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Virtual Pensions Committee

Date: **WEDNESDAY, 28 OCTOBER 2020**

Time: **5.00 PM**

Venue: **VIRTUAL - LIVE ON THE COUNCIL'S YOUTUBE CHANNEL: HILLINGDON LONDON**

Meeting Details: Virtual

This agenda is available online at: www.hillingdon.gov.uk or use a smart phone camera and scan the code below:

To Members of the Committee:

Martin Goddard, (Chairman)
Philip Corthorne, (Vice-Chairman)
Tony Eginton
Raymond Graham
John Morse (Opposition Lead)

Published: Tuesday, 20 October 2020

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Putting our residents first

Lloyd White
Head of Democratic Services
London Borough of Hillingdon,
Phase II, Civic Centre, High Street, Uxbridge, UB8 1UW

Agenda

CHAIRMAN'S ANNOUNCEMENTS

PART I - Members, Public and Press

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That the reports in Part 2 of this agenda be declared not for publication because they involve the disclosure of information in accordance with Section 100(A) and Part 1 of Schedule 12 (A) to the Local Government Act 1972 (as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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Minutes

PENSIONS COMMITTEE

28 July 2020

Meeting held at VIRTUAL - Live on the Council's YouTube channel: Hillingdon London

	Committee Members Present: Councillors Martin Goddard (Chairman) Philip Corthorne (Vice-Chairman) Tony Eginton Raymond Graham John Morse (Labour Lead) **LBH Officers Present**: Tunde Adekoya, Pensions Fund Accountant James Lake, Chief Accountant Liz Penny, Democratic Services Officer Yvonne Thompson-Hoyte, Interim Pensions Manager Paul Whaymand, Corporate Director of Finance **Also Present**: Roger Hackett, Pensions Board Member Hayley Seabrook, Pensions Board Member Andrew Singh - representing Isio Clare Scott – Independent Adviser Larisa Midoni - representing EY Suresh Patel - representing EY
45.	**APOLOGIES FOR ABSENCE** *(Agenda Item 1)* There were no apologies for absence.
46.	**DECLARATIONS OF INTEREST IN MATTERS COMING BEFORE THIS MEETING** *(Agenda Item 2)* Councillor Philip Corthorne declared a Non-Pecuniary interest in all agenda items because he was a deferred member of the Local Government Pension Scheme. He remained in the room during discussion of the items. Councillor Tony Eginton declared a Non-Pecuniary interest in all agenda items as he was a retired member of the Local Government Pension Scheme. He remained in the room during discussion of the items.
47.	**MINUTES OF THE MEETING DATED 29 JANUARY 2020** *(Agenda Item 3)* **RESOLVED: That the minutes of the meetings dated 29 January 2020 and 14 May 2020 be approved as an accurate record.**
48.	**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 1 to 13 were in Part I and would be considered in public and that items 14 – 16 were in Part II and would be considered in private.

49. **AUDIT OF ACCOUNTS** *(Agenda Item 5)*

Reference was made to the Draft Initial Audit results report circulated to Councillors prior to the meeting. It was agreed that any questions or comments in relation to this report would be forwarded outside of the meeting to James Lake, Chief Accountant or to Tunde Adekoya, Pensions Fund Accountant.

Suresh Patel of External Auditor Ernst and Young provided the Committee with an update on the audit of the 2019/20 Pensions Fund Accounts. It was confirmed that the audit was still in progress. The audit plan for the 2019/20 accounts had been issued in February 2020; since then EY had had to take into account the impact of the Covid-19 pandemic on the Council's financial reporting. Members were informed that EY were impressed with how the Finance Team had continued to function in difficult circumstances and thanked them for their assistance to date. It was confirmed that the main impact of Covid-19 in terms of financial reporting had been around property valuations, asset values, investment returns and disclosures around the impact of Covid-19 including 'going concern.' The Committee was informed that 'emphasis of matter' would be included in the final EY report to aid understanding of the accounts. The deadline for publication of LBH Pensions Fund audited accounts was 30 November 2020.

Larisa Midoni of Ernst and Young highlighted to the Committee some of the key points in the initial audit report. There had been some changes to the risk assessment as a result of Covid-19:

- Valuation of Investments - the virus had affected pooled property funds and underlying property investments were now subject to the Royal Institute of Chartered Surveyors 'material uncertainty' paragraphs in their valuation reports;
- Disclosures of Going Concern – additional inherent risks had been identified;
- Changes to the scope of the audit as a result of Covid-19 – EY had undertaken additional enquiries to understand the impact of Covid-19;
- Changes in materiality – it was considered that the basis and range were still appropriate;
- Additional audit procedures as a result of Covid-19 – increased scrutiny of information produced by the Entity (IPE);
- Additional EY consultation requirements concerning the impact on auditor reports – additional consultation processes were still being undertaken.

It was noted that a more detailed status of the audit could be found on page 6 of the EY draft initial audit report. Members were advised that EY aimed to finalise the audit in time for the Audit Committee meeting on 1 October 2020.

In terms of fees, it was confirmed that EY were in discussion with the Section 151 officer about proposals to increase their scale fee. There would also be additional fees in relation to the triennial valuation and internal consultation.

Members sought further clarification regarding the statement on page 19 of the agenda pack 'balances cannot be determined with certainty, actual results could be materially different from the assumptions and estimates.' It was confirmed that this was standard wording.

Members agreed the recommendation as set out in the officer's report.

RESOLVED: That Pensions Committee noted EY's findings on the audit of the Pensions Fund accounts for 2019/20.

50. **RATIFICATION OF DELEGATED DECISIONS** *(Agenda Item 6)*

James Lake, Chief Accountant, introduced this agenda item. It was noted that the Pensions Committee meeting in March had been cancelled due to the Covid-19 pandemic. Democratic Services had confirmed that the Corporate Director of Finance had delegated authority to take decisions on behalf of the Committee in urgent cases, in consultation with Committee Members, the Leader and Deputy Leader of the Council if necessary. Between March and July 2020, three decisions had been made – the suspension of the abatement policy for 12 months, approval of the Triennial Valuation and Funding Strategy Statement and the Award of Contract for Actuarial Services. It was confirmed that these decisions now needed to be ratified by the Pensions Committee.

Members raised no objections and approved the officer's recommendation as set out in the report.

RESOLVED: That the Pensions Committee ratify the delegated decision taken by the Corporate Director of Finance after the required consultation as set out below:

1) **The suspension of the abatement policy for 12 months**
2) **Approval of the Triennial Valuation and Funding Strategy Statement**
3) **Award of Contract for Actuarial Services.**

51. **INVESTMENT STRATEGY AND FUND MANAGER PERFORMANCE - PART I** *(Agenda Item 7)*

James Lake, Chief Accountant, introduced the report which presented the performance of the Fund and its managers for the quarter ending 31 March 2020. The Committee was advised that the total value of the fund at 31 March 2020 was £989m; this was a decrease of £137m from £1,126m at the end of the previous quarter. The reduction was due to the impact of Covid-19. The Fund had since recovered a little and its value as at 28 July 2020 was £1,068m. Fund Performance over the quarter ending March was -2.67% against benchmark. Performance figures for the quarter to end June had now been received and were +8.06% - this was still behind benchmark. The Fund had underperformed over the last year and Members were informed that the biggest contributors to this underperformance were UBS Equities, Epoch Investments and AEW, the property manager. It was confirmed that many of the property funds had been marking down their asset valuations.

In terms of the investment portfolio, Members were advised that £50m allocation to long lease property had been drawn-down. Index-linked gilts had now been matched to the duration of scheme liabilities, which had reduced some of the risk if the RPI index were to be removed.

In response to questions from Members, it was confirmed that some of the money from Ruffer had been drawn down to fund long lease property. However, a considerable amount of money was still sitting with Ruffer at present.

Members commented that, whilst LBH could be reasonably confident in respect of its 'liquid assets', it was difficult for Fund managers to accurately value 'real assets' (real estate, and infrastructure assets) at this stage.

Members had no further queries and were in agreement with the recommendation as set out in the officer's report.

RESOLVED: That Pensions Committee noted the Fund performance update.

52. **INVESTMENT STRATEGY STATEMENT & COVID-19 REVIEW** *(Agenda Item 8)*

James Lake, Chief Accountant, presented the report. Councillors were informed that the revised investment strategy had been agreed by the Pensions Committee in January 2020. Subsequently, the formal valuation results and funding strategy statement had been agreed via delegated authority in April 2020. The investment strategy document had now been updated to reflect the strategy agreed in January and to support the valuation and funding strategy. It was confirmed that the updated investment strategy statement reflected the revised asset allocation. In addition, a review of the strategy had been commissioned due to Covid-19 to ascertain if it was still fit for purpose; Isio had subsequently confirmed that no change was required as it provided the necessary downside protection whilst still positioned to deliver the return required by the Fund.

The Committee was informed that the following paragraph:

"Where the Fund invests on a segregated basis, it requests the exclusion of investment within the Tobacco sector as part of the mandate. The Fund will not pursue policies that are contrary to UK foreign policy or UK defence policy."

was changed to the below, following the Supreme Court ruling on the Palestine Solidarity Champagne case:

"The Fund will give consideration to UK foreign policy or UK defence policy when making investment decisions."

In response to Members' requests for clarification, it was confirmed that illiquid funds were invested in over the longer term. If these were exited before maturity, a financial penalty would be incurred. Illiquid assets were a normal element within a Fund and were acceptable provided there was adequate liquidity within the Fund in terms of cash flow.

The Committee sought further clarification regarding the impact of Covid-19 and the potential for a need to recalibrate the asset allocation in the future. Andrew Singh of Isio commented that property portfolios (notably high street retail and office space sectors) had been particularly affected by Covid-19 and this was being monitored. It was difficult to precisely pinpoint the effect of Covid-19 on those two sectors and on the wider property market at present. It was agreed that, given the current uncertainty, property and infrastructure assets would be kept under constant review.

The officer's recommendations were moved, seconded and, when put to a vote, unanimously agreed.

RESOLVED That the Pensions Committee:

1) **Approved, subject to the agreed amendments, the draft Investment**

Strategy Statement, along with the Covid-19 review;

2) **Approved amendment to references to UK foreign and defence policies in all Fund documentation including the Responsible Investment policy.**

53. **ADMINISTRATION REPORT** *(Agenda Item 9)*

Yvonne Thompson-Hoyte, Interim Pensions Manager, introduced the report which considered both how Surrey County Council had performed against key performance indicators and the matter of Member Self Service Registration. Members were informed that Members Self Service Registration uptake had increased slightly but there was still a long way to go. In terms of performance, due to Covid-19, the Pensions regulator had requested that payments of benefits be prioritised over non-critical items such as transfers. There had been an ongoing decline in KPIs in this area largely due to staff shortages at Surrey and staff working remotely. The Committee was informed that the recently appointed Head of Pensions at Surrey had resigned which was a matter of concern and this had been added to the risk register.

In terms of projects, Members heard that the deferred Members address-tracing project had been successful and had yielded a 92% positive result.

Members also heard that there was an ongoing list of overpaid pensions that the Fund had experienced difficulty in recovering. The Committee was advised that these occurred as a result of a time lapse between Surrey being notified of a death and payments actually stopping. It had been difficult to recover these overpayments in many instances and the amounts were often negligible hence it was not considered beneficial to the Fund to pursue recovery of them. In the past, amounts up to £100 had been written off if the money could not be recovered. Officers were asking that this amount be increased to £200. The Corporate Director of Finance would need to agree to any proposed write offs.

In response to Members' requests for clarification, it was confirmed that work was ongoing in other areas of the data improvement project. It was confirmed that ITM reported on initial analysis that they had carried out on backlog cases pertaining to members that have left the fund but have not indicated what should happen with their benefit entitlement (undecided leavers) and also on members who have left the fund with less than two years service so were entitled to a refund but could not be traced (frozen refunds). ITM had recommended duplicate records be merged in the first instance and then an address tracing exercise be done to find members as this was successful in the deferred tracing exercise. Members were also advised that address tracing would be an ongoing process.

The Committee noted that there were considerable concerns regarding Surrey's administration of the Fund, which would be addressed more fully in Part II of the meeting.

The officer's recommendations were moved, seconded and, when put to a vote, unanimously agreed.

RESOLVED:

1) **That the Pensions Committee noted the report;**
2) **That the Committee agreed the proposal to increase the threshold for writing off overpayment of pensions.**

54.	**PENSION FUND CONFLICT OF INTEREST POLICY** *(Agenda Item 10)* Yvonne Thompson-Hoyte, Interim Pensions Manager, introduced the report, which sought approval for the draft Conflicts of Interest Policy for the Pensions Board. The Committee was informed that Pensions Board Members had had sight of the policy at their meeting in February 2020. Members' attention was drawn to a superfluous sentence prior to point 4.4 of the report (page 139 of the agenda pack) – it was proposed that this be removed. It was also proposed that paragraph 4.5 be amended to read '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 Pension Board ***and the Chief Accountant*** prior to the meeting…..' Members raised no objections and had no further comments. The officer's recommendation was moved, seconded and, when put to a vote, unanimously agreed. **RESOLVED: That Pensions Committee approved the Conflicts of Interest Policy for implementation, subject to the proposed amendments outlined.**
55.	**COMMUNICATIONS POLICY REVIEW** *(Agenda Item 11)* Yvonne Thompson-Hoyte, Interim Pensions Manager, introduced the report. The Committee was informed that the previous Communications Strategy had been approved by the Council in June 2017 and it needed to be updated every three years. The Strategy covered who the Fund would communicate with and methods of communication. Members were advised that there had been no regulatory changes in the last three years that would affect the Strategy. Minor amendments and updates had been made but the substance remained the same. Members raised no objections and had no comments. The officer's recommendation was moved, seconded and, when put to a vote, unanimously agreed. **RESOLVED: That Pensions Committee approved the Communications Strategy for the London Borough of Hillingdon Pension Fund.**
56.	**RISK REGISTER REPORT** *(Agenda Item 12)* James Lake, Chief Accountant, introduced the report. It was confirmed that the risk register had been updated in consultation with Councillor Goddard: • In March 2020 a new risk (PEN 14) been added in relation to business continuity and Covid-19; • PEN 01 had been upgraded to reflect potential loss in investments as a result of Covid-19; • PEN 04 had also been upgraded to reflect a higher risk of inflationary pressures due to Government and BoE Covid-19 interventions; • PEN 07 in relation to poor performance of the outsourced administrator had been updated and; • PEN 13 in relation to the Management buy-out of KPMG's pensions advisory service had been updated to indicate that there had been no issues in terms of service delivery.

	Members had no questions or comments. The officer's recommendation was moved, seconded and, when put to a vote, unanimously approved. **RESOLVED: That 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.**
57.	**DRAFT WORK PROGRAMME** *(Agenda Item 13)* In relation to the Draft Work Programme, it was confirmed that the October meeting would take place on 28 October 2020 rather than 29 October as indicated in the agenda pack. The report would be updated to reflect this change. An update on the McCloud Judgement in October would be added to the Work Programme. In respect of the Work Programme, Members requested that the training statement continue to be considered outside future Pensions Committee meetings. It was also noted that, in January 2020, it had been agreed that 'Responsible Investment' would appear on the agenda as a discreet item going forward. Members suggested that, for future meetings, the Part II agenda item 'ESG & Voting Update' be renamed 'Responsible Investment.' The officer's recommendations were moved, seconded and, when put to a vote, unanimously agreed. **RESOLVED That the Pensions Committee:** **1) Noted the dates for Pensions Committee meetings; and** **2) Made suggestions for future agenda items, working practices and / or reviews. The following changes were agreed: the trading statement to be considered outside future Pensions Committee meetings and the Part II agenda item 'ESG & Voting Update' to be renamed 'Responsible Investment.'**
58.	**INVESTMENT PART II - STRATEGY REVIEW AND MANAGER UPDATES** *(Agenda Item 14)* *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).* The Committee received confidential information on the current market update which covered details of the current market climate and performance of various investment vehicles and updates on Managers' reports.
59.	**ESG & VOTING UPDATE** *(Agenda Item 15)* *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).
60.	**ADMINISTRATION PART II** *(Agenda Item 16)* *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).*
	The meeting, which commenced at 5.00 pm, closed at 7.06 pm.

These are the minutes of the above meeting. For more information on any of the resolutions please contact Democratic Services - 01896 250636 or email: democratic@hillingdon.gov.uk on 01895 250185. Circulation of these minutes is to Councillors, Officers, the Press and Members of the Public.

Minutes

PENSIONS COMMITTEE

30 September 2020

Meeting held at VIRTUAL - Live on the Council's YouTube channel: Hillingdon London

	Committee Members Present: Councillors Martin Goddard (Chairman) Philip Corthorne (Vice-Chairman) Tony Eginton Raymond Graham John Morse (Opposition Lead) **LBH Officers Present**: Tunde Adekoya, Pensions Fund Accountant James Lake, Chief Accountant Liz Penny, Democratic Services Officer Yvonne Thompson-Hoyte, Interim Pensions Fund Manager Paul Whaymand, Corporate Director of Finance **Also Present**: Roger Hackett, Pensions Board Member Tony Noakes, Pensions Board Member Hayley Seabrook, Pensions Board Member	
61.	**APOLOGIES FOR ABSENCE** *(Agenda Item 1)* There were no apologies for absence.	**Action by**
62.	**DECLARATIONS OF INTEREST IN MATTERS COMING BEFORE THIS MEETING** *(Agenda Item 2)* Councillor Philip Corthorne declared a Non-Pecuniary interest in all agenda items because he was a deferred member of the Local Government Pension Scheme. He remained in the room during discussion of the items. Councillor Tony Eginton declared a Non-Pecuniary interest in all agenda items as he was a retired member of the Local Government Pension Scheme. He remained in the room during discussion of the items.	**Action by**
63.	**TO CONFIRM THAT ITEMS MARKED PART I WILL BE CONSIDERED IN PUBLIC AND THOSE MARKED PART II WILL BE CONSIDERED IN PRIVATE** *(Agenda Item 3)* It was confirmed that the main agenda item relating to the Pensions Administration Service was in Part II and would be considered in private.	**Action by**

64.	**PENSIONS ADMINISTRATION SERVICE** *(Agenda Item 4)* This was a Part II confidential meeting therefore the minutes are restricted.	**Action by**
	The meeting, which commenced at 3.00 pm, closed at 3.30 pm.	

These are the minutes of the above meeting. For more information on any of the resolutions please contact Liz Penny on 01895 250185. Circulation of these minutes is to Councillors, Officers, the Press and Members of the Public.

EXTERNAL AUDITOR REPORT on the PENSION FUND ACCOUNTS	Item 5

Committee	Pensions Committee
Officer Reporting	James Lake, Finance
Papers with this report	EY: Pension Fund Audit Results Report, year ended 31 March 2020 Pension Fund Accounts 2019/20

HEADLINES

The draft Pension Fund Accounts for 2019/20 as taken from the Councils financial statements are attached to this report for Committee review, prior to the Councils Financial statements sign off at Audit Committee.

The attached draft report details the work of the External Auditor – EY, on the audit of the 2019/20 Pension Fund Accounts. The auditor has reported an unqualified audit opinion on the financial statements.

RECOMMENDATIONS

It is recommended that Pensions Committee:

1. **Note draft EY's findings on the audit of the Pension Fund accounts for 2019/20.**

SUPPORTING INFORMATION

The Council as an administering authority under the Local Government Pension Scheme Regulations is required to produce a separate set of accounts for the scheme's financial activities including its assets and liabilities.

The contents and format of the accounts are determined by statutory requirements and mandatory professional standards as established by the Chartered Institute of Public Finance & Accountancy (CIPFA) in their Code of Practice (The Code).

The Pension Fund Accounts were subject to a separate audit by the Council's external auditors, EY LLP. Whilst the Audit Committee formally approves the Council's Statements of Accounts, which incorporates the Pension Fund Accounts, the Pensions Committee reviews them first. The Pension Fund Accounts also make up part of the Pension Fund Annual report, which has been brought to Pension Committee in October for formal approval. The Audit report on the Pension Fund accounts will be taken to Audit Committee on 24 November 2020.

SCOPE OF THE EXTERNAL AUDIT

Auditors are required to communicate to elected Members matters of governance that arise from the audit of the financial statements.

Due to COVID-19 areas of risk assessment were adapted to include:

- Valuation of Investments
- Disclosures on Going Concern
- Events after the balance sheet

In addition, the auditor requires a “Management Representation Letter” to be signed by management, outlined in Appendix C. The letter includes representations on matters material to the statement of accounts, where sufficient evidence cannot reasonably be expected to exist.

FINDINGS

At the time of reporting, there were no corrected material misstatements over the updated materiality threshold of £9.920 million. In addition there and no uncorrected misstatements to report over the updated reporting threshold of £0.496 million. Officers remain in discussion with EY to clarify a number of points within the report.

FINANCIAL IMPLICATIONS

The financial implications are contained within the body of the report

LEGAL IMPLICATIONS

The legal implications are mentioned within the report.

Pension Fund Account

PENSION FUND ACCOUNT

	Note	31 March 2020 £'000	31 March 2019 £'000
Contributions	*4*	47,305	43,176
Transfers In from other pension funds	*5*	1,746	1,487
		49,051	**44,663**
Less: Benefits	*6*	(47,188)	(44,016)
Less: Payments to and on account of leavers	*7*	(6,870)	(2,626)
		(54,058)	**(46,642)**
Net additions/(withdrawals) from dealings with members		**(5,007)**	**(1,979)**
Less: Management expenses	*8*	(9,882)	(8,833)
Net additions/(withdrawals) including fund management expenses		**(14,889)**	**(10,812)**
Return on investments			
Investment income	*9*	23,101	22,732
Profit and losses on disposal of investments and changes in market value of investments	*10A*	(86,092)	42,843
Taxes On Income		(48)	(83)
Net return on investments		**(63,039)**	**65,492**
Net Increase/(Decrease) in the fund		**(77,928)**	**54,680**
Net Assets at start of year		**1,066,983**	**1,012,303**
Net Assets at end of year		**989,055**	**1,066,983**

NET ASSETS STATEMENT

		31 March 2020 £'000	31 March 2019 £'000
Investment Assets	*10*	986,131	1,066,215
Investment Liabilities	*10*	(17)	(89)
Total net investments		**986,114**	**1,066,126**
Current Assets	*11*	3,574	1,424
Current Liabilities	*12*	(633)	(567)
Net assets of the fund available to fund benefits at the end of the reporting		**989,055**	**1,066,983**

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.

Paul Whaymand
Director of Finance
29 October 2020

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 early 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:

Braybourne Facilities - Bishop Ramsey Cleaners

Busy Bee - Skills Hub Cleaners

Caterlink - Frays Academy

Caterplus

Cucina - Ruislip High School

CSE – Barnhill Academy

First Choice

Greenwich Leisure

Cleantec - Harlington School Cleaners

Get Active Sports

Taylor Shaw - Haydon Academy Catering

Hayward Services

- Hillingdon School
- Highfield School
- Ruislip School

Heathrow Travel Care

Hillingdon & Ealing Citizens Advice

Kingdom Services

NHS - Michael Sobel House

The Pantry

- Frithwood & Hillside Schools
- Whiteheath Infant & Warrender School

Pabulum - West Drayton 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

Elliot Foundation Trust

- Hillingdon Primary School
- John Locke Academy
- Pinkwell School

Guru Nanak Academy Trust

- Nanak Sar Primary School
- Guru Nanak Sikh Academy

Global Academy

Harefield Academy

Harrow & Uxbridge College

Haydon Academy

Heathrow Aviation Engineering

Notes to the Pension Fund Account

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 (formerly Chantry School)
- Skills HUB (formerly Hillingdon Tuition Centre)

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
- Mellowlane School
- Brookside Primary School

Ruislip High School

Ryefield Primary School

Vyners Academy

Stockley Academy

Swakeleys Academy

Uxbridge Academy

William Byrd School

Willows Academy

Notes to the Pension Fund Account

London Borough of Hillingdon Pension Fund	31 March 2020	31 March 2019
Number of employers with active members	66	65
Number of employees in scheme		
London Borough of Hillingdon	4,839	4,551
Other employers	2,596	2,417
Total	**7,435**	**6,968**
Number of Pensioners		
London Borough of Hillingdon	6,082	6,001
Other employers	600	404
Total	**6,682**	**6,405**
Deferred Pensioners		
London Borough of Hillingdon	7,941	7,906
Other employers	2,630	2,352
Total	**10,571**	**10,258**

Note: To better reflect the underlying membership of the Fund the 2018/19 figures have been updated to reflect the number of specific individual members rather than the number of member records.

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 2020. Employers also pay contributions into the Fund based on triennial funding valuations. The last such valuation was as at 31 March 2019, this covers the three financial years following 2019/20. Currently employer contribution rates range from 17.3% to 34.5% of pensionable pay, as per the 2019 valuation.

d. Investments

The Pension Fund investments are managed externally by fund managers: Adams Street Partners, AEW UK, JP Morgan Asset Management, Legal & General Investment Management, LGT Capital Partners, London CIV, Macquarie Investments, Permira LLP, and UBS Global Asset Management. In addition, there are two direct investments 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 2019-20) and governance is overseen by the Pensions Board (Four meetings in 2019-20). Pensions Committee and Pensions Board consisted of the following members in 2019/20:

Pensions Committee

Cllr Martin Goddard (Chairman)
Cllr Phillip Corthorne (Vice-Chairman)
Cllr Teji Barnes
Cllr Tony Eginton
Cllr John Morse

Pensions Board

Roger Hackett (Employee Representative)
Tony Noakes (Employee Representative)
Zak Muneer (Employer Representative)
Hayley Seabrook (Employer Representative)

Notes to the Pension Fund Account

2. BASIS OF PREPARATION

The accounts have been compiled in accordance to the CIPFA Code of Practice on Local Authority Accounting in the United Kingdom 2019/20, 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 accruals 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 at 31 March 2020.

The accounts do not take into account obligations to pay benefits and pensions that fall due after the reporting date (31 March 2020). 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 accruals 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 accruals 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 2019/20, £76k of such fees is based on estimates (2018/19: £84k). 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 administrating 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. Contributions are accounted for in the period in which they fall due. Normal contributions received during the year are in accordance with the rates and adjustments certificate.

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 actually made and accepted by the recipient. Group transfers are accounted for under the agreement upon which they are made.

Notes to the Pension Fund Account

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 are 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 at 31 March 2020 was £275,145k (£115,893k at 31 March 2019).

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 adjustment in the forthcoming financial year are as follows:

Item	Uncertainties	Effect if actual results differ from assumptions
Private equity	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. LGT Capital Partners Limited is currently in active dialogue with all investment managers regarding the potential impact on private equity portfolios. The fair value principles employed to value the underlying investments and the valuation policy remains unchanged. As recommended by the recent International Private Equity and Venture Capital Valuation ("IPEV") guidelines in response to the Covid-19 crisis, we continue to use the latest valuation available from our investment managers, primarily at 31 December 2019, 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.	The total private equity investments in the financial statements are £13,614k. There is a risk that this investment may be under or overstated in the accounts.
Item	**Uncertainties**	**Effect if actual results differ from assumptions**
Infrastructure - Macquarie Infrastructure Real Assets and LCIV Stepstone	Infrastructure Valuation represents the fair value of investments held at 31 March 2020. 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. 31 March 2020 valuations will be broadly based on a general outlook of a severe COVID-19 related economic impact.	The total infrastructure alternative investments in the financial statements are £27,265k. 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.
Item	**Uncertainties**	**Effect if actual results differ from assumptions**
Private Finance - M&G	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. The manager has confirmed its investments and valuation will not be impacted by Covid-19.	The total private finance investments in the financial statements are £4,674k. 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.

Notes to the Pension Fund Account

Item	Uncertainties	Effect if actual results differ from assumptions
Direct Lending - Permira Credit Solutions	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. As a result of the COVID-19 pandemic, spreads widened and prices fell significantly, and as a result the fair value of the majority of loans in the fund's portfolio have also reduced to below par at 31 March 2020.	The total Private Debt investments in the financial statements are £64,103k. 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.
Item	**Uncertainties**	**Effect if actual results differ from assumptions**
Pooled Property - LGIM LPI, 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 2020 are subject to material uncertainty, due to the unprecedented set of circumstances surrounding the COVID-19 Global Pandemic. Consequently, less certainty and a higher degree of caution should be attached to the reported value.	The total Pooled property investments in the financial statement is £165,448k. There is a risk the investments may be over or under stated in the accounts. These asset class of investments are not openly traded and a lot of unobervable inputs are utilised in the valuation of the assets. These unobservable valuation assumptuons may have a profound effect on the actual pricing at year end thus skew shown valuation the fund accounts.
Item	**Uncertainties**	**Effect if actual results differ from assumptions**
Actuarial present value of promised retirement benefits	Estimation of the net liability to pay pensions depends on a number of complex judgements relating to the discount 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 2020 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 2020 by the fund's actuaries.

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.

Notes to the Pension Fund Account

Sensitivity Analysis

Sensitivity to the assumptions for the year ended 31 March 2020	Approximate % increase to liabilities	Approximate monetary amount (£m)
0.5% p.a. increase in the Pension Increase Rate	9%	134
0.5% p.a. increase in the Salary Increase Rate	1%	9
0.5% p.a. decrease in the Real Discount Rate	9%	144

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 2020 £'000	31 March 2019 £'000
Employees	10,109	9,846
Employers Contributions:		
Normal	30,333	27,465
Deficit Funding	6,863	5,865
	47,305	**43,176**

Deficit Funding: At the actuarial valuation on 31 March 2019 the Fund was 87% funded, with the remaining 13% deficit to be recovered over a period of 20 years.

By authority	31 March 2020 £'000	31 March 2019 £'000
LB Hillingdon	33,793	30,267
Scheduled Bodies	13,174	12,509
Admitted Bodies	338	400
	47,305	**43,176**

5. TRANSFERS IN

	31 March 2020 £'000	31 March 2019 £'000
Individual transfers in from other schemes	1,746	1,487
	1,746	**1,487**

Notes to the Pension Fund Account

6. BENEFITS

By category	31 March 2020 £'000	31 March 2019 £'000
Pensions	(38,846)	(36,423)
Commutations and Lump Sum Retirement Benefits	(7,330)	(6,750)
Lump Sum Death Benefits	(1,012)	(843)
	(47,188)	**(44,016)**

By authority	31 March 2020 £'000	31 March 2019 £'000
LB Hillingdon	(42,567)	(40,973)
Scheduled Bodies	(4,246)	(2,579)
Admitted Bodies	(375)	(464)
	(47,188)	**(44,016)**

7. PAYMENTS TO AND ON ACCOUNT OF LEAVERS

	31 March 2020 £'000	31 March 2019 £'000
Refunds to members leaving service	(103)	(79)
Individual transfers out to other schemes	(6,767)	(2,547)
	(6,870)	**(2,626)**

8. MANAGEMENT EXPENSES

The administering authority incurred costs in managing the Fund for the period ending 31 March 2020 as follows:

	31 March 2020 £'000	31 March 2019 £'000
Administrative Costs	(825)	(840)
Investment Management Expenses	(8,767)	(7,897)
Oversight and Governance	(290)	(96)
	(9,882)	**(8,833)**

* Oversight and Governance expenses for 19-20 have increased due to triennial valuation and other fund reviews associated with the exercise.

8A. INVESTMENT MANAGEMENT EXPENSES BREAKDOWN

	31 March 2020 £'000	31 March 2019 £'000
Management Fees	(5,932)	(5,934)
Performance Related Fees	(780)	(1,405)
Custody Fees	(59)	(66)
Transaction Costs	(1,996)	(492)
	(8,767)	**(7,897)**

Notes to the Pension Fund Account

8B. TRANSACTION COSTS ANALYSIS BY ASSET CLASS

	31 March 2020 £'000	31 March 2019 £'000
Equities	(112)	(28)
Pooled Investments	(1,884)	(464)
	(1,996)	**(492)**

8C. EXTERNAL AUDIT COSTS

	31 March 2020 £'000	31 March 2019 £'000
Payable in Respect of External Audit	(22)	(22)
	(22)	**(22)**

External Audit costs are included in Oversight and Governance within Management Expenses

9. INVESTMENT INCOME

	31 March 2020 £'000	31 March 2019 £'000
Income from Equities	5,810	6,254
Pooled Property Investments	6,452	4,713
Pooled Investments- Unit trusts and other managed funds	10,362	11,266
Interest on cash deposits	119	110
Other (for example from stock lending or underwriting)	358	389
	23,101	**22,732**

10. INVESTMENTS

	31 March 2020 £'000	31 March 2019 £'000
Investment Assets		
Equities	84,471	128,054
Pooled investments	706,512	774,129
Pooled property investments	165,448	135,049
Private equity	13,614	17,329
Other Investment balances		
Cash deposits	15,520	10,472
Investment income due	502	1,183
Sales Settlements Outstanding	64	0
Total investment assets	**986,131**	**1,066,215**
Investment liabilities		
Derivative contracts:		
Purchase Settlements Outstanding	(17)	(89)
Total investment liabilities	**(17)**	**(89)**
Net investment assets	**986,114**	**1,066,126**

Notes to the Pension Fund Account

10A. RECONCILIATION OF MOVEMENTS IN INVESTMENTS AND DERIVATIVES

2019/20	Value 1 April 2019 £'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 2020 £'000
Equities	128,054	14,695	(14,825)	(43,453)	84,471
Pooled Investments	774,128	117,948	(152,591)	(32,973)	706,512
Pooled Property Investments	135,049	103,606	(55,878)	(17,329)	165,448
Private Equity	17,329	105	(4,265)	445	13,614
	1,054,560	**236,354**	**(227,559)**	**(93,310)**	**970,045**
	1,054,560	**236,354**	**(227,559)**	**(93,310)**	**970,045**
Other investment balances					
Cash Deposits	10,472			207	15,520
Investment Income Due	1,183				502
Outstanding Sales					64
Adjustments to Market Value Changes				7,011	
Total Investment Assets	**1,066,215**			**(86,092)**	**986,131**

2018/19	Value 1 April 2018 £'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 2019 £'000
Equities	128,306	14,362	(11,745)	(2,869)	128,054
Pooled Investments	679,908	490,071	(428,161)	32,310	774,129
Pooled Property Investments	127,808	5,109	(1,288)	3,421	135,049
Private Equity	20,091	201	(6,512)	3,549	17,329
	956,113	**509,743**	**(447,707)**	**36,411**	**1,054,560**
Other investment balances					
Cash Deposits	53,558			323	10,472
Investment Income Due	757				1,183
Adjustments to Market Value Changes				6,109	
Total Investment Assets	**1,010,428**			**42,843**	**1,066,215**

Outstanding trade of settlements (liabilities) are not included in the above reconciliation.

Notes to the Pension Fund Account

10B. ANALYSIS OF INVESTMENTS

	31 March 2020 £'000	31 March 2019 £'000
Equities		
UK		
Quoted	84,471	128,054
	84,471	**128,054**
Pooled funds - additional analysis		
UK		
Fixed income unit trust - Quoted	89,137	82,707
Other Unit trusts - Quoted	184,318	249,858
Unitised insurance policies - Quoted	336,973	343,000
Limited liability partnerships - Unquoted	96,084	98,564
	706,512	**774,129**
Pooled property Investments - Unquoted	165,448	135,049
Private equity - Unquoted	13,614	17,329
Cash deposits	15,520	10,472
Investment income due	502	1,183
Sales Settlements Outstanding	64	0
	195,148	**164,032**
Total investment assets	**986,131**	**1,066,215**
Investment liabilities		
Purchase Settlements Outstanding	(17)	(89)
Total investment liabilities	(17)	(89)
Net investment assets	**986,114**	**1,066,126**

10C. INVESTMENTS ANALYSED BY FUND MANAGER

Fund Manager	Market Value 31 March 2020 £'000	%	Market Value 31 March 2019 £'000	%
Investments Managed by London CIV Pool				
Legal & General Investment Management	384,373	39	343,000	32
London CIV Asset Pool	184,884	19	249,858	24
	569,257	58	592,858	56
Investments Managed Outside of London CIV				
Adams Street Partners	9,909	1	12,654	1
AEW UK	50,774	5	58,927	6
JP Morgan Asset Management	89,137	9	82,707	8
LGT Capital Partners	3,705	0	4,675	0
M&G Investments	4,674	0	7,956	1
Macquarie Infrastructure	26,699	3	29,133	3
Permira Credit Solutions	64,103	7	61,434	6
UBS Global Asset Management (Equities)	86,948	9	131,174	12
UBS Global Asset Management (Property)	67,517	7	76,521	7
Other*	13,391	1	8,086	1
	416,857	42	473,268	44
Total	**986,114**	**100**	**1,066,126**	**100**

* 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

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 £3,572k (31 March 2019: £17,125k). 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 £3,804k (31 March 2019: £18,428k) 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 2020 £'000	31 March 2019 £'000
Debtors		
Employers' contributions due	51	68
Employees' contributions due	13	17
Cash balances	3,510	1,339
	3,574	**1,424**

12. CURRENT LIABILITIES

	31 March 2020 £'000	31 March 2019 £'000
Creditors		
Other local authorities (LB Hillingdon)	(172)	(223)
Other entities	(461)	(344)
	(633)	**(567)**

Note: Other entities liabilities are due from the Pension Fund to bodies external to the government e.g. fund managers.

13. ADDITIONAL VOLUNTARY CONTRIBUTIONS

	Market Value 31 March 2020 £'000	Market Value 31 March 2019 £'000
Prudential Assurance Company	5,249	5,086
	5,249	**5,086**

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, £168k was received in additional voluntary contributions by members, £220k in 2018/19. Any transfer of additional contributions into the Fund during the year are included in the employee contributions value as detailed in note 4.

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
Pooled Property investments	Level 3	Fair value in accordance with the RICS valuation - professional standards	Nav/Fair value-based pricing derived using recent market transactions on arm's length terms, where available	Valuations could be affected by material events occurring between the date of the financial statements provided and the pension fund's own reporting date,
Unquoted equity	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.

Sensitivity of assets valued at level 3

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 at 31 March 2020.
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).

	Valuation range (+/-)	Market Value 31 March 2020 £'000	Value on Increase £'000	Value on Decrease £'000
Pooled investments - Limited Liability Partnerships (Infrastructure) a	10%	27,265	29,992	24,539
Pooled investments - Limited Liability Partnerships (Private Credit) b	10%	68,777	75,655	61,899
Pooled Property - UBS, AEW & LGIM ©	10%	165,448	181,993	148,903
Private Equity - d	5%	13,614	14,295	12,933
Venture Capital	5%	41	43	39
Total		**275,145**	**301,977**	**248,313**

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.

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 2020	Quoted Market Price	Using Observable Inputs	With Significant Unobservable Inputs	
	Level 1 £'000	Level 2 £'000	Level 3 £'000	Total £'000
Financial Assets at Fair Value through Profit and Loss	84,471	610,429	275,145	970,045
Loans and Receivables	16,086	0	0	16,086
Financial Liabilities at Fair Value through Profit and Loss	(17)	0	0	(17)
Net investment Assets	**100,540**	**610,429**	**275,145**	**986,114**

Values as at 31 March 2019	Quoted Market Price	Using Observable Inputs	With Significant Unobservable Inputs	
	Level 1 £'000	Level 2 £'000	Level 3 £'000	Total £'000
Financial Assets at Fair Value through Profit and Loss	128,054	810,613	115,893	1,054,560
Loans and Receivables	11,655	0	0	11,655
Financial Liabilities at Fair Value through Profit and Loss	(89)	0	0	(89)
Net investment Assets	**139,620**	**810,613**	**115,893**	**1,066,126**

14B. RESTATEMENT OF VALUATION HIERARCHIES

There were no restatements of valuations between hierarchies in 2019/20.

14C. RECONCILIATION OF FAIR VALUE MEASUREMENTS WITHIN LEVEL 3

Level 3 Assets Reconciliation

	Value 1 April 2019	Transfers Into Level 3	Purchases at cost	Sales proceeds	Unrealised gains/(losses)	Realised gains/(losses)	Value 31 March 2020
	£'000	£'000	£'000	£'000	£'000	£'000	£'000
Private Equity - Adams Street Partners, LGT Capital Partners & UBS	17,329		105	(4,265)	(2,147)	2,592	13,614
Private Finance - M&G	7,956		0	(4,352)	(537)	1,606	4,674
Infrastructure - Maquarie & LCIV	29,133		643	(3,613)	(935)	2,037	27,265
Venture Capital - UBS	41		0	0	0	0	41
Property - UBS Property, AEW UK & LGIM LPI	0	130,308	103,607	(55,878)	(15,305)	2,716	165,448
Direct Lending - Permira	61,434		844	(1,306)	3,131	0	64,103
Total Level 3 Assets	**115,893**	**130,308**	**105,199**	**(69,414)**	**(15,793)**	**8,951**	**275,145**

There were two transfers into level 3 assets in 2019/20. AEW UK Ltd and UBS Property assets were transferred to Level 3, effective 31 March 2020 after discussions with the fund managers and the effects of COVID-19, valuation of assets by both managers were subject to material uncertainty following their independent valuer's determination of material valuation uncertainty as directed by the Royal Institute of Chartered Surveyors (RICS). Consequently, less certainty and a higher degree of caution was attached to the assets valuation, thus introducing unobservable inputs to the valuation of these assets. This resulted in a review of the hierarchical classification and subsequent moving of AEW & UBS Property assets from Level 2 to Level 3. LGIM LPI is classified as level 3 due to the same reason alluded to in moving both UBS Property & AEW UK to Level 3 from Level 2.

14D. 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.

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.
- 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 of 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 in order 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 taken into account for valuation purposes.

Narrative and Quantitative description of sensitivity to changes in valuation methods and market conditions:

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.

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.

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.

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 2020 £'000	31 March 2020 £'000	31 March 2020 £'000	31 March 2020 £'000	31 March 2019 £'000	31 March 2019 £'000	31 March 2019 £'000	31 March 2019 £'000
Financial Assets								
Equities	84,471		0	84,471	128,054	0	0	128,054
Pooled Investments	706,512		0	706,512	774,129	0	0	774,129
Pooled property investments	165,448		0	165,448	135,049	0	0	135,049
Private Equity	13,614		0	13,614	17,329	0	0	17,329
Cash	0	15,520	0	15,520	0	10,472	0	10,472
Other Investment balances	0	566	0	566	0	1,183	0	1,183
	970,045	**16,086**	**0**	**986,131**	**1,054,560**	**11,655**	**0**	**1,066,215**
Financial Liabilities								
Purchase Settlements Outstanding	0	0	(17)	(17)	0	0	(89)	(89)
	0	**0**	**(17)**	**(17)**	**0**	**0**	**(89)**	**(89)**
Total	**970,045**	**16,086**	**(17)**	**986,114**	**1,054,560**	**11,655**	**(89)**	**1,066,126**

15A. NET GAINS AND LOSSES ON FINANCIAL INSTRUMENTS

	31 March 2020 £000's	31 March 2019 £000's
Financial Assets		
Designated at Fair Value through profit and loss	(86,093)	42,843
	(86,093)	**42,843**

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.

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 2020 £'000	Percentage Change %	Value on Increase £'000	Value on Decrease £'000
Global Equity	379,584	12.00%	425,134	334,034
UK Equity	84,471	18.00%	99,676	69,266
Bonds	230,845	6.00%	244,696	216,994
Alternatives	109,697	2.80%	112,769	106,625
Property	165,448	4.70%	173,224	157,672
Total	**970,045**		**1,055,498**	**884,592**

Note: Bonds valuation in the table above includes pooled fund held bonds.

Asset Type	Value as at 31 March 2019 £'000	Percentage Change %	Value on Increase £'000	Value on Decrease £'000
Global Equity	464,052	9.60%	508,601	419,503
UK Equity	128,054	9.60%	140,347	115,760
Bonds	211,512	6.70%	225,683	197,341
Alternatives	115,893	3.70%	120,181	111,605
Property	135,049	5.20%	142,072	128,026
Total	**1,054,560**		**1,136,884**	**972,236**

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 at 31 March 2020 and 31 March 2019 is set out below. These disclosures present interest rate risk based on the underlying financial assets at fair value.

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 100 basis points (1%) 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 2020	Potential movement on 1% change in interest rates	Value on increase	Value on decrease
Assets exposed to interest rate risks	**£'000**	**£'000**	**£'000**	**£'000**
Cash balances	15,520	155	15,675	15,365
Bonds - pooled funds	230,845	2,308	233,153	228,537
Total change in assets available	**246,365**	**2,464**	**248,829**	**243,901**

	Value as at 31 March 2019	Potential movement on 1% change in interest rates	Value on increase	Value on decrease
Assets exposed to interest rate risks	**£'000**	**£'000**	**£'000**	**£'000**
Cash balances	10,472	105	10,577	10,367
Bonds - pooled funds	211,512	2,115	213,627	209,397
Total change in assets available	**221,984**	**2,220**	**224,204**	**219,764**

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 at 31 March 2020, 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 at 31 March 2020 and as at the previous period ending 31 March 2019.

Currency exposure by asset type

	Asset Value 31 March 2020	Asset Value 31 March 2019
	£'000	**£'000**
Pooled Funds	195,267	214,196
Private Equity/Infrastructure	40,879	46,462
	236,146	**260,658**

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 7.40%, based on the data provided by PIRC. A 7.40% 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 7.40% 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:

Notes to the Pension Fund Account

Assets exposed to currency risk	Asset Value 31 March 2020	Potential market movement	Value on increase	Value on decrease
		7.40%		
	£'000	£'000	£'000	£'000
Pooled Funds	195,267	14,450	209,717	180,817
Private Equity/Infrastructure	40,879	3,025	43,904	37,854
	236,146	**17,475**	**253,621**	**218,672**

Assets exposed to currency risk	Asset Value 31 March 2019	Potential market movement	Value on increase	Value on decrease
		7.30%		
	£'000	£'000	£'000	£'000
Pooled Funds	214,196	15,636	229,832	198,560
Private Equity/Infrastructure	46,462	3,392	49,854	43,070
	260,658	**19,028**	**279,686**	**241,630**

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, with the exception of 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 Lloyds Plc, which holds an S&P long-term credit rating of A. Deposits are placed in the AAAf 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 at 31 March 2020 was £19,076k (31 March 2019: £11,811k) and this was held with the following institutions:

Summary	Rating S&P	Balances as at 31 March 2020 £'000	Rating S&P	Balances as at 31 March 2019 £'000
Money market funds				
Northern Trust	AAAf S1+	15,720	AAAf S1+	10,672
Bank current accounts				
Lloyds	A+	3,310	A+	1,139
Total		**19,030**		**11,811**

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 Lloyds as well as Money Market Funds to which it has instant access to cover the payment of benefits and other lump sum payments (£3,310k). 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 at the 31 March 2020 these assets totalled £694,900k, with a further £15,766k 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.

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 at 31 March 2019 setting rates for the period April 2020 to March 2023. The next triennial valuation will take place as at 31 March 2022.

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 Tax payer 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 2019 actuarial valuation, the Fund was assessed as 87% funded (75% at the March 2016 valuation). This corresponded to a deficit of £161m (2016 valuation: £269m) at that time. The slight improvement in funding position between 2016 and 2019 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 been 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).

Significant events
The figures in this report are based on our understanding of the benefit structure of the LGPS in England and Wales as at 31 March 2019. Details can be found at http://www.lgpsregs.org/.

McCloud ruling
The LGPS benefit structure is currently under review following the Government's loss of the right to appeal the McCloud and other similar court cases. At the time of writing, the format and scope of any benefit changes in light of the McCloud ruling is still unknown. In line with the advice issued by the Scheme Advisory Board in May 2019, the following allowance has been made at the valuation for the McCloud ruling:

• Employer contribution rates: additional prudence in funding plans via an increase in the likelihood of success (step 3) when setting contribution rates;
• Measurement of funding position at 31 March 2019: no allowance.

Notes to the Pension Fund Account

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 (%)	Secondary Rate (£)		
1 April 2020 - 31 March 2023	2020/21	2021/22	2022/23
20.20%	£5,313,000	£5,451,000	£5,592,000

The Primary rate above includes an allowance for administration expenses of 0.8% of pay. The employee average contribution rate is 6.5% of pay.
At the previous formal valuation at 31 March 2016, 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:

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 at 31 March 2019 (alongside those adopted at the previous valuation for comparison) are shown below.

Description	31 March 2019	31 March 2016
Funding Basis Discount Rate	4.0%	4.0%
Benefit Increases (CPI)	2.3%	2.1%
Salaries Increases	2.6%	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 2019	31 March 2016
Male			
	Pensioners	22.1 years	22.6 years
	Non- Pensioners	22.8 years	24.0 years
Female			
	Pensioners	24.3 years	24.6 years
	Non- Pensioners	25.5 years	26.5 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 at 31 March 2020 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.

Description	31 March 2020 % per annum	31 March 2019 % per annum
Inflation /Pensions Increase Rate	1.9%	2.5%
Salary Increase Rate	2.2%	2.9%
Discount Rate	2.3%	2.4%

An IAS 19 valuation was carried out for the Fund as at 31 March 2020 by Hymans Robertson with the following results:

Description	31 March 2020 £m	31 March 2019 £m
Present Value of Promised Retirement Benefits	1,569	1703*
Active Members	503	753
Deferred Members	422	380
Pensioners	644	570

*****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 at 31 March 2020 have been projected using a roll forward approximation from the latest formal funding valuation as at 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 at 31 March 2020 (and 31 March 2019) 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.

Notes to the Pension Fund Account

Net Liability

The table below shows the total net liability of the Fund as at 31 March 2020. 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	31 March 2020 £m	31 March 2019 £m
Present Value of Promised Retirement Benefits	(1569)	(1703)
Fair Value of Scheme Assets (bid value)	989	1067
Net Liability	**(580)**	**(636)**

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 contiue in operational existence for the foreseeable future. The provisions in the Code (Code of Practice on Local Authority Accounting in the United Kingdom 2019/20) 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 at 31 March 2019 reported a funding level of 87%. Currently, contributions and investment income are sufficient to fund benefits as they fall due without the need to liquidate investments. A recent review undertaken in response to the COVID-19 effects as at 31st March 2020 determined that there was no material risk to the Fund of employers defaulting on their contributions. If a need to obtain liquidity arises, approximately 72% of the Fund's assets are held in liquid investments. LGPS regulations remain in force with no expectation that the scheme will be wound up or substantive changes made to it.

19. 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. 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.

Governance
There are three members of the Pension Fund Committee who are deferred or retired members of the Pension Fund. Cllr Philip Corthorne (Vice-Chairman), a deferred member; Cllr Tony Eginton, a retired member and Cllr Teji Barnes, a deferred member. Each member is required to declare their interest at each meeting.

Key Management Personnel
Two 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 and the Head of Pensions, Treasury and Statutory Accounts (Up to 26 December 19). Total remuneration payable to key management personnel is set out below:

	31 March 2020 £'000	31 March 2019 £'000
Short term benefits	64	74
Post employment benefits	78	75
	142	**149**

***** Post-employment benefits for 2018/19 updated for consistency

Notes to the Pension Fund Account

The Pensions Committee of the London Borough of Hillingdon Pension Fund ("the Fund") has prepared an Investment Strategy Statement (ISS) in accordance with the DCLG 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 and included in the Annual Report.

20. BULK TRANSFER

There were no bulk transfers in 2019-20.

21. CONTINGENT LIABILITIES AND CONTRACTUAL COMMITMENTS

Outstanding capital commitments (investments) as at 31 March 2020 totalled £65,687k (£10,305k at 31 March 2019).

These commitments relate to outstanding call payments due on unquoted limited partnership funds held in the Private Equity, Infrastructure and Credit Solutions (Permira) 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. The big increase is due to new commitments of £55m to LCIV Infrastructure Fund of which £567k has been drawn-down.

There were no contingent liabilities outstanding for the Fund at the end of the financial year 2019/20.

22. CONTINGENT ASSETS

Two 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.

23. POST BALANCE SHEET EVENTS

As a result of COVID-19 the market value of investments has been volatile with large fluctuations in asset prices. The Fund has a 20 year funding strategy designed to accommodate volatility, periods of market stress and other factors. It is well placed to deal with an event such as COVID-19. The governance structure around the Fund ensures that investment, administration and other risks are constantly monitored and where necessary remedial action can be taken. No impacts are expected on pension payments.

London Borough of Hillingdon Pension Fund

Audit results report

Year ended 31 March 2020

16 October 2020

EY

Building a better working world

Hillingdon Pension Fund

16 October 2020

Dear Pensions Committee Members

We are pleased to attach our audit results report in relation to the audit of Hillingdon Pension Fund for 2019/20 ('Pension Fund') for the forthcoming meeting of the Pensions Committee. This report follows the initial Audit Results Report we presented to the 28 July Pensions Committee and summarises our audit conclusion in relation to the audit of Hillingdon Pension Fund for 2019/20.

We have substantially completed our audit of Hillingdon Pension Fund for the year ended 31st March 2020. Subject to concluding the outstanding matters listed in our report, we confirm that we expect to issue an unqualified audit opinion on the financial statements. We will include an emphasis of matter paragraph in the opinion in relation to the Fund's disclosure of material uncertainty on the valuation of its pooled property funds. This is not a qualification or modification to the opinion but highlights something we consider is fundamental to the reader's understanding of the accounts.
We expect to issue our audit opinion before the 30th of November 2020.

As set out on page 5, a number of issues have arisen as a result of COVID-19 which have impacted our work, and may yet have an impact on our audit report.

This report is intended solely for the use of the Audit Committee, Pensions Committee, other members of the Authority, and senior management. It should not be used for any other purpose or given to any other party without obtaining our written consent.

We would like to thank your staff for their ongoing help during the engagement, especially as they have themselves also needed to adapt to remote working and the pressures and strains that come with that. We are very grateful for their help.

We welcome the opportunity to discuss the contents of this report with you at the Pensions Committee meeting on the 28th of October 2020.

Yours faithfully

Suresh Patel, Associate Partner

For and on behalf of Ernst & Young LLP

Encl

Contents

Public Sector Audit Appointments Ltd (PSAA) have issued a 'Statement of responsibilities of auditors and audited bodies'. It is available from the Chief Executive of each audited body and via the PSAA website (www.psaa.co.uk). This 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 PSAA sets out additional requirements that auditors must comply with, over and above those set out in the National Audit Office Code of Audit Practice (the Code) and statute, and covers matters of practice and procedure which are of a recurring nature.

This Audit Results Report is prepared in the context of the Statement of responsibilities / Terms and Conditions of Engagement. It is addressed to the Members of the audited body, and is prepared for their sole use. We, as appointed auditor, take no responsibility to any third party.

Our Complaints Procedure – If at any time you would like to discuss with us how our service to you could be improved, or if you are dissatisfied with the service you are receiving, you may take the issue up with your usual partner or director contact. If you prefer an alternative route, please contact Hywel Ball, our Managing Partner, 1 More London Place, London SE1 2AF. We undertake to look into any complaint carefully and promptly and to do all we can to explain the position to you. Should you remain dissatisfied with any aspect of our service, you may of course take matters up with our professional institute. We can provide further information on how you may contact our professional institute.

01 Executive Summary

Executive Summary

Scope update

In our Audit Plan tabled at the 3rd of February 2020 Audit Committee meeting, we provided an overview of our audit scope and approach for the audit of the financial statements. We conducted our audit in accordance with this plan.

Changes to reporting timescales

As a result of COVID-19, new regulations, the Accounts and Audit (Coronavirus) (Amendment) Regulations 2020 No. 404, have been published and came into force on 30 April 2020. This announced a change to publication date for final, audited accounts from 31 July to 30 November 2020 for all relevant authorities.

Changes to our risk assessment as a result of Covid-19

- **Valuation of Investments-** financial markets have experienced some volatility even before the advent of COVID-19. The virus created uncertainty on markets which have had an impact on pooled property funds with the valuation of underlying property investments being subject to the Royal Institute of Chartered Surveyors (RICS) 'material uncertainty' paragraphs in their valuation reports. There are also increased risks that market and economic trends may not be adequately reflected in assets classified as Level 3 – valued according to unobservable information. The Fund's officers have challenged valuations, especially those which are classified as level 3 (and are the most complex to value because of their nature, see p.11.). We considered level 3 investment valuations to be a significant risk when we planned the audit, and COVID-19 has exacerbated the position.
- **Disclosures on Going Concern** – Financial plans for 2020/21 and medium term financial plans will need revision for Covid-19. We determined that the unpredictability of the current environment gave rise to a risk that the Pension Fund would not appropriately disclose the key factors relating to going concern, underpinned by a management assessment with particular reference to Covid-19 and the Pension Fund's actual year end financial position and performance.
- **Events after the balance sheet date** – We identified an increased risk that further events after the balance sheet date concerning the current Covid-19 pandemic will need to be disclosed. The amount of detail required in the disclosure needed to reflect the specific circumstances of the Pension Fund and in particular changes to the value of its investments post 31 March 2020.

Changes to the scope of our audit as a result of Covid-19

- We updated our enquiries and understanding of the significant classes of transactions and the relevant controls in light of Covid-19.
- We challenged officers on the valuations provided to them by their specialists and tested the additional disclosures related to investment valuation uncertainties due to Covid-19.

Changes in materiality

We updated our planning materiality assessment using the draft statements and have also reconsidered our risk assessment. Based on our materiality measure of net assets, we have updated our overall materiality assessment to £9.920m (previously £10.669 m). This results in updated performance materiality, at 75% of overall materiality, of £7.440 m, and an updated threshold for reporting misstatements of £0.496m.

We have considered whether any change to our materiality is required in light of Covid-19 and the audit adjustments. Following this consideration we remain satisfied that the basis for planning materiality, performance materiality and our audit threshold for reporting differences reported to you in our Audit Planning Report remain appropriate.

Executive Summary

Scope update (continued)

Additional audit procedures as a result of Covid-19

Other changes in the Fund and regulatory environment as a result of Covid-19 that have not resulted in an additional risk, but resulted in the following impacts on our audit strategy were as follows:

Information Produced by the Entity (IPE): We identified an increased risk around the completeness, accuracy, and appropriateness of information produced by the entity due to the inability of the audit team to verify original documents or re-run reports on-site from the Pension Fund's systems. We undertook the following to address this risk:

- Used the screen sharing function of Microsoft Teams to evidence re-running of reports used to generate the IPE we audited; and
- Agree IPE to scanned documents or other system screenshots.

Additional EY consultation requirements concerning the impact on auditor reports. The uncertainty created by Covid-19 increases the importance of giving the right assurance to the Pension Fund and its stakeholders. As a result, EY's risk management team have instigated additional consultation processes on the wording of the auditor's report. In light of issues with asset valuations and going concern, this consultation process will involve significant senior level input from the audit team and EY's risk management team.

The changes to audit risks and audit approach have increased the level of work we have been required to undertake. We are currently quantifying the impact on the audit fee and will present our final fee to the Corporate Director of Finance on completion of the audit.

Status of the audit

We have substantially completed our audit of Hillingdon Pension Fund's financial statements for the year ended 31st March 2020 and have performed the procedures outlined in our Audit Plan and the scope update outlined on page 5 of this report. Subject to satisfactory completion of the outstanding items listed in Appendix B, we expect to issue an unqualified opinion on the Fund's financial statements with an emphasis of matter on the material uncertainty disclosed by the Fund in the valuation of pooled property funds. However, until work is complete, further amendments may arise.

In light of the required professional consultations on our audit opinion in progress at the date of this report, the draft audit report included in Section 03 is subject to final review.

The Fund does not expect to complete its Annual Report by the end of November. As a result, we will not be in a position to issue the consistency statement at the same time as the audit opinion.

Executive Summary

Areas of audit focus

Our audit plan identified significant risks and areas of focus for our audit of the Fund's financial statements. We summarise below our latest findings.

Significant risk	Findings & conclusions
Misstatement due to Fraud or Error – Posting of investment journals	We have found no indications of inappropriate posting of investment journals.
Risk of incorrect valuation of investments	In the draft statements, pooled property assets (£165m) were initially defined as level 2, consistent with previous years. Covid-19 impacted the valuation of investments and the underlying property assets included material uncertainty paragraphs in their valuation reports. This increases the uncertainty around the valuation of these funds. Following our challenge management has identified that the pooled property assets should have been classified as level 3 investments during 19/20. The disclosures in the accounts have been adjusted to reflect this finding. We have included an emphasis of matter paragraph in the audit opinion to highlight to the reader of the accounts something we consider to be fundamental to their understanding of the accounts given the scale of pooled property assets within the Fund's total investments.

Other area of audit focus	Findings & conclusions
Going concern	Note 2 of the draft accounts stated that they are prepared on a going concern basis but included no further disclosures. Following audit queries, the Fund has prepared a going concern assessment and drafted an associated disclosure. We challenged the assessment, focusing on cashflow, liquidity forecasts, known outcomes, sensitivities, mitigating actions and key assumptions. Based on the assessment and the Fund's response to our queries, we are satisfied that the Fund's disclosure adequately reflects the impact of the Covid-19 pandemic on its future finances. At the core of the Fund's assessment is that its contributions are derived from government-backed institutions, the Fund has sufficient liquid assets to meet its obligations and the actuarial triennial review is designed to close the funding gap in the long term
Post balance sheet events	Note 22 of the accounts adequately reflect the Fund's consideration of events after the balance sheet date.

This report sets out our latest observations and conclusions on the above matters, and any others identified, in the "Areas of Audit Focus" section of this report. We ask you to review these and any other matters in this report to ensure:

- There are no other considerations or matters that could have an impact on these issues; and
- You agree with the resolution of the issues; and there are no other significant issues to be considered.

There are no matters, apart from those reported by management or disclosed in this report, which we believe should be brought to your attention.

Executive Summary

Audit differences

There are currently no unadjusted audit differences arising from our audit which we need to bring to your attention.

We have identified some audit differences in disclosures which have been adjusted by management. Two of the main ones are in respect of the reclassification of level 2 investments to level 3 and the revised going concern disclosure.

Further details of the thresholds which we apply to report audit differences can be found in Section 04.

Control observations

We have adopted a fully substantive approach, so have not tested the operation of controls.
During the audit, we identified some observations and improvement recommendations in relation to management's financial processes and controls. For more details refer to Section 06.

Independence

We have no new independence matters top report but provide an update on Independence at Section 07.

02 Areas of Audit Focus

Significant risk

Risk of Management Override: Misstatements due to fraud or error

What is the risk?

As identified in ISA (UK and Ireland) 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. We identify and respond to this fraud risk on every audit engagement.

What judgements are we focused on?

We focused our testing on key areas of the accounts that are susceptible to management bias.

What did we do?

- Inquired of management about risks of fraud and the controls put in place to address those risks.
- Gained an understanding of the oversight given by those charged with governance of management's processes over fraud.
- Considered the effectiveness of management's controls designed to address the risk of fraud.

Performed mandatory procedures regardless of specifically identified fraud risks, including:

- Tested the appropriateness of journal entries recorded in the general ledger and other adjustments made in the preparation of the financial statements
- Assessed accounting estimates for evidence of management bias, and
- Evaluated the business rationale for significant unusual transactions.

What are our conclusions?

We have not identified any material weaknesses in controls or evidence of material management override.

Our journal entry testing did not identify any issues.

We have not identified any instances of management bias being applied to accounting estimates.

We did not identify any other transactions during our audit which appeared unusual or outside the Fund's normal course of business.

Significant risk

Misstatement due to Fraud & Error – Posting of investment journals

What is the risk?

The financial statements as a whole are not free of material misstatements whether caused by fraud or error. As identified in ISA (UK and Ireland) 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. We identify and respond to this fraud risk on every audit engagement.
There is a risk that due to fraud or error, journals posted into the general ledger for the investment values are incorrect.

What judgements are we focused on?

We focused on aspects of the financial statements related to investment journal entries as this area in particular is a manual process from receiving the investment report from the Custodian to inputting the results of the report into the accounting system.

What did we do?

Our approach focused on testing the appropriateness of manual journal entries recorded in the general ledger posting investment values ensuring:

- The amount is supported by the fund manager/custodian report;
- Correct authorisations have been obtained.

What are our conclusions?

We have not identified any material weaknesses in controls or evidence of material management override.

We have not identified any instances of inappropriate judgements being applied.

We did not identify any other transactions during our audit which appeared unusual or outside the Fund's normal course of business.

We did not identify any evidence of inappropriate accounting for investment values.

Significant risk

Risk of Incorrect Valuation of Investments

What is the risk?

The Fund's investments include unquoted pooled investment vehicles such as private equity, private debt and infrastructure funds. Judgements are taken by the Investment Managers to value those investments whose prices are not publicly available. The material nature of Investments means that any error in judgement could result in a material valuation error.
Market volatility 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.

What judgements are we focused on?

The proportion of the fund comprising these investment types in 2019/20 is at circa 11.1% (2018/19: 10.8%), and as these investments are more complex to value, we have identified the level 3 investments as higher risk, as even a small movement in these assumptions could have an impact on the financial statements.
We have assessed that the risk of incorrectly valuing investments is significant for level 3 investments held by the pension fund.
Total of level 3 investments held by the Fund at 31 March 2020, after audit adjustments is £275 million.

What did we do?

- Reviewed the latest available audited accounts for the relevant funds, where available, and ensured there are no matters arising that highlight weaknesses in the fund's valuation;
- Where the latest audited accounts as at 31 March 2020 were not available, we performed analytical procedures and other procedures to assess the valuation for reasonableness against our own expectations; and
- Confirmed that accounting entries were correctly processed in the financial statements.

What are our conclusions?

In the draft statements, pooled property assets (£165m) were initially defined as level 2, consistent with previous years. As a result of the impact of COVID-19 on investments, many property valuers issued valuations for the underlying property assets including material uncertainty paragraphs in their valuation reports. This increases the uncertainty around the valuation of these funds. Following our challenge on the appropriateness to classify pooled property investments as level 2, management has identified that the pooled property assets should have been transferred to level 3 during 19/20. The disclosures in the accounts have been adjusted to reflect this finding.

We recommend that management regularly review the appropriateness of asset classifications (e.g. the judgements between what is a level 2 and level 3 asset) – See Section 06 for further details.

We did not identify any other transactions during our audit which appeared unusual or outside the Fund's normal course of business.

Our response to inherent risks

New Inherent Risk - Disclosures on Going Concern and Events after the balance sheet date

Financial statement impact

We have identified an Inherent risk relating to disclosures concerning the Covid-19 pandemic.

We consider the risk applies to going concern and post balance sheet disclosures.

What is the risk?

Going concern:
This auditing standard has been revised in response to enforcement cases and well-publicised corporate failures where the auditor's report failed to highlight concerns about the prospects of entities which collapsed shortly after.

We believe the risk has increased following Covid-19. We consider the unpredictability of the current environment to give rise to a risk that the Pension Fund will not appropriately disclose the key factors relating to going concern, underpinned by managements assessment with particular reference to Covid-19.

Events after the balance sheet:
There is increased risk that events after the balance sheet date concerning the Covid-19 pandemic may impact on the value of assets in the statement and may need to be disclosed. The amount of detail required in the disclosure will need to reflect the specific circumstances of the Pension Fund.

What did we do?

- Assessed the adequacy of disclosures required in 2019/20, and the impact on our opinion, should these be inadequate;
- Discussed management's going concern assessment and considered any evidence of bias and consistency with the accounts;
- Ensured that an appropriate going concern disclosure has been made within the financial statements;
- Reviewed the Authority's approach to identifying and disclosing events after the balance sheet date; and
- Considered the impact on our audit report and compliance with EY consultation requirements.

What our are conclusions?

Note 2 of the draft accounts did not explicitly state that the accounts were prepared on a going concern basis and did not include any further disclosures around going concern.

As a result of our challenge, management acknowledged the need to disclose the factors that were considered in assessing the going concern basis of the Fund's accounts. They explicitly disclosed that the accounts are prepared on a going concern in Note 2 and they also disclosed the factors that were considered in the assessment of going concern in Note 18.

We have considered management's going concern assessment, challenged the underlying assumptions, including assertions around the liquidity of the fund up to November 2021. We are satisfied that the revised disclosures are appropriate and reasonable.

Note 23 of the draft accounts reflects management's consideration of events after the balance sheet date. We have challenged management over the consideration of the impact of Covid-19. We are satisfied that the disclosure is appropriate and reasonable.

03 Draft Audit Report

Draft audit report – SUBJECT TO CONSULTATION

Our opinion on the financial statements

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF LONDON BOROUGH OF HILLINGDON

Opinion
We have audited the pension fund financial statements for the year ended 31 March 2020 under the Local Audit and Accountability Act 2014. The pension fund financial statements comprise the Fund Account, the Net Assets Statement and the related notes 1 to 23. The financial reporting framework that has been applied in their preparation is applicable law and the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2019/20.

In our opinion the pension fund financial statements:
- give a true and fair view of the financial transactions of the pension fund during the year ended 31 March 2020 and the amount and disposition of the fund's assets and liabilities as at 31 March 2020; and
- have been properly prepared in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2019/20.

Basis for opinion
We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law. Our responsibilities under those standards are further described in the Auditor's responsibilities for the audit of the financial statements section of our report below. We are independent of the pension fund in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the FRC's Ethical Standard and the Comptroller and Auditor General's (C&AG) AGN01, and we have fulfilled our other ethical responsibilities in accordance with these requirements.
We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Emphasis of matter – Pooled property funds
We draw attention to Note 3 Accounting Policies - Critical Judgments and Uncertainties and Note 14C Reconciliation of fair value measurements within level 3 investments of the financial statements, which describe the valuation uncertainty the Council is facing as a result of COVID-19 in relation to the valuation of pooled property funds. Our opinion is not modified in respect of this matter.

Conclusions relating to going concern
We have nothing to report in respect of the following matters in relation to which the ISAs (UK) require us to report to you where:

- the Director Corporate Finances' use of the going concern basis of accounting in the preparation of the financial statements is not appropriate; or
- the Director Corporate Finance has not disclosed in the financial statements any identified material uncertainties that may cast significant doubt about the pension fund's ability to continue to adopt the going concern basis of accounting for a period of at least twelve months from the date when the financial statements are authorised for issue.

Draft audit report

Our opinion on the financial statements

Other information
The other information comprises the information included in the London Borough of Hillingdon Statement of Accounts 2018/19, other than the financial statements and our auditor's report thereon. The Director Corporate Finance is responsible for the other information.

Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in this report, we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether there is a material misstatement in the financial statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of the other information, we are required to report that fact.

We have nothing to report in this regard.

Matters on which we report by exception
We report to you if:

- we issue a report in the public interest under section 24 of the Local Audit and Accountability Act 2014;
- we make written recommendations to the audited body under Section 24 of the Local Audit and Accountability Act 2014;
- we make an application to the court for a declaration that an item of account is contrary to law under Section 28 of the Local Audit and Accountability Act 2014;
- we issue an advisory notice under Section 29 of the Local Audit and Accountability Act 2014; or
- we make an application for judicial review under Section 31 of the Local Audit and Accountability Act 2014.

We have nothing to report in these respects.

Draft audit report

Our opinion on the financial statements

Responsibility of the Director Corporate Finance
As explained more fully in the Statement of the Responsibilities, the Director Corporate Finance is responsible for the preparation of the Authority's Statement of Accounts, which includes the pension fund financial statements, in accordance with proper practices as set out in the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2019/20, and for being satisfied that they give a true and fair view.

In preparing the financial statements, the Director Corporate Finance is responsible for assessing the Pension Fund's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the Pension Fund either intends to cease operations, or have no realistic alternative but to do so.

Auditor's responsibilities for the audit of the financial statements
Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.
A further description of our responsibilities for the audit of the financial statements is located on the Financial Reporting Council's website at https://www.frc.org.uk/auditorsresponsibilities. This description forms part of our auditor's report.

Use of our report
This report is made solely to the members of Hillingdon Pension Fund, as a body, in accordance with Part 5 of the Local Audit and Accountability Act 2014 and for no other purpose, as set out in paragraph 43 of the Statement of Responsibilities of Auditors and Audited Bodies published by Public Sector Audit Appointments Limited. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Fund and the Fund's members as a body, for our audit work, for this report, or for the opinions we have formed.

04 Audit Differences

Audit Differences

In the normal course of any audit, we identify misstatements between amounts we believe should be recorded in the financial statements and the disclosures and amounts actually recorded. These differences are classified as "known" or "judgemental". Known differences represent items that can be accurately quantified and relate to a definite set of facts or circumstances. Judgemental differences generally involve estimation and relate to facts or circumstances that are uncertain or open to interpretation.

Summary of unadjusted differences

We report to you any uncorrected misstatements greater than our nominal value of £0.496 million.
There are no uncorrected misstatements to bring to your attention as at the date of this report.

Summary of adjusted differences

We highlight any misstatements greater than £7.440 million which have been corrected by management during the course of our audit.
There are no corrected misstatements to bring to your attention as at the date of this report that had an impact on the Pension Fund Account and/or the Net Assets Statement.

We highlight the following corrected disclosure adjustments that merit the attention of the Pensions Committee:

- Transfer of pooled property assets in the amount of £165m from level 2 to level 3 fair value hierarchy; and
- Disclosing facts and circumstances considered by management in its assessment of the Pension Fund's ability to continue as a going concern in light of Covid-19 impact.

We will provide a verbal update at the Pensions Committee meeting on 28th October 2020.

05 Other reporting issues

Other reporting issues

Consistency of other information published with the financial statements

We must give an opinion on the consistency of the financial and non-financial information in the Statement of Accounts 2019/20 with the audited financial statements. The Fund has yet to publish the additional information pertaining to the Statement of Accounts for 2019/20 and as a result we are not in a position to conclude on the consistency with the financial statements as of this date.

Other powers and duties

We have a duty under the Local Audit and Accountability Act 2014 to consider whether to report on any matter that comes to our attention in the course of the audit, either for the Pension Fund to consider it or to bring it to the attention of the public (i.e. "a report in the public interest"). We did not identify any issues which required us to issue a report in the public interest at this stage of the audit.

We also have a duty to make written recommendations to the Pension Fund, copied to the Secretary of State, and take action in accordance with our responsibilities under the Local Audit and Accountability Act 2014. We did not identify any issues at this stage of the audit.

Other matters

As required by ISA (UK&I) 260 and other ISAs specifying communication requirements, we must tell you significant findings from the audit and other matters if they are significant to your oversight of the Pension Fund's financial reporting process. They include the following:

- Significant qualitative aspects of accounting practices including accounting policies, accounting estimates and financial statement disclosures;
- Any significant difficulties encountered during the audit;
- Any significant matters arising from the audit that were discussed with management;
- Written representations we have requested;
- Expected modifications to the audit report;
- Any other matters significant to overseeing the financial reporting process;
- Related parties;
- External confirmations;
- Going concern; and
- Consideration of laws and regulations.

We currently have no matters to report, but as noted earlier in this report our procedures remain ongoing particularly in respect of completing the assessment of going concern and post balance sheet events disclosures, and the final form of the audit report.

06 Assessment of Control Environment

Assessment of Control Environment

Financial controls

It is the responsibility of the Fund to develop and implement systems of internal financial control and to put in place proper arrangements to monitor their adequacy and effectiveness in practice. Our responsibility as your auditor is to consider whether the Authority has put adequate arrangements in place to satisfy itself that the systems of internal financial control are both adequate and effective in practice.

As part of our audit of the financial statements, we obtained an understanding of internal control sufficient to plan our audit and determine the nature, timing and extent of testing performed. As we have adopted a fully substantive approach, we have therefore not tested the operation of controls.

Although our audit was not designed to express an opinion on the effectiveness of internal control we are required to communicate to you significant deficiencies in internal control.

During the audit, we identified a couple of observations and improvement recommendations in relation to management's financial processes and controls.

(1) The first observation relates to controls around maintaining access to accurate and complete primary supporting evidence on the membership data submitted to the actuaries as input for their work on the actuarial triennial valuation. As part of our triennial testing of the 31 March 2019 membership data submitted to the actuaries, we identified that a series of documents are missing or the data recorded in the membership reports submitted to the actuaries does not exactly match the information supported by the primary evidence available. This has been communicated to management in the course of our audit procedures and the findings will be included in our reporting to the auditors of London Borough of Hillingdon on the IAS19 protocol. Our work in this area is still ongoing at the date of this report and we are finalising the complete list of findings.

(2) To increase the consistency and comparability in fair value measurements and related disclosures of financial assets, IFRS13 establishes a fair value hierarchy that categorises into three levels the inputs to valuation techniques used to measure fair value. The Pension Fund shall disclose and consistently follow its policy for determining when transfers between levels of the fair value hierarchy are deemed to have occurred. Our recommendation is that management regularly review the appropriateness of financial assets' fair value hierarchy classification.

07 Independence

Independence

Confirmation

We confirm there are no changes in our assessment of independence since our confirmation in our audit planning board report dated February 2020.

We complied with the APB Ethical Standards. In our professional judgement the firm is independent and the objectivity of the audit engagement partner and audit staff has not been compromised within the meaning of regulatory and professional requirements.

We consider that our independence in this context is a matter that should be reviewed by both you and ourselves. It is therefore important that you and your Pensions Committee consider the facts of which you are aware and come to a view. If you wish to discuss any matters concerning our independence, we will be pleased to do so at the forthcoming meeting of the Pensions Committee on 28th of October.

As part of our reporting on our independence, we set out on the next page a summary of the fees you have paid us in the year ended 31st March 20. We confirm that we have not undertaken non-audit work outside the NAO Code requirements. We have adopted the necessary safeguards in our completion of this work and complied with Auditor Guidance Note 1 issued by the NAO in December 2017.

Independence

Fees

As part of our reporting on our independence, we set out below a summary of the fees paid for the year ended 31 March 2020.

Description	Planned Fee 2019/20 (£)	Final Fee 2018/19 (£)
Scale Fee	16,170	16,170
Changes in work required to address professional and regulatory requirements and scope associated with risk	Note 1	-
Additional work to address significant risks and to audit the restated membership numbers	Note 4	1,265
Additional procedures on IAS19 and the triennial valuation	Note 2	-
Additional work required for internal consultation on the audit report	Note 3	-
Total indicative Pension Fund Fee	TBC	16,170

Notes:

1. We are currently in discussion with the Section 151 officer about our proposals to increase the scale fee to £XXXXX to take into account changes in professional and regulatory requirements, as well as changes to the scope of our audit as a result of Covid-19 as detailed on page 5.

2. We are completing procedures on IAS19 to give assurance to the auditor of the London Borough of Hillingdon. For 2019/20 we have also carried out procedures over the 2019 triennial valuation of the Fund. The triennial valuation informs both the assessment of the IAS19 liabilities in the Council's financial statements and the actuarial present value of promised retirement benefits in the Pension Fund financial statements. The fees associated to IA19 assurances are outside of the scope of the PSAA regime.

3. Additional time will be required for internal consultation processes on the audit report. As this process has not yet been completed we are currently unable to quantify the impact on our audit fee.

4. The 2018/19 scale fee variation was in relation to address significant risks around Level 3 investments and investment journals. The same applies for 2019/20 audit. During 2019/20 audit, we also incurred additional hours in auditing the restated membership numbers for 2019/20 and comparatives.

We will discuss and agree all proposed additional fees with the Section 151 officer before reporting them to the Audit Committee. We will then seek PSAA approval for additional fee items 1, 3 and 4.

Relationships, services and related threats and safeguards

The FRC Ethical Standard requires that we provide details of all relationships between Ernst & Young (EY) and your company, and its directors and senior management and its affiliates, including all services provided by us and our network to your company, its directors and senior management and its affiliates, and other services provided to other known connected parties that we consider may reasonably be thought to bear on the our integrity or objectivity, including those that could compromise independence and the related safeguards that are in place and why they address the threats. There are no relationships from 1st April 2019 to the date of this report, which we consider may reasonably be thought to bear on our independence and objectivity.

Services provided by Ernst & Young

The previous includes a summary of the fees that you have paid to us in the year ended 31st March 20 in line with the disclosures set out in FRC Ethical Standard and in statute. We confirm that none of the services listed below has been provided on a contingent fee basis. As at the date of this report, there are no future services which have been contracted and no written proposal to provide non-audit services has been submitted.

New UK Independence Standards

The Financial Reporting Council (FRC) published the Revised Ethical Standard 2019 in December and it will apply to accounting periods starting on or after 15 March 2020. A key change in the new Ethical Standard will be a general prohibition on the provision of non-audit services by the auditor (and its network) which will apply to UK Public Interest Entities (PIEs). A narrow list of permitted services will continue to be allowed.

Summary of key changes

- Extraterritorial application of the FRC Ethical Standard to UK PIE and its worldwide affiliates
- A general prohibition on the provision of non-audit services by the auditor (or its network) to a UK PIE, its UK parent and worldwide subsidiaries
- A narrow list of permitted services where closely related to the audit and/or required by law or regulation
- Absolute prohibition on the following relationships applicable to UK PIE and its affiliates including material significant investees/investors:
    - Tax advocacy services
    - Remuneration advisory services
    - Internal audit services
    - Secondment/loan staff arrangements
- An absolute prohibition on contingent fees.
- Requirement to meet the higher standard for business relationships i.e. business relationships between the audit firm and the audit client will only be permitted if it is inconsequential.
- Permitted services required by law or regulation will not be subject to the 70% fee cap.

Independence

Summary of key changes (continued)

- Grandfathering will apply for otherwise prohibited non-audit services that are open at 15 March 2020 such that the engagement may continue until completed in accordance with the original engagement terms.
- A requirement for the auditor to notify the Audit Committee where the audit fee might compromise perceived independence and the appropriate safeguards.
- A requirement to report to the Audit Committee details of any breaches of the Ethical Standard and any actions taken by the firm to address any threats to independence. A requirement for non-network component firm whose work is used in the group audit engagement to comply with the same independence standard as the group auditor. Our current understanding is that the requirement to follow UK independence rules is limited to the component firm issuing the audit report and not to its network. This is subject to clarification with the FRC.

Next Steps

We will continue to monitor and assess all ongoing and proposed non-audit services and relationships to ensure they are permitted under FRC Revised Ethical Standard 2016 which will continue to apply until 31 March 2020 as well as the recently released FRC Revised Ethical Standard 2019 which will be effective from 1 April 2020. We will work with you to ensure orderly completion of the services or where required, transition to another service provider within mutually agreed timescales.

We do not provide any non-audit services which would be prohibited under the new standard.

Other communications

EY Transparency Report 2019

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 this Report is for the year end 30 June 2019:

https://assets.ey.com/content/dam/ey-sites/ey-com/en_uk/about-us/transparency-report-2019/ey-uk-2019-transparency-report.pdf

08 Appendices

Appendix A

Required communications with the Audit Committee

There are certain communications that we must provide to the Audit Committees of UK clients. We have detailed these here together with a reference of when and where they were covered:

		Our Reporting to you
Required communications	**What is reported?**	**When and where**
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.	Audit Planning Report on 3 February 2020
Planning and audit approach	Communication of the planned scope and timing of the audit, any limitations and the significant risks identified.	Audit Planning Report on 3 February 2020
Significant findings from the audit	▸ Our view about the significant qualitative aspects of accounting practices including accounting policies, accounting estimates and financial statement disclosures ▸ Significant difficulties, if any, encountered during the audit ▸ Significant matters, if any, arising from the audit that were discussed with management ▸ Written representations that we are seeking ▸ Expected modifications to the audit report ▸ Other matters if any, significant to the oversight of the financial reporting process	Final Audit Results Report on 24 November 2020
Going concern	Events or conditions identified that may cast significant doubt on the entity's ability to continue as a going concern, including: ▸ Whether the events or conditions constitute a material uncertainty ▸ Whether the use of the going concern assumption is appropriate in the preparation and presentation of the financial statements ▸ The adequacy of related disclosures in the financial statements	Final Audit Results Report on 24 November 2020
Misstatements	▸ Uncorrected misstatements and their effect on our audit opinion ▸ The effect of uncorrected misstatements related to prior periods ▸ A request that any uncorrected misstatement be corrected ▸ Material misstatements corrected by management	Final Audit Results Report on 24 November 2020

Appendix A

Required communications	What is reported?	Our Reporting to you When and where
Subsequent events	▸ Enquiry of the Pensions/Audit Committee where appropriate regarding whether any subsequent events have occurred that might affect the financial statements.	Final Audit Results Report on 24 November 2020
Fraud	▸ Enquiries of the Audit Committee to determine whether they have knowledge of any actual, suspected or alleged fraud affecting the Pension Fund ▸ Any fraud that we have identified or information we have obtained that indicates that a fraud may exist ▸ Unless all of those charged with governance are involved in managing the Pension Fund, any identified or suspected fraud involving: a. Management; b. Employees who have significant roles in internal control; or c. Others where the fraud results in a material misstatement in the financial statements. ▸ The nature, timing and extent of audit procedures necessary to complete the audit when fraud involving management is suspected ▸ Any other matters related to fraud, relevant to Audit Committee responsibility.	Final Audit Results Report on 24 November 2020
Related parties	Significant matters arising during the audit in connection with the Pension Fund's related parties including, when applicable: ▸ Non-disclosure by management ▸ Inappropriate authorisation and approval of transactions ▸ Disagreement over disclosures ▸ Non-compliance with laws and regulations ▸ Difficulty in identifying the party that ultimately controls the Pension Fund	Final Audit Results Report on 24 November 2020
Independence	Communication of all significant facts and matters that bear on EY's, and all individuals involved in the audit, objectivity and independence. Communication of key elements of the audit engagement partner's consideration of independence and objectivity such as: ▸ The principal threats - Safeguards adopted and their effectiveness ▸ An overall assessment of threats and safeguards ▸ Information about the general policies and process within the firm to maintain objectivity and independence Communications whenever significant judgments are made about threats to objectivity and independence and the appropriateness of safeguards put in place.	Audit Planning Report on 3 February 2020 and Final Audit Results Report on 24 November 2020

Appendix A

Required communications	What is reported?	Our Reporting to you When and where
External confirmations	▸ Management's refusal for us to request confirmations ▸ Inability to obtain relevant and reliable audit evidence from other procedures.	Final Audit Results Report on 24 November 2020
Consideration of laws and regulations	▸ Subject to compliance with applicable regulations, matters involving identified or suspected non-compliance with laws and regulations, other than those which are clearly inconsequential and the implications thereof. Instances of suspected non-compliance may also include those that are brought to our attention that are expected to occur imminently or for which there is reason to believe that they may occur ▸ Enquiry of the audit committee into possible instances of non-compliance with laws and regulations that may have a material effect on the financial statements and that the audit committee may be aware of	We have asked management and those charged with governance. We have not identified any material instances or non-compliance with laws and regulations.
Significant deficiencies in internal controls identified during the audit	▸ Significant deficiencies in internal controls identified during the audit.	Final Audit Results Report on 24 November 2020
Written representations we are requesting from management and/or those charged with governance	▸ Written representations we are requesting from management and/or those charged with governance	Final Audit Results Report on 24 November 2020
Material inconsistencies or misstatements of fact identified in other information which management has refused to revise	▸ Material inconsistencies or misstatements of fact identified in other information which management has refused to revise	Final Audit Results Report on 24 November 2020
Auditors report	▸ Any circumstances identified that affect the form and content of our auditor's report	Final Audit Results Report on 24 November 2020
Fee Reporting	▸ Breakdown of fee information when the audit planning report is agreed ▸ Breakdown of fee information at the completion of the audit ▸ Any non-audit work	Audit Planning Report on 3 February 2020 Final Audit Results Report on 24 November 2020

Appendix B

Outstanding matters

The following items relating to the completion of our audit procedures are outstanding at the date of the release of this report:

Item	Actions to resolve	Responsibility
Annual Report and accounts	Review of the Annual Report and associated support for disclosures Incorporation of EY review comments on disclosure notes	EY and management
Adequacy and completeness of disclosures in the Pension Fund's accounts with respect to investments' valuation uncertainties	Finalisation of EY's internal consultations on impact of valuation uncertainties on the audit report; Agreement of any proposed changes with management	EY and management
Going concern and subsequent events disclosures	Finalisation of EY's internal consultations on impact of valuation uncertainties on the audit report; Agreement of any proposed changes with management	EY and management
Triennial review of the pensions data submitted to the actuaries	Providing access to all relevant documentation to EY and EY's review and agreement with the report submitted to the actuaries	EY and management
Management representation letter	Receipt of signed management representation letter	Management and audit committee
Subsequent events review	Completion of subsequent events procedures to the date of signing the audit report	EY and management

Management representation letter

Management Rep Letter

To be prepared on the entity's letterhead

Date

Suresh Patel
Ernst & Young
Apex Plaza
Forbury Rd
Reading RG1 1YE

Dear Suresh,

This letter of representations is provided in connection with your audit of the financial statements of the London Borough of Hillingdon Pension Fund ("the Fund") for the year ended 31st March 2020. We recognise that obtaining representations from us concerning the information contained in this letter is a significant procedure in enabling you to form an opinion as to whether the financial statements give a true and fair view of the financial transactions of the Fund during the period from 1st April 2019 to 31st March 2020 and of the amount and disposition of the Fund's assets and liabilities as at 31 March 2020, other than liabilities to pay pensions and benefits after the end of the period, have been properly prepared in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2019/20.

We understand that the purpose of your audit of the Fund's financial statements is to express an opinion thereon and that your audit was conducted in accordance with International Standards on Auditing (UK), which involves an examination of the accounting system, internal control and related data to the extent you considered necessary in the circumstances, and is not designed to identify - nor necessarily be expected to disclose – all fraud, shortages, errors and other irregularities, should any exist.

Accordingly we make the following representations, which are true to the best of our knowledge and belief, having made such inquiries as we considered necessary for the purpose of appropriately informing ourselves:

A. Financial Statements and Financial Records

1. We have fulfilled our responsibilities, under the relevant statutory authorities, for the preparation of the financial statements in accordance with the Accounts and Audit Regulations 2015 and CIPFA LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2019/20.
2. We confirm that the Fund is a Registered Pension Scheme. We are not aware of any reason why the tax status of the scheme should change.
3. We acknowledge, as members of management of the Fund, our responsibility for the fair presentation of the financial statements. We believe the financial statements referred to above give a true and fair view of the financial position and the financial performance of the Fund in accordance with the CIPFA LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2019/20, and are free of material misstatements, including omissions. We have approved the financial statements.
4. The significant accounting policies adopted in the preparation of the financial statements are appropriately described in the financial statements.
5. As members of management of the Fund, we believe that the Fund has a system of internal controls adequate to enable the preparation of accurate financial statements in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2019/20 that are free from material misstatement, whether due to fraud or error. We have disclosed to you any significant changes in our processes, controls, policies and procedures that we have made to address the effects of the COVID-19 pandemic on our system of internal controls.

Management representation letter

6. There are no unadjusted audit differences identified during the current audit and pertaining to the latest period presented.

B. Non Compliance with Laws and Regulations including Fraud

1. We acknowledge that we are responsible to determine that the Fund's activities are conducted in accordance with laws and regulations and that we are responsible to identify and address any non-compliance with applicable laws and regulations, including fraud.
2. We acknowledge that we are responsible for the design, implementation and maintenance of internal controls to prevent and detect fraud.
3. We have disclosed to you the results of our assessment of the risk that the financial statements may be materially misstated as a result of fraud.
4. We have not made any reports to The Pensions Regulator, nor are we aware of any such reports having been made by any of our advisors.
5. There have been no other communications with The Pensions Regulator or other regulatory bodies during the Fund year or subsequently concerning matters of noncompliance with any legal duty.
6. We have no knowledge of any identified or suspected non-compliance with laws or regulations, including fraud that may have affected the Fund (regardless of the source or form and including without limitation, any allegations by "whistleblowers"), including non-compliance matters:

- Involving financial improprieties;
- Related to laws or regulations that have a direct effect on the determination of material amounts and disclosures in the Fund's financial statements;
- Related to laws and regulations that have an indirect effect on amounts and disclosures in the financial statements, but compliance with which may be fundamental to the operations of the Fund, its ability to continue, or to avoid material penalties;
- Involving management, or employees who have significant roles in internal control, or others; or
- In relation to any allegations of fraud, suspected fraud or other non-compliance with laws and regulations communicated by employees, former employees, analysts, regulators or others.

C. Information Provided and Completeness of Information and Transactions

1. We have provided you with:

- Access to all information of which we are aware that is relevant to the preparation of the financial statements such as records, documentation and other matters;
- Additional information that you have requested from us for the purpose of the audit; and
- Unrestricted access to persons within the entity from whom you determined it necessary to obtain audit evidence

2. You have been informed of all changes to the Fund rules.

3. All material transactions have been recorded in the accounting records and are reflected in the financial statements, including those related to the COVID-19 pandemic.

4. We have made available to you all minutes of the meetings of members of the management of the Fund and committees of members of the management of the Fund held through the period to the most recent meeting of the Pensions Committee on 28 July 2020 and the Audit Committee on 3 February 2020.

Management representation letter

5. We confirm the completeness of the information provided regarding the identification of related parties. We have disclosed to you the identity of the Fund's related parties and all related party relationships and transactions of which we are aware, including sales, purchases, loans, transfers of assets, liabilities and services, leasing arrangements, guarantees, non-monetary transactions and transactions for no consideration for the period ended, as well as related balances due to or from such parties at the period end. These transactions have been appropriately accounted for and disclosed in the financial statements.

6. We confirm the completeness of information provided regarding annuities held in the name of the members of the management of the Fund.

7. We have disclosed to you, and the Fund has complied with, all aspects of contractual agreements that could have a material effect on the financial statements in the event of non-compliance, including all covenants, conditions or other requirements of all outstanding debt.

8. No transactions have been made which are not in the interests of the Fund members or the Fund during the fund year or subsequently.

9. We believe that the significant assumptions we used in making accounting estimates, including those measured at fair value, are reasonable.

10. We have disclosed to you any cybersecurity breach that either occurred or that third parties (including regulatory agencies, law enforcement agencies and security consultants) had brought to our attention during the period under audit that could potentially be material to the financial statements.

D. Liabilities and Contingencies

1. All liabilities and contingencies, including those associated with guarantees, whether written or oral, have been disclosed to you and are appropriately reflected in the financial statements.

2. We have informed you of all outstanding and possible litigation and claims, whether or not they have been discussed with legal counsel.

3. We have recorded and/or disclosed, as appropriate, all liabilities related litigation and claims, both actual and contingent.

4. No claims in connection with litigation have been or are expected to be received.

E. Subsequent Events

Other than the events described in Note 23 to the financial statements, there have been no events, including events related to the COVID-19 pandemic, subsequent to period end which require adjustment of or disclosure in the financial statements or notes thereto.

F. Other Information

1. We acknowledge our responsibility for the preparation of the other information. The other information comprises the London Borough of Hillingdon Pension Fund Annual Report 2019/20.

2. We confirm that the content contained within the other information is consistent with the financial statements.

G. Independence

1. We confirm that, under section 27 of the Pensions Act 1995, no members of the management of the Fund of the Scheme is connected with, or is an associate of, Ernst & Young LLP which would render Ernst & Young LLP ineligible to act as auditor to the Scheme.

Management representation letter

H. Derivative Financial Instruments

1. We confirm that all investments in derivative financial instruments have been made after due consideration by the members of the management of the Fund of the limitations in their use imposed by The LGPS Management and Investment of Funds Regulations 2016. The Fund's Investment Strategy Statement has been duly reviewed to ensure that such investments comply with any limitations imposed by its provisions. The financial statements disclose all transactions in derivative financial instruments that have been entered into during the period, those still held by the members of the management of the Fund at the Fund's year end and the terms and conditions relating thereto.

Management has duly considered and deemed as appropriate the assumptions and methodologies used in the valuation of 'over the counter' derivative financial instruments which the Fund is holding, and these have been communicated to you.

I. Pooling Investments, including the use of collective investment vehicles and shared services

1. We confirm that all investments in pooling arrangements, including the use of collective investment vehicles and shared services, meet the criteria set out in the November 2015 investment reform and criteria guidance and that the requirements of the LGPS Management and Investment of Funds Regulations 2016 in respect of these investments has been followed.

J. Actuarial Valuation

1. The latest report of the actuary Hymans Robertson as at 31st March 2020 and dated April 2020 has been provided to you. To the best of our knowledge and belief we confirm that the information supplied by us to the actuary was true and that no significant information was omitted which may have a bearing on his report.

K. Use of the Work of a Specialist

1. We agree with the findings of the specialists that we have engaged to evaluate the valuation of investments and the classification of assets under fair value levelling requirements and have adequately considered the qualifications of the specialists in determining the amounts and disclosures included in the financial statements and the underlying accounting records. We did not give or cause any instructions to be given to the specialists with respect to the values or amounts derived in an attempt to bias their work, and we are not otherwise aware of any matters that have had an effect on the independence or objectivity of the specialists.

L. Estimates

1. We believe that the measurement processes, including related assumptions and models, used to determine the accounting estimates have been consistently applied and are appropriate in the context of the CIPFA/LASAAC Code of Practice on Local Authority Accounting 2019/20.

2. We confirm that the significant assumptions used in making the accounting estimates appropriately reflect our intent and ability to carry out specific courses of action on behalf of the entity.

3. We confirm that the disclosures made in the financial statements with respect to the accounting estimates are complete and made in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting 2019/20.

4. We confirm that no adjustments are required to the accounting estimates and disclosures in the financial statements due to subsequent events.

Yours faithfully,

Paul Whaymand – Corporate Director of Finance

Councillor Martin Goddard – Chairman of Pensions Committee

EY | Assurance | Tax | Transactions | Consultancy

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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ED None

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INVESTMENT STRATEGY and FUND MANAGER PERFORMANCE (Part I)	ITEM 6

Committee	Pensions Committee
Officer Reporting	James Lake & Babatunde Adekoya, Finance
Papers with this report	Northern Trust Performance Report

HEADLINES

The total value of the fund was £1,069m at 30 June 2020, an increase of £80m from £989m at the end of previous quarter. There was an overall investment return of -8.04% over the quarter which was 1.0% behind the benchmark.

A detailed analysis of the performance of each investment manager compiled by the independent investment advisor is included in Part II of this report.

Update

The latest fund value as at 30 September 2020 was £1,080m, an increase of £11m in valuation compared to end of quarter under review.

RECOMMENDATIONS

It is recommended that Pensions Committee:

1. **Note the Fund performance update.**

SUPPORTING INFORMATION

1. Fund Performance
Over the last quarter to 30 June 2020, the Fund returned 8.04%, underperforming the benchmark return of 9.04%. The Fund value increased over the quarter by £80m, to £1,069m.

Period of measurement	Fund Return %	Benchmark %	Arithmetic Excess
Quarter	8.04	9.04	-1.00
1 Year	-1.76	2.29	-4.05
3 Year	2.81	4.66	-1.85
5 Year	6.02	6.82	-0.80
Since Inception (09/1995)	6.65	6.74	-0.09

During the quarter, distributions received from alternative investments were $1.5m, €874k & £628k. £3.2m was paid to the LCIV-Stepstone Infrastructure Fund.

The recovery from effects of COVID-19 was quite visible in investment performance for the quarter and this resulted in positive returns by eight of the thirteen portfolios. M&G Investments, LGT Capital Partners and Adams Street Partners with -15.45%, -22.71% & -27.68% behind respective benchmark returns were the biggest underperformers during the quarter under review. LCIV-Ruffer LLP and JP Morgan were the biggest contributors to performance with 6.06% and 5.45% relative excess returns compared to their respective benchmarks.

Overall portfolio relative performance over a one-year rolling period was arithmetically -4.05% behind the benchmark with the largest detractors being UBS Equities and M&G Investments with returns of -14.91% & -21.73% below benchmarks. LCIV-Ruffer LLP was the largest contributor to performance over one year rolling period with 7.35% outperformance relative to its benchmark.

2. Asset Allocation

The current asset allocation, the key strategic tool for the Committee, is in the table below. The assets of the Fund are invested across 11 different Fund Managers and 13 portfolios in a range of passive and active mandates, including a mix of liquid and illiquid allocations to reflect the Fund's long-term horizon.

Current Asset Allocation by Asset Class				
	Market Value As at 30 June 2020	**Actual Asset Allocation**	**Benchmark Allocation**	**Market Value As at 30 September 2020**
ASSET CLASS	**£'000**	**%**	**%**	**£'000**
UK Equities	89,662	8.39	45	42
Global Equities	377,163	35.30		474,770
UK Index Linked Gilts	156,330	14.63	24	152,914
Multi Asset Credit	94,971	8.89		96,849
Property	116,383	10.89	12	117,134
DGF/Absolute Returns	59,116	5.53	0	59,779
Private Equity	12,325	1.15	1	12,732
Infrastructure	29,755	2.78	8	29,576
Private Credit	66,069	6.18	5	61,480
Long Lease Property	47,955	4.49	5	48,285
Cash & Cash Equivalents	18,795	1.76	0	26,638
Totals	**1,068,524**	**100.00**	**100**	**1,080,199**

Current Asset Allocation by Manager		Market Value As at 30 June 2020	Actual Asset Allocation	Market Value As at 30 September 2020
FUND MANAGER	**ASSET CLASS**	**£'000**	**%**	**£'000**
ADAMS STREET	Private Equity	8,857	0.83	9,440
LGT	Private Equity	3,427	0.32	3,251
AEW	Property	51,047	4.78	52,317
JP MORGAN	Multi Asset Credit	94,971	8.89	96,849
LCIV - EPOCH	Global Equities	144,688	13.54	145,796
LCIV - RUFFER	DGF/Absolute Returns	59,116	5.53	59,779
LCIV - STEPSTONE	Infrastructure	3,752	0.35	3,752
M&G	Private Credit	2,594	0.24	2,146
MACQUARIE	Infrastructure	26,003	2.43	25,824
PERMIRA	Private Credit	63,475	5.94	59,334
LGIM	Global Equities	232,475	21.76	243,404
	LPI Property	47,955	4.49	48,285
	Future World	0	0.00	85,570
	UK Index Linked Gilts	156,330	14.63	152,914
UBS EQUITIES	UK Equities	89,662	8.39	42
	Property	22	0.00	22
	Private Equity	41	0.00	41
	Cash & Cash Equivalents	2,658	0.25	3,704
UBS PROPERTY	Property	65,314	6.11	64,795
	Cash & Cash Equivalents	339	0.03	361
Non Custody	Cash & Cash Equivalents	15,798	1.48	22,573
		1,068,524	**100**	**1,080,199**

The Fund has £4.5m awaiting drawdown on Private Credit. £55m is committed to LCIV Stepstone Infrastructure Fund; these funds are currently held in the LCIV Ruffer Absolute Return Fund, of which £3.8m has been drawn-down at the time of writing this report.

3. Market and Financial climate overview

The easing of Covid-19 lockdowns and early signs of economic recovery saw risk appetite return rapidly in Q2, supporting equity and credit markets.

UK Equity

UK equities rose over the period. Having contained the first wave of Covid-19, national lockdown measures were eased. Meanwhile, economic indicators suggested the downturn had past its worst point. A number of economically sensitive areas of the

market outperformed amid a general improvement in investor sentiment, largely driven by global considerations. The mining sector, for instance, performed very well, in part due to the ongoing recovery in Chinese economic activity and new stimulus measures. The latest monthly estimates revealed that the UK economy contracted by 20.4% in April (the first full month of the UK national lockdown). However, Google mobility data suggests that the fall in travel to work also bottomed out that month. This supports the view that GDP could have returned to positive growth in May. The government began to ease lockdown measures with people encouraged to return to work where necessary and a phased reopening of schools and various industry sectors confirmed. This occurred as the cost of the government programmes announced in Q1 to cushion the blow from unemployment and the loss of income due to the lockdowns became apparent in borrowing figures released in Q2.

The government confirmed a phased end to the furlough scheme and the Bank of England (BoE) expanded its quantitative easing programme. The BoE's governor told parliamentarians that negative rates were under "active review" while the Debt Management Office reported it had sold negative yielding gilts for the first time. Brexit returned to the agenda as the deadline passed for an extension of the transition period, which expires on 31 December 2020.

US

US equities rebounded in Q2 and outperformed other major equity markets. At the beginning of the quarter, data confirmed the severe economic impact of lockdown measures. However, the subsequent easing of lockdown restrictions, ongoing loose monetary policy from the Federal Reserve (Fed) and early indications of a recovery led to widespread equity market gains. Weekly claims for unemployment insurance slowed substantially and retail sales rebounded strongly from April to May.

However, investor optimism was tempered by a subsequent rise in Covid-19 cases that has prompted some states to rethink or reversing the easing of lockdown measures. US-wide, the trend of new cases accelerated rapidly into the end of June. The states of Texas, Florida, California and Arizona saw notable increases in cases and hospitalisations.

The improvement in retail sales was supportive of consumer discretionary stocks, which outperformed, along with information technology, which has been consistently resilient through the crisis. Energy and materials also made strong gains. Defensive areas such as utilities and consumer staples lagged behind.

Eurozone

Eurozone equities posted strong gains in Q2 as countries began to lift lockdown restrictions. The Baltic countries and Austria were among the first to loosen their lockdowns in April due to their relative success in containing Covid-19. Worse affected countries such as Spain, France and Italy waited until later in the quarter before relaxing measures.

Another source of support for shares was news of the EU's plans for post-Covid-19 recovery. European Commission president Ursula von der Leyen called for the power to borrow €750 billion for a recovery fund to support the worst affected EU regions. This would be in addition to a €540 billion rescue package agreed in April. The European Central Bank also offered support, expanding its pandemic emergency purchase programme to €1.35 trillion.

All sectors posted a positive return in the quarter. Information technology saw some of the strongest gains along with industrials, materials and financials, as news of

lockdowns lifting buoyed economically sensitive sectors. The energy sector was the main underperformer.

Japan

After weakness in early April, the Japanese equity market recovered to record a total return of 11.3%. Although there was some short-term currency volatility in June, the yen remained in a stable range throughout the three months.

As the quarter unfolded, investors reacted positively to signs of a peak in virus cases globally, rather than specific news on Japan itself. As a result, economically sensitive and global stocks, together with pharmaceuticals, tended to lead the market recovery. Domestic-focused stocks such as transportation, insurance and utilities typically lagged behind the overall market rise. Airlines continued to weaken as concerns mounted over their inability to restart profitable services in the medium term, even when lockdowns began to ease. Smaller companies were very weak relative to the overall market in first few days of April but gradually recouped this decline and actually outperformed large caps over the quarter as a whole.

Emerging Markets

Emerging market (EM) equities rallied, recording their strongest quarterly return in over a decade, with US dollar weakness amplifying returns. This was despite an acceleration in the number of new daily cases of Covid-19 in some EM countries. The MSCI Emerging Markets Index increased in value but slightly underperformed the MSCI World Index.

EM countries with high foreign financing needs outperformed, notably Argentina, which was the best-performing market in the MSCI EM index, as well as South Africa and Indonesia. The exporter markets of Thailand and Taiwan outperformed on hopes of a recovery in global demand in the second half of 2020. Brazil recorded a strong gain despite a headwind from currency weakness.

By contrast, Egypt and Qatar were the weakest index markets, though both still posted solid gains. Mexico underperformed as the government remained reluctant to provide more meaningful fiscal support. China also underperformed, having outperformed by a wide margin in Q1. Economic activity continued to normalise and additional stimulus was announced at the National People's Congress in May. However, US-China tensions increased, extending beyond trade and technology issues.

Global Bonds

Broadly, government bond yields saw a degree of divergence over the quarter. The US and Germany's 10-year yields were little changed, but those more sensitive to risk sentiment declined (meaning prices rose). The US 10-year yield remained in a narrow range, and finished one basis point lower. It sold off in early June following a stronger-than-expected US labour market data release, though the move reversed later in the month.

In Europe, the more noteworthy development was a decline in the Italian 10-year yield of over 22 basis points (bps) to 1.26%. Italian bonds benefited from hopes of moves toward more coordinated support measures in the eurozone.

With Brexit back in focus, the UK 10-year bond yield was 18bps lower at 0.17%. The UK two-year yield dropped below zero for the first time, finishing at -0.08%, as the central bank discussed the possibility of negative interest rates.

Corporate bonds performed strongly, outpacing government bonds, as they benefited from stronger risk appetite. High yield performed particularly well with total returns (local currency) of 11%, led by the European market. Investment grade returned 7.9%. The US energy sector performed well across investment grade and high yield. Investment grade bonds are the highest quality bonds as determined by a credit ratings agency; high yield bonds are more speculative, with a credit rating below investment grade.
Emerging market (EM) bonds also rebounded to produce strong gains. Hard currency government, quasi-sovereign and corporate bonds returned over 11%. Local currency bonds were up nearly 10%.

FINANCIAL IMPLICATIONS

The financial implications are contained within the body of the report

LEGAL IMPLICATIONS

There are no legal implications in the report.

NORTHERN TRUST

London Borough of Hillingdon

Investment Risk & Analytical Services

June 30, 2020

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Client Commentary

Total Scheme Commentary

Short term volatility became one of many new normals over quarter two. Markets rose then dropped then fell again and then rebounded strongly all in the course of a single week often based on one indicator proving positive only to be cited as negative the following day. Portfolio diversification has become more challenging but also more important than ever; 25% of market cap in the S&P500 is now represented by just 10 names. More importantly, 2% of stocks now represent 25% of the risk exposure in typical equity portfolios and those stocks are not well diversified, they are big tech companies that rely on ecommerce and cloud computing. The problem of diversification is set to become more challenging as well, survival for retailers necessitated a move to ecommerce supported by companies like Shopify that provide an operating system for traditional stores to market goods online. US consumers are predicted to spend $710bn online this year, up almost 20%. Everything points to increased reliance on the same big tech companies for both work and life. The March correction has not reoccurred in Q2, the greatest risk to both economies and a return to normal life is a second wave of infections. Any evidence of an increase in virus cases caused markets to slide and subsequent rallies were based on stability and central bank promises of further support. Companies are submitting 2019 profits to lenders rather than break covenants regarding debt to earnings ratios that could trigger unwanted repayment requests and restructuring. Something undesirable to both lender and debtor alike. Cash has been pouring back into equity markets; inflows to equity funds in the UK hit a record high of £2.6bn in April. Global bond markets rebounded in quarter two following the market turmoil of the first quarter. Unprecedented levels of fiscal and monetary stimulus saw global responses by the central banks; the Fed launched bond purchase schemes up to $750bn in the US, the ECB announced a 750bn Euro Pandemic Emergency Purchase Programme and the Bank of England decided to reopen its corporate bond purchase scheme. Whilst equity markets displayed some bounce back during quarter two, negative returns remained over the year to date periods. Fixed income markets in comparison fared better and the Barclays Global Aggregate returned positive returns in excess of +3% over the quarter. The year to date shows double digit growth over 10%.In the UK, Sterling fell further against the US Dollar, Euro and Japanese Yen. During their June meeting, and despite speculation around introducing negative rates,the BoE's Monetary Policy Committee voted unanimously to keep interest rates at their historic low of 0.1%. The MPC also expanded its government bond purchasing program by £100bn to a total of £745bn, however intimated that the UK's Q2 GDP contraction could be less severe than originally forecast.

Within this environment the London Borough of Hillingdon returned +8.04% which was behind the Total Plan benchmark of +9.04%. In monetary terms this is a gain in assets of £79.5 million and the value of the combined scheme now stands at £1,068 million as at 30th June 2020. The Scheme's one year return of -1.76% is 3.96% behind the benchmark of +2.29%following this quarters underperformance. While over the longer periods, despite nine positive quarters over the last 3 years, the Scheme has again underperformed, producing a return of 2.81% over three year versus 4.66%. Then the scheme continues to underperform over the 5 year period where we observe figures of 6.02% per annum (vs the benchmark 6.82%). Then since inception in September 1995, the Fund remains behind target by 9 basis points with an annualised return of 6.65% against a target of 6.74%.

Manager Commentary

AEW UK

The AEW UK Property Fund posted a total return of +0.54%, beating the the IPD UK PPFI AI Balanced Funds Index in contrast to the underperformance seen last quarter. Rolling one year returns continue to see losses, with the mandate returning -15.24% versus -2.59% for the IPD Index

Theycontinue to be behind over the three year period returning 1.25% against the benchmark of 3.40%. This translates as 2.09% relative underperformance. With positive absolute returns in all but two periods and four quarters in the red on a relative basis, growth is observed but behind benchmark over three years. Since the funds inception date of July 2014, the fund return is 6.13%, leading to an underperformance of approx 0.5% when compared to the IPD figure of 6.64%.

JP Morgan

In the latest quarter JP Morgan posted an increase in assets of +6.55% leading to an outperformance of +5.45% when compared to the 1.04% target for the 3 Month LIBOR + 3% p.a. Then with positive results in three of the last four quarters, the one year return of +1.85% is in positive territory and is behind the 4.00% target by over 2%. Then over three years they post returns behind the benchmark with figures of 2.70% vs 3.87%. Since the mandate funded their return of 3.68% is just behind the target return of 3.73% on an annualised basis.

Legal & General 1

There was a reorganisation of assets in both Legal & General 1 and 2 portfolios towards the end of 2018. Equity assets were moved to the No 1account and fixed income to the No2 account. LGIM portfolio now represent almost 22% of the scheme as of 30th June 2020. Over the last three months the Legal & General No. 1 mandate post a return of +19.1% in line with the custom fixed weight blended benchmark. In the period since inception in October 2016, they return 6.1%, which is just below the benchmark return of 6.2%.

Legal & General 2

The No 2 Legal & General mandate returned +10.32% against +11.28% for the second quarter against the custom fixed weight blended benchmark consisting of FTSE Index Linked 15+ years, FTSE Index Linked and iBoxx UK Non-Gilts. In the period since inception, they remain broadly in line with the benchmark returning 7.7% against 7.9% for the benchmark.

Client Commentary (cntd)

Manager Commentary

London CIV Ruffer

The absolute return strategies employed by London CIV Ruffer translated into a 606 basis point outrperformance of the 3-mth Sterling LIBOR target. The investment is above the benchmark over all longer term periods. This is seen in a five year return of 3.42% versus 0.78%, then similarly for the since inception period (May 2010) figures of 5.18% versus 0.86% per annum, which translates as a relative return of over 4%.

M&G Investments

M&G posted further losses in Q2 by producing a return of -14.36% against the 3 Month LIBOR +4% p.a. target of 1.28%, demonstrating an underperformance of 15.45%. This is the second consecutive quarter of underperformance and the full year return remains behind the benchmark by 21.73%, coming from figures of -17.82% against 5.00%. Over the three and five year the account registers figures of -1.36% vs 4.87% and 3.18% vs 4.78% respectively; since inception (May 2010) returns improve to 4.65% pa whilst the benchmark is 4.75% pa. Although the since inception Internal Rate of Return moves further ahead of target with a figure of 7.83% opposed to the comparator of 4.60%.

Macquarie

Over the last three months, Macquarie produced gains of 0.95%, against the 1.04% for the 3 Month LIBOR +3% p.a. this translates as an underperformance of 0.08%. With eleven quarters of positive absolute returns and nine positive relative returns, outperformance is seen in all longer periods. Over the rolling year a growth of 7.84% beats the target of 4.00% by 3.70%, similarly the three year result of 11.72% versus 3.87% exhibits positive relative return at 7.56%. The annualised return over 5 years rises to 16.24%, and remains ahead of the 3.78% seen for the benchmark; then since inception (September 2010) the 6.65% is ahead of the target of 3.74%. Although the since inception Internal Rate of Return for this portfolio jumps to 12.60%, which is ahead of the benchmark figure of 3.72%.

UBS

During Q2 the UBS UK Equity investments returned +6.97%, trailing the +10.17% for the FTSE All Share. Looking into the attribution analysis this underperformance was due to sector positioning and selection effects. The most significant being the negative returns in Oil & Gas (-120bps) and weak performance in Consumer Services (-77bps), while the largest positive impact comes from Basic Materials (+78 bps). Glencore and Anglo American posted gains over quarter two and added a combined 216bps value add. Cash positions however detracted from relative performance.

The manager falls behind over the one year, stemming from figures of -25.42% vs -12.99% which translates as a relative return of 14.29%. This is largely attributable to selection effects, the biggest impacts come from both Financials (-365bps), Industrials (-225 bps) and Consumer Services (-250 bps). The longer time periods again show a poor picture, with three and five years behind the index, culminating in a since inception (January 1989) return of 8.42% versus 7.87% on an annualised basis.

ManagerCommentary

Premira Credit

The Premira Credit Fund saw a reduction of -1.41% over the second quarter of 2020, this was behind the 3 Month LIBOR +4% p.a. target of 1.28%. The fund has outperformed in three of the last four quarter's although are behind target, recording an underformance of 1.46%, created from figures of 3.47% against 5.00%. Then since the start of December 2014 when the fund incepted, the fund posts a return of 7.43% against the benchmark of 4.74%, leading to a relative position of over 2%.

UBS Property

The latest quarter for the UBS Property posted an underperformance of 0.25%, generated from a return of -2.25% against the IPD UK PPFI All Balanced Funds index of -2%. Over the one year the manager is behind the index, with a full year return of -3.56% vs -2.59%. The previous good run of results particularly during 2015 leads to high absolute returns staying just ahead of the IPD target over the five year periods with a return of 4.71% against 4.65%. Then since inception, in March 2006, the fund return falls to 3.43% per annum which is broadly in line with the benchmark.

Private Equity

The private equity assets saw a 12.68% fall in value for Adam Street. LGT also saw a decrease of 6.67%. Over the longer periods, the outlook over which private equity investments should be measured, returns remain positive. LGT maintain a run of over 3 years of growth with figures of 9.37% and 16.74% for the three and five year periods respectively, while Adam Street posted 8.32% and 12.13% over the same periods. Adam St are behind the proxy benchmark of MSCI AC World +4% p.a. over the three and five year period (which show double digit gains of 12.48% and 16.34%). LGT are ahead over the five year outperforming by 35bps. Then since their respective inceptions in January 2005 and May 2004, Adam Street drops to 6.81% pa, while LGT sees a more modest dip to 10.73%.

Epoch

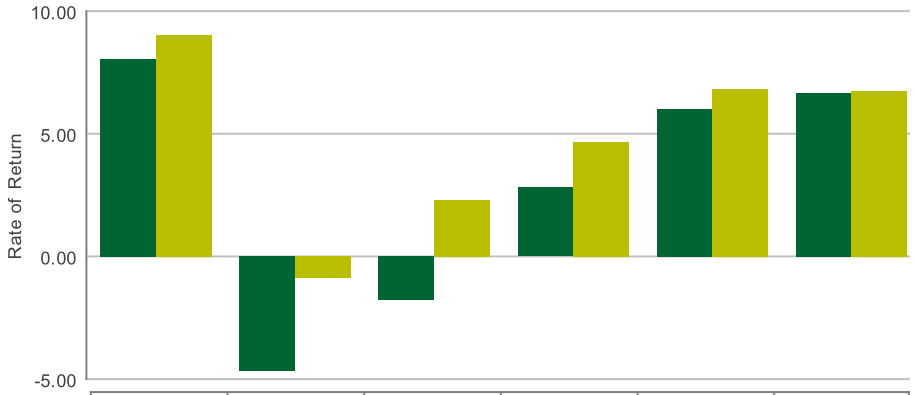
Over the second quarter the investment in Epoch's income equity fund generated a return of +12.38%. Since inception (November 2017) the fund has observed a modest rise in value 0.80% compared to the MSCI World figure of +7.05%, this leads to a relative return of approx -6%.

LCIV Infrastructure Fund

The LCIV Infrastructure fund was launched in quarter two and the valuation at 30th June was £3.7m

Executive Summary

LONDON BOROUGH OF HILLINGDON TOTAL FUND GROSS OF FEES



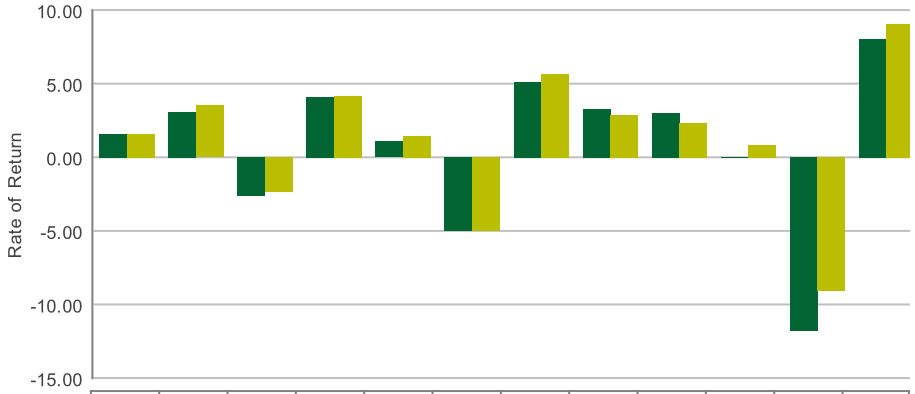
	Three Months	Year to Date	One Year	Three Years	Five Years	ITD
Fund	8.04	-4.67	-1.76	2.81	6.02	6.65
Index	9.04	-0.89	2.29	4.66	6.82	6.74

Index: Total Plan Benchmark

RISK STATISTICS	1 Yr	3 Yrs	5 Yrs
Return	-1.76	2.81	6.02
Index Return	2.29	4.66	6.82
Relative Excess Return	-3.96	-1.76	-0.75
Standard Deviation	10.62	7.33	6.67
Index Standard Deviation	9.37	6.78	6.11
Tracking Error	2.04	1.46	1.46
Information Ratio	-1.99	-1.27	-0.55
Sharpe Ratio	-0.26	0.27	0.79
Index Sharpe Ratio	0.14	0.56	0.99
Sortino Ratio	-0.30	0.34	1.11
Treynor Ratio	-2.46	1.84	4.91
Jensen's Alpha	-4.03	-1.97	-1.12
Relative Volatility (Beta)	1.12	1.06	1.07
R Squared	0.97	0.96	0.96

Index: Total Plan Benchmark. Risk Free Index: JP Morgan 3 month Cash (GBP)
Category: Total Fund Gross of Fees. Calculation Frequency: Monthly

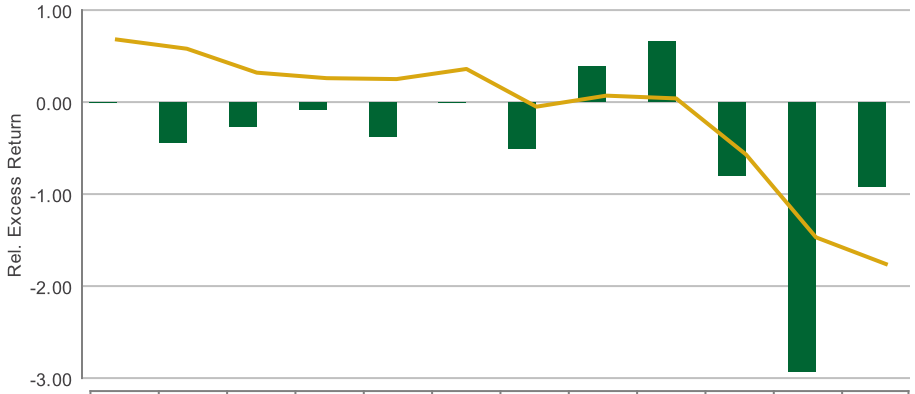
LONDON BOROUGH OF HILLINGDON ROLLING QUARTERS TOTAL FUND GROSS OF FEES



	Q3 '17	Q4 '17	Q1 '18	Q2 '18	Q3 '18	Q4 '18	Q1 '19	Q2 '19	Q3 '19	Q4 '19	Q1 '20	Q2 '20
Fund	1.59	3.08	-2.60	4.08	1.08	-5.02	5.10	3.27	3.02	0.03	-11.77	8.04
Index	1.60	3.53	-2.34	4.16	1.45	-5.01	5.64	2.87	2.34	0.84	-9.10	9.04

Index: Total Plan Benchmark

LONDON BOROUGH OF HILLINGDON ROLLING QUARTERS TOTAL FUND GROSS OF FEES



	Q3 '17	Q4 '17	Q1 '18	Q2 '18	Q3 '18	Q4 '18	Q1 '19	Q2 '19	Q3 '19	Q4 '19	Q1 '20	Q2 '20
3M R.Excess	-0.01	-0.44	-0.27	-0.08	-0.37	-0.01	-0.51	0.39	0.66	-0.80	-2.93	-0.92
3Y R.Excess	0.68	0.58	0.32	0.26	0.25	0.36	-0.05	0.07	0.04	-0.57	-1.47	-1.76

Index: Total Plan Benchmark

Investment Hierarchy

Account/Group -% Rate of Return	Ending Market Value GBP	Ending Weight	Three Months			Year to Date			One Year		
			Port	Index	Relative Excess	Port	Index	Relative Excess	Port	Index	Relative Excess
London Borough of Hillingdon	**1,068,523,947**	**100.00**	**8.04**	**9.04**	**-0.92**	**-4.67**	**-0.89**	**-3.82**	**-1.76**	**2.29**	**-3.96**
Total Plan Benchmark											
AEW UK	**51,046,931**	**4.78**	**0.54**	**-2.00**	**2.59**	**-16.21**	**-3.27**	**-13.37**	**-15.24**	**-2.59**	**-12.98**
LBH22 AEW Benchmark											
JP Morgan	**94,970,904**	**8.89**	**6.55**	**1.04**	**5.45**	**-0.09**	**2.05**	**-2.10**	**1.85**	**4.00**	**-2.07**
LBH15 JPM LIBOR +3%pa											
Legal & General 1	**232,475,107**	**21.76**	**19.06**	**19.13**	**-0.05**	**-2.62**	**-2.52**	**-0.10**	**3.73**	**3.87**	**-0.14**
LBH26 L&G Benchmark											
Legal & General 2	**156,330,300**	**14.63**	**10.32**	**11.28**	**-0.86**	**12.37**	**11.69**	**0.61**	**11.72**	**11.35**	**0.34**
LBH27 L&G Benchmark											
M&G Investments	**4,419,236**	**0.41**	**-14.36**	**1.28**	**-15.45**	**-20.17**	**2.54**	**-22.14**	**-17.82**	**5.00**	**-21.73**
LBH10 3 Month LIBOR +4%pa											
Macquarie	**27,121,903**	**2.54**	**0.95**	**1.04**	**-0.08**	**7.21**	**2.05**	**5.06**	**7.84**	**4.00**	**3.70**
LBH14 Macquarie LIBOR +3%pa											
Premira Credit	**63,474,761**	**5.94**	**-1.41**	**1.28**	**-2.66**	**-0.08**	**2.54**	**-2.56**	**3.47**	**5.00**	**-1.46**
LBH24 Premira LIBOR +4%pa											
UBS	**92,383,478**	**8.65**	**6.97**	**10.17**	**-2.91**	**-29.28**	**-17.51**	**-14.26**	**-25.96**	**-12.99**	**-14.91**
LBH04 UBS Benchmark											
UBS Property	**65,652,620**	**6.14**	**-2.25**	**-2.00**	**-0.25**	**-3.64**	**-3.27**	**-0.37**	**-3.56**	**-2.59**	**-0.99**
LBH06 UBS Property Benchmark											
Adam Street	**8,857,035**	**0.83**	**-12.68**	**20.75**	**-27.68**	**-2.00**	**2.78**	**-4.65**	**-2.84**	**9.47**	**-11.24**
Adam Street PE Bmark											
LGT	**3,427,914**	**0.32**	**-6.67**	**20.75**	**-22.71**	**-0.45**	**2.78**	**-3.14**	**-3.07**	**9.47**	**-11.45**
LGT PE Bmark											
Epoch Investment P Income	**144,687,852**	**13.54**	**12.38**	**19.78**	**-6.17**	**-9.17**	**1.03**	**-10.10**	**-5.40**	**5.93**	**-10.69**
LBH11001 MSCI World ND											
London CIV Ruffer	**59,121,573**	**5.53**	**6.38**	**0.30**	**6.06**	**4.29**	**0.56**	**3.71**	**8.43**	**1.00**	**7.35**
LBH11003 Ruffer BM Libor											

Investment Hierarchy(2)

Account/Group -% Rate of Return	Three Years Port	Three Years Index	Three Years Relative Excess	Five Years Port	Five Years Index	Five Years Relative Excess	Inception to Date Port	Inception to Date Index	Inception to Date Relative Excess	Inception Date
London Borough of Hillingdon	**2.81**	**4.66**	**-1.76**	**6.02**	**6.82**	**-0.75**	**6.65**	**6.74**	**-0.09**	**30/09/1995**
Total Plan Benchmark										
AEW UK	**1.25**	**3.40**	**-2.09**	**4.67**	**4.95**	**-0.27**	**6.13**	**6.64**	**-0.48**	**30/06/2014**
LBH22 AEW Benchmark										
JP Morgan	**2.70**	**3.87**	**-1.12**	**3.82**	**3.79**	**0.03**	**3.68**	**3.73**	**-0.06**	**08/11/2011**
LBH15 JPM LIBOR +3%pa										
Legal & General 1	**5.56**	**5.69**	**-0.12**	**-**	**-**	**-**	**6.13**	**6.24**	**-0.10**	**31/10/2016**
LBH26 L&G Benchmark										
Legal & General 2	**8.02**	**8.22**	**-0.18**	**-**	**-**	**-**	**7.72**	**7.97**	**-0.23**	**22/02/2017**
LBH27 L&G Benchmark										
M&G Investments	**-1.36**	**4.87**	**-5.94**	**3.18**	**4.78**	**-1.52**	**4.65**	**4.75**	**-0.10**	**31/05/2010**
LBH10 3 Month LIBOR +4%pa										
Macquarie	**11.72**	**3.87**	**7.56**	**16.24**	**3.78**	**12.00**	**6.65**	**3.74**	**2.80**	**30/09/2010**
LBH14 Macquarie LIBOR +3%pa										
Premira Credit	**5.60**	**4.87**	**0.70**	**7.15**	**4.78**	**2.27**	**7.43**	**4.74**	**2.57**	**30/11/2014**
LBH24 Premira LIBOR +4%pa										
UBS	**-7.66**	**-1.56**	**-6.19**	**0.05**	**2.87**	**-2.74**	**8.42**	**7.87**	**0.52**	**31/12/1988**
LBH04 UBS Benchmark										
UBS Property	**3.02**	**3.40**	**-0.37**	**4.71**	**4.65**	**0.05**	**3.43**	**3.50**	**-0.07**	**31/03/2006**
LBH06 UBS Property Benchmark										
Adam Street	**8.32**	**12.48**	**-3.69**	**12.13**	**16.34**	**-3.62**	**6.81**	**-**	**-**	**31/01/2005**
Adam Street PE Bmark										
LGT	**9.37**	**12.48**	**-2.76**	**16.74**	**16.34**	**0.35**	**10.73**	**-**	**-**	**31/05/2004**
LGT PE Bmark										
Epoch Investment P Income	**-**	**-**	**-**	**-**	**-**	**-**	**0.80**	**7.05**	**-5.84**	**08/11/2017**
LBH11001 MSCI World ND										
London CIV Ruffer	**2.85**	**0.86**	**1.97**	**3.42**	**0.78**	**2.62**	**5.18**	**0.86**	**4.28**	**28/05/2010**
LBH11003 Ruffer BM Libor										

Market Value Summary - Three Months

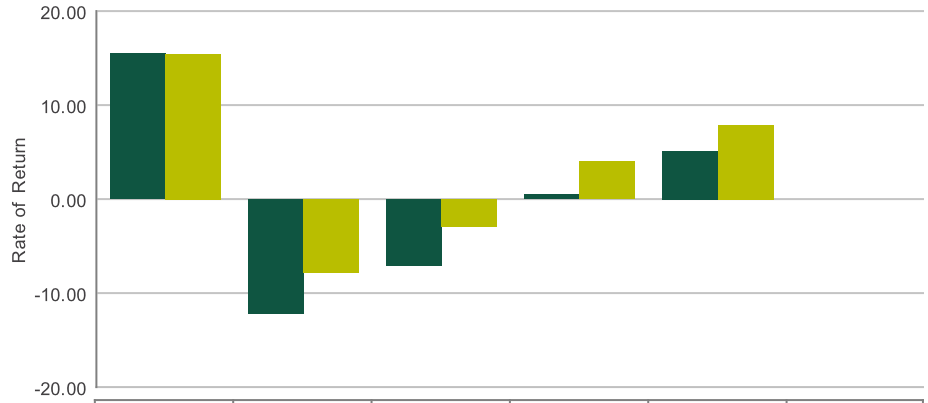
Account/Group	31/03/2020 Market Value	31/03/2020 Weight	Net Contribution*	Income	Fees	Appreciation	30/06/2020 Market Value	30/06/2020 Weight	Change in Weight
London Borough of Hillingdon	**989,034,245**	**100.00**	**-9,481**	**3,179,300**	**9,481**	**76,319,884**	**1,068,523,947**	**100.00**	**0.00**
AEW UK	50,774,104	5.13	0	562,581	0	-289,753	51,046,931	4.78	-0.36
JP Morgan	89,136,628	9.01	0	0	0	5,834,276	94,970,904	8.89	-0.12
Legal & General 1	195,267,217	19.74	-13,055	0	13,055	37,220,945	232,475,107	21.76	2.01
Legal & General 2	141,707,057	14.33	-2,766	0	2,766	14,626,010	156,330,300	14.63	0.30
M&G Investments	5,759,181	0.58	-523,209	446	0	-817,183	4,419,236	0.41	-0.17
Macquarie	27,222,341	2.75	-347,514	4,305	0	242,770	27,121,903	2.54	-0.21
Premira Credit	65,017,445	6.57	-628,000	0	0	-914,684	63,474,761	5.94	-0.63
UBS	87,351,992	8.83	-1,009,446	706,919	0	5,334,013	92,383,478	8.65	-0.19
UBS Property	67,602,390	6.84	-439,263	503,730	-6,340	-2,014,237	65,652,620	6.14	-0.69
Adam Street	11,203,069	1.13	-1,034,640	0	0	-1,311,395	8,857,035	0.83	-0.30
LGT	3,672,903	0.37	0	24	0	-245,013	3,427,914	0.32	-0.05
Cash & Other Assets	12,031,835	1.22	802,811	7,630	0	4,886	12,847,162	1.20	-0.01
Epoch Investment P Income	128,745,257	13.02	0	1,393,528	0	14,549,067	144,687,852	13.54	0.52
London CIV Ruffer	55,577,533	5.62	0	137	0	3,543,903	59,121,573	5.53	-0.09
Cash & Other Assets	0	0.00	0	0	0	0	0	0.00	0.00

Min -0.69 2.01 Max

**Net Contributions include Cash Contributions/Distributions, Security Deliveries/Receipts, Fees/Fee Rebates, Inter Account transfers for Consolidations & Benefits Payments.*
Copied History or Backloaded Data may not display the correct Contributions/Withdrawals creating misrepresentation.

Historical Performance

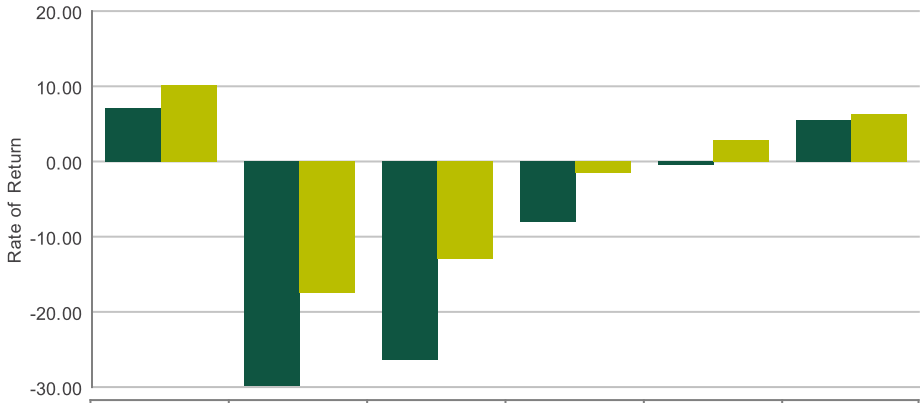
EQUITY



	Three Months	Year to Date	One Year	Three Years	Five Years	ITD
Category	15.47	-12.19	-7.04	0.48	5.12	-
Index	15.44	-7.79	-2.91	3.96	7.89	-

Index: Total Equity Benchmark

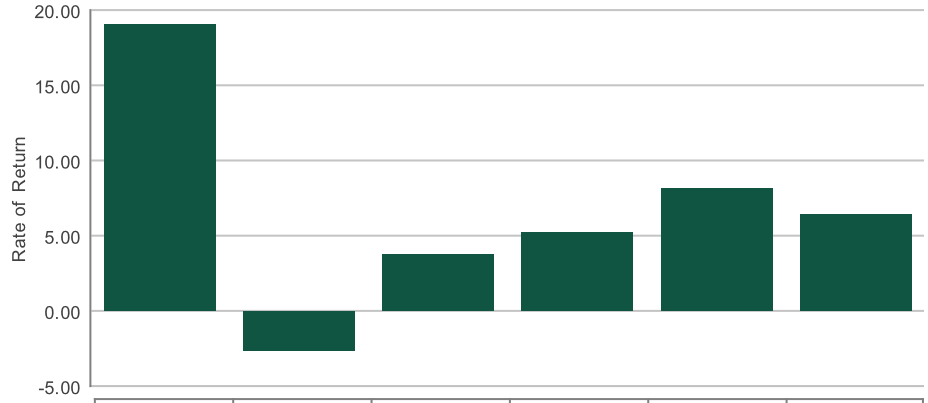
UNITED KINGDOM



	Three Months	Year to Date	One Year	Three Years	Five Years	ITD
Category	7.15	-29.84	-26.46	-8.02	-0.45	5.48
Index	10.17	-17.51	-12.99	-1.56	2.87	6.30

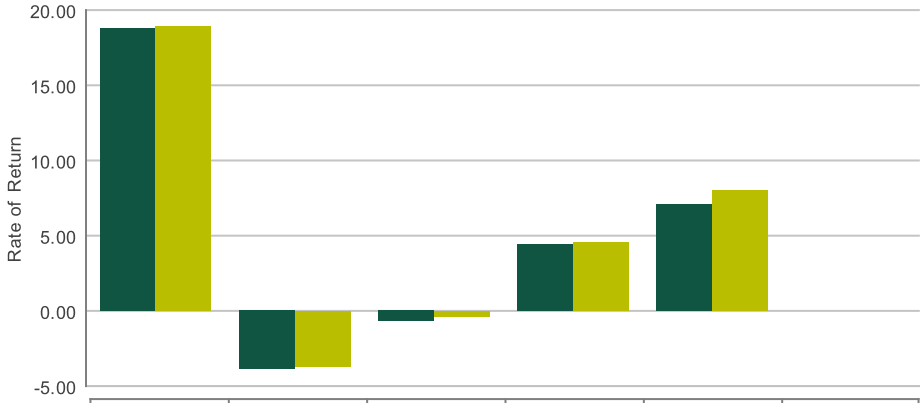
Index: FTSE All Share UK Equity

OVERSEAS EQUITIES



	Three Months	Year to Date	One Year	Three Years	Five Years	ITD
Category	19.06	-2.61	3.73	5.21	8.16	6.45

EMERGING MARKETS

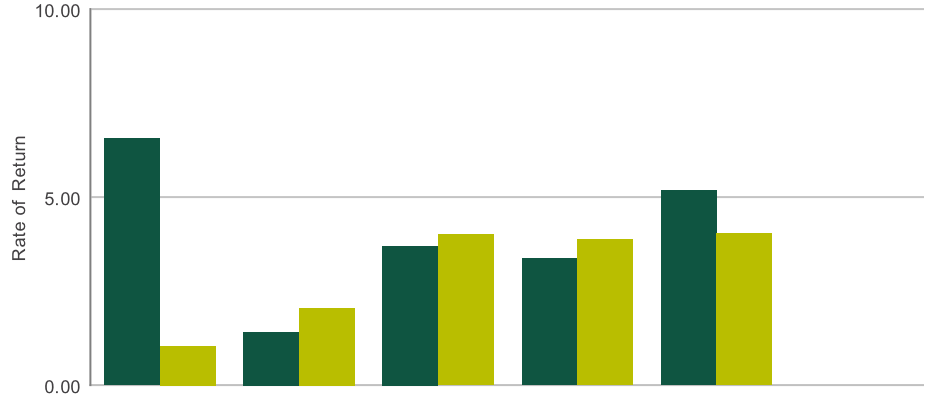


	Three Months	Year to Date	One Year	Three Years	Five Years	ITD
Category	18.75	-3.87	-0.67	4.40	7.06	-
Index	18.89	-3.71	-0.36	4.56	8.02	-

Index: LBH Emerging Markets

Historical Performance

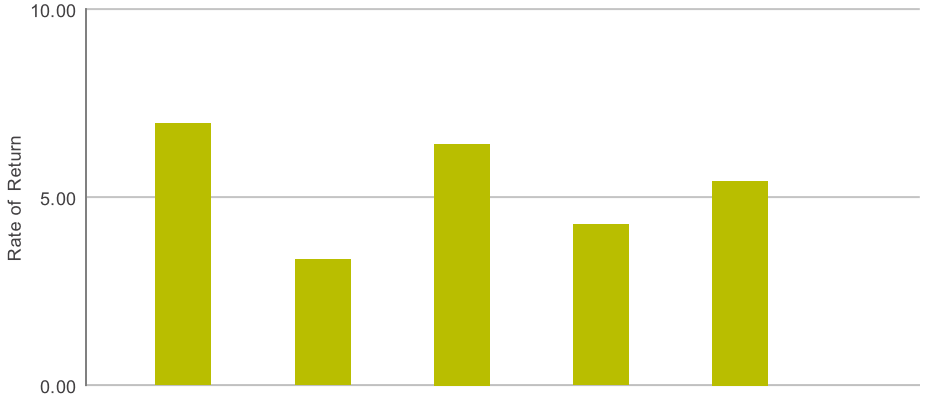
FIXED INCOME



	Three Months	Year to Date	One Year	Three Years	Five Years	ITD
Category	6.55	1.41	3.70	3.36	5.17	-
Index	1.04	2.05	4.00	3.87	4.03	-

Index: LBH Fixed Income Benchmark

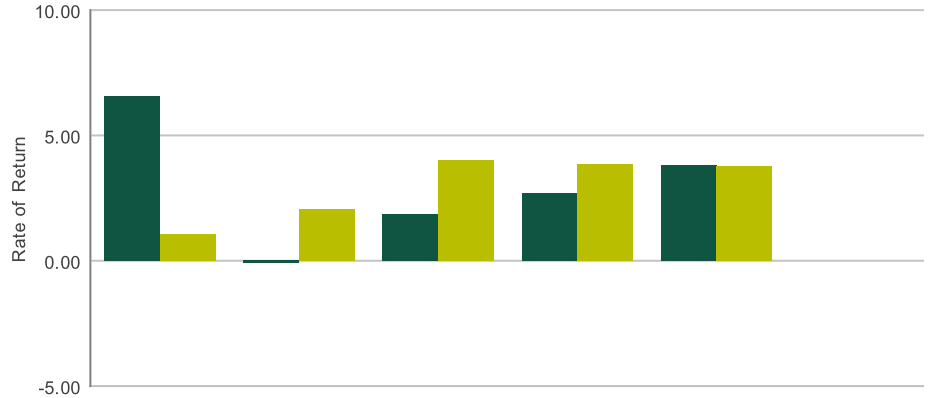
UK CORPORATE BONDS



	Three Months	Year to Date	One Year	Three Years	Five Years	ITD
Category	-	-	-	-	-	-
Index	6.95	3.34	6.41	4.27	5.43	-

Index: LBH Non-Gilts Benchmark

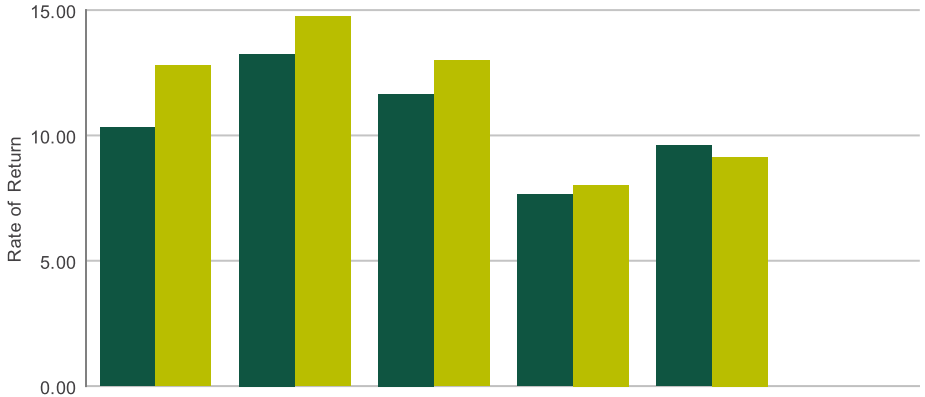
GLOBAL CORPORATE BONDS



	Three Months	Year to Date	One Year	Three Years	Five Years	ITD
Category	6.55	-0.09	1.85	2.71	3.82	-
Index	1.04	2.05	4.00	3.87	3.79	-

Index: LIBOR GBP 3 Month +3% pa

INDEX LINKED GILTS

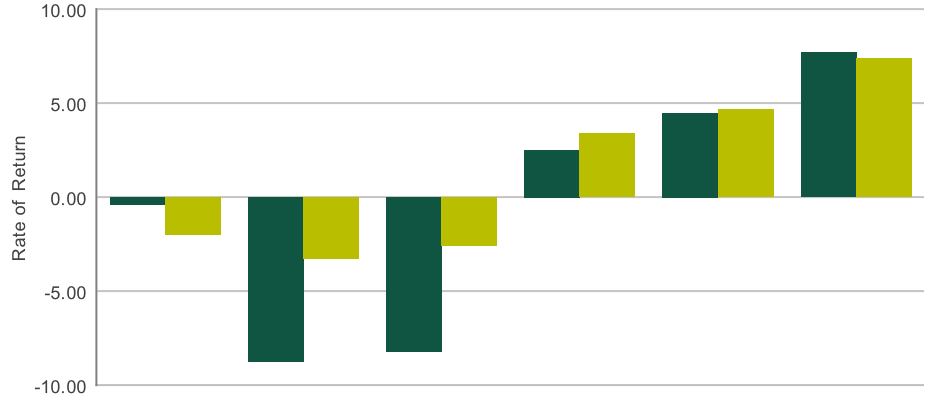


	Three Months	Year to Date	One Year	Three Years	Five Years	ITD
Category	10.32	13.25	11.65	7.65	9.60	-
Index	12.80	14.73	13.00	8.02	9.14	-

Index: LBH Index Linked Benchmark

Historical Performance

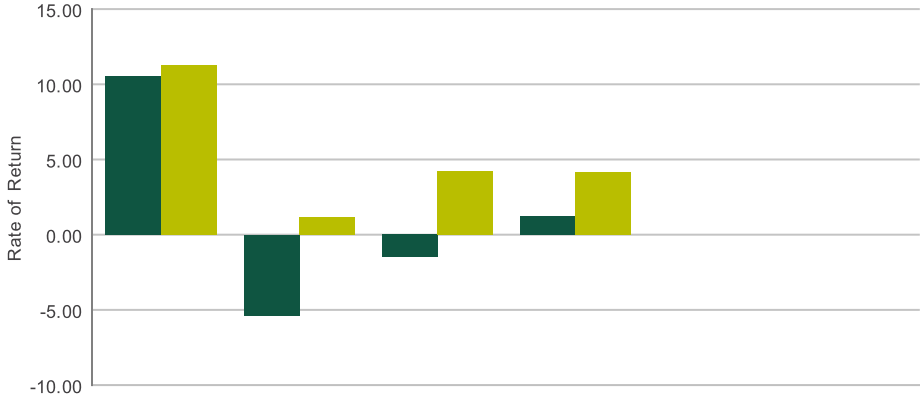
REAL ESTATES



	Three Months	Year to Date	One Year	Three Years	Five Years	ITD
Category	-0.41	-8.75	-8.22	2.51	4.47	7.70
Index	-2.00	-3.27	-2.59	3.40	4.65	7.36

Index: IPD UK PPFI All Bal Funds Index

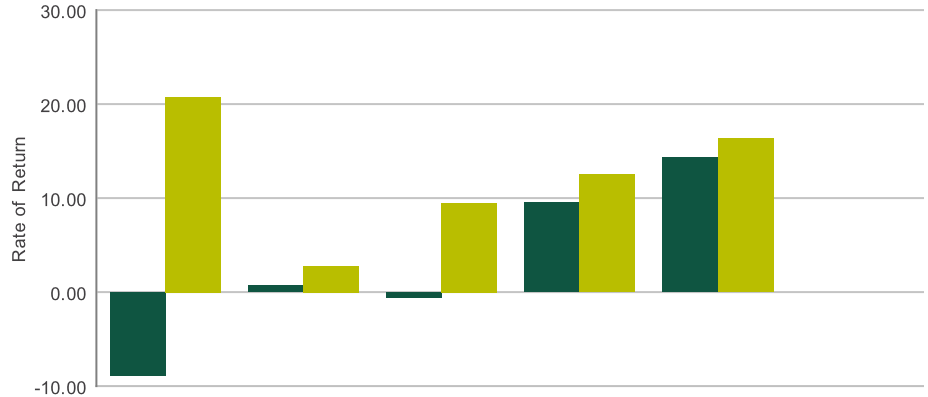
BALANCED FUNDS



	Three Months	Year to Date	One Year	Three Years	Five Years	ITD
Category	10.57	-5.36	-1.49	1.22	-	-
Index	11.29	1.18	4.22	4.16	-	-

Index: Balanced Fund Benchmark

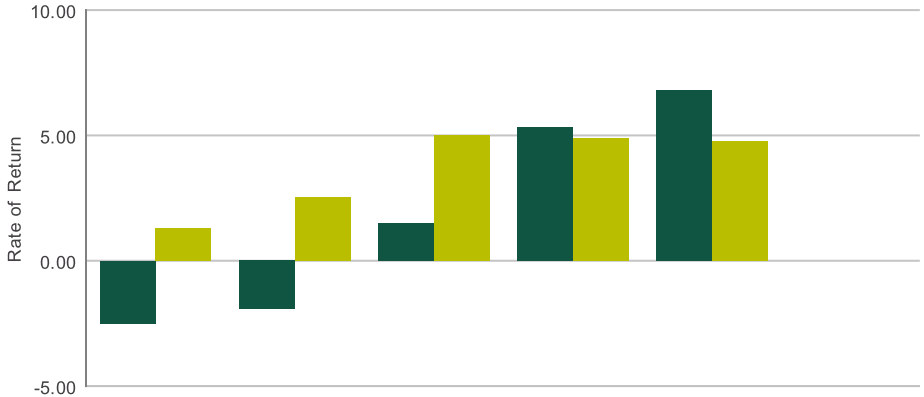
PRIVATE EQUITY



	Three Months	Year to Date	One Year	Three Years	Five Years	ITD
Category	-8.90	0.70	-0.61	9.55	14.28	-
Index	20.75	2.78	9.47	12.48	16.34	-

Index: MSCI ACWI +4% pa

PRIVATE CREDIT



	Three Months	Year to Date	One Year	Three Years	Five Years	ITD
Category	-2.50	-1.93	1.49	5.31	6.82	-
Index	1.28	2.54	5.00	4.87	4.78	-

Index: LIBOR GBP 3 Month +4% pa

Overall Fund BenchMark

Index	Manager	%
FTSE All Share	UBS	
	LGIM	12.04
FTSE World Developed Equity Index Currency Hedged	LGIM	8.17
FTSE World Developed Equity Index unHedged	LGIM	8.03
FTSE Emerging Markets	LGIM	2.96
IPD UK PPFI All Balanced Funds Index	UBS Property	
	AEW	13.39
3 Month Libor +3%	JP Morgan	
	Macquarie	10.53
MSCI World ND	Epoch/LCIV	13.47
3 Month Libor	Ruffer/LCIV	9.85
3 Month Libor +4%	M&G	
	Permira	6.96
Markit iBoxx £ Non – Gilt	LGIM 2	3.11
FTSE A Govt Index – Linked (All Stocks)	LGIM 2	3.99
FTSE A Govt Index – Linked (Over 15 Year	LGIM 2	4.88
	Non Custody CashCash	0.81
MSCI All Countries World Index	Private Equity	1.79
		100.00

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UK Stewardship Code Review	ITEM 7

Committee	Pensions Committee
Contact Officers	Yvonne Thompson-Hoyte, Finance
Papers with this report	1. UK Stewardship Code 2020 2. Stewardship Code Compliance Template

HIGHLIGHTS

This report introduces the new UK Stewardship Code 2020 (the Code) that was published by the Financial Reporting Council (FRC) on 1 January 2020. The Hillingdon Pension Fund is currently signed up to the 2012 Code. All organisations that are currently signed up will remain signatories until December 2020. In order to remain a signatory thereafter the Pension Fund must submit a stewardship report based on the 2020 Code criteria by 30 April 2021, reflecting on the previous 12 months.

Signing up to the code is voluntary but is considered good practice and complements the recently approved Responsible Investment policy.

RECOMMENDATIONS

That Pensions Committee:

1. Agree to sign up to the UK 2020 Stewardship Code

INFORMATION

UK Stewardship Code 2020

The UK Stewardship Code 2020 was published by the FRC on 1 January 2020.
They have described it as a 'substantial ambitious' revision of the 2012 Code. The new Code focuses more on Environment, Social and Governance (ESG) issues. It is also more prescriptive in that for each principle it provides a 'Reporting Expectation' with details of the activities that it would expect signatories to have carried out and the outcome of those activities, whereas the 2012 code was based on broad policy statements.

Organisations that are signatories to the 2012 Stewardship code will remain until December 2020. After this a new report will need to be submitted to the FRC based on the 2020 code requirements for evaluation.

Reporting Requirements

The 2020 Code is split into two main sections; ‘Principles for Asset Owners and Asset Managers’ and Principles for Service Providers’

The first section relating to asset owners and managers is the area on which the Pension Fund would be required report. There are twelve principles in this section grouped under four broad headings:

- Purpose and Governance
- Investment Approach
- Engagement
- Exercising Rights and Responsibilities

To remain a signatory to the Code the Pension Fund will be required to submit an Annual Stewardship report demonstrating how the twelve principles have been met over the previous 12 months.

In the 12 months leading up to the final report officers will be reviewing existing practices and policies to ensure that they are aligned to meet the requirements of the Stewardship Code. The Responsible Investment Policy will also be reviewed to identify any areas that could be strengthened to better support the code requirements.

The date for submission of the final report has been extended to 30 April 2021 (initially 31 March 2021) due to the increased challenges on resources in dealing with COVID-19. The report will be evaluated and if it meets the criteria the Hillingdon Pension Fund will be included in the list of signatories to the Code and the report published on the FRC’s website.

FINANCIAL IMPLICATIONS

There are no financial implications in this report.

LEGAL IMPLICATIONS

There are no legal implications in the report.

Financial Reporting Council

THE UK STEWARDSHIP CODE 2020

PRINCIPLES AT A GLANCE

PRINCIPLES FOR ASSET OWNERS AND ASSET MANAGERS
Purpose and governance
1. Purpose, strategy and culture
2. Governance, resources and incentives
3. Conflicts of interest
4. Promoting well-functioning markets
5. Review and assurance
Investment approach
6. Client and beneficiary needs
7. Stewardship, investment and ESG integration
8. Monitoring managers and service providers
Engagement
9. Engagement
10. Collaboration
11. Escalation
Exercising rights and responsibilities
12. Exercising rights and responsibilities

PRINCIPLES FOR SERVICE PROVIDERS
1. Purpose, strategy and culture
2. Governance, resources and incentives
3. Conflicts of interest
4. Promoting well-functioning markets
5. Supporting client's stewardship
6. Review and assurance

CONTENTS

The FRC's mission is to promote transparency and integrity in business. The FRC sets the UK Corporate Governance and Stewardship Codes and UK standards for accounting and actuarial work; monitors and takes action to promote the quality of corporate reporting; and operates independent enforcement arrangements for accountants and actuaries. As the Competent Authority for audit in the UK the FRC sets auditing and ethical standards and monitors and enforces audit quality.

INTRODUCTION

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 UK Stewardship Code 2020 (the Code) sets high stewardship standards for asset owners and asset managers, and for service providers that support them.

The Code comprises a set of 'apply and explain' Principles for asset managers and asset owners, and a separate set of Principles for service providers. The Code does not prescribe a single approach to effective stewardship. Instead, it allows organisations to meet the expectations in a manner that is aligned with their own business model and strategy.

The investment market has changed significantly since the publication of the first UK Stewardship Code. There has been significant growth in investment in assets other than listed equity, such as fixed income bonds, real estate and infrastructure. These investments have different terms, investment periods, rights and responsibilities and signatories will need to consider how to exercise stewardship effectively in these circumstances.

Environmental, particularly climate change, and social factors, in addition to governance, have become material issues for investors to consider when making investment decisions and undertaking stewardship. The Code also recognises that asset owners and asset managers play an important role as guardians of market integrity and in working to minimise systemic risks as well as being stewards of the investments in their portfolios.

HOW TO REPORT

All Principles are supported by reporting expectations. These indicate the information that organisations should include in their Stewardship Report and will form the basis of assessment of reporting quality.

When applying the Principles, signatories should consider the following, among other issues:

- the effective application of the UK Corporate Governance Code and other governance codes;
- directors' duties, particularly those matters to which they should have regard under section 172 of the Companies Act 2006;
- capital structure, risk, strategy and performance;
- diversity, remuneration and workforce interests;
- audit quality;
- environmental and social issues, including climate change; and
- compliance with covenants and contracts.

Each Principle has reporting expectations under the headings Activity and Outcome. Some Principles also include reporting expectations under the heading Context, which require disclosure of background information or policies that are necessary in order to understand and assess the approach taken to stewardship.

Some reporting expectations will be more relevant for asset managers or those investing directly, while others will be more relevant to asset owners or those using intermediaries. Organisations must determine which reporting expectations are relevant and appropriate to their business or role in the investment community.

In Principle 6, for example, "signatories should disclose an approximate breakdown of: the size and profile of their membership, including number of members in the scheme and the average age of members; OR their client base, for example, institutional versus retail, and geographic distribution".

The Code contains more detailed reporting expectations for listed equity assets. This reflects the relative maturity of stewardship for listed equity assets. However, signatories should use the resources, rights and influence available to them to exercise stewardship, however capital is invested.

Reports should be engaging, succinct and in plain English. They should be as specific and as transparent as possible without compromising effective stewardship.

The Report should be a single document structured to give a clear picture of how the organisation has applied the Code. Relevant data, diagrams, tables, examples and case studies should be used appropriately. It should focus on activities and outcomes and provide enough information to enable the reader to have a good understanding of the application of the Code without having to refer to information elsewhere. However, the Report may link to more detailed policies and disclosures, including against other reporting requirements. Any additional information should be clear and accessible.

Reports should be fair, balanced and understandable. For example, reporting should acknowledge setbacks experienced and lessons learned, as well as successes. Activities to achieve desired outcomes may take more than a year and may not be completed within an organisation's reporting period. Where this is the case, this should be indicated and progress reported.

The Code recognises that signatories differ by size, type, business model and investment approach, and do not exercise stewardship in an identical way. The reporting expectations do not require disclosure of stewardship activities on a fund-by-fund basis or for each investment strategy. However, the information provided should give a clear indication of how stewardship activities differ across funds, asset classes and geographies proportionately to their operations.

Reports must be reviewed and approved by the applicant's governing body, and signed by the chair, chief executive or chief investment officer.

Once the applicant has been accepted as a Code signatory and the Report is approved by the FRC, the Report will be a public document and must be made available on the signatory's website or, if they do not have a website, in another accessible form.

Further information on how to submit the Report and the assessment process can be found on the FRC website.

PRINCIPLES FOR ASSET OWNERS AND ASSET MANAGERS

Asset owners and asset managers cannot delegate their responsibility and are accountable for effective stewardship. Stewardship activities include investment decision-making, monitoring assets and service providers, engaging with issuers and holding them to account on material issues, collaborating with others, and exercising rights and responsibilities.

Capital is invested in a range of asset classes over which investors have different terms and investment periods, rights and levels of influence. Signatories should use the resources, rights and influence available to them to exercise stewardship, no matter how capital is invested.

PURPOSE AND GOVERNANCE

Principle 1

Signatories' purpose, investment beliefs, strategy, and culture enable stewardship that creates long-term value for clients and beneficiaries leading to sustainable benefits for the economy, the environment and society.

REPORTING EXPECTATIONS

Context

Signatories should explain:

- the purpose of the organisation and an outline of its culture, values, business model and strategy; and
- their investment beliefs, i.e. what factors they consider important for desired investment outcomes and why.

Activity

Signatories should explain what actions they have taken to ensure their investment beliefs, strategy and culture enable effective stewardship.

Outcome

Signatories should disclose:

- how their purpose and investment beliefs have guided their stewardship, investment strategy and decision-making; and
- an assessment of how effective they have been in serving the best interests of clients and beneficiaries.

PURPOSE AND GOVERNANCE

Principle 2

Signatories' governance, resources and incentives support stewardship.

REPORTING EXPECTATIONS

Activity

Signatories should explain how:

- their governance structures and processes have enabled oversight and accountability for effective stewardship within their organisation and the rationale for their chosen approach;
- they have appropriately resourced stewardship activities, including:
  - their chosen organisational and workforce structures;
  - their seniority, experience, qualifications, training and diversity;
  - their investment in systems, processes, research and analysis;
  - the extent to which service providers were used and the services they provided; and
- performance management or reward programmes have incentivised the workforce to integrate stewardship and investment decision-making.

Outcome

Signatories should disclose:

- how effective their chosen governance structures and processes have been in supporting stewardship; and
- how they may be improved.

PURPOSE AND GOVERNANCE

Principle 3

Signatories manage conflicts of interest to put the best interests of clients and beneficiaries first.

REPORTING EXPECTATIONS

Context

Signatories should disclose their conflicts policy and how this has been applied to stewardship.

Activity

Signatories should explain how they have identified and managed any instances of actual or potential conflicts related to stewardship.

Outcome

Signatories should disclose examples of how they have addressed actual or potential conflicts.

Conflicts may arise as a result of:

- ownership structure;
- business relationships between asset owners and asset managers, and/or the assets they manage;
- differences between the stewardship policies of managers and their clients;
- cross-directorships;
- bond and equity managers' objectives; and
- client or beneficiary interests diverging from each other.

PURPOSE AND GOVERNANCE

Principle 4

Signatories identify and respond to market-wide and systemic risks to promote a well-functioning financial system.

REPORTING EXPECTATIONS

Activity

Signatories should explain:

- how they have identified and responded to market-wide and systemic risk(s), as appropriate;
- how they have worked with other stakeholders to promote continued improvement of the functioning of financial markets;
- the role they played in any relevant industry initiatives in which they have participated, the extent of their contribution and an assessment of their effectiveness, with examples; and
- how they have aligned their investments accordingly.

Outcome

Signatories should disclose an assessment of their effectiveness in identifying and responding to market-wide and systemic risks and promoting well-functioning financial markets.

Market-wide risks are those that lead to financial loss or affect overall performance of the entire market and include but are not limited to:

- changes in interest rates;
- geopolitical issues; and
- currency rates.

Systemic risks are those that may lead to the collapse of an industry, financial market or economy and include but are not limited to:

- climate change; and
- the failure of a business or group of businesses.

Stakeholders may include investors, issuers, service providers, policymakers, audit firms, not-for-profits, regulators, associations and academics.

PURPOSE AND GOVERNANCE

Principle 5

Signatories review their policies, assure their processes and assess the effectiveness of their activities.

REPORTING EXPECTATIONS

Activity

Signatories should explain:

- how they have reviewed their policies to ensure they enable effective stewardship;
- what internal or external assurance they have received in relation to stewardship (undertaken directly or on their behalf) and the rationale for their chosen approach; and
- how they have ensured their stewardship reporting is fair, balanced and understandable.

Outcome

Signatories should explain how their review and assurance has led to the continuous improvement of stewardship policies and processes.

Internal assurance may be by given by senior staff, a designated body, board, committee, or internal audit and external assurance by an independent third party.

INVESTMENT APPROACH

Principle 6

Signatories take account of client and beneficiary needs and communicate the activities and outcomes of their stewardship and investment to them.

REPORTING EXPECTATIONS

Context

Signatories should disclose:

- the approximate breakdown of:
  - the scheme(s) structure, for example, whether the scheme is a master trust, occupational pension fund, defined benefit or defined contribution, etc;
  - the size and profile of their membership, including number of members in the scheme and the average age of members;

  OR
  - their client base, for example, institutional versus retail, and geographic distribution;
  - assets under management across asset classes and geographies;
- the length of the investment time horizon they have considered appropriate to deliver to the needs of clients and/or beneficiaries and why.

Activity

Signatories should explain:

- how they have sought beneficiaries' views (where they have done so) and the reason for their chosen approach;

OR

- how they have sought and received clients' views and the reason for their chosen approach;

- how the needs of beneficiaries have been reflected in stewardship and investment aligned with an appropriate investment time horizon;

OR

- how assets have been managed in alignment with clients' stewardship and investment policies;

- what they have communicated to beneficiaries about their stewardship and investment activities and outcomes to meet beneficiary needs, including the type of information provided, methods and frequency of communication;

OR

- what they have communicated to clients about their stewardship and investment activities and outcomes to meet their needs, including the type of information provided, methods and frequency of communication to enable them to fulfil their stewardship reporting requirements.

Outcome

Signatories should explain:

- how they have evaluated the effectiveness of their chosen methods to understand the needs of clients and/or beneficiaries;

- how they have taken account of the views of beneficiaries where sought, and what actions they have taken as a result;

OR

- how they have taken account of the views of clients and what actions they have taken as a result;

- where their managers have not followed their stewardship and investment policies, and the reason for this;

OR

- where they have not managed assets in alignment with their clients' stewardship and investment policies, and the reason for this.

INVESTMENT APPROACH

Principle 7

Signatories systematically integrate stewardship and investment, including material environmental, social and governance issues, and climate change, to fulfil their responsibilities.

REPORTING EXPECTATIONS

Context

Signatories should disclose the issues they have prioritised for assessing investments, prior to holding, monitoring through holding and exiting. This should include the ESG issues of importance to them.

Activity

Signatories should explain:

- how integration of stewardship and investment has differed for funds, asset classes and geographies;
- how they have ensured:
  - tenders have included a requirement to integrate stewardship and investment, including material ESG issues; and
  - the design and award of mandates include requirements to integrate stewardship and investment to align with the investment time horizons of clients and beneficiaries;

  OR
- the processes they have used to:
  - integrate stewardship and investment, including material ESG issues, to align with the investment time horizons of clients and/or beneficiaries; and
  - ensure service providers have received clear and actionable criteria to support integration of stewardship and investment, including material ESG issues.

Outcome

Signatories should explain how information gathered through stewardship has informed acquisition, monitoring and exit decisions, either directly or on their behalf, and with reference to how they have best served clients and/or beneficiaries.

INVESTMENT APPROACH

Principle 8

Signatories monitor and hold to account managers and/or service providers.

REPORTING EXPECTATIONS

Activity

Signatories should explain how they have monitored service providers to ensure services have been delivered to meet their needs.

Outcome

Signatories should explain:

- how the services have been delivered to meet their needs;

OR

- the action they have taken where signatories' expectations of their managers and/or service providers have not been met.

For example:

- asset owners monitoring asset managers and investment consultants to ensure that assets have been managed in alignment with their investment and stewardship strategy and policies; or
- asset managers monitoring proxy advisors to ensure, as far as can reasonably be achieved, that voting has been executed according with the manager's policies; and
- asset managers monitoring data and research providers to ensure the quality and accuracy of their products and services.

ENGAGEMENT

Principle 9

Signatories engage with issuers to maintain or enhance the value of assets.

REPORTING EXPECTATIONS

Activity

Signatories should explain:

- the expectations they have set for others that engage on their behalf and how;

OR

- how they have selected and prioritised engagement (for example, key issues and/or size of holding);
- how they have developed well-informed and precise objectives for engagement with examples;
- what methods of engagement and the extent to which they have been used;
- the reasons for their chosen approach, with reference to their disclosure under Context for Principle 1 and 6; and
- how engagement has differed for funds, assets or geographies.

Examples of engagement methods include but are not limited to:

- meeting the chair or other board members;
- holding meetings with management;
- writing letters to a company to raise concerns; and
- raising key issues through a company's advisers.

Outcome

Signatories should describe the outcomes of engagement that is ongoing or has concluded in the preceding 12 months, undertaken directly or by others on their behalf.

For example:

- how engagement has been used to monitor the company;
- any action or change(s) made by the issuer(s);
- how outcomes of engagement have informed investment decisions (buy, sell, hold); and
- how outcomes of engagement have informed escalation.

Examples should be balanced and include instances where the desired outcome has not been achieved or is yet to be achieved.

ENGAGEMENT

Principle 10

Signatories, where necessary, participate in collaborative engagement to influence issuers.

REPORTING EXPECTATIONS

Activity

Signatories should disclose what collaborative engagement they have participated in and why, including those undertaken directly or by others on their behalf.

For example:

- collaborating with other investors to engage an issuer to achieve a specific change; or
- working as part of a coalition of wider stakeholders to engage on a thematic issue.

Signatories should provide examples, including

- the issue(s) covered;
- the method or forum;
- their role and contribution.

Outcome

Signatories should describe the outcomes of collaborative engagement.

For example:

- any action or change(s) made by the issuer(s);
- how outcomes of engagement have informed investment decisions (buy, sell, hold); and
- whether their stated objectives have been met.

Examples should be balanced and include instances where the desired outcome has not been achieved or is yet to be achieved.

ENGAGEMENT

Principle 11

Signatories, where necessary, escalate stewardship activities to influence issuers.

REPORTING EXPECTATIONS

Activity

Signatories should explain:

- the expectations they have set for asset managers that escalate stewardship activities on their behalf;

OR

- how they have selected and prioritised issues, and developed well-informed objectives for escalation;
- when they have chosen to escalate their engagement, including the issue(s) and the reasons for their chosen approach, using examples; and
- how escalation has differed for funds, assets or geographies.

Outcome

Signatories should describe the outcomes of escalation either undertaken directly or by others on their behalf.

For example:

- any action or change(s) made by the issuer(s);
- how outcomes of escalation have informed investment decisions (buy, sell, hold);
- whether their stated objectives have been met; and
- any changes in engagement approach.

Examples should be balanced and include instances where the desired outcome has not been achieved or is yet to be achieved.

EXERCISING RIGHTS AND RESPONSIBILITIES

Principle 12

Signatories actively exercise their rights and responsibilities.

REPORTING EXPECTATIONS

Reporting expectations for listed equity and fixed income investments are below. In addition, signatories should report on how they have exercised their rights and responsibilities across other asset classes they are invested in, where they have the ability to do so, as disclosed in their reporting against Principle 6.

Context

Signatories should:

- state the expectations they have set for asset managers that exercise rights and responsibilities on their behalf;

OR

- explain how they exercise their rights and responsibilities, and how their approach has differed for funds, assets or geographies.

In addition, for listed equity assets, signatories should:

- disclose their voting policy, including any house policies and the extent to which funds set their own policies;
- state the extent to which they use default recommendations of proxy advisors;
- report the extent to which clients may override a house policy;
- disclose their policy on allowing clients to direct voting in segregated and pooled accounts; and
- state what approach they have taken to stock lending, recalling lent stock for voting and how they seek to mitigate ‘empty voting’.

Activity

For listed equity assets, signatories should:

- disclose the proportion of shares that were voted in the past year and why;
- provide a link to their voting records, including votes withheld if applicable;
- explain their rationale for some or all voting decisions, particularly where:
  - there was a vote against the board;
  - there were votes against shareholder resolutions;
  - a vote was withheld;
  - the vote was not in line with voting policy.
- explain the extent to which voting decisions were executed by another entity, and how they have monitored any voting on their behalf; and
- explain how they have monitored what shares and voting rights they have.

For fixed income assets, signatories should explain their approach to:

- seeking amendments to terms and conditions in indentures or contracts;
- seeking access to information provided in trust deeds;
- impairment rights; and
- reviewing prospectus and transaction documents.

Outcome

For listed equity assets, signatories should provide examples of the outcomes of resolutions they have voted on over the past 12 months.

PRINCIPLES FOR SERVICE PROVIDERS

Service providers play a key role in the investment community as they provide services that support clients to fulfil their stewardship responsibilities. Service providers applying these Principles include, but are not limited to, investment consultants, proxy advisors, and data and research providers.

Activities service providers undertake to support their clients' stewardship may include, but are not limited to, engagement, voting recommendations and execution, data and research provision, advice, and provision of reporting frameworks and standards.

Principle 1

Signatories' purpose, strategy and culture enable them to promote effective stewardship.

REPORTING EXPECTATIONS

Context

Signatories should explain the purpose of the organisation, what services it offers, and an outline of its culture, values, business model and strategy.

Activity

Signatories should explain what actions they have taken to ensure their strategy and culture enable them to promote effective stewardship.

Outcome

Signatories should disclose an assessment of how effective they have been in serving the best interests of clients.

Principle 2

Signatories' governance, workforce, resources and incentives enable them to promote effective stewardship.

REPORTING EXPECTATIONS

Activity

Signatories should explain how:

- their governance structures and processes have enabled oversight and accountability for promoting effective stewardship and the rationale for their chosen approach;
- the quality and accuracy of their services have promoted effective stewardship;
- they have appropriately resourced stewardship, including:
  - their chosen organisational and workforce structure(s);
  - their seniority, experience, qualification(s), training and diversity;
  - their investment in systems, processes, research and analysis*; and
  - how the workforce is incentivised appropriately to deliver services;
- they have ensured that fees are appropriate for the services provided.

Outcome

Signatories should disclose:

- how effective their chosen governance structures and processes have been in supporting their clients stewardship; and
- how they may be improved.

* see Annex - Regulatory requirements for Proxy advisors

Principle 3

Signatories identify and manage conflicts of interest and put the best interests of clients first.

REPORTING EXPECTATIONS

Context

Signatories should disclose their conflicts policy, which seeks to put the interests of clients first and minimises or avoids conflicts of interest when client interests diverge from each other.

Activity

Signatories should explain how they have identified and managed any instances in which conflicts have arisen as a result of client interests.

Outcome

Signatories should disclose examples of how they have addressed actual or potential conflicts.

Conflicts of interest may arise from, but are not limited to:

- ownership structure;
- business relationships;
- cross-directorships; and
- client interests diverging from each other.

Principle 4

Signatories identify and respond to market-wide and systemic risks to promote a well-functioning financial system.

REPORTING EXPECTATIONS

Activity

Signatories should explain:

- how they have identified and responded to market-wide and systemic risk(s) as appropriate;
- how they have worked with other stakeholders to promote continued improvement of the functioning of financial markets; and
- the role they played in any relevant industry initiatives they have participated in.

Outcome

Signatories should disclose the extent of their contribution and an assessment of their effectiveness in identifying and responding to systemic risks and promoting well-functioning financial markets.

Market-wide risks are those that lead to financial loss or affect overall performance of the entire market and include but are not limited to:

- changes in interest rates;
- geopolitical issues; and
- currency rates.

Systemic risks are those that may cause the collapse of an industry, financial market or economy, such as climate change.

Stakeholders may include investors, issuers, service providers, policymakers, audit firms, not-for-profits, regulators, associations and academics.

Principle 5

Signatories support clients' integration of stewardship and investment, taking into account, material environmental, social and governance issues, and communicating what activities they have undertaken.

REPORTING EXPECTATIONS

Context

Signatories should disclose client base breakdown, for example, institutional versus retail, and geographic distribution.

Activity

Signatories should explain:

- how their services best support clients' stewardship as appropriate to the nature of service providers' business;
- whether they have sought clients' views and feedback and the rationale for their chosen approach; and
- the methods and frequency of communication with clients.

Outcome

Signatories should explain:

- how they have taken account of clients' views and feedback in the provision of their services; and
- the effectiveness of their chosen methods for communicating with clients and understanding their needs, and how they evaluated their effectiveness.

Principle 6

Signatories review their policies and assure their processes.

REPORTING EXPECTATIONS

Activity

Signatories should explain:

- how they have reviewed their policies and activities to ensure they support clients' effective stewardship;
- what internal or external assurance they have received in relation to activities that support their clients' stewardship (undertaken directly or on their behalf) and the rationale for their chosen approach; and
- how they have ensured their stewardship reporting is fair, balanced and understandable.

Outcome

Signatories should explain how the feedback from their review and assurance has led to continuous improvement of stewardship practices.

ANNEX

UK regulatory requirements

The Code is voluntary and sets a standard that is higher than the minimum UK regulatory requirements. Signatories may choose to use their Report to meet the requirements of the Code and disclose information to meet other stewardship-related UK regulatory requirements or international stewardship codes. However, the FRC cannot provide assurance against all other requirements in assessing reporting against the Code.

For asset owners

Occupational pension schemes are required under pension regulations[1] to develop and explain how they have implemented policies for the exercise of the rights and engagement for all investments, including how they monitor investee companies and their voting behaviour. They will also be required to explain how their equity investment strategy is consistent with their liabilities and provide information on their arrangements with asset managers.

Insurers and reinsurers are required under the Senior Management Arrangements, Systems and Controls (SYSC) sourcebook from the Financial Conduct Authority (FCA) to develop and explain how they have implemented an engagement policy for their listed equity investments, including how they monitor investee companies, their voting behaviour and their use of proxy advisors.

They will also be required to provide information on their arrangements with asset managers and explain how their equity investment strategy is consistent with their liabilities. The Pensions Regulator encourages adherence to the Code in its guidance for trustees of defined benefit and defined contribution schemes.

[1] The Department for Work and Pensions (DWP) issues regulations for occupational pension funds and the Ministry of Housing, Communities and Local Government (MHCLG) issues regulations for local government pension schemes. See table in Annex.

Asset managers

Asset managers are required under the FCA Conduct of Business Sourcebook (COBS) to develop and explain how they have implemented an engagement policy for their listed equity investments, including how they monitor investee companies, their voting behaviour and their use of proxy advisors.

Firms are required under the FCA COBS to disclose the nature of their commitment to the Code or, where they do not commit to the Code, their alternative investment strategy (COBS Rule 2.2.3).

Proxy advisors

Proxy advisors are required under the Proxy Advisors (Shareholders' Rights) Regulations 2019 (PA Regulations), supervised by the FCA, to publicly disclose a code of conduct and explain how they have followed it. Proxy advisors may wish to use the Principles for Service Providers as their code of conduct.

They are also required to disclose and implement a conflicts of interest policy and give assurance about the accuracy and reliability of their advice.

Signatory Type	Regulation or rule	Regulator
Asset owners – trustees of occupational pension schemes	**Great Britain** • The Occupational Pension Schemes (Investment) Regulations 2005 • The Occupational and Personal Pension Schemes (Disclosure of Information) Regulations 2013 As amended by: • The Pension Protection Fund (Pensionable Service) and Occupational Pension Schemes (Investment and Disclosure) (Amendment and Modification) Regulations 2018 • The Occupational Pension Schemes (Investment and Disclosure) (Amendment) Regulations 2019 **Northern Ireland** • The Occupational Pension Schemes (Investment) Regulations (Northern Ireland) 2005 • The Occupational and Personal Pension Schemes (Disclosure of Information) Regulations (Northern Ireland) 2014 As amended by: • The Pension Protection Fund (Pensionable Service) and Occupational Pension Schemes (Investment and Disclosure) (Amendment and Modification) Regulations (Northern Ireland) 2018 • The Occupational Pension Schemes (Investment and Disclosure) (Amendment) Regulations (Northern Ireland) 2019	The Pensions Regulator
Asset owners – trustee boards	• Investment guidance for defined benefit pension schemes • A guide to investment governance (for defined contribution pension schemes)	
Asset owners – insurers and reinsurers	• Senior Management Arrangements, Systems and Controls (SYSC) sourcebook 3.4 SRD Requirements	Financial Conduct Authority
Asset managers	• Conduct of Business Sourcebook (COBS) 2.2B SRD requirements and 2.2.3 Disclosure of commitment to the FRC's Stewardship Code	
Proxy advisors	• The Proxy Advisors (Shareholders' Rights) Regulations 2019 • Decision Procedure and Penalties Manual • Enforcement Guide	

Financial Reporting Council

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Stewardship Code Compliance Report

GOVERNANCE AND PURPOSE		
Principle	**Reporting Expectations**	**Response**
Principle 1 Signatories' purpose, investment beliefs, strategy, and culture enable stewardship that creates long term value for clients and beneficiaries leading to sustainable benefits for the economy, the environment and society.	**Context** Signatories should explain: • the purpose of the organisation and an outline of its culture, values, business model and strategy; and • their investment beliefs, i.e. what factors they consider important for desired investment outcomes and why. **Activity** Signatories should explain what actions they have taken to ensure their investment beliefs, strategy and culture enable effective stewardship. **Outcome** Signatories should disclose: • how their purpose and investment beliefs have guided their stewardship, investment strategy and decision-making; and • an assessment of how effective they have been in serving the best interests of clients and beneficiaries.	
Principle 2 Signatories' governance, resources and incentives support stewardship.	Activity Signatories should explain how: • their governance structures and processes have enabled oversight and accountability for effective stewardship within their organisation and the rationale for their chosen approach; • they have appropriately resourced stewardship activities, including:	

	- their chosen organisational and workforce structures; - their seniority, experience, qualifications, training and diversity; - their investment in systems, processes, research and analysis; - the extent to which service providers were used and the services they provided; and • performance management or reward programmes have incentivised the workforce to integrate stewardship and investment decisionmaking. Outcome Signatories should disclose: • how effective their chosen governance structures and processes have been in supporting stewardship; and • how they may be improved.	
Principle 3 Signatories manage conflicts of interest to put the best interests of clients and beneficiaries first.	Context Signatories should disclose their conflicts policy and how this has been applied to stewardship. Activity Signatories should explain how they have identified and managed any instances of actual or potential conflicts related to stewardship. Outcome Signatories should disclose examples of how they have addressed actual or potential conflicts	
Principle 4 Signatories identify and respond to market-wide and systemic risks to promote a well-	Activity Signatories should explain: • how they have identified and responded to market-wide andsystemic risk(s), as appropriate; • how they have worked with other stakeholders to promote continued improvement of the functioning of financial	

functioning financial system.	markets; • the role they played in any relevant industry initiatives in which they have participated, the extent of their contribution and an assessment of their effectiveness, with examples; and • how they have aligned their investments accordingly. Outcome Signatories should disclose an assessment of their effectiveness in identifying and responding to market-wide and systemic risks and promoting well-functioning financial markets.	
Principle 5 Signatories review their policies, assure their processes and assess the effectiveness of their activities.	Activity Signatories should explain: • how they have reviewed their policies to ensure they enable effective stewardship; • what internal or external assurance they have received in relation to stewardship (undertaken directly or on their behalf) and the rationale for their chosen approach; and • how they have ensured their stewardship reporting is fair, balanced and understandable. Outcome Signatories should explain how their review and assurance has led to the continuous improvement of stewardship policies and processes.	
INVESTMENT APPROACH		
Principle	**Reporting Expectations**	**Response**
Principle 6 Signatories take account of client and	Context Signatories should disclose: • the approximate breakdown of: - the scheme(s) structure, for example, whether the	

beneficiary needs and communicate the activities and outcomes of their stewardship and investment to them.	scheme is a master trust, occupational pension fund, defined benefit or defined contribution, etc; - the size and profile of their membership, including number of members in the scheme and the average age of members; OR - their client base, for example, institutional versus retail, and geographic distribution; - assets under management across asset classes and geographies; • the length of the investment time horizon they have considered appropriate to deliver to the needs of clients and/or beneficiaries and why Activity Signatories should explain: • how they have sought beneficiaries' views (where they have done so) and the reason for their chosen approach; OR • how they have sought and received clients' views and the reason for their chosen approach; • how the needs of beneficiaries have been reflected in stewardship and investment aligned with an appropriate investment time horizon; OR • how assets have been managed in alignment with clients' stewardship and investment policies; • what they have communicated to beneficiaries about their	

	stewardship and investment activities and outcomes to meet beneficiary needs, including the type of information provided, methods and frequency of communication; OR • what they have communicated to clients about their stewardship and investment activities and outcomes to meet their needs, including the type of information provided, methods and frequency of communication to enable them to fulfil their stewardship reporting requirements. Outcome Signatories should explain: • how they have evaluated the effectiveness of their chosen methods to understand the needs of clients and/or beneficiaries; • how they have taken account of the views of beneficiaries where sought, and what actions they have taken as a result; OR • how they have taken account of the views of clients and what actions they have taken as a result; • where their managers have not followed their stewardship and investment policies, and the reason for this; OR • where they have not managed assets in alignment with their clients' stewardship and investment policies, and the reason for this.	
Principle 7 Signatories	Context Signatories should disclose the issues they have prioritised	

systematically integrate stewardship and investment, including material environmental, social and governance issues, and climate change, to fulfil their responsibilities.	for assessing investments, prior to holding, monitoring through holding and exiting. This should include the ESG issues of importance to them. Activity Signatories should explain: • how integration of stewardship and investment has differed for funds, asset classes and geographies; • how they have ensured: - tenders have included a requirement to integrate stewardship and investment, including material ESG issues; and - the design and award of mandates include requirements to integrate stewardship and investment to align with the investment time horizons of clients and beneficiaries; OR • the processes they have used to: - integrate stewardship and investment, including material ESG issues, to align with the investment time horizons of clients and/or beneficiaries; and - ensure service providers have received clear and actionable criteria to support integration of stewardship and investment, including material ESG issues. Outcome Signatories should explain how information gathered through stewardship has informed acquisition, monitoring and exit decisions, either directly or on their behalf, and with reference to how they have best served clients and/or	

	beneficiaries.	
Principle 8 Signatories monitor and hold to account managers and/or service providers.	Activity Signatories should explain how they have monitored service providers to ensure services have been delivered to meet their needs. Outcome Signatories should explain: • how the services have been delivered to meet their needs; OR • the action they have taken where signatories' expectations of their managers and/or service providers have not been met.	
	ENGAGEMENT	
Principle	**Reporting Expectations**	**Response**
Principle 9 Signatories engage with issuers to maintain or enhance the value of assets.	Activity Signatories should explain: • the expectations they have set for others that engage on their behalf and how; OR • how they have selected and prioritised engagement (for example, key issues and/or size of holding); • how they have developed well-informed and precise objectives for engagement with examples; • what methods of engagement and the extent to which they have been used; • the reasons for their chosen approach, with reference to their	

	disclosure under Context for Principle 1 and 6; and • how engagement has differed for funds, assets or geographies. Outcome Signatories should describe the outcomes of engagement that is ongoing or has concluded in the preceding 12 months, undertaken directly or by others on their behalf.	
Principle 10 Signatories, where necessary, participate in collaborative engagement to influence issuers.	Activity Signatories should disclose what collaborative engagement they have participated in and why, including those undertaken directly or by others on their behalf. For example: • collaborating with other investors to engage an issuer to achieve a specific change; or • working as part of a coalition of wider stakeholders to engage on a thematic issue. Signatories should provide examples, including • the issue(s) covered; • the method or forum; • their role and contribution. Outcome Signatories should describe the outcomes of collaborative engagement. **For example:** • any action or change(s) made by the issuer(s); • how outcomes of engagement have informed investment decisions (buy, sell, hold); and • whether their stated objectives have been met. Examples should be balanced and include instances where the desired outcome has not been achieved or is yet to be achieved.	
Principle 11	Activity Signatories should explain:	

Signatories, where necessary, escalate stewardship activities to influence issuers.	• the expectations they have set for asset managers that escalate stewardship activities on their behalf; OR • how they have selected and prioritised issues, and developed well informed objectives for escalation; • when they have chosen to escalate their engagement, including the issue(s) and the reasons for their chosen approach, using examples; and • how escalation has differed for funds, assets or geographies. Outcome Signatories should describe the outcomes of escalation either undertaken directly or by others on their behalf.	
EXERCISING RIGHTS AND RESPONSIBILITIES		
Principle	**Reporting Expectations**	**Response**
Principle 12 Signatories actively exercise their rights and responsibilities.	Reporting expectations for listed equity and fixed income investments are below. In addition, signatories should report on how they have exercised their rights and responsibilities across other asset classes they are invested in, where they have the ability to do so, as disclosed in their reporting against Principle 6. Context Signatories should: • state the expectations they have set for asset managers that exercise rights and responsibilities on their behalf; OR	

	• explain how they exercise their rights and responsibilities, and how their approach has differed for funds, assets or geographies. In addition, for listed equity assets, signatories should: • disclose their voting policy, including any house policies and the extent to which funds set their own policies; • state the extent to which they use default recommendations of proxy advisors; • report the extent to which clients may override a house policy; • disclose their policy on allowing clients to direct voting in segregated and pooled accounts; and • state what approach they have taken to stock lending, recalling lent stock for voting and how they seek to mitigate 'empty voting'. Reporting expectations for listed equity and fixed income investments are below. In addition, signatories should report on how they have exercised their rights and responsibilities across other asset classes they are invested in, where they have the ability to do so, as disclosed in their reporting against Principle 6. Context Signatories should: • state the expectations they have set for asset managers that exercise rights and responsibilities on their behalf; OR • explain how they exercise their rights and responsibilities,	

	and how their approach has differed for funds, assets or geographies. In addition, for listed equity assets, signatories should: • disclose their voting policy, including any house policies and the extent to which funds set their own policies; • state the extent to which they use default recommendations of proxy advisors; • report the extent to which clients may override a house policy; • disclose their policy on allowing clients to direct voting in segregated and pooled accounts; and • state what approach they have taken to stock lending, recalling lent stock for voting and how they seek to mitigate ‘empty voting’.	

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Pension Fund Governance Policy	ITEM 8

Committee	Pensions Committee
Contact Officers	Yvonne Thompson-Hoyte, Finance
Papers with this report	Draft Governance Policy and Compliance Statement

REASON FOR ITEM

The Governance Policy for the Pension Fund is required to be reviewed every three years. The policy has been reviewed and updated and was presented to the Pensions Board in September 2020 for comment, as representatives of the key stakeholders in the fund, employers and employees for discussion. Comments were also sought from AON, the governance advisors to the Board.

RECOMMENDATION

It is recommended that the Pensions Committee:

> **Approve the draft Governance Policy and Compliance Statement for publication.**

Background

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

2. Regulation 55 also required the Administering Authority to keep the statement under to review and to make revisions as appropriate and where such revisions are made to publish a revised statement.

Summary of Changes

3. There have been updates throughout the document to reflect changes in general information including; membership and admitted body numbers, contact details and changes in the names of government departments.

4. There has also been a major change in the governance structure of the London Collective Investment Vehicle (LCIV) which has been reflected in the document. Following the review from the Pensions Board and AON, the full terms of reference of the Board has also been added to the policy.

5. The other key changes to the policy documents are listed below.

    - The governance structure chart has been updated
    - The meeting format for the Committee has been updated to include virtual meetings
    - The Conflicts of Interest section has been updated to reflect the recently adopted Conflicts of Interest Policy

FINANCIAL IMPLICATIONS

None

LEGAL IMPLICATIONS

Legal implications have been included in the body of the report.

London Borough of Hillingdon Pension Fund

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 to 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):

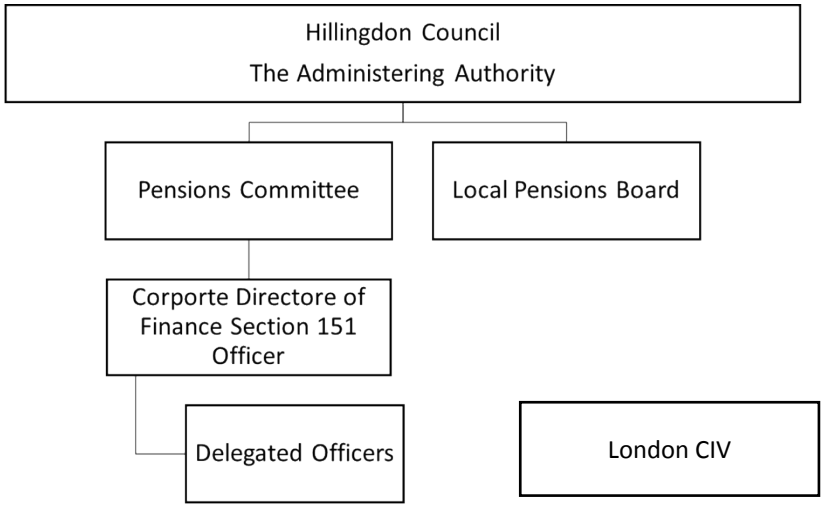
- around 23,407 current and former members of the Fund, and their dependants
- over 66 employers within the London Borough of Hillingdon Fund
- local taxpayers within the council areas participating in the London Borough of Hillingdon Pension Fund.

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 fromthe 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 Councillors, 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 1st April 2015. The terms of reference of the Board can be found on the Fund's website hillingdon.gov.uk/pensions.

Role of the Pension Board

The role of the Board as outlined in the legislation is to assist the administerting 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 Boardwill 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 was 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.

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 items 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.

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.

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. 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:**Objective**	**Monitoring Arrangements**
Have robust governance arrangements in place, to facilitate informed decision making, supported by appropriate advice, policies and strategies.	• The Pensions Committee and the section 151 officer make decisions on behalf of the fund. • The Committee and Officers are also supported by various fund experts and advisors. • The Pensions Board has oversight of the decisions made to ensure compliance with relevant legislation and regulations • Policy and strategy documents are regularly reviewed and published to ensure they are up to date.
Ensure the Pension Fund is managed and its services delivered by people who have the appropriate knowledge and expertise	• A Training Policy is in place together with monitoring of all training by Pensions Committee members and key officers.
Act with integrity and be accountable to our stakeholders for our decisions, ensuring they are robust and well based	• Pension Committee meetings are open to all stakeholders to attend and papers and minutes are published. • The Pension Board includes representatives from scheme members and employers in the Fund. • The Pension Board prepares and publishes an annual report which may include comment on decision making.
Understand and monitor risk	• A Risk Policy and register is in place. • Ongoing consideration of key risks at Pensions Committee meetings.

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	• The Governance of the Fund is considered by both the External and Internal Auditors. All External and Internal Audit Reports are reported to Committee. • The Fund maintains a log of all breaches of the law in accordance with the Fund's breaches procedure.

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 xx xxxxxxxxx xxxx 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:

James Lake, Chief Accountant
London Borough of Hillingdon
Civic Centre
High Street
Uxbridge
UB8 1UW

E-mail - jlake@hillingdon.gov.uk
Telephone - 01895 277 562

Website: 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
A. STRUCTURE & REPRESENTATION		
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 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. REPRESENTATION		
a. That all key stakeholders are afforded the opportunity to be represented within the main or secondary committee structure. These include:- i) employing authorities (including non-scheme employers, e.g. admitted bodies); ii) scheme members (including deferred and pensioner scheme members), iii) where appropriate, independent professional observers, and iv) expert advisors (on an ad-hoc basis).	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	
C. SELECTION AND ROLE OF LAY MEMBERS		
a. That committee or panel members are made fully aware of the status, role and function they are required to perform on either a main or secondary committee.	Fully compliant	
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	
D. VOTING		
a. The policy of individual administering authorities on voting rights is clear and transparent, including the justification for not extending voting rights to each body or group represented on main LGPS committees.	Fully Compliant	
E. TRAINING / FACILITY TIME / EXPENSES		
a. That in relation to the way in which statutory and related decisions are taken by the administering authority, there is a clear policy on training, facility time and reimbursement of expenses in respect of members involved in the decision-making process.	Fully compliant	
b. That where such a policy exists, it applies equally to all members of committees, sub-committees, advisory panels or any other form of secondary forum.	Fully Compliant	
c. That the administering authority considers the adoption of annual training plans for committee members and maintains a log of all such training undertaken.	Partially compliant	No annual training plan as training is developed according to need and workplan. A training log is maintained.

Best Practice	Compliant or not?	Explanatory Note
F. MEETINGS (FREQUENCY/QUORUM)		
a. That an administering authority's main committee or committees meet at least quarterly.	Fully compliant	
b. That an administering authority's secondary committee or panel meet at least twice a year and is synchronised with the dates when the main committee sits.	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
G. ACCESS		
a. That subject to any rules in the council's constitution, all members of main and secondary committees or panels have equal access to committee papers, documents and advice that falls to be considered at meetings of the main committee.	Fully compliant	
H. SCOPE		
a. That administering authorities have taken steps to bring wider scheme issues within the scope of their governance arrangements.	Fully compliant	Through Pensions Board
I. PUBLICITY		
a. That administering authorities have published details of their governance arrangements in such a way that stakeholders with an interest in the way in which the scheme is governed, can express an interest in wanting to be part of those arrangements.	Fully compliant	

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 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.

Function delegated to PC	Further Delegation to Officer(s)	Delegated Officer(s)	Communication and Monitoring of Use of Delegation
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[1]	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.

[1] CIPFA Code of Practice recommends each administering authority delegates responsibility for implementation to a senior officer.

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ADMINISTRATION REPORT — ITEM 9

Committee	Pensions Committee
Officer Reporting	Yvonne Thompson-Hoyte, Finance James Lake, Finance
Papers with this report	1. Surrey KPI Report 2. COVID-19 Critical Tasks Report

HEADLINES

The day-to-day administration of the Hillingdon Local Government Pension Fund (LGPS) is delegated to Surrey County Council (SCC) under a Section 101 agreement. This agreement runs from 1 November 2016 to 31 October 2021 and is currently being reviewed by Officers prior to the notification period of 12 months before the contact end date.

The Section 101 agreement includes Key Performance Indicators (KPIs) which are generally consistent with national standards. However over the last quarter the effects of the global COVID-19 pandemic has impacted the day-to-day operations of the workforce as staff were relocated to work from home as part of government measures to control the virus.

The Pensions Regulator (TPR) has issued new guidance to public service pension schemes outlining the critical tasks that schemes should focus on during this period. The KPI reporting will focus on the recommendations of TPR

RECOMMENDATIONS

1. **That the Pensions Committee note this report.**

SURREY ADMINISTRATION UPDATE

Member Self Service Registration

There are currently 7,006 members signed up to the Membership Self Service (MSS) portal. This is an increase of 1,271 on the period to May 2020. The largest percentage uptake is in the active member category where 42% of active members are signed up to MSS. The total registered represents 26% of the total membership which is up from 21% on the figures reported as at May 2020. There has been a steady increase in members signing up since the reduced operations of the pensions helpdesk due to COVID-19.

Membership Category	Total membership numbers	Registered for online self service	% uptake
Active	9,030	3,788	42%
Deferred	11,385	2,113	19%
Pensioners	6,995	1,105	16%
Total	**27,410**	**7,006**	**26%**

***Figures are to the end of August 2020**

Summary of SLA monitoring

The table below provides a summary of the cases that were received along with the percentage of cases that were processed within the service level agreement targets.

Death grant payments (71%), notifications (47%) and lump sum payments (87%) continue to perform well below the targets. Performance in the remaining areas are varied in direction making it difficult to analyse the direction of travel. With the exception of death grant payments; the accumulation of missed cases are showing on the COVID-19 reports which show the opening and closing position. Officers will discuss this with Surrey at a planned meeting in October. The full report along with the COVID-19 report is attached

Activity	May-20			Jun-20			Jul-20			Aug-20		
	Volume	Score	Missed	Volume	Score	Missed	Volume	Score	Missed	Volume	Score	Missed
Death notification acknowledged, recorded and documentation sent	17	76%	4	9	100%	0	26	92%	2	15	47%	8
Payment of death grant made	13	77%	3	9	78%	2	29	66%	10	14	71%	4
Retirement notification acknowledged, recorded and documentation sent	42	76%	10	47	91%	4	53	83%	9	48	94%	3
Payment of lump sum made	30	80%	6	27	89%	3	36	89%	4	38	87%	5
Calculation of spouses benefits	2	50%	1	7	43%	4	12	75%	3	4	100%	0
Transfers In - Quotes	4	75%	1	21	67%	7	19	68%	6	7	100%	0
Transfers In - Payments	9	100%	0	7	100%	0	14	79%	3	39	92%	3
Transfers Out - Quote	12	67%	4	10	100%	0	36	97%	1	24	96%	1
Transfers Out - Payments	12	100%	0	9	89%	1	11	100%	0	19	100%	0
Employer estimates provided	2	100%	0	1	100%	0	8	63%	3	2	100%	0
Employee projections provided	2	100%	0	2	100%	0	4	100%	0	6	100%	0
Refunds	20	95%	1	20	100%	0	55	100%	0	34	97%	1
Deferred benefit notifications	17	41%	10	22	55%	10	11	100%	0	16	75%	4

Annual Benefit Statements

All annual benefit statements were generated and distributed by the statutory deadline of 31 August 2020. Nine of the statements issued were calculated using the previous years figures as the associated employers did not provide the updated data to meet the deadline. Officers at Hillingdon have received details and are contacting employers for the updated information.

Annual Allowance Notification Letters

Annual allowance notification letters were issued to scheme members whose pensions savings benefit was likel to exceed the standard allowance for the year. These were issued by the statutory deadline of 6 October 2021.

Staffing and Resources

Staff at Surrey CC continue to work remotely with reduced and set hours to access the service desk. Hillingdon staff are working on a rota partly at home and partly in the office as the social distancing requirements allow.

FINANCIAL IMPLICATIONS
Financial implications have been included in the body of the report

LEGAL IMPLICATIONS

The legal implications are mentioned within the report.

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Hillingdon Pensions Administation - orbis
Key Performance Indicators August 2020

Activity	Measure	Impact	Target	Mar-20			Apr-20			May-20			Jun-20			Jul-20			Aug-20			Commentary
Scheme members	Pensioners, Active & Deferred			23,640			23,690			23,771			24,020			24,044			24,128			
New starters set up/welcome letters				78			85			171			223			43			available mid Sept			
ABS sent - Councillors	Statutory deadline		Due by 31 Aug	Achieved			Achieved			Achieved			Achieved			Achieved			Achieved			
ABS sent - Active	Statutory deadline			Achieved			Achieved			Achieved			Achieved			Achieved			Achieved			
ABS sent - Deferred	Statutory deadline			Achived			Achived			Achived			Achived			Achived			Achived			
				Volume	Score	Missed	Volume	Score	Missed	Volume	Score	Missed	Volume	Score	Missed	Volume	Score	Missed	Volume	Score	Missed	
Death notification acknowledged, recorded and documentation sent	5 working days	M	100%	6	100%	0	17	94%	1	17	76%	4	9	100%	0	26	92%	2	15	47%	8	
Payment of death grant made	10 working days	H	100%	19	89%	2	13	85%	2	13	77%	3	9	78%	2	29	66%	10	14	71%	4	
Retirement notification acknowledged, recorded and documentation sent	10 working days	M	100%	34	91%	3	24	75%	6	42	76%	10	47	91%	4	53	83%	9	48	94%	3	
Payment of lump sum made	10 working days	H	100%	28	89%	3	25	80%	5	30	80%	6	27	89%	3	36	89%	4	38	87%	5	
Calculation of spouses benefits	10 working days	M	100%	3	100%	0	5	80%	1	2	50%	1	7	43%	4	12	75%	3	4	100%	0	
Transfers In - Quotes	20 working days	L	100%	26	85%	4	11	100%	0	4	75%	1	21	67%	7	19	68%	6	7	100%	0	
Transfers In - Payments	20 working days	L	100%	15	100%	0	5	100%	0	9	100%	0	7	100%	0	14	79%	3	39	92%	3	
Transfers Out - Quote	20 working days	L	100%	29	97%	1	8	75%	2	12	67%	4	10	100%	0	36	97%	1	24	96%	1	
Transfers Out - Payments	20 working days	L	100%	10	90%	1	9	89%	1	12	100%	0	9	89%	1	11	100%	0	19	100%	0	
Employer estimates provided	10 working days	M	100%	12	92%	1	1	100%	0	2	100%	0	1	100%	0	8	63%	3	2	100%	0	
Employee projections provided	10 working days	L	100%	10	100%	0	0	N/A	0	2	100%	0	2	100%	0	4	100%	0	6	100%	0	
Refunds	20 working days	L	100%	46	96%	2	22	95%	1	20	95%	1	20	100%	0	55	100%	0	34	97%	1	
Deferred benefit notifications	20 working days	L	100%	66	74%	17	42	50%	21	17	41%	10	22	55%	10	11	100%	0	16	75%	4	
Complaints received- Admin							1															
Complaints received- Regulatory							0															
Compliments received							0															
Queries Handled by Helpdesk				(FPF = 70%)			430(FPF = 90%)			329(FPF = 91%)			433 (FPF = 67%)			543 (FPF= 90%)			621 (FPF= 95%)			

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HILLINGDON LGPS FUND Period: 24 - 30 August 2020

Key Performance Measure	Current Period 24 - 30 August 2020				
	Cases outstanding 24/08/2020	Cases received	Cases completed	Cases outstanding 30/08/2020	Progress
DEATH INITIAL STAGE	32	2	1	33	⇧
SURVIVOR'S PENSION	12	2	1	13	⇩
DEATH GRANT PAYMENT	3	2	1	4	⇩
DEATH UNDER/OVERPAYMENT	32	2	1	33	⇩
RETIREMENT	49	8	18	39	⇧
REFUNDS	115	14	11	118	⇩
TOTAL	**243**	**30**	**33**	**240**	⇧

Death Initial Stage	Cease pension, send condolences letter, request details of any dependants / beneficiaries and send claim forms for any balance / overpayment / Death Grant.
Survivor's pensions	Upon receipt of all relevant certificates, forms and supporting evidence set up all survivor's pensions on the payroll and send each beneficiary a pension statement.
Death grant payment	Upon receipt of all the certificates, claim forms and details of potential beneficiaries pay the Death Grant.
Death Under/overpayment	Any balance of pension should be paid and the return of any overpayment requested. The Pension Section should notify the relevant parties of any payments / decisions in writing.
Retirement	Upon receipt of all the forms and pay the retirement grant, update Altair, set up the pension on the payroll and send a benefit statement to the member.
Refund	Check the record, calculate the refund due and make payment

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LGPS REGULATIONS UPDATE ITEM 10

Committee name	Pensions Committee
Officer reporting	Craig Alexander, Hymans Robertson LLP YvonneThompson-Hoyte, Corporate Finance
Papers with report	Hymans Robertson Report

HEADLINES

Recent regulatory changes have given rise to both funding and regulatory issues in the Local Government Pension Scheme (LGPS). Some have already been signed into law and waiting to come into effect for example the Exit Payment Reform (£95k cap) while others are coming to the end of the consultation phase for example the McCloud Ruling. The remedies applied in each instance will impact the Hillingdon Scheme either in terms of funding or increased administration.

The purpose of this paper is to provide an overview of recent regulatory changes and explain the impact on the Fund.

RECOMMENDATIONS:

That the Committee:

1. **Note the regulatory changes and the impact on the pension scheme along with the timescale for implementation**

Implications on related Council policies

Changes in regulations are likely to require the relevant policy document to be changed

Financial Implications

The financial implications are explained in the report

Legal Implications

This report contains items of legislation that have either been passed by the UK Parliament or are in the consultation process. Hillingdon Council as the Administering Authority will be required to implement and adhere to legislation when they come into force.

BACKGROUND PAPERS

The links to the background papers are in the report attached.

HYMANS ROBERTSON

Actuarial update

LGPS - Regulatory Changes

Executive Summary

- The outcome of the McCloud court case ruled that the transition protections given to older members when the 2008 LGPS final salary scheme closed are age discriminatory. The remedy is to retrospectively apply the same protections to all members who were in the 2008 LGPS scheme on 31st March 2012. This will result in a small increase in liabilities at Fund level of c£1.1m or 0.08%. Employer contributions already include an allowance for McCloud, therefore no significant impact on rates is expected (all else being equal). However, the administrative effort required to implement the remedy will be significant and we estimate the project will take 2 years or more to complete.
- The 2016 Scheme Advisory Board and HM Treasury cost management valuation processes have recommenced and may result in changes to member benefits or member contribution rates. Any changes will be back dated to 1 April 2019 which may require significant input from the Fund's administration team.
- HM Treasury have announced that an exit payment cap of £95,000 applying to all exits from public sector employers will be in place by the end of the year. Exit payments include redundancy payments, severance payments and **pension strain costs.** If the total value of such payments including strain costs exceeds the £95,000 cap then an employee's pension will be reduced. The LGPS consultation is now live, however, it now also includes plans to further reduce the value of redundancy packages of all members (especially those over age 55), not just those exceeding the £95,000 cap.
- The Goodwin case is another discrimination case addressing discrimination of the grounds of sexual orientation. This would have resulted in a small increase in liabilities at Fund level of c£0.6m or 0.05% of the liabilities. Similar to McCloud, there will be a further administration and communication burden to address by the Fund's administration team.
- The Government published a response to its consultation on "Changes to the valuation cycle and management of employer risk" on 26 August with changes to regulations coming into force on 23 September 2020. Administering Authorities will now have increased powers to review employer contribution rates between valuations and to enter into repayment plans with exiting employers. It also introduces a "deferred employer" status for employers, whilst also giving employers the power to request a review of their contribution rate.

Addressee and purpose

This paper has been commissioned by and is addressed to the London Borough of Hillingdon Council in its capacity as Administering Authority to the London Borough of Hillingdon Pension Fund ("the Fund"). It has been prepared by Hymans Robertson LLP (as Fund Actuary) to assist the Council's Pensions Committee to understand the nature and impact of several recent or expected changes to Regulations on the Fund. This paper should not be used for any other purpose.

Introduction

This paper addresses both funding and administration issues raised by the following regulatory changes and processes.

- McCloud (funding implications and cost);
- Cost management valuations for 2016 and 2020;
- Consultation on the £95k cap including some discussion on how it may impact on employer early retirement and redundancy strain calculations for some employers; and
- Goodwin ruling regarding equality of survivor benefits in same sex marriages again including the funding implications for your Fund and employers.

The McCloud judgement

The cause: transitional protections

One feature of the reform of all public sector pension schemes in the first half of the 2010s was the commitment to protect older members. For the LGPS, this protection was transitional and took the form of an underpin. From 1 April 2014, an eligible member would receive the better of benefits earned under the old 2008 scheme (60ths accrual, final salary, retirement age of 65) or the new 2014 scheme (49ths accrual, Career Average Revalued Earnings (CARE), retirement age equal to State Pension Age).

The format of the protections differed between public sector pension schemes, however, they were all uniform in applying the eligibility criteria – the protections would only be applicable to members who were:

- active in the scheme as at 31 March 2012; and
- within 10 years of their Normal Retirement Age (as defined under the pre-reform scheme rules, 65 in the LGPS) as at 1 April 2012.

Who benefits from the underpin?

A summary of the benefit changes introduced in 2014 are shown below:

	Final Salary scheme	CARE scheme	Impact
Accrual rate	1/60th	1/49th	Increase of 22%
Revaluation rate	Salary increases	Consumer Price Index	Depends on an individual's salary growth
Retirement age	65	State Pension Age (SPA)	Decrease for members where SPA is after 65

Due to the significant increase in benefit being earned each year through the improved accrual rate, a member would only benefit from the underpin if salary increases throughout their working life outweighed the additional 22% of CARE benefit (revalued in line with CPI) that had been earned each year.

The challenge

In 2016/17, members of the Judicial Pension Scheme (including one member named McCloud) brought a claim of age discrimination against the Ministry of Justice (MOJ) due to the imposition of the transitional protections. The members contested that, by applying the protections only to those members within 10 years of retirement at March 2012, younger members of the scheme were at a disadvantage.

The Ministry of Justice conceded that the protections did put younger members at a disadvantage, however they argued that this treatment was justified. The justification being that the members in scope of the protections would likely already have made advanced plans for financing their retirement and any change to their pension scheme may adversely affect these plans.

A separate but similar challenge was also launched by a member of the Firefighters' Pension Scheme.

The Employment Tribunal found against the MOJ and the members' complaints were upheld.

This original decision was appealed by the Government until it reached the Court of Appeal for consideration in November 2018. On 20 December 2018, the Court of Appeal ruled that:

- the Government's appeal was to be dismissed; and
- the claim of discrimination on the grounds of age is valid.

Following on from this ruling, in the first half of 2019 the Government sought leave to appeal this ruling at the Supreme Court. However, in June 2019, the Supreme Court refused the Government's application to appeal, meaning that the Court of Appeal's decision was final.

Following the Court of Appeal's decision at the end of 2018, in January 2019 the decision was been taken by the Government to suspend the ongoing Cost Cap valuations[1]. Further detail about the Cost Cap valuation, its interaction with McCloud and impact on funding is contained later in this note.

After the Supreme Court confirmed they would not hear the Government's appeal, in July 2019, the Government accepted[2] that the protections put in place were discriminatory and committed to remedying the situation. The court cases to date were only in respect of the Judicial and Firefighters' Pension Schemes. However, the Government also accepted that the ruling would, if tested, also apply to all other public sector pension schemes which implemented age-based transitional protections during the reform process. This includes the LGPS.

Since then, discussions have taken place to assess how best to resolve the discriminatory elements of the benefit structure (what has now become commonly referred to as "finding a solution" to "McCloud" or "the McCloud judgement"). It is not a viable option to entirely remove the transitional protections as that would involve reducing the accrued rights of some members (i.e. those eligible for the original protections and who would have benefitted, via higher benefits, from the existence of the protections). Therefore, the discussions have been focussed on how to adequately "level up".

[1] https://www.parliament.uk/business/publications/written-questions-answers-statements/written-statement/Commons/2019-01-30/HCWS1286/
[2] https://www.parliament.uk/business/publications/written-questions-answers-statements/written-statement/Commons/2019-07-15/HCWS1725/

Remedy

On 16th July 2020 MHCLG published consultation documents[3] setting out detailed proposals for addressing the discrimination. The consultation process closed on 8 October in England and Wales. Hymans Robertson have already published our response to the consultation which can be found at the link below[4].

In summary, the proposed remedy extends the 'transitional protections' underpin (that was promised to active members in 2012 who were within 10 years of normal retirement age) to all other active members, regardless of age. The underpin gives the member the better of CARE or final salary benefits for the eligible period of service.

In general terms, the key features of the underpin are:

- Eligibility is restricted to members who were active in the LGPS on 31 March 2012 and have accrued benefits since 1 April 2014;
- The underpin period applies between 1 April 2014 and 31 March 2022, but ceases when the member leaves active membership or dies in service;
- The final salary for comparison purposes applies at the point that the member leaves active status or reaches age 65; and
- The normal pension age for CARE benefits can be after the normal pension age for final salary benefits. The underpin requires the impact of any applied actuarial reductions to be considered in assessing which benefit is higher.

The changes will be retrospective and will apply to anyone who has left, retired or died and who did not meet the old underpin criteria but meets the new one. In some cases, this will mean retrospectively recalculating benefits for pensioners, and paying arrears and interest.

There is significant complexity in the detail of how the underpin will apply and the consultation addresses the topics of early leavers, deaths in service, early and late retirements, ill health retirements, members with multiple posts, breaks in service and aggregations of service across different LGPS employments, transfers between public sector schemes, annual allowance implications and the requirement to include information on the underpin on members' annual benefit statements.

Impact on funding and employer costs

At whole fund level, we do not expect the McCloud remedy to have a significant impact on the funding position and hence on employer costs.

Based on typical LGPS funding assumptions, we estimate that total liabilities could increase by c.0.2% (or by 0.6% of active liabilities), equivalent to around £0.5bn across the whole of the English & Welsh LGPS. This estimate is significantly less than the £2.5bn quoted in the LGPS consultation. This difference is due to a combination of factors, with the pay growth assumption being a crucial one for the reason set out above. The Government estimate uses CPI +2.2% p.a. which is significantly higher than that used by a typical LGPS fund. For Hillingdon, the pay growth assumption is CPI + 0.3% p.a.. Based on this we estimate that the McCloud underpin will add around 0.08% to the liabilities (equivalent to about £1.1m at the time of writing).

[3] https://www.gov.uk/government/consultations/local-government-pension-scheme-amendments-to-the-statutory-underpin

4 https://www.hymans.co.uk/media/uploads/Hymans_Robertson_McCloud_Consultation_Response.pdf

Whilst at whole scheme level the impact is small, it may be material at individual employer level. This is where the LGPS differs from the other public sector schemes - everything is funded at employer level and contributions can and do vary materially across the employers in the Fund.

The variation in McCloud underpin impact arises due to differing membership profiles, and particularly age. Younger members will have a longer period of salary increases compared to older members (especially once promotional increases are considered, which tend to be higher at younger ages). There is therefore a higher likelihood that the underpin 'bites' for younger members. Our modelling suggests that some employers may see their total liabilities increase by as much as 5-10% whilst other employers will see no impact at all. There is also the potential for one-off significant increases which may result in an impact greater than noted above, for example, an employer with only one member who is awarded a significant pay increase. It is worth noting that introduction of the underpin to all eligible members, and the fact that the link to final salary will be retained up until the member retires, means that another source of volatility and uncertainty is introduced into the funding of LGPS benefits. We may see employer's funding positions and contribution rates changing by larger amounts between valuations because of this factor.

Formal valuation approach

SAB asked funds and actuaries to allow for McCloud costs at the 2019 valuation in England and Wales when setting funding strategies. For Hillingdon, we increased the required likelihood of achieving full funding for employers from 75% to 80% to build in some margin for McCloud costs. The approach taken to allow for the uncertainty caused by McCloud is set out in Section 2.7 of the Funding Strategy Statement. As a result, we do not anticipate the final remedy for McCloud to materially impact employer contribution rates (all else being equal).

Administration impact of McCloud

Despite the relatively small liability impact of the McCloud ruling, the administration impact will be significant. In conjunction with key stakeholders, the Fund will have to initiate and deliver a project to adjust member's records to reflect the new underpin and to correct any benefits which have already come into payment.

This project will take many months, and potentially years of effort depending on the membership affected. Key stages will include:

Understanding McCloud and establishing a project plan

The key outcomes from this stage will be to identify who is going to be working on the project, the key stakeholders and ensuring that they have the right level of knowledge. This stage would be expected to last until after the consultation process concludes and some outstanding policy decisions have been made. The UK Government have indicated that final Regulations may not be available until 2022/23 but have urged funds to begin work in the interim.

Identifying cases

Cases in scope then need to be identified using the key criteria set out in the consultation. In most funds around 20 -25% of members are likely to be impacted. Most LGPS funds have not collected final salary and working hours since 2014 as this data is not required to administer CARE benefits. Therefore, once the members have been identified, the Fund will then need to ascertain what data is missing.

Adjusting records

Member records will then need to have the correct information collected in order to enable an underpin calculation to be completed. This is one of the most difficult areas of the project and will involve significant engagement with employers to gather salary and working hours data back-dated from 1 April 2014. This will be challenging as some employers will have left the Fund, some may have changed payroll providers and some simply will not have kept the information required. There will be a need for policy decisions on how to approach situations where it is not possible to complete the data record but the Fund must ensure the members' benefits are calculated

accurately and the underpin applied fairly. Going forward, the data specification for employers will have to be changed in order to ensure the correct data is captured within future processes.

Recalculation of benefits

When the data is sourced for identified cases, the members' benefits will need to be re-calculated. For members still in service, or those who have left the Fund before retirement, their accrued pension may have changed and their annual benefit statement may need to be adjusted. There may be annual allowance tax implications for some members. Some of these calculations will be complex as a result of some of the issues mentioned above. Liaison with system providers is underway to specify changes required to the administration software to support the recalculation processes and ongoing requirements to assess the underpin. Early indications are that it may take around 12 months for administration providers to fully develop the calculation routines required once the outcome of the consultation is known.

Calculate arrears and interest and then pay arrears

Arrears and interest payments may be due for some members whose benefits are already in payment, if the McCloud underpin would have resulted in a different pension for these members. In some cases where benefits are changing there may also be tax charges for members. The tax implications of these proposals are complex as members who would not have breached annual allowance under the CARE scheme may breach the annual allowance if they become eligible for an underpin.

Final record adjustment to both the administration and payroll record if applicable

Finally, the member administration and payroll records will need to be updated with the calculated position and this must be maintained going forward.

Audit check and stakeholders

There is a significant list of stakeholders who will be involved in the project including current and former employees, their dependents, fund employers, your actuary, your administrator, the Committee and the Board, MHCLG, Treasury, SAB and others. Different stakeholders require different levels of involvement at the different stages of the project but communication across all groups about progress, issues and outcomes and costs will be vital. Given the complexity of the project checking and audit processes will also have to be robust.

Project management

The size and complexity of this project means that it will also require proportionate project management resource and expertise.

McCloud summary

The impact of the McCloud judgement will result in a small increase in liabilities of around 0.08% (or £1.1m as at the time of writing) and a negligible impact on employer rates. However, remedying the discrimination identified by the McCloud judgment will be a significant undertaking for the Fund's administration team.

Cost Management Valuations 2016 and 2020

In addition to McCloud, the "Cost Management Valuations" are ongoing national processes which are resulting in uncertainty around the benefit structure of the LGPS. These valuations were similarly borne out of the public service pension reform in the early 2010s.

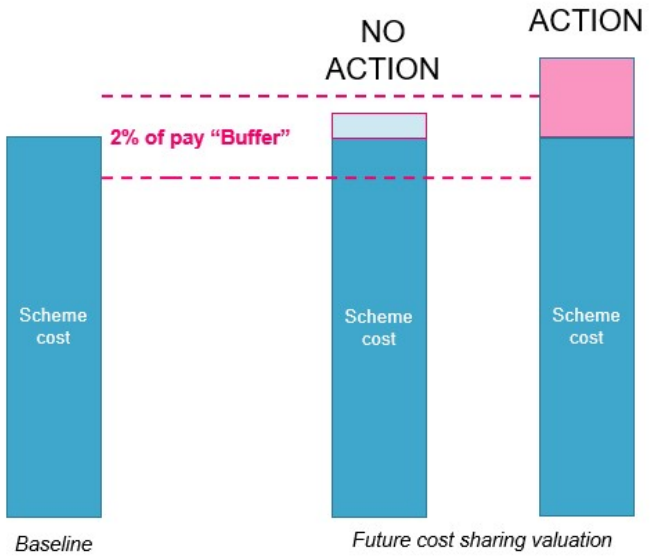
Background

As part of the reforms discussed earlier in this note, a mechanism was put in place which sought to put in a safety valve and protect employers from significant increases in future pension costs and to support the long-term sustainability of a defined benefit pension offering.

Historically, any variations in pension costs fell to the employer to fund as both benefits earned and employee contributions were defined in the Regulations. The cost mechanism sought to re-distribute the risk and share any cost variations with members. Prior to this mechanism being introduced, employer contributions had been on an upwards trend across a number of valuation cycles.

This mechanism works on the basis that every 3 or 4 years (the frequency varies between public sector pension schemes), a valuation at national level will be carried out by the Government Actuary's Department on behalf of Treasury to assess the overall cost of pension provision. The assessed cost will then be compared against a benchmark cost, and if the difference is equivalent to more than 2% of pay, then action will be taken to amend the benefit structure or employee contribution rates such that the current cost matches the benchmark cost. If the variation is less than 2% of pay then no action is taken.

This valuation is carried out on a set of assumptions set by HM Treasury and differ from those used for the purposes of your formal valuation to set employer contributions. One of the key features of the Cost Management valuation is that it limits the factors for inclusion to those that have an impact on the benefit received by a member. Critically, it makes no allowance investment returns earned on assets.



The mechanism was originally intended to act as a capping mechanism on costs i.e. action would only be taken if costs were higher than expected. However, during the reform implementation, the mechanism was amended to a symmetrical design i.e. there would be a cap and a floor on cost. Therefore, if costs were less than expected, then action would be taken to improve the benefit structure to restore the cost to its benchmark level. In essence, the Cost "Cap" became Cost "Sharing".

LGPS England and Wales

Alongside the Treasury Cost Management process (TCM) described above, the LGPS in England and Wales also has a Scheme Advisory Board (SAB) Cost Management process (SCM). The SCM is carried out ahead of the TCM and takes into account different factors from the TCM, including factors which are unique to the LGPS. Importantly, any change in benefits as a result of the outcome of the SCM process is allowed for within the TCM.

The SCM also works slightly differently in how it may implement amendments to benefits if the costs of the scheme have moved.

- A movement of between 0% and 1% from the target in either direction **may** result in agreed recommendations for action to move back to the target.
- A movement of between 1% and 2% from the target in either direction **should** result in agreed recommendations for action to move back to the target.
- A movement of 2% or more from the target in either direction **must** result in agreed recommendations for action to move back to the target.

By contrast, for the TCM mechanism, no corrective action will be required to move the costs back to the target unless there is a movement of 2% or more from the target in either direction. This gives SAB the opportunity to recommend small changes in the benefit structure during the SCM to avoid a larger change being triggered by the TCM process.

The first Cost Cap valuations were carried out as at 31 March 2016 and initial results communicated in Autumn/Winter 2018. Early indications were that the cost of the scheme had fallen as a result of falling improvements in life expectancy and lower than expected pay growth. The SCM process reported a fall of around 1% of pay and the TCM process was expected to report a fall in excess of 2% of pay below target therefore requiring future benefit improvements.

The SCM process proposed benefit improvements of around 1% of pay, mainly involving changes to employee contributions, and it was expected that after these benefit improvements were implemented no further action would be needed by the TCM process as their assessment of the scheme cost would be restored to within the 2% of pay buffer.

These changes were due to come into force under the relevant regulations by 1 April 2019.

Interaction with McCloud

Whilst the Government was dealing with the emerging Cost Cap results, they also learnt of the Court of Appeal's ruling in the McCloud case.

It was the Government's opinion that any increase in benefits due to McCloud should be factored into the ongoing Cost Cap valuations. Given that the McCloud remedy will result in an increase in pension costs, it may be of such a magnitude that the cost saving identified at the Cost Cap valuations reduces to less than 2% of pay when assessed using their approach. If this were to be the case, then no action would be needed to amend benefits from 1 April 2019. (Note that at this stage we are unable to assign a probability to how likely this outcome is).

Therefore, the Government announced in January 2019 that the 2016 Cost Cap valuation process would be put on hold until McCloud was resolved. After the resolution, the Cost Cap valuations would be restarted and, if any changes are required to be made to benefits or employee contributions, then they would be backdated to 1 April 2019.

Legal challenge

The action by Government to suspend the implementation of scheme changes as a result of the Cost Cap valuations has recently been challenged by several Unions (Fire Brigades Union, Public and Commercial Services Union, the Professional Trades Union for Prison, Correctional & Secure Psychiatric Workers and the GMB Union). In April 2020, these Unions filed court proceedings against the UK Government arguing that the suspension breaches the Cost Cap regulations (which states benefits changes must come into force from 1 April 2019)[5].

The challenge also effectively asserts the Unions' belief that the costs associated with resolving McCloud sit outside the Cost Cap mechanism.

The case is still ongoing, however, on 16th July 2020 the Treasury announced that the Costs Management processes for the LGPS will be re-started assuming that the McCloud costs are included in the calculations.

Administration impact

It is too early to tell how the inclusion of McCloud will impact the 2016 Cost Management process. It is possible benefits will no longer be changed or the changes will be narrower in scope. However, if changes are required and backdated to 1 April 2019, there will likely be a material one-off project to adjust benefits earned since that date including similar communication, tax and compensation elements described in the section on McCloud above.

The future of the Cost Cap

The results of the 2016 Cost Cap valuation (i.e. benefits potentially being improved) were likely to have been unexpected when agreeing to implement a symmetrical design. The rigid regulations that were put in place gave the Government no option but to implement benefit increases following the publication of the Cost Cap valuation results.

For many public service schemes, an increase to future benefits was announced at the same time as an increase to contributions (which arose due to a change in the HM Treasury valuation assumptions).

In light of the unexpected results, the Government confirmed in September 2018[6] (when the first initial results started to emerge) that the Cost Cap mechanism will be reviewed ahead of the next round of Cost Cap valuations (due to take place as at 31 March 2020) to ascertain whether it still meets the policy intent.

However, as this review has not yet taken place, the existing legislation will require the next round of Cost Cap valuations to take place as expected. We understand that GAD has recently requested data from the Fund for the 2020 Cost Cap valuation.

[5] https://www.fbu.org.uk/news/2020/04/25/firefighters-take-government-court-over-pension-%E2%80%98robbery%E2%80%99

[6] https://hansard.parliament.uk/commons/2018-09-06/debates/18090633000015/PublicServicePensionSchemesQuadrennialValuations

Public Sector Exit Payments

The government first announced plans to cap exit payments in the public sector in 2015. On 10 April 2019 HM Treasury (HMT) launched a consultation on draft regulations, guidance and Directions to implement the cap. HMT published its response to the consultation[7] on 21 July 2020.

Exit Payments £95k Cap

The cap will apply to all public sector employers. The exit payment cap is set at a total of £95,000 with no provision for this amount to be index-linked. Exit payments include redundancy payments (including statutory redundancy payments), severance payments, ***pension strain costs*** – which arise when an LGPS pension is paid unreduced before a member's normal pension age – and other payments made as a consequence of termination of employment. Although statutory redundancy is included as an exit payment it cannot be reduced. If the cap is exceeded, other elements that make up the exit payment must be reduced to achieve an exit payment of £95,000 or less.

The Regulators received ministerial approval on 13 October 2020 and are therefore expected to come into force from 4 November 2020.

Applying the cap in the LGPS

The major impact of the regulations will be on LGPS members aged 55 or over who currently qualify for an unreduced pension because of redundancy or efficiency retirement as well as a severance payment under The Local Government (Early Termination of Employment) (Discretionary Compensation) (England and Wales) Regulations 2006.[8] We understand that changes to those regulations will prevent the payment of severance in addition to a pension strain cost. Not only will a severance payment no longer be payable but if a pension strain payment cannot be made in full because of the cap, then the member's pension would be reduced.

Pension strain cost

Currently the pension strain cost that an employer pays on the early retirement or redundancy of a member over the age of 55 is calculated at a local fund level using factors provided by your actuary which reflect your local funding assumptions. These factors were most recently reviewed following the 2019 valuation process. These factors are intended to reflect the difference in cost arising to the Fund as result of paying benefits sooner than expected and for a longer period of years. The local approach to calculating the strain could mean that members in different LGPS funds with the same accrued pension may have a different strain cost to take into account in the calculation of the exit payment limit and hence a different reduction. Therefore, MHCLG have asked the Government Actuary's Department (GAD) to produce standardised factors for use in these calculations.

This will result in equity between members in different funds but will lead to less accurate assessments of the strain costs for the employers and could result in employers paying less in strain costs at the time of exit. Any shortfalls will feed into an employer's position at the next triennial valuation and may result in contribution increases at that time.

How much are pension strain costs?

GAD have not yet published the factors to be used in these calculations so we cannot yet assess with certainty the pension strain amounts. However, using current strain factors for a typical Fund, some case studies are shown below, noting that in all four cases the member's LGPS pension would be a similar amount (broadly £15,000 p.a.).

[7] **https://www.gov.uk/government/consultations/restricting-exit-payments-in-the-public-sector**
[8] **https://www.legislation.gov.uk/uksi/2006/2914/contents/made**

Member	A	B	C	D
Salary	£30,000	£45,000	£90,000	£150,000
Exit Age	55	55	60	64
Service	30 years	20 years	10 years	6 years
Early retirement pension strain	£112,000	£112,000	£58,000	£12,000

Statutory Redundancy Pay

As set out above, statutory redundancy cannot be reduced. However, following discussions with MHCLG, the policy intent is for the member to 'give up' their statutory redundancy if their pension comes into payment. This is not clear in the consultation and is covered in more detail below. This applies independently of the value of a member's exit package.

Implementation issues

Although this policy was first announced back in 2015, there is now a very short timeframe for implementation and for the required changes to Regulations to be made. Any member leaving from an employer subject to the cap, after the end of the year, will have to have the employer strain cost calculated using the new standardised strain factors when available and members' pensions reduced as appropriate. As a result, it will be difficult to provide redundancy cost estimates to employers over the next several months.

There will now be two different processes for early retirements for employers who must apply the public sector exit cap and for employers who are outside of the public sector exit cap.

Future options

MHCLG is looking at options to introduce choice for members and is currently consulting on this. If over aged 55 and made redundant, the member would be able to choose between the following IF their exit package is less than £95,000 in value:

- Having their pension come into payment unreduced, but they would need to pay the Fund an amount equal to their statutory redundancy;
- Having their pension come into payment partially reduced to recover a value equal to their statutory redundancy, but the member would then be able to retain their statutory redundancy (as it is being taken from their pension); or
- Electing for their pension to not come into payment (i.e. deferring their pension). The member would then be able to retain their statutory redundancy.

In addition to the above, if the member's employer is required to pay a strain cost to the Fund if their pension comes into immediate payment, the member cannot receive any discretionary redundancy pay either. If the £95,000 cap were to apply, then further reductions would apply (such as an actuarially reduced pension or reductions to their severance package).

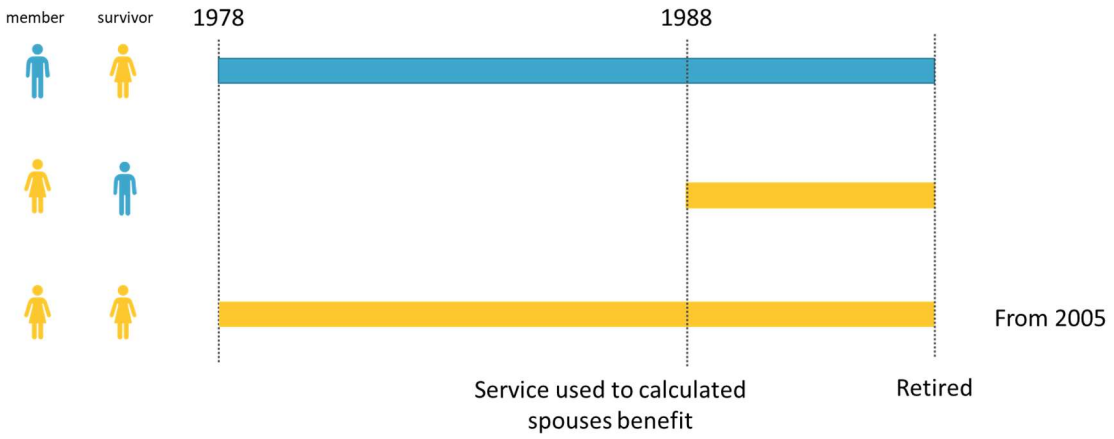
Administration issues

There will be a period where software providers need to update their systems in order to carry out the required calculations. Early indications are that this could take up to 12 months. During this period, the administration team may be required to manually carry out retirement quotes and strain calculations. This may be further complicated that this is only expected to apply to some employers in the scheme, not all. So there may be different process for different employers. In addition, the process of collecting the statutory redundancy from members where they elect to take an unreduced pension will be an additional burden.

Goodwin ruling

The Goodwin tribunal was raised in the Teacher's scheme. It claimed members, or their survivors, were discriminated against due to their sexual orientation. The claim was because the Teacher's scheme provides a survivor's pension which is less favourable for a widower or surviving male partner, than for a widow or surviving female partner of a female scheme member. On 30 June 2020, the Tribunal found in favour of the claimant and agreed there was discrimination.

This finding and remedy is expected to apply across all public service pension schemes, including the LGPS. The diagram below illustrates the inequality in the LGPS.



The first case considers a male member who entered into their partnership/marriage with their spouse or partner after leaving active status. All of this member's service from 1978 until retirement would count towards the calculation of the survivor's pension.

The second case considers a female member who entered into their partnership/marriage with their **male** spouse or partner after leaving active status. Even if they had identical service histories to the male member in the first case, the survivor's pension would only be based on service from 1988 until they retired if they entered into their partnership or marriage after leaving active employment. This was viewed as unfair and female members were given an option to purchase the "missing service" to uplift their dependent's benefit.

However, in 2005, following on from the Walker case, the definition of spouse in the Regulations was expanded to include same sex relationships. In effect, from 2005, if a female had a female spouse or partner and their partnership/marriage was entered into after they left active status, all their service since 1978 counted towards their survivor's pension and they were not required to pay additional contributions to benefit from this uplift. Therefore, the tribunal found discrimination on grounds of sexual orientation.

Remedy and Administration Issues

A group of members, namely females who have a male survivor, may have their survivor's pension uplifted to include any service accrued between 1978 and 1988.

In order to administer this all post-2005 deaths of female members will need to be investigated. In some circumstances, the Fund may not have any data on survivors or their whereabouts which could prove to be a significant challenge. This would be an unwelcome burden alongside McCloud (and potentially Cost Sharing) activity.

For employers, the impact is likely to be a small increase in their liabilities. For Hillingdon, the expected increase in liabilities from Goodwin is 0.05% of the Fund's liabilities (about £0.6m at the time of writing).

As a result, and similar to McCloud, the impact is largely going to be administrative.

Regulation changes to support management of employer risk

In May 2019, MHCLG launched its consultation "Local Government Pension Scheme: Changes to the Local Valuation Cycle and the Management of Employer Risk". The consultation sought views in the following areas:

a) Changes to the LGPS local fund valuation cycle

b) Increased flexibility for Funds to carry out interim valuations and/or review employer contributions between formal valuations

c) Proposals for flexibility around employer cessation debts

d) Proposals for policy changes for payments of employer exit credits

e) Potential changes to employers required to offer LGPS membership.

The outcome of the exit credit consultation (d) was published in February this year. There has been no update on changes to the valuation cycle proposals (a) or to the employers who are required to offer LGPS access (e).

The response published in August 2020[9] dealt with items (b) and (c), with Regulation changes coming into force on 23 September 2020, allow the Fund to recalculate employer contributions in the following circumstances:

- If there has been a significant change to the liabilities of an employer
- If there has been a significant change in the employer's covenant
- At the request of the employer.

This publication also allows greater flexibility around managing the exit of an employer from the Fund. On exit from the Fund, where the employer is in deficit, the following options may be available:

- The employer pays a full exit payment carried out in line with regulation 64(4) of the 2013 LGPS Regulations;
- The Fund can agree a repayment schedule with an employer to allow them to spread the exit payment over a number of years; or
- The employer can enter into a Deferred Debt Arrangement (DDA) where the employer can continue in the Fund with no active members but continue to pay secondary (deficit) contributions as determined at formal valuations. An employer entering into this arrangement would be known as a "deferred employer".

Whilst many Funds have entered into all these arrangements at some point in time, these will now be fully supported by the regulations.

The Fund's Funding Strategy Statement will need to be updated to reflect the Fund's approach to these changes once guidance from national bodies becomes available (from LGA, MHCLG, CIPFA or the Scheme Advisory Board) and having taken advice from the Fund's actuary.

9 https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/911792/Government_response_Exit_payments_and_review_employer_contributions.pdf

Summary and next steps

This paper highlights several important regulatory changes that will directly impact both members and employers over the coming months and years. Together, they represent a significant challenge to Fund administration processes and bandwidth, especially given the challenges of the current working environment. The Fund will have to consider how to manage this change program including:

- Project planning and management;
- Stakeholder communications;
- Resource requirements;
- Risk management; and
- Appropriate audit and oversight.

We would be pleased to provide further information or support on any of the topics mentioned above.

Reliances, limitations and professional notes

This paper should not be released or disclosed to any third party without our prior consent. Hymans Robertson LLP accepts no liability to any other party unless we have expressly accepted such liability.

This report complies proportionately with the relevant Technical Actuarial Standards set out below:

• TAS 100 (Principles of Technical Actuarial Work); and

• TAS 300 (Pensions).

Prepared by:-

Steven Law FFA

For and on behalf of Hymans Robertson LLP

15th October 2020

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SCHEME PAYS POLICY ITEM 11

Committee name	Pensions Committee
Officer reporting	Yvonne Thompson-Hoyte, Finance
Papers with report	1. Draft Hillingdon Scheme Pays Policy 2. LGPS Annual Allowance Fact sheet

HEADLINES

Hillingdon Council as the Administering Authority of the Hillingdon Pension Fund is required under Section 237B of the Finance Act 2004, to pay the tax charge to HMRC for scheme members that meet the criteria for 'Mandatory Scheme Pays' (MSP). The Council may also at its discretion extend to offer to those who do not meet the MSP criteria but have incurred a tax charge under a voluntary scheme pays arrangement. This report sets out the draft policy on voluntary scheme pays and seeks the approval of the Pensions Committee for implementation.

RECOMMENDATIONS:

That the Committee:

1. **Approve the Scheme Pays Policy for implementation.**

BACKGROUND

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 and is currently £40,000 for the tax year 2020/2021. The AA amount can be tapered to a minimum fort £4,000 for high earning scheme members. The full table of tapered AA is provided in the fact sheet attached with this report.

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 Administrator), to ask the Hillingdon Pension Scheme to pay the tax charge. This is known as Mandatory Scheme Pays. The scheme is required to pay the tax charge to the HMRC and reduce future benefits of the scheme member using the calculation guidance issued by the Government Actuarial Department (GAD).

Mandatory scheme pays applies where the tax charge for the tax year exceeds £2,000, the amount of pension savings in the scheme was more than the Annual Allowance for the tax year and a request to pay is received from the member by 31 July, in the year following the end of the tax year to which the tax charge relates (e.g. 31 July 2022 for the 2020/21 tax year)

In circumstances where the mandatory conditions are not met, the administering authority has the discretion to extend the scheme pays facility; based on the criteria set out in the policy document attached This is known as voluntary scheme pays.

Financial Implications

The financial implications are contained within the pension fund and are explained in the report and in the policy document.

Legal Implications

The underlying legislations are incorporated in the report

London Borough of Hillingdon Pension Fund

Draft Scheme Pays Policy

Date approved:

Date of renewal:

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 and is currently £40,000 for the tax year 2020/2021. The AA amount can be tapered to a minimum fort £4,000 for high earning scheme members. The full table of tapered AA is provided in the fact sheet attached with this report.

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 Hillingdon Pension Scheme to pay the tax charge. This is known as Mandatory Scheme Pays. The scheme is required to pay the tax charge to the HMRC and reduce future benefits of the scheme 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 (currently £40,000).
- 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 2019/20year the mandatory Scheme Pays election must be made by 31 July 2021) 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 89 schemes in England and Wales are locally managed by a separate administering authority. 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 scheme to consider a Voluntary Scheme Pays election, but the scheme 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

Standard Annual Allowance (See example below).

- 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 2018 for a tax charge arising in the 2016/17 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, because in this circumstance the member and the Administering Authority are jointly and severally liable for the payment of the tax charge, whereas 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 2020 for input in the 2019/20 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 2020 for input in the 2019/20 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 2020 for input in the 2019/20 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

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- 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 xx xxxx 2020 and will be formally reviewed and updated at least every three years or sooner if there are any regulatory changes that

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
Chief Accountant
E-mail – jlake@hillingdon.gov.uk
Telephone – 01895 277562

Local Government Pension Scheme (LGPS) factsheet
Pensions Taxation - Annual Allowance

HM Revenue and Customs impose two controls on the amount of pension savings you can make without having to pay extra tax. These controls are known as the Annual Allowance and Lifetime Allowance. This is in addition to any income tax you pay on your pension once it is in payment.

This factsheet looks at the Annual Allowance, which is the amount by which the value of your pension benefits may increase in a year without you having to pay a tax charge.

What is the Annual Allowance?

The Annual Allowance (AA) is the amount by which the value of your pension benefits may increase in a year without you having to pay a tax charge.

If the value of your pension savings in a year (including pension savings outside of the LGPS) are more than the annual allowance, the excess will be taxed as income.

The Government reduced the AA from £255,000 to £50,000 from 6 April 2011, and then reduced it again to £40,000 from 6 April 2014. Further changes to the annual allowance were made for higher earners from 6 April 2016. These changes are covered in more detail later in this factsheet.

Table 1 - Annual allowance rates since 2011

Pension Input Period	Annual Allowance
1 April 2011 to 31 March 2012	£50,000
1 April 2012 to 31 March 2013	£50,000
1 April 2013 to 31 March 2014	£50,000
1 April 2014 to 31 March 2015	£40,000
1 April 2015 to 5 April 2016	£80,000 (transitional rules apply)
6 April 2016 to 5 April 2017 onwards	£40,000 (unless tapering applies)

Will I be affected by the Annual Allowance?

Most people will not be affected by the AA tax charge because the value of their pension savings will not increase in a year by more than £40,000, or, if it does, they are likely to have unused allowance from previous years that can be carried forward.

You are most likely to be affected if one or more of the statements below applies to you:

- you have membership of the LGPS that was built up in the final salary section (built up before 1 April 2014 in England and Wales, or before 1 April 2015 in Scotland) and you receive a significant pay increase
- you transferred in membership from another public service pension scheme[1] in the past which retains a final salary link and you receive a significant pay increase
- you pay a high level of additional contributions
- you are a higher earner
- you transfer pension rights into the LGPS from a previous public service pension scheme[1] under the preferential club transfer rules and your salary (full time equivalent) on joining the LGPS is higher than the salary you earned when you left the previous scheme
- you combine a previous LGPS pension benefit that was built up in the final salary section of the LGPS with your current pension account and your salary (full time equivalent) has increased significantly since leaving the scheme
- you have accessed flexible benefits on or after 6 April 2015.

If your LGPS pension savings exceed the standard AA in any year ending 5 April, your LGPS administering authority will contact you by 6 October to let you know.

The 50/50 section of the LGPS

If you wish to slow down your pension build up to avoid or reduce an AA tax charge, you may wish to consider joining the 50/50 section. In the 50/50 section of the LGPS you pay half your normal contributions and build up half your normal pension, but you retain full life cover and ill health cover. You can find out more about Paying less – the 50/50 section on the LGPS member website.

Before taking any action to reduce your tax liabilities you should always seek independent financial advice from an FCA registered adviser. For help in choosing an independent financial adviser visit the money advice service website.

How is the Annual Allowance calculated?

The increase in the value of your pension savings in the LGPS in a year is calculated by working out the value of your benefits immediately before the start of the 'pension input period', increasing the value by inflation and then comparing it with the value of your benefits at the end of the 'pension input period'.

The 'pension input period' (PIP) is the period over which your pension growth is measured. From 6 April 2016, PIPs for all pension schemes are aligned with the tax year – 6 April to 5 April. Before the 2016/17 year, the PIP for the LGPS was 1 April to 31 March, except for the 2015/16 year when special transitional rules applied.

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[1] A public service pension scheme includes a pension scheme covering civil servants, the judiciary, the armed forces, any scheme in England, Wales or Scotland covering local government workers, teachers, health service workers, fire and rescue workers or members of the police forces; or membership of a new public body pension scheme.

In the LGPS, the value of your pension benefits is calculated by:

- multiplying the amount of your annual pension by 16
- adding any lump sum you are automatically entitled to from the pension scheme, and
- adding any additional voluntary contributions (AVCs) you or your employer has paid during the year.

If the value of pension benefits at the end of the PIP less the value of your pension benefits immediately before the start of PIP (adjusted for inflation), is more than the AA then you may have to pay a tax charge.

It is important to note that the assessment for the AA covers any pension benefits you have where you have been an active member during the year, not just benefits in the LGPS. For example, if the increase in the value of your LGPS benefits was £30,000 in 2019/20 when the AA was £40,000, but you also had an increase in the value of other pension benefits of £15,000 in the same year, that would mean you had a total increase in pension benefits of £45,000. If you did not have any carry forward (see below for more information), you would be liable for a tax charge on the amount you exceeded the AA by, even though you did not breach the AA in either scheme.

Carry forward

You would only be subject to an AA tax charge if the value of your total pension savings for a year increases by more than the AA for that year. However, a three year carry forward rule allows you to carry forward unused AA from the previous three years. This means that, even if the value of your pension savings increases by more than the AA in a year, you may not have to pay an AA tax charge.

For example, if the value of your pension savings in 2019/20 increased by £50,000 (ie by £10,000 more than the AA) but in the three previous years had increased by £25,000, £28,000 and £30,000, then the amount by which the increase in your pension savings fell short of the AA for those three years would more than offset the £10,000 excess pension saving in the current year. There would be no AA tax charge to pay in this case.

To carry forward unused AA from an earlier year, you must have been a member of a tax registered pension scheme in that year.

Changes to the Annual Allowance

The Finance (No 2) Act 2015 introduced two important changes to the AA with effect from 6 April 2016:

1. Introduced an Annual Allowance taper for high earners from 6 April 2016
2. Adjusted the ‘pension input period’ during 2015/16 so that it aligned with the tax year from 6 April 2016.

1. Tapered Annual Allowance for higher earners

From the tax year 2016/17 onwards, the AA is tapered for high earning individuals. The AA will be reduced if your ‘Threshold Income’ and ‘Adjusted Income’ exceed the limits in a year. For every £2 that your Adjusted Income exceeds the limit, your AA is tapered down by £1. Your AA cannot be reduced below the minimum that applies. The limits that apply changed for the 2020/21 year. Table 2 below shows the limits that apply.

Table 2 – tapered annual allowance limits

	Definition	Limit 2016/17 to 2019/20	Limit in 2020/21
Threshold Income	Broadly your taxable income after the deduction of your pension contributions (including AVCs deducted under the net pay arrangement)	£110,000	£200,000
Adjusted Income	Broadly your threshold income plus pensions savings built up over the tax year	£150,000	£240,000
Minimum AA	If your AA is tapered, the minimum AA that can apply	£10,000	£4,000

Threshold income includes all sources of income that are taxable eg property income, savings income, dividend income, pension income, social security income (where taxable), state pension income etc.

Please note, you are not allowed to deduct from taxable income any amount of employment income given up for pension provision as a result of any salary sacrifice made on or after 9 July 2015.

How does the taper work?

In the 2020/21 year, the taper reduces the AA by £1 for £2 of adjusted income received over £240,000, until a minimum AA of £4,000 is reached. This means that from 6 April 2020 the AA for high earners is as follows:

Table 3 - The tapered AA in 2020/21

Adjusted Income	Annual Allowance
£240,000 or below	£40,000
£250,000	£35,000
£260,000	£30,000
£270,000	£25,000
£280,000	£20,000
£290,000	£15,000
£300,000	£10,000
£312,000 or above	£4,000

Table 4 shows the effect of the tapered annual allowance in the years up to 2019/20.

Table 4 – The tapered AA from 2016/17 to 2019/20

Adjusted Income	Annual Allowance
£150,000 or below	£40,000
£160,000	£35,000
£170,000	£30,000
£180,000	£25,000
£190,000	£20,000
£200,000	£15,000
£210,000 or above	£10,000

Example 1 – Sanjay

Gross salary **2019/20**	£130,000
Less employee pension contributions (11.4%)	£14,820
Plus taxable income from property	£30,000
Threshold income 2019/20	£145,180
Plus pension savings in the year	£42,449
Adjusted income 2019/20	**£187,629**

Sanjay's Threshold income is more than £110,000 and his Adjusted Income is more than £150,000. His AA is tapered for the 2019/20 year.

Tapered AA	£21,186*
In excess of AA	£21,263 (£42,449 - £21,186)
AA tax charge at marginal rate	£8,505.20 (marginal rate of 40% assumed)

* Taper = £187,629 - £150,000 = £37,629 ÷ 2 = £18,814 (rounded down)
Standard AA £40,000 - £18,814 = tapered AA £21,186

Example 2 – Cerys

Gross salary **2020/21**	£220,000
Less employee pension contributions (12.5%)	£27,500
Threshold income 2020/21	£192,500
Pension savings in the year	£71,837

Cerys's Threshold income is less than £200,000. Her AA will not be tapered in 2020/21. Cerys's pension savings will be measured against the standard AA of £40,000.

Standard AA	£40,000
Pension savings in excess of AA	£31,837
AA tax charge at marginal rate	£14,327 (marginal rate of 45% assumed)

Example 3 – Huang

Gross salary **2020/21**	£210,000
Less employee pension contributions (12.5%)	£26,250
Plus taxable income from property	£30,000
Threshold income 2020/21	£213,750
Plus pension saving in the year	£68,571
Adjusted income 2020/21	£282,321

Huang's Threshold income is more than £200,000 and her Adjusted income is more than £240,000. Her AA will be tapered for the 2020/21 year.

Tapered AA	£18,840*
In excess of AA	£49,731
AA tax charge at marginal rate	£22,379 (marginal rate of 45% assumed)

* Taper = £282,321 - £240,000 = £42,321 ÷ 2 = £21,160 (rounded down)
Standard AA £40,000 - £21,160 = £18,840

Please note, the examples above make no allowance for any carry forward and assume an inflation adjustment of zero. The pension savings in the year are based on the assumption that the members have no final salary benefits in the LGPS and that they are not paying any additional contributions.

2. Aligning the 'Pension Input Period' with the tax year

The 'pension input period' (PIP) is the period over which your pension growth is measured. Until 2014/15 the PIP in the LGPS ran from 1 April to 31 March. From 6 April 2016, PIPs for all pension schemes are aligned with the tax year – 6 April to 5 April. Special transitional arrangements applied for 2015/16 meaning that there were two PIPs in 2015/16, as set out below:

Pre-alignment tax year: 1 April 2015 to 8 July 2015 - the revised AA during this period is £80,000

Post-alignment tax year: 9 July 2015 to 5 April 2016 - the AA for this period is the amount of the £80,000 not used up from the pre-alignment tax year (subject to a maximum of £40,000) together with any carry forward available from the three previous years.

If you have flexibly accessed any benefits in a money purchase pension arrangement on or after 6 April 2015 (see below) you should contact your pension fund for information about how the pre and post alignment tax years worked as it is different to the above.

Annual Allowance 'Flexible Benefit' access

If you have any benefits in a money purchase (defined contribution) pension arrangement which you have flexibly accessed on or after 6 April 2015 then the Money Purchase Annual Allowance (MPAA) rules may apply. However, the MPAA will only apply if your total contributions to a money purchase arrangement in a Pension Input Period exceed the MPAA.

Generally, if you have flexibly accessed any benefits in a money purchase arrangement on or after 6 April 2015, any further contributions you make to a money purchase scheme in subsequent tax years will be tested against the MPAA. If your contributions exceed the MPAA your defined benefit pension (LGPS) savings will be tested against the alternative AA and you will pay a tax charge in respect of your money purchase saving in excess of the MPAA.

Table 5: The Money Purchase Annual Allowance (MPAA)

Tax Year	MPAA	Alternative Annual Allowance If MPAA is exceeded
2016/17	£10,000	£30,000
2017/18 onwards	£4,000	£36,000

Special transitional rules applied for the tax year 2015/16 – contact your pension fund for more information, if applicable.

If you access flexible benefits, you will be provided with a flexible access statement; you should provide your LGPS pension fund with a copy of this statement.

Flexible access means taking a cash amount over the tax-free lump sum from a flexi-access drawdown account, taking an uncrystallised funds pension lump sum (UFPLS), purchasing a flexible annuity, taking a scheme pension from a defined contribution scheme with fewer than 12 pensioner members or taking a stand-alone lump sum if you have primary but not enhanced protection[2].

How would I pay an Annual Allowance tax charge?

If you exceed the AA in any year you are responsible for reporting this to HMRC on your self-assessment tax return.

Your pension fund must notify you if your pension savings in the LGPS (plus the amount of any AVCs you have paid) exceed the standard AA in a year, or if they believe you have exceeded the MPAA in a year. They must inform you by no later than the 6 October which follows the end of the PIP. However, your pension fund is not obliged to inform you if you exceed the tapered annual allowance.

[2] A stand-alone lump sum is a lump sum relating to pre 6 April 2006 where the whole amount can be taken as a lump sum without a connected pension

If you have an AA tax charge that is more than £2,000 and your pension savings in the LGPS alone have increased in the year by more than the standard AA, you may be able to opt for the LGPS to pay some or all of the tax charge on your behalf. The tax charge would then be recovered from your pension benefits.

If you want the LGPS to pay some or all of an AA tax charge on your behalf, you must notify your pension fund no later than 31 July in the year following the end of the year to which the AA charge relates. However, if you are retiring (and take all of your benefits from the LGPS) and you want the LGPS to pay some or all of the tax charge on your behalf from your benefits, you must tell your pension fund before you become entitled to those benefits.

Your pension fund, at their discretion, may also agree to pay some or all of an annual allowance charge on your behalf in other circumstances, eg where your pension savings are not in excess of the standard AA but are in excess of the tapered or money purchase AA, or where part of the charge relates to pension savings outside of the LGPS. Contact your pension fund for more information.

Am I affected?

If you think you are affected by the AA, you can find more information about pension tax and the annual allowance on the Government's website. If you are unsure if you will be affected by the AA, use the AA quick check tool on the LGPS member website.

More information

If you have any questions about your LGPS membership or benefits, please contact:
Pension Fund to enter their own details.

Disclaimer

This factsheet provides an overview of the AA rules at April 2020. It should not be treated as a complete and authoritative statement of the law. The rules governing AA can be complex and are subject to change; if you are unsure how to proceed you are advised to obtain independent financial advice. For help in choosing an independent financial advisor visit the money advice website.

PENSION FUND ANNUAL REPORT	Item 12

Committee	Pensions Committee
Officer Reporting	Babatunde Adekoya, Finance James Lake, Finance
Papers with this report	Pension Fund Annual Report 2019/20

HEADLINES

The Draft Pension Fund Annual Report for 2019/20 is attached to this report for Committee approval. Included are the Pension Fund Accounts which are due to be approved at Audit Committee on the 24th November as part of the statutory accounts process.

RECOMMENDATION

It is recommended that Pensions Committee

1. **Approve the Fund Annual Report for publication, subject to external audit sign off on consistency.**

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 have been reviewed by Pensions Committee are due to be formally approved at Audit Committee in November.

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.

The report is awaiting an external audit report to confirm that it is consistent with the audited annual accounts and guidance. The draft report for 2019/20, attached, contains information on the Fund's activities over the last year. The report has been brought to Committee for consideration and approval to publish prior to the December statutory deadline, subject to audit sign off on consistency.

For the purposes of this report the policies for inclusion in the Annual report which were approved at previous Pensions Committees have been removed. The final version published on the Pension Fund website will include these policies in full. The policies are published individually at https://archive.hillingdon.gov.uk/article/6492/Pension-fund

FINANCIAL IMPLICATIONS
The financial implications are contained within the body of the report

LEGAL IMPLICATIONS
The legal implications are mentioned within the report.

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London Borough of Hillingdon Pension Fund Annual Report 2019/20

HILLINGDON
LONDON

CONTENTS

CHAIRMAN'S FOREWORD

By the end of the 2019/20 financial year the value of the Fund stood at £989m. Membership of the scheme continued to increase over the previous year in all membership categories. The Fund remains broadly cash neutral on member transactions with member contributions equivalent to monies paid out in benefits. Cash flow is regularly monitored by the Committee with a keen eye towards future trends to ensure liquidity is maintained. In addition, the fund has income generating asset classes that can support cash flows, should this become necessary.

The results of the 2019 triennial valuation were approved by Committee in March 2020 and showed an improvement over the previous three years, moving from a 75% funding position in 2016 to 87% funded in 2019. In line with this, the funding deficit reduced from £269m to £161m. The improvement was mainly driven by a positive investment performance over the three year period and a genuine increase in the assets held per pound of benefit paid. Following on from the valuation and its consultation, a revised Funding Strategy Statement was also approved in March 2020.This statement was subsequently reviewed and updated to reflect the lessons learnt from the COVID-19 lockdown period. This strategy sets out how the Council, in its role as Administering Authority, has balanced the conflicting aims of affordability, stability and prudence in the approach to funding the scheme's liabilities and sets the scene for updating the Investment Strategy.

With a greater focus on Environmental, Social and Governance (ESG) issues the Committee published its formal Responsible Investment Policy. The Committee believes ESG considerations should be integrated into all investment decision making as it helps reduce risk, improve performance and aligns with the fiduciary responsibility of the Committee. This policy reinforces that belief and provides a framework to complement investment decisions.

The Committee has continually monitored the Fund's investments and its strategy and has made various adjustments to allocations throughout the year, taking account of professional expert advice. With a focus on the Responsible Investment Policy, one of the larger reallocations included the decision to remove its UK only equity exposure in favour of a global Future World allocation designed to focus on ESG issues.

The Fund has continued to work with the London Collective Investment Vehicle (LCIV) whist also monitoring the evolution of governance within the pool to ensure assets are securely managed on the Fund's behalf. As of 31 March 2020 the Fund had a slight increase in the value of assets held with LCIV, representing 57.5% of the Fund compared with 56% from the previous year. During the year the Fund made a commitment to allocate 5% to the LCIV Infrastructure sub fund, however due to the infancy of the fund, as at 31 March 2020 no drawdown requests had been received. In addition, the Future World allocation which sits in a passive index alongside the LCIV has yet to be transitioned.

The Pensions Board has been active during the financial year ensuring compliance with governance issues as well as updating and contributing towards policy documentation. The Board has also continued to ensure compliance with the Pension Regulator's code of practice with an independent annual review taking place, monitoring the implementation of recommendations to ensure full compliance where possible. This year also saw a focus on a cyber-security processes and robustness throughout operations of the Fund. The Board and Committee continue to work well together to ensure governance and oversight are at the highest levels.

Both the Pensions Committee and Pensions Board have taken a strong interest in improving knowledge and skills and have been active in attending various training sessions throughout the year.

By March 2020, COVID-19 had reached pandemic status with unprecedented changes required in social and working behaviours. Financial markets suffered large losses due to an indiscriminate sell-off across all asset classes. The main priority for the Fund in terms of members, was to ensure the payment of benefits were not delayed or interrupted. The Fund also concentrated on the priorities set out by the Pensions Regulator to ensure there were no adverse effects to members in the specified areas. Home and remote working systems were quickly introduced to ensure service and governance was maintained throughout the Fund, not only in terms of administration but also within the investment portfolio. The Investment Strategy demonstrated its defensive qualities and although not completely immune, the value was protected somewhat against the potential full effect of general market losses. To further complement the investment governance overview, a separate strategy assessment was commissioned to ascertain what changes, if any, were needed. The impact of COVID-19 on cash flow was also assessed and no concerns around ongoing liquidity being identified.

The Committee and Fund have many challenges coming up; including developing a and applying a revised investment strategy alongside monitoring of LCIV governance in conjunction with potential further transitioning into the pool. In addition, the implementation of new regulations involving McCloud, Exit Caps, Guaranteed Minimum Pensions and Goodwin amongst others will be challenging and will require increased resources. Furthermore, ESG will continue to be at the forefront of thinking and investment decisions, requiring increased reporting. Adapting to a constantly changing COVID-19 world will also focus the way the Fund operates in ensuring it delivers a quality service to members whilst also managing the risks, opportunities and returns relating to investments.

Cllr Martin Goddard
Chairman Pensions Committee 2019/20

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 as a result 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 with the exception of teachers (who have their own pension scheme). Other employers are admitted to the Pension Fund and depending on their status; their employees may also be able to participate in the LGPS. Employee contributions are determined by central government and are between 5.5% and 12.5% of pensionable pay. Employer rates are set by the Fund actuary every 3 years following a valuation of the assets and liabilities of the Fund, with the latest 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 in order 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 2019/20 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 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).

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 a large number of 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
Paul Whaymand 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 matters, in addition to undertaking the accounting duties of the Fund.

James Lake	Chief Accountant
Tunde Adekoya	Pension Fund Accountant
Seby Carvalho	Pensions Technical Officer
Jean Boeg	Pensions Officer

Scheme Administration
Administration of the scheme was contracted out to Surrey County Council (SCC) to provide the pensions administration under delegated authority for the London Borough of Hillingdon. SCC maintains pension scheme membership records and calculates benefits.

Email: myhelpdeskpensions@surreycc.gov.uk
Telephone: 020 8213 2802
Address: Pension Services, Surrey County Council, Room 243, County Hall, Penrhyn Road, Kingston upon Thames, KT1 2DN

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 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 Funds 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

Catherine McFadyen 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 2019/20, the following managers managed the Fund's investments externally:

Fund Manager	Asset Class
Adam Street Partners	Private Equity
AEW UK	UK Core Property
JP Morgan Asset Management	Multi Asset Credit
Legal & General Investment Management	Listed Equities and Index Linked Property (Passive) - Pooled
London CIV - Epoch	Global Equity Income - Pooled
London CIV - Ruffer	Absolute Return Fund - Pooled
London CIV - Stepstone	Infrastructure - Pooled
LGT Capital Partners	Private Equity
M&G Investments (Direct Investment)	Private Credit
Macquarie Investment	Infrastructure
Permira LLP	Direct Lending
UBS Global Asset Management	UK Equities & UK Pooled 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, (f*ormally* 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
Director
Investment Advisory
Tax & Pensions
Iseran Bidco Ltd (Isio)
10 Norwich Street
London EC4A 1BD

In addition, the Fund had an Independent Advisor for 2019/20 – 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 Raj Alagh.

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

Ernst & Young LLP
1 More London Place
London
SE1 2AF

Banker
Banking services are provided to the Fund by the Council's banker Lloyds.

*Lloyds Bank plc**
25 Gresham Street
London
EC2V 7HN

**National Westminster Bank from 01 April 2020*

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

Prudential AVC Customer Services
Prudential
Craigforth
FK9 9UE

RISK MANAGEMENT

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.

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.

Responsibility
The Administering Authority must be satisfied that risks are appropriately managed. For this purpose, the Head of Pensions and Statutory Accounts 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 each individual covered by this Policy to identify any potential risks for the Fund and ensure that they are fed into the risk management process.

Risk Identification

The risk identification process is both proactive and reactive: 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 organisation.

Risks are identified by a number of 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 organisations, 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.

Risk Management

The Head of Pensions and Statutory Accounts 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.

A risk report, including the latest risk register showing the status and direction of each risk, is maintained and updated regularly and reported to Pension Committee on a quarterly basis. The key types of risk facing the Fund are explained briefly below. Further detail on the risks and the mitigating actions are included in the Funding Strategy Statement.

Key Risk 1 – Financial Risks - a team of experienced officers and advisors support the Pension Committee who ensure the monitoring of all financial risks for impact. The financial risks cover all aspects of the Fund's investment strategy, the impact of changes on the returns on investments, the impact of active manager performance, and the impact of pay and price inflation. Currently only the risk of the Fund's investment returns failing to match arising liabilities is reported corporately to the Council.

Key Risk 2 – Demographic Risks - The risk of pensioners living longer is the key risk in this area. Active monitoring of retirement patterns allow additional employer contributions to be requested if required.

Key Risk 3 – Regulatory Risks - Changing regulations remain a long-term risk to the fund; however, Hillingdon fully participates in consultation exercises where their influence can impact on this risk.

Key Risk 4 – Governance Risks - These risks relate mainly to an employer failing to notify the administering authority of changes to their structure or operation. Good employer communication is vital to keep this risk under control and officer support to the Fund helps to further mitigate these risks.

The specific risks identified within the Pension Fund risk register as at March 2020 were:

1. Fund assets fail to deliver returns in line with the anticipated returns underpinning valuation of liabilities over the long-term
2. Inappropriate long-term investment strategy
3. Active investment manager under-performance relative to benchmark
4. Pay and price inflation significantly more than anticipated

5. Pensioners living longer
6. Poor Performance of Outsourced Administrator leading to poor quality information supplied to both members and the Fund Actuary
7. Failure to invest in appropriate investment vehicles as a result of MiFID II (legislative framework instituted by the European Union (EU) to regulate financial markets in the bloc and improve protections for investors) regulations in place from 3 January 2018
8. Cyber Security - Pension schemes hold large amounts of personal data and assets which can make them a target for fraudsters and criminals
9. Climate Change - Risk of financial loss through climate change impacts

Management of investment risk

Investments risk is the risk that investments assets underperform the assumed level in the triennial actuarial valuation. This can occur due to poor economic/market conditions, the wrong investment strategy or poor selection of investment managers.

The fund's investments risk is managed in line with the risk budget specified in the triennial actuarial valuation by the Fund's actuaries, Hymans Robertson. The valuation specifies the required rate of return on assets employed to ensure the main objective of the fund, meeting its obligation of paying Pensioners when due, is met. The officers of the Fund implement Pensions Committee decisions based on professional advice provided by engaged investment advisers, by constantly monitoring the Fund's asset allocation on a risk return basis. An asset allocation review is undertaken annually to ensure the required rate of returns are being met and adjustments made to the asset allocation if necessary to de-risk after consultation between the Fund's actuaries and investment advisers and such decisions are then presented to the Pensions Committee for consideration and ratification.

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 19th 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 are 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	SSAE 16 SOC 1	Reasonable Assurance	KPMG LLP
AEW UK Ltd	ISAE 3402	Reasonable Assurance	KPMG LLP
JP Morgan Asset management	SOC 1	Reasonable Assurance	PWC LLP
Legal & General Investments Management	AAF 01/06/ ISAE 3402	Reasonable Assurance	KPMG LLP
London CIV - Epoch	SOC 1	Reasonable Assurance	Ashland Partners & Company LLP
London CIV – Ruffer LLp	AAF 01/06/ ISAE 3402	Reasonable Assurance	Ernst & Young LLP
M&G	SOC 1 (Custodian Report by State Street)	Reasonable Assurance	Ernst & Young LLP
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	Reasonable Assurance	Ernst & Young LLP
UBS Asset Management	SOC 1	Qualified Opinion	Ernst & Young LLP

The risk management policy was introduced during 2016 as part of the work undertaken by the local Pension Board. While Committee regularly review Fund risks through the risk register, it was identified that a formal risk management policy had not been drafted. The policy is available at:
http://www.hillingdon.gov.uk/article/6492/Pension-fund

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. Over the last few years, total membership of the fund has continued to grow, as have the number of employers participating in the Fund.

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

	2019/20	2018/19	2017/18	2016/17
Active Members	7,435	6,968	8,591	8,684
Pensioners/Dependants	6,682	6,405	6,453	6,194
Deferred	10,571	10,258	8,510	7,225
Total Membership	**24,688**	**23,631**	**23,554**	**22,103**

CONTRIBUTIONS

Total Employee contributions (including transfers) into the Fund during 2019/20 amounted to £49.1m compared to £44.6m for the previous year. The 9% Increase from previous year is attributable to the increased active membership as a result of the auto enrolment programme in April 2019. 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 2019/20 were set from the 2019 valuation.

Analytical Review of Performance

	2019/20	2018/19	2017/18	2016/17
Pension Fund Account	**£' 000**	**£' 000**	**£' 000**	**£' 000**
Dealings With Members				
Contributions	49,051	44,663	77,191	42,707
Pensions	-54,058	-46,642	-45,300	-41,596
Net Additions/(Withdrawals) from Dealings with members	**-5,007**	**-1,979**	**31,891**	**1,111**
Management Expense	-9,882	-8,833	-7,332	-8,385

Net Investment Returns	23,101	22,649	15,203	16,004
Change In Market Value	-86,092	35,501	15,834	137,690
Net Increase/(Decrease) In Fund	**-77,928**	**47,338**	**55,596**	**146,420**

Analysis of dealings with members

	2019/20 £' 000	2018/19 £' 000	2017/18 £' 000	2016/17 £' 000
Contributions Receivable				
Employees	10,109	9,486	9,920	9,356
Employers	37,196	33,330	32,909	32,110
Transfers In - Individual Transfers In	1,746	1,487	3,313	1,241
Transfers In - Bulk Transfer In	0	0	31,049	0
Total Contributions	**49,051**	**44,305**	**77,191**	**42,707**

	2019/20 £' 000	2018/19 £' 000	2017/18 £' 000	2016/17 £' 000
Benefits and Other payments				
Pensions	-38,846	-36,423	-33,721	-32,435
Lump Sum Retirements and Death Benefits	-8,342	-7,593	-8,282	-6,918
Transfers Out	-6,767	-2,547	-3,235	-2,162
Refunds	-103	-79	-62	-81
Total Payments	**-54,048**	**-46,642**	**-45,300**	**-41,596**

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

- Lump Sum Paid in 2019/20 increased marginally
- Transfers In and Out for 2019/20 were higher as more members transferred their pensions both ways under the freedom of choice legislation compared to 2018/19.

Analysis of Operational Expenses

Analysis of Operational Expenses

	2019/20 £' 000	2018/19 £' 000	2017/18 £' 000	2016/17 £' 000
Administration				
Employees	-324	-355	-301	-272
Outsourced Administration Costs	-481	-433	-400	-588
Support Services Charges	-20	-52	-52	-42
	-825	**-840**	**-753**	**-902**

Governance and Oversight

Investment Advisory Services	-95	-55	-81	-103
Governance & Compliance	-36	-12	-50	-484
External Audit	17	-22	-20	-21
Actuarial Fees	-142	-7	-36	-114
	-290	**-96**	**-187**	**-722**
Investment Management				
Management Fees	-6,485	-5,934	-5,291	-5,359
Performance Fees	-1,080	-1,405	-525	-917
Transaction Costs	-1,143	-492	-520	-389
Custodian fees	-59	-66	-56	-96
	8,767	**-7,897**	**-6,392**	**-6,761**
Total Operational Expenses	**-9,882**	**-8,833**	**-7,332**	**-8,385**

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

- Transaction costs increased by about 57% due to increased portfolio activities by active fund managers and divestment from the LCIV Ruffer fund.
- Investment management expenses increased mainly due to fund performance and value in the first three quarters of 2019/20 (April 19 – December 19).
- Governance and Oversight costs increased by 67%due to triennial valuation costs incurred during the year,

C: INVESTMENT POLCIY 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 particular 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 taken into account 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 are able to 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 returns from alternative investments during the year are received in the custody account pending reinvestment.

The asset allocation as at 31 March 2020 is as follows:

Asset Category	Opening Value 01 April 2019	Strategic Weighting	Actual Weighting	Closing Value 31 March 2020	Strategic Weighting	Actual Weighting
	£'000	%	%	£'000	%	%
Equities	492,526	44	46	408,483	45	41
DGF	102,701	10	10	55,573	0	6
Bonds	211,512	14	20	230,844	24	23
Property	135,448	12	13	118,060	12	12
Alternatives:						
Private Equity	17,329	2	2	13,645	1	1
Infrastructure	29,133	3	3	27,265	8	3
Private Credit	69,390	10	7	68,777	5	7
Long Lease Property	0	5	0	47,399	5	5
Cash	8,086	0	1	16,068	0	2
Total	**1,066,126**	100	100	**986,114**	100	100

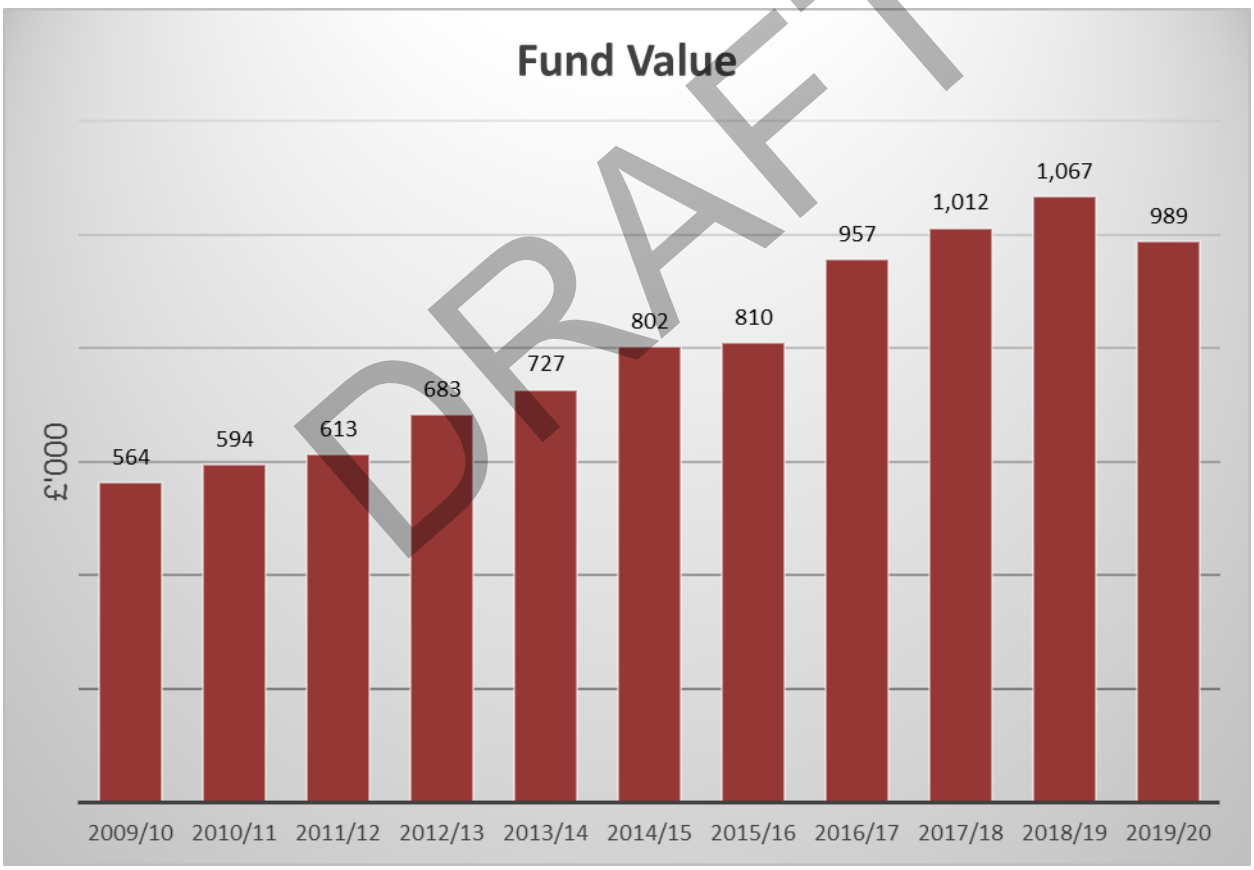
Asset Allocation Variances

The table above shows 6% variances between DGF strategic and actual weightings compared to its strategic allocation. This attributable to asset allocation decisions taken during the year to fund LPI I/L Property portfolio with LGIM and Infrastructure with DGF allocation reduced to zero.

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

Fund Value

The value of the fund has undergone significant increase over the last few years. Most of the gains has been attributable to buoyant world economies and financial markets. Despite the defensive nature of the portfolio the effects of COVID-19 are manifested in the value of fund assets at end of period under review with £78m difference compared to 2018-19 valuation.



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;

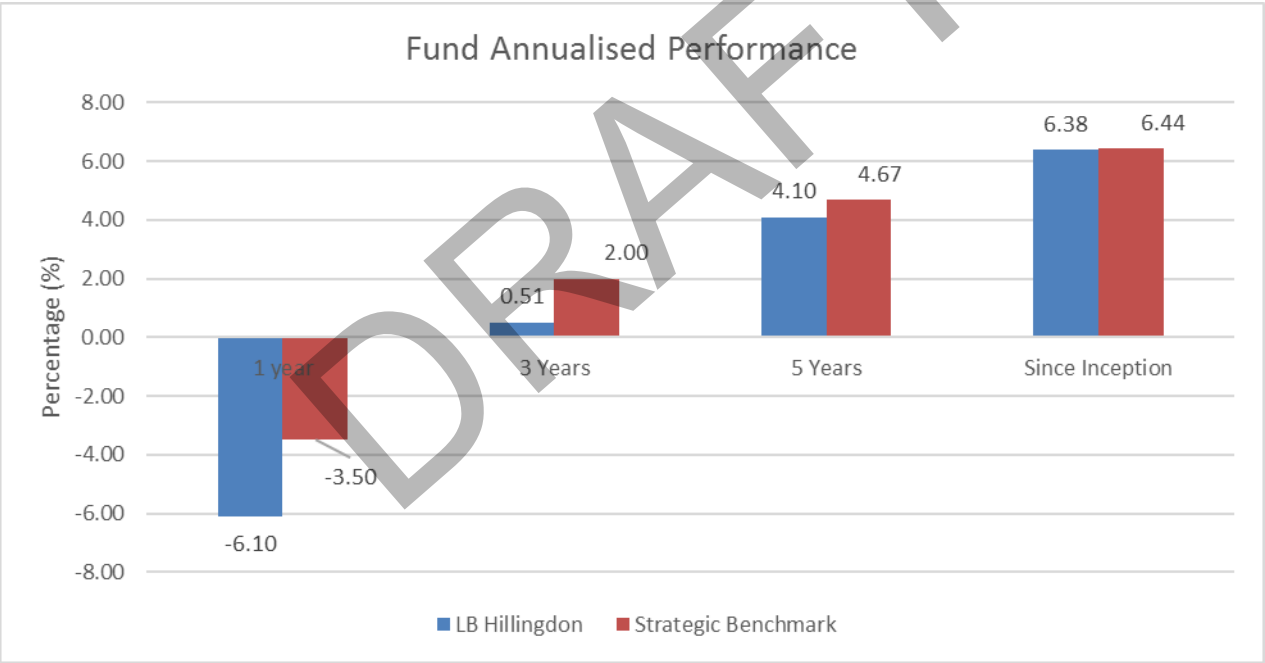
- To take a prudent longer-term view of funding those liabilities

The latest Funding Strategy Statement can accessed via the Pension Fund Web page. file:///C:/Users/Babatundea/Downloads/Funding_Strategy_Statement.pdf

Investment Performance

Overall relative performance of the fund for the year 2019/20 was 2.69% below 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 0.05% behind the benchmark.

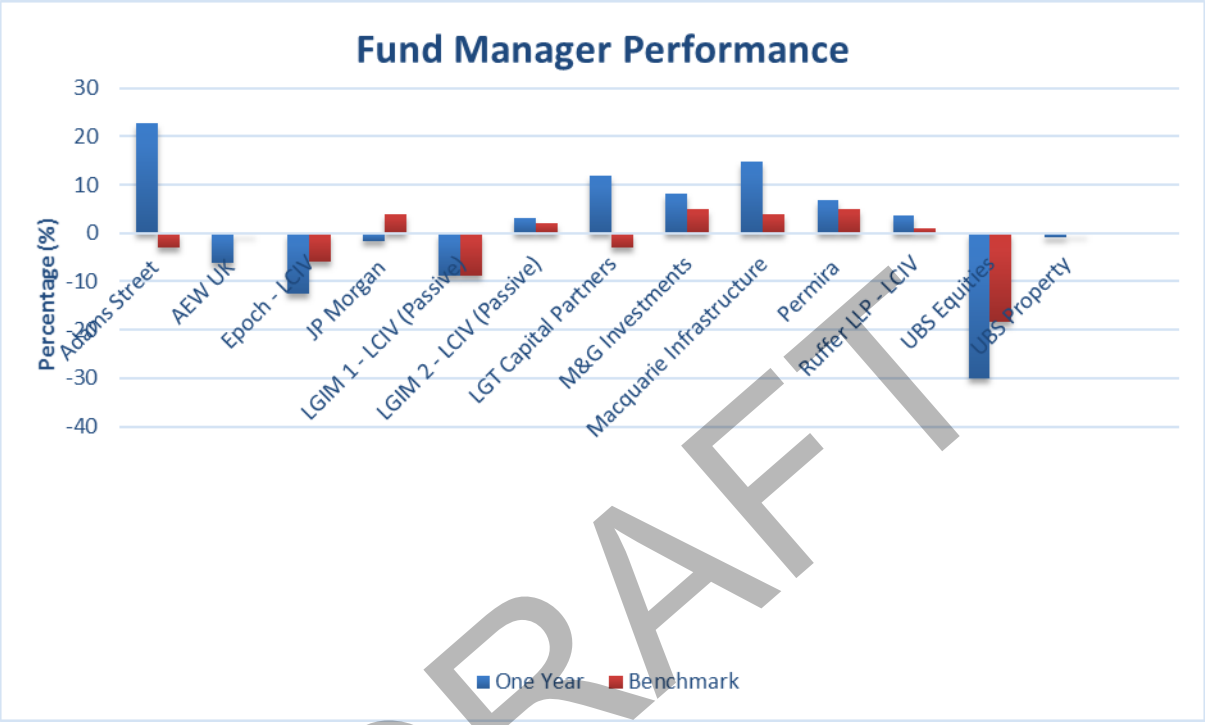


Performance of the Fund is measured against an overall strategic benchmark. Below this, each Fund Manager is given individual performance targets, which are linked to index returns for the assets they manage. Details of these targets can be found in the ISS.

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 Manager Performance 2019/20		
	One Year	Benchmark
	%	%
Adams Street	22.74	-2.89
AEW UK	-6.30	-0.01
Epoch - LCIV	-12.51	-5.83
JP Morgan	-1.67	3.95
LGIM 1 - LCIV (Passive)	-8.81	-8.74
LGIM 2 - LCIV (Passive)	3.14	2.00
LGT Capital Partners	11.87	-2.89
M&G Investments	8.28	4.95
Macquarie Infrastructure	14.67	3.95
Permira	6.81	4.95
Ruffer LLP - LCIV	3.55	0.95
UBS Equities	-30.01	-18.45
UBS Property	-0.92	-0.01

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

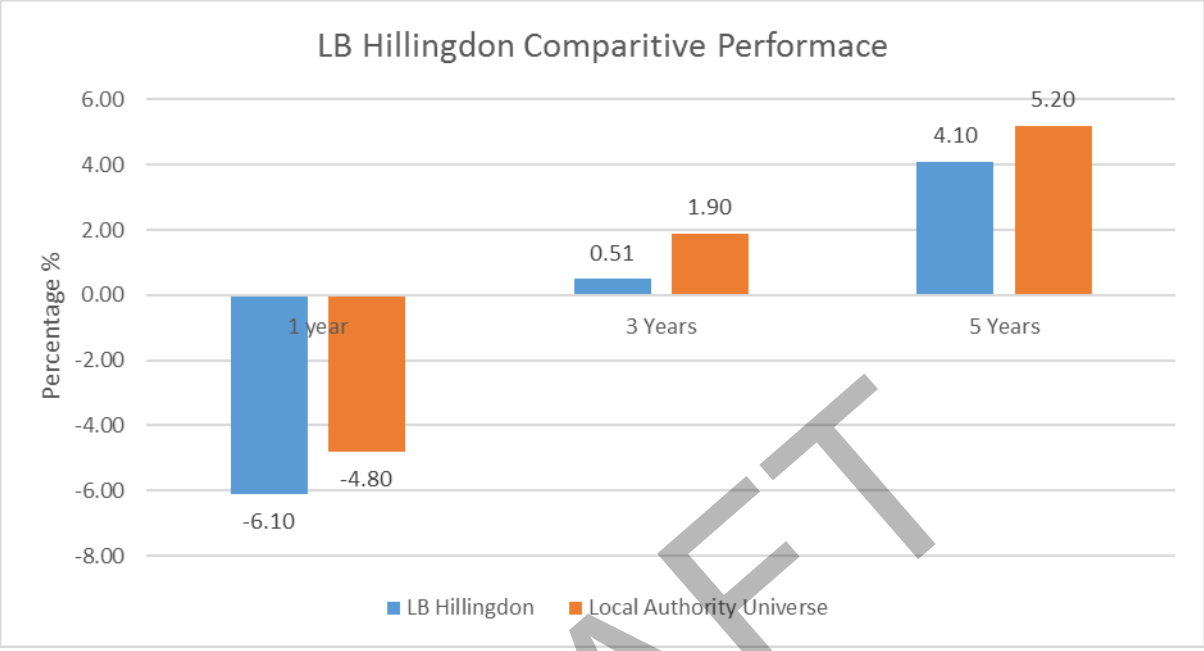
- Targets for active fund mandates are set to out-perform the benchmark by a set percentage through active stock selection and asset allocation. Fund managers with active fund mandates are Adams Street, AEW UK, Epoch, JP Morgan (LCIV), LGT Capital, M&G, Macquarie, Permira, Ruffer (LCIV) UBS Equities and UBS Property
- Targets for passive funds are set to achieve the benchmark through investment in a stable portfolio. Both LGIM mandates are passive.

Historical Fund Managers Performance and Benchmarks				
Benchmark	***One Year***	***Three Years***	***Five Years***	***Benchmark***
	%	*%*	*%*	
Adams Street	22.74	13.34	14.35	MSCI All Countries World Index
AEW UK	-6.3	2.20	4.93	IPD UK PPFI All Balanced Funds Index
Epoch – LCIV*	-12.51	0	0	MSCI World ND
JP Morgan	-1.67	0.97	2.38	LIBOR +3%pa
LGIM 1 - LCIV (Passive)*	-8.81	-0.27	0	FTSE World Developed Equity index Currency Hedged, FTSE World Developed Equity index unHedged, FTSE Emerging Markets
LGIM 2 - LCIV (Passive)*	3.14	4.52	0	Markit iBoxx £ Non-Gilt, FTSE A Govt Index-Linked (All Stocks), FTSE A Govt Index-Linked (Over 15 Year)
LGT Capital Partners	11.87	15.2	18.73	MSCI All Countries World Index
M&G Investments	8.28	4.7	7.1	LIBOR +4%pa
Macquarie Infrastructure	14.67	12.96	16.56	LIBOR +3%pa
Permira	6.81	6.60	8.33	LIBOR +4%pa
Ruffer LLP - LCIV	3.55	0.60	2.31	LIBOR
UBS Equities	-30.01	-9.27	-1.51	FTSE All Share Ex-Tobacco
UBS Property	-0.92	3.87	5.93	IPD UK PPFI All Balanced Funds Index

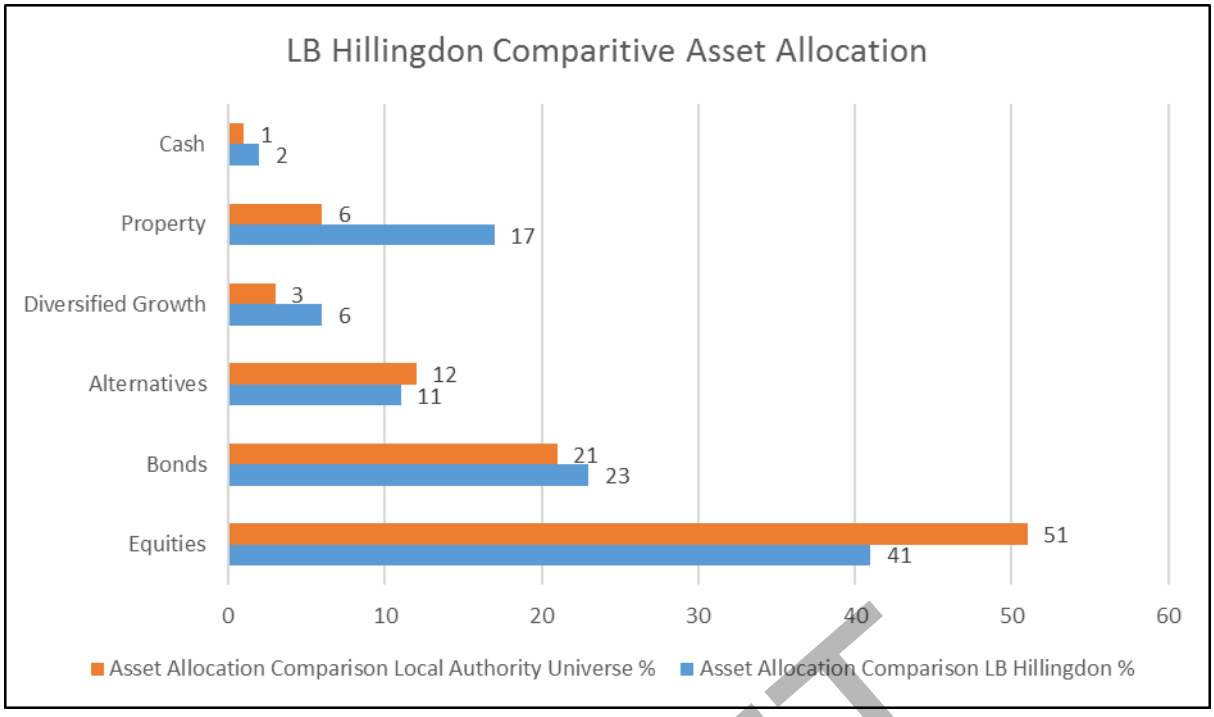
*Pooled Investments with London CIV. Three and five year returns unavailable

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 mainly 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 will have regard to UK foreign policy and UK defence policy when making investment decisions.

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.

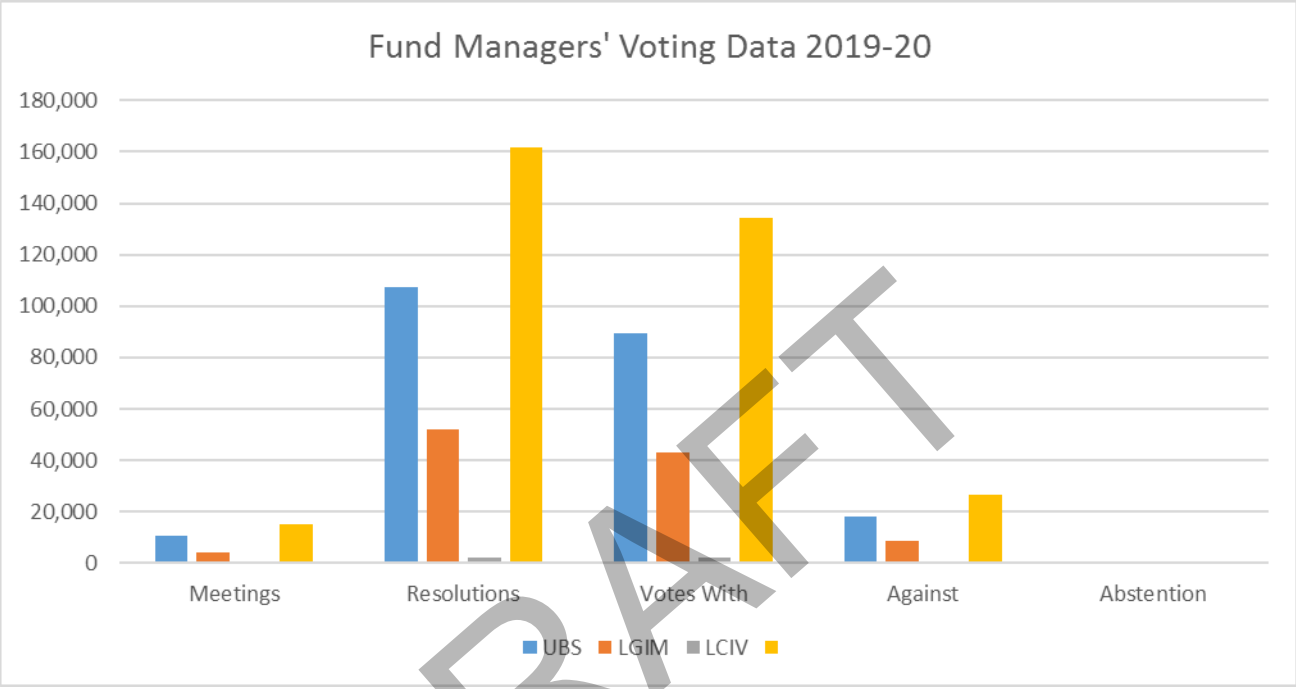
We as a fund appreciates that to gain the attention of companies in addressing governance concerns; collaborating with other investors sharing similar concerns may be an effective tool available to us.

Exercise of voting rights

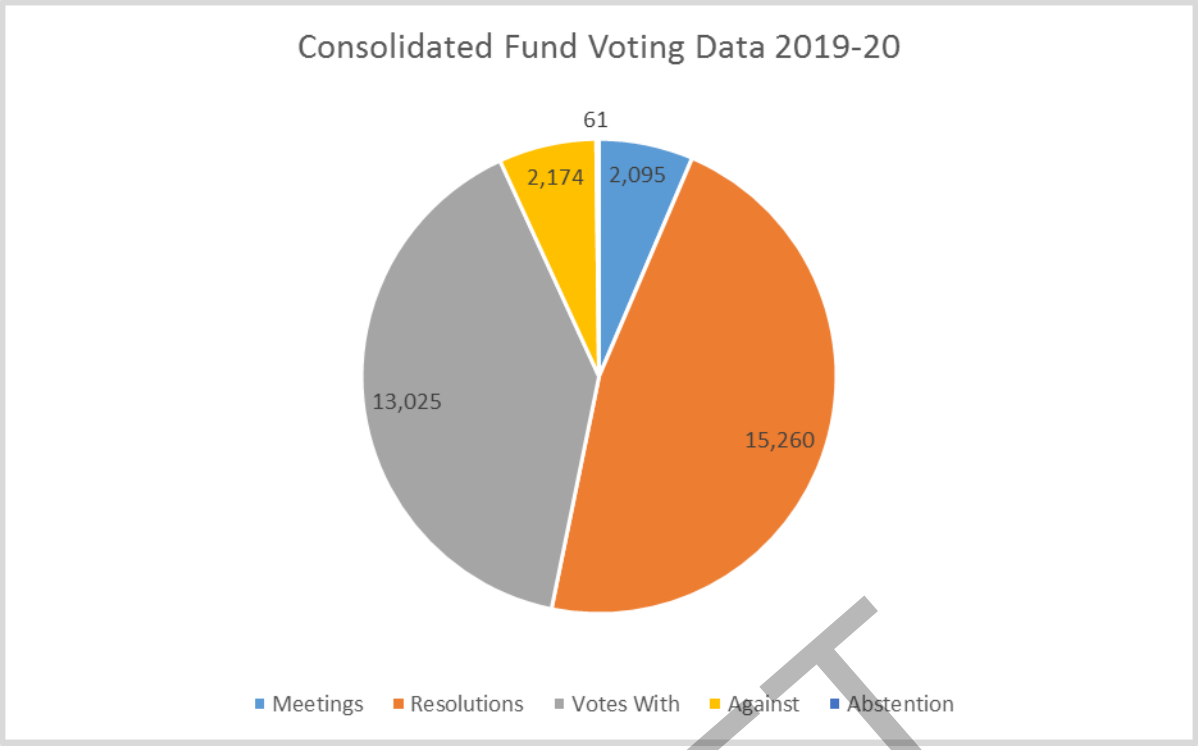
To ensure effective and consistent use of the voting rights, investment managers are tasked with exercising the voting rights accruing to the Fund. If important issues affecting local residents do emanate from actions of invested companies, the

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 Fund complies with the UK Stewardship Code and a statement of compliance that explains the arrangements supporting its commitment to each of the seven Myners principles.



The graph above shows a breakdown of voting activities by fund's investment managers during 2019-20 financial year. UBS Asset Management were the most active in terms of voting activities by attending and voting at 10,641 meetings, more than double the activities of all other managers represented in the chart above. All managers voting activity relates to the managers votes to cast for the funds rather than Hillingdon specific shares. The UBS figures relate to their equities fund that holds a number of companies in addition to those held by Hillingdon.



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 Funds 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 of the Fund's investments. Northern Trust is responsible for the settlement of all investment transactions and the collection of income.

As at the 31st March 2020 the Fund's bank accounts were held with Lloyd's Bank (From the 1st April 2020 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 Scheme 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 Surrey County Council. Surrey are responsible for:

- Administering the LGPS on behalf of London Borough of Hillingdon as an Employing Authority in accordance with relevant legislation and Committee decisions;
- Administering the Council's early retirement arrangements in accordance with relevant legislation and Committee decisions;
- Providing advice to scheme members and external scheme Employers on options available under the Council's Pension Scheme; and
- Exploiting information technology to improve service standards and efficiency.

Surrey 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 Surrey details agreed performance targets and key performance indicators are reviewed quarterly at Pensions Committee and Pensions Board.

PERFORMANCE INDICATORS

The contract with Surrey County Council includes a number of 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	Target	Performance	
		2018/19	2019/20
Death notification acknowledged, recorded and documentation sent	5 working days	83%	95%
Payment of death grant made	10 working days	86%	96%
Retirement notification acknowledged, recorded and documentation sent	10 working days	94%	95%
Payment of lump sum made	10 working days	91%	96%
Calculation of spouses benefits	10 working days	84%	94%
Transfers In - Quotes	20 working days	92%	97%
Transfers In - Payments	20 working days	100%	89%
Transfers Out - Quote	20 working days	87%	89%
Transfers Out - Payments	20 working days	89%	96%

Employer estimates provided	10 working days	94%	91%
Employee projections provided	10 working days	84%	96%
Refunds	20 working days	96%	99%
Deferred benefit notifications	20 working days	88%	80%

Staff shortages and legacy data integrity issues had a negative impact on the performance indicators shown above. However, there have been no delays in processing pension payments and no impact on the accuracy of final calculations made.

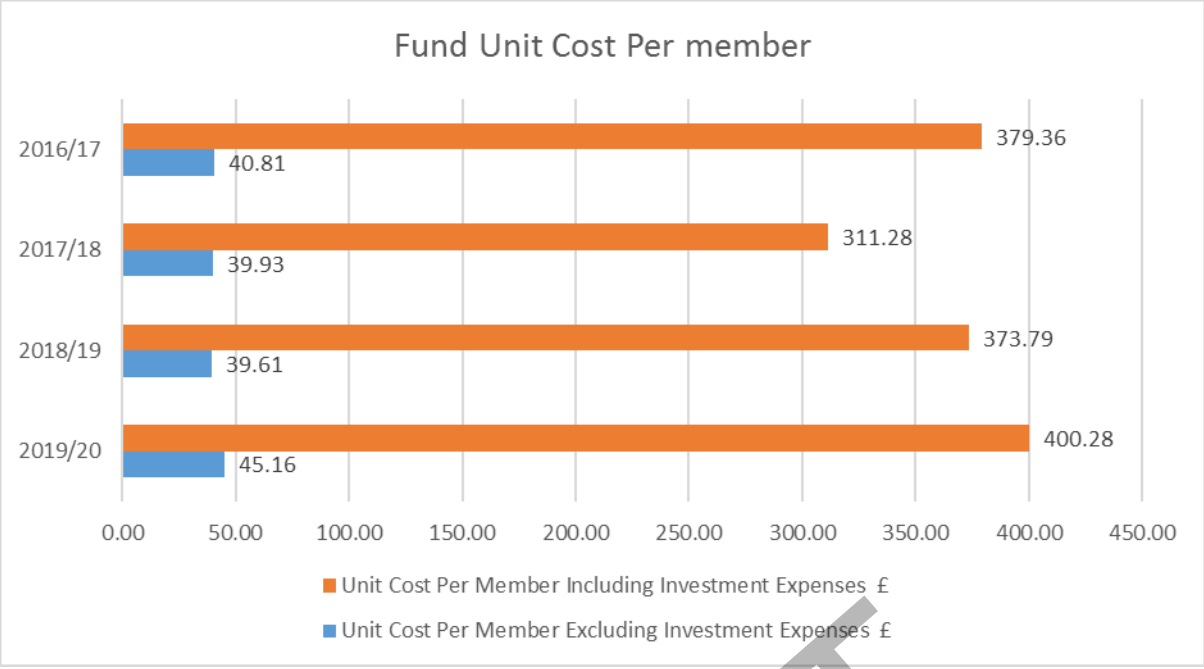
During 2019/20, staffing issues have been addressed with new appointments made to complement the existing work force ensuring improved efficiency and improvement in all areas of performance indicators above.

STAFFING COSTS ANALYSIS

The administration of the fund is outsourced to Surrey County Council run consortium, Orbis, under a Service Level Agreement. Agreed monthly charges are invoiced to cover the administration charges along with any added costs for software licences incurred by Orbis.

1.75 FTE staff are employed by Hillingdon to deal with the added internal administration of fund and liaise with Surrey CC on issues or concerns raised by members.

1.50 FTE staff are employed by the Finance Directorate to oversee the governance and accounting side of the fund.

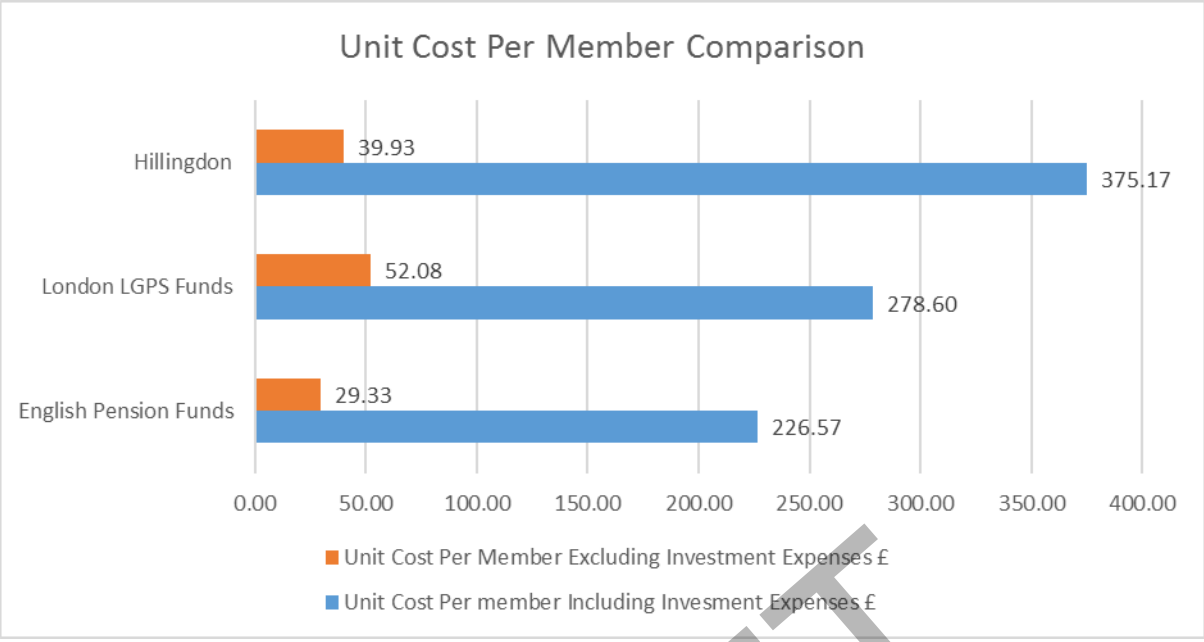


The staffing costs for the fund has increased with membership numbers over the years and the spike in 2016/17 coincided with the change in outsourced administration contract from CAPITA to Surrey County Council run Orbis and the accompanying initial set up and data migration costs contributed largely to the high administration costs recorded during that year.

The increase in administration costs was largely responsible for increased in costs per member from £40 in 2018/19 to £45 per head in 2019/20. The triennial valuation costs incurred significantly affected the membership costs per head.

The cost comparison chart below is the latest comparative figure available from the ONS. At time of publishing this report 2019/20 figures were yet to be released.

Membership costs comparison 2018/19

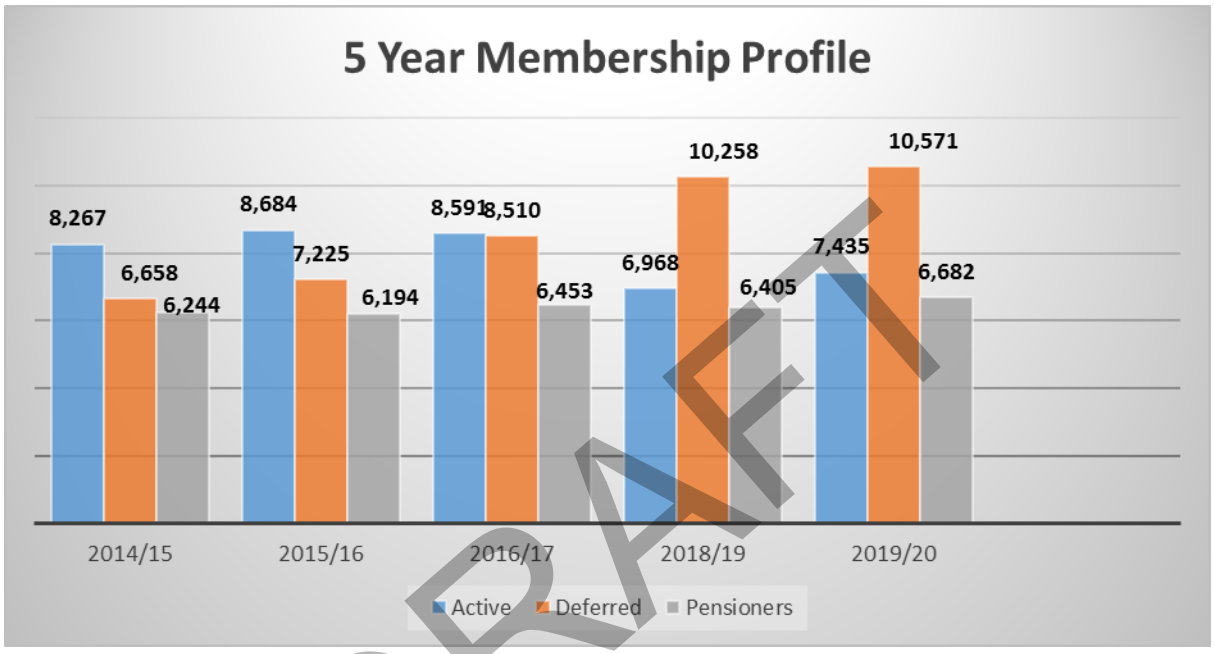


For the year 2018/19, the unit cost per member excluding investment expenses is about 17% higher than the average for Pension Funds in England but less than London Funds' average at £40 per member. The cost per member including Investment management expenses is about £375 per member and comes out higher than most English and London Pension Funds in comparison.

Comparative Figures obtained from ONS SF3 published information for 2018/19.

MEMBERSHIP

Active and deferred membership continued to grow over the last two financial years. The most significant movement year-on-year is the increase in deferred membership by 467 and overall scheme membership increased year-on-year by 5.3% to 23,631 from 24,688 in 2019/20. The membership profile over the last four 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	2015/16	2016/17	2017/18	2018/19	2019/20
Ill-Health Retirement	6	3	8	8	10
Redundancy	19	34	58	39	41
Total	**25**	**37**	**66**	**47**	**51**

COMPLAINTS

The Council's complaints procedure is available to any person who wishes to make a suggestion or complaint 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 or on request. An application at stage one of the process is to the Head of Pensions Treasury and Statutory Accounts, London Borough of Hillingdon.

CONTRIBUTING EMPLOYERS AND CONTRIBUTIONS RECEIVED

Below is a list of the current active contributing employers and the contributions received for 2019/20 (Figures include early retirement and deficit funding contributions).

Employer	Type	Total Contributions	Contribution Rate %
London Borough of Hillingdon	Administering Authority	25,382,011.62	24.1
Barnhill School - ACADEMY	Scheduled Body	221,717.86	24.9
Belmore Primary School - ACADEMY	Scheduled Body	195,771.25	24.1
Bishop Ramsey C Of E School - ACADEMY	Scheduled Body	262,131.15	25.2
Bishopshalt School - ACADEMY	Scheduled Body	315,987.26	28.8
Charville Primary School	Scheduled Body	178,051.95	24.3
Coteford Academy - QED Academy Trust	Scheduled Body	139,204.53	27.1
Cowley St Laurence - LBDS FRAYS ACADEMY	Scheduled Body	134,027.70	24.9
Cranford Park School - Park Federation Academy	Scheduled Body	306,505.94	24.8
Douay Martyrs School - ACADEMY	Scheduled Body	264,255.33	26.9
The Eden Academy (Payroll Staff - Eden Academy Trust)	Scheduled Body	210,065.85	21.7
Grangewood School - EDEN ACADEMY	Scheduled Body	241,531.26	21.7
Global Academy - Heathrow	Scheduled Body	86,471.46	17.3
Guru Nanak Sikh Secondary - Guru Nanak Academy Trust	Scheduled Body	338,072.39	22.4
Harefield ACADEMY	Scheduled Body	185,335.88	22.3
Haydon Secondary School - ACADEMY	Scheduled Body	410,826.01	25.1
Heathrow Aviation (UTC) Alet	Scheduled Body	23,752.55	18.8
Hillingdon Primary School - Elliot Foundation Trust	Scheduled Body	157,766.59	23.5
The Skills Hub - Orchard Hill College Academy Trust	Scheduled Body	82,172.81	29.6

John Locke Academy - Elliot Foundation Trust	Scheduled Body	99,488.82	19.1
Lake Farm Academy - Park Federation Academy	Scheduled Body	145,476.34	18.9
Laurel Lane Primary School	Scheduled Body	133,864.43	24.9
LDBS FRAYS ACADEMY BGC FRAYS TRUST	Scheduled Body	50,480.99	24.9
LHC	Scheduled Body	403,588.06	24.1
Moorcroft Special School - EDEN ACADEMY	Scheduled Body	180,635.69	21.7
NANAKSAR PRIMARY - Guru Nanak Academy Trust	Scheduled Body	53,389.45	20.4
Northwood Academy - QED Academy Trust	Scheduled Body	143,363.21	23.8
Park Federation - Academy (Payroll Staff)	Scheduled Body	73,996.42	24.8
Pentland Field School - Eden Academy	Scheduled Body	293,580.20	21.7
Pinkwell Primary School - Elliot Foundation Trust	Scheduled Body	270,830.48	26.6
Queensmead Secondary School - QED Academy Trust	Scheduled Body	265,948.45	21.8
Rosedale College - Rosedale Hewens Academy Trust	Scheduled Body	362,301.54	23.9
Ruislip Academy	Scheduled Body	246,333.79	25.9
Ryefield ACADEMY - Multi Academy Trust	Scheduled Body	128,809.66	28.9
St Martins Primary School	Scheduled Body	72,390.79	24.9
St Matthews Primary School - LBDS FRAYS ACADEMY	Scheduled Body	92,925.50	24.9
Stockley Academy - (Park West Academy)	Scheduled Body	121,248.76	21
Swakeleys School - ACADEMY	Scheduled Body	207,699.66	23.9
Uxbridge College	Scheduled Body	1,966,762.11	25.4
Uxbridge High School - ACADEMY	Scheduled Body	313,750.64	21.5
Vyners School - Multi Academy Trust	Scheduled Body	232,702.69	25.7
West Drayton Primary School	Scheduled Body	170,803.55	25.5
William Byrd Primary	Scheduled Body	184,151.38	26.6
Willows Special School - ACADEMY	Scheduled Body	68,082.46	32.5
Woodend Park School - Park Federation Academy	Scheduled Body	219,326.22	23
Young Peoples Academy - Orchard Hill Academy College Trust	Scheduled Body	93,055.24	29.6
BRAYBORNE FAC - Bishop Ramsey BISHOP RAMSEY	Admitted Body	10,419.24	34.3
Busy Bee	Admitted Body	1,840.51	32.3
Barnhill Academy - CSE	Admitted Body	4,461.35	30
Caterlink - Frays Academy	Admitted Body	16,550.03	28.3
Caterplus - Genuine Dining	Admitted Body	22,679.22	26
Cleantec (Harlington School)	Admitted Body	7,961.02	35.5
First Choice	Admitted Body	3,927.38	42.1
CUCINA - Ruislip High School	Admitted Body	3,563.54	28
Get Active RSR Sports	Admitted Body	693.52	36
E/N HERTS NHST	Admitted Body	10,834.75	31.5
Hayward Services (Ruislip)	Admitted Body	1,472.45	34.2
Hayward Services (Highfield)	Admitted Body	4,522.64	32.4

Hayward Services (Hillingdon)	Admitted Body	13,457.56	33.4
HEATHROW TRAVEL CARE	Admitted Body	49,926.87	18.9
Hillingdon & Ealing Citizens Advice	Admitted Body	60,563.96	25.2
Kingdom Services	Admitted Body	2,399.60	23.1
Taylor Shaw - Haydon Academy	Admitted Body	14,277.08	34.5
Whiteheath School - Pantry	Admitted Body	2,065.75	32.9
Frithwood & Hillside Schools - Pantry	Admitted Body	2,155.52	31.8
West Drayton Primary - Pabulum	Admitted Body	9,633.97	34.4
Total		**35,974,051.89**	

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).

2019/20	**Active**	**Ceased**	**Total**
Administering Authority	1	0	1
Scheduled Bodies	45	0	45
Admitted Bodies	20	0	20
	66	**0**	**66**

E. REPORT OF THE FUND ACTUARY

London Borough of Hillingdon Pension Fund ("the Fund") Actuarial Statement for 2019/20

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:

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

The 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 75% 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 at 31 March 2019. This valuation revealed that the Fund's assets, which at 31 March 2019 were valued at £1,067 million, were sufficient to meet 87% of the liabilities (i.e. the present value of promised retirement benefits) accrued up to that date. The resulting deficit at the 2019 valuation was £161 million.

Each employer had contribution requirements set at the valuation, with the aim of achieving their funding target within a time horizon and liability measure as per the FSS. Individual employers' contributions for the period 1 April 2020 to 31 March 2023 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 2019 valuation report.

Method

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

Assumptions

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

The key financial assumptions adopted for the 2019 valuation were as follows:

Financial assumptions	31 March 2019
Discount rate	4.0%
Salary increase assumption	2.6%
Benefit increase assumption (CPI)	2.3%

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 2018 model, an allowance for smoothing of recent mortality experience and a long term rate of 1.25% p.a. Based on these assumptions, the average future life expectancies at age 65 are as follows:

	Males	Females
Current Pensioners	22.1 years	24.3 years
Future Pensioners*	22.8 years	25.5 years

*Aged 45 at the 2019 Valuation.

Copies of the 2019 valuation report and Funding Strategy Statement are available on request from the Administering Authority to the Fund.

Experience over the period since 31 March 2019

Markets were disrupted by COVID 19 which resulted in difficult market conditions towards the end of the financial year. As a result, the funding level of the Fund as at 31 March 2020 has reduced versus that reported in the previous formal valuation.

The next actuarial valuation will be carried out as at 31 March 2022. The Funding Strategy Statement will also be reviewed at that time.

Craig Alexander FFA

11 May 2020

For and on behalf of Hymans Robertson

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 2019/20 these were:

Councillor
Martin Goddard
(Chairman)

Councillor
Philip Corthorne
(Vice-Chairman)

Councillor
Teji Barnes

Councillor
Tony Eginton

Councillor
John Morse
(Labour 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 Philip Corthorne	4/4
Cllr Martin Goddard	4/4
Cllr Teji Barnes	4/4
Cllr Tony Eginton	4/4
Cllr John Morse	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 2019/20 were:

Employer Representatives:
Zak Muneer
Hayley Seabrook

Scheme Member Representatives:
Roger Hackett
Tony Noakes

Record of Attendance
Four Meetings were held in 2019/20; April 2019, September 2019, November 2019 and February 2020

Name	Meetings attended
Zak Muneer	4/4
Hayley Seabrook	4/4
Roger Hackett	4/4
Tony Noakes	4/4

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 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.

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 2019/20

	Cllr Goddard (Chair)	Cllr Corthorne	Cllr Eginton	Cllr Morse	Cllr Barnes
Understanding Triennial valuation – Hymans Robertson	Y	Y	Y	Y	Y
Pension Fund Governance Training – by Isio	Y	Y	Y	Y	Y
LCIV Q3 LLA Investment forum	Y	N	N	N	N
LCIV ESG Training	Y	N	N	N	N

Pensions Board

	Hayley Seabrook	Zak Muneer	Roger Hackett	Tony Noakes
Pensions Board Training - Reporting Beaches	Y	Y	Y	Y
Barnett Waddingham & CIPFA LGPS LPB Members' Seminar	Y		Y	Y
Pensions Committee Training, Trienial valutaion		Y	Y	Y
ESG Training - Pension Committee special session		Y		Y
Pensions Board - Discretions	Y	Y	Y	Y
Hymans An objective view on Pooling.			Y	
LGPS Members Spring Seminar – CIPFA & Barnett Waddingham	Y		Y	Y
Training On Myners Principles	Y	Y	Y	Y
Accounts and Audit Regulations Training by Chief Accountant	Y	Y	Y	Y

Further Information can found in Appendix 1 with the full governance and compliance policy for the fund.

In November 2019 the Pensions Board reported to pensions Committee to explain work completed since last report in January 2019.. The report to Committee has been included here.

ANNUAL REPORT TO PENSIONS COMMITTEE ITEM 10

Committee	Local Pension Board
Reporting Officer	Sian Kunert, Finance
Papers with report	None

REASON FOR ITEM

The report is compiled to provide feedback to Pensions Committee on the work undertaken by the Local Pension Board since the last report presented in Pensions Committee in January 2019 and to meet the legislative requirement for producing an annual report.

INFORMATION

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 6th November 2014 to commence with effect from 1st 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 and Attendance at Meetings

The membership of the local Pension Board is:

Employer Representatives:
Hayley Seabrook (Hillingdon Council)
Zak Muneer (LHC)

-

Scheme Member Representatives:

-

Roger Hackett
Tony Noakes

Attendance at meetings has been high, with all members in attendance for all meetings.

Record of Attendance

Name	Feb-19	Apr-19	Sep-19	Nov-19
Zak Muneer	Y	Y	Y	Y
Hayley Seabrook	Y	Y	Y	Y
Roger Hackett	Y	Y	Y	Y
Tony Noakes	Y	Y	Y	Y

AON Hewitt is appointed as Governance advisers to support the development and work of the local Pension Board and attend meetings as necessary.

Training

Relevant external training opportunities are made available to Board Members and have been well supported, in particular with regular attendance at quarterly local board specific training sessions held by CIPFA. Pension Board members also utilise internal training opportunities by attending Pension Committee where a training item starts each meeting as well as during the Pensions Board meetings.

Using CIPFA's Training Needs analysis, specific training needs have been identified, and will continue to be identified, and are built into future training.

Training Courses attended in 2019

	Hayley Seabrook	Zak Muneer	Roger Hackett	Tony Noakes
Roles, Responsibilities & Regulation	Y	Y	Y	
Cyber Security	Y	Y	Y	Y
CIPFA LGPS Local Pension Board Members' Spring Seminar	Y	Y	Y	Y
Inflation and UK I/L Bonds Vs US TIPS	Y			
Reporting Beaches	Y	Y	Y	Y
Triennial valuation		Y	Y	Y
ESG Training		Y		Y

Discretions	Y	Y	Y	Y
Hymans An objective view on Pooling			Y	
CIPFA LGPS Local Pension Board Members' Autumn Seminar	Y		Y	Y

Work of the Local Pension Board

Meetings are held shortly after each Pensions Committee. Each meeting undertakes a review of the most recent Pensions Committee reports and decisions, raising any issues for clarification with officers. To date there have been no issues referred back to Pensions Committee. All committee papers are shared with Board Members who are encouraged to attend committee meetings to fully understand the reports.

In addition to reviewing the governance of Pensions Committee papers and effective decision making the board have a work programme focusing on more administrative issues and governance of the fund with a number of papers presented and discussed at each meeting.

Terms of Reference for the Board:

I. The Pensions Board will be chaired by a member chosen by the group
II. The frequency of the Pensions Board will be determined by the Board.
III. Reports to the Board will either reflect decisions taken by Pensions Committee or be reports for noting already seen by Pensions Committee.
IV. 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;
V. 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.
VI. To secure the effective and efficient governance and administration of the LGPS for the London Borough of Hillingdon Pension Fund.
VII. 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.)

Key Projects

The key work of the Pension Board in the past year have related to understanding changes in regulation, reviewing performance of the administration of the fund and to improve Fund governance and in ensuring compliance with the Pension Regulator's

code of practice by carrying out a refresh to monitor improvements. Pension Board have undertaken some significant pieces over the past year including:

- Lead on the development of a Data Improvement Plan
- Cyber security assurance, controls and response
- Reviewed a number of Policy documents to ensure refreshed and up to date
- Carried out an ongoing rolling refresh against Pension regulator's compliance checklist and agreement of actions for improvement; and
- Monitoring the performance of the Pensions Administration by Surrey County Council.

Summary of work in the year

February

- Cyber Security – Training and Discussion
- Administration update – Data improvement, Auto enrolment, Communications
- tPR Checklist review & focus on A – Reporting and B – Knowledge and Understanding
- Governance within Pooling – Structure and regulation of the London CIV
- Statutory reporting requirements and communications – Statutory Communications, Other communications and methods of communicating
- Review of Pension Committee Reports

April

- Reporting Breaches of Law – Training and Discussion
- Administration update – Resourcing, Data Cleansing, Valuation, report of a breach to the regulator
- Specifics of the LGPS – 85 year rule and 50/50 scheme
- Training Policy revision and Training Needs analysis with training plan
- Risk Management Policy revision
- tPR Checklist review & focus on C – Conflicts of Interest and D – Publishing Information
- Review of Pension Committee Reports

September

- Discretionary Powers - Training and Discussion
- Administration update - Annual Benefit Statements, Annual allowance, Auto enrolment opt outs, returns to tPR and other government bodies, Good governance in the LGPS
- Data Improvement Plan
- Reporting Breaches Policy Review
- Breaches Log
- Administration Strategy Policy Review
- tPR Checklist review & focus on E – managing risk and internal control and H – Providing information to members and others
- Update on Cyber Security controls and data mapping
- Review of Pension Committee Reports

November

- Taxation in Pensions and Myners principles – Training
- Draft annual report from Board to Pensions Committee
- tPR Checklist review & focus I - Internal Dispute Resolution, J – Reporting Breaches of the Law and K – Scheme Advisory Board
- Presentation on Cyber Security Controls and response plan on the Hillingdon network
- Administration update on communications, resourcing
- Data improvement plan revision
- Breaches
- Review of Pension Committee Reports

In understanding governance of the Fund the Pension Board have challenged officers in specific areas of administration and governance arrangements including:

-
- Whether the fund has sufficient resources available,
- Implementation and publicity of self service module for pensioners, actives and deferred members
- Data quality and improvement
- Cash flow
- Annual allowance and Lifetime allowance
- GDPR
- Cyber Security
- ABS production
- Member training
- Review of Pension Committee papers and decision making process

Future Work Plan

The Pensions Board have a future work plan to ensure areas are regularly monitored such as updating policy document and continually considering the management of the amination contract and data quality. In addition the Board have a programme of training to continually increase knowledge and skills and is designed to focus on weaker areas as identified in the training needs analysis updates.

Over the coming year the Board plan to carry out the following work

- Carry out a full independent TPR Code of Practice (CoP) 14 compliance review
- Review the Funding Strategy Statement prior to publication and full sign off by Pensions Committee
- Finalise the amendments to the Administration Strategy prior to publication and full sign off by Pensions Committee
- Communication Policy Review prior to publication and full sign off by Pensions Committee
- Training Update
- Continue to assess the governance over decision making of the Pensions Committee
- Continue to challenge the Data Quality and ensure data is continually improving with a robust Data Improvement Plan in place

- Review the Breaches Log for the fund and consider where areas of weakness may be in the administration of the fund

Training topics in the programme for Boards development

- Accounts and Audit Regulations (relating to internal controls and proper accounting practice)
- Role played by third party assurance providers
- Public sector procurement, specifically procurement within the LGPS
- Pension Fund Governance including SAB

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 2019/20 ('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 at 31st March 2020 and its income and expenditure for the year then ended.

Paul Whaymand
CORPORATE DIRECTOR OF FINANCE

28 October 2020

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 28 July 2020 and 28 October 2020.

I confirm that this Annual Report was considered and approved for publications by Pensions Committee at the meeting held on 28 October 2020.

Cllr Martin Goddard
On behalf of London Borough of Hillingdon Pension Fund
CHAIRMAN (PENSION COMMITTEE)
28 October 2020

Pension Fund Account

PENSION FUND ACCOUNT

	Note	31 March 2020 £'000	31 March 2019 £'000
Contributions	*4*	47,305	43,176
Transfers In from other pension funds	*5*	1,746	1,487
		49,051	**44,663**
Less: Benefits	*6*	(47,188)	(44,016)
Less: Payments to and on account of leavers	*7*	(6,870)	(2,626)
		(54,058)	**(46,642)**
Net additions/(withdrawals) from dealings with members		**(5,007)**	**(1,979)**
Less: Management expenses	*8*	(9,882)	(8,833)
Net additions/(withdrawals) including fund management expenses		**(14,889)**	**(10,812)**
Return on investments			
Investment income	*9*	23,101	22,732
Profit and losses on disposal of investments and changes in market value of investments	*10A*	(86,092)	42,843
Taxes On Income		(48)	(83)
Net return on investments		**(63,039)**	**65,492**
Net Increase/(Decrease) in the fund		**(77,928)**	**54,680**
Net Assets at start of year		**1,066,983**	**1,012,303**
Net Assets at end of year		**989,055**	**1,066,983**

NET ASSETS STATEMENT

		31 March 2020 £'000	31 March 2019 £'000
Investment Assets	*10*	986,131	1,066,215
Investment Liabilities	*10*	(17)	(89)
Total net investments		**986,114**	**1,066,126**
Current Assets	*11*	3,574	1,424
Current Liabilities	*12*	(633)	(567)
Net assets of the fund available to fund benefits at the end of the reporting		**989,055**	**1,066,983**

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.

Paul Whaymand
Director of Finance
29 October 2020

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 early 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:

Braybourne Facilities - Bishop Ramsey Cleaners

Busy Bee - Skills Hub Cleaners

Caterlink - Frays Academy

Caterplus

Cucina - Ruislip High School

CSE – Barnhill Academy

First Choice

Greenwich Leisure

Cleantec - Harlington School Cleaners

Get Active Sports

Taylor Shaw - Haydon Academy Catering

Hayward Services

- Hillingdon School
- Highfield School
- Ruislip School

Heathrow Travel Care

Hillingdon & Ealing Citizens Advice

Kingdom Services

NHS - Michael Sobel House

The Pantry

- Frithwood & Hillside Schools
- Whiteheath Infant & Warrender School

Pabulum - West Drayton 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

Elliot Foundation Trust

- Hillingdon Primary School
- John Locke Academy
- Pinkwell School

Guru Nanak Academy Trust

- Nanak Sar Primary School
- Guru Nanak Sikh Academy

Global Academy

Harefield Academy

Harrow & Uxbridge College

Haydon Academy

Heathrow Aviation Engineering

Notes to the Pension Fund Account

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 (formerly Chantry School)
- Skills HUB (formerly Hillingdon Tuition Centre)

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
- Mellowlane School
- Brookside Primary School

Ruislip High School

Ryefield Primary School

Vyners Academy

Stockley Academy

Swakeleys Academy

Uxbridge Academy

William Byrd School

Willows Academy

Notes to the Pension Fund Account

London Borough of Hillingdon Pension Fund	31 March 2020	31 March 2019
Number of employers with active members	66	65
Number of employees in scheme		
London Borough of Hillingdon	4,839	4,551
Other employers	2,596	2,417
Total	**7,435**	**6,968**
Number of Pensioners		
London Borough of Hillingdon	6,082	6,001
Other employers	600	404
Total	**6,682**	**6,405**
Deferred Pensioners		
London Borough of Hillingdon	7,941	7,906
Other employers	2,630	2,352
Total	**10,571**	**10,258**

Note: To better reflect the underlying membership of the Fund the 2018/19 figures have been updated to reflect the number of specific individual members rather than the number of member records.

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 2020. Employers also pay contributions into the Fund based on triennial funding valuations. The last such valuation was as at 31 March 2019, this covers the three financial years following 2019/20. Currently employer contribution rates range from 17.3% to 34.5% of pensionable pay, as per the 2019 valuation.

d. Investments

The Pension Fund investments are managed externally by fund managers: Adams Street Partners, AEW UK, JP Morgan Asset Management, Legal & General Investment Management, LGT Capital Partners, London CIV, Macquarie Investments, Permira LLP, and UBS Global Asset Management. In addition, there are two direct investments 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 2019-20) and governance is overseen by the Pensions Board (Four meetings in 2019-20). Pensions Committee and Pensions Board consisted of the following members in 2019/20:

Pensions Committee

Cllr Martin Goddard (Chairman)
Cllr Phillip Corthorne (Vice-Chairman)
Cllr Teji Barnes
Cllr Tony Eginton
Cllr John Morse

Pensions Board

Roger Hackett (Employee Representative)
Tony Noakes (Employee Representative)
Zak Muneer (Employer Representative)
Hayley Seabrook (Employer Representative)

Notes to the Pension Fund Account

2. BASIS OF PREPARATION

The accounts have been compiled in accordance to the CIPFA Code of Practice on Local Authority Accounting in the United Kingdom 2019/20, 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 accruals 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 at 31 March 2020.

The accounts do not take into account obligations to pay benefits and pensions that fall due after the reporting date (31 March 2020). 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 accruals 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 accruals 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 2019/20, £76k of such fees is based on estimates (2018/19: £84k). 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 administrating 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. Contributions are accounted for in the period in which they fall due. Normal contributions received during the year are in accordance with the rates and adjustments certificate.

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 actually made and accepted by the recipient. Group transfers are accounted for under the agreement upon which they are made.

Notes to the Pension Fund Account

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 are 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 at 31 March 2020 was £275,145k (£115,893k at 31 March 2019).

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 adjustment in the forthcoming financial year are as follows:

Item	Uncertainties	Effect if actual results differ from assumptions
Private equity	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. LGT Capital Partners Limited is currently in active dialogue with all investment managers regarding the potential impact on private equity portfolios. The fair value principles employed to value the underlying investments and the valuation policy remains unchanged. As recommended by the recent International Private Equity and Venture Capital Valuation ("IPEV") guidelines in response to the Covid-19 crisis, we continue to use the latest valuation available from our investment managers, primarily at 31 December 2019, 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.	The total private equity investments in the financial statements are £13,614k. There is a risk that this investment may be under or overstated in the accounts.
Item	**Uncertainties**	**Effect if actual results differ from assumptions**
Infrastructure - Macquarie Infrastructure Real Assets and LCIV Stepstone	Infrastructure Valuation represents the fair value of investments held at 31 March 2020. 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. 31 March 2020 valuations will be broadly based on a general outlook of a severe COVID-19 related economic impact.	The total infrastructure alternative investments in the financial statements are £27,265k. 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.
Item	**Uncertainties**	**Effect if actual results differ from assumptions**
Private Finance - M&G	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. The manager has confirmed its investments and valuation will not be impacted by Covid-19.	The total private finance investments in the financial statements are £4,674k. 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.

Notes to the Pension Fund Account

Item	Uncertainties	Effect if actual results differ from assumptions
Direct Lending - Permira Credit Solutions	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. As a result of the COVID-19 pandemic, spreads widened and prices fell significantly, and as a result the fair value of the majority of loans in the fund's portfolio have also reduced to below par at 31 March 2020.	The total Private Debt investments in the financial statements are £64,103k. 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.
Item	**Uncertainties**	**Effect if actual results differ from assumptions**
Pooled Property - LGIM LPI, 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 2020 are subject to material uncertainty, due to the unprecedented set of circumstances surrounding the COVID-19 Global Pandemic. Consequently, less certainty and a higher degree of caution should be attached to the reported value.	The total Pooled property investments in the financial statement is £165,448k. There is a risk the investments may be over or under stated in the accounts. These asset class of investments are not openly traded and a lot of unobervable inputs are utilised in the valuation of the assets. These unobservable valuation assumptuons may have a profound effect on the actual pricing at year end thus skew shown valuation the fund accounts.
Item	**Uncertainties**	**Effect if actual results differ from assumptions**
Actuarial present value of promised retirement benefits	Estimation of the net liability to pay pensions depends on a number of complex judgements relating to the discount 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 2020 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 2020 by the fund's actuaries.

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.

Notes to the Pension Fund Account

Sensitivity Analysis

Sensitivity to the assumptions for the year ended 31 March 2020	Approximate % increase to liabilities	Approximate monetary amount (£m)
0.5% p.a. increase in the Pension Increase Rate	9%	134
0.5% p.a. increase in the Salary Increase Rate	1%	9
0.5% p.a. decrease in the Real Discount Rate	9%	144

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 2020 £'000	31 March 2019 £'000
Employees	10,109	9,846
Employers Contributions:		
Normal	30,333	27,465
Deficit Funding	6,863	5,865
	47,305	**43,176**

Deficit Funding: At the actuarial valuation on 31 March 2019 the Fund was 87% funded, with the remaining 13% deficit to be recovered over a period of 20 years.

By authority	31 March 2020 £'000	31 March 2019 £'000
LB Hillingdon	33,793	30,267
Scheduled Bodies	13,174	12,509
Admitted Bodies	338	400
	47,305	**43,176**

5. TRANSFERS IN

	31 March 2020 £'000	31 March 2019 £'000
Individual transfers in from other schemes	1,746	1,487
	1,746	**1,487**

Notes to the Pension Fund Account

6. BENEFITS

By category	31 March 2020 £'000	31 March 2019 £'000
Pensions	(38,846)	(36,423)
Commutations and Lump Sum Retirement Benefits	(7,330)	(6,750)
Lump Sum Death Benefits	(1,012)	(843)
	(47,188)	**(44,016)**

By authority	31 March 2020 £'000	31 March 2019 £'000
LB Hillingdon	(42,567)	(40,973)
Scheduled Bodies	(4,246)	(2,579)
Admitted Bodies	(375)	(464)
	(47,188)	**(44,016)**

7. PAYMENTS TO AND ON ACCOUNT OF LEAVERS

	31 March 2020 £'000	31 March 2019 £'000
Refunds to members leaving service	(103)	(79)
Individual transfers out to other schemes	(6,767)	(2,547)
	(6,870)	**(2,626)**

8. MANAGEMENT EXPENSES

The administering authority incurred costs in managing the Fund for the period ending 31 March 2020 as follows:

	31 March 2020 £'000	31 March 2019 £'000
Administrative Costs	(825)	(840)
Investment Management Expenses	(8,767)	(7,897)
Oversight and Governance	(290)	(96)
	(9,882)	**(8,833)**

* Oversight and Governance expenses for 19-20 have increased due to triennial valuation and other fund reviews associated with the exercise.

8A. INVESTMENT MANAGEMENT EXPENSES BREAKDOWN

	31 March 2020 £'000	31 March 2019 £'000
Management Fees	(5,932)	(5,934)
Performance Related Fees	(780)	(1,405)
Custody Fees	(59)	(66)
Transaction Costs	(1,996)	(492)
	(8,767)	**(7,897)**

Notes to the Pension Fund Account

8B. TRANSACTION COSTS ANALYSIS BY ASSET CLASS

	31 March 2020 £'000	31 March 2019 £'000
Equities	(112)	(28)
Pooled Investments	(1,884)	(464)
	(1,996)	**(492)**

8C. EXTERNAL AUDIT COSTS

	31 March 2020 £'000	31 March 2019 £'000
Payable in Respect of External Audit	(22)	(22)
	(22)	**(22)**

External Audit costs are included in Oversight and Governance within Management Expenses

9. INVESTMENT INCOME

	31 March 2020 £'000	31 March 2019 £'000
Income from Equities	5,810	6,254
Pooled Property Investments	6,452	4,713
Pooled Investments- Unit trusts and other managed funds	10,362	11,266
Interest on cash deposits	119	110
Other (for example from stock lending or underwriting)	358	389
	23,101	**22,732**

10. INVESTMENTS

	31 March 2020 £'000	31 March 2019 £'000
Investment Assets		
Equities	84,471	128,054
Pooled investments	706,512	774,129
Pooled property investments	165,448	135,049
Private equity	13,614	17,329
Other Investment balances		
Cash deposits	15,520	10,472
Investment income due	502	1,183
Sales Settlements Outstanding	64	0
Total investment assets	**986,131**	**1,066,215**
Investment liabilities		
Derivative contracts:		
Purchase Settlements Outstanding	(17)	(89)
Total investment liabilities	**(17)**	**(89)**
Net investment assets	**986,114**	**1,066,126**

Notes to the Pension Fund Account

10A. RECONCILIATION OF MOVEMENTS IN INVESTMENTS AND DERIVATIVES

2019/20	Value 1 April 2019 £'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 2020 £'000
Equities	128,054	14,695	(14,825)	(43,453)	84,471
Pooled Investments	774,128	117,948	(152,591)	(32,973)	706,512
Pooled Property Investments	135,049	103,606	(55,878)	(17,329)	165,448
Private Equity	17,329	105	(4,265)	445	13,614
	1,054,560	**236,354**	**(227,559)**	**(93,310)**	**970,045**
	1,054,560	**236,354**	**(227,559)**	**(93,310)**	**970,045**
Other investment balances					
Cash Deposits	10,472			207	15,520
Investment Income Due	1,183				502
Outstanding Sales					64
Adjustments to Market Value Changes				7,011	
Total Investment Assets	**1,066,215**			**(86,092)**	**986,131**

2018/19	Value 1 April 2018 £'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 2019 £'000
Equities	128,306	14,362	(11,745)	(2,869)	128,054
Pooled Investments	679,908	490,071	(428,161)	32,310	774,129
Pooled Property Investments	127,808	5,109	(1,288)	3,421	135,049
Private Equity	20,091	201	(6,512)	3,549	17,329
	956,113	**509,743**	**(447,707)**	**36,411**	**1,054,560**
Other investment balances					
Cash Deposits	53,558			323	10,472
Investment Income Due	757				1,183
Adjustments to Market Value Changes				6,109	
Total Investment Assets	**1,010,428**			**42,843**	**1,066,215**

Outstanding trade of settlements (liabilities) are not included in the above reconciliation.

Notes to the Pension Fund Account

10B. ANALYSIS OF INVESTMENTS

	31 March 2020 £'000	31 March 2019 £'000
Equities		
UK		
Quoted	84,471	128,054
	84,471	**128,054**
Pooled funds - additional analysis		
UK		
Fixed income unit trust - Quoted	89,137	82,707
Other Unit trusts - Quoted	184,318	249,858
Unitised insurance policies - Quoted	336,973	343,000
Limited liability partnerships - Unquoted	96,084	98,564
	706,512	**774,129**
Pooled property Investments - Unquoted	165,448	135,049
Private equity - Unquoted	13,614	17,329
Cash deposits	15,520	10,472
Investment income due	502	1,183
Sales Settlements Outstanding	64	0
	195,148	**164,032**
Total investment assets	**986,131**	**1,066,215**
Investment liabilities		
Purchase Settlements Outstanding	(17)	(89)
Total investment liabilities	(17)	(89)
Net investment assets	**986,114**	**1,066,126**

10C. INVESTMENTS ANALYSED BY FUND MANAGER

Fund Manager	Market Value 31 March 2020 £'000	%	Market Value 31 March 2019 £'000	%
Investments Managed by London CIV Pool				
Legal & General Investment Management	384,373	39	343,000	32
London CIV Asset Pool	184,884	19	249,858	24
	569,257	58	592,858	56
Investments Managed Outside of London CIV				
Adams Street Partners	9,909	1	12,654	1
AEW UK	50,774	5	58,927	6
JP Morgan Asset Management	89,137	9	82,707	8
LGT Capital Partners	3,705	0	4,675	0
M&G Investments	4,674	0	7,956	1
Macquarie Infrastructure	26,699	3	29,133	3
Permira Credit Solutions	64,103	7	61,434	6
UBS Global Asset Management (Equities)	86,948	9	131,174	12
UBS Global Asset Management (Property)	67,517	7	76,521	7
Other*	13,391	1	8,086	1
	416,857	42	473,268	44
Total	**986,114**	**100**	**1,066,126**	**100**

* 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

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 £3,572k (31 March 2019: £17,125k). 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 £3,804k (31 March 2019: £18,428k) 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 2020 £'000	31 March 2019 £'000
Debtors		
Employers' contributions due	51	68
Employees' contributions due	13	17
Cash balances	3,510	1,339
	3,574	**1,424**

12. CURRENT LIABILITIES

	31 March 2020 £'000	31 March 2019 £'000
Creditors		
Other local authorities (LB Hillingdon)	(172)	(223)
Other entities	(461)	(344)
	(633)	**(567)**

Note: Other entities liabilities are due from the Pension Fund to bodies external to the government e.g. fund managers.

13. ADDITIONAL VOLUNTARY CONTRIBUTIONS

	Market Value 31 March 2020 £'000	Market Value 31 March 2019 £'000
Prudential Assurance Company	5,249	5,086
	5,249	**5,086**

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, £168k was received in additional voluntary contributions by members, £220k in 2018/19. Any transfer of additional contributions into the Fund during the year are included in the employee contributions value as detailed in note 4.

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
Pooled Property investments	Level 3	Fair value in accordance with the RICS valuation - professional standards	Nav/Fair value-based pricing derived using recent market transactions on arm's length terms, where available	Valuations could be affected by material events occurring between the date of the financial statements provided and the pension fund's own reporting date,
Unquoted equity	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.

Sensitivity of assets valued at level 3

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 at 31 March 2020.
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).

	Valuation range (+/-)	Market Value 31 March 2020 £'000	Value on Increase £'000	Value on Decrease £'000
Pooled investments - Limited Liability Partnerships (Infrastructure) a	10%	27,265	29,992	24,539
Pooled investments - Limited Liability Partnerships (Private Credit) b	10%	68,777	75,655	61,899
Pooled Property - UBS, AEW & LGIM ©	10%	165,448	181,993	148,903
Private Equity - d	5%	13,614	14,295	12,933
Venture Capital	5%	41	43	39
Total		**275,145**	**301,977**	**248,313**

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.

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 2020	Quoted Market Price	Using Observable Inputs	With Significant Unobservable Inputs	
	Level 1 £'000	Level 2 £'000	Level 3 £'000	Total £'000
Financial Assets at Fair Value through Profit and Loss	84,471	610,429	275,145	970,045
Loans and Receivables	16,086	0	0	16,086
Financial Liabilities at Fair Value through Profit and Loss	(17)	0	0	(17)
Net investment Assets	**100,540**	**610,429**	**275,145**	**986,114**

Values as at 31 March 2019	Quoted Market Price	Using Observable Inputs	With Significant Unobservable Inputs	
	Level 1 £'000	Level 2 £'000	Level 3 £'000	Total £'000
Financial Assets at Fair Value through Profit and Loss	128,054	810,613	115,893	1,054,560
Loans and Receivables	11,655	0	0	11,655
Financial Liabilities at Fair Value through Profit and Loss	(89)	0	0	(89)
Net investment Assets	**139,620**	**810,613**	**115,893**	**1,066,126**

14B. RESTATEMENT OF VALUATION HIERARCHIES

There were no restatements of valuations between hierarchies in 2019/20.

14C. RECONCILIATION OF FAIR VALUE MEASUREMENTS WITHIN LEVEL 3

Level 3 Assets Reconciliation

	Value 1 April 2019	Transfers Into Level 3	Purchases at cost	Sales proceeds	Unrealised gains/(losses)	Realised gains/(losses)	Value 31 March 2020
	£'000	£'000	£'000	£'000	£'000	£'000	£'000
Private Equity - Adams Street Partners, LGT Capital Partners & UBS	17,329		105	(4,265)	(2,147)	2,592	13,614
Private Finance - M&G	7,956		0	(4,352)	(537)	1,606	4,674
Infrastructure - Maquarie & LCIV	29,133		643	(3,613)	(935)	2,037	27,265
Venture Capital - UBS	41		0	0	0	0	41
Property - UBS Property, AEW UK & LGIM LPI	0	130,308	103,607	(55,878)	(15,305)	2,716	165,448
Direct Lending - Permira	61,434		844	(1,306)	3,131	0	64,103
Total Level 3 Assets	**115,893**	**130,308**	**105,199**	**(69,414)**	**(15,793)**	**8,951**	**275,145**

There were two transfers into level 3 assets in 2019/20. AEW UK Ltd and UBS Property assets were transferred to Level 3, effective 31 March 2020 after discussions with the fund managers and the effects of COVID-19, valuation of assets by both managers were subject to material uncertainty following their independent valuer's determination of material valuation uncertainty as directed by the Royal Institute of Chartered Surveyors (RICS). Consequently, less certainty and a higher degree of caution was attached to the assets valuation, thus introducing unobservable inputs to the valuation of these assets. This resulted in a review of the hierarchical classification and subsequent moving of AEW & UBS Property assets from Level 2 to Level 3. LGIM LPI is classified as level 3 due to the same reason alluded to in moving both UBS Property & AEW UK to Level 3 from Level 2.

14D. 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.

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.
- 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 of 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 in order 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 taken into account for valuation purposes.

Narrative and Quantitative description of sensitivity to changes in valuation methods and market conditions:

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.

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.

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.

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 2020 £'000	31 March 2020 £'000	31 March 2020 £'000	31 March 2020 £'000	31 March 2019 £'000	31 March 2019 £'000	31 March 2019 £'000	31 March 2019 £'000
Financial Assets								
Equities	84,471		0	84,471	128,054	0	0	128,054
Pooled Investments	706,512		0	706,512	774,129	0	0	774,129
Pooled property investments	165,448		0	165,448	135,049	0	0	135,049
Private Equity	13,614		0	13,614	17,329	0	0	17,329
Cash	0	15,520	0	15,520	0	10,472	0	10,472
Other Investment balances	0	566	0	566	0	1,183	0	1,183
	970,045	**16,086**	**0**	**986,131**	**1,054,560**	**11,655**	**0**	**1,066,215**
Financial Liabilities								
Purchase Settlements Outstanding	0	0	(17)	(17)	0	0	(89)	(89)
	0	**0**	**(17)**	**(17)**	**0**	**0**	**(89)**	**(89)**
Total	**970,045**	**16,086**	**(17)**	**986,114**	**1,054,560**	**11,655**	**(89)**	**1,066,126**

15A. NET GAINS AND LOSSES ON FINANCIAL INSTRUMENTS

	31 March 2020 £000's	31 March 2019 £000's
Financial Assets		
Designated at Fair Value through profit and loss	(86,093)	42,843
	(86,093)	**42,843**

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.

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 2020 £'000	Percentage Change %	Value on Increase £'000	Value on Decrease £'000
Global Equity	379,584	12.00%	425,134	334,034
UK Equity	84,471	18.00%	99,676	69,266
Bonds	230,845	6.00%	244,696	216,994
Alternatives	109,697	2.80%	112,769	106,625
Property	165,448	4.70%	173,224	157,672
Total	**970,045**		**1,055,498**	**884,592**

Note: Bonds valuation in the table above includes pooled fund held bonds.

Asset Type	Value as at 31 March 2019 £'000	Percentage Change %	Value on Increase £'000	Value on Decrease £'000
Global Equity	464,052	9.60%	508,601	419,503
UK Equity	128,054	9.60%	140,347	115,760
Bonds	211,512	6.70%	225,683	197,341
Alternatives	115,893	3.70%	120,181	111,605
Property	135,049	5.20%	142,072	128,026
Total	**1,054,560**		**1,136,884**	**972,236**

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 at 31 March 2020 and 31 March 2019 is set out below. These disclosures present interest rate risk based on the underlying financial assets at fair value.

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 100 basis points (1%) 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 2020	Potential movement on 1% change in interest rates	Value on increase	Value on decrease
Assets exposed to interest rate risks	**£'000**	**£'000**	**£'000**	**£'000**
Cash balances	15,520	155	15,675	15,365
Bonds - pooled funds	230,845	2,308	233,153	228,537
Total change in assets available	**246,365**	**2,464**	**248,829**	**243,901**

	Value as at 31 March 2019	Potential movement on 1% change in interest rates	Value on increase	Value on decrease
Assets exposed to interest rate risks	**£'000**	**£'000**	**£'000**	**£'000**
Cash balances	10,472	105	10,577	10,367
Bonds - pooled funds	211,512	2,115	213,627	209,397
Total change in assets available	**221,984**	**2,220**	**224,204**	**219,764**

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 at 31 March 2020, 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 at 31 March 2020 and as at the previous period ending 31 March 2019.

Currency exposure by asset type

	Asset Value 31 March 2020	Asset Value 31 March 2019
	£'000	**£'000**
Pooled Funds	195,267	214,196
Private Equity/Infrastructure	40,879	46,462
	236,146	**260,658**

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 7.40%, based on the data provided by PIRC. A 7.40% 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 7.40% 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:

Notes to the Pension Fund Account

Assets exposed to currency risk	Asset Value 31 March 2020	Potential market movement	Value on increase	Value on decrease
		7.40%		
	£'000	£'000	£'000	£'000
Pooled Funds	195,267	14,450	209,717	180,817
Private Equity/Infrastructure	40,879	3,025	43,904	37,854
	236,146	**17,475**	**253,621**	**218,672**

Assets exposed to currency risk	Asset Value 31 March 2019	Potential market movement	Value on increase	Value on decrease
		7.30%		
	£'000	£'000	£'000	£'000
Pooled Funds	214,196	15,636	229,832	198,560
Private Equity/Infrastructure	46,462	3,392	49,854	43,070
	260,658	**19,028**	**279,686**	**241,630**

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, with the exception of 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 Lloyds Plc, which holds an S&P long-term credit rating of A. Deposits are placed in the AAAf 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 at 31 March 2020 was £19,076k (31 March 2019: £11,811k) and this was held with the following institutions:

Summary	Rating S&P	Balances as at 31 March 2020 £'000	Rating S&P	Balances as at 31 March 2019 £'000
Money market funds				
Northern Trust	AAAf S1+	15,720	AAAf S1+	10,672
Bank current accounts				
Lloyds	A+	3,310	A+	1,139
Total		**19,030**		**11,811**

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 Lloyds as well as Money Market Funds to which it has instant access to cover the payment of benefits and other lump sum payments (£3,310k). 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 at the 31 March 2020 these assets totalled £694,900k, with a further £15,766k 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.

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 at 31 March 2019 setting rates for the period April 2020 to March 2023. The next triennial valuation will take place as at 31 March 2022.

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 Tax payer 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 2019 actuarial valuation, the Fund was assessed as 87% funded (75% at the March 2016 valuation). This corresponded to a deficit of £161m (2016 valuation: £269m) at that time. The slight improvement in funding position between 2016 and 2019 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 been 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).

Significant events
The figures in this report are based on our understanding of the benefit structure of the LGPS in England and Wales as at 31 March 2019. Details can be found at http://www.lgpsregs.org/.

McCloud ruling
The LGPS benefit structure is currently under review following the Government's loss of the right to appeal the McCloud and other similar court cases. At the time of writing, the format and scope of any benefit changes in light of the McCloud ruling is still unknown. In line with the advice issued by the Scheme Advisory Board in May 2019, the following allowance has been made at the valuation for the McCloud ruling:

• Employer contribution rates: additional prudence in funding plans via an increase in the likelihood of success (step 3) when setting contribution rates;
• Measurement of funding position at 31 March 2019: no allowance.

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 (%)	Secondary Rate (£)		
1 April 2020 - 31 March 2023	2020/21	2021/22	2022/23
20.20%	£5,313,000	£5,451,000	£5,592,000

The Primary rate above includes an allowance for administration expenses of 0.8% of pay. The employee average contribution rate is 6.5% of pay.
At the previous formal valuation at 31 March 2016, 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:

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 at 31 March 2019 (alongside those adopted at the previous valuation for comparison) are shown below.

Description	31 March 2019	31 March 2016
Funding Basis Discount Rate	4.0%	4.0%
Benefit Increases (CPI)	2.3%	2.1%
Salaries Increases	2.6%	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 2019	31 March 2016
Male			
	Pensioners	22.1 years	22.6 years
	Non- Pensioners	22.8 years	24.0 years
Female			
	Pensioners	24.3 years	24.6 years
	Non- Pensioners	25.5 years	26.5 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 at 31 March 2020 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.

Description	31 March 2020 % per annum	31 March 2019 % per annum
Inflation /Pensions Increase Rate	1.9%	2.5%
Salary Increase Rate	2.2%	2.9%
Discount Rate	2.3%	2.4%

An IAS 19 valuation was carried out for the Fund as at 31 March 2020 by Hymans Robertson with the following results:

Description	31 March 2020 £m	31 March 2019 £m
Present Value of Promised Retirement Benefits	1,569	1703*
Active Members	503	753
Deferred Members	422	380
Pensioners	644	570

*****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 at 31 March 2020 have been projected using a roll forward approximation from the latest formal funding valuation as at 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 at 31 March 2020 (and 31 March 2019) 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.

Notes to the Pension Fund Account

Net Liability

The table below shows the total net liability of the Fund as at 31 March 2020. 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	31 March 2020 £m	31 March 2019 £m
Present Value of Promised Retirement Benefits	(1569)	(1703)
Fair Value of Scheme Assets (bid value)	989	1067
Net Liability	**(580)**	**(636)**

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 2019/20) 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 at 31 March 2019 reported a funding level of 87%. Currently, contributions and investment income are sufficient to fund benefits as they fall due without the need to liquidate investments. A recent review undertaken in response to the COVID-19 effects as at 31st March 2020 determined that there was no material risk to the Fund of employers defaulting on their contributions. If a need to obtain liquidity arises, approximately 72% of the Fund's assets are held in liquid investments. LGPS regulations remain in force with no expectation that the scheme will be wound up or substantive changes made to it.

19. 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. 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.

Governance
There are three members of the Pension Fund Committee who are deferred or retired members of the Pension Fund. Cllr Philip Corthorne (Vice-Chairman), a deferred member; Cllr Tony Eginton, a retired member and Cllr Teji Barnes, a deferred member. Each member is required to declare their interest at each meeting.

Key Management Personnel
Two 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 and the Head of Pensions, Treasury and Statutory Accounts (Up to 26 December 19). Total remuneration payable to key management personnel is set out below:

	31 March 2020 £'000	31 March 2019 £'000
Short term benefits	64	74
Post employment benefits	78	75
	142	**149**

* Post-employment benefits for 2018/19 updated for consistency

Notes to the Pension Fund Account

The Pensions Committee of the London Borough of Hillingdon Pension Fund ("the Fund") has prepared an Investment Strategy Statement (ISS) in accordance with the DCLG 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 and included in the Annual Report.

20. BULK TRANSFER

There were no bulk transfers in 2019-20.

21. CONTINGENT LIABILITIES AND CONTRACTUAL COMMITMENTS

Outstanding capital commitments (investments) as at 31 March 2020 totalled £65,687k (£10,305k at 31 March 2019).

These commitments relate to outstanding call payments due on unquoted limited partnership funds held in the Private Equity, Infrastructure and Credit Solutions (Permira) 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. The big increase is due to new commitments of £55m to LCIV Infrastructure Fund of which £567k has been drawn-down.

There were no contingent liabilities outstanding for the Fund at the end of the financial year 2019/20.

22. CONTINGENT ASSETS

Two 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.

23. POST BALANCE SHEET EVENTS

As a result of COVID-19 the market value of investments has been volatile with large fluctuations in asset prices. The Fund has a 20 year funding strategy designed to accommodate volatility, periods of market stress and other factors. It is well placed to deal with an event such as COVID-19. The governance structure around the Fund ensures that investment, administration and other risks are constantly monitored and where necessary remedial action can be taken. No impacts are expected on pension payments.

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 pay 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 remain 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 2019/20 the London CIV had the following sub funds available for Hillingdon to invest.

Fund Name	Manager	Launch Date
UK Equities		
LCIV MJ UK Equity Fund	Majedie Asset Management	18-May-17
Global Equities		
LCIV EP Income Equity Fund	Epoch Investment Partners	08-Nov-17
LCIV Global Alpha Growth Fund	Baillie Gifford & Co	11-Apr-16
LCIV Global Equity Alpha Fund	Allianz Global Investors GMBH	02-Dec-15
LCIV LV Global Equity Fund	Longview Partners	17-Jul-17
LCIV NW Global Equity Fund	Newton Investment Management	22-May-17
Emerging Market Equities		
LCIV HN Emerging Market Equity Fund	Henderson Global Investors Limited	11-Jan-18
Multi-Asset		
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

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 £593m at 31 March 2019 accounting for 55.8% of total assets of the Pension Fund. Holdings within the pool were within Ruffer (Multi Asset, Absolute Return Fund) and Epoch (Global Equity Income Fund) on the LCIV platform and LGIM Passive mandate.

As at the 31 March 2020 the London CIV had the following sub funds available for Hillingdon to invest

Fund Name	Manager	Launch Date
Global Equities		
LCIV EP Income Equity Fund	Epoch Investment Partners	08-Nov-17
LCIV Global Alpha Growth Fund	Baillie Gifford & Co	11-Apr-16
LCIV Global Equity Alpha Fund	Allianz Global Investors GMBH	02-Dec-15
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
Emerging Market Equities		
LCIV HN Emerging Market Equity Fund	Henderson Global Investors Limited	11-Jan-18
Multi-Asset		
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
Fixed Income		
LCIV Global Bonds Fund	London CIV	30-Nov-18
LCIV MAC Fund	CQS	31-May-18

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 £569m at 31 March 2020, accounting for almost 57.6% of total assets of the Pension Fund. This was invested in Ruffer (Multi Asset) and Epoch (Global Equity) on the LCIV platform and LGIM Passive.

Pooled assets

Sub Fund	Value £'000 31/03/2019	Opening Proportion %	Value £'000 31/03/2020	Closing Proportion %
LCIV EP Income Equity Fund	147,156	13.85	128,745	13.02
LCIV RF Absolute Return Fund	102,701	9.67	55,573	5.62
LCIV Stepstone Infrastructure Fund	0	0	567	0.06
LGIM Passive Equities	214,196	20.16	195,267	17.74
LGIM Passive Bonds	128,805	12.13	141,707	14.33
LGIM LPI Property	0	0	47,399	4.79
	592,858	**56**	**592,858**	**57.6**

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
Set Up Costs:	
Recruitment	200
Legal	700
Procurement	200
Other support costs eg IT, accommodation	200
Staff costs	400
TOTAL SET UP COSTS	**1,700**

LB Hillingdon Annual Pool Set up Costs Breakdown and Fee Savings

	2015/16	2016/17	2017/18	2018/19	2019/20	Cumulative to date
Set Up Costs	**£000s**	**£000s**	**£000s**	**£000s**	**£000s**	**£000s**
Development Charge	0	0	75	65	65	205
Annual Service Charge including establishment of pool	50	25	25	25	25	150
Share Capital Costs	150	0	0	0	0	150
Transition Costs	0	32	132	0	0	164
Fee Savings	0	-84	-167	-181	-115	-547
Net (Savings)/Cost Realised	**200**	**-27**	**65**	**-91**	**-25**	**122**

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 2019/20 the fund shows a net cost overall from pooling, however if share capital is excluded as it is still a fund asset then the fund has made a minor 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. taking into account both fees and performance) on the value of Fund assets.

	Asset Pool			**Non-Asset Pool**			**Fund Total**
	Direct	**Indirect**	**Total**	**Direct**	**Indirect**	**Total**	
	£'00	**£'000s**	**£'000**	**£'000**	**£'000s**	**£'000**	**£'000**
Management Fees							
Ad Valorem	60	1,280	1,340	5,627	0	5,627	**6,967**
Performance	0	0	0	780	0	780	**780**
Transaction Costs							
Commissions	0	1,160	1,160	584	0	584	**1,744**
Custody	10	0	10	59	0	59	**69**
Other	72	0	72	251	0	251	**323**
Total £'000	**142**	**2,440**	**2,582**	**6,301**	**0**	**6,301**	**9,883**

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 2019/20 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 2019/20.

Asset Allocation and Performance

Asset Allocation and Performance						
Asset Category	**Opening Value**		**Closing Value**		**Performance 1 Year**	
					Gross	**Net**
	£'000	**%**	**£'000**	**%**	**%**	**%**
Asset Pool Managed Investments						
Active listed Equity	147,156	14	128,745	13	-12.5	-12.5
Passive listed Equity	214,196	20	195,267	20	-8.8	-8.8
Passive Listed Fixed Income	128,805	12	141,707	14	3.1	3.1
Multi-asset funds/diversified growth funds	102,701	10	55,573	6	3.6	3.6
Passive LPI Property	0	0	47,399	5	N/A	N/A
Total	**592,858**	**56**	**568,691**	**58**		
Non-asset pool managed investments						
Active listed Equity	131,174	12	84,471	9	-30.0	-30.0
Active listed Fixed Income	82,707	8	89,137	9	-1.7	-1.7
Private Debt	7,956	1	5,236	1	8.3	8.3
Private Debt	61,434	6	65,017	7	6.8	6.8
Property	58,927	6	50,774	5	-6.3	-6.3
Property	76,521	7	67,274	7	-0.9	-0.9
Unlisted Equity	12,654	1	11,244	1	22.7	22.7
Unlisted Equity	4,675	0	3,672	0	11.9	11.9
Infrastructure	29,133	3	26,883	3	14.7	14.7
Infrastructure	0	0	567	0	N/A	N/A
Cash	8,086	1	16,068	2		
Total	**473,267**	**44**	**420,343**	**42**		

Savings

	2016/17	2017/18	2018/19	2019/20
	£	£	£	£
Price Variance	83,609	167,422	181,063	113,505

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 reduction in fee savings in 2019/20 compared to 2018/19 is mainly due to reduced fund value over the period. The above savings do not take into account 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.

M: EXTERNAL AUDIT OPINION

INDEPENDENT AUDITOR'S STATEMENT TO THE MEMBERS OF LONDON BOROUGH OF HILLINGDON ON THE PENSION FUND FINANCIAL STATEMENTS

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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.

Pension Fund Risk Register Item 13

Committee	Pension Committee
Officer Reporting	James Lake, Yvonne Thompson-Hoyte Finance
Papers with this report	Pension Fund Risk Register

HEADLINES

The purpose of this report is to identify to the Pension Committee the main risk's to the Pension Fund and to enable them to monitor and review going forward (see Appendix). There is one risks which is Red.

RECOMMENDATIONS

It is recommended that Pensions Committee:

1. **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 15 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.

A new risk Pen 08 relating to the transfer of the pensions administration service has been inserted into the register immediately under Pen 07 relating to outsourced administration. The remaining risks have been renumbered.

The comments in Pen 14 relating to the change in ownership of ISIO the investment advisors have been modified to reflect the fact that they now have their own registrations with the FCA and their own systems and are no longer operating under the cover of KPMG. Isio's head count has continued to grow, with the addition of 90 people over the past six months, mainly through successful recruitment into

operational teams where historically KPMG provided these non-client facing services, as well as continuing recruitment campaigns for graduates and other client-facing staff. The risk has been reduced to the lowest level but as KPMG currently still hold historic data the risk has not been completely removed.

FINANCIAL IMPLICATIONS

The financial implications are contained within the body of the report

LEGAL IMPLICATIONS

The legal implications are mentioned within the report.

Pension Fund Risk Register 2019/20

Description	Actions in Place	Progress Comment	Risk Category / Rating / DOT	Lead Officer / Camittee Member
PEN 01 - Fund assets fail to deliver returns in line with the anticipated returns underpinning valuation of liabilities over the long-term	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 signifncant chance of successfully meeting the funding target. 2. Analyse progress at three yearly valuations for all employers. 3. Undertake Inter-valuation monitoring.	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 The impact of COVID-19 on the fund value continues to be monitored to ensure that the asset allocation is still appropriate. At the end of June 2020 the fund regained £71m of the value lost at the end of March 2020. The value at the end of June was £1,061 which is still £20m short of the pre COVID-19 of £1,081m An in depth COVID-19 review of the investment strategy was commissioned which concluded that no adjustments were required to the ISS agreed In January 2020. Officers continue to monitor the fund and take appropriate advice as necessary. The current position should be viewed with caution as the objectives of the fund are long term and the portfolio is well positioned to withstand volatility over the long term Officers are closely monitoring developments and liaising with fund managers and advisors.	Strategic risk Likelihood = Significant Impact = Large **Rating = C2** **(Static)**	James Lake / Cllr M Goddard
PEN 02 - Inappropriate long-term investment strategy	1. Set Pension Fund specific strategic asset allocation benchmark after taking advice from investment advisers, balancing risk and reward, based on historical data. 2. Keep risk and expected reward from strategic asset allocation under review. 3. Review asset allocation formally on an annual basis. 4. Asset allocation reported quarterly to committee 5. Officer and Advisers actively monitors this risk.	A separate Officer and Advisor working group regularly monitors the investment strategy and develops proposals for change / adjustment for Pension Committee consideration. The impact of each decision is carefully tracked against the risk budget for the Fund to ensure that long-term returns are being achieved and are kept in line with liabilities.	Strategic risk Likelihood = Low Impact = Large **Rating = E2** **(Static)**	James Lake / Cllr M Goddard
PEN 03 - Active investment manager under-performance relative to benchmark	1. The structure includes active and passive mandates and several managers are employed to diversify the risk of underperformance by any single manager. 2. Short term investment monitoring provides alerts on significant changes to key personnel or changes of process at the manager. 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. 4. Investment managers would be changed following persistent or severe under-performance.	The Fund is widely diversified, limiting the impact of any single manager on the Fund. Active monitoring of each manager is undertaken with Advisors and Officers meeting managers on a quarterly basis and communicating regularly. The LCIV as pool is increasingly managing more assets on the funds behalf as per regulation, however transaparency and reporting is less controled by the fund. Improvements in communciation from the pool have been requested over performance transparency of the managers to inform swift action. Comments on whether mandates should be maintained or reviewed are included quarterly and where needed specific performance issues will be discussed and reviewed.	Strategic risk Likelihood = Low Impact = Small **Rating = E4** **(Static)**	James Lake / Cllr M Goddard

Description	Actions in Place	Progress Comment	Risk Category / Rating / DOT	Lead Officer / Camittee Member
PEN 04 - Pay and price inflation significantly more than anticipated impacting the ability for employers to afford contributions	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. 2. Inter-valuation monitoring gives early warning and investment in index-linked bonds also helps to mitigate this risk. 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. 4. Covenant's are in place with security of a guarantee or bond for admission agreements.	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. 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. In response the COVID-19 the government continues to provide stimulus packages to help support the economy. Furthermore the BoE has increased its QE programme and reduced interest rates. These interventions could have the effect of increasing inflation.	Strategic risk Likelihood = Low Impact = Medium **Rating = D3** **(Static)**	James Lake / Cllr M Goddard
PEN 05 - Inflation significantly more than anticipated	1. Inter-valuation monitoring gives early warning. 2. Investment in index-linked bonds helps to mitigate this risk. 3. The fund has increased its inflation linkage by allocating 5% to Inflation linked long lease property in 2018. 4. Contribution rate setting as part of the triennial valuation process considers 5000 senarios in achieving a fully funded position	The impact of inflation is reviewed through all strategic investment decision making.	Strategic risk Likelihood = Medium Impact = Large **Rating = D2** **(Static)**	James Lake / Cllr M Goddard
PEN 06 - Pensioners living longer.	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. 2. Club Vita monitoring provides fund specific data for the valuation, enabling better forecasting.	The Fund is part of Club Vita, a subsidiary of the Fund Actuary, which monitors mortality data and feeds directly into the valuation.	Strategic risk Likelihood = Low Impact = Small **Rating = E4** **(Static)**	James Lake / Cllr M Goddard
PEN 07 - Poor Performance of Outsourced Administrator leading to poor quality information supplied to both members and the Fund Actuary	1. Quarterly review meetings held 2. Weekly update calls with officers 3. Quarterly KPI reports are provided to track and monitor performance 4. Critical errors cleared prior to transfer of valutaion data to actuary 5. Data Improvement plan in place to improve the quality of member data 6. Ongoing dialogue with Surrey Administration to implement audit recommendations 7. Monitoring of progress and management goodwill to implement audit findings.	The interim Head of Pensions Administration, that was appointed in February has left at the end of June. This is viewed as a major setback to the improvement plans as he was focused on resolving the long standing issues and driving through improvements. ORBIS are in the process of recruiting a new Head of a restructured service. The role is being covered jointly by in the interim. The Pensions regulator has specified the priority items that funds should focus on during the pandemic. Weekly monitoring of these items have been ongoing and the fund is satisfied that the priority items are being satisfactorily processed. The process of interfacing payments between the administration and the finance system have commenced to address risks raised by the internal audit report. Senior management have also set out a proposal to complete the process. Officers continue to monitor implementation of the audit recommendations The current contract for administration software provision expires shortly. Initial attempts by Surrey to procure a new contract fell through in June. They are now embarking on a new tender through the Norfolk framework. Maintaining a reliable software system is critical to the fund as it holds all the individual member data and history.	Strategic risk Likelihood = Medium Impact = Large **Rating = D2** **(Static)**	James Lake / Cllr M Goddard
PEN 08 - Risk of diruption to the delivery of pensions administration services and systems and data integirity during the transfer of administration services.	1 Robust business case and project plan being put in place 2 Project oversight board will be appointed to monitor progress 3 Technical support from providers of systems platform has been co-opted to safeguard the integrity of their systems 4 Weekly meetings between project delivery officers across all three organisations to ensure project is going to plan and early identification of issues. 5 Regular progress reporting to Hillingdon Senior Management, Pensions Committee and Board. 6. Creation and monitoring of detailed risk register	It is early days into the project. Since the decision to transfer services project initiation meetings have been ongoing with the receiving party and exit meetings with Surrey. The administration system providers for both systems have been contacted and legal teams also mobilised. Surrey have appointed dedicated officers to facilitate the exit process, initial meetings have been quite positive. Work is underway to develop a business and project plan. A Project Oversight Board is being established. A Hillingdon representative will sit on this Board.	Strategic Risk Likelihood = Low Impact = Very Large **Rating = E1** **(New)**	

Description	Actions in Place	Progress Comment	Risk Category / Rating / DOT	Lead Officer / Camittee Member
PEN 09 - Failure to invest in appropriate investment vehicles as a result of MiFID II regulations in place from 3 January 2018	1. Applications have been made to sustain "Professional Status" of the pension fund to enable continuation of the existing investment strategy. 2. All current application's have successfully been resolved confirming professional status	This is a risk identified as a result of regulatory changes and is continually assessed. The fund is required to show an appropriate level of knowledge and skills for investment decision markers. Changes in circumstances including committee membership or change in officers must be reported and could effect the ongoing investment relationship.	Strategic risk Likelihood =Very Low Impact = Large **Rating = F2** **(Static)**	James Lake / Cllr M Goddard
PEN 10 - Cyber Security - Pension schemes hold large amounts of personal data and assets which can make them a target for fraudsters and criminals	1. 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 data access, protection (including encryption), use and transmission of data 2. Risk is on the Corporate risk register with risk mitigation in place. 3.All member and transactional data flowing from SCC and Hillingdon is sent via encryption software 4.Data between the fund, SCC and Hymans is distributed via upload to an encrypted portal 5. Systems at Hillingdon and SCC are protected against viruses and other system threats 6. SCC are accredited to ISO27001:2013 and Cyber Essentials Plus accreditation. SCC are also PSN compliant.	This risk has been recognised in response to recommendations by the Pensions Regulator and work carried out by Pensions Board Certificates on SCC accreditation received SCC have an incident response plan which is required to develop mitigation of this risk. A copy will be sent to the fund. Data Mapping has been carrie dout to understand the data transfers and risks in this area including potential for treat through other employers. 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 in place in teh case of a breach within the fund.	Strategic risk Likelihood = Medium Impact = Large **Rating = D2** **(Static)**	James Lake / Cllr M Goddard
PEN 11 - Climate Change - Risk of financial lose through Climate change impacts	1. The fund have an ESG policy in place as part of the ISS. 2. 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. 3. Manger selections take into account ESG policy 4. Mangers are expected to be signed up to the stewardship Code 5. Managers are expected to have signed up to the UN Principles for Responsible Investment (UK PRI) 6. ESG Issues are discussed with managers at review meetings	The investment strategy will be updated with a statement on climate change risk on next revision. The fund biggest risk exposure to poorly managed companies in respect of carbon emissions will be through the passive allocation. Tilts on this allocation will be reviewed and considered to reduce this risk. Pensions Committee are currently in the process of creating a stand alone RI policy which will support principles and implimentation.	Strategic risk Likelihood = Low Impact = Large **Rating = E2** **(Static)**	James Lake / Cllr M Goddard
PEN 12 - Portfolio liquidity - risk of failure to liquidate assets or meet drawdown calls	1. The fund has an active daily cash management process in place to ensure there is sufficient cash available to meet all beneficiary payments. 2. 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 3. Officers liaise with managers where commitments have been made to keep track of predicted drawdown timescales 4. 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.	There is a detailed cash management process in place and have been developed over the past 2 years. This is signed off daily to ensure liquidity. 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. The fund is still boarderline cashflow positive / breakeven on member dealings and should remain so in 2019/20 with increased contribution rate for the majoriity of employers in year and increased active members from autoenrolment in year.	Strategic risk Likelihood =Very Low Impact = Large **Rating = F2** **(Static)**	James Lake / Cllr M Goddard

Description	Actions in Place	Progress Comment	Risk Category / Rating / DOT	Lead Officer / Camittee Member
PEN 13 - Failure of the pool in mangement of funds / access to funds	1. Quarterly review meetings held with the pool 2.Regular reporting out of the pool informing the fund of manager performance 3. Swift communications received from the pool with staff turnover and concerns the fund may need to be aware. 4. Independent adviser carried out a review of governance for manager selction and manager monitoring to add assurance and discussion points with the pool 5. Active Shareholder representation at General meeting and AGM. 6. Pool to attend Committee meetings where required, to provide assurance over progress and activity.	Concerns over staff turnover in senior posts and withdrawal of an iminent fund have raised the level of this risk to enter the register. Work will need to be carried out with the pool to address governace concerns arrising from Independent Adviser review. Keen interest in recuitment to vacant positions and support given to those staff still in post while recuitment takes place to ensure retention.	Strategic risk Likelihood = Low Impact = Medium **Rating = D2** **(Static)**	James Lake / Cllr M Goddard
PEN 14 - Change in ownership/business model of KPMG - Investment Advisors to the Fund.	1. Conversations are ongoing with the LGPS Framework and KPMG regarding the progress and status 2.Advice to be sought from in-house procurement and legal as necessary to determine the status of the existing contract after the change 3.Monitoring of the developements will be ongoing	The Legal due diligence has been done and the new company Isio was launched at the beginning of March. The National Framework has informed us of the novation of contract from KPMG to Isio . At the time of the launch ISIO was operating under the FCA registration of KPMG and also sharing their systems. Since the last review, ISIO has obtained its own registration with the FCA in August 2020. Officers have confirmed this on the FCA register. ISIO also informed Officers that they have also separated their systems from KPMG and are now completely stand alone. . Officers feel that they should still be monitored on the risk register until the remaining transition items are completed. There has been no impact on the service provided to date. Officers continue to monitor	Strategic risk Likelihood = Very Low Impact = Small **Rating = F4** **(Reduced)**	James Lake / Cllr M Goddard
PEN 15 - Threat of COVID 19 to Business Continuity	1. The pensions section and corporate finance has a business continuity plan that identifies critical tasks and resouces required to carry them out. 2. Communication to key 3rd party providers Surrey Administration to co-ordinate business continuity plans 3.Active monitoring of developements, keeping abreast of Council and Government advice to ensure readiness to implement the continuity plan if required. 4. Non-essential external meetings have been cancelled to reduce contact 5. Checks bening done to ensure staff have facilities to work from home 6. Vulnerable staff are bing kept out of the office as much as possible	The business continuity plan for the Pensions Section has been updated to identify critical tasks and resources and systems required to maintain services. Vulnerable staff have been identified and equipped to work remotely. The deparmental policy to postpone non-essential meetings is in force. Business continuity plans have been obtained from the Surrey to ensure continuity of essential member services. Pensions team management is actively mobilising staff and organised a dry run to ensure readiness in the event that staff are not able to attend the office	Strategic risk Likelihood = High Impact = Large **Rating = D2** **(Static)**	James Lake / Cllr M Goddard

Attributes:			Risk rating	Score	Risk rating	Score	Risk rating	Score	Risk rating	Score
Greater than 90%	This week	**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

THREATS:

Attributes:	**Small (4)**	**Medium (3)**	**Large (2)**	**Very Large (1)**
	IMPACT			
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

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WORK PROGRAMME 2020/2021 ITEM 14

Committee	Pensions Committee
Officer Reporting	Yvonne Thompson-Hoyte, Corporate Finance
Papers with report	None

HEADLINES

This report is to enable the Pension Committee to review planned meeting dates and forward plans.

RECOMMENDATIONS

That the Committee:

1. **Notes the dates for Pensions Committee meetings; and**
2. **Makes suggestions for future agenda items, working practices and / or reviews.**

SUPPORTING INFORMATION

Meeting Date	Item
28 October 2020	• Training - 1 day Investment Strategy training took place • External Audit of Pension Fund • Pension Fund Annual Report 2019/20 • Investment update and manager review • Administration Report • Stewardship Code 2020 Draft Report • Regulatory Update • Governance Polcy • Risk Register • Voluntary Scheme Pays Policy • Discretions Policy • Responsible Investment • CIV Governance Update
26 January 2021	• Training TBC • Investment update and manager review • Administration Report • Stewardship Report • Annual Audit Plan • Risk Register
24 March 2021	• Training TBC

	• Investment update and manager review • Administration Report • Conflict of interest Policy • Risk Register • Annual Report of the Board

FINANCIAL IMPLICATIONS

There are no financial implications in the report

LEGAL IMPLICATIONS

There are no legal implications in the report

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