



HILLINGDON
LONDON



Pensions Committee

Date: THURSDAY, 9 JUNE 2022

Time: 5.00 PM

Venue: COMMITTEE ROOM 5 -
CIVIC CENTRE, HIGH
STREET, UXBRIDGE

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

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phone camera and scan the code below:



To Members of the Committee:

Stuart Mathers (Chairman)
Tony Burles (Vice-Chairman)
Kaushik Banerjee
Martin Goddard
Mohammed Islam

Published: Monday, 30 May 2022

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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 meetings - 30 March and 12 May 2022 1 - 8
- 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 Plan 2021/22 9 - 42
- 6 Administration Report 43 - 56
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- 8 Responsible Investments Update 63 - 68
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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That the reports in Part 2 of this agenda be declared not for publication because they involve the disclosure of information in accordance with Section 100(A) and Part 1 of Schedule 12 (A) to the Local Government Act 1972 (as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.

12 Investment Strategy and Fund Manager Performance - Part II

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Minutes

PENSIONS COMMITTEE

30 March 2022

**Meeting held at Committee Room 5 - Civic Centre,
High Street, Uxbridge**



	<p>Committee Members Present: Councillors Martin Goddard (Chairman) Duncan Flynn (Vice-Chairman) John Hensley John Morse (Opposition Lead)</p> <p>LBH Officers Present: Paul Whaymand, Corporate Director of Finance James Lake, Head of Finance – Statutory Accounting & Pension Fund Tunde Adekoya, Pension Fund Accountant Shyam Pitroda, Apprentice Statutory Accounts & Pensions Officer Steve Clarke, Democratic Services Officer</p> <p>Also Present: Tony Noakes, Pension Board Member Anil Mehta, Pension Board Member Shane Woodhatch, Pension Board Member David O’Hara, Isio Andrew Singh, Isio Clare Scott, Independent Adviser</p>
40.	<p>APOLOGIES FOR ABSENCE (<i>Agenda Item 1</i>)</p> <p>Apologies for absence had been received from Councillor Raju Sansarpuri. It was also noted that Councillor Morse was not present.</p>
41.	<p>DECLARATIONS OF INTEREST IN MATTERS COMING BEFORE THIS MEETING (<i>Agenda Item 2</i>)</p> <p>Councillor Duncan Flynn declared a non-pecuniary interest in agenda item 13 as he had previously advised the Vice-Chairman of PIMCO on a separate Planning matter. Councillor Flynn remained present for agenda item 13 and took part in the discussion on this item.</p> <p>Councillor John Hensley declared a non-pecuniary interests in all agenda items as a retired member of the Local Government Pension Scheme. Councillor Hensley remained in the meeting during discussion of all items.</p>
42.	<p>MINUTES OF THE MEETING DATED 01 DECEMBER 2021 (<i>Agenda Item 3</i>)</p> <p>RESOLVED: That the minutes of the meeting dated 01 December 2021 be agreed as an accurate record.</p>

43.	<p>TO CONFIRM THAT ITEMS MARKED PART I WILL BE CONSIDERED IN PUBLIC AND THOSE MARKED PART II WILL BE CONSIDERED IN PRIVATE (<i>Agenda Item 4</i>)</p> <p>It was confirmed that items 1 - 11 were marked Part I and would be considered in public and items 12 – 14 were marked Part II and would be considered in private.</p>
44.	<p>ADMINISTRATION REPORT (<i>Agenda Item 5</i>)</p> <p>James Lake, Head of Finance – Statutory Accounting and Pension Fund, introduced the item highlighting that Hampshire County Council (HCC) had achieved 100% across all key performance indicators (KPI's) for the period, which was consistent with every month since the beginning of the partnership with HCC. A plan was in place to address the backlog inherited by Surrey County Council and work had begun on the project. Online Pension Portal membership continued to rise with key events likely to improve sign up to the portal going forward, this included Pensioner payslips and annual benefit statements. It was also noted that HCC had retained their Customer Service Excellence accreditation in January.</p> <p>Members were encouraged by the administration report and commended officers at both Hillingdon and HCC for their work on the successful transition of administration services; Members highlighted the sharp contrast in performance when compared to the previous administrators, Surrey County Council. The Committee sought to have a representative of HCC attend a future Pensions Committee meeting although noted that the composition of the Committee may be subject to change at the upcoming local election and therefore it was agreed that the way in which a representative of HCC may attend future meetings, be it remotely or in-person, could be discussed following the election at the June meeting. Officers noted that HCC's in-person attendance may not be required at every Committee meeting, but it would be useful to have a representative attend in-person on an annual basis.</p> <p>Members noted that the administration report provided by HCC was comprehensive and the summary of correspondence provided was highlighted as being particularly useful for Members.</p> <p>RESOLVED: That the Pensions Committee noted the administration report.</p>
45.	<p>INVESTMENT STRATEGY AND FUND MANAGER PERFORMANCE - PART I (<i>Agenda Item 6</i>)</p> <p>James Lake, Head of Finance – Statutory Accounting and Pension Fund, introduced the report highlighting that, as at the end of December 2021, the funding level stood at 89%, which was down from 90% in September 2021. However, total assets stood at £1,287b, which was up by £53m; indicating that changes in asset values did not correlate to changes in funding value. It was noted that, as at the time of the meeting, the unaudited fund value stood at £1,242b, this was deemed satisfactory considering recent market volatility and was considered a testament to the Council's generally defensive position. In terms of overall investment performance, returns were up by 4.53% for the quarter and longer term 3 and 5 year returns were at 8.8% and 6.4% respectively. Members were of the opinion that, given the market turbulence and the Council's defensive position, the best course of action would be to ride out the volatility. Advisers noted that much of the market volatility was driven by the conflict in Ukraine and it was causing a much wider impact upon potential inflation across all businesses, not just the energy sector.</p>

Commenting on the interim vs the triennial valuation, officers noted that the actuary felt that the triennial funding position would still improve as it utilises a long-term approach over a 20-year funding period, this would help keep contributions stable. The interim valuation, however, would assess a snapshot on a given day, which could be turbulent leading to changeable funding levels. Members noted that increasing projected rates of inflation would be a significant factor in determining the interim valuation.

The Committee's attention was drawn to the fund's holdings in Russia, which at the time the conflict started had been an allocation of 0.06%. LCIV had since advised that they had sold portions of their two Russian holdings pre the closing of markets and had marked the balance of those holdings to zero in their funds. Additionally, it was noted that a letter sent from the Secretary of State to all relevant fund managers had asked them to consider divestment in Russia albeit the final decision would remain with the managers themselves. Officers highlighted that they had also contacted the fund managers to encourage divestment in a similar manner. The Committee responded positively to this, noting that, should residents question the pension funds Russian allocations, they could confidently respond saying that any holdings were not held directly by the Council, that the allocations held indirectly were absolutely minimal and moves were being made to reduce them to zero.

RESOLVED That the Pensions Committee:

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

46. **RESPONSIBLE INVESTMENT (INC STEWARDSHIP CODE) (Agenda Item 7)**

Councillor John Morse joined the meeting during the previous agenda item.

James Lake, Head of Finance – Statutory Accounting and Pension Fund, introduced the report noting that, in terms of the UK Stewardship Code, the Council had spent the last year pulling together its submission and resulting report was included in the agenda papers for the Committee's approval. It was expected that, once submitted, it could take around three months for a response. In terms of the Task Force on Climate-related Financial Disclosures (TCFD), it was expected that guidance on how to apply the requirements would be received in mid-2022.

Further updates were delivered by officers in terms of the Boycotts, Divestment and Sanctions Bill, details of which were contained within the officer report. Members noted that the prospective Bill would almost certainly trigger a change in the Council's Responsible Investments Policy. The Committee generally discussed responsible investments in light of the update on Israel and the Occupied Palestinian Territories, noting that as a move to increase transparency, the agenda item on responsible investments had been moved from the confidential Part 2 of the meeting to the public Part 1. Members indicated that the Council could look at reviewing the Responsible Investments Policy on an annual basis.

RESOLVED That the Pensions Committee:

- 1) Approved the UK Stewardship Code Report for submission;**

	<ul style="list-style-type: none"> 2) Noted the TCFD and next steps; 3) Noted the fund managers’ ESG activities and compliance efforts; 4) Noted the update on the Boycotts, Divestment and Sanctions Bill; and, 5) Noted the update on Israel and the Occupied Palestinian Territories.
47.	<p>PENSION FUND RISK REGISTER REPORT (<i>Agenda Item 8</i>)</p> <p>James Lake, Head of Finance – Statutory Accounting and Pension Fund, introduced the report and highlighted to Members that risk Pen 06, Poor Performance of the Outsourced Administrator, had been downgraded as the new administrators, Hampshire County Council, had been in place for almost six months and the experience with HCC had been entirely positive. Additionally, HCC had maintained 100% performance against their key performance indicators which had led to a reduced likelihood of Pen 06 on the risk register, bringing the overall risk rating to E2.</p> <p>RESOLVED That the Pensions Committee considered the Risk Register in terms of the approach, the specific risks identified, and the measures being taken to mitigate those current risks.</p>
48.	<p>DRAFT WORK PROGRAMME AND TRAINING (<i>Agenda Item 9</i>)</p> <p>James Lake, Head of Finance – Statutory Accounting and Pension Fund, introduced the report noting that the Pensions Committee dates for the 2022/23 municipal year had been formally ratified by the Council in early 2022. Officers also noted the training log for Members which did contain some considerable gaps in the mandatory training. The Committee mentioned that as a result of the upcoming local elections, some Members would be stepping down which was likely to factor into the gaps in the training log.</p> <p>RESOLVED That the Pensions Committee:</p> <ul style="list-style-type: none"> 1) Noted the dates for Pensions Committee meetings; 2) Made suggestions for future agenda items, working practices and / or reviews; and 3) Noted the Committee’s mandatory training update and progress.
49.	<p>PENSION BOARD ANNUAL REPORT TO THE PENSIONS COMMITTEE (<i>Agenda Item 10</i>)</p> <p>Prior to the commencement of this item, Councillor John Hensley left the meeting.</p> <p>James Lake, Head of Finance – Statutory Accounting and Pension Fund, presented the report noting a message received from the Chair of the Pension Board, Roger Hackett, in which Roger commended officers for their help and support and was positive that the Pensions Committee had been focusing on the right issues in an open and co-operative manner. The Committee Chairman thanked the Members of the Pension Board for their work and echoed the positive way in which the Pension Board and</p>

	<p>Pensions Committee’s collaborative approach to working.</p> <p>RESOLVED That the Pensions Committee noted the annual report of the Local Pension Board for the year 2021.</p>
50.	<p>RISK MANAGEMENT POLICY UPDATE (<i>Agenda Item 11</i>)</p> <p>James Lake, Head of Finance – Statutory Accounting and Pension Fund, introduced the item noting that, in line with the three-year cycle, the Risk Management Policy had been reviewed and updated to reflect the latest information. It was highlighted that there had been little change as the main body of the report was still fit for purpose, with the primary changes relating mainly to job titles.</p> <p>RESOLVED That the Pensions Committee approved the revised Risk Management Policy.</p>
51.	<p>2022/23 PENSION EXPENSE BUDGET (<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>
52.	<p>INVESTMENT STRATEGY AND FUND MANAGER PERFORMANCE - PART II (<i>Agenda Item 13</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>
53.	<p>INDEPENDENT ADVISER CONTRACT EXTENSION (<i>Agenda Item 14</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 6.51 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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Minutes

PENSIONS COMMITTEE

12 May 2022

Meeting held at Council Chamber - Civic Centre,
High Street, Uxbridge



	Committee Members Present: Councillors Kaushik Banerjee, Tony Burles, Martin Goddard, Mohammed Islam and Stuart Mathers
1.	ELECTION OF CHAIRMAN (<i>Agenda Item 1</i>) RESOLVED: That Councillor Mathers be elected as Chairman of the Pensions Committee for the 2022/23 municipal year.
2.	ELECTION OF VICE CHAIRMAN (<i>Agenda Item 2</i>) RESOLVED: That Councillor Burles be elected as Vice-Chairman of the Pensions Committee for the 2022/23 municipal year.
	The meeting, which commenced at 8:57pm, closed at 9:07pm.

These are the minutes of the above meeting. For more information on any of the resolutions please contact Nikki O'Halloran on 01895250472. Circulation of these minutes is to Councillors, Officers, the Press and Members of the Public.

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2021/22 Pension Fund External Audit Plan

Committee	Pensions Committee
Officer Reporting	James Lake, Resources Directorate
Papers with this report	1. EY Pension Fund Audit Plan 2021/22

HEADLINES

The attached document sets out the initial plans for the 2021/22 audit by the Council's external auditors EY. It shows the approach to the audit of the Pension Fund Accounts and includes a broad timetable which should enable the whole process to be completed by the end of September 2022.

As the Pension Fund forms part of the Council's published Financial Statement of Accounts, 'those charged with governance' lies with the Audit Committee, however this report, along with the audit results are brought to Pensions Committee for review and comment.

RECOMMENDATIONS

That the Pensions Committee note the contents of the report.

SUPPORTING INFORMATION

Deadlines

In December 2021, the Department for Levelling Up, Housing and Communities ('DLUHC') announced proposals to extend the deadline for the publication of audited accounts to 30 November 2022 for the 2021/22 Statement of Accounts. The deadline for the Council to produce the draft accounts is the 31 July 2022. However, both EY and the Council are aiming to bring this forward with draft accounts to be produced by 30 June 2022 and audited accounts to be published on 30 September 2022.

Pension Fund Audit Plan

Materiality

Materiality remains unchanged on a basis of 1.0% of the prior year's net assets of the fund, which for 2021/22 is estimated as £11.6m (2020/21 £11.6m). Based on this amount, EY would expect to report on all unadjusted misstatements greater than £0.6m (2020/21 £0.6m).

Key Financial Statement Risks

The plan highlights the key audit risks, these being the main areas on which specific audit work will focus. For 2021/22 there has been no change to the audit risk areas which include:

- Misstatement due to fraud or error
- Misstatement of investment amounts through fraudulent journal entries
- Risk of incorrect valuation of level 3 Unquoted Investments
- Disclosure on Going Concern
- IAS26 Disclosure Actuarial Present Value of Promised Retirement Benefits.

Fees

EY remain in consultation with the PSAA regarding the proposed increase in scale fees. The basic scale fee for the 2021/22 audit is £16,170, with additional specialist fees still to be determined. The proposed increase in scale fees is also yet to be agreed. (Fees for 2020/21 includes the scale fee of £16,170 plus additional specialist fees and scale fee increase which are both still to be agreed).

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 Pension Fund Outline audit planning report

Year ended 31 March 2022

11 April 2022

11 April 2022

London Borough of Hillingdon Pension Fund
Hillingdon Civic Centre
225-226 High St,
Uxbridge UB8 1UW

Dear Audit Committee Members

Outline audit planning report

We are pleased to attach our outline audit planning report for the forthcoming meeting of the Audit Committee. The purpose of this report is to provide the Committee with a basis to review our proposed audit approach and scope for the 2021/22 audit, in accordance with the requirements of the auditing standards and other professional requirements, but also to ensure that our audit is aligned with the Audit Committee's service expectations.

This report summarises our initial assessment of the key issues which drive the development of an effective audit for the Fund. We have aligned our audit approach and scope with these. We held a planning meeting with management and are currently completing our planning procedures. We will update the Audit Committee if we identify any further risks.

This report is intended solely for the information and use of the Audit Committee, Pensions Committee and management, and is not intended to be and should not be used by anyone other than these specified parties.

We welcome the opportunity to discuss this report with you on 28 April 2022, as well as understand whether there are other matters which you consider may influence our audit.

Yours faithfully,



Helen Thompson
Associate Partner

For and on behalf of Ernst & Young LLP

Enc

Contents



In April 2015 Public Sector Audit Appointments Ltd (PSAA) issued the "Statement of responsibilities of auditors and audited bodies". It is available from the via the PSAA website (www.PSAA.co.uk). The Statement of responsibilities serves as the formal terms of engagement between appointed auditors and audited bodies. It summarises where the different responsibilities of auditors and audited bodies begin and end, and what is to be expected of the audited body in certain areas. The "Terms of Appointment (updated April 2018)" issued by the PSAA sets out additional requirements with which auditors must comply, over and above those set out in the National Audit Office Code of Audit Practice (the Code) and in legislation, and covers matters of practice and procedure which are of a recurring nature. This report is made solely to the Audit Committee, the Pensions Committee and management of the Fund in accordance with the statement of responsibilities. Our work has been undertaken so that we can state to the Audit Committee, the Pensions Committee, and management of the Fund, those matters we are required to state to them in this report and for no other purpose. To the fullest extent permitted by law we do not accept or assume responsibility to anyone other than the Audit Committee, the Pensions Committees and management of the Fund for this report or for the opinions we have formed. It should not be provided to any third party without our prior written consent.



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Overview of our 2021/22 audit strategy



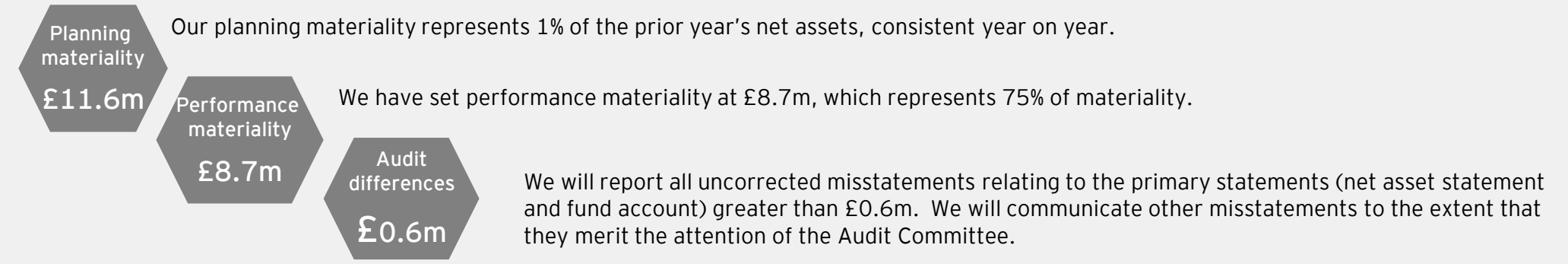
Overview of our 2021/22 audit strategy

The following 'dashboard' summarises the significant accounting and auditing matters outlined in this report. It seeks to provide the Audit Committee with an overview of our initial risk identification for the upcoming audit and any changes in risks identified in the current year.

Risk/area of focus	Risk identified	Change from PY	Details
Misstatement due to fraud or error	Fraud risk	No change in risk or focus	There is a risk that the financial statements as a whole are not free from material misstatement whether caused by fraud or error. We perform mandatory procedures regardless of specifically identified fraud risks.
Misstatement of investment income and investment values through fraudulent journal entries	Fraud risk	No change in risk or focus	There is a risk that, due to fraud or error, investment journals posted into the general ledger are incorrect.
Risk of incorrect valuation of unquoted (Level 3) investments	Significant risk	No change in risk or focus	Based on our initial planning work and discussions with management, we note that the Pension Fund holds a significant balance of unquoted investments, including Private Equity and Pooled Property funds. By their nature, these investments are more difficult to value because their valuation includes elements of judgement, which increases the risk of misstatement.
IAS 26 disclosure - Actuarial Present Value of Promised Retirement Benefits	Inherent risk	No change in risk or focus	<p>An actuarial estimate of the pension fund liability to pay future pensions is calculated by an independent firm of actuaries with specialist knowledge and experience. The estimate is based on a roll-forward of data from the previous triennial valuation as at 31 March 2019, 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.</p> <p>There is a risk that the valuation uses inappropriate assumptions to value the liability as at 31 March 2022.</p>
Disclosures on going concern	Area of focus	Change from inherent risk in prior year to area of focus in 2021/22	The unpredictability of the current environment gives rise to a risk that the Pension Fund would not appropriately disclose the key factors relating to going concern. Disclosures should be underpinned by management's assessment with particular reference to Covid-19 and other factors causing market volatility and the Pension Fund's actual year end financial position and performance for the going concern period of 12 months after the auditor's report date.

Overview of our 2021/22 audit strategy

Materiality



Audit scope

This Outline Audit Planning Report covers the work that we plan to perform to provide you with an audit opinion on whether the financial statements of London Borough of Hillingdon Pension Fund give a true and fair view of the financial position as at 31 March 2022 and of the income and expenditure for the year then ended.

Our audit will also include the mandatory procedures that we are required to perform in accordance with applicable laws and auditing standards.

When planning the audit we take into account several key inputs:

- Strategic, operational and financial risks relevant to the financial statements;
- Developments in financial reporting and auditing standards;
- The quality of systems and processes;
- Changes in the business and regulatory environment; and
- Management's views on all of the above.

By considering these inputs, our audit is focused on the areas that matter and our feedback is more likely to be relevant to the Fund.

In addition to the above, we also perform procedures in relation to the IAS 19 report for London Borough of Hillingdon. Our work specifically focuses on gaining assurance that the data submitted to the actuary agrees to the Pension Fund's systems.

Overview of our 2021/22 audit strategy

Audit scope

Taking the above into account, and as articulated in this outline audit planning report, our professional responsibilities require us to independently assess the risks associated with providing an audit opinion and undertake appropriate procedures in response to that. Our Terms of Appointment with PSAA allow them to vary the fee dependent on “the auditors assessment of risk and the work needed to meet their professional responsibilities”. PSAA are aware that the setting of scale fees has not kept pace with the changing requirements of external audit with increased focus on, for example, the valuations of land and buildings, the auditing of groups, the valuation of pension obligations, the introduction of new accounting standards such as IFRS 9 and 15 in recent years as well as the expansion of factors impacting the ISA 540 (revised) and the value for money conclusion. Therefore to the extent any of these or any other risks are relevant in the context of the Pension Fund’s audit, we will discuss these with management as to the impact on the scale fee.



Overview of our 2021/22 audit strategy

Timeline

DLUHC have recently confirmed that the target date for the Fund to publish its draft accounts is by 31 July 2022 and the Fund should publish its approved and audited accounts by 30 November 2022, where it can. In Section 06 we have included a provisional timeline for the audit that will enable the Fund to meet the target date for publishing its audited accounts. We are working with the Council to deliver the audit ahead of 30 November.

Fees

We remain in discussion with PSAA about our proposed increase to the scale fee which we consider to be appropriate to deliver an audit compliant with audit quality requirements. We include in Section 07, our current view of the fees required to carry out the 2021/22 audit. We will update the Committee on any determinations by PSAA on fees.



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02 Audit risks



Our response to significant risks

We have set out the significant risks (including fraud risks denoted by*) identified for the current year audit along with the rationale and expected audit approach. The risks identified below may change to reflect any significant findings or subsequent issues we identify during the audit.

Misstatements due to fraud or error*

What is the risk?

As identified in ISA (UK) 240, management is in a unique position to perpetrate fraud because of its ability to manipulate accounting records directly or indirectly and prepare fraudulent financial statements by overriding controls that otherwise appear to be operating effectively.

As a result, there is a risk that the financial statements as a whole are not free of material misstatements whether caused by fraud or error.

What will we do?

- ▶ Identify fraud risks during the planning stages.
- ▶ Inquire of management about risks of fraud and the controls put in place to address those risks.
- ▶ Understand the oversight given by those charged with governance of management's processes over fraud.
- ▶ Consider the effectiveness of management's controls designed to address the risk of fraud.
- ▶ Determine an appropriate strategy to address those identified risks of fraud.
- ▶ Perform mandatory procedures regardless of specifically identified fraud risks, including testing of journal entries and other adjustments in the preparation of the financial statements.

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Misstatement of investment income and investment values through fraudulent journal entries*

What is the risk?

We identified a specific risk that, due to fraud or error, investment journals posted into the general ledger are incorrect, which could result in a misstatement of year-end investment value and/or investment income.

What will we do?

- Our approach will focus on testing the appropriateness of manual journal entries recorded in the general ledger related to investments and ensuring that:
- ▶ The amounts are consistent with the fund manager/custodian report;
 - ▶ Appropriate authorisations are obtained for posting the journals; and
 - ▶ The transactions are in the normal course of business or, if they are outside of the normal course, the business rationale will be requested and assessed for reasonableness.

Audit risks

Our response to significant risks (continued)

Risk of incorrect valuation of unquoted (Level 3) investments

Financial statement impact

We have assessed that the risk of incorrectly valuing investments is high for unquoted level 3 investments held by the Pension Fund.

Total of level 3 investments held by the Fund at 31 March 2021: £297m.

What is the risk?

The Fund's investments include unquoted pooled investment vehicles, such as private equity and pooled property investments.

The Fund makes judgements using information provided by investment managers to value those investments whose prices are not publically available. The material nature of these investments means that any error in judgement could result in a material valuation error.

Market volatility and uncertainties means such judgments can quickly become outdated, especially when there is a significant time period between the latest available audited information and the fund year end. Such variations could have a material impact on the financial statements.

These investment types made up 26% of the fund's total net assets in 2020/21, and as these investments are more complex to value, we have assessed the valuation of these investments as higher risk, as even a small movement in the assumptions could have a material impact on the financial statements.

What will we do?

We will:

- ▶ Assess the competence of valuation experts through review and analysis of ISAE 3402 internal control reports issued on the fund managers and the custodian;
- ▶ Where the ISAE 3402 reports are not issued at 31 March 2022, we will collect and review bridging letters;
- ▶ Review the basis of valuation for property investments and other unquoted investments, assessing the appropriateness of the valuation methods used;
- ▶ Where available, review the latest audited accounts for the relevant underlying investment funds and compare the net asset values with the valuation of the assets in the accounts of the Fund. We will also ensure there are no matters arising that highlight weaknesses in the Fund's valuation;
- ▶ If the latest audited accounts are issued at a different date compared to the reporting date of the Fund, we will perform roll forward procedures to support the valuation of the investments as of 31 March 2022, such as benchmark indexation for similar assets and analysis of cash movements in the gap period; and
- ▶ Perform analytical procedures by checking the valuation output for reasonableness against our own expectations.

Other areas of audit focus (continued)

What is the inherent risk?

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 2020/21, 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 calculate the liability as at 31 March 2022.

What will we do?

In order to address this risk we will carry out a range of procedures including:

- ▶ 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;
- ▶ Engaging with EY Pensions to undertake procedures to create an auditor's estimate for the pension liability. We will leverage off the scope undertaken for IAS 19 valuation for the London Borough of Hillingdon; and
- ▶ Ensuring that the IAS26 disclosure is in line with the relevant standards and consistent with the valuation provided by the actuary.

Other areas of audit focus (continued)

What is the area of focus?

Going concern disclosure

There is a presumption that the Fund will continue as a going concern for the foreseeable future. However, the Fund is required to carry out a going concern assessment that is proportionate to the risks it faces. In light of the continued impact of Covid-19 on its admitted and scheduled bodies and the continuing volatility in capital markets, there is a need for the Fund to ensure that its going concern assessment, including its cashflow forecast, is thorough and appropriately comprehensive.

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

What will we do?

We will meet the requirements of the auditing standard on going concern (ISA 570) and consider the adequacy of the Fund's going concern assessment and its disclosure in the accounts by:

- Challenging management's identification of events or conditions impacting going concern.
- Testing management's resulting assessment of going concern by evaluating supporting evidence (including consideration of the risk of management bias).
- Reviewing the Fund's cashflow forecast covering the foreseeable future, to ensure that it has sufficient liquidity to continue to operate as a going concern.
- Undertaking a 'stand back' review to consider all of the evidence obtained, whether corroborative or contradictory, when we draw our conclusions on going concern.
- Challenging the disclosure made in the accounts in respect of going concern and any material uncertainties to ensure the final disclosure is adequate and sufficient.



03

Audit materiality

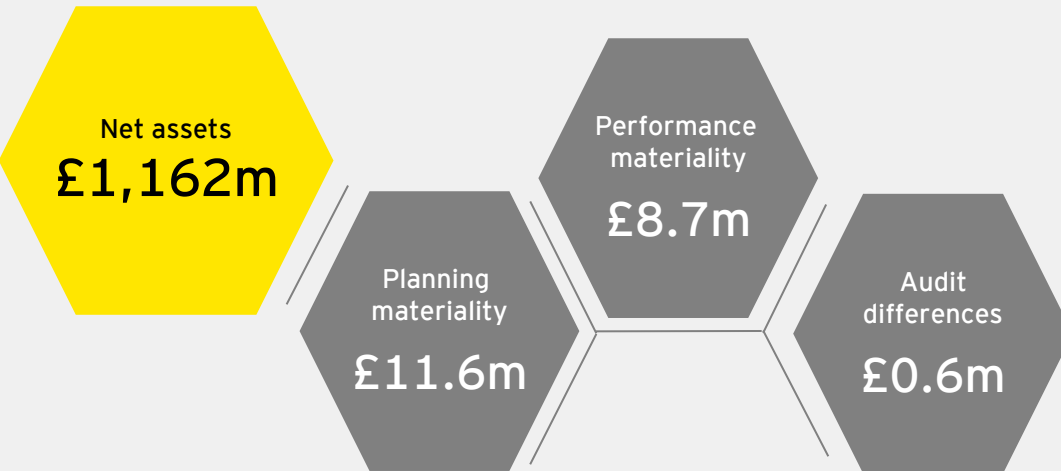


Materiality

Materiality

For planning purposes, we have set planning materiality for 2021/22 at £11.6m. This represents 1% of the Pension Fund's prior year net assets value from the draft financial statements. It will be reassessed throughout the audit process. We have provided supplemental information about audit materiality in Appendix C.

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We request that the Audit Committee confirm their understanding of, and agreement to, these materiality and reporting levels.

Key definitions

Planning materiality - the amount over which we anticipate misstatements would influence the economic decisions of a user of the financial statements.

Performance materiality - the amount we use to determine the extent of our audit procedures. We have set performance materiality at 75% of planning materiality, consistent year on year.

Audit difference threshold - we propose that misstatements identified below this threshold are deemed clearly trivial. We will report to you all uncorrected misstatements over this amount relating to the fund account and net asset statement. This was calculated as 5% of planning materiality, which is consistent year on year.

Other uncorrected misstatements, such as reclassifications and misstatements in the disclosures, and corrected misstatements will be communicated to the extent that they merit the attention of the Audit Committee, or are important from a qualitative perspective.



04 Scope of our audit



Scope of our audit

Objective and Scope of our audit

Under the Code of Audit Practice our principal objectives are to review and report on the Pension Fund's financial statements to the extent required by the relevant legislation and the requirements of the Code. We issue an audit report that covers:

Financial statement audit

Our objective is to form an opinion on the financial statements under International Standards on Auditing (UK and Ireland). We also perform other procedures as required by auditing, ethical and independence standards, the Code and other regulations. We outline below the procedures we will undertake during the course of our audit.

Procedures required by standards

- Addressing the risk of fraud and error; significant disclosures included in the financial statements; entity-wide controls;
- Reading other information contained in the financial statements and reporting whether it is inconsistent with our understanding and the financial statements; and auditor independence.

Procedures required by the Code

- Reviewing, and reporting on as appropriate, other information published with the financial statements.

Audit Process Overview

Our audit involves:

- ▶ Identifying and understanding the key processes and internal controls; and
- ▶ Substantive tests of detail of transactions and amounts.

For 2021/22 we plan to follow a substantive approach to the audit, as we have concluded this is the most efficient way to obtain the level of audit assurance required to conclude that the financial statements are not materially misstated.

Analytics:

We will use our analytics tools to enable us to capture whole populations of your financial data, in particular journal entries. These tools:

- ▶ Help identify specific exceptions and anomalies which can then be subject to more traditional substantive audit tests; and
- ▶ Give greater likelihood of identifying errors than random sampling techniques.

We will report the findings from our process and analytics work, including any significant weaknesses or inefficiencies identified and recommendations for improvement, to the Audit Committee, the Pensions Committee and management.

Internal audit:

We will meet regularly with the Head of Internal Audit, and review internal audit plans and the results of the team's work. We will reflect any findings in our audit plan, where they raise issues that could have an impact on the financial statements.



05

Indicative audit timeline





Indicative audit timeline

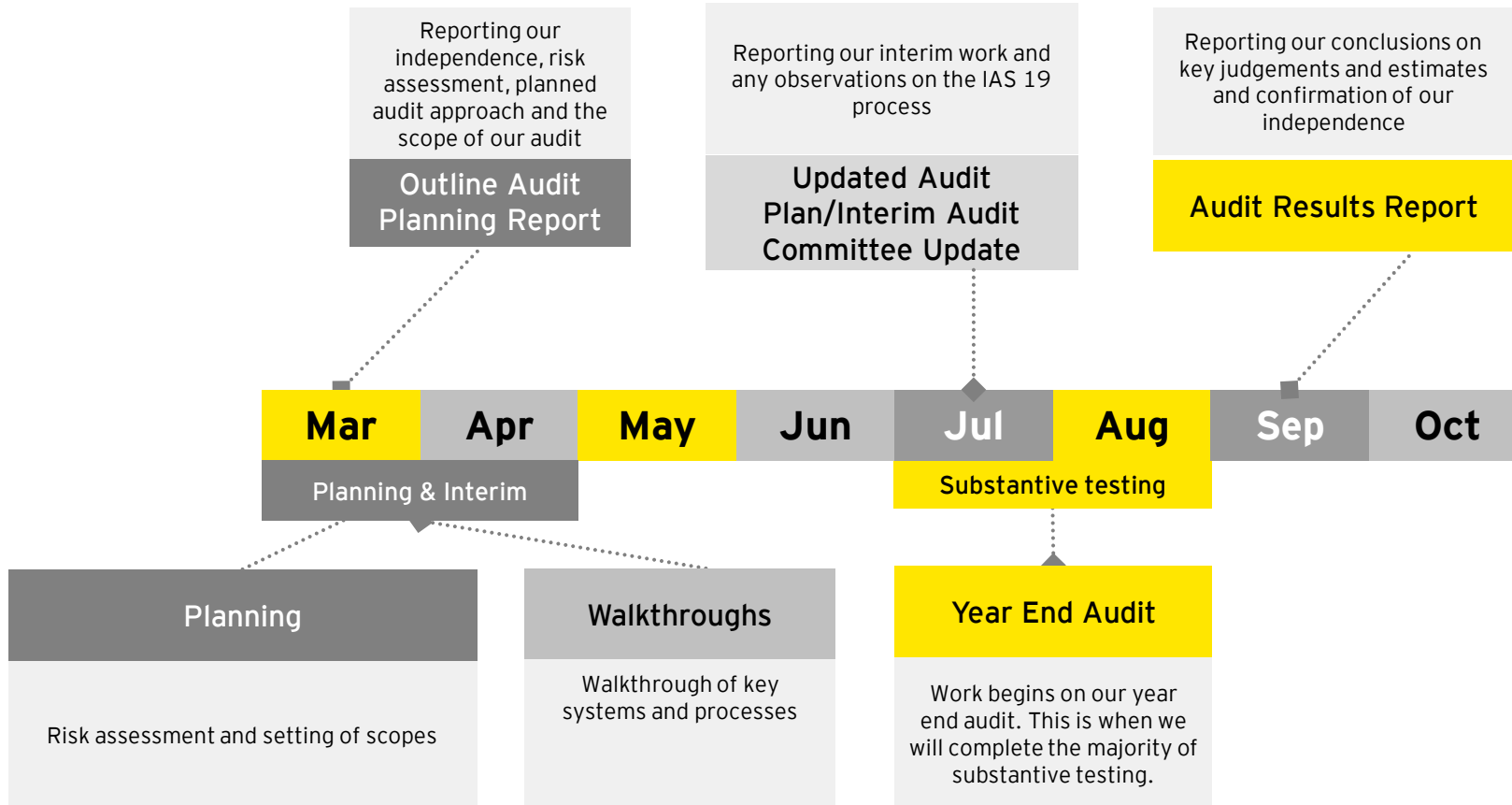
Indicative timetable of communication and deliverables

Indicative timeline

Below is an indicative timetable showing the key stages of the audit and the deliverables to provide to you through the audit cycle in 2021/22.

From time to time matters may arise that require immediate communication with the Audit Committee and we will discuss them with the Audit Committee Chair, as appropriate. We will also provide updates on corporate governance and regulatory matters as necessary.

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06

Independence





Introduction

The FRC Ethical Standard and ISA (UK) 260 “Communication of audit matters with those charged with governance”, requires us to communicate with you on a timely basis on all significant facts and matters that bear upon our integrity, objectivity and independence. The Ethical Standard, as revised in December 2019, requires that we communicate formally both at the planning stage and at the conclusion of the audit, as well as during the course of the audit if appropriate. The aim of these communications is to ensure full and fair disclosure by us to those charged with your governance on matters in which you have an interest.

Required communications

Planning stage	Final stage
<p>▶ The principal threats, if any, to objectivity and independence identified by Ernst & Young (EY) including consideration of all relationships between you, your affiliates and directors and us;</p> <p>▶ The safeguards adopted and the reasons why they are considered to be effective, including any Engagement Quality review;</p> <p>▶ The overall assessment of threats and safeguards;</p> <p>▶ Information about the general policies and process within EY to maintain objectivity and independence.</p>	<p>▶ In order for you to assess the integrity, objectivity and independence of the firm and each covered person, we are required to provide a written disclosure of relationships (including the provision of non-audit services) that may bear on our integrity, objectivity and independence. This is required to have regard to relationships with the entity, its directors and senior management, its affiliates, and its connected parties and the threats to integrity or objectivity, including those that could compromise independence that these create. We are also required to disclose any safeguards that we have put in place and why they address such threats, together with any other information necessary to enable our objectivity and independence to be assessed;</p> <p>▶ Details of non-audit/additional services provided and the fees charged in relation thereto;</p> <p>▶ Written confirmation that the firm and each covered person is independent and, if applicable, that any non-EY firms used in the group audit or external experts used have confirmed their independence to us;</p> <p>▶ Details of any non-audit/additional services to a UK PIE audit client where there are differences of professional opinion concerning the engagement between the Ethics Partner and Engagement Partner and where the final conclusion differs from the professional opinion of the Ethics Partner</p> <p>▶ Details of any inconsistencies between FRC Ethical Standard and your policy for the supply of non-audit services by EY and any apparent breach of that policy;</p> <p>▶ Details of all breaches of the IESBA Code of Ethics, the FRC Ethical Standard and professional standards, and of any safeguards applied and actions taken by EY to address any threats to independence; and</p> <p>▶ An opportunity to discuss auditor independence issues.</p>

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In addition, during the course of the audit, we are required to communicate with you whenever any significant judgements are made about threats to objectivity and independence and the appropriateness of safeguards put in place, for example, when accepting an engagement to provide non-audit services.

We ensure that the total amount of fees that EY and our network firms have charged to you and your affiliates for the provision of services during the reporting period, analysed in appropriate categories, are disclosed.

Relationships, services and related threats and safeguards

We highlight the following significant facts and matters that may be reasonably considered to bear upon our objectivity and independence, including the principal threats, if any. We have adopted the safeguards noted below to mitigate these threats along with the reasons why they are considered to be effective. However we will only perform non-audit services if the service has been pre-approved in accordance with your policy.

Overall Assessment

Overall, we have not identified any threats that would require mitigation safeguards. We therefore confirm that EY is independent and the objectivity and independence of Helen Thompson, your audit engagement partner, and the audit engagement team have not been compromised.

Self interest threats

A self interest threat arises when EY has financial or other interests in the Council. Examples include where we receive significant fees in respect of non-audit services; where we need to recover long outstanding fees; or where we enter into a business relationship with you. At the time of writing, there are no long outstanding fees.

We believe that it is appropriate for us to undertake those permitted non-audit/additional services set out in Section 5.40 of the FRC Ethical Standard 2019 (FRC ES), and we will comply with the policies that you have approved.

When the ratio of non-audit fees to audit fees exceeds 1:1, we are required to discuss this with our Ethics Partner, as set out by the FRC ES, and if necessary agree additional safeguards or not accept the non-audit engagement. We will also discuss this with you.

A self interest threat may also arise if members of our audit engagement team have objectives or are rewarded in relation to sales of non-audit services to you. We confirm that no member of our audit engagement team, including those from other service lines, has objectives or is rewarded in relation to sales to you, in compliance with Ethical Standard part 4.

There are no other self interest threats at the date of this report.

Self review threats

Self review threats arise when the results of a non-audit service performed by EY or others within the EY network are reflected in the amounts included or disclosed in the financial statements.

There are no self review threats at the date of this report.

Management threats

Partners and employees of EY are prohibited from taking decisions on behalf of management of the Fund. Management threats may also arise during the provision of a non-audit service in relation to which management is required to make judgements or decision based on that work.

There are no management threats at the date of this report.

Relationships, services and related threats and safeguards

Other threats

Other threats, such as advocacy, familiarity or intimidation, may arise.
There are no other threats at the date of this report.

Other communications

EY Transparency Report 2021

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 ended 2 July 2021 and can be found here:

https://www.ey.com/en_uk/about-us/transparency-report-2021



07

Appendices



Fees

The duty to prescribe fees is a statutory function delegated to Public Sector Audit Appointments Ltd (PSAA) by the Secretary of State for Communities and Local Government. PSAA has published a scale fee for all relevant bodies. This is defined as the fee required by auditors to meet statutory responsibilities under the Local Audit and Accountability Act 2014 in accordance with the NAO Code, the financial reporting requirements set out in the Code of Practice on Local Fund Accounting published by CIPFA/LASAAC, and the professional standards applicable to auditors' work.

	Planned fee 2021/22	Final Fee 2020/21
	£	£
Scale Fee - Code work (Note 1)	16,170	16,170
Additional work and associated fees (Note 2)		
Significant risks on investments	TBC	1,500-2,500
Going concern and PBSE assessments and disclosures	TBC	2,500-5,000
IAS19 assurances (Note 3)	5,500	5,000
Total fees	TBC	TBC

All fees exclude VAT




Notes:

1. We remain in discussion with PSAA about increasing the scale fee to reflect the additional work auditors are required to do to meet regulatory requirements. We note that for 2019/20 Code work, PSAA determined £13,694 as additional fee variation, which partially covered an increase in scale fee and partially related to the additional work undertaken by us to cover significant risks. This additional fee only covered a proportion of the total scale fee variation determined by us (i.e. £36,423) and submitted to PSAA for approval.
2. The 2020/21 final scale fee variations have yet to be determined, agreed with management and they will be subject to PSAA approval.
3. IAS19 work is annual to provide assurance to the auditor of the London Borough of Hillingdon. These additional fees are not subject to approval from PSAA.

Appendix B





Required communications with the Audit Committee

We have detailed the communications that we must provide to the audit committee.

		 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	The statement of responsibilities serves as the formal terms of engagement between the PSAA's appointed auditors and audited bodies.
Planning and audit approach	Communication of the planned scope and timing of the audit, any limitations and the significant risks identified. When communicating key audit matters this includes the most significant risks of material misstatement (whether or not due to fraud) including those that have the greatest effect on the overall audit strategy, the allocation of resources in the audit and directing the efforts of the engagement team	Outline audit planning report - April 2022
Significant findings from the audit	<ul style="list-style-type: none"> ▶ Our view about the significant qualitative aspects of accounting practices including accounting policies, accounting estimates and financial statement disclosures ▶ Significant difficulties, if any, encountered during the audit ▶ Significant matters, if any, arising from the audit that were discussed with management ▶ Written representations that we are seeking ▶ Expected modifications to the audit report ▶ Other matters if any, significant to the oversight of the financial reporting process ▶ Findings and issues regarding the opening balance on initial audits (delete if not an initial audit) 	Audit results report - September 2022 (TBC)




Appendix B

Required communications with the Audit Committee (continued)




		 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"> ▶ Whether the events or conditions constitute a material uncertainty ▶ Whether the use of the going concern assumption is appropriate in the preparation and presentation of the financial statements ▶ The adequacy of related disclosures in the financial statements 	Audit results report - September 2022 (TBC)
Misstatements	<ul style="list-style-type: none"> ▶ Uncorrected misstatements and their effect on our audit opinion, unless prohibited by law or regulation ▶ The effect of uncorrected misstatements related to prior periods ▶ A request that any uncorrected misstatement be corrected ▶ Material misstatements corrected by management 	Audit results report - September 2022 (TBC)
Subsequent events	<ul style="list-style-type: none"> ▶ Enquiries of the audit committee where appropriate regarding whether any subsequent events have occurred that might affect the financial statements 	Audit results report - September 2022 (TBC)
Fraud	<ul style="list-style-type: none"> ▶ Enquiries of the audit committee to determine whether they have knowledge of any actual, suspected or alleged fraud affecting the entity ▶ Any fraud that we have identified or information we have obtained that indicates that a fraud may exist ▶ Unless all of those charged with governance are involved in managing the entity, any identified or suspected fraud involving: <ol style="list-style-type: none"> a. Management; b. Employees who have significant roles in internal control; or c. Others where the fraud results in a material misstatement in the financial statements ▶ The nature, timing and extent of audit procedures necessary to complete the audit when fraud involving management is suspected ▶ Any other matters related to fraud, relevant to Audit Committee responsibility 	Audit results report - September 2022 (TBC)

Appendix B

Required communications with the Audit Committee (continued)

		Our Reporting to you
Required communications	 What is reported?	  When and where
Related parties	<ul style="list-style-type: none"> ▶ Significant matters arising during the audit in connection with the entity's related parties including, when applicable ▶ Non-disclosure by management ▶ Inappropriate authorisation and approval of transactions ▶ Disagreement over disclosures ▶ Non-compliance with laws and regulations ▶ Difficulty in identifying the party that ultimately controls the entity 	Audit results report - September 2022 (TBC)
Independence	<p>Communication of all significant facts and matters that bear on EY's, and all individuals involved in the audit, objectivity and independence</p> <p>Communication of key elements of the audit engagement partner's consideration of independence and objectivity such as:</p> <ul style="list-style-type: none"> ▶ The principal threats ▶ Safeguards adopted and their effectiveness ▶ An overall assessment of threats and safeguards ▶ Information about the general policies and process within the firm to maintain objectivity and independence <p>Communication whenever significant judgements are made about threats to objectivity and independence and the appropriateness of safeguards put in place.</p> <p>For public interest entities and listed companies, communication of minimum requirements as detailed in the FRC Revised Ethical Standard 2019:</p> <ul style="list-style-type: none"> ▶ Relationships between EY, the company and senior management, its affiliates and its connected parties ▶ Services provided by EY that may reasonably bear on the auditors' objectivity and independence ▶ Related safeguards ▶ Fees charged by EY analysed into appropriate categories such as statutory audit fees, tax advisory fees, other non-audit service fees 	<p>Outline audit planning report - April 2022</p> <p>Audit results report - September 2022 (TBC)</p>

Required communications with the Audit Committee (continued)

		Our Reporting to you
Required communications	 What is reported?	  When and where
	<ul style="list-style-type: none"> ▶ A statement of compliance with the Ethical Standard, including any non-EY firms or external experts used in the audit ▶ Details of any inconsistencies between the Ethical Standard and Group's policy for the provision of non-audit services, and any apparent breach of that policy ▶ Where EY has determined it is appropriate to apply more restrictive rules than permitted under the Ethical Standard ▶ The audit committee should also be provided an opportunity to discuss matters affecting auditor independence 	
External confirmations	<ul style="list-style-type: none"> ▶ Management's refusal for us to request confirmations ▶ Inability to obtain relevant and reliable audit evidence from other procedures 	Audit results report - September 2022 (TBC)
Consideration of laws and regulations	<ul style="list-style-type: none"> ▶ Subject to compliance with applicable regulations, matters involving identified or suspected non-compliance with laws and regulations, other than those which are clearly inconsequential and the implications thereof. Instances of suspected non-compliance may also include those that are brought to our attention that are expected to occur imminently or for which there is reason to believe that they may occur ▶ Enquiry of the audit committee into possible instances of non-compliance with laws and regulations that may have a material effect on the financial statements and that the audit committee may be aware of 	Audit results report - September 2022 (TBC)
Internal controls	<ul style="list-style-type: none"> ▶ Significant deficiencies in internal controls identified during the audit 	Audit results report - September 2022 (TBC)
Representations	Written representations we are requesting from management and/or those charged with governance	Audit results report - September 2022 (TBC)
Material inconsistencies and misstatements	Material inconsistencies or misstatements of fact identified in other information which management has refused to revise	Audit results report - September 2022 (TBC)
Auditors report	Any circumstances identified that affect the form and content of our auditor's report	Audit results report - September 2022 (TBC)

Additional audit information

Other required procedures during the course of the audit

In addition to the key areas of audit focus outlined in section 2, we have to perform other procedures as required by auditing, ethical and independence standards and other regulations. We outline the procedures below that we will undertake during the course of our audit.

Our responsibilities required by auditing standards

- ▶ Identifying and assessing the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion.
- ▶ Obtaining an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Council’s internal control.
- ▶ Evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- ▶ Concluding on the appropriateness of management’s use of the going concern basis of accounting.
- ▶ Evaluating the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- ▶ Obtaining sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Council to express an opinion on the consolidated financial statements. Reading other information contained in the financial statements, including the board’s statement that the annual report is fair, balanced and understandable, the Audit Committee reporting appropriately addresses matters communicated by us to the Committee and reporting whether it is materially inconsistent with our understanding and the financial statements; and Maintaining auditor independence.

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Purpose and evaluation of materiality

For the purposes of determining whether the accounts are free from material error, we define materiality as the magnitude of an omission or misstatement that, individually or in the aggregate, in light of the surrounding circumstances, could reasonably be expected to influence the economic decisions of the users of the financial statements. Our evaluation of it requires professional judgement and necessarily takes into account qualitative as well as quantitative considerations implicit in the definition. We would be happy to discuss with you your expectations regarding our detection of misstatements in the financial statements.

Materiality determines the locations at which we conduct audit procedures to support the opinion given on the financial statements; and the level of work performed on individual account balances and financial statement disclosures.

The amount we consider material at the end of the audit may differ from our initial determination. At this stage, however, it is not feasible to anticipate all of the circumstances that may ultimately influence our judgement about materiality. At the end of the audit we will form our final opinion by reference to all matters that could be significant to users of the accounts, including the total effect of the audit misstatements we identify, and our evaluation of materiality at that date.

EY | Assurance | Tax | Transactions | Advisory

About EY

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ED None

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ADMINISTRATION REPORT

Committee	Pensions Committee
Officer Reporting	James Lake, Resources Directorate
Papers with this report	Hampshire Pensions Services Partnership Report

HEADLINES

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

The attached report provides an update of HCC's performance as at April 2022.

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

Member portal registrations continue to improve month-on-month and now stand at 21.33%.

Annual cyber penetration testing of the pension administration system (UPM), the Member Portal and Employer Hub have been completed. The final results report can be found on the Members shared drive. HCC is working with both their IT department and Civica to address the medium and low risks identified.

Year-end employer annual returns are being received and at the time of reporting over 90% of employers and 95% of member data had been received. Other projects including Pensions Dashboard and McCloud, are moving forward and in accordance with expectations, with no concerns at this stage.

Triennial valuation is progressing in accordance with the timetable with initial data quality and system interfaces are being tested. No issues have been identified at this stage.

The actuary is refreshing the economic scenario generator to include the latest forecasts, whilst financial and demographic assumptions are being prepared for assessment and subsequent approval for inclusion in the actuarial modelling for the Fund. Results are due to be presented to Committee in September 2022.

RECOMMENDATIONS

That the Pensions Committee:

- 1. Note the administration update;**
- 2. Agree the updated Internal Disputes Resolution Policy and Death Grant signatories list; and**
- 3. Delegate authority to officers to maintain and update the Internal Disputes Resolution Policy and Death Grant signatories**

Internal Disputes Resolution Policy (IDRP) Stage 1 named post and Death Grant Signatories

Following Senior Management restructure this report is requesting that the Pensions Committee agree that the Head of Counter Fraud be named as the nominated officer in all Stage 1 appeals. The Head of HR remains the appointed Officer for stage 2 appeals.

In any case where the nominated officer has either been involved with the case or is the object of the complaint, then the complaint will continue to be heard by a Senior Officer who has had no previous involvement with the case.

This report is further requesting that named signatories for the approval of Death Grants includes:
Corporate Director of Finance
Head of Pensions, Treasury, Investments & Statutory Accounts
Director Service Finance & Transformation
Director Strategic & Operational Finance

It is also requested that officers maintain and update these designations from time-to-time and following staff restructure or post title changes.

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.

Monthly administration report

APRIL 2022



Working in partnership with



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1. Summary

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

2. Background

- 2.1. Hampshire Pension Services administer the Local Government Pension Scheme (LGPS) on behalf of the London Borough of Hillingdon (LBH) with effect from 27 September 2021.
- 2.2. Hampshire Pension Services also administer the LGPS for Hampshire County Council, West Sussex County Council and Westminster City Council; the Fire Pension Schemes for both West Sussex and Hampshire, and the Police Pension Schemes for Hampshire.

3. Membership

- 3.1. The table below details the number of members against status for each of the Local Government pension schemes and is correct as of the date this report was prepared.

Scheme	Active*	Deferred	Pensioner	Preserved Refunds**	Total
Local Government	12,722	7,876	7,710	922	29,230

* Leavers which are waiting to be processed are included in the active membership

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

4. Administration performance

- 4.1. Hampshire Pension Services' performance against agreed service level agreements for key processes are monitored monthly. They are calculated based on the number of working days taken to complete the process and are adjusted for time that we are unable to proceed, due to requiring input from the member or third party.
- 4.2. The table below shows performance from 1st April 2022 to 30th April 2022; the performance target for all cases is 15 days (except Deferred Benefits which is 30 days, and Rejoiners which is 20 days).

Time to Complete

Type of Case	0-5 days	6-10 days	11-15 days	16-20 days	21-30 days	31-40 days	Total	% completed on time	Total Cases (previous month)	% completed on time (previous month)
Active Retirement	5	4	3	0	0	0	12	100.00%	15	100.00%
Deferred Retirement	6	9	19	0	0	0	34	100.00%	14	100.00%
Estimates	2	4	50	0	0	0	56	100.00%	39	100.00%
Deferred Benefits	3	0	2	0	59	0	64	100.00%	71	100.00%
Transfers In & Out	3	1	4	0	0	0	8	100.00%	0	100.00%
Divorce	0	0	1	0	0	0	1	100.00%	2	100.00%
Refunds	6	4	1	0	0	0	11	100.00%	6	100.00%
Rejoiners	0	0	0	9	0	0	9	100.00%	5	100.00%
Interfunds	0	1	9	0	0	0	10	100.00%	19	100.00%
Death Benefits	11	1	6	0	0	0	18	100.00%	29	100.00%
GRAND TOTAL	32	18	92	9	59	0	210	100.00%	183	100.00%

- 4.3. The Active and Deferred retirement figures above have been amended for the previous month – the SLA reporting mechanism was not updated after a change in both the active and deferred retirement processes and was therefore not identifying all of the completed cases. We can assure LBH that all cases were still completed within the 15 working day SLA.
- 4.4. The table below shows outstanding work as of 30th April 2022. The time outstanding reflects the time from date of receipt of the initiating request, and includes time whilst cases are on hold pending further information.
- 4.5. Those cases which currently exceed the agreed service level agreement are on hold waiting for information from the member, their employer or another party and the time taken to process will be adjusted once the work has been completed.
- 4.6. These cases do not include the inherited outstanding leavers which are discussed in section 6 below.

Time Outstanding								
Type of Case	0-5 days	6-10 days	11-15 days	16-20 days	21-30 days	31+ days	Total	Total Outstanding (previous month)
Active Retirement	2	3	2	2	0	0	9	5
Deferred Retirement	4	5	1	0	1	0	11	24
Estimates*	32	46	29	4	4	0	115	153
Deferred Benefits	1	22	13	17	101	0	163	219
Transfers In & Out	0	0	0	0	0	0	0	5
Divorce	0	0	0	0	0	0	0	1
Refunds	5	3	2	0	0	0	10	4
Rejoiners	12	1	3	0	0	0	16	12
Interfunds	10	15	5	0	1	0	31	15
Death Benefits	2	3	5	4	12	0	26	27
GRAND TOTAL	77	98	60	27	119	0	381	465

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

5. Unprocessed historic casework

- 5.1. At the point of onboarding, there were 3,840 unprocessed leavers – the date of leaving for these members was prior to 1st September 2021.
- 5.2. The total number of outstanding cases has since been reduced to 3,667.
- 5.3. During April we sent 227 leaver form requests to a number of scheme employers in the course of working through the outstanding cases. We are expecting to send a large number of leaver form requests based on the evaluation work that has been completed so far.
- 5.4. The team will continue to work on those cases where leaver forms have been received, with a view to reducing the backlog.

6. Call and email volumes

- 6.1. During April 2022, we received 214 calls from members of the LBH LGPS who had a general query about their pension – this does not include those who are calling for Member Portal support.

- 6.2. The total number of calls for all schemes we administer, received into the Pension Customer Support Team (PCST) were 4,264 and 102 of these were abandoned. Abandoned calls are caused by the member ending the call before we can answer, and in some cases, this can be because they have heard one of our automatic messages asking them to visit our website or Portal.
- 6.3. Our call reporting software does not allow us to report which of our ‘abandoned’ calls were LBH members, but based on the number of abandoned calls above, we answered 97.61% of all calls received.
- 6.4. PCST also monitor and handle all of the emails received from members into our main pensions inbox – not including those which have been passed to other teams to process, PCST responded to 187 LBH member emails.

7. Online services

Member Portal

- 7.1. Active, Deferred and Pensioner members of LBH LGPS have the ability to register for our Member Portal and update their personal details, death grant nominations, and bank details; securely view annual benefit statements, payslips and P60s; and run online estimates for voluntary retirements over age 55.
- 7.2. The table below shows the total number of current registrations for each status as of 30th April 2022.

Status	Registrations to date	% of total membership	Registrations to 31/03/2022	% of total membership
Active	3,288	25.84%	3,324	25.95%
Deferred	1,372	17.42%	1,296	16.55%
Pensioner	1,378	17.87%	1,088	14.15%
TOTAL	6,038	21.33%	5,708	20.15%

- 7.3. We have continued to see an increase in Portal registrations, specifically those who are Pensioners, which we believe is connected to the most recent pensioner newsletter and P60 communications.
- 7.4. PCST handled 1,148 calls in April, from members of all schemes we administer, who were specifically asking for Member Portal support.

7.5. The table below is the last position of member portal stats from Surrey County Council.

Status	Registrations to date	% of total membership
Active	4,201	36.06%
Deferred	2,638	32.63%
Pensioner	1,616	21.32%
TOTAL	8,455	30.95%

Employer Hub

7.6. All LBH employers are signed up to the Employer Hub, and 228 individual users have access.

8. McCloud

8.1. We have received 82 of 125 completed service/break data sets from LBH employers; initial data checks have been completed on all of the data sets received. This represents 52% of the membership populate who are likely to require McCloud remedy.

8.2. There are 43 employers yet to provide data.

8.3. The requests for the next data set, for the period 1 April 2021 to 31 March 2022, have also been sent to employers and a deadline of 30 June 2022 has been set – we have received 2021/22 data from 1 employer.

8.4. We are still in the process of testing a final version of the McCloud bulk data uploader, with a view to arranging the Live installation by 31st July 2022, as we are eager to start uploading data sets from early August.

8.5. Our monthly McCloud project meetings have continued internally, which are led by a dedicated project manager and attended by all senior management.

9. 2022 End of Year timetable

9.1. We have agreed the timeline for the 2022 year end and the production of benefit statements. The table below details the key milestones for each step of the year end process.

Completed By	Task
30/04/2022	Annual return deadline for Employers
06/05/2022	2022 Pensions increase applied to all deferred benefit members.

Completed By	Task
30/06/2022	Employer Services to complete upload of Annual Returns (AR); assuming all data received from, and queries answered by employers.
30/06/2022	CARE pension revaluation for Active members (to be run per employer, subsequent to AR upload)
15/07/2022	Valuation extracts to be provided to Fund Actuary
29/07/2022	Supplementary Pensions Increase calculated and paid.
31/07/2022	All Deferred Benefit Statements (DBS) to be produced.
31/08/2022	LG Active Benefit Statements (ABS) to be produced.
05/10/2022	Pensions Savings Statements sent – will be produced by employer as ABS have been completed
31/10/2022	E-comms sent to members with benefit statement available on Member Portal

9.2. **Pensions increase** – this has been applied to all pensioner and deferred members of the LBH LGPS.

9.3. **Annual Returns** - 68% of returns were received by the deadline of 30 April. This is lower than we would have expected, however we believe this may be due to the later Easter period and many employers prioritising payment of the backdated pay award (where applicable). Weekly partnership reports are now being provided and regular review meetings with the Fund, to work in partnership to resolve any employer issues.

10. Pensions Dashboard Programme (PDP)

10.1. We continue to attend Civica's Pensions Dashboard working group where technical requirements are discussed to ensure we are fully compliant with the eventual regulations. The next working group meets on 25th May when we will find out more about Civica's Integrated Service Provider (ISP) offering.

10.2. We will need to consider a procurement process when appointing an ISP as this is a separate service to our pensions administration software (UPM). As we understand more about this, we will update all Partners.

10.3. We attended the latest PDP update webinar, where the implementation team confirmed that the project is on track and ISP's are expected to connect to the Pensions Dashboard by September 2022.

11. Audit

- 11.1. The close of audit report for Pensions, Payroll and Benefit Calculations has been shared with us, confirming a 'Substantial' rating – once the report has been formally signed off we will share this with all Partners.

12. Cyber Security

- 12.1. In the 2021/22 annual partnership report we confirmed that penetration testing of our pension administration system (UPM) the Member Portal and Employer Hub had been completed.
- 12.2. The final report will be shared with Partners by the end of May, and we will be working with both our IT department and Civica to address the medium and low risks identified.

13. 2022 Software Development

- 13.1. The first stage of our development roadmap is to implement the online identification and verification (ID & V) process, which will support our Life Certificate/Proof of Existence process in particular this year.
- 13.2. Our target completion date for this work was 31st May 2022 although we are expecting that this will be slightly delayed due to ongoing discussion around the Terms and Conditions that GB Group Ltd. have asked us to commit to.
- 13.3. The intention is to issue letters to all Overseas pensioners by the end of July 2022 – asking them to use our ID&V service – and leading up to this time, we will contact Hillingdon to agree an alternative Life Certificate process for members who are unable to use the ID&V service.

14. Scheme legislation updates

- 14.1. Legislation updates that have been received during April 2022 for the Local Government Pension Scheme, are detailed in Appendix 1, including any actions that Hampshire Pension Services have taken.

15. Employer and Member Communications

- 15.1. **Employer communications** – In April we issued the Spring 2022 edition of Pensions Matters.
- 15.2. **Member communications** – we issued paper payslips and P60's to all advance and arrears members who have opted out of using our Member Portal. Emails were also issued to arrears members who had not opted out, to inform them that their payslips and P60's were available on the Member Portal.

16. Quality Assurance

- 16.1. **Data Protection Breaches** – We have not identified any data protection breaches in April 2022.
- 16.2. **Data Subject Access Requests (DSAR)** – we have noticed an increase in these across all schemes but for Hillingdon in particular we did not receive any requests in April. We are continuing to monitor this due to concerns that these requests may become a complaint or claim against the pension fund regarding previous transfers out.

17. Compliments and Complaints

- 17.1. In April 2022 we received two complaints from members of the LBH LGPS. Further detail can be found in Appendix 2. One of the complaints is not due a response until 13th May, therefore the detail of this complaint will be included in May's report.
- 17.2. We also received two compliments from members of the LBH LGPS. Further detail can be found in Appendix 3.

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INVESTMENT STRATEGY and FUND MANAGER PERFORMANCE (Part I)

Committee	Pensions Committee
Officer Reporting	James Lake, Resources Directorate Babatunde Adekoya, Resources Directorate
Papers with this report	NT performance report (on shared drive)

HEADLINES

Market concern and volatility resulting from increased inflation, reduced growth expectations and the Russian invasion of Ukraine has led to reductions in market indices. The overall investment return of the Fund was -2.01% over the quarter which was 1.11% behind the benchmark. Performance over longer-term periods (3 and 5 years) was 6.29% and 5.36% per annum, which are both behind the benchmark but ahead of the required 4% return required in the Funding Strategy Statement.

The Fund's asset allocation remains close to the target investment strategy except for Infrastructure which is yet to be drawn and funded by DGF/Absolute Return. There is also a circa 3% under allocation to MAC.

RECOMMENDATIONS

That the Pensions Committee note the funding and performance update.

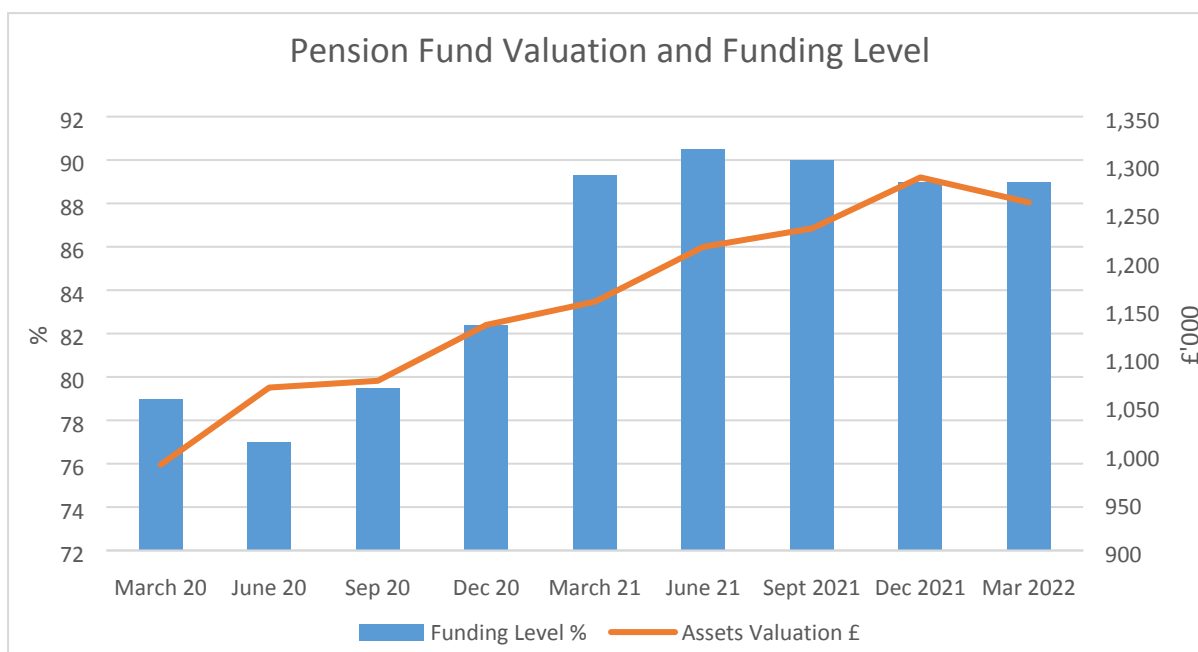
SUPPORTING INFORMATION

1. Funding Update

At the last formal valuation as of 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%.

The last interim funding update which illustrated the estimated funding position on 31 December 2021 showed a deficit of £159m, equivalent to a funding level of 89%.

As the formal triennial valuation as at March 2022 is now underway, no interim level is assessed at that date. Actual results are due to be presented in September 2022. Any necessary changes to employer contribution rates will be effective from April 2023.



2. Fund Performance

Over the last quarter to 31 March 2022, the Fund returned -2.01%, underperforming the benchmark return by 1.11%. The Fund value decreased over the quarter by £26m, to £1,261m.

Period of measurement	Fund Return %	Benchmark %	Relative Performance
Quarter	-2.01	-0.91	-1.11
1 Year	9.16	10.54	-1.25
3 Year	6.29	7.97	-1.55
5 Year	5.36	6.72	-1.27
Since Inception (09/1995)	6.87	7.00	-0.12

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

- Property investments kept their performance in positive territory. UBS posted a total return of 6.88% for the quarter and 26.62% for the one-year. AEW and LGIM and both posted slightly modest positive returns in comparison with quarter and one-year figures of 2.87%/18.48% and 3.14%/12.97% respectively.
- The absolute return through London CIV (Ruffer) delivered by providing downside protection in a stressed market with positive 4.44% and 7.27% returns over the three-month and one-year horizons. True to their 'preservation of capital in all market conditions' strategy they have delivered annualised returns since their May 2010 inception in with the Fund of 6.15%.
- Notable underperformance is seen in the LCIV Global Alpha Paris Aligned Growth Fund. Since investing the growth style has struggled and

the manager has delivered negative returns of -13.75% over the quarter and -11.83% since inception, both of which are behind the benchmark. The Fund has met with the underlying manager and remains comfortable the strategy will deliver over the long term.

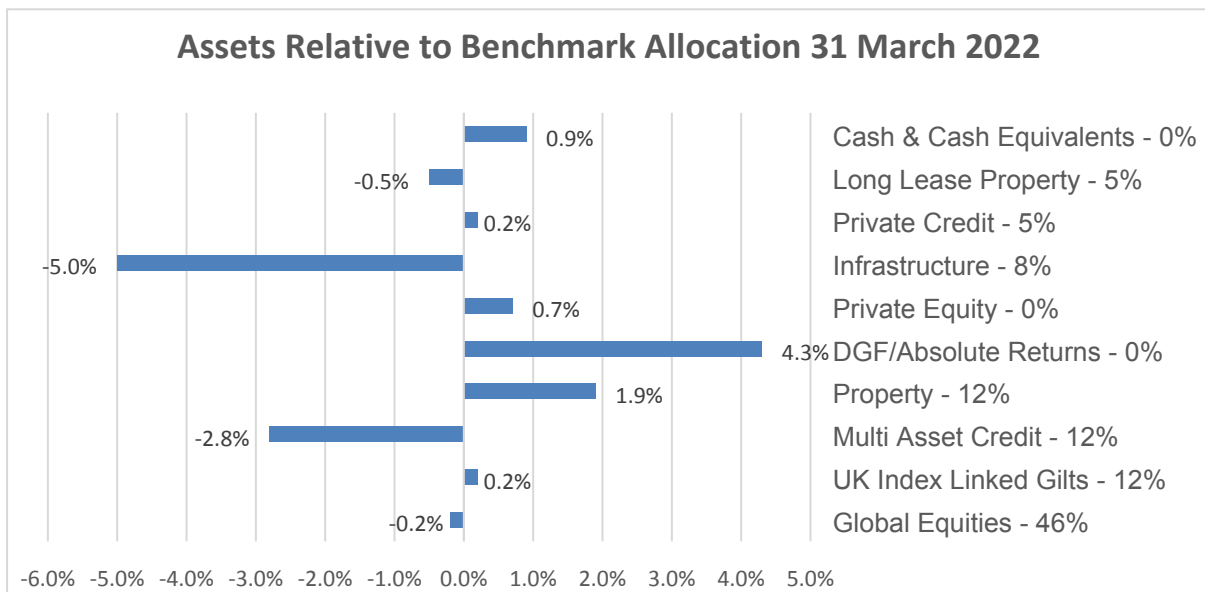
NB: Information from Northern Trust Quarterly performance report

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 31 March 2022	Actual Asset Allocation As at 31 March 2022	Benchmark Allocation As at 31 March 2022	Market Value As at 30 April 2022
	£'000	%	£'000	%	%	£'000
Global Equities	537,066	46	577,626	46	46	551,225
UK Index Linked Gilts	144,920	13	152,319	12	24	142,671
Multi Asset Credit	116,580	10	115,979	9		113,127
Property	139,177	12	175,645	14	12	170,895
DGF/Absolute Returns	50,833	4	54,528	4	0	54,448
Private Equity	12,499	1	9,097	1	0	9,216
Infrastructure	33,403	3	41,366	3	8	41,777
Private Credit	59,208	5	66,138	5	5	65,928
Long Lease Property	49,749	4	56,203	4	5	56,836
Cash & Cash Equivalents	15,254	1	11,928	1	0	12,413
Totals	1,158,689	100.00	1,260,829	100.00	100	1,218,536



Highlights of transactions during the quarter under review:

- Total drawdown of £2.0m was called by the London CIV Infrastructure fund and £1.1m by LCIV Private Debt Fund in the period under review.
- During the quarter, distributions received totalled £3.1m from Permira private debt, \$541k & Eur416k from Private Equity and \$988k from Macquarie Infrastructure.

Undrawn commitments on 31 March 2022 are as follows:

- £3.2m (8%) awaiting drawdown on Private Credit.
- £31.8m (58%) 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.
- LCIV Private Debt £40m.

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.

Current Asset Allocation by Manager		Market Value As at 31 March 2022	Actual Asset Allocation	Market Value As at 30 April 2022
FUND MANAGER	ASSET CLASS	£'000	%	£'000
LGIM	Global Equities	305,648	24.24	291,617
LGIM	Future World	215,555	17.10	207,721
LCIV - BALLIE GIFFORD	Global Equities	56,423	4.48	51,887
LGIM	UK Index Linked Gilts	152,319	12.08	142,671
JP MORGAN	Multi Asset Credit	115,979	9.20	113,127
UBS PROPERTY	Property	94,061	7.46	94,555
AEW	Property	82,349	6.53	77,214
LCIV - RUFFER	DGF/Absolute Returns	54,528	4.32	54,448
ADAMS STREET	Private Equity	6,189	0.49	6,490
LGT	Private Equity	2,908	0.23	2,726
LCIV - STEPSTONE	Infrastructure	23,518	1.87	23,518
MACQUARIE	Infrastructure	17,848	1.42	18,259
M&G	Private Credit	1,851	0.15	1,641
LCIV	Private Credit	28,483	2.26	28,483
PERMIRA	Private Credit	35,804	2.84	35,804
LGIM	LPI Property	56,203	4.46	56,836
Non-Custody	Cash & Cash Equivalentents	11,163	0.89	11,539
		1,260,829	100	1,218,536

5. Market and Investment/Economic outlook (March 22 provided by London CIV)

Russia's invasion of the Ukraine marked a step change in risk aversion in the capital markets. Inflationary pressure had already come into focus and the immediate surge in energy prices and futures contracts linked to agricultural staples, combined with heightened risks to supply chains, reverberated through the markets. Government bonds, credit and stocks all lost money in the first quarter of 2022. With nominal yields at very low levels, bonds could not fulfil their traditional role as 'shock absorbers' when inflation accelerated. The Bloomberg Global Aggregate Index (GBP hedged) lost more than 5% in Q1, and the Credit segment was down more than 7%.

What is perhaps most striking is that equity markets held up as well as they did in the face of mounting risks, although they needed a rally of more than 8% between the 8th of March and the end of the quarter to recover from a drawdown which peaked at more than 11% in Sterling terms based on the MSCI World Net index.

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 on 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.

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RESPONSIBLE INVESTMENTS UPDATE

Committee

Pensions Committee

Officer Reporting

James Lake, Resources Directorate
Babatunde Adekoya, Resources Directorate

Papers with this report

Full manager ESG reporting (on Members shared drive)

HEADLINES

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

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

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

RECOMMENDATIONS

That the Pensions Committee:

- 1. Note submission of the UK Stewardship Code Report; and**
- 2. Note the fund managers' ESG activities and compliance efforts.**

SUPPORTING INFORMATION

Stewardship Code Update

The Stewardship Code project has progressed in accordance with the project timeline and the final report was submitted to the FCA ahead of the 30th April deadline.

The submission will now be read in full and assessed against the principles and reporting expectations of the Code in a way that is proportionate to the organisation's size and type. This assessment is then reviewed and discussed among FRC staff to ensure it is fair and appropriate. A sample of reports reflecting a range of applicants are reviewed by the FRC's panel of independent advisors to ensure consistency.

Both successful and unsuccessful applicants are provided a summary of where their reporting met expectations and where improvement is required when re-applying to the Code.

Unsuccessful applicants may address the feedback and re-apply in a future reporting window. This would be October 2022 for Hillingdon.

Once the applicant has been accepted as a Code signatory and the report is approved by the FRC, the report will be a public document. The signatory must also make it available on their website within one month of being notified by the FRC.

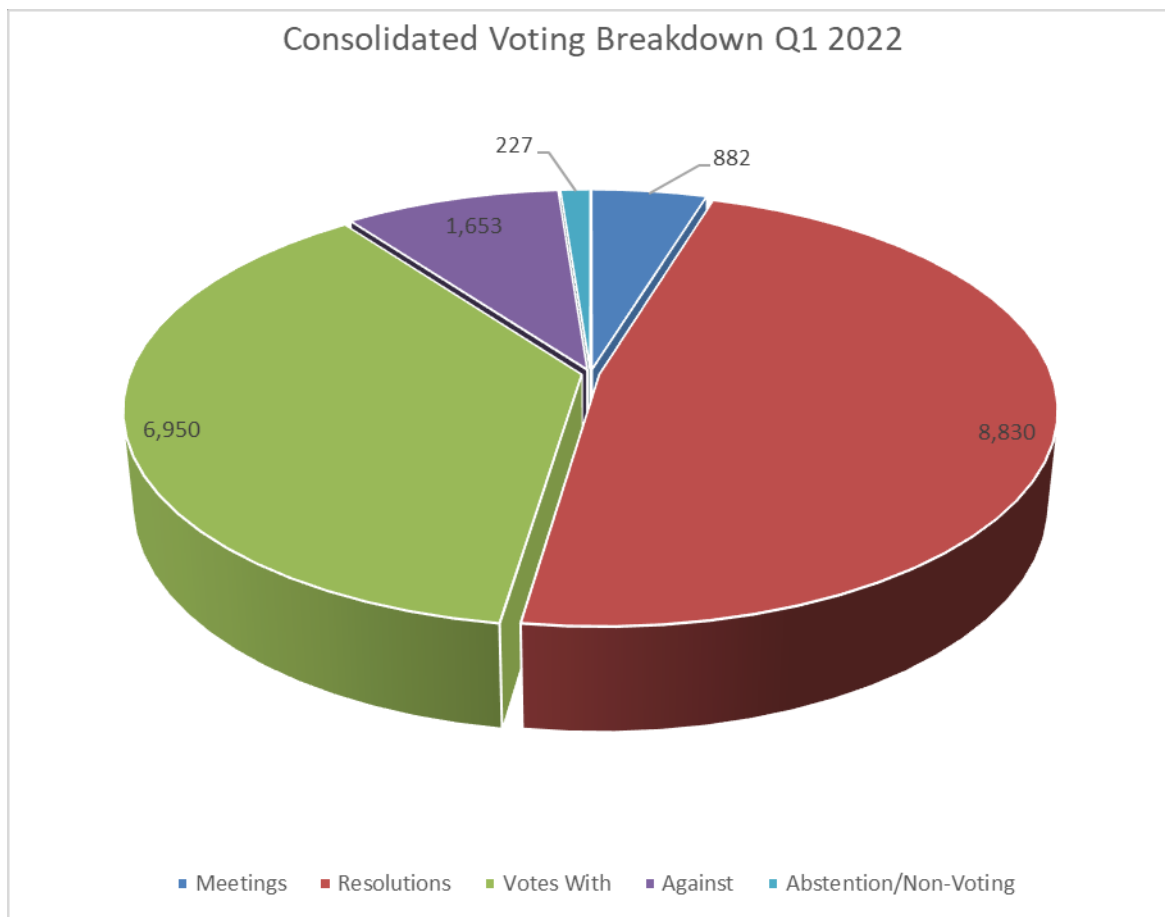
Voting and Engagement

Fund managers carry out proxy voting on the Pension Fund's behalf. Below is a breakdown of voting statistics by LGIM, and London CIV (Ruffer and Baillie Gifford).

Fund Managers Voting Breakdown Q1, 2022						
LCIV	Meetings	Resolutions	Votes With	Against	Abstention/Non-Voting	
	Mar-22					
LCIV - Ruffer	8	174	158	16	0	0
LCIV - Baillie Gifford	3	26	23	3	0	0
	11	200	181	19	0	0
	%		90.50	9.50		0.00
LGIM		Meetings	Resolutions	Votes With	Against	Abstention
	Mar-22	871	8,630	6,769	1,634	227
		871	8,630	6,769	1,634	227
	%			78.44	18.93	2.63

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

The voting breakdown above indicates LGIM have voted against proposed management resolutions on 19% of voting opportunities and supported resolutions on about 79% of occasions. Both LCIV portfolios combined, backed various management resolutions on 90.5% of voting opportunities and about 9.5% against the resolutions proposed by company managements. Abstentions for LGIM was 3%, whilst LCIV voted on all proposals.



The chart above provides a consolidated overview of voting pattern by all fund managers shown in the table above.

Engagement

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

London CIV

London CIV has published their Responsible and Stewardship Outcomes Report for 2021 (attached) which sets out their journey since being formed in 2015; progress made to-date; future goals, and other governance and transparency disclosures.

Their updated statement of investment beliefs sets out how they work in collaboration with clients to improve investment returns and manage risk. It articulates how they set out to achieve their commitment to be responsible investors and good stewards. The LCIV vision statement is to be the 'best in class asset pool' delivering value for Londoners through long-term sustainable investment strategies.

Key facts in the report show:

- £14.6b active investments and £44b assets held by client funds
- 77% assets under management covered by ESG risk analysis
- LCIV to be net zero by 2040 and operationally by 2050
- 36% of infrastructure investments committed to renewable energy
- 55% of LCIV listed corporate equity and fixed income have lower carbon intensity than benchmark
- LCIV funds 173% lower fossil fuel exposure than the benchmark
- EOS engaged with 440 companies on 1,855 ESG topics in 2021
- 10,403 votes cast on management and shareholder proposals in 2021
- 696 engagement meetings held by underlying managers
- All underlying managers are committed to cost transparency
- All underlying managers are PRI signatories
- 18 out of 20 managers are TCFD signatories

The report not only demonstrates but also gives confidence, that London CIV is acting as a responsible pool and investment manager by setting out a path of progress and development, examples of engagement to influence improvements and a commitment to future improvements.

To ensure London CIV continue their path of improvement and reflect Hillingdon's responsible investment position, the Pension Fund will collaborate with them through engagement, challenge, and support as necessary and appropriate.

LGIM

The latest available reporting from LGIM is located in the members shared drive and demonstrates the activities undertaken by LGIM to fulfil their mission statement of using their influence to ensure:

- Companies integrate environmental, social and governance (ESG) factors into their culture and everyday thinking
- Markets and regulators create an environment in which good management of ESG factors is valued and supported

In doing so, LGIM seek to create a better future through responsible investing.

Holding boards to account

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

Creating sustainable value

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

Promoting market resilience

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

LGIM Future World Fund

There is an evolution of the Solactive L&G ESG Index series, which are used as part of LGIM's ESG custom indexation business.

There are three key changes to the index strategies:

- Enhancement of the LGIM Future World Protection List
- Inclusion of a 30th metric within the existing LGIM ESG Score
- Introduction of a decarbonisation pathway within the global equity index series – aligning the funds to be net zero by 2050

FINANCIAL IMPLICATIONS

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

LEGAL IMPLICATIONS

Legal implications are included in the report.

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Pension Fund Risk Register

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

That the Pensions Committee consider the Risk Register in terms of the approach, the specific risks identified, and the measures being taken to mitigate those current risks.

SUPPORTING INFORMATION

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

There are currently 12 risks being reported upon. Whilst there are many more risks which could be identified for the Fund, those identified are the most significant and those which are actively managed.

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

There has been one downgrade following the latest review:

- Pen 11 'Threat of COVID 19 to Business Continuity'- likelihood reduced from low to very low – rating from E2 to F2.

Inflation

Inflation is a key risk to the Fund and following an assessment of the portfolio in October 2021 it was agreed the investment strategy had sufficient inflation protection built in, however the situation is being monitored. Trend information still shows that inflation is expected to fall back towards the end of the year. As such no remedial action is required.

Separately, pension increases are based on September CPI and implemented in the following April. Based on current information the Fund has cashflow capacity to accommodate and increase of cash outflows without the need to draw on investment distributions. Therefore, no adjustment has been made to PEN04.

Employer Covenant

The financial strength of employers within the fund was discussed and assessed in terms of their potential inclusion as a risk. With Hillingdon representing over 80% of the Fund, with maintained schools and academies making up most of the balance the overall risk to the fund is minimal. Furthermore, small, outsourced employers are admitted with a parent guarantee or bond to protect against default. In summary it was agreed not to add this as a risk.

FINANCIAL IMPLICATIONS

The financial implications are contained in the risk register attached.

LEGAL IMPLICATIONS

The legal implications are contained in the risk register attached.

Pension Fund Risk Register 2022/23

Description	Actions in Place	Progress Comment	Risk Category / Rating / DOT	Lead Officer / Committee Member	Date of last review
PEN 01 - Fund assets fail to deliver returns in line with the anticipated returns underpinning valuation of liabilities over the long-term	<ol style="list-style-type: none"> 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. 2. Analyse progress at three yearly valuations for all employers. 3. Undertake Inter-valuation monitoring. 	<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 (Dec21) showed a level at 89.0%. This is 2.0% higher than the 2019 triennial valuation. No valuation is prepared in March of a valuation year. The triennial valuation results will be presented at September Committee.</p> <p>The strategy is provide to be robust in volatile market conditions and as at March 2022 the fund value was £1.261b.</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. 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 Mathers	24/05/22
PEN 02 - Inappropriate long-term investment strategy	<ol style="list-style-type: none"> 1. Set Pension Fund specific strategic asset allocation benchmark after taking advice from investment advisers, balancing risk and reward, based on historical data. 2. Keep risk and expected reward from strategic asset allocation under review. 3. Review asset allocation formally on an annual basis. 4. Asset allocation reported quarterly to committee 5. Officer and advisers actively monitors this risk. 	<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 Mathers	24/05/22
PEN 03 - Active investment manager under-performance relative to benchmark	<ol style="list-style-type: none"> 1. The structure includes active and passive mandates and several managers are employed to diversify the risk of underperformance by any single manager. 2. Short term investment monitoring provides alerts on significant changes to key personnel or changes of process at the manager. 3. Regular monitoring measures performance in absolute terms and relative to the manager's index benchmark, supplemented with an analysis of absolute returns against those underpinning the valuation. 4. Investment managers would be changed following persistent or severe under-performance. 	<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 Mathers	24/05/22

Description	Actions in Place	Progress Comment	Risk Category / Rating / DOT	Lead Officer / Committee Member	Date of last review
PEN 04 - Inflation - Pay and price inflation significantly more than anticipated	<p>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.</p> <p>2. Inter-valuation monitoring gives early warning and investment in index-linked bonds also helps to mitigate this risk.</p> <p>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.</p> <p>4. Covenant's are in place with security of a guarantee or bond for admission agreements.</p> <p>5. Inter-valuation monitoring gives early warning.</p> <p>6. Investment in index-linked bonds helps to mitigate this risk.</p> <p>7. Contribution rate setting as part of the triennial valuation process considers 5000 scenarios in achieving a fully funded position</p>	<p>The impact of pay and price inflation is monitored as part of the Council's MTFF processes and any potential impact on pension fund contributions is kept under review and factored into the Council's overall position.</p> <p>The impact of pay inflation is diminishing since the introduction of the CARE benefits in 2014 as there is less linkage to final salary in future liabilities.</p> <p>The impact of inflation is reviewed through all strategic investment decision making, however inflation risk is gaining greater prominence and is raising concern with the potential detrimental impact on liabilities and assets.</p> <p>Inflation linked investments form part of the investment strategy and are aimed at balancing this risk and protecting against the impact of inflation.,</p> <p>A PSG meeting was held on 5th October 21 to discuss the risk, analyse potential impacts and explore mitigating actions. Currently the portfolio has an adequate allocation to inflation risk mitigating investments, however a watching brief will remain in place.</p> <p>Ongoing monitoring of forward indicators is in place to highlight if remedial action is required.</p> <p>The Fund is cashflow positive and it is expected this will remain the case if a 10% pensioner pay increase is applied. Forecasts will be monitored in terms of pay increases and cashflow capacity.</p>	<p>Strategic risk Likelihood = Significant Impact = Large Rating = C2 (Static)</p>	James Lake / Cllr Mathers	24/05/22
PEN 05 - Pensioners living longer.	<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 Rating = E4 (Static)</p>	James Lake / Cllr Mathers	24/05/22
PEN 06 - Poor Performance of Outsourced Administrator leading to poor quality information supplied to both members and the Fund Actuary	<p>1. New partnership in place with HCC.</p> <p>2. Regular service meetings in place.</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 will be developed and implemented in 2022.</p>	<p>Transfer of pension administration services to a new partner, Hampshire County Council (HCC) has been in place for 6 months.</p> <p>Regular meetings will take place between HCC & LBH to ensure the new partnership is working in accordance with expectations and that any issues are addressed.</p> <p>KPI's have been at 100% since partnership inception (September 2021) and all other levels of service and interaction have been positive and pro-active.</p>	<p>Strategic risk Likelihood = Low Impact = Large Rating = E2 (Static)</p>	James Lake / Cllr Mathers	24/05/22

Description	Actions in Place	Progress Comment	Risk Category / Rating / DOT	Lead Officer / Committee Member	Date of last review
PEN 7 - Cyber Security - Pension schemes hold large amounts of personal data and assets which can make them a target for fraudsters and criminals	<ol style="list-style-type: none"> 1. Council wide policies and processes in place around: acceptable use of devices, email and internet use of passwords and other authentication home and mobile working data access, protection (including encryption), use and transmission of data 2. Risk is on the Corporate risk register with risk mitigation in place. 3. All member and transactional data flowing from HCC and Hillingdon is sent via encryption software or via the employer portal. 4. Data between the fund, HCC and Hymans is distributed via upload to an encrypted portal 5. Systems at Hillingdon and HCC are protected against viruses and other system threats 6. HCC are accredited to ISO27001:2013 and signed up to the Pensions Regulator Pensions Pledge. HCC currently undergoing penetration testing to ensure they are PSN compliant. 	<p>This risk has been recognised in response to recommendations by the Pensions Regulator and work carried out by Pensions Board</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.</p> <p>HCC has in place a number of cyber controls in place, upgraded the member portal security in December 2021 and has produced a cyber compliance statement which sets out for all partners the controls they have in place and detailing areas of improvement.</p> <p>In Q1 2022 Hampshire Pension Services requested that IT Services organise and facilitate the penetration testing of the Universal Pensions Management (UPM) application provided by Civica. Testing revealed no significant remediation work was required.</p>	<p>Strategic risk Likelihood = Medium Impact = Large Rating = D2 (Static)</p>	James Lake / Cllr Mathers	24/05/22
PEN 8 - ESG - Risk of financial loss through the negative impact of ESG matters.	<ol style="list-style-type: none"> 1. The fund have an ESG policy in place as part of the ISS. 2. Active equities within fossil fuel sector have been assessed in relation to the Transition pathway analysis tool to identify those companies transitioning to a lower carbon world. 3. Manger selections take into account ESG policy 4. Mangers are expected to be signed up to the stewardship Code 5. Managers are expected to have signed up to the UN Principles for Responsible Investment (UK PRI) 6. ESG Issues are discussed with managers at review meetings 7. The Fund submitted its application report for the new 2020 UK Stewardship Code ahead of the April 2022 deadline. 8. The Fund has signed up to support TCFD. 	<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 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 & 13 objectives and will start to report on complementing TCFD metrics. The Fund will also collaborate and has signed up to TCFD.</p>	<p>Strategic risk Likelihood = Medium Impact = Medium Rating = D3 (Static)</p>	James Lake / Cllr Mathers	24/05/22
PEN 9 - Portfolio liquidity - risk of failure to liquidate assets or meet drawdown calls	<ol style="list-style-type: none"> 1. The fund has an active daily cash management process in place to ensure there is sufficient cash available to meet all beneficiary payments. 2. Cash management includes investing large amounts of surplus cash to balance the investment portfolio or hold in liquid asset classes in anticipation of cash calls 3. Officers liaise with managers where commitments have been made to keep track of predicted drawdown timescales 4. The fund is significantly diversified in different asset classes and asset managers to ensure if there is a stop on any one holding then the portfolio will continue to operate as normal. 	<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 2022/23.</p> <p>The Fund has sufficient liquidity should it need to draw on investments.</p>	<p>Strategic risk Likelihood = Very Low Impact = Large Rating = F2 (Static)</p>	James Lake / Cllr Mathers	24/05/22

Description	Actions in Place	Progress Comment	Risk Category / Rating / DOT	Lead Officer / Committee Member	Date of last review
PEN 10 - Failure of the pool in management of funds / access to funds	<ol style="list-style-type: none"> Quarterly review meetings held with the pool Regular reporting out of the pool informing the fund of manager performance Swift communications received from the pool with staff turnover and concerns the fund may need to be aware. Independent adviser carried out a review of governance for manager selection and manager monitoring to add assurance and discussion points with the pool Active Shareholder representation at General meeting and AGM. Pool to attend Committee meetings where required, to provide assurance over progress and activity. 	<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> <p>LCIV continue to develop a pipeline of investment offerings based on client demand.</p>	Strategic risk Likelihood = Low Impact = Low Rating = E4 (Static)	James Lake / Cllr Mathers	24/05/22
PEN 11 - Threat of COVID 19 to Business Continuity	<ol style="list-style-type: none"> The pensions section and corporate finance has a business continuity plan that identifies critical tasks and resources required to carry them out. Communication to key 3rd party providers HCC to co-ordinate business continuity plans Active monitoring of developments, keeping abreast of Council and Government advice to ensure readiness to implement the continuity plan if required. Non-essential external meetings have been cancelled to reduce contact Checks being done to ensure staff have facilities to work from home Vulnerable staff are being kept out of the office as much as possible 	<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 Hampshire 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 removed restrictions albeit whilst still exercising the need for caution.</p> <p>Service delivery has been maintained through a hybrid arrangement of actual and virtual meetings and office and home working. Officers continue to monitor and follow government and Council advice.</p>	Strategic risk Likelihood = Very Low Impact = Large Rating = F2 (Downgrade)	James Lake / Cllr Mathers	24/05/22
<p>PEN 12 - Failure of the Fund's governance to comply with statutory requirements and/or The Pension Regulator expectations including:</p> <p>Failure to ensure that Committee members' knowledge and understanding of pension matters is robust and meets statutory requirements</p> <p>Failure to ensure that the Pension Board is effective in carrying out its role."</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 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>Access is provided to CIPFA K&S Framework training modules</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. Training logs are to be brought to Pensions Committee & Board with a mandatory Committee training programme in place.</p> <p>Mandatory training, in line with the CIPFA K&S Framework, is to be undertaken by all Committee members.</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 Mathers	24/05/22

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

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WORK PROGRAMME & TRAINING LOG

Committee	Pensions Committee
Officer Reporting	James Lake, Resources Directorate
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. Note the dates for Pensions Committee meetings;**
- 2. Make suggestions for future agenda items, working practices and / or reviews;**
- 3. Note Committee’s training update;**
- 4. Committee members agree to commit to undertake the required level of training needed to fulfil their duties.**

SUPPORTING INFORMATION

Meeting Date	Item
9 June 2022	<ul style="list-style-type: none"> Training - Induction Investment update and manager review Administration Report (inc. Valuation update) Risk Register Responsible Investment Update Workplan & Training Log Pension Fund Audit Plan Discretions Policy Update
28 September 2022	<ul style="list-style-type: none"> Training - TBC Pension Fund Annual Report 2021/22 External Audit of Pension Fund Investment update and manager review Valuation assumptions and preliminary results and funding strategy statement Administration Report Risk Register 2022/23 Expense Budget Responsible Investment Workplan & Training Log

6 December 2022	<ul style="list-style-type: none"> • Training TBC • Investment update and manager review • Responsible Investment • Draft Valuation Report & Employer Rates • Administration Report • Risk Register • 2022/23 Expense Budget • Workplan & Training Log
22 March 2023	<ul style="list-style-type: none"> • Training TBC • Investment update and manager review • Responsible Investment • Administration Report • Valuation Final Results • Workplan & Training Log • Funding Strategy Statement Approval • Investment Strategy Statement review • Risk Register • 2023/24 Expense Budget • Annual Report of the Board • Annual Audit Plan

Training

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

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

Pensions Committee Training Log

Date	Details	Cllr Mathers	Cllr Burles	Cllr Islam	Cllr Goddard	Cllr Banerjee
Bespoke Sessions						
9 June 22	Induction					
	TBC					
Mandatory Training (AON CIPFA Knowledge & Skills Framework)						
	Introduction to the LGPS				✓	
	Pension's legislation, guidance, and governance					
	Local governance and pensions procurement and contract management					
	Funding strategy and actuarial methods, and financial, accounting and audit matters					
	Investments – Strategy, asset allocation, pooling, performance, and risk management					
	Investments - Financial markets and products					
	Pensions Administration and Communications					

Local Government Association (LGA)

The LGA provide a 'Fundamentals Training Programme' which covers the basic elements of knowledge required by Committee members. Attending all three days will assist members in meeting the relevant requirements for knowledge, skills and understanding either required in statute or encouraged by relevant guidance

Day 1

18 October Online
20 October Westminster LGA Offices

Day 2

10 November Westminster LGA Offices
22 November Online

Day 3

6 December Westminster LGA Offices
20 December Online

Cost

Face to face - £270. The price is inclusive of lunch, refreshments, and all delegate materials. Virtual attendance - £220 per session.

Another induction option includes a bite-size session which can be provided by officers and advisers and can be accommodated within the Isio retainer fee.

Other options are available and can be explored if required.

FINANCIAL IMPLICATIONS

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

LEGAL IMPLICATIONS

The legal implications included within the body of the report.

PENSION FUND DISCRETIONS UPDATE

Committee	Pensions Committee
Officer Reporting	James Lake, Resources Directorate
Papers with report	1. Draft Pension Fund Discretions Policy

INFORMATION

The Local Government Pension Scheme (LGPS) requires that Scheme Employers and the Administering Authority formulate, publish, and keep under review respective discretions policies. Discretions are further split into mandatory and non-mandatory discretions.

Hillingdon as the scheme employer and the administering authority, has previously only applied the mandatory discretions under one document.

To improve governance and transparency in decision making, two separate policies have been developed including all relevant mandatory and most common non-mandatory discretions.

The London Borough of Hillingdon scheme employer policy has been updated, reviewed, and is due to be approved by the Corporate Director of Finance for the Council.

The London Borough of Hillingdon Pension Fund (as the administering authority) has also updated and reviewed the pension relevant discretions, and the policy is presented for approval.

RECOMMENDATION

That the Pensions Committee approve the Pension Fund Discretions Policy.

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.

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London Borough of Hillingdon Administering Authority discretions and delegated authority

9 June 2022

The table below sets out how the London Borough of Hillingdon Pension Fund (LBH PF) chooses to exercise its discretions under the LGPS regulations, together with the delegated authority for approval where a further decision exists.

	Discretion	Regulation	Policy	Delegated authority for approval
1.	Whether to agree to an admission agreement with a Care Trust, NHS Scheme employing authority, Care Quality Commission or any other body applying to be an admission body	R4(2)(b), R5(5) & RSch 2, Part 3, para 1	LBH PF will enter into an admission agreement where the requirements that it has set down and issued to prospective bodies are met.	LBH Pension Services
2.	Whether to terminate a transferee admission agreement in the event of: <ul style="list-style-type: none"> - Insolvency, winding up or liquidation of the body - Breach by that body of its obligations under the admission agreement - Failure by that body to pay over sums due to the Fund within a reasonable period of being requested to do so 	RSch 2, Part 3, para 9(d)	LBH PF will decide any case on its merits.	Corporate Director of Finance
3.	Define what is meant by 'employed in connection with'	RSch 2, Part 3, para12(a)	LBH PF admission agreements specify this as the employee spending at least 50% of his time employed by the admission body carrying out duties relevant to the provision of the services.	N/A
4.	Whether to turn down a request to pay an APC/SCAPC over a period of time where it would be impractical to allow such a request (e.g. where the sum being paid is very small and could be paid as a single payment)	R16(1)	As a general rule the Hillingdon Pension Fund will not turn down any requests, however, it reserves the right to do so.	N/A
5.	Whether to require a satisfactory medical before agreeing to an application to pay an APC / SCAPC	R16(10)	The Administering Authority may require a satisfactory medical report to be submitted, at your cost, before your application is accepted.	N/A

	Discretion	Regulation	Policy	Delegated authority for approval
6.	Whether to turn down an application to pay an APC / SCAPC if not satisfied that the member is in reasonably good health.	R16(10)	Where this is the case you will be notified of the process to be followed after submitting your application to pay APC's	Head Statutory Accounts, Investments & Pensions
7.	Whether to charge member for provision of an estimate of additional pension that would be provided by the Scheme in return for transfer in of in house AVC /SCAVC funds (where AVC / SCAVC arrangement was entered into before 1 / 4/ 14)	TP15(1)d & A28(2)	LBH PF charges for estimates based on the current rate payable by the Fund.	N/A
8.	Decide to whom any AVC/SCAVC monies (including life assurance monies) are to be paid on death of the member	R17(12)	LBH PF will decide each case on its merits, after assessing all potential beneficiaries, but will take into account the member's valid expression of wish form.	LBH Pension Services
9.	Pension account may be kept in such form as considered appropriate	R22(3)(c)	LBH PF will decide the form in which pension accounts are kept based on any published guidance, best practice and in an efficient manner.	N/A
10.	Decide, in the absence of an election from the member within 12 months of ceasing a concurrent employment, which ongoing employment benefits from the concurrent employment which has ceased should be aggregated (where there is more than one ongoing employment)	TP10(9)	LBH PF will aggregate with the earliest remaining employment.	N/A

	Discretion	Regulation	Policy	Delegated authority for approval
11.	If an Employer has become defunct, the administering authority is required to make decisions on ill health and early payment of benefits. Including whether to waive, in whole or in part, actuarial reduction on benefits paid on flexible retirement or on benefits which a member voluntarily draws before normal pension age.	R30(8) TP12(6) R38(3) R38(6) B30(2) B30(5) B30A(3) B30A(5) B31(4) B31(7) TPSch 2, para 1(2) & 1(1)(c) TP3(1), TPSch 2 para 2(1)	LBH PF will exercise this discretion in accordance with, and to the extent of (if any) the policy and practice of the former employer. If no policy exists, LBH PF will not waive any reduction or otherwise agree to a retirement which would incur an employer strain charge. LBH PF will assess ill health retirement decisions, including the use of 2008 certificates, on a case by case basis.	Head of Statutory Accounts, Investments & Pensions
12.	Whether to require any strain on Fund costs to be paid 'up front' by employing authority following payment of benefits under: flexible retirement; redundancy / business efficiency; the waiver (in whole or in part) of any actuarial reduction that would have otherwise been applied to benefits which a member voluntarily draws before normal pension age; release of benefits before age 60.	R68(2) TPSch 2, para 2(3) L80(5) B30 or B30A	LBH PF requires employers to make upfront payment of strain charges following any decision to allow early payment of benefits (other than ill health).	N/A
13.	Whether to extend the time limits within which a member must give notice of the wish to draw benefits before normal pension age or upon flexible retirement.	R32(7)	No extension will be granted, unless appropriate to the individual circumstances of a case.	Head of Statutory Accounts, Investments & Pensions
14.	Decide whether to commute small pension	R34(1) R39 (1) (b) & (c) B39 T14(3) L49 & L156	LBH PF will allow commutation of eligible small pension pots.	N/A

	Discretion	Regulation	Policy	Delegated authority for approval
15.	Approve medical advisors used by employers (for ill health benefits)	R36(3) L97(10)	The Administering Authority will only accept an approved, registered medical practitioner.	Head of Statutory Accounts, Investments & Pensions
16.	Decide to whom death grant is paid	TP17(5) to (8) R40(2) R43(2) R46(2) B23(2) & B32(2) B35(2) TSch1 L155(4) L38(1) L155(4) E8	The Administering Authority shall exercise absolute discretion in determining the recipient(s) of any death grant payable from the Scheme. As required, the Council shall exercise absolute discretion in determining the recipient(s) of any death grant payable from the Fund. Decisions on the payment of a death grant will be made after taking in to account all relevant considerations and documentary evidence, including the deceased's Expression of Wish and will.	Head of Statutory Accounts, Investments & Pensions
17.	Decide, in the absence of an election from the member, which benefit is to be paid where the member would be entitled to a benefit under 2 or more regulations in respect of the same period of Scheme membership	R49(1)(c) B42(1)(c)	LBH PF will choose the benefit entitlement that yields the highest level of benefits for the member.	HCC Team Manager - Member Services
18.	Whether to set up a separate admission agreement fund	R54(1)	LBH PF has decided not to set up a separate admission agreement fund.	Corporate Director of Finance
19.	Maintain a governance policy which contains the information set out in the regulations	R55	LBH PF has a written governance policy which contains the required information and is regularly reviewed.	Pension Committee
20.	Decide on Funding Strategy for inclusion in funding strategy statement	R58	LBH PF has a funding strategy which is included in the funding strategy statement.	Pension Committee
21.	Whether to have a written pensions administration strategy and if so, the matters it should include	R59(1) and (2)	LBH PF has a written pensions administration strategy.	Pension Committee

	Discretion	Regulation	Policy	Delegated authority for approval
22.	Maintain a communication policy which contains the information set out in the regulations	R61	LBH PF has a written communication policy which contains the required information and is regularly reviewed.	Pension Committee
23.	Whether to obtain revision of employer's contribution rate if there are circumstances which make it likely a Scheme employer will become an exiting employer	R64(4)	LBH PF will decide each case on its merits, with advice from the Fund Actuary.	Corporate Director of Finance
24.	Decide whether to obtain a new rates and adjustments certificate if the Secretary of State amends the Benefits Regulations as part of the 'cost sharing' under R63	R65	LBH PF will make this decision as it arises, with advice from the Fund Actuary.	Corporate Director of Finance

	Discretion	Regulation	Policy	Delegated authority for approval
25.	Decide the frequency of payments to be made over to the Fund by employers and whether to make an admin charge	R69(1) L81(1) L12(5)	<p>LBH PF has determined the interval for payment of employer contributions to be monthly (other than for employers who make advance payment of their contributions on 1 April). Payments are due monthly by 19th of the month (22nd if electronic) following deduction.</p> <p>However if in exceptional circumstances an employer makes a request to defer payment of employer contributions, consideration to this will be given on a case by case basis. Factors which will be considered include, but are not limited to; the overall financial security of the organisation making the request, the likelihood that deferring may lead to contributions not being paid within the year, the support of any guarantor or related local authority to the deferment. If a request is agreed, then deferred payments will be subject to interest at the underlying discount rate for the employer.</p> <p>LBH PF reserves the right to ask the Fund Actuary to take into account the timing of deferred payments when determining the allocation of assets. This is so that any material increase in markets is not unfairly attributed to employers during a period of non payment.</p> <p>Administration costs are taken into account by the actuary when setting employer contribution rates.</p>	Head of Statutory Accounts, Investments & Pensions

	Discretion	Regulation	Policy	Delegated authority for approval
26.	Decide the form and frequency of information to accompany payments to the Fund	R69(4) L81(5)	Employers are required to complete a monthly remittance form with their payment showing a breakdown of contributions.	HCC Team Manager – Finance
27.	Whether to issue employer with notice to recover additional costs incurred as a result of the employer's level of performance	R70 and TP22(2)	LBH PF will work with employers to improve performance but if additional and disproportionate resources are deployed by LBH PF because of an employer's poor performance, the cost of the additional resources may be re-charged.	Head of Statutory Accounts, Investments & Pensions
28.	Whether to charge interest on payments by employers which are overdue	R71(1) L82(1)	LBH PF will charge interest on payments which are more than one month overdue.	Head of Statutory Accounts, Investments & Pensions
29.	Decide whether to extend six month period to lodge a stage one IDRPs to be heard by the administering authority	R74(4)	LBH PF will not extend the 6 month period, unless the circumstances of the individual case warrant an extension.	Head of Statutory Accounts, Investments & Pensions
30.	Decide procedure to be followed when exercising its IDRPs functions and decide the manner in which those functions are to be exercised	R74(6) R76(4) L99	LBH PF has a documented and compliant IDRPs process.	N/A
31.	Whether admin authority should appeal against employer decision (or lack of a decision)	R79(2) L105(1)	LBH PF would take the decision to appeal based on the merits of the individual case.	Head of Statutory Accounts, Investments & Pensions
32.	Specify information to be supplied by employers to enable admin. authority to discharge its functions	R80(1)(b) & TP22(1)	LBH PF provides employers with full guidance as to the information they must supply.	N/A
33.	Whether to pay death grant due to a personal representatives or anyone appearing to be beneficially entitled to the estate without need for grant of probate / letters of administration where payment is less than amount specified in the Administration of Estates (Small Payments) Act 1965.	R82(2) A52(2) L95	LBH PF will pay death grants that are under the amount specified in the Administration of Estates (Small Payments) Act 1965 without the need for grant of probate / letters of administration.	N/A

	Discretion	Regulation	Policy	Delegated authority for approval
34.	Whether, where a person (other than an eligible child) is incapable of managing their affairs, to pay the whole or part of that person's pension benefits to another person for their benefit.	R83 A52A	LBH PF will decide who should receive payment of benefits, based on the circumstances of the individual case.	Head of Statutory Accounts, Investments & Pensions
35.	Date to which benefits shown on annual benefit statement are calculated.	R89(5) L106A(5)	LBH PF uses 31 March, but will revise this if regulatory requirements, administrative efficiency or best practice demand it.	N/A
36.	Extend normal time limit for acceptance of a transfer value beyond 12 months from joining the LGPS.	R100(6)	The Administering Authority will extend the limit where it is determined that maladministration has occurred as a result of affected employees not having been given any or sufficient details about the pension scheme of transfer option.	Head of Statutory Accounts, Investments & Pensions
37.	Allow transfer of pension rights into the Fund.	R100(7)	LBH PF will allow transfers into the Fund.	N/A
38.	Where member to whom B10 applies (use of average of 3 years pay for final pay purposes) dies before making an election, whether to make that election on behalf of the deceased member. Make election on behalf of deceased member with a certificate of protection of pension benefits i.e. determine best pay figure to use in the benefit calculations (pay cuts / restrictions occurring pre 1.4.08.).	TP3(6), TP4(6)(c), TP8(4), TP10(2)(a), TP17(2)(b) TSch 1 L23(9) B10(2)	LBH PF will choose the pay figure that would yield the highest overall level of benefits for beneficiaries.	HCC Team Manager – Member Services
39.	Decide to treat child as being in continuous education or vocational training despite a break.	RSch 1 & TP17(9) B39 T14(3)	LBH PF will treat a child as being in continuous education or vocational training despite a break.	N/A

	Discretion	Regulation	Policy	Delegated authority for approval
40.	Decide evidence required to determine financial dependence of cohabiting partner on scheme member or financial interdependence of cohabiting partner and scheme member.	RSch 1 & TP17(9)(b) B25	LBH PF will decide the evidence required to determine financial dependence, based on guidance and best practice. For most cases, utility bills, bank statements or mortgage documentation in joint names will be accepted.	HCC Team Manager - Member Services
41.	Decide policy on abatement of pensions following re-employment, including the pre April 14 element for post 14 leavers.	TP3(13) & A70(1)* & A71(4)(c) T12 L109 L110(4)b	The Administering Authority has decided not to suspend or reduce pre 2014 pension payments following re-employment.	N/A
42.	Extend time period for capitalisation of added years contract	TP15(1)(c) & TSch1 & L83(5)	If applicable, LBH PF will not extend the time limit for applications to pay off added years contracts.	N/A
43.	Outstanding employee contributions can be recovered as a simple debt or by deduction from benefits	A45(3) L89(3)	LBH PF will look at each case on its merits but will usually recover as a deduction from benefits.	LBH Pension Services
44.	Whether to pay the whole or part of a child's pension to another person for the benefit of that child.	B27(5) L47(2) G11(2)	All pensions due to children under 16 will be paid to another person for the benefit of the child. After age 16, LBH PF will normally pay to the child, unless the circumstances of the individual case mean that the payments should continue to be made to another person.	N/A
45.	Extend normal 12 month period following end of relevant reserve forces leave for "Cancelling notice" to be submitted by a councillor member requesting that the service should not be treated as relevant reserve forces service.	L17(4),(7),(8) , & L89(4) & Sch 1	LBH PF will not extend the 12 month period.	N/A
46.	Select appropriate final pay period for deceased non-councillor member (leavers post 31.3.98. / pre 1.4.08.).	L22(7)	LBH PF will choose the appropriate pay period that would yield the highest overall level of benefits for beneficiaries.	HCC Team Manager - Member Services

	Discretion	Regulation	Policy	Delegated authority for approval
47.	Apportionment of children's pension amongst eligible children (children of councillor members and children of post 31.3.98 / pre 1.4.08. leavers).	L47(1) G11(1)	LBH PF will apportion children's pension equally amongst eligible children.	N/A
48.	Commute benefits due to exceptional ill-health (councillor members, pre 1.4.08. leavers and pre 1.4.08. Pension Credit members).	L50 and L157	LBH PF will commute benefits due to exceptional ill health, provided regulatory conditions are met.	N/A
49.	Retention of CEP where member transfers out (councillors and pre 1.4.08. leavers).	L118	CEP will be paid with transfers out rather than being retained in the Fund.	N/A
50.	Discharge Pension Credit liability (in respect of Pension Sharing Orders for councillors and pre 1.4.08. Pension Sharing Orders for non-councillor members).	L147	LBH PF will discharge its liability by conferring pension credit rights on the person entitled to the pension credit.	N/A
51.	Whether to pay spouse's pensions for life for pre 1.4.98 retirees / pre 1.4.98 deferreds who die on or after 1.4.98. (rather than ceasing during any period of remarriage or co-habitation).	F7	LBH PF will pay spouse's LGPS pensions for life.	N/A
52.	Agree to pay annual compensation on behalf of employer and recharge payments to employer.	DC31(2)	LBH PF will pay compensation on behalf of an employer, subject to acceptable recharge arrangements.	Head of Statutory Accounts, Investments & Pensions
53.	Whether to agree to that an admission agreement may take effect on a date before the date on which it is executed.	RSch2, Part 3, para 14	As set out in the Employer Policy, LBH PF requires employers to notify the Fund of any outsourcing as soon as possible and complete an admission agreement with sufficient time before the contract start date. However each case will be decided on its merits, with advice from the Fund Actuary.	Head of Statutory Accounts, Investments & Pensions
54.	Whether to extend the period beyond 6 months from the date an Employer ceases to be a Scheme Employer, by which to pay an exit credit	R64 (2ZA)	As set out in the Employer Policy, LBH PF will agree a later date with an employer if circumstances mean that an exit credit cannot be paid within 6 months of the employer exiting the Fund.	Head of Statutory Accounts, Investments & Pensions

	Discretion	Regulation	Policy	Delegated authority for approval
55.	To determine the amount of an exit credit, which may be zero	R64 (2ZAB)	LBH PF will determine the amount of any exit credit to be paid in accordance with the terms set out in the Funding Strategy Statement .	Head of Statutory Accounts, Investments & Pensions
56.	Whether to suspend (by way of issuing a suspension notice) for up to 3 years an employer's obligation to pay an exit payment where the employer is again likely to have active members within the specified period of suspension.	R64(2A)	LBH PF will exercise this discretion in relation to Town or Parish Councils. Any other circumstance will be considered on its merits with advice from the Fund Actuary.	Head of Statutory Accounts, Investments & Pensions
57.	To decide whether it is legally able to offer voluntary scheme pays and, if so, to decide the circumstances (if any) upon which it would do so.	RPS 2	LBH PF will allow a request for Voluntary Scheme Pays (VSP) where the tax charge is over £1,000 in relation to an excess over the standard annual allowance. Any request for VSP below this minimum will be considered on a case by case basis with regard for the administration cost of administering a small pension debit. In addition, LBH PF will allow a request for VSP in relation to a tax charge of £1,000 or more which has arisen in relation to an excess over a tapered annual allowance over the standard annual allowance if the total tax charge is more than £1,000).	Head of Statutory Accounts, Investments & Pensions

Key to regulations:

Prefix	Regulation
R	Local Government Pension Scheme Regulations 2013
TP	Local Government Pension Scheme (Transitional Provisions, Savings and Amendment) Regulations 2014
A	Local Government Pension Scheme (Administration) Regulations 2008
B	Local Government Pension Scheme (Benefits, Membership and Contributions) Regulations 2007
T	Local Government Pension Scheme (Transitional Provisions) Regulations 2008
L	Local Government Pension Scheme Regulations 1997 (as amended)
None	Local Government Pension Scheme Regulations 1995
DC	Local Government (Early Termination of Employment) (Discretionary Compensation) (England and Wales) Regulations 2000
RPS	The Registered Pension Schemes (Modification of Scheme Rules) Regulations 2011

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Exempt information by virtue of paragraph(s) 3 of Part 1 of Schedule 12A
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Agenda Item 12

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