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Pensions Committee

Date: **TUESDAY, 6 DECEMBER 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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To Members of the Committee:

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

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Putting our residents first

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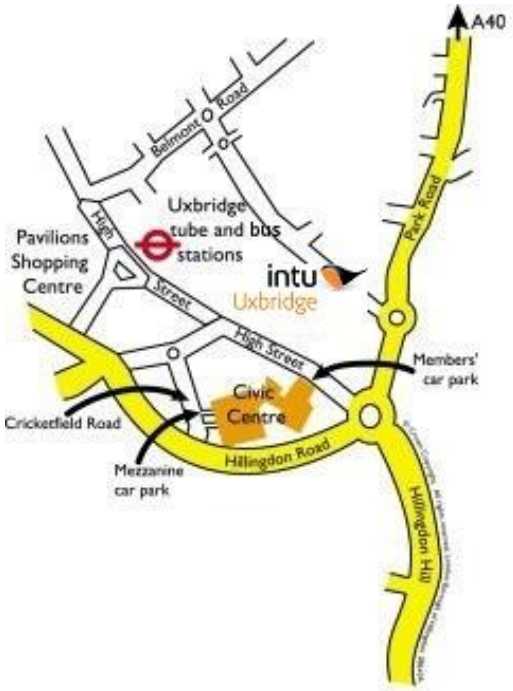

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Agenda

CHAIRMAN'S ANNOUNCEMENTS

PART I - Members, Public and Press

PART II - Members Only

That the reports in Part 2 of this agenda be declared not for publication because they involve the disclosure of information in accordance with Section 100(A) and Part 1 of Schedule 12 (A) to the Local Government Act 1972 (as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

Minutes

PENSIONS COMMITTEE

28 September 2022

Meeting held at Committee Room 6 - Civic Centre, High Street, Uxbridge UB8 1UW

	Committee Members Present: Councillor Stuart Mathers (Chairman) Councillor Tony Burles (Vice-Chairman) Councillor Kaushik Banerjee Councillor Martin Goddard Councillor Mohammed Islam **LBH Officers Present:** Andy Evans, Corporate Director of Finance James Lake, Head of Pensions, Treasury, Investments & Statutory Accounts Tunde Adekoya, Pension Fund Accountant Steve Clarke, Democratic Services Officer **Also Present:** Roger Hackett, Pension Board Member Tony Noakes, Pension Board Member Andrew Singh, Isio Clare Scott, Independent Adviser David O'Hara, Isio Larisa Midoni, Ernst & Young Craig Alexander, Hymans & Robertson LLP Andy Lowe, Hampshire County Council
15.	**APOLOGIES FOR ABSENCE** *(Agenda Item 1)* There were no apologies for absence.
16.	**DECLARATIONS OF INTEREST IN MATTERS COMING BEFORE THIS MEETING** *(Agenda Item 2)* There were no declarations of interest.
17.	**MINUTES OF THE MEETING DATED 09 JUNE 2022** *(Agenda Item 3)* **RESOLVED: That the minutes of the meeting dated 09 June 2022 be agreed as an accurate record.**
18.	**TO CONFIRM THAT ITEMS MARKED PART I WILL BE CONSIDERED IN PUBLIC AND THOSE MARKED PART II WILL BE CONSIDERED IN PRIVATE** *(Agenda Item 4)* It was confirmed that items 1 – 11 were marked Part I and would be considered in public and items 12 – 15 were marked Part II and would be considered in private.

19.	**EXTERNAL PENSION FUND AUDIT UPDATE 2021/22 & PENSION FUND ANNUAL REPORT** *(Agenda Item 5)* James Lake, Head of Pensions, Treasury, Investments & Statutory Accounts, introduced the item as a way for Ernst & Young to provide an update on the audit process of the pension fund accounts. It was noted that the pension fund audit was in a relatively good position and was almost complete; Members were informed that the statutory deadline to complete the audit had also been extended to 30 November 2022. The Committee were asked to approve for publication the pension fund annual report, which is produced in line with CIPFA guidance and would be subject to review from Ernst & Young. Larisa Midoni from Ernst & Young was present to deliver an overview of the pension fund audit's progress and reminded Members that the auditors could not sign off on the pension fund accounts until the entirety of the Council's accounts were signed off, it was noted that this was currently facing some delays. With regard to the pension fund audit, the Committee were informed that this was progressing well. Members noted the update and approved the 2021/22 Fund Annual Report for publication, subject to review from the auditors. **RESOLVED That the Pensions Committee:** **1) Noted Ernst & Young's update on the audit of the Pension Fund accounts for 2021/22; and,** **2) Approved the 2021/22 Fund Annual Report for publication.**
20.	**ADMINISTRATION REPORT** *(Agenda Item 6)* James Lake, Head of Pensions, Treasury, Investments & Statutory Accounts, introduced the report noting that Hampshire County Council (HCC), as the pensions administrator, continued to deliver at 100% against their key performance indicators. The numbers of scheme members signing up to the online portal continued to improve and efforts to clear the back log of work left by the previous administrators remained on track. Andy Lowe, Head of Pension Services at Hampshire County Council, introduced himself to the new Members of the Pensions Committee highlighting that it had been approximately one year since administration services of Hillingdon's pension scheme had transitioned from Surrey County Council to HCC, and in that time a productive working relationship had been established between LBH and HCC with HCC performing well. Members thanked officers for the administration update and commended the team at HCC for their continued good performance. **RESOLVED That the Pensions Committee noted the administration update.**
21.	**2022 INITIAL VALUATION RESULTS** *(Agenda Item 7)* James Lake, Head of Pensions, Treasury, Investments & Statutory Accounts, introduced the report noting that the Committee had attended a separate in-depth session whereby Members and officers analysed the initial results of the draft whole fund triennial valuation. The session also covered the assumptions, next steps and funding position.

	Members queried what proportion of the pension scheme membership was final salary based. Craig Alexander, from the fund actuary Hymans & Robertson LLP, addressed the Committee noting that at the 2013 valuation this figure was 35% of fund members, in 2016 the figure was 25%, in 2019 the figure was 15%, and the figure currently stood at around 10%. It was noted that this figure would continue to fall, eventually to 0%, when no retired scheme members would be in receipt of a final salary based pension. **RESOLVED That the Pensions Committee noted the initial valuation results report.**
22.	**INVESTMENT STRATEGY AND FUND MANAGER PERFORMANCE - PART I** *(Agenda Item 8)* James Lake, Head of Pensions, Treasury, Investments & Statutory Accounts, introduced the report highlighting that this was the first quarter in which the war in Ukraine, inflation and growth fears had made a significant negative impact on the fund with a reduction in value of £86m over the quarter. Performance over a longer period of three years had fallen to 2.70%, where the target rate of return was 4%. It was noted that the at the time of the meeting, the fund value was at £1.207b compared to £1.174b reported in June 2022. The Committee were informed that London Collective Investment Vehicle LCIV had stepped up drawdowns for their infrastructure and private debt funds over the previous quarter. It was also noted that, in terms of strategic benchmark weightings, the portfolio overall was close to the benchmark however there was an agreed MAC underweight and a slight overweighting in property. **RESOLVED That the Pensions Committee noted the funding and performance update.**
23.	**RESPONSIBLE INVESTMENT** *(Agenda Item 9)* James Lake, Head of Pensions, Treasury, Investments & Statutory Accounts, introduced the item and highlighted a recent achievement in that Hillingdon had been successful in its Stewardship Code application and was now listed as a signatory on the Financial Reporting Council website. The Committee had previously requested that Hillingdon's approach to responsible investing be compared to that of LCIV. It was noted that the two approaches were generally in alignment however there were difficulties in comparing the two as Hillingdon's responsible investment policy was drafted from the perspective of an asset owner and LCIV's from the perspective of an asset manager. Members urged caution in comparing LCIV's and Hillingdon's approaches and an emphasis was placed on the fund managers themselves, although it was noted that LCIV appointed fund managers. The Committee concluded that overall the responsible investment policies aligned well, especially when considering that all London Boroughs were clients, although it was also noted that there could be differences on product-by-product basis. The Committee wished to thank officers and previous Members of the Pensions Committee in their work in achieving a successful Stewardship Code application. Members sought an opportunity to understand the beliefs and values of LGIM, particularly in terms of social responsibilities, governance and ESG matters; it was noted that a previous iteration of the Pensions Committee had spent a lot of time discussing ESG matters with LGIM and had concluded that there was a strong

	alignment between the values of Hillingdon and LGIM, specifically in terms of ESG matters. **RESOLVED that the Pensions Committee:** **1) Noted confirmation that Hillingdon has received signatory status of the UK Stewardship Code;** **2) Noted the intention to begin TCFD reporting;** **3) Noted the fund managers' ESG activities and compliance efforts; and,** **4) Noted comparison of LBH/LCIV Responsible Investment Beliefs.**
24.	**RISK REGISTER REPORT** *(Agenda Item 10)* James Lake, Head of Pensions, Treasury, Investments & Statutory Accounts, introduced the item noting that there had been no changes to the risk register this quarter. The main focus surrounding inflation and the value of the fund were highlighted as remaining in a red status; this was primarily due to potential impact level however mitigations listed in the register were in place to help reduce the likelihood of this risk. Members sought clarification on 'PEN 8 – The risk of financial loss through the negative impact of ESG matters' and queried whether this risk could be considered lower due to the nature of pooled LGIM and LCIV funds. It was noted that the Committee's primary focus was to ensure a positive return on investments and it would not make negatively impacting decisions purely in an effort to follow ESG principles. **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.**
25.	**DRAFT WORK PROGRAMME AND TRAINING** *(Agenda Item 11)* The Committee's forward plan and training log was introduced by James Lake, Head of Pensions, Treasury, Investments & Statutory Accounts. It was noted that there were gaps remaining in Committee Members' training and it was emphasised by the Chair that it was important to maintain the high level of experience and knowledge held by the Council's Pensions Committee. Officers noted the importance of maintaining the professional status of the fund under the Markets in Financial Instruments Directive (MiFID), the Committee would need the ability to demonstrate that they have the professional knowledge and skills to effectively manage a fund. Advisers noted that, increasingly, other funds are testing the knowledge of Members to gauge where they may be gaps in knowledge and where training would be required. **RESOLVED That the Pensions Committee:** **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 training update.**

26.	**INVESTMENT PART II - STRATEGY REVIEW AND MANAGER UPDATES** *(Agenda Item 12)* *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).*
27.	**2022/23 BUDGET UPDATE** *(Agenda Item 13)* *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).*
28.	**TCFD REPORTING** *(Agenda Item 14)* *This item was discussed as a Part II item without the press or public present as the information under discussion contained confidential or exempt information as defined by law in the Local Government (Access to Information) Act 1985. This was because it discussed 'information relating to the financial or business affairs of any particular person (including the authority holding that information)' (paragraph 3 of the schedule to the Act).*
29.	**2022 INITIAL VALUATION RESULTS** *(Agenda Item 15)* *This item was discussed as a Part II item without the press or public present as the information under discussion contained confidential or exempt information as defined by law in the Local Government (Access to Information) Act 1985. This was because it discussed 'information relating to the financial or business affairs of any particular person (including the authority holding that information)' (paragraph 3 of the schedule to the Act).*
	The meeting, which commenced at 5.00 pm, closed at 6.17 pm.

These are the minutes of the above meeting. For more information on any of the resolutions please contact Steve Clarke on 01895 250636. Circulation of these minutes is to Councillors, Officers, the Press and Members of the Public.

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ADMINISTRATION REPORT

Committee	Pensions Committee
Officer Reporting	James Lake – Finance 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 August 2022. Historic monthly reports are included in the member shared drive.

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

Member portal registrations continue to improve month-on-month and as at October 2022 show 27.26**%.**

Annual Savings Statements were made available to relevant members in line with the statutory requirement.

Inherited backlog cases continue to be cleared in line with the 2-year project schedule.

RECOMMENDATIONS

That the Pensions Committee note the administration update.

FINANCIAL IMPLICATIONS

Financial implications have been previously dsclosed.

LEGAL IMPLICATIONS

The legal implications are in the body of the report.

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HAMPSHIRE PENSION SERVICES

Monthly administration report

OCTOBER 2022

HILLINGDON
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Working in partnership with

Contents

1. Summary

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

2. Background

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

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

3. Membership

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

	Active	Deferred*	Pensioner	Preserved Refunds**	Total
OBC	*9,020*	*11,400*	*7,036*	-	*27,456*
October-22	12,630	8,655	7,828	1,057	**30,170**
Growth	*40.02%*	*-24.07%*	*11.25%*	-	*9.88%*

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

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

4. Administration performance

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

4.2. The table below shows performance from 1st October to 31st October 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	*Average days to complete process*	*Total Cases (previous month)*	*% completed on time (previous month)*
Active Retirement	5	1	1	0	0	0	7	100.00%	*4*	*12*	*100.00%*
Deferred Retirement	6	5	9	0	0	0	20	100.00%	*9*	*17*	*100.00%*
Estimates	8	7	22	0	0	0	37	100.00%	*10*	*36*	*100.00%*
Deferred Benefits	2	1	5	3	76	0	87	100.00%	*24*	*96*	*100.00%*
Transfers In & Out	2	0	0	0	0	0	2	100.00%	*1*	*4*	*100.00%*
Divorce	0	1	3	0	0	0	4	100.00%	*12*	*0*	*100.00%*
Refunds	0	6	7	0	0	0	13	100.00%	*11*	*10*	*100.00%*
Rejoiners	1	4	4	6	0	0	15	100.00%	*13*	*13*	*100.00%*
Interfunds	1	5	27	0	0	0	33	100.00%	*12*	*20*	*100.00%*
Death Benefits	8	5	3	0	0	0	16	100.00%	*6*	*3*	*100.00%*
GRAND TOTAL	**33**	**35**	**81**	**9**	**76**	**0**	**234**	**100.00%**		***211***	***100.00%***

4.3. The table below shows outstanding work as of 31st October 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.

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

4.5. 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	4	1	1	0	0	0	6	*6*
Deferred Retirement	1	3	0	0	0	0	4	*11*
Estimates*	55	36	23	3	1	0	118	*98*
Deferred Benefits	24	16	7	27	9	0	83	*105*
Transfers In & Out	1	0	0	0	0	0	1	*1*
Divorce	0	1	0	1	0	0	2	*7*
Refunds	5	1	0	0	0	0	6	*10*
Rejoiners	8	2	5	9	1	0	25	*27*
Interfunds	4	10	1	1	0	0	16	*31*
Death Benefits	2	3	2	1	3	0	11	*13*
GRAND TOTAL	**104**	**73**	**39**	**42**	**14**	**0**	**272**	***309***

*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. As of 1st October 2022, the outstanding leavers stands at 3,435 – this has decreased compared to last month.

5.3. During October we sent a further 61 leaver form requests to a number of scheme employers in the course of working through the outstanding cases; with 913 leaver forms being requested in total.

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

Employer	Number of leavers outstanding
London Borough Of Hillingdon	642
Hedgewood School	198
Uxbridge Harrow College (HCUC)	132
Qed - Queensmead Academy	75
Eden Academy - Grangewood	67

5.5. We have agreed with Hillingdon that we will not continue submitting queries to Dataplan for any employers they provide the payroll service; their focus should be on finalising annual returns queries first. Approximately 300 queries – relating to historic leavers – have been sent to Dataplan to date and we have received very few responses.

6. Call and email volumes

6.1. The table below sets out the call statistics for Hillingdon for the month of October 2022:

Calls Received	140
Calls Answered	138
Calls Answered Percentage	98.57%
Calls Abandoned	2
Abandoned Percentage	1.42%
Average Wait Time	44 seconds
Calls Answered Within 5 Minutes	138
Percentage Of Calls Answered Within 5 Minutes	98.57%

6.2. Abandoned calls are caused by the member ending the call before we can answer, and in some cases, this can be because they have heard one of our automatic messages asking them to visit our website or Portal.

6.3. The total number of calls received were 3,237 and the statistics above are included in this number.

6.4. Our Pension Customer Support Team (PCST) record the number of emails received into our main Pension Services inbox. The table below shows the combined (Hampshire, West Sussex, Westminster, and Hillingdon) volumes, for the current and previous month.

Month	Total Emails Received	Response from PCST	Forms and Emails Forwarded to another team*
October	6,560	5,590	970
September	6,860	5,770	1,090

6.5. Of the emails responded to by PCST, 154 of these were for Hillingdon members.

7. Online services

Member Portal

7.1. Active, Deferred and Pensioner members of the LBH LGPS have the ability to register for our Member Portal and update their personal details, death grant nominations, and bank details; securely view annual benefit statements, payslips and P60s; run online voluntary retirement estimates; and complete their membership option and retirement declaration forms online.

7.2. The table below shows the total number of current registrations for each status as of 31st October 2022.

Status	Registrations to date	% of total membership	Registrations to 30/09/2022	% of total membership
Active	3,972	31.45%	3,819	28.04%
Deferred	2,035	23.51%	1,932	22.51%
Pensioner	1,929	24.64%	1,866	23.90%
TOTAL	**7,936**	**27.26%**	**7,617**	**26.58%**

7.3. 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%**

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

Month	Active	Deferred	Pensioner
September 2022	1,519	325	263
October2022	858	375	324

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

Engagement	Active	Deferred	Pensioner	Total
Portal	3,972	2,035	1,929	**7,936**
Opt out	14	15	431	**460**
No contact	8,644	6,605	5,468	**21,774**
Total	12,630	8,655	7,828	**30,170**

Employer Hub

7.6. All LBH employers are signed up to the Employer Hub, and 231 individual users have access.

Cyber Security

7.7. As explained in last months' report, one of the steps taken to address the attempted cyber-attack was to reintroduce geo-blocking, which prevents members living in certain countries from accessing our Member Portal.

7.8. This is seen as a temporary measure, while Hampshire County Council's (HCC) IT department work on an alternative approach – this piece of work was already in progress at the time of the attempted attack – which will take the form of a 'reCAPTCHA' process.

7.9. reCAPTCHA is the mechanism which a number of other external websites use to allow the user to prove they are human, and not a 'robot'. This is normally seen in the form of being asked to select images which contain specific items, or entering a series of letters and numbers, for example. The exact approach is to be confirmed, but the software will be 'intelligent'; meaning the reCAPTCHA will only be triggered by an IP address that is situated outside of the list of countries we allow access to our Portal.

7.10. This layer of security is being applied to all of the County Council's external websites – not just Pensions – and is due to be in place by April 2023, but we will keep Partners updated on progress.

7.11. As it stands, 25 overseas pensioners cannot access our Member Portal and they have all been contacted to make them aware of the current situation.

8. McCloud

8.1. We have received 94 of 124 completed service/break data sets from LBH employers; initial data checks have been completed on all of the data sets received. This represents 58.52% of the membership populate who are likely to require McCloud remedy.

8.2. There are 30 employers yet to provide data, and the team is working with LBH and the employers to get the returns back.

8.3. We have received 97 of 138 completed service break/data sets from LBH employers; for the period 1st April 2021 – 31st March 2022. This represents 58.67% of the membership who are likely to require McCloud remedy.

8.4. 8 of the 42 original service/break data sets have been uploaded to the system.

8.5. We have completed the second round of chasing for outstanding returns; we are waiting two weeks to allow employers to have the chance to respond before escalating to the fund.

8.6. Our internal project board continues to meet on a regular basis, to discuss progress and any work we can complete now to prepare us for Remedy.

9. 2022 End of Year timetable

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

Total Number of Statements Required	Total Number of Statements Produced	Total Number of Statements Missing	Percentage of Statements Produced
12,793	12,664	129	98.99%

9.2. A high level summary of the reason we have been unable to produce a statement is below, and we will continue to work on those records which we are able to. Otherwise, we require additional information from the employer for the majority of cases.

Reason for missing statement	Number of members
Missing earnings/outstanding query with employer	122
Outstanding TUPE transfer	0
Further investigation required – potential data issue	7

10. Pensions Dashboard Programme (PDP)

10.1. A full report has been shared with all Partners and is also attached in Appendix 1.

10.2. This sets out our understanding of the PDP; roles and responsibilities, including confirmation of the ISP; dashboard and data readiness; and the costs associated with implementation and ongoing dashboard support.

10.3. We are currently engaging with Civica, to confirm the next steps for the ISP software implementation.

11. 2022 Software Development

11.1. The second ID&V pilot has been a useful exercise, and we have taken feedback from individuals to develop the software further with Civica – these developments will be in place for next year's exercise.

11.2. We are now reviewing the best way forward, and planning the full communication piece to overseas pensioners in all schemes; we endeavour to communicate with all overseas pensioners by the end of the year, asking them to complete the Life Certificate process.

11.3. The updated version of the Aggregation module – which should fix issues highlighted in our original testing – is due for delivery to our Test environment in early November. The team can commence testing again at this point, with a view to approving the delivery to our Live UPM environment. We are expecting testing to take at least 4 to 6 weeks.

11.4. The GDPR module – to support extraction of documents for data subject access requests and automate the bulk deletion of records in line with data retention policies – has been delivered to our Test environment, and the Systems team have been finalising the set up in the last week, before testing can commence.

12. Target address tracing project

12.1. We have submitted two tracing requests to Target, these included preserved refunds and deferred members who were confirmed as being 'lost contacts'.

12.2. The below table explains the position of the preserved refund trace.

Originally Submitted	Living As Stated	New Address	No Response	Unable To Trace	Deceased	Overseas Trace Required

667	518	59	95	5	4	4

12.3. We received notice from Target in October that one of the no response members is deceased, the figures in the above table have been updated accordingly.

12.4. The below table explains the position of the deferred lost contact trace:

Originally Submitted	Living As Stated	New Address	No Response	Unable To Trace	Deceased	Overseas Trace Required	Possible Deceased Members
421	78	133	117	56	18	15	4

12.5. We did not receive any further address updates in October; however we will continue to update the above tables as and when results come in.

13. Audit

13.1. The position of our 2022/23 pension audits are as follows:

Audit Area	Timing
Pension Transfers: To provide assurance over the processes and controls to support the accuracy and timeliness of transfers in and out of the schemes managed by HPS.	Completed – 'substantial' rating confirmed.
Member Deaths: To provide assurance that systems and processes ensure that any payments related to deceased members are calculated correctly and paid promptly to the correct recipient, with the risk of overpayments minimised.	Testing complete – close of audit meeting booked for 10th November.
UPM - Cyber Security: *(This has been identified as a new audit review area)* To provide assurance over the Cyber Security arrangements for the UPM application	Due to start in Quarter 3 / 4

Pensions Payroll and Benefit Calculations: Annual review to provide assurance that systems and controls ensure that:- • Lump sum and on-going pension payments are calculated correctly, are valid and paid to the correct recipients; • All changes to on-going pensions are accurate and timely; • Pension payroll runs are accurate, complete, timely and secure with all appropriate deductions made and paid over to the relevant bodies.	Due to start in Quarter 3 / 4

14. Scheme legislation updates

14.1. Legislation updates that have been received during October 2022 for the Local Government Pension Scheme, are detailed in Appendix 2, including any actions that Hampshire Pension Services have taken.

15. Employer and Member Communications

15.1. **Employer communications** – We did not issue any employer communications in October.

15.2. **Member communications** – we did not issue any member communications in October.

16. Quality Assurance

16.1. **Data Protection Breaches** – We have identified one data protection breach in October 2022, further detail can be found in appendix 3.

17. Compliments and Complaints

17.1. We did not receive any complaints In October 2022.

17.2. We did not receive any compliments from members of the LBH LGPS in October.

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2022 ACTUARIAL VALUATION AND DRAFT FUNDING STRATEGY STATEMENT

Committee	Pensions Committee
Officer Reporting	James Lake – Finance Directorate
Papers with this report	Draft Funding Strategy Statement

HEADLINES

The draft whole fund triennial valuation has been completed. On 14 November 2022 all employers were invited to a triennial results event where the fund actuary presented the results and discussed the process, assumptions and next steps, which included the distribution of the employer's rate certificates and draft Funding Strategy Statement (FSS) for consultation.

Any consultation responses will be considered with the final FSS being presented for formal Committee approval in March 2023.

The Fund is required under the Local Government Pension Scheme regulations to maintain and publish a Funding Strategy Statement (FSS). The purpose of the FSS is:

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

RECOMMENDATIONS

That the Pensions Committee note the Draft Funding Strategy Statement.

SUPPORTING INFORMATION

Funding Strategy Statement (FSS)

The draft FSS has been prepared by the Administering Authority of the London Borough of Hillingdon Pension Fund in collaboration with the Fund's actuary, Hymans Robertson LLP.

The Fund needs a FSS as employees' benefits are guaranteed by the LGPS Regulations, and do not change with market values or employer contributions. Investment returns help pay for some of the benefits, although there is volatility in investment returns. Employees' contributions are fixed within the regulations, at a level which covers only part of the cost of the benefits. Therefore, employers need to pay the balance of the cost of delivering the benefits to members and their dependants.

The FSS focuses on how employer liabilities are measured, the pace at which these liabilities are funded, and how employers or pools of employers pay for their own liabilities. This statement sets out how the Administering Authority has balanced the conflicting aims of:

- prudence in the funding basis
- affordability and stability of employers contributions, and
- transparency of processes.

The FSS is a summary of the Fund's approach to funding its liabilities, and this includes reference to the Fund's other policies; it is not an exhaustive statement of policy on all issues. The FSS forms part of a framework which includes:

- the LGPS Regulations;
- the Rates and Adjustments Certificate (confirming employer contribution rates for the next three years) which can be found in an appendix to the formal valuation report;
- actuarial factors for valuing individual transfers, early retirement costs and the costs of buying added service; and
- the Fund's Investment Strategy Statement.

The FSS sets out the objectives of the Fund's funding strategy, such as:

- to ensure the long-term solvency of the Fund, using a prudent long-term view. This will ensure that sufficient funds are available to meet all members'/dependants' benefits as they fall due for payment;
- to ensure that employer contribution rates are reasonably stable where appropriate;
- to minimise the long-term cash contributions which employers need to pay to the Fund, by recognising the link between assets and liabilities and adopting an investment strategy which balances risk and return (NB this will also minimise the costs to be borne by Council Taxpayers);
- to reflect the different characteristics of different employers in determining contribution rates. This involves the Fund having a clear and transparent funding strategy to demonstrate how each employer can best meet its own liabilities over future years; and
- to use reasonable measures to reduce the risk to other employers and ultimately to the Council Taxpayer from an employer defaulting on its pension obligations.

McCloud

Benefits accrued by certain members between 2014 and 2022 may increase following the McCloud case, which ruled that transitional protections introduced in 2014 for older members were discriminatory. An allowance for the cost of these potential improvements has been made, based on the guidance issued by Department of Levelling Up, Housing and Communities on 22 March 2022. The actuary expects minimal impact for most employers.

Cost sharing mechanism

Benefits could change because of the 2020 cost cap valuation; the outcome is currently unknown. There is also an ongoing legal challenge to the 2016 cost cap valuation. The

actuary has assumed that there will be no changes required to the benefit structure due to cost cap.

Guaranteed Minimum Pension (GMP) equalisation and revaluation

The actuary has assumed the Fund will pay all increases on GMP for members with a State Pension retirement date after 5 April 2016, as we did in the 2019 valuation.

Other legal cases

Benefits could change as a result of other legal challenges (e.g. the Goodwin case affecting partner pensions). Given the lack of information about possible benefit changes and their relatively small impact, there is no allowance for these changes.

FINANCIAL IMPLICATIONS

Legal implications are included in the report and attachments.

LEGAL IMPLICATIONS

Legal implications are included in the report.

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London Borough of Hillingdon Pension Fund
Funding Strategy Statement
November 2022

Contents

1 Welcome to London Borough of Hillingdon Pension Fund's funding strategy statement

This document sets out the funding strategy statement (FSS) for London Borough of Hillingdon Pension Fund.

The London Borough of Hillingdon Pension Fund is administered by London Borough of Hillingdon, known as the administering authority. London Borough of Hillingdon worked with the fund's actuary, Hymans Robertson, to prepare this FSS which is effective from 1 April 2023.

There's a regulatory requirement for London Borough of Hillingdon to prepare an FSS. You can find out more about the regulatory framework in Appendix A. If you have any queries about the FSS, contact pensions@hillingdon.gov.uk.

1.1 What is the London Borough of Hillingdon Pension Fund?

The London Borough of Hillingdon Pension Fund is part of the Local Government Pension Scheme (LGPS). You can find more information about the LGPS at www.lgpsmember.org. The administering authority runs the fund on behalf of participating employers, their employees and current and future pensioners. You can find out more about roles and responsibilities in Appendix B.

1.2 What are the funding strategy objectives?

The funding strategy objectives are to:

- take a prudent long-term view to secure the regulatory requirement for long-term solvency, with sufficient funds to pay benefits to members and their dependants
- use a balanced investment strategy to minimise long-term cash contributions from employers and meet the regulatory requirement for long-term cost efficiency
- where appropriate, ensure stable employer contribution rates
- reflect different employers' characteristics to set their contribution rates, using a transparent funding strategy
- use reasonable measures to reduce the risk of an employer defaulting on its pension obligations.

1.3 Who is the FSS for?

The FSS is mainly for employers participating in the fund, because it sets out how money will be collected from them to meet the fund's obligations to pay members' benefits.

Different types of employers participate in the fund:

Scheduled bodies

Employers who are specified in a schedule to the LGPS regulations, including councils and employers like academies and further education establishments. Scheduled bodies must give employees access to the LGPS if they can't accrue benefits in another pension scheme, such as another public service pension scheme.

Designating employers

Employers like town and parish councils can join the LGPS through a resolution. If a resolution is passed, the fund can't refuse entry. The employer then decides which employees can join the scheme.

Admission bodies

Other employers can join through an admission agreement. The fund can set participation criteria for them and can refuse entry if the requirements aren't met. This type of employer includes contractors providing outsourced services like cleaning or catering to a scheduled body.

Some existing employers may be referred to as **community admission bodies** (CABs). CABs are employers with a community of interest with another scheme employer. Others may be called **transferee admission bodies** (TABs), that provide services for scheme employers. These terms aren't defined under current regulations but remain in common use from previous regulations.

1.4 How does the funding strategy link to the investment strategy?

The funding strategy sets out how money will be collected from employers to meet the fund's obligations. Contributions, assets and other income are then invested according to an investment strategy set by the administering authority. You can find the investment strategy statement at www.hillingdon.gov.uk/pension-fund-documents.

The funding and investment strategies are closely linked. The fund must be able to pay benefits when they are due – those payments are met from a combination of contributions (through the funding strategy) and asset returns and income (through the investment strategy). If investment returns or income fall short the fund won't be able to pay benefits, so higher contributions would be required from employers.

1.5 Does the funding strategy reflect the investment strategy?

The funding policy is consistent with the investment strategy. Future investment return expectations are set with reference to the investment strategy, including a margin for prudence which is consistent with the regulatory requirement that funds take a 'prudent longer-term view' of funding liabilities (see Appendix A)

1.6 How is the funding strategy specific to the London Borough of Hillingdon Pension Fund?

The funding strategy reflects the specific characteristics of the fund employers and its own investment strategy.

2 How does the fund calculate employer contributions?

2.1 Calculating contribution rates

Employee contribution rates are set by the LGPS regulations.

Employer contributions are made up of three elements:

- **the primary contribution rate** – contributions payable towards future benefits
- **the secondary contribution rate** – the difference between the primary rate and the total employer contribution

The primary rate also includes an allowance for the fund's expenses.

The fund actuary uses a model to project each employer's asset share over a range of future economic scenarios. The contribution rate takes each employer's assets into account as well as the projected benefits due to their members. The value of the projected benefits is worked out using employer membership data and the assumptions in Appendix D.

The total contribution rate for each employer is then based on:

- **the funding target** – how much money the fund aims to hold for each employer
- **the time horizon** – the time over which the employer aims to achieve the funding target
- **the likelihood of success** – the proportion of modelled scenarios where the funding target is met.

This approach takes into account the maturing profile of the membership when setting employer contribution rates.

Table 1: contribution rate calculation for individual or pooled employers

Type of employer	Scheduled bodies			CABs and designating employers		TABs
Sub-type	**Local authority**	**Academies**	**Other scheduled bodies**	**Open to new entrants**	**Closed to new entrants**	**Without pass-through agreements***
Funding target*	Ongoing	Ongoing	Ongoing	Ongoing, but may move to low-risk exit basis		Ongoing
Minimum likelihood of success	70%	70%	75%	75%	75%	75%
Maximum time horizon	20 years	20 years	20 years	15 years	15 years or future working lifetime, if less	15 years or contract length, if less
Primary rate approach	The contributions must be sufficient to meet the cost of benefits earned in the future with the required likelihood of success at the end of the time horizon					
Secondary rate	% of payroll	% of payroll	% of payroll	% of payroll	Monetary amount	% of payroll

Type of employer	Scheduled bodies			CABs and designating employers		TABs
Sub-type	**Local authority**	**Academies**	**Other scheduled bodies**	**Open to new entrants**	**Closed to new entrants**	**Without pass-through agreements***
Stabilised contribution rate?	Yes	No	No	No	No	No
Treatment of surplus (assessed at valuation date)	Total contribution rate must be set at least at the primary rate. However, reductions may be permitted by the administering authority subject to additional consideration of any funding surplus			Total contribution rate must be set at least at the primary rate. However, reductions may be permitted by the administering authority subject to additional consideration of the low-risk exit basis* position		Total contribution rate must be set at least at the primary rate. However, reductions may be permitted by the administering authority subject to additional consideration of any funding surplus
Phasing of contribution changes	Covered by stabilisation arrangement	Discretion of administering authority				None

* Employers participating in the Fund under a pass-through agreement will pay a contribution rate as agreed between the contractor and letting employer, subject to administering authority approval. For pass-through arrangements let by London Borough of Hillingdon, the contribution rate is set at 26% of pay.
** See Appendix D for further information on funding targets.

2.2 Making contribution rates stable

Making employer contribution rates reasonably stable is an important funding objective. Where appropriate, contributions are set with this objective in mind. The fund may adopt a stabilised approach to setting contributions for individual employers, which keeps contribution variations within a pre-determined range from year-to-year. Stabilisation criteria and limits are reviewed during each triennial valuation process.

The administering authority believes a stabilised approach is a prudent long-term strategy and the robustness of this approach was once again tested by extensive asset liability modelling (ALM) carried out by the Fund actuary at the 31 March 2022 funding valuation.

Table 1: current stabilisation approach

Type of employer	Local authority
Maximum contribution increase per year	+1% of pay
Maximum contribution decrease per year	-1% of pay

2.3 Reviewing contributions between valuations

The fund may amend contribution rates between formal valuations, in line with its policy on contribution reviews. The Fund's policy is available in Appendix E. The purpose of any review is to establish the most appropriate contributions. A review may lead to an increase or decrease in contributions.

2.4 What is pooling?

The administering authority may operate contribution rate pools for similar types of employers. Contribution rates can be volatile for smaller employers that are more sensitive to individual membership changes – pooling across a group of employers minimises this. In a contribution rate pool, contributions are set to target full funding for the pool as a whole, rather than for individual employers.

Employers in a pool maintain their individual funding positions, tracked by the fund actuary. That means some employers may be better funded or more poorly funded than the pool average. If pooled employers used stand-alone funding rather than pooling, their contribution rates could be higher or lower than the pool rate. Setting contributions in this way means that while the fund receives the contributions required, the risk that employers develop a surplus or deficit increases.

Pooled employers are identified in the rates and adjustments certificate and only have their pooled contributions certified. Individual contribution rates aren't disclosed to pooled employers, unless agreed by the administering authority.

2.5 What are the current contribution pools?

- Council – the council pool includes various employers associated with the council including maintained schools.
- Multi Academy Trusts – academies in the Fund who operate under the same multi academy trust (MAT) are permitted to pay a MAT contribution rate.

2.6 Administering authority discretion

Individual employers may be affected by circumstances not easily managed within the FSS rules and policies. If this happens, the administering authority may adopt alternative funding approaches on a case-by-case basis.

Additionally, the administering authority may allow greater flexibility to the employer's contributions if added security is provided. Flexibility could include things like a reduced contribution rate, extended time horizon, or permission to join a pool. Added security may include a suitable bond, a legally binding guarantee from an appropriate third party, or security over an asset.

The fund may permit the prepayment of employer contributions in specific circumstances. Further details are available on request.

3 What additional contributions may be payable?

3.1 Pension costs – awarding additional pension and early retirement on non ill-health grounds

If an employer awards additional pension as an annual benefit amount, they pay an additional contribution to the fund as a single lump sum. The amount is set by guidance issued by the Government Actuary's Department and updated from time to time.

If an employee retires before their normal retirement age on unreduced benefits, employers will be asked to pay additional contributions called strain payments.

Employers typically make strain payments as a single lump sum, though strain payments may be spread over an appropriate period if the administering authority agrees.

3.2 Pension costs – early retirement on ill-health grounds

If a member retires early due to ill-health, an additional funding strain will usually arise, which can be very large. Such strain costs are the responsibility of the member's employer to pay.

To mitigate this risk, individual employers may elect to use external insurance.

The Fund is reviewing its policy with regards to early retirements on ill-health grounds, and this is expected to be available in 2023.

4 How does the fund calculate assets and liabilities?

4.1 How are employer asset shares calculated?

The fund adopts a cashflow approach to track individual employer assets.

Each fund employer has a notional share of the fund's assets, which is assessed yearly by the actuary. The actuary starts with assets from the previous year-end, adding cashflows paid in/out and investment returns to give a new year-end asset value. The fund actuary makes a simplifying assumption, that all cashflow and investment returns have been paid uniformly over the year. This assumption means that the sum of all employers' asset values is slightly different from the whole fund asset total over time. This minimal difference is split between employers in proportion to their asset shares at each valuation.

If an employee moves one from one employer to another within the fund, assets equal to the cash equivalent transfer value (CETV) will move from the original employer to the receiving employer's asset share. These are calculated on an annual basis.

Alternatively, if employees move when a new academy is formed or an outsourced contract begins, the fund actuary will calculate assets linked to the value of the liabilities transferring.

4.2 How are employer liabilities calculated?

The fund holds membership data for all active, deferred and pensioner members. Based on this data and the assumptions in Appendix D, the fund actuary projects the expected benefits for all members into the future. This is expressed as a single value – the liabilities – by allowing for expected future investment returns.

Each employer's liabilities reflect the experience of their own employees and ex-employees.

4.3 What is a funding level?

An employer's funding level is the ratio of the market value of asset share against liabilities. If this is less than 100%, the employer has a shortfall: the employer's deficit. If it is more than 100%, the employer is in surplus. The amount of deficit or surplus is the difference between the asset value and the liabilities value.

Funding levels and deficit/surplus values measure a particular point in time, based on a particular set of future assumptions. While this measure is of interest, for most employers the main issue is the level of contributions payable. The funding level does not directly drive contribution rates. See section 2 for further information on rates.

5 What happens when an employer joins the fund?

5.1 When can an employer join the fund

Employers can join the fund if they are a new scheduled body or a new admission body. New designated employers may also join the fund if they pass a designation to do so.

On joining, the fund will determine the assets and liabilities for that employer within the Fund. The calculation will depend on the type of employer and the circumstances of joining.

A contribution rate will also be set. This will be set in accordance with the calculation set out in Section 2, unless alternative arrangements apply (for example, the employer has agreed a pass-through arrangement). More details on this are in Section 5.4 below.

5.2 New academies

New academies (including free schools) join the fund as separate scheduled employers. Only active members of former council schools transfer to new academies. Free schools do not transfer active members from a converting school but must allow new active members to transfer in any eligible service.

Liabilities for transferring active members will be calculated (on the ongoing basis) by the fund actuary on the day before conversion to an academy. Liabilities relating to the converting school's former employees (ie members with deferred or pensioner status) remain with the ceding council.

New academies will be allocated an asset share based on the estimated funding level of the ceding council's active members, having first allocated the council's assets to fully fund their deferred and pensioner members. This funding level will then be applied to the transferring liabilities to calculate the academy's initial asset share, capped at a maximum of 100%.

The council's estimated funding level will be based on market conditions on the day before conversion. The fund treats new academies as separate employers in their own right, who are responsible for their allocated assets and liabilities.

For contribution rate purposes there are two options:

- The new academies' individual contribution rate will be calculated based on the current funding strategy (set out in section 2) and the transferring membership.
- If they are part of a MAT, the new academy can be combined with the other academies in the same MAT to set a combined MAT contribution rate.

If an academy leaves one MAT and joins another, all active, deferred and pensioner members transfer to the new MAT.

The fund's policies on academies may change based on updates to guidance from the Department for Levelling Up, Housing and Communities or the Department for Education. Any changes will be communicated and reflected in future funding strategy statements.

5.3 New admission bodies as a results of outsourcing services

New admission bodies usually join the fund because an existing employer (usually a scheduled body like a council or academy) outsources a service to another organisation (a contractor). This involves TUPE transfers of staff from the letting employer to the contractor. The contractor becomes a new participating fund employer for the duration of the contract and transferring employees remain eligible for LGPS membership. At the end of the contract, employees typically revert to the letting employer or a replacement contractor.

Liabilities for transferring active members will be calculated by the fund actuary on the day before the outsourcing occurs.

New contractors will be allocated an asset share equal to the value of the transferring liabilities. The admission agreement may set a different initial asset allocation, depending on contract-specific circumstances.

There is flexibility for outsourcing employers when it comes to pension risk potentially taken on by the contractor. You can find more details on outsourcing options from the administering authority or in the contract admission agreement.

The Fund is reviewing its policy with regards to pass-through arrangements, and this is expected to be available in 2023.

5.4 Other new employers

There may be other circumstances that lead to a new admission body entering the fund, e.g. set up of a wholly owned subsidiary company by a local authority. Calculation of assets and liabilities on joining and a contribution rate will be carried out allowing for the circumstances of the new employer.

New designated employers may also join the fund. These are usually town and parish councils. Contribution rates will be set using the same approach as other designated employers in the fund.

5.5 Risk assessment for new admission bodies

Under the LGPS regulations, a new admission body must assess the risks it poses to the fund if the admission agreement ends early, for example if the admission body becomes insolvent or goes out of business. In practice, the fund actuary assesses this because the assessment must be carried out to the administering authority's satisfaction.

After considering the assessment, the administering authority may decide the admission body must provide security, such as a guarantee from the letting employer, an indemnity or a bond.

This must cover some or all of the:

- strain costs of any early retirements, if employees are made redundant when a contract ends prematurely
- allowance for the risk of assets performing less well than expected
- allowance for the risk of liabilities being greater than expected
- allowance for the possible non-payment of employer and member contributions
- admission body's existing deficit.

6 What happens if an employer has a bulk transfer of staff?

Bulk transfer cases will be looked at individually, but generally:

- the fund won't pay bulk transfers greater in value than either the asset share of the transferring employer in the fund, or the value of the liabilities of the transferring members, whichever is lower
- the fund won't grant added benefits to members bringing in entitlements from another fund, unless the asset transfer is enough to meet the added liabilities
- the fund may permit shortfalls on bulk transfers if the employer has a suitable covenant and commits to meeting the shortfall in an appropriate period, which may require increased contributions between valuations.

7 What happens when an employer leaves the fund?

7.1 What is a cessation event?

Triggers for considering cessation from the fund are:

- the last active member stops participation in the fund. The administering authority, at their discretion, can defer acting for up to three years by issuing a suspension notice. That means cessation won't be triggered if the employer takes on one or more active members during the agreed time
- insolvency, winding up or liquidation of the admission body
- a breach of the agreement obligations that isn't remedied to the fund's satisfaction
- failure to pay any sums due within the period required
- failure to renew or adjust the level of a bond or indemnity, or to confirm an appropriate alternative guarantor
- termination of a deferred debt arrangement (DDA).

If no DDA exists, the administering authority will instruct the fund actuary to carry out a cessation valuation to calculate if there is a surplus or a deficit when the fund leaves the scheme.

7.2 What happens on cessation?

The administering authority must protect the interests of the remaining fund employers when an employer leaves the scheme. The actuary aims to protect remaining employers from the risk of future loss. The funding target adopted for the cessation calculation is below. These are defined in Appendix D.

(a) Where there is no guarantor, cessation liabilities and a final surplus/deficit will usually be calculated using a low-risk basis, which is more prudent than the ongoing participation basis. The low-risk exit basis is defined in Appendix D.

(b) Where there is a guarantor, the guarantee will be considered before the cessation valuation. Where the guarantor is a guarantor of last resort, this will have no effect on the cessation valuation. If this isn't the case, cessation may be calculated using the same basis that was used to calculate liabilities (and the corresponding asset share) on joining the fund.

(c) Depending on the guarantee, it may be possible to transfer the employer's liabilities and assets to the guarantor without crystallising deficits or surplus. This may happen if an employer can't pay the contributions due and the approach is within guarantee terms.

If the fund can't recover the required payment in full, unpaid amounts will be paid by the related letting authority (in the case of a ceased admission body) or shared between the other fund employers. This may require an immediate revision to the rates and adjustments certificate or be reflected in the contribution rates set at the next formal valuation.

The fund actuary charges a fee for cessation valuations and there may be other cessation expenses. Fees and expenses are at the employer's expense.

The cessation policy is in Appendix F.

7.3 What happens if there is a surplus?

If the cessation valuation shows the exiting employer has more assets than liabilities – an exit credit – the administering authority can decide how much will be paid back to the employer based on:

- the surplus amount

- the proportion of the surplus due to the employer's contributions
- any representations (like risk sharing agreements or guarantees) made by the exiting employer and any employer providing a guarantee or some other form of employer assistance/support
- any other relevant factors.

7.4 How do employers repay cessation debts?

If there is a deficit, full payment will usually be expected in a single lump sum or in exceptional circumstances:

- spread over an agreed period, if the employer enters into a deferred spreading agreement (DSA)
- if an exiting employer enters into a deferred debt agreement (DDA), it stays in the fund and pays contributions until the cessation debt is repaid. Payments are reassessed at each formal valuation.

These employer flexibilities are set out in the cessation policy (Appendix F).

7.5 What if an employer has no active members?

When employers leave the fund because their last active member has left, they may pay a cessation debt, receive an exit credit or enter a DDA/DSA. Beyond this they have no further obligation to the fund and either:

a) their asset share runs out before all ex-employees' benefits have been paid. The other fund employers will be required to contribute to the remaining benefits. The fund actuary will portion the liabilities on a pro-rata basis at each formal valuation

b) the last ex-employee or dependant dies before the employer's asset share is fully run down. The fund actuary will apportion the remaining assets to the other fund employers.

8 What are the statutory reporting requirements?

8.1 Reporting regulations

The Public Service Pensions Act 2013 requires the Government Actuary's Department to report on LGPS funds in England and Wales after every three-year valuation, in what's usually called a section 13 report. The report should include confirmation that employer contributions are set at the right level to ensure the fund's solvency and long-term cost efficiency.

8.2 Solvency

Employer contributions are set at an appropriate solvency level if the rate of contribution targets a funding level of 100% over an appropriate time, using appropriate assumptions compared to other funds. Either:

(a) employers collectively can increase their contributions, or the fund can realise contingencies to target a 100% funding level

or

(b) there is an appropriate plan in place if there is, or is expected to be, a reduction in employers' ability to increase contributions as needed.

8.3 Long-term cost efficiency

Employer contributions are set at an appropriate long-term cost efficiency level if the contribution rate makes provision for the cost of current benefit accrual, with an appropriate adjustment for any surplus or deficit.

To assess this, the administering authority may consider absolute and relative factors.

Relative factors include:

1. comparing LGPS funds with each other
2. the implied deficit recovery period
3. the investment return required to achieve full funding after 20 years.

Absolute factors include:

1. comparing funds with an objective benchmark
2. the extent to which contributions will cover the cost of current benefit accrual and interest on any deficit
3. how the required investment return under relative considerations compares to the estimated future return targeted by the investment strategy
4. the extent to which contributions paid are in line with expected contributions, based on the rates and adjustment certificate
5. how any new deficit recovery plan reconciles with, and can be a continuation of, any previous deficit recovery plan, allowing for fund experience.

These metrics may be assessed by GAD on a standardised market-related basis where the fund's actuarial bases don't offer straightforward comparisons.

Appendices

Appendix A – The regulatory framework

A1 Why do funds need a funding strategy statement?

The Local Government Pension Scheme (LGPS) regulations require funds to maintain and publish a funding strategy statement (FSS). According to the Department for Levelling Up, Housing and Communities (DLUHC) the purpose of the FSS is to document the processes the administering authority uses to:

- *establish a **clear and transparent fund-specific strategy** identifying how employers' pension liabilities are best met going forward*
- *support the regulatory framework to maintain **as nearly constant employer contribution rates as possible***
- *ensure the fund meets its **solvency and long-term cost efficiency** objectives*
- *take a **prudent longer-term view** of funding those liabilities.*

To prepare this FSS, the administering authority has used guidance by the Chartered Institute of Public Finance and Accountancy (CIPFA).

A2 Consultation

Both the LGPS regulations and most recent CIPFA guidance state the FSS should be prepared in consultation with "*persons the authority considers appropriate*". This should include '*meaningful dialogue… with council tax raising authorities and representatives of other participating employers*'.

The consultation process included issuing a draft version to participating employers and inviting comments.

A3 How is the FSS published?

The FSS is published on the fund's website at www.hillingdon.gov.uk/pension-fund-documents and copies are made available on request.

A4 How often is the FSS reviewed?

The FSS is reviewed in detail at least every three years as part of the valuation. Amendments may be made before then if there are regulatory or operational changes. Any amendments will be consulted on, agreed by the Pensions Committee and included in the Committee meeting minutes.

A5 How does the FSS fit into the overall fund documentation?

The FSS is a summary of the fund's approach to funding liabilities. It isn't exhaustive – the fund publishes other statements like the statement of investment principles, investment strategy statement, governance strategy and communications strategy. The fund's annual report and accounts also includes up-to-date fund information.

You can see all fund documentation at www.hillingdon.gov.uk/pension-fund-documents.

Appendix B – Roles and responsibilities

B1 The administering authority:

1 operates the fund and follows all Local Government Pension Scheme (LGPS) regulations

2 manages any conflicts of interest from its dual role as administering authority and a fund employer

3 collects employer and employee contributions, investment income and other amounts due

4 ensures cash is available to meet benefit payments when due

5 pays all benefits and entitlements

6 invests surplus money like contributions and income which isn't needed to pay immediate benefits, in line with regulation and the investment strategy

7 communicates with employers so they understand their obligations

8 safeguards the fund against employer default

9 works with the fund actuary to manage the valuation process

10 provides information to the Government Actuary's Department so they can carry out their statutory obligations

11 consults on, prepares and maintains the funding and investment strategy statements

12 tells the actuary about changes which could affect funding

13 monitors the fund's performance and funding, amending the strategy statements as necessary

14 enables the local pension board to review the valuation process.

B2 Individual employers:

1 deduct the correct contributions from employees' pay

2 pay all contributions by the due date

3 have appropriate policies in place to work within the regulatory framework

4 make additional contributions as agreed, for example to augment scheme benefits or early retirement strain

5 tell the administering authority promptly about any changes to circumstances, prospects or membership which could affect future funding.

6 make any required exit payments when leaving the fund.

B3 The fund actuary:

1 prepares valuations, including setting employers' contribution rates, agreeing assumptions, working within FSS and LGPS regulations and appropriately targeting fund solvency and long-term cost efficiency

2 provides information to the Government Actuary Department so they can carry out their statutory obligations

3 advises on fund employers, including giving advice about and monitoring bonds or other security

4 prepares advice and calculations around bulk transfers and individual benefits

5 assists the administering authority to consider changes to employer contributions between formal valuations

6 advises on terminating employers' participation in the fund

7 fully reflects actuarial professional guidance and requirements in all advice.

B4 Other parties:

1 internal and external investment advisers ensure the investment strategy statement (ISS) is consistent with the funding strategy statement

2 investment managers, custodians and bankers play their part in the effective investment and dis-investment of fund assets in line with the ISS

3 auditors comply with standards, ensure fund compliance with requirements, monitor and advise on fraud detection, and sign-off annual reports and financial statements

4 governance advisers may be asked to advise the administering authority on processes and working methods

5 internal and external legal advisers ensure the fund complies with all regulations and broader local government requirements, including the administering authority's own procedures

6 the Department for Levelling Up, Housing and Communities, assisted by the Government Actuary's Department and the Scheme Advisory Board, work with LGPS funds to meet Section 13 requirements.

Appendix C – Risks and controls

C1 Managing risks

The administering authority has a risk management programme to identify and control financial, demographic, regulatory and governance risks.

Details of the key fund-specific risks and controls are set out in the Fund's Risk Management Policy, which can be found on the fund's website at www.hillingdon.gov.uk/pension-fund-documents.

The local pension board assists the Fund its managing its risks and the full role of the local pension board in is set out in the London Borough of Hillingdon constitution which can be found at www.hillingdon.gov.uk/article/2513/Council-constitution-and-delegations.

C2 Employer covenant assessment and monitoring

Many of the employers participating in the fund, such as admitted bodies (including TABs and CABs), have no local tax-raising powers. The fund assesses and monitors the long-term financial health of these employers to assess an appropriate level of risk for each employer's funding strategy.

C3 Climate risk and TCFD reporting

The fund has considered climate-related risks when setting the funding strategy. To consider the resilience of the strategy the fund has the fund included climate scenario stress testing in the contribution modelling exercise at the 2022 valuation. The modelling results under the stress tests were slightly worse than the core results but were still within risk tolerance levels, particularly given the severity of the stresses applied. The results provide assurance that the modelling approach does not significantly underestimate the potential impact of climate change and that the funding strategy is resilient to climate risks. The results of these stress tests may be used in future to assist with disclosures prepared in line with Task Force on Climate-Related Financial Disclosures (TCFD) principles.

Appendix D – Actuarial assumptions

The fund's actuary uses a set of assumptions to determine the strategy, and so assumptions are a fundamental part of the funding strategy statement.

D1 What are assumptions?

Assumptions are used to estimate the benefits due to be paid to members. Financial assumptions determine the amount of benefit to be paid to each member, and the expected investment return on the assets held to meet those benefits. Demographic assumptions are used to work out when benefit payments are made and for how long.

The funding target is the money the fund aims to hold to meet the benefits earned to date.

Any change in the assumptions will affect the funding target and contribution rate, but different assumptions don't affect the actual benefits the fund will pay in future.

D2 What assumptions are used to set the contribution rate?

The fund doesn't rely on a single set of assumptions when setting contribution rates, instead using Hymans Robertson's Economic Scenario Service (ESS) to project each employer's assets, benefits and cashflows to the end of the funding time horizon.

ESS projects future benefit payments, contributions and investment returns under 5,000 possible economic scenarios, using variables for future inflation and investment returns for each asset class, rather than a single fixed value.

For any projection, the fund actuary can assess if the funding target is satisfied at the end of the time horizon.

Table: Summary of assumptions underlying the ESS, 31 March 2022

		Annualised total returns											
		Cash	Index Linked Gilts (medium)	Developed World ex UK Equity	Private Equity	Property	Emerging Markets Equity	Diversified Growth Fund (low equity beta)	Multi Asset Credit	All World Equity GBP Hedged	All World ex UK Equity in GBP Unhedged	Direct Lending (private debt) GBP Hedged	Inflation (CPI)
5 year	16th %'ile	0.7%	-2.2%	-3.2%	-5.0%	-2.5%	-5.9%	0.6%	0.3%	-2.8%	-2.9%	0.8%	2.3%
	50th %'ile	1.5%	0.8%	5.3%	9.5%	4.0%	5.6%	2.9%	3.1%	5.7%	5.7%	5.8%	3.9%
	84th %'ile	2.3%	4.0%	14.0%	24.1%	11.0%	17.9%	5.2%	5.7%	14.1%	14.1%	10.7%	5.5%
10 years	16th %'ile	0.8%	-1.9%	-0.7%	-1.2%	-0.6%	-2.5%	1.4%	1.7%	-0.3%	-0.4%	2.7%	1.6%
	50th %'ile	1.8%	0.2%	5.6%	9.4%	4.4%	5.8%	3.2%	3.5%	5.9%	5.8%	6.0%	3.3%
	84th %'ile	2.9%	2.4%	11.7%	20.1%	9.5%	14.4%	5.1%	5.2%	11.9%	11.9%	9.2%	4.9%
20 years	16th %'ile	1.0%	-1.5%	1.5%	2.4%	1.4%	0.1%	2.1%	2.8%	1.9%	1.8%	4.3%	1.2%
	50th %'ile	2.4%	0.1%	6.1%	10.0%	5.0%	6.3%	3.8%	4.4%	6.4%	6.3%	6.8%	2.7%
	84th %'ile	4.0%	1.9%	10.8%	17.6%	8.9%	12.8%	5.7%	6.0%	11.0%	11.1%	9.2%	4.3%

D3 What financial assumptions were used?

Future investment returns and discount rate

The fund uses a risk-based approach to generate assumptions about future investment returns over the funding time horizon, based on the investment strategy.

The discount rate is the annual rate of future investment return assumed to be earned on assets after the end of the funding time horizon. The discount rate assumption is set as a margin above the risk-free rate.

Assumptions for future investment returns depend on the funding objective.

	Employer type	Margin above risk-free rate
Ongoing basis	All employers except transferee admission bodies and closed community admission bodies	2.0%
Low-risk exit basis	Community admission bodies closed to new entrants	0%

Discount rate (for funding level calculation as at 31 March 2022 only)

For the purpose of calculating a funding level at the 2022 valuation, a discount rate of 4.1% applies. This is based on a prudent estimate of investment returns, specifically, that there is an 70% likelihood that the fund's assets will achieve future investment returns of at least 4.1% over the 20 years following the 2022 valuation date.

Pension increases and CARE revaluation

Deferment and payment increases to pensions and revaluation of CARE benefits are in line with the Consumer Price Index (CPI) and determined by the regulations. The CPI assumption is based on Hymans Robertson's ESS model. The median value of CPI inflation from the ESS was 2.7% pa on 31 March 2022.

Salary growth

The salary increase assumption at the latest valuation has been set to 0.5% above CPI pa plus a promotional salary scale.

D4 What demographic assumptions were used?

Demographic assumptions are best estimates of future experience. The fund uses advice from Club Vita to set demographic assumptions, as well as analysis and judgement based on the fund's experience.

Demographic assumptions vary by type of member, so each employer's own membership profile is reflected in their results.

Life expectancy

The longevity assumptions are a bespoke set of member level VitaCurves produced by detailed analysis and tailored to fit the fund's membership profile.

Allowance has been made for future improvements to mortality, in line with the 2021 version of the continuous mortality investigation (CMI) published by the actuarial profession. The starting point has been adjusted by +0.25% to reflect the difference between the population-wide data used in the CMI and LGPS membership. A long-term rate of mortality improvements of 1.5% pa applies.

The smoothing parameter used in the CMI model is 7.0. There is little evidence currently available on the long-term effect of Covid-19 on life expectancies. To avoid an undue impact from recently mortality experience on long-term assumptions, no weighting has been placed on data from 2020 and 2021 in the CMI.

Other demographic assumptions	
Retirement in normal health	Members are assumed to retire at the earliest age possible with no pension reduction.
Promotional salary increases	Sample increases below

Death in service	Sample rates below
Withdrawals	Sample rates below
Retirement in ill health	Sample rates below
Family details	Varying proportion of members assumed to have a dependant at retirement or on earlier death. For example, at age 60 this is assumed to be 90% for males and 85% for females. Beyond retirement the proportion is adjusted for assumed dependant mortality. Males assumed to be 3 years older than females, partner dependants assumed to be opposite sex to members.
Commutation	55% of maximum tax-free cash
50:50 option	0.6% of members will choose the 50:50 option.

Males

Incidence per 1000 active members per year								
Age	Salary scale	Death before retirement	Withdrawals		Ill-health tier 1		Ill-health tier 2	
		FT &PT	FT	PT	FT	PT	FT	PT
20	105	0.17	606.46	1056.91	0.00	0.00	0	0
25	117	0.17	400.59	698.13	0.00	0.00	0	0
30	131	0.2	284.23	495.26	0.00	0.00	0	0
35	144	0.24	222.07	386.91	0.10	0.07	0.02	0.01
40	150	0.41	178.79	311.41	0.16	0.12	0.03	0.02
45	157	0.68	167.94	292.45	0.35	0.27	0.07	0.05
50	162	1.09	138.44	240.80	0.90	0.68	0.23	0.17
55	162	1.7	109.02	189.72	3.54	2.65	0.51	0.38
60	162	3.06	97.17	169.02	6.23	4.67	0.44	0.33
65	162	5.10	0	0	11.83	8.87	0	0

Females

Incidence per 1000 active members per year								
Age	Salary scale	Death before retirement	Withdrawals		Ill-health tier 1		Ill-health tier 2	
		FT &PT	FT	PT	FT	PT	FT	PT
20	105	0.1	528.64	560.85	0.00	0.00	0	0
25	117	0.1	355.71	377.33	0.10	0.07	0.02	0.01
30	131	0.14	298.17	316.25	0.13	0.10	0.03	0.02
35	144	0.24	257.35	272.86	0.26	0.19	0.05	0.04
40	150	0.38	214.19	227.01	0.39	0.29	0.08	0.06
45	157	0.62	199.88	211.81	0.52	0.39	0.1	0.08
50	162	0.9	168.51	178.38	0.97	0.73	0.24	0.18
55	162	1.19	125.74	133.24	3.59	2.69	0.52	0.39
60	162	1.52	101.33	107.24	5.71	4.28	0.54	0.4
65	162	1.95	0	0	10.26	7.69	0	0

D5 What assumptions apply in a cessation valuation following an employer's exit from the fund?

Low-risk exit basis

Where there is no guarantor, the low-risk exit basis will apply.

The financial and demographic assumptions underlying the low-risk exit basis are explained below:

1. The discount rate is set equal to the annualised yield on long dated government bonds at the cessation date, with a 0% margin. This was 1.7% pa on 31 March 2022.
2. The CPI assumption is based on Hymans Robertson's ESS model. The median value of CPI inflation from the ESS was 2.7% pa on 31 March 2022.
3. Life expectancy assumptions are the same as the ongoing basis.

Appendix E – Contribution review policy

Aims and objectives

The Fund's aims and objectives related to this policy are as follows:

- To provide employers with clarity around the circumstances where contribution rates may be reviewed between valuations.
- To outline specific circumstances where contribution rates will not be reviewed.

Background

The Fund may amend contribution rates between valuations for a 'significant change' to the liabilities or covenant of an employer.

Such reviews may be instigated by the fund or at the request of a participating employer.

Any review may lead to a change in the required contributions from the employer.

Guidance and regulatory framework

Regulation 64 of the Local Government Pension Scheme Regulations 2013 (as amended) sets out the way in which LGPS funds should determine employer contributions, including the following:

- Regulation 64 (4) – allows the Fund to review the contribution rate if it becomes likely that an employer will cease participation in the Fund, with a view to ensuring that the employer is fully funded at the expected exit date.
- Regulation 64A - sets out specific circumstances where the Fund may revise contributions between valuations (including where a review is requested by one or more employers).

This policy also reflects statutory guidance from the Department for Levelling Up, Housing and Communities on preparing and maintaining policies relating to the review of employer contributions. Interested parties may want to refer to an accompanying guide that has been produced by the Scheme Advisory Board.

Statement of principles

This statement of principles covers review of contributions between valuations. Each case will be treated on its own merits, but in general:

- The Fund reserves the right to review contributions in line with the provisions set out in the LGPS Regulations.
- The decision to make a change to contribution rates rests with the Fund, subject to consultation with employers during the review period.
- Full justification for any change in contribution rates will be provided to affected employers.
- Advice will be taken from the Fund Actuary in respect of any review of contribution rates.
- Any revision to contribution rates will be reflected in the Rates & Adjustment certificate.

Circumstances for review

The Fund would consider one or more of the following circumstances as a potential trigger for review:

- in the opinion of the Fund there are circumstances which make it likely that an employer (including an admission body) will become an exiting employer sooner than anticipated at the last valuation;
- an employer is approaching exit from the Fund within the next two years and before completion of the next triennial valuation;
- there are changes to the benefit structure set out in the LGPS Regulations which have not been allowed for at the last valuation;
- it appears likely to the Fund that the amount of the liabilities arising or likely to arise for an employer or employers has changed significantly since the last valuation;
- it appears likely to the Fund that there has been a significant change in the ability of an employer or employers to meet their obligations (e.g. a material change in employer covenant, or provision of additional security);
- it appears to the Fund that the membership of the employer has changed materially such as bulk transfers, significant reductions to payroll or large-scale restructuring; or
- where an employer has failed to pay contributions or has not arranged appropriate security as required by the Fund.

Employer requests

The Fund will also consider a request from any employer to review contributions where the employer has undertaken to meet the costs of that review and sets out the reasoning for the review (which would be expected to fall into one of the above categories, such as a belief that their covenant has changed materially, or they are going through a significant restructuring impacting their membership).

The Fund will require additional information to support a contribution review made at the employer's request. The specific requirements will be confirmed following any request and this is likely to include the following:

- a copy of the latest accounts;
- details of any additional security being offered (which may include insurance certificates);
- budget forecasts; and/or
- information relating to sources of funding.

The costs incurred by the Fund in carrying out a contribution review (at the employer's request) will be met by the employer. These will be confirmed upfront to the employer prior to the review taking place.

Other employers

When undertaking any review of contributions, the Fund will also consider the impact of a change to contribution rates on other Fund employers. This will include the following factors:

- The existence of a guarantor.
- The amount of any other security held.

- The size of the employer's liabilities relative to the whole Fund.

The Fund will consult with other Fund employers as necessary.

Effect of market volatility

Except in circumstances such as an employer nearing cessation, the Fund will not consider market volatility or changes to asset values as a basis for a change in contributions outside a formal triennial valuation.

Documentation

Where revisions to contribution rates are necessary, the Fund will provide the employer with a note of the information used to determine these, including:

- Explanation of the key factors leading to the need for a review of the contribution rates, including, if appropriate, the updated funding position.
- A note of the new contribution rates and effective date of these.
- Date of next review.
- Details of any processes in place to monitor any change in the employer's circumstances (if appropriate), including information required by the Fund to carry out this monitoring.

The Rates & Adjustments certificate will be updated to reflect the revised contribution rates

Appendix F – Cessation policy

On cessation, the Administering Authority will instruct the Fund Actuary to carry out a cessation valuation to determine whether there is any surplus or deficit.

F1 – Where there is a surplus on exit

Exit Credits

Where there is a surplus, the administering authority will determine the amount of exit credit to be paid in accordance with the Regulations.

The administering authority's entitlement to determine whether exit credits are payable shall apply to all employers ceasing their participation in the fund after 14 May 2018. This provision therefore is retrospectively effective to the same extent as provisions of the Local Government Pension Scheme (Amendment) Regulations 2020.

The administering authority may determine the amount of exit credit payable to be zero, however, in making a determination, the Administering Authority will take into account the following factors.

a) the extent to which there is an excess of assets in the fund relating to the employer over and above the liabilities specified.

b) the proportion of the excess of assets which has arisen because of the value of the employer's contributions.

c) any representations to the Administering Authority made by the exiting employer, guarantor, ceding Scheme Employer (usually the Letting Authority) or by a body which owns, funds or controls the exiting employer; or in some cases, the Secretary of State.

d) any other relevant factors

F2 – Where there is a deficit on exit

Where there is a deficit, payment of this amount in full would normally be sought from the exiting employer. The Fund's normal policy is that this cessation debt is paid in full as a single lump sum.

Deferred spreading arrangement (DSA)

However, the fund will consider written requests from exiting employers to spread an exit payment over an agreed period, in the exceptional circumstance where payment of the debt in a single immediate lump sum could be shown by the employer to be materially detrimental to the employer's financial situation.

In this exceptional case, the fund's policy is:

- The agreed spread period is no more than three years, but the fund could use its discretion to extend this period in extreme circumstances.
- The fund may consider factors such as the size of the exit payment and the financial covenant of the exiting employer in determining an appropriate spreading period.

- The exiting employer may be asked to provide the administering authority with relevant financial information such as a copy of its latest accounts, sources of funding, budget forecasts, credit rating (if any) etc. to help in this determination.
- Payments due under the DSA may be subject to an interest charge.
- The fund will only consider written requests within six months of the employer exiting the fund. The exiting employer would be required to provide the fund with detailed financial information to support its request.
- The Fund would take into account the amount of any security offered and seek actuarial, covenant and legal advice in all cases.
- The Fund proposes a legal document, setting out the terms of the exit payment agreement, would be prepared by the fund and signed by all relevant parties prior to the payment agreement commencing.
- The terms of the legal document should include reference to the spreading period, the annual payments due, interest rates applicable, other costs payable and the responsibilities of the exiting employer during the exit spreading period.
- Any breach of the agreed payment plan would require payment of the outstanding cessation amount immediately.

Deferred Debt Agreement (DDA)

The fund's preferred policy is for the spreading of payments, as detailed above, to be followed in the exceptional circumstances where an exiting employer is unable to pay the required cessation payment as a lump sum in full. However, in the event that spreading of payments will create a high risk of bankruptcy for the exiting employer, the fund may exercise its discretion to set up a deferred debt agreement as described in Regulation 64 (7A)).

The employer must meet all requirements on Scheme employers and pay the secondary rate of contributions as determined by the Fund actuary until the termination of the DDA.

The Administering Authority may consider a DDA in the following circumstances:

- The employer requests the Fund consider a DDA.
- The employer is expected to have a deficit if a cessation valuation was carried out.
- The employer is expected to be a going concern.
- The covenant of the employer is considered sufficient by the administering authority.

The Administering Authority will normally require:

- A legal document to be prepared, setting out the terms of the DDA and signed by all relevant parties prior to the arrangement commencing.(including details of the time period of the DDA, the annual payments due, the frequency of review and the responsibilities of the employer during the period).
- Relevant financial information for the employer such as a copy of its latest accounts, sources of funding, budget forecasts, credit rating (if any) to support its covenant assessment.
- Security be put in place covering the employer's deficit on their cessation basis and the Fund will seek actuarial, covenant and legal advice in all cases.
- Regular monitoring of the contribution requirements and security requirements

- All costs of the arrangement are met by the employer, such as the cost of advice to the fund, ongoing monitoring or the arrangement and correspondence on any ongoing contribution and security requirements.

A DDA will normally terminate on the first date on which one of the following events occurs:

- The employer enrols new active fund members.
- The period specified, or as varied, under the DDA elapses.
- The take-over, amalgamation, insolvency, winding up or liquidation of the employer.
- The administering authority serves a notice on the employer that the Administering Authority is reasonably satisfied that the employer's ability to meet the contributions payable under the DDA has weakened materially or is likely to weaken materially in the next 12 months.
- The Fund actuary assesses that the employer has paid sufficient secondary contributions to cover all (or almost all) of the exit payment due if the employer becomes an exiting employer on the calculation date (i.e. employer is now largely fully funded on their low risk basis).
- The Fund actuary assesses that the employer's value of liabilities has fallen below an agreed *de minimis* level and the employer becomes an exiting employer on the calculation date.
- The employer requests early termination of the agreement and settles the exit payment in full as calculated by the fund actuary on the calculation date (i.e. the employer pays their outstanding cessation debt on their cessation basis).

On the termination of a DDA, the employer will become an exiting employer and a cessation valuation will be completed in line with this policy.

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INVESTMENT STRATEGY and FUND MANAGER PERFORMANCE (Part I)

Committee	Pensions Committee
Officer Reporting	James Lake – Finance Directorate Babatunde Adekoya – Finance Directorate
Papers with this report	Northern Trust performance report on Members' shared drive

HEADLINES

Market concern and volatility resulting from increased inflation, reduced growth expectations and the Russian invasion of Ukraine continue the downward pressure on market indices. The overall investment return of the Fund was -2.01% over the quarter which was 1.02% behind the benchmark. Performance over longer-term periods (3 and 5 years) was 1.01% and 2.94% per annum, which are both behind the benchmark and the 4% return required in the Funding Strategy Statement.

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

RECOMMENDATIONS

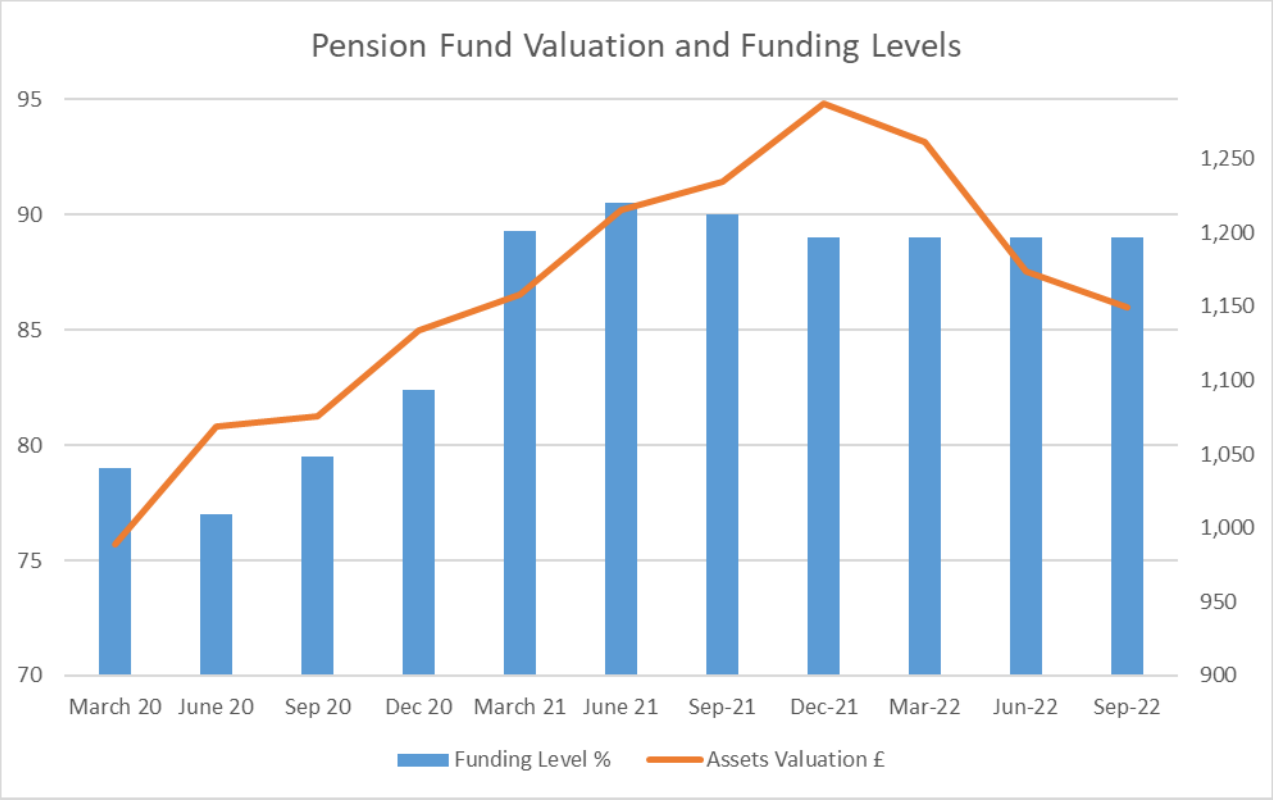
That Pensions Committee note the funding and performance update.

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%.

Initial 2022 valuation results show a funding level of 88%. Following the consultation period any necessary changes to employer contribution rates will be effective from April 2023



2. Fund Performance

Over the last quarter to 30 September 2022, the Fund returned -2.01%, underperforming the benchmark return by 1.02%. The Fund value decreased over the quarter by £25m to £1,149m.

Period of measurement	Fund Return %	Benchmark %	Relative Performance
Quarter	-2.01	-1.00	-1.02
1 Year	-6.50	-2.98	-3.63
3 Year	1.01	3.73	-2.62
5 Year	2.94	4.73	-1.71
Since Inception (09/1995)	6.38	6.60	-0.20

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

- Alternative investments mostly kept their performance in positive territory. Macquarie and LCIV Infrastructure Funds posted relative returns of 7.55% and 10.29% for the quarter and 22.34% & 10.49% for the one-year respectively.

- AEW Property Funds were the biggest detractors to performance in the quarter under review with relative underperformance of -14.89% and -24.79% for one year.

- Notable relative 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 relative returns of -1.21% over the quarter and -23.08% over one year. The Fund and Pool have met with the underlying manager and currently remain comfortable the strategy will deliver over the long term.

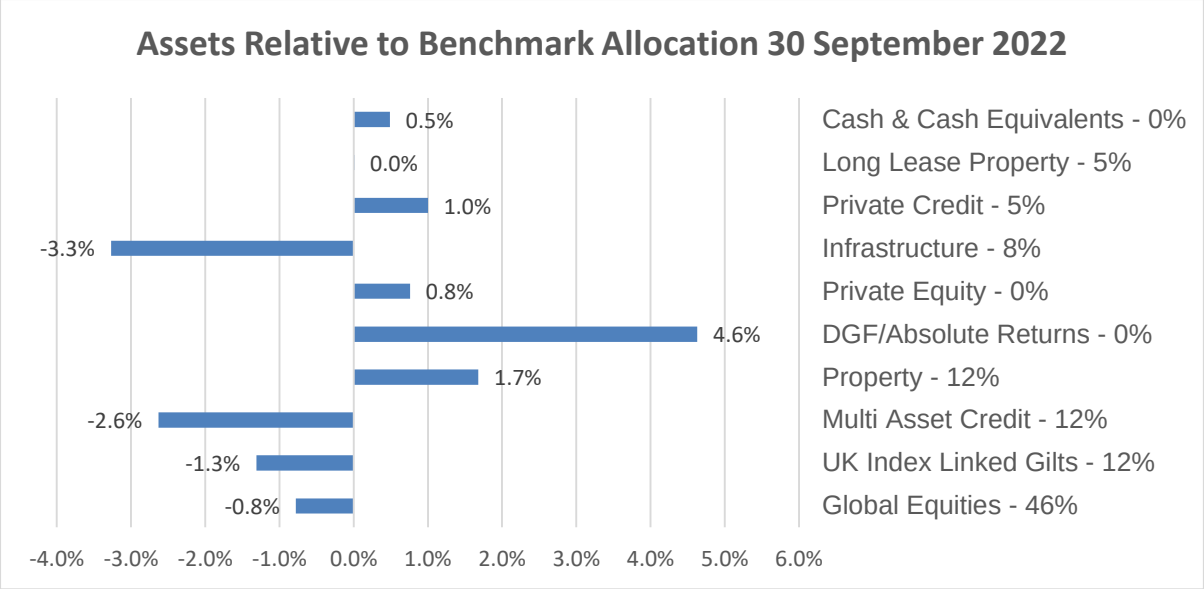
NB: Information from Northern Trust Quarterly performance report

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 of 01 April 2022	Actual Asset Allocation As of 01 April 2022	Market Value As of 30 September 2022	Actual Asset Allocation As of 30 September 2022	Benchmark Allocation	Market Value As of 31 October 2022
	£'000	%	£'000	%	%	£'000
Global Equities	551,163	45	519,768	45.22	46.00	533,953
UK Index Linked Gilts	142,671	12	113,885	9.91	24.00	108,908
Multi Asset Credit	113,127	9	110,000	9.57		110,000
Property	170,918	14	157,273	13.68	12.00	148,736
DGF/Absolute Returns	54,449	4	53,162	4.63	0.00	48,798
Private Equity	9,257	1	8,742	0.76	0.00	8,261
Infrastructure	41,776	3	54,420	4.73	8.00	57,048
Private Credit	65,928	5	68,973	6.00	5.00	70,993
Long Lease Property	56,836	5	57,549	5.01	5.00	55,420
Cash & Cash Equivalents	12,411	1	5,610	0.49	0.00	5,912
Totals	**1,218,536**	**100.00**	**1,149,382**	**100.00**	**100**	**1,148,029**



Highlights of transactions during the quarter under review:

- Total drawdown of £5.4m was called by the London CIV Infrastructure fund and £5.6m by LCIV Private Debt Fund in the period under review.
- During the quarter, distributions received totalled £93k from Permira private debt, $101k from Private Equity and $421k from Macquarie Infrastructure.

Undrawn commitments on 30 September 2022 are as follows:

- £3.2m (8%) awaiting drawdown on Private Credit (Permira).
- £23.6m (42.94%) 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 £37.4m (51.87%).

4. Investment Managers

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

Current Asset Allocation by Manager		Market Value As at 30 September 2022	Actual Asset Allocation	Market Value As at 31 October 2022
FUND MANAGER	**ASSET CLASS**	**£'000**	**%**	**£'000**
LGIM	Global Equities	269,603	23.46	279,229
LGIM	Future World	199,724	17.38	204,763
LCIV - BALLIE GIFFORD	Global Equities	50,441	4.39	49,961
LGIM	UK Index Linked Gilts	113,885	9.91	108,908
LCIV MAC Fund	Multi Asset Credit	110,000	9.57	110,000
UBS PROPERTY	Property	94,009	8.18	88,797
AEW	Property	65,220	5.67	62,006
LCIV - RUFFER	DGF/Absolute Returns	53,162	4.63	48,798
ADAMS STREET	Private Equity	5,902	0.51	5,669
LGT	Private Equity	2,840	0.25	2,592
LCIV - STEPSTONE	Infrastructure	35,025	3.05	38,467
MACQUARIE	Infrastructure	19,395	1.69	18,581
M&G	Private Credit	693	0.06	659
LCIV Private Debt	Private Credit	36,153	3.15	38,206
PERMIRA	Private Credit	32,127	2.80	32,128
LGIM	LPI Property	57,549	5.01	55,420
Non-Custody	Cash & Cash Equivalents	3,654	0.32	3,845
		1,149,382	**100**	**1,148,029**

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

With the concept of ‘transitory’ inflation firmly consigned to the scrap heap, the focus has shifted to assessing the impact of tighter monetary policy. Having been slow off the mark, central banks in the U.K., Eurozone and U.S. are intent on reasserting their authority by raising interest rates. The risk that the pendulum of monetary action swings too far, choking off growth and amplifying the depth and severity of a recession, has clearly increased.

This is reflected in the twitchiness in interest rate, credit, and equity markets, with sentiment shifting rapidly as new data is released. Volatility in the bond market remains exceptionally high by historic standards, and the trend of positive correlation in the performance of stocks and bonds in periods of risk aversion has continued. This is certainly a challenging time for capital allocators and security selectors.

Consensus growth forecasts for the G8 economies declined further in Q3. At the beginning of 2022, projected growth was 3.8% and 2.3% for 2022 and 2023 respectively. By the end of September, these forecasts had been reduced to 1.6% and 0.6%. Expectations are for an anaemic recovery in 2024, with growth of 1.6%. Inflation, based on CPI, is now expected to average 7.5% in 2022, compared to 3.8% at the start of the year, although economists think central bank action and decelerating growth will drive inflation down to about 4% in 2023 and 2.2% in 2024. Employment levels are still expected to be stable, an important factor in a period of high inflation and increasing borrowing costs. Investor surveys from Bank of America, ASR research and others see investors expecting a recession in 2023.

Turning to markets, the worst of the excesses in valuation of stocks and corporate bonds have been stripped away. Headline valuations have moderated, forward price to earnings ratios have dropped below long-term averages.

The outlook for growth, inflation and asset markets is still murky, at best, particularly given the relentless rise of the U.S. Dollar. Rapid changes in sentiment will continue to drive surges in volatility in the coming months.

Stocks are trading slightly below their long-term averages, but with significant earnings risks.

FINANCIAL IMPLICATIONS

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

The Fund Actuary has undertaken 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.

RESPONSIBLE INVESTMENTS UPDATE (PART I)

Committee	Pensions Committee
Officer Reporting	James Lake – Finance Directorate Babatunde Adekoya – Finance 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

It is recommended that Pensions Committee:

1. **Note the fund managers' ESG activities and compliance efforts.**
2. **Note Task Force on Climate Related Financial Disclosures update**

SUPPORTING INFORMATION

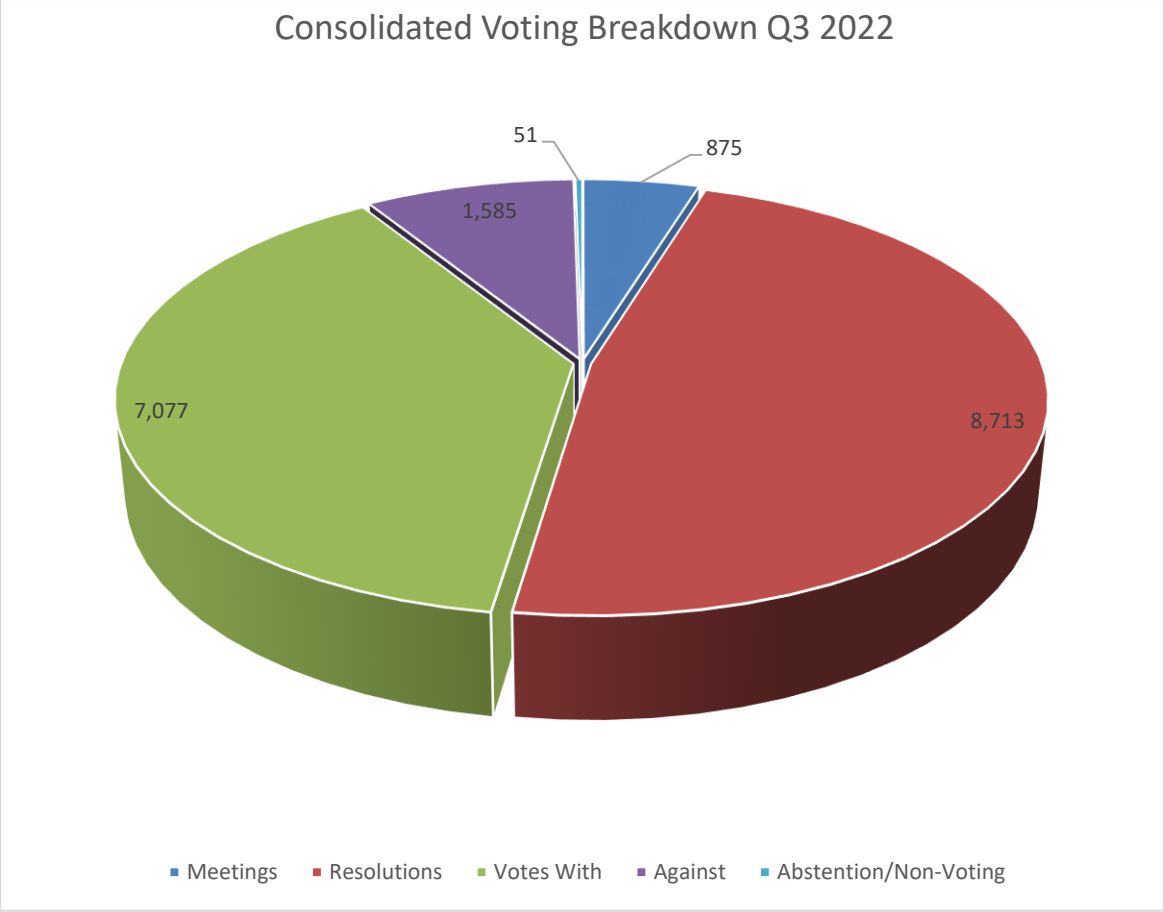
Voting and Engagement

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

Fund Managers Voting Breakdown Q3, 2022					
LCIV	**Meetings**	**Resolutions**	**Votes With**	**Against**	**Abstention/Non -Voting**
Sep-22					
LCIV - Ruffer	3	55	52	3	0
LCIV - Baillie Gifford	8	118	91	24	3
	11	**173**	**143**	**27**	**3**
%			**82.66**	**15.61**	**1.73**
LGIM	**Meetings**	**Resolutions**	**Votes With**	**Against**	**Abstention**
Sep-22	864	8,540	6,934	1,558	48
	864	**8,540**	**6,934**	**1,558**	**48**
%			**81.19**	**18.24**	**0.56**

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 18% of voting opportunities and supported resolutions on about 81% of occasions. Both LCIV portfolios combined backed various management resolutions on 83% of voting opportunities and about 16% against the resolutions proposed by company managements. Abstentions for LGIM was 0.56% and 1.73% for LCIV.



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.

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, we seek to fulfil LGIM's purpose: to create a better future through responsible investing.

Environment

Carbon Disclosure Project - Science Based Targets campaign

In 2021, LGIM supported the Carbon Disclosure Project's (CDP) Science-Based Targets (SBTs) Campaign which saw 220 signatories, representing nearly US$30 trillion in assets, asking 1,600 high-impact companies to set a 1.5°C-aligned science-based emissions reduction target.

Science-based targets provide a roadmap for reducing emissions at the pace and scale that science tells us is necessary to avoid the most catastrophic effects of climate change. This is why LGIM set out expectations of companies within their Climate Impact Pledge and why in 'Say on Climate' votes, they place such an emphasis on transition plans and targets being aligned with science.

By joining forces with collaborative organisations, LGIM aim to broaden their reach and strengthen their voice. Following the previous year's campaign, over 154 new companies, with emissions equal to that of Germany, joined the Science Based Targets Initiative (SBTi) – 8% of all those targeted by the campaign. In 2022 LGIM has again joined other financial institutions in backing the 2022 CDP campaign.

Social

Building healthy food systems

As part of the Investor Coalition on UK Food Policy, led by Rathbone-Greenbank and Guy's & St Thomas's Foundation, LGIM lent their support to a public statement on the importance of the UK government maintaining its strategy to tackle obesity. Amid speculation that the current strategy could be scaled back under the new leadership, the manager joined their peers in emphasising that combatting obesity is vital not only to social health, but also the economic health of the country. The total economic impact of obesity equalled £58 billion in 2022 and the cost of obesity-related disease now costs UK businesses £27 billion per year. The broader implications for healthcare services, workforce participation and productivity, and welfare payments are clear. LGIM therefore strongly recommends the UK government continues to lead globally by implementing its anti-obesity strategy.

LGIM collaborative efforts on policy engagement continue and are complemented by collaborative company engagements with the Access to Nutrition Initiative. Both public policy and the private sector have crucial roles to play in improving the health of individuals and of the broader economy.

Emerging diversity in emerging markets

Identify

The LGIM Investment Stewardship team has long promoted diversity across its investee companies, but the focus has so far been placed largely on developed markets such as the UK, US, Europe and Japan. Diversity (for example, of gender or ethnicity) in emerging markets has not yet been widely explored or advocated in the asset management industry. LGIM are now expanding engagement to strategic and representative emerging markets: Brazil, India, China and, South Africa.

Governance

The ACGA: generating good governance

As mentioned in the ‘Policy’ section of this report, we are longstanding members of the Asia Corporate Governance Network (ACGA). Below, LGIM provide a recent case study of their engagement alongside the ACGA with Toyota.

Identify

As a member of the ACGA Japan Working Group, LGIM engages with Japanese companies, including Toyota Motor Corporation (TMC), to improve their corporate governance and sustainability practices.

At Toyota, LGIM have identified their key issues to be:

I. capital allocation decisions (cross-shareholdings and insufficient investments in zero-emissions vehicles and related infrastructure)

II. board independence, diversity, and effectiveness

Engage

LGIM originally started engagement with Toyota in September 2021, alongside fellow shareholders. The second meeting was held earlier this year to discuss climate change, board composition and capital allocation. We spoke with TMC's Chief Sustainability Officer.

Throughout these meetings, which were attended by Toyota’s investor relations team and chief sustainability officer, LGIM expressed concerns around the company's cross shareholdings, the lack of supervisory function at the board level given the low level of independence, and the company's climate transition strategy and related public policy engagements.

Escalate

In September 2022, LGIM spoke with one of the outside directors on the board and were able to have a candid conversation about how outside directors add value to the board and the quality of board discussions.

Given the company's size and influence at Japan's largest business federation and in industry associations, LGIM have always questioned the company's lobbying stance and its alignment with a 1.5°C world (this is also one of LGIM's red lines under sector guides for the auto sector in the Climate Impact Pledge). LGIM are delighted to see improved transparency from the company as they published their views on climate public policy in December 2021. Nonetheless, they view corporate transparency to be the first step and hope that this will enable LGIM to have more in-depth conversations on its views on climate and how the company plans to shift its strategy.

Given a recent controversy at one of Toyota's group companies (Hino), LGIM will continue to engage with the company on corporate governance issues and push for better practices both in terms of corporate governance and climate strategy.

Task Force on Climate Related Financial Disclosures (TCFD)

The fund has engaged London Collective Investment Vehicle (LCIV) to analyse and report on the Fund's TCFD metrics. Once complete LCIV will present their findings after which members can decide the next steps in support of TCFD. Results are due imminently.

FINANCIAL IMPLICATIONS

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

LEGAL IMPLICATIONS

Legal implications are included in the report.

PENSION FUND RISK REGISTER

Committee	Pension Committee
Officer Reporting	James Lake – Finance Directorate
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 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 have been no changes applied to the register for this reporting period and all risks remain static.

FINANCIAL IMPLICATIONS

The financial implications are contained in the risk register attached.

LEGAL IMPLICATIONS

The legal implications are contained in the risk register attached.

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Pension Fund Risk Register 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	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.	With the assistance of Hymans quarterly funding report, the position is kept under regular review and Pension Committee is informed of the impact of prevailing market conditions on the funding level The 2022 initial triennial valuation results show an improvement on the 2019 valuation. **The strategy is provide to be robust in volatile market conditions and as at September 2022 the fund value was £xb.** The current position should be viewed with caution as there is still much uncertainty relating to economic growth and inflation, however the objectives of the fund are long term and the portfolio is well positioned to withstand volatility over the long term. Officers are closely monitoring developments and liaising with fund managers and advisors. Member cashflow continues to be monitored.	Strategic risk Likelihood = Significant Impact = Large **Rating = C2** **(Static)**	James Lake / Cllr Mathers	06/12/22
PEN 02 - Inappropriate long-term investment strategy	1. Set Pension Fund specific strategic asset allocation benchmark after taking advice from investment advisers, balancing risk and reward, based on historical data. 2. Keep risk and expected reward from strategic asset allocation under review. 3. Review asset allocation formally on an annual basis. 4. Asset allocation reported quarterly to committee 5. Officer and advisers actively monitors this risk.	A separate Officer and Advisor working group regularly monitors the investment strategy and develops proposals for change / adjustment for Pension Committee consideration. The impact of each decision is carefully assessed to ensure that long-term returns are being achieved and are kept in line with liabilities. 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. A revised Investment Strategy Statement will be prepared in line with the triennial valuation process.	Strategic risk Likelihood = Low Impact = Large **Rating = E2** **(Static)**	James Lake / Cllr Mathers	06/12/22

Description	Actions in Place	Progress Comment	Risk Category / Rating / DOT	Lead Officer / Committee Member	Date of last review
PEN 03 - Active investment manager under-performance relative to benchmark	1. The structure includes active and passive mandates and several managers are employed to diversify the risk of underperformance by any single manager. 2. Short term investment monitoring provides alerts on significant changes to key personnel or changes of process at the manager. 3. Regular monitoring measures performance in absolute terms and relative to the manager's index benchmark, supplemented with an analysis of absolute returns against those underpinning the valuation. 4. Investment managers would be changed following persistent or severe under-performance.	The Fund is widely diversified, limiting the impact of any single manager on the Fund. Active monitoring of each manager is undertaken with Advisors and Officers meeting managers on a quarterly basis and communicating regularly. The LCIV as pool is increasingly managing more assets on the funds behalf as per regulation,. The Fund has been in consultation with LCIV regarding improved oversight, reporting and communication; requested improvements have mostly been implemented. Comments on whether mandates should be maintained or reviewed are included quarterly and where needed specific performance issues will be discussed and reviewed. Action is taken to remove under-performing managers where appropriate.	Strategic risk Likelihood = Low Impact = Small **Rating = E4** **(Static)**	James Lake / Cllr Mathers	06/12/22
PEN 04 - Inflation - Pay and price inflation significantly more than anticipated	1. The focus of the actuarial valuation process is on real returns on assets, net of price and pay increases. The actuarial basis examines disparity between the inflation linking which applies to benefits of Deferred and Pensioner members as well as the escalation of pensionable payroll costs which only applies to active members, and on which employer and employee contributions are based. 2. Inter-valuation monitoring gives early warning and investment in index-linked bonds also helps to mitigate this risk. 3. Employers pay for their own salary awards and are reminded of the geared effect on pension liabilities of any bias in pensionable pay rises towards longer-serving employees. 4. Covenant's are in place with security of a guarantee or bond for admission agreements. 5. Inter-valuation monitoring gives early warning. 6. Investment in index-linked bonds helps to mitigate this risk. 7. Contribution rate setting as part of the triennial valuation process considers 5000 scenarios in achieving a fully funded position	The impact of pay and price inflation is monitored as part of the Council's MTFF processes and any potential impact on pension fund contributions is kept under review and factored into the Council's overall position. The impact of pay inflation is diminishing since the introduction of the CARE benefits in 2014 as there is less linkage to final salary in future liabilities. 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. Inflation linked investments form part of the investment strategy and are aimed at balancing this risk and protecting against the impact of inflation., A PSG meeting was held on 5th October 2021 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. A further Committee session was held 7th September 2022 to discuss various scenarios and subsequent impacts. Minor amendments were to be implemented in line with previous authorisations. Ongoing monitoring of forward indicators is in place to highlight if remedial action is required. The Fund's cashflow is constantly monitored and additional cash requirements will be factored into the revised Investment Strategy.	Strategic risk Likelihood = Significant Impact = Large **Rating = C2** **(Static)**	James Lake / Cllr Mathers	06/12/22

Description	Actions in Place	Progress Comment	Risk Category / Rating / DOT	Lead Officer / Committee Member	Date of last review
PEN 05 - Pensioners living longer.	1. Mortality assumptions are set with some allowance for future increases in life expectancy. Sensitivity analysis in triennial valuation helps employers understand the impact of changes in life expectancy. 2. Club Vita monitoring provides fund specific data for the valuation, enabling better forecasting.	The Fund is part of Club Vita, a subsidiary of the Fund Actuary, which monitors mortality data and feeds directly into the valuation. Results also feed into the quarterly funding position which is reported to and assessed by Committee Members and officers.	Strategic risk Likelihood = Low Impact = Small **Rating = E4** **(Static)**	James Lake / Cllr Mathers	06/12/22
PEN 06 - Poor Performance of Outsourced Administrator leading to poor quality information supplied to both members and the Fund Actuary	1. New partnership in place with HCC. 2. Regular service meetings in place. 3. Monthly KPI reports are provided to track and monitor performance. 4. Critical errors cleared prior to transfer of valuation data to actuary. 5. Data Improvement plan will be developed and implemented in 2022.	Transfer of pension administration services to a new partner, Hampshire County Council (HCC) has been in place since September 2021. 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. Performance against KPI's and other metrics are also discussed. KPI's have been at 100% since partnership inception and all other levels of service and interaction have been positive and pro-active.	Strategic risk Likelihood = Low Impact = Large **Rating = E2** **(Static)**	James Lake / Cllr Mathers	06/12/22
PEN 7 - Cyber Security - Pension schemes hold large amounts of personal data and assets which can make them a target for fraudsters and criminals	1. Council wide policies and processes in place around: acceptable use of devices, email and internet use of passwords and other authentication home and mobile working data access, protection (including encryption), use and transmission of data 2. Risk is on the Corporate risk register with risk mitigation in place. 3.All member and transactional data flowing from 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.	This risk has been recognised in response to recommendations by the Pensions Regulator and work carried out by Pensions Board A Data Mapping exercise has been carried out to understand data transfers and risks in this area. The results and undergone an Internal Audit assessment with a reasonable assessment level applied. Recommendations from the audit have been implemented. 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. 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. 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. 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 Civico. Testing revealed no significant remediation work was required.	Strategic risk Likelihood = Medium Impact = Large **Rating = D2** **(Static)**	James Lake / Cllr Mathers	06/12/22

Description	Actions in Place	Progress Comment	Risk Category / Rating / DOT	Lead Officer / Committee Member	Date of last review
PEN 8 - ESG - Risk of financial loss through the negative impact of ESG matters.	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.	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 was approved by Committee in June 2021. Fund manager engagement now forms part of an annual assessment and engagement process to improve manager ESG credentials. 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 considerable reduced the carbon metric of the Fund. 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. The Fund has agreed to being reporting against TCFD. The Fund was granted UK Stewardship Code signatory status in September 2022.	Strategic risk Likelihood = Medium Impact = Medium **Rating = D3** **(Static)**	James Lake / Cllr Mathers	06/12/22
PEN 9 - Portfolio liquidity - risk of failure to liquidate assets or meet drawdown calls	1. The fund has an active daily cash management process in place to ensure there is sufficient cash available to meet all beneficiary payments. 2. Cash management includes investing large amounts of surplus cash to balance the investment portfolio or hold in liquid asset classes in anticipation of cash calls 3. Officers liaise with managers where commitments have been made to keep track of predicted drawdown timescales 4. The fund is significantly diversified in different asset classes and asset managers to ensure if there is a stop on any one holding then the portfolio will continue to operate as normal.	There is a detailed cash management process in place. This is signed off daily to ensure liquidity. The fund continues to invest in illiquid asset classes to benefit from illiquidity premium, however this is a relatively small portion of the portfolio and there are other liquid asset classes easily accessible. All trade times are listed in the cash management policy. The Fund has sufficient liquidity should it need to draw on investments or divert income.	Strategic risk Likelihood =Very Low Impact = Large **Rating = F2** **(Static)**	James Lake / Cllr Mathers	06/12/22

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	1. Quarterly review meetings held with the pool 2.Regular reporting out of the pool informing the fund of manager performance 3. Swift communications received from the pool with staff turnover and concerns the fund may need to be aware. 4. Independent adviser carried out a review of governance for manager selection and manager monitoring to add assurance and discussion points with the pool 5. Active Shareholder representation at General meeting and AGM. 6. Pool to attend Committee meetings where required, to provide assurance over progress and activity	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. 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. The Hillingdon Fund has taken the lead in actively managing its underlying Pool investments with action being taken when necessary. LCIV continue to develop a pipeline of investment offerings based on client demand.	Strategic risk Likelihood = Low Impact = Low **Rating = E4** **(Static)**	James Lake / Cllr Mathers	06/12/22
PEN 11 - Threat of COVID 19 to Business Continuity	1. The pensions section and corporate finance has a business continuity plan that identifies critical tasks and resources required to carry them out. 2. Communication to key 3rd party providers HCC to co-ordinate business continuity plans 3.Active monitoring of developments, keeping abreast of Council and Government advice to ensure readiness to implement the continuity plan if required. 4. Non-essential external meetings have been cancelled to reduce contact 5. Checks being done to ensure staff have facilities to work from home 6. Vulnerable staff are being kept out of the office as much as possible	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. Business continuity plans have been obtained from the Hampshire to ensure continuity of essential member services. Staff have been principally working from home 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. 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.	Strategic risk Likelihood = Very Low Impact = Large Rating = F2 (Static)	James Lake / Cllr Mathers	06/12/22

Description	Actions in Place	Progress Comment	Risk Category / Rating / DOT	Lead Officer / Committee Member	Date of last review
PEN 12 - Failure of the Fund's governance to comply with statutory requirements and/or The Pension Regulator expectations including: **Failure to ensure that Committee members' knowledge and understanding of pension matters is robust and meets statutory requirements** **Failure to ensure that the Pension Board is effective in carrying out its role."**	Governance Policy Statement, reviewed every 3 years. Policies on range of issues, reviewed regularly. Compliance with CIPFA Code of Practice on Public Sector Pensions Finance, Knowledge and Skills Programme of training sessions and access to external events Use of Regulator's on-line toolkit A knowledge self-assessment framework for Committee and Board members to identify training requirements The Fund's Annual Report includes details of Committee and Board members' training activities Fund Governance Adviser in place Access is provided to CIPFA K&S Framework training modules	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. 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. Mandatory training, in line with the CIPFA K&S Framework, is to be undertaken by all Committee members. The fund has a schedule of policies in place to ensure reviews are carried out at the required intervals. 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. 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	Strategic risk Likelihood = Low Impact = Very Large Rating = E1 (Static)	James Lake / Cllr Mathers	06/12/22

Attributes:				Risk rating	Score	Risk rating	Score	Risk rating	Score	Risk rating	Score
Greater than 90%	This week	LIKELIHOOD	**Very High (A)**	**A4**	6	**A3**	12	**A2**	18	**A1**	24
70% to 90%	Next week / this month		**High (B)**	**B4**	5	**B3**	10	**B2**	15	**B1**	20
50% to 70%	This year		**Significant (C)**	**C4**	2	**C3**	4	**C2**	6	**C1**	8
30% to 50%	Next year		**Medium (D)**	**D4**	1	**D3**	2	**D2**	3	**D1**	4
10% to 30%	Next year to five years		**Low (E)**	**E4**	0	**E3**	0	**E2**	0	**E1**	0
Less than 10%	Next ten years		**Very Low (F)**	**F4**	0	**F3**	0	**F2**	0	**F1**	0

		Small (4)	**Medium (3)**	**Large (2)**	**Very Large (1)**
	Attributes:	**IMPACT**			
THREATS:	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 – Finance 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; and**
3. **Note the Committee's training update.**

SUPPORTING INFORMATION

Meeting Date	Item
6 December 2022	• Investment update and manager review • Responsible Investment • Funding Strategy Statement • Administration Report • Risk Register • 2022/23 Expense Budget • Workplan & Training Log
22 March 2023	• 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 • Independent Adviser Contract Award

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 2022/23

Date	Details	Cllr Mathers	Cllr Burles	Cllr Islam	Cllr Goddard	Cllr Banerjee
Bespoke Sessions						
9 Jun 22	Induction	✓	✓	✓	✓	✓
5&6 Sep 22	LCIV Annual Conference	✓				
7 Sep 22	Inflation & Portfolio Resiliance	✓		✓	✓	✓ Part
28 Sep 22	Triennial valuation assumptions and results	✓	✓	✓	✓	✓
20 Oct 22	LGA Fundamentals Day 1		✓			
10 Nov 22	LGA Fundamentals Day 2		✓			
25 Nov 22	Westminster Member Training	✓				
20 Dec 22	LGA Fundamentals Day 3		Booked			
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		✓		✓	*	

*Not applicable as completed AON training prior to 2022/23

FINANCIAL IMPLICATIONS

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

LEGAL IMPLICATIONS

The legal implications included within the body of the report.

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