality investigation (CMI) published by the actuarial profession. The starting point has been adjusted by +0.25% to reflect the difference between the population-wide data used in the CMI and LGPS membership. A long-term rate of mortality improvements of 1.5% pa applies.

The smoothing parameter used in the CMI model is 7.0. There is little evidence currently available on the long-term effect of Covid-19 on life expectancies. To avoid an undue impact from recently mortality experience on long-term assumptions, no weighting has been placed on data from 2020 and 2021 in the CMI.

#### Other demographic assumptions

Retirement in normal health	Members are assumed to retire at the earliest age possible with no pension reduction.
Promotional salary increases	Sample increases below

Death in service	Sample rates below
Withdrawals	Sample rates below
Retirement in ill health	Sample rates below
Family details	Varying proportion of members assumed to have a dependant at retirement or on earlier death. For example, at age 60 this is assumed to be 90% for males and 85% for females. Beyond retirement the proportion is adjusted for assumed dependant mortality. Males assumed to be 3 years older than females, partner dependants assumed to be opposite sex to members.
Commutation	55% of maximum tax-free cash
50:50 option	0.6% of members will choose the 50:50 option.

**Males**

Age	Salary scale	Incidence per 1000 active members per year							
		Death before retirement		Withdrawals		III-health tier 1		III-health tier 2	
		FT &PT	FT	PT	FT	PT	FT	PT	
20	105	0.17	606.46	1056.91	0.00	0.00	0	0	
25	117	0.17	400.59	698.13	0.00	0.00	0	0	
30	131	0.2	284.23	495.26	0.00	0.00	0	0	
35	144	0.24	222.07	386.91	0.10	0.07	0.02	0.01	
40	150	0.41	178.79	311.41	0.16	0.12	0.03	0.02	
45	157	0.68	167.94	292.45	0.35	0.27	0.07	0.05	
50	162	1.09	138.44	240.80	0.90	0.68	0.23	0.17	
55	162	1.7	109.02	189.72	3.54	2.65	0.51	0.38	
60	162	3.06	97.17	169.02	6.23	4.67	0.44	0.33	
65	162	5.10	0	0	11.83	8.87	0	0	

**Females**

Age	Salary scale	Incidence per 1000 active members per year							
		Death before retirement		Withdrawals		III-health tier 1		III-health tier 2	
		FT &PT	FT	PT	FT	PT	FT	PT	
20	105	0.1	528.64	560.85	0.00	0.00	0	0	
25	117	0.1	355.71	377.33	0.10	0.07	0.02	0.01	
30	131	0.14	298.17	316.25	0.13	0.10	0.03	0.02	
35	144	0.24	257.35	272.86	0.26	0.19	0.05	0.04	
40	150	0.38	214.19	227.01	0.39	0.29	0.08	0.06	
45	157	0.62	199.88	211.81	0.52	0.39	0.1	0.08	
50	162	0.9	168.51	178.38	0.97	0.73	0.24	0.18	
55	162	1.19	125.74	133.24	3.59	2.69	0.52	0.39	
60	162	1.52	101.33	107.24	5.71	4.28	0.54	0.4	
65	162	1.95	0	0	10.26	7.69	0	0	

## **D5 What assumptions apply in a cessation valuation following an employer's exit from the fund?**

### **Low-risk exit basis**

Where there is no guarantor, the low-risk exit basis will apply.

The financial and demographic assumptions underlying the low-risk exit basis are explained below:

1. The discount rate is set equal to the annualised yield on long dated government bonds at the cessation date, with a 0% margin. This was 1.7% pa on 31 March 2022.
2. The CPI assumption is based on Hymans Robertson's ESS model. The median value of CPI inflation from the ESS was 2.7% pa on 31 March 2022.
3. Life expectancy assumptions are the same as the ongoing basis.

## Appendix E – Contribution review policy

### Aims and objectives

The Fund's aims and objectives related to this policy are as follows:

- To provide employers with clarity around the circumstances where contribution rates may be reviewed between valuations.
- To outline specific circumstances where contribution rates will not be reviewed.

### Background

The Fund may amend contribution rates between valuations for a 'significant change' to the liabilities or covenant of an employer.

Such reviews may be instigated by the fund or at the request of a participating employer.

Any review may lead to a change in the required contributions from the employer.

### Guidance and regulatory framework

[Regulation 64](#) of the Local Government Pension Scheme Regulations 2013 (as amended) sets out the way in which LGPS funds should determine employer contributions, including the following:

- Regulation 64 (4) – allows the Fund to review the contribution rate if it becomes likely that an employer will cease participation in the Fund, with a view to ensuring that the employer is fully funded at the expected exit date.
- Regulation 64A - sets out specific circumstances where the Fund may revise contributions between valuations (including where a review is requested by one or more employers).

This policy also reflects [statutory guidance](#) from the Department for Levelling Up, Housing and Communities on preparing and maintaining policies relating to the review of employer contributions. Interested parties may want to refer to an accompanying [guide](#) that has been produced by the Scheme Advisory Board.

### Statement of principles

This statement of principles covers review of contributions between valuations. Each case will be treated on its own merits, but in general:

- The Fund reserves the right to review contributions in line with the provisions set out in the LGPS Regulations.
- The decision to make a change to contribution rates rests with the Fund, subject to consultation with employers during the review period.
- Full justification for any change in contribution rates will be provided to affected employers.
- Advice will be taken from the Fund Actuary in respect of any review of contribution rates.
- Any revision to contribution rates will be reflected in the Rates & Adjustment certificate.

## Circumstances for review

The Fund would consider one or more of the following circumstances as a potential trigger for review:

- in the opinion of the Fund there are circumstances which make it likely that an employer (including an admission body) will become an exiting employer sooner than anticipated at the last valuation;
- an employer is approaching exit from the Fund within the next two years and before completion of the next triennial valuation;
- there are changes to the benefit structure set out in the LGPS Regulations which have not been allowed for at the last valuation;
- it appears likely to the Fund that the amount of the liabilities arising or likely to arise for an employer or employers has changed significantly since the last valuation;
- it appears likely to the Fund that there has been a significant change in the ability of an employer or employers to meet their obligations (e.g. a material change in employer covenant, or provision of additional security);
- it appears to the Fund that the membership of the employer has changed materially such as bulk transfers, significant reductions to payroll or large-scale restructuring; or
- where an employer has failed to pay contributions or has not arranged appropriate security as required by the Fund.

## Employer requests

The Fund will also consider a request from any employer to review contributions where the employer has undertaken to meet the costs of that review and sets out the reasoning for the review (which would be expected to fall into one of the above categories, such as a belief that their covenant has changed materially, or they are going through a significant restructuring impacting their membership).

The Fund will require additional information to support a contribution review made at the employer's request. The specific requirements will be confirmed following any request and this is likely to include the following:

- a copy of the latest accounts;
- details of any additional security being offered (which may include insurance certificates);
- budget forecasts; and/or
- information relating to sources of funding.

The costs incurred by the Fund in carrying out a contribution review (at the employer's request) will be met by the employer. These will be confirmed upfront to the employer prior to the review taking place.

## Other employers

When undertaking any review of contributions, the Fund will also consider the impact of a change to contribution rates on other Fund employers. This will include the following factors:

- The existence of a guarantor.
- The amount of any other security held.

- The size of the employer's liabilities relative to the whole Fund.

The Fund will consult with other Fund employers as necessary.

#### **Effect of market volatility**

Except in circumstances such as an employer nearing cessation, the Fund will not consider market volatility or changes to asset values as a basis for a change in contributions outside a formal triennial valuation.

#### **Documentation**

Where revisions to contribution rates are necessary, the Fund will provide the employer with a note of the information used to determine these, including:

- Explanation of the key factors leading to the need for a review of the contribution rates, including, if appropriate, the updated funding position.
- A note of the new contribution rates and effective date of these.
- Date of next review.
- Details of any processes in place to monitor any change in the employer's circumstances (if appropriate), including information required by the Fund to carry out this monitoring.

The Rates & Adjustments certificate will be updated to reflect the revised contribution rates

## Appendix F – Cessation policy

On cessation, the Administering Authority will instruct the Fund Actuary to carry out a cessation valuation to determine whether there is any surplus or deficit.

### **F1 – Where there is a surplus on exit**

#### **Exit Credits**

Where there is a surplus, the administering authority will determine the amount of exit credit to be paid in accordance with the Regulations.

The administering authority's entitlement to determine whether exit credits are payable shall apply to all employers ceasing their participation in the fund after 14 May 2018. This provision therefore is retrospectively effective to the same extent as provisions of the [Local Government Pension Scheme \(Amendment\) Regulations 2020](#).

The administering authority may determine the amount of exit credit payable to be zero, however, in making a determination, the Administering Authority will take into account the following factors.

- a) the extent to which there is an excess of assets in the fund relating to the employer over and above the liabilities specified.
- b) the proportion of the excess of assets which has arisen because of the value of the employer's contributions.
- c) any representations to the Administering Authority made by the exiting employer, guarantor, ceding Scheme Employer (usually the Letting Authority) or by a body which owns, funds or controls the exiting employer; or in some cases, the Secretary of State.
- d) any other relevant factors

### **F2 – Where there is a deficit on exit**

Where there is a deficit, payment of this amount in full would normally be sought from the exiting employer. The Fund's normal policy is that this cessation debt is paid in full as a single lump sum.

#### **Deferred spreading arrangement (DSA)**

However, the fund will consider written requests from exiting employers to spread an exit payment over an agreed period, in the exceptional circumstance where payment of the debt in a single immediate lump sum could be shown by the employer to be materially detrimental to the employer's financial situation.

In this exceptional case, the fund's policy is:

- The agreed spread period is no more than three years, but the fund could use its discretion to extend this period in extreme circumstances.
- The fund may consider factors such as the size of the exit payment and the financial covenant of the exiting employer in determining an appropriate spreading period.

- The exiting employer may be asked to provide the administering authority with relevant financial information such as a copy of its latest accounts, sources of funding, budget forecasts, credit rating (if any) etc. to help in this determination.
- Payments due under the DSA may be subject to an interest charge.
- The fund will only consider written requests within six months of the employer exiting the fund. The exiting employer would be required to provide the fund with detailed financial information to support its request.
- The Fund would take into account the amount of any security offered and seek actuarial, covenant and legal advice in all cases.
- The Fund proposes a legal document, setting out the terms of the exit payment agreement, would be prepared by the fund and signed by all relevant parties prior to the payment agreement commencing.
- The terms of the legal document should include reference to the spreading period, the annual payments due, interest rates applicable, other costs payable and the responsibilities of the exiting employer during the exit spreading period.
- Any breach of the agreed payment plan would require payment of the outstanding cessation amount immediately.

### Deferred Debt Agreement (DDA)

The fund's preferred policy is for the spreading of payments, as detailed above, to be followed in the exceptional circumstances where an exiting employer is unable to pay the required cessation payment as a lump sum in full. However, in the event that spreading of payments will create a high risk of bankruptcy for the exiting employer, the fund may exercise its discretion to set up a deferred debt agreement as described in [Regulation 64 \(7A\)](#).

The employer must meet all requirements on Scheme employers and pay the secondary rate of contributions as determined by the Fund actuary until the termination of the DDA.

The Administering Authority may consider a DDA in the following circumstances:

- The employer requests the Fund consider a DDA.
- The employer is expected to have a deficit if a cessation valuation was carried out.
- The employer is expected to be a going concern.
- The covenant of the employer is considered sufficient by the administering authority.

The Administering Authority will normally require:

- A legal document to be prepared, setting out the terms of the DDA and signed by all relevant parties prior to the arrangement commencing.(including details of the time period of the DDA, the annual payments due, the frequency of review and the responsibilities of the employer during the period).
- Relevant financial information for the employer such as a copy of its latest accounts, sources of funding, budget forecasts, credit rating (if any) to support its covenant assessment.
- Security be put in place covering the employer's deficit on their cessation basis and the Fund will seek actuarial, covenant and legal advice in all cases.
- Regular monitoring of the contribution requirements and security requirements

- All costs of the arrangement are met by the employer, such as the cost of advice to the fund, ongoing monitoring or the arrangement and correspondence on any ongoing contribution and security requirements.

A DDA will normally terminate on the first date on which one of the following events occurs:

- The employer enrolls new active fund members.
- The period specified, or as varied, under the DDA elapses.
- The take-over, amalgamation, insolvency, winding up or liquidation of the employer.
- The administering authority serves a notice on the employer that the Administering Authority is reasonably satisfied that the employer's ability to meet the contributions payable under the DDA has weakened materially or is likely to weaken materially in the next 12 months.
- The Fund actuary assesses that the employer has paid sufficient secondary contributions to cover all (or almost all) of the exit payment due if the employer becomes an exiting employer on the calculation date (i.e. employer is now largely fully funded on their low risk basis).
- The Fund actuary assesses that the employer's value of liabilities has fallen below an agreed *de minimis* level and the employer becomes an exiting employer on the calculation date.
- The employer requests early termination of the agreement and settles the exit payment in full as calculated by the fund actuary on the calculation date (i.e. the employer pays their outstanding cessation debt on their cessation basis).

On the termination of a DDA, the employer will become an exiting employer and a cessation valuation will be completed in line with this policy.

**London Borough of Hillingdon Pension Fund**

## **Investment Strategy Statement**

**April 2020**



**HILLINGDON**  
LONDON

[www.hillingdon.gov.uk](http://www.hillingdon.gov.uk)

## 1. Introduction

This is the Investment Strategy Statement (ISS) of the Hillingdon Pension Fund (the “Fund”) as required by regulation 7 of the Local Government Pension Scheme (Management and Investment of Funds) Regulations 2016 (the “Regulations”).

The Hillingdon Pension Fund is administered by Hillingdon Council as the Administering Authority. The authority to administer the Fund on behalf of the Council is delegated to the Pensions Committee.

As set out in the Local Government Pension Scheme (Management and Investment of Funds) Regulations 2016, the Pensions Committee will review this ISS from time to time, and at least every three years. In the event of any significant change affecting any matter contained within this ISS, changes will be published within three months of the change occurring.

This ISS has been prepared by the Pensions Committee after taking advice from the Fund's investment advisor ISIO (formerly KPMG) and Clare Scott the independent advisor to the Fund, in accordance with the Regulations.

The Investment Strategy Statement required by Regulation 7 must include:

- a) A requirement to invest money in a wide variety of investments;
- b) The authority's assessment of the suitability of particular investments and types of investments;
- c) The authority's approach to risk, including the ways in which risks are to be measured and managed;
- d) The authority's approach to pooling investments, including the use of collective investment vehicles and shared services;
- e) The authority's policy on how social, environmental or corporate governance considerations are taken into account in the selection, non-selection, retention and realisation of investments; and
- f) The authority's policy on the exercise of rights (including voting rights) attaching to investments.

The Investment Strategy Statement must also set out the maximum percentage of the total value of all investments of fund money, that it will invest in particular investments or classes of investment.

Consistent with the 2019 triennial revaluation of the Fund, the agreed investment aim is to generate, over time, a rate of return that is at least 4.0% p.a. and to achieve this, the Fund will invest in a wide variety of investments to reduce portfolio risk and reduce volatility.

## **2. The suitability of particular investments and types of investments;**

### **2.1 Investment Objectives**

The Fund's primary investment objective is to ensure that over the long term the Fund will have sufficient assets to meet all pension liabilities as they fall due. To achieve this objective the Fund will aim to:-

- Maximise the returns on its investments
- Manage risk within acceptable levels
- Maintain liquidity to meet obligations as they fall due
- Contribute towards 100% Funding level
- Stabilise employer contribution rates as far as possible
- Invest in a wide range of investments
- Pool assets
- Take proper advice
- Consider Environmental Social and Governance (ESG) factors when making all investment decisions.

The Committee has translated these objectives after taking proper advice, into suitable strategic asset allocation benchmarks for the Fund. These benchmarks are consistent with the Committee's views on the appropriate balance between maximising returns on investment and maintaining an appropriate level of risk over the long term as set out in the risk management policy of the fund.

## **3. Investment of money in a wide variety of investments**

### **3.1 Asset allocation**

Asset allocation of the Fund is determined by the administering authority acting on professional advice in the best long term interest of scheme beneficiaries, while looking to maintain overall target return. The Pensions Committee review asset allocation and performance against achieving the target return regularly at quarterly meetings. A full formal review will be undertaken every three years following publication of the triennial revaluation results.

The Fund will only invest in asset classes that are deemed to be suitable investments and so must meet the following criteria:

- investments that are well understood by the Committee;
- investments which are consistent with the Fund's risk and return objectives;
- investments which make a significant contribution to the portfolio by improving overall return and risk characteristics; and
- a wide range of assets will be selected to increase diversification.

The Fund's current asset allocation includes seven asset classes that combine to form the policy portfolio. Each asset class is selected to have different exposures to economic factors (GDP growth and inflation); to combine different geographies; and

span different currencies. In assessing suitability, the Pension Committee considered the respective return drivers, exposure to economic growth and sensitivity to inflation – each an important consideration, relative to the sensitivities of the Fund's liabilities and managing risk.

These seven asset classes are the building blocks used to create the policy portfolio. The Pension Committee determined benchmark weights to each asset class which it believes to be best suited to meeting the long term objectives of the Fund. Committee also identified tolerance ranges within which shorter term variations would be tolerated and/or actively pursued due to a combination of relative returns and investment opportunity.

The agreed benchmark weight and tolerances are shown in the table below. The weights will be maintained within the ranges if the scheme can find attractive opportunities that meet its return, risk, and cash flow requirements. In the absence of opportunities, investments will not be "forced" and the fund will be under or over allocated to any asset class.

Asset Class	Target Allocation*	Range
Equities	45.00%	35%-60%
Private Equity	1.00%	0%-3%
Government Bonds	12.00%	0%-20%
Private Credit	5.00%	0%-15%
Property	17.00%	0%-25%
Infrastructure	8.00%	0%-15%
Diversified Credit	12.00%	0%-25%

\* Target allocation reflects agreed changes to asset allocation at Pensions Committee of January 2020

Each asset class has its own specific investment objective and within each asset class there are further diversification controls. The mandates are managed by various Fund managers and the London Collective Investment Vehicle (LCIV), to whom the Fund has delegated investment management and implementation duties in line with LGPS asset pooling.

### **Equities: Global**

The Fund invests in Equities through both active and passive management. For active Global Equities the Funds objective is seek which offer a balance between growth and income whilst exhibiting defensive qualities; the aim is to outperform the MSCI All Country World benchmark. Net dividends will continue to be reinvested until the funds cash flow changes. Passive Equities are held to keep investment manager fees low and to contribute to the return objective by tracking the relevant benchmarks. All equity investments can be made via segregated or pooled fund mandates and where appropriate investments will be held within the London CIV.

### **Bonds & Diversified Credit**

The Fund invests in inflation-linked government and diversified credit to improve the resilience of the portfolio. Exposure includes index linked securities issued by the UK Government, given their similarities within the Scheme's liabilities. To enhance yield, the Fund may place investments in credit securities issued by UK and global companies. This asset class is managed through both passive and active mandates. When active management is selected the manager will aim to maximise risk adjusted returns across a full market cycle.

### **Private Equity**

The Fund is invested in Private Equity with the objective to outperform the MSCI World benchmark. Private Equity is an illiquid asset class; harvesting illiquidity premia is an attractive means of enhancing aggregate returns. The Fund aims to hold Private Equity until maturity.

### **Infrastructure**

The Fund has committed to investing in infrastructure as the duration of this class of assets matches the long-term nature of the Funds liabilities. The Funds existing holding in Infrastructure looks to gain cost-effective, diversified exposure to global infrastructure assets. The aim is to generate predictable, index-linked cash flows; this reduces the inflation risk of the portfolio and adds diversification

### **Private Credit**

The Fund invests in Private credit to seek income and benefit from the long term nature of the Fund. The existing allocation seeks to generate value from direct lending via the secondary market and also exploit specific opportunistic investments. This allocation is directly invested in pooled Funds and provides a contractual income to the fund.

### **Property**

The Fund holds an allocation in UK Property to support the overall aim to generate a return in excess of the IPD benchmark while earning predictable cash flows. The class also includes an allocation long-lease property to deliver reliable income streams with inflation protection.

## **4. The authority's approach to pooling investments, including the use of collective investment vehicles and shared services;**

The Fund is committed to pooling of assets and the London Borough of Hillingdon as Administering Authority of the London Borough of Hillingdon Pension Fund formally agreed to join the London Collective Investment Vehicle (LCIV) on 25 February 2016 and were on-boarded on 1 March 2016. Through the LCIV the Fund will benefit from economies of scale, by pooling assets with other Funds, enabling the LCIV to negotiate lower investment and implementation fees across the board on various asset classes.

### **4.1 London CIV**

The London CIV was formed as a voluntary collaborative venture by the 33 London

Boroughs in 2014 to pool their LGPS investments. It received regulatory authorisation from the Financial Conduct Authority in November 2015 and launched its first sub Fund in December 2015. The London CIV has been established as a collective investment vehicle for LGPS Funds. The current regulatory permissions allow for operation as an Authorised Contractual Scheme (ACS) Fund. The London CIV was created in line with the government directive aimed at reducing investment costs across the board for all LGPS Funds pooling assets of 89 administering authorities into 6 "wealth Funds".

Since its initial launch, the London CIV has opened a diversified range of funds and continues to increase the available suite to provide a various asset classes and styles. The London CIV structure and associated business plan is consistent with the criteria contained within the November 2015 Investment Reform and Criteria guidance.

The Fund's aim is for the London CIV to ultimately be responsible for managing all the Fund's assets. The Fund has transitioned a portion of its assets into the London CIV. In addition to the funds held directly on the London CIV platform the Fund has an allocation to passive funds retained outside of the London CIV operating model, which for the time being is in accordance with government guidance on the retention of life funds outside pools, although the London CIV will monitor the passive funds as part of the broader pool. The Fund benefits in this regard from work carried out by the London CIV to reduce fees through economies of scale. The Fund will look to transition further liquid assets as and when there are suitable investment strategies available on the platform that meet the needs of the Fund's investment strategy and governance requirements.

The Fund currently holds a considerable portion of illiquid assets. The cost of exiting these strategies early would have a negative financial impact on the Fund as the costs of transitioning outweigh any potential gains. These will be held as legacy assets until they mature and proceeds will be re-invested through the Pool, if it has appropriate strategies available, or until the Fund changes asset allocation and decides to disinvest. The Fund's illiquid assets currently held include Private Equity, Private Credit, Infrastructure and Property.

## 4.2 Pool Governance

The legal ownership of assets held within the LCIV is with the depository which is currently Northern Trust, with the beneficial ownership of the assets remaining with the Fund; the LCIV is the Fund manager.

The governance structure of the LCIV has been designed to ensure that there are both formal and informal routes to engage with the investing Funds both as shareholders and investors, making the LCIV accountable at both levels. Governance is achieved through the Shareholder Committee, comprising nominated Member representatives from investing Funds within the pool; including the Chairman of the London Borough of Hillingdon Pensions Committee, Councillor Goddard.

At a company level for London CIV the Board of Directors is responsible for decision making, which includes the decisions to appoint and remove investment managers. The share structure of London CIV involves each member body being shareholders who all retain equal shares in the ownership and voting making the company accountable to its shareholders. In addition the Company has a highly respected Non-Executive Board, meeting the requirements for strong governance arrangements to be in place.

The Fund continues to work with the London CIV to improve the robustness of their governance framework and to ensure it meets the Fund's needs.

### **4.3 Investment implementation**

The implementation of all investments is delegated to the Corporate Director of Finance, supported by a team of officers. The officers are assisted in the implementation of the investment strategies by the Fund's appointed investment advisors. Although investment decisions will firstly look to implementation into a sub Fund held within the London CIV, the Fund will ultimately ensure it meets its fiduciary duties.

### **4.4 Investment Governance**

The Pensions Committee sets the objectives, risk tolerances and sets the required rate of return in conjunction with the scheme's actuary. Once the parameters are established, the Committee determine the strategic asset allocation that it believes has the highest probability of succeeding, taking into account proper advice from the Fund's investment advisors.

The Pensions Committee meet quarterly to discuss investment decisions and review Fund performance, in addition to receiving a training discussion item at each meeting to ensure effective governance of the Fund investments.

In April 2015, a Local Pensions Board was created to ensure further governance over the administration of the Fund and decision making processes. The Local Pensions Board reviews compliance and Pensions Committee decisions to ensure the Fund complies with the code of practice on the governance and administration as issued by the Pension Regulator.

### **4.5 Performance Measurement**

The Pension Committee reviews the performance of the investment managers and assets on a quarterly basis discussing performance, market conditions and asset allocation and making appropriate decisions where necessary. They review the report from Northern Trust, the Fund's custodian who provides an independent monitoring service and reports from officers and advisors on performance review meetings with Fund Managers. In addition, the performance of the pooling arrangements is monitored via regular reporting and updates from the London CIV.

## **6. The authority's approach to risk, including the ways in which risks are to be measured and managed;**

The Fund has a Risk Management Policy which can be found on the Council's website at <https://www.hillingdon.gov.uk/pension-fund-documents>

The Risk Management Policy details the risk management strategy for the Fund, which explains:

- the risk philosophy for the management of the Fund, and in particular attitudes to, and appetite for, risk;
- how risk management is implemented;
- risk management responsibilities;
- the procedures that are adopted in the Fund's risk management process; and
- the key internal controls operated by the Administering Authority and other parties responsible for the management of the Fund.

The Fund adopts best practice risk management, which supports a structured and focused approach to managing risks, and ensures risk management is an integral part in the governance at a strategic and operational level.

The Fund recognises that it is not possible or even desirable to eliminate all risks. Accepting and actively managing risk is therefore a key part of the risk management strategy. A key determinant in selecting the action to be taken in relation to any risk will be its potential impact on the Fund's objectives in light of the risk appetite, particularly in relation to investment matters. Equally important is striking a balance between the cost of risk control actions against the possible effect of the risk occurring.

In managing risk, the Administering Authority on behalf of the Fund will:

- ensure that there is a proper balance between risk taking and the opportunities to be gained;
- adopt a system that will enable the Fund to anticipate and respond positively to change;
- minimise loss and damage to the Fund and to other stakeholders who are dependent on the benefits and services provided; and
- make sure that any new areas of activity (new investment strategies, joint-working, framework agreements etc.), are only undertaken if the risks they present are fully understood and taken into account in making decisions.

Risk Management is a sound management technique that is an essential part of stewardship of the Fund. The benefits of a sound risk management approach include better decision-making, improved performance and delivery of services, more effective use of resources and the protection of reputation.

The Pensions Committee analyse the level of risk and the drivers of risk and monitor and review the investment strategy and investment performance on an ongoing basis and take mitigating action where required. This may include rebalancing the allocation of assets when set benchmark weighting of asset classes exceeds

tolerance thresholds

The Committee has established a strategic asset allocation benchmark for the Fund. They assess risk relative to that benchmark by monitoring the asset allocation and investment returns relative to the benchmark. The Committee also assesses risk relative to liabilities, monitoring the delivery of benchmark returns relative to liabilities on a regular basis.

The Pensions Committee provides a practical constraint on the Funds investments deviating greatly from the intended approach by adopting a specific asset allocation benchmark and by monitoring the underlying asset class weights relative to this benchmark on a regular basis.

The investment strategy is suitable diversified, with the balance of different asset classes and investment managers mitigating the impact at an aggregate level of underperformance of an individual manager. Diversification is a very important risk management tool. The scheme seeks to maintain a diversified exposure via a wide range of asset classes, geographies, and currencies.

## **7. How social, environmental or corporate governance considerations are taken into account in the selection, non-selection, retention and realisation of investments**

The Fund is committed to being a long-term steward of the assets in which it invests and expects this approach to protect and enhance the value of the Fund in the long term. In making investment decisions, the Fund seeks and receives proper advice from specialist investment advisers.

The Fund expects its external investment managers, including the London CIV to undertake appropriate monitoring of current investments with regard to their policies and practices on all issues which could present a material financial risk to the long-term performance of the Fund such as corporate governance and environmental factors. The Fund expects its Fund managers to integrate material ESG factors within its investment analysis and decision making.

The Fund will give consideration to UK foreign policy or UK defence policy when making investment decisions.

The Fund in preparing and reviewing its Investment Strategy Statement will consult with interested stakeholders including, but not limited to Fund employers, investment managers, Local Pension Board, advisers to the Fund and other parties that it deems appropriate to consult with.

The Fund has prepared a Responsible Investment policy which outlines its approach ESG and can be found at <https://www.hillingdon.gov.uk/pension-fund-documents>

## **8. The authority's policy on the exercise of rights (including voting rights) attaching to investments.**

The Fund through its participation in the London CIV will work closely with other LGPS Funds in London to enhance the level of engagement both with external managers and the underlying companies in which invests. The Fund's investments through the London CIV are covered by the voting policy as agreed by the Pensions Sectoral Joint Committee advising managers to vote in accordance with voting alerts issued by the Local Authority Pension Fund Forum (LAPFF) as far as practically possible. The London CIV will hold managers to account where they have not voted in accordance with these directions.

The Fund's approach to engagement recognises the importance of working in partnership to magnify the voice and maximise the influence of investors as owners. The Fund expects its investment managers to work collaboratively with others if this will lead to greater influence and deliver improved outcomes for shareholders and more broadly. The Fund appreciates that to gain the attention of companies in addressing governance concerns; it needs to join with other investors sharing similar concerns. To ensure effective and consistent use of the voting rights, investment managers are tasked with exercising the voting rights accruing to the Fund. If important issues impacting local residents do emanate from actions of invested companies, the Pensions Committee will contact investment managers in charge of assets of such a company to make their opinion known and ask for such to be presented at meetings with the company or reflected in their voting pattern.

Going forwards, the Fund will incorporate a report of voting activity as part of its Pension Fund Annual report which is published on the Council's website. The Fund complies with the UK Stewardship Code and a statement of compliance which explains the arrangements which support its commitment to each of the principles is also published on the website.

## **9. COVID-19 Review of Investment Strategy**

As a result of the COVID-19 pandemic and resulting market stress displayed during February and March the Fund commissioned an in depth review of the Investment Strategy Statement (ISS) and strategy amendments agreed in January 2020 to ascertain whether revised strategy remained appropriate in the current investment climate and still met the needs of the Fund over the longer term. Furthermore the review highlighted potential opportunities which the Fund might consider.

The assessment concluded that the existing strategic asset allocation provided defensive qualities and sheltered the Fund from the more severe outcomes during this stress period. Particularly the lower equity exposure compared with other LGPS, the allocation to asset classes with a contractual and more certain return profile and the strong overall asset class diversification.

It was also confirmed that no adjustments were required to the ISS revisions agreed in January 2020 and still remain relevant and should be implemented.

Opportunities were also highlighted and the Fund is appropriately structured to execute these where applicable.

**London Borough of Hillingdon**

**Administering Authority for the**

**London Borough of Hillingdon Pension Fund**

**COMMUNICATION STRATEGY**

**Date approved: 28 September 2021**

**Date of renewal: September 2024**

# COMMUNICATION STRATEGY

## Introduction and Background

This is the Statement outlining our Pension Communication Strategy for the London Borough of Hillingdon Pension Fund ("the Fund") and has been developed following consultation with employers in the Fund, scheme member representatives, Pension Board members and other interested stakeholders.

The aim of this Communication Strategy is to ensure that scheme members appreciate the benefits of the scheme and all stakeholders are kept informed of developments within the Pension Fund, and effective communications will also help to maintain the efficient running of the Scheme.

London Borough of Hillingdon (the "administering authority") is responsible for the local administration of the Fund, which is part of the Local Government Pension Scheme ("the LGPS"). Operationally, the administration of the Fund is undertaken by Hampshire County Council (HCC) under a delegation agreement, and the team at Hampshire and Hillingdon Council staff work together to provide a seamless service to scheme employers and members, and as such effective communication *between* the two organisations is vitally important. This policy focuses on effective communication between the Fund (i.e. the Council and Hampshire County Council as administrator) and its external stakeholders.

The Statement sets out who we will communicate with, how this will be done and how the effectiveness of that communication will be monitored.

## Implementation

This Strategy outlines the type of communications the administering authority would like to provide to scheme members and employers. It includes making more use of technology to provide quicker and more efficient communications for the Fund's stakeholders.

This Strategy will be effective from 28 September 2021 and the performance indicators mentioned herein will demonstrate ongoing progress towards the Strategy's aims and objectives.

## Regulatory Basis

The LGPS is a statutory scheme, established by an Act of Parliament. Regulation 61 of the Local Government Pension Scheme Regulations 2013, reproduced below, provides the conditions and regulatory guidance surrounding the production and implementation of Communications Strategies:

## Statements of policy concerning communications with members and Scheme employers

61. (1) An administering authority must prepare, maintain and publish a written statement setting out its policy concerning communications with —

- (a) members;
- (b) representatives of members;
- (c) prospective members; and
- (d) Scheme employers.

(2) In particular the statement must set out its policy on —

- (a) the provision of information and publicity about the Scheme to members, representatives of members and Scheme employers;
- (b) the format, frequency and method of distributing such information or publicity; and
- (c) the promotion of the Scheme to prospective members and their employers.

(3) The statement must be revised and published by the administering authority following a material change in their policy on any of the matters referred to in paragraph (2).

This statement has been developed to include the information required by those provisions and to describe our approach in relation to meeting these requirements in the delivery of communications.

## **Our Aims and Objectives**

### **Mission Statement**

The primary objectives of the London Borough of Hillingdon Pension Fund are:

- to be known as forward thinking, responsive, proactive and professional providing excellent stakeholder focused, reputable and credible service to all customers.
- to have instilled a corporate culture of risk awareness, financial governance, and to provide the highest quality, distinctive services within the resource budget.
- to work effectively with partners, being solution focused with a 'can do' approach.

In addition, we have specific aims and objectives in relation to our communication responsibilities as set out below.

### **Communication Aims and Objectives**

This Communications Strategy has a number of specific objectives relating to how we communicate with our stakeholders, as follows;

- Promote the Scheme as a valuable benefit and provide sufficient information to educate members to help them to make informed decisions about their benefits.
- Communicate in a clear, concise manner.
- Ensure we use the most appropriate means of communication, taking into account the different needs of our stakeholders.

- Look for efficiencies in delivering communications, including through greater use of technology and partnership working, with the view that digital communications is the preferred long term communications solution.
- Annually evaluate the effectiveness of communications and shape future communications appropriately.

Ultimately, achieving these objectives should result in fewer member and employer queries, which will help all stakeholders whilst maintaining and improving the efficient running of the Scheme.

## **Delivery of Communications**

London Borough of Hillingdon has delegated responsibility for the management of the Pension Fund to the London Borough of Hillingdon Pensions Committee, taking into consideration the input of the Pensions Board. The Committee will monitor the implementation of this Strategy on a regular basis as outlined later in this statement.

Operationally, the communications of the Fund are undertaken by Hampshire County Council with the sign-off of the London Borough of Hillingdon. The London Borough of Hillingdon will also look for opportunities to work collaboratively with other Administering Authorities to reduce development costs and enhance the quality of information. This might include:

- working with other administering authorities through the Pensions Officer Group networks to produce communications, which can then be customised further where necessary to the needs of the London Borough of Hillingdon Pension Fund
- participating in joint training sessions with other administering authorities.

## **How we Communicate**

Ensuring that key stakeholders are well informed about the LGPS is of paramount importance, and London Borough of Hillingdon recognises that communicating in a clear informative style is vital in achieving this aim.

## **With whom we will Communicate**

London Borough of Hillingdon recognises that there are several distinct stakeholder groups, such as:

- Scheme Members (active, deferred, pensioner and dependant members) and prospective Scheme Members
- Scheme Employers and prospective Scheme Employers
- Pension Fund Committee and Pension Board members
- Pension Fund Staff
- Other interested organisations including Government Departments, Scheme Advisory Board and Advisors to the Pension Fund.

The main means of communication with these key stakeholders are outlined in the next section.

## Diversity of Communication

The London Borough of Hillingdon Pension Fund's information is also available in alternative formats for example, Braille or large print on request. The London Borough of Hillingdon Pension Fund always aims to use the most appropriate communication medium(s) for the audience receiving the information. However, the London Borough of Hillingdon acknowledges that digital communications is the preferred long-term communications solution.

## Methods of Communication

### a) With Scheme Members and Prospective Scheme Members

Our aim is to provide all communications electronically where possible as a rapid access and secure means of sharing personal information. We however recognise that it is not always a suitable method for all stakeholders and where appropriate will provide communication in writing and other inclusive formats such as large print or braille where required.

#### Member Portal

All members are encouraged to sign up to the member portal which provides secure access to their specific details and allows them to complete various forms, upload certain documents and send secure messages to Hampshire Pension Services staff. Members will also securely receive important documents like annual benefit statements, payslips via the member portal.

Members can access the portal at Civica Pensions - Home ([hants.gov.uk](http://hants.gov.uk))

#### Website

All members have access to the Fund's website

<https://archive.hillingdon.gov.uk/pensions> which contains information about the Fund and the LGPS, and members are able to download scheme literature and forms. The website also links to the HPS website Local Government Pension Scheme (LGPS) | Hampshire County Council ([hants.gov.uk](http://hants.gov.uk)) which offers extensive information about membership of the LGPS and scheme regulations as well as forms and guides for members and links to relevant organisations. It is regularly updated and provides news feed for topical information.

#### Annual Benefit Statements

These statements are distributed electronically to all active and deferred scheme members. Where email addresses are held for the members, a notification is sent to advise that the statement is available on the portal. Members can choose to opt out of this service in which case they will receive a paper copy.

#### Correspondence

Most of our communication with members is undertaken electronically, either through our Member Portal or by secure email. If we hold a member's email address, then we will email to advise when a letter or document is made available for them to view. However, if we are unable to communicate electronically then we send the information in writing to the member's home address.

If a member wishes to opt out of electronic communications and to receive paper copies, then we ask that they put their request to us in writing.

We can also communicate with members in a specific way on request, for example in large print or Braille.

All emails sent contain a link to our satisfaction survey to encourage feedback from members.

#### Benefit statements

We make our annual benefit statements available to all members through our Member Portal. If we hold an email address for a member then we email to advise that the statement is available to view on the Portal.

Members can choose to opt out of this online service and instead receive paper statements.

All statements include some explanatory notes and members are advised where to find a more detailed explanation of their statement on our website.

#### Pension saving statements

By 6 October each year, we send a pension saving statement to any member who may be affected by the annual allowance tax limit. These are also available to view on the Member Portal.

#### Pensioner payslips, P60s and annual newsletter

All payslips are available to our pensioners through the Member Portal. If a member has paid income tax during the preceding year, then a P60 will also be available through the portal by the end of May. The member can either view or download copies of the payslip and P60.

A pensioner newsletter is added to the Member Portal every year in March or April. An expanded version of the newsletter can be viewed on our website.

Pensioner members can opt out of electronic communications and choose always to receive paper copies, by putting their request to us in writing.

#### Declaration of pension entitlement

We send forms to verify a member's continuing entitlement to receive pension payments:

- every year, to pensioners that live overseas and
- whenever a pensioner payment or mail is returned to us.

#### Telephone and email

All members have the opportunity to telephone or email the London Borough of Hillingdon Pension Fund / Hampshire Pension Services (as appropriate) for information in addition to the other lines of communication open to them.

#### Literature

The London Borough of Hillingdon Fund makes pension-related literature available to scheme members, including:

A New Joiner Option Form which is the responsibility of employers to issue to all new members upon joining the London Borough of Hillingdon Pension Fund.

A retirement pack sent to all members about to retire from the London Borough of Hillingdon Pension Fund.

A welcome letter which is sent to all members joining the scheme to confirm their membership and provide information about the option to transfer in benefits and pay additional contributions if they wish.

## Pensions Taxation Correspondence

Where appropriate, letters are distributed to all members who are affected by the Annual Allowance or the Lifetime Allowance, explaining changes to taxation rules and how this may affect their pension savings.

## Annual Report

The Annual Report is published to highlight how the Fund has performed during the previous financial year. It also includes statements with regards to investment strategy, funding strategy, and governance. It is available on the Fund's website.

## **b) With Employers**

Effective communication between the Fund and its employers reduces errors, improves efficiency and leads to good working relationships. The day-to-day communication with employers will be supported by Hampshire Pensions Services with sign off from London Borough of Hillingdon on key areas of communication. The main means of communication with employers are outlined below.

### Website

The HPS website has a dedicated section for employers. It includes technical information, details of training courses, the latest employer news and an Employer Manual which contains details of procedures and employer responsibilities.

The website offers access to our Employer Hub. Employers are asked to register for this service which enables them to view or amend details of their own employee's records, submit forms to us or to provide member estimates, depending on their level of access.

### Newsletters

We send a regular electronic newsletter, "Pensions Matters", to employing authorities to keep them up to date with the latest regulation changes and proposals, as well as any changes in administrative processes.

We also send ad hoc email communications, under the heading "Stop Press" to advise employers of any changes or information they should be aware of or would find useful.

Copies of "Pensions Matters" and "Stop Press" emails are also added to the employer section of the website.

### Employer training

We offer employer training workshops on a variety of topics, in addition to dealing with queries via email or phone.

In addition, Pension Services will work with employers who have individual training needs offering targeted training on request or when a need is identified.

### Employer meetings

We hold employer liaison meetings throughout the year with key employers or those where additional support is required. All employers may request a meeting with us. We also hold six-monthly meetings with employer focus groups and will attend established employer forums.

### **Administration Strategy**

Introduced in April 2016, the administration strategy provides an overview of how the administering authority and employers will work together to achieve a high quality service. It is available on the Fund's website.

#### **c) With Pension Committee and Pension Board members:**

Effective communication ensures that Pension Committee and Pension Board members are appropriately knowledgeable and able to act in the best interests of the Fund and its members:

Members are provided with regular reporting on all areas relevant to pensions, including investment, funding, audit, governance, administration and risk. This is communicated in a variety of formats including via the external website, the intranet, the annual report and accounts, through committee and board meetings and through regular training in line with the Fund's training policy. The majority of reports provided to Pension Committee together with the meeting minutes, are available on the Democratic Service pages of the Council's website. The Pension Board members and reports to the Board can be found at this website address:

<https://archive.hillingdon.gov.uk/article/29807/Local-Pensions-Board>

#### **d) With Fund Staff:**

Effective communication ensures that both Hillingdon and Hampshire staff are confident and prepared to undertake their role, as follows:

##### **Pension Manager**

The London Borough of Hillingdon and Hampshire County Council Pension managers maintain open-door policies and are available to staff both within and outside the Pensions Teams. In addition, staff have unrestricted access to their managers and senior colleagues to discuss and resolve work related issues.

##### **Team Meetings**

Office and/or Team meetings are held on a monthly basis to discuss operational issues, ensuring there is a shared understanding of any issues and developing a consistent approach towards addressing them. Any items arising from such meetings are escalated to the relevant Pension Manager and raised at Senior Management Team Meetings if required.

##### **Intranet**

Each member of staff has access to the relevant Fund's intranet so that it can be used as an information resource.

##### **E-mail**

All staff have access to the e-mail facility.

## Internet

All staff have authority to access the internet to assist them in their role within Pension Services.

## Induction and training

All new members of staff undergo an induction procedure to acquaint them with the operational running of the Pension Fund. Subsequently, all pension staff also receive both in-house and external training to enable them to administer the scheme effectively, answer member queries, and offer a good customer service and also to assist in their personal development.

## Appraisal and Assessment

Staff at all levels in the Pension Team have annual assessments, with a mid-year review, during which there are open discussions of work issues and areas for development. This dialogue is supplemented by regular one-to-one meetings within team structures.

### e) Communicating with other bodies:

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

The Ministry of Housing Communities and Local Government (MHCLG)

We have regular contact with MHCLG as Responsible Authority of the LGPS, participating and responding to consultations as required.

#### Scheme Advisory Board

The national Scheme Advisory Board was established following the Public Services Pensions Act 2013 to provide advice to administering authorities and local pension boards in relation to the effective and efficient administration and management of the Scheme and their funds. We therefore liaise with the Scheme Advisory Board as appropriate.

#### The Pensions Regulator

The Pensions Regulator's remit has been extended to the Public Sector as a result of the Public Services Pensions Act 2013. We therefore liaise with the Regulator as required and ensure that the London Borough of Hillingdon Fund is compliant with the Pensions Regulator's Code of Practice.

#### Trade Unions

We work with relevant trade unions to ensure the Scheme is understood by all interested parties. Efforts are made to ensure all pension related issues are communicated effectively with the trade unions.

#### Employer Representatives

We work with relevant employer representative bodies to ensure that the Fund's views are represented to employer groups. Employers are represented on the Pension Board.

## Pension Fund Investment Managers, Advisers and Actuaries

We have regular meetings with;

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

## Pension Fund Custodian

The Fund's Custodian ensures the safekeeping of the Funds investment transactions and all related share certificates.

## AVC Provider

Additional Voluntary Contributions (AVC) are a way for members to top up their pension benefits, and in some instances provide tax free lump sum depending on the policy, and are held and invested separately from the LGPS. The Fund's in-house AVC provider is Prudential.

## Pensions and Lifetime Savings Association (PLSA)

The Fund is a member of PLSA, which provides an opportunity for administering authorities to discuss issues of common interest and share best practice.

## Regional Forums

The London Pension Officers Group takes place quarterly. It is an opportunity for the Pensions Managers and other Pension Officers from administering authorities in the region to share information and ensure uniform interpretation of the Local Government Pension Scheme, and other prevailing regulations.

## Requests for Information (FOI)

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

## Consultations

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

## Key Risks

The key risks to the delivery of this Strategy are outlined below. The London Borough of Hillingdon's Lead Pensions Officer will work together with the Lead Pensions Officer at Hampshire and with the Pension Committee and Pension Board in monitoring these and other key risks and considering how to respond to them.

- Lack or reduction of skilled resources due to difficulty retaining and recruiting staff members and also staff absence due to sickness
- Significant increase in the number of employing bodies causes strain on day to day delivery
- Significant external factors, such as national change, impacting on workload
- Issues in production of annual benefits statements, e.g. wrong address and printing errors due to external supplier
- Issuing incorrect or inaccurate communications
- Failure to maintain employer database leading to information not being sent to correct person
- Lack of clear communication to employers, scheme members and pensioners
- The ongoing impact of COVID 19 on all resources members, employers and other stakeholders.

## **Preparation and Review**

This Strategy Statement was approved on 28 September 2021 by the London Borough of Hillingdon Pensions Committee. It is effective from 1 October 2021

It will be formally reviewed and updated at least every three years or sooner if the communication management arrangements or other matters included within it merit reconsideration, including if there are any changes to the LGPS or other relevant Regulations or Guidance which need to be taken into account.

In preparing this Strategy we have consulted with the scheme member and employer representatives on the London Borough of Hillingdon Pension Board and other persons considered appropriate.

This Strategy Statement will be included within the Fund's Annual Report and Accounts and available on our website at: <http://www.hillingdon.gov.uk/pensions>.

## **Further Information**

Any enquiries in relation to the Fund's communications or the principles or content of this Strategy should be sent to:

James Lake, Head of Finance - Statutory Accounting & Pension Fund  
 London Borough of Hillingdon  
 Civic Centre  
 High Street  
 Uxbridge  
 UB8 1UW

E-mail - [jlake@hillingdon.gov.uk](mailto:jlake@hillingdon.gov.uk)  
 Telephone - 01895 277562

## **M: EXTERNAL AUDIT OPINION**

### **INDEPENDENT AUDITOR'S STATEMENT TO THE MEMBERS OF LONDON BOROUGH OF HILLINGDON ON THE PENSION FUND FINANCIAL STATEMENTS**

#### **Opinion**

# GLOSSARY

## **Active Management**

A style of management where the fund manager aims to outperform a **benchmark** by superior **asset allocation**, market timing or **stock selection** (or a combination of these).

## **Actuary**

An independent consultant who advises the Council on the financial position of the Fund. See **actuarial valuation**.

## **Actuarial Valuation**

This is an assessment done by an **actuary**, usually every three years. The actuary will work out how much money needs to be put into a pension fund to make sure pensions can be paid in the future.

## **Additional Voluntary Contribution**

### **(AVC)**

An option available to individuals to secure additional pensions benefits by making regular payments in addition to the 5.5%-12.5% of basic earnings payable.

## **Administering Authority**

In this instance, the 'Administering Authority' is London Borough Hillingdon. An administering authority is responsible, amongst other things, for maintaining member records, dealing with member queries/requests, investment of the fund and paying your LGPS pension.

## **Admitted Bodies**

Employers whose staff can become members of the Fund by virtue of an admission agreement made between the administering authority and the employer.

## **Asset Allocation**

The apportionment of a fund's assets between asset classes and/or world markets. The long-term strategic asset allocation of a fund will reflect the fund's investment objectives. In the short term, the fund manager can aim to add value through **tactical asset allocation** decisions.

## **Asset Liability Modelling**

Models the interaction and the allocation of assets to meet to meet present and future financial liabilities over time

## **Benchmark**

A yardstick against which the investment policy or performance of a fund manager can be compared. Each Fund's benchmark is customised, meaning that it is tailored to the Fund's **liability profile**.

**Bond**

A debt investment with which the investor loans money to an entity (company or government) that borrows the funds for a defined period of time at a specified interest rate.

**Book cost**

The value of an asset as it appears on a balance sheet, equivalent to how much was paid for the asset (less liabilities due). Book cost often differs substantially from **market value**.

**Broker**

An individual or firm that charges a fee or commission for executing buy and sell orders submitted by an investor.

**CARE**

'Career Average Revalued Earnings'. LGPS 2014 is a career average scheme, and is a method used for calculating pensions earned from April 2014.

**Commission**

A service charge assessed by an agent in return for arranging the purchase or sale of a security or real estate. The commission must be fair and reasonable, considering all the relevant factors of the transaction. (Underwriting commission)

**Corporate Bond**

A debt security issued by a corporation, as opposed to those issued by the government.

**Corporate Governance**

The system by which organisations are run, and the means by which they are responsible to their shareholders, employees and other stakeholders.

**Coupon**

The return earned on an investment. E.g. £5 received from a £100 debenture is the coupon.

**Creditors**

Amounts owed by the pension fund.

**Custody**

Safekeeping of securities by a financial institution. The custodian keeps a record of the client's investments and may also collect income; process tax reclaims and provide other services such as performance measurement.

**Debtors**

Amounts owed to the pension fund.

**Defined Benefit**

A type of pension plan in which an employer/sponsor promises a specified monthly benefit on retirement that is predetermined by a formula based on the

employee's earnings history, tenure of service and age, rather than depending directly on individual investment returns.

### **Derivative**

Used to describe a specialist financial instrument such as **options** or **futures contracts**. Financial instruments are agreements to buy or sell something, under terms laid out in a contract.

### **Diversification**

A risk management technique that mixes a wide variety of investments within a portfolio. It is designed to minimize the impact of any one security on overall portfolio performance.

### **Dividend**

Distribution of a portion of a company's earnings, decided by the board of directors, to a class of its shareholders. The amount of a dividend is quoted in the amount each share receives or in other words dividends per share.

### **Dividend Yield**

An indication of the income generated by a share, calculated as Annual Dividend per Share/Price per Share

### **Emerging Markets**

There are about 80 stock markets around the world of which 22 markets are generally considered to be mature. The rest are classified as emerging markets.

### **Equity**

Stock or any other security representing an ownership interest.

### **Ex-dividend**

Purchase of shares without entitlement to current dividends. This entitlement remains with the seller of the shares.

### **Final Salary Scheme**

An employer pension scheme, the benefits of which are linked to length of service and the final salary of the member (also known as defined benefit).

### **Fixed interest**

A loan with an interest rate that will remain at a predetermined rate for the entire term of the loan. See bond.

### **FTSE All-Share**

An arithmetically weighted index of leading UK shares (by market capitalisation) listed on the London Stock Exchange (LSE). The FTSE 100 Index covers only the largest 100 companies.

### **Funding Level**

A comparison of a scheme's assets and liabilities.

**Futures Contract**

A contract to buy goods at a fixed price and on a particular date in the future. Both the buyer and seller must follow the contract by law.

**Gilts**

The familiar name given to sterling, marketable securities (or bonds) issued by the British Government.

**Hedge**

Making an investment to reduce the risk of adverse price movements in an asset. Normally, a hedge consists of taking an offsetting position in a related security, such as a **futures contract**.

**Index Linked**

A **bond** that pays a coupon that varies according to some underlying index, usually the Consumer Price Index.

**Liability Profile**

The future cash outflows for Scheme Member benefits as they mature.

**LGPS**

Local Government Pension Scheme

**LSE**

London Stock Exchange

**Mandate**

The agreement between a client and investment manager laying down how the portfolio is to be managed, including performance targets.

**Market Value**

A security's last reported sale price (if on an exchange) i.e. the price as determined dynamically by buyers and sellers in an open market. Also called market price.

**Option**

The name for a contract where somebody pays a sum of money for the right to buy or sell goods at a fixed price by a particular date in the future. However, the goods do not have to be bought or sold.

**Passive Management**

A style of fund management that aims to construct a portfolio to provide the same return as that of a chosen index.

**Pension Fund**

A fund established by an employer to facilitate and organise the investment of employees' retirement funds contributed by the employer and employees. The **pension fund** is meant to generate stable growth over the long term, and provide pensions for employees when they reach the end of their working years and commence retirement.

### **Private Equity**

When equity capital is made available to companies or investors, but not quoted on a stock market. The funds raised through private equity can be used to develop new products and technologies, to expand working capital, to make acquisitions, or to strengthen a company's balance sheet. Also known as **development capital**.

### **Property Unit Trusts**

Pooled investment vehicles that enable investors to hold a stake in a diversified portfolio of properties

### **Quantitative Easing (QE)**

QE is monetary policy in which a central bank purchases government securities or other securities from the market in order to lower interest rates and increase the money supply

### **Resolution Bodies**

Scheme employers with the power to decide if an employee or group of employees can join the scheme

### **Return**

Synonymous with profit, be it income received, capital gain or income and capital gain in combination. Usually expressed as a percentage of the nominal value of the asset.

### **Risk**

The likelihood of performance deviating significantly from the average. The wider the spread of investment in an investment sector or across investment sectors, i.e. the greater the diversification, the lower the risk.

### **Scheme Employers**

Local authorities and other similar bodies whose staff automatically qualify to become members of the pension fund

### **Security**

An investment instrument, other than an insurance policy or fixed annuity, issued by a corporation, government, or other organisation, which offers evidence of debt or equity

### **Socially Responsible Investment (SRI)**

Investments or funds containing stock in companies whose activities are considered ethical.

### **Specialist Manager**

A fund management arrangement whereby a number of different managers each concentrate on a different asset class. A specialist fund manager is concerned primarily with **stock selection** within the specialist asset class. **Asset allocation** decisions are made by the investment committee, their consultant or by a specialist tactical asset allocation manager (or combination of the three).

**Stock**

A type of security that signifies ownership in a corporation and represents a claim on part of the corporation's assets and earnings. Also known as shares or **equity**.

**Stock Selection**

The process of deciding which stocks to buy within an asset class.

**The Fund**

'The Fund' explicitly refers to London Borough of Hillingdon Pension Fund

**Tracking Error**

An unplanned divergence between the price behaviour of an underlying stock or portfolio and the price behaviour of a benchmark. Reflects how closely the make-up of a portfolio matches the make-up of the index that it is tracking.

**Transaction Costs**

Those costs associated with managing a portfolio, notably brokerage costs and taxes.

**Transfer Value**

The amount transferred to/from another pension fund should a member change employment. The amount transferred relates to the current value of past contributions.

**Transition**

To move from one set of investment managers to another

**Underwriting**

The process by which investment bankers raise investment capital from investors on behalf of corporations and governments that are issuing securities (both equity and debt)

**Unit Trust**

A pooled fund in which investors can buy and sell units on an ongoing basis

**Unlisted Security**

A security that is not traded on an **exchange**

**Unrealised Gains/ (losses)**

The increase/ (decrease) at year-end in the market value of investments held by the fund since the date of their purchase.

**Yield**

The rate of income generated from a stock in the form of dividends, or the effective rate of interest paid on a bond, calculated by the coupon rate divided by the bond's market price. Furthermore, for any investment, yield is the annual rate of return expressed as a percentage.

# **London Borough of Hillingdon**

## **Pension Fund**

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### **Governance Policy and Compliance Statement**

**September 2020**

# **Governance Policy and Compliance Statement– Administering Authority**

London Borough of Hillingdon is the Administering Authority of the London Borough of Hillingdon Pension Fund and administers the Local Government Pension Scheme on behalf of participating employers.

Regulation 55 of the Local Government Pension Scheme Regulations 2013 requires Local Government Pension Scheme (LGPS) Administering Authorities to publish Governance Compliance Statements setting out information relating to how the Administering Authority delegates its functions under those regulations and whether it complies with guidance given by the Secretary of State for Communities and Local Government. It also requires the Authority to keep the statement under review and to make revisions as appropriate and where such revisions are made to publish a revised statement.

## **Aims and Objectives**

The London Borough of Hillingdon recognises the significance of its role as Administering Authority to the London Borough of Hillingdon Pension Fund on behalf of its stakeholders which include (at time of drafting):

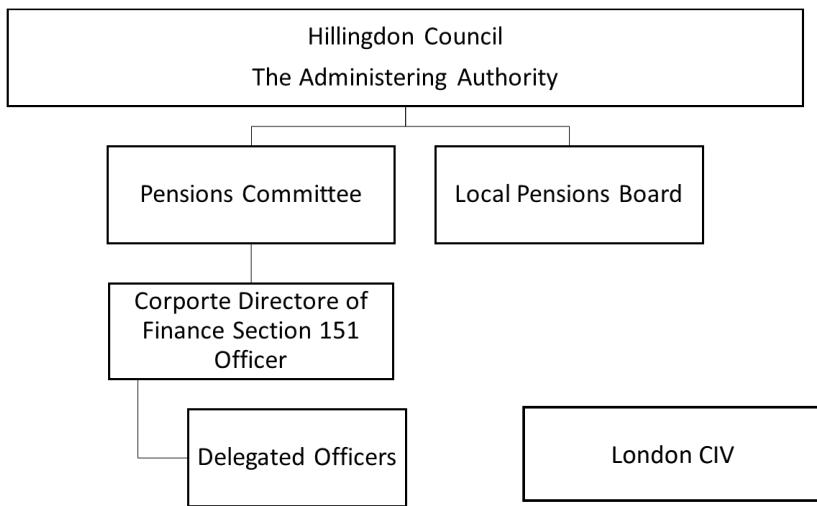
- around 23,407 current and former members of the Fund, and their dependants
- over 66 employers within the London Borough of Hillingdon Fund
- local taxpayers within the council areas participating in the London Borough of Hillingdon Pension Fund.

In relation to the governance of the Fund, our objectives are to ensure that:

- all staff and Pensions Committee Members charged with the financial administration and decision-making with regard to the Fund are fully equipped with the knowledge and skills to discharge the duties and responsibilities allocated to them
- the Fund is aware that good governance means an organisation is open in its dealings and readily provides information to interested parties
- all relevant legislation is understood and complied with
- the Fund aims to be at the forefront of best practice for LGPS funds
- the Fund manages Conflicts of Interest appropriately

## **Structure**

The Constitution of the Council 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.



### **Terms of Reference for the Pensions Committee**

The Pensions Committee's principal aim is to carry out the functions of the London Borough of Hillingdon as the Scheme Manager and Administering Authority for the London Borough of Hillingdon Pension Fund in accordance with Local Government Pension Scheme regulations and any other relevant legislation.

In its role as the administering authority, the London Borough of Hillingdon owes fiduciary duties to the employers and members of the London Borough of Hillingdon Pension Fund and must not compromise this with its own particular interests. Consequently this fiduciary duty is a responsibility of the Pensions Committee and its members must not compromise this with their own individual interests.

The Pensions Committee operates under the following terms of reference:

#### *Terms of Reference*

1. To review and approve all aspects of investment policy relating to the Pensions Fund, including agreeing the strategic asset allocation and authorisation or prohibition of particular investment activities.
2. To review the Investment Strategy Statement and amend it when necessary.
3. To agree benchmarks and performance targets for the investment of the Fund's assets and review periodically.
4. To agree to transfer funds into mandates managed by the London Collective Investment Vehicle (CIV) as soon as appropriate opportunities become available.
5. To receive regular reports from the London CIV and to agree and resultant actions from a review of the investments held with the London CIV.
6. To keep the performance of the investment managers under regular review and extend or terminate their contracts as required. To appoint new managers when necessary.
7. To agree policy guidelines for the exercise of voting rights attached to the Fund's shares.
8. To review the appointment of specialist advisors and service providers and make

new appointments as necessary.

9. To consider the overall implications of the Council's policies for employment and benefits issues and their impact on the Pension Fund and agree any strategic changes.
10. To approve the appointment of persons to hear appeals under the Internal Dispute Resolution Procedure.
11. To consider issues concerning the administration of the Fund, including approving responses to consultation papers.
12. To consider and decide whether to approve proposals for discretionary enhanced early retirement packages for officers.
13. The Corporate Director of Finance be authorised to take urgent decisions in relation to the pensions fund and investment strategy on behalf of the Committee, reporting back to the Pensions Committee any exercise of these powers for ratification.

#### *Membership of the Pensions Committee*

Councillor membership of the Committee will be 5, will be politically balanced and have voting rights. In addition, the Independent Adviser and Investment Consultant would normally attend meetings along with relevant officers in an advisory, non-voting capacity.

#### *Meetings*

The Council shall fix the day of meetings of the Pensions Committee and the ordinary meetings for the Pensions Committee shall be at Hillingdon Civic Centre, but they may arrange to meet elsewhere when they see fit. In April 2020 the Government issued temporary legislation allowing Local Authorities to conduct virtual meetings. This is to enable decisions to continue to be made during the current COVID-19 pandemic where social distancing is required.

Pensions Committee meetings are currently being conducted virtually with the public section being streamed live on the Council's youtube channel <https://www.youtube.com/user/HillingdonLondon>

The Chair may cancel meetings. The Pensions Committee meets every quarter and the dates are arranged annually in advance. The Chairman of the Committee may call a special meeting if required.

#### *Access to Agenda, Reports and Minutes of Meetings*

The Council will give at least seven clear working days notice of any meeting by posting details of the meeting at the Hillingdon Civic Centre 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. Minutes of meetings and records of decisions are available for inspection on the Council's website: <http://www.hillingdon.gov.uk>

The Committee's full terms of reference can also be found on the Council's website.

### **Scheme of Delegation**

Where Council functions are not specifically reserved to the Pensions Committee in relation to the Pension Fund, the functions are deemed to be delegated to the relevant Chief Officers, or the Corporate Director of Finance in the case of the Pension Fund. The Corporate Director of Finance is responsible for the establishment of a scheme of delegation for their department which includes the Pension Fund function. The scheme of delegation specifies the function, names the post which may carry out that delegated decision and the limits if any on the delegation. The limits on delegation may include the obligation to consult record and/or refer back to the Chief Executive or Corporate Director of Finance in certain circumstances. The Finance Directorate has a scheme of delegation which sets out the delegated powers to individual officers within the directorate. In relation to the Pension Fund the management is delegated to the Corporate Director of Finance and responsible officer for the pension Fund. The scheme of delegation is reviewed regularly by the Council.

### **London CIV**

The London CIV was formed as by the 33 London Boroughs in 2014 to pool their LGPS investments. It received regulatory authorisation from the Financial Conduct Authority in November 2015. The London CIV has been established as a collective investment vehicle for LGPS Funds. The current regulatory permissions allow for operation as an Authorised Contractual Scheme (ACS) Fund.

The governance arrangement of LCIV has been enhanced since the last governance policy review, to improve Client Fund engagement in 2019 following a consultation. The changes were particular in respect of arrangements for Client Fund engagement in fund decision-making and Client Fund oversight.

The governance structure of the LCIV has been designed to ensure that there are both formal and informal routes to engage with the investing Funds both as shareholders and investors, making the LCIV accountable at both levels.

Major decisions, including approval of the budget, strategic objectives and business plan are reserved to shareholders in General Meeting as set out in a Shareholder Agreement.

## **London CIV Company Board**

The Board, (subject to matters reserved to shareholders) include:, Strategy and oversight of management of the company, budget and forward plan, reviews of performance, Major contracts and significant decisions including in relation to funds, financial reporting and controls, compliance, risk and internal controls, Key policies - Governance

## **London CIV - Shareholder Committee**

The Shareholder Committee is made up of 8 Councilors, 4 London Treasurers and a trade union observer. The shareholder committee is consulted on London CIV's strategy, budget and business plan (MTFS); financial and corporate performance; all matters reserved to shareholders; emerging issues and shareholder priorities; Responsible Investment, and Reporting & Transparency. This role means that the Shareholder Committee plays an important role in identifying emerging issues and realistic solutions which will ensure that London CIV can deliver pooling to meet the needs of London. It has a key role in reviewing the budget and other matters reserved to shareholders before the Board makes a recommendation to all shareholders. There are 2 meetings each year of all shareholders and quarterly meetings of a Shareholder Committee representative of shareholders.

## **London CIV - Investment Oversight Committee (IOC)**

The IOC is responsible for: overseeing the investment activity of London CIV in line with the Company's strategy and business plan. This includes the appointment of investment managers as part of the fund launch process (subject to approval by the Board), and fund performance including the performance of investment managers.

## **London CIV - Compliance Audit and Risk Committee (CARCO)**

The committee is responsible for: overseeing compliance obligations; for the integrity of financial statements and reporting, auditor engagement; and for the risk and control framework.

## **London CIV - Remuneration and Nomination Committee**

This committee is responsible for: remuneration policy; remuneration of key staff; nomination matters (appointments) and succession planning for key staff and the Board.

## **Pension Board**

In keeping with the Public Service Pensions Act 2013, Hillingdon Council has established a Local Pension Board (LPB). Local Pension Boards are not local authority committees; as such the Constitution of London Borough of Hillingdon, does not apply to the Pension Board unless it is expressly referred to in the Board's terms of reference. The London Borough of Hillingdon Pension Board was established by London Borough of Hillingdon on 1<sup>st</sup> April 2015. The terms of reference of the Board can be found on the Fund's website [hillingdon.gov.uk/pensions](http://hillingdon.gov.uk/pensions).

### *Role of the Pension Board*

The role of the Board as outlined in the legislation is to assist the administering authority in ensuring the effective and efficient governance and administration of the scheme including:

- securing compliance with the LGPS Regulations and any other legislation relating to the governance and administration of the Scheme, and requirements imposed in relation to the LGPS by the Pensions Regulator and:
- any other matters the LGPS regulation may specify

The Pensions Board is not a decision making body, rather it has a compliance and scrutiny role to ensure the Pensions Committee effectively and efficiently complies with the code of practice on the governance and administration of public service pension schemes issued by the Pension Regulator. Additionally the Pension Board will help ensure that the London Borough of Hillingdon Pension Fund is managed and administered effectively and efficiently and complies with the code of practice on the governance and administration of public service pension schemes issued by the Pension Regulator.

#### *Membership of the Pension Board*

The membership of the Board must be equally split between employer and scheme member representatives with relevant experience and the capacity to represent. Council has determined that membership shall be:

- 2 employer representatives - elected Members, appointed on the basis of political balance and appointed annually by Council. No elected Member may sit on both the Pensions Committee and the Pensions Board.
- 2 employee/scheme member representatives - selected at interview by the Chairman and one other Member of the Pensions Committee and a Senior Officer, on the basis of capacity and/or experience. Term of Office to be indefinite

#### *Meetings*

The Pension Board meets quarterly in the ordinary course of business and additional meetings may be arranged as required to facilitate its work.

The Pension Board is treated in the same way as a Committee of the London Borough of Hillingdon and, as such, members of the public may attend and papers will be made public in the same way as described above for the Pensions Committee.

#### *Terms of reference of the Pension Board*

1. The Pensions Board will meet at a frequency determined by the Board.
2. Reports to the Board will either reflect decisions taken by Pensions Committee or be reports for noting already seen by Pensions Committee.
3. The role of the Board will be to assist London Borough of Hillingdon Administering Authority as Scheme Manager: to secure compliance with the LGPS regulations and any other legislation relating to the governance and administration of the LGPS;
4. To secure compliance with requirements imposed in relation to the LGPS by the Pensions Regulator; and in such other matters as the LGPS regulations may specify.
5. To secure the effective and efficient governance and administration of the LGPS

for the London Borough of Hillingdon Pension Fund.

6. To provide the Scheme Manager with such information as it requires to ensure that any member of the Pension Board or person to be appointed to the Pension Board does not have a conflict of interest. NB: Being a member of the LGPS is not seen as a conflict of interest.

### **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 be found on the Pension Fund Website: [hillingdon.gov.uk/pensions](http://hillingdon.gov.uk/pensions).

#### *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.

#### *Investment Strategy Statement*

The Local Government Pension Scheme (Management and Investment of Funds) (Amendment) Regulations 2016 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 Investment Strategy Statement are as follows:

- Investment objectives.
- Asset allocation
- Pooling of assets
- Investment implementation
- Investment governance
- Performance management
- Risk Management
- Environment, Social and Governance (ESG) policy

#### *Governance Compliance Statement*

This sets out the Pension Fund's compliance with the Secretary of State's Statutory Guidance on Governance in the LGPS. This is attached as Appendix A and shows where the Fund is compliant or not compliant with best practice and the reasons why it may not be compliant.

#### *Training Policy*

London Borough of Hillingdon has a Training Policy which has been put in place to

assist the Fund in achieving its governance objectives and all Pensions Committee members, Pension Board members and senior officers are expected to continually demonstrate their own personal commitment to training and to ensuring that the governance objectives are met.

To assist in achieving these objectives, the London Borough of Hillingdon Pension Fund aims to comply with:

- the CIPFA Knowledge and Skills Frameworks and
- the knowledge and skills elements of the Public Service Pensions Act 2013 and the Pensions Regulator's (TPR) Code of Practice for Public Service Schemes

as well as any other LGPS specific guidance relating to the knowledge and skills of Pensions Committee members, Pension Board members or pension fund officers which may be issued from time to time.

Members of the Pensions Committee, Pension Board and officers involved in the management of the Fund will receive training to ensure that they meet the aims of the Training Policy with training schedules drawn up and reviewed on at least an annual basis.

### *Conflicts of Interest*

The Hillingdon Pension Fund has a Conflicts of Interest Policy that outlines how to identify, monitor and manage conflicts of interest that may occur. A register of interest is also maintained for the Pension Board and declaration of interest in relation to members of the Pensions Committee are available on the Council's website. Fund managers and advisors are also required to submit their organisations conflict of interest policy. Declaration of interests is a standing item on both the Local Pension Board and Pensions Committee agenda.

Conflicts of interest have always existed for those with LGPS administering authority responsibilities as well as for advisers to LGPS funds. This simply reflects the fact that many of those managing or advising LGPS funds will have a variety of other roles and responsibilities, for example as a member of the scheme, as an elected Member of an employer participating in the LGPS or as an adviser to more than one LGPS administering authority. Further any of those persons may have an individual personal, business or other interest which might conflict, or be perceived to conflict, with their role managing or advising LGPS funds.

It is generally accepted that LGPS administering authorities have both fiduciary and public law duties to act in the best interest of both the scheme beneficiaries and participating employers. This, however, does not preclude those involved in the management of the Fund from having other roles or responsibilities which may result in an actual or potential conflict of interest.

### *Annual Report and Accounts*

As part of the financial standing orders it is the duty of the Corporate Director of Finance 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 Committee and the Audit 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: [hillingdon.gov.uk/pensions](http://hillingdon.gov.uk/pensions).

#### *Communication Policy*

This document sets out the communications policy of the administering authority and sets out the strategy for ensuring that all interested parties are kept informed of developments in the Pension Fund. This helps to ensure transparency and an effective communication process for all interested parties. A copy of the policy can be found on the Pensions website: [hillingdon.gov.uk/pensions](http://hillingdon.gov.uk/pensions).

#### *Discretions Policies*

Under the LGPS regulations, the Administering Authority has a level of discretion in relation to a number of areas, and maintains a policy document detailing how it will exercise these discretions. The Administering Authority reviews these policies as appropriate and will notify interested parties of any significant changes. Employing Authorities are also required to set out their discretions policies in respect of areas under the Regulations where they have a discretionary power. Copies of both the Administering Authority and London Borough of Hillingdon's Employing Authority Discretions can be found on the website: <http://www.hillingdon.gov.uk>

#### *Pension Administration Strategy*

In order to assist with the management and efficient running of the Pension Fund, the Pension Administration Strategy encompassing administrative procedures and responsibilities for the Pension Fund for both the Administering Authority and Employing Authorities has been distributed to employers within the Fund following consultation and can be found on the website: [hillingdon.gov.uk/pensions](http://hillingdon.gov.uk/pensions). This represents part of the process for ensuring the ongoing efficient management of the Fund and maintenance of accurate data and forms part of the overall governance procedures for the Fund.

### **Monitoring Governance of the London Borough of Hillingdon Pension fund**

<b>The Fund's governance objectives will be monitored as follows: Objective</b>	<b>Monitoring Arrangements</b>
Have robust governance arrangements in place, to facilitate informed decision making, supported by appropriate advice, policies and strategies.	<ul style="list-style-type: none"><li>• The Pensions Committee and the section 151 officer make decisions on behalf of the fund.</li><li>• The Committee and Officers are also supported by various fund experts and advisors.</li><li>• The Pensions Board has oversight of the decisions made to ensure compliance with relevant legislation and regulations</li><li>• Policy and strategy documents are regularly reviewed and published to ensure they are up to date.</li></ul>
Ensure the Pension Fund is managed and its services delivered by people who have the appropriate knowledge and expertise	<ul style="list-style-type: none"><li>• A Training Policy is in place together with monitoring of all training by Pensions Committee members and key officers.</li></ul>

Act with integrity and be accountable to our stakeholders for our decisions, ensuring they are robust and well based	<ul style="list-style-type: none"> <li>Pension Committee meetings are open to all stakeholders to attend and papers and minutes are published.</li> <li>The Pension Board includes representatives from scheme members and employers in the Fund.</li> <li>The Pension Board prepares and publishes an annual report which may include comment on decision making.</li> </ul>
Understand and monitor risk	<ul style="list-style-type: none"> <li>A Risk Policy and register is in place.</li> <li>Ongoing consideration of key risks at Pensions Committee meetings.</li> </ul>
Strive to ensure compliance with the appropriate legislation and statutory guidance and to act in the spirit of other relevant guidelines and best practice guidance	<ul style="list-style-type: none"> <li>The Governance of the Fund is considered by both the External and Internal Auditors. All External and Internal Audit Reports are reported to Committee.</li> <li>The Fund maintains a log of all breaches of the law in accordance with the Fund's breaches procedure.</li> </ul>

## Key Risks

The key risks to the delivery of this Strategy are outlined below. Pensions Committee members will monitor these and other key risks and consider how to respond to them.

- Changes in Pensions Committee membership, Pension Board membership and/or key officers resulting in loss of continuity and potentially diminishing knowledge and understanding
- Changes in government / legislative requirements meaning insufficient time allocated to ongoing management, either at Pensions Committee meetings or as part of key officers' duties
- Ineffective delegation of duties and/or presentation of Pensions Committee items resulting in insufficient time spent on key matters
- Poor attendance and/or a lack of engagement at training and/or formal meetings by Committee members, Board members and/or other key officers resulting in a poor standard of decision making and/or monitoring
- Conflicts of interest not being appropriately managed by Committee members, Board members and/or key officers.

## Approval, Review and Consultation

This Governance Policy and Statement was approved at the London Borough of Hillingdon Pensions Committee meeting on 28 October 2020 following consultation with the Hillingdon Local Pension Board. It will be formally reviewed and updated at least every three years or sooner if the governance arrangements or other matters included within it merit reconsideration.

## Contact Information

Any enquiries in relation to the Fund's governance or the principles or content of this Strategy, or for further information on the Fund, contact:

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Telephone - 01895 277 562

Website: [hillingdon.gov.uk/pensions](http://hillingdon.gov.uk/pensions)

## Governance Best Practice – Compliance Statement

### Appendix A – London Borough of Hillingdon Pension Fund Governance Compliance Statement

Best Practice	Compliant or not?	Explanatory Note
<b>A. STRUCTURE &amp; REPRESENTATION</b>		
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	
Page 32 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.	Non-compliant	Prior to establishment of the local Pensions Board, both employees and Unions were represented on Pensions Committee. However, membership of the Pensions Board now includes pensioner, employer representative, and employee representative. Pensions Board.
<b>B. REPRESENTATION</b>		
a. That all key stakeholders are afforded the opportunity to be represented within the main or secondary committee structure. These include:- i) employing authorities (including non-scheme employers, e.g. admitted bodies); ii) scheme members (including deferred and pensioner scheme members), iii) where appropriate, independent professional observers, and iv) expert advisors (on an ad-hoc basis).	Non-compliant	Council took the decision to only have Council Members as voting members on Committee.  Meetings are open to all to attend, but main representation comes through Pensions Board.  The Pension Board also reviews all decisions taken by the Committee.

Best Practice	Compliant or not?	Explanatory Note
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.	N/A	
<b>C. SELECTION AND ROLE OF LAY MEMBERS</b>		
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	
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	
<b>D. VOTING</b>		
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	
<b>E. TRAINING / FACILITY TIME / EXPENSES</b>		
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.	Partially compliant	No annual training plan as training is developed according to need and workplan. A training log is maintained.
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Best Practice	Compliant or not?	Explanatory Note
<b>F. MEETINGS (FREQUENCY/QUORUM)</b>		
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.	N/A	
c. That an administering authority who do not include lay members in their formal governance arrangements, must provide a forum outside of those arrangements by which the interests of key stakeholders can be represented	Fully compliant	Pensions Board
<b>G. ACCESS</b>		
a. That subject to any rules in the council's constitution, all members of main and secondary committees or panels have equal access to committee papers, documents and advice that falls to be considered at meetings of the main committee.	Fully compliant	
<b>H. SCOPE</b>		
a. That administering authorities have taken steps to bring wider scheme issues within the scope of their governance arrangements.	Fully compliant	Through Pensions Board
<b>I. PUBLICITY</b>		
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	

## Appendix B

### Delegation of Functions to Officers by Pensions Committee

**Key:**

PC – Pensions Committee

CDF – Corporate Director of Finance

FA – Fund Actuary

Advisers – Investment, actuarial and/or benefits consultants as appropriate

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Function delegated to PC	Further Delegation to Officer(s)	Delegated Officer(s)	Communication and Monitoring of Use of Delegation
Investment strategy - approving the Fund's Investment Strategy Statement including specific liability profile and risk appetite.  Monitoring the implementation of these policies and strategies on an ongoing basis.	Rebalancing and cash management  Implementation of strategic allocation	CDF (having regard to ongoing advice of advisers)	High level monitoring at PC with more detailed monitoring by CDF
Selection, appointment and dismissal of the Fund's advisers, including actuary, benefits consultants, investment consultants, global custodian, fund managers, lawyers, pension funds administrator, and independent professional advisers.	Ongoing monitoring of Fund Managers	CDF (having regard to ongoing advice of advisers and subject to ratification by PC)	High level monitoring at PC with more detailed monitoring by advisers

<b>Function delegated to PC</b>	<b>Further Delegation to Officer(s)</b>	<b>Delegated Officer(s)</b>	<b>Communication and Monitoring of Use of Delegation</b>
Agreeing the terms and payment of bulk transfers into and out of the Fund.	Agreeing the terms and payment of bulk transfers into and out of the Fund where there is a bulk transfer of staff from the Fund. Exceptions to this would be where there is a dispute over the transfer amount or it relates to significant assets transfers relating to one employer or the Fund as a whole	CDF after taking appropriate advice from the FA.	Ongoing reporting to PC for noting
Making decisions relating to employers joining and leaving the Fund. This includes which employers are entitled to join the Fund, any requirements relating to their entry, ongoing monitoring and the basis for leaving the Fund.	Making decisions relating to employers joining and leaving the Fund and compliance with the Regulations and policies. This includes which employers are entitled to join the Fund, any requirements relating to their entry, ongoing monitoring and the basis for leaving the Fund where the employer.	CDF after taking appropriate advice from the FA.	Ongoing reporting to PC for noting
To review the Pension Fund's policy and strategy documents on a regular cycle and review performance against the Fund's objectives within the business plan	Changes to Administering Authority discretionary policies necessitated by changes to regulations - authority to amend the policies to reflect the requirements of such new regulations, subject to those decisions having no significant financial implications.	CDF and the Head of HR	Copy of policy to be circulated to PC members once approved.

<b>Function delegated to PC</b>	<b>Further Delegation to Officer(s)</b>	<b>Delegated Officer(s)</b>	<b>Communication and Monitoring of Use of Delegation</b>
Agreeing the Administering Authority responses to consultations on LGPS matters and other matters where they may impact on the Fund or its stakeholders.	Agreeing the Administering Authority responses where the consultation timescale does not provide sufficient time for a draft response to be approved by PC.	CDF, subject to agreement with Chairman	PC advised of consultation via e-mail (if not already raised previously at PC) to provide opportunity for other views to be fed in. Copy of consultation response provided at following PC for noting.
Overall responsibility the Fund's Knowledge and Skills Policy for all Pensions Committee members and for all officers of the Fund, including determining the Fund's knowledge and skills framework, identifying training requirements, developing training plans and monitoring compliance with the policy.	Implementation of the requirements of the CIPFA Code of Practice <sup>1</sup>	CDF	Regular reports provided to PC
The Committee may delegate a limited range of its functions to one or more officers of the Authority. The Pensions Committee will be responsible for outlining expectations in relation to reporting progress of delegated functions back to the Pensions Committee.	Other urgent matters as they arise	CDF, subject to agreement with Chairman	PC advised of need for delegation via e-mail as soon as the delegation is necessary. Result of delegation to be reported for noting to following PC.
	Other non-urgent matters as they arise	Decided on a case by case basis	As agreed at PC and subject to monitoring agreed at that time.

<sup>1</sup> CIPFA Code of Practice recommends each administering authority delegates responsibility for implementation to a senior officer.

# **London Borough of Hillingdon**

## **Pension Fund**

### **Conflicts of Interest Policy**



**HILLINGDON**  
LONDON

March 2023

## **1. To whom this Policy Applies**

This Conflict of Interest Policy applies to all Members of the Pensions Committee (PC), Local Pensions Board (LPB), all managers in the London Borough of Hillingdon Pension Fund Management Team, and the Corporate Director of Finance (Section 151 Officer) who are, from hereon in, collectively referred to as the senior officers of the Fund .

The Head of Pension, Treasury & Statutory Accounts will monitor potential conflicts for less senior officers involved in the daily management of the Fund and highlight this Policy to them as appropriate.

## **2. Legislative Context**

The overriding requirements in relation to the management of potential or actual conflicts of interest for those involved in LGPS funds are contained in various elements of legislation and guidance. These are considered further below.

The Public Service Pensions Act 2013, Section 5(4) requires that any member of a Pension Board must not have a “conflict of interest”, which is defined in Section 5(5) as a “financial or other interest which is likely to prejudice the person’s exercise of functions as a member of the board, but does not include a financial or other interest arising merely by virtue of membership of the scheme or any connected scheme.”

This policy should be considered in the context that the Local Pension Board assists the administering authority in complying with regulations and is not a decision making body. It is not therefore anticipated that any significant conflict of interest will arise. This policy has been established as the agreed framework for Hillingdon Council, as the Scheme Manager of the Hillingdon Pension Fund to effectively apply the three step approach of identifying, monitoring and managing conflicts of interest including but not limited to the consideration of actual or potential conflicts related to stewardship matters.

Paragraph 76 of the Pension Regulators Code of Practice 14 (Governance and administration of public service pension schemes), (CoP 14) requires schemes to have an agreed documented conflict of interest policy that includes; identifying, monitoring and managing potential conflicts of interest. CoP 14 also requires the policy to contain examples of what may give rise to conflicts of interest, how a conflict might arise specifically in relation to a Pension Board member and the process that Pension Board members and scheme managers should follow to address a situation where board members are subject to a potential or actual conflicts of interest.

Scheme regulations require that the scheme manager must be satisfied that for a person to be appointed as a member of the Pension Board, they do not have a conflict of interest and must from time to time, confirm that none of the members of the Pension Board has a conflict of interest.

### **3. CIPFA Investment Pooling Governance Principles for LGPS Administering Authorities Guidance**

The CIPFA governance principles guidance states "the establishment of investment pooling arrangements creates a range of additional roles that committee members, representatives, officers and advisers might have." It includes some examples of how conflicts of interest could arise in these new roles.

It highlights the need for Administering Authorities to:

- update their conflicts policies to have regard to asset pooling;
- remind all those involved with the management of the fund of the policy requirements and the potential for conflicts to arise in respect of asset pooling responsibilities; and
- ensure declarations are updated appropriately.

This Conflict of Interest Policy has been updated to take account of the possibility of conflicts arising in relation to asset pooling in accordance with the CIPFA governance principles guidance.

### **4. Localism Act 2011**

All members of the Pensions Committee are required by the Localism Act 2011 to declare 'disclosable pecuniary interests' and to abide by Hillingdon Council's Code of Conduct for Members, which contains provisions relating to disclosure of interests.

### **5. The Seven Principles of Standards in Public Life**

Sometimes referred to as the 'Nolan Principles', the seven principles of public life applies to anyone who holds public office. This includes people who are elected or appointed to public office, nationally and locally, and all people appointed to work in:

- the civil service;
- local government;
- the police;
- the courts and probation services;
- non-departmental public bodies; and
- health, education, social and care services.

The principles also apply to all those in other sectors that deliver public services.

Many of the principles are integral to the successful implementation of this Policy. The principles are as follows:

- selflessness;

- integrity;
- objectivity;
- accountability;
- openness;
- honesty; and
- leadership.

## **6. Advisors Professional Standards**

Many advisers will be required to meet professional standards relating to the management of conflicts of interest, for example, the Fund Actuary will be bound by the requirements of the Institute and Faculty of Actuaries. Any Protocol or other document entered into between an adviser and the Administering Authority in relation to conflicts of interest, whether as a requirement of a professional body or otherwise, should be read in conjunction with this Policy.

## **7. Employees**

In addition to the requirements of this Policy, officers of Hillingdon Council are required to adhere to the Hillingdon Council Code of Conduct, its Declarations of Interest Policy and its Gifts and Hospitality Policy which includes requirements in relation to the disclosure and management of potential or actual conflicts interest or relationships (financial and non-financial) that may impact on their work.

Senior officers of the Fund will, as a matter of course provide advice and support on pension fund matters.

## **8. Advisers**

The Administering Authority appoints its own advisers. There may be circumstances where these advisers are asked to give advice to scheme employers, or even to scheme members or member representatives such as the Trades Unions, in relation to pension matters. Similarly, an adviser may also be appointed to another administering authority which is involved in a transaction involving the Hillingdon Pension Fund and on which advice is required or to a supplier or organisation providing services to the Hillingdon Pension Fund.

An adviser can only continue to advise the Administering Authority and another party where there is no conflict of interest in doing so.

An adviser appointed to advise the Pensions Committee, Local Pensions Board or Fund officers can be the same person, as long as there is no conflict of interest between the multiple responsibilities.

This policy will be regularly reviewed in accordance with the requirements of CoP14 and also in accordance with the guidelines of the 2020 UK Stewardship code and any other regulations that apply.

Committee Members and Pension Board Members will also be required to declare any conflicts of interest at each respective Committee and Pension Board meeting. Any potential conflict will be recorded and it will remain a standing agenda item.

The Scheme will adopt the three stage approach to Identify, monitor and manage potential conflicts of interest as recommended in Cop14.

## **9. Identifying Conflicts of Interest**

A conflict of interest is a financial or other interest which is likely to prejudice a person's exercise of functions as a member of the Pensiouon Committee or Pension Board. It does not include a financial or other interest arising merely by virtue of that person being a member of the scheme or any connected scheme for which the Committee or Board is established.

Pension Board members, and people who are proposed to be appointed to the Pension Board, must provide the administering authority with information that they reasonably require to be satisfied that Pension Board members and proposed members do not have a conflict of interest.

There is a regulatory duty on the Administering Authority to satisfy itself that those appointed to its Pension Board do not have an actual conflict of interest prior to appointment and 'from time to time'.

In order to meet this duty, Pension Board Members are required to complete a 'Declaration of Interest' before appointment to their role.

## **10. Monitoring and Reporting Conflicts of Interest**

Declaration of conflicts of interest will be included as an opening agenda item at each Committee and Board meeting. This will provide an opportunity for those present to declare any interests, including other responsibilities, which have the potential to become conflicts of interest, and to minute discussions about how they will be managed to prevent an actual conflict arising. This conflict could be with a general subject area or a specific item on the agenda.

As part of their risk assessment process, Pension Committee and Pension Board members should be able to identify, evaluate and manage dual interests which have the potential to become conflicts of interest and pose a risk to the scheme and possibly members, if they are not mitigated. The Scheme will evaluate the nature of any dual interests and assess the likely consequences were a conflict of interest to materialise.

A register of interests will be maintained, monitoring dual interests, conflicts in relation to stewardship and other responsibilities. Decisions about how to manage potential conflicts of interest will be recorded in the register of interests. The register of interests and other relevant documents will be circulated to the Pension Board for ongoing review and be published on the pension fund website

## **11. Managing conflicts of Interest**

Pension Committee and Pension Board members are required to have a clear understanding of their role and the circumstances in which they may find themselves in a position of conflict of interest, and should know how potential conflicts should be managed.

The Pension Committee and Pension Board are required to evaluate the nature of any dual interests and responsibilities, assess the impact on operations and governance were a conflict of interest to materialise, and seek to prevent a potential conflict of interest becoming detrimental to their conduct. The 'Conflicts Register' can be provided to assist.

The Pension Committee and Pension Board may consider seeking independent legal advice from a nominated officer (for example, the monitoring officer) or external advisers where necessary on how to deal with these issues, if appropriate.

Individual members of the Pension Committee and Pension Board must know how to identify where they have a conflict of interest which needs to be declared and which may also restrict their ability to participate in meetings or decision making. They must also appreciate their legal duty under the Regulations to provide information to the Administering Authority in respect of such conflicts of interest.

Any individual who considers that they have a potential or actual conflict of interest which relates to an item of business at a meeting, must advise the Chair of the Committee or Board and the Head of Finance – Statutory Accounts & Pension fund prior to the meeting where possible, or state this clearly at the earliest possible opportunity in the meeting. A decision should then be reached on whether further action needs to be taken.

Options for managing an actual conflict of interest, should one arise, include:

- A member withdrawing from the discussion and any decision-making process;
- The Committee or Board establishing a sub-board to review the issue (where the terms of reference give the power to do so); or
- A member resigning from the Committee or Board if the conflict is so fundamental that it cannot be managed in any other way.

## **12. Examples of Conflicts of Interest**

For example, where an employer representative on the Board only acts in the interests of the Administering Authority, rather than in the interests of all participating employers.

For example an employer representative has access to information by virtue of his or her employment, which could influence or inform the considerations or decisions of the Pension Fund Committee or Pension Board. He or she has to consider whether to share this information in the light of their duty of confidentiality to their employer. Their knowledge of this information will put them in a position of conflict if it is likely to prejudice their ability to carry out their functions as a member of the Pension Fund Committee or Pension Board.

For example where a member representative (who is also a trade union representative) on the Board, only acts in the interests of their union rather than in the interest of all scheme members.

For example where a member representative of the Committee has a personal or family relationship with a contract award entity.

For example, stewardship related conflicts may arise as a result of business relationships between asset owners and asset managers, ownership structure of invested companies, differences between the stewardship policies of asset managers and their clients, cross-directorships, and client and other beneficiary interests which differ from each other.

## **Approval, Review and Consultation**

This Conflict of Interest Policy was approved on 22 March 2023 by the Pensions Committee. It will be formally reviewed and updated at least every three years or sooner if the conflict management arrangements or other matters included within it merit reconsideration, including if there are any changes to the LGPS or other relevant Regulations or Guidance which need to be taken into account.

## **Further Information**

If you require further information about anything in or related to this Conflict of Interest Policy, please contact:

James Lake, Head of Pensions, Treasury & Statutory Accounts  
London Borough of Hillingdon  
Civic Centre  
High Street  
Uxbridge  
UB8 1UW

E-mail - [jlake@hillingdon.gov.uk](mailto:jlake@hillingdon.gov.uk)  
Telephone - 01895 277562

# Hillingdon Pension Fund Outline Audit Planning Report

Year ended 31 March 2023

7 November 2023

Page 341





7 November 2023

London Borough of Hillingdon Pension Fund  
Hillingdon Civic Centre  
225-226 High St,  
Uxbridge UB8 1UW

Dear Audit Committee Members

We are pleased to attach our Outline Audit Planning Report for the forthcoming meeting of the Audit Committee. The purpose of this report is to provide the Committee with a basis to review our proposed audit approach and scope for the 2022/23 audit, in accordance with the requirements of the auditing standards and other professional requirements, but also to ensure that our audit is aligned with the Audit Committee's service expectations.

This report summarises our initial assessment of the key issues which drive the development of an effective audit for the Fund. We have aligned our audit approach and scope with these. We held a planning meeting with management and are currently completing our audit planning procedures based on our historic knowledge of the Pension Fund and sector wide knowledge. We will update the Audit Committee if there are any changes to our risk assessment once we have complete all our planning procedures.

This report is intended solely for the information and use of the Audit Committee, Pensions Committee and management, and is not intended to be and should not be used by anyone other than these specified parties.

We welcome the opportunity to discuss this report with you on 22 November 2023, as well as understand whether there are other matters which you consider may influence our audit.

Yours faithfully,

Debbie Hanson  
Partner  
For and on behalf of Ernst & Young LLP

# Contents



In April 2015 Public Sector Audit Appointments Ltd (PSAA) issued the "Statement of responsibilities of auditors and audited bodies". It is available from the via the PSAA website ([www.PSAA.co.uk](http://www.PSAA.co.uk)). The Statement of responsibilities serves as the formal terms of engagement between appointed auditors and audited bodies. It summarises where the different responsibilities of auditors and audited bodies begin and end, and what is to be expected of the audited body in certain areas.

The "Terms of Appointment (updated April 2018)" issued by the PSAA sets out additional requirements with which auditors must comply, over and above those set out in the National Audit Office Code of Audit Practice (the Code) and in legislation, and covers matters of practice and procedure which are of a recurring nature.

This report is made solely to the Audit Committee, the Pensions Committee and management of the Fund in accordance with the statement of responsibilities. Our work has been undertaken so that we can state to the Audit Committee, the Pensions Committee, and management of the Fund, those matters we are required to state to them in this report and for no other purpose. To the fullest extent permitted by law we do not accept or assume responsibility to anyone other than the Audit Committee, the Pensions Committees and management of the Fund for this report or for the opinions we have formed. It should not be provided to any third party without our prior written consent.

01

# Overview of our 2022/23 audit strategy





# Overview of our 2022/23 audit strategy

The following 'dashboard' summarises the significant accounting and auditing matters outlined in this report. It seeks to provide the Audit Committee with an overview of our initial risk identification for the upcoming audit and any changes in risks identified in the current year.

Risk/area of focus	Risk identified	Change from PY	Details
Misstatement due to fraud or error	Fraud risk	No change in risk or focus	There is a risk that the financial statements as a whole are not free from material misstatement whether caused by fraud or error. We perform mandatory procedures regardless of specifically identified fraud risks.
Misstatement of investment income and investment values through fraudulent journal entries	Fraud risk	No change in risk or focus	There could be potential manipulation of investment income and investment values through manipulation of investment journals by finance managers with an incentive to improve the reported performance of the Fund.
Incorrect valuation of unquoted (Level 3) investments	Significant risk	No change in risk or focus	Based on our initial planning work and discussions with management, we note that the Pension Fund holds a significant balance of unquoted investments, including Private Equity and Pooled Property funds. By their nature, these investments are more difficult to value because their valuation includes elements of judgement, which increases the risk of misstatement.
IAS 26 disclosure - Actuarial present value of promised retirement benefits	Inherent risk	No change in risk or focus	An actuarial estimate of the present value of future pensions is calculated by an independent firm of actuaries with specialist knowledge and experience. The estimate is based on triennial valuation as at 31 March 2022 and has regard to local factors such as mortality rates and expected pay rises along with other assumptions around inflation and investment yields when calculating the liability.  There is a risk that the valuation uses inappropriate assumptions to value the present value of the future benefits as at 31 March 2023.
Going concern	Area of focus	No change in risk or focus	The unpredictability of the current environment gives rise to a risk that the Pension Fund would not appropriately disclose the key factors relating to going concern. Disclosures should be underpinned by management's assessment with particular reference to Covid-19 and other factors causing market volatility and the Pension Fund's actual year end financial position and performance for the going concern period of 12 months after the auditor's report date.



# Overview of our 2022/23 audit strategy

The following 'dashboard' summarises the significant accounting and auditing matters outlined in this report. It seeks to provide the Audit Committee with an overview of our initial risk identification for the upcoming audit and any changes in risks identified in the current year.

Risk/area of focus	Risk identified	Change from PY	Details
Classification of investments	Area of focus	New area of focus	In prior year, our audit of fair value hierarchies of the Pension Fund's assets identified an error in the classification of investments which resulted in £47.8 million of investments being reclassified from level 2 to level 3. There is an element of judgment in the fair value hierarchy classification and we will therefore scrutinise and challenge these classifications in the current year.

## Materiality

Planning materiality  
£11.8m

Our planning materiality represents 1% of the net assets in the draft accounts, consistent year on year.

Performance materiality  
£8.9m

We have set performance materiality at £8.9 million, which represents 75% of materiality.

Audit differences  
£0.6m

We will report all uncorrected misstatements relating to the primary statements (net asset statement and fund account) greater than £0.6 million. We will communicate other misstatements to the extent that they merit the attention of the Audit Committee.



# Overview of our 2022/23 audit strategy

## Audit scope

This Outline Audit Planning Report covers the work that we plan to perform to provide you with:

- an audit opinion on whether the financial statements of London Borough of Hillingdon Pension Fund give a true and fair view of the financial position as at 31 March 2023 and of the income and expenditure for the year then ended.

Our audit will also include the mandatory procedures that we are required to perform in accordance with applicable laws and auditing standards.

When planning the audit we take into account several key inputs:

- Strategic, operational and financial risks relevant to the financial statements;
- Developments in financial reporting and auditing standards;
- The quality of systems and processes;
- Changes in the business and regulatory environment; and
- Management's views on all of the above.

By considering these inputs, our audit is focused on the areas that matter and our feedback is more likely to be relevant to the Fund.

Page 34  
Taking the above into account, and as articulated in this audit plan, our professional responsibilities require us to independently assess the risks associated with providing an audit opinion and undertake appropriate procedures in response to that. Our Terms of Appointment with PSAA allow them to vary the fee dependent on "the auditors assessment of risk and the work needed to meet their professional responsibilities". PSAA are aware that the setting of scale fees has not kept pace with the changing requirements of external audit with increased focus on, for example, the valuation of pension obligations, the introduction of new accounting standards in recent years as well as the expansion of factors impacting the audit such ISA 540 (revised) and ISA315. Therefore to the extent any of these or any other risks are relevant in the context of Hillingdon Pension Fund audit, we will discuss these with management as to the impact on the scale fee.

## Effects of climate-related matters on financial statements

Public interest in climate change is increasing. We are mindful that climate-related risks may have a long timeframe and therefore while risks exist, the impact on the current period financial statements may not be immediately material to an entity. It is nevertheless important to understand the relevant risks to make this evaluation. In addition, understanding climate-related risks may be relevant in the context of qualitative disclosures in the notes to the financial statements.

We make inquiries regarding climate-related risks on every audit as part of understanding the entity and its environment. As we re-evaluate our risk assessments throughout the audit, we continually consider the information that we have obtained to help us assess the level of inherent risk.



# Overview of our 2022/23 audit strategy

## Timeline

The target date for you to publish Pension Fund accounts for the financial year ending 31 March 2023 is 30 September 2023, as set out within the Accounts and Audit (Amendment) Regulations 2022. In line with our previous communications with you, due to the complex set of factors contributing to audit delays across the sector we were not be able to give our opinion on your financial statements by 30 September 2023. Refer to Section 06 for the indicative timelines.

## Fees

We remain in discussion with PSAA about our proposed increase to the scale fee which we consider to be appropriate to deliver an audit compliant with audit quality requirements. We include in Section 08, our current view of the fees required to carry out the 2022/23 audit. We will update the Committee on any determinations by PSAA on fees.

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## Audit team changes

Key changes to our team.



**Partner: Debbie Hanson**

Debbie Hanson has taken over from Helen Thompson. Debbie has over 30 years of public sector audit experience and is the partner for a number of pension funds.



**Manager: Kalthiemah Abrahams**

Kalthiemah Abrahams has taken over from Larisa Midoni. Kalthiemah has over 10 years of public sector experience in South Africa

## 02 Audit risks





## Audit risks

# Our response to significant risks

We have set out the significant risks (including fraud risks denoted by\*) identified for the current year audit along with the rationale and expected audit approach. The risks identified below may change to reflect any significant findings or subsequent issues we identify during the audit.

Misstatements due to fraud or error\*

### What is the risk?

As identified in ISA (UK) 240, management is in a unique position to perpetrate fraud because of its ability to manipulate accounting records directly or indirectly and prepare fraudulent financial statements by overriding controls that otherwise appear to be operating effectively.

As a result, there is a risk that the financial statements as a whole are not free of material misstatements whether caused by fraud or error.

### What will we do?

- ▶ Identify fraud risks during the planning stages.
- ▶ Inquire of management about risks of fraud and the controls put in place to address those risks.
- ▶ Understand the oversight given by those charged with governance of management's processes over fraud.
- ▶ Consider the effectiveness of management's controls designed to address the risk of fraud.
- ▶ Determine an appropriate strategy to address those identified risks of fraud.
- ▶ Perform mandatory procedures regardless of specifically identified fraud risks, including testing of journal entries and other adjustments in the preparation of the financial statements.

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Misstatement of investment income and investment values through fraudulent journal entries\*

### What is the risk?

There could be potential manipulation of investment income and asset values through manipulation of investment journals by finance managers with an incentive to improve the reported performance of the Fund.

### What will we do?

Our approach will focus on testing the appropriateness of manual journal entries recorded in the general ledger related to investments and ensuring that:

- ▶ The amounts are consistent with the fund manager/custodian reports;
- ▶ Appropriate authorisations are obtained for posting the journals; and
- ▶ The transactions are in the normal course of business or, if they are outside of the normal course, the business rationale will be requested and assessed for reasonableness.

## Our response to significant risks (continued)

Incorrect valuation of unquoted (Level 3) investments

### Financial statement impact

We have assessed that the risk of incorrectly valuing investments is high for unquoted level 3 investments held by the Pension Fund.

Total of level 3 investments held by the Fund at 31 March 2023: £178 million.

#### What is the risk?

The Fund's investments include unquoted pooled investment vehicles, such as private equity and pooled property investments.

The Fund makes judgements using information provided by investment managers to value those investments whose prices are not publically available. The material nature of these investments means that any error in judgement could result in a material valuation error.

Market volatility and uncertainties means such judgments can quickly become outdated, especially when there is a significant time period between the latest available audited information and the fund year end. Such variations could have a material impact on the financial statements.

These investment types made up 15% of the fund's total net assets as per the draft account of 2022/23, and as these investments are more complex to value, we have assessed the valuation of these investments as higher risk, as even a small movement in the assumptions could have a material impact on the financial statements.

#### What will we do?

We will:

- ▶ Assess the competence of valuation experts through review and analysis of ISAE 3402 internal control reports issued on the fund managers and the custodian;
- ▶ Where the ISAE 3402 reports are not issued at 31 March 2023, we will obtain and review bridging letters;
- ▶ Review the control reports for any issues or qualifications which impact the valuation controls over the funds.
- ▶ Review the basis of valuation for property investments and other unquoted investments, assessing the appropriateness of the valuation methods used;
- ▶ Where available, review the latest audited accounts for the relevant underlying investment funds and compare the net asset values with the valuation of the assets in the accounts of the Fund. We will also ensure there are no matters arising that highlight weaknesses in the Fund's valuation;
- ▶ If the latest audited accounts are issued at a different date compared to the reporting date of the Fund, we will perform roll forward procedures to support the valuation of the investments as of 31 March 2023, such as benchmark indexation for similar assets and analysis of cash movements in the gap period and understand what the Pension Fund has done to assess how the valuations are still materially correct as at 31 March 2023; and
- ▶ Perform analytical procedures by checking the valuation output for reasonableness against our own expectations.

# Other areas of audit focus and Inherent risk

What is the risk/area of focus?	What will we do?
<p><b>IAS 26 disclosure - Actuarial present value of promised retirement benefits</b></p> <p>The Fund's IAS 26 calculation shows that the present value of promised retirement benefits amount to £1,457 million as at 31 March 2023.</p> <p>The figure is material and subject to complex estimation techniques and judgements by the actuary, Hymans Robertson. The estimate is based on a roll-forward of data from the 2022 triennial valuation, updated where necessary, and has regard to local factors such as expected pay rises along with other assumptions around inflation and discount rate when calculating the estimate.</p> <p>Page 35</p> <p>There is a risk that the valuation uses inappropriate assumptions to calculate the estimate as at 31 March 2023.</p>	<p>In order to address this risk we will carry out a range of procedures including:</p> <ul style="list-style-type: none"><li>▶ Assessing the competence of management experts, Hymans Robertson;</li><li>▶ Engaging with the NAO's consulting actuary and our EY Pensions team to review whether the IAS26 approach applied by the actuary is reasonable and compliant with IAS26;</li><li>▶ Engaging with EY Pensions to undertake procedures to create an auditor's estimate for the pension liability, which we use to gain assurance over the process and assumptions used to estimate the present value of future retirement benefits;</li><li>▶ Ensure that the IAS26 disclosure is in line with the relevant standards and consistent with the valuation provided by the actuary; and</li><li>▶ Perform audit procedures to assess the accuracy of membership numbers provided to the actuary and included in the 31 March 2022 Triennial Report</li></ul>
<p><b>Classification of investments</b></p> <p>In prior year, our audit of fair value hierarchies of the Pension Fund's assets identified an error in the classification of investments which resulted in £47.8 million of investments being reclassified from level 2 to level 3.</p> <p>The fair value hierarchy gives the highest priority to quoted prices (unadjusted) in active markets for identical assets or liabilities (Level 1 inputs) and the lowest priority to unobservable inputs (Level 3 inputs). Level 2 inputs are inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly.</p> <p>Fair value hierarchy classification requires a higher level of professional judgment and accounting standards' interpretation.</p> <p>There is therefore a risk of inappropriate classification in relation to the valuation hierarchy of investments as at 31 March 2023.</p>	<p>In order to address this risk we will carry out a range of procedures including:</p> <ul style="list-style-type: none"><li>▶ Assessing the significance of the market inputs used the hierarchy valuation;</li><li>▶ Confirming the basis of the valuation of each class of investment asset and assessing whether it is appropriate;</li><li>▶ Obtaining quoted prices directly from independent sources and comparing these with the Pension Fund's assessment of observable market inputs (bid market price, current yields and closing bid prices) to confirm correct classification.</li></ul>

## Other areas of audit focus (continued)

What is the area of focus?	What will we do?
<p><b>Going concern</b></p> <p>There is a presumption that the Fund will continue as a going concern for the foreseeable future. However, the Fund is required to carry out a going concern assessment that is proportionate to the risks it faces. In light of the continued impact of Covid-19 on its admitted and scheduled bodies and the continuing volatility in capital markets, there is a need for the Fund to ensure that its going concern assessment, including its cashflow forecast, is thorough and appropriately comprehensive.</p> <p>The Fund is then required to ensure that its going concern disclosure within the statement of accounts adequately reflects its going concern assessment and in particular highlights any uncertainties it has identified.</p> <p>Page 33</p>	<p>We will meet the requirements of the auditing standard on going concern (ISA 570) and consider the adequacy of the Fund's going concern assessment and its disclosure in the accounts by:</p> <ul style="list-style-type: none"><li>• Challenging management's identification of events or conditions impacting going concern.</li><li>• Testing management's resulting assessment of going concern by evaluating supporting evidence (including consideration of the risk of management bias).</li><li>• Reviewing the Fund's cashflow forecast covering the foreseeable future, to ensure that it has sufficient liquidity to continue to operate as a going concern.</li><li>• Undertaking a 'stand back' review to consider all of the evidence obtained, whether corroborative or contradictory, when we draw our conclusions on going concern.</li><li>• Challenging the disclosure made in the accounts in respect of going concern and any material uncertainties to ensure the final disclosure is adequate and sufficient.</li></ul>



## 03 Audit materiality



# Materiality

## Materiality

For planning purposes, we have set planning materiality for 2022/23 at £11.6 million. This represents 1% of the Pension Fund's net assets value from the draft financial statements. It will be reassessed throughout the audit process. We have provided supplemental information about audit materiality in Appendix C.



We request that the Audit Committee confirm their understanding of, and agreement to, these materiality and reporting levels.

## Key definitions

**Planning materiality** - the amount over which we anticipate misstatements would influence the economic decisions of a user of the financial statements.

**Performance materiality** - the amount we use to determine the extent of our audit procedures. We have set performance materiality at 75% of planning materiality, consistent year on year.

**Audit difference threshold** - we propose that misstatements identified below this threshold are deemed clearly trivial. We will report to you all uncorrected misstatements over this amount relating to the fund account and net asset statement. This was calculated as 5% of planning materiality, which is consistent year on year.

Other uncorrected misstatements, such as reclassifications and misstatements in the disclosures, and corrected misstatements will be communicated to the extent that they merit the attention of the Audit Committee, or are important from a qualitative perspective.

04

Scope of our audit





# Scope of our audit

## Objective and Scope of our audit

Under the Code of Audit Practice our principal objectives are to review and report on the Pension Fund's financial statements to the extent required by the relevant legislation and the requirements of the Code. We issue an audit report that covers:

### Financial statement audit:

Our objective is to form an opinion on the financial statements under International Standards on Auditing (UK and Ireland). We also perform other procedures as required by auditing, ethical and independence standards, the Code and other regulations. We outline below the procedures we will undertake during the course of our audit.

### Procedures required by standards:

- Addressing the risk of fraud and error; significant disclosures included in the financial statements; entity-wide controls;
- Reading other information contained in the financial statements and reporting whether it is inconsistent with our understanding and the financial statements; and auditor independence.

### Procedures required by the Code:

- Reviewing, and reporting on as appropriate, other information published with the financial statements.



# Scope of our audit

## Audit Process Overview

Our audit involves:

- ▶ Identifying and understanding the key processes and internal controls; and
- ▶ Substantive tests of detail of transactions and amounts.

For 2022/23, we plan to follow a substantive approach to the audit, as we have concluded this is the most efficient way to obtain the level of audit assurance required to conclude that the financial statements are not materially misstated.

### ISA315:

ISA (UK) 315 (Revised) Identifying and Assessing the Risks of Material Misstatement, is effective for audits of financial statements for periods beginning on or after 15 December 2021. For the pension fund this will therefore impact on the audit of the financial statements for 2022/23. The new approach required to comply with the ISA will involve more detailed work around identifying relevant IT controls and evaluating the design and implementation of these controls. It also requires auditors to place risks of material misstatement on the 'Spectrum of Risk' as a significant, medium, low or no risk. Based on this assessment, different combinations of assurance (inherent, controls, and substantive) are used to address the risk. The subsequent slides provides more information on ISA315.

### Analytics:

We will use our analytics tools to enable us to capture whole populations of your financial data, in particular journal entries. These tools:

- ▶ Help identify specific exceptions and anomalies which can then be subject to more traditional substantive audit tests; and
- ▶ Give greater likelihood of identifying errors than random sampling techniques.

We will report the findings from our process and analytics work, including any significant weaknesses or inefficiencies identified and recommendations for improvement, to the Audit Committee, the Pensions Committee and management.

### Internal audit:

We will meet regularly with the Head of Internal Audit, and review internal audit plans and the results of the internal audit team's work. Where internal audit's work raises issues that could have an impact on our audit of the financial statements we will update the Committee at a future meeting.



# Scope of our audit

## ISA (UK) 315 (Revised July 2020) *Identifying and Assessing the Risks of Material Misstatement*

Summary of key measures	Impact on Hillingdon Pension Fund
<p>Page 350</p> <ul style="list-style-type: none"><li>► The revised auditing standard is effective for audits of financial statements for periods beginning on or after 15 December 2021, and adopts ISA 315 (Revised 2019) as issued by the IAASB.</li><li>► The revised risk assessment standard sees enhancements and clarifications to: (i) Encourage a more robust risk assessment, thereby promoting more focused responses to the identified risks; (ii) Clarify current requirements to promote consistency in the application of procedures for risk identification; and (iii) Modernize the standard to keep up with the evolving environment in which entities operate, in particular in relation to the Trust's use of information technology.</li><li>► The fundamentals of risk assessment have not changed, however, the changes will see additional audit procedures and considerations being made in the following areas to respond to the requirements of the revised standard:<ul style="list-style-type: none"><li>► How we identify and assess risks based on our understanding of the entity and other risk assessment procedures;</li><li>► How we understand the components of the system of internal control, including new evaluations which apply to each component;</li><li>► The type of controls and process for understanding controls that are relevant to our audit relating to the preparation and posting of journal entries;</li><li>► <b>New requirement</b> Understanding the effect of the Trust's use of IT, including relevant IT general controls, and the identification of IT-related risks; and</li><li>► Evaluating, as an audit team, whether sufficient evidence has been obtained to support the identification and assessment of risks of material misstatement.</li></ul></li></ul>	<ul style="list-style-type: none"><li>► The revised standard is for auditors and does not put any additional responsibilities or requirements on management or the Audit Committee, however, management and/or the Audit Committee may experience different conversations, requests or simply have more focused discussions with members of the audit team, including about risk, internal controls, audit quality and our audit strategy.</li><li>► For Hillingdon Pension Fund, the revised standard is effective for this audit of the financial statements for the period ended 31 March 2023.</li><li>► We will be required to perform new and additional procedures to understand the Fund's use of IT, the IT processes related to those IT applications relevant to the audit used in the different accounting processes and, where relevant, the IT general controls (ITGCs) that address IT risks in the IT processes and evaluation of their design effectiveness and whether they have been implemented.<p>The revised standard does not require an evaluation of the operating effectiveness of ITGCs; it continues to be a strategy decision for the auditor as to whether they intend to rely on IT processes.</p></li><li>► More control observations may be identified and communicated, and the additional evaluations of the components of the system of internal control may help identify deficiencies that are considered to be <i>significant deficiencies</i>.</li><li>► The new requirement relating to understanding the effect of the use of IT by an audited entity has the greatest potential for additional audit effort, involvement of team members with specialised knowledge of auditing IT, and an upward impact on audit fees.</li><li>► We have discussed on the next slides the specific impact of this new requirement on the audit of the Fund.</li><li>► The other impacts of the revised standard on our audit strategy are reflected in the relevant sections of this report.</li></ul>

### External resources

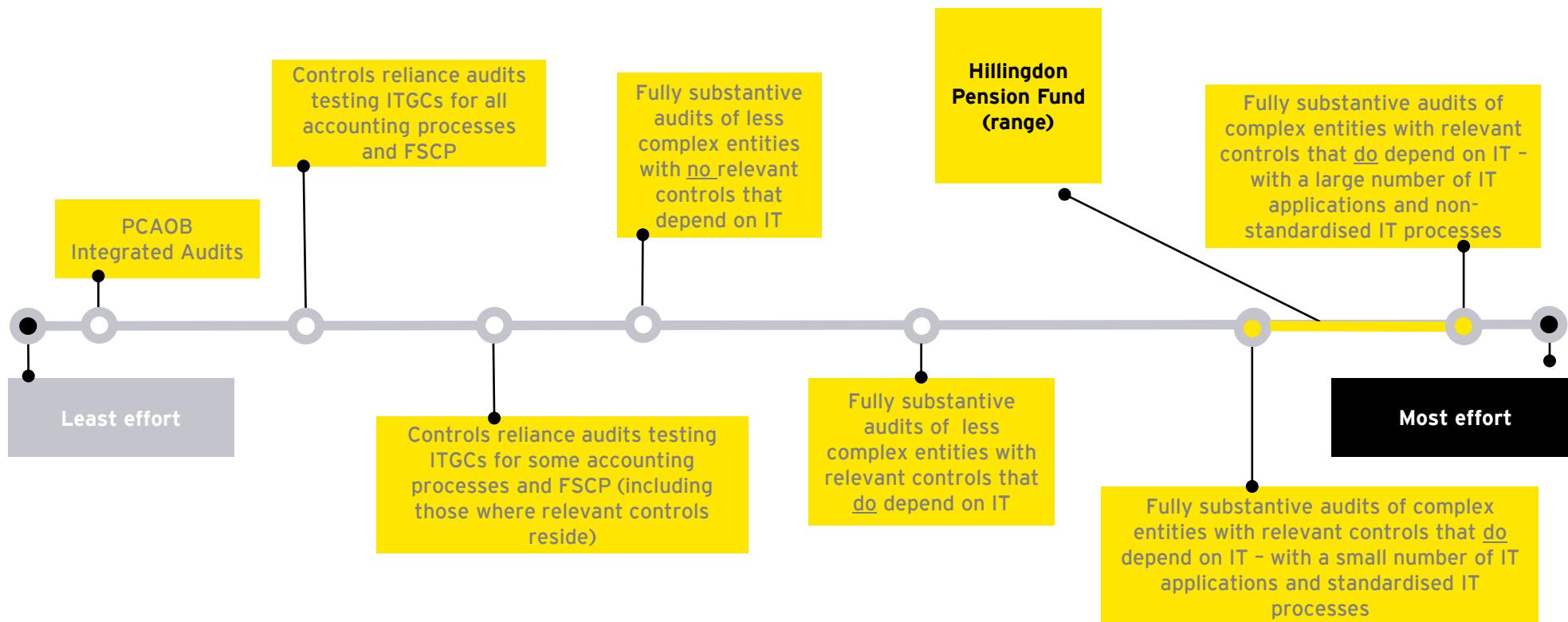
- FRC [Feedback statement and impact assessment](#)
- IAASB [Introduction to ISA 315 \(Revised 2019\) Fact Sheet](#)



# Scope of our audit

The graphic below indicates where we anticipate, based on our current understanding, that the audit of Hillingdon Pension Fund falls on the spectrum of effort as it applies to the new requirements of the revised standard relating to understanding the effect of the use of IT. The level of effort is displayed relative to the circumstances applicable to the Fund and why that level of effort may differ to that required on the audits of entities with different circumstances.

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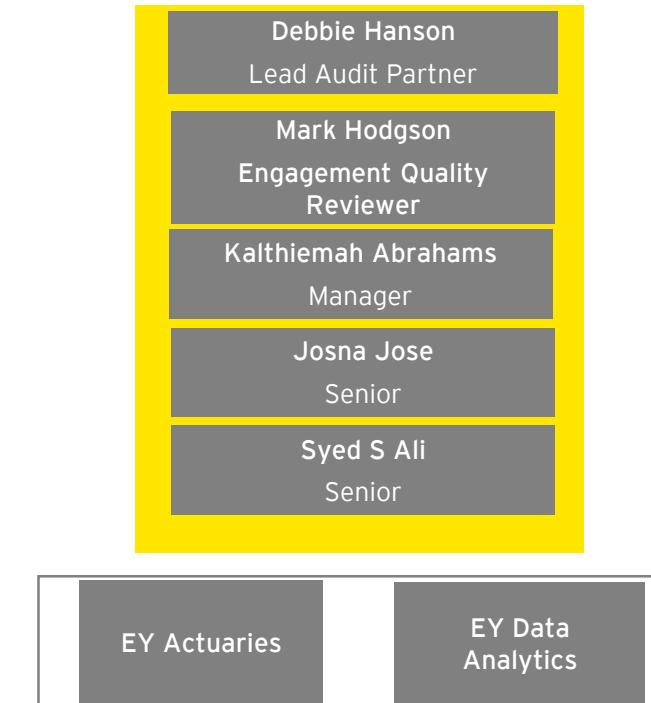


## 05 Audit team



# Audit team

### Audit team structure:



## Use of specialists

Our approach to the involvement of specialists, and the use of their work.

When auditing key judgements, we are often required to rely on the input and advice provided by specialists who have qualifications and expertise not possessed by the core audit team. The areas where either EY or third party specialists provide input for the current year audit are:

Area	Specialists
Pensions disclosure	Management specialist: Hymans Robertson EY specialist: EY Pensions team and PWC Actuaries
Investments	Management specialists: Legal & General Investment Management, London CIV Asset Pool, Adams Street Partners, AEW UK, LGT Capital Partners, M&G Investments, Macquarie Infrastructure, Permira Credit Solutions, UBS Global Asset Management (Equities), UBS Global Asset Management (Property)

In accordance with Auditing Standards, we will evaluate each specialist's professional competence and objectivity, considering their qualifications, experience and available resources, together with the independence of the individuals performing the work.

We also consider the work performed by the specialist in light of our knowledge of the Pension Fund's business and processes and our assessment of audit risk in the particular area. For example, we would typically perform the following procedures:

- ▶ Analyse source data and make inquiries as to the procedures used by the specialist to establish whether the source data is relevant and reliable;
- ▶ Assess the reasonableness of the assumptions and methods used;
- ▶ Consider the appropriateness of the timing of when the specialist carried out the work; and
- ▶ Assess whether the substance of the specialist's findings are properly reflected in the financial statements.



06

Indicative audit timeline



## Audit timeline

# Timetable of communication and deliverables

### Timeline

Below is a timetable showing the key stages of the audit and the deliverables we have agreed to provide to you through the audit cycle in 2022/23.

From time to time matters may arise that require immediate communication with the Audit Committee and we will discuss them with the Audit Committee Chair as appropriate. We will also provide updates on corporate governance and regulatory matters as necessary.

Audit phase	Timetable	Audit committee timetable	Deliverables
Planning: Risk assessment and setting of scopes, including planning procedures	Oct-Nov 2023		
Walkthrough of key systems and processes	Oct-Nov 2023		
Year end audit (substantive procedures and general procedures)	Nov- Dec 2023		
Audit Planning Report presented to the Audit Committee	Nov 2023	Audit Committee - 22 November 2023	Outline Audit Planning Report
Year end audit(conclusion) Audit Completion procedures	Jan - Feb 2024	Audit Committee - 12 February 2024	Audit Results Report Audit Opinion

07

Independence





# Introduction

The FRC Ethical Standard and ISA (UK) 260 "Communication of audit matters with those charged with governance", requires us to communicate with you on a timely basis on all significant facts and matters that bear upon our integrity, objectivity and independence. The Ethical Standard, as revised in December 2019, requires that we communicate formally both at the planning stage and at the conclusion of the audit, as well as during the course of the audit if appropriate. The aim of these communications is to ensure full and fair disclosure by us to those charged with your governance on matters in which you have an interest.

## Required communications

Planning stage	Final stage
<p>Page 367</p> <ul style="list-style-type: none"><li>► The principal threats, if any, to objectivity and independence identified by Ernst &amp; Young (EY) including consideration of all relationships between you, your affiliates and directors and us;</li><li>► The safeguards adopted and the reasons why they are considered to be effective, including any Engagement Quality review;</li><li>► The overall assessment of threats and safeguards;</li><li>► Information about the general policies and process within EY to maintain objectivity and independence.</li></ul>	<ul style="list-style-type: none"><li>► In order for you to assess the integrity, objectivity and independence of the firm and each covered person, we are required to provide a written disclosure of relationships (including the provision of non-audit services) that may bear on our integrity, objectivity and independence. This is required to have regard to relationships with the entity, its directors and senior management, its affiliates, and its connected parties and the threats to integrity or objectivity, including those that could compromise independence that these create. We are also required to disclose any safeguards that we have put in place and why they address such threats, together with any other information necessary to enable our objectivity and independence to be assessed;</li><li>► Details of non-audit/additional services provided and the fees charged in relation thereto;</li><li>► Written confirmation that the firm and each covered person is independent and, if applicable, that any non-EY firms used in the group audit or external experts used have confirmed their independence to us;</li><li>► Details of any non-audit/additional services to a UK PIE audit client where there are differences of professional opinion concerning the engagement between the Ethics Partner and Engagement Partner and where the final conclusion differs from the professional opinion of the Ethics Partner</li><li>► Details of any inconsistencies between FRC Ethical Standard and your policy for the supply of non-audit services by EY and any apparent breach of that policy;</li><li>► Details of all breaches of the IESBA Code of Ethics, the FRC Ethical Standard and professional standards, and of any safeguards applied and actions taken by EY to address any threats to independence; and</li><li>► An opportunity to discuss auditor independence issues.</li></ul>

In addition, during the course of the audit, we are required to communicate with you whenever any significant judgements are made about threats to objectivity and independence and the appropriateness of safeguards put in place, for example, when accepting an engagement to provide non-audit services.

We ensure that the total amount of fees that EY and our network firms have charged to you and your affiliates for the provision of services during the reporting period, analysed in appropriate categories, are disclosed.

# Relationships, services and related threats and safeguards

We highlight the following significant facts and matters that may be reasonably considered to bear upon our objectivity and independence, including the principal threats, if any. We have adopted the safeguards noted below to mitigate these threats along with the reasons why they are considered to be effective. However we will only perform non-audit services if the service has been pre-approved in accordance with your policy.

## Overall Assessment

Overall, we have not identified any threats that would require mitigation safeguards. We therefore confirm that EY is independent and the objectivity and independence of Debbie Hanson, your audit engagement partner, and the audit engagement team have not been compromised.

## Self interest threats

A self interest threat arises when EY has financial or other interests in the Pension Fund. Examples include where we receive significant fees in respect of non-audit services; where we need to recover long outstanding fees; or where we enter into a business relationship with you. At the time of writing, there are no long outstanding fees.

We believe that it is appropriate for us to undertake those permitted non-audit/additional services set out in Section 5.40 of the FRC Ethical Standard 2019 (FRC ES), and we will comply with the policies that you have approved.

When the ratio of non-audit fees to audit fees exceeds 1:1, we are required to discuss this with our Ethics Partner, as set out by the FRC ES, and if necessary agree additional safeguards or not accept the non-audit engagement. We will also discuss this with you.

A self interest threat may also arise if members of our audit engagement team have objectives or are rewarded in relation to sales of non-audit services to you. We confirm that no member of our audit engagement team, including those from other service lines, has objectives or is rewarded in relation to sales to you, in compliance with Ethical Standard part 4.

There are no other self interest threats at the date of this report.

## Self review threats

Self review threats arise when the results of a non-audit service performed by EY or others within the EY network are reflected in the amounts included or disclosed in the financial statements.

There are no self review threats at the date of this report.

## Management threats

Partners and employees of EY are prohibited from taking decisions on behalf of management of the Fund. Management threats may also arise during the provision of a non-audit service in relation to which management is required to make judgements or decision based on that work.

There are no management threats at the date of this report.

## Relationships, services and related threats and safeguards

### Other threats

Other threats, such as advocacy, familiarity or intimidation, may arise.

There are no other threats at the date of this report.

## Other communications

### EY Transparency Report 2022

Ernst & Young (EY) has policies and procedures that instil professional values as part of firm culture and ensure that the highest standards of objectivity, independence and integrity are maintained. Details of the key policies and processes in place within EY for maintaining objectivity and independence can be found in our annual Transparency Report which the firm is required to publish by law. The most recent version of the reporting period from 2 July 2022 to 30 June 2023, referred to throughout the report as FY22: [ey-uk-2023-transparency-report.pdf](https://ey-uk-2023-transparency-report.pdf)



## 08 Appendices



## Appendix A

### Fees

The duty to prescribe fees is a statutory function delegated to Public Sector Audit Appointments Ltd (PSAA) by the Department of Housing, Levelling up Housing and Communities. PSAA has published a scale fee for all relevant bodies. This is defined as the fee required by auditors to meet statutory responsibilities under the Local Audit and Accountability Act 2014 in accordance with the NAO Code, the financial reporting requirements set out in the Code of Practice on Local Fund Accounting published by CIPFA/LASAAC, and the professional standards applicable to auditors' work.

Page	Planned fee 2022/23	Proposed Final Fee 2021/22 (Note 1)
	£	£
Scale Fee - Code work	16,170	16,170
<b>Additional work and associated fees:</b>		
Significant risks on investments	TBC	10,001
Going concern and PBSE assessments and disclosures	TBC	17,616
IAS 19 Assurance	N/A	6,028
Triennial testing to support IAS 26 disclosure and IAS 19 pension liability roll forward (Note 2)	5,500	0
ISA 315 implementation (Note 3)	4,000 to 6,000	0
Other		19,492
<b>Total fees</b>	<b>TBC</b>	<b>69,307</b>

#### Notes:

1. For 2021/22, we have proposed scale fee variations of £53 137. This has been submitted to PSAA for determination and is currently being considered by them.
2. We will not be able to leverage the IAS 19 pension roll forward performed as part of the Council audit in the current year. In addition, testing will be required on the membership numbers due to the triennial valuation. These additional fees are not subject to approval by PSAA.
3. Due to the implementation of ISA315, we have to perform additional risk assessment procedures to understand the entities use of IT applications and controls.



## Appendix B

# Required communications with the Audit Committee

We have detailed the communications that we must provide to the audit committee.

Required communications	 <b>What is reported?</b>	 <b>Our Reporting to you</b>
Page 372	 <b>What is reported?</b>	 <b>When and where</b>
Terms of engagement	Confirmation by the audit committee of acceptance of terms of engagement as written in the engagement letter signed by both parties.	The statement of responsibilities serves as the formal terms of engagement between the PSAA's appointed auditors and audited bodies.
Our responsibilities	Reminder of our responsibilities as set out in the engagement letter	The statement of responsibilities serves as the formal terms of engagement between the PSAA's appointed auditors and audited bodies.
Planning and audit approach	<p>Communication of the planned scope and timing of the audit, any limitations and the significant risks identified.</p> <p>When communicating key audit matters this includes the most significant risks of material misstatement (whether or not due to fraud) including those that have the greatest effect on the overall audit strategy, the allocation of resources in the audit and directing the efforts of the engagement team</p>	Outline audit planning report - November 2023
Significant findings from the audit	<ul style="list-style-type: none"> <li>▶ Our view about the significant qualitative aspects of accounting practices including accounting policies, accounting estimates and financial statement disclosures</li> <li>▶ Significant difficulties, if any, encountered during the audit</li> <li>▶ Significant matters, if any, arising from the audit that were discussed with management</li> <li>▶ Written representations that we are seeking</li> <li>▶ Expected modifications to the audit report</li> <li>▶ Other matters if any, significant to the oversight of the financial reporting process</li> <li>▶ Findings and issues regarding the opening balance on initial audits (delete if not an initial audit)</li> </ul>	Audit results report - February 2024 (TBC)



## Appendix B

# Required communications with the Audit Committee (continued)

Required communications	What is reported?	Our Reporting to you
	When and where	
Going concern	<p>Events or conditions identified that may cast significant doubt on the entity's ability to continue as a going concern, including:</p> <ul style="list-style-type: none"> <li>▶ Whether the events or conditions constitute a material uncertainty</li> <li>▶ Whether the use of the going concern assumption is appropriate in the preparation and presentation of the financial statements</li> <li>▶ The adequacy of related disclosures in the financial statements</li> </ul>	Audit results report - February 2024 (TBC)
Misstatements	<ul style="list-style-type: none"> <li>▶ Uncorrected misstatements and their effect on our audit opinion, unless prohibited by law or regulation</li> <li>▶ The effect of uncorrected misstatements related to prior periods</li> <li>▶ A request that any uncorrected misstatement be corrected</li> <li>▶ Material misstatements corrected by management</li> </ul>	Audit results report - February 2024 (TBC)
Subsequent events	<ul style="list-style-type: none"> <li>▶ Enquiries of the audit committee where appropriate regarding whether any subsequent events have occurred that might affect the financial statements</li> </ul>	Audit results report - February 2024 (TBC)
Fraud	<ul style="list-style-type: none"> <li>▶ Enquiries of the audit committee to determine whether they have knowledge of any actual, suspected or alleged fraud affecting the entity</li> <li>▶ Any fraud that we have identified or information we have obtained that indicates that a fraud may exist</li> <li>▶ Unless all of those charged with governance are involved in managing the entity, any identified or suspected fraud involving: <ul style="list-style-type: none"> <li>a. Management;</li> <li>b. Employees who have significant roles in internal control; or</li> <li>c. Others where the fraud results in a material misstatement in the financial statements</li> </ul> </li> <li>▶ The nature, timing and extent of audit procedures necessary to complete the audit when fraud involving management is suspected</li> <li>▶ Any other matters related to fraud, relevant to Audit Committee responsibility</li> </ul>	Audit results report - February 2024 (TBC)



## Appendix B

# Required communications with the Audit Committee (continued)

Required communications	What is reported?	Our Reporting to you
	When and where	
Related parties	<ul style="list-style-type: none"><li>► Significant matters arising during the audit in connection with the entity's related parties including, when applicable</li><li>► Non-disclosure by management</li><li>► Inappropriate authorisation and approval of transactions</li><li>► Disagreement over disclosures</li><li>► Non-compliance with laws and regulations</li><li>► Difficulty in identifying the party that ultimately controls the entity</li></ul>	Audit results report - February 2024 (TBC)
Independence	<p>Communication of all significant facts and matters that bear on EY's, and all individuals involved in the audit, objectivity and independence</p> <p>Communication of key elements of the audit engagement partner's consideration of independence and objectivity such as:</p> <ul style="list-style-type: none"><li>► The principal threats</li><li>► Safeguards adopted and their effectiveness</li><li>► An overall assessment of threats and safeguards</li><li>► Information about the general policies and process within the firm to maintain objectivity and independence</li></ul> <p>Communication whenever significant judgements are made about threats to objectivity and independence and the appropriateness of safeguards put in place.</p> <p>For public interest entities and listed companies, communication of minimum requirements as detailed in the FRC Revised Ethical Standard 2019:</p> <ul style="list-style-type: none"><li>► Relationships between EY, the company and senior management, its affiliates and its connected parties</li><li>► Services provided by EY that may reasonably bear on the auditors' objectivity and independence</li><li>► Related safeguards</li><li>► Fees charged by EY analysed into appropriate categories such as statutory audit fees, tax advisory fees, other non-audit service fees</li></ul>	Outline audit planning report - November 2023  Audit results report - February 2024 (TBC)

## Required communications with the Audit Committee (continued)

Required communications	What is reported?	Our Reporting to you
	When and where	
External confirmations	<ul style="list-style-type: none"> <li>► A statement of compliance with the Ethical Standard, including any non-EY firms or external experts used in the audit</li> <li>► Details of any inconsistencies between the Ethical Standard and Group's policy for the provision of non-audit services, and any apparent breach of that policy</li> <li>► Where EY has determined it is appropriate to apply more restrictive rules than permitted under the Ethical Standard</li> <li>► The audit committee should also be provided an opportunity to discuss matters affecting auditor independence</li> </ul>	
Consideration of laws and regulations	<ul style="list-style-type: none"> <li>► Management's refusal for us to request confirmations</li> <li>► Inability to obtain relevant and reliable audit evidence from other procedures</li> </ul>	Audit results report - February 2024 (TBC)
Internal controls	<ul style="list-style-type: none"> <li>► Significant deficiencies in internal controls identified during the audit</li> </ul>	Audit results report - February 2024 (TBC)
Representations	Written representations we are requesting from management and/or those charged with governance	Audit results report - February 2024 (TBC)
Material inconsistencies and misstatements	Material inconsistencies or misstatements of fact identified in other information which management has refused to revise	Audit results report - February 2024 (TBC)
Auditors report	Any circumstances identified that affect the form and content of our auditor's report	Audit results report - February 2024 (TBC)
Fee Reporting	<ul style="list-style-type: none"> <li>► Breakdown of fee information when the audit plan is agreed</li> <li>► Breakdown of fee information at the completion of the audit</li> <li>► Any non-audit work</li> </ul>	Audit results report - February 2024 (TBC)



## Appendix C

# Additional audit information

### Other required procedures during the course of the audit

Our objective is to form an opinion on the Pension fund financial statements under International Standards on Auditing (UK) as prepared by you in accordance with International Financial Reporting Standards as adopted by the EU, and as interpreted and adapted by the Code of Practice on Local Authority Accounting.

Our responsibilities in relation to the financial statement audit are set out in the formal terms of engagement between the PSAA's appointed auditors and audited bodies. We are responsible for forming and expressing an opinion on the financial statements that have been prepared by management with the oversight of the Audit Committee. The audit does not relieve management or the Audit Committee of their responsibilities.

Our responsibilities required by auditing standards  
Page 376

- ▶ Identifying and assessing the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion.
- ▶ Obtaining an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Council's internal control.
- ▶ Evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- ▶ Concluding on the appropriateness of management's use of the going concern basis of accounting.
- ▶ Evaluating the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- ▶ Obtaining sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Council to express an opinion on the consolidated financial statements. Reading other information contained in the financial statements, including the board's statement that the annual report is fair, balanced and understandable, the Audit Committee reporting appropriately addresses matters communicated by us to the Committee and reporting whether it is materially inconsistent with our understanding and the financial statements; and Maintaining auditor independence.



## Appendix C

# Additional audit information (continued)

### Other required procedures during the course of the audit (continued)

Procedures required by the Audit Code	▶ Reviewing, and reporting on as appropriate, other information published with the financial statements, including the Annual Governance Statement.
Other procedures	▶ We are required to discharge our statutory duties and responsibilities as established by the Local Audit and Accountability Act 2014 and Code of Audit Practice

We have included in Appendix B a list of matters that we are required to communicate to you under professional standards.

### Purpose and evaluation of materiality

For the purposes of determining whether the accounts are free from material error, we define materiality as the magnitude of an omission or misstatement that, individually or in the aggregate, in light of the surrounding circumstances, could reasonably be expected to influence the economic decisions of the users of the financial statements. Our evaluation of it requires professional judgement and necessarily takes into account qualitative as well as quantitative considerations implicit in the definition. We would be happy to discuss with you your expectations regarding our detection of misstatements in the financial statements.

Materiality determines the level of work performed on individual account balances and financial statement disclosures.

The amount we consider material at the end of the audit may differ from our initial determination. At this stage, however, it is not feasible to anticipate all of the circumstances that may ultimately influence our judgement about materiality. At the end of the audit we will form our final opinion by reference to all matters that could be significant to users of the accounts, including the total effect of the audit misstatements we identify, and our evaluation of materiality at that date.

**About EY**

EY is a global leader in assurance, tax, transaction and advisory services. The insights and quality services we deliver help build trust and confidence in the capital markets and in economies the world over. We develop outstanding leaders who team to deliver on our promises to all of our stakeholders. In so doing, we play a critical role in building a better working world for our people, for our clients and for our communities.

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# Agenda Item 12

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# Agenda Item 13

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# Agenda Item 14

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