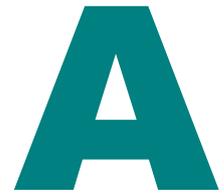




HILLINGDON  
LONDON



# Pensions Committee

**Date:** TUESDAY, 28 SEPTEMBER  
2021

**Time:** 5.00 PM

**Venue:** COMMITTEE ROOM 6 -  
CIVIC CENTRE, HIGH  
STREET, UXBRIDGE

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

## To Members of the Committee:

Martin Goddard (Chairman)  
Duncan Flynn (Vice-Chairman)  
John Hensley  
John Morse (Opposition Lead)  
Raju Sansarpuri

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phone camera and scan the code below:



**Published:** Monday, 20 September 2021  
**Contact:** Steve Clarke  
**Tel:** 01895 250693  
**Email:** [sclarke2@hillington.gov.uk](mailto:sclarke2@hillington.gov.uk)

Putting our residents first

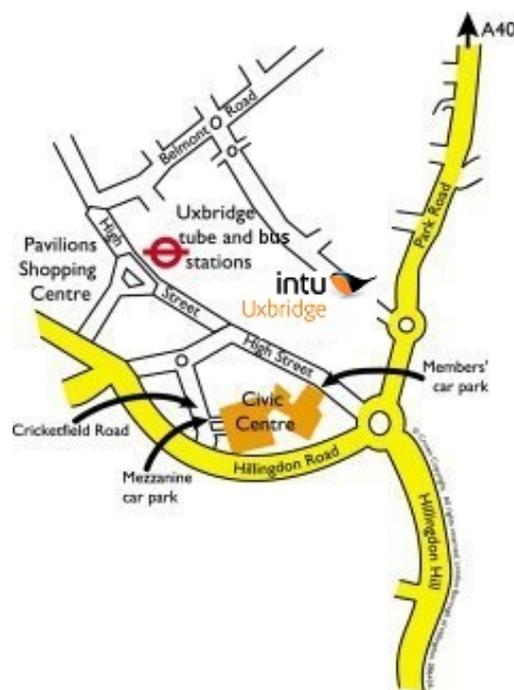
Lloyd White  
Head of Democratic Services  
London Borough of Hillingdon,  
Phase II, Civic Centre, High Street, Uxbridge, UB8 1UW

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# Agenda

## **CHAIRMAN'S ANNOUNCEMENTS**

- 1 Apologies for Absence
- 2 Declarations of Interest in matters coming before this meeting
- 3 Minutes of the meeting dated 10 June 2021 1 - 6
- 4 To confirm that items marked Part I will be considered in public and those marked Part II will be considered in private

## **PART I - Members, Public and Press**

- 5 External Audit Report for the Pension Fund & Annual Report 7 - 180
- 6 Administration Report 181 - 186
- 7 Investment Strategy and Fund Manager Performance - Part I 187 - 210
- 8 Policy Updates 211 - 254
- 9 Risk Register Report 255 - 260
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## **PART II - Members Only**

*That the reports in Part 2 of this agenda be declared not for publication because they involve the disclosure of information in accordance with Section 100(A) and Part 1 of Schedule 12 (A) to the Local Government Act 1972 (as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

- |           |  |           |
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| <b>11</b> | Responsible Investment Update                            | 263 - 322 |
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## Minutes

### PENSIONS COMMITTEE

10 June 2021

Meeting held at Committee Room 6 - Civic Centre,  
High Street, Uxbridge



HILLINGDON  
LONDON

	<p><b>Committee Members Present:</b> Councillors Martin Goddard (Chairman) Duncan Flynn (Vice-Chairman) Carol Melvin John Morse (Opposition Lead) Raju Sansarpuri</p> <p><b>LBH Officers Present:</b> Paul Whaymand, Corporate Director of Finance James Lake, Chief Accountant Tunde Adekoya, Pensions Fund Accountant Yvonne Thompson-Hoyte, Interim Pension Fund Manager Steve Clarke, Democratic Services Officer</p> <p><b>Also Present:</b> Roger Hackett, Pensions Board Member Hayley Seabrook, Pensions Board Member Shane Woodhatch, Pensions Board Member David O'Hara, Isio Andrew Singh, Isio Clare Scott, Independent Adviser</p>
3.	<p><b>APOLOGIES FOR ABSENCE</b> (<i>Agenda Item 1</i>)</p> <p>There were no apologies for absence.</p>
4.	<p><b>DECLARATIONS OF INTEREST IN MATTERS COMING BEFORE THIS MEETING</b> (<i>Agenda Item 2</i>)</p> <p>Councillor Raju Sansarpuri 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 meeting during discussion of the items.</p>
5.	<p><b>MINUTES OF THE MEETINGS DATED 24 MARCH AND 20 MAY 2021</b> (<i>Agenda Item 3</i>)</p> <p><b>RESOLVED:</b> That the minutes of the meeting dated 24 March and 20 May 2021 be agreed as an accurate record.</p>
6.	<p><b>TO CONFIRM THAT ITEMS MARKED PART I WILL BE CONSIDERED IN PUBLIC AND THOSE MARKED PART II WILL BE CONSIDERED IN PRIVATE</b> (<i>Agenda Item 4</i>)</p>

It was confirmed that items 1 - 8 were marked Part I and would be considered in public and items 9 – 12 were marked Part II and would be considered in private.

7. **INVESTMENT STRATEGY AND FUND MANAGER PERFORMANCE - PART I**  
(Agenda Item 5)

James Lake, Chief Accountant, presented the Investment Strategy and Fund Manager Performance report. It was highlighted that performance over the quarter was positive at +2.19%, this was ahead of the benchmark; however, it was noted that this was just for the quarter and longer term performance outlook was required. When looking at three and five year periods, overall investment return was in the region of 5 to 7% per annum. This was ahead of the target funding requirement of 4%.

Members were informed that the fund value had increased over the quarter to £1,157M, up by £23M. It was encouraged that Members refrain from looking at fund value alone; to that end, attention was drawn to the importance of evaluating fund liabilities, particularly the funding level. It was highlighted that the funding level had improved over the quarter and since the formal valuation at March 2019, when it was at 87%. In the intervening period the funding level had dipped slightly, this was attributed to the onset of the Covid-19 pandemic, however the funding level was now moving in a positive direction and had since recovered to 89%.

Members were impressed with performance over the previous quarter and praised the defensive manoeuvres recently taken which held the Fund in a good position against inflation. The Committee discussed the importance of the coming months in monitoring the performance of fund managers and how that would inform upcoming decisions on whether to commit more money into certain funds. Further discussion took place around staff resourcing amongst asset pooling companies and the importance of retaining permanent staff.

Regarding responsible investment, Members sought to hear feedback on the levels of engagement between the London CIV and their fund managers; it was noted that perhaps this information was available but not directly supplied to clients. The Committee were informed that the advisors had been given access to the investment managers' reports.

Pensions Board Member, Roger Hackett, noted that he recently had the opportunity to attend the Pensions and Lifetime Savings Association Conference and had heard that 'Investment Pools', like the London CIV, across the country had experienced difficulties around performance and governance frameworks. It was noted that the Ministry of Housing, Communities and Local Government would be carrying out consultation later in the year around further pooling and next steps for Investment Pools; it was suggested that a potential outcome of that could be a directive that individual funds should pool more.

**RESOLVED That the Pensions Committee:**

- 1) **Noted the Fund funding and performance update; and**
- 2) **Noted the updates on implementation of the investment strategy.**

8. **ADMINISTRATION REPORT** (Agenda Item 6)

Yvonne Thompson-Hoyte, Interim Pension Fund Manager, presented the report on pensions administration to the Committee. It was highlighted that, since the previous report in February 2021, 318 additional members had signed up for the online self-service portal allowing individuals to see up to date information relating to their pension benefits. Further to this it was noted that the largest uptake in signing up to the self-service portal was amongst Active members at 43%; uptake amongst Deferred members and Pensioners was at 21% and 20% respectively. This discrepancy was not uncommon and was attributed primarily to the age gap between active members and deferred or collecting members; although it was also suggested that, typically once an individual is receiving their regular pension payments, their interest in the administration of their pensions may reduce which could explain the lower levels of self-service uptake. It was suggested that, unless there was a key service that could only be delivered through the self-service portal, user uptake would remain relatively low. Further to this, it was highlighted that existing self-service accounts could not be transferred to the new administrator upon the transfer of administration services later in the year; this meant that a drive to encourage individuals to sign up to a new self-service portal, with the new pensions administrator, would be required in the near future. Clare Scott, Independent Pensions Adviser, highlighted that a national project would commence in the coming years requiring all pension providers to submit their data on members' benefits to a central dashboard, allowing any individual to log in to their dashboard and see all of their pension information in one place. Officers mentioned that the new pensions administrator, Hampshire County Council (HCC), were minded to stop sending physical pension payslips in the near future once the transfer of administration services to HCC had completed, and to only have payslips viewable through the online self-service portal unless paper copies were explicitly requested.

Results of the address tracing exercise were presented showing that of the original 3521 records only 143 remained unresolved. This represented a success rate of 96% and was considered an excellent result. Work will now begin to implement the updated information on the administration system.

Members' attention was drawn to administrator performance and it was noted that this had fallen off over the past year, substantiating the reasons for the impending transfer of administration to HCC. However, it was highlighted that officers continued to work with the current administrator to maintain performance whilst the transfer takes place. A particular area of concern for officers was the payment of death grants, this was echoed by Members, it was noted that officers had since received an updated report from the administrator outlining performance up to the end of May 2021, this appeared to show improved performance in some areas but concerns still remained regarding consistency. Officers went on to note that Hillingdon's own KPI's were somewhat stricter than the regulatory KPI's which could allay some concerns around performance. Members were encouraged by the forthcoming transfer of administration services to HCC.

With regard to the implementation of the McCloud Remedy, the Committee were informed that this would be implemented after the transfer of administration services to HCC had completed.

Committee were advised that the revised Pension Board terms of reference, to include reference to SAB guidance, were agreed by the Pensions Board in April 2021. These had now been passed to Democratic Services to seek formal approval at the July full Council meeting.

**RESOLVED That the Pensions Committee noted the contents of the report.**

9. **RISK REGISTER REPORT** (*Agenda Item 7*)

James Lake, Chief Accountant, presented the risk register report noting that there had been a number of changes this quarter. Amongst the changes was that risks Pen 04 and Pen 05 had been merged as previously requested by the Committee and the likelihood grading of the risk had been increased from medium to significant following concerns around prospective inflation increases. The title of Pen 09 had been amended to Environmental, Social and Governance (ESG) to represent a more comprehensive and responsible investment agenda. Risk Pen 11 had been reduced to reflect the Fund's pro-active approach to investment either inside or outside of the LCIV Pool; it was noted that the Fund would invest outside of the Pool if a suitable product was not available. A new risk, Pen 13, had been added in relation to governance; one of the main focusses of this was Member training, it was noted that training was regularly undertaken by Pensions Committee Members at Hillingdon, however, it would soon become a regulatory requirement and it was anticipated that the governance burden on the Fund would increase considerably. Officers highlighted that the risk rating on Pen 13 may increase when the regulatory codes are released, emphasising the need for strong governance arrangements.

With regard to risk Pen 09, relating to ESG, Members commented on the expectation that fund managers would be signed up to the UK Stewardship Code. The Committee highlighted that some international fund managers, although potentially unlikely to be signed up to the UK Code, would be signed up to an international equivalent. Officers noted that international fund managers had been requested to provide information on accreditation and adherence to codes in this area and to show how this is equivalent to the UK Code; further to this it was highlighted that many international managers responded saying that they were signed up to the UN Principles for Responsible Investment, somewhat seen as a global code. In relation to ESG, it was noted that over recent years, clients had been requesting more from their fund managers in this area; this had resulted in positive movement across the board where ESG issues were concerned. To this regard, Members were minded to become increasingly tougher as time goes on to ensure fund managers are responsible when it comes to ESG.

**RESOLVED: That Pensions Committee considered the Risk Register in terms of the approach, the specific risks identified, and the measures being taken to mitigate current risks.**

10. **DRAFT WORK PROGRAMME** (*Agenda Item 8*)

James Lake, Chief Accountant, presented the draft Work Programme 2021/2022 advising Members that a number of training sessions would need to take place ahead of the 28 September meeting. The Chairman emphasised the need for Member training, particularly for newer Committee Members, and alluded to a potential need to mandate training in a similar manner to what is required of Planning Committee Members.

**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.**

11.	<p><b>RESPONSIBLE INVESTMENTS UPDATE</b> (<i>Agenda Item 9</i>)</p> <p><i>This item was discussed as a Part II item without the press or public present as the information under discussion contained confidential or exempt information as defined by law in the Local Government (Access to Information) Act 1985. This was because it discussed 'information relating to the financial or business affairs of any particular person (including the authority holding that information)' (paragraph 3 of the schedule to the Act).</i></p>
12.	<p><b>ADMINISTRATION REPORT PART II - PENSIONS ADMINISTRATION UPDATE</b> (<i>Agenda Item 10</i>)</p> <p><i>This item was discussed as a Part II item without the press or public present as the information under discussion contained confidential or exempt information as defined by law in the Local Government (Access to Information) Act 1985. This was because it discussed 'information relating to the financial or business affairs of any particular person (including the authority holding that information)' (paragraph 3 of the schedule to the Act).</i></p>
13.	<p><b>INVESTMENT STRATEGY AND FUND MANAGER PERFORMANCE - PART II</b> (<i>Agenda Item 11</i>)</p> <p><i>This item was discussed as a Part II item without the press or public present as the information under discussion contained confidential or exempt information as defined by law in the Local Government (Access to Information) Act 1985. This was because it discussed 'information relating to the financial or business affairs of any particular person (including the authority holding that information)' (paragraph 3 of the schedule to the Act).</i></p>
14.	<p><b>INVESTMENT CONSULTANT CONTRACT EXTENSION</b> (<i>Agenda Item 12</i>)</p> <p><i>This item was discussed as a Part II item without the press or public present as the information under discussion contained confidential or exempt information as defined by law in the Local Government (Access to Information) Act 1985. This was because it discussed 'information relating to the financial or business affairs of any particular person (including the authority holding that information)' (paragraph 3 of the schedule to the Act).</i></p>
	<p>The meeting, which commenced at 5.00 pm, closed at 6.36 pm.</p>

These are the minutes of the above meeting. For more information on any of the resolutions please contact Steve Clarke on 01895 250693. Circulation of these minutes is to Councillors, Officers, the Press and Members of the Public.

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<b>EXTERNAL AUDITOR REPORT on the PENSION FUND ACCOUNTS and ANNUAL REPORT</b>	<b>Item 5</b>
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Committee	Pensions Committee
Officer Reporting	James Lake, Finance
Papers with this report	EY: Pension Fund Audit Results Report, year ended 31 March 2021 Pension Fund Accounts 2020/21 Pension Fund Annual Report 2020/21

## HEADLINES

The draft Pension Fund Accounts for 2020/21 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 2020/21 Pension Fund Accounts. At the time of writing this report there are a number of outstanding audit tasks, one of which is a national issue relating to IAS19 pension valuations. Once these are cleared, we expect EY to provide an unqualified audit opinion.

The draft Pension Fund Annual Report for 2020/21 is attached to this report for Committee approval. As part of the audit process the external auditor will also verify the consistency of the Annual Report with the Annual Accounts. Although this is not due until December of each year, we aim to align this piece of work with the annual accounts sign-off. Again, at the time of writing, this piece of work is still in progress.

## RECOMMENDATIONS

**It is recommended that Pensions Committee:**

- 1. Note draft EY’s findings on the audit of the Pension Fund accounts for 2020/21.**
- 2. Approve the 2020/21 Fund Annual Report for publication**

## 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).

Classification: Public  
Pensions Committee - 28 September 2021

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 is also brought to Pension Committee for formal approval. The Audit report on the Pension Fund accounts will be taken to Audit Committee on the next available meeting following completion of the audit.

## **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.

- Misstatement fraud or error
- Misstatement of investment amounts
- Valuation of unquoted investments
- Disclosure on 'Going Concern'

In addition, the auditor requires a "Management Representation Letter" to be signed by management, outlined in their report. 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 £11.6m (planned £9.9m). In addition, there are no uncorrected misstatements to report over the updated reporting threshold of £0.6m (planned £0.5m). Officers remain in discussion with EY to clarify a number of points within the report.

## **ANNUAL REPORT**

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

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

The report is awaiting an external audit report which is expected to confirm that it is consistent with the audited annual accounts and guidance. The draft report for 2020/21, 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**

EY remain in consultation with the PSAA regarding the proposed increase in scale fees. The basic scale fee for the 2020/21 audit is £16,170, with additional fees estimated at between £9,000 and £12,500 to cover areas of risk and specialists. Proposed increase in scale fees yet to be agreed is a further £28,290

## **LEGAL IMPLICATIONS**

The legal implications are mentioned within the report.

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# **London Borough of Hillingdon Pension Fund**

## **Initial audit results report**

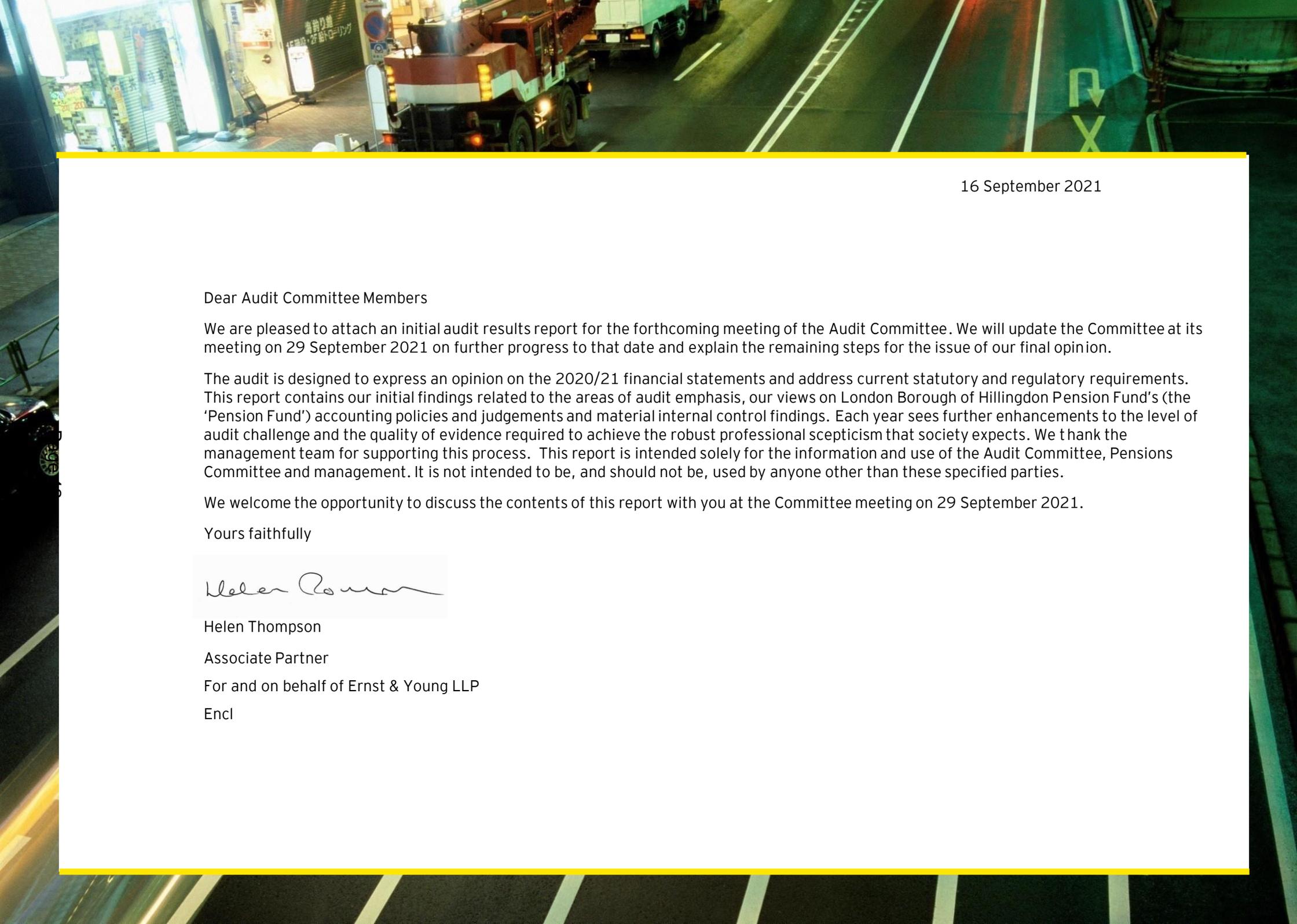
Year ended 31 March 2021

16 September 2021

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The EY logo consists of the letters 'EY' in a bold, white, sans-serif font. A yellow triangle is positioned above the 'Y'.

Building a better  
working world



16 September 2021

Dear Audit Committee Members

We are pleased to attach an initial audit results report for the forthcoming meeting of the Audit Committee. We will update the Committee at its meeting on 29 September 2021 on further progress to that date and explain the remaining steps for the issue of our final opinion.

The audit is designed to express an opinion on the 2020/21 financial statements and address current statutory and regulatory requirements. This report contains our initial findings related to the areas of audit emphasis, our views on London Borough of Hillingdon Pension Fund's (the 'Pension Fund') accounting policies and judgements and material internal control findings. Each year sees further enhancements to the level of audit challenge and the quality of evidence required to achieve the robust professional scepticism that society expects. We thank the management team for supporting this process. This report is intended solely for the information and use of the Audit Committee, Pensions Committee and management. It is not intended to be, and should not be, used by anyone other than these specified parties.

We welcome the opportunity to discuss the contents of this report with you at the Committee meeting on 29 September 2021.

Yours faithfully



Helen Thompson

Associate Partner

For and on behalf of Ernst & Young LLP

Encl

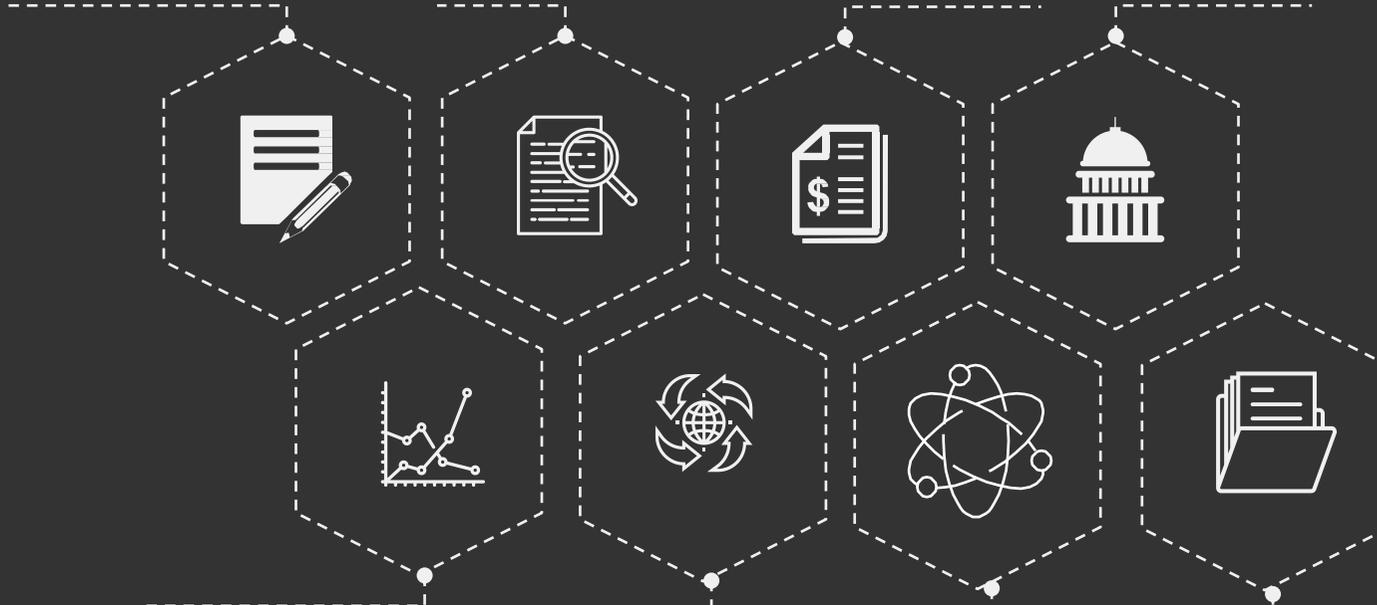
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**03** Draft Audit Report

**04** Audit Differences



**05** Other reporting issues

**06** Assessment of Control Environment

**07** Independence

**08** Appendices

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Public Sector Audit Appointments Ltd (PSAA) issued the "Statement of responsibilities of auditors and audited bodies". It is available from the PSAA website (<https://www.psa.co.uk/audit-quality/statement-of-responsibilities/>). The Statement of responsibilities serves as the formal terms of engagement between appointed auditors and audited bodies. It summarises where the different responsibilities of auditors and audited bodies begin and end, and what is to be expected of the audited body in certain areas.

The "Terms of Appointment and further guidance (updated April 2018)" issued by the 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 in legislation, and covers matters of practice and procedure which are of a recurring nature.

This report is made solely to the Audit Committee and management of Hillingdon Pension Fund in accordance with the statement of responsibilities. Our work has been undertaken so that we might state to the Audit Committee, and management of Hillingdon Pension Fund those matters we are required to state to them in this report and for no other purpose. To the fullest extent permitted by law we do not accept or assume responsibility to anyone other than the Audit Committee and management of Hillingdon Pension Fund for this report or for the opinions we have formed. It should not be provided to any third-party without our prior written consent.



# 01 Executive Summary

# Executive Summary

## Scope update

In our outline audit planning report presented to the 20 April 2021 Audit Committee meeting, we provided you with an overview of our audit scope and approach for the audit of the financial statements. We carried out our audit in accordance with this plan with the following updates.

### Changes in materiality

We updated our planning materiality assessment using the draft financial statements and have also reconsidered our risk assessment.

	Planning Materiality	Performance Materiality	Audit Differences
	Our planning materiality represents 1% of the Fund's net assets, consistent year on year.	Performance materiality represents 75% of planning materiality and is the top of our range, consistent year on year.	We will report all uncorrected misstatements relating to the primary statements (net asset statement and fund account) greater than 5% of planning materiality.
<b>Planned</b>	£9.9 million	£7.4 million	£0.5 million
<b>Final</b>	£11.6 million	£8.7 million	£0.6 million

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### Auditing accounting estimates

A revised auditing standard has been issued for the audit of accounting estimates. The revised standard requires auditors to consider inherent risks associated with the production of accounting estimates. These could relate, for example, to the complexity of the method applied, subjectivity in the choice of data or assumptions or a high degree of estimation uncertainty. As part of this, auditors now consider risk on a spectrum (from low to high inherent risk) rather than a simplified classification of whether or not there is a significant risk. At the same time, we may see the number of significant risks we report for accounting estimates to increase as a result of the revised guidance in this area. The changes to the standard have affected the nature and extent of information requested and increased the level of audit work required.



# Executive Summary

## Status of the audit

Our audit work in respect of the Fund opinion is in progress. The following items relating to the completion of our audit procedures were outstanding at the date of this report.

- ▶ Completion of testing of unquoted level 2 investments valuation
- ▶ Completion of necessary assurance procedures for the valuation of defined benefit pension liability disclosed in the statement of accounts
- ▶ Journal entry testing
- ▶ Going concern assessment review and disclosures
- ▶ Completion of internal reviews
- ▶ Agreement of all final amendments to the financial statements
- ▶ Update of our subsequent events procedures to the date of our opinion
- ▶ Receipt of a signed letter of management representation
- ▶ We must give an opinion on the consistency of the Pension Fund financial statements included within the Statement of Accounts 2020/21 with the Pension Fund Annual Report. Our review of the Annual Report, which was made available to us by management on 10 September 2021, has not been completed.

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Given that the audit process is still ongoing, we will continue to challenge the remaining evidence provided and the final disclosures in the accounts which could influence our final audit opinion.

## Audit differences

At the date of this report there are no unadjusted or adjusted audit differences which require your attention.



# Executive Summary

## Areas of audit focus

Our outline audit plan identified significant risks and areas of focus for our audit of the Pension Fund's financial statements. We summarise below our latest findings. This report sets out our observations and status in relation to these areas, including our views on areas which might be conservative and areas where there is potential risk and exposure. Our consideration of these matters and others identified during the period is summarised in the "Areas of Audit Focus" section of this report.

Fraud risks	Findings & conclusions
Misstatements due to fraud or error, including misstatement of investment amounts through fraudulent journal entries	<p>We are carrying out procedures to address fraud risks as set out in our outline audit plan, including identifying risks, considering controls and their effectiveness, testing journal entries and looking at estimates for evidence of management bias. Using data analytics is central to our approach.</p> <p>We performed a reconciliation between the fund managers reports and the custodian reports to address the risk of manipulation of asset valuations.</p> <p>Our work in this area is in progress and we have no matters to bring to your attention considering our progress to date.</p>
Significant risk	Findings & conclusions
Valuation of complex investments (Level 3 Fair Value hierarchy)	<p>We undertook additional procedures, as described more fully in Section 2 of this report, to gain material assurance over the year-end valuation of the Fund's complex investments disclosed as level 3 in the fair value hierarchy, and therefore inherently more difficult to value.</p> <p>We have completed our work in this area and have no matters to bring to your attention.</p>
Areas of audit focus	Findings & conclusions
Disclosure on Going Concern	<p>We obtained management's going concern assessment and the adequacy of the disclosures in the financial statements.</p> <p>The work in this area is ongoing.</p>
IAS 26 disclosure - Actuarial Present Value of Promised Retirement Benefits	<p>Our procedures include assessing the work of the Pension Fund actuary (Hymans Robertson) including the assumptions they have used by relying on the work of PWC - Consulting Actuaries commissioned by Public Sector Auditor Appointments for all Local Government sector auditors, and considering any relevant reviews by the EY actuarial team.</p> <p>Our work in this area is ongoing in light of the latest developments in the estimates auditing standard.</p>



# Executive Summary

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## Control observations

We have not identified any significant deficiencies in the design or operation of an internal control that might result in a material misstatement in your financial statements and which is unknown to you.

## Independence

Please refer to Section 07 for our update on Independence.



# 02

## Areas of Audit Focus



# Areas of Audit Focus

## Significant risk

Misstatements due to fraud or error, including misstatement of investment amounts through fraudulent journal entries

### What is the risk?

There is a risk that 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?

The risk of management override at the Pension Fund is mainly through the possibility that management could override controls and manipulate in-year financial transactions which intend to adjust the reported Fund Account.

This could be done through manipulation of estimates including investment valuation, or through journals amending the values in the production of the financial statements from those provided by the custodian or fund managers.

### What did we do?

- We enquired of management about risks of fraud and the controls put in place to address those risks.
- We gained an understanding of the oversight given by those charged with governance of management's processes over fraud.
- We ensured that journal entries are supported by the fund manager/custodian reports.

The following procedures are in progress:

- We are utilising our data analytics capabilities to assist with our work, including journal entry testing. We are assessing journal entries for evidence of management bias, we are evaluating journals for business rationale and that appropriate authorisations have been obtained.
- We are reviewing accounting estimates for evidence of management bias.

### What are our conclusions?

Our work in this area is ongoing, however to date we:

- have not identified any material weaknesses in controls or evidence of material management override,
- have not identified any instances of inappropriate judgements being applied,
- did not identify any journal entries without a valid business purpose,
- did not identify any other transactions during our audit which appeared unusual or outside Hillingdon Pension Fund's normal course of business,
- have not identified unexplained differences between the fund's investment values provided by the custodian or fund managers, to those presented in the financial statements.





# Areas of Audit Focus

## Significant risk

### Valuation of complex Investments (Level 3 Fair Value hierarchy)

#### What is the risk?

Investments at Level 3 are those where at least one input that could have a significant effect on the asset's valuation is not based on observable market data.

Significant judgements are made by the investment managers or administrators to value these 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 judgements we are focussed on are the valuation data used when the information is not publicly available.

#### What did we do?

We:

- ▶ reviewed the relevant funds' latest available audited accounts for modifications and corroborated the extracted information with the relevant valuations
- ▶ where the latest audited accounts were not as at 31 March 2021, we performed analytical procedures, market indexations and cash flow roll-forward to assess the valuation for reasonableness against our own expectations;
- ▶ reviewed the fund managers' latest controls reports to assess whether the fund manager maintained appropriate controls to prevent and detect material misstatement in the pricing of assets; and
- ▶ tested that accounting entries were correctly processed in the financial statements.

#### What are our conclusions?

We have completed our testing and our findings are as follows:

- the underlying funds' latest available audited accounts were not qualified or otherwise modified, nor did they contain material uncertainties in respect of going concern or other matters emphasised that would impact valuation;
- the audit reports of the underlying funds were issued by reputable auditors;
- where the latest audited accounts were not as at 31 March 2021, we found that the rolled forward cash flows to 31 March 2021, combined with market movement indexation resulted in value ranges that reasonably approached the pension fund's valuations;
- management correctly reflected the valuation adjustments due to timing differences in the updated draft accounts.

We have not noted any issues with the judgements used in the valuation of level 3 investments.





# Areas of Audit Focus

## What is the risk/area of focus?

### Disclosures on going concern

There is a presumption that the Pension Fund will continue as a going concern for the foreseeable future. However, the Pension Fund is required to carry out a going concern assessment that is proportionate to the risks it faces.

In light of the continued impact of Covid-19, there is a need for the Pension Fund to ensure its going concern assessment, including its cashflow forecast, is comprehensive.

The Pension Fund is then required to ensure that its going concern disclosure within the statement of accounts adequately reflects its going concern assessment and in particular highlights any uncertainties it has identified.

Given the available levels of liquid investment assets, we do not consider there to be a risk to the Fund's going concern status. We do consider the unpredictability of the current environment to give rise to a risk that the Pension Fund may not appropriately disclose the key factors relating to going concern, consistent with managements assessment with particular reference to Covid-19

## What are we doing?

- ▶ Assessing the adequacy of disclosures required in 2020/21;
- ▶ Reviewing management's going concern assessment for any evidence of bias and consistency with the accounts;
- ▶ Reviewing the financial modelling and forecasts prepared by the Pension Fund;
- ▶ Ensuring that an appropriate going concern disclosure has been made within the financial statements;

The work in this area remains ongoing.



# Areas of Audit Focus

## What is the risk/area of focus?

### IAS 26 disclosure - Actuarial Present Value of Promised Retirement Benefits

The Fund's IAS 26 calculation shows that the present value of promised retirement benefits amount to £2,039 million as at 31 March 2021.

The figure is material and subject to complex estimation techniques and judgements by the Actuary, Hymans Robertson. The estimate is based on a roll-forward of data from the previous triennial valuation in 2019/20, updated where necessary, and has regard to local factors such as mortality rates and expected pay rises along with other assumptions around inflation and investment yields when calculating the liability.

There is a risk that the valuation uses inappropriate assumptions to value the liability as at the 31 March 2021.

## What are we doing?

- ▶ Assessing the competence of management experts, Hymans Robertson;
- ▶ Engaging with the NAO's consulting actuary and our EY Pensions team to review whether the IAS26 approach applied by the actuary is reasonable and compliant with IAS26; and
- ▶ Ensuring that the IAS26 disclosure is in line with the relevant standards and consistent with the valuation provided by the Actuary.

As at the date of this report, our planned work in this area is largely complete, but an issue has arisen across all local government audits that needs to be resolved prior to us being able to fully conclude our work. This is in relation to the impact of the new auditing standard on accounting estimates.

We planned to take an audit approach to this estimate based on procedures to evaluate management's process. The revised auditing standard requires auditors to test the method of measurement of accounting estimates to determine whether the model is appropriately designed, consistently applied and mathematically accurate, and that the integrity of the assumptions and the data has been maintained in applying the model. Neither we, nor PWC as consulting actuaries commissioned by the NAO for all local government sector audits, are able to access the detailed models of the actuaries in order to evidence these requirements. Therefore, we have been required to modify our planned approach and undertake alternate procedures to create an auditor's estimate, to provide a different method of gaining assurance. We will provide the Audit Committee with a verbal update on progress at the 29 September 2021 meeting.



# 03 Audit Report



# Audit Report

## Draft audit report

NB This is an example report - our audit report will not be completed and issued until the work is complete

### 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 2021 under the Local Audit and Accountability Act 2014. The pension fund financial statements comprise the Pension Fund Account, the Net Assets Statement and the related notes 1 to 25. 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 2020/21.

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 2021 and the amount and disposition of the fund's assets and liabilities as at 31 March 2021; and
- have been properly prepared in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2020/21.

##### 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 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.

##### Conclusions relating to going concern

In auditing the financial statements, we have concluded that the Corporate Director of Finance's use of the going concern basis of accounting in the preparation of the financial statements is appropriate.

Based on the work we have performed, we have not identified any material uncertainties relating to events or conditions that, individually or collectively, may cast significant doubt on the Pension Fund's ability to continue as a going concern for a period of 12 months from when the financial statements are authorised for issue.

Our responsibilities and the responsibilities of the Corporate Director of Finance with respect to going concern are described in the relevant sections of this report. However, because not all future events or conditions can be predicted, this statement is not a guarantee as to the Pension Fund's ability to continue as a going concern.

##### Other information

The other information comprises the information included in the Statement of Accounts 2020/21, other than the financial statements and our auditor's report thereon. The Corporate Director of Finance is responsible for the other information contained within the Statement of Accounts 2020/21.

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.

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 course of 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 themselves. 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;



# Audit Report

## Draft audit report

NB This is an example report - our audit report will not be completed and issued until the work is complete

### Our opinion on the financial statements

- 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.

#### Responsibility of the Corporate Director of Finance

As explained more fully in the Statement of the Corporate Director of Finance's Responsibilities set out on pages [...], the Corporate Director of Finance is responsible for the preparation of the pension fund'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 2020/21, and for being satisfied that they give a true and fair view and for such internal control as the directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the Corporate Director of 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.

#### Explanation as to what extent the audit was considered capable of detecting irregularities, including fraud

Irregularities, including fraud, are instances of non-compliance with laws and regulations. We design procedures in line with our responsibilities, outlined above, to detect irregularities, including fraud. The risk of not detecting a material misstatement due to fraud is higher than the risk of not detecting one resulting from error, as fraud may involve deliberate concealment by, for example, forgery or intentional misrepresentations, or through collusion. The extent to which our procedures are capable of detecting irregularities, including fraud is detailed below. However, the primary responsibility for the prevention and detection of fraud rests with both those charged with governance of the entity and management.

We obtained an understanding of the legal and regulatory frameworks that are applicable to the pension fund and determined that the most significant are the Local Government Pension Scheme Regulations 2013 (as amended), and the Public Service Pensions Act 2013.

We understood how Hillingdon Pension Fund is complying with those frameworks by understanding the incentive, opportunities and motives for non-compliance, including inquiring of management, Head of Internal Audit, and those charged with governance and obtaining and reading documentation relating to the procedures in place to identify, evaluate and comply with laws and regulations, and whether they are aware of instances of non-compliance. We corroborated this through our reading of the Pensions Committee and Pensions Board minutes and other information. Based on this understanding we designed our audit procedures to identify non-compliance with such laws and regulations. Our procedures had a focus on compliance with the accounting framework through obtaining sufficient audit evidence in line with the level of risk identified and with relevant legislation



# Audit Report

## Draft audit report

**NB This is an example report - our audit report will not be completed and issued until the work is complete**

### Our opinion on the financial statements

We assessed the susceptibility of the pension fund's financial statements to material misstatement, including how fraud might occur by understanding the potential incentives and opportunities for management to manipulate the financial statements, and performed procedures to understand the areas in which this would most likely arise. Based on our risk assessment procedures we identified management override of controls, including misstatement of investment amounts through fraudulent journal entries, to be our fraud risk.

To address our fraud risk we tested specific journal entries identified by applying risk criteria to the entire population of journals. For each journal selected, we tested specific transactions back to source documentation to confirm that the journals were authorised and accounted for appropriately. We assessed journal entries for evidence of management bias and evaluated for business rationale using specific criteria we considered to be relevant to the risk. We also tested the consistency of the investment asset valuation from the independent sources of the custodian and the fund managers to the financial statements.

In common with all audits under ISAs (UK), we are also required to perform specific procedures to respond to the risk of management override. In addressing the risk of fraud through management override of controls, we tested the appropriateness of journal entries and other adjustments; assessed whether the judgements made in making accounting estimates are indicative of a potential bias; and evaluated the business rationale of any identified significant transactions that were unusual or outside the normal course of business.

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 London Borough of Hillingdon, 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 London Borough of Hillingdon and London Borough of Hillingdon 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 audit differences

At the date of this report there are no unadjusted or adjusted audit differences which require your attention.

We note, however, that management has not been able to obtain the relevant information from the third party to disclose the additional voluntary contributions for 2020/21. The market value of the additional voluntary contributions as of 31 March 2020 was £5,249k. We do not currently expect this to impact our audit opinion.



# 05 Other reporting issues

## Other reporting issues

# Other reporting issues

### Consistency of other information published with the financial statements, including the Annual Governance Statement

We must give an opinion on the consistency of the financial and non-financial information in the Statement of Accounts 2020/21 with the audited financial statements. Our review of the Pension Fund's Annual Report, which was made available to us by management on 10 September 2021, has not been completed.

In addition, we also perform procedures to ensure the consistency of the Pension Fund accounts with the version presented in the Pension Fund's Annual Report. This is not yet complete and we received the annual report on 10 September 2021.

### 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 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 have had no reason to exercise these duties.

### 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 Fund's financial reporting process. We have no matters to report.



06

# Assessment of Control Environment



# Assessment of Control Environment

## Financial controls

### Our responsibilities

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 Fund 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.

### Findings

We have not identified any significant deficiencies in internal control.



07

# Independence

## Relationships, services and related threats and safeguards

The FRC Ethical Standard requires that we provide details of all relationships between Ernst & Young (EY) and the Fund, and its members and senior management and its affiliates, including all services provided by us and our network to the Fund, its members 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 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 1 April 2020 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 table below sets out a summary of the fees that you have paid to us in the year ended 31 March 2021 in line with the disclosures set out in FRC Ethical Standard and in statute.

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.

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	Final fee 2020/21	Scale fee 2020/21	Final Fee 2019/20
	£	£	£
Total Fee - Code work (1)	TBC	16,170	33,306
Total audit	TBC**	16,170**	33,306*

All fees exclude VAT.

There were no fees receivable outstanding at the time of writing this report.

\*The 19/20 Code work includes an additional fee of £17,136, which relates to additional procedures to address the significant risk around investments valuation, procedures on IAS19 assurances provided to the auditor of the LB of Hillingdon, the triennial membership data testing used in IAS19 valuations, additional specific one-off work required for Covid-19 considerations in relation to Going Concern and professional consultation, as well as work performed on restated membership numbers. We have discussed the variation with officers and received partial approval from PSAA.

\*\*The scale fee for 2020/21 is set by PSAA as indicative and does not reflect the actual costs of undertaking the audit, to address all risks identified and to meet current regulatory standards. We set out the key areas of focus of our work in Section 02. In our outline audit planning report, we included an estimate of the scale fee increase by £28,290 to reflect those underlying costs. We will discuss and agree a final fee with management and PSAA, and communicate progress to the Audit Committee.

## Other communications

### EY Transparency Report 2020

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 2020:

[EY UK Transparency Report 2020 | EY UK](#)



# 08 Appendices

# Audit approach update

We summarise below our approach to the audit of net asset statement and any changes to this approach from the prior year audit.

Our audit procedures are designed to be responsive to our assessed risk of material misstatement at the relevant assertion level. Assertions relevant to the balance sheet include:

- ▶ Existence: An asset, liability and equity interest exists at a given date
- ▶ Rights and Obligations: An asset, liability and equity interest pertains to the entity at a given date
- ▶ Completeness: There are no unrecorded assets, liabilities, and equity interests, transactions or events, or undisclosed items
- ▶ Valuation: An asset, liability and equity interest is recorded at an appropriate amount and any resulting valuation or allocation adjustments are appropriately recorded
- ▶ Presentation and Disclosure: Assets, liabilities and equity interests are appropriately aggregated or disaggregated, and classified, described and disclosed in accordance with the applicable financial reporting framework. Disclosures are relevant and understandable in the context of the applicable financial reporting framework

Balance sheet category	Audit Approach in current year	Audit Approach in prior year	Explanation for change
Investment assets	Substantively tested all assertions	Substantively tested all assertions	No change
Cash balances	Substantively tested all assertions	Substantively tested all assertions	No change

## Appendix B

# Summary of communications

Date 	Nature 	Summary 
Throughout the year	Meetings, calls and emails.	The Associate Partner and Manager have been in regular contact with the Corporate Director of Finance and the finance team in respect of the Council's risks, audit timeline and resource planning, accounts closedown and the audit approach.
8 July 2021	Meeting	Introduction of Helen Thompson as the new partner in charge to the Council's Corporate Director of Finance.
6 September 2021	Meeting	We held a meeting with the Council's Corporate Director of Finance, the Deputy Director of Corporate Finance, the Head of Finance and with EY's Associate Partner and Manager, where we discussed audit progress and the timescale.
14 September 2021	Meeting	We held a meeting with the Council's Chief Executive, the Cabinet Member for Finance, the Corporate Director of Finance and the Head of Finance and with EY's Associate Partner and Manager, where we discussed the status of the audit, the key steps to complete the work and the timetable impact.
All Audit Committee meetings held in the year	Committee attendance	The Associate Partner and Manager have attended the meetings of the Audit Committee held throughout the financial year and to the date of issue of this report. Specific reports issued and communications with the Committee are detailed in Appendix C.

In addition to the above specific meetings the audit team met with the finance team multiple times throughout the audit to discuss audit progress and findings.

## Appendix C

# 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.	Outline audit planning report April 2021
Planning and audit approach	Communication of the planned scope and timing of the audit, any limitations and the significant risks identified.	Outline audit planning report April 2021
Significant findings from the audit	<ul style="list-style-type: none"> <li>▶ Our view about the significant qualitative aspects of accounting practices including accounting policies, accounting estimates and financial statement disclosures</li> <li>▶ Significant difficulties, if any, encountered during the audit</li> <li>▶ Significant matters, if any, arising from the audit that were discussed with management</li> <li>▶ Written representations that we are seeking</li> <li>▶ Expected modifications to the audit report</li> <li>▶ Other matters if any, significant to the oversight of the financial reporting process</li> </ul>	This Audit results report and an update at the Audit Committee - 29 September 2021 Final Audit Results Report in due course

# Appendix C

		Our Reporting to you
Required communications	What is reported?	When and where
Going concern	<p>Events or conditions identified that may cast significant doubt on the entity's ability to continue as a going concern, including:</p> <ul style="list-style-type: none"> <li>▶ Whether the events or conditions constitute a material uncertainty</li> <li>▶ Whether the use of the going concern assumption is appropriate in the preparation and presentation of the financial statements</li> <li>▶ The adequacy of related disclosures in the financial statements</li> </ul>	This Audit results report and an update at the Audit Committee - 29 September 2021 Final Audit Results Report in due course
Misstatements	<ul style="list-style-type: none"> <li>▶ Uncorrected misstatements and their effect on our audit opinion</li> <li>▶ The effect of uncorrected misstatements related to prior periods</li> <li>▶ A request that any uncorrected misstatement be corrected</li> <li>▶ Material misstatements corrected by management</li> </ul>	This Audit results report and an update at the Audit Committee - 29 September 2021 Final Audit Results Report in due course
Subsequent events	<ul style="list-style-type: none"> <li>▶ Enquiry of the audit committee where appropriate regarding whether any subsequent events have occurred that might affect the financial statements.</li> </ul>	Audit Committee - 29 September 2021
Fraud	<ul style="list-style-type: none"> <li>▶ Enquiries of the audit committee to determine whether they have knowledge of any actual, suspected or alleged fraud affecting the Pension Fund</li> <li>▶ Any fraud that we have identified or information we have obtained that indicates that a fraud may exist</li> <li>▶ Unless all of those charged with governance are involved in managing the Pension Fund, any identified or suspected fraud involving:               <ol style="list-style-type: none"> <li>a. Management;</li> <li>b. Employees who have significant roles in internal control; or</li> <li>c. Others where the fraud results in a material misstatement in the financial statements.</li> </ol> </li> <li>▶ The nature, timing and extent of audit procedures necessary to complete the audit when fraud involving management is suspected</li> <li>▶ Any other matters related to fraud, relevant to Audit Committee responsibility.</li> </ul>	Formal enquiry letter sent and response received from Chair of Audit Committee. and This Audit results report - 29 September 2021 Final Audit Results Report in due course

# Appendix C

		Our Reporting to you
Required communications	What is reported?	When and where
Related parties	<p>Significant matters arising during the audit in connection with the Pension Fund’s related parties including, when applicable:</p> <ul style="list-style-type: none"> <li>▶ Non-disclosure by management</li> <li>▶ Inappropriate authorisation and approval of transactions</li> <li>▶ Disagreement over disclosures</li> <li>▶ Non-compliance with laws and regulations</li> <li>▶ Difficulty in identifying the party that ultimately controls the Pension Fund</li> </ul>	This Audit results report - 29 September 2021 Final Audit Results Report in due course
Independence	<p>Communication of all significant facts and matters that bear on EY’s, and all individuals involved in the audit, objectivity and independence.</p> <p>Communication of key elements of the audit engagement partner’s consideration of independence and objectivity such as:</p> <ul style="list-style-type: none"> <li>▶ The principal threats</li> <li>▶ Safeguards adopted and their effectiveness</li> <li>▶ An overall assessment of threats and safeguards</li> <li>▶ Information about the general policies and process within the firm to maintain objectivity and independence</li> </ul> <p>Communications whenever significant judgments are made about threats to objectivity and independence and the appropriateness of safeguards put in place.</p>	Outline audit planning report April 2021 and This Audit results report - 29 September 2021 Final Audit Results Report in due course

## Appendix C

		 Our Reporting to you
<b>Required communications</b>	 What is reported?	  When and where
External confirmations	<ul style="list-style-type: none"> <li>▶ Management's refusal for us to request confirmations</li> <li>▶ Inability to obtain relevant and reliable audit evidence from other procedures.</li> </ul>	We have received all requested confirmations
Consideration of laws and regulations	<ul style="list-style-type: none"> <li>▶ 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</li> <li>▶ 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</li> </ul>	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	<ul style="list-style-type: none"> <li>▶ Significant deficiencies in internal controls identified during the audit.</li> </ul>	This Audit results report - 29 September 2021 Final Audit Results Report - in due course

# Appendix C

		 Our Reporting to you
Required communications	 What is reported?	  When and where
Written representations we are requesting from management and/or those charged with governance	<ul style="list-style-type: none"> <li>▶ Written representations we are requesting from management and/or those charged with governance</li> </ul>	This Audit results report - 29 September 2021 Final Audit Results Report in due course
Material inconsistencies or misstatements of fact identified in other information which management has refused to revise	<ul style="list-style-type: none"> <li>▶ Material inconsistencies or misstatements of fact identified in other information which management has refused to revise</li> </ul>	This Audit results report - 29 September 2021 Final Audit Results Report in due course
Auditors report	<ul style="list-style-type: none"> <li>▶ Any circumstances identified that affect the form and content of our auditor's report</li> </ul>	This Audit results report - 29 September 2021 Final Audit Results Report in due course
Fee Reporting	<ul style="list-style-type: none"> <li>▶ Breakdown of fee information when the audit planning report is agreed</li> <li>▶ Breakdown of fee information at the completion of the audit</li> <li>▶ Any non-audit work</li> </ul>	Outline Audit Planning Report April 2021 and This Audit results report - 29 September 2021 Final Audit Results Report in due course

# Management representation letter

NB This is an example letter - the final letter template will not be available until the work is complete

## Management Representation Letter - draft

xx September 2021

Helen Thompson  
Associate Partner  
Ernst & Young LLP  
**Grosvenor House**  
**Grosvenor Square**  
**Southampton**  
SO15 2BE

This letter of representations is provided in connection with your audit of the financial statements of London Borough of Hillingdon Pension Fund (“the Fund”) for the year ended 31 March 2021. 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 01 April 2020 to 31 March 2021 and of the amount and disposition of the Fund’s assets and liabilities as at 31 March 2021, 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 2020/21.

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 2020/21.
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 2020/21, and are free of material misstatements, including omissions. We have approved the financial statements.

# Management representation letter

**NB This is an example letter - the final letter template will not be available until the work is complete**

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 2020/2021 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.
6. There are no unadjusted audit differences identified during the current audit and pertaining to the latest period presented *as at the date of this report*.

## **B. Non-compliance with laws and regulations including fraud**

1. We acknowledge that we are responsible for determining that the Fund's activities are conducted in accordance with laws and regulations and that we are responsible for identifying and addressing 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
  - 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.
  - Unrestricted access to persons within the entity from whom you determined it necessary to obtain audit evidence.

# Management representation letter

NB This is an example letter - the final letter template will not be available until the work is complete

2. You have been informed of all changes to the Fund rules.
3. All material transactions have been recorded in the accounting records and all material transactions, events and conditions 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 Audit Committee and Pensions Committee (or summaries of actions of recent meetings for which minutes have not yet been prepared) held through the period to the most recent meeting on the following [date].
5. We confirm the completeness of 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 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.
7. No transactions have been made which are not in the interests of the Fund members or the Fund during the fund year or subsequently.
8. We believe that the methods, significant assumptions and the data we used in making accounting estimates and related disclosures are appropriate and consistently applied to achieve recognition, measurement and disclosure that is in accordance with CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2020/2021
9. From the date of our last management representation letter through the date of this letter we have disclosed to you any unauthorized access to our information technology systems that either occurred or to the best of our knowledge is reasonably likely to have occurred based on our investigation, including of reports submitted to us by third parties (including regulatory agencies, law enforcement agencies and security consultants), to the extent that such unauthorized access to our information technology systems is reasonably likely to have a material impact to the financial statements, in each case or in the aggregate.

## **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.

## **E. Going Concern**

3. Note [X] to the financial statements discloses all the matters of which we are aware that are relevant to the Fund's ability to continue as a going concern, including significant conditions and events, our plans for future action, and the feasibility of those plans.

## **F. Subsequent Events**

1. Other than the events described in Note [X] 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.

# Management representation letter

NB This is an example letter - the final letter template will not be available until the work is complete

## G. Other information

1. We acknowledge our responsibility for the preparation of the other information. The other information comprises the Narrative Report and Annual Governance Statement within the Statement of Accounts, and the Pension Fund Annual Report.
2. We confirm that the content contained within the other information is consistent with the financial statements.

## H. 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.

## I. Derivative Financial Instruments

1. We confirm that the Fund has made no direct investment in derivative financial instruments.

## J. 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.

## K. Actuarial valuation

1. The latest report of the actuary Hymans Robertson as at 31 March 2021 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 their report.

## L. Estimates

1. We confirm that the significant judgments made in estimating the investment valuations and the IAS26 disclosure of Present Value of Promised Retirement Benefits (“the accounting estimates”) have taken into account all relevant information and the effects of the COVID-19 pandemic of which we are aware.
2. We believe that the selection or application of the methods, assumptions and data used by us have been consistently and appropriately applied or used in making the accounting estimates.
3. We confirm that the significant assumptions used in making the accounting estimates appropriately reflect our intent and ability to carry out the specific courses of action on behalf of the entity.
4. We confirm that the disclosures made in the financial statements with respect to the accounting estimates, including those describing estimation uncertainty and the effects of the COVID-19 pandemic, are complete and are reasonable in the context of CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2020/21
5. We confirm that appropriate specialized skills or expertise has been applied in making the accounting estimates.
6. We confirm that no adjustments are required to the accounting estimates and disclosures in the financial statements, including due to the COVID-19 pandemic.

Yours faithfully,

Paul Whaymand - Corporate Director of Finance  
Councillor Martin Goddard - Chairman of Pensions Committee

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ED None

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# Pension Fund Account

## PENSION FUND ACCOUNT

	Note	31 March 2021 £'000	31 March 2020 £'000
Contributions	4	48,681	47,305
Transfers In from other pension funds	5	4,803	1,746
		<b>53,484</b>	<b>49,051</b>
Less: Benefits	6	(47,211)	(47,188)
Less: Payments to and on account of leavers	7	(3,541)	(6,870)
		<b>(50,752)</b>	<b>(54,058)</b>
<b>Net additions/(withdrawals) from dealings with members</b>		<b>2,732</b>	<b>(5,007)</b>
Less: Management expenses	8	(10,749)	(9,882)
<b>Net additions/(withdrawals) including fund management expenses</b>		<b>(8,017)</b>	<b>(14,889)</b>
<b>Return on investments</b>			
Investment income	9	13,667	23,101
Profit and losses on disposal of investments and changes in market value of investments	10A	170,519	(86,092)
Taxes On Income		(22)	(48)
<b>Net return on investments</b>		<b>184,164</b>	<b>(63,039)</b>
<b>Net Increase/(Decrease) in the fund</b>		<b>176,147</b>	<b>(77,928)</b>
<b>Net Assets at start of year</b>		<b>989,055</b>	<b>1,066,983</b>
<b>Net Assets at end of year</b>		<b>1,165,202</b>	<b>989,055</b>

## NET ASSETS STATEMENT

		31 March 2021 £'000	31 March 2020 £'000
Investment Assets	10	1,161,568	986,131
Investment Liabilities	10	0	(17)
<b>Total net investments</b>		<b>1,161,568</b>	<b>986,114</b>
Current Assets	11	4,323	3,574
Current Liabilities	12	(689)	(633)
<b>Net assets of the fund available to fund benefits at</b>		<b>1,165,202</b>	<b>989,055</b>

The Pension Fund Accounts summarise the transactions of the scheme and show the net assets at the disposal of members. They do not take account of liabilities to pay pensions and other benefits after the period end. The actuarial present value of promised retirement benefits is disclosed at note 18.

**Paul Whaymand**  
**Corporate Director of Finance**  
 29 September 2021

# Notes to the Pension Fund Account

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## 1. DESCRIPTION OF THE FUND

### a. General

The London Borough of Hillingdon Pension Fund ("the Fund") is part of the Local Government Pension Scheme (LGPS) and is administered by the London Borough of Hillingdon ("the administering body"). The Council is the reporting entity for this pension fund. The Fund is a contributory defined benefits scheme established in accordance with statute to provide benefits to members and retired members of the London Borough of Hillingdon and Admitted and Scheduled bodies in the Fund. Benefits in respect of service from 1 April 2014 are based on career average revalued earnings (CARE) scheme. Benefits in respect of past service up to 31 March 2014 are based on final salary. Pensions move in line with the Consumer Price Index (CPI) annually. Benefits paid out include a pension payable to former members and their dependants, lump sum retirement benefits, payment of death benefits where death occurs in service or retirement, and yearly payment of benefits on medical grounds.

The Fund is governed by the Public Service Pensions Act 2013 and administered in accordance with the following secondary legislation:

- Local Government Pension Scheme Regulations 2013 (as amended)
- Local Government Pension Scheme (Transitional Provisions, Savings and Amendment) Regulations 2014 (as amended)
- Local Government Pension Scheme (Management and Investment of Funds) Regulations 2016

### b. Membership

Membership of the LGPS is voluntary and employees are free to choose whether to join the scheme, remain in the scheme or make their own personal arrangements outside of the scheme. Due to government legislation, since 1 February 2013 all new employees who are not in the scheme are automatically enrolled. Members have the option to opt out of the scheme. Employees who have opted out are then re-enrolled every 3 years, when they can again opt out.

Organisations participating in the London Borough of Hillingdon Pension Fund include the following:

- Scheduled bodies, which are automatically entitled to be members of the Fund.
- Admitted bodies, which participate in the Fund under the terms of an admission agreement between the Fund and the employer. Admitted bodies include voluntary, charitable and similar not-for-profit organisations, or private contractors undertaking a local authority function following outsourcing to the private sector.

Employers who contribute to the Fund in addition to London Borough of Hillingdon are:

#### **Admitted Bodies:**

Braybourne Facilities - Bishop Ramsey Cleaners

Caterlink - Frays Academy

Caterplus

Cucina - Ruislip High School

Greenwich Leisure

Cleantec - Harlington School Cleaners

Taylor Shaw - Haydon Academy Catering

Hayward Services

- Hillingdon School
- Highfield School
- Guru Nanak

Heathrow Travel Care

Hillingdon & Ealing Citizens Advice

# Notes to the Pension Fund Account

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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

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

# Notes to the Pension Fund Account

- Young Peoples Academy
- Skills HUB

## Park Federation Trust

- Cranford Park Academy
- Lake Farm Park Federation

## QED Academy Trust

- Wood End Academy
- West Drayton Academy
- Coteford Junior Academy
- Queensmead Academy
- Northwood Academy

## Rosedale Hewens Academy Trust

- Rosedale College
- Mellowlane School
- Brookside Primary School

## Ruislip High School

## Ryefield Primary School

## Vyners Academy

## Stockley Academy

## Swakeleys Academy

## Uxbridge Academy

## William Byrd School

## Willows Academy

London Borough of Hillingdon Pension Fund	31 March 2021	31 March 2020
Number of employers with active members	61	66
<b>Number of employees in scheme</b>		
London Borough of Hillingdon	4,972	4,839
Other employers	2,796	2,596
<b>Total</b>	<b>7,768</b>	<b>7,435</b>
<b>Number of Pensioners</b>		
London Borough of Hillingdon	6,187	6,082
Other employers	674	600
<b>Total</b>	<b>6,861</b>	<b>6,682</b>
<b>Deferred Pensioners</b>		
London Borough of Hillingdon	7,566	7,941
Other employers	2,659	2,630
<b>Total</b>	<b>10,225</b>	<b>10,571</b>

# Notes to the Pension Fund Account

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## 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 2021. 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 (2020/21, 2021/2022 & 2022/23). Currently employer contribution rates range from 18.5% to 37.4% 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 is one direct investment into pooled funds with M&G Investments.

## e. Governance

The Fund is overseen by the Pensions Committee (comprised of Councillors) and the Pensions Board (comprised of an even number of employer and member representatives). The performance of the fund managers is monitored by the Pensions Committee (Four meetings in 2020-21) and governance is overseen by the Pensions Board (Four meetings in 2020-21). Pensions Committee and Pensions Board consisted of the following members in 2020/21:

### Pensions Committee

Cllr Martin Goddard (Chairman)	Cllr Tony Eginton
Cllr Phillip Corthorne (Vice-Chairman)	Cllr John Morse
Cllr Raymond Graham	

### Pensions Board

Roger Hackett (Scheme Member Representative)	Zak Muneer (Employer Representative) Until Feb 2021
Tony Noakes (Employee Representative)	Hayley Seabrook (Employer Representative)
	Shane Woodhatch (Employer Representative) From Feb 2021

## 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 2020/21, which is based on International Financial Reporting Standards (IFRS) as amended for the public sector and underpinned by the Local Government Pension Scheme Regulations. The accounts have been prepared on an accrual basis, except for transfer values, which are accounted for on a cash basis, and summarise the Fund transactions and report on the net assets available to pay pension benefits as at 31 March 2021.

The accounts do not take into account obligations to pay benefits and pensions that fall due after the reporting date (31 March 2021). 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.

# Notes to the Pension Fund Account

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- For pooled funds, if bid prices are provided by the Fund administrators then these are used, otherwise the Net Asset Value (NAV) is used. The NAV for pooled funds is derived by subtracting the fund's liabilities from assets and divide the result by total units/shares within the pooled fund.

- Private Equity is valued using the latest audited valuation from the Limited Partner/General Partner. This is adjusted for any capital calls/distributions that have taken place since the date of the statement. Unquoted investments for Private Placements and Infrastructure are priced using discounted cash flow methodology.

- b. Foreign currency translation of assets and liabilities and forward foreign exchange contracts are converted into sterling at the closing middle rates of exchange in the Net Assets Statement. Overseas income is converted at rates of exchange ruling when remitted.
- c. Acquisition costs of investments occur as brokerage commission when investments are purchased. They are recorded in the cost figure on an accrual basis.
- d. Investment management expenses are recorded at cost when the fund managers/custodian invoice the fund on a quarterly basis or provide a fee schedule deducted at source. Expenses are recorded on an accrual basis. Where an investment manager's complete fee schedule has not been received by year end, an estimate based on the previous quarter's amount is included in the accounts. In 2020/21, £41k of such fees is based on estimates (2019/20: £76k). The fund also agreed with the following fund managers that their fees include elements of performance, Adams Street Partners, AEW UK, Macquarie Infrastructure Partners and Permira LLP.
- e. Administration expenses are paid when invoiced by third party providers through the administering authority's payment system and recharged to the Pension Fund.
- f. Interest on property developments - property is held in unit trusts for the Pension Fund, the return received is calculated in accordance with the unit price at the Net Assets Statement date.
- g. 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 made and accepted by the recipient. Group transfers are accounted for under the agreement upon which they are made.
- j. Cash and cash equivalents are held in the custody accounts by fund managers as agreed in the individual Investment Management Agreements (IMA). Cash held is at the discretion of the manager but must not exceed the stipulated permitted range in the IMA.
- k. Investment Income - dividends from quoted securities are accrued when the securities are quoted ex-dividend. Interest on cash deposits 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 2021 was £294,037k (£275,145k at 31 March 2020).
- 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. The fair value principles employed to value the underlying investments and the valuation policy remains unchanged. Both managers continue to use the latest valuation available from underlying investment managers, primarily at 31 December 2020, 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 £13,369k. 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 2021. 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 2021 valuations will be broadly based on a general outlook continued recovery COVID-19 related economic impact of 2019/20.	The total infrastructure alternative investments in the financial statements are £34,327k. 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 is not be impacted by Covid-19.	The total private finance investments in the financial statements are £1,248k. 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. Investments have recovered and stabilised, thus returning to growth. Subsequently, only 5% of investment portfolio is now classified as high risk from COVID-19. Deal activity has also recovered to pre-pandemic levels.	The total Private Debt investments in the financial statements are £59,005k. 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 2021 were not subject to any uncertainty clauses as the funds had fully recovered from the effects of COVID19, unlike 31 March 2020.	The total Pooled property investments in the financial statement is £188,926k. There is a risk the investments may be over or understated in the accounts. These asset class of investments are not openly traded and a lot of unobservable inputs are utilised in the valuation of the assets. These unobservable valuation assumptions may have a profound effect on the actual pricing at year end thus skew shown valuation the fund accounts.
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 2021 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 2021 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 2021	Approximate % increase to liabilities	Approximate monetary amount (£m)
0.5% p.a. increase in the Pension Increase Rate	9%	157
0.5% p.a. increase in the Salary Increase Rate	1%	9
0.5% p.a. decrease in the Real Discount Rate	8%	146

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 2021 £'000	31 March 2020 £'000
Employees	10,231	10,109
<b>Employers Contributions:</b>		
Normal	32,737	30,333
Deficit Funding	5,713	6,863
	<b>48,681</b>	<b>47,305</b>

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 2021 £'000	31 March 2020 £'000
LB Hillingdon	34,759	33,793
Scheduled Bodies	13,528	13,174
Admitted Bodies	394	338
	<b>48,681</b>	<b>47,305</b>

## 5. TRANSFERS IN

	31 March 2021 £'000	31 March 2020 £'000
Individual transfers in from other schemes	4,803	1,746
	<b>4,803</b>	<b>1,746</b>

# Notes to the Pension Fund Account

## 6. BENEFITS

	31 March 2021 £'000	31 March 2020 £'000
<b>By category</b>		
Pensions	(39,955)	(38,846)
Commutations and Lump Sum Retirement Benefits	(6,478)	(7,330)
Lump Sum Death Benefits	(778)	(1,012)
	<b>(47,211)</b>	<b>(47,188)</b>

	31 March 2021 £'000	31 March 2020 £'000
<b>By authority</b>		
LB Hillingdon	(43,708)	(42,567)
Scheduled Bodies	(3,177)	(4,246)
Admitted Bodies	(326)	(375)
	<b>(47,211)</b>	<b>(47,188)</b>

## 7. PAYMENTS TO AND ON ACCOUNT OF LEAVERS

	31 March 2021 £'000	31 March 2020 £'000
Refunds to members leaving service	(82)	(103)
Individual transfers out to other schemes	(3,459)	(6,767)
	<b>(3,541)</b>	<b>(6,870)</b>

## 8. MANAGEMENT EXPENSES

The administering authority incurred costs in managing the Fund for the period ending 31 March 2021 as follows:

	31 March 2021 £'000	31 March 2020 £'000
Administrative Costs	(963)	(825)
Investment Management Expenses	(9,548)	(8,767)
Oversight and Governance	(238)	(290)
	<b>(10,749)</b>	<b>(9,882)</b>

## 8A. INVESTMENT MANAGEMENT EXPENSES BREAKDOWN

2020/2021	£'000	£'000	£'000	£'000
	Total	Management Expenses	Performance Fees	Transaction Costs
Equities	(94)	(88)	0	(6)
Pooled Investments	(5,971)	(2,827)	(1,242)	(1,902)
Pooled Property Investments	(2,323)	(1,307)	(104)	(912)
Private Equity	(1,099)	(241)	(797)	(61)
	<b>(9,487)</b>	<b>(4,463)</b>	<b>(2,143)</b>	<b>(2,881)</b>
Custody Fees	(61)			
Total	<b>(9,548)</b>			

# Notes to the Pension Fund Account

2019/2020	£'000	£'000	£'000	£'000
	Total	Management Expenses	Performance Fees	Transaction Costs
Equities	(533)	(421)	0	(112)
Pooled Investments	(5,180)	(3,248)	(614)	(1,318)
Pooled Property Investments	(2,711)	(2,063)	(140)	(508)
Private Equity	(284)	(200)	(26)	(58)
	<b>(8,708)</b>	<b>(5,932)</b>	<b>(780)</b>	<b>(1,996)</b>
Custody Fees	(59)			
Total	<b>(8,767)</b>			

## 8B. TRANSACTION COSTS ANALYSIS BY ASSET CLASS

	31 March 2021 £'000	31 March 2020 £'000
Equities	(6)	(112)
Pooled Investments	(1,902)	(1,318)
Pooled Property Investments	(912)	(508)
Private Equity	(61)	(58)
	<b>(2,881)</b>	<b>(1,996)</b>

## 8C. EXTERNAL AUDIT COSTS

	31 March 2021 £'000	31 March 2020 £'000
Payable in Respect of External Audit	(40)	(22)
	<b>(40)</b>	<b>(22)</b>

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

## 9. INVESTMENT INCOME

	31 March 2021 £'000	31 March 2020 £'000
Income from Equities	1,398	5,810
Pooled Property Investments	2,108	6,452
Pooled Investments- Unit trusts and other managed funds	10,061	10,362
Interest on cash deposits	18	119
Other (for example from stock lending or underwriting)	82	358
	<b>13,667</b>	<b>23,101</b>

# Notes to the Pension Fund Account

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## 10. INVESTMENTS

	31 March 2021 £'000	31 March 2020 £'000
<b>Investment Assets</b>		
Equities	42	84,471
Pooled investments	943,976	706,512
Pooled property investments	188,926	165,448
Private equity	13,369	13,614
<b>Other Investment balances</b>		
Cash deposits	15,166	15,520
Investment income due	89	502
Sales Settlements Outstanding	0	64
<b>Total investment assets</b>	<b>1,161,568</b>	<b>986,131</b>
<b>Investment liabilities</b>		
<b>Derivative contracts:</b>		
Purchase Settlements Outstanding	0	(17)
<b>Total investment liabilities</b>	<b>0</b>	<b>(17)</b>
<b>Net investment assets</b>	<b>1,161,568</b>	<b>986,114</b>

# Notes to the Pension Fund Account

## 10A. RECONCILIATION OF MOVEMENTS IN INVESTMENTS AND DERIVATIVES

2020/21	Value 1 April 2020 £'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 2021 £'000
Equities	84,471	3,657	(90,547)	2,461	42
Pooled Investments	706,512	216,071	(126,184)	147,577	943,976
Pooled Property Investments	165,448	14,970	(181)	8,689	188,926
Private Equity	13,614	11	(3,916)	3,660	13,369
	<b>970,045</b>	<b>234,709</b>	<b>(220,827)</b>	<b>162,386</b>	<b>1,146,313</b>
<b>Other investment balances</b>	<b>970,045</b>	<b>234,709</b>	<b>(220,827)</b>	<b>162,386</b>	<b>1,146,313</b>
Cash Deposits	15,520	0	0	0	15,166
Investment Income Due	502	0	0	0	89
Outstanding Sales	64	0	0	0	0
Adjustments to Market Value Changes	0	0	0	8,133	0
<b>Total Investment Assets</b>	<b>986,131</b>			<b>170,519</b>	<b>1,161,568</b>
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
	<b>1,054,560</b>	<b>236,354</b>	<b>(227,559)</b>	<b>(93,310)</b>	<b>970,045</b>
<b>Other investment balances</b>	<b>1,054,560</b>	<b>236,354</b>	<b>(227,559)</b>	<b>(93,310)</b>	<b>970,045</b>
Cash Deposits	10,472	0	0	207	15,520
Investment Income Due	1,183	0	0	0	502
Outstanding Sales	0	0	0	0	64
Adjustments to Market Value Changes	0	0	0	7,011	0
<b>Total Investment Assets</b>	<b>1,066,215</b>			<b>(86,092)</b>	<b>986,131</b>

# Notes to the Pension Fund Account

## 10B. ANALYSIS OF INVESTMENTS

	31 March 2021 £'000	31 March 2020 £'000
<b>Equities</b>		
<b>UK</b>		
Quoted	42	84,471
	<b>42</b>	<b>84,471</b>
<b>Pooled funds - additional analysis</b>		
Fixed income unit trust	261,498	230,844
Diversified Growth Funds	50,833	55,573
Infrastructure Funds	34,327	27,265
Global Equity	537,065	324,053
Limited liability partnerships	60,253	68,777
	<b>943,976</b>	<b>706,512</b>
<b>Other Investments</b>		
Pooled property Investments	188,926	165,448
Private equity	13,369	13,614
	<b>202,295</b>	<b>179,062</b>
Cash deposits	15,166	15,520
Investment income due	89	502
Sales Settlements Outstanding	0	64
	<b>15,255</b>	<b>16,086</b>
<b>Total investment assets</b>	<b>1,161,568</b>	<b>986,131</b>
<b>Investment liabilities</b>		
Purchase Settlements Outstanding	0	(17)
<b>Total investment liabilities</b>	<b>0</b>	<b>(17)</b>
<b>Net investment assets</b>	<b>1,161,568</b>	<b>986,114</b>

## 10C. INVESTMENTS ANALYSED BY FUND MANAGER

Fund Manager	Market Value 31 March 2021 £'000	%	Market Value 31 March 2020 £'000	%
<b>Investments Managed by London CIV Pool</b>				
Legal & General Investment Management	668,045	58	384,373	39
London CIV Asset Pool	127,945	11	184,884	19
	<b>795,990</b>	<b>69</b>	<b>569,257</b>	<b>58</b>
<b>Investments Managed Outside of London CIV Asset Pool</b>				
Adams Street Partners	10,103	1	9,909	1
AEW UK	60,712	5	50,774	5
JP Morgan Asset Management	116,580	10	89,137	9
LGT Capital Partners	3,266	0	3,705	0
M&G Investments	1,248	0	4,674	0
Macquarie Infrastructure	20,862	2	26,699	3
Permira Credit Solutions	59,005	5	64,103	7
UBS Global Asset Management (Equities)	119	0	86,948	9
UBS Global Asset Management (Property)	78,990	7	67,517	7
Other*	14,693	1	13,391	1
	<b>365,578</b>	<b>31</b>	<b>416,857</b>	<b>42</b>
<b>Total</b>	<b>1,161,568</b>	<b>100</b>	<b>986,114</b>	<b>100</b>

\* Other includes pending trades, accrued income and cash held in custody accounts, independent of fund managers not mandated to hold cash.

\* No single holding within an investment represents more than 5% of total assets

# Notes to the Pension Fund Account

## 10D. STOCK LENDING

The Fund's investment strategy sets the parameters for the Fund's stock-lending programme. At the year-end, the value of quoted equities on loan was £29k (31 March 2020: £3,572k). 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 £30k (31 March 2020: £3,804k) 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 2021 £'000	31 March 2020 £'000
Debtors		
Employers' contributions due	63	51
Employees' contributions due	16	13
Cash balances	4,244	3,510
	<b>4,323</b>	<b>3,574</b>

## 12. CURRENT LIABILITIES

	31 March 2021 £'000	31 March 2020 £'000
Creditors		
Other local authorities (LB Hillingdon)	(172)	(172)
Other entities	(517)	(461)
	<b>(689)</b>	<b>(633)</b>

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

## 13. ADDITIONAL VOLUNTARY CONTRIBUTIONS

Additional Voluntary Contributions paid by scheme members are not included in the accounts. The additional voluntary contributions are paid by scheme members directly to Prudential Assurance Company, who manage these monies independently of the fund and, as determined by the fund actuary, do not form part of the Fund valuation.

According to information provided by Prudential, £168k was received in additional voluntary contributions by members, in 2019/20 and AVC Fund value was £5,249k. Any transfer of additional contributions into the Fund during the year are included in the employee contributions value as detailed in note 4.

Due to technical and administrative problems encountered by Prudential, the appointed AVC provider, updated fund value and contributions received for 2020/21 are yet to be made available.

# Notes to the Pension Fund Account

## 14. FAIR VALUE - BASIS OF VALUATION

The basis of the valuation of each class of investment asset is set out below. There has been no change in the valuation techniques used during the year. All assets have been valued using fair value techniques which represent the highest and best price available at the reporting date.

Description of asset	Valuation hierarchy	Basis of valuation	Observable and unobservable inputs	Key sensitivities affecting the valuations provided
Market quoted investments	Level 1	Published bid market price ruling on the final day of accounting period.	Not required	Not required
Quoted bonds	Level 1	Fixed interest securities are valued at market value based on current yields.	Not required	Not required
Pooled investments - overseas unit trusts and property funds	Level 2	Closing bid price where bid and offer prices are published. Closing single price where single price is published.	NAV-based pricing set on a forward pricing basis	Not required
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.

# Notes to the Pension Fund Account

## 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 2021.

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 2021 £'000	Value on Increase £'000	Value on Decrease £'000
Pooled investments - Limited Liability Partnerships (Infrastructure) a	10%	34,327	37,760	30,894
Pooled investments - Limited Liability Partnerships (Private Credit) b	10%	60,253	66,278	54,228
Pooled Property - UBS, AEW & LGIM c	10%	188,926	207,819	170,033
Private Equity - d	5%	13,369	14,037	12,701
Venture Capital	5%	41	43	39
<b>Total</b>		<b>296,916</b>	<b>325,937</b>	<b>267,895</b>

a) The potential movement of 10% represents a combination of the following factors, which could all move independently in different directions: i) material changes in economic and financial assumptions. ii) discounted equity cash flow rate.

b) The assumed movement is based on pricing of loans in the secondary leveraged loan market, with widening/narrowing spreads resulting in price changes either way.

c) The assumed movement is based fluctuations in market prices for comparable assets, real estate market illiquidity and counterparty default.

d) Movement in the assessed valuation range derive from changes in the underlying profitability of component companies, the range in the potential movement of 5% is caused by unexpected changes to cash flow forecast and discounts for lack of potential bids.

## 14A. FAIR VALUE HIERARCHY

Asset and liability valuations have been classified into three levels, according to the quality and reliability of information used to determine fair values. Transfers between levels are recognised in the year in which they occur.

### Level 1

Assets and liabilities at level 1 are those where the fair values are derived from unadjusted quoted prices in active markets for identical assets or liabilities. Products classified as level 1 comprise quoted equities, quoted fixed securities, quoted index linked securities and unit trusts.

### Level 2

Assets and liabilities at level 2 are those where quoted market prices are not available; for example, where an instrument is traded in a market that is not considered to be active, or where valuation techniques are used to determine fair value.

### Level 3

Assets and liabilities at level 3 are those where at least one input that could have a significant effect on the instrument's valuation is not based on observable market data.

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.

# Notes to the Pension Fund Account

Values as at 31 March 2021	Quoted Market Price	Using Observable Inputs	With Significant Unobservable Inputs	Total £'000
	Level 1 £'000	Level 2 £'000	Level 3 £'000	
<b>Financial Assets at Fair Value through Profit and Loss</b>				
Equities	42	0	0	42
Pooled Investments	0	849,355	94,621	943,976
Pooled Property Investments	0	0	188,926	188,926
Private Equity	0	0	13,369	13,369
	<b>42</b>	<b>849,355</b>	<b>296,916</b>	<b>1,146,313</b>
<b>Financial Liabilities at Fair Value through Profit and Loss</b>				
<b>Total</b>	<b>42</b>	<b>849,355</b>	<b>296,916</b>	<b>1,146,313</b>

Values as at 31 March 2020	Quoted Market Price	Using Observable Inputs	With Significant Unobservable Inputs	Total £'000
	Level 1 £'000	Level 2 £'000	Level 3 £'000	
<b>Financial Assets at Fair Value through Profit and Loss</b>				
Equities	84,471	0	0	84,471
Pooled Investments	0	610,429	96,083	706,512
Pooled Property Investments	0	0	165,448	165,448
Private Equity	0	0	13,614	13,614
Amount Receivable from Sales	64	0	0	64
	<b>84,535</b>	<b>610,429</b>	<b>275,145</b>	<b>970,109</b>
<b>Financial Liabilities at Fair Value through Profit and Loss</b>				
Payable for Investment Purchases	(17)	0	0	(17)
<b>Total</b>	<b>84,518</b>	<b>610,429</b>	<b>275,145</b>	<b>970,092</b>

## 14B. RESTATEMENT OF VALUATION HIERARCHIES

There were no restatements of valuations between hierarchies in 2020/21.

# Notes to the Pension Fund Account

## 14C. RECONCILIATION OF FAIR VALUE MEASUREMENTS WITHIN LEVEL 3

### Level 3 Assets Reconciliation

	Value 1 April 2020	Transfers Into Level 3	Purchases at cost	Sales proceeds	Unrealised gains/(losses)	Realised gains/(losses)	Value 31 March 2021
	£'000	£'000	£'000	£'000	£'000	£'000	£'000
Private Equity - Adams Street Partners, LGT Capital Partners & UBS	13,614	0	11	(3,916)	706	2,954	13,369
Private Finance - M&G	4,674	0	0	(2,322)	(1,196)	92	1,248
Infrastructure - Maquarie & LCM	27,265	0	13,166	(8,088)	(2,728)	4,712	34,327
Venture Capital - UBS	41	0	0	0	0	0	41
Property - UBS Property, AEW UK & LGIM LPI	165,448	0	14,970	(181)	8,824	(135)	188,926
Direct Lending - Permira	64,103	0	0	(5,816)	718	0	59,005
<b>Total Level 3 Assets</b>	<b>275,145</b>	<b>0</b>	<b>28,147</b>	<b>(20,323)</b>	<b>6,324</b>	<b>7,623</b>	<b>296,916</b>

There were no transfers into level 3 assets in 2020/21.

# Notes to the Pension Fund Account

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## 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:

# Notes to the Pension Fund Account

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- Third party evidence to support pricing (such as Market data, broker quotes or Bloomberg pricing, as well as latest financials and capital structure; and any other adjustments to value) was evidenced.
- That the valuations are prepared in a consistent manner with previous valuations and that any changes in methodology or valuation are clearly explained; and valuations are derived using methodology consistent with the IPEV guidelines.

## **Infrastructure: Macquarie**

Valuations are calculated by the individual asset teams on a quarterly basis. The valuation process follows the British Venture Capital Association (BVCA) guidelines and is compliant with International Financial Reporting Standards (IFRS). The most generally accepted methodology of valuing infrastructure assets is by way of a discounted cash flow (DCF) analysis.

## **DCF-Based Market Valuation Process**

### **Financial Model**

The acquisition financial models of all the Fund's underlying investments will be externally audited prior to financial close. They will be used as the initial base financial models for the DCF analysis.

### **Update for Economic, Operational and Financial Assumptions**

The economic assumptions in the financial models are adjusted every three months to reflect current market conditions. The main economic variables relate to interest rates, exchange rates and inflation.

The initial operational assumptions in each of the financial models are the acquisition forecasts. Any historical information (e.g. distributions received in an intervening period and year-to-date performance) will be updated within the model. In relation to forward-looking assumptions, the acquisition assumptions will continue to be used unless there is a material inconsistency between these assumptions and:

- The actual operational results to date
- The revised forecasts provided by management or approved by the board.

The financial assumptions in the model (e.g. cost of debt and capital structure) are also updated to reflect the actual debt put into place, current base rates and any material change in outlook with regards to future leverage.

## **Discount Rate**

Equity cash flows are discounted at the acquisition internal rate of return, which is adjusted for changes in the relevant risk-free rate. The acquisition internal rate of return is the return, which is forecast under the acquisition case and price, reflecting the risks inherent in each of the investments. The difference between the acquisition internal rate of return and the risk-free rate at the date of acquisition equates to the risk premium, which is the risk compensation to equity holders.

Most of the Fund's assets are likely to see some decrease in the risk premium as assets are de-risked following acquisition. Such projects may have a changing risk "life-cycle", whereby the risk changes as the asset matures. In addition, if there is a change in the inherent risk of an investment, then the risk premium may need to be reconsidered.

## **Pooled Property: AEW, UBS Property & LGIM LPI**

Pooled properties have been valued in accordance with RICS valuation – Professional Standards VPS4 (7.1) fair value and VPGA 1 valuations for inclusion in financial statements, which adopts the definition of fair value used by the International Accounting Standards Board:

*"The price that would be received to sell an asset, or paid to transfer a liability, in an orderly transaction between market participants at the measurement date."*

The properties are valued individually, and the details of tenure, tenancies and floor area are considered for valuation purposes.

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

### **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

# Notes to the Pension Fund Account

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 2021 £'000	31 March 2021 £'000	31 March 2021 £'000	31 March 2021 £'000	31 March 2020 £'000	31 March 2020 £'000	31 March 2020 £'000	31 March 2020 £'000
<b>Financial Assets</b>								
Equities	42	0	0	42	84,471	0	0	84,471
Pooled Investments	943,976	0	0	943,976	706,512	0	0	706,512
Pooled property investments	188,926	0	0	188,926	165,448	0	0	165,448
Private Equity	13,369	0	0	13,369	13,614	0	0	13,614
Cash	0	15,166	0	15,166	0	15,520	0	15,520
Other Investment balances	0	89	0	89	0	566	0	566
	<b>1,146,313</b>	<b>15,255</b>	<b>0</b>	<b>1,161,568</b>	<b>970,045</b>	<b>16,086</b>	<b>0</b>	<b>986,131</b>
<b>Financial Liabilities</b>								
Purchase Settlements Outstanding	0	0	0	0	0	0	(17)	(17)
	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>(17)</b>	<b>(17)</b>
<b>Total</b>	<b>1,146,313</b>	<b>15,255</b>	<b>0</b>	<b>1,161,568</b>	<b>970,045</b>	<b>16,086</b>	<b>(17)</b>	<b>986,114</b>

# Notes to the Pension Fund Account

## 15A. NET GAINS AND LOSSES ON FINANCIAL INSTRUMENTS

	31 March 2021 £000's	31 March 2020 £000's
<b>Financial Assets</b>		
Designated at Fair Value through profit and loss	170,519	(86,093)
	<b>170,519</b>	<b>(86,093)</b>

## 16. NATURE & EXTENT OF EXPOSURE TO RISKS ARISING FROM FINANCIAL INSTRUMENTS

### Risk and Risk Management

The Fund's primary long-term risk is that the Fund's assets will fall short of its liabilities. Therefore, the aim of investment risk management is to minimise the risk of an overall reduction in the value of the Fund and to maximise the opportunity for gains across the whole Fund portfolio. The Fund achieves this through asset diversification to reduce exposure to market risk (price risk, currency and interest rate risks) and credit risk to an acceptable level. In addition, the Fund manages its liquidity risk to ensure there is sufficient liquidity to meet the Fund's forecast cash flows.

Responsibility for the Fund's risk management strategy rests with the Pensions Committee. Risk management policies are established to identify and analyse the risks faced by the Council's pensions operations. Policies are reviewed regularly to reflect changes in activity and in market conditions.

### Market risk

The risk that the fair value of cash flows of a financial instrument will fluctuate due to changes in market prices. Market risk reflects interest rate risk, currency risk and other price risks. To mitigate against market risk the Pension Fund invests in a diversified pool of assets to ensure a reasonable balance between different categories. The management of the assets are placed with a number of fund managers with different performance targets and investment strategies. Each fund manager is expected to maintain a diversified portfolio in each asset class. Risks associated with the strategy and investment returns are included as part of the quarterly reporting to Pensions Committee where they are monitored and reviewed.

### 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).

# Notes to the Pension Fund Account

Asset Type	Value as at 31 March 2021 £'000	Percentage Change %	Value on Increase £'000	Value on Decrease £'000
Global Equity	587,857	14.80%	674,860	500,854
UK Equity	42	14.80%	48	36
Bonds	261,498	5.70%	276,403	246,593
Alternatives	107,990	4.20%	112,526	103,454
Property	188,926	5.00%	198,372	179,480
<b>Total</b>	<b>1,146,313</b>		<b>1,262,209</b>	<b>1,030,417</b>

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

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
<b>Total</b>	<b>970,045</b>		<b>1,055,498</b>	<b>884,592</b>

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

**Interest Rate Risk** - The risk to which the Pension Fund is exposed to changes in interest rates and relates to its holdings in bonds and cash. Based on interest received on fixed interest securities, cash and cash equivalents.

The Fund's direct exposure to interest rate movements as at 31 March 2021 and 31 March 2020 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 120 basis points (1.2%) movement in interest rates is consistent with the level of sensitivity applied as part of the Fund's risk management strategy.

The analysis that follows assumes that all other variables, in particular exchange rates remain constant, and shows the effect in the year on the net assets available to pay benefits of a +/- 1% change in interest rates.

	Value as at 31 March 2021 £'000	Potential movement on 1.2% change in interest rates £'000	Value on increase £'000	Value on decrease £'000
<b>Assets exposed to interest rate risks</b>				
Cash balances	15,166	182	15,348	14,984
Bonds - pooled funds	261,498	3,138	264,636	258,360
<b>Total change in assets available</b>	<b>276,664</b>	<b>3,320</b>	<b>279,984</b>	<b>273,344</b>

	Value as at 31 March 2020 £'000	Potential movement on 1% change in interest rates £'000	Value on increase £'000	Value on decrease £'000
<b>Assets exposed to interest rate risks</b>				
Cash balances	15,520	155	15,675	15,365
Bonds - pooled funds	230,845	2,308	233,153	228,537
<b>Total change in assets available</b>	<b>246,365</b>	<b>2,464</b>	<b>248,829</b>	<b>243,901</b>

# Notes to the Pension Fund Account

**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 2021, 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 2021 and as at the previous period ending 31 March 2020.

## Currency exposure by asset type

### Currency risk sensitivity analysis

Following analysis of historical data in consultation with PIRC Ltd, the Funds data provider, the Fund considers the likely volatility associated with foreign exchange rate movements to be 6.60%, based on the data provided by PIRC. A 6.60% fluctuation in the currency is considered reasonable based on PIRC's analysis of historical movements in month end exchange rates over a rolling twelve-month period. This analysis assumes that all variables, in particular interest rates, remain constant. Managers that hedge against currency risk are not included in this sensitivity analysis. A 6.60% strengthening/weakening of the pound against various currencies in which the Fund holds investments would increase/decrease the net assets available to pay benefits as follows:

#### Assets exposed to currency risk

	Asset Value 31 March 2021	Potential market movement	Value on increase	Value on decrease
	£'000	£'000	£'000	£'000
		6.60%		
Pooled Funds	473,377	31,243	504,620	442,134
Private Equity/Infrastructure	47,696	3,148	50,844	44,548
	<b>521,073</b>	<b>34,391</b>	<b>555,464</b>	<b>486,683</b>

#### Assets exposed to currency risk

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

**Credit Risk** - Credit risk represents the risk that the counterparty to a transaction or a financial instrument will fail to discharge an obligation and cause the fund to incur a financial loss. The market values of investments generally reflect an assessment of credit in their pricing and consequently the risk of loss is implicitly provided for in the carrying value of the Fund's financial assets and liabilities.

The Pension Fund's entire investment portfolio is exposed to some form of credit risk, except for the derivative position, where the risk equates to the net market value of a positive derivative position. Credit risk can be minimised through careful selection of high-quality counterparties, brokers and financial institutions. The Pension Fund is also exposed to credit risk through Securities Lending, Forward Currency Contracts and its daily treasury activities. The Securities Lending programme is run by the Fund's custodian Northern Trust which assigns four different risk management oversight committees to control counterparty risk, collateral risk and the overall securities lending programme. The minimum level of collateral for securities on loan is 102%, however more collateral may be required depending on the type of transaction. To further mitigate risks, the collateral held on behalf of the pension fund is ring fenced from Northern Trust. Securities lending is capped by investment regulations and statutory limits are in place to ensure no more than 25% of eligible assets can be on loan at any one time.

The prime objective of the Pension Fund treasury management activity is the security of principal sums invested. As such it will take a prudent approach to organisations employed as the banker and deposit taker. The Pension Fund will ensure it has adequate but not excessive cash resources in order to meet its objectives. The bank accounts are held with Natwest Bank, which holds an S&P long-term credit rating of A. Deposits are placed in the AAf 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 2021 was £19,410k (31 March 2020: £19,030k) and this was held with the following institutions:

# Notes to the Pension Fund Account

Summary	Rating S&P	Balances as at 31 March 2021 £'000	Rating S&P	Balances as at 31 March 2020 £'000
<b>Money market funds</b>				
Northern Trust	AAAf S1+	15,366	AAAf S1+	15,720
<b>Bank current accounts</b>				
NatWest (Lloyds as at 31 March 2020)	A	4,044	A+	3,310
<b>Total</b>		<b>19,410</b>		<b>19,030</b>

**Liquidity Risk** - The risk the Pension Fund will have difficulties in paying its financial obligations when they fall due.

The Pension Fund holds a working cash balance in its own bank accounts with NatWest as well as Money Market Funds to which it has instant access to cover the payment of benefits and other lump sum payments (£4,044k). 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 2021 these assets totalled £849,390k, with a further £15,366k 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 taxpayer from an employer defaulting on its pension obligations

The funding level is the ratio of assets to liabilities at the valuation date. A funding level of less/more than 100% implies that there is a deficit/surplus in the Fund at the valuation date against the funding target. Funding plans are set to eliminate any deficit (or surplus) over the set time horizon and therefore get back to a funding level of 100%. To do so, additional contributions may be required to be paid into the Fund; these contributions are known as the "secondary rate".

At the 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).

# Notes to the Pension Fund Account

## 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 has been reviewed following the Government's loss of the right to appeal the McCloud and other similar court cases. A proposed remedy to compensate all members of the fund has been issued by the LGPS Scheme Advisory Board (SAB).

LGPS SAB Secretariat have instructed us to prepare figures based on a worst-case scenario for the potential legal remedy, as follows:

- a. Underpin to apply to all members of all ages
- b. Underpin to apply to all members (including those who joined between 2012 and 2014, and those who joined after 2014)
- c. Underpin to be assessed at the earlier of retirement or 2008 Scheme Normal Retirement Age (even if that is after 2022)
- d. Underpin to apply to members entitled to immediate benefits on leaving, but not those who leave service without any entitlement to an immediate pension

Implementation of the ruling by all employers is now been co-ordinated by scheme administrators and relevant information required will be sourced from all employers via a standard template and then processed to remedy the situation for those affected.

## Contribution rates

The table below summarises the whole Fund Primary and Secondary Contribution rates at this triennial valuation. These rates are the payroll weighted average of the underlying individual employer primary and the total of employer secondary rates expressed as a monetary amount, calculated in accordance with the Regulations and CIPFA guidance.

Primary Rate (%) 1 April 2020 - 31 March 2023	Secondary Rate (£)		
	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.

# Notes to the Pension Fund Account

## 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
<b>Male</b>		
Pensioners	22.1 years	22.6 years
Non- Pensioners	22.8 years	24.0 years
<b>Female</b>		
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 2021 to comply with the accounting standard. The financial markets at the accounting date will have considered 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 2021 % per annum	31 March 2020 % per annum
Inflation /Pensions Increase Rate	2.9%	1.9%
Salary Increase Rate	3.2%	2.2%
Discount Rate	2.0%	2.3%

An IAS 19 valuation was carried out for the Fund as at 31 March 2021 by Hymans Robertson with the following results:

Description	31 March 2021 £m	31 March 2020 £m
Present Value of Promised Retirement Benefits	2,039	1,569
Active Members	770	503
Deferred Members	572	422
Pensioners	697	644

*\*Incorporates an allowance for the potential increase in liabilities arising from the McCloud judgement and GMP indexation*

# Notes to the Pension Fund Account

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 2021 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 2021 (and 31 March 2020) include an allowance for the “McCloud ruling”, i.e. an estimate of the potential increase in past service benefits arising from this case affecting public service pension schemes.

## Net Liability

The table below shows the total net liability of the Fund as at 31 March 2021. 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 2021	31 March 2020
	£m	£m
Present Value of Promised Retirement Benefits	(2039)	(1569)
Fair Value of Scheme Assets (bid value)	1162	989
<b>Net Liability</b>	<b>(877)</b>	<b>(580)</b>

## 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 2020/21) 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 impact of the Coronavirus pandemic on investment assets from 2019/20 has been reversed due to increased fund value from market gains through 2020/21. The fund, in conjunction with the its investment advisers, during 2020/21, reviewed the fund’s portfolio and put in place a robust investment strategy geared towards withstanding and reducing market volatility. Investment strategy review is now an ongoing process and the portfolio is positioned to relatively react quickly to market volatility if necessary.

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. The Fund is currently operating with a cash flow surplus. If a need to obtain liquidity arises, approximately 72% of the Fund’s assets are held in liquid investments. A recent review undertaken in response to the Covid-19 effects as at 31st March 2021 determined that there was no material risk to the Fund of employers defaulting on their contributions. 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

# Notes to the Pension Fund Account

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

## Key Management Personnel

Three employees of the London Borough of Hillingdon held key positions in the financial management of the London Borough of Hillingdon Pension Fund. These employees are the Section 151 officer, the Deputy Director, Corporate Finance and the Chief Accountant. Total remuneration payable to key management personnel is set out below:

	31 March 2021 £'000	31 March 2020 £'000
Short term benefits	50	64
Post employment benefits	145	78
	<b>195</b>	<b>142</b>

*NB: Increased Post-employment benefits figure for 2020-21 is attributable to reorganisation and addition of Deputy Director, Corporate Finance to the Pension Fund management structure.*

The Pensions Committee of the London Borough of Hillingdon Pension Fund ("the Fund") has prepared an Investment Strategy Statement (ISS) in accordance with the MHCLG Guidance on Preparing and Maintaining an Investment Strategy Statement.

As set out in the Local Government Pension Scheme (Management and Investment of Funds) Regulations 2016, the Pensions Committee will review this Statement from time to time, but at least every three years, and revise it as necessary. Also, in the event of a significant change, changes will be reflected within three months of the change occurring. The current version of the ISS is available on the pension fund pages of the Council's website: [www.hillingdon.gov.uk](http://www.hillingdon.gov.uk) and included in the Annual Report.

## 20. BULK TRANSFER

There were no bulk transfers in 2020-21.

## 21. CONTINGENT LIABILITIES AND CONTRACTUAL COMMITMENTS

Outstanding capital commitments (investments) as at 31 March 2021 totalled £50,576k (£65,687k at 31 March 2020).

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.

## 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

Events taking place after the 31st March 2021 are not reflected in the financial statements or notes, unless they are of such importance that non-disclosure would affect the ability of users to make proper evaluations and decisions. Where events taking place before this date provided information about conditions existing at 31 March 2021, the figures in the financial statements and notes have been adjusted in all material respects to reflect the impact of this information.

There are no events to report after the Balance Sheet date that deem adjustment or disclosure in the accounts.

# London Borough of Hillingdon Pension Fund Annual Report 2020/21

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## CHAIRMAN'S FOREWORD

There was a lot of activity for the pension fund during the financial year 2020/21 with a variety of changes being implemented by the Committee. Following the negative impact of COVID-19 on asset values in March 2020, the Fund has since recouped more than the reduction in value and sits at its highest level of £1,165m, an increase of £176m from the end of the previous year. The Fund is cashflow positive on member transactions, with member contributions higher than 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. Over the year there have been no defaults in terms of employer contributions and income streams remain strong. As well as member contributions the Fund has income generating asset classes which are currently reinvested, however these are available should support for cashflows become necessary. Linked to the increase of fund value is an improvement in the overall funding level, with the interim result of 89.3% now ahead of the formal triennial valuation figure.

This year has seen some considerable realignment of underlying equity managers with a bias towards Environmental, Social and Governance (ESG) investment. To reduce country concentration risk and increase the ESG direction, the long-standing UBS UK equity mandate was terminated in favour of the LGIM Global Future World Fund which covers a broad spectrum of ESG considerations. In addition, the LCIV Income Fund was also terminated, with monies reinvested in the LCIV Global Alpha Paris Aligned Fund; this fund aims to align assets with the objectives of the Paris Agreement and will serve as a specific lower carbon fund variant. Overall, these changes will not only have a positive impact on responsible investment but have also had a major impact in terms of reducing the carbon footprint exposure of the Fund. Of primary importance, however, is that these portfolio amendments aim to reduce risk and improve investment returns.

With our ongoing focus on ESG, the Fund has continued its commitment to be a signatory to the UK Stewardship Code. The Fund originally signed up to the 2012 code, but this has since been updated with the 2020 iteration. This updated Code is far more onerous and requires a greater level of commitment, engagement, collaboration and monitoring. The Committee has been working through the project plan to ensure processes are put place, policies are updated, objectives are set and required fund manager engagement is achieved, ensuring it is in a position to meet the requisite criteria. The Fund is due to make its formal application at the end of 2021.

The Fund has continued to work with our investment pool, the London Collective Investment Vehicle (LCIV) whilst also monitoring the evolution of governance within the pool to ensure assets are securely managed on the Fund's behalf. The Fund has initiated a number of meetings with the senior team at LCIV to raise concerns and offer constructive suggestions to improve governance and reporting. I am pleased to announce that our suggestions are being taken on board with changes being implemented to the benefit of all underlying investors. As of 31 March 2021, the Fund had an increase in the value of assets held with LCIV, representing 69% of the Fund

compared with 58% from the previous year. During the year the Fund's Infrastructure commitment began to be drawn, albeit at a slower pace than forecast due to COVID. The underlying manager has advised deployment is now picking up as lockdown restrictions begin to loosen.

In September 2020 the Committee made the decision to migrate pension administration services, currently run by Orbis Surrey County Council under a section 101 delegation agreement. Following a period of unsatisfactory performance and the dissolution of the pension company element, Orbis, the Fund decided to give notice in line with the contract terms and to seek an alternative partner. Following market testing and an options appraisal, the Committee is pleased to announce a new partnership with Hampshire Pension Services run by Hampshire County Council. Hampshire has a strong, knowledgeable, and robust team with sufficient resources and quality systems to provide a top-quality service. However due to the complicated nature and requirement of strict controls and testing this is a long-term project due to run for a year, with a go-live date set for September 2021. Currently, the transition is in line with the project timeline and all key milestones have been met. Regular senior management oversight meetings are designed to ensure that everything stays on track and progress is reported to the Committee and Board to provide a full governance assurance framework. We are looking forward to completion of the transition; confident the move to Hampshire will enhance and improve the service received by pension fund members and employers within the scheme.

The Pensions Board continues to be active 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 monitoring the implementation of improvements to ensure full compliance where possible. The Board has been heavily involved in the ongoing monitoring of the administration transfer project, not only to contribute towards its success, but also to ensure the needs of members and employers are addressed. The Board and Committee continue to work well together to ensure governance and oversight are at the highest levels.

March 2020 saw the emergence of COVID-19 and together with the socio-economic factors, created a disrupted and restricted working environment. In terms of the revised way of working, the team at the Council, the Committee, the Board and its service delivery and operation partners, transitioned to remote working in a timely and effective manner. I am pleased that the pension service to members and employers did not show any significant decline due to the new arrangements. Now fully embedded, the new infrastructure allows the ability to be more flexible and introduces operational efficiencies.

The Committee and Fund continue to face challenges and have several current projects to complete. These include finalising the successful transition of administration services; making the necessary developments to allow a robust UK Stewardship Code submission; continued monitoring and influence over LCIV governance, as well as potential new investment commitments. In addition, the upcoming implementation of revised Good Governance recommendations and the

Pensions Regulator single Code of practice will form a major piece of work over the coming year. Furthermore, the impending application of regulations involving McCloud; Guaranteed Minimum Pensions, and Goodwin amongst others, will be challenging and will require increased resources.

Overall, during 2020/21 the Fund has performed well, both from an operational and investment perspective, with positive contributions to overall governance, the ESG agenda and lowering the carbon footprint. In addition, I believe the Fund is in a strong position to address and deliver on the upcoming challenges, and I am especially looking forward to the new partnership with Hampshire in the delivery of administration services.

As Chairman, I would like to add my personal thanks to officers, Committee & Board Members, and advisers for all their hard work over this especially challenging year. It has been a real team effort and testament to our strong working relationship

Cllr Martin Goddard

Chairman Pensions Committee 2020/21

DRAFT

## 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 2020/21 was a defined benefit career average revalued earnings scheme, which aligns LGPS retirement age with an individual's state pension age. The key benefits of the scheme are outlined below:

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

It should be noted that the foregoing is not an exhaustive list and that certain conditions have to be met for an individual to be entitled to the benefits outlined. The foregoing benefit structure came into effect on 1 April 2014 and saw the start of significant

changes to the public sector pension schemes, with most other schemes introducing their changes a year later on 1 April 2015. The previous LGPS introduced in 2008 was a defined benefit final salary scheme and was in operation until 31 March 2014. It should be recognised that 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
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](mailto: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 Fund's requirements. Additionally, Northern Trust provide performance analytics, comparing the performance of the Fund and individual managers to agreed benchmarks and market indices on a monthly, quarterly and annual basis.

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

### **Fund Actuary**

The Fund's actuary is Hymans Robertson

*Craig Alexander FFA  
Hymans Robertson LLP  
20 Waterloo Street  
Glasgow  
G2 6DB*

### **Fund Managers**

Day-to-day investment management of the Fund's assets is delegated to specialist managers in accordance with the LGPS (Management and Investment of Funds) Regulations 2016. During 2019/20, the following managers managed the Fund's investments externally:

<b>Fund Manager</b>	<b>Asset Class</b>
Adam Street Partners	Private Equity
AEW UK	UK Core Property
JP Morgan Asset Management	Multi Asset Credit
Legal & General Investment Management	Listed Equities and Index Linked Bonds - (Passive) – Pooled & Property 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 Debt
Macquarie Investment	Infrastructure
Permira LLP	Private Debt
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, (*formally* KPMG) who was appointed July 2014. They advise the Committee on the Fund's strategic asset allocation and assist in the monitoring of fund managers.

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

In addition, the Fund had an Independent Advisor for 2020/21 – 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 National Westminster Bank (Natwest).

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

## **AVC Provider**

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

*Prudential AVC Customer Services*

*Prudential*

*Craigforth*

*FK9 9UE*

## **RISK MANAGEMENT**

### **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 Chief Accountant 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 several means including, but not limited to:

- formal risk assessment exercises managed by the Pension Committee
- performance measurement against agreed objectives
- findings of internal and external audit and other adviser reports
- feedback from the local Pension Board, employers and other stakeholders
- informal meetings of senior officers or other staff involved in the management of the Fund
- liaison with other 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 Chief Accountant 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 allows 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 2021 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 impacting the ability for employers to afford contributions Pensioners living longer
5. Pensioners living longer.
6. Poor Performance of Outsourced Administrator leading to poor quality information supplied to both members and the Fund Actuary
7. Risk of disruption to the delivery of pensions administration services and systems and data integrity during the transfer of administration services
8. Cyber Security - Pension schemes hold large amounts of personal data and assets which can make them a target for fraudsters and criminals
9. ESG – Risk of financial loss through the negative impact of ESG matters
10. Portfolio Liquidity – risk of failure to liquidate assets or meet drawdown calls
11. Failure of the pool in management of funds / access to funds
12. Threat of COVID 19 to Business Continuity
13. Failure of the Fund's governance to comply with statutory requirements and/or

The Pension Regulator expectations including:

Failure to ensure that Committee members' knowledge and understanding of pension matters is robust and meets statutory requirements

Failure to ensure that the Pension Board is effective in carrying out its role."

### **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 19<sup>th</sup> of the subsequent month of payment due date as prescribed by the regulations.

In respect of Investment Managers, internal control reports (AAF 01/06 and SSAE16) are received and reviewed regularly for any non-compliance issues. If management response to non-compliant issues 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

**NB: UBS Asset Management:** Basis of qualified opinion issued by auditors hinged on lack of sufficient evidence by manager to demonstrate that quality control check was completed for certain “New security set ups” and “Recording of Dividend Income Data Events”. The manager was contacted and responded that by confirming “Standardised control checks have been created for both highlighted exceptions and these will make evidence gathering on both processes more efficient”.

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:

<https://archive.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

	2020/21	2019/20	2018/19	2017/18
Active Members	7,768	7,435	9,015	8,591
Pensioners/Dependants	6,861	6,682	6,881	6,453
Deferred	10,225	10,571	9,643	8,510
<b>Total Membership</b>	<b>24,854</b>	<b>24,688</b>	<b>25,539</b>	<b>23,554</b>

### CONTRIBUTIONS

Total Employee contributions (including transfers) into the Fund during 2020/21 amounted to £53.4m compared to £49.1m for the previous year. The 9% Increase from previous year is mainly attributable to the increased active membership and employee's pay increases during the year under review. Employee contributions ranged from 5.5% to 12.5% dependent on pensionable pay. The Fund actuary sets employer contribution rates and the rates that applied during 2020/21 were set from the 2019 valuation.

#### Analytical Review of Performance

	2020/21	2019/20	2018/19	2017/18
<b>Pension Fund Account</b>	<b>£' 000</b>	<b>£' 000</b>	<b>£' 000</b>	<b>£' 000</b>
<b>Dealings with Members</b>				
Contributions	53,484	49,051	44,663	77,191
Pensions	-50,752	-54,058	-46,642	-45,300
<b>Net Additions/(Withdrawals) from Dealings with members</b>	<b>2,732</b>	<b>-5,007</b>	<b>-1,979</b>	<b>31,891</b>
Management Expenses	-10,749	-9,882	-8,833	-7,332
Net Investment Returns	13,667	23,101	22,732	15,203
Change in Market Value	170,519	-86,092	42,843	15,834
Taxes on Income	-22	-48	-83	-86
<b>Net Increase/(Decrease) In Fund</b>	<b>176,147</b>	<b>-77,928</b>	<b>54,680</b>	<b>55,510</b>

### Analysis of Dealings with Members

	2020/21	2019/20	2018/19	2017/18
	£' 000	£' 000	£' 000	£' 000
<b>Contributions Receivable</b>				
Employees	10,231	10,109	9,486	9,920
Employers	38,450	37,196	33,330	32,909
Transfers In - Individual Transfers In	4,803	1,746	1,489	3,313
Transfers In - Bulk Transfer In	0	0	0	31,049
<b>Total Contributions</b>	<b>53,484</b>	<b>49,051</b>	<b>44,305</b>	<b>77,191</b>
	2020/21	2019/20	2018/19	2017/18
	£' 000	£' 000	£' 000	£' 000
<b>Benefits and Other payments</b>				
Pensions	-39,955	-38,846	-36,423	-33,721
Lump Sum Retirements and Death Benefits	-7,256	-8,342	-7,593	-8,282
Transfers Out	-3,459	-6,767	-2,547	-3,235
Refunds	-82	-103	-79	-62
<b>Total Payments</b>	<b>-50,752</b>	<b>-54,058</b>	<b>-46,642</b>	<b>-45,300</b>

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

- Lump Sum Paid in 2020/21 decreased by 15% as fewer people were made redundant.
- Transfers In for 2020/21 increased by 275% compared to previous year as more individuals transferred their services into the Hillingdon Fund. Whilst Transfers Out dropped by 95% from 2019/2020 due to fewer transactions.

### Analysis of Operational Expenses

	2020/21	2019/20	2018/19	2017/18
	£' 000	£' 000	£' 000	£' 000
<b>Administration</b>				
Employees	-397	-324	-355	-301
Outsourced Administration Costs	-545	-481	-433	-400
Support Services Charges	-21	-20	-52	-52
	<b>-963</b>	<b>-825</b>	<b>-840</b>	<b>-753</b>
<b>Governance and Oversight</b>				
Investment Advisory Services	-113	-95	-55	-81
Governance & Compliance	-42	-36	-12	-50
External Audit	-26	-17	-22	-20
Actuarial Fees	-57	-142	-7	-36
	<b>-238</b>	<b>-290</b>	<b>-96</b>	<b>-187</b>

**Investment Management**

Management Fees	-4,463	-6,485	-5,934	-5,291
Performance Fees	-2,143	-1,080	-1,405	-525
Transaction Costs	-2,881	-1,143	-492	-520
Custodian fees	-61	-59	-66	-56
	<b>-9,548</b>	<b>-8,767</b>	<b>-7,897</b>	<b>-6,392</b>
<b>Total Operational Expenses</b>	<b>-10,749</b>	<b>-9,882</b>	<b>-8,833</b>	<b>-7,332</b>

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 both UBS Equities, the LCIV Ruffer and Epoch funds.
- Investment management expenses decrease is attributable to divestment from actively managed portfolios managed by UBS, LCIV Ruffer and Epoch, with assets moved into passive portfolios at LGIM.
- Reduction in actuarial fees was mainly due to lack of valuation fees compared to 2019/20, which was a valuation year.

## **C: INVESTMENT POLICY AND PERFORMANCE**

### **Investment Policy**

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

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

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

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

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

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

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

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

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

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

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

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

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

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The asset allocation as at 31 March 2021 is as follows:

Asset Category	Opening Value 01 April 2020	Strategic Weighting	Actual Weighting	Closing Value 31 March 2021	Strategic Weighting	Actual Weighting
	£'000	%	%	£'000	%	%
Equities	408,483	45	41	537,107	45	46
DGF	55,573	0	6	50,833	0	4
Bonds	230,844	24	23	261,498	24	23
Property	118,060	12	12	139,177	12	12
<b>Alternatives:</b>			0			
Private Equity	13,645	1	1	13,369	1	1
Infrastructure	27,265	8	3	34,327	8	3
Private Credit	68,777	5	7	60,253	5	5
Long Lease Property	47,399	5	5	49,749	5	4
Cash	16,068	0	2	15,255	0	1
<b>Total</b>	<b>986,114</b>	<b>100</b>	<b>100</b>	<b>1,161,568</b>	<b>100</b>	<b>100</b>

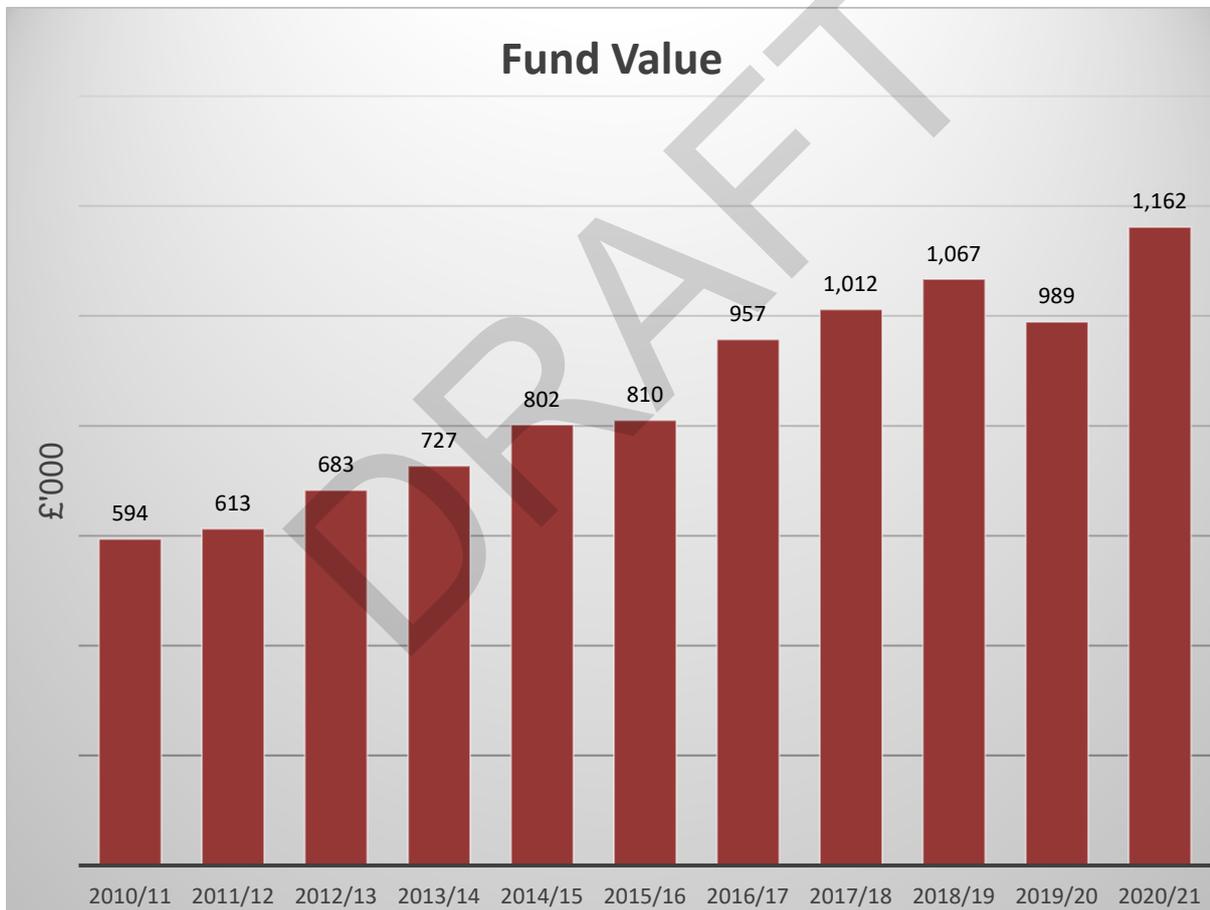
## Asset Allocation Variances

The table above shows 4% 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 Fund value increased by £173m as recovery from the impact of COVID-19 on assets valuation from previous financial was manifested in the asset prices during the current year under review.



## Funding Strategy Statement

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

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

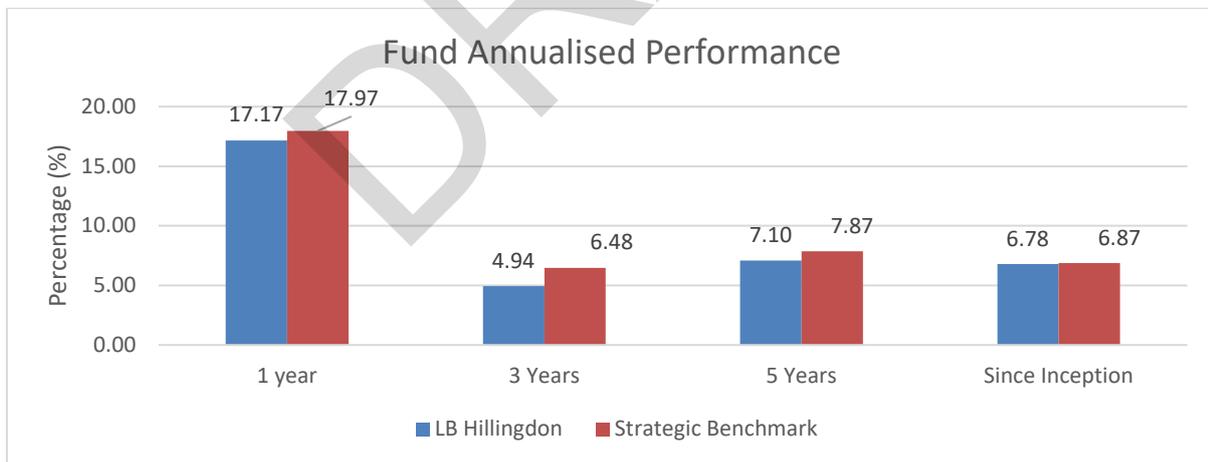
The latest Funding Strategy Statement can be accessed via the Pension Fund Web page.

<https://archive.hillingdon.gov.uk/article/6492/Pension-fund>

## Investment Performance

Overall relative performance of the Fund for the year 2020/21 was 0.80% 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 0.09% behind the benchmark.

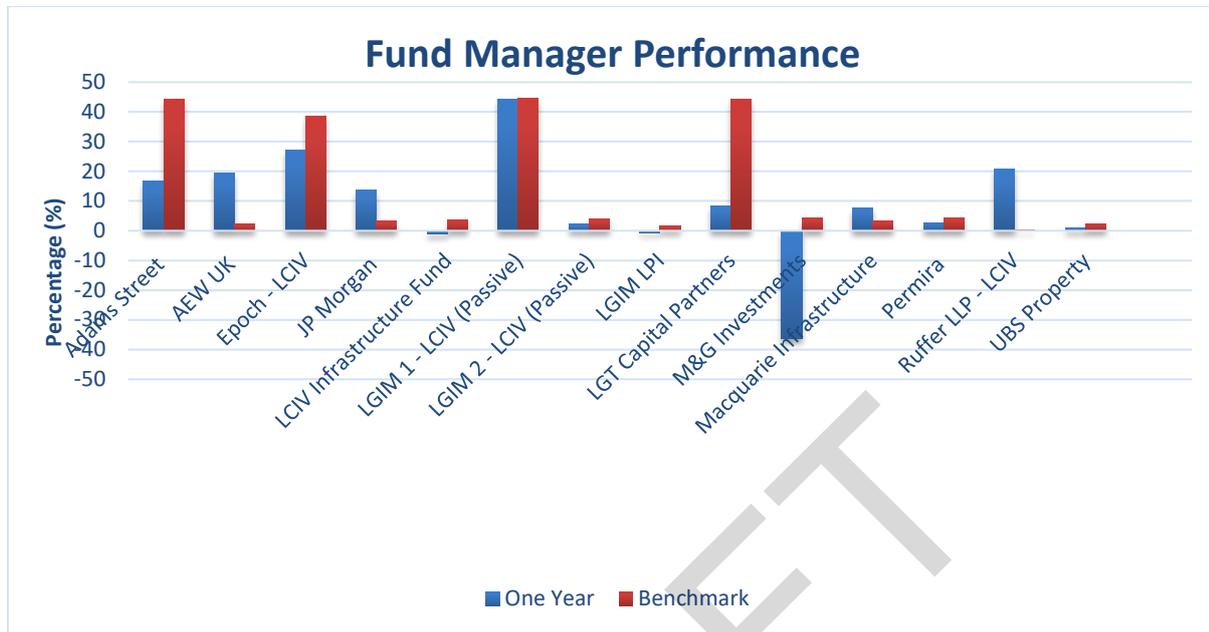


Performance of the Fund is measured against an overall strategic benchmark. Below this, each Fund Manager is given individual performance targets, which are linked to index returns for the assets they manage. Details of these targets can be found in the ISS.

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 2020/21		
	One Year	Benchmark
	%	%
Adams Street	16.73	44.19
AEW UK	19.57	2.46
Epoch - LCIV	27.30	38.43
JP Morgan	13.67	3.36
LCIV Infrastructure Fund	-1.21	3.53
LGIM 1 - LCIV (Passive)	44.12	44.45
LGIM 2 - LCIV (Passive)	2.27	4.11
LGIM LPI	-0.63	1.52
LGT Capital Partners	8.24	44.19
M&G Investments	-36.45	4.36
Macquarie Infrastructure	7.61	3.36
Permira	2.80	4.36
Ruffer LLP - LCIV	20.89	0.36
UBS Property	1.12	2.46

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.
- Underperformance of the Fund was mainly attributable to underperforming equity managers Epoch and UBS. Action has, and is, been taken to address this.

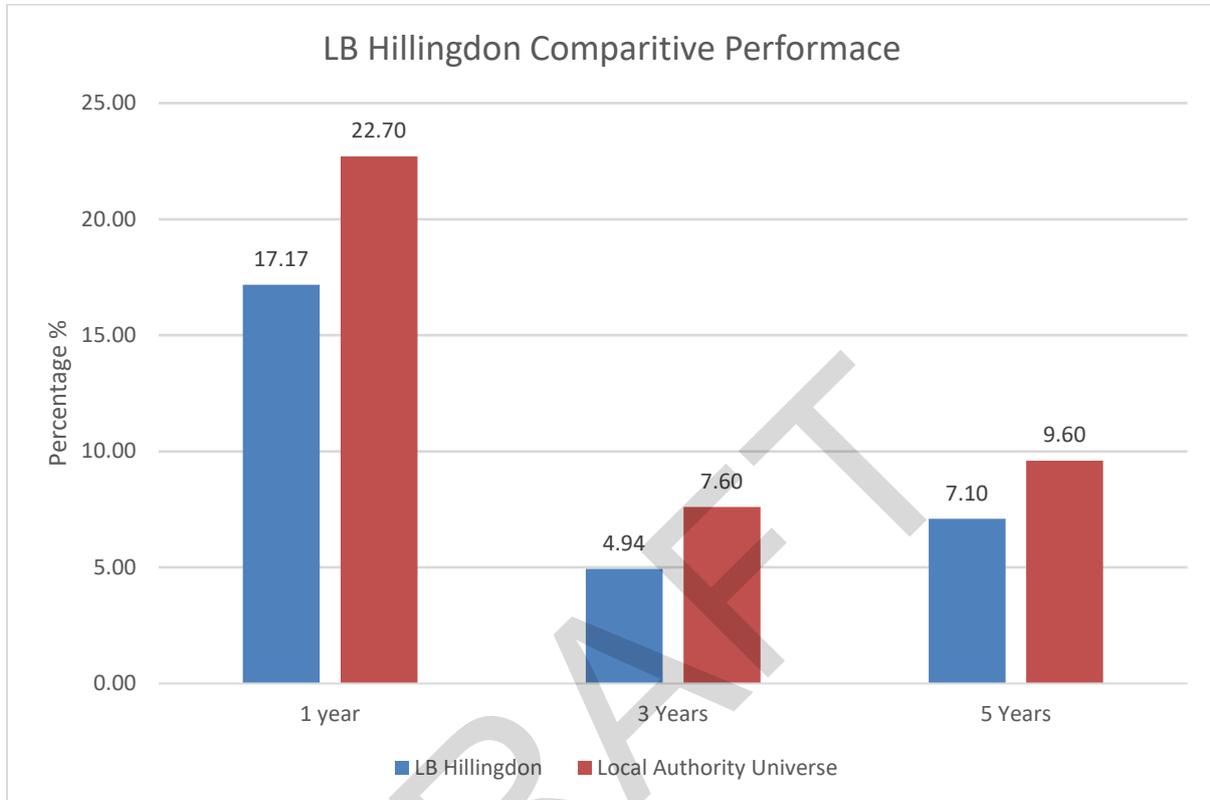
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<b>Historical Fund Managers Performance Returns</b>				
<b>Manager</b>	<b>One Year</b>	<b>Three Years</b>	<b>Five Years</b>	<b>Benchmark</b>
	<b>%</b>	<b>%</b>	<b>%</b>	
Adams Street	16.73	18.03	15.43	MSCI All Countries World Index
AEW UK	19.57	3.75	6.19	IPD UK PPF1 All Balanced Funds Index
Epoch - LCIV	27.3	8.1	4.39	MSCI World ND
JP Morgan	13.67	4.31	4.82	LIBOR +3%pa
LGIM 1 - LCIV (Passive)	44.12	11.87	9.71	FTSE World Developed Equity index Currency Hedged, FTSE World Developed Equity index unhedged, FTSE Emerging Markets
LGIM 2 - LCIV (Passive)	2.27	3.59	4.32	Markit iBoxx £ Non-Gilt
LGT Capital Partners	8.24	12.83	15.24	MSCI All Countries World Index
M&G Investments	-36.45	-12.86	-2.86	LIBOR +4%pa
Macquarie Infrastructure	7.61	12.36	13.68	LIBOR +3%pa
Permira	2.8	4.92	6.41	LIBOR +4%pa
Ruffer LLP - LCIV	20.89	7.58	6.73	LIBOR
UBS Property	1.12	1.52	3.04	IPD UK PPF1 All Balanced Funds Index

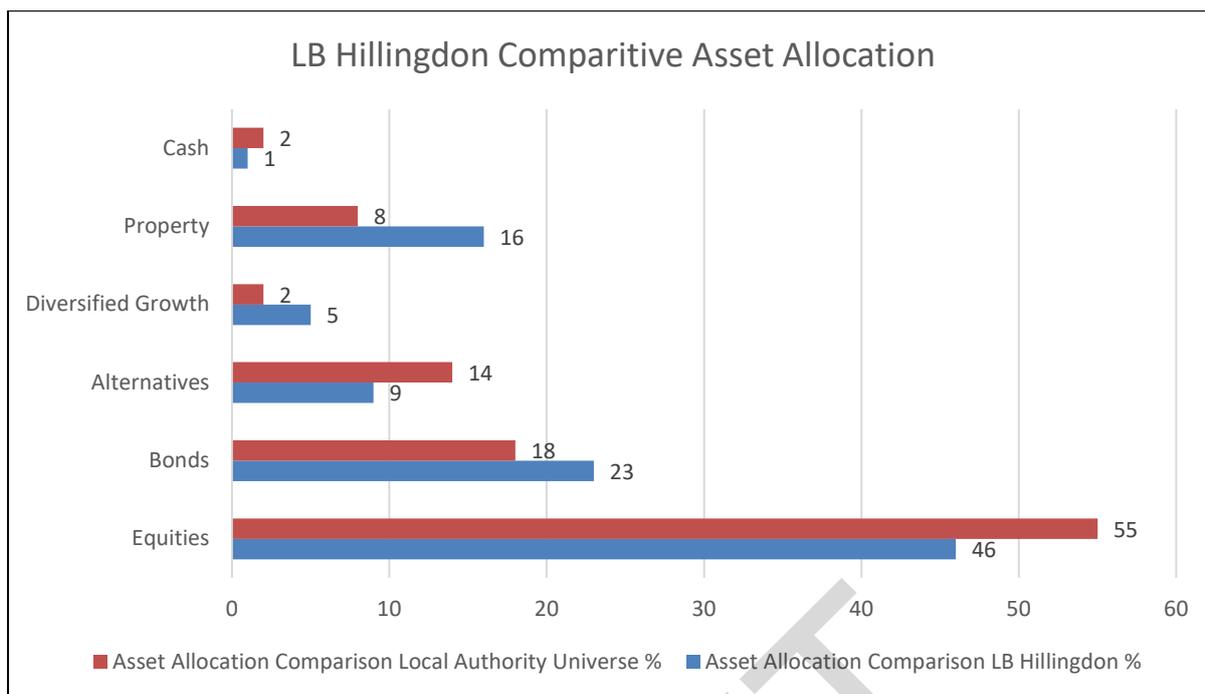
\*Pooled Investments with London CIV. Three and five year returns unavailable

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 partly attributable to the cautious investment philosophy and risk averse asset allocation strategy adopted by the Fund. In addition, performance has also been negatively impacted by poor results from the active equity managers.



## Responsible Investing

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

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

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.

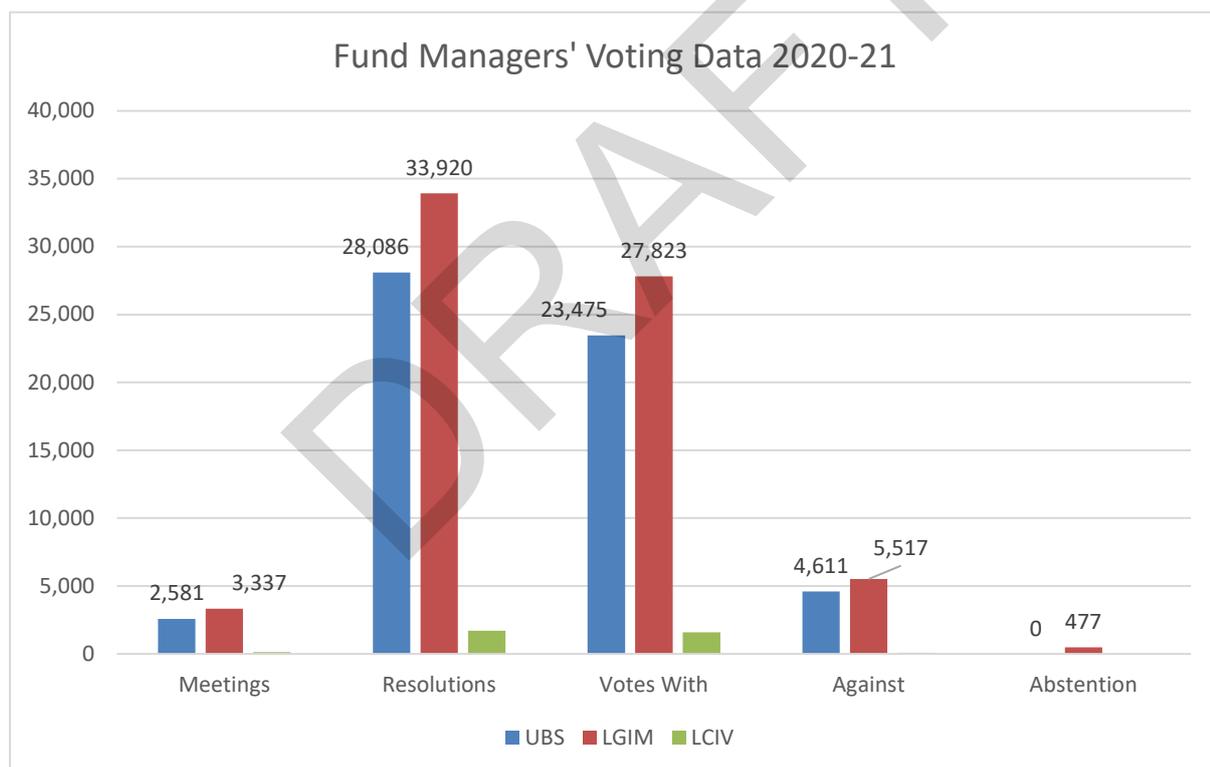
The Fund is in the process of preparing the required framework to support submission for signatory status of the 2020 UK Stewardship Code.

## Exercise of voting rights

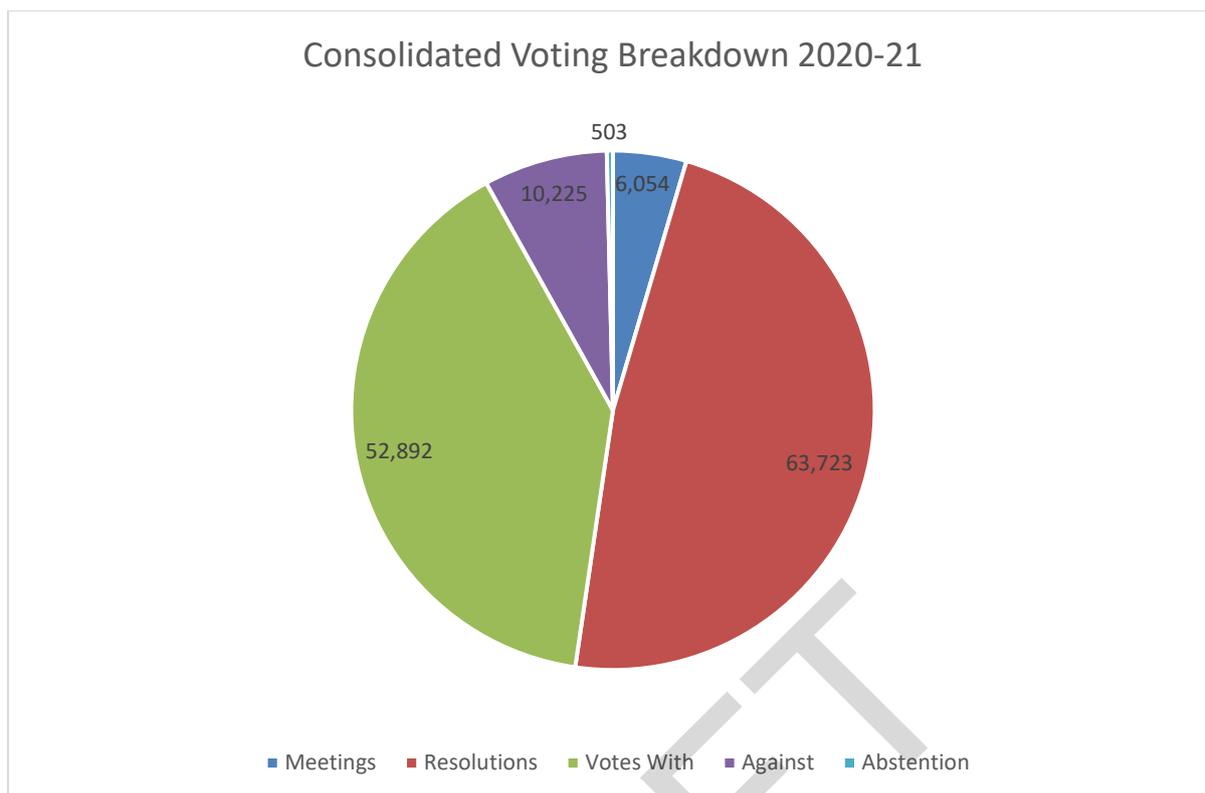
To ensure effective and consistent use of the voting rights, investment managers are tasked with exercising the voting rights accruing to the Fund. If important issues affecting local residents do emanate from actions of invested companies, the Pensions Committee will contact investment managers in charge of assets of such a company to make their opinion known and ask for such to be presented at meetings with the company or reflected in their voting pattern.

The [UK Stewardship Code 2020](#) sets high stewardship standards for those investing money on behalf of UK savers and pensioners, and those that support them. Stewardship is the responsible allocation, management, and oversight of capital to create long-term value for clients and beneficiaries leading to sustainable benefits for the economy, the environment and society.

The Fund is currently not a signatory to the 2020 UK Stewardship Code, but plans are currently in place to produce a compliance statement and apply to be a signatory to the code. The Code comprises a set of 12 'apply and explain' Principles for asset managers and asset owners.



The graph above shows a breakdown of voting activities by Fund's investment managers during 2020-21 financial year. LGIM were the most active in terms of voting activities by attending and voting at 3,337 meetings. All managers voting activity relates to the managers votes cast for the funds rather than Hillingdon specific shares.



## **Custody**

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

## **Separation of Responsibilities**

The Fund employs a global custodian (Northern Trust), independent to the investment managers, to be responsible for the safekeeping of all of the Fund's investments. Northern Trust is responsible for the settlement of all investment transactions and the collection of income.

As at the 31<sup>st</sup> March 2021 the Fund's bank accounts were held with Nat West. Funds not immediately required to pay benefits are held as interest bearing operational cash with the bankers and the custodian.

The actuary, Hymans Robertson is responsible for assessing the long-term financial position of the pension fund and issues a Rates and Adjustments statement following their triennial valuation of the Pension Fund, which sets out the minimum contributions which each employer in the 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 several key performance indicators included to ensure that service to members of the pension fund is effective. The targets are set out below, along with actual performance.

Performance Indicators	Target	Performance	
		2019/20	2020/21
Death notification acknowledged, recorded and documentation sent	5 working days	95%	79%
Payment of death grant made	10 working days	96%	75%
Retirement notification acknowledged, recorded and documentation sent	10 working days	95%	77%
Payment of lump sum made	10 working days	96%	78%
Calculation of spouses' benefits	10 working days	94%	68%
Transfers In - Quotes	20 working days	97%	73%
Transfers In - Payments	20 working days	89%	80%
Transfers Out - Quote	20 working days	89%	79%
Transfers Out - Payments	20 working days	96%	82%
Employer estimates provided	10 working days	91%	87%
Employee projections provided	10 working days	96%	87%
Refunds	20 working days	99%	88%
Deferred benefit notifications	20 working days	80%	69%

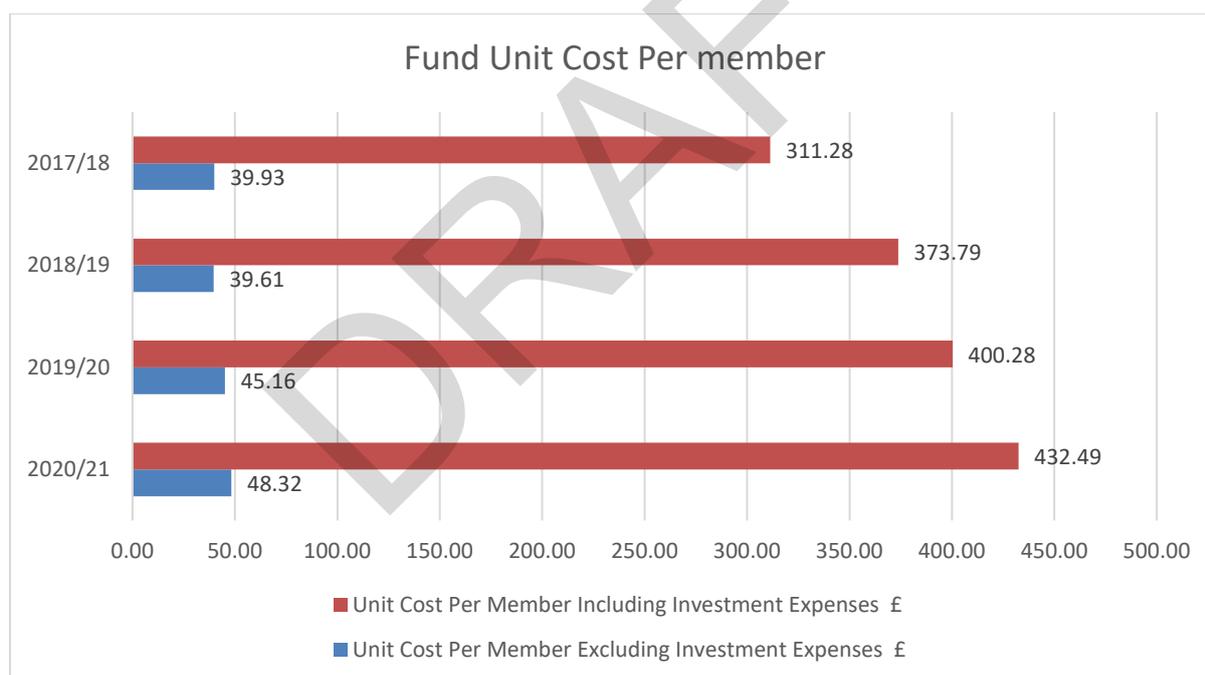
Performance indicators for all measurable metrics dropped throughout 2020/21 due largely to the impact of COVID-19, which necessitated remote working and emergency working conditions. As directed by The Pensions Regulator (TPR), only essential services, such Retirement benefits, Death Grants and Refund of contributions were prioritised.

## 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 the Fund and liaise with Surrey CC on issues or concerns raised by members.

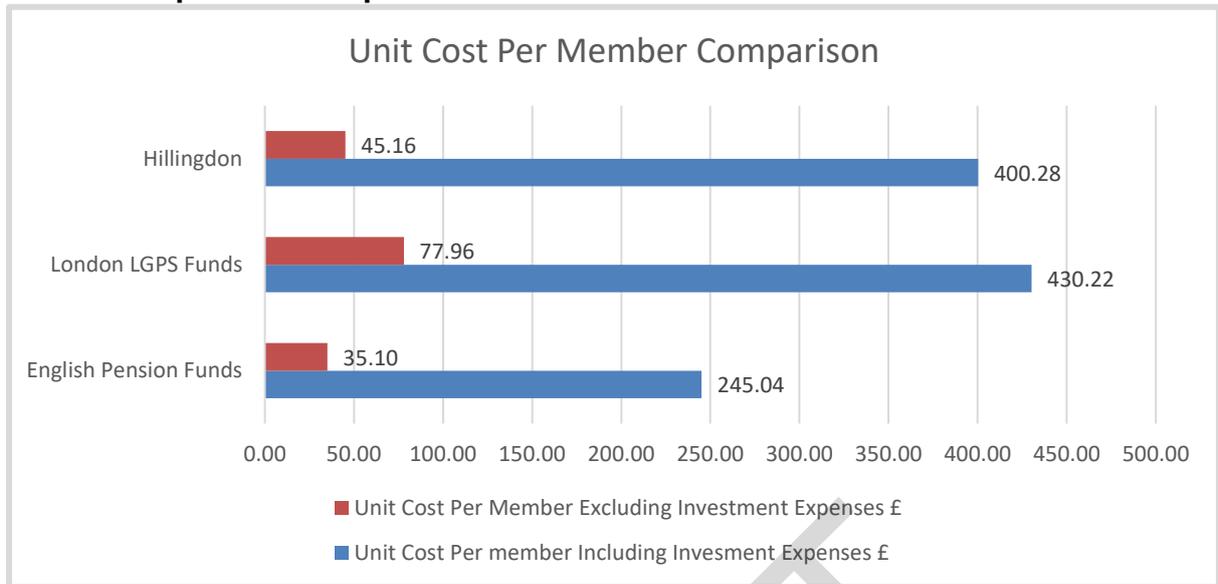
1.80 FTE staff are employed by the Finance Directorate to oversee the governance and accounting side of the Fund.



The increase in administration costs and Investment Management expenses were responsible for increased in costs per member from £45 in 2019/20 to £48 per head in 2020/21. The maturity profile of alternative investments resulted in increased performance fees paid to investment managers in this asset class as portfolios continued to wind down due to expiration of their respective investment periods.

The cost comparison chart below is the latest comparative figure available from the ONS. At time of publishing this report 2019/20 figures were yet to be released.

## Membership costs comparison 2019/20

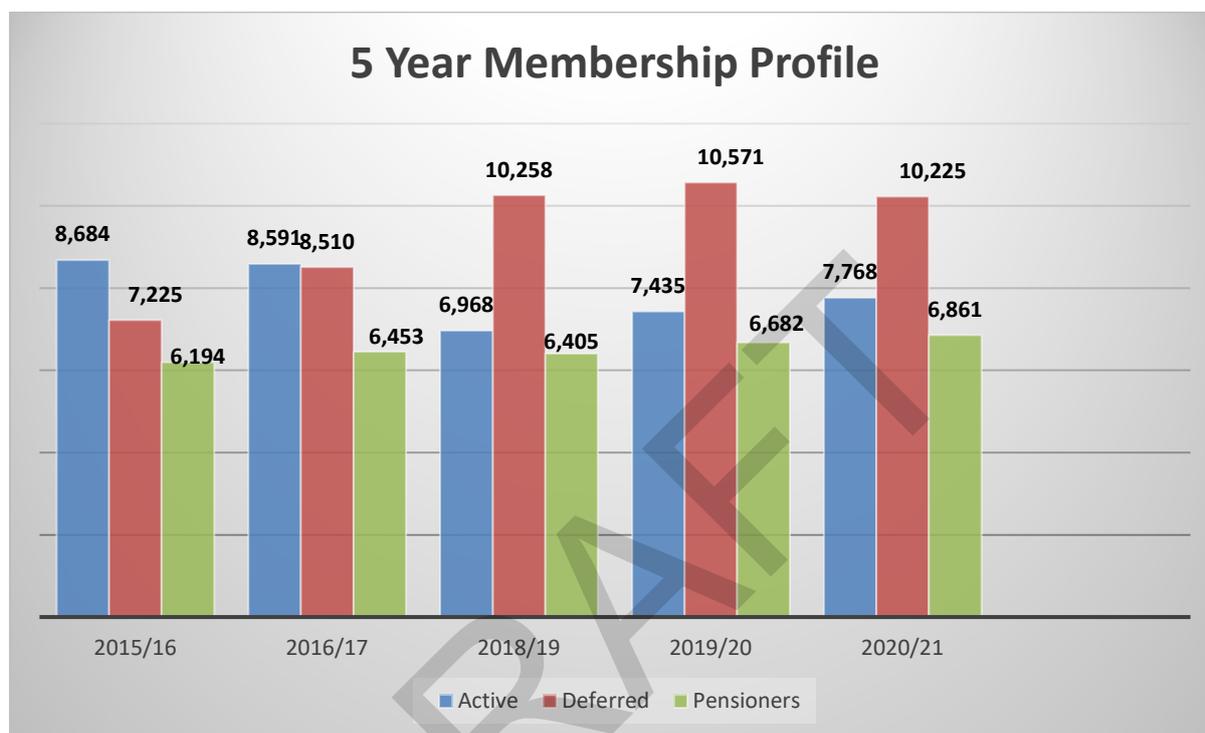


For the year 2019/20, the unit cost per member excluding investment expenses is about 22% higher than the average for Pension Funds in England but less than London Funds' average at £45 per member. The cost per member including Investment management expenses is about £400 per member and comes out less than most London Pension Funds in comparison.

Based on comparative figures obtained from ONS SF3 available as at 31 March 2021.

## 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 active membership by 333 and overall scheme membership increased year-on-year by 0.7% from 24,688 to 24,854 in 2020/21. The membership profile over the last five years is shown below:



The total number of pensioners in receipt of enhanced benefits due to ill-health or early retirement on the grounds of redundancy or efficiency of the service on 31 March over a five-year period is shown in the table below.

Reasons for leaving	2016/17	2017/18	2018/19	2019/20	2020/21
Ill Health Retirement	3	8	8	10	6
Redundancy	34	58	39	41	34
<b>Total</b>	<b>37</b>	<b>66</b>	<b>47</b>	<b>51</b>	<b>40</b>

## 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](http://www.hillingdon.gov.uk) or on request. An application at stage one of the process is to the Chief Accountant, London Borough of Hillingdon.

## CONTRIBUTING EMPLOYERS AND CONTRIBUTIONS RECEIVED

Below is a list of the current active contributing employers and the contributions received for 2020/21 (Figures include early retirement and deficit funding contributions).

Employer	Type	Total Contributions	Contribution Rate %
London Borough of Hillingdon	Administering Authority	27,447,378.29	24.1
Barnhill School - ACADEMY	Scheduled Body	230,983.00	24.9
Belmore Primary School - ACADEMY	Scheduled Body	204,909.71	24.1
Bishop Ramsey C Of E School - ACADEMY	Scheduled Body	240,109.80	24.2
Bishopshalt School - ACADEMY	Scheduled Body	307,044.34	26.5
Charville Primary School	Scheduled Body	181,986.59	23.2
Coteford Academy - QED Academy Trust	Scheduled Body	140,866.88	25.9
Cowley St Laurence - LBDS FRAYS ACADEMY	Scheduled Body	137,285.26	23.7
Cranford Park School - Park Federation Academy	Scheduled Body	279,348.41	22.7
Douay Martyrs School - ACADEMY	Scheduled Body	310,561.98	25.9
The Eden Academy (Payroll Staff - Eden Academy Trust)	Scheduled Body	246,029.08	20.9
Grangewood School - EDEN ACADEMY	Scheduled Body	234,908.28	20.9
Global Academy - Heathrow	Scheduled Body	81,409.84	19.2
Guru Nanak Sikh Secondary - Guru Nanak Academy Trust	Scheduled Body	307,674.76	21.8
Harefield ACADEMY	Scheduled Body	139,804.75	22.5
Haydon Secondary School - ACADEMY	Scheduled Body	373,367.93	23.6
Heathrow Aviation (UTC) Alet	Scheduled Body	27,342.30	20.1
Hillingdon Primary School - Elliot Foundation Trust	Scheduled Body	148,462.61	21.9
The Skills Hub - Orchard Hill College Academy Trust	Scheduled Body	76,662.76	19.4
John Locke Academy - Elliot Foundation Trust	Scheduled Body	123,541.80	20.3

Lake Farm Academy - Park Federation Academy	Scheduled Body	183,523.70	19.6
Laurel Lane Primary School	Scheduled Body	129,919.10	23.7
LDBS FRAYS ACADEMY BGC FRAYS TRUST	Scheduled Body	54,271.90	23.7
LHC	Scheduled Body	551,931.83	24.1
Moorcroft Special School - EDEN ACADEMY	Scheduled Body	209,538.17	20.9
NANAKSAR PRIMARY - Guru Nanak Academy Trust	Scheduled Body	60,995.40	21.8
Northwood Academy - QED Academy Trust	Scheduled Body	148,534.72	23.8
Park Federation - Academy (Payroll Staff)	Scheduled Body	70,826.08	19.6
Pentland Field School - Eden Academy	Scheduled Body	272,964.69	20.9
Pinkwell Primary School - Elliot Foundation Trust	Scheduled Body	268,961.61	25.7
Queensmead Secondary School - QED Academy Trust	Scheduled Body	255,718.86	21.8
Rosedale College - Rosedale Hewens Academy Trust	Scheduled Body	387,465.46	22.9
Ruislip Academy	Scheduled Body	248,362.94	25.7
Ryefield ACADEMY - Multi Academy Trust	Scheduled Body	130,058.96	31.3
St Martins Primary School	Scheduled Body	89,930.18	23.7
St Matthews Primary School - LBDS FRAYS ACADEMY	Scheduled Body	91,202.10	23.7
Stockley Academy - (Park West Academy)	Scheduled Body	126,873.75	20.7
Swakeleys School - ACADEMY	Scheduled Body	189,888.75	21
Uxbridge College	Scheduled Body	2,093,715.10	23.4
Uxbridge High School - ACADEMY	Scheduled Body	255,946.97	21
Vyners School - Multi Academy Trust	Scheduled Body	284,812.01	29.7
West Drayton Primary School	Scheduled Body	195,942.33	26.4
William Byrd Primary	Scheduled Body	170,734.20	27.3
Willows Special School - ACADEMY	Scheduled Body	69,601.75	31
Woodend Park School - Park Federation Academy	Scheduled Body	225,480.09	22.2

Young Peoples Academy - Orchard Hill Academy College Trust	Scheduled Body	128,999.80	19.4
BRAYBORNE FAC - Bishop Ramsey BISHOP RAMSEY	Admitted Body	10,739.85	35.1
Caterlink - Frays Academy	Admitted Body	16,295.29	30
Caterplus - Genuine Dining	Admitted Body	19,261.60	26
Cleantec (Harlington School)	Admitted Body	8,217.90	35.5
CUCINA - Bishopshalt	Admitted Body	6,629.69	27.7
CUCINA - Ruislip High School	Admitted Body	3,555.76	27.7
E/N HERTS NHST	Admitted Body	11,842.75	34.6
Greenwich Leisure Services	Admitted Body	52,294.17	28
Hayward Services (Highfield)	Admitted Body	4,374.63	34.5
Hayward Services (Hillingdon)	Admitted Body	13,103.76	34
Hayward Services (Guru Nanak)	Admitted Body	26,743.58	32.5
HEATHROW TRAVEL CARE	Admitted Body	44,709.23	18.9
Hillingdon & Ealing Citizens Advice	Admitted Body	50,772.68	23.2
Queensmead QED - Naveen Bandari	Admitted Body	22,185.00	21.8
Taylor Shaw - Haydon Academy	Admitted Body	11,752.12	33.7
Whiteheath School - Pantry	Admitted Body	1,374.28	37.4
Frithwood & Hillside Schools - Pantry	Admitted Body	1,856.48	31.4
West Drayton Primary - Pabulum	Admitted Body	8,424.24	34.4
<b>Total</b>		<b>38,450,011.83</b>	

### Analysis of Fund Membership Data

The following table summarises the number of employers in the Fund analysed by scheduled bodies and admitted bodies which are active (with active members) and ceased (no active members but with some outstanding liabilities).

<b>2020/21</b>			
	<b>Active</b>	<b>Ceased</b>	<b>Total</b>
Administering Authority	1	0	1
Scheduled Bodies	44	0	44
Admitted Bodies	17	0	17
	<b>62</b>	<b>0</b>	<b>62</b>

## **London Borough of Hillingdon Pension Fund (“the Fund”) Actuarial Statement for 2020/21**

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 severely disrupted by COVID 19 in March 2020, but in the 2020/21 year they recovered strongly. As a result, the funding level of the Fund as at 31 March 2021 is likely to be broadly similar to that reported at 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

12 May 2021

For and on behalf of Hymans Robertson LLP

## F: GOVERNANCE

### Pension Committee

The Pensions Committee is the formal decision making body for the Fund. The Committee consists of five Councillor Members, all with voting rights. During 2020/21 these were:



Councillor  
Martin Goddard  
(Chairman)



Councillor  
Philip Corthorne  
(Vice-Chairman)



Councillor  
Raymond  
Graham



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 Raymond Graham	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 2020/21 were:

### ***Employer Representatives:***

Zak Muneer – Until February 2021

Hayley Seabrook

Shane Woodhatch – From February 2021

### ***Scheme Member Representatives:***

Roger Hackett

Tony Noakes

### ***Record of Attendance***

Three Meetings were held in 2020/21; September 2020, November 2020 and February 2021

Name	Meetings attended
Zak Muneer	1/3
Hayley Seabrook	3/3
Roger Hackett	3/3
Tony Noakes	3/3
Shane Woodhatch	1/3

The Board is not a decision-making body, rather it has a compliance and scrutiny role to ensure the Pensions Committee complies effectively and efficiently with the code of practice on the governance and administration of public service pension schemes issued by the 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 additional 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 2020/21***

	Cllr Goddard (Chair)	Cllr Corthorne	Cllr Eginton	Cllr Morse	Cllr Graham
Investment Strategy Training – Isio	Y	Y	Y	Y	Y
Property Investment - Isio	Y	Y	Y	Y	Y
Regulatory Training - Clare	Y	Y	Y	Y	Y
Conflict of Interest - AON	Y	N	N	N	N
ESG Training - Isio	Y	Y	Y	Y	Y

## 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	N	Y	Y
Pensions Committee Training, Triennial valuation	N	Y	Y	Y
ESG Training - Pension Committee special session	N	Y	Y	Y
Pensions Board - Discretions	Y	Y	Y	Y
Hymans An objective view on Pooling.	N	N	Y	N
LGPS Members Spring Seminar – CIPFA & Barnett Waddingham	Y	N	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 be found in Appendix 1 with the full governance and compliance policy for the Fund.

In November 2020 the Pensions Board reported to pensions Committee to explain work completed since last report in November 2019. The report to Committee has been included here.

<b>Committee</b>	Pensions Committee
<b>Reporting Board Member</b>	Roger Hackett – Chair of the Local Pensions Board
<b>Papers with report</b>	Annual Report of the Pensions Board

**RECOMMENDATION**

1. That the Pensions Committee note the annual report of the Local Pension Board for the year 2020

**REASON FOR ITEM**

The Scheme Advisory Board's LGPS Guidance on the Creation and Operation of Local Pension Boards in England and Wales recommends that the Board produces a report to the Pensions Committee, on the work undertaken during the year and future work plans.

This report has been compiled to provide feedback to Pensions Committee on the work undertaken by the Local Pension Board during the year 2020

**FINANCIAL IMPLICATIONS**

The financial implications are included in the annual report

**LEGAL IMPLICATIONS**

The legal implications are included in the annual report

## 1 Introduction to the Local Pension Board

The Public Service Pensions Act 2013 introduced the requirement to have a Local Pensions Board to assist in the good governance of the scheme.

The purpose of the Board is to assist the Administering Authority in its role as a Scheme Manager of the Scheme. Such assistance is to:

- Secure compliance with the regulations and any other legislation relating to the governance and administration of the Scheme, and requirements imposed by the Pensions Regulator in relation to the Scheme; and
- To ensure the effective and efficient administration of the Scheme.

London Borough of Hillingdon Council ratified the establishment of the Board on 6<sup>th</sup> November 2014 to commence with effect from 1<sup>st</sup> April 2015. Council at its meeting 02 November 2017 agreed to change the structure of the Board and its membership to improve the overall effectiveness of the Board. The Board meets four times a year and consists of two Employer representatives, and two scheme member representatives.

### Membership of the Board

<b>Employer Representatives</b>	<b>Scheme Member Representatives</b>
Hayley Seabrook	Roger Hackett
Zac Muneer	Tony Noakes

### Record of Attendance

<b>Name</b>	<b>Feb-20</b>	<b>Apr-20</b>	<b>Sep-20</b>	<b>Nov-20</b>
Zak Muneer	Y			
Hayley Seabrook	Y		Y	Y
Roger Hackett	Y		Y	Y
Tony Noakes	Y		Y	Y

\*\*April 2020 meeting was cancelled due to COVID-19 restrictions

The Scheme Advisory Board's LGPS Guidance on the Creation and Operation of Local Pension Boards in England and Wales recommends that the Board produces a report to the Pensions Committee, on the work undertaken during the year and future work plans. This report covers the work of the period from February to November 2020.

AON Hewitt is appointed as Governance advisers to support the development and work of the Board and attend meetings as necessary.

## **2 Summary of the Work of the Board**

In March 2020 the Council suspended the Pensions Committee meetings due to COVID-19. This had a knock-on effect on the Pensions Board meeting for April 2020, as a key part of the work of the Board is to review the decisions of the Pensions Committee.

In addition to reviewing the governance of Pensions Committee papers and effective decision making, the Board has a work programme focusing on administrative and governance compliance of the fund with papers presented to the Board for discussion. Some of the key areas discussed have been outlined below.

### **Results of TPR code compliance review**

The review of the Councils compliance with the TPR code of practice was presented to the Board in February 2020. Of the 97 areas assessed, full compliance was found in 78 areas, partial compliance in 18 and 1 area of non-compliance.

At the last assessment in November 2020 the areas of partial compliance were improved from 18 to 7 and there were no areas of non-compliance. The Board continues to monitor the code compliance with an aim to achieve full compliance in all areas

Other areas of work have been undertaken as outline below

- Monitoring of the Data Improvement Plan
- Cyber security assurance, controls and response
- Review of Policy documents to ensure they are kept up-to-date
- Monitoring the performance of the Pensions Administration by Surrey County Council.

## **Future Work of the Board**

In addition to the high-level items shown in the workplan later in this report the Board will have a keen eye on the following areas.

Cyber Security has been high on the Board's agenda through 2020 and this will continue through 2021. The outcome of the recent 'scorecard' benchmarking exercise is eagerly awaited. Analysis should show if there are any perceived weaknesses and where remedial action may be required. A cyber data mapping toolkit is currently being developed by a third party and a commitment has been made to acquire this software to help understand pension fund data flows.

The Pensions Regulator has recently announced their 'Pensions Pledge' campaign in which the pensions industry is being called upon, to publicly pledge to combat scams. The Board will be keen to see this explored further by the Fund with the aim of making the pledge.

The Board has been monitoring the Good Governance Project and the recent publication of phase 3 of the report. The Board will be considering this report to assess its implications and how those affected by the proposed changes should be preparing for this new governance framework.

The Pensions Regulator (tPR) has asked Boards to particularly focus on Data Accuracy. The transition to the new administrator includes ambitious plans to have a comprehensive Data Improvement Plan for 2022 and seeks to meet tPR targets. The Board will be monitoring and reviewing the arrangements being put in place to achieve this.

### **3 Details of any Conflicts of Interest**

The SAB guidance recommends that the Board reports details of any conflicts of interest that have arisen in respect of individual Local Pension Board members and how these have been managed.

Declaration of interest remains on the Agenda at the start of each meeting and in addition to the register of interest Pension Board members have been requested to renew their declaration of interest form in line with best practice.

A Conflicts of Interest Policy was also introduced following the TPR CoP review which provides guidance to the Board on how to identify and manage conflicts of interest. No major conflicts of interests have arisen other than the declarations made at the start of each meeting.

Board members and officers continue to monitor conflicts of interest. Training has also been scheduled in February 2020.

#### **4 Areas of Concern or Risk**

**Regulatory changes** – The Board recognises that there are currently many regulatory changes to be implemented in the LGPS. These include: McCloud Judgement; Goodwin Judgement; GMP reconciliation, and Exit Cap. The Board is also aware of the added complexity and pressures of managing these changes in the current COVID-19 environment.

The Board will continue to monitor and seek assurance from Officers that the changes can be effectively delivered in compliance with the regulatory deadlines.

**Transfer of Administration Services** – In 2020 the Pensions Committee agreed to transfer the pensions administration service currently provided by Surrey CC to Hampshire CC.

The Board recognises that this is a major risk area involving the transfer of large amounts of sensitive membership data. The Board will be keen that compliance with the relevant GDPR, and cyber security processes are met and that there is minimal disruption to the provision of pension administration services during the transition.

The Pensions Board in supporting this project has been vigorous in probing and seeking assurance that a robust plan is in place to minimise the risks.

The Board will continue to monitor this project in the coming year to ensure that compliance especially in the areas of GDPR, cyber security and continuity of service quality.

#### **5 Training**

Regular training has been made available to the Board and is a standing item on the quarterly work programme. As a result of the move to virtual meetings, training has been delivered separately from the meetings.

Board members challenged themselves in 2021 to complete the TPR public sector toolkit. The schedule below outlines the training undertaken by the Board

<b>Areas of Training</b>	<b>Date</b>	<b>Zak Muneer</b>	<b>Hayley Seabrook</b>	<b>Roger Hackett</b>	<b>Tony Noakes</b>
Regulatory Update Training	20-Jan-21		Y	Y	Y
Conflicts of Interest Training	FEB-21			Y	
CIPFA LPB Spring Seminar	15-Feb-21		Y	Y	
ISIO - Investment Strategy Training (joint)	21-Oct-20		Y	Y	Y
TPR + AON Cyber Risk in LGPS	19-Nov-20			Y	

The future training programme for the Board has been set out below. Board members have been requested to refresh the knowledge and skills assessment to assist officers to develop a targeted training programme.

<b>Areas of Training</b>	<b>Date</b>
Regulatory Update Training	20-Jan-21
Conflicts of Interest Training	Feb 21
Cipfa LPB Spring Seminar	15-Feb-20
Sustainable investment Challenges for LGPS	25-Feb-21
ESG Training (jointly with Commitree)	Mar-21

## 6 Work Plan

The workplan below sets out the tasks undertaken by the Board during 2020

Meetings	Specific topics
26 February 2020	<ul style="list-style-type: none"> <li>• Training - Accounts and Audit Regulations (relating to internal controls and proper accounting practice)</li> <li>• Funding Strategy Statement review</li> <li>• tPR Checklist – <b>Full Independent review of compliance</b></li> <li>• Administering Authority Discretions policy</li> <li>• Review of Pension Committee Reports</li> </ul>
24 April 2020**	<ul style="list-style-type: none"> <li>• Training - Conflict of Interest assurance providers</li> <li>• Communication Policy Review</li> <li>• tPR Checklist review &amp; focus areas TBC</li> <li>• Training Update Report</li> <li>• Review of Pension Committee Reports</li> </ul>
9 September 2020	<ul style="list-style-type: none"> <li>• Training – Conflicts of Interest (to be done separately)</li> <li>• Cyber Security Update</li> </ul>

	<ul style="list-style-type: none"> <li>• Governance and Compliance update</li> <li>• tPR Checklist review &amp; focus areas</li> <li>• Training Update Report</li> <li>• Internal Controls Report</li> <li>• Breaches Log Report</li> <li>• Review of Pension Committee Reports</li> </ul>
25 November 2020	<ul style="list-style-type: none"> <li>• Cyber Security Update</li> <li>• Data Score improvement plan</li> <li>• tPR Checklist review &amp; focus areas</li> <li>• Training Update Report</li> <li>• Administration Report</li> <li>• Breaches Log</li> <li>• Review of Pension Committee Reports</li> </ul>

\*\*April 2020 meeting was cancelled due to COVID-19 restrictions

The Future workplan of the Board is set out below.

<b>Meetings</b>	<b>Specific topics</b>
17 February 2021	<ul style="list-style-type: none"> <li>• tPR Checklist review &amp; focus areas</li> <li>• Training Update Report</li> <li>• Administration Report</li> <li>• Annual Report of the Board</li> <li>• Breaches Log</li> <li>• Internal controls and cyber security</li> </ul>

	<ul style="list-style-type: none"> <li>• Review of Pension Committee Reports</li> </ul>
21 April 2021	<ul style="list-style-type: none"> <li>• tPR Checklist review &amp; focus areas</li> <li>• Training Update Report</li> <li>• Administration Report</li> <li>• Breaches Log</li> <li>• Review of Pension Committee Reports</li> </ul>
28 July 2021 (TBC)	<ul style="list-style-type: none"> <li>• tPR Checklist review &amp; focus areas</li> <li>• Training Update Report</li> <li>• Administration Report</li> <li>• Breaches Log</li> <li>• Review of Pension Committee Reports</li> </ul>
27 October 2021 (TBC)	<ul style="list-style-type: none"> <li>• tPR Checklist review &amp; focus areas</li> <li>• Training Update Report</li> <li>• Administration Report</li> <li>• Breaches Log</li> <li>• Review of Pension Committee Reports</li> </ul>
05 January 2022 (TBC)	<ul style="list-style-type: none"> <li>• tPR Checklist review &amp; focus areas</li> <li>• Training Update Report</li> <li>• Administration Report</li> <li>• Breaches Log</li> <li>• Review of Pension Committee Reports</li> </ul>

## 7 Expenses

The Board incurred expenses of £1,420 in relation to its operations in 2020. (This does not include the standard gov

# **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 2020/21 ('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 31<sup>st</sup> March 2021 and its income and expenditure for the year then ended.

Paul Whaymand  
CORPORATE DIRECTOR OF FINANCE  
29 September 2021

## **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 29-09-2021.

I confirm that this Annual Report was considered and approved for publications by Pensions Committee at the meeting held on 29 September 2021.

Cllr Martin Goddard  
On behalf of London Borough of Hillingdon Pension Fund  
CHAIRMAN (PENSION COMMITTEE)  
29 September 2021

DRAFT

## PENSION FUND ACCOUNT

	Note	31 March 2021 £'000	31 March 2020 £'000
Contributions	4	48,681	47,305
Transfers In from other pension funds	5	4,803	1,746
		<b>53,484</b>	<b>49,051</b>
Less: Benefits	6	(47,211)	(47,188)
Less: Payments to and on account of leavers	7	(3,541)	(6,870)
		<b>(50,752)</b>	<b>(54,058)</b>
<b>Net additions/(withdrawals) from dealings with members</b>		<b>2,732</b>	<b>(5,007)</b>
Less: Management expenses	8	(10,749)	(9,882)
<b>Net additions/(withdrawals) including fund management expenses</b>		<b>(8,017)</b>	<b>(14,889)</b>
<b>Return on investments</b>			
Investment income	9	13,667	23,101
Profit and losses on disposal of investments and changes in market value of investments	10A	170,519	(86,092)
Taxes On Income		(22)	(48)
<b>Net return on investments</b>		<b>184,164</b>	<b>(63,039)</b>
<b>Net Increase/(Decrease) in the fund</b>		<b>176,147</b>	<b>(77,928)</b>
<b>Net Assets at start of year</b>		<b>989,055</b>	<b>1,066,983</b>
<b>Net Assets at end of year</b>		<b>1,165,202</b>	<b>989,055</b>

## NET ASSETS STATEMENT

		31 March 2021 £'000	31 March 2020 £'000
Investment Assets	10	1,161,568	986,131
Investment Liabilities	10	0	(17)
<b>Total net investments</b>		<b>1,161,568</b>	<b>986,114</b>
Current Assets	11	4,323	3,574
Current Liabilities	12	(689)	(633)
<b>Net assets of the fund available to fund benefits at</b>		<b>1,165,202</b>	<b>989,055</b>

The Pension Fund Accounts summarise the transactions of the scheme and show the net assets at the disposal of members. They do not take account of liabilities to pay pensions and other benefits after the period end. The actuarial present value of promised retirement benefits is disclosed at note 18.

**Paul Whaymand**  
**Corporate Director of Finance**  
 29 September 2021

## 1. DESCRIPTION OF THE FUND

### a. General

The London Borough of Hillingdon Pension Fund ("the Fund") is part of the Local Government Pension Scheme (LGPS) and is administered by the London Borough of Hillingdon ("the administering body"). The Council is the reporting entity for this pension fund. The Fund is a contributory defined benefits scheme established in accordance with statute to provide benefits to members and retired members of the London Borough of Hillingdon and Admitted and Scheduled bodies in the Fund. Benefits in respect of service from 1 April 2014 are based on career average revalued earnings (CARE) scheme. Benefits in respect of past service up to 31 March 2014 are based on final salary. Pensions move in line with the Consumer Price Index (CPI) annually. Benefits paid out include a pension payable to former members and their dependants, lump sum retirement benefits, payment of death benefits where death occurs in service or retirement, and yearly payment of benefits on medical grounds.

The Fund is governed by the Public Service Pensions Act 2013 and administered in accordance with the following secondary legislation:

- Local Government Pension Scheme Regulations 2013 (as amended)
- Local Government Pension Scheme (Transitional Provisions, Savings and Amendment) Regulations 2014 (as amended)
- Local Government Pension Scheme (Management and Investment of Funds) Regulations 2016

### b. Membership

Membership of the LGPS is voluntary and employees are free to choose whether to join the scheme, remain in the scheme or make their own personal arrangements outside of the scheme. Due to government legislation, since 1 February 2013 all new employees who are not in the scheme are automatically enrolled. Members have the option to opt out of the scheme. Employees who have opted out are then re-enrolled every 3 years, when they can again opt out.

Organisations participating in the London Borough of Hillingdon Pension Fund include the following:

- Scheduled bodies, which are automatically entitled to be members of the Fund.
- Admitted bodies, which participate in the Fund under the terms of an admission agreement between the Fund and the employer. Admitted bodies include voluntary, charitable and similar not-for-profit organisations, or private contractors undertaking a local authority function following outsourcing to the private sector.

Employers who contribute to the Fund in addition to London Borough of Hillingdon are:

#### **Admitted Bodies:**

Braybourne Facilities - Bishop Ramsey Cleaners

Caterlink - Frays Academy

Caterplus

Cucina - Ruislip High School

Greenwich Leisure

Cleantec - Harlington School Cleaners

Taylor Shaw - Haydon Academy Catering

Hayward Services

- Hillingdon School
- Highfield School
- Guru Nanak

Heathrow Travel Care

Hillingdon & Ealing Citizens Advice

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

LBDS Frays Academy Trust

- Cowley St. Lawrence Academy
- Laurel Lane Academy
- St. Matthews Primary School
- St. Martins Primary School

London Housing Consortium

Orchard Hill College Academy Trust

- Young Peoples Academy
- Skills HUB

Park Federation Trust

- Cranford Park Academy
- Lake Farm Park Federation

QED Academy Trust

- Wood End Academy
- West Drayton Academy
- Coteford Junior Academy
- Queensmead Academy
- Northwood Academy

Rosedale Hewens Academy Trust

- Rosedale College
- Mellowlane School
- Brookside Primary School

Ruislip High School

Ryefield Primary School

Vyners Academy

Stockley Academy

Swakeleys Academy

Uxbridge Academy

William Byrd School

Willows Academy

London Borough of Hillingdon Pension Fund	31 March 2021	31 March 2020
Number of employers with active members	61	66
<b>Number of employees in scheme</b>		
London Borough of Hillingdon	4,972	4,839
Other employers	2,796	2,596
<b>Total</b>	<b>7,768</b>	<b>7,435</b>
<b>Number of Pensioners</b>		
London Borough of Hillingdon	6,187	6,082
Other employers	674	600
<b>Total</b>	<b>6,861</b>	<b>6,682</b>
<b>Deferred Pensioners</b>		
London Borough of Hillingdon	7,566	7,941
Other employers	2,659	2,630
<b>Total</b>	<b>10,225</b>	<b>10,571</b>

### **c. Funding**

The Fund is financed by contributions from the employers, Pension Fund members and by income from the Fund's investments. The Pension Fund accounts do not take account of liabilities to pay pensions and other benefits in the future. The contributions from the London Borough of Hillingdon and other participating employers are set through the triennial actuarial valuation at a rate sufficient to meet the long-term liabilities of the Fund.

Contributions are made by active members of the Fund in accordance with the LGPS Regulations 2013 and range from 5.5 % to 12.5% of pensionable pay for the financial year ending 31 March 2021. 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 (2020/21, 2021/2022 & 2022/23). Currently employer contribution rates range from 18.5% to 37.4% 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 is one direct investment into pooled funds with M&G Investments.

### **e. Governance**

The Fund is overseen by the Pensions Committee (comprised of Councillors) and the Pensions Board (comprised of an even number of employer and member representatives). The performance of the fund managers is monitored by the Pensions Committee (Four meetings in 2020-21) and governance is overseen by the Pensions Board (Four meetings in 2020-21). Pensions Committee and Pensions Board consisted of the following members in 2020/21:

#### **Pensions Committee**

Cllr Martin Goddard (Chairman)  
Cllr Phillip Corthorne (Vice-Chairman)  
Cllr Raymond Graham

Cllr Tony Eginton  
Cllr John Morse

#### **Pensions Board**

Roger Hackett (Scheme Member Representative)  
Tony Noakes (Employee Representative)

Zak Muneer (Employer Representative) Until Feb 2021  
Hayley Seabrook (Employer Representative)  
Shane Woodhatch (Employer Representative) From Feb 2021

## **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 2020/21, which is based on International Financial Reporting Standards (IFRS) as amended for the public sector and underpinned by the Local Government Pension Scheme Regulations. The accounts have been prepared on an accrual basis, except for transfer values, which are accounted for on a cash basis, and summarise the Fund transactions and report on the net assets available to pay pension benefits as at 31 March 2021.

The accounts do not take into account obligations to pay benefits and pensions that fall due after the reporting date (31 March 2021). The Pension Fund Accounts have been prepared on a going concern basis.

## **3. ACCOUNTING POLICIES**

### **a. Valuation of assets**

- Market quoted investments: Equities are valued at bid market prices available on the final day of the accounting period.
- Fixed income securities including short-term instruments are priced based on evaluated prices provided by independent pricing services.

- For pooled funds, if bid prices are provided by the Fund administrators then these are used, otherwise the Net Asset Value (NAV) is used. The NAV for pooled funds is derived by subtracting the fund's liabilities from assets and divide the result by total units/shares within the pooled fund.

- Private Equity is valued using the latest audited valuation from the Limited Partner/General Partner. This is adjusted for any capital calls/distributions that have taken place since the date of the statement. Unquoted investments for Private Placements and Infrastructure are priced using discounted cash flow methodology.

- b. Foreign currency translation of assets and liabilities and forward foreign exchange contracts are converted into sterling at the closing middle rates of exchange in the Net Assets Statement. Overseas income is converted at rates of exchange ruling when remitted.
- c. Acquisition costs of investments occur as brokerage commission when investments are purchased. They are recorded in the cost figure on an accrual basis.
- d. Investment management expenses are recorded at cost when the fund managers/custodian invoice the fund on a quarterly basis or provide a fee schedule deducted at source. Expenses are recorded on an accrual basis. Where an investment manager's complete fee schedule has not been received by year end, an estimate based on the previous quarter's amount is included in the accounts. In 2020/21, £41k of such fees is based on estimates (2019/20: £76k). The fund also agreed with the following fund managers that their fees include elements of performance, Adams Street Partners, AEW UK, Macquarie Infrastructure Partners and Permira LLP.
- e. Administration expenses are paid when invoiced by third party providers through the administering authority's payment system and recharged to the Pension Fund.
- f. Interest on property developments - property is held in unit trusts for the Pension Fund, the return received is calculated in accordance with the unit price at the Net Assets Statement date.
- g. 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 made and accepted by the recipient. Group transfers are accounted for under the agreement upon which they are made.
- j. Cash and cash equivalents are held in the custody accounts by fund managers as agreed in the individual Investment Management Agreements (IMA). Cash held is at the discretion of the manager but must not exceed the stipulated permitted range in the IMA.
- k. Investment Income - dividends from quoted securities are accrued when the securities are quoted ex-dividend. Interest on cash deposits 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 2021 was £294,037k (£275,145k at 31 March 2020).
- 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.

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. The fair value principles employed to value the underlying investments and the valuation policy remains unchanged. Both managers continue to use the latest valuation available from underlying investment managers, primarily at 31 December 2020, 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 £13,369k. 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 2021. 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 2021 valuations will be broadly based on a general outlook continued recovery COVID-19 related economic impact of 2019/20.	The total infrastructure alternative investments in the financial statements are £34,327k. 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 is not be impacted by Covid-19.	The total private finance investments in the financial statements are £1,248k. 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
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. Investments have recovered and stabilised, thus returning to growth. Subsequently, only 5% of investment portfolio is now classified as high risk from COVID-19. Deal activity has also recovered to pre-pandemic levels.	The total Private Debt investments in the financial statements are £59,005k. 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 2021 were not subject to any uncertainty clauses as the funds had fully recovered from the effects of COVID19, unlike 31 March 2020.	The total Pooled property investments in the financial statement is £188,926k. 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 unobservable inputs are utilised in the valuation of the assets. These unobservable valuation assumptions may have a profound effect on the actual pricing at year end thus skew shown valuation the fund accounts.
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 2021 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 2021 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.

## Sensitivity Analysis

Sensitivity to the assumptions for the year ended 31 March 2021	Approximate % increase to liabilities	Approximate monetary amount (£m)
0.5% p.a. increase in the Pension Increase Rate	9%	157
0.5% p.a. increase in the Salary Increase Rate	1%	9
0.5% p.a. decrease in the Real Discount Rate	8%	146

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 2021 £'000	31 March 2020 £'000
Employees	10,231	10,109
<b>Employers Contributions:</b>		
Normal	32,737	30,333
Deficit Funding	5,713	6,863
	<b>48,681</b>	<b>47,305</b>

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 2021 £'000	31 March 2020 £'000
LB Hillingdon	34,759	33,793
Scheduled Bodies	13,528	13,174
Admitted Bodies	394	338
	<b>48,681</b>	<b>47,305</b>

## 5. TRANSFERS IN

	31 March 2021 £'000	31 March 2020 £'000
Individual transfers in from other schemes	4,803	1,746
	<b>4,803</b>	<b>1,746</b>

## 6. BENEFITS

	31 March 2021 £'000	31 March 2020 £'000
<b>By category</b>		
Pensions	(39,955)	(38,846)
Commutations and Lump Sum Retirement Benefits	(6,478)	(7,330)
Lump Sum Death Benefits	(778)	(1,012)
	<b>(47,211)</b>	<b>(47,188)</b>

	31 March 2021 £'000	31 March 2020 £'000
<b>By authority</b>		
LB Hillingdon	(43,708)	(42,567)
Scheduled Bodies	(3,177)	(4,246)
Admitted Bodies	(326)	(375)
	<b>(47,211)</b>	<b>(47,188)</b>

## 7. PAYMENTS TO AND ON ACCOUNT OF LEAVERS

	31 March 2021 £'000	31 March 2020 £'000
Refunds to members leaving service	(82)	(103)
Individual transfers out to other schemes	(3,459)	(6,767)
	<b>(3,541)</b>	<b>(6,870)</b>

## 8. MANAGEMENT EXPENSES

The administering authority incurred costs in managing the Fund for the period ending 31 March 2021 as follows:

	31 March 2021 £'000	31 March 2020 £'000
Administrative Costs	(963)	(825)
Investment Management Expenses	(9,548)	(8,767)
Oversight and Governance	(238)	(290)
	<b>(10,749)</b>	<b>(9,882)</b>

## 8A. INVESTMENT MANAGEMENT EXPENSES BREAKDOWN

2020/2021	£'000	£'000	£'000	£'000
	Total	Management Expenses	Performance Fees	Transaction Costs
Equities	(94)	(88)	0	(6)
Pooled Investments	(5,971)	(2,827)	(1,242)	(1,902)
Pooled Property Investments	(2,323)	(1,307)	(104)	(912)
Private Equity	(1,099)	(241)	(797)	(61)
	<b>(9,487)</b>	<b>(4,463)</b>	<b>(2,143)</b>	<b>(2,881)</b>
Custody Fees	(61)			
Total	<b>(9,548)</b>			

2019/2020	£'000	£'000	£'000	£'000
	Total	Management Expenses	Performance Fees	Transaction Costs
Equities	(533)	(421)	0	(112)
Pooled Investments	(5,180)	(3,248)	(614)	(1,318)
Pooled Property Investments	(2,711)	(2,063)	(140)	(508)
Private Equity	(284)	(200)	(26)	(58)
	<b>(8,708)</b>	<b>(5,932)</b>	<b>(780)</b>	<b>(1,996)</b>
Custody Fees	(59)			
Total	<b>(8,767)</b>			

## 8B. TRANSACTION COSTS ANALYSIS BY ASSET CLASS

	31 March 2021 £'000	31 March 2020 £'000
Equities	(6)	(112)
Pooled Investments	(1,902)	(1,318)
Pooled Property Investments	(912)	(508)
Private Equity	(61)	(58)
	<b>(2,881)</b>	<b>(1,996)</b>

## 8C. EXTERNAL AUDIT COSTS

	31 March 2021 £'000	31 March 2020 £'000
Payable in Respect of External Audit	(40)	(22)
	<b>(40)</b>	<b>(22)</b>

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

## 9. INVESTMENT INCOME

	31 March 2021 £'000	31 March 2020 £'000
Income from Equities	1,398	5,810
Pooled Property Investments	2,108	6,452
Pooled Investments- Unit trusts and other managed funds	10,061	10,362
Interest on cash deposits	18	119
Other (for example from stock lending or underwriting)	82	358
	<b>13,667</b>	<b>23,101</b>

## 10. INVESTMENTS

	31 March 2021 £'000	31 March 2020 £'000
<b>Investment Assets</b>		
Equities	42	84,471
Pooled investments	943,976	706,512
Pooled property investments	188,926	165,448
Private equity	13,369	13,614
<b>Other Investment balances</b>		
Cash deposits	15,166	15,520
Investment income due	89	502
Sales Settlements Outstanding	0	64
<b>Total investment assets</b>	<b>1,161,568</b>	<b>986,131</b>
<b>Investment liabilities</b>		
<b>Derivative contracts:</b>		
Purchase Settlements Outstanding	0	(17)
<b>Total investment liabilities</b>	<b>0</b>	<b>(17)</b>
<b>Net investment assets</b>	<b>1,161,568</b>	<b>986,114</b>

**10A. RECONCILIATION OF MOVEMENTS IN INVESTMENTS AND DERIVATIVES**

2020/21	Value 1 April 2020 £'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 2021 £'000
Equities	84,471	3,657	(90,547)	2,461	42
Pooled Investments	706,512	216,071	(126,184)	147,577	943,976
Pooled Property Investments	165,448	14,970	(181)	8,689	188,926
Private Equity	13,614	11	(3,916)	3,660	13,369
	<b>970,045</b>	<b>234,709</b>	<b>(220,827)</b>	<b>162,386</b>	<b>1,146,313</b>
<b>Other investment balances</b>	<b>970,045</b>	<b>234,709</b>	<b>(220,827)</b>	<b>162,386</b>	<b>1,146,313</b>
Cash Deposits	15,520	0	0	0	15,166
Investment Income Due	502	0	0	0	89
Outstanding Sales	64	0	0	0	0
Adjustments to Market Value Changes	0	0	0	8,133	0
<b>Total Investment Assets</b>	<b>986,131</b>			<b>170,519</b>	<b>1,161,568</b>
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
	<b>1,054,560</b>	<b>236,354</b>	<b>(227,559)</b>	<b>(93,310)</b>	<b>970,045</b>
<b>Other investment balances</b>	<b>1,054,560</b>	<b>236,354</b>	<b>(227,559)</b>	<b>(93,310)</b>	<b>970,045</b>
Cash Deposits	10,472	0	0	207	15,520
Investment Income Due	1,183	0	0	0	502
Outstanding Sales	0	0	0	0	64
Adjustments to Market Value Changes	0	0	0	7,011	0
<b>Total Investment Assets</b>	<b>1,066,215</b>			<b>(86,092)</b>	<b>986,131</b>

## 10B. ANALYSIS OF INVESTMENTS

	31 March 2021 £'000	31 March 2020 £'000
<b>Equities</b>		
<b>UK</b>		
Quoted	42	84,471
	<b>42</b>	<b>84,471</b>
<b>Pooled funds - additional analysis</b>		
Fixed income unit trust	261,498	230,844
Diversified Growth Funds	50,833	55,573
Infrastructure Funds	34,327	27,265
Global Equity	537,065	324,053
Limited liability partnerships	60,253	68,777
	<b>943,976</b>	<b>706,512</b>
<b>Other Investments</b>		
Pooled property Investments	188,926	165,448
Private equity	13,369	13,614
	<b>202,295</b>	<b>179,062</b>
Cash deposits	15,166	15,520
Investment income due	89	502
Sales Settlements Outstanding	0	64
	<b>15,255</b>	<b>16,086</b>
<b>Total investment assets</b>	<b>1,161,568</b>	<b>986,131</b>
<b>Investment liabilities</b>		
Purchase Settlements Outstanding	0	(17)
<b>Total investment liabilities</b>	0	(17)
<b>Net investment assets</b>	<b>1,161,568</b>	<b>986,114</b>

## 10C. INVESTMENTS ANALYSED BY FUND MANAGER

Fund Manager	Market Value 31 March 2021 £'000	%	Market Value 31 March 2020 £'000	%
<b>Investments Managed by London CIV Pool</b>				
Legal & General Investment Management	668,045	58	384,373	39
London CIV Asset Pool	127,945	11	184,884	19
	<b>795,990</b>	<b>69</b>	<b>569,257</b>	<b>58</b>
<b>Investments Managed Outside of London CIV Asset Pool</b>				
Adams Street Partners	10,103	1	9,909	1
AEW UK	60,712	5	50,774	5
JP Morgan Asset Management	116,580	10	89,137	9
LGT Capital Partners	3,266	0	3,705	0
M&G Investments	1,248	0	4,674	0
Macquarie Infrastructure	20,862	2	26,699	3
Permira Credit Solutions	59,005	5	64,103	7
UBS Global Asset Management (Equities)	119	0	86,948	9
UBS Global Asset Management (Property)	78,990	7	67,517	7
Other*	14,693	1	13,391	1
	<b>365,578</b>	<b>31</b>	<b>416,857</b>	<b>42</b>
<b>Total</b>	<b>1,161,568</b>	<b>100</b>	<b>986,114</b>	<b>100</b>

\* Other includes pending trades, accrued income and cash held in custody accounts, independent of fund managers not mandated to hold cash.

\* No single holding within an investment represents more than 5% of total assets

## 10D. STOCK LENDING

The Fund's investment strategy sets the parameters for the Fund's stock-lending programme. At the year-end, the value of quoted equities on loan was £29k (31 March 2020: £3,572k). 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 £30k (31 March 2020: £3,804k) 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 2021 £'000	31 March 2020 £'000
Debtors		
Employers' contributions due	63	51
Employees' contributions due	16	13
Cash balances	4,244	3,510
	<b>4,323</b>	<b>3,574</b>

## 12. CURRENT LIABILITIES

	31 March 2021 £'000	31 March 2020 £'000
Creditors		
Other local authorities (LB Hillingdon)	(172)	(172)
Other entities	(517)	(461)
	<b>(689)</b>	<b>(633)</b>

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

## 13. ADDITIONAL VOLUNTARY CONTRIBUTIONS

Additional Voluntary Contributions paid by scheme members are not included in the accounts. The additional voluntary contributions are paid by scheme members directly to Prudential Assurance Company, who manage these monies independently of the fund and, as determined by the fund actuary, do not form part of the Fund valuation.

According to information provided by Prudential, £168k was received in additional voluntary contributions by members, in 2019/20 and AVC Fund value was £5,249k. Any transfer of additional contributions into the Fund during the year are included in the employee contributions value as detailed in note 4.

Due to technical and administrative problems encountered by Prudential, the appointed AVC provider, updated fund value and contributions received for 2020/21 are yet to be made available.

#### 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 2021.

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 2021 £'000	Value on Increase £'000	Value on Decrease £'000
Pooled investments - Limited Liability Partnerships (Infrastructure) a	10%	34,327	37,760	30,894
Pooled investments - Limited Liability Partnerships (Private Credit) b	10%	60,253	66,278	54,228
Pooled Property - UBS, AEW & LGIM c	10%	188,926	207,819	170,033
Private Equity - d	5%	13,369	14,037	12,701
Venture Capital	5%	41	43	39
<b>Total</b>		<b>296,916</b>	<b>325,937</b>	<b>267,895</b>

a) The potential movement of 10% represents a combination of the following factors, which could all move independently in different directions: i) material changes in economic and financial assumptions. ii) discounted equity cash flow rate.

b) The assumed movement is based on pricing of loans in the secondary leveraged loan market, with widening/narrowing spreads resulting in price changes either way.

c) The assumed movement is based fluctuations in market prices for comparable assets, real estate market illiquidity and counterparty default.

d) Movement in the assessed valuation range derive from changes in the underlying profitability of component companies, the range in the potential movement of 5% is caused by unexpected changes to cash flow forecast and discounts for lack of potential bids.

### 14A. FAIR VALUE HIERARCHY

Asset and liability valuations have been classified into three levels, according to the quality and reliability of information used to determine fair values. Transfers between levels are recognised in the year in which they occur.

#### Level 1

Assets and liabilities at level 1 are those where the fair values are derived from unadjusted quoted prices in active markets for identical assets or liabilities. Products classified as level 1 comprise quoted equities, quoted fixed securities, quoted index linked securities and unit trusts.

#### Level 2

Assets and liabilities at level 2 are those where quoted market prices are not available; for example, where an instrument is traded in a market that is not considered to be active, or where valuation techniques are used to determine fair value.

#### Level 3

Assets and liabilities at level 3 are those where at least one input that could have a significant effect on the instrument's valuation is not based on observable market data.

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 2021	Quoted Market Price	Using Observable Inputs	With Significant Unobservable Inputs	Total £'000
	Level 1 £'000	Level 2 £'000	Level 3 £'000	
<b>Financial Assets at Fair Value through Profit and Loss</b>				
Equities	42	0	0	42
Pooled Investments	0	849,355	94,621	943,976
Pooled Property Investments	0	0	188,926	188,926
Private Equity	0	0	13,369	13,369
	<b>42</b>	<b>849,355</b>	<b>296,916</b>	<b>1,146,313</b>
<b>Financial Liabilities at Fair Value through Profit and Loss</b>				
<b>Total</b>	<b>42</b>	<b>849,355</b>	<b>296,916</b>	<b>1,146,313</b>

Values as at 31 March 2020	Quoted Market Price	Using Observable Inputs	With Significant Unobservable Inputs	Total £'000
	Level 1 £'000	Level 2 £'000	Level 3 £'000	
<b>Financial Assets at Fair Value through Profit and Loss</b>				
Equities	84,471	0	0	84,471
Pooled Investments	0	610,429	96,083	706,512
Pooled Property Investments	0	0	165,448	165,448
Private Equity	0	0	13,614	13,614
Amount Receivable from Sales	64	0	0	64
	<b>84,535</b>	<b>610,429</b>	<b>275,145</b>	<b>970,109</b>
<b>Financial Liabilities at Fair Value through Profit and Loss</b>				
Payable for Investment Purchases	(17)	0	0	(17)
<b>Total</b>	<b>84,518</b>	<b>610,429</b>	<b>275,145</b>	<b>970,092</b>

#### 14B. RESTATEMENT OF VALUATION HIERARCHIES

There were no restatements of valuations between hierarchies in 2020/21.

#### 14C. RECONCILIATION OF FAIR VALUE MEASUREMENTS WITHIN LEVEL 3

##### Level 3 Assets Reconciliation

	Value 1 April 2020	Transfers Into Level 3	Purchases at cost	Sales proceeds	Unrealised gains/(losses)	Realised gains/(losses)	Value 31 March 2021
	£'000	£'000	£'000	£'000	£'000	£'000	£'000
Private Equity - Adams Street Partners, LGT Capital Partners & UBS	13,614	0	11	(3,916)	706	2,954	13,369
Private Finance - M&G	4,674	0	0	(2,322)	(1,196)	92	1,248
Infrastructure - Maquarie & LCM	27,265	0	13,166	(8,088)	(2,728)	4,712	34,327
Venture Capital - UBS	41	0	0	0	0	0	41
Property - UBS Property, AEW UK & LGIM LPI	165,448	0	14,970	(181)	8,824	(135)	188,926
Direct Lending - Permira	64,103	0	0	(5,816)	718	0	59,005
<b>Total Level 3 Assets</b>	<b>275,145</b>	<b>0</b>	<b>28,147</b>	<b>(20,323)</b>	<b>6,324</b>	<b>7,623</b>	<b>296,916</b>

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 There were no transfers into level 3 assets in 2020/21.

## 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 the Fund's underlying investments will be externally audited prior to financial close. They will be used as the initial base financial models for the DCF analysis.

#### **Update for Economic, Operational and Financial Assumptions**

The economic assumptions in the financial models are adjusted every three months to reflect current market conditions. The main economic variables relate to interest rates, exchange rates and inflation.

The initial operational assumptions in each of the financial models are the acquisition forecasts. Any historical information (e.g. distributions received in an intervening period and year-to-date performance) will be updated within the model. In relation to forward-looking assumptions, the acquisition assumptions will continue to be used unless there is a material inconsistency between these assumptions and:

- The actual operational results to date
- The revised forecasts provided by management or approved by the board.

The financial assumptions in the model (e.g. cost of debt and capital structure) are also updated to reflect the actual debt put into place, current base rates and any material change in outlook with regards to future leverage.

#### **Discount Rate**

Equity cash flows are discounted at the acquisition internal rate of return, which is adjusted for changes in the relevant risk-free rate. The acquisition internal rate of return is the return, which is forecast under the acquisition case and price, reflecting the risks inherent in each of the investments. The difference between the acquisition internal rate of return and the risk-free rate at the date of acquisition equates to the risk premium, which is the risk compensation to equity holders.

Most of the Fund's assets are likely to see some decrease in the risk premium as assets are de-risked following acquisition. Such projects may have a changing risk "life-cycle", whereby the risk changes as the asset matures. In addition, if there is a change in the inherent risk of an investment, then the risk premium may need to be reconsidered.

### **Pooled Property: AEW, UBS Property & LGIM LPI**

Pooled properties have been valued in accordance with RICS valuation – Professional Standards VPS4 (7.1) fair value and VPGA 1 valuations for inclusion in financial statements, which adopts the definition of fair value used by the International Accounting Standards Board:

*"The price that would be received to sell an asset, or paid to transfer a liability, in an orderly transaction between market participants at the measurement date."*

The properties are valued individually, and the details of tenure, tenancies and floor area are considered for valuation purposes.

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

#### **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 2021 £'000	31 March 2021 £'000	31 March 2021 £'000	31 March 2021 £'000	31 March 2020 £'000	31 March 2020 £'000	31 March 2020 £'000	31 March 2020 £'000
<b>Financial Assets</b>								
Equities	42	0	0	42	84,471	0	0	84,471
Pooled Investments	943,976	0	0	943,976	706,512	0	0	706,512
Pooled property investments	188,926	0	0	188,926	165,448	0	0	165,448
Private Equity	13,369	0	0	13,369	13,614	0	0	13,614
Cash	0	15,166	0	15,166	0	15,520	0	15,520
Other Investment balances	0	89	0	89	0	566	0	566
	<b>1,146,313</b>	<b>15,255</b>	<b>0</b>	<b>1,161,568</b>	<b>970,045</b>	<b>16,086</b>	<b>0</b>	<b>986,131</b>
<b>Financial Liabilities</b>								
Purchase Settlements Outstanding	0	0	0	0	0	0	(17)	(17)
	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>(17)</b>	<b>(17)</b>
<b>Total</b>	<b>1,146,313</b>	<b>15,255</b>	<b>0</b>	<b>1,161,568</b>	<b>970,045</b>	<b>16,086</b>	<b>(17)</b>	<b>986,114</b>

## 15A. NET GAINS AND LOSSES ON FINANCIAL INSTRUMENTS

	31 March 2021 £000's	31 March 2020 £000's
<b>Financial Assets</b>		
Designated at Fair Value through profit and loss	170,519	(86,093)
	<b>170,519</b>	<b>(86,093)</b>

## 16. NATURE & EXTENT OF EXPOSURE TO RISKS ARISING FROM FINANCIAL INSTRUMENTS

### Risk and Risk Management

The Fund's primary long-term risk is that the Fund's assets will fall short of its liabilities. Therefore, the aim of investment risk management is to minimise the risk of an overall reduction in the value of the Fund and to maximise the opportunity for gains across the whole Fund portfolio. The Fund achieves this through asset diversification to reduce exposure to market risk (price risk, currency and interest rate risks) and credit risk to an acceptable level. In addition, the Fund manages its liquidity risk to ensure there is sufficient liquidity to meet the Fund's forecast cash flows.

Responsibility for the Fund's risk management strategy rests with the Pensions Committee. Risk management policies are established to identify and analyse the risks faced by the Council's pensions operations. Policies are reviewed regularly to reflect changes in activity and in market conditions.

### Market risk

The risk that the fair value of cash flows of a financial instrument will fluctuate due to changes in market prices. Market risk reflects interest rate risk, currency risk and other price risks. To mitigate against market risk the Pension Fund invests in a diversified pool of assets to ensure a reasonable balance between different categories. The management of the assets are placed with a number of fund managers with different performance targets and investment strategies. Each fund manager is expected to maintain a diversified portfolio in each asset class. Risks associated with the strategy and investment returns are included as part of the quarterly reporting to Pensions Committee where they are monitored and reviewed.

### 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 2021 £'000	Percentage Change %	Value on Increase £'000	Value on Decrease £'000
Global Equity	587,857	14.80%	674,860	500,854
UK Equity	42	14.80%	48	36
Bonds	261,498	5.70%	276,403	246,593
Alternatives	107,990	4.20%	112,526	103,454
Property	188,926	5.00%	198,372	179,480
<b>Total</b>	<b>1,146,313</b>		<b>1,262,209</b>	<b>1,030,417</b>

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

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
<b>Total</b>	<b>970,045</b>		<b>1,055,498</b>	<b>884,592</b>

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

**Interest Rate Risk** - The risk to which the Pension Fund is exposed to changes in interest rates and relates to its holdings in bonds and cash. Based on interest received on fixed interest securities, cash and cash equivalents.

The Fund's direct exposure to interest rate movements as at 31 March 2021 and 31 March 2020 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 120 basis points (1.2%) movement in interest rates is consistent with the level of sensitivity applied as part of the Fund's risk management strategy.

The analysis that follows assumes that all other variables, in particular exchange rates remain constant, and shows the effect in the year on the net assets available to pay benefits of a +/- 1% change in interest rates.

	Value as at 31 March 2021 £'000	Potential movement on 1.2% change in interest rates £'000	Value on increase £'000	Value on decrease £'000
<b>Assets exposed to interest rate risks</b>				
Cash balances	15,166	182	15,348	14,984
Bonds - pooled funds	261,498	3,138	264,636	258,360
<b>Total change in assets available</b>	<b>276,664</b>	<b>3,320</b>	<b>279,984</b>	<b>273,344</b>

	Value as at 31 March 2020 £'000	Potential movement on 1% change in interest rates £'000	Value on increase £'000	Value on decrease £'000
<b>Assets exposed to interest rate risks</b>				
Cash balances	15,520	155	15,675	15,365
Bonds - pooled funds	230,845	2,308	233,153	228,537
<b>Total change in assets available</b>	<b>246,365</b>	<b>2,464</b>	<b>248,829</b>	<b>243,901</b>

**Currency Risk** - The risk to which the pension fund is exposed to fluctuations in foreign currency exchange rates. The Pension Fund has the ability to set up a passive currency hedge where these risks are perceived to be adverse. As at 31 March 2021, 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 2021 and as at the previous period ending 31 March 2020.

### Currency exposure by asset type

#### Currency risk sensitivity analysis

Following analysis of historical data in consultation with PIRC Ltd, the Funds data provider, the Fund considers the likely volatility associated with foreign exchange rate movements to be 6.60%, based on the data provided by PIRC. A 6.60% fluctuation in the currency is considered reasonable based on PIRC's analysis of historical movements in month end exchange rates over a rolling twelve-month period. This analysis assumes that all variables, in particular interest rates, remain constant. Managers that hedge against currency risk are not included in this sensitivity analysis. A 6.60% strengthening/weakening of the pound against various currencies in which the Fund holds investments would increase/decrease the net assets available to pay benefits as follows:

#### Assets exposed to currency risk

	Asset Value 31 March 2021	Potential market movement	Value on increase	Value on decrease
	£'000	£'000	£'000	£'000
		6.60%		
Pooled Funds	473,377	31,243	504,620	442,134
Private Equity/Infrastructure	47,696	3,148	50,844	44,548
	<b>521,073</b>	<b>34,391</b>	<b>555,464</b>	<b>486,683</b>

#### Assets exposed to currency risk

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

**Credit Risk** - Credit risk represents the risk that the counterparty to a transaction or a financial instrument will fail to discharge an obligation and cause the fund to incur a financial loss. The market values of investments generally reflect an assessment of credit in their pricing and consequently the risk of loss is implicitly provided for in the carrying value of the Fund's financial assets and liabilities.

The Pension Fund's entire investment portfolio is exposed to some form of credit risk, except for the derivative position, where the risk equates to the net market value of a positive derivative position. Credit risk can be minimised through careful selection of high-quality counterparties, brokers and financial institutions. The Pension Fund is also exposed to credit risk through Securities Lending, Forward Currency Contracts and its daily treasury activities. The Securities Lending programme is run by the Fund's custodian Northern Trust which assigns four different risk management oversight committees to control counterparty risk, collateral risk and the overall securities lending programme. The minimum level of collateral for securities on loan is 102%, however more collateral may be required depending on the type of transaction. To further mitigate risks, the collateral held on behalf of the pension fund is ring fenced from Northern Trust. Securities lending is capped by investment regulations and statutory limits are in place to ensure no more than 25% of eligible assets can be on loan at any one time.

The prime objective of the Pension Fund treasury management activity is the security of principal sums invested. As such it will take a prudent approach to organisations employed as the banker and deposit taker. The Pension Fund will ensure it has adequate but not excessive cash resources in order to meet its objectives. The bank accounts are held with Natwest Bank, which holds an S&P long-term credit rating of A. Deposits are placed in the AAf 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 2021 was £19,410k (31 March 2020: £19,030k) and this was held with the following institutions:

Summary	Rating S&P	Balances as at 31 March 2021 £'000	Rating S&P	Balances as at 31 March 2020 £'000
<b>Money market funds</b>				
Northern Trust	AAAf S1+	15,366	AAAf S1+	15,720
<b>Bank current accounts</b>				
NatWest (Lloyds as at 31 March 2020)	A	4,044	A+	3,310
<b>Total</b>		<b>19,410</b>		<b>19,030</b>

**Liquidity Risk** - The risk the Pension Fund will have difficulties in paying its financial obligations when they fall due.

The Pension Fund holds a working cash balance in its own bank accounts with NatWest as well as Money Market Funds to which it has instant access to cover the payment of benefits and other lump sum payments (£4,044k). 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 2021 these assets totalled £849,390k, with a further £15,366k 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 taxpayer from an employer defaulting on its pension obligations

The funding level is the ratio of assets to liabilities at the valuation date. A funding level of less/more than 100% implies that there is a deficit/surplus in the Fund at the valuation date against the funding target. Funding plans are set to eliminate any deficit (or surplus) over the set time horizon and therefore get back to a funding level of 100%. To do so, additional contributions may be required to be paid into the Fund; these contributions are known as the "secondary rate".

At the 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 has been reviewed following the Government's loss of the right to appeal the McCloud and other similar court cases. A proposed remedy to compensate all members of the fund has been issued by the LGPS Scheme Advisory Board (SAB).

LGPS SAB Secretariat have instructed us to prepare figures based on a worst-case scenario for the potential legal remedy, as follows:

- a. Underpin to apply to all members of all ages
- b. Underpin to apply to all members (including those who joined between 2012 and 2014, and those who joined after 2014)
- c. Underpin to be assessed at the earlier of retirement or 2008 Scheme Normal Retirement Age (even if that is after 2022)
- d. Underpin to apply to members entitled to immediate benefits on leaving, but not those who leave service without any entitlement to an immediate pension

Implementation of the ruling by all employers is now been co-ordinated by scheme administrators and relevant information required will be sourced from all employers via a standard template and then processed to remedy the situation for those affected.

## Contribution rates

The table below summarises the whole Fund Primary and Secondary Contribution rates at this triennial valuation. These rates are the payroll weighted average of the underlying individual employer primary and the total of employer secondary rates expressed as a monetary amount, calculated in accordance with the Regulations and CIPFA guidance.

Primary Rate (%) 1 April 2020 - 31 March 2023	Secondary Rate (£)		
	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
<b>Male</b>		
Pensioners	22.1 years	22.6 years
Non- Pensioners	22.8 years	24.0 years
<b>Female</b>		
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 2021 to comply with the accounting standard. The financial markets at the accounting date will have considered 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 2021 % per annum	31 March 2020 % per annum
Inflation /Pensions Increase Rate	2.9%	1.9%
Salary Increase Rate	3.2%	2.2%
Discount Rate	2.0%	2.3%

An IAS 19 valuation was carried out for the Fund as at 31 March 2021 by Hymans Robertson with the following results:

Description	31 March 2021 £m	31 March 2020 £m
Present Value of Promised Retirement Benefits	2,039	1,569
Active Members	770	503
Deferred Members	572	422
Pensioners	697	644

*\*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 2021 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 2021 (and 31 March 2020) include an allowance for the “McCloud ruling”, i.e. an estimate of the potential increase in past service benefits arising from this case affecting public service pension schemes.

### Net Liability

The table below shows the total net liability of the Fund as at 31 March 2021. 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 2021	31 March 2020
	£m	£m
Present Value of Promised Retirement Benefits	(2039)	(1569)
Fair Value of Scheme Assets (bid value)	1162	989
<b>Net Liability</b>	<b>(877)</b>	<b>(580)</b>

### 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 2020/21) 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 impact of the Coronavirus pandemic on investment assets from 2019/20 has been reversed due to increased fund value from market gains through 2020/21. The fund, in conjunction with the its investment advisers, during 2020/21, reviewed the fund’s portfolio and put in place a robust investment strategy geared towards withstanding and reducing market volatility. Investment strategy review is now an ongoing process and the portfolio is positioned to relatively react quickly to market volatility if necessary.

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. The Fund is currently operating with a cash flow surplus. If a need to obtain liquidity arises, approximately 72% of the Fund’s assets are held in liquid investments. A recent review undertaken in response to the Covid-19 effects as at 31st March 2021 determined that there was no material risk to the Fund of employers defaulting on their contributions. 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 two members of the Pension Fund Committee who are deferred or retired members of the Pension Fund. Cllr Philip Corthorne (Vice-Chairman), a deferred member and Cllr Tony Eginton, a retired member. Each member is required to declare their interest at each meeting.

### Key Management Personnel

Three employees of the London Borough of Hillingdon held key positions in the financial management of the London Borough of Hillingdon Pension Fund. These employees are the Section 151 officer, the Deputy Director, Corporate Finance and the Chief Accountant. Total remuneration payable to key management personnel is set out below:

	31 March 2021 £'000	31 March 2020 £'000
Short term benefits	50	64
Post employment benefits	145	78
	<b>195</b>	<b>142</b>

*NB: Increased Post-employment benefits figure for 2020-21 is attributable to reorganisation and addition of Deputy Director, Corporate Finance to the Pension Fund management structure.*

The Pensions Committee of the London Borough of Hillingdon Pension Fund ("the Fund") has prepared an Investment Strategy Statement (ISS) in accordance with the MHCLG Guidance on Preparing and Maintaining an Investment Strategy Statement.

As set out in the Local Government Pension Scheme (Management and Investment of Funds) Regulations 2016, the Pensions Committee will review this Statement from time to time, but at least every three years, and revise it as necessary. Also, in the event of a significant change, changes will be reflected within three months of the change occurring. The current version of the ISS is available on the pension fund pages of the Council's website: [www.hillingdon.gov.uk](http://www.hillingdon.gov.uk) and included in the Annual Report.

## 20. BULK TRANSFER

There were no bulk transfers in 2020-21.

## 21. CONTINGENT LIABILITIES AND CONTRACTUAL COMMITMENTS

Outstanding capital commitments (investments) as at 31 March 2021 totalled £50,576k (£65,687k at 31 March 2020).

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.

## 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

Events taking place after the 31st March 2021 are not reflected in the financial statements or notes, unless they are of such importance that non-disclosure would affect the ability of users to make proper evaluations and decisions. Where events taking place before this date provided information about conditions existing at 31 March 2021, the figures in the financial statements and notes have been adjusted in all material respects to reflect the impact of this information.

There are no events to report after the Balance Sheet date that deem adjustment or disclosure in the accounts.

## H. ASSET POOLS (LCIV)

In 2015 the Department of Housing Communities and Local Government (now Ministry of Housing Communities and Local Government) issued the LGPS: Investment Reform Criteria and Guidance which set out how the government expected the LGPS to establish a number of pools to deliver:

- Benefits of scale;
- Strong governance and decision making;
- Reduced costs and excellent value for money; and
- Improved capacity to invest in infrastructure.

All administering authorities were invited to submit proposals for pooling of their investments by February 2016 including a commitment to pooling and a description of their progress towards formalising their arrangements with other authorities.

Hillingdon made the decision at Council in February 2016 to join the London CIV (LCIV), to provide the Fund with a mechanism to pool investments with other London Boroughs.

Initial share capital investment of £150k was made on joining the pool in February 2016 as well as £50k for Hillingdon's share of set up costs. In addition to set up costs the fund 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 2020/21 the London CIV had the following sub funds available for Hillingdon to invest.

<b>Fund Name</b>	<b>Manager</b>	<b>Launch Date</b>
<b>Global Equities</b>		
LCIV EP Income Equity Fund	Epoch Investment Partners	08-Nov-17
LCIV Global Alpha Growth Fund	Baillie Gifford & Co	11-Apr-16
LCIV LV Global Equity Fund	Longview Partners	17-Jul-17
LCIV NW Global Equity Fund	Newton Investment Management	22-May-17
LCIV 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-20
<b>Emerging Market Equities</b>		
LCIV Emerging Market Equity Fund	JP Morgan Asset Management	11-Jan-18
<b>Multi-Asset</b>		
LCIV Diversified Growth Fund	Baillie Gifford & Co	15-Feb-16
LCIV NW Real Return Fund	Newton Investment Management	16-Dec-16
LCIV PY Global Total Return Fund	Pyrford International Limited	17-Jun-16
LCIV RF Absolute Return Fund	Ruffer LLP	21-Jun-16
<b>Fixed Income</b>		
LCIV MAC Fund	CQS	31-May-18
LCIV Global Bond Fund	Pimco	30-Nov-18
<b>Infrastructure</b>		
LCIV Infrastructure Fund	Stepstone Infrastructure and Real Assets	31-Oct-19

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 58% of total assets of the Pension Fund. Holdings within the pool were within Ruffer (Multi Asset, Absolute Return Fund), Epoch (Global Equity Income Fund) and Stepstone (Infrastructure Fund) on the LCIV platform and LGIM Passive mandate.

As at the 31 March 2021 the London CIV had the following sub funds available for Hillingdon to invest

<b>Fund Name</b>	<b>Manager</b>	<b>Launch Date</b>
<b>Global Equities</b>		
LCIV 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
<b>Emerging Market Equities</b>		
LCIV HN Emerging Market Equity Fund	Henderson Global Investors Limited	11-Jan-18
<b>Multi-Asset</b>		
LCIV Diversified Growth Fund	Baillie Gifford & Co	15-Feb-16
LCIV NW Real Return Fund	Newton Investment Management	16-Dec-16
LCIV PY Global Total Return Fund	Pyrford International Limited	17-Jun-16
LCIV RF Absolute Return Fund	Ruffer LLP	21-Jun-16
<b>Fixed Income</b>		
LCIV Global 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 £796m at 31 March 2021, accounting for almost 68.5% of total assets of the Pension Fund. This was invested in Ruffer (Multi Asset) Epoch (Global Equity), Stepstone (Infrastructure) on the LCIV platform and LGIM Passive.

### Pooled assets

Sub Fund	Value £'000 31/03/2020	Opening Proportion %	Value £'000 31/03/2021	Closing Proportion %
LCIV EP Income Equity Fund	128,745	13.06	63,647	5.48
LCIV RF Absolute Return Fund	55,573	5.63	50,833	4.37
LCIV Stepstone Infrastructure Fund	567	0.06	13,465	1.16
LGIM Passive Equities	195,267	19.80	473,376	40.75
LGIM Passive Bonds	141,707	14.37	144,920	12.48
LGIM LPI Property	47,399	4.81	49,749	4.28
	<b>569,258</b>	<b>57.7</b>	<b>795,990</b>	<b>68.52</b>

### Post pool reporting

The costs set out in the table below represents the initial costs of creating the London CIV (LCIV) pool as advised by the LCIV, which the Hillingdon fund is a member.

LONDON CIV WHOLE POOL SET UP COSTS	Total Direct Costs
	£000s
<b>Set Up Costs:</b>	
Recruitment	200
Legal	700
Procurement	200
Other support costs eg IT, accommodation	200
Staff costs	400
<b>TOTAL SET UP COSTS</b>	<b>1,700</b>

## LB Hillingdon Annual Pool Set up Costs Breakdown and Fee Savings

	2015/16	2016/17	2017/18	2018/19	2019/20	2020/21	Cumulative to date
<b>Set Up Costs</b>	<b>£000s</b>						
Development Charge	0	0	75	65	65	85	290
Annual Service Charge including establishment of pool	50	25	25	25	25	25	175
Share Capital Costs	150	0	0	0	0	0	150
Transition Costs	0	32	132	0	0	0	164
Fee Savings	0	-84	-167	-181	-115	-96	-643
<b>Net (Savings)/Cost Realised</b>	<b>200</b>	<b>-27</b>	<b>65</b>	<b>-91</b>	<b>-25</b>	<b>14</b>	<b>136</b>

The figures in the table above represents the service and development costs charges levied on the fund as a member of the London CIV pool. Transition costs refer to costs incurred in transfer of assets currently managed directly by the London CIV and passive portfolios negotiated by the CIV with LGIM. Fee savings represents the current costs of investments managed within the pool and LGIM compared with pre-pooling charges based on current asset valuations.

As at the end of 2020/21 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. considering both fees and performance) on the value of Fund assets.

	Asset Pool			Non-Asset Pool			Fund Total
	Direct	Indirect	Total	Direct	Indirect	Total	
	£'000	£'000s	£'000	£'000	£'000s	£'000	£'000
<b>Management Fees</b>							
Ad Valorem	24	1,047	1,071	3,277	0	3,277	<b>4,348</b>
Performance	0	0	0	2,142	0	2,142	<b>2,142</b>
Transaction Costs	0	888	888	1,993	0	1,993	<b>2,881</b>
Custody	0	6	6	61	0	61	<b>67</b>
Other	110	0	110	1,201	0	1,201	<b>1,311</b>
<b>Total £'000</b>	<b>134</b>	<b>1,941</b>	<b>2,075</b>	<b>7,473</b>	<b>0</b>	<b>7,473</b>	<b>10,749</b>

In response to the Scheme Advisory Board Transparency Code the Fund contacted all managers regardless of whether they have signed up to the Code and requested that they complete the Transparency Code template for 2020/21 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 2020/21.

## Asset Allocation and Performance 2020/21

Asset Allocation and Performance						
Asset Category	Opening Value		Closing Value		Performance 1 Year	
					Gross	Net
	£'000	%	£'000	%	%	%
<b>Asset Pool Managed Investments</b>						
Active listed Equity	128,745	13	63,647	5	27.30	27.30
Passive listed Equity	195,267	20	473,377	41	33.52	33.52
Passive Listed Fixed Income	141,707	14	144,920	13	2.27	2.27
Multi-asset funds/diversified growth funds	55,573	6	50,833	4	20.90	20.90
Passive LPI Property	47,399	5	49,749	4	4.96	4.96
<b>Total</b>	<b>568,691</b>	<b>58</b>	<b>782,526</b>	<b>67</b>		
<b>Non-asset pool managed investments</b>						
Active listed Equity	84,471	9	42	0	N/A	N/A
Active listed Fixed Income	89,137	9	116,580	10	13.61	13.61
Private Debt	5,236	1	1,248	0	-36.45	-36.45
Private Debt	65,017	7	59,005	5	2.80	2.80
Property	50,774	5	60,712	5	19.57	19.57
Property	67,274	7	78,463	7	1.12	1.12
Unlisted Equity	11,244	1	10,144	1	16.73	16.73
Unlisted Equity	3,672	0	3,266	0	8.24	8.24
Infrastructure	26,883	3	20,862	2	7.61	7.61
Infrastructure	567	0	13,465	1	-1.66	-1.66
Cash	16,068	2	15,255	2		
<b>Total</b>	<b>420,343</b>	<b>42</b>	<b>379,042</b>	<b>33</b>		

## Savings

	2016/17	2017/18	2018/19	2019/20	2020/21
	£	£	£	£	£
<b>Price Variance</b>	83,609	167,422	181,063	113,505	96,045.54

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 2020/21 compared to 2019/20 is mainly due to reduced fund value of actively managed pooled funds over the period. The above savings do not consider additional charges serviced on the fund because of investment in the pool sub funds, which are direct costs of us investing in the pool, for example auditing, FCA regulation and depositary costs.

**M: EXTERNAL AUDIT OPINION**

**INDEPENDENT AUDITOR'S STATEMENT TO THE MEMBERS OF LONDON  
BOROUGH OF HILLINGDON ON THE PENSION FUND FINANCIAL  
STATEMENTS**

**Opinion**

DRAFT

## 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.

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<b>ADMINISTRATION REPORT</b>	<b>ITEM 6</b>
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Committee	Pensions Committee
Officer Reporting	Yvonne Thompson-Hoyte, Finance
Papers with this report	1. Surrey KPI 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 ends in October 2021.

The Section 101 agreement includes Key Performance Indicators (KPIs) which are generally consistent with national standards. The effects of the global COVID-19 pandemic still impact the day-to-day operations of the workforce as staff remain working from home as part of government measures to control the virus.

From 27 September 2021 Hampshire County Council (HCC) will take over the provision of administration services for the pension fund under a new delegation agreement. This is therefore be the final administration report under SCC.

## RECOMMENDATIONS

1. That the Pensions Committee note this report

## SURREY ADMINISTRATION UPDATE

### Member Self Service Registration

The figures in this report are as at August 2021. Since the last report at April 2021, 1058 additional members have signed up for self-service bringing the total number to 8965 from 7907. The main contributor to the increase was the drive to get members signed up to receive their annual benefit statements.

Membership Category	Total membership numbers	Registered for online self service	% uptake
Active	9,758	4,489	46%
Deferred	10,664	2,776	26%
Pensioners	7,395	1,700	23%
<b>Total</b>	<b>27,817</b>	<b>8,965</b>	<b>32%</b>

The largest percentage uptake remains the active member category where 46% are signed up to MSS. The total registered represents 32% of the total membership.

## 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. The general direction of travel for the KPI's has improved and is evident in the weighted average score and in the areas of death grant payments. There are however areas that Transfers in and out that remains well below the targets in all areas. This is the the final report under SCC.

Activity	Measure	Impact	Target	Apr-21			May-21			Jun-21			Jul-21		
				Volume	Score	Missed	Volume	Score	Missed	Volume	Score	Missed	Volume	Score	Missed
Death notification acknowledged, recorded and documentation sent	5 working days	M	100%	19	100%	0	12	100%	0	32	97%	1	38	95%	2
Payment of death grant made	10 working days	H	100%	5	20%	4	9	44%	5	3	100%	0	1	100%	0
Retirement notification acknowledged, recorded and documentation sent	10 working days	M	100%	42	60%	17	41	100%	0	59	90%	6	52	88%	6
Retirement - Payment of lump sum made & pension set up	10 working days	H	100%	56	91%	5	27	100%	0	37	84%	6	36	86%	5
Calculation of spouses benefits	10 working days	M	100%	9	0%	9	7	43%	4	12	58%	5	3	100%	0
Transfers In - Quotes	20 working days	L	100%	35	46%	19	28	46%	15	24	50%	12	33	61%	13
Transfers In - Payments	20 working days	L	100%	31	45%	17	40	40%	24	20	90%	2	37	59%	15
Transfers Out - Quote	20 working days	L	100%	25	92%	2	21	86%	3	18	67%	6	16	75%	4
Transfers Out - Payments	20 working days	L	100%	20	80%	4	11	91%	1	10	100%	0	9	78%	2
Employer estimates provided	10 working days	M	100%	10	80%	2	13	92%	1	10	70%	3	1	100%	0
Employee projections provided	10 working days	L	100%	6	100%	0	4	100%	0	9	89%	1	2	100%	0
Refunds	20 working days	L	100%	33	100%	0	39	100%	0	55	96%	2	69	96%	3
Deferred benefit notifications	20 working days	L	100%	29	31%	20	26	73%	7	28	46%	15	70	89%	8
Average SLA score	N/A			320	69%	99	278	78%	60	317	81%	59	367	84%	58
Complaints received- Admin				1	100%	0	0	N/A	0	0	N/A	0	1	0%	1
Complaints received- Regulatory															
Compliments received															
Queries Handled by Helpdesk				591 (FPF = 92%)			600 calls received (FPF = 92%)			484 calls received (FPF = 92%)			601 calls received (FPF = 92%)		

## ONGOING PROJECTS UPDATE

### Annual Benefit Statements (ABS)

The preliminary report on the annual benefit statement exercise has been received from Surrey. The final full report is expected in October 2021. The ABSs for active members were produced and distributed in batches from 14 June 2021 up to 31 August. The deferred benefit statements were produced and distributed from the 11- 14 June 2021. The tables below provide a summary of the results.

LGPS HILLINDGON ACTIVE STATEMENTS 20.21				
No. of active statements run by 31 August 2021	EOY return	Missing 20/21 CARE Pay in EOY		Total no of records that are eligible to have a statement run
	Nos of records with no statement	No of records affected	Fund default option for missing pay	
8,066	0	375	Use 19/20 CARE pay	8,066

LGPS HILLINGDON DEFERRED STATEMENTS (20/21)						
Total No of Statements Produced	Total Nos errored	Nos errored breakdown				
		Gone away (supressed)	Error on record (calc not allowed)	Not eligible for statement	Other	Total Nos Errored
7806	245	224	21	0	0	245

### Annual Allowance Letters

Notifications to inform those members that have exceeded their annual allowance were sent out by Surrey on 9 September 2021 with the exception of one employer, who had not responded to the request for data that is required for Surrey to perform the calculation. Officers are following up with the employer. The statutory deadline for affected members to be informed is 6 October. The date was brought forward to facilitate the pensions system being shut down for the final data transfer to Hampshire C.C.

### McCloud Remedy

At the Committee in June 2021 it was reported that the timing of the transfer of administration services would not allow time for the McCloud remedy to be carried out by SCC and that it would be undertaken by HCC after the transfer. It was further reported to the Committee that the HCC data collection template would be issued to employers ahead of the transfer to get a

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head-start on the process. These were sent out at the end of July. After the transfer, Hampshire will take-over the follow-up communication and reminders to employers. The deadline for employers to return the forms to HCC is January 2022.

### **FINANCIAL IMPLICATIONS**

Financial implications have been included in the body of the report

### **LEGAL IMPLICATIONS**

The legal implications are in the body of the report.

Hillingdon Pensions Administration  
Key Performance Indicators July 2021

Activity	Measure	Impact	Target	Jan-21			Feb-21			Mar-21			Apr-21			May-21			Jun-21			Jul-21		
Scheme members	Pensioners, Active & Deferred			24,359			24,435			24,611			24,864			24,878			24,969			25,169		
New starters set up/welcome letters				130			104			232			332			0			95			111		
ABS sent - Councillors	Statutory deadline		Due by 31 Aug	Achieved			Achieved			Achieved			Achieved			Achieved			Achieved			Achieved		
ABS sent - Active	Statutory deadline			Achieved			Achieved			Achieved			Achieved			Achieved			Achieved			Achieved - 3,114 statements produced by Achieved		
ABS sent - Deferred	Statutory deadline			Achieved			Achieved			Achieved			Achieved			Achieved			Achieved			Achieved		
				Volume	Score	Missed	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%	45	98%	1	39	62%	15	23	100%	0	19	100%	0	12	100%	0	32	97%	1	38	95%	2
Payment of death grant made	10 working days	H	100%	4	50%	2	1	100%	0	4	50%	2	5	20%	4	9	44%	5	3	100%	0	1	100%	0
Retirement notification	10 working days	M	100%	29	66%	10	29	48%	15	92	59%	38	42	60%	17	41	100%	0	59	90%	6	52	88%	6
Retirement - Payment of lump sum made & pension set up	10 working days	H	100%	27	63%	10	29	52%	14	40	73%	11	56	91%	5	27	100%	0	37	84%	6	36	86%	5
Calculation of spouses benefits	10 working days	M	100%	5	100%	0	3	33%	2	9	33%	6	9	0%	9	7	43%	4	12	58%	5	3	100%	0
Transfers In - Quotes	20 working days	L	100%	12	25%	9	12	50%	6	16	81%	3	35	46%	19	28	46%	15	24	50%	12	33	61%	13
Transfers In - Payments	20 working days	L	100%	22	59%	9	13	77%	3	17	35%	11	31	45%	17	40	40%	24	20	90%	2	37	59%	15
Transfers Out - Quote	20 working days	L	100%	20	60%	8	21	71%	6	26	54%	12	25	92%	2	21	86%	3	18	67%	6	16	75%	4
Transfers Out - Payments	20 working days	L	100%	4	100%	0	12	67%	4	18	56%	8	20	80%	4	11	91%	1	10	100%	0	9	78%	2
Employer estimates	10 working days	M	100%	10	100%	0	14	64%	5	11	45%	6	10	80%	2	13	92%	1	10	70%	3	1	100%	0
Employee projections	10 working days	L	100%	6	67%	2	2	100%	0	11	73%	3	6	100%	0	4	100%	0	9	89%	1	2	100%	0
Refunds	20 working days	L	100%	11	91%	1	13	100%	0	54	100%	0	33	100%	0	39	100%	0	55	96%	2	69	96%	3
Deferred benefit notifications	20 working days	L	100%	16	81%	3	16	69%	5	12	58%	5	29	31%	20	26	73%	7	28	46%	15	70	89%	8
Average SLA score	N/A			211	74%	55	204	63%	75	333	68%	105	320	69%	99	278	78%	60	317	81%	59	367	84%	58
Complaints received- Admin							0	N/A		2	100%	2	1	100%	0	0	N/A	0	0	N/A	0	1	0%	1
Complaints received- Compliments received							0																	
Queries Handled by Helpdesk							448 FPF = 79%)			690 (FPF = 89%)			591 (FPF = 92%)			00 calls received (FPF = 92%)			34 calls received (FPF = 92%)			01 calls received (FPF = 92%)		

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

ITEM 7

Committee

Pensions Committee

Officer Reporting

James Lake & Babatunde Adekoya, Finance

Papers with this report

Northern Trust Performance Report  
Hymans Robertson Funding Update

## HEADLINES

The Actuary's estimate of the funding position as at 30 June 2021 shows an estimated deficit of £128m, equivalent to a funding level of 90.5%. These represent a slight improvement on the 2019 formal actuarial valuation. Investment returns have been slightly above expectations but the outlook for future investment returns is slightly less positive which serves to increase the value placed on the liabilities.

The overall investment return of the Fund was +4.94% over the quarter which was 0.34% ahead of the benchmark. Performance over longer-term periods (3 and 5 years) is in the region of 5.22 and 7.16% per annum, showing underperformance of 1.32% and 0.66% per annum compared to the benchmark.

The Fund's asset allocation remains close to the target investment strategy.

More information on implementation of investment strategy and the Fund's investment managers are included in Part II of this report.

## RECOMMENDATIONS

**That the Pensions Committee:**

- 1. Note the Fund funding and performance update.**
- 2. Note the updates on implementation of the investment strategy.**

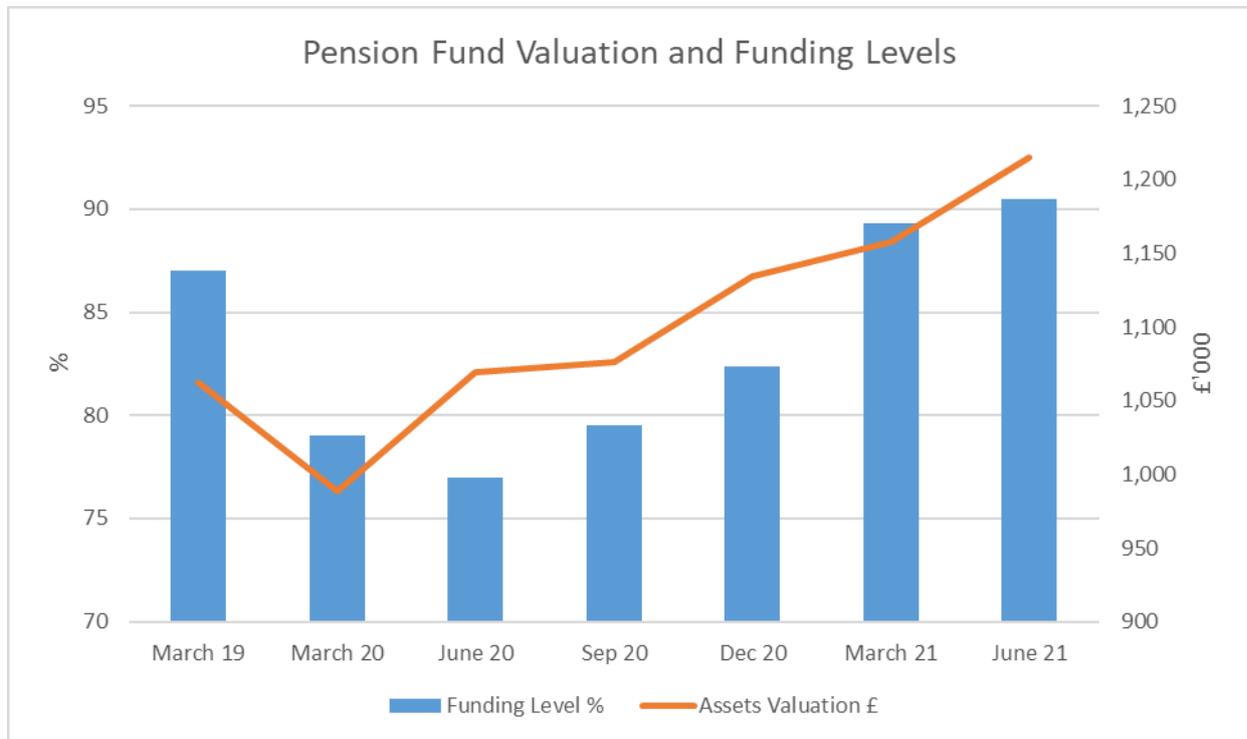
## SUPPORTING INFORMATION

### 1. Funding Update

At the last formal valuation at March 2019, the Fund assets were £1,067m and the liabilities were £1,228m. This represented a deficit of £161m and equated to a funding level of 87%.

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Hymans Robertson have carried out an interim funding update to illustrate an estimated funding position at 30 June 2021. Their report is attached as an appendix to this paper and it shows an estimated deficit of £128m, equivalent to a funding level of 90.5%, as at 30 June 2021.



Although markets have been severely disrupted by COVID 19 over the last year, in the 27 months since the formal valuation, investment returns have been slightly above expectations. However, the outlook for future investment returns is slightly less positive which serves to increase the value placed on the liabilities.

There is no direct impact of this funding report. During 2022/23, the Actuary will undertake a formal actuarial valuation based on the Fund status at 31 March 2022. Any necessary changes to employer contribution rates will be effective from April 2023.

## 2. Fund Performance

Over the last quarter to 30 June 2021, the Fund returned 4.94%, outperforming the benchmark return by 0.36%. The Fund value increased over the quarter by £23m, to £1,157m.

Period of measurement	Fund Return %	Benchmark %	Arithmetic Excess
Quarter	4.94	4.58	0.36
1 Year	13.80	13.18	0.62
3 Year	5.22	6.63	-1.41
5 Year	7.16	7.87	-0.71
Since Inception (09/1995)	6.91	6.98	-0.07

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

- Macquarie, over the last three months, produced gains of 4.81%, against the 0.78% for the 3 Month LIBOR +3% p.a. this translates as an outperformance of 4.03%. With nine quarters of positive absolute returns and seven positive relative returns, outperformance is seen in all longer periods.
- The private equity assets saw an 8.5% rise in value for Adam Street. LGT also saw an increase of 8.6%. 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 11.98% and 15.11% for the three- and five-year periods respectively, while Adam Street posted 17.81% and 15.98% over the same periods.
- In the latest quarter JP Morgan posted an increase in assets of 1.59% leading to an outperformance of 0.81% when compared to the 0.78% 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 +8.39% is in positive territory and is ahead of the 3.09% target by over 5%.
- The Premira Credit Fund saw an increase of 1.81% over the second quarter of 2021, this was ahead of the 3 Month LIBOR +4% p.a. target of 1.02%. The fund has outperformed in three of the last four quarters and are ahead of target, leading to a relative outperformance of 1.99%, created from figures of 6.16% against 4.09% over the last year.

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

### 3. Asset Allocation

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

#### Current Asset Allocation by Asset Class

ASSET CLASS	Market Value As at 01 April 2021	Actual Asset Allocation As At 01 April 2021	Market Value As at 30 June 2021	Actual Asset Allocation As At 30 June 2021	Benchmark Allocation	Market Value As at 31 August 2021*
	£'000	%	£'000	%	%	£'000
Global Equities	537,066	46	574,747	47	45	593,205
UK Index Linked Gilts	144,920	13	150,113	12	24	160,278
Multi Asset Credit	116,580	10	118,434	10		118,919
Property	139,177	12	145,805	12	12	157,456
DGF/Absolute Returns	50,833	4	51,186	4	0	51,146
Private Equity	12,499	1	12,201	1	1	12,193
Infrastructure	33,403	3	35,301	3	8	33,260
Private Credit	59,208	5	44,917	4	5	43,906
Long Lease Property	49,749	4	50,813	4	5	51,564
Cash & Cash Equivalents	15,254	1	31,679	3	0	27,226
<b>Totals</b>	<b>1,158,689</b>	<b>100.00</b>	<b>1,215,196</b>	<b>100.00</b>	<b>100</b>	<b>1,249,153</b>

\*Unaudited figures

Highlights of transactions during the quarter under review:

- A drawdown of £1.5m was called by the London CIV Infrastructure fund in the period under review.
- During the quarter, distributions received totalled £17.3m, with £15.3m from Permira private debt, £1.3m from Private Equity and £707k from Macquarie Infrastructure.

Undrawn commitments at 30 June 2021 are as follows:

- £3.2m (8%) awaiting drawdown on Private Credit.
- £39.8m (72%) to London CIV Infrastructure Fund. These funds are currently held in the LCIV Ruffer Absolute Return Fund.
- £3m in for the AEW Urban Renewal property fund.

### 4. Investment Managers

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.

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Current Asset Allocation by Manager		Market Value As at 30 June 2021	Actual Asset Allocation	Market Value As at 31 August 2021*
FUND MANAGER	ASSET CLASS	£'000	%	£'000
LGIM	Global Equities	301,491	24.81	311,370
LGIM	Future World	206,680	17.01	215,001
LCIV - BALLIE GIFFORD	Global Equities	66,576	5.48	66,834
LGIM	UK Index Linked Gilts	150,113	12.35	160,278
JP MORGAN	Multi Asset Credit	118,434	9.75	118,919
UBS PROPERTY	Property	81,742	6.73	82,907
AEW	Property	64,668	5.32	75,280
LCIV - RUFFER	DGF/Absolute Returns	51,186	4.21	51,146
ADAMS STREET	Private Equity	8,872	0.73	8,637
LGT	Private Equity	3,329	0.27	3,556
LCIV - STEPSTONE	Infrastructure	14,962	1.23	15,537
MACQUARIE	Infrastructure	20,339	1.67	17,723
M&G	Private Credit	1,249	0.10	1,245
PERMIRA	Private Credit	43,668	3.59	42,661
LGIM	LPI Property	50,813	4.18	51,564
Non Custody	Cash & Cash Equivalents	31,074	2.56	26,495
		<b>1,215,196</b>	<b>100</b>	<b>1,249,153</b>

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

Growth assets have continued to perform well in the second quarter of 2021 with global equities returning 6.6% in sterling. Regionally, performance in all periods has been led by US equities and the UK has been the worst performer, despite the recent strength of sterling global credit markets recovered from a weak first quarter though not in positive territory year-to-date. Alternative markets including Property, Infrastructure, Renewables and Private equity all saw a sharp rise in activity in the first half of the year which has seen positive investment returns.

Global economic activity has picked up this year Covid-19 vaccinations are rolled out and the lockdowns ease. Consensus expectations for growth, inflation, and interest rates have all risen sharply over the last six months for 2021, though long-term economic forecasts have stayed constant. The most concerning economic indicator has been Inflation which has accelerated in the UK (2.5% CPI YOY in June) and US (5.4% CPI YOY in June). Though long-term inflation forecasts remain moderate there is great sensitivity to short term changes. Short term inflation has been driven by energy and food prices, though the pick-up in consumption post lockdown is impacting general pricing. Some credit market yields are now below the prevailing inflation rate raising the fears of negative real yields and the potential for negative real returns.

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There is a rising risk for investment returns connected with how Governments bring their post Covid-19 high debt levels under control. The G8 move to impose a minimum corporation tax on offshore profits is one of the first signs of tax revenue increasing. They will likely target carried interest and the tax benefits from debt financing and indeed pensions savings as we move forward.

So, where do you find returns to meet and beat your liabilities? After the 23% move in equities over the last year, their returns seem likely to moderate in the future with the risk of decline rising. Laggard regional markets including the UK and emerging markets may represent good relative value currently. Bonds will likely remain under pressure from rising inflation and interest rates which leaves income assets (private markets, infrastructure, and credit) as the favoured asset classes, given their inflation protection and income attributes. Property will be a problematic asset class as we find out what a post Covid-19 world looks like. However residential, warehousing and logistics and industrial property will likely look better. London CIV believe the long-term transition to climate stability and responsible investment will continue to offer better risk-adjusted returns over the long term.

### **FINANCIAL IMPLICATIONS**

The financial implications are contained within the body of the report. During 2022/23, the Actuary will undertake a formal actuarial valuation based on the Fund status at 31 March 2022. Any necessary changes to employer contribution rates will be effective from April 2023.

### **LEGAL IMPLICATIONS**

There are no legal implications in the report.



NORTHERN  
TRUST

# London Borough of Hillingdon

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## Investment Risk & Analytical Services

June 30, 2021

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## Portfolio Windows

### Client Commentary

#### Total Scheme Commentary

Fixed income markets experienced positive performance in the 2nd quarter of 2021 as expectations that the accelerating vaccination programmes and removal of Covid-19 lockdown measures would engender a period of high growth and inflation. The second quarter of 2021 saw the economy continue to recover following the global pandemic in 2020, and inflation news dominated headlines. Whilst investors don't appear to fear inflation there is the worry that central bankers could overreact to inflation by pushing interest rates higher and therefore growth lower. In early 2020, consumer demand had waned but now as the economy reopens, demand is back although supply is taking longer, thus creating a mismatch.

Bitcoin ended the quarter at just over \$25k. Crypto investors lost more than \$80m to scams between October and March, \$2m of which was to Elon Musk impersonators. Safety and volatility are compounded by concerns over environmental harm as it is estimated that Bitcoin alone consumes as much electricity as a medium sized European country. Greenridge Generation bought a disused coal power plant to back its bitcoin mining operation and increase margins with its own dedicated power source. Globally, the Energy sector was knocked off top spot by IT after consecutive quarters as best performing sector on a quarterly basis. Utilities was both weakest and the only negative sector over Q2 on a global basis. Utilities also lags the other sectors over 1 year again and the defensive consumer staples is also just ahead of that sector once again. Financials unseated consumer discretionary over the year to June as top sector marking six months of cyclical stocks benefiting from positive market momentum. Oil was up again from \$60 to \$76 per barrel over 3 months having started the year at \$50. The FTSE World was up 7.5% (GBP) over the second quarter of 2021 and returned 25.5% (GBP) over one year.

UK Pound Sterling rose steadily throughout the quarter versus both the Dollar and Japanese Yen before falling back late in June finishing up 0.7% and 0.9% respectively in Q2. Against the Euro the Pound fell by -0.8% over the quarter. Covid vaccination rates continued to be some of the highest in the world. Despite this, the planned reopening of the economy hit a bump with the emergence of the delta variant causing a delay to the final step of the government's planned reopening, pushing this back 4 weeks to July 19th. In their June meeting, the BoE voted 8:1 to hold interest rates at their historic low of 0.1% and to maintain their bond-buying program at its current level. GDP is forecast to return to its pre-pandemic level during 2021. As of May, the annual rate of inflation was 2.1%, its highest rate since July 2019, with the increase in Q2 reflecting the ongoing recovery and re-opening of the economy.

Within this environment the London Borough of Hillingdon returned +4.94% which was ahead of the Total Plan benchmark of +4.58%. In monetary terms this is a gain in assets of £57.2 million and the value of the combined scheme now stands at £1,215 million as at 30th June 2021.

The Scheme's one year return of +13.80% is 0.55% ahead of the benchmark of +13.18% following this quarters outperformance. While over the longer periods, despite ten positive quarters over the last 3 years, the Scheme has underperformed, producing a return of 5.22% over three year versus 6.63%. Then the scheme continues to underperform over the 5 year period where we observe figures of 7.16% per annum (vs the benchmark 7.87%). Then since inception in September 1995, the Fund remains behind target by 6 basis points with an annualised return of 6.91% against a target of 6.98%.

### Client Commentary

#### AEW UK

The AEW UK Property Fund posted a total return of +6.52%, beating the IPD UK PPFI AI Balanced Funds Index and continuing the outperformance seen during the previous quarter. Rolling one year returns continue to see double digit gains, with the mandate returning +26.68% versus +8.53% for the IPD Index

AEW are ahead over the three year period returning 4.63% against the benchmark of 3.02%. This translates as 1.56% relative outperformance. With positive absolute returns in all but two periods and three quarters in the red on a relative basis, growth is observed and ahead of benchmark over three years. Since the funds inception date of July 2014, the fund return is 8.84%, leading to an outperformance of approx 1.8% when compared to the IPD figure of 6.91%.

#### JP Morgan

In the latest quarter JP Morgan posted an increase in assets of 1.59% leading to an outperformance of 0.81% when compared to the 0.78% 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 +8.39% is in positive territory and is ahead of the 3.09% target by over 5%. Then over three years they post returns ahead of the benchmark with figures of 5.47% vs 3.71%. Since the mandate funded their return of 4.15% is just ahead of the target return of 3.67% 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 1 account and fixed income to the No2 account. LGIM portfolio now represent almost 25% of the scheme as of 30th June 2021. Over the last three months the Legal & General No. 1 mandate post a return of +3.2% in line with the custom fixed weight blended benchmark. In the period since inception in October 2016, they return 10.4%, which is just below the benchmark return of 10.5%.

#### Legal & General 2

The No 2 Legal & General mandate returned +3.6% against +3.6% 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 report underperformance against the benchmark returning 4.2% against 6.8% for the benchmark.

## Portfolio Windows(2)

### Client Commentary

#### London CIV Ruffer

The absolute return strategies employed by London CIV Ruffer translated into a 66 basis point outperformance of the 3-mth Sterling LIBOR target. The investment is now above the benchmark over all longer term periods. This is seen in a three year return of 7.01% versus 0.71%, then similarly for the since inception period (May 2010) figures of 8.78% versus 0.79% per annum, which translates as a relative return of over 5%.

#### M&G Investments

M&G posted further neutral performance in Q2. This is the sixth consecutive quarter of underperformance and the full year return remains behind the benchmark by over 20%, coming from figures of -25.8% against 4.09%. Over the three and five year the account registers figures of -12.75% vs 4.71% and -2.77% vs 4.65% respectively; since inception (May 2010) returns improve to 1.45% pa whilst the benchmark is 4.69% pa. Although the since inception Internal Rate of Return moves further ahead of target with a figure of 7.43% opposed to the comparator of 4.60%.

#### Macquarie

Over the last three months, Macquarie produced gains of 4.81%, against the 0.78% for the 3 Month LIBOR +3% p.a. this translates as an outperformance of 4.0%. With nine quarters of positive absolute returns and seven positive relative returns, outperformance is seen in all longer periods. Over the rolling year a growth of 11.73% is ahead of the target of 3.09% by 8.37%. By contrast the three year result of 11.66% versus 3.71% exhibits positive relative return over 7%. The annualised return over 5 years rises to 12.45%, and remains ahead of the 3.65% seen for the benchmark; then since inception (September 2010) the 7.11% is ahead of the target of 3.68%. Although the since inception Internal Rate of Return for this portfolio jumps to 12.28%, which is ahead of the benchmark figure of 2.99%.

### Client Commentary

#### Premira Credit

The Premira Credit Fund saw an increase of 1.8% over the second quarter of 2021, this was ahead of the 3 Month LIBOR +4% p.a. target of 1.02%. The fund has outperformed in three of the last four quarters and are ahead of target, leading to an outperformance of 1.99%, created from figures of 6.16% against 4.09%. Then since the start of December 2014 when the fund incepted, the fund posts a return of 6.14% against the benchmark of 4.72%, leading to a relative position of over 1%.

#### UBS Property

The latest quarter for the UBS Property posted an outperformance of 0.49%, generated from a return of 4.31% against the IPD UK PPF I All Balanced Funds index of 3.80%. Over the one year the manager is behind the index, with a full year return of +7.9% vs +8.5%. The previous good run of results particularly during 2015 leads to high absolute returns staying just ahead of the IPD target over the ten year period with a return of 6.82% against 6.67%. Then since inception, in March 2006, the fund return falls to 3.72% per annum which is broadly in line with the benchmark.

#### Private Equity

The private equity assets saw an 8.5% rise in value for Adam Street. LGT also saw an increase of 8.6%. 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 11.98% and 15.11% for the three and five year periods respectively, while Adam Street posted 17.81% and 15.98% over the same periods. Adam St are behind the proxy benchmark of MSCI AC World +4% p.a. over the five year period (which shows double digit gains of 18.46%). LGT are also behind over the five year underperforming by over 283bps. Then since their respective inceptions in January 2005 and May 2004, Adam Street drops to 8.82% pa, while LGT sees a more modest dip to 11.56%.

#### LCIV Global Alpha Growth Fund

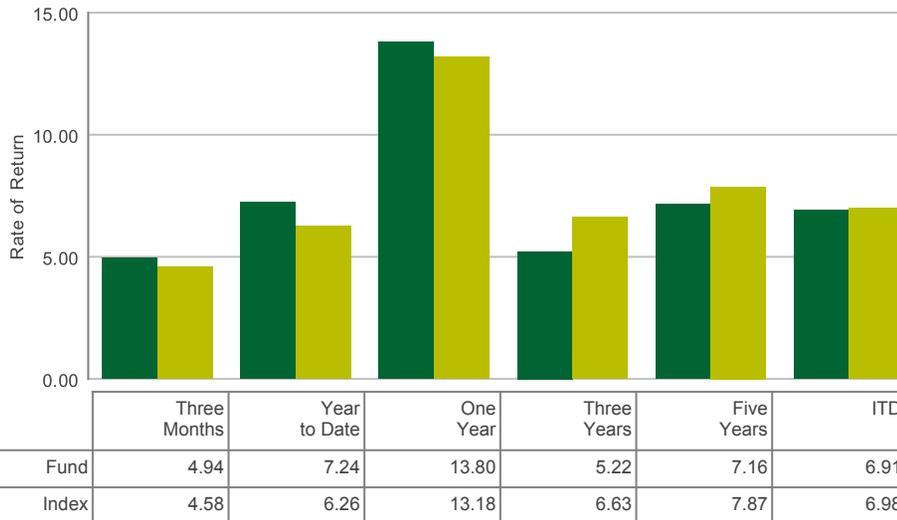
Over the second quarter the investment in the Global Alpha Growth fund generated a return of +4.04%. The asset was funded in April 2021 with an initial investment of £63.9m

#### LCIV Infrastructure Fund

The LCIV Infrastructure fund was launched in quarter two of 2020 and the valuation at 30<sup>th</sup> June was £14.96m. The latest quarter posted neutral performance of 0% against the IPD UK PPF I All Balanced Funds index of -0.77%.

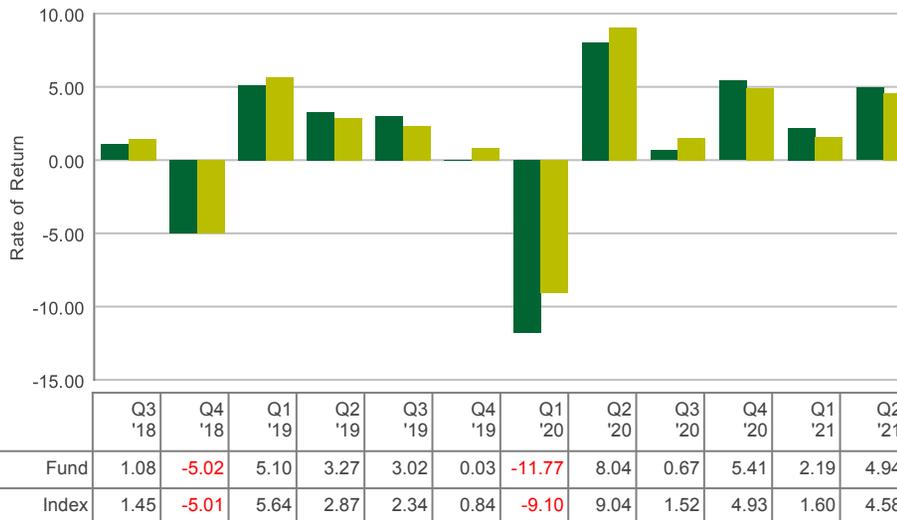
# Executive Summary

## LONDON BOROUGH OF HILLINGDON TOTAL FUND GROSS OF FEES



Index: Total Plan Benchmark

## LONDON BOROUGH OF HILLINGDON ROLLING QUARTERS TOTAL FUND GROSS OF FEES



Index: Total Plan Benchmark

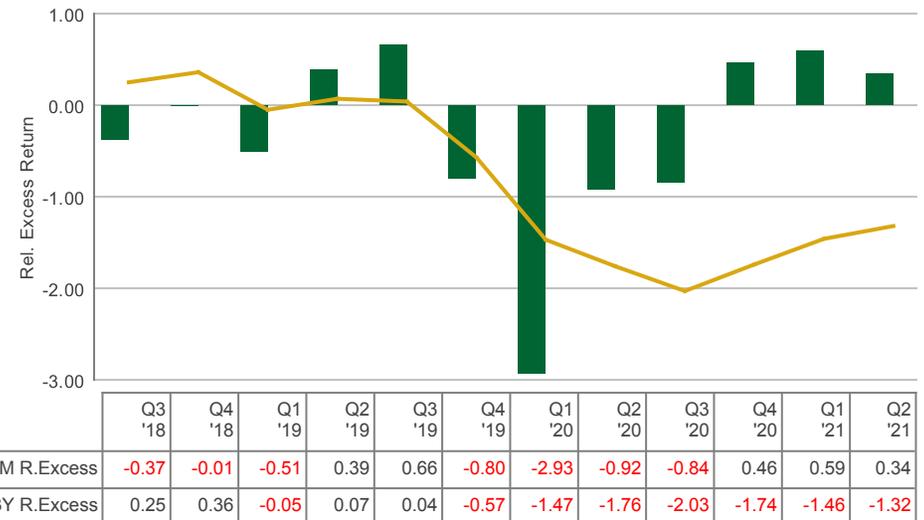
## RISK STATISTICS

	3 Mos	1 Yr	3 Yrs	5 Yrs
Return	4.94	13.80	5.22	7.16
Index Return	4.58	13.18	6.63	7.87
Excess Return	0.35	0.62	-1.41	-0.71
Standard Deviation	-	5.80	7.85	6.71
Index Standard Deviation	-	5.27	7.12	6.10
Tracking Error	-	0.95	1.50	1.35
Information Ratio	-	0.66	-0.94	-0.52
Sharpe Ratio	-	2.36	0.58	0.97
Index Sharpe Ratio	-	2.48	0.83	1.18
Jensen's Alpha	-	-0.52	-1.78	-1.20
Relative Volatility (Beta)	-	1.09	1.09	1.08
R Squared	-	0.98	0.97	0.96
Beginning MV (in 000s)	1,158,689	1,068,524	1,053,934	846,165
Net Contributions (in 000s)	-259	-371	-11,249	15,284
Income (in 000s)	3,950	14,710	58,178	86,950
Appreciation (in 000s)	52,809	132,325	114,325	266,790
Ending MV (in 000s)	1,215,189	1,215,189	1,215,189	1,215,189

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



Index: Total Plan Benchmark

## Investment Hierarchy

Account/Group -% Rate of Return	Ending Market Value GBP	Ending Weight	Policy Weight	Three Months			Year to Date			One Year			Inception Date
				Port	Index	Relative Excess	Port	Index	Relative Excess	Port	Index	Relative Excess	
<b>London Borough of Hillingdon</b>	<b>1,215,188,686</b>	<b>100.00</b>	-	<b>4.94</b>	<b>4.58</b>	<b>0.34</b>	<b>7.24</b>	<b>6.26</b>	<b>0.93</b>	<b>13.80</b>	<b>13.18</b>	<b>0.55</b>	<b>30/09/1995</b>
Total Plan Benchmark													
<b>Adam Street</b>	<b>8,831,117</b>	<b>0.73</b>	-	<b>8.54</b>	<b>8.27</b>	<b>0.25</b>	<b>27.95</b>	<b>13.36</b>	<b>12.87</b>	<b>45.09</b>	<b>29.29</b>	<b>12.22</b>	<b>31/01/2005</b>
Adam Street PE Bmark													
<b>AEW UK</b>	<b>64,667,586</b>	<b>5.32</b>	-	<b>6.52</b>	<b>3.80</b>	<b>2.62</b>	<b>11.70</b>	<b>6.08</b>	<b>5.30</b>	<b>26.68</b>	<b>8.53</b>	<b>16.73</b>	<b>30/06/2014</b>
LBH22 AEW Benchmark													
<b>Cash &amp; Other Assets</b>	<b>0</b>	<b>0.00</b>	-	-	-	-	-	-	-	-	-	-	<b>31/10/2017</b>
<b>Cash &amp; Other Assets</b>	<b>27,134,685</b>	<b>2.23</b>	-	<b>-0.01</b>	-	-	<b>-0.57</b>	-	-	<b>-3.08</b>	-	-	<b>30/09/2008</b>
<b>Epoch Investment P Income</b>	-	-	-	-	-	-	-	-	-	-	-	-	<b>08/11/2017</b>
LBH11001 MSCI World ND													
<b>JP Morgan</b>	<b>118,433,447</b>	<b>9.75</b>	-	<b>1.59</b>	<b>0.78</b>	<b>0.81</b>	<b>1.29</b>	<b>1.53</b>	<b>-0.24</b>	<b>8.39</b>	<b>3.09</b>	<b>5.13</b>	<b>08/11/2011</b>
LBH115 JPM LIBOR +3%pa													
<b>LCIV Global Alpha Growth Fund</b>	<b>66,575,428</b>	<b>5.48</b>	-	-	-	-	-	-	-	-	-	-	<b>22/04/2021</b>
LBH11005 MSCI World ND+3%													
<b>LCIV Infrastructure Fund</b>	<b>14,961,876</b>	<b>1.23</b>	-	<b>-0.00</b>	<b>0.78</b>	<b>-0.77</b>	<b>-1.66</b>	<b>1.53</b>	<b>-3.15</b>	<b>-1.66</b>	<b>3.09</b>	<b>-4.62</b>	<b>14/11/2019</b>
LBH11004 3M Llibor +3%													
<b>Legal &amp; General 1</b>	<b>301,449,269</b>	<b>24.81</b>	-	<b>7.14</b>	<b>7.17</b>	<b>-0.03</b>	<b>12.27</b>	<b>12.26</b>	<b>0.01</b>	<b>29.69</b>	<b>29.95</b>	<b>-0.20</b>	<b>31/10/2016</b>
LBH26 L&G Benchmark													
<b>Legal &amp; General 2</b>	<b>150,113,030</b>	<b>12.35</b>	-	<b>3.58</b>	<b>3.56</b>	<b>0.03</b>	<b>-3.00</b>	<b>-3.33</b>	<b>0.34</b>	<b>-3.97</b>	<b>-3.11</b>	<b>-0.89</b>	<b>22/02/2017</b>
LBH27 L&G Benchmark													
<b>LGIM - Future World Equity IND</b>	<b>206,679,901</b>	<b>17.01</b>	-	<b>7.64</b>	<b>7.64</b>	<b>-0.00</b>	<b>11.39</b>	<b>11.39</b>	<b>0.00</b>	-	-	-	<b>23/09/2020</b>
LBH29 L&G Benchmark													
<b>LGIM LPI Income Property</b>	<b>50,812,905</b>	<b>4.18</b>	-	<b>2.14</b>	<b>2.39</b>	<b>-0.25</b>	<b>3.64</b>	<b>2.91</b>	<b>0.70</b>	<b>5.96</b>	<b>3.86</b>	<b>2.02</b>	<b>11/03/2020</b>
LBH28 L&G RPI													
<b>LGT</b>	<b>3,329,384</b>	<b>0.27</b>	-	<b>8.55</b>	<b>8.27</b>	<b>0.26</b>	<b>13.79</b>	<b>13.36</b>	<b>0.37</b>	<b>25.90</b>	<b>29.29</b>	<b>-2.62</b>	<b>31/05/2004</b>
LGT PE Bmark													
<b>London CIV Ruffer</b>	<b>51,190,631</b>	<b>4.21</b>	-	<b>0.69</b>	<b>0.04</b>	<b>0.66</b>	<b>8.34</b>	<b>0.04</b>	<b>8.30</b>	<b>14.44</b>	<b>0.10</b>	<b>14.32</b>	<b>28/05/2010</b>
LBH11003 Ruffer BM Libor													
<b>M&amp;G Investments</b>	<b>1,248,348</b>	<b>0.10</b>	-	<b>0.00</b>	<b>1.02</b>	<b>-1.01</b>	<b>-14.44</b>	<b>2.02</b>	<b>-16.13</b>	<b>-25.80</b>	<b>4.09</b>	<b>-28.71</b>	<b>31/05/2010</b>
LBH10 3 Month LIBOR +4%pa													

Account/Group -% Rate of Return	Ending Market Value GBP	Ending Weight	Policy Weight	Three Months			Year to Date			One Year			Inception Date
				Port	Index	Relative Excess	Port	Index	Relative Excess	Port	Index	Relative Excess	
<b>Macquarie</b> LBH14 Macquarie LIBOR +3%pa	<b>20,893,709</b>	<b>1.72</b>	-	<b>4.81</b>	<b>0.78</b>	<b>4.00</b>	<b>12.94</b>	<b>1.53</b>	<b>11.24</b>	<b>11.73</b>	<b>3.09</b>	<b>8.37</b>	<b>30/09/2010</b>
<b>Premira Credit</b> LBH24 Premira LIBOR +4%pa	<b>47,040,970</b>	<b>3.87</b>	-	<b>1.81</b>	<b>1.02</b>	<b>0.78</b>	<b>2.42</b>	<b>2.02</b>	<b>0.39</b>	<b>6.16</b>	<b>4.09</b>	<b>1.99</b>	<b>30/11/2014</b>
<b>UBS</b>	<b>105,992</b>	<b>0.01</b>	-	-	-	-	-	-	-	-	-	-	<b>31/12/1988</b>
<b>UBS Property</b> LBH06 UBS Property Benchmark	<b>81,720,408</b>	<b>6.72</b>	-	<b>4.31</b>	<b>3.80</b>	<b>0.49</b>	<b>6.55</b>	<b>6.08</b>	<b>0.44</b>	<b>7.89</b>	<b>8.53</b>	<b>-0.58</b>	<b>31/03/2006</b>

## Investment Hierarchy(2)

Account/Group -% Rate of Return	Ending Market Value GBP	Ending Weight	Policy Weight	Three Years			Five Years			Inception to Date			Inception Date
				Port	Index	Relative Excess	Port	Index	Relative Excess	Port	Index	Relative Excess	
<b>London Borough of Hillingdon</b>	<b>1,215,188,686</b>	<b>100.00</b>	-	5.22	6.63	-1.32	7.16	7.87	-0.66	6.91	6.98	-0.06	30/09/1995
Total Plan Benchmark													
<b>Adam Street</b>	<b>8,831,117</b>	<b>0.73</b>	-	17.81	17.49	0.27	15.98	18.46	-2.10	8.82	-	-	31/01/2005
Adam Street PE Bmark													
<b>AEW UK</b>	<b>64,667,586</b>	<b>5.32</b>	-	4.63	3.02	1.56	6.98	5.22	1.67	8.84	6.91	1.81	30/06/2014
LBH22 AEW Benchmark													
<b>Cash &amp; Other Assets</b>	<b>0</b>	<b>0.00</b>	-	-	-	-	-	-	-	-	-	-	31/10/2017
<b>Cash &amp; Other Assets</b>	<b>27,134,685</b>	<b>2.23</b>	-	0.31	-	-	0.75	-	-	-0.70	-	-	30/09/2008
<b>Epoch Investment P Income</b>	<b>-</b>	<b>-</b>	-	-	-	-	-	-	-	-	-	-	08/11/2017
LBH11001 MSCI World ND													
<b>JP Morgan</b>	<b>118,433,447</b>	<b>9.75</b>	-	5.47	3.71	1.70	4.55	3.65	0.87	4.15	3.67	0.47	08/11/2011
LBH115 JPM LIBOR +3%pa													
<b>LCIV Global Alpha Growth Fund</b>	<b>66,575,428</b>	<b>5.48</b>	-	-	-	-	-	-	-	4.04	4.31	-0.26	22/04/2021
LBH11005 MSCI World ND+3%													
<b>LCIV Infrastructure Fund</b>	<b>14,961,876</b>	<b>1.23</b>	-	-	-	-	-	-	-	-1.03	3.48	-4.35	14/11/2019
LBH11004 3M Llibor +3%													
<b>Legal &amp; General 1</b>	<b>301,449,269</b>	<b>24.81</b>	-	12.70	12.85	-0.13	-	-	-	10.79	10.93	-0.12	31/10/2016
LBH26 L&G Benchmark													
<b>Legal &amp; General 2</b>	<b>150,113,030</b>	<b>12.35</b>	-	4.70	5.17	-0.44	-	-	-	4.92	5.32	-0.38	22/02/2017
LBH27 L&G Benchmark													
<b>LGIM - Future World Equity IND</b>	<b>206,679,901</b>	<b>17.01</b>	-	-	-	-	-	-	-	14.37	14.37	0.00	23/09/2020
LBH29 L&G Benchmark													
<b>LGIM LPI Income Property</b>	<b>50,812,905</b>	<b>4.18</b>	-	-	-	-	-	-	-	1.12	3.08	-1.90	11/03/2020
LBH28 L&G RPI													
<b>LGT</b>	<b>3,329,384</b>	<b>0.27</b>	-	11.98	17.49	-4.69	15.11	18.46	-2.83	11.56	-	-	31/05/2004
LGT PE Bmark													
<b>London CIV Ruffer</b>	<b>51,190,631</b>	<b>4.21</b>	-	7.01	0.71	6.26	6.08	0.65	5.40	5.98	0.79	5.15	28/05/2010
LBH11003 Ruffer BM Libor													
<b>M&amp;G Investments</b>	<b>1,248,348</b>	<b>0.10</b>	-	-12.75	4.71	-16.67	-3.77	4.65	-8.05	1.45	4.69	-3.09	31/05/2010
LBH10 3 Month LIBOR +4%pa													

Account/Group -% Rate of Return	Ending Market Value GBP	Ending Weight	Policy Weight	Three Years			Five Years			Inception to Date			Inception Date
				Port	Index	Relative Excess	Port	Index	Relative Excess	Port	Index	Relative Excess	
<b>Macquarie</b> LBH14 Macquarie LIBOR +3%pa	<b>20,893,709</b>	<b>1.72</b>	-	<b>11.66</b>	<b>3.71</b>	<b>7.67</b>	<b>12.45</b>	<b>3.65</b>	<b>8.49</b>	<b>7.11</b>	<b>3.68</b>	<b>3.31</b>	<b>30/09/2010</b>
<b>Premira Credit</b> LBH24 Premira LIBOR +4%pa	<b>47,040,970</b>	<b>3.87</b>	-	<b>5.02</b>	<b>4.71</b>	<b>0.30</b>	<b>6.80</b>	<b>4.65</b>	<b>2.05</b>	<b>7.24</b>	<b>4.64</b>	<b>2.48</b>	<b>30/11/2014</b>
<b>UBS</b>	<b>105,992</b>	<b>0.01</b>	-	-	-	-	-	-	-	-	-	-	<b>31/12/1988</b>
<b>UBS Property</b> LBH06 UBS Property Benchmark	<b>81,720,408</b>	<b>6.72</b>	-	<b>2.21</b>	<b>3.02</b>	<b>-0.79</b>	<b>4.02</b>	<b>4.92</b>	<b>-0.86</b>	<b>3.72</b>	<b>3.83</b>	<b>-0.10</b>	<b>31/03/2006</b>

## Market Value Summary - Three Months

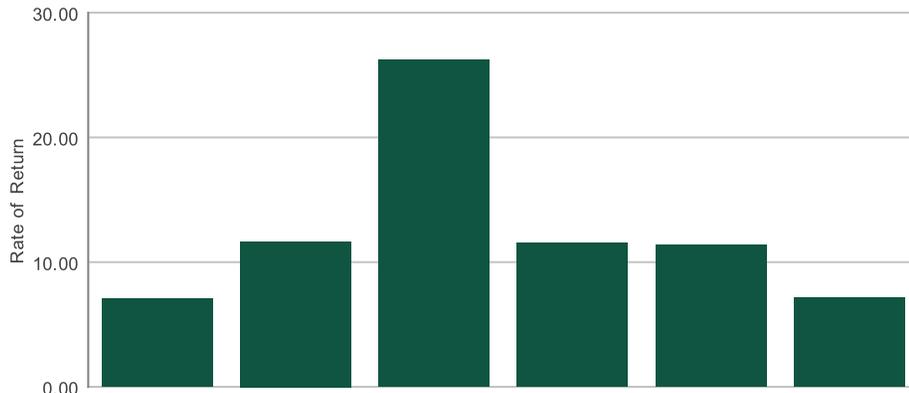
Account/Group	31/03/2021 Market Value	Net Contribution*	Income	Fees	Appreciation	30/06/2021 Market Value	30/06/2021 Weight	Change in Weight
<b>London Borough of Hillingdon</b>	<b>1,158,689,174</b>	<b>-259,083</b>	<b>3,949,860</b>	<b>40,258</b>	<b>52,808,735</b>	<b>1,215,188,686</b>	<b>100.00</b>	<b>0.00</b>
Adam Street	9,315,242	-1,217,360	0	0	733,235	8,831,117	0.73	-0.08
AEW UK	60,712,059	0	523,798	0	3,431,730	64,667,586	5.32	0.08
Cash & Other Assets	5,608,888	21,511,131	-7	0	14,674	27,134,685	2.23	1.75
Cash & Other Assets	7,500,000	-7,500,000	-0	23,155	0	0	0.00	-0.65
Epoch Investment P Income	63,647,293	-64,263,434	0	0	616,140	-	-	-
JP Morgan	116,579,529	0	0	0	1,853,919	118,433,447	9.75	-0.32
LCIV Global Alpha Growth Fund	0	63,992,482	0	0	2,582,946	66,575,428	5.48	-
LCIV Infrastructure Fund	13,464,722	1,497,155	0	0	-0	14,961,876	1.23	0.07
Legal & General 1	281,365,552	0	0	0	20,083,717	301,449,269	24.81	0.52
Legal & General 2	144,918,169	0	0	0	5,194,861	150,113,030	12.35	-0.15
LGIM - Future World Equity IND	192,011,428	0	0	0	14,668,473	206,679,901	17.01	0.44
LGIM LPI Income Property	49,749,052	-0	0	0	1,063,853	50,812,905	4.18	-0.11
LGIM	3,143,913	-80,676	6	0	266,140	3,329,384	0.27	0.00
London CIV Ruffer	50,837,859	0	37	0	352,735	51,190,631	4.21	-0.17
M&S Investments	1,248,348	0	0	0	0	1,248,348	0.10	-0.01
Manquarie	19,938,445	-4,373	406,767	0	552,870	20,893,709	1.72	-0.00
Premira Credit	59,539,759	-13,543,541	2,257,663	0	-1,212,911	47,040,970	3.87	-1.27
UBS	118,884	0	-12	0	-12,880	105,992	0.01	-0.00
UBS Property	78,990,032	-650,468	761,609	17,103	2,619,234	81,720,408	6.72	-0.09

Min 0.00  100.00 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.

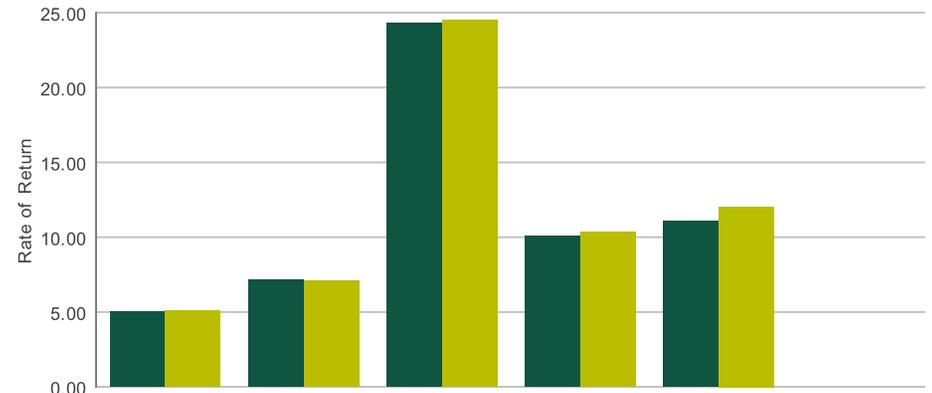
# Historical Performance

## OVERSEAS EQUITIES



Category	Three Months	Year to Date	One Year	Three Years	Five Years	ITD
Category	7.10	11.66	26.20	11.51	11.40	7.16

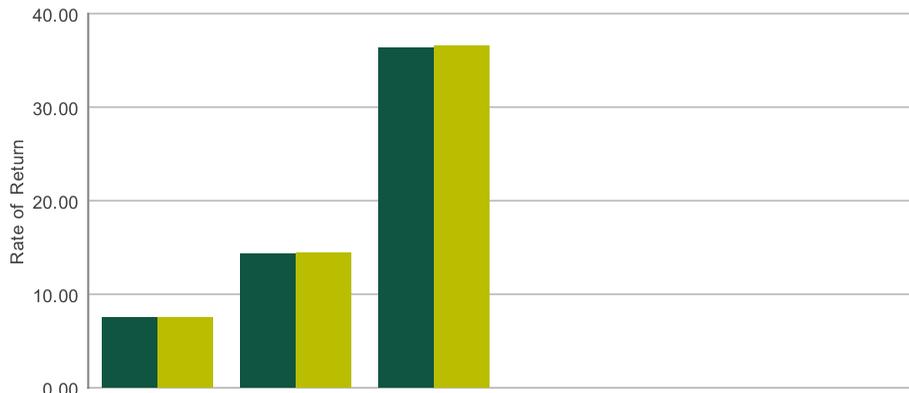
## EMERGING MARKETS



Category	Three Months	Year to Date	One Year	Three Years	Five Years	ITD
Category	5.01	7.14	24.30	10.08	11.08	-
Index	5.12	7.09	24.49	10.34	12.04	-

Index: LBH Emerging Markets

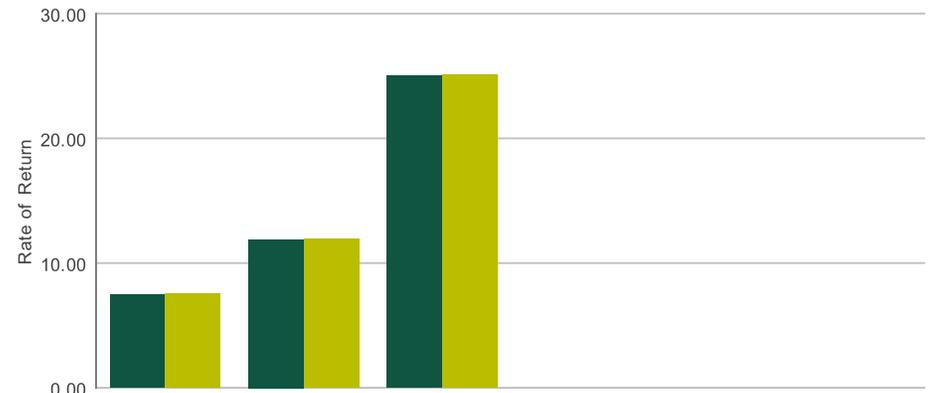
## L&D GPCT WORLD DEV EQ IDX GBP HDG



Category	Three Months	Year to Date	One Year	Three Years	Five Years	ITD
Category	7.48	14.32	36.33	-	-	-
Index	7.53	14.39	36.54	-	-	-

Index: FTSE AW Developed HDG GBP

## WORLD DEVELOPED EQUITY INDEX

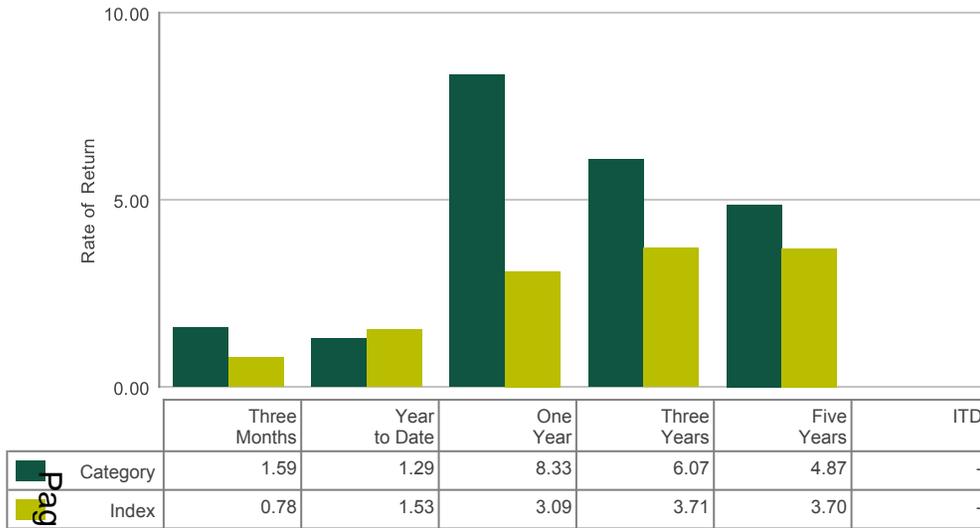


Category	Three Months	Year to Date	One Year	Three Years	Five Years	ITD
Category	7.50	11.89	25.03	-	-	-
Index	7.53	11.94	25.10	-	-	-

Index: FTSE AW Developed

# Historical Performance

## FIXED INCOME



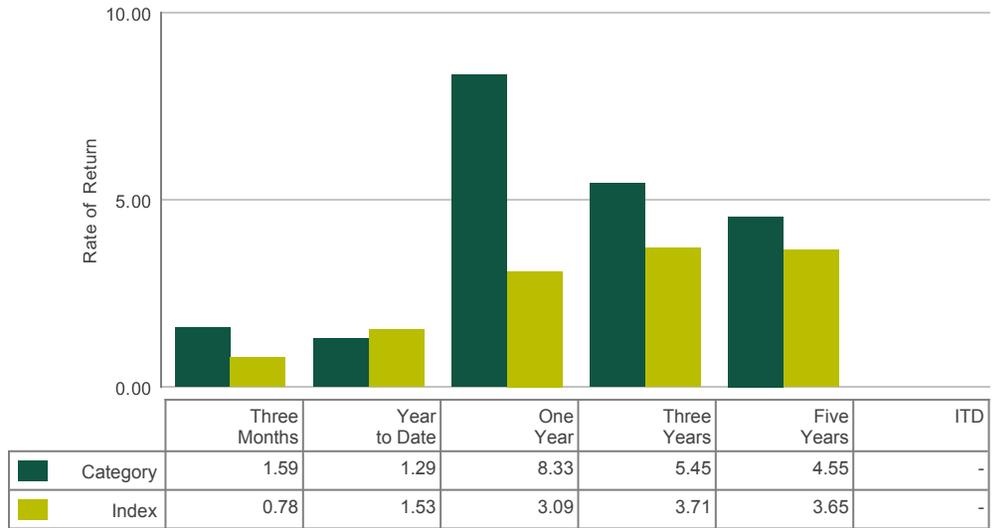
Index: LBH Fixed Income Benchmark

## INDEX LINKED GILTS



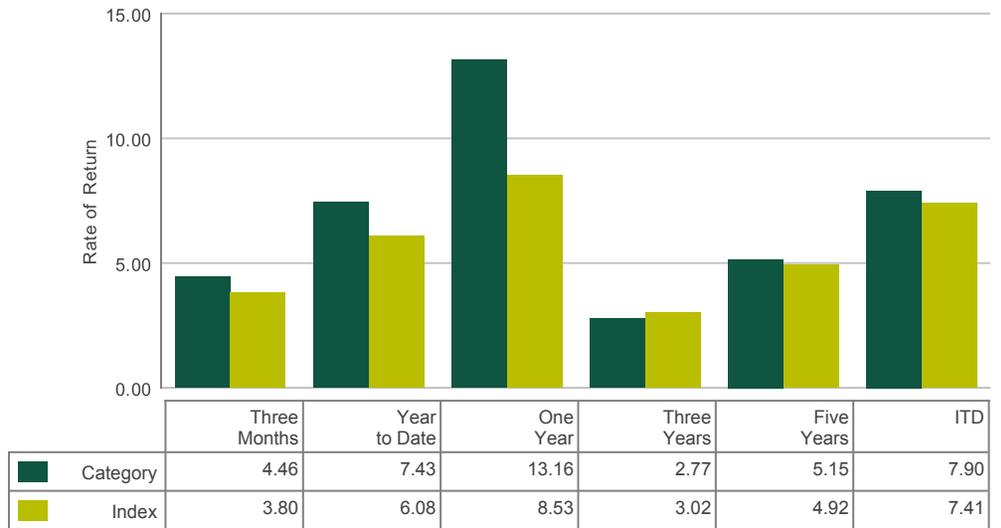
Index: LBH Index Linked Benchmark

## GLOBAL CORPORATE BONDS



Index: LIBOR GBP 3 Month +3% pa

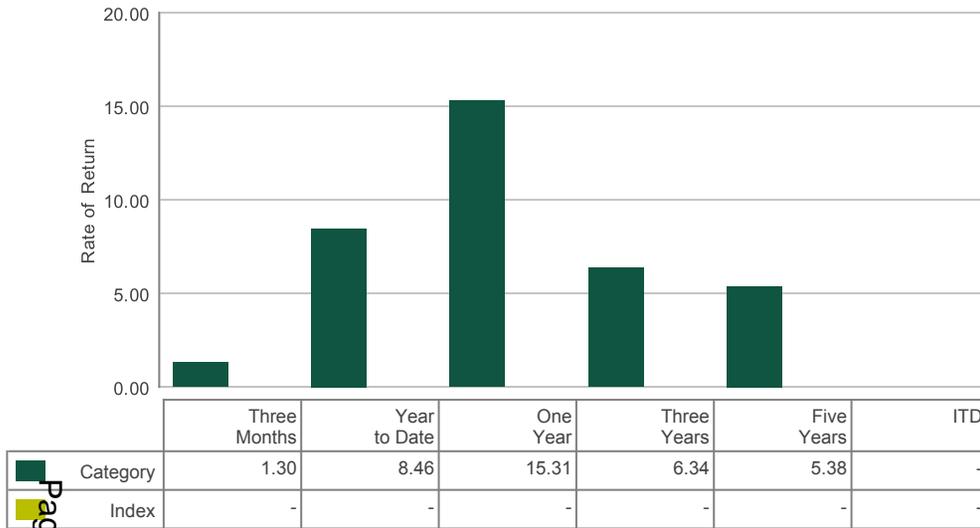
## REAL ESTATES



Index: IPD UK PPF All Bal Funds Index

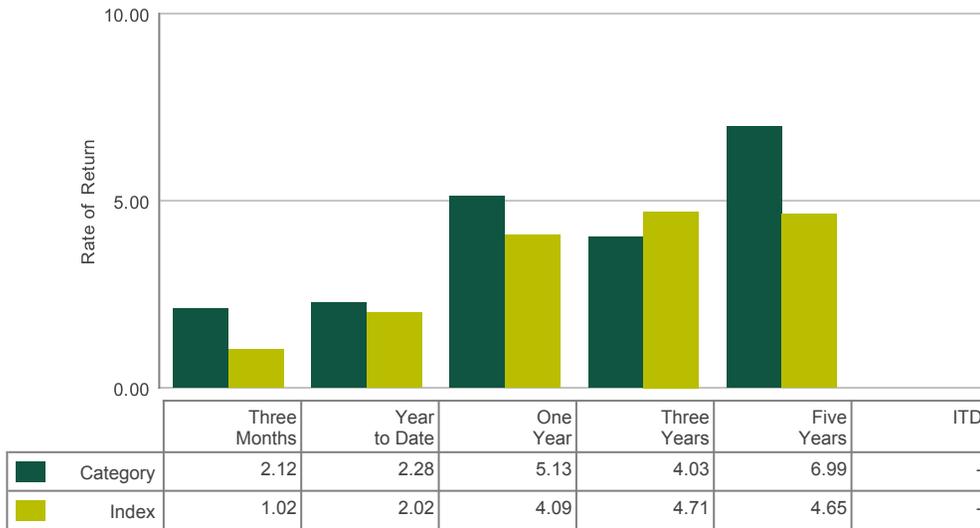
# Historical Performance

## BALANCED FUNDS



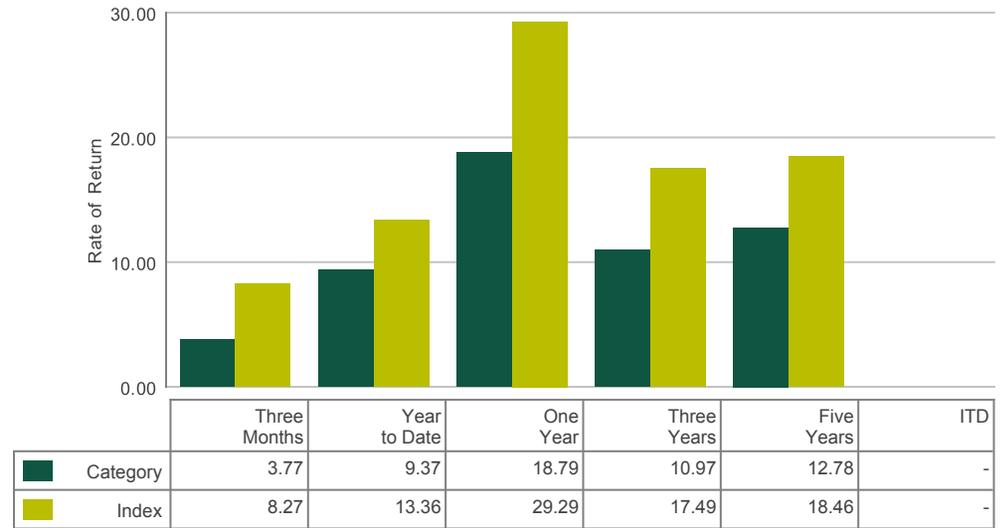
Index: Balanced Fund Benchmark

## PRIVATE CREDIT



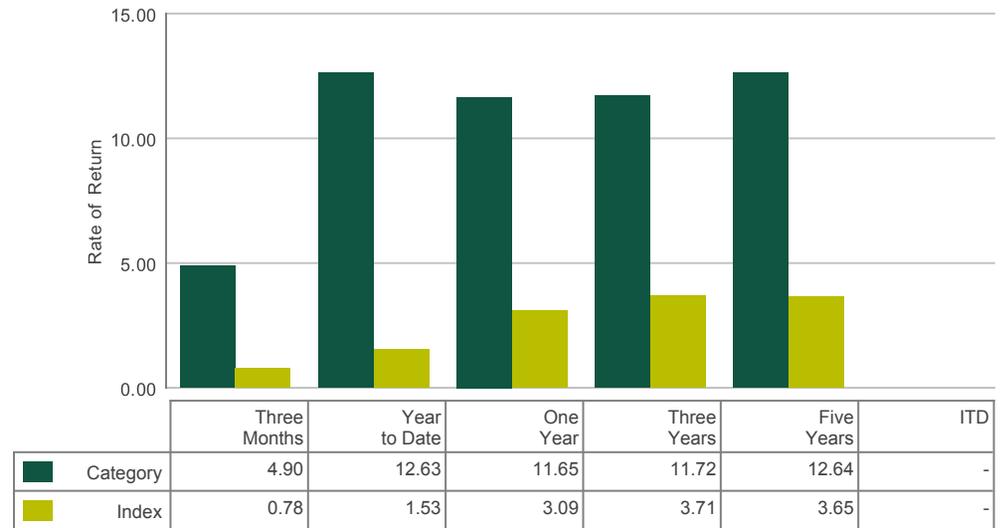
Index: LIBOR GBP 3 Month +4% pa

## PRIVATE EQUITY



Index: MSCI ACWI +4% pa

## INFRASTRUCTURE



Index: LIBOR GBP 3 Month +3% 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
		<b>100.00</b>

## Disclaimer(s)

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# London Borough of Hillingdon Pension Fund

Funding and risk report as at 30 June 2021

## Reliances and limitations

This report was commissioned by and is addressed to the London Borough of Hillingdon in their capacity as the Administering Authority and is provided to assist in monitoring certain funding and investment metrics. It should not be used for any other purpose. It should not be released or otherwise disclosed to any third party except as required by law or with our prior written consent, in which case it should be released in its entirety. **Decisions should not be taken based on the information herein without written advice from your consultant.** Neither I nor Hymans Robertson LLP accept any liability to any other party unless we have expressly accepted such liability in writing.

The method and assumptions used to calculate the updated funding position are consistent with those disclosed in the documents associated with the last formal actuarial valuation as at 31 March 2019, although the financial assumptions have been updated to reflect known changes in market conditions. The calculations contain approximations and the accuracy of this type of funding update declines with time from the valuation; differences between the position shown in this report and the position which a new valuation would show can be significant. It is not possible to assess its accuracy without carrying out a full actuarial valuation. This update complies with Technical Actuarial Standard 100.

## Funding Level Table

	30 June 2021	Ongoing Funding
Assets		£1,215m
Liabilities		£1,343m
Surplus/(deficit)		(£128m)
Funding level		90.5%

HEADLINE

## Summary

This funding update is provided to illustrate the estimated development of the funding position from 31 March 2019 to 30 June 2021, for the London Borough of Hillingdon Pension Fund ("the Fund").

At the last formal valuation, the Fund assets were £1,067m and the liabilities were £1,228m. This represented a deficit of £161m and equated to a funding level of 87%.

Markets have been severely disrupted by COVID 19 which have resulted in challenging conditions. In the 27 months since the formal valuation, investment returns have been above expectations although the outlook for future investment returns on the Fund's portfolio of assets is less positive which serves to increase the value placed on the liabilities. Combining these key factors, the funding level is estimated to have increased by c3.5% compared to 31 March 2019. Should you have any queries please contact me.

Craig Alexander FFA

# London Borough of Hillingdon Pension Fund | Strategy and Risk Management dashboard

Funding Level Table

30 June 2021	Ongoing Funding
Assets	£1,215m
Liabilities	£1,343m
Surplus/(deficit)	(£128m)
Funding level	90.5%

Analysis of Surplus Table

Surplus/(deficit)	£m
Surplus/(deficit) as at 31/03/2019	(161)
Contributions (less benefits accruing)	2
Interest on surplus/(deficit)	(2)
Excess return on assets	120
Change in inflation & expected future investment return	(87)
Surplus/(deficit) as at 30/06/2021	(128)

Market Indicators Table

	31 March 2019	30 June 2021
Market yields (p.a.)		
Fixed interest gilts	1.49%	1.18%
Index-linked gilts	-1.81%	-2.10%
Implied inflation	3.36%	3.35%
AA corporate bond yield	2.36%	1.87%
Price Index		
FTSE All Share	3,978	4,015
FTSE 100	7,279	7,037
Expected future investment return (p.a.)		
20yr annualised return on Fund's asset portfolio*	4.0%	3.7%

\*There is at least a 74% likelihood of the Fund's investments achieving a return of at least 3.7% p.a. over the next 20 years

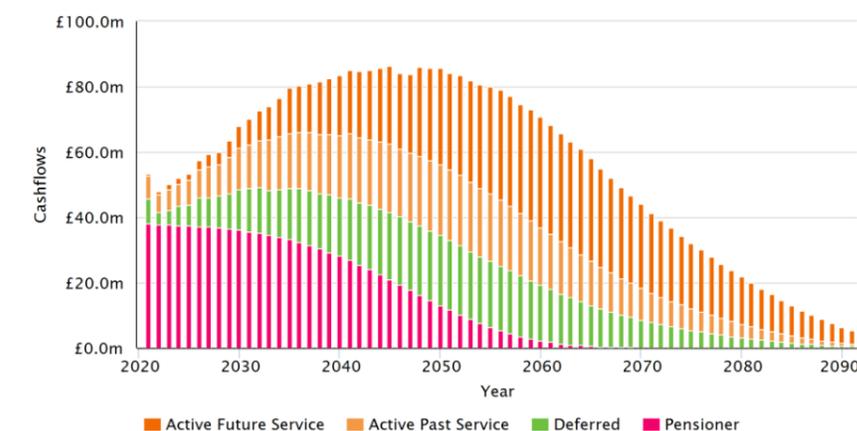
Funding Level Progression Chart



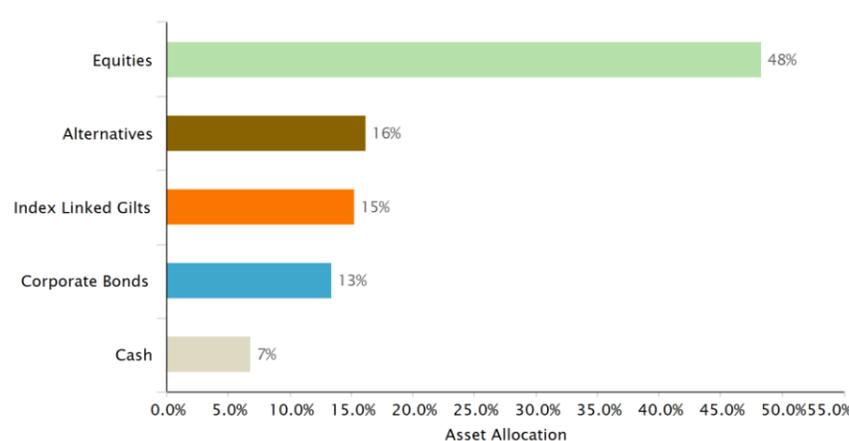
Funding Level Progression Chart



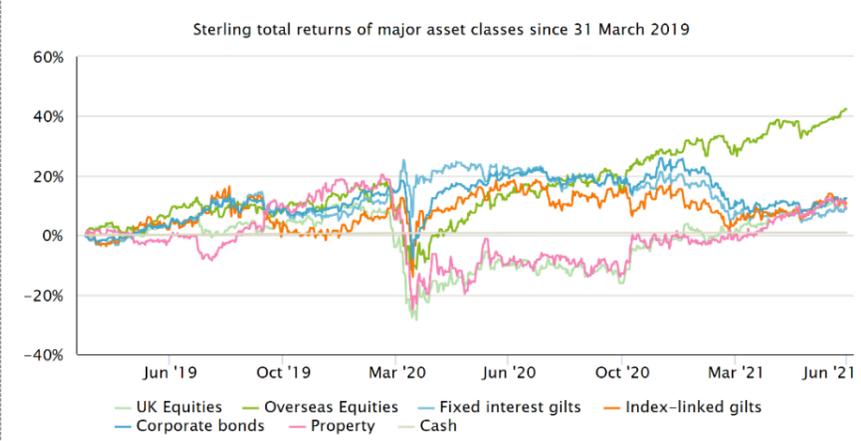
Projected Cashflows Chart



Asset Allocation Chart



Index Return Chart



Sensitivity Matrix

Sensitivity Matrix as at 30 June 2021 for Ongoing funding basis (£m)

Shift in equity level (using FTSE 100 levels as proxy)

	4,926 -30%	5,630 -20%	6,334 -10%	7,037	7,741 +10%	8,445 +20%	9,149 +30%
+0.6	(258)	(179)	(101)	(22)	56	134	213
+0.4	(291)	(212)	(134)	(55)	23	101	180
+0.2	(326)	(247)	(169)	(91)	(12)	66	144
0.0	(363)	(285)	(207)	(128)	(50)	28	107
-0.2	(403)	(325)	(247)	(168)	(90)	(12)	67
-0.4	(446)	(368)	(290)	(211)	(133)	(55)	24
-0.6	(492)	(414)	(336)	(257)	(179)	(101)	(22)

Shift in expected future investment return (% p.a.)

less than 50%, 50% - 85%, 85% - 95%, 95% - 100%, 100% - 105%, 105% - 115%, greater than 115%

## PENSION FUND POLICY UPDATES

## ITEM 8

Committee	Pensions Committee
Officer Reporting	James Lake, Finance
Papers with report	<ol style="list-style-type: none"> <li>1. Draft Administration Strategy</li> <li>2. Draft Communications Policy</li> <li>3. Draft Conflicts of Interest Policy</li> </ol>

### PURPOSE

Pension fund policy documents are required to be reviewed at least every three years or sooner if there are fundamental changes that need to be reflected in them. This report presents the Administration Strategy document and the Communication Policy have been updated mainly to reflect changes arising from the transfer of administration services to Hampshire County Council and the Conflicts of Interest Policy for which the scope has been expanded to include, officers, advisors and elected members rather than members of the Pensions Board only.

The contact details for the pensions administration services team on other relevant policy documents have been updated to reflect the details of Hampshire Pensions Services (HPS) and will be posted online over the coming weeks.

### RECOMMENDATION

The Committee is asked to approve the policies attached for implementation and publication.

### Summary of Changes

Where appropriate policy documents have been updated with Hampshire County Council (HCC)/Hampshire Pension Services (HPS) details. In addition, the table below provides the main specific changes to the policies.

	Policy Document	Main Changes
1	Administration Policy	<ul style="list-style-type: none"> <li>Updated performance targets.</li> <li>Focus on HCC providing support to employers to carry out their roles</li> <li>Performance monitoring of employers by HCC and day-to-day support of employer relations by HCC</li> </ul>
2	Communication Policy	<ul style="list-style-type: none"> <li>Greater emphasis on the use of electronic communication, signing up to the member portal and employer hub.</li> <li>Shift in operational communication with employers being supported by HPS</li> </ul>

Classification: Public  
Pensions Committee - 28 September 2021

3	Conflicts of Interest Policy	<ul style="list-style-type: none"><li>• The scope of the policy has been expanded to include pension committee members, advisors, and officers involved in the fund</li></ul>
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### **FINANCIAL IMPLICATIONS**

Financial implications are included in the relevant policy documents

### **LEGAL IMPLICATIONS**

The Policies are based on various regulations which are included in each policy document.

# **London Borough of Hillingdon Pension Fund**

## **Administration Strategy**

**Date approved: 28 September 2021**

**Date of renewal: September 2024**

# Administration Strategy

## Introduction and Background

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

The aims of the Pension Administration Strategy are to:

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

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

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

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

## Implementation

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

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

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

This Strategy will be effective from 28 September 2021 and the performance indicators mentioned herein will demonstrate ongoing progress towards the Strategy's aims and objectives.

## Regulatory Basis

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

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

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

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

More information relating to the requirements of the Local Government Pension Scheme Regulations is included in Appendix A. This statement has been developed with those provisions in mind, and describes the Administering Authority's approach to meeting these requirements in the delivery of administration.

## **Aims and Objectives**

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

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

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

### *Administration Aims and Objectives*

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

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

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

## **Delivery of Administration**

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

Operationally, the administration of the Fund is undertaken by Hampshire Pensions Services (HPS) through a delegation agreement with Hampshire County Council (HCC), supported by a small 'in-house' capacity within London Borough of Hillingdon.

The London Borough of Hillingdon will look for opportunities to work collaboratively with other Administering Authorities to reduce development costs and enhance the quality of information. This might include:

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

## **Performance Standards – Quality**

### *Local Standards*

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

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

### *Secure Data Transfer*

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

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

### *Oversight of Compliance and Quality*

Ensuring compliance is the responsibility of the Administering Authority and the employers in the Fund. The Administering Authority has a range of internal controls in

place to assist with ensuring compliance and which are articulated in the Fund's risk register and risk management policy. However, there are ways in which the Administering Authority is subject to elements of scrutiny and/or oversight:

#### *Audit*

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

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

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

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

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

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

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

1. Any legal timescale that should be met ("legal requirement")
2. The overall locally agreed target time ("fund target")
3. The locally agreed target time for the Administering Authority or administrator to complete that task ("LBHPF element target").

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

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

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

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

## Hillingdon Pension Fund Key Performance Indicators

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

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

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

3 – Occupational Pension Schemes (Transfer Value) Regulations 1996

4 – Pension Schemes Act 1993

## Employer Support and Performance Monitoring

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

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

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

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

As part of this proactive approach HPS will:

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

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

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

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

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

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

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

## Measuring whether the Administration Objectives are met

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

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

Objectives	Measurement
Provide a high quality, professional, proactive, timely and customer focussed administration service to the Fund's stakeholders.	Key target service standards (highlighted in table above) achieved in 95% of cases*.
Administer the Fund in a cost effective and efficient manner utilising technology appropriately to obtain value for money.	Cost per member is not in upper quartile when benchmarked against all LGPS Funds using national data (either SF3 or SAB)
Ensure the Fund's employers are aware of and understand their roles and responsibilities under the LGPS regulations and in the delivery of the administration functions of the Fund.	<p>Annual data checks (including ongoing reconciliations) resulting in few issues that are resolved within 2 months.</p> <p>Key target service standards (highlighted in table above) achieved in 95% of cases*.</p> <p>Issues included in formal improvement notices issued to employers resolved in accordance with plan.</p>
Ensure benefits are paid to, and income collected from, the right people at the right time in the right amount.	<p>Mainly positive results in audit and other means of oversight/scrutiny.</p> <p>Key target service standards (highlighted in table above) achieved in 95% of cases*.</p>
Maintain accurate records and ensure data is protected and has authorised use only.	<p>Annual data checks (including ongoing reconciliations) resulting in few issues that are all resolved within 2 months</p> <p>No breaches of data security protocols</p> <p>Mainly positive results in audit and other means of oversight/scrutiny</p>

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

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

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

## Key Risks

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

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

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

## Approval and Review

This Strategy Statement was approved for consultation with stakeholders on 15 June 2016 by the London Borough of Hillingdon Pensions Committee. It will be reviewed following consultation with a view to the final strategy being agreed by Pension Committee on 28 September 2021, to become effective from that date.

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

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

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

### **Further Information**

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

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

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

## Administration Legal Requirements within the LGPS

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

### Employer Responsibilities:

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

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

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

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

Administering Authority Responsibilities:

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

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

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

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

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

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

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

Detailed Performance Standards

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

**London Borough of Hillingdon**  
**Administering Authority for the**  
**London Borough of Hillingdon Pension Fund**

**COMMUNICATION STRATEGY**

**Date approved: 28 September 2021**

**Date of renewal: September 2024**

# COMMUNICATION STRATEGY

## Introduction and Background

This is the Statement outlining our Pension Communication Strategy for the London Borough of Hillingdon Pension Fund (“the Fund”) and has been developed following consultation with employers in the Fund, scheme member representatives, Pension Board members and other interested stakeholders.

The aim of this Communication Strategy is to ensure that scheme members appreciate the benefits of the scheme and all stakeholders are kept informed of developments within the Pension Fund, and effective communications will also help to maintain the efficient running of the Scheme.

London Borough of Hillingdon (the “administering authority”) is responsible for the local administration of the Fund, which is part of the Local Government Pension Scheme (“the LGPS”). Operationally, the administration of the Fund is undertaken by Hampshire County Council (HCC) under a delegation agreement. and the team at Hampshire and Hillingdon Council staff work together to provide a seamless service to scheme employers and members, and as such effective communication *between* the two organisations is vitally important. This policy focuses on effective communication between the Fund (i.e. the Council and Hampshire County Council as administrator) and its external stakeholders.

The Statement sets out who we will communicate with, how this will be done and how the effectiveness of that communication will be monitored.

## Implementation

This Strategy outlines the type of communications the administering authority would like to provide to scheme members and employers. It includes making more use of technology to provide quicker and more efficient communications for the Fund's stakeholders.

This Strategy will be effective from 28 September 2021 and the performance indicators mentioned herein will demonstrate ongoing progress towards the Strategy's aims and objectives.

## Regulatory Basis

The LGPS is a statutory scheme, established by an Act of Parliament. Regulation 61 of the Local Government Pension Scheme Regulations 2013, reproduced below, provides the conditions and regulatory guidance surrounding the production and implementation of Communications Strategies:

## Statements of policy concerning communications with members and Scheme employers

61. (1) An administering authority must prepare, maintain and publish a written statement setting out its policy concerning communications with —

- (a) members;
- (b) representatives of members;
- (c) prospective members; and
- (d) Scheme employers.

(2) In particular the statement must set out its policy on —

- (a) the provision of information and publicity about the Scheme to members, representatives of members and Scheme employers;
- (b) the format, frequency and method of distributing such information or publicity; and
- (c) the promotion of the Scheme to prospective members and their employers.

(3) The statement must be revised and published by the administering authority following a material change in their policy on any of the matters referred to in paragraph (2).

This statement has been developed to include the information required by those provisions and to describe our approach in relation to meeting these requirements in the delivery of communications.

## **Our Aims and Objectives**

### Mission Statement

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

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

In addition, we have specific aims and objectives in relation to our communication responsibilities as set out below.

### Communication Aims and Objectives

This Communications Strategy has a number of specific objectives relating to how we communicate with our stakeholders, as follows;

- Promote the Scheme as a valuable benefit and provide sufficient information to educate members to help them to make informed decisions about their benefits.
- Communicate in a clear, concise manner.
- Ensure we use the most appropriate means of communication, taking into account the different needs of our stakeholders.

- Look for efficiencies in delivering communications, including through greater use of technology and partnership working, with the view that digital communications is the preferred long term communications solution.
- Annually evaluate the effectiveness of communications and shape future communications appropriately.

Ultimately, achieving these objectives should result in fewer member and employer queries, which will help all stakeholders whilst maintaining and improving the efficient running of the Scheme.

### **Delivery of Communications**

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

Operationally, the communications of the Fund are undertaken by Hampshire County Council with the sign-off of the London Borough of Hillingdon. The London Borough of Hillingdon will also look for opportunities to work collaboratively with other Administering Authorities to reduce development costs and enhance the quality of information. This might include:

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

### **How we Communicate**

Ensuring that key stakeholders are well informed about the LGPS is of paramount importance, and London Borough of Hillingdon recognises that communicating in a clear informative style is vital in achieving this aim.

### **With whom we will Communicate**

London Borough of Hillingdon recognises that there are several distinct stakeholder groups, such as:

- Scheme Members (active, deferred, pensioner and dependant members) and prospective Scheme Members
- Scheme Employers and prospective Scheme Employers
- Pension Fund Committee and Pension Board members
- Pension Fund Staff
- Other interested organisations including Government Departments, Scheme Advisory Board and Advisors to the Pension Fund.

The main means of communication with these key stakeholders are outlined in the next section.

## Diversity of Communication

The London Borough of Hillingdon Pension Fund's information is also available in alternative formats for example, Braille or large print on request. The London Borough of Hillingdon Pension Fund always aims to use the most appropriate communication medium(s) for the audience receiving the information. However, the London Borough of Hillingdon acknowledges that digital communications is the preferred long-term communications solution.

## Methods of Communication

### a) With Scheme Members and Prospective Scheme Members

Our aim is to provide all communications electronically where possible as a rapid access and secure means of sharing personal information. We however recognise that it is not always a suitable method for all stakeholders and where appropriate will provide communication in writing and other inclusive formats such as large print or braille where required.

#### Member Portal

All members are encouraged to sign up to the member portal which provides secure access to their specific details and allows them to complete various forms, upload certain documents and send secure messages to Hampshire Pension Services staff. Members will also securely receive important documents like annual benefit statements, payslips via the member portal.

Members can access the portal at Civica Pensions - Home ([hants.gov.uk](https://hants.gov.uk))

#### Website

All members have access to the Fund's website

<https://archive.hillingdon.gov.uk/pensions> which contains information about the Fund and the LGPS, and members are able to download scheme literature and forms. The website also links to the HPS website Local Government Pension Scheme (LGPS) | Hampshire County Council ([hants.gov.uk](https://hants.gov.uk)) which offers extensive information about membership of the LGPS and scheme regulations as well as forms and guides for members and links to relevant organisations. It is regularly updated and provides news feed for topical information.

#### Annual Benefit Statements

These statements are distributed electronically to all active and deferred scheme members. Where email addresses are held for the members, a notification is sent to advise that the statement is available on the portal. Members can choose to opt out of this service in which case they will receive a paper copy.

#### Correspondence

Most of our communication with members is undertaken electronically, either through our Member Portal or by secure email. If we hold a member's email address, then we will email to advise when a letter or document is made available for them to view. However, if we are unable to communicate electronically then we send the information in writing to the member's home address.

If a member wishes to opt out of electronic communications and to receive paper copies, then we ask that they put their request to us in writing.

We can also communicate with members in a specific way on request, for example in large print or Braille.

All emails sent contain a link to our satisfaction survey to encourage feedback from members.

#### Benefit statements

We make our annual benefit statements available to all members through our Member Portal. If we hold an email address for a member then we email to advise that the statement is available to view on the Portal.

Members can choose to opt out of this online service and instead receive paper statements.

All statements include some explanatory notes and members are advised where to find a more detailed explanation of their statement on our website.

#### Pension saving statements

By 6 October each year, we send a pension saving statement to any member who may be affected by the annual allowance tax limit. These are also available to view on the Member Portal.

#### Pensioner payslips, P60s and annual newsletter

All payslips are available to our pensioners through the Member Portal. If a member has paid income tax during the preceding year, then a P60 will also be available through the portal by the end of May. The member can either view or download copies of the payslip and P60.

A pensioner newsletter is added to the Member Portal every year in March or April. An expanded version of the newsletter can be viewed on our website.

Pensioner members can opt out of electronic communications and choose always to receive paper copies, by putting their request to us in writing.

#### Declaration of pension entitlement

We send forms to verify a member's continuing entitlement to receive pension payments:

- every year, to pensioners that live overseas and
- whenever a pensioner payment or mail is returned to us.

#### Telephone and email

All members have the opportunity to telephone or email the London Borough of Hillingdon Pension Fund / Hampshire Pension Services (as appropriate) for information in addition to the other lines of communication open to them.

#### Literature

The London Borough of Hillingdon Fund makes pension-related literature available to scheme members, including:

A New Joiner Option Form which is the responsibility of employers to issue to all new members upon joining the London Borough of Hillingdon Pension Fund.

A retirement pack sent to all members about to retire from the London Borough of Hillingdon Pension Fund.

A welcome letter which is sent to all members joining the scheme to confirm their membership and provide information about the option to transfer in benefits and pay additional contributions if they wish.

## Pensions Taxation Correspondence

Where appropriate, letters are distributed to all members who are affected by the Annual Allowance or the Lifetime Allowance, explaining changes to taxation rules and how this may affect their pension savings.

## Annual Report

The Annual Report is published to highlight how the Fund has performed during the previous financial year. It also includes statements with regards to investment strategy, funding strategy, and governance. It is available on the Fund's website.

## **b) With Employers**

Effective communication between the Fund and its employers reduces errors, improves efficiency and leads to good working relationships. The day-to-day communication with employers will be supported by Hampshire Pensions Services with sign off from London Borough of Hillingdon on key areas of communication. The main means of communication with employers are outlined below.

### Website

The HPS website has a dedicated section for employers. It includes technical information, details of training courses, the latest employer news and an Employer Manual which contains details of procedures and employer responsibilities. The website offers access to our Employer Hub. Employers are asked to register for this service which enables them to view or amend details of their own employee's records, submit forms to us or to provide member estimates, depending on their level of access.

### Newsletters

We send a regular electronic newsletter, "Pensions Matters", to employing authorities to keep them up to date with the latest regulation changes and proposals, as well as any changes in administrative processes.

We also send ad hoc email communications, under the heading "Stop Press" to advise employers of any changes or information they should be aware of or would find useful.

Copies of "Pensions Matters" and "Stop Press" emails are also added to the employer section of the website.

### Employer training

We offer employer training workshops on a variety of topics, in addition to dealing with queries via email or phone.

In addition, Pension Services will work with employers who have individual training needs offering targeted training on request or when a need is identified.

### Employer meetings

We hold employer liaison meetings throughout the year with key employers or those where additional support is required. All employers may request a meeting with us.

We also hold six-monthly meetings with employer focus groups and will attend established employer forums.

## Administration Strategy

Introduced in April 2016, the administration strategy provides an overview of how the administering authority and employers will work together to achieve a high quality service. It is available on the Fund's website.

### **c) With Pension Committee and Pension Board members:**

Effective communication ensures that Pension Committee and Pension Board members are appropriately knowledgeable and able to act in the best interests of the Fund and its members:

Members are provided with regular reporting on all areas relevant to pensions, including investment, funding, audit, governance, administration and risk. This is communicated in a variety of formats including via the external website, the intranet, the annual report and accounts, through committee and board meetings and through regular training in line with the Fund's training policy. The majority of reports provided to Pension Committee together with the meeting minutes, are available on the Democratic Service pages of the Council's website. The Pension Board members and reports to the Board can be found at this website address:

<https://archive.hillingdon.gov.uk/article/29807/Local-Pensions-Board>

### **d) With Fund Staff:**

Effective communication ensures that both Hillingdon and Hampshire staff are confident and prepared to undertake their role, as follows:

#### Pension Manager

The London Borough of Hillingdon and Hampshire County Council Pension managers maintain open-door policies and are available to staff both within and outside the Pensions Teams. In addition, staff have unrestricted access to their managers and senior colleagues to discuss and resolve work related issues.

#### Team Meetings

Office and/or Team meetings are held on a monthly basis to discuss operational issues, ensuring there is a shared understanding of any issues and developing a consistent approach towards addressing them. Any items arising from such meetings are escalated to the relevant Pension Manager and raised at Senior Management Team Meetings if required.

#### Intranet

Each member of staff has access to the relevant Fund's intranet so that it can be used as an information resource.

#### E-mail

All staff have access to the e-mail facility.

#### Internet

All staff have authority to access the internet to assist them in their role within Pension Services.

#### Induction and training

All new members of staff undergo an induction procedure to acquaint them with the operational running of the Pension Fund. Subsequently, all pension staff also receive both in-house and external training to enable them to administer the scheme effectively, answer member queries, and offer a good customer service and also to assist in their personal development.

#### Appraisal and Assessment

Staff at all levels in the Pension Team have annual assessments, with a mid-year review, during which there are open discussions of work issues and areas for development. This dialogue is supplemented by regular one-to-one meetings within team structures.

#### **e) Communicating with other bodies:**

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

The Ministry of Housing Communities and Local Government (MHCLG)  
We have regular contact with MHCLG as Responsible Authority of the LGPS, participating and responding to consultations as required.

#### Scheme Advisory Board

The national Scheme Advisory Board was established following the Public Services Pensions Act 2013 to provide advice to administering authorities and local pension boards in relation to the effective and efficient administration and management of the Scheme and their funds. We therefore liaise with the Scheme Advisory Board as appropriate.

#### The Pensions Regulator

The Pensions Regulator's remit has been extended to the Public Sector as a result of the Public Services Pensions Act 2013. We therefore liaise with the Regulator as required and ensure that the London Borough of Hillingdon Fund is compliant with the Pensions Regulator's Code of Practice.

#### Trade Unions

We work with relevant trade unions to ensure the Scheme is understood by all interested parties. Efforts are made to ensure all pension related issues are communicated effectively with the trade unions.

#### Employer Representatives

We work with relevant employer representative bodies to ensure that the Fund's views are represented to employer groups. Employers are represented on the Pension Board.

## Pension Fund Investment Managers, Advisers and Actuaries

We have regular meetings with;

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

## Pension Fund Custodian

The Fund's Custodian ensures the safekeeping of the Funds investment transactions and all related share certificates.

## AVC Provider

Additional Voluntary Contributions (AVC) are a way for members to top up their pension benefits, and in some instances provide tax free lump sum depending on the policy, and are held and invested separately from the LGPS. The Fund's in-house AVC provider is Prudential.

## Pensions and Lifetime Savings Association (PLSA)

The Fund is a member of PLSA, which provides an opportunity for administering authorities to discuss issues of common interest and share best practice.

## Regional Forums

The London Pension Officers Group takes place quarterly. It is an opportunity for the Pensions Managers and other Pension Officers from administering authorities in the region to share information and ensure uniform interpretation of the Local Government Pension Scheme, and other prevailing regulations.

## Requests for Information (FOI)

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

## Consultations

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

## Key Risks

The key risks to the delivery of this Strategy are outlined below. The London Borough of Hillingdon's Lead Pensions Officer will work together with the Lead Pensions Officer at Hampshire and with the Pension Committee and Pension Board in monitoring these and other key risks and considering how to respond to them.

- Lack or reduction of skilled resources due to difficulty retaining and recruiting staff members and also staff absence due to sickness
- Significant increase in the number of employing bodies causes strain on day to day delivery
- Significant external factors, such as national change, impacting on workload
- Issues in production of annual benefits statements, e.g. wrong address and printing errors due to external supplier
- Issuing incorrect or inaccurate communications
- Failure to maintain employer database leading to information not being sent to correct person
- Lack of clear communication to employers, scheme members and pensioners
- The ongoing impact of COVID 19 on all resources members, employers and other stakeholders.

### Preparation and Review

This Strategy Statement was approved on 28 September 2021 by the London Borough of Hillingdon Pensions Committee. It is effective from 1 October 2021

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

In preparing this Strategy we have consulted with the scheme member and employer representatives on the London Borough of Hillingdon Pension Board and other persons considered appropriate.

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

### Further Information

Any enquiries in relation to the Fund's communications or the principles or content of this Strategy should be sent to:

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

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

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# **London Borough of Hillingdon Pension Fund**

## **Conflicts of Interest Policy**



HILLINGDON  
LONDON

Updated September 2021

## **Purpose**

This conflicts of interest policy sets out the process for managing conflicts (including actual and potential conflicts as well as bias) in the operation and management of the London Borough of Hillingdon Pension Fund ('the Fund'). The aim is to provide guidance to the Fund's governing bodies and its officers on how to manage conflicts while undertaking their roles and to provide assurance to the Fund's members, employers and stakeholders that conflicts are appropriately managed.

This policy forms part of the Fund's good governance through encouraging transparency in the reporting of conflicts.

## **Scope**

This policy applies to the Fund's Pension Committee, Pensions Board, officers, advisors, and suppliers and must be considered in light of their individual role.

In accepting any role covered by this Policy, those individuals agree that they must:

- Acknowledge any potential conflict of interest they may have
- Be open about any conflicts they may have
- Adopt and accept practical solutions to managing those conflicts (seeking advice from a relevant officer, as required)
- Plan ahead and agree how any conflicts may be managed.

## **Objectives**

Through the appropriate management of this policy the Fund will:

- Meet the highest standards of good governance through demonstration of the key principles of transparency and accountability in the management of the Fund through clear responsibilities and reporting.
- Ensure that robust governance arrangements are in place, to facilitate informed decision making, supported by appropriate advice, policies and strategies.
- Act with integrity and be accountable to stakeholders for all decisions, ensuring they are robust, soundly based and do not unreasonably favour one group of stakeholders over another.
- Ensure the Fund complies with the appropriate legislation and Pension Regulator's Code of Practice.
- Deliver an efficient and effective pensions and financial administration service, which provides excellent value for money.

## **Public Standards**

As a Local Government Pension Scheme, the Fund adheres to the Nolan Principles on Public Life, which are integral to the application, and success, of this policy.

Selflessness	Holders of public office should act solely in terms of the public interest.
Integrity	Holders of public office must avoid placing themselves under any obligation to people or organisations that might try inappropriately to influence them in their work. They should not act or take decisions in order to gain financial or other material benefits for themselves, their family, or their friends. They must declare and resolve any interests and relationships.
Objectivity	Holders of public office must act and take decisions impartially, fairly and on merit, using the best evidence and without discrimination or bias.
Accountability	Holders of public office are accountable to the public for their decisions and actions and must submit themselves to the scrutiny necessary to ensure this.
Openness	Holders of public office should act and take decisions in an open and transparent manner. Information should not be withheld from the public unless there are clear and lawful reasons for so doing.
Honesty	Holders of public office should be truthful.
Leadership	Holders of public office should exhibit these principles in their own behaviour. They should actively promote and robustly support the principles and be willing to challenge poor behaviour wherever it occurs.

## **Legislative Background**

The Public Service Pensions Act 2013 defines a conflict of interest as a financial or other interest which is likely to prejudice a person's exercise of functions.

The Pension Regulator's Code of Practice requires LGPS Funds to have a conflict of interest policy which sets the controls for managing actual and potential conflicts in order to satisfy itself that no such conflicts exist in its governing bodies.

In addition, the Localism Act 2011 imposes a responsibility on all elected Councillors to declare and register pecuniary and non-pecuniary interests.

Actual conflicts are not permitted within the LGPS as it is unlikely these can be managed appropriately to prevent the conflict from having an impact. Anyone who has an actual conflict will therefore be excluded from the decision-making process, only potential conflicts can be managed.

### **What is a conflict?**

A financial or other interest which is likely to prejudice a person's exercise of functions. A conflict can also include bias (actual or perceived). It does not include a financial or other interest arising merely by virtue of that person being a member of the scheme or any connected scheme.

Employer representatives sitting on the Pensions Board may be conflicted if discussions regarding their employer are taking place; employer representatives will be required to declare their interest and leave the discussion in that scenario. Being an employer representative of itself, is not a conflict.

Actual bias is where it can be proven that a decision maker is, was or will be, prejudiced in favour of or against one decision over another.

Perceived bias is where there is a real possibility of bias. That possibility is judged on the standard reasonable test of whether "a reasonable man in possession of all facts would determine the individual to be bias".

When attending meetings of either the Pension Committee or the Pensions Board, persons sitting as a member of those groups must act in the interests of the Fund's members and employers. Members of the Pension Committee and Pensions Board must "leave their day job at the door" and must sit in the capacity of their membership of the Committee/Board.

Opinions may be expressed during the meeting which reflect the representative group, however decisions must be taken in the interests of all members and in the best interest of the Fund.

### **Managing conflicts**

The Fund takes a 3- stage approach to managing conflicts of interests

- Identifying
- Monitoring
- Managing

## Identifying

To assist Pension Committee, Pensions Board members and Officers identify when a conflict may arise, attached to this policy at Appendix One are some examples of conflicts. Ultimately, it will be the responsibility of the individual to identify if a conflict exists and to seek advice from the Fund's Head of Finance – Statutory Accounts & Pension Fund.

Elected Councillors who are members of the Pension Committee, under their own code of conduct, are required to declare interests at the point of their election.

Pensions Board members are required to complete a register of interests before being appointed to the Board.

These registers are published on the Council's website.

## Monitoring

Declaration of interest will be included as an opening agenda item at each Committee and Board meeting. This will provide an opportunity for those present to declare any interests, including other responsibilities, which have the potential to become conflicts of interest, and to minute discussions about how they will be managed to prevent an actual conflict arising. This conflict could be with a general subject area or a specific item on the agenda.

The register also protects the individual members who are responsible for deciding whether or not they should declare an interest in a meeting. It is also important that the public know about any interest that might have to be declared, so that decision making is seen by the public as open and honest. This helps to ensure that public confidence in the integrity of local governance is maintained.

## Managing

Pension Committee and Pensions Board members are required to have a clear understanding of their role and the circumstances in which they may find themselves in a position of conflict of interest, and should know how potential conflicts should be managed.

The Pension Committee and Pensions Board are required to evaluate the nature of any dual interests and responsibilities, assess the impact on operations and governance were a conflict of interest to materialise, and seek to prevent a potential conflict of interest becoming detrimental to their conduct. The 'Conflicts Register' can be provided to assist.

The Pension Committee and Pensions Board may consider seeking independent legal advice from a nominated officer (for example, the monitoring officer) or external advisers where necessary on how to deal with these issues, if appropriate.

Individual members of the Pension Committee and Pensions Board must know how to identify where they have a conflict of interest which needs to be declared and which may also restrict their ability to participate in meetings or decision making. They must also appreciate their legal duty under the Regulations to provide information to the Administering Authority in respect of such conflicts of interest.

Any individual who considers they have a potential or actual conflict of interest which relates to an item of business at a meeting, must advise the Chair of the Committee or Board and the Head of Finance – Statutory Accounts & Pension Fund prior to the meeting where possible, or state this clearly at the earliest possible opportunity in the meeting. A decision should then be reached on whether further action needs to be taken.

Options for managing an actual conflict of interest, should one arise, include:

- A member withdrawing from the discussion and any decision-making process;
- The Committee or Board establishing a sub-board to review the issue (where the terms of reference give the power to do so); or
- A member resigning from the Committee or Board if the conflict is so fundamental that it cannot be managed in any other way.

### Sensitive Interests

Members may be exempt from declaring their interests on a public register if it is determined to be a sensitive interest.

Sensitive information is defined as

*“the nature of the interest is such that the member or co-opted member, and the authority's monitoring officer, consider that disclosure of the details of the interest could lead to the member or co-opted member, or a person connected with the member or co-opted member, being subject to violence or intimidation”*

Advice should be sought from the Head of Finance – Statutory Accounts and Pension Fund where the possibility of a sensitive interest exists.

## Appendix One – Examples of Conflicts of Interest

### a. Investing to improve scheme administration versus saving money

An employer representative of the Pensions Board is aware that system X would help to improve standards of record-keeping, but it would be costly to implement. The Fund would need to meet the costs of the new system at a time when there is internal and external pressure to keep costs down. In order to meet the costs of the new system, the Fund would need to find money, perhaps by using a budget that was intended for another purpose or by increasing employer contributions. This decision could prove unpopular with employers. A conflict of interest could arise where the employer representative was likely to be prejudiced in the exercise of their functions by virtue of their dual interests.

### b. Outsourcing an activity versus keeping an activity in-house

In an extension of the previous example, a member representative, who is also an employee of a participating employer, is aware that system X would help to improve standards of record-keeping in the scheme, but it would mean outsourcing an activity that is currently being undertaken in-house by their employer. The member representative could be conflicted if they were likely to be prejudiced in the exercise of their functions by virtue of their employment.

### c. Representing the breadth of employers or membership versus representing narrow interests

An employer representative who happens to be employed by the administering authority and is appointed to the Pensions Board to represent employers generally could be conflicted if they only serve to act in the interests of the administering authority, rather than those of all participating employers. Equally, a member representative, who is also a trade union representative, appointed to the Pensions Board to represent the entire scheme membership could be conflicted if they only act in the interests of their union and union membership, rather than all scheme members.

### d. Assisting the scheme manager versus furthering personal interests

- i. A Pensions Board member, who is also a scheme adviser, may recommend the services or products of a related party, for which they might derive some form of benefit, resulting in them not providing, or not being seen to provide, independent advice or services
- ii. A Pensions Board member who is involved in procuring or tendering for services for a scheme administrator, and who can influence the award of a contract, may be conflicted where they have an interest in a particular supplier, for example, a family member works there.

- e **Sharing information with the Pensions Board versus a duty of confidentiality to an employer** An employer representative has access to information by virtue of their employment, which could influence or inform the considerations or decisions of the Pensions Board. They have to consider whether to share this information with the Pensions Board in light of their duty of confidentiality to their employer. Their knowledge of this information will put them in a position of conflict if it is likely to prejudice their ability to carry out their functions as a member of the Pensions Board.
  
- f **Acceptance of gifts**  
An individual accepts the offer of a dinner invitation from a bidder or potential bidder to one of the Fund's outsourced contracts.
  
- g **Investment decisions**  
For example, stewardship related conflicts may arise as a result of business relationships between asset owners and asset managers, ownership structure of invested companies, differences between the stewardship policies of asset managers and their clients, cross-directorships, and client and other beneficiary interests which differ from each other.
  
- h **Inter Fund and Council charges**  
Cross charging for services or shared resourcing between the Council and the Fund.
  
- i **Contribution rates**  
Setting of employer contribution rates for the Council and other employers.

## Pension Fund Risk Register

Item 9

Committee

Pension Committee

Officer Reporting

James Lake, Finance

Papers with this report

Pension Fund Risk Register

### HEADLINES

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

### RECOMMENDATIONS

**It is recommended that Pensions Committee:**

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

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

In the previous quarter the likelihood rating for 'Pen04-Inflation' was upgraded. Inflation continues to remain a concern with newsfeeds highlighting perturbation.

The risk to the Fund is driven by the nature of the liabilities, which are predominately linked to inflation (through salary growth, deferred revaluation and once in payment). Increases in pensions in payment are not capped against rises in CPI inflation, so a short burst of very high inflation can be equally damaging to funding as long-term

Classification: Public

Pensions Committee - 28 September 2021

higher inflation. The Fund will ultimately need to pay out more in pensions if inflation increases.

Alongside the impact of inflation on the liabilities (both the accrued liability value and future service cost), there could also be impacts on asset markets. Financial markets are currently underpinned by very low interest rates. Raising rates to choke off rising inflation could undermine market valuations, leading to a falling asset value. Whilst equity markets typically deliver inflation linked returns in the longer term, a burst of high inflation or rising rates could trigger a de-rating of the market.

Against this context, the risks from inflation are also increasing. The scale of QE following COVID, economies reopening, growing supply chain issues and the more local impacts arising from Brexit have all fuelled market concerns over inflation. Longer term CPI expectations have risen in recent months as economies have re-opened. Central banks believe the rise will be transitory as economies reopen and we recover from COVID, but the jury is still out on this and risks remain elevated.

The Committee has already taken a number of steps to mitigate the risks inflation poses to the Fund. Over the past few years, the Fund has moved to implement allocations to asset classes which provide direct exposure to inflation linked assets, recognising the potential risks ahead of time. This includes the allocations to Long Lease Property (5%) and Infrastructure Equity (8%). In addition, the bond allocation was shifted to focus on index linked gilts and the allocation increased (to 12%). The fixed income allocations with JPM and Permira (17% in total) are short duration and floating rate in nature, with less exposure to rising interest rates than more traditional portfolios. Whilst this may not offer direct inflation protection, these mandates should be less impacted than traditional bond portfolios in an environment where rates rise.

The target allocation to assets with direct inflation linkage within the strategy represents 31%. At present the infrastructure allocation is currently only just over 1% as funds, currently held in Ruffer wait to be deployed. Ruffer itself should offer some protection; Ruffer has been of the view that the financial crisis of 2008 must ultimately end in inflation and remains positioned for this.

At the time of writing this report a Pension Sub-Group meeting is being arranged to gain a better understanding and ascertain if what actions should be taken. The PEN04 risk rating remains unchanged subject to the meeting outcome.

## **FINANCIAL IMPLICATIONS**

The financial implications are contained in the risk register attached.

## **LEGAL IMPLICATIONS**

The legal implications are contained in the risk register attached.

Classification: Public  
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Pension Fund Risk Register 2021/22

Description	Actions in Place	Progress Comment	Risk Category / Rating / DOT	Lead Officer / Committee Member	Date of last review
<b>PEN 01 - Fund assets fail to deliver returns in line with the anticipated returns underpinning valuation of liabilities over the long-term</b>	<ol style="list-style-type: none"> <li>1. Anticipate long-term return on a relatively prudent basis to reduce risk of failing to meet return expectations. Funding Strategy outlines key assumptions that must be achieved in agreeing rates with employers for a significant chance of successfully meeting the funding target.</li> <li>2. Analyse progress at three yearly valuations for all employers.</li> <li>3. Undertake Inter-valuation monitoring.</li> </ol>	<p>With the assistance of Hymans Quarterly funding report the position is kept under regular review and Pension Committee is informed of the impact of prevailing market conditions on the funding level</p> <p>The latest interim valuation shows a level at 90.5%, which continues the positive trend since the COVID-19 adversely impacted asset values in March 2020 and 3.5% higher than the 2019 triennial valuation.</p> <p>In addition assets values have been recouped and surpassed pre COVID levels now at £1.225b as at July 21.</p> <p>The current position should be viewed with caution as there is still much uncertainty relating to COVID and inflation, however the objectives of the fund are long term and the portfolio is well positioned to withstand volatility over the long term.</p> <p>Officers are closely monitoring developments and liaising with fund managers and advisors.</p> <p>Member cashflow remains positive with contributions exceeding benefits.</p>	Strategic risk Likelihood = Significant Impact = Large Rating = C2 (Static)	James Lake / Cllr M Goddard	14/09/21
<b>PEN 02 - Inappropriate long-term investment strategy</b>	<ol style="list-style-type: none"> <li>1. Set Pension Fund specific strategic asset allocation benchmark after taking advice from investment advisers, balancing risk and reward, based on historical data.</li> <li>2. Keep risk and expected reward from strategic asset allocation under review.</li> <li>3. Review asset allocation formally on an annual basis.</li> <li>4. Asset allocation reported quarterly to committee</li> <li>5. Officer and advisers actively monitors this risk.</li> </ol>	<p>A separate Officer and Advisor working group regularly monitors the investment strategy and develops proposals for change / adjustment for Pension Committee consideration.</p> <p>The impact of each decision is carefully tracked against the risk budget for the Fund to ensure that long-term returns are being achieved and are kept in line with liabilities.</p> <p>In May 2021, a new Pension Sub-Group was established to allow Members, advisers and officers to meet regularly and provide a platform for greater oversight and scrutiny of Fund investments.</p>	Strategic risk Likelihood = Low Impact = Large Rating = E2 (Static)	James Lake / Cllr M Goddard	14/09/21
<b>PEN 03 - Active investment manager under-performance relative to benchmark</b>	<ol style="list-style-type: none"> <li>1. The structure includes active and passive mandates and several managers are employed to diversify the risk of underperformance by any single manager.</li> <li>2. Short term investment monitoring provides alerts on significant changes to key personnel or changes of process at the manager.</li> <li>3. Regular monitoring measures performance in absolute terms and relative to the manager's index benchmark, supplemented with an analysis of absolute returns against those underpinning the valuation.</li> <li>4. Investment managers would be changed following persistent or severe under-performance.</li> </ol>	<p>The Fund is widely diversified, limiting the impact of any single manager on the Fund. Active monitoring of each manager is undertaken with Advisors and Officers meeting managers on a quarterly basis and communicating regularly.</p> <p>The LCIV as pool is increasingly managing more assets on the funds behalf as per regulation,. The Fund has been in consultation with LCIV regarding improved oversight, reporting and communication; requested improvements have mostly been implemented.</p> <p>Comments on whether mandates should be maintained or reviewed are included quarterly and where needed specific performance issues will be discussed and reviewed.</p> <p>Action is taken to remove under-performing managers where appropriate.</p>	Strategic risk Likelihood = Low Impact = Small Rating = E4 (Static)	James Lake / Cllr M Goddard	14/09/21
<b>PEN 04 - Inflation - Pay and price inflation significantly more than anticipated</b>	<ol style="list-style-type: none"> <li>1. The focus of the actuarial valuation process is on real returns on assets, net of price and pay increases. The actuarial basis examines disparity between the inflation linking which applies to benefits of Deferred and Pensioner members as well as the escalation of pensionable payroll costs which only applies to active members, and on which employer and employee contributions are based.</li> <li>2. Inter-valuation monitoring gives early warning and investment in index-linked bonds also helps to mitigate this risk.</li> <li>3. Employers pay for their own salary awards and are reminded of the geared effect on pension liabilities of any bias in pensionable pay rises towards longer-serving employees.</li> <li>4. Covenant's are in place with security of a guarantee or bond for admission agreements.</li> <li>5. Inter-valuation monitoring gives early warning.</li> <li>6. Investment in index-linked bonds helps to mitigate this risk.</li> <li>7. The fund has increased its inflation linkage by allocating 5% to Inflation linked long lease property in 2018.</li> <li>8. Contribution rate setting as part of the triennial valuation process considers 5000 scenarios in achieving a fully funded position</li> </ol>	<p>The impact of pay and price inflation is monitored as part of the Council's MTF processes and any potential impact on pension fund contributions is kept under review and factored into the Council's overall position.</p> <p>The impact of pay inflation is diminishing since the introduction of the CARE benefits in 2014 as there is less linkage to final salary in future liabilities.</p> <p>The impact of inflation is reviewed through all strategic investment decision making, however inflation risk is gaining greater prominence and is raising concern with the potential detrimental impact on liabilities and assets.</p> <p>Inflation linked investments form part of the investment strategy and are aimed at balancing this risk and protecting against the impact of inflation.,</p> <p>A PSG meeting is to be arranged to ascertain the next steps and understand what further action is required.</p>	Strategic risk Likelihood = Significant Impact = Large Rating = C2 (Static)	James Lake / Cllr M Goddard	14/09/21

Description	Actions in Place	Progress Comment	Risk Category / Rating / DOT	Lead Officer / Committee Member	Date of last review
<b>PEN 05 - Pensioners living longer.</b>	<p>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.</p> <p>2. Club Vita monitoring provides fund specific data for the valuation, enabling better forecasting.</p>	<p>The Fund is part of Club Vita, a subsidiary of the Fund Actuary, which monitors mortality data and feeds directly into the valuation.</p> <p>Results also feed into the quarterly funding position which is reported to and assessed by Committee Members and officers.</p>	<p>Strategic risk Likelihood = Low Impact = Small <b>Rating = E4 (Static)</b></p>	James Lake / Cllr M Goddard	14/09/21
<b>PEN 06 - Poor Performance of Outsourced Administrator leading to poor quality information supplied to both members and the Fund Actuary</b>	<p>1. Monthly review meetings held</p> <p>2. Weekly update calls with officers</p> <p>3. Monthly KPI reports are provided to track and monitor performance</p> <p>4. Critical errors cleared prior to transfer of valuation data to actuary</p> <p>5. Data Improvement plan in place to improve the quality of member data</p> <p>6. Ongoing dialogue with Surrey Administration to implement audit recommendations</p> <p>7. Monitoring of progress and management goodwill to implement audit findings.</p> <p>8. Actions are being taken to transfer administration services to a new service partner.</p>	<p>The ORBIS project has been disbanded and the administration is for LBH carried out by SCC only. Staff resourcing continues to be an issue.</p> <p>With the pandemic being better managed the initial suggestion by TPR to focus on benefits payments is being phased out as the easing of restrictions and distance working is more normalised. The weekly priority monitoring ended in April 2021 and focus returned to the monthly KPI monitoring.</p> <p>The process of interfacing payments between the Heywood's administration and payroll system has now been completed (Feb 2021) which addresses risks raised by the internal audit report.</p> <p>Performance has been below what is expected over the Covid period and continues. Officers continue to liaise with the administrators to maintain the service.</p> <p>Data cleansing is progressing with success in the recent address tracing exercise.</p> <p>The decision that was taken in September 2020 to transfer the outsourced administration service to Hampshire County Council is progressing in line with the timetable and it is expected that service quality and performance will be improved. Officers continue to monitor the service.</p> <p>At the time of writing the HCC partnership is due to go live 27 September 2021.</p>	<p>Strategic risk Likelihood = Medium Impact = Large <b>Rating = D2 (Static)</b></p>	James Lake / Cllr M Goddard	14/09/21
<b>PEN 07 - Risk of disruption to the delivery of pensions administration services and systems and data integrity during the transfer of administration services.</b>	<p>1 Robust business case and project plan being put in place</p> <p>2 Project oversight board has been appointed to monitor progress</p> <p>3 Technical support from providers of systems platform has been co-opted to safeguard the integrity of their systems</p> <p>4 Weekly meetings between project delivery officers across all three organisations to ensure project is going to plan and early identification of issues.</p> <p>5 Regular progress reporting to Hillingdon Senior Management, Pensions Committee and Board.</p> <p>6. Creation and monitoring of detailed risk register</p>	<p>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.</p> <p>The final version of the Delegation agreement and the OBC have been signed off and the project plan and timeline has been agreed. Heywood's are fully on-board to provide technical support to the project and the test data cuts have been timed so that there is no disruption to day-to-day delivery of service</p> <p>There has been very positive communication and planning of the exit between all parties (SCC, HCC, LBH, Capita and Heywood) with all parties cooperating and often represented at the same meeting.</p> <p>Three meetings of the Project Oversight Board have been held since the last report to Committee. The PID documents have been signed by Hillingdon's Corporate Director of Finance. Other legal documents have been signed off to allow the project to proceed smoothly.</p> <p>Increased communication has gone and continue to be sent to members and employers, with further communication planned once the service is passed over to HCC. Special attention has been considered and delivered to pensioners regarding the change in payroll date.</p> <p>The project is in line with the timetable and at the time of writing is due to go live 27 September 2021.</p>	<p>Strategic Risk Likelihood = Low Impact = Very Large <b>Rating = E1 (Static)</b></p>		14/09/21

Description	Actions in Place	Progress Comment	Risk Category / Rating / DOT	Lead Officer / Committee Member	Date of last review
<b>PEN 8 - Cyber Security - Pension schemes hold large amounts of personal data and assets which can make them a target for fraudsters and criminals</b>	<ol style="list-style-type: none"> <li>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</li> <li>2. Risk is on the Corporate risk register with risk mitigation in place.</li> <li>3. All member and transactional data flowing from SCC and Hillingdon is sent via encryption software</li> <li>4. Data between the fund, SCC and Hymans is distributed via upload to an encrypted portal</li> <li>5. Systems at Hillingdon and SCC are protected against viruses and other system threats</li> <li>6. SCC are accredited to ISO27001:2013 and Cyber Essentials Plus accreditation. SCC are also PSN compliant.</li> </ol>	<p>This risk has been recognised in response to recommendations by the Pensions Regulator and work carried out by Pensions Board Updated certificate on SCC accreditation has been received.</p> <p>SCC have an incident response plan which is required to develop mitigation of this risk. A copy will be sent to the fund.</p> <p>A basic Data Mapping exercise has been carried out to understand data transfers and risks in this area including potential for threat through other employers. A new tool will be completed to better understand the mapping going forward.</p> <p>As a result of work with the Pensions Board in gaining assurance in this area the fund will create a policy to ensure a sufficient action plan is in place.</p> <p>The Fund recently participated in the AON LGPS cyber scorecard exercise which is a high level assessment of the Fund's cyber resilience. The results show the Hillingdon Fund is generally either average or above average. No immediate concerns were highlighted. Once transitioned to HCC further discussions will take place with and an action plan formulated around the areas which could be improved. HCC has in place a number of cyber controls, however ongoing monitoring will form part of the normal monitoring once on-boarding is complete.</p>	Strategic risk Likelihood = Medium Impact = Large <b>Rating = D2 (Static)</b>	James Lake / Cllr M Goddard	14/09/21
<b>PEN 9 - ESG - Risk of financial lose through the negative impact of ESG matters.</b>	<ol style="list-style-type: none"> <li>1. The fund have an ESG policy in place as part of the ISS.</li> <li>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.</li> <li>3. Manger selections take into account ESG policy</li> <li>4. Mangers are expected to be signed up to the stewardship Code</li> <li>5. Managers are expected to have signed up to the UN Principles for Responsible Investment (UK PRI)</li> <li>6. ESG Issues are discussed with managers at review meetings</li> <li>7. The Fund is working towards signing up to the new 2020 UK Stewardship Code</li> </ol>	<p>The Pensions Committee has created a stand alone RI policy which supports principles and implementation of the investment portfolio. The policy is a live document and is due to be updated through the Stewardship Code 2020 sign-up process. A revised policy is being tabled at the June 2021 Committee for approval.</p> <p>Fund manager engagement now forms part of an annual assessment and engagement process to improve manager ESG credentials.</p> <p>The project to sign up to the 2020 UK Stewardship Code is progressing as per the project plan with the submission document still on track for submission by the deadline.</p> <p>The Fund actively invests in portfolios with an ESG tilt, including the LGIM Future World Global Index and the LCIV Global Alpha Paris Aligned Fund. These actions have considerably reduced the carbon metric of the Fund.</p> <p>The Fund aims to work towards UN SDG 7 &amp; 13 objectives and will start to report on complementing TCFD metrics. The Fund will also collaborate by signing up to TCFD.</p>	Strategic risk Likelihood = Medium Impact = Medium <b>Rating = D3 (Static)</b>	James Lake / Cllr M Goddard	14/09/21
<b>PEN 10 - Portfolio liquidity - risk of failure to liquidate assets or meet drawdown calls</b>	<ol style="list-style-type: none"> <li>1. The fund has an active daily cash management process in place to ensure there is sufficient cash available to meet all beneficiary payments.</li> <li>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</li> <li>3. Officers liaise with managers where commitments have been made to keep track of predicted drawdown timescales</li> <li>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.</li> </ol>	<p>There is a detailed cash management process in place. This is signed off daily to ensure liquidity.</p> <p>The fund continues to invest in illiquid asset classes to benefit from illiquidity premium, however this is a relatively small portion of the portfolio and there are other liquid asset classes easily accessible. All trade times are listed in the cash management policy.</p> <p>The fund is still cashflow positive / breakeven on member dealings and is forecast to remain so in 2021/22.</p> <p>The Fund has sufficient liquidity should it need to draw on investments.</p> <p>Employer contributions are received with no negative impact due to COVID.</p>	Strategic risk Likelihood = Very Low Impact = Large <b>Rating = F2 (Static)</b>	James Lake / Cllr M Goddard	14/09/21
<b>PEN 11 - Failure of the pool in management of funds / access to funds</b>	<ol style="list-style-type: none"> <li>1. Quarterly review meetings held with the pool</li> <li>2. Regular reporting out of the pool informing the fund of manager performance</li> <li>3. Swift communications received from the pool with staff turnover and concerns the fund may need to be aware.</li> <li>4. Independent adviser carried out a review of governance for manager selection and manager monitoring to add assurance and discussion points with the pool</li> <li>5. Active Shareholder representation at General meeting and AGM.</li> <li>6. Pool to attend Committee meetings where required, to provide assurance over progress and activity.</li> </ol>	<p>LCIV staff turnover has stabilised with all key post now in place. The team is steadily building to cover ESG, new markets and reporting requirements, as the underlying portfolio grows.</p> <p>Governance remains high on the agenda and Hillingdon have been key in forging improvements. There has been positive progress by LCIV and promised governance improvements have largely been implemented.</p> <p>The Hillingdon Fund has taken the lead in actively managing its underlying Pool investments with the recent divestment from the LCIV Income Fund (Epoch).</p> <p>The Fund will pro-actively manage this risk and take action ahead of the LCIV Pool; where necessary.</p>	Strategic risk Likelihood = Low Impact = Low <b>Rating = E4 (Static)</b>	James Lake / Cllr M Goddard	14/09/21

Description	Actions in Place	Progress Comment	Risk Category / Rating / DOT	Lead Officer / Committee Member	Date of last review
<b>PEN 12 - Threat of COVID 19 to Business Continuity</b>	<p>1. The pensions section and corporate finance has a business continuity plan that identifies critical tasks and resources required to carry them out.</p> <p>2. Communication to key 3rd party providers Surrey Administration to co-ordinate business continuity plans</p> <p>3. Active monitoring of developments, keeping abreast of Council and Government advice to ensure readiness to implement the continuity plan if required.</p> <p>4. Non-essential external meetings have been cancelled to reduce contact</p> <p>5. Checks being done to ensure staff have facilities to work from home</p> <p>6. Vulnerable staff are being kept out of the office as much as possible</p>	<p>Since the Covid emergency was enacted in March 2020, the business continuity plan for the Pensions Section has been updated to identify critical tasks and resources and systems required to maintain services.</p> <p>Business continuity plans have been obtained from the Surrey to ensure continuity of essential member services. Staff have been principally working from home</p> <p>With the success of the vaccine programme resulting in significantly reduced Covid cases in the UK, the government has started to review the progress and has begun to ease the 'lock-down' measures in phases. While there is still the need to exercise caution actual meetings are now being held.</p> <p>Service delivery has been maintained during the period of virtual meetings and working from home. Officers continue to monitor and follow government and Council advice.</p>	Strategic risk Likelihood = High Impact = Large Rating = D2 (Static)	James Lake / Cllr M Goddard	14/09/21
<p><b>PEN 13 - Failure of the Fund's governance to comply with statutory requirements and/or The Pension Regulator expectations including:</b></p> <p><b>Failure to ensure that Committee members' knowledge and understanding of pension matters is robust and meets statutory requirements</b></p> <p><b>Failure to ensure that the Pension Board is effective in carrying out its role."</b></p>	<p>Governance Policy Statement, reviewed every 3 years.</p> <p>Policies on range of issues, reviewed regularly.</p> <p>Compliance with CIPFA Code of Practice on Public Sector Pensions Finance, Knowledge and Skills</p> <p>Programme of training sessions and access to external events</p> <p>Use of Regulator's on-line toolkit</p> <p>A knowledge self-assessment framework for Committee and Board members to identify training requirements</p> <p>The Fund's Annual Report includes details of Committee and Board members' training activities</p> <p>Fund Governance Adviser in place</p>	<p>The Fund has undergone a COP14 Governance review and has been implementing changes to be either fully or partially compliant. Regular reports and updates are presented at Pensions Board.</p> <p>Committee and Board members receive regular training and specific training aligned with decision making where required.</p> <p>The fund has a schedule of policies in place to ensure reviews are carried out at the required intervals.</p> <p>Reviewed Pension Board's Terms of Reference were approved by Council and a new Operations Manual has been developed Maximum tenure and staggered terms are to be put in place to allow for smooth succession planning.</p> <p>The Fund will monitor progress on the Regulator's new combined Code of Practice and implications of Scheme Advisory Board's Good Governance recommendations. Following the outcome update relevant policies which cover all aspects of the Fund's governance</p>	Strategic risk Likelihood = Low Impact = Very Large Rating = E1 (Static)	James Lake / Cllr M Goddard	14/09/21

## WORK PROGRAMME 2021/2022

## ITEM 10

Committee	Pensions Committee
Officer Reporting	James Lake, 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 Pensions Committee:**

- 1. Notes the dates for Pensions Committee meetings.**
- 2. Makes suggestions for future agenda items, working practices and / or reviews.**

### SUPPORTING INFORMATION

Meeting Date	Item
28 September 2021	<ul style="list-style-type: none"> <li>Training – Induction / Private Debt</li> <li>Pension Fund Annual Report 2020/21</li> <li>External Audit of Pension Fund</li> <li>Investment update and manager review</li> <li>Policy Updates</li> <li>Administration Report</li> <li>Risk Register</li> <li>Responsible Investment / Stewardship Code 2020 draft report</li> </ul>
1 December 2021	<ul style="list-style-type: none"> <li>Training Triennial valuation (Jan 2022)</li> <li>Investment update and manager review</li> <li>Administration Report</li> <li>Risk Register</li> </ul>
23 March 2022	<ul style="list-style-type: none"> <li>Training TBC</li> <li>Investment update and manager review</li> </ul>

Classification: Public  
Pensions Committee - 28 September 2021

	<ul style="list-style-type: none"><li>• Administration Report</li><li>• Risk Register</li><li>• Annual Report of the Board</li><li>• Annual Audit Plan</li></ul>
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### **FINANCIAL IMPLICATIONS**

There are no financial implications in the report.

### **LEGAL IMPLICATIONS**

The legal implications included within the body of the report.

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# Agenda Item 12

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# Agenda Item 13

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