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Pensions Committee

Date: **WEDNESDAY, 22 MARCH 2023**

Time: **5.00 PM**

Venue: **COMMITTEE ROOM 6 - CIVIC CENTRE, HIGH STREET, UXBRIDGE UB8 1UW**

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

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To Members of the Committee:

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

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That the reports in Part 2 of this agenda be declared not for publication because they involve the disclosure of information in accordance with Section 100(A) and Part 1 of Schedule 12 (A) to the Local Government Act 1972 (as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

6 December 2022

Meeting held at Committee Room 5 - Civic Centre

	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 & Statutory Accounts Tunde Adekoya, Pension Fund Accountant Steve Clarke, Democratic Services Officer **Also Present:** Roger Hackett, Pension Board Member Tony Noakes, Pension Board Member Marie Stokes, Pension Board Member Andrew Singh, Isio Clare Scott, Independent Adviser Emily McGuire, Isio Craig Alexander, Hymans Robertson LLP Andy Lowe, Hampshire County Council
30.	**APOLOGIES FOR ABSENCE** *(Agenda Item 1)* There were no apologies for absence.
31.	**DECLARATIONS OF INTEREST IN MATTERS COMING BEFORE THIS MEETING** *(Agenda Item 2)* There were no declarations of interest.
32.	**MINUTES OF THE MEETING DATED 28 SEPTEMBER 2022** *(Agenda Item 3)* **RESOLVED: That the minutes of the meeting dated 28 September 2022 be agreed as an accurate record.**
33.	**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 – 10 were marked Part I and would be considered in public and items 11 – 14 were marked Part II and would be considered in private.

34. **ADMINISTRATION REPORT** *(Agenda Item 5)*

James Lake, Head of Pensions, Treasury & Statutory Accounts, introduced the report noting that Hampshire County Council (HCC), as the pensions administrator, were performing well at 100% against all key performance indicators; online portal sign up continued to increase with the number of sign ups higher than at any point with the previous pensions administrator, and work was progressing well with regard to the pensions dashboard.

The Committee noted that the backlog of unprocessed leavers was coming down which was encouraging, however it was noted that this was coming down fairly slowly; Members sought an understanding of what factors were inhibiting the clearance of the backlog. Members were informed that there was a project plan in place and that HCC had a dedicated team of people working on the backlog, the project was expected to last approximately two years and had started in April. It was noted that the team were reliant on employers responding to their queries in a timely manner, this was highlighted as a factor affecting the progress of the project.

The Committee congratulated HCC on meeting all of the key performance indicators and were encouraged by their performance, it was queried whether the key performance indicators were perhaps too generous as they had been consistently met at close to 100% across the board. Andy Lowe, Head of Pension Services at Hampshire County Council, highlighted that the key performance indicators were a common set of standards amongst the local authorities that HCC were pensions administrators for, it was noted that these targets were balanced, fair and achievable but they were still ambitious, and HCC set out to achieve them.

Members noted that the report alluded to planned audit work being done with regard to cyber security and sought further details on this, the Committee were informed that work was yet to be started but HCC would ensure that the report was shared with Hillingdon officers.

The Committee noted that HCC had recently commented publicly on the funding challenges faced by local authorities and Members were reassured that, in the face of experienced and anticipated funding struggles for local authorities across the country, HCC was a healthy and stable upper tier authority that was well run and with it's finances in a comfortable position. Andy Evans, the Corporate Director of Finance, assured the Committee that he had spoken with HCC's section 151 officer and received assurances as to their financial position. It was noted that the comments issued by HCC were a warning for central government wherein if no funding changes were made for local authorities in the coming years, then it would not be surprising to see even healthy authorities struggle.

With regard to the McCloud remedy work, it was noted that officers held regular meetings with HCC to talk about McCloud and the returns from employers and that they were looking at varying ways of escalating where certain employers were giving slow responses, if any. The situation was being monitored to cut down any backlog however it was noted that this was not an urgent piece of work.

RESOLVED: That the Pensions Committee noted the administration update.

35.	**2022 ACTUARIAL VALUATION AND DRAFT FUNDING STRATEGY STATEMENT** *(Agenda Item 6)* Craig Alexander, Hymans Robertson LLP, gave the Committee an overview of the draft Funding Strategy Statement and how it had been put together. It was noted that the draft statement was currently out for consultation with the employers, this was encouraged as an open and transparent way of sharing the document and once feedback was received, the document could be finalised. Further to this it was commented that the Local Government Pension Scheme was getting harder and harder to administer and govern, which was reflected in the density of the drafted document. The Committee received a detailed summary of the contribution rate calculation for individual or pooled employers and outlined the differences between the varying types and sub-types of employers contributing to the scheme. The Committee discussed how to maximise engagement with employers and were minded to prompt particularly the larger employers to respond to the draft Funding Strategy Statement consultation in order to ensure their voice was heard. It was noted that there was ample engagement and opportunity for employers to have their say on the draft strategy, and that for example there was a close relationship with the scheme's largest employer, other than the London Borough of Hillingdon, Uxbridge College, in that they had a representative sitting on the Pension Board and were very engaged. It was confirmed that the triennial results event held on 14 November was attended by eight employers, this was not deemed to be well attended however it was noted that similar events held by other London Borough's had previously been attended by no employers. The Committee highlighted the importance of engagement with employers. **RESOLVED: That the Pensions Committee noted the Draft Funding Strategy Statement.**
36.	**INVESTMENT STRATEGY AND FUND MANAGER PERFORMANCE - PART I** *(Agenda Item 7)* James Lake, Head of Pensions, Treasury & Statutory Accounts, introduced the report noting that, due to global market pressures, the fund returned a negative 2.01% for the quarter which was 1.02% behind the benchmark. The performance for three and five years was positive but only at 1.01% and 2.94% respectively. The unaudited value of the fund at the time of the meeting was £1.151B. It was noted that many of the points the Committee may wish to discuss could be best explored in part two of the meeting as it was likely that Members would seek to discuss confidential matters. The opportunity was also taken to introduce Emily McGuire who had recently joined the Isio team of advisors. **RESOLVED: That the Pensions Committee noted the funding and performance update.**
37.	**RESPONSIBLE INVESTMENTS UPDATE - PART I** *(Agenda Item 8)* James Lake, Head of Pensions, Treasury & Statutory Accounts, introduced the report noting that the TCFD reporting from LCIV had been received since the agenda papers for the meeting were published and a meeting would need to be scheduled with LCIV to present the results to the Committee and it was noted that Isio would also take the findings of the report on board in terms of the investment strategy. It was also noted

	that there was a part two item scheduled on Responsible Investments where Members may wish to discuss any confidential matters in relation to the report. **RESOLVED That the Pensions Committee:** **1. Noted the fund managers' ESG activities and compliance efforts; and,** **2. Noted the Task Force on Climate Related Financial Disclosures update.**
38.	**RISK REGISTER REPORT** *(Agenda Item 9)* James Lake, Head of Pensions, Treasury & Statutory Accounts, introduced the report noting that discussions had taken place between Committee meetings and it was concluded that each risk should remain static. Advisors noted that there may be merit in exploring a risk with regard to the loss of key personnel and resources as this had been considered by other local authorities in their risk registers. It was noted that the officer team was fairly concentrated and that there was an element of succession planning built in to the team, however it was acknowledged that the loss of key personnel could pose a risk to the day to day operation. The Chairman was minded to build this in as a future risk for consideration. The Committee discussed PEN 9 – portfolio liquidity – it was noted that, in the past, Members had been reasonably confident that core operating cash flows could be covered by investment returns; however, due to the future calls for committed investments and the fact that returns have been below the benchmark, the Committee agreed to increase the risk from green to amber in light of the current climate. Officers noted that investment liquidity certainly needed to be considered as part of the upcoming investment strategy review. **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.**
39.	**DRAFT WORK PROGRAMME AND TRAINING** *(Agenda Item 10)* The Committee noted the draft work programme and training log and sought to add an item on LAPFF and how they may be able to aid in the committee's ESG thinking and understanding. **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.**
40.	**INVESTMENT STRATEGY AND FUND MANAGER PERFORMANCE - PART II** *(Agenda Item 11)* *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).
41.	**2022/23 BUDGET UPDATE** *(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).*
42.	**RESPONSIBLE INVESTMENTS UPDATE - PART II** *(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).*
43.	**INVESTMENT CONSULTANT SERVICE OBJECTIVES** *(Agenda Item 14)* *This item was discussed as a Part II item without the press or public present as the information under discussion contained confidential or exempt information as defined by law in the Local Government (Access to Information) Act 1985. This was because it discussed 'information relating to the financial or business affairs of any particular person (including the authority holding that information)' (paragraph 3 of the schedule to the Act).*
	The meeting, which commenced at 5.00 pm, closed at 7.15 pm.

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

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ADMINISTRATION REPORT

Committee	Pensions Committee
Officer Reporting	James Lake, Finance
Papers with this report	1. Hampshire Pensions Services Partnership Report

BACKGROUND

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

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

RECOMMENDATIONS

That the Pensions Committee:

1. **Note the administration update;**
2. **Note the 2022 TPR Data Score update; and,**
3. **Note HCUC and RUTC college merger.**

INFORMATION

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

Member portal registrations continue to improve month-on-month and as at February 2023 show 32.14%, which is now ahead of the exiting SCC position of 30.95%

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

In November the TPR data score for Hillingdon was calculated and subsequently submitted to the Pensions Regulator.

Work to clear historical items, address tracing and other cleansing exercises have improved the score from a year ago.

- Common data score has improved from 83% in 2021 to 89% in 2022
- Conditional data score has improved from 82% in 2021 to 87% in 2022

Ongoing data cleansing exercises will continue to improve the quality score and will address areas including: date pensionbale service started; address status and CARE revaluation.

Annual Benefit Statements

The 2021/22 Annual Benefit Statements were sent out in line with statutory requirements with 12,722 statement being sent, representing 99.45% of the membership. The remaining 71

member statements that were not completed, were due to outstanding issues with employers, mainly relating to missing earnings. Overall this is considered an execptional success rate.

College Merger

In January 2023 the Secretary of State agreed the merger between Uxbridge College (HCUC) (the second largest employer in the fund) and Richmond College (RUTC) to form a new entity HRUC. The new entity will expand the employer stake in the Hillingdon LGPS Fund and as such a covenant check was undertaken to assess the financial strength of the new entity. It was confirmed this was acceptable and did not pose a significant increase in risk. Work has begun in terms of data migration and the transfer of assets and liabilities of RUTC pension members. The official membership of the RUTC cohort in the LBH Fund is effective 1 April 2023, however interim arrangements have been agreed with the incumbent fund (Wandsworth Pension Fund) to administer member transactions for approximately a further 3 months. Respective actuaries are due to commence agreement of liabilities and assets for those affected.

FINANCIAL IMPLICATIONS

Financial implications have been previously dsclosed.

LEGAL IMPLICATIONS

The legal implications are in the body of the report.

HAMPSHIRE PENSION SERVICES

Monthly administration report

FEBRUARY 2023

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*
February 2023	12,709	8,903	7,888	1,087	**30,587**
Growth	***40.89%***	***-21.90%***	***12.10%***	**-**	***11.40%***

*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 February to 28th February 2023; the performance target for all cases is 15 days (except Deferred Benefits which is 30 days, and Rejoiners which is 20 days).

Time to Complete

Type of Case	0-5 days	6-10 days	11-15 days	16-20 days	21-30 days	31-40 days	Total	% completed on time	*Average days to complete process*	*Total Cases (previous month)*	*% completed on time (previous month)*
Active Retirement	7	1	0	0	0	0	8	100.00%	*3*	*6*	*100.00%*
Deferred Retirement	11	9	18	0	0	0	38	100.00%	*9*	*24*	*100.00%*
Estimates	6	18	14	0	0	0	38	100.00%	*9*	*31*	*100.00%*
Deferred Benefits	4	1	2	0	49	0	56	100.00%	*24*	*69*	*100.00%*
Transfers In & Out	0	0	1	0	0	0	1	100.00%	*12*	*1*	*100.00%*
Divorce	0	7	0	0	0	0	7	100.00%	*9*	*1*	*100.00%*
Refunds	4	8	0	0	0	0	12	100.00%	*6*	*18*	*100.00%*
Rejoiners	2	0	0	9	0	0	11	100.00%	*15*	*11*	*100.00%*
Interfunds	11	7	12	0	0	0	30	100.00%	*7*	*24*	*100.00%*
Death Benefits	14	2	5	0	0	0	21	100.00%	*5*	*18*	*100.00%*
GRAND TOTAL	**59**	**53**	**52**	**9**	**49**	**0**	**222**	**100.00%**		***203***	***100.00%***

4.3. The table below shows outstanding work as of 28th February 2023. The time outstanding reflects the time from date of receipt of the initiating request, and includes time whilst cases are on hold pending further information.

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	0	0	1	0	0	5	*3*
Deferred Retirement	5	1	3	2	0	0	11	*19*
Estimates*	91	38	32	7	4	0	172	*118*
Deferred Benefits	116	1	41	18	30	0	206	*88*
Transfers In & Out	2	0	0	0	0	0	2	*1*
Divorce	4	2	0	0	0	0	6	*11*
Refunds	2	3	2	0	0	0	7	*1*
Rejoiners	13	6	3	1	0	0	23	*21*
Interfunds	5	11	9	0	1	0	26	*26*
Death Benefits	4	1	6	0	8	0	19	*24*
GRAND TOTAL	**246**	**63**	**96**	**29**	**43**	**0**	**477**	***312***

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

4.6. As explained in last months' report we have been waiting for the April 2023 CARE revaluation and pensions increase rates to be confirmed formally. The ministerial statement was issued on 20th February, and the factors in UPM were updated as of 3rd March. This work has been separated from the other work in progress above - there **were 6 retirements** on hold on 3rd March – and Member Services are now working through these cases in retirement date order, to ensure members receive their lump sum and pension payments when they expected to.

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 February 2023, the unprocessed leavers position is as follows.

Unprocessed Leavers transferred from Surrey, at point of onboarding.	3,840
Additional unprocessed leavers identified since onboarding	318
Total unprocessed leavers	**4,158**

Leavers processed and records finalised by HPS	948
Outstanding leavers to be processed	**3,210**

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

Employer	Number of leavers outstanding
London Borough Of Hillingdon	581
Hedgewood School	188
Uxbridge Harrow College (HCUC)	109
Qed - Queensmead Academy	70
Eden Academy - Grangewood	69

6. Call and email volumes

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

Calls Received	182
Calls Answered	178
Calls Answered Percentage	97.80%
Calls Abandoned	4
Abandoned Percentage	2.19%
Average Wait Time	1 minute & 35 seconds
Calls Answered Within 5 Minutes	164
Percentage Of Calls Answered Within 5 Minutes	92.13%

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 3,401 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*
February	5,050	4,124	926
January	6,251	5,016	1,235

6.5. Of the emails responded to by PCST, 206 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 28th February 2023.

Status	Registrations to date	% of total membership	Registrations to 31/01/2023	% of total membership
Active	4,287	33.73%	4,194	32.98%
Deferred	2,524	28.35%	2,291	25.79%
Pensioner	2,670	33.85%	2,577	32.79%
TOTAL	**9,481**	**32.14%**	**9,062**	**30.76%**

7.3. The table below is the last position of member portal stats from Surrey County Council – **the current registrations have now exceeded this position.**

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
January 2023	666	488	591
February 2023	649	623	392

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	4,287	2,524	2,670	**9,481**
Opt out	45	111	1,741	**1,897**
No contact	8,377	6,268	3,477	**19,119**
Total	**12,709**	**8,903**	**7,888**	**30,587**

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 a result of Civica's testing last month, they have found issues with the update we have been waiting for, to address previously identified security vulnerabilities. The issues they identified would have prevented members from registering for the Portal and therefore we cannot accept the delivery before Civica have fixed and retested the update.

7.8. We are receiving regular updates from Civica, and the fixes they have applied are currently being retested by their QA team. As soon as testing proves there are no longer any issues, we will arrange the delivery – we hope to be able to do so in April, based on the current position.

7.9. As the security penetration testing has been postponed since January, while we have been waiting for this update, we have decided to proceed with the security testing as we cannot justify any further delay; and have asked our IT department to arrange this with our external testing company, to start as soon as possible.

7.10. Once the update has been delivered, we will ask that the penetration testing is carried out again, to prove that the previous vulnerabilities have been addressed.

8. 2023 End of Year timetable

8.1. We have agreed the timeline for the 2023-year end, including the production of benefit statements. The table below details the key milestones for each step of the year end process.

Completed By	Task
31/03/2023	Annual Return requests and templates sent to Employers.
13/04/2023	2023 Pensions Increase to be applied to all **arrears** pensions in payment.
Feb/March	Online employer annual return workshops
30/04/2023	Annual return deadline for Employers
15/05/2023	2023 Pensions increase applied to all deferred benefit members.
30/06/2023	Employer Services to complete upload of Annual Returns (AR); assuming all data received from, and queries answered by employers.
30/06/2023	CARE pension revaluation for Active members (to be run per employer, subsequent to AR upload)
15/07/2023	Valuation extracts produced and uploaded to Hymans' portal.
31/07/2023	Deferred Benefit Statements (DBS) to be produced.
31/08/2023	Supplementary Pensions Increase calculated and paid.
31/08/2023	Active Benefit Statements (ABS) to be produced.
05/10/2023	Latest date Pensions Savings Statements sent – will be produced by employer as ABS have been completed.
31/10/2023	Life Certificates issued to Overseas Pensioners.
31/10/2023	Latest date e-comms sent to members with benefit statement available on Member Portal.

8.2. **Pensions increase** – this is in progress for pensioner members and on schedule to be completed in time for April's payroll. Once this has been completed for pensioner members, we will then move on to applying the increase to deferred members.

9. McCloud

9.1. The current position of McCloud service/break data sets is as follows:

Number of employers submitted data	98
Number of returns expected	124
Proportion received	79.03%
Number of returns missing	26
Lines of data submitted	14,343
Number of Employers initial checks complete on	92
Proportion of employers initial checks completed on	74.19%
Number of Employers outstanding queries from initial checks	46

9.2. In Appendix 1 we have set out a breakdown of the data returns, by employer, and the current position of each return. This will be updated each month going forward.

10. Pensions Dashboard Programme (PDP)

10.1. We submitted our response to TPR's Compliance and Enforcement policy on 14th February and shared a summary of our response with Partners on 15th February.

10.2. On 2nd March, the Department for Work & Pensions (DWP) confirmed a delay to pensions dashboards connection deadlines – the full statement can be found here.

https://questions-statements.parliament.uk/written-statements/detail/2023-03-02/hcws594

10.3. The Government's intention is to legislate to amend schemes' connection deadlines, to give the PDP the time it needs to meet the challenges in developing the necessary digital architecture.

10.4. We continue to work through the procurement and legal requirements of the contract change notice for the Integrated Service Provider (ISP) software.

11. 2023/2024 Software Development

11.1. As explained in last months' report, the development plan for 2023/24 will focus on enhancing the functionality and experience of using our Employer Hub and Member Portal.

11.2. We expect the updated Employer Hub forms (Joiner, Leaver etc.) to be available for use by the end of March 2023 and employers will be notified of the changes they should expect to see.

11.3. We have also started preparing for the implementation of SMS One Time Codes, which will utilise the arrangement we already have in place with Gov.Notify – any bulk email communications we send are issued using this service, and they also offer SMS messaging.

12. Audit

12.1. 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.	Close of audit meeting took place on 2nd February and we are awaiting the draft response.
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	Scoping session complete and internal audit are currently undertaking testing.
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.	Scoping session complete and internal audit are currently undertaking testing and reviewing governance framework.

13. Scheme legislation updates

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

14. Employer and Member Communications

14.1. **Employer communications** – There were no employer communications issued in February.

14.2. **Member communications** – There was one member communication published on our website in February. The communication was in relation to making members aware of pension transfer scams.

15. Quality Assurance

15.1. **Data Protection Breaches** – We have not identified any data protection breaches in February 2023.

16. Compliments and Complaints

16.1. We have not received any complaints in February from any members of the LBH LGPS.

16.2. We received one compliment in February from a member of the LBH LGPS, further detail can be found in Appendix 3.

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VALUATION REPORT AND FUNDING STRATEGY

Committee	Pensions Committee
Officer Reporting	James Lake, Finance
Papers with report	1. Draft Valuation Report 2. Funding Strategy Statement

BACKGROUND

Hillingdon Council as the administering authority of the Hillingdon Pension Fund is required under Regulation 62 (1) of LGPS Regulations 2013 to carry out a triennial valuation to review the current funding strategy and ensure that there is an effective contribution plan and investment strategy to pay benefits to members as they fall due.

The triennial valuation assumptions for March 2022 were approved at the September 2022 Committee. The draft Funding Strategy Statement was also approved by the Committee for consultation. The triennial valuation is now complete, and the results attached. Craig Alexander from Hymans Robertson, the Pension Fund Actuary will present the final results to the Committee.

RECOMMENDATION

It is recommended that the Pensions Committee:

1. **Agree the draft Triennial Valuation Report; and,**

2. **Approve the Funding Strategy Statement for the London Borough of Hillingdon Pension Fund.**

SUMMARY OF THE VALUATION RESULTS

Funding position

The table below summarises the funding position as at 31 March 2022 in respect of benefits earned by members up to this date (along with a comparison at the last formal valuation at 31 March 2019).

Past Service Position	**31 March 2019 (£m)**	**31 March 2022 (£m)**
Past Service Liabilities	1,228	1,430
Market Value of Assets	1,067	1,263
Surplus / (Deficit)	(161)	(167)
Funding Level	**87%**	**88%**

There has been an improvement in the funding level since the last valuation in March 2019 from 87% to 88%, albeit the deficit has increased from £161m to £167m. The

improvement in funding position between 2019 and 2022 is mainly due to positive investment performance over the period and an increased asset value of £196m. The liabilities have also increased over the period by £202m. The likelihood of the Fund achieving the required return has improved from 61% to 62% in 2022.

Contribution rates

The table below shows the contribution rate for the whole fund at March 2022.
The Primary rate is the payroll weighted average of each individual employer primary rate. The secondary rate is the total of each individual employer rate expressed in monetary terms, calculated in accordance with the Regulations and CIPFA guidance.

	Valuation 31 March 2022		**Valuation 31 March 2019**	
Primary rate (% of pay)	19.6%		20.2%	
	Year	(£)	Year	(£)
Secondary Rate (£)	2023/24	6,693,000	2020/21	5,313,000
	2024/25	6,909,000	2021/22	5,451,000
	2025/26	7,131,000	2022/23	5,592,000

The Primary rate above includes an allowance for administration expenses of 0.8% of pensionable pay (0.8% at 2019 valuation). The average employee contribution rate is 6.7% of pensionable pay (6.5% at 2019 valuation).

Broadly, contributions required to be made by employers in respect of new benefits earned by members (the primary contribution rate) have decreased as future expected investment returns have improved. Changes to employer contributions targeted to fund the deficit have been variable across employers.

The schedule of contributions to be paid by each employer, commencing 1 April 2023 to 31 March 2026 are set out in the Rates and Adjustment Certificate included in the valuation report.

FUNDING STRATEGY STATEMENT

The Local Government Pension Scheme Regulations 2013 (58)(1) require the administering authority to prepare, maintain and publish a statement setting out its funding strategy (FSS).

The regulations also require the authority to keep the statement under review and, make such revisions as are appropriate following any material change in its policy after consultation with appropriate stakeholders. The revised FSS should then be published.

The FSS sets out how the Council, in its role as Administering Authority, has balanced the conflicting aims of affordability, stability and prudence in the approach to funding the scheme's liabilities.

The Funding Strategy Statement for the Hillingdon Pension Fund has been reviewed and updated following the 2022 triennial valuation. The draft was approved for consultation at the Pensions Committee of 28 September 2022 and was sent to employers on 18 November 2022. The consultation period ended on 16 December 2022. There were no changes arising from the consultation. The FSS was also noted by the Local Pension Board on 9 November 2022 and is now being presented back to Committee for final approval.

FINANCIAL IMPLICATIONS

The financial implications are included in the body of the report.

LEGAL IMPLICATIONS

The legal implications are included in the body of the report.

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London Borough of Hillingdon Pension Fund
Funding Strategy Statement
March 2023

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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London Borough of Hillingdon Pension Fund

Report on the actuarial valuation at 31 March 2022

SIGNATURE SIGNATURE

Craig Alexander FFA FFA

01 February 2023

For and on behalf of Hymans Robertson LLP

Use the menu bar above to navigate to each section.

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In this report:

Executive Summary

We have been commissioned by London Borough of Hillingdon (the Administering Authority) to carry out a valuation of the London Borough of Hillingdon Pension Fund (the Fund) as at 31 March 2022. This fulfils Regulation 62 of the Local Government Pension Scheme Regulations 2013. This report is a summary of the valuation.

Contribution rates

The contribution rates for individual employers set at this valuation can be found in the Rates & Adjustments certificate. Table 1 shows the combined individual employer rates set at this valuation and the last valuation (31 March 2019).

Table 1: Whole fund contribution rates compared with the previous valuation

	This valuation 31 March 2022		Last valuation 31 March 2019	
Primary Rate		19.6% of pay		20.2% of pay
Secondary Rate	2023/2024	£6,693,000	2020/2021	£5,313,000
	2024/2025	£6,909,000	2021/2022	£5,451,000
	2025/2026	£7,131,000	2022/2023	£5,592,000

The primary rate includes an allowance of 0.8% of pensionable pay for the Fund's expenses.

Employees pay a contribution to the Fund in addition to these rates. These rates are set by the LGPS Regulations. The average employee contribution rate at 31 March 2022 is 6.7% of pay (6.5% at 31 March 2019).

Funding position

As at 31 March 2022, the funding position is quite similar to the last valuation. The required investment return to be 100% funded is 4.9% pa (4.9% pa at 2019 also). The likelihood of the Fund's investment strategy achieving the required return is 62% (61% at 2019). Table 2 shows the single reported funding position at the current and previous valuation.

Table 2: Single reported funding position at 31 March 2022 compared with 31 March 2019

Valuation Date	31 March 2022	31 March 2019
Past Service Liabilities	**(£m)**	**(£m)**
Employees	387	326
Deferred Pensioners	375	309
Pensioners	668	593
Total Liabilities	**1,430**	**1,228**
Assets	**1,263**	**1,067**
Surplus/(Deficit)	**(167)**	**(161)**
Funding Level	**88%**	**87%**

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Approach to valuation

Valuation Purpose

The triennial actuarial valuation is an important part of the Fund's risk management framework. Its main purpose is to ensure the Fund continues to have a contribution plan and investment strategy that will achieve the objectives set out in the Funding Strategy Statement.

We have been commissioned by London Borough of Hillingdon (the Administering Authority) to carry out a valuation of the London Borough of Hillingdon Pension Fund (the Fund) as at 31 March 2022. This fulfils Regulation 62 of the Local Government Pension Scheme Regulations 2013. This report marks the culmination of the valuation process and contains its two key outcomes:

1. Employer contribution rates for the period 1 April 2023 to 31 March 2026.

2. The funding level of the Fund at 31 March 2022.

Further information on the valuation process, methodology and strategy is set out in the publicly available Funding Strategy Statement, Investment Strategy Statement and published papers and minutes of the Fund's Pensions Committee. Additional material is also contained in Hymans Robertson's LGPS 2022 valuation toolkit[1].

[1] www.hymans.co.uk/media/uploads/LGPS_2022_Valuation_Toolkit.pdf

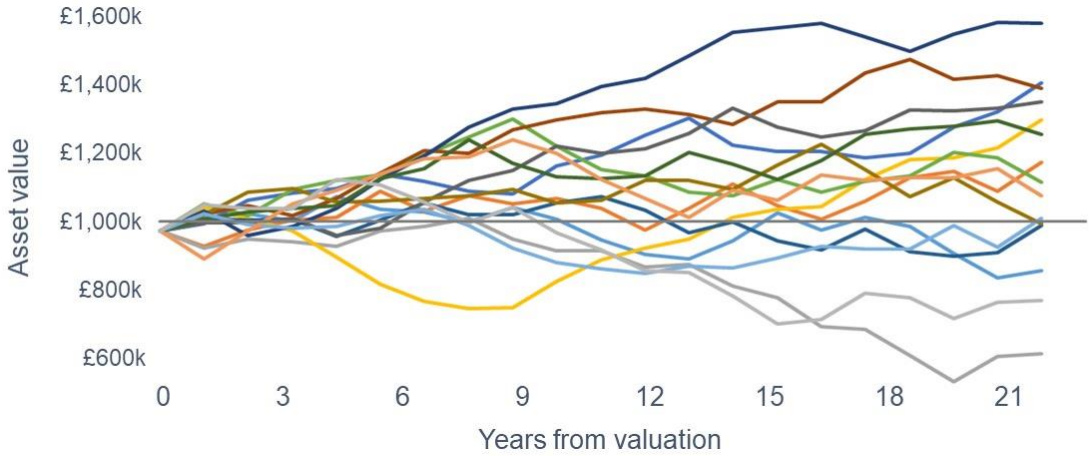
Setting employer contribution rates

Employer contributions need to be set at a level which ensures the Fund has a reasonable chance of having enough money to pay members' benefits. Identifying the amount of benefits that may be paid is complex as those earned today might only start being paid in 50 years' time. Over that time period, there is significant uncertainty over factors which affect the cost of benefits, eg inflation, investment returns. These uncertainties are allowed for by taking a risk-based approach to setting employer contribution rates. This approach is built around asset-liability modelling and three key funding decisions set by the Fund.

Asset-liability modelling

Asset-liability model is used to project each employer's assets and benefit payments into the future using 5,000 different economic scenarios. The economic scenarios are generated using Hymans Robertson's Economic Scenario Service (ESS) (further information in Appendix 2).

Picture 1: sample progression of employer asset values



Key funding decisions

For each employer, the Fund determines the most appropriate choice for the following three funding decisions. Further detail is set out in the Funding Strategy Statement.

What is the funding target for each employer?
Will the employer remain in the Fund for the long-term or exit at some point

What is the funding time horizon?
How long will the employer participate in the Fund

What is the required likelihood?
How much funding risk can the employer's covenant support

Measuring the funding level

The past service funding level is measured at the valuation. Whilst it is limited in providing insight to a funding plan, it is a useful high-level summary statistic. To measure the funding position, a market-related approach is taken to calculating both the assets and the liabilities (so they are consistent with each other).

- The market value of the Fund's assets at the valuation date have been used.
- The liabilities have been valued using assumptions based on market indicators at the valuation date (these assumptions are detailed in Appendix 2).

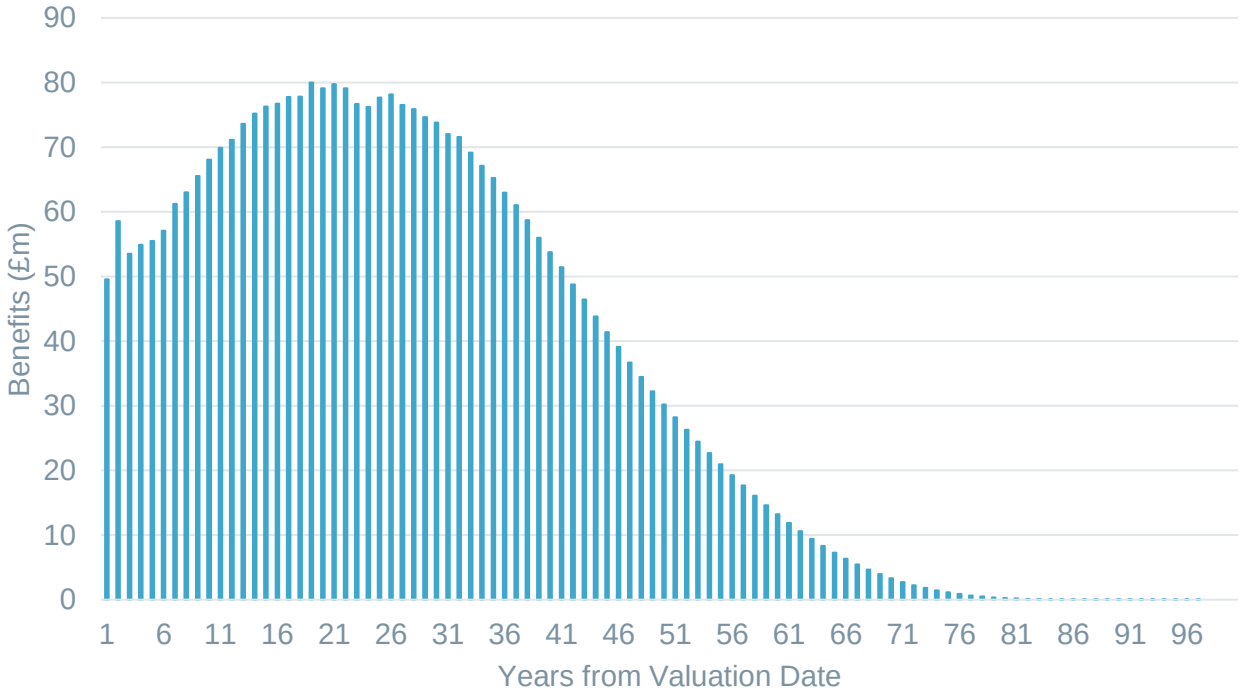
Further detail on the liabilities

The liabilities are the value of all future payments to members based on all benefits earned up to the valuation date, expressed in today's money.

Chart 1 shows the projected payments for all members in the Fund at the valuation date. The projections are based on the membership data provided for the valuation (Appendix 1), the assumptions (Appendix 2) and our understanding of the LGPS benefit structure as at 31 March 2022 (details at www.lgpsregs.org).

To express the future payments in today's money, the projections are discounted with an assumed future investment return on the Fund's assets (the discount rate).

Chart 1: projected benefit payments for all service earned up to 31 March 2022



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Valuation results

Employer contribution rates

The primary objective of the Fund is to set employer contribution rates that will adequately cover the cost of benefits which will accrue in the future and any costs related to benefits already earned. A secondary objective is to ensure the rates are as stable as possible. The risk-based approach detailed earlier is used to meet both these objectives.

The employer contribution rate is made up of two components.

1. A primary rate: the level sufficient to cover all new benefits.
2. A secondary rate: the costs associated with sufficiently funding benefits accrued up to the valuation date.

Each employer has a contribution rate which is appropriate to their circumstances and these can be found in the Rates & Adjustments Certificate. Broadly speaking:

- Primary rates have increased since the last valuation due to rising inflation.
- Secondary rates have decreased due to strong investment performance since the previous valuation.

However all employers will be different and the contribution rate will reflect the membership and experiences of each employer.

Table 3 shows the total of all employer contribution rates to be paid into the Fund over the period 1 April 2023 to 31 March 2026.

Table 3: Whole-fund contribution rate, compared with the previous valuation

	This valuation 31 March 2022		Last valuation 31 March 2019	
Primary Rate		19.6% of pay		20.2% of pay
Secondary Rate	2023/2024	£6,693,000	2020/2021	£5,313,000
	2024/2025	£6,909,000	2021/2022	£5,451,000
	2025/2026	£7,131,000	2022/2023	£5,592,000

The primary rate includes an allowance of 0.8% of pensionable pay for the Fund's expenses.

Employees pay a contribution to the Fund in addition to these rates. These rates are set by the LGPS Regulations. The average employee contribution rate at 31 March 2022 is 6.7% of pay (6.5% at 31 March 2019).

Funding level

The funding level is the ratio of assets to liabilities. The market value of the assets at the valuation date are known. The value of the liabilities is uncertain given that the level of future investment returns are unknown.

Therefore, the liabilities and funding level have been calculated across a range of different investment returns (the discount rate).

To help better understand funding risk, the likelihood of the Fund's investment strategy (detailed in Appendix 1) achieving certain levels of return has also been calculated.

Chart 2 shows how the funding level varies with future investment return assumptions at 31 March 2022 (blue line). The green line shows the same analysis at 31 March 2019.

- The funding position at 2022 is similar to 2019.
- The funding level is 100% if future investment returns are c.4.9% pa.
- The likelihood of the Fund's assets yielding at least this return is around 62%.
- The comparator at 2019 was a return of 4.9% pa with a similar associated likelihood of 61%.
- There is a 50% likelihood of an investment return of c5.6% pa. So the best-estimate funding level is 114% at 31 March 2022 (113% at 2019).

Chart 2: funding level across a range of future investment returns

Figures on each line show the likelihood of the Fund's assets exceeding that return at the valuation date

Single funding level as at 31 March 2022

Whilst the chart on the previous page provides a better understanding of the past service funding position, there is still a requirement to report a single funding level at 31 March 2022.

To report a single funding level and funding surplus/deficit for the 2022 valuation, a discount rate of 4.1% pa has been used. There is a 70% likelihood associated with a future investment return of 4.1% pa.

Table 4 details the liabilities, split by member status and the market value of assets at the valuation date. The results at the 2019 formal valuation are shown for comparison.

The funding level and surplus/deficit figures provide a high-level snapshot of the funding position of the Fund as at 31 March 2022, however there are limitations:

- The liabilities are calculated using a single set of assumptions about the future and so are very sensitive to the choice of assumptions.
- The market value of assets held by the Fund will change on a daily basis.

The future progression of the funding position is uncertain. If the financial and demographic assumptions made at this valuation actually occur, employers pay contributions in line with the R&A certificate and there are no other changes in the financial or demographic environment, we project that the funding level at the next valuation (31 March 2025) will be approximately 90%.

Table 4: single reported funding level

Valuation Date	31 March 2022	31 March 2019
Past Service Liabilities	**(£m)**	**(£m)**
Employees	387	326
Deferred Pensioners	375	309
Pensioners	668	593
Total Liabilities	**1,430**	**1,228**
Assets	**1,263**	**1,067**
Surplus/(Deficit)	**(167)**	**(161)**
Funding Level	**88%**	**87%**

Important: *the reported funding level does not directly drive the contribution rates for employers. The contribution rates consider how assets and liabilities will evolve over time in different economic scenarios and also reflect each employer's funding profile and covenant.*

Changes since the last valuation

Events between 2019 and 2022

The most significant external event to occur since the last valuation has been the Covid-19 pandemic. The experience analysis shows the impact on the whole fund funding position has been small, greater impacts will have occurred within the individual employer level results.

Other significant factors occurring which affect the funding strategy of the Fund have been the better than expected investment returns. This has had a positive impact on the funding position and employers' secondary contribution rates.

Financial

Table 5: analysis of financial experience between 2019 and 2022 valuations

	Expected	Actual	Difference	Impact on funding position
3 year period	12.6%	19.7%	7.1%	+£74m
Annual	4.0% pa	6.2% pa	2.2% pa	

Membership

Table 6: analysis of membership experience between 2019 and 2022 valuations

	Expected	Actual	Difference	Impact on funding position
Early leavers	2,007	4,351	2,344	+£3m
Ill-health retirements	38	30	-8	+£2m
Salary increases	3.2% pa	4.4% pa	1.2% pa	-£7m
Benefit increases	2.3% pa	1.8% pa	-0.6% pa	+£19m
Pension ceasing	£2.9m	£2.9m	-	+£2m

Changes since the last valuation

Future outlook

Expectations about the future, which inform the assumptions used to value the liabilities, have changed since the last valuation. The most significant changes are:

- Future inflation: this is expected to be on average higher than at 2019 due to the current level of high inflation.
- Investment returns: due to change in the Fund's investment strategy and financial markets, future investment returns are now different than at the last valuation.

Table 7: summary of change in future outlook

Factor	What does it affect?	What's changed?	Impact on liabilities
Future investment returns	The rate at which future benefit payments are discounted back, ie the discount rate assumption	Future investment returns slightly higher at 2022 than at 2019. The required return is now 4.1% pa vs. 4.0% pa at 2019.	Decrease of £27m
Inflation	The rate at which pensions in payment and deferment and CARE pots increase	Significant increase in short-term future inflation expectations.	Increase of £93m
Salary increases	The rate at which future salaries increase. This affects benefits that are still linked to final salary, ie accrued before 1 April 2014	No material change since last valuation given competing factors e.g. tighter budgetary conditions vs. strong job market and pressure from National Living Wage increases.	Increase of £2m
Current life expectancy	How long we expect people to live for based on today's current observed mortality rates.	Slight reduction in life expectancy based on current observed data (not allowing for Covid-related excess deaths)	Decrease of £3m
Future improvements in life expectancy	How we expect life expectancies to change (increase) in the future.	Uncertainty about effectiveness of mitigations against life expectancy increases in the LGPS i.e. State Pension Age increases and Cost Cap. Need to better reflect wider pension and insurance industry long-term expectations.	Increase of £8m

Reconciling the overall change in funding position

The tables below provide insight into the funding position change between 31 March 2019 and 31 March 2022. Firstly, the changes we expect to happen (Table 8), which relate mostly to items on the asset side. Then the impact of actual experience (Table 9), which mainly affects the liabilities.

Expected development

Table 8: expected development of funding position between 2019 and 2022 valuations

Change in the surplus/deficit position	Assets	Liabilities	Surplus / Deficit
	£m	£m	£m
Last valuation at 31 March 2019	**1,067**	**1,228**	**(161)**
Cashflows			
Employer contributions paid in	115	0	115
Employee contributions paid in	31	0	31
Benefits paid out	(147)	(147)	0
Net transfers into / out of the Fund			
Other cashflows (e.g. Fund expenses)	(8)	0	(8)
Expected changes			
Expected investment returns	130	0	130
Interest on benefits already accrued	0	153	(153)
Accrual of new benefits	0	135	(135)
Expected position at 31 March 2022	**1,188**	**1,369**	**(181)**

* We have insufficient data to value the impact on the liabilities as a result of transfers in/out

Impact of actual events

Table 9: impact of actual events on the funding position at 31 March 2022

Change in the surplus/deficit position	Assets	Liabilities	Surplus / Deficit
	£m	£m	£m
Expected position at 31 March 2022	**1,188**	**1,369**	**(181)**
Events between 2019 and 2022			
Salary increases greater than expected	0	7	(7)
Benefit increases greater than expected	0	(19)	19
Early retirement strain (and contributions)	0	5	(5)
Ill health retirement strain	0	(2)	2
Early leavers less than expected	0	(3)	3
Commutation less than expected	0	4	(4)
McCloud remedy	0	1	(1)
Other membership experience	0	(18)	18
Higher than expected investment returns	74	0	74
Changes in future expectations			
Investment returns	0	(27)	27
Inflation	0	93	(93)
Salary increases	0	2	(2)
Longevity	0	5	(5)
Other demographic assumptions	0	13	(13)
Actual position at 31 March 2022	**1,263**	**1,430**	**(167)**

Numbers may not sum due to rounding

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Sensitivity & risk analysis

Sensitivity and risk analysis: assumptions

There is risk and uncertainty inherent with funding benefit payments that will be paid out many years in the future. The Fund is aware of these and has in place a risk register which is regularly reviewed. Additionally, as part of the valuation, the Fund reviews sources of risk that may impact its funding position and the contribution rates payable by employers.

This section discusses some of the most significant sources of funding risk (assumptions, regulatory, administration and governance and climate change). Further information of the Fund's approach to funding risk management, including monitoring, mitigation and management, is set out in the Funding Strategy Statement.

Assumptions

The valuation results depend on the actuarial assumptions made about the future. By their nature, these assumptions are uncertain which means its important to understand their sensitivity and risk levels.

Contribution rates

The risk-based approach to setting employer contribution rates mitigates the limitation of relying on one set of assumptions. Therefore, there is no need to carry out additional analysis of the sensitivity of contribution rates to changes in financial assumptions. The contribution rates are sensitive to changes in demographic assumptions. The results in this section in relation to the funding position can be broadly applied to the contribution rates.

Funding level

Financial assumptions

On page 10, we have already set out how the results vary with the assumed future investment return. The table below considers inflation.

Table 10: sensitivity of funding position to inflation assumption

CPI Assumption	Surplus/ (Deficit)	Funding Level
% pa	(£m)	%
2.5%	(123)	91%
2.7%	**(167)**	**88%**
2.9%	(213)	86%

Demographic assumptions

The main area of demographic risk is if people live longer than expected. The table below shows the impact of longer term longevity rates improving at a faster rate (1.75% pa vs 1.5% pa used in the results)

Table 11: sensitivity of funding position to longevity assumption

Long term rate of improvement	Surplus/ (Deficit)	Funding Level
% pa	(£m)	%
1.5%	**(167)**	**88%**
1.75%	(178)	88%

Sensitivity and risk analysis: other risks & climate change

Regulatory, Administration and Governance risks

Potential risks in this area include change in central government legislation which changes the future cost of the LGPS and failures in administration processes leading to incorrect data and inaccuracies in actuarial calculations. At this valuation, specific risks include:

- **McCloud:** the remedy to resolve the McCloud case is yet to be formalised in regulations. However, an allowance has been included for this expected benefit change at the 2022 valuation as directed by the Department of Levelling Up, Housing and Communities in their letter dated March 2022[1].
- **Cost Cap:** a legal challenge is still ongoing in relation to the results of the 2016 cost cap valuation and no information is known about the outcome of the 2020 cost cap valuation. At this valuation, no allowance has been made for any changes to the benefit structure that may occur as a result of a cost cap valuation.
- **GMP indexation:** it is assumed that all increases on GMPs for members reaching State Pension Age after 6 April 2016 will be paid for by LGPS employers. This is the same approach that was taken for the 2019 valuation.

Climate change

Background

Climate change is a major source of uncertainty which could affect future investment returns, inflation and life expectancies. Therefore, the Fund has explicitly explored the resilience of its funding and investment strategy to future potential climate change outcomes.

It is impossible to confidently quantify the effect of climate risk given the significant uncertainty over the impact of different possible climate outcomes. Instead, three different climate change scenarios have been considered as a stress-test (instead of trying to predict how climate change affects the funding level in the future).

All the scenarios assume that there will be a period of disruption linked either to the response to climate risk (transition risks) or the effect of it (physical risks). This disruption will lead to high volatility in financial markets, and the later the disruption, the more pronounced it will be.

Further detail on the scenarios is shown on the next page and in our guide X of Hymans Robertson's LGPS 2022 valuation toolkit[2].

1 www.lgpslibrary.org/assets/bulletins/2022/222AppA.pdf

2 www.hymans.co.uk/media/uploads/LGPS_2022_Valuation_Toolkit.pdf

Sensitivity and risk analysis: climate change & post valuation events

Climate change

Outcome of analysis

The Fund has set its funding and investment strategy using asset-liability modelling and considering two main risk metrics:

- Likelihood of success – the chance of being fully funded in 20 years' time
- Downside risk – the average worst 5% of funding levels in 20 years' time

When exploring the potential impact of climate change, the Fund has compared how these risk metrics change under each climate change scenario (against the '*Core'* model used when setting the funding and investment strategy). The stress test results for the Fund are shown in Table 12 below.

Table 12: sensitivity of results to climate change scenarios

Scenario	Likelihood of success	Downside risk
Core	72%	48%
Green Revolution	71%	49%
Delayed Transition	68%	45%
Head in the Sand	66%	45%

The results are worse in the climate scenarios. This is to be expected given that they are purposefully stress-tests and all the scenarios are bad outcomes. Whilst the risk metrics are weaker, they are not materially so and not enough to suggest that the funding and investment strategy are unduly exposed to climate change risk. The Fund will continue to monitor this risk as more information emerges and climate change modelling techniques evolve.

Post valuation events

Since 31 March 2022, there has been significant volatility in the financial markets, short-term inflation expectations and rises in interest rates by central banks. These events affect the value of the Fund's assets and liabilities. For example, the Fund's investment return since 31 March 2022 is estimated to be somewhere between -5% and -10%.

As an open scheme, with a strong covenant, the Fund takes a long-term view when considering the funding impact of such events. For employers who have a very short time horizon, recent volatility may be more immediately impactful.

No explicit allowance has been made for this volatility in the valuation results or contribution rates detailed in the Rates & Adjustments Certificate. The Fund will continue to monitor changes in the financial and demographic environment as part of its ongoing risk management approach.

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Final comments

Final comments

The Fund's valuation operates within a broader framework, and this document should be considered alongside the following:

- The Funding Strategy Statement, which in particular highlights how different types of employer in different circumstances have their contributions calculated
- The Investment Strategy Statement, which sets out the investment strategy for the Fund
- The general governance of the Fund, such as meetings of the Pensions Committee and Local Pensions Board, decisions delegated to officers, the Fund's business plan, etc
- The Fund's risk register

Intervaluation employer events

New employers joining the Fund

Any new employers or admission bodies joining the Fund should be referred to the Fund Actuary to assess the required level of contribution. Depending on the number of transferring members the ceding employer's rate may also need to be reviewed.

Cessations and bulk transfers

Any employer who ceases to participate in the Fund should be referred to the Fund Actuary in accordance with Regulation 64 of the LGPS regulations.

Any bulk movement of scheme members:

- involving 10 or more scheme members being transferred from or to another LGPS fund
- involving 2 or more scheme members being transferred from or to a non-LGPS pension arrangement

should be referred to the Fund Actuary to consider the impact on the Fund.

Valuation frequency

Under the LGPS regulations, the next formal valuation of the Fund is due to be carried out as at 31 March 2025 where contribution rates payable from 1 April 2026 will be set.

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Appendices

APPENDIX 1

Data

Membership data

A summary of the membership data provided by the Fund for the 2022 valuation is set out in Table 13. The corresponding membership data from the previous valuation is also shown for reference.

The results of the valuation are dependent on the quality of the data used. We have carried out a series of validation checks on the data supplied to us by the Administering Authority to ensure that it is fit for purpose.

Asset data

To check the membership data and derive employer asset values, we have used asset and accounting data and employer level cashflow data provided by the Fund.

Table 13: Whole fund membership data as at 31 March 2022 and 31 March 2019

Whole Fund Membership Data	This Valuation 31 March 2022	Last Valuation 31 March 2019
Employee members		
Number	8,691	8,126
Total actual pay (£000)	152,450	140,126
Total accrued pension (£000)	23,167	20,503
Average age (liability weighted)	53.2	53.2
Future working lifetime (years)	5.0	8.5
Deferred pensioners (including undecideds)		
Number	12,903	11,654
Total accrued pension	20,151	18,097
Average age (liability weighted)	53.1	52.3
Pensioners and dependants		
Number	7,675	6,653
Total pensions in payment	42,417	37,962
Average age (liability weighted)	69.6	68.7

APPENDIX 1

Data

Investment strategy

A summary of the investment strategy allocation used for the calculation of employer contribution rates and to derive the future assumed investment return is set out in Table 14.

Further details on the Fund's assets are set out in the Fund's Investment Strategy Statement.

Table 14: Investment strategy used for the 2022 valuation

Asset class	Allocation
Global equities (hedged)	10.5%
Global equities (unhedged)	31.8%
EM equities (unhedged)	3.4%
DGF Low Beta	4.3%
Private Equity	1.0%
Property	18.3%
Index linked gilt (14 yr maturity)	12.1%
Multi Asset Credit	9.2%
Private Lending	5.3%
Infrastructure Debt	3.3%
Cash	1.0%
Total	**100.0%**

APPENDIX 2

Assumptions

To set and agree assumptions for the valuation, the Fund carried out in-depth analysis and review in July 2022 with the final set agreed by the Pensions Committee.

Financial assumptions

Setting employer contribution rates

An asset-liability model is used to set employer contributions at the 2022 valuation. This model relies on Hymans Robertson's proprietary economic model, the Economic Scenario Service (ESS). The ESS reflects the uncertainty associated with future levels of inflation and asset returns and the interactions and correlations between different asset classes and wider economic variables. In the short term (first few years), the models are fitted with current financial market expectations. Over the longer term, models are built around views of fundamental economic parameters, for example equity risk premium, credit spreads and long term inflation. The table below shows the calibration of the ESS at 31 March 2022. Further information on the assumptions used for contribution rate setting is included in the Funding Strategy Statement.

Table 15: ESS individual asset class return distributions at 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%
40 years	16th %'ile	1.2%	-0.3%	3.1%	4.7%	2.6%	2.1%	2.5%	3.6%	3.5%	3.4%	5.5%	0.9%
	50th %'ile	2.9%	1.2%	6.5%	10.3%	5.5%	6.8%	4.4%	5.3%	6.8%	6.8%	7.7%	2.2%
	84th %'ile	4.9%	3.1%	10.2%	16.1%	8.8%	11.7%	6.5%	7.1%	10.4%	10.4%	10.0%	3.7%

APPENDIX 2

Assumptions

Financial assumptions

Calculating the funding level

The table below summarises the assumptions used to calculate the funding level at 31 March 2022, along with a comparison at the last valuation.

Table 16: Summary of assumptions used for measuring the funding level, compared to last valuation on 31 March 2019

Assumption	31 March 2022	Required for	31 March 2019
Discount rate	4.1% pa	To place a present value on all the benefits promised to scheme members at the valuation date. The Fund's assets are estimated to have a 70% (74%) likelihood of returning above the discount rate at 31 March 2022 (31 March 2019)	4.0% pa
Benefit increases/CARE revaluation	2.7% pa	To determine the size of future benefit payments.	2.3% pa
Salary increases	3.2% pa	To determine the size of future final-salary linked benefit payments.	2.6% pa

APPENDIX 2

Assumptions

Demographic assumptions

The same demographic assumptions are used in setting contribution rates and assessing the current funding level.

Longevity

Table 17: Summary of longevity assumptions

	This valuation 31 March 2022	Last valuation 31 March 2019
Baseline assumption	VitaCurves based on member-level lifestyle factors	VitaCurves based on member-level lifestyle factors
Future improvements	**CMI 2021 model** Initial addition = **0.25% (both Female and Male)** Smoothing factor = **7.0** **1.5% pa** long-term rate of improvement	**CMI 2018 model** Initial addition = **0.25% (Female), 0.5% (Male)** Smoothing factor = **7.0** **1.25% pa** long-term rate of improvement

Further information on these assumptions can be provided upon request. Sample rates are included on the next page.

Other demographic assumptions

Table 18: Summary of other demographic assumptions

Death in service	See sample rates in Appendix 2
Retirements in ill health	See sample rates in Appendix 2
Withdrawals	See sample rates in Appendix 2
Promotional salary increases	See sample rates in Appendix 2
Commutation	55% of future retirements elect to exchange pension for additional tax free cash up to HMRC limits
50:50 option	0.6% of members (uniformly distributed across the age, service and salary range) will choose the 50:50 option
Retirement age	The earliest age at which a member can retire with their benefits unreduced
Family details	A varying proportion of members are 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. The dependant of a male member is assumed to be 3 years younger and the dependent of a female member is assumed to be 3 years older.

APPENDIX 2

Assumptions

Sample rates for demographic assumptions

Males

Table 19: Sample rates of male demographic assumptions

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	0	0	0
25	117	0.17	400.59	698.13	0	0	0	0
30	131	0.2	284.23	495.26	0	0	0	0
35	144	0.24	222.07	386.91	0.1	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	240.8	0.9	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	5.1	0	0	11.83	8.87	0	0

Females

Table 20: Sample rates of female demographic assumptions

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	0	0	0
25	117	0.1	355.71	377.33	0.1	0.07	0.02	0.01
30	131	0.14	298.17	316.25	0.13	0.1	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

Figures are incidence rates per 1,000 members except salary scale

APPENDIX 3

Reliances and limitations

We have been commissioned by London Borough of Hillingdon ("the Administering Authority") to carry out a full actuarial valuation of the London Borough of Hillingdon Pension Fund ("the Fund") as at 31 March 2022 as required under Regulation 62 of the Local Government Pension Scheme Regulations 2013 ("the Regulations").

This report is addressed to the Administering Authority. It has been prepared by us as actuaries to the Fund and is solely for the purpose of summarising the main outcomes of the 2022 actuarial valuation. It has not been prepared for any other third party or for any other purpose. We make no representation or warranties to any third party as to the accuracy or completeness of this report, no reliance should be placed on this report by any third party and we accept no responsibility or liability to any third party in respect of it.

This summary report is the culmination of other communications in relation to the valuation, in particular:

- Our 2022 valuation toolkit which sets out the methodology used when reviewing funding plans
- Our paper to the Fund dated July 2022 which discusses the funding strategy for the Fund's council
- Our paper to the Fund dated July 2022 which discusses the valuation assumptions
- Our initial results report dated September 2022 which outlines the whole fund results and inter-valuation experience
- Our data report which summarises the data used for the valuation, the approach to ensuring it is fit for purpose and any adjustments made to it during the course of the valuation
- The Funding Strategy Statement which details the approach taken to adequately fund the current and future benefits due to members

The totality of our advice complies with the Regulations as they relate to actuarial valuations.

The following Technical Actuarial Standards apply to this advice, and have been complied with where material and to a proportionate degree. They are:

- TAS100 – Principles for technical actuarial work
- TAS300 - Pensions

APPENDIX 4

Glossary

Term	Explanation
50:50 option	An option for LGPS members to pay half contributions and earn half the retirement benefit (pre-retirement protection benefits are unreduced).
Baseline longevity	The rates of death (by age and sex) in a given group of people based on current observed data.
Club Vita	A firm of longevity experts we partner with for longevity analysis. They combine data from thousands of pension schemes and use it to create detailed baseline longevity assumptions at member-level, as well as insight on general longevity trends and future improvements.
Commutation	The option for members to exchange part of their annual pension for a one-off lump sum at retirement. In the LGPS, every £1 of pension exchanged gives the member £12 of lump sum. The amounts that members commute is heavily influenced by tax rules which set an upper limit on how much lump sum can be taken tax-free.
CPI inflation	The annual rate of change of the Consumer Prices Index (CPI). The CPI is the UK government's preferred measure of inflation and is the measure used to increase LGPS (and all other public sector pension scheme) benefits each year.
Demographic assumptions	Assumptions concerned with member and employer choices rather than macroeconomic or financial factors. For example, retirement age or promotional salary scales. Demographic assumptions typically determine the timing of benefit payments.
Discount rate	A number used to place a single value on a stream of future payments, allowing for expected future investment returns.
ESS	Economic Scenario Service - Hymans Robertson's proprietary economic scenario generator used to create thousands of simulations of future inflation, asset class returns and interest rates.

APPENDIX 4

Glossary

Term	Explanation
Funding position	The extent to which the assets held by the fund at 31 March 2022 cover the accrued benefits ie the liabilities. The two measures of the funding position are: • the funding level - the ratio of assets to liabilities; and • the funding surplus/deficit - the difference between the asset and liabilities values.
Inflation	Prices tend to increase over time, which is called inflation. Inflation is measured in different ways, using a different 'basket' of goods and mathematical formulas.
Liabilities	An employer's liability value is the single value at a given point in time of all the benefit payments expected to be made in future to all members. Benefit payments are projected using demographic and financial assumptions and the liability is calculated using a discount rate.
Longevity improvements	An assumption about how rates of death will change in future. Typically we assume that death rates will fall and life expectancies will improve over time, continuing the long-running trend.
Prudence	To be prudent means to err on the side of caution in the overall set of assumptions. We build prudence into the choice of discount rate by choosing an assumption with a prudence Level of more than 50%. All other assumptions aim to be best estimate.
Prudence Level	A percentage indicating the likelihood that a discount rate assumption will be achieved in practice, based on the ESS model. The higher the prudence level, the more prudent the discount rate is.
Withdrawal	Refers to members leaving the scheme before retirement. These members retain an entitlement to an LGPS pension when they retire, but are no longer earning new benefits.

HYMANS ROBERTSON

Rates & adjustments certificate

Rates and Adjustments Certificate

In accordance with Regulation 62 of the LGPS regulations, we have assessed the contributions that should be paid into the London Borough of Hillingdon Pension Fund (the Fund) by participating employers for the period 1 April 2023 to 31 March 2026 in order to maintain the solvency of the Fund.

The method and assumptions used to calculate the contributions set out in this Rates and Adjustments certificate are detailed in the Funding Strategy Statement dated March 2023 and in Appendix 2 of the report on the actuarial valuation dated 31 March 2023. These assumptions underpin our estimate of the number of members who will become entitled to a payment of pensions under the provisions of the LGPS and the amount of liabilities arising in respect of such members.

The table below summarises the whole fund primary and secondary contribution rates for the period 1 April 2023 to 31 March 2026. The primary rate is the payroll weighted average of the underlying individual employer primary rates and the secondary rate is the total of the underlying individual employer secondary rates, calculated in accordance with the LPGS regulations and CIPFA guidance. The secondary rate has been shown both as a monetary amount and an equivalent percentage of the projected pensionable pay.

		This valuation 31 March 2022	
Primary rate		19.6% of pay	
Secondary rate		Monetary amount	Equivalent to % of payroll
	2023/24	£6,693,000	4.1%
	2024/25	£6,909,000	4.1%
	2025/26	£7,131,000	4.1%

The required minimum contribution rates for each employer in the Fund are set out in the remained of this certificate.

Employer code	Employer name	Primary rate (% of pay)	Secondary rate (% of pay plus monetary amount)			Total contributions (primary rate plus secondary rate)			Notes
			2023/24	2024/25	2025/26	2023/24	2024/25	2025/26	
	London Borough of Hillingdon Pool	19.2%	4.9%	4.9%	4.9%	24.1%	24.1%	24.1%	
	HCUC	21.8%	1.9%	1.9%	1.9%	23.7%	23.7%	23.7%	
00NQ3	Heathrow Travel Care	24.5%	-1.6%	-1.6%	-1.6%	22.9%	22.9%	22.9%	
00NQ2	Hillingdon & Ealing Citizens Advice	25.9%	9.5%	9.5%	9.5%	35.4%	35.4%	35.4%	
Academies									
	Bishop Ramsey Academy	20.9%	3.1%	3.1%	3.1%	24.0%	24.0%	24.0%	
	Frays Academy Trust	20.4%	3.4%	3.4%	3.4%	23.8%	23.8%	23.8%	
	Guru Nanak Academy Trust	20.0%	0.8%	0.8%	0.8%	20.8%	20.8%	20.8%	
	Haydon Academy	20.4%	0.6%	0.6%	0.6%	21.0%	21.0%	21.0%	
	Hewens Academy Trust	19.7%	3.5%	3.5%	3.5%	23.2%	23.2%	23.2%	
	Orchard Hill College Academy Trust	19.2%	7.8%	7.8%	7.8%	27.0%	27.0%	27.0%	
	Queensmead Academy	20.5%	0.0%	0.0%	0.0%	20.5%	20.5%	20.5%	
	Uxbridge Academy	19.6%	1.2%	1.2%	1.2%	20.8%	20.8%	20.8%	
	Vanguard Trust	20.2%	4.1%	4.1%	4.1%	24.3%	24.3%	24.3%	
00NA1	Barnhill Academy	20.1%	2.6%	2.6%	2.6%	22.7%	22.7%	22.7%	
00NA2	Belmore Academy	20.2%	3.7%	3.7%	3.7%	23.9%	23.9%	23.9%	
00NA4	Bishopshalt Academy	20.3%	8.7%	8.7%	8.7%	29.0%	29.0%	29.0%	
00NA5	Charville Academy	20.5%	1.0%	1.0%	1.0%	21.5%	21.5%	21.5%	
00NB1	Coteford Junior Academy	20.9%	5.1%	5.1%	5.1%	26.0%	26.0%	26.0%	
00NAX	Cranford Academy	20.5%	0.9%	0.9%	0.9%	21.4%	21.4%	21.4%	
00NA6	Douay Martyrs Academy	20.3%	3.2%	3.2%	3.2%	23.5%	23.5%	23.5%	
00NAP	Harefield Academy	20.2%	2.4%	2.4%	2.4%	22.6%	22.6%	22.6%	

Employer code	Employer name	Primary rate (% of pay)	Secondary rate (% of pay plus monetary amount)			Total contributions (primary rate plus secondary rate)			Notes
			2023/24	2024/25	2025/26	2023/24	2024/25	2025/26	
Academies (continued)									
00NAR	Heathrow Aviation Engineering	20.2%	-1.5%	-1.5%	-1.5%	18.7%	18.7%	18.7%	
00NAC	Hillingdon Primary	20.2%	1.2%	1.2%	1.2%	21.4%	21.4%	21.4%	
00NAE	John Locke Academy	20.0%	0.0%	0.0%	0.0%	20.0%	20.0%	20.0%	
00NB2	Northwood Academy	21.0%	2.3%	2.3%	2.3%	23.3%	23.3%	23.3%	
00NB6	Park Academy West London	20.0%	-1.5%	-1.5%	-1.5%	18.5%	18.5%	18.5%	
00NAD	Pinkwell	20.2%	6.2%	6.2%	6.2%	26.4%	26.4%	26.4%	
00NB7	Swakeleys Academy	20.2%	-1.0%	-1.0%	-1.0%	19.2%	19.2%	19.2%	
00NBD	The Global Academy UTC Trust Ltd	19.1%	4.5%	4.5%	4.5%	23.6%	23.6%	23.6%	
00NBE	West Drayton School	20.2%	5.7%	5.7%	5.7%	25.9%	25.9%	25.9%	
00NBF	William Byrd Academy	20.7%	5.8%	5.8%	5.8%	26.5%	26.5%	26.5%	
00NB9	Willows Academy	19.3%	9.9%	9.9%	9.9%	29.2%	29.2%	29.2%	
00NAZ	Wood End Academy	19.9%	0.2%	0.2%	0.2%	20.1%	20.1%	20.1%	
Other admission bodies									
00NTW	Caterlink - Frays Laurel & St Matthews	28.6%	0.0%	0.0%	0.0%	28.6%	28.6%	28.6%	
00NT6	Caterplus (prev Genuine Dining)	26.0%	0.0%	0.0%	0.0%	26.0%	26.0%	26.0%	
00NTK	CCS	26.0%	0.0%	0.0%	0.0%	26.0%	26.0%	26.0%	
00NU6	Cleantec Services (Harlington)	42.3%	0.0%	0.0%	0.0%	42.3%	42.3%	42.3%	
00NTX	CUCINA - Bishophalt Catering	27.3%	0.0%	0.0%	0.0%	27.3%	27.3%	27.3%	
00NT5	Greenwich Leisure Limited	26.0%	0.0%	0.0%	0.0%	26.0%	26.0%	26.0%	
00N10	Guru Nanak Academy Cleaners	31.9%	0.0%	0.0%	0.0%	31.9%	31.9%	31.9%	
00NTV	Hayward Services - Highfield School Cleaning	34.6%	0.0%	0.0%	0.0%	34.6%	34.6%	34.6%	

Employer code	Employer name	Primary rate (% of pay)	Secondary rate (% of pay plus monetary amount)			Total contributions (primary rate plus secondary rate)			Notes
			2023/24	2024/25	2025/26	2023/24	2024/25	2025/26	
Other admission bodies (continued)									
00NU2	Hayward Services - Hillingdon School Cleaning	33.9%	0.0%	0.0%	0.0%	33.9%	33.9%	33.9%	
00N54	Haywards Ryefield School	26.3%	0.0%	0.0%	0.0%	26.3%	26.3%	26.3%	
00NU9	HCL - Hillside Junior School	32.2%	0.0%	0.0%	0.0%	32.2%	32.2%	32.2%	
00NTP	North East Herts NHS - Michael Sorbel House	36.0%	0.0%	0.0%	0.0%	36.0%	36.0%	36.0%	
00NTY	Pabulum - West Drayton Catering	30.6%	0.0%	0.0%	0.0%	30.6%	30.6%	30.6%	
00NV1	PSD Childcare	35.9%	0.0%	0.0%	0.0%	35.9%	35.9%	35.9%	
00NU8	ServiceMaster Clean - Belmore Academy	33.1%	0.0%	0.0%	0.0%	33.1%	33.1%	33.1%	

Further comments to the Rates and Adjustments Certificate

- Contributions expressed as a percentage of payroll should be paid into the Fund at a frequency in accordance with the requirements of the Regulations
- Further sums should be paid to the Fund to meet the costs of any early retirements and/or augmentations using methods and factors issued by us from time to time or as otherwise agreed.
- Payments may be required to be made to the Fund by employers to meet the capital costs of any ill-health retirements that exceed those allowed for within our assumptions.
- The certified contribution rates represent the minimum level of contributions to be paid. Employing authorities may pay further amounts at any time and future periodic contributions may be adjusted on a basis approved by the Fund Actuary.
- The monetary contributions set out in the certificate above can be repaid in advance with appropriate adjustments for interest as and when agreed with the Administering Authority. Under these circumstances a revised Rates and Adjustments certificate may be issued reflecting any advance payments.

SIGNATURE

Craig Alexander FFA

01 February 2023
For and on behalf of Hymans Robertson LLP

HYMANS ROBERTSON

Section 13 Dashboard

Section 13 dashboard

To be completed once GAD confirm required information

INVESTMENT STRATEGY and FUND MANAGER PERFORMANCE (Part I)

Committee	Pensions Committee
Officer Reporting	James Lake & Babatunde Adekoya, Finance
Papers with this report	NT performance report on shared drive LCIV Performance reporting on shared drive

HEADLINES

The overall investment return of the Fund was 0.05% over the quarter which was 0.60% above the benchmark of minus 0.55%. Performance over longer-term periods (3 and 5 years) was 1.01% and 2.33% 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

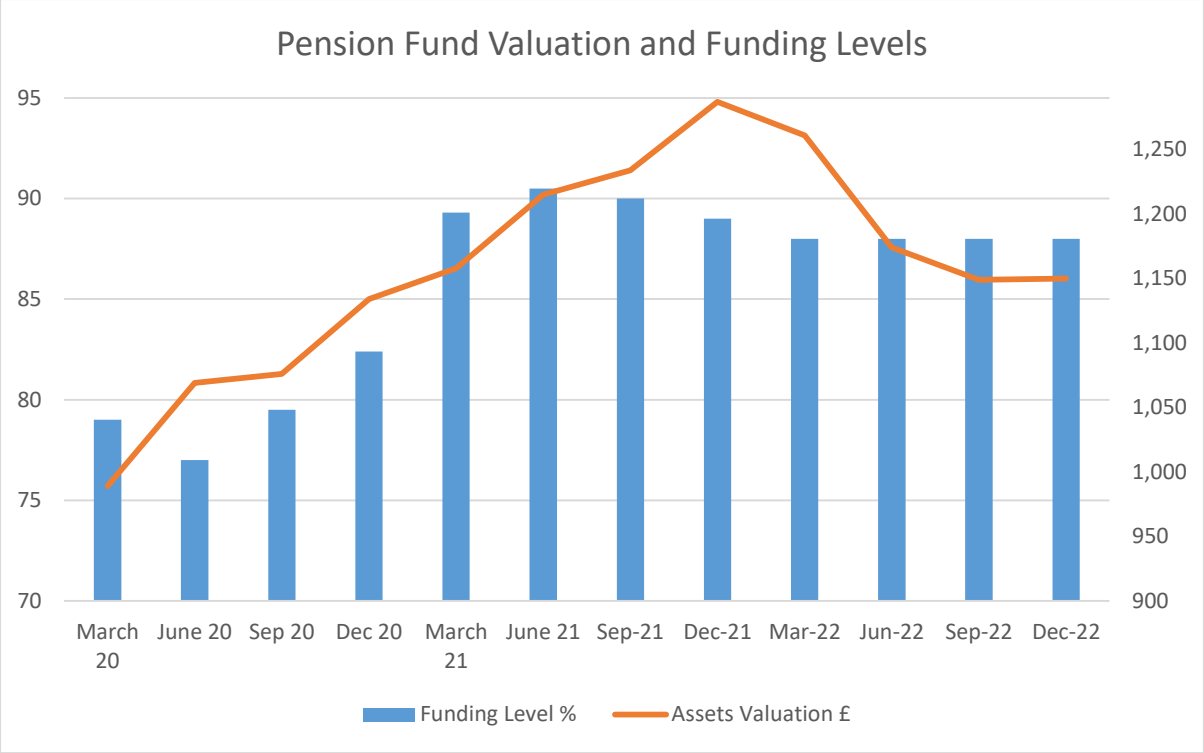
It is recommended that Pensions Committee note the funding and performance update.

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%.

The 2022 valuation results show a funding level of 88%, with assets of £1,263b and liabilities of £1,430b. Changes to employer contribution rates will be effective from April 2023.



2. Fund Performance

Over the last quarter to 31 December 2022, the Fund returned 0.05%, outperforming the benchmark return by 0.60%. The Fund value increased over the quarter by £1m to £1,150m. Longer term performance is behind the benchmark in all time periods.

Period of measurement	Fund Return %	Benchmark %	Relative Performance
Quarter	0.05	-0.55	0.60
1 Year	-10.50	-8.05	-2.66
3 Year	1.01	3.25	-2.17
5 Year	2.33	3.89	-1.50
Since Inception (09/1995)	6.32	6.51	-0.18

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

- Alternative investments mostly kept their performance in positive territory. AEW UK and LCIV Private Debt Fund posted relative returns of 23.48% and 8.32% for the quarter. Whilst Macquarie and LCIV Infrastructure Funds were best performers with 18.75% & 11.87% for the one-year respectively.

- LGIM LPI Income Property Fund and Adams Street Partners were the biggest detractors to performance in the quarter under review with relative underperformance of -16.05% and -11.99%.

- Notable relative underperformance continues 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 -1.43% over the quarter and -18.04% over one year. Confidence in the manager turning around the relative underperformance is still high from the LCIV.

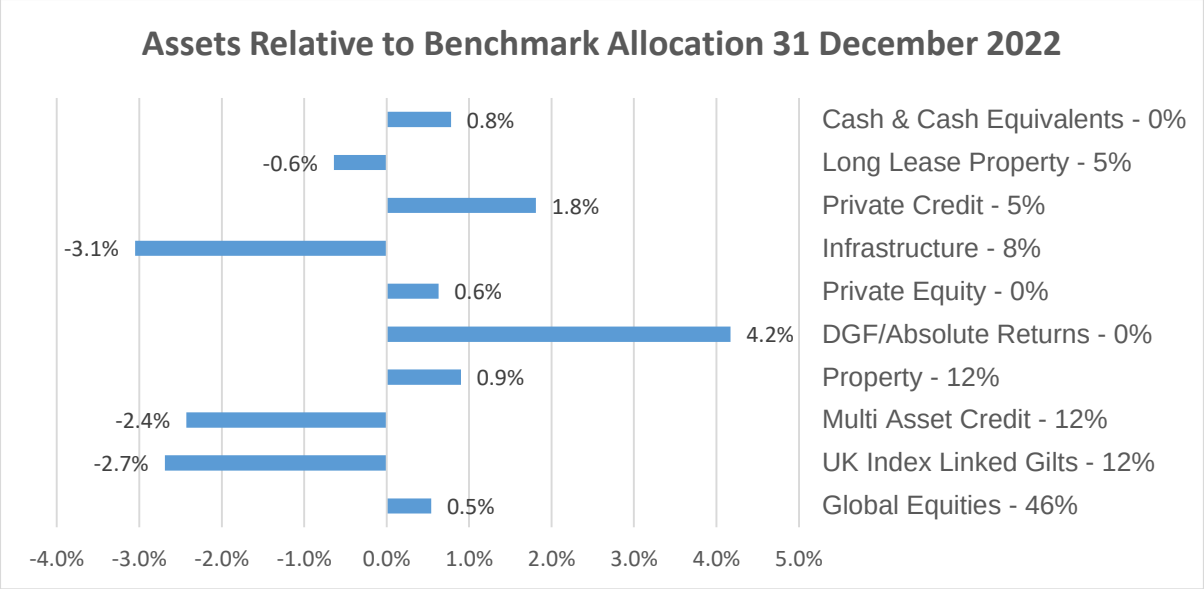
NB: Information from Northern Trust Quarterly performance report

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 31 December 2022	Actual Asset Allocation As of 31 December 2022	Benchmark Allocation	Market Value As of 28 February 2023
	£'000	%	£'000	%	%	£'000
Global Equities	551,163	45	535,178	46.54	46.00	556,198
UK Index Linked Gilts	142,671	12	107,044	9.31	24.00	105,142
Multi Asset Credit	113,127	9	110,000	9.57		110,000
Property	170,918	14	148,355	12.90	12.00	148,708
DGF/Absolute Returns	54,449	4	47,914	4.17	0.00	47,301
Private Equity	9,257	1	7,224	0.63	0.00	7,089
Infrastructure	41,776	3	56,869	4.95	8.00	68,509
Private Credit	65,928	5	78,304	6.81	5.00	72,548
Long Lease Property	56,836	5	50,091	4.36	5.00	48,582
Cash & Cash Equivalents	12,411	1	8,963	0.78	0.00	6,976
Totals	**1,218,536**	**100.00**	**1,149,942**	**100.00**	**100**	**1,171,053**



Highlights of transactions during the quarter under review:

- Total drawdown of £968k was called by the London CIV Infrastructure fund and £3.8m by LCIV Private Debt Fund in the period under review.
- During the quarter, distributions received totalled £1.2m from Permira private debt, $847k & Euro 13k from Private Equity and $1.4m & Euro 187k from Macquarie Infrastructure.

Undrawn commitments on 31 December 2022 are as follows:

- £3.2m (8%) awaiting drawdown on Private Credit (Permira).
- £19.2m (35%) 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 £28.9m (41%).

4. Investment Managers

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

Current Asset Allocation by Manager		Market Value As of 31 December 2022	Actual Asset Allocation	Market Value As of 28 February 2023
FUND MANAGER	**ASSET CLASS**	**£'000**	**%**	**£'000**
LGIM	Global Equities	280,763	24.42	290,945
LGIM	Future World	203,387	17.69	210,817
LCIV - BALLIE GIFFORD	Global Equities	51,028	4.44	54,436
LGIM	UK Index Linked Gilts	107,044	9.31	105,142
LCIV MAC Fund	Multi Asset Credit	110,000	9.57	110,000
UBS PROPERTY	Property	82,691	7.19	77,805
AEW	Property	68,814	5.98	73,329
LCIV - RUFFER	DGF/Absolute Returns	47,914	4.17	47,301
ADAMS STREET	Private Equity	4,796	0.42	4,846
LGT	Private Equity	2,428	0.21	2,243
LCIV - STEPSTONE	Infrastructure	39,036	3.39	48,443
MACQUARIE	Infrastructure	17,833	1.55	20,066
M&G	Private Credit	658	0.06	667
LCIV Private Debt	Private Credit	45,276	3.94	40,515
PERMIRA	Private Credit	32,370	2.81	31,366
LGIM	LPI Property	50,091	4.36	48,582
Non Custody	Cash & Cash Equivalents	5,813	0.51	4,550
		1,149,942	**100**	**1,171,053**

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

The positive tone in capital markets early in the fourth quarter was at odds with data on inflation and economic growth, and in the U.K., disarray in the government and escalating concerns about the effects of industrial action on critical segments of the economy. To start with the positives, GDP growth for 2022 is expected to come in at 2%, slightly higher than expected in the middle of 2022. Unfortunately, inflation also ended the year at higher levels than expected and the forward outlook for growth, unemployment and inflation has continued to deteriorate. G8 group economies are expected to skirt recession in 2023, but only just, and risks to that forecast are high.

The U.K. is the laggard in the group, with the economy expected to contract by 0.9% this year and CPI projected to average 7.1%.

Equity markets were duly brought down to earth in December, when the MSCI World Index lost 5.2% (in Sterling terms). The Index was up 1.9% in Q4 but lost 7.8% in 2022. Volatility was amplified in emerging markets. The MSCI Emerging Markets Index lost 6.1% in October but gained 11% in November, when the outlook for rates improved and the U.S. Dollar levelled off, before dropping again in December, despite the prospect of China loosening its strict lockdown policies.

Bond markets were also disturbed in December. Yields on government bonds rose to bring the curtain down on a year when the yield on the Bloomberg Global Aggregate Total Return Index (hedged to Sterling) increased to 3.73% from 1.31% and the value of the Index dropped by 12.2%. Credit spreads also increased, and the Bloomberg Global Aggregate Credit Total Return Index (hedged to Sterling) lost 15.3% in 2022.

Based on that Index, investment grade credit offered a yield of 5% at the beginning of 2023. Using the Bloomberg Global High Yield Total Return Index as a proxy, sub-investment grade debt yields more than 10%. Companies undoubtedly face a more challenging operating environment now, and although events of default and downgrade have been limited to this point, we expect these events to increase in 2023.

Nevertheless, there is a view that ‘bonds are back’ after a long period when they did not offer value, particularly in risk-adjusted terms. Based on the outlook for yield curves and credit spreads, it has been concluded that this might be an opportune time to consider credit strategies, not just because they are expected to deliver attractive income yields, but also, because they should become useful again in terms diversifying exposure to equity risk.

However, although valuations of stocks have moved closer to historic averages, and yields on debt look attractive at headline levels, risks are high. Short-term surges in volatility are likely to persist as investors adjust to the new environment for growth, inflation, and policy amidst persistent geo-political tensions.

Outlook

The tug of war between inflation and economic momentum will be a big focus in 2023. It is not clear yet how quickly growth will decelerate, and how deep the troughs will be, although the probability of a global recession has increased. There is a risk that policymakers could overcompensate for their slow response to the return of inflation in our Q3 report. That risk has increased, and because the effects of changes in monetary policy feed through with a lag, the outlook remains uncertain, particularly in the U.K. and Europe, where scope to lend support through fiscal channels is constrained and pressure to increase wages has intensified. Fiscal expansion in the UK and the US is constrained in the aftermath of the ‘mini budget’ in the UK and fears that the US will hit its debt ceiling.

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.

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RESPONSIBLE INVESTMENTS UPDATE

Committee	Pensions Committee
Officer Reporting	James Lake & Babatunde Adekoya, Finance
Papers with this report	Full manager ESG reporting on members shared drive. TCFD Summary reporting 2019 & 2022 (Climate Dashboard) Updated Responsible Investment Policy (Tracked changes version) Conflicts of Interest Policy

HEADLINES

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

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

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

RECOMMENDATIONS

It is recommended that Pensions Committee:

1. **Note the fund managers' ESG activities and compliance efforts**
2. **Note Task Force on Climate Related Financial Disclosures reporting**
3. **Note Stewardship Code progress and delegate authority to Officers to complete and make final submission of the Stewardship Code Report**
4. **Approve the updated Responsible Investment Policy**
5. **Confirm Conflicts of Interest Policy remains fit for purpose**
6. **Committee note that the annual ESG Impact Assessment and Implementation Statement are to be discussed in part 2.**

SUPPORTING INFORMATION

Voting and Engagement

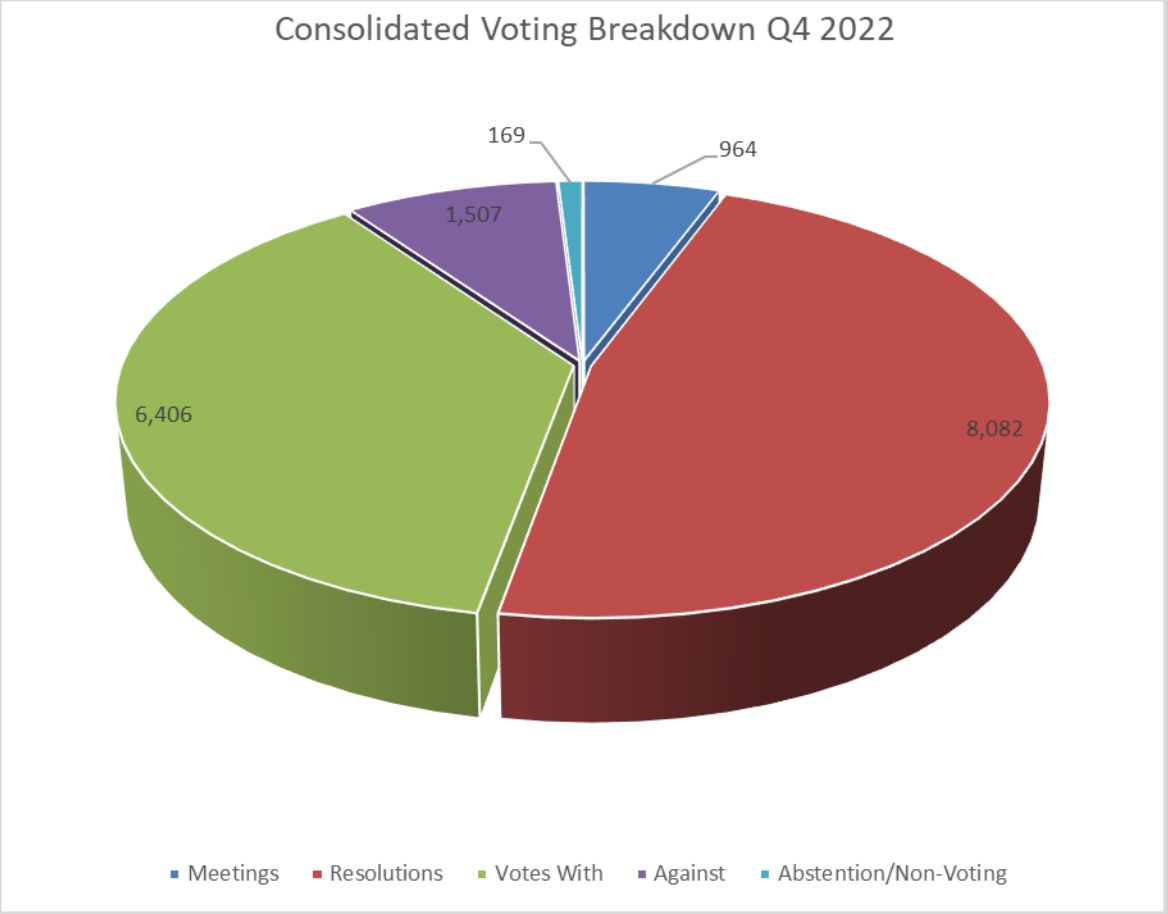
Fund managers carry out proxy voting on the Pension Fund's behalf. Below is a breakdown of voting statistics by LGIM, and London CIV (Ruffer and Baillie Gifford).

The London CIV itself, through Federated Hermes EOS, also exercised voting rights at 93 meetings.

Fund Managers Voting Breakdown Q4, 2022					
LCIV	**Meetings**	**Resolutions**	**Votes With**	**Against**	**Abstention/Non-Voting**
Dec-22					
LCIV - Ruffer	5	43	35	3	5
LCIV - Baillie Gifford	8	68	47	14	7
London CIV Ltd	93	806	656	150	0
	106	**917**	**738**	**167**	**12**
%			**80.48**	**18.21**	**1.31**
LGIM	**Meetings**	**Resolutions**	**Votes With**	**Against**	**Abstention**
Dec-22	858	7,165	5,668	1,340	157
	858	**7,165**	**5,668**	**1,340**	**157**
%			**79.11**	**18.70**	**2.19**

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

The voting breakdown above indicates LGIM have voted against proposed management resolutions on 19% of voting opportunities and supported resolutions on about 79% of occasions. The London CIV and two equities portfolio managers, Ruffer and Baillie Gifford combined to back various management resolutions on 80% of voting opportunities and about 18% against the resolutions proposed by company managements. Abstentions for LGIM was 2.19% and 1.31% 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

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

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

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

Environment

Expanding the Climate Impact Pledge: the next phase of engagement
At LGIM, climate change and supporting a drive to net zero remain a priority. As such, they have further expanded dedicated climate engagement programme, the Climate Impact Pledge, by strengthening their climate expectations and red lines for investee companies, with the goal of accelerating progress towards net zero greenhouse gas (GHG) emissions globally.

They have expanded the scope of our climate engagement programme in three main ways:

- They have increased the number of sectors to 20 from 6 at inception in 2016.
- Their data-driven assessment now covers more of LGIM's portfolio emissions, raising the number of companies covered from 1,000 to 5,000+
- LGIM have increased the number of companies subject to direct engagement from 60 to over 100 companies

Social

Expansion of LGIM's ethnic diversity campaign
Diversity, in all its forms, has long been a key priority for LGIM. The enduring belief behind these efforts is that diversity contributes to better decision-making and therefore better boards, which should, in our view, create better-run, more sustainable companies. Several studies, including the most recent study on employee diversity data, have confirmed that diversity is financially material enough to warrant pressure from investors and other stakeholders.

Nutrition: Broadening engagement through collaboration
Through its impact on a range of sectors, from food retail to healthcare and pharmaceuticals, and on individuals and workforces, the topic of nutrition has the potential to affect a broad range of companies in which LGIM invests around the world, on behalf of their clients.

Building on previous engagements in this area, in the fourth quarter of 2022 LGIM co-signed, with their peers, letters to 12 food and beverage manufacturers, under the leadership of Share Action's Healthy Markets Initiative. In the individual tailored letters, LGIM encouraged the companies to do more in several areas.

Governance

Update: Bringing ESG into remuneration
While LGIM still believe that a substantial majority of incentive pay should be linked to delivering financial performance, ESG risks can clearly be financially material to a company's medium to long-term value. LGIM mantra here is: 'what gets measured gets done': if an action has a direct impact on a director's take-home pay, the attention on it will increase exponentially. It's therefore wise to set tangible ESG objectives against executive remuneration.

However, not all ESG metrics are equally suitable across all companies: the balance of importance and relevance will differ from sector to sector. Currently, when it comes to ESG metrics in executive pay, much, but not all focus is on climate. However, certain other ESG issues are also topical and will require addressing across different industries.

LGIM's expectations
ESG metrics may already form part of a company's strategy and be included in its published 'key performance indicators' ('KPIs'). If this is the case, there is no need to reinvent the wheel. However, certain ESG issues are more pressing and will require direct action. LGIM believe companies exposed to high levels of ESG risks should include relevant and clearly measurable targets within their directors' pay, and have set out the following expectations:

Health and safety: In high-risk sectors, where the health and safety of employees is paramount (and potentially threatened), LGIM expect a health and safety modifier (by way of malus) to ensure that directors are held accountable for loss of life within the workplace

Oil and gas**:** Remuneration at oil and gas companies should prioritise financial value over fossil fuel production. Measures that directly encourage volume growth (such as reserve replacement ratios or production targets) risk incentivising over-investment
Financial measures (such as total shareholder return or balance sheet strength) or other strategic metrics are preferred – volume growth targets may result in a negative vote from LGIM.

Task Force on Climate Related Financial Disclosures (TCFD)

On 19 January 2023, Pension Committee were presented with TCFD reporting on the Fund to understand not only what impact changes made to the portfolio had during the intervening 3 years but also understand the current position to inform the development of the revised Investment Strategy.

Key indicators are shown below reveal that between 2019 and 2022 there has been a considerable reduction in the carbon metrics measured. The attached climate dashboard provides a summary of the results. Specific detailed reports were provided during the presentation sessions.

Metric	2019	2022
Carbon Intensity 1st Tier Indirect	190.9 tCO2e/mGBP	98.7 tCO2e/mGBP
Carbon Intensity Scope 1,2 & 3	859.6 tCO2e/mGBP	527.7 tCO2e/mGBP
Fossil Fuel Exposure	16%	7%
Implicit Temperature	<2 Degrees	<3 Degrees

Stewardship Code
The Pensions Committee held meetings on 9th February and 28th February 2023 to discuss updated values and beliefs of the Fund in order to refresh the ESG focus and help inform the next steps in updating the Investment Strategy, Responsible Investment Policy and Conflicts of Interest Policy. Furthermore, it would set the ESG goals and objectives of the Fund and provide a backdrop to facilitate the 2023 Stewardship Code report to the Financial Reposting Council.

Responsible Investment Policy
The reviewed Responsible Investment Policy is prepared considering the changes in the Committee's ESG beliefs. As discussed at the sessions noted above, it was not believed there were significant changes to the beliefs or objectives for the Fund and so in turn the changes to the Responsible Investment Policy suggested are not major. There are minor wording changes to the ESG beliefs themselves to reflect the recent discussions. The remaining policy has been reviewed to ensure there are no conflicts. However as mentioned, there was no significant change in the beliefs the remainder of the policy remains appropriate, with very few minor updates beyond the beliefs section.

Conflicts of Interest Policy
The Conflicts of Interest Policy was updated in September 2021 and there are no suggested changes for 2023 review other than minor updates. It should be noted this is not an ESG or investment document however it reflects best practice in relation to the UK Stewardship Code and explicitly includes identifying, monitoring, reporting and managing conflicts relating to stewardship.

In the future there may be further requirements or recommendations to take this further under the Good Governance Project and the Combined Code of Conduct. When relevant these will be addressed accordingly.

FINANCIAL IMPLICATIONS

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

LEGAL IMPLICATIONS

Legal implications are included in the report.

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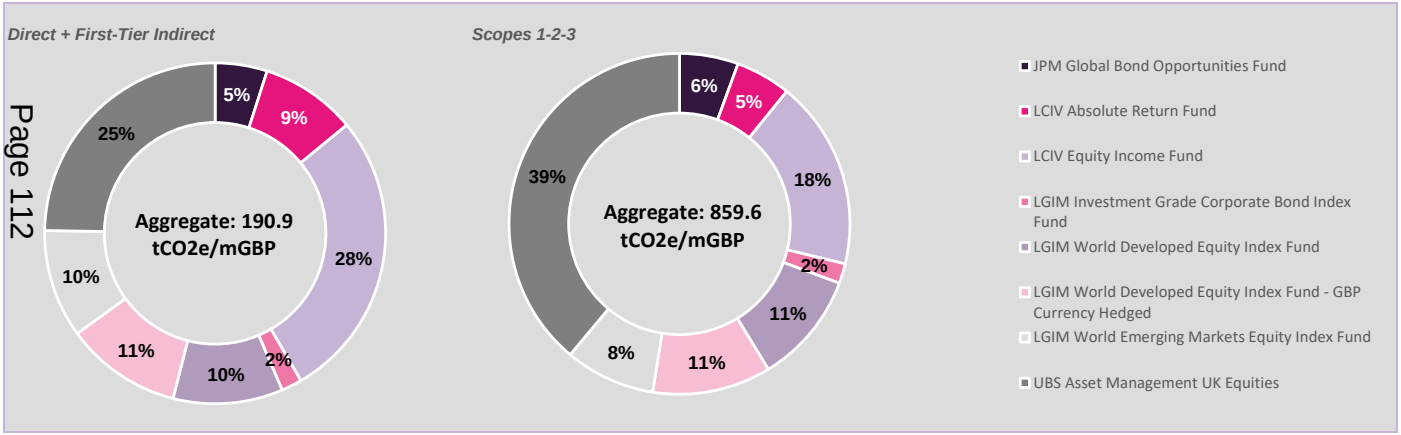
London CIV Climate Analytics

05 December 2022

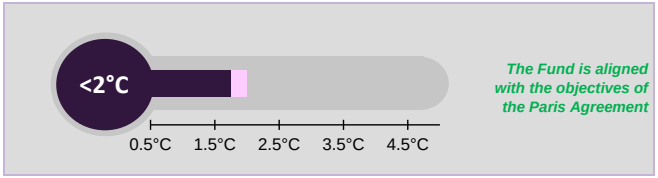
Climate Risk Dashboard

We are pleased to present the London CIV Climate Risk Dashboard for the **London Borough of Hillingdon Pension Fund**. The Climate Risk Dashboard provides an overview of key forward and backward-looking climate performance metrics calculated by London CIV. For more detailed information, please consult the sub-fund level reports.

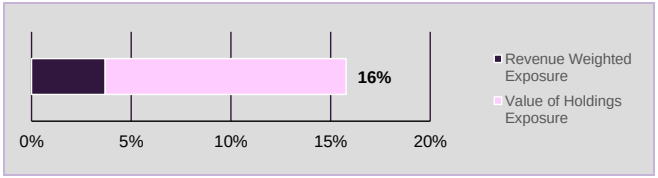
Carbon Intensity (tCO2e/mGBP)



Implicit Temperature (°C)



Fossil Fuel Exposure (%)



Climate Risk Dashboard

Fund-level Summary (1)

	Coverage (%)	Direct + First-Tier Indirect C/V (tCO2e/mGBP)	Scopes 1-2-3 C/V (tCO2e/mGBP)	Fossil Fuel Exposure (%)	Implicit Temperature (°C)
JPM Global Bond Opportunities Fund	41.3%	193	981	5.3%	<1.75°C
Bloomberg Global Aggregate Corporate Total Return Index		0	0	0.0%	
LCIV Absolute Return Fund	27.3%	295	767	0.0%	>3°C
MSCI World		126	601	2.9%	<3°C
LCIV Equity Income Fund	82.9%	205	601	6.2%	<2°C
MSCI World		126	601	2.9%	<3°C
LGIM Investment Grade Corporate Bond Index Fund	40.9%	132	573	1.6%	<1.75°C
MSCI ACWI		148	664	2.9%	<3°C
LGIM World Developed Equity Index Fund	83.3%	127	584	2.8%	<3°C
MSCI World		126	601	2.9%	<3°C
LGIM World Developed Equity Index Fund - GBP Currency Hedged	84.9%	127	584	2.8%	<3°C
MSCI World		126	601	2.9%	<3°C
LGIM World Emerging Markets Equity Index Fund	95.2%	302	1132	3.8%	<3°C
MSCI Emerging Markets		298	1096	3.2%	>3°C
UBS Asset Management UK Equities	81.7%	214	1518	2.9%	<3°C
FTSE All-Share Index		197	1011	3.0%	<3°C

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Climate impact and exposure metrics calculated by London CIV have all been developed in line with good practice, and with ref erence to the recommendations provided by established organisations such as the TCFD and the Greenhouse Gas Protocol. However, their degree of precision is not homogeneous. For all reported met rics, London CIV aims to be transparent on the limitations of the data used and the assumptions that underpin the measurement tools. London CIV is committed to consistently improving accuracy and coverage of climate analytics.

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London CIV Climate Analytics

16 November 2022

Climate Risk Dashboard

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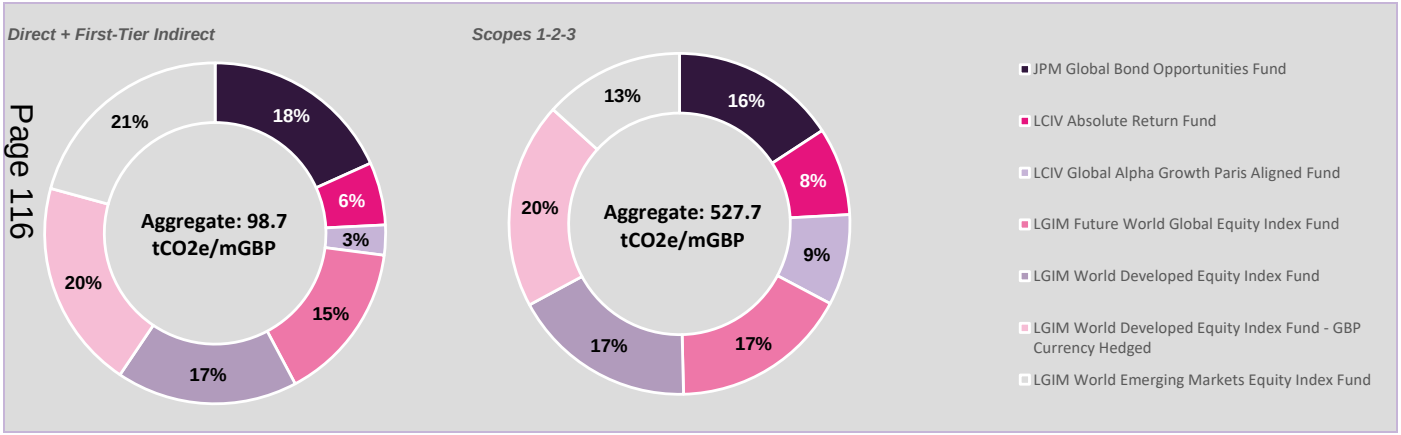
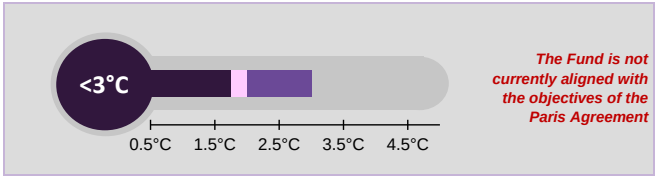
Carbon Intensity (tCO2e/mGBP)

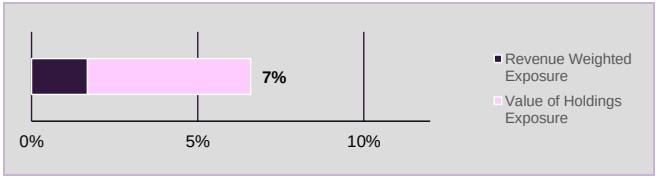


Implicit Temperature (°C)



The Fund is not currently aligned with the objectives of the Paris Agreement

Fossil Fuel Exposure (%)



Climate Risk Dashboard

Fund-level Summary (1)

	Coverage (%)	Direct + First-Tier Indirect C/V (tCO2e/mGBP)	Scopes 1-2-3 C/V (tCO2e/mGBP)	Fossil Fuel Exposure (%)	Implicit Temperature (°C)
JPM Global Bond Opportunities Fund	51.4%	185	853	2.9%	<3°C
Bloomberg Global Aggregate Corporate Total Return Index		*135*	*579*	*2.9%*	*<3°C*
LCIV Absolute Return Fund	35.2%	187	1404	4.5%	>3°C
MSCI World		*98*	*514*	*2.3%*	*>3°C*
LCIV Global Alpha Growth Paris Aligned Fund	95.8%	32	514	0.0%	<3°C
MSCI World		*98*	*514*	*2.3%*	*>3°C*
LGIM Future World Global Equity Index Fund	92.3%	46	273	0.7%	<2°C
MSCI ACWI		*116*	*558*	*2.2%*	*>3°C*
LGIM World Developed Equity Index Fund	88.6%	90	489	2.3%	>3°C
MSCI World		*98*	*514*	*2.3%*	*>3°C*
LGIM World Developed Equity Index Fund - GBP Currency Hedged	92.6%	98	517	2.3%	>3°C
MSCI World		*98*	*514*	*2.3%*	*>3°C*
LGIM World Emerging Markets Equity Index Fund	94.1%	303	1038	2.1%	<3°C
MSCI Emerging Markets		*265*	*914*	*1.7%*	*<3°C*

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London Borough of Hillingdon Responsible Investment Policy 2021

(Updated March 2023)

HILLINGDON
LONDON

INTRODUCTION

The London Borough of Hillingdon Pension Fund (the Fund) is committed to being a long-term steward of the assets in which it invests to protect and enhance the value of the Fund over the long term.

The Fund's primary investment objective is to ensure that over the long term the Fund will have sufficient assets to meet all pension liabilities as they fall due. In order to meet this overriding objective the Fund will act in the best financial interests of its members. Instead of solely pursuing the highest possible investment return, it will take into account all financial risks within its investment strategy, including Environmental, Social and Corporate Governance (ESG) and responsible investment risks and considerations.

The Fund's secondary investment objective is to ensure as far as possible that levels of employer contributions will be stabilised and maintained at reasonable levels and not impacted as a consequence of poor investment performance.

As part of the Committee's fiduciary duty, which includes a comprehensive approach to risk management, it has been recognised that ESG factors, including, but not limited to, climate change, can be financially material. As such, the Committee recognises that there is a need for the Fund to be a long-term, responsible investor in order to achieve sustainable returns.

The Fund believes that ESG considerations should be integrated into all investment decision making as it helps reduce risk and improve performance to the pension fund and aligns with the fiduciary responsibility of the Fund. The Pensions Board has an oversight role to assist the London Borough of Hillingdon Council (the Council), in its capacity as administering authority for the Fund, in ensuring compliance with regulations and policies that apply to the Fund. The Fund is a separate entity to the Council, and the Committee has delegated authority over the Fund.

The Committee defines Responsible Investment ("RI") in line with the UN-backed Principle for Responsible Investing ("PRI"), which states that RI is an approach to investing that aims to incorporate ESG factors into investment decisions, to better manage risk and generate sustainable, long term returns.

Development of policy

This Responsible Investment (RI) policy was initially developed through a working group consisting of three members of the Pensions Committee with support from officers who met a number of times to outline and develop the policy. Training on Responsible Investment and ESG has been provided for all Pensions Committee and Pension Board members. The policy has subsequently been reviewed and updated in order to ensure alignment to the UK Stewardship Code 2020.

The Fund has considered guidance and information from the Ministry of Housing, Communities and Local Government (MHCLG), the Local Government Association (LGA), Scheme Advisory Board (SAB), Pensions and Lifetime Savings Association

(PLSA), the Law Commission in establishing this policy and the UK Stewardship Code.

An initial draft of this policy was reviewed by the Pensions Board prior to its approval by the Pensions Committee on 29 January 2019. The policy was subsequently reviewed and updated in May 2021 and March 2023.

Compatibility with other policies
This Responsible Investment policy is aligned with the Fund's Investment Strategy Statement where a brief overview on ESG and voting is included. In addition the policy is aligned with the Fund's Funding Strategy Statement with consistency of objectives and return expectations to support the funding level.

The Fund fully supports the principles of the UK Stewardship Code and is a signatory to the 2020 UK Stewardship Code and aims to maintain its signatory status and remain in line with future recommendations and principles of the Code.

A copy of the Fund's compliance with the Stewardship Code and copies of the Fund policies can be found on the website:
https://archive.hillingdon.gov.uk/article/6492/Pension-fund

Policy Scope
This policy is applicable to all investment activities of the Hillingdon Pension Fund.

Risks
There are a number of risks associated with this RI policy, including implementation of this strategy by external fund managers on segregated mandates, integration of the policy into pooled funds where other investors may have conflicting policies and integration with RI policies of Pooled assets through the London Collective Investment Vehicle (LCIV). The Fund is reliant on third parties to comply with its policies and for the LCIV to provide sub funds consistent with this policy. Risks will be mitigated through monitoring of managers and the LCIV, and reporting of ESG activity.

Compliance
Compliance of the Fund's activity to this policy will be reported annually in the Pension Fund Annual report and through UK Stewardship activities.

Responsibilities and Governance
The London Borough of Hillingdon Pensions Committee has a fiduciary responsibility for the determination and oversight of investment policies and the conduct of those policies. The Committee works closely with officers, external advisers and the Pensions Board in meeting its obligations in this respect.

The Committee meets quarterly and regularly reviews asset allocations and investment policies with officers and external advisers. Periodically, investment goals and strategy are considered and revised as appropriate.

The Local Pensions Board has an oversight role to assist the administering authority in securing compliance with regulations and policies that apply to the Fund. The Pensions Board meets quarterly to review the Pensions Committee reports that will include reports relating to compliance with this Responsible Investment Policy.

Officers and external advisers maintain a rolling programme of review and due diligence on all appointed fund managers and report the results of their work to the Committee.

In considering the performance of investments and possible changes/improvements which could be made, the Committee always takes account of initial and recurring fund costs and fees. ESG considerations and financial risk are taken into account in all investment decisions.

The Fund pursues a policy of transparency and accountability to its stakeholders for the effective management of the Fund and its investment portfolio.

DEFINITIONS

Responsible Investment (RI)

The term Responsible Investment means the integration of Environmental, Social and corporate Governance (ESG) considerations into investment management processes and ownership practices in the belief that these factors can have an impact on financial performance.

Environmental

Environmental considerations could include among other factors, energy usage, waste disposal, raw materials sourcing, carbon emissions, water usage and recycling processes.

Social

Social considerations could include among other factors, diversity, treatment of minorities, opportunities for women, employee rights, charitable activities, community work, use of agency workers and social infrastructure.

Governance

Governance considerations could include among other factors, composition of boards, external trustees, available share classes, interaction with shareholders, remuneration and voters' rights.

INVESTMENT OBJECTIVES, ESG BELIEFS & APPROACH

Investment Objectives

The Fund's primary objective is to ensure that, over the long term, the Fund will have sufficient assets to meet all pension liabilities as they fall due. To achieve this, the Fund will look to maximise the return on its investments while managing risk within acceptable levels.

Investment risks should be considered in the context of reasonable expectations of investment reward. Every effort must be made to ensure that risk and reward are considered jointly and risks are sufficiently rewarded.

The Fund will ensure adequate liquidity is available within the portfolio in order to meet its obligations as and when they fall due.

The Fund will ensure as far as possible that levels of employer contributions will be stabilised and maintained at reasonable levels and not impacted as a consequence of poor investment performance.

Investments will contribute as part of the Funding Strategy for the Fund to be fully funded over the long term.

The Fund will take proper advice in all investment decisions.

ESG Beliefs

The Committee has formulated a set of ESG beliefs to help underpin overall investment decision making. These are revised on a regular basis to ensure remain appropriate. The Committee's ESG beliefs have been summarised below.

Risk Management

1. ESG factors (including Climate Change) are important for risk management (including reputational risk) and can be financially material. Managing these risks forms part of the fiduciary duty of the Committee.
2. The Committee believes that ESG integration, and managing ESG factors such as climate change risks, leads to better risk-adjusted outcomes and that ESG factors should be considered in the investment strategy, where there is clear financial rationale for doing so.
3. The Committee is responsible for the Fund's ESG beliefs and Responsible Investment Policy but will be cognisant of the Council's wider policies and values.

Approach/Framework

4. The Committee expects investment managers to integrate ESG considerations into their investment process and in their stewardship activities and seeks to understand how they do so. When considering new investment allocations, the Committee will look favourably on investment managers who are able to demonstrate a plan to transition to net zero.
5. The Committee believes that certain investment opportunities that provide a positive ESG impact, such as funds that support the climate transition, will perform strongly as countries transition onto more sustainable development paths. Where possible the Committee will consider allocating to these opportunities where there is clear financial rationale for doing so.

Voting & Engagement

6. ESG factors are relevant to all asset classes, whether liquid or illiquid investments, and managers have the responsibility to engage with companies on ESG factors.
7. The Committee wants to understand the impact and effectiveness of voting & engagement activity within their investment mandates. The

Committee will agree a set of stewardship priorities with the Fund's investment managers, and review these on an annual basis.

8. The Committee believes that engaging with managers is more effective to initiate change than divesting and so will seek to communicate key ESG actions to the managers in the first instance. Divestment will be considered on a pragmatic basis in the event that the engagement with the investment manager has not produced positive results.

Reporting & Monitoring

9. ESG factors are dynamic and continually evolving, therefore the Committee will receive training as required to develop their knowledge.
10. The Committee will seek to monitor key ESG metrics, such as greenhouse gas emissions, within the investment portfolio to understand the impact of their investments. The Committee will take a pragmatic view and look to evolve their approach over time.
11. The Committee will set pragmatic ESG targets based on their views, data availability, and how key ESG metrics evolve over time.

Collaboration

12. The Fund's investment managers should be actively engaging and collaborating with other market participants to raise broader ESG investment standards and facilitate best practices as well as sign up and comply with common frameworks.
13. The Fund should look to maintain current standards and seek to sign up to further recognised ESG framework/s or initiatives to collaborate with other investors on key issues as appropriate.

ESG Approach

The Fund believes in a policy of long-term investment in order to achieve sustainable returns from well governed and sustainable assets. Investment in companies that are managed better and that work within strong Environmental, Social and Governance aware frameworks and can provide investors with risk-aware, long term sustainable returns.

The Fund believes that the companies that manage assets on behalf of the pension fund should at the least be signatories to the UK Stewardship Code and Principles for Responsible Investment (PRI). Existing managers outside of these frameworks should have a valid reason not to sign up, for example are signed up to other relevant bodies for their industry or specific asset class, but will encourage them to do so. New investment will not be made into managers who are not signatories to the UK Stewardship Code and PRI, or other similar regional initiatives, with clear rationale for doing so if not, which the Committee (with advice from its advisors) will assess as part of new manager selections.

The Fund favours a policy of engagement with companies as opposed to widespread policies of exclusion of companies from specific sectors. However, divestment is a tool available to the Fund and its investment managers to divest from companies for any reason including ESG reasons.

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

The Fund believes that Climate Change is a financial risk to the Pension Fund and manages this risk through the Fund's Risk Register. Climate risk is evident in all sectors and should be considered in all investments.

The Fund expects investment managers to consider the usage of resources of companies and the implications of targets for reduced carbon emissions to support the achievement of the Paris agreement principles.

The Fund believes ESG risks should be approached holistically rather than on specific issues as factors are continually evolving, this enables the Fund to be reactive to the underlying company ESG issues and work with companies to make improvements.

The Fund believes sustainable investments can be achieved with robust and effective dialogue and engagement with fund managers and corporate management teams.

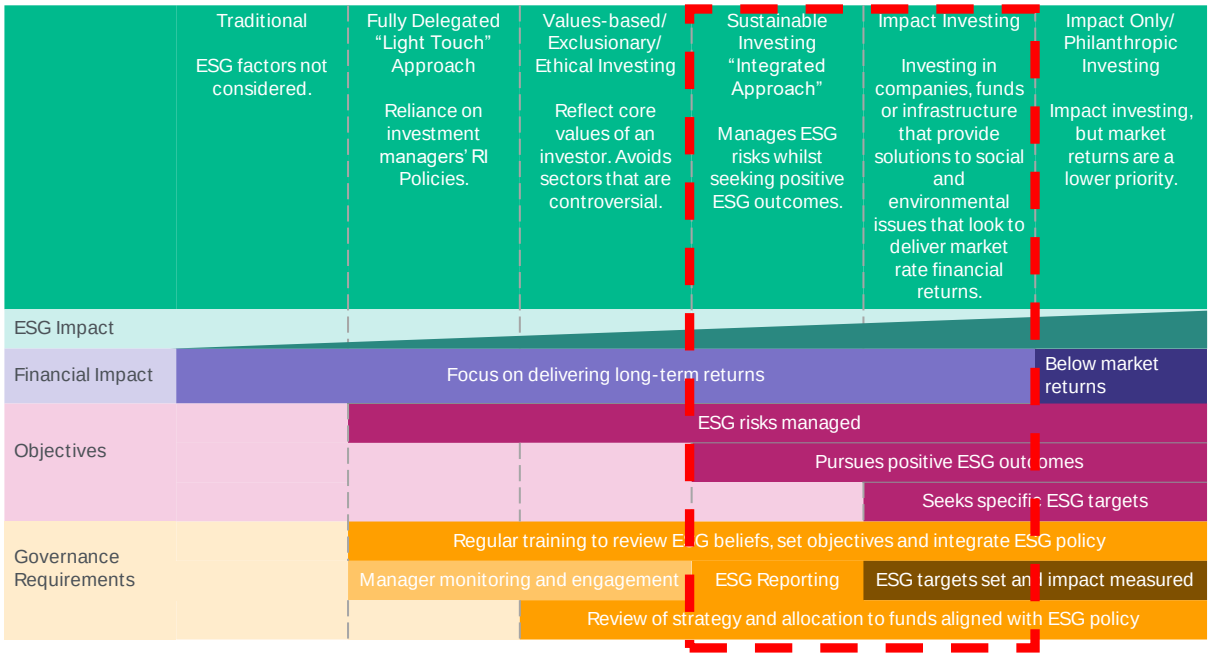
Sustainable investment policies should provide:

- Maintainable, competitive and risk adjusted returns
- Avoidance of harm and mitigation of ESG risks
- Demonstrable benefits to all stakeholders

Effective ESG integration combined with proactive engagement should maximise the adoption of these policies and structures within our portfolio to ensure companies in which the Fund ultimately invests have robust board structures, remuneration and sustainability policies, risk management and debtholder rights.

The Fund will consider the fullest range possible of asset classes when determining its asset allocation. No asset classes are excluded.

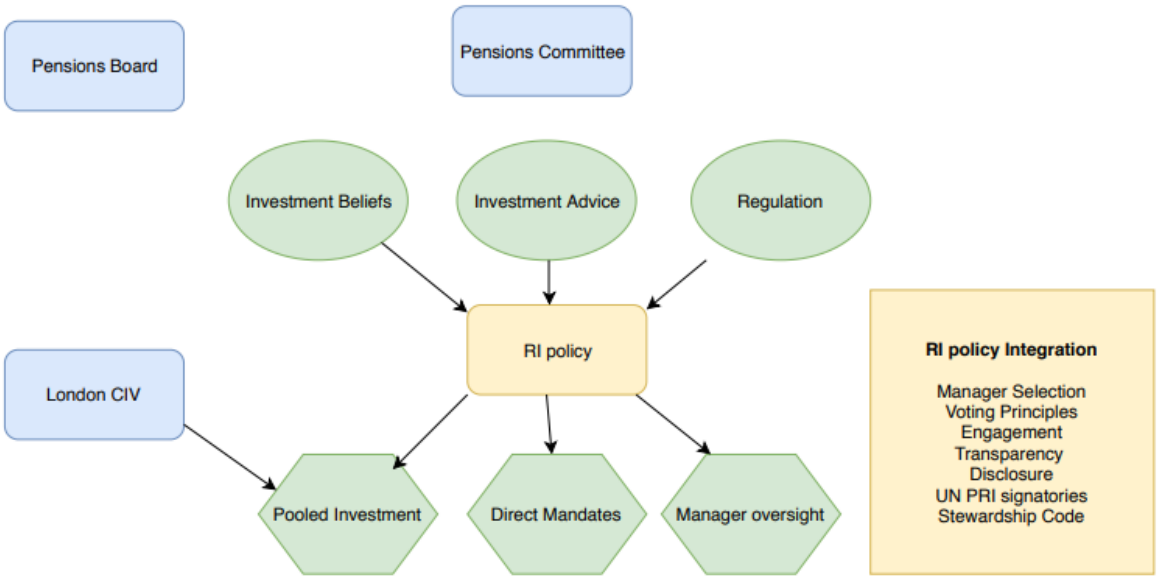
As per the spectrum of ESG approaches presented in the chart below, the Committee wish to pursue a "sustainable" investment approach for the Fund that integrates ESG risk analysis into investment decision-making, whilst pursuing certain "impact" opportunities that generate competitive financial returns whilst also providing positive and measurable environmental or societal impact. The Committee will seek clear financial rationale in any investment decision, and also consider in balance all financial and non-financial considerations. The Committee's position is indicated on the spectrum chart below.



RESPONSIBLE INVESTMENT FRAMEWORK

This RI framework provides the investment beliefs and objectives as the starting point to deliver RI and stewardship for the Fund. Compliance to the Stewardship Code is reported as a separate document on the website.

In making investment decisions, the Fund seeks and receives proper advice from specialist investment advisers. The Fund requires its external investment managers, including the London CIV to undertake appropriate monitoring of current investments with regard to their policies and practices on all issues which could present a material financial risk to the long term performance of the Fund such as, but not limited to, corporate governance, social and environmental factors.



The Fund regularly appraises the ESG credentials and performance of LCIV and fund managers in order to ensure that its ESG principles are properly reflected within the investment portfolio.

The Fund expects its Fund managers to integrate material ESG factors within its investment analysis and decision making.

RESPONSIBLE INVESTMENT IMPLIMENTATION

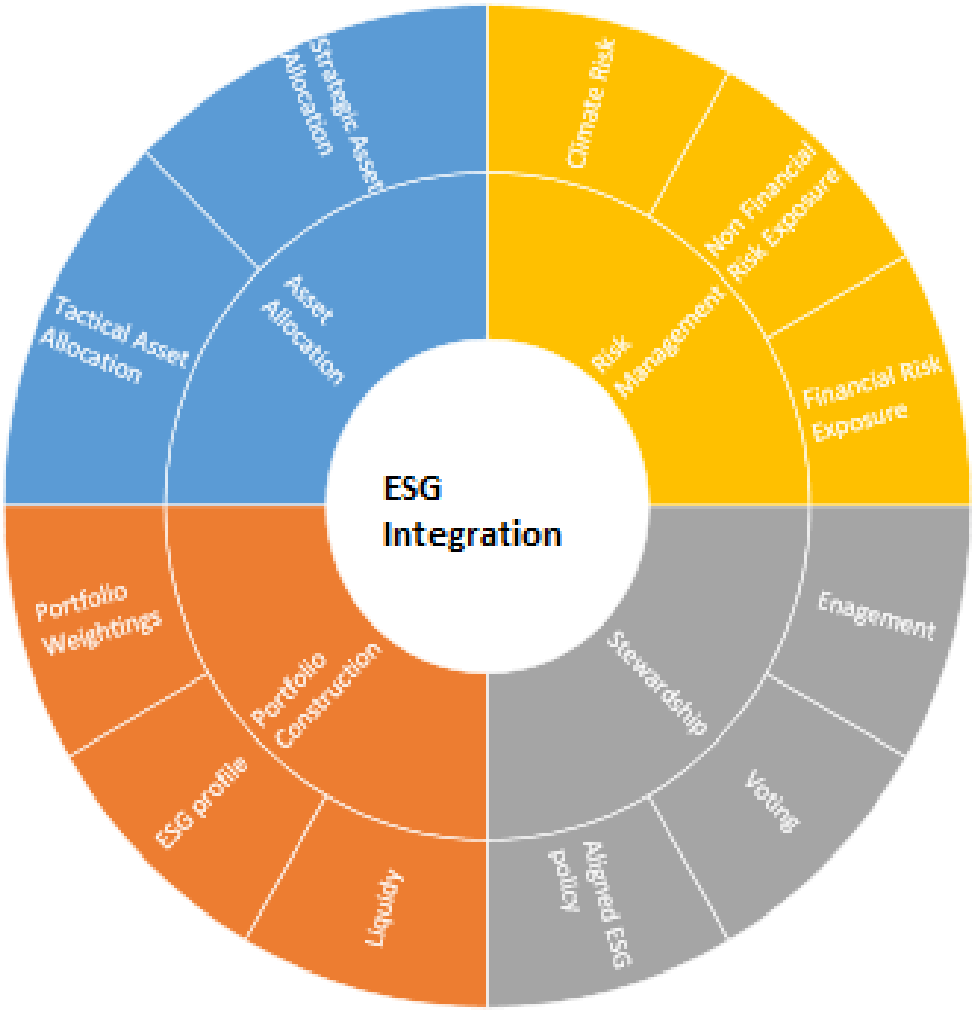
Pension Committee and Pension Board members have received and will continue to receive training and education in ESG matters including climate, governance and other risks, in order to keep up to date on the latest sustainable investment regulations and opportunities. Training will be recorded in a training log and reviewed under regular training needs analysis assessments. Key ESG issues will be considered and included on the Fund risk register, where material.

ESG will be considered in all investment decisions, whether investing through direct segregated mandates or into pooled funds and will incorporate ESG criteria as part of new mandate selection exercises.

The Fund will ensure manager ESG integration policies are in line with fund expectations and beliefs and managers will report ESG factor management to the Fund regularly. Delegation of day-to-day ESG integration of investments to asset managers who are expected to have closer knowledge of companies under investment and board activity. However, the Committee, with the support from its investment advisors, will undertake annual reviews of the investment managers' approach to integrating ESG factors and engage with them where there is misalignment with the Committee's ESG beliefs and look to remedy any issues where possible. The Fund will also seek to understand each manager's approach to voting and engagement and monitor this on an ongoing basis to seek the effectiveness of these activities. The Fund will challenge and require assurance on decisions and investments made by managers where fund stakeholders may have ESG concerns, to fully understand the risk profile of investment.

The Fund RI policy and the Fund's compliance with the Stewardship code will be formally reviewed and updated annually. The Committee's ESG beliefs will be formerly reviewed biennially or more frequently if required, in order to ensure alignment with the policy.

The Committee will monitor the Fund's assets against this Policy on an ongoing basis, with the assistance of its investment advisor. The Committee views the development of the Policy as an ongoing process as approaches to integrating ESG factors continue to evolve over time. When reviewing the Policy, the Committee will take account of any significant developments in these areas to ensure they are taking a best practice approach.



Pooling

The Fund is committed to complying with the regulatory obligation to achieve a position whereby at least 95% of its investment assets are pooled. The Fund has committed to pool its assets through the LCIV.

The Fund will continue to monitor the arrangements put in place by the pool in ensuring thorough due diligence has been carried out by the LCIV including manager RI and ESG policies in manager selection.

The Fund will ensure there is a value for money case and pooled funds meet the investment strategy risk and reward objectives.

The Fund will consider making further allocations of investments within the LCIV pool as and when realisations of the existing portfolio occur either by virtue of investment decisions made or by the maturity or return of existing investments.

The Fund is maintaining a regular dialogue with senior management of LCIV in order to ensure that its Investment beliefs and policies are taken into account and as much as possible accommodated by LCIV and its fund managers.

Investment into pooled funds does not remove or reduce the fiduciary responsibilities of the Fund and the Committee and officers will engage closely with LCIV and will seek its full co-operation in order to properly acquit these responsibilities including implementation of ESG policies and stewardship of assets.

ENAGEMENT AND ACTIVE OWNERSHIP

The Fund through its participation in the LCIV will work closely with other LGPS Funds in London to enhance the level of engagement both with external managers and the underlying companies in which it invests.

The Fund's investments through the LCIV are covered by the voting policy advising managers to vote in accordance with voting alerts issued by the Local Authority Pension Fund Forum (LAPFF) as far as practically possible. The London CIV will hold managers to account where they have not voted in accordance with these directions.

The Fund's approach to engagement recognises the importance of working in partnership to magnify the voice and maximise the influence of investors as owners. The Fund expects its investment managers to work collaboratively with others if this will lead to greater influence and deliver improved outcomes for shareholders more broadly. The Fund appreciates that to gain the attention of companies in addressing governance concerns; it needs to join with other investors sharing similar concerns.

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

London Borough of Hillingdon Pension Fund

Conflicts of Interest Policy

March 2023

1. To whom this Policy Applies

This Conflict of Interest Policy applies to all Members of the Pensions Committee (PC), Local Pensions Board (LPB), all managers in the London Borough of Hillingdon Pension Fund Management Team, and the Corporate Director of Finance (Section 151 Officer) who are, from hereon in, collectively referred to as the senior officers of the Fund .

The Head of Pension, Treasury & Statutory Accounts will monitor potential conflicts for less senior officers involved in the daily management of the Fund and highlight this Policy to them as appropriate.

2. Legisllative Contecxt

The overriding requirements in relation to the management of potential or actual conflicts of interest for those involved in LGPS funds are contained in various elements of legislation and guidance. These areconsidered further below.

The Public Service Pensions Act 2013, Section 5(4) requires that any member of a Pension Board must not have a “conflict of interest”, which is defined in Section 5(5) as a “financial or other interest which is likely to prejudice the person’s exercise of functions as a member of the board, but does not include a financial or other interest arising merely by virtue of membership of the scheme or any connected scheme.”

This policy should be considered in the context that the Local Pension Board assists the administering authority in complying with regulations and is not a decision making body. It is not therefore anticipated that any significant conflict of interst will arise. This policy has been established as the agreed framework for Hillingdon Council, as the Scheme Manager of the Hillingdon Pension Fund to effectively apply the three step approach of identifying, monitoring and managing conflicts of interest including but not limited to the consideration of actual or potential conflicts related to stewardship matters.

Paragraph 76 of the Pension Regulators Code of Practice 14 (Governance and administration of public service pension schemes), (CoP 14) requires schemes to have an agreed documented conflict of interest policy that includes; identifying, monitoring and managing potential conflicts of interest. CoP 14 also requires the policy to contain examples of what may give rise to conflicts of interest, how a conflict might arise specifically in relation to a Pension Board member and the process that Pension Board members and scheme managers should follow to address a situation where board members are subject to a potential or actual conflicts of interest.

Scheme regulations require that the scheme manager must be satisfied that for a person to be appointed as a member of the Pension Board, they do not have a conflict of interest and must from time to time, confirm that none of the members of the Pension Board has a conflict of interest.

3. CIPFA Investment Pooling Governance Principles for LGPS Administering Authorities Guidance

The CIPFA governance principles guidance states "the establishment of investment pooling arrangements creates a range of additional roles that committee members, representatives, officers and advisers might have." It includes some examples of how conflicts of interest could arise in these new roles.

It highlights the need for Administering Authorities to:

- update their conflicts policies to have regard to asset pooling;
- remind all those involved with the management of the fund of the policy requirements and the potential for conflicts to arise in respect of asset pooling responsibilities; and
- ensure declarations are updated appropriately.

This Conflict of Interest Policy has been updated to take account of the possibility of conflicts arising in relation to asset pooling in accordance with the CIPFA governance principles guidance.

4. Localism Act 2011

All members of the Pensions Committee are required by the Localism Act 2011 to declare ‘disclosable pecuniary interests’ and to abide by Hillingdon Council’s Code of Conduct for Members, which contains provisions relating to disclosure of interests.

5. The Seven Principles of Standards in Public Life

Sometimes referred to as the ‘Nolan Principles’, the seven principles of public life applies to anyone who holds public office. This includes people who are elected or appointed to public office, nationally and locally, and all people appointed to work in:

- the civil service;
- local government;
- the police;
- the courts and probation services;
- non-departmental public bodies; and
- health, education, social and care services.

The principles also apply to all those in other sectors that deliver public services.

Many of the principles are integral to the successful implementation of this Policy. The principles are as follows:

- selflessness;

- integrity;
- objectivity;
- accountability;
- openness;
- honesty; and
- leadership.

6. Advisors Professional Standards

Many advisers will be required to meet professional standards relating to the management of conflicts of interest, for example, the Fund Actuary will be bound by the requirements of the Institute and Faculty of Actuaries. Any Protocol or other document entered into between an adviser and the Administering Authority in relation to conflicts of interest, whether as a requirement of a professional body or otherwise, should be read in conjunction with this Policy.

7. Employees

In addition to the requirements of this Policy, officers of Hillingdon Council are required to adhere to the Hillingdon Council Code of Conduct , its Declarations of Interest Policy and its Gifts and Hospitality Policy which includes requirements in relation to the disclosure and management of potential or actual conflicts interest or relationships (financial and non-financial) that may impact on their work.

Senior officers of the Fund will, as a matter of course provide advice and support on pension fund matters.

8. Advisers

The Administering Authority appoints its own advisers. There may be circumstances where these advisers are asked to give advice to scheme employers, or even to scheme members or member representatives such as the Trades Unions, in relation to pension matters. Similarly, an adviser may also be appointed to another administering authority which is involved in a transaction involving the Hillingdon Pension Fund and on which advice is required or to a supplier or organisation providing services to the Hillingdon Pension Fund.

An adviser can only continue to advise the Administering Authority and another party where there is no conflict of interest in doing so.

An adviser appointed to advise the Pensions Committee, Local Pnsions Board or Fund officers can be the same person, as long as there is no conflict of interest between the multiple responsibilities.

This policy will be regularly reviewed in accordance with the requirements of CoP14 and also in accordance with the guidelines of the 2020 UK Stewardship code and any other regulations that apply.

Committee Members and Pension Board Members will also be required to declare any conflicts of interest at each respective Committee and Pension Board meeting. Any potential conflict will be recorded and it will remain a standing agenda item.

The Scheme will adopt the three stage approach to Identify, monitor and manage potential conflicts of interest as recommended in Cop14.

9. Identifying Conflicts of Interest

A conflict of interest is a financial or other interest which is likely to prejudice a person's exercise of functions as a member of the Pensiuon Committee or Pension Board. It does not include a financial or other interest arising merely by virtue of that person being a member of the scheme or any connected scheme for which the Committee or Board is established.

Pension Board members, and people who are proposed to be appointed to the Pension Board, must provide the administering autority with information that they reasonably require to be satisfied that Pension Board members and proposed members do not have a conflict of interest.

There is a regulatory duty on the Administering Authority to satisfy itself that those appointed to its Pension Board do not have an actual conflict of interest prior to appointment and 'from time to time'.

In order to meet this duty, Pension Board Members are required to complete a 'Declaration of Interest' before appointment to their role.

10. Monitoring and Reporting Conflicts of Interest

Declaration of conflicts of interest will be included as an opening agenda item at each Committee and Board meeting. This will provide an opportunity for those present to declare any interests, including other responsibilities, which have the potential to become conflicts of interest, and to minute discussions about how they will be managed to prevent an actual conflict arising. This conflict could be with a general subject area or a specific item on the agenda.

As part of their risk assessment process, Pension Committee and Pension Board members should be able to identify, evaluate and manage dual interests which have the potential to become conflicts of interest and pose a risk to the scheme and possibly members, if they are not mitigated. The Scheme will evaluate the nature of any dual interests and assess the likely consequences were a conflict of interest to materialise.

A register of interests will be maintained, monitoring dual interests, conflicts in relation to stewardship and other responsibilities. Decisions about how to manage potential conflicts of interest will be recorded in the register of interests. The register of interests and other relevant documents will be circulated to the Pension Board for ongoing review and be published on the pension fund website

11. Managing conflicts of Interest

Pension Committee and Pension Board members are required to have a clear understanding of their role and the circumstances in which they may find themselves in a position of conflict of interest, and should know how potential conflicts should be managed.

The Pension Committee and Pension Board are required to evaluate the nature of any dual interests and responsibilities, assess the impact on operations and governance were a conflict of interest to materialise, and seek to prevent a potential conflict of interest becoming detrimental to their conduct. The ‘Conflicts Register’ can be provided to assist.

The Pension Committee and Pension Board may consider seeking independent legal advice from a nominated officer (for example, the monitoring officer) or external advisers where necessary on how to deal with these issues, if appropriate.

Individual members of the Pension Committee and Pension Board must know how to identify where they have a conflict of interest which needs to be declared and which may also restrict their ability to participate in meetings or decision making. They must also appreciate their legal duty under the Regulations to provide information to the Administering Authority in respect of such conflicts of interest.

Any individual who considers that they have a potential or actual conflict of interest which relates to an item of business at a meeting, must advise the Chair of the Committee or Board and the Head of Finance – Statutory Accounts & Pension fund prior to the meeting where possible, or state this clearly at the earliest possible opportunity in the meeting. A decision should then be reached on whether further action needs to be taken.

Options for managing an actual conflict of interest, should one arise, include:

- A member withdrawing from the discussion and any decision-making process;
- The Committee or Board establishing a sub-board to review the issue (where the terms of reference give the power to do so); or
- A member resigning from the Committee or Board if the conflict is so fundamental that it cannot be managed in any other way.

12. Examples of Conflicts of Interest

For example, where an employer representative on the Board only acts in the interests of the Administering Authority, rather than in the interests of all participating employers.

For example an employer representative has access to information by virtue of his or her employment, which could influence or inform the considerations or decisions of the Pension Fund Committee or Pension Board. He or she has to consider whether to share this information in the light of their duty of confidentiality to their employer. Their knowledge of this information will put them in a position of conflict if it is likely to prejudice their ability to carry out their functions as a member of the Pension Fund Committee or Pension Board.

For example where a member representative (who is also a trade union representative) on the Board, only acts in the interests of their union rather than in the interest of all scheme members.

For example where a member representative of the Committee has a perosnal or family relationship with a contract award entity.

For example, stewardship related conflicts may arise as a result of business relationships between asset owners and asset managers, ownership structure of invested companies, differences between the stewardship policies of asset managers and their clients, cross-directorships, and client and other beneficiary interests which differ from each other.

Approval, Review and Consultation

This Conflict of Interest Policy was approved on 22 March 2023 by the Pensions Committee. It will be formally reviewed and updated at least every three years or sooner if the conflict management arrangements or other matters included within it merit reconsideration, including if there are any changes to the LGPS or other relevant Regulations or Guidance which need to be taken into account.

Further Information

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

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Pension Fund Risk Register

Committee	Pension Committee
Officer Reporting	James Lake, Finance
Papers with this report	Pension Fund Risk Register

HEADLINES

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

RECOMMENDATIONS

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

SUPPORTING INFORMATION

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

There are currently 14 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.

The risk rating for Pen-09 Portfolio liquidity has been separated into Pen-09 and Pen-10 to distinguish between investment and member liquidity. Pen-09 remains at E2 whereas the new Pen-10 risk has been set at E3 (Low likelihood and medium impact).

Pen 14 – Key Officer risk has been added to the risk register and set at D4 (Medium likelihood & low impact).

FINANCIAL IMPLICATIONS

The financial implications are contained in the risk register attached.

LEGAL IMPLICATIONS

The legal implications are contained in the risk register attached.

Pension Fund Risk Register 2022/23

Description	Actions in Place	Progress Comment	Risk Category / Rating / DOT	Lead Officer / Committee Member	Date of last review
PEN 01 - Fund assets fail to deliver returns in line with the anticipated returns underpinning valuation of liabilities over the long-term	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 a marginal improvement on the 2019 valuation. **The strategy has been developed to be robust in volatile market conditions and as at December 2022 the fund value was £lb.** 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	22/03/23
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	22/03/23

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	22/03/23
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	22/03/23

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	22/03/23
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	22/03/23
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. HCC apply a policy of continuous improvement as evidenced in they IT improvement road plan. Twice yearly PEN testing is due to be introduced in Q2 2023.	Strategic risk Likelihood = Medium Impact = Large **Rating = D2** **(Static)**	James Lake / Cllr Mathers	22/03/23

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. Work has begun on the annual submission for 2023 with a plan in place to meet the May 2023 deadline.	Strategic risk Likelihood = Medium Impact = Medium **Rating = D3** **(Static)**	James Lake / Cllr Mathers	22/03/23
PEN 9 - Liquidity on asset management - 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 any drawdown requirements. 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 to settle trades.	Strategic risk Likelihood =Low Impact = Large **Rating = E2** **(Stable)**	James Lake / Cllr Mathers	22/03/23
Pen 10 - Liquidity on members dealings - risk that the fund is unable to settle member payments	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. The fund is significantly diversified in different asset classes with the option of distribution portfolios.	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. As part of the Investment Strategy Review options are being discussed to bolster operational income and set out funding streams for any changes in the investment portfolio.	Strategic risk Likelihood =Low Impact = Medium **Rating = E3** **(New)**	James Lake / Cllr Mathers	22/03/23

Description	Actions in Place	Progress Comment	Risk Category / Rating / DOT	Lead Officer / Committee Member	Date of last review
PEN 11 - 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 = Small **Rating = E4** **(Static)**	James Lake / Cllr Mathers	22/03/23
PEN 12 - 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	22/03/23

Description	Actions in Place	Progress Comment	Risk Category / Rating / DOT	Lead Officer / Committee Member	Date of last review
PEN 13 - Failure of the Fund's governance to comply with statutory requirements and/or The Pension Regulator expectations including: **Failure to ensure that Committee members' knowledge and understanding of pension matters is robust and meets statutory requirements** **Failure to ensure that the Pension Board is effective in carrying out its role**	1. Governance Policy Statement, reviewed every 3 years. 2. Policies on range of issues, reviewed regularly. 3. Compliance with CIPFA Code of Practice on Public Sector Pensions Finance, Knowledge and Skills. 4. Programme of training sessions and access to external events. 5. Use of Regulator's on-line toolkit. 6. A knowledge self-assessment framework for Committee and Board members to identify training requirements. 7. The Fund's Annual Report includes details of Committee and Board members' training activities. 8. Fund Governance Adviser in place. 9. Access is provided to CIPFA K&S Framework training modules.	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	22/03/23
PEN 14 - Key officer risk - small team with specialists knowledge in key roles results in the Fund being vulnerable if staff leave	1. The team endeavours to maintain a broad knowledge across the pension function. 2. The Fund has access to specialist support should it be required. 3. The Fund has access to the interim employment market should it be required.	Succession planning is underway to bolster knowledge. Addition team ar4 being considered to expand the workforce.	Strategic risk Likelihood = Medium Impact = Small Rating = D4 (New)	James Lake / Cllr Mathers	22/03/23

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
Papers with report	None

HEADLINES

This report is to enable the Pension Committee to review planned meeting dates and forward plans.

RECOMMENDATIONS

That the Pensions Committee:

1. **Note the dates for Pensions Committee meetings.**
2. **Make suggestions for future agenda items, working practices and / or reviews.**
3. **Note Committee's training update.**

SUPPORTING INFORMATION

Meeting Date	Item
22 March 2023	• Training ESG & Investment Management • Investment update and manager review • Responsible Investment (Including policy updates) • Administration Report • Valuation Final Results & Funding Strategy Statement Approval • Workplan & Training Log • Investment Strategy Statement Update • Risk Register • 2022/23 Expense Budget • Annual Report of the Board • Independent Adviser Contract Award
8 June 2023	• Training tba • Investment update and manager review • Responsible Investment • Investment Strategy Statement Approval • Administration Report • Risk Register • 2022/23 / 2023/24 Expense Budget

	• Workplan & Training Log • Annual Audit Plan • Investment Adviser Contract Award
26 September 2023	• Training tba • Investment update and manager review • Responsible Investment • Investment Strategy Statement • Administration Report • Risk Register • 2023/24 Expense Budget • Workplan & Training Log
13 December 2023	• Training tba • Investment update and manager review • Responsible Investment • Administration Report • Risk Register • 2023/24 Expense Budget • Workplan & Training Log
26 March 2024	• Training tba • Investment update and manager review • Responsible Investment • Investment Strategy Statement • Administration Report • Risk Register • 2023/24 Expense Budget • Workplan & Training Log

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 Resilience	✓		✓	✓	✓ Part
28 Sep 22	Triennial valuation assumptions and results	✓	✓	✓	✓	✓
20 Oct 22	LGA Fundamentals Day 1		✓			
10 Nov 22	LGA Fundamentals Day 2		✓			
25 Nov 22	Westminster Member Training	✓				
20 Dec 22	LGA Fundamentals Day 3		✓			
8&9 Dec 22	LAPFF Annual Conference	✓				
19 Jan 23	LCIV TCFD	✓	✓	✓	✓	✓
19 Jan 23	LGIM Equity & Long Lease Property	✓	✓	✓	✓	✓
9&28 Feb 23	Isio ESG Beliefs	✓	✓	No	✓	✓
8 Mar 23	Isio Investment Building blocks & Strategy Development (2 sessions)	✓	✓	✓	✓	✓
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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ANNUAL REPORT OF THE LOCAL PENSIONS BOARD

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

RECOMMENDATION

That the Pensions Committee note the annual report of the Local Pension Board for the year 2022.

REASON FOR ITEM

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

This report has been compiled to provide feedback to Pensions Committee on the work undertaken by the Local Pension Board during the year 2022.

FINANCIAL IMPLICATIONS

The financial implications are included in the annual report

LEGAL IMPLICATIONS

The legal implications are included in the report

Classification: Public
Pensions Committee 22 March 2023

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Pension Board Annual Report 2022

Contents

1 Chair's Foreword

Welcome to the Annual Report of the Local Pension Board (LPB) of Hillingdon Pension Fund (HPF). This report covers the period from January to December 2022. At the Board meeting of February 2021 the terms of reference of the Board was changed allowing for the election of a Chair for one year. I was privileged to be elected to serve as Chair of the Board for 2022.

The Board was able to return to face-to-face public meetings from May22 following the lifting of COVID restrictions to carry out its role of assisting the Administering Authority in securing compliance with regulations. The January 2022 meeting was virtual.

Some of the key achievements the Board oversaw in addition to the regular review of the Pensions Committee reports were:

- The fund achieving full compliance with the Pension Regulators code of Practice 14
- Raising awareness of cyber security and the Cyber scorecard assessment
- Review cyber mapping for assets and data
- Asses Internal Audit outcome and recommendations of cyber mapping exercise
- Monitoring breaches and ensuring corrective actions were implemented
- Undertaking targeted training
- Keeping abreast of Pension Dashboard progress
- Monitoring progress against McCloud, GMP and data cleansing projects
- Closely monitoring service provision of Hampshire Pension Services.
- Monitoring progress and implementation of the triennial valuation and Funding Strategy
- Supporting with the Pensions Committee and Officers

The year ahead continues to be met with governance and compliance challenges and the resulting uncertainties in terms of changes in rules that the government may implement.

There are upcoming regulatory changes with which the Fund has to comply and that the Board will oversee; these include:

- The Pensions Regulator's Single Code of Practice
- Good Governance Framework
- The Pensions Dashboard Programme
- The Data Improvement Programme
- Continued implementation of McCloud & GMP

In closing I would like to thank the Pensions Committee, Officers, Advisers and fellow Board Members for their cooperation and support during my time as Chair and I look forward to helping the Fund address the challenges we expect to face in 2023.

Roger Hackett - Chair of Hillingdon Local Pension Board (2022)

2 Introduction to the Local Pension Board

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

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

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

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

Membership of the Board

Employer Representatives	**Scheme Member Representatives**
Marie Stokes (Nov 22-Dec 22)	Roger Hackett
Shane Woodhatch	Tony Noakes
Anil Mehta (Jan 22-Jul22	

Record of Attendance

Name	**Jan -22**	**May-22**	**Jul-22**	**Nov-21**
Roger Hackett	**Y**	**Y**	**Y**	**Y**
Tony Noakes	**Y**	**Y**	**Y**	**Y**
Marie Stokes	**n/a**	**n/a**	**n/a**	**Y**
Shane Woodhatch	**Y**	**N**	**N**	**N**
Anil Mehta	**Y**	**Y**	**N**	**n/a**

The Scheme Advisory Board's LGPS Guidance on the Creation and Operation of Local Pension Boards in England and Wales recommends that the Board produces a report to the Pensions Committee, on the work undertaken during the year and future work plans. This report covers the work of the 2022 period.

AON Hewitt assisted the Fund on Governance issues and supported the development and work of the Board and attended meetings as necessary.

3 Summary of the Work of the Board

New administration service.
One of the largest pieces of work for the Board during 2021 was their involvement regarding the transition of pension administration services from Surrey County Council to Hampshire County Council.

2022 saw the first full year with Hampshire and the Board were heavily involved in monitoring of their performance and governance. The Board continue to provide robust challenge to ensure all aspects relating to ongoing issues such as McCloud and Pension Dashboard projects are sufficiently resourced and remain on track.

A key area of interest and compliance was to ensure Hampshire's control framework and ongoing improvements in relation to IT and cyber security remained in line with the Board's and regulators expectations.

The Board are pleased to report that Hampshire has delivered ahigh level of service, remained at 100% against all key performance indicators and has been pro-active and at the forefront in all governance requirements.

TPR code compliance review
During 2022, the Board has worked closely with officers and the Fund remained in at 100% compliance across all Code of Practice areas.

Cyber Security & Pension Scams
Areas high on the agenda of the Board is cyber security and pension scams. Throughout 2022 various items have been raised by the Board to understand the Funds position.

The main achievement was the delivery of asset and data mapping exercise to understand the flows between entities and the associated security and sensitivity.

The Board also procured the Council's Internal Audit team to review the maps and provide a level of assurance and recommendations. The results showed a 'Reasonable' level of assurance with only two recommendations which have subsequently been implemented.

Pension Committee Engagement

To meet the Board's obligation to monitor the work of the Pensions Committee they review the work of the Pension Committee at each Board meeting. Pensions Committee members are invited to attend the Board meeting for this item and provide information in order Board members can carry out their due diligence checks. Pension Committee members would withdraw if required to properly consider any concerns that may have arisen. In 2022 PB has not raised any governance or other concerns about the work and role of the Pensions Committee but have offered challenge and requested clarification on a number of items.

Pension Board believe that in 2022 the Pension Committee has been proactive in carrying out its responsibilities, examples of this are the Stewardship Code and TCFD Reporting. Pension Committee invite Pension Board members to attend their committee meetings as observers including PART 2 items and allows Pension Board members to ask questions in the meetings. Pension Board is also very grateful to Pension Committee for this and for allowing them to attend training sessions. This all contributes to helping the Board meet their obligation to ensure their knowledge and understanding of the LGPS up to date.

Other key areas of work have been undertaken as outline below

- Monitoring of the data quality and breaches
- Review of Policy documents to ensure they are kept up-to-date
- Monitoring the performance of the Pensions Administration
- ESG – Stewardship Code and TCFD progress

Future Work of the Board

As partly noted in the Chair's foreword, a number of key areas will to be monitored in 2023 including:

- The Pensions Regulator's Single Code of Practice
- Good Governance Framework
- The Pensions Dashboard Programme
- The Data Improvement Programme
- Implementation of McCloud and GMP
- Funding Strategy and Investment Strategy implementation
- ESG issues including the UK Stewardship Code and TCFD reporting
- Review and update of the Board's function and responsibilities.

4 Areas Investigated by the Board

No official investigations were required or undertaken by the Board.

5 Details of any Conflicts of Interest

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

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

A Conflicts of Interest Policy was also introduced following the TPR CoP review which provides guidance to the Board on how to identify and manage conflicts of

interest. No major conflicts of interests have arisen other than the declarations made at the start of each meeting.

Board members and officers continue to monitor conflicts of interest.

6 Areas of Concern or Risk

6.1 **Regulatory changes –** The Board recognises that there are currently many regulatory changes to be implemented in the LGPS. These include: McCloud Judgement; Goodwin Judgement; GMP reconciliation, Pensions Dashboard and potentially a new iteration of the Exit Cap.

In addition, the framework under which the Fund will need to operate is also expected to materially change with the new Single Code of Practice and Good Governance implementation.

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

7 Training

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

AON CIPFA Knowledge & Skills Areas of Training	Date	Roger Hackett	Tony Noakes	Anil Mehta (end July 22)	Shane Woodhatch	Marie Stokes (start Nov 2022)
AON - 1, Introduction to the LGPS	On-demand	Y	*	Y	Y	
AON – 2, Pension legislation and guidance, and national governance	On-demand	Y	*	Y	Y	
AON – 3, Local governance and pensions procurement, contract management and relationship matters	On-demand	Y	*	Y	Y	
AON – 4, Funding strategy and actuarial methods, and financial, accounting and audit matters	On-demand	Y	Y	Y	Y	
AON – 5, Investments – Strategy, asset allocation, pooling, performance and risk management	On-demand	Y	Y	Y	Y	
AON – 6,Investments - Financial markets and products	On-demand	Y	Y	Y	Y	

AON – 7, Pension Administration & Communications	On-demand	Y	*	Y	Y	
Events						
Hymans Robertson – LBH Triennial Valuation	19-Jan-22	Y				
Hyman Robertson Keeping the LGPS Connected -High Inflation and Pension Investments	27-Jan-22	Y				
Hyman Robertson LGPS Valuation 2022. A Spotlight on Climate Risks and S13 Report	28-Jan-22	Y				
Sackers – New Transfer Regime	02-Feb-22	Y				
Baillie Gifford – Investing in an inflationary & COVID environment	9-Feb-22	Y				
Buzzcott - Digital and Cyber Security	9-Feb-22	Y				
Legal & General Investment Management. Inflation- Don't Believe the Hype!	1-Mar-22	Y				
Barnett Waddington. How does life Expectancy affect your Journey Plan	22-Mar-22	Y				
Sackers Quarterly Legal Update	10-May-22	Y				
Hymans Robertson Setting your Funding Strategy – LGPS 2022	20-Jun-22	Y				
The Pensions Regulator – Dashboard Webinar	28–Aug*22	Y				
Isio - Inflation & portfolio construction	7-Sep-22	Y	Y			
Barnett Waddingham – Focus on Members	22-Sep-22	Y				
Barnett Waddingham – What Next for Life Expectancy	27-Sep*22	Y				
Hymans Robertson – Triennial Valuation	28-Sep-22	Y	Y			
Barnett Waddingham Will Climate Change Derail your Journey Plan	4-Oct-22	Y				
Liability Driven Investing	Oct-22		Y			

*Following the training needs assessment suitable knowledge was demonstrated in these areas.

7.2 The Board will continue training as required during 2022 to address any emerging issues and to ensure it is up-to-date with any regulatory or guidance requirements.

8 Work Plan

The workplan below sets out the tasks undertaken by the Pension Board during 2022

Meetings	Specific topics
26 January 2022	• TPR Checklist review & focus areas • Training Update Report • Administration Report • Draft PB Annual Report • Breaches Log • Review of Pension Committee Reports
11 May 2022	• Administration Report • TPR Checklist review & focus areas • Data Cleansing Plan/Update • Training Update Report • Breaches Log • Review of Pension Committee Reports
20 July 2022	• Administration Report • TPR Checklist review & focus areas • Training Update Report • Breaches Log • Cyber Data & Asset Mapping • Review of Pension Committee Reports
9 November 2022	• Administration Report • TPR Checklist review & focus areas • Single Code Update • Training Update Report • Breaches Log • Cyber Data and Asset Mapping • Review of Pension Committee Reports

The Future workplan of the Board is set out below.

Meetings	Specific topics
18 January 2023	• Appointment of Chair • Appointment of Scheme Member • Administration Report (Inc TPR Score) • TPR Checklist review & focus areas • Single Code & Good Governance Update • Training Update Report • Breaches Log • Annual Report of the Board 2022 • Cyber Update • Review of Pension Committee Reports
26 April 2023 tbc	• Administration Report • TPR Checklist review & focus areas • Training Update Report

	• Single Code & Good Governance Update • Breaches Log • Review of Pension Committee Reports
19 July 2023 tbc	• Administration Report • TPR Checklist review & focus areas • Training Update Report • Single Code & Good Governance Update • Breaches Log • Review of Pension Committee
8 November 2023 tbc	• Administration Report • TPR Checklist review & focus areas • Training Update Report • Single Code & Good Governance Update • Breaches Log • Review of Pension Committee
24 January 2024 tbc	• Appointment of Chair • Appointment of Scheme Member • Administration Report (Inc TPR Score) • TPR Checklist review & focus areas • Training Update Report • Single Code & Good Governance Update • Board Annual Report • Breaches Log • Review of Pension Committee
10 April 2024 tbc	• Administration Report • TPR Checklist review & focus areas • Training Update Report • Single Code & Good Governance Update • Breaches Log • Review of Pension Committee

9 Expenses

The Board incurred expenses of £200 in relation to its operations in 2022. (This does not include the standard governance support fees)

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