



HILLINGDON
LONDON



Pensions Committee

Date: THURSDAY, 8 JUNE 2023

Time: 5.00 PM

Venue: COMMITTEE ROOM 5 -
CIVIC CENTRE

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

To Members of the Committee:

Stuart Mathers (Chairman)
Tony Burles (Vice-Chairman)
Kaushik Banerjee
Mohammed Islam
John Riley

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Contact: Steve Clarke

Email: sclarke2@hillington.gov.uk

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

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Agenda

CHAIRMAN'S ANNOUNCEMENTS

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- 2 Declarations of Interest in matters coming before this meeting
- 3 Minutes of the meeting dated 22 March 2023 1 - 6
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- 5 To confirm that items marked Part I will be considered in public and those marked Part II will be considered in private

PART I - Members, Public and Press

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PART II - Members Only

That the reports in Part 2 of this agenda be declared not for publication because they involve the disclosure of information in accordance with Section 100(A) and Part 1 of Schedule 12 (A) to the Local Government Act 1972 (as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

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Minutes

PENSIONS COMMITTEE

22 March 2023

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



	<p>Committee Members Present: Councillors Stuart Mathers (Chairman) Tony Burles (Vice-Chairman) Kaushik Banerjee Mohammed Islam</p> <p>LBH Officers Present: Andy Evans, Corporate Director of Finance James Lake, Head of Pensions, Treasury & Statutory Accounts Steve Clarke, Democratic Services Officer</p> <p>Also Present: Roger Hackett, Pension Board Member Marie Stokes, Pension Board Member Andrew Singh, Isio Clare Scott, Independent Adviser Charles Pringle, Isio Craig Alexander, Hymans Robertson LLP Andy Lowe, Hampshire County Council David O'Hara, Isio</p>
44.	<p>APOLOGIES FOR ABSENCE (<i>Agenda Item 1</i>)</p> <p>Apologies for absence were received from Councillor Goddard.</p>
45.	<p>DECLARATIONS OF INTEREST IN MATTERS COMING BEFORE THIS MEETING (<i>Agenda Item 2</i>)</p> <p>There were no declarations of interest.</p>
46.	<p>MINUTES OF THE MEETING DATED 06 DECEMBER 2022 (<i>Agenda Item 3</i>)</p> <p>RESOLVED: That the minutes of the meeting dated 06 December 2022 be approved as a correct record.</p>
47.	<p>TO CONFIRM THAT ITEMS MARKED PART I WILL BE CONSIDERED IN PUBLIC AND THOSE MARKED PART II WILL BE CONSIDERED IN PRIVATE (<i>Agenda Item 4</i>)</p> <p>It was confirmed that items 5 to 11 were marked as Part 1 and would be heard in public, and that items 12 to 15 were marked as Part 2 and would be considered in private.</p>

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

James Lake, Director of Pensions, Treasury and Statutory Accounts, introduced the administration report noting that Hampshire County Council (HCC), as the pensions administrator, continued to perform well at 100% across all key performance indicators and that online portal sign up for members now exceeded the level of sign ups seen with the previous pensions administrator. The Committee were also informed that the delivery of annual benefits statements had been completed with a success rate of 99.45% which showed an incredibly positive result. Members were also notified that, in January 2023, the Secretary of State had confirmed the merger of Harrow College and Uxbridge College (HCUC) and Richmond upon Thames College (RuTC), which meant that the Fund was due to receive circa £40 million in assets.

The Committee were encouraged by the continued high standard of performance seen with HCC as the pensions administrator and issued a note of thanks to the team at HCC for their continued positive performance.

With regard to the implementation of McCloud, Andy Lowe from Hampshire County Council, confirmed that the administrators were in a good position, continuing to make contact with employers to ensure returns data was received; officers were confident that they were on target to meet the October 2023 deadline.

RESOLVED That the Pensions Committee:

- 1) **Noted the administration report;**
- 2) **Noted the 2022 TPR Data Score update; and,**
- 3) **Noted the HCUC and RUTC college merger.**

49. **2022 DRAFT VALUATION REPORT AND FUNDING STRATEGY STATEMENT** (*Agenda Item 6*)

James Lake, Director of Pensions, Treasury and Statutory Accounts, introduced the item highlighting that the report outlined the final outcome of the 2022 valuation and showed a slight improvement in the funding level since the previous valuation in March 2019 from 87% to 88%. The draft Funding Strategy Statement was sent to all employers for consultation and received no responses; however it was noted that this was in line with previous consultations. Two employers were specifically contacted directly again highlighting their increase in contribution rates.

Craig Alexander of Hymans Robertson LLP, gave the Committee an overview of the results for the triennial valuation noting that it had been the most straightforward and untroubled triennial valuation with the Hillingdon Fund in recent memory; this was in part attributed to the Council officers who had assisted and engaged with the valuation, in addition to Hampshire County Council as the pensions administrators. The Committee were asked to approve the final Funding Strategy Statement, which had been out for consultation and a draft of which was seen by the Committee at its previous meeting, in addition to the draft Triennial Report which, following the Committee's approval, would be submitted to central government in the coming days.

The Committee sought to specifically thank the teams at Hymans Robertson, Hampshire and the officers at Hillingdon for the commendable work that had gone into producing the valuation report.

RESOLVED That the Pensions Committee:

	<p>1) Agreed the draft Triennial Valuation Report; and, 2) Approved the Funding Strategy Statement for the London Borough of Hillingdon Pension Fund.</p>
50.	<p>INVESTMENT STRATEGY AND FUND MANAGER PERFORMANCE - PART I <i>(Agenda Item 7)</i></p> <p>James Lake, Director of Pensions, Treasury and Statutory Accounts, introduced the report informing the Committee that the Fund value at the end of December 2022 was £1.15 billion, up £1 million from the previous quarter, and the unaudited value of the Fund as of 22 March 2023 was £1.17 billion. It was highlighted that volatility in listed markets had created headwinds against the performance of liquid investments and equities, where illiquid investments had performed more resiliently and had provided a positive return. Asset allocation was broadly in line with current benchmark but was being discussed as part of the ongoing investment strategy review. Members were also notified that the latest government budget had advised that funds should have all of their listed assets pooled by 2025. It was agreed by the Committee that some of the matters touched upon in the report, including the ongoing investment strategy review, would be best discussed in private and thus in Part 2 of the meeting.</p> <p>RESOLVED: That the Pensions Committee noted the funding and performance update.</p>
51.	<p>RESPONSIBLE INVESTMENT <i>(Agenda Item 8)</i></p> <p>James Lake, Director of Pensions, Treasury and Statutory Accounts, delivered an overview of the report for the Committee. It was noted that the Stewardship Code Report would need to be submitted prior to the next meeting of the Pensions Committee, it was therefore requested that the Committee delegated authority to officers to finalise and submit the report. The Committee agreed to this and it was requested that the Chair have sight of the final report offline before its eventual submission.</p> <p>The Committee discussed the Pooling section of the Responsible Investment Policy, on page 129 of the meeting agenda, stating that the 95% figure had been drawn from historical government guidance and that this would potentially be supplanted by the advice announced in the budget that all listed investments should be pooled by 2025. It was suggested that perhaps the wording should be amended to be in line with the new government guidance. The Committee’s advisers encouraged the change to be made in order to be aligned with the latest announcements from government, highlighting that as things stood, all of the Fund’s listed assets were pooled with the LCIV and that it was only the Fund’s unlisted assets that were not within the pool. Members were minded to amend the Pooling section of the Responsible Investments Policy to remove the reference to 95% pooled assets and align more with the government’s announcement in the budget.</p> <p>The Committee’s advisers noted that there were some good messages coming through in the Climate Analysis carried out by the Fund and that these should be communicated to Fund members; however it was noted that members would struggle to understand them fully given the detail therein, it was suggested that the analysis could be packaged in an easy to understand way and disseminated to members online. The Committee also sought to understand how the LCIV may adjust their reporting down the line to accommodate for future requirements, it was advised that the relevant</p>

legislation was forthcoming and that this should be analysed ahead of gauging any changes to the way in which the LCIV would report on these matters.

RESOLVED That the Pensions Committee:

- 1) Noted the fund managers' ESG activities and compliance efforts;**
- 2) Noted the Task Force on Climate Related Financial Disclosures reporting;**
- 3) Noted Stewardship Code progress and delegated authority to Officers to complete and make final the submission of the Stewardship Code Report;**
- 4) Approved the updated Responsible Investment Policy with the discussed amendment to the Pooling section of the Policy;**
- 5) Confirmed that the Conflicts of Interest Policy remained fit for purpose; and,**
- 6) Noted that the annual ESG Impact Assessment and Implementation Statement were to be discussed in Part 2 of the meeting.**

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

James Lake, Director of Pensions, Treasury and Statutory Accounts, introduced the report noting that, as requested by the Committee at their previous meeting, the risk relating to portfolio liquidity had been split into two to distinguish between investment and member liquidity. In addition to this, and following discussions at the previous Committee meeting, a new risk relating to key officer risk had been added to the risk register.

The Committee discussed risk 'PEN 8 – ESG – Risk of financial loss through the negative impact of ESG matters'; it was noted that ESG was becoming more integral to fund managers and the Committee discussed the potential to look at reducing the likelihood of the risk, or to keep the possibility of reducing the risk under review going forward. Advisors highlighted the importance of keeping the risk on the register as ESG matters were still a newer area for fund managers, the categorisation of the risk was however open to debate.

The new PEN 14 regarding key officer risk had been assessed with a low impact and officers clarified that this was due to the financial impact of the risk being under £500k which was relatively small when compared to other risks on the register. It was discussed that the PEN 14 risk may have the possibility of resulting in harm of over £500k should key officer resource not be at full capacity or where there could be recruitment gaps in the team through a challenging recruitment market, it was noted that there were short term mitigations where there was transferable expertise in the Council's Finance teams but it was understood that the new key officer risk was fairly broad. The Committee were minded to keep the categorisation of the new PEN 14 risk under 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.

53.	<p>DRAFT WORK PROGRAMME AND TRAINING (<i>Agenda Item 10</i>)</p> <p>The Committee noted the draft work programme and training log and the Chairman sought to reiterate the importance of ensuring Committee Members had undertaken the relevant training.</p> <p>RESOLVED That the Pensions Committee:</p> <ol style="list-style-type: none"> 1. Noted the dates for Pensions Committee meetings; 2. Made suggestions for future agenda items, working practices and / or reviews; and, 3. Noted the Committee’s training update.
54.	<p>ANNUAL REPORT OF THE PENSION BOARD (<i>Agenda Item 11</i>)</p> <p>Roger Hackett, Chairman of the Pension Board, introduced the annual report of the Pension Board for 2022. Members’ attention was drawn to the work done by the Board regarding cyber security throughout 2022 noting that the Pensions Regulator had tasked Pension Boards to look into this area over the last few years. It was deemed that the systems that were currently in place were fit for purpose with the caveat that the area needed to be kept under constant review due to the nature of cyber security. It was also highlighted that extensive work was being undertaken reporting on the effectiveness of the Pension Board which was vital in demonstrating, in conjunction with the work of the Pensions Committee, the due diligence and scrutiny of the Hillingdon Pension Fund that was required. Thanks were given to the officers that assisted the Pension Board in carrying out its duties, the Pensions Committee for allowing the Board to have a close working relationship with the Committee, and finally the Board Members themselves.</p> <p>The Pensions Committee thanked the Board Members for their continued hard work and engagement, their commitment and for carrying out their pivotal role as a critical friend to the Committee.</p> <p>RESOLVED: That the Pensions Committee noted the annual report of the Hillingdon Pension Board for the year 2022.</p>
55.	<p>INVESTMENT PART II - STRATEGY REVIEW AND MANAGER UPDATES (<i>Agenda Item 12</i>)</p> <p><i>This item was discussed as a Part II item without the press or public present as the information under discussion contained confidential or exempt information as defined by law in the Local Government (Access to Information) Act 1985. This was because it discussed ‘information relating to the financial or business affairs of any particular person (including the authority holding that information)’ (paragraph 3 of the schedule to the Act).</i></p>
56.	<p>2022/23 BUDGET UPDATE (<i>Agenda Item 13</i>)</p> <p><i>This item was discussed as a Part II item without the press or public present as the information under discussion contained confidential or exempt information as defined by law in the Local Government (Access to Information) Act 1985. This was because it discussed ‘information relating to the financial or business affairs of any particular person (including the authority holding that information)’ (paragraph 3 of the schedule to the Act).</i></p>

57.	<p>RESPONSIBLE INVESTMENT PART II (<i>Agenda Item 14</i>)</p> <p><i>This item was discussed as a Part II item without the press or public present as the information under discussion contained confidential or exempt information as defined by law in the Local Government (Access to Information) Act 1985. This was because it discussed ‘information relating to the financial or business affairs of any particular person (including the authority holding that information)’ (paragraph 3 of the schedule to the Act).</i></p>
58.	<p>INDEPENDENT ADVISER CONTRACT AWARD (<i>Agenda Item 15</i>)</p> <p><i>This item was discussed as a Part II item without the press or public present as the information under discussion contained confidential or exempt information as defined by law in the Local Government (Access to Information) Act 1985. This was because it discussed ‘information relating to the financial or business affairs of any particular person (including the authority holding that information)’ (paragraph 3 of the schedule to the Act).</i></p>
	<p>The meeting, which commenced at 5.00 pm, closed at 7.25 pm.</p>

These are the minutes of the above meeting. For more information on any of the resolutions please contact Steve Clarke at democratic@hillingdon.gov.uk
 Circulation of these minutes is to Councillors, Officers, the Press and Members of the Public.

Minutes

PENSIONS COMMITTEE

11 May 2023



Meeting held at Council Chamber - Civic Centre,
High Street, Uxbridge UB8 1UW

	<p>Committee Members Present: Councillors Stuart Mathers (Chairman), Tony Burles (Vice-Chairman), Kaushik Banerjee, Mohammed Islam and John Riley</p> <p>LBH Officers Present: Nikki O'Halloran, Democratic Services Manager</p>	
1.	<p>ELECTION OF CHAIRMAN (<i>Agenda Item 1</i>)</p> <p>RESOLVED: That Councillor Mathers be elected as Chairman of the Pensions Committee for the 2023/2024 municipal year.</p>	Action by
2.	<p>ELECTION OF VICE CHAIRMAN (<i>Agenda Item 2</i>)</p> <p>RESOLVED: That Councillor Burles be elected as Vice Chairman of the Pensions Committee for the 2023/2024 municipal year.</p>	Action by
	<p>The meeting, which commenced at 9.20 pm, closed at 9.20 pm.</p>	

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

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2021/22 EXTERNAL AUDIT UPDATE

Committee	Pensions Committee
Officer Reporting	James Lake, Finance
Papers with this report	EY: Pension Fund Draft Audit Results Report, year ended 31 March 2022 Pension Fund Accounts 2021/22

HEADLINES

The draft Pension Fund Accounts for 2021/22 are taken from the Councils financial statements and are attached to this report for Committee review, prior to the Councils financial statements sign off at Audit Committee.

The attached draft report details the work of the external auditor, EY, on the audit of the 2021/22 Pension Fund Accounts. At the time of writing this report there is one outstanding audit task. This is a national issue relating to IAS19 pension valuations which links to the Pension Fund IAS26 disclosure. Other than this item, the report shows an expected unmodified audit opinion.

RECOMMENDATIONS

It is recommended that the Pensions Committee note the draft Audit Results Report for the 2021/22 Pension Fund accounts.

SUPPORTING INFORMATION

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

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

The Pension Fund Accounts are subject to a separate audit by the Council's external auditors, EY LLP. Whilst the Audit Committee formally approve the Council's Statements of Accounts, which incorporates the Pension Fund Accounts, best practice allows Pensions Committee to also review the results.

SCOPE OF THE EXTERNAL AUDIT

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

- Misstatement fraud or error
- Valuation of complex investments
- Disclosure on 'Going Concern'
- IAS26 Disclosure

Classification: Public

Pensions Committee - 8 June 2022

In addition, the auditor requires a “Management Representation Letter” to be signed by management, outlined in their report. The letter includes representations on matters material to the statement of accounts, where sufficient evidence cannot reasonably be expected to exist. Once the national issue relating to IAS19 is resolved and the final Audit Results Report is completed this will be prepared and signed by the S151 Officer.

FINDINGS

The change of Pension Administrator in 2021 necessitated a realignment of pensioner payroll dates from the 15th of the month to the final day. This realignment added an additional ½ month of payments to pensioners totalling c£1.8m and covered 54 weeks instead of the normal 52 weeks pension payments. EY note the additional £1.8m payment value.

All investments are allocated a fair value classification to ascertain a level of pricing certainty. This is based on observable inputs to which there is a level of interpretation and subjectivity. This was discussed throughout the audit process with reclassifications being agreed with EY.

There is an outstanding legal dispute (Goodwin case) which is likely to affect the net present value of pensions due. As this is immaterial to the Fund and a final resolution is still to be agreed, the actuary has not made an allowance in the IAS26 disclosure. This is noted by EY.

At the time of reporting, there were no corrected material misstatements over the updated materiality threshold of £12.6m. In addition, there are no uncorrected misstatements to report over the updated reporting threshold of £0.6m.

FINANCIAL IMPLICATIONS

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

LEGAL IMPLICATIONS

The legal implications are mentioned within the report.

London Borough of Hillingdon Pension Fund

Draft audit results report

Year ended 31 March 2022

20 April 2023

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

Building a better
working world



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

20 April 2023

Dear Audit Committee Members

We are pleased to attach our draft audit results report for the forthcoming meeting of the Audit Committee.

The audit is designed to express an opinion on the 2021/22 financial statements and address current statutory and regulatory requirements. Our audit is substantially completed, subject to the remaining items set out on page 5. This report contains our findings related to the areas of audit emphasis, our views on London Borough of Hillingdon Pension Fund's (the 'Pension Fund') accounting policies and judgements and material internal control findings.

Each year sees further enhancements to the level of audit challenge and the quality of evidence required to achieve the robust professional scepticism that society expects. We thank the management team for supporting this process.

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

We welcome the opportunity to discuss the contents of this report with you at any time.

Yours faithfully

Helen Thompson

Associate Partner

For and on behalf of Ernst & Young LLP

Encl

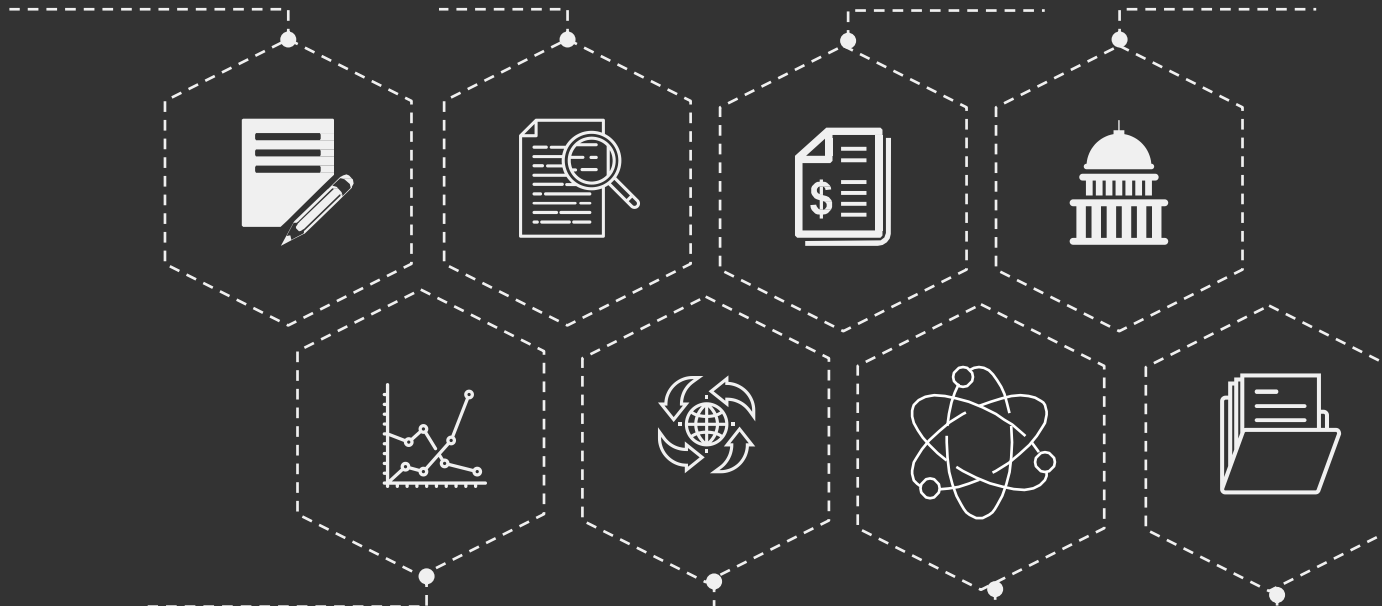
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Public Sector Audit Appointments Ltd (PSAA) issued the "Statement of responsibilities of auditors and audited bodies". It is available from the PSAA website (<https://www.psa.co.uk/audit-quality/statement-of-responsibilities/>). The Statement of responsibilities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

The "Terms of Appointment and further guidance (updated April 2018)" issued by the PSAA sets out additional requirements that auditors must comply with, over and above those set out in the National Audit Office Code of Audit Practice (the Code) and in legislation, and covers matters of practice and procedure which are of a recurring nature.

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



01 Executive Summary

Executive Summary

Scope update

In our outline audit planning report presented to the 28 April 2022 Audit Committee meeting and our subsequent progress reports dated September and November 2022 presented to the respective Audit Committees, we provided you with an overview of our audit scope and approach for the audit of the financial statements and confirmed that there were no changes in our approach at the subsequent meetings where we presented the progress reports. We carried out our audit in accordance with our plan with the following update:

Changes in materiality

	Planning Materiality	Performance Materiality	Audit Differences
	Our planning materiality represents 1% of the Fund's net assets, consistent year on year.	Performance materiality represents 75% of planning materiality and is the top of our range, consistent year on year.	We will report all uncorrected misstatements relating to the primary statements (net asset statement and fund account) greater than 5% of planning materiality.
Planned	£11.6 million	£8.7 million	£0.6 million
Final	£12.6 million	£9.5 million	£0.6 million

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Status of the audit

Our audit work in respect of the Pension Fund's opinion has been substantially completed, subject to the following procedures to be updated closer to our auditor's report date:

- Impact assessment of the triennial actuarial valuation as at 31 March 2022 on the IAS26 disclosure;
- Agreement of final amendments to the accounts;
- Updated going concern procedures;
- Subsequent events update;
- Management representations letter.

We expect to issue an unmodified audit opinion. A draft of the current opinion is included in Section 03.



Executive Summary

Audit differences

Unadjusted audit differences:

- **Pension Fund Account - Benefits - Note 6:** Benefits expenditure is overstated by £1.8m. This was caused by a catch-up adjustment due to the change in the benefit payment period upon transition to the new pension administrator. Previously benefits were paid from the 16th of one month to the 15th of the next month. The new administrator pays benefits from the 1st to the end of the month. This created a one-off position whereby 54 weeks of benefits have been accrued for during 2021/22. This has not been adjusted because it is not deemed material by Management. We have considered the impact on the prior year and concluded that any adjustment would be immaterial.
- **Notes to the Pension Fund Account - Note 18 Actuarial Present Value of Promised Retirement Benefits (IAS 26 disclosure):** Unadjusted understatement of present value of promised retirement benefits by a judgmental difference related to the Goodwin case of £2.9m (£3.1m in prior year).

Adjusted audit differences:

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Notes to the Pension Fund Account - Note 14A Fair Value Hierarchy: re-classification of investment assets from level 2 to level 3 fair value hierarchy in the amount of £47.8m.

For background, the CIPFA Code of Practice establishes a fair value hierarchy that categorises the inputs to valuation techniques used to measure fair value into three levels. The fair value hierarchy gives the highest priority to quoted prices (unadjusted) in active markets for identical assets or liabilities (Level 1 inputs) and the lowest priority to unobservable inputs (Level 3 inputs). Level 2 inputs are inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly. Fair value hierarchy classification requires a higher level of professional judgment and accounting standards' interpretation.

Management had reclassified certain investment assets from Level 3 to Level 2 in the draft financial statements because in their view, the uncertainty created by the Covid-19 pandemic on valuations applicable to 2020/21 was resolved as at 31 March 2022. However, we challenged this judgement because we were not able to identify observable inputs in relation to the valuation of a number of these investments in our testing procedures. Management accepted this judgement and amended the classification.



Executive Summary

Areas of audit focus

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

Fraud risks	Findings & conclusions
Misstatements due to fraud or error, including misstatement of investment amounts through fraudulent journal entries	<p>We carried out procedures to address fraud risks as set out in our outline audit plan, including identifying risks, considering controls and their effectiveness, testing journal entries and looking at estimates for evidence of management bias. Using data analytics is central to our approach.</p> <p>We performed a reconciliation between the fund managers' reports and the custodian reports to address the risk of manipulation of asset valuations.</p> <p>Our work in this area has been completed and we have no matters to bring to your attention.</p>
Significant risk	Findings & conclusions
Valuation of complex investments (Level 3 Fair Value hierarchy)	<p>We undertook additional procedures, as described more fully in Section 2 of this report, to gain material assurance over the year-end valuation of the Fund's complex investments disclosed as Level 3 in the fair value hierarchy, and therefore inherently more difficult to value.</p> <p>We have completed our work in this area and reported to you an adjusted audit difference explained on the previous slide. We tested the re-classified investments under Level 3 principles for valuation.</p>
Areas of audit focus	Findings & conclusions
Disclosure on Going Concern	<p>We obtained management's going concern assessment and the adequacy of the disclosures in the financial statements.</p> <p>The work in this area has been progressed, however we are required to update our assessment closer to the auditor's report date. Up to the date of this report, we have not identified any material uncertainties with regards to the going concern of the Pension Fund.</p>
IAS 26 disclosure - Actuarial Present Value of Promised Retirement Benefits	<p>Our procedures include assessing the work of the Pension Fund actuary (Hymans Robertson) including the assumptions they have used by relying on the work of PWC - Consulting Actuaries commissioned by Public Sector Auditor Appointments for all Local Government sector auditors, and considering any relevant reviews by the EY actuarial team.</p> <p>We have completed our work in this area and concluded that the actuarial present value of promised retirement benefits could be understated by a judgmental difference related to the Goodwin case of £2.9m (£3.1m PY). This remains unadjusted in the accounts due to its overall immateriality to the statements and its judgmental nature.</p> <p>No other matters were identified to be reported to you.</p>



Executive Summary

Control observations

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

However, we have drawn observations and recommendations from our work that we brought to your attention in Section 06 of this report.

Independence

Please refer to Section 07 for our update on Independence.



02

Areas of Audit Focus



Areas of Audit Focus

Significant risk

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

What is the risk?

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

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

There is a risk that due to fraud or error, journals posted into the general ledger for the investment values are incorrect.

What judgements are we focused on?

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

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

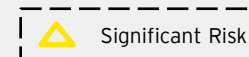
What did we do?

- We enquired of management about risks of fraud and the controls put in place to address those risks.
- We gained an understanding of the oversight given by those charged with governance of management's processes over fraud.
- We ensured that journal entries are supported by the fund manager/custodian reports.
- We utilised our data analytics capabilities to assist with our work, including journal entry testing.
- We assessed journal entries for evidence of management bias and evaluated journals for business rationale and that appropriate authorisations have been obtained.
- We reviewed accounting estimates for evidence of management bias.

What are our conclusions?

Our work in this area is complete and we:

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





Areas of Audit Focus

Significant risk

Valuation of complex Investments (Level 3 Fair Value hierarchy)

What is the risk?

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

Significant judgements are made by the investment managers or administrators to value these investments whose prices are not publicly available. The material nature of investments means that any error in judgement could result in a material valuation error.

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

What judgements are we focused on?

The judgements we are focussed on are the valuation data used when the information is not publicly available.

What did we do?

We:

- ▶ reviewed the relevant funds' latest available audited accounts for modifications and corroborated the extracted information with the relevant valuations;
- ▶ where the latest audited accounts were not as at 31 March 2022, we performed analytical procedures, market indexations and cash flow roll-forward to assess the valuation for reasonableness against our own expectations;
- ▶ reviewed the fund managers' latest controls reports to assess whether the fund manager maintained appropriate controls to prevent and detect material misstatement in the pricing of assets; and
- ▶ tested that accounting entries were correctly processed in the financial statements.

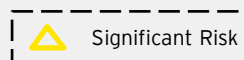
What are our conclusions?

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

- the underlying funds' latest available audited accounts were not qualified or otherwise modified, nor did they contain material uncertainties in respect of going concern or other matters emphasised that would impact valuation;
- the audit reports of the underlying funds were issued by reputable auditors;
- where the latest audited accounts were not as at 31 March 2022, we found that the rolled forward cash flows to 31 March 2022, combined with market movement indexation resulted in value ranges that reasonably approached the pension fund's valuations;
- management correctly reflected the valuation adjustments due to timing differences in the updated draft accounts.

We have completed our work in this area and have reported an adjusted audit difference: re-classification of investment assets from level 2 to level 3 fair value hierarchy in the amount of £47.8m. The accounting principles are explained in more detail in Section 01, Executive Summary and Section 04, Audit Differences.

We tested the re-classified investments under level 3 principles for valuation, which requires more extensive audit procedures.





Areas of Audit Focus

What is the risk/area of focus?

Disclosures on going concern

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

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

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

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

What are we doing?

The work in this area has been progressed. However, we are required to update our assessment and the associated disclosures closer to the auditor's report date. Up to the date of this report, we have not identified any material uncertainties with regards to the going concern of the Pension Fund.



Areas of Audit Focus

What is the risk/area of focus?

IAS 26 disclosure - Actuarial Present Value of Promised Retirement Benefits

The Fund's IAS 26 calculation shows that the present value of promised retirement benefits amount to £1,965 million as at 31 March 2022.

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

There is a risk that the valuation uses inappropriate assumptions to value the liability as at the 31 March 2022.

What did we do?

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

Similar to 2020/21 audit, we undertook additional procedures for the 2021/22 audit in relation to the impact of the revised auditing standard on accounting estimates. The revised standard requires auditors to test the method of measurement of accounting estimates to determine whether the model is appropriately designed, consistently applied and mathematically accurate, and that the integrity of the assumptions and the data has been maintained in applying the model. We undertook alternate procedures to create an auditor's estimate, to gain assurance that the liability was not materially misstated.

We have completed our work in this area and concluded that the actuarial present value of promised retirement benefits could be understated by a judgmental difference related to the Goodwin case of £2.9m (PY £3.1m). This disclosure remains unadjusted in the accounts due to its overall immateriality to the statements and its judgmental nature.

No other matters were identified to be reported to you.



03 Audit Report



Audit Report

Draft audit report

Our opinion on the financial statements

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

Opinion

We have audited the Pension Fund ("the Fund") financial statements for the year ended 31 March 2022 under the Local Audit and Accountability Act 2014 (as amended). The pension fund financial statements comprise the Pension Fund Account, the Net Assets Statement and the related notes 1 to 24.

The financial reporting framework that has been applied in their preparation is applicable law and the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2021/22.

In our opinion the pension fund financial statements:

- ▶ give a true and fair view of the financial transactions of the Fund during the year ended 31 March 2022 and the amount and disposition at that date of its assets and liabilities as at 31 March 2022; and
- ▶ have been properly prepared in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2021/22.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law. Our responsibilities under those standards are further described in the Auditor's responsibilities for the audit of the financial statements section of our report below. We are independent of the Council as administering authority for the Pension Fund in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the FRC's Ethical Standard and the Comptroller and Auditor General's AGN01, and we have fulfilled our other ethical responsibilities in accordance with these requirements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Conclusions relating to going concern

In auditing the financial statements, we have concluded that the Corporate Director of Finance's use of the going concern basis of accounting in the preparation of the financial statements is appropriate. Based on the work we have performed, we have not identified any material uncertainties relating to events or conditions that, individually or collectively, may cast significant doubt on the Fund's ability to continue as a going concern for a period of 12 months from when the financial statements are authorised for issue. Our responsibilities and the responsibilities of the Corporate Director of Finance with respect to going concern are described in the relevant sections of this report. However, because not all future events or conditions can be predicted, this statement is not a guarantee as to the Fund's ability to continue as a going concern.

Other information

The other information comprises the information included in the Statement of Accounts 2021/22 set out on pages [...], other than the financial statements and our auditor's report thereon. The Corporate Director of Finance is responsible for the other information contained within the Statement of Accounts 2021/22.

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

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

We have nothing to report in this regard.



Audit Report

Draft audit report

Our opinion on the financial statements

Matters on which we report by exception

We report to you if:

- ▶ we issue a report in the public interest under section 24 of the Local Audit and Accountability Act 2014 (as amended);
- ▶ we make written recommendations to the audited body under Section 24 of the Local Audit and Accountability Act 2014 (as amended);
- ▶ we make an application to the court for a declaration that an item of account is contrary to law under Section 28 of the Local Audit and Accountability Act 2014 (as amended);

▶ we issue an advisory notice under Section 29 of the Local Audit and Accountability Act 2014 (as amended); or

▶ we make an application for judicial review under Section 31 of the Local Audit and Accountability Act 2014 (as amended).

We have nothing to report in these respects.

Responsibility of the Corporate Director of Finance

As explained more fully in the Statement of the Corporate Director of Finance's Responsibilities set out on pages [...], the Corporate Director of Finance is responsible for the preparation of the Pension Fund's Statement of Accounts, which includes the pension fund financial statements, in accordance with proper practices as set out in the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2021/22, and for being satisfied that they give a true and fair view. The Corporate Director of Finance is also responsible for such internal control as the Corporate Director of Finance determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

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

Auditor's responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

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

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

Our approach was as follows:

- ▶ We obtained an understanding of the legal and regulatory frameworks that are applicable to the Fund and determined that the most significant are the Local Government Pension Scheme Regulations 2013 (as amended), and The Public Service Pensions Act 2013.
- ▶ We understood how the Fund is complying with those frameworks by making enquiries of management. We corroborated this through our reading of the Audit Committee, Pensions Committee and Pension Board minutes, through enquiry of employees to confirm Pension policies, and through the inspection of other information.



Audit Report

Draft audit report

Our opinion on the financial statements

- ▶ Based on this understanding, we designed our audit procedures to identify non-compliance with such laws and regulations. Our procedures involved making enquiries of management, head of internal audit and those charged with governance for their awareness of any non-compliance of laws or regulations, review of minutes and obtaining and reading documentation relating to the procedures in place to identify, evaluate and comply with laws and regulations.
- ▶ We assessed the susceptibility of the Fund's financial statements to material misstatement, including how fraud might occur by considering the key risks impacting the financial statements and documenting the controls that the Fund has established to address risks identified, or that otherwise seek to prevent, deter or detect fraud. Where this risk was considered to be higher, we performed audit procedures to address each identified fraud risk.

- Page 7
- ▶ In common with all audits under ISAs (UK), we are also required to perform specific procedures to respond to the risk of management override. In addressing the risk of fraud through management override of controls, we tested the appropriateness of journal entries and other adjustments; assessed whether the judgements made in making accounting estimates are indicative of a potential bias; and evaluated the business rationale of any identified significant transactions that were unusual or outside the normal course of business. These procedures were designed to provide reasonable assurance that the financial statements were free from fraud or error.
 - ▶ We identified a specific risk due to fraud or error that journals posted into the general ledger for investment values could be incorrect. Our audit response procedures included:
 - Enquiries with management about risks of fraud and the controls put in place to address those risks;
 - Gaining an understanding of the oversight given by those charged with governance of management's processes over fraud;
 - Ensuring that journal entries are supported by the fund manager/custodian reports which we sourced independently;
 - Utilising our data analytics capabilities to assist with our work, including journal entry testing;
 - Assessing journal entries for evidence of management bias and evaluating journals for business rationale and that appropriate authorisations have been obtained;
 - Reviewing accounting estimates for evidence of management bias.

- ▶ The Fund is required to comply with The Local Government Pensions Scheme regulations, other legislation relevant to the governance and administration of the Local Government Pension Scheme and requirements imposed by the Pension Regulator in relation to the Local Government Pension Scheme. As such, we have considered the experience and expertise of the engagement team, including the use of specialists where appropriate, to ensure that the team had an appropriate understanding of the relevant pensions regulations to assess the control environment and consider compliance of the Fund with these regulations as part of our audit procedures.

A further description of our responsibilities for the audit of the financial statements is located on the Financial Reporting Council's website at <https://www.frc.org.uk/auditorsresponsibilities>. This description forms part of our auditor's report.

Use of our report

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

Helen Thompson (Key Audit Partner)
Ernst & Young LLP (Local Auditor)
Southampton
2023



04 Audit Differences





Audit Differences

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

Summary of audit differences

Unadjusted audit differences:

- **Pension Fund Account - Benefits - Note 6:** Benefits expenditure is overstated by £1.8m. This was caused by a catch-up adjustment due to the change in the benefit payment period upon transition to the new pension administrator. Previously benefits were paid from the 16th of one month to the 15th of the next month. The new administrator pays benefits from the 1st to the end of the month. This created a one-off position whereby 54 weeks of benefits have been accrued for during 2021/22. This has not been adjusted because it is not deemed material by Management. We have considered the impact on the prior year and concluded that any adjustment would be immaterial.
- **Notes to the Pension Fund Account - Note 18 Actuarial Present Value of Promised Retirement Benefits (IAS 26 disclosure):** Unadjusted understatement of present value of promised retirement benefits by a judgmental difference related to the Goodwin case of £2.9m (£3.1m in prior year).

Adjusted audit differences:

- **Notes to the Pension Fund Account - Note 14A Fair Value Hierarchy:** re-classification of investment assets from level 2 to level 3 fair value hierarchy in the amount of £47.8m.

For background, the CIPFA Code of Practice establishes a fair value hierarchy that categorises the inputs to valuation techniques used to measure fair value into three levels. The fair value hierarchy gives the highest priority to quoted prices (unadjusted) in active markets for identical assets or liabilities (Level 1 inputs) and the lowest priority to unobservable inputs (Level 3 inputs). Level 2 inputs are inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly. Fair value hierarchy classification requires a higher level of professional judgment and accounting standards’ interpretation.

Management had reclassified certain investment assets from Level 3 to Level 2 in the draft financial statements because in their view, the uncertainty created by the Covid-19 pandemic on valuations applicable to 2020/21 was resolved as at 31 March 2022. However, we challenged this judgement because we were not able to identify observable inputs in relation to the valuation of a number of these investments in our testing procedures. Management accepted this judgement and amended the classification.



05 Other reporting issues

Other reporting issues

Other reporting issues

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

We must give an opinion on the consistency of the financial and non-financial information in the Statement of Accounts 2021/22 with the audited financial statements. Our review of the Pension Fund's Annual Report has been completed and we are in the process of agreeing all our observations with management.

In addition, we also perform procedures to ensure the consistency of the Pension Fund accounts with the version presented in the Pension Fund's Annual Report. This work is being completed.

Other powers and duties

We have a duty under the Local Audit and Accountability Act 2014 to consider whether to report on any matter that comes to our attention in the course of the audit, either for the Pension Fund to consider it or to bring it to the attention of the public (i.e. "a report in the public interest"). We also have a duty to make written recommendations to the Pension Fund, copied to the Secretary of State, and take action in accordance with our responsibilities under the Local Audit and Accountability Act 2014. We have had no reason to exercise these duties.

Other matters

As required by ISA (UK&I) 260 and other ISAs specifying communication requirements, we must tell you significant findings from the audit and other matters if they are significant to your oversight of the Fund's financial reporting process. We have no matters to report.



06

Assessment of Control Environment



Assessment of Control Environment

Financial controls

Our responsibilities

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

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

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

Findings

We identified the following observations and recommendations around internal controls:

- **Membership numbers:** upon the Pension Fund's transfer to the new pensions' administrator, Hampshire County Council, we noted that the procedure for calculating membership numbers was altered due to the transition to new software. Thus, the initial 2021/22 membership numbers disclosed in the draft accounts of the Fund were not comparable with the prior period numbers. We identified this as a weakness in transition controls and requested management revisit the membership figures, which was actioned in the final draft of the accounts. We don't expect this to be a recurring issue unless the Pension Fund transitions to another administrator, however we considered it useful to highlight the control risks surrounding such a transition for future consideration.
- **Fair value hierarchies:** our audit of fair value hierarchies of the Pension Fund's assets which are measured at fair value identified a re-classification of investments from level 2 to level 3 in the amount of £47.8m. Although there is an element of judgment in the fair value hierarchies classification, we consider that strengthening controls around the identification and documentation of observable and unobservable inputs used in valuations could minimise the risk of such audit findings in the future.



07

Independence

Relationships, services and related threats and safeguards

The FRC Ethical Standard requires that we provide details of all relationships between Ernst & Young (EY) and the Fund, and its members and senior management and its affiliates, including all services provided by us and our network to the Fund, its members and senior management and its affiliates, and other services provided to other known connected parties that we consider may reasonably be thought to bear on our integrity or objectivity, including those that could compromise independence and the related safeguards that are in place and why they address the threats.

There are no relationships from 1 April 2021 to the date of this report which we consider may reasonably be thought to bear on our independence and objectivity.

Services provided by Ernst & Young

The table below sets out a summary of the fees paid by the Pension Fund for the respective audit years, in line with the disclosures set out in FRC Ethical Standard and in statute.

As at the date of this report, there are no future services which have been contracted and no written proposal to provide non-audit services has been submitted.

	Final fee 2021/22	Final Fee 2020/21
	£	£
Scale Fee - Code work (1)	16,170**	16,170
Determined Scale Fee Variation	TBC	20,782*
IAS 19 protocol procedures	6,000	5,500
Total audit	TBC	42,452

All fees exclude VAT.

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

*This scale fee variation relates to additional procedures to address the increased regulatory audit requirements, additional specific one-off work required for Covid-19 considerations in relation to going concern and professional consultation, additional procedures to address the significant risk around investments valuation as well as work performed on pension valuation. This additional fee variation was approved by PSAA and covers only a proportion of the total scale fee variation determined by us and submitted to PSAA for approval.

**The scale fee for 2021/22 is set by PSAA as indicative and does not reflect the actual costs of undertaking the audit, to address all risks identified and to meet current regulatory standards. We set out the key areas of focus of our work in Section 02. As our audit is not fully completed, we have not yet estimated the scale fee variation for 2021/22. We will discuss and agree a final fee with management and PSAA, and communicate progress to the Audit Committee.

Other communications

EY Transparency Report 2022

Ernst & Young (EY) has policies and procedures that instil professional values as part of firm culture and ensure that the highest standards of objectivity, independence and integrity are maintained.

Details of the key policies and processes in place within EY for maintaining objectivity and independence can be found in our annual Transparency Report which the firm is required to publish by law. The most recent version of this Report is for the reporting period from 3 July 2021 to 1 July 2022:

[EY UK 2022 Transparency Report | EY UK](#)



08 Appendices

Audit approach update

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

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

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

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

Appendix B

Summary of communications

Date 	Nature 	Summary 
Throughout the year	Meetings, calls and emails.	The audit Partner and Manager have been in regular contact with the Corporate Director of Finance and the finance team in respect of the Council's risks, audit timeline and resource planning, accounts closedown and the audit approach.
29 September 2022, 15 November 2022 and 31 January 2023	Meetings	We held meetings with the Council's Corporate Director of Finance, the Head of Pensions, Treasury & Statutory Accounts and with EY's audit Partner and Manager, where we discussed audit progress, any ongoing issues and the timescale.
15 November 2022	Meeting	We held a private face to face meeting with the members of the Audit Committee. We discussed the progress of the audit and we asked our fraud enquiries in person from those charged with governance. The Committee members also gave us an opportunity to express any concerns of confidential nature.
All Audit Committee meetings held in the year	Committee attendance	The audit Partner and Manager have attended the meetings of the Audit Committee held throughout the financial year and to the date of issue of this report. Specific reports issued and communications with the Committee are detailed in Appendix C.



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

Appendix C

Required communications with the Audit Committee

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

Required communications	 What is reported?	 Our Reporting to you When and where
Terms of engagement	Confirmation by the audit committee of acceptance of terms of engagement as written in the engagement letter signed by both parties.	The statement of responsibilities serves as the formal terms of engagement between the PSAA's appointed auditors and audited bodies
Our responsibilities	Reminder of our responsibilities as set out in the engagement letter.	Outline audit planning report April 2022
Planning and audit approach	Communication of the planned scope and timing of the audit, any limitations and the significant risks identified.	Outline audit planning report April 2022
Significant findings from the audit	<ul style="list-style-type: none"> ▶ Our view about the significant qualitative aspects of accounting practices including accounting policies, accounting estimates and financial statement disclosures ▶ Significant difficulties, if any, encountered during the audit ▶ Significant matters, if any, arising from the audit that were discussed with management ▶ Written representations that we are seeking ▶ Expected modifications to the audit report ▶ Other matters if any, significant to the oversight of the financial reporting process 	This Draft Audit Results Report





Appendix C

		Our Reporting to you
Required communications	What is reported?	When and where
Going concern	<p>Events or conditions identified that may cast significant doubt on the entity’s ability to continue as a going concern, including:</p> <ul style="list-style-type: none"> ▶ Whether the events or conditions constitute a material uncertainty ▶ Whether the use of the going concern assumption is appropriate in the preparation and presentation of the financial statements ▶ The adequacy of related disclosures in the financial statements 	This Draft Audit Results Report
Misstatements	<ul style="list-style-type: none"> ▶ Uncorrected misstatements and their effect on our audit opinion ▶ The effect of uncorrected misstatements related to prior periods ▶ A request that any uncorrected misstatement be corrected ▶ Material misstatements corrected by management 	This Draft Audit Results Report
Subsequent events	<ul style="list-style-type: none"> ▶ Enquiry of the audit committee where appropriate regarding whether any subsequent events have occurred that might affect the financial statements. 	Audit Committee - 27 April 2023
Fraud	<ul style="list-style-type: none"> ▶ Enquiries of the audit committee to determine whether they have knowledge of any actual, suspected or alleged fraud affecting the Pension Fund ▶ Any fraud that we have identified or information we have obtained that indicates that a fraud may exist ▶ Unless all of those charged with governance are involved in managing the Pension Fund, any identified or suspected fraud involving: <ol style="list-style-type: none"> a. Management; b. Employees who have significant roles in internal control; or c. Others where the fraud results in a material misstatement in the financial statements. ▶ The nature, timing and extent of audit procedures necessary to complete the audit when fraud involving management is suspected ▶ Any other matters related to fraud, relevant to Audit Committee responsibility. 	Formal enquiry letter sent and response received from Chair of Audit Committee. and This Draft Audit Results Report




Appendix C

		Our Reporting to you
Required communications	What is reported?	When and where
Related parties	<p>Significant matters arising during the audit in connection with the Pension Fund’s related parties including, when applicable:</p> <ul style="list-style-type: none"> ▶ Non-disclosure by management ▶ Inappropriate authorisation and approval of transactions ▶ Disagreement over disclosures ▶ Non-compliance with laws and regulations ▶ Difficulty in identifying the party that ultimately controls the Pension Fund 	This Draft Audit Results Report
Independence	<p>Communication of all significant facts and matters that bear on EY’s, and all individuals involved in the audit, objectivity and independence.</p> <p>Communication of key elements of the audit engagement partner’s consideration of independence and objectivity such as:</p> <ul style="list-style-type: none"> ▶ The principal threats ▶ Safeguards adopted and their effectiveness ▶ An overall assessment of threats and safeguards ▶ Information about the general policies and process within the firm to maintain objectivity and independence <p>Communications whenever significant judgments are made about threats to objectivity and independence and the appropriateness of safeguards put in place.</p>	<p>Outline audit planning report April 2022 and This Draft Audit Results Report</p>

Appendix C

		 Our Reporting to you
Required communications	 What is reported?	  When and where
External confirmations	<ul style="list-style-type: none"> ▶ Management's refusal for us to request confirmations ▶ Inability to obtain relevant and reliable audit evidence from other procedures. 	We have received all requested confirmations
Consideration of laws and regulations	<ul style="list-style-type: none"> ▶ Subject to compliance with applicable regulations, matters involving identified or suspected non-compliance with laws and regulations, other than those which are clearly inconsequential and the implications thereof. Instances of suspected non-compliance may also include those that are brought to our attention that are expected to occur imminently or for which there is reason to believe that they may occur ▶ Enquiry of the audit committee into possible instances of non-compliance with laws and regulations that may have a material effect on the financial statements and that the audit committee may be aware of 	We have asked management and those charged with governance. We have not identified any material instances or non-compliance with laws and regulations
Significant deficiencies in internal controls identified during the audit	<ul style="list-style-type: none"> ▶ Significant deficiencies in internal controls identified during the audit. 	This Draft Audit Results Report

Appendix C

		Our Reporting to you
Required communications	 What is reported?	  When and where
Written representations we are requesting from management and/or those charged with governance	<ul style="list-style-type: none"> ▶ Written representations we are requesting from management and/or those charged with governance 	This Draft Audit Results Report
Material inconsistencies or misstatements of fact identified in other information which management has refused to revise	<ul style="list-style-type: none"> ▶ Material inconsistencies or misstatements of fact identified in other information which management has refused to revise 	This Draft Audit Results Report
Auditors report	<ul style="list-style-type: none"> ▶ Any circumstances identified that affect the form and content of our auditor's report 	This Draft Audit Results Report
Fee Reporting	<ul style="list-style-type: none"> ▶ Breakdown of fee information when the audit planning report is agreed ▶ Breakdown of fee information at the completion of the audit ▶ Any non-audit work 	Outline Audit Planning Report April 2022 and This Draft Audit Results Report

Management representation letter

Management Representation Letter - draft

2023

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

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This letter of representations is provided in connection with your audit of the financial statements of London Borough of Hillingdon Pension Fund (“the Fund”) for the year ended 31 March 2022. We recognise that obtaining representations from us concerning the information contained in this letter is a significant procedure in enabling you to form an opinion as to whether the financial statements give a true and fair view of the financial transactions of the Fund during the period from 1 April 2021 to 31 March 2022 and of the amount and disposition of the Fund’s assets and liabilities as at 31 March 2022, other than liabilities to pay pensions and benefits after the end of the period, have been properly prepared in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2021/22.

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

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

A. Financial Statements and Financial Records

1. We have fulfilled our responsibilities, under the relevant statutory authorities, for the preparation of the financial statements in accordance with the Accounts and Audit Regulations 2015 and CIPFA LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2021/22.
2. We confirm that the Fund is a Registered Pension Scheme. We are not aware of any reason why the tax status of the scheme should change.
3. We acknowledge, as members of management of the Fund, our responsibility for the fair presentation of the financial statements. We believe the financial statements referred to above give a true and fair view of the financial position and the financial performance of the Fund in accordance with the CIPFA LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2021/22, and are free of material misstatements, including omissions. We have approved the financial statements.

Management representation letter

4. The significant accounting policies adopted in the preparation of the financial statements are appropriately described in the financial statements.
5. As members of management of the Fund, we believe that the Fund has a system of internal controls adequate to enable the preparation of accurate financial statements in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2021/22 that are free from material misstatement, whether due to fraud or error. We have disclosed to you any significant changes in our processes, controls, policies and procedures that we have made to address the effects of the COVID-19 pandemic on our system of internal controls and the effects of the conflict and related sanctions in Ukraine, Russia and/or Belarus on our system of internal controls.
6. We believe that the effects of any unadjusted audit differences, summarised in the accompanying schedule, accumulated by you during the current audit and pertaining to the latest period presented are immaterial, both individually and in the aggregate, to the financial statements taken as a whole. We have not corrected these differences identified and brought to our attention by the auditor because we consider them immaterial and in certain instances – judgmental in nature.

B. Non-compliance with laws and regulations including fraud

1. We acknowledge that we are responsible for determining that the Fund's activities are conducted in accordance with laws and regulations and that we are responsible for identifying and addressing any non-compliance with applicable laws and regulations, including fraud.
2. We acknowledge that we are responsible for the design, implementation and maintenance of internal controls to prevent and detect fraud.
3. We have disclosed to you the results of our assessment of the risk that the financial statements may be materially misstated as a result of fraud.
4. We have not made any reports to The Pensions Regulator, nor are we aware of any such reports having been made by any of our advisors.
5. There have been no other communications with The Pensions Regulator or other regulatory bodies during the Fund year or subsequently concerning matters of noncompliance with any legal duty.
6. We have no knowledge of any identified or suspected non-compliance with laws or regulations, including fraud that may have affected the Fund (regardless of the source or form and including without limitation, any allegations by "whistleblowers"), including non-compliance matters:
 - Involving financial improprieties
 - Related to laws or regulations that have a direct effect on the determination of material amounts and disclosures in the Fund's financial statements
 - Related to laws and regulations that have an indirect effect on amounts and disclosures in the financial statements, but compliance with which may be fundamental to the operations of the Fund, its ability to continue, or to avoid material penalties
 - Involving management, or employees who have significant roles in internal control, or others
 - In relation to any allegations of fraud, suspected fraud or other non-compliance with laws and regulations communicated by employees, former employees, analysts, regulators or others.

Management representation letter

C. Information Provided and Completeness of Information and Transactions

1. We have provided you with:

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

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

3. All material transactions have been recorded in the accounting records and all material transactions, events and conditions are reflected in the financial statements, including those related to the COVID-19 pandemic and including those related to the conflict and related sanctions in Ukraine, Russia and/or Belarus.

4. We have made available to you all minutes of the meetings of the Audit Committee, Pensions Committee and Pensions Board (or summaries of actions of recent meetings for which minutes have not yet been prepared) held through the period to the most recent meeting on the following dates:

- ▶ Audit Committee: [...] 2023;
- ▶ Pensions Committee: [...] 2023;
- ▶ Pensions Board: [...] 2023.

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

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

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

8. We believe that the methods, significant assumptions and the data we used in making accounting estimates and related disclosures are appropriate and consistently applied to achieve recognition, measurement and disclosure that is in accordance with CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2021/22.

9. From 03 February 2022 through the date of this letter we have disclosed to you any unauthorized access to our information technology systems that either occurred or to the best of our knowledge is reasonably likely to have occurred based on our investigation, including of reports submitted to us by third parties (including regulatory agencies, law enforcement agencies and security consultants), to the extent that such unauthorized access to our information technology systems is reasonably likely to have a material impact to the financial statements, in each case or in the aggregate.

Management representation letter

D. Liabilities and Contingencies

1. All liabilities and contingencies, including those associated with guarantees, whether written or oral, have been disclosed to you and are appropriately reflected in the financial statements.
2. We have informed you of all outstanding and possible litigation and claims, whether or not they have been discussed with legal counsel.
3. We have recorded and/or disclosed, as appropriate, all liabilities related to litigation and claims, both actual and contingent. No guarantees were given to third parties.

E. Going Concern

1. Note 19 to the financial statements discloses all the matters of which we are aware that are relevant to the Company's ability to continue as a going concern, including significant conditions and events, our plans for future action, and the feasibility of those plans.

F. Subsequent Events

1. There have been no events, including events related to the COVID-19 pandemic, subsequent to period end which require adjustment of or disclosure in the financial statements or notes thereto.

G. Other information

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

H. Independence

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

I. Derivative Financial Instruments

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

Management representation letter

J. Pooling investments, including the use of collective investment vehicles and shared services

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

K. Actuarial valuation

1. The latest report of the actuary Hymans Robertson as at 31 March 2022 and dated May 2022 as been provided to you. To the best of our knowledge and belief we confirm that the information supplied by us to the actuary was true and that no significant information was omitted which may have a bearing on his report.

L. Use of the Work of a Specialist

1. We agree with the findings of the specialists that we have engaged to value Present Value of Promised Retirement Benefits under IAS26 requirements and have adequately considered the qualifications of the specialists in determining the amounts and disclosures included in the financial statements and the underlying accounting records. We did not give or cause any instructions to be given to the specialists with respect to the values or amounts derived in an attempt to bias their work, and we are not otherwise aware of any matters that have had an effect on the independence or objectivity of the specialists.

M. Estimates

Investment valuations and the IAS26 disclosure of Present Value of Promised Retirement Benefits (the 'Estimates')

1. We confirm that the significant judgments made in making the Estimates have taken into account all relevant information and the effects of the COVID-19 pandemic of which we are aware.
 2. We believe that the selection or application of the methods, assumptions and data used by us have been consistently and appropriately applied or used in making the Estimates.
 3. We confirm that the significant assumptions used in making the Estimates appropriately reflect our intent and ability to carry out the valuations on behalf of the entity.
 4. We confirm that the disclosures made in the financial statements with respect to the accounting estimates, including those describing estimation uncertainty and the effects of the COVID-19 pandemic, are complete and are reasonable in the context of the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2021/22.
 5. We confirm that appropriate specialized skills or expertise has been applied in making the Estimates.
- We confirm that no adjustments are required to the accounting estimates and disclosures in the financial statements, including due to the COVID-19 pandemic and including those related to the conflict and related sanctions in Ukraine, Russia and/or Belarus.



Appendix D

Management representation letter

N. Ownership of Assets

1. The Pension Fund has satisfactory title to all assets appearing in the balance sheet, and there are no liens or encumbrances on the Pension Fund's assets, nor has any asset been pledged as collateral, other than those that are disclosed in Note 10D to the financial statements. All assets to which the Pension Fund has satisfactory title appear in the balance sheets.
2. There are no formal or informal compensating balance arrangements with any of our cash and investment accounts. We have no other line of credit arrangements.

Yours faithfully,

Andy Evans - Corporate Director of Finance

Signature_____ Date_____

John Chesshire - Independent Chairman of the Audit Committee

Signature_____ Date_____

Appendix:

Schedule of unadjusted audit differences:

- 1) Disclosure only: Unadjusted understatement of present value of promised retirement benefits by a judgmental difference related to the Goodwin case of £2.9m (£3.1m in prior year).
- 2) Overstatement of benefit expense in 2021/22 by £1.8m due to change in the payment period upon transition to the new pensions' administrator.

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ED None

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Pension Fund Account

PENSION FUND ACCOUNT

	Note	31 March 2022 £'000	31 March 2021 £'000
Contributions	4	50,669	48,681
Transfers In from other pension funds	5	4,297	4,803
		54,966	53,484
Less: Benefits	6	(52,029)	(47,211)
Less: Payments to and on account of leavers	7	(5,048)	(3,541)
		(57,077)	(50,752)
Net additions/(withdrawals) from dealings with members		(2,111)	2,732
Less: Management expenses	8	(10,832)	(10,749)
Net additions/(withdrawals) including fund management expenses		(12,943)	(8,017)
Return on investments			
Investment income	9	11,858	13,667
Profit and losses on disposal of investments and changes in market value of investments	10A	102,033	170,519
Taxes On Income		(35)	(22)
Net return on investments		113,856	184,164
Net Increase/(Decrease) in the fund		100,913	176,147
Net Assets at start of year		1,165,202	989,055
Net Assets at end of year		1,266,115	1,165,202

NET ASSETS STATEMENT

	Note	31 March 2022 £'000	31 March 2021 £'000
Investment Assets	10	1,264,200	1,161,568
Investment Liabilities	10	0	0
Total net investments		1,264,200	1,161,568
Current Assets	11	2,939	4,323
Current Liabilities	12	(1,024)	(689)
Net assets of the fund available to fund benefits at the end of the reporting period		1,266,115	1,165,202

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

Pension Fund Account

1. DESCRIPTION OF THE FUND

a. General

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

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

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

b. Membership

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

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

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

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

Admitted Bodies:

AIP – Uxbridge High school

Braybourne Facilities - Bishop Ramsey Cleaners

CCS Homecare Service

Caterlink - Frays Academy

Caterplus – Genuine Dining

Cucina - Ruislip High School

Cucina - Bishopshalt

Energy Kidz Ltd

Greenwich Leisure

Cleantec - Harlington School Cleaners

Taylor Shaw - Haydon Academy Catering

Notes to the Pension Fund Account

Hayward Services

- Hillingdon School
- Highfield School
- Guru Nanak School
- Ryefield School

Heathrow Travel Care

Herts Catering

Hillingdon & Ealing Citizens Advice

HPS Services FM Limited

NHS - Michael Sobel House

Pabulum - West Drayton Academy

PSD Childcare Limited

Scheduled Bodies:

Barnhill Academy

Belmore Academy

Bishop Ramsey Academy

Bishopshalt Academy

Charville Academy

Douay Martyrs Academy

Eden Academy Trust

- Moorcroft School
- Pentland Field School
- Grangewood School
- Sunshine House School

Elliot Foundation Trust

- Hillingdon Primary School
- John Locke Academy
- Pinkwell School

Field End Junior School

Guru Nanak Academy Trust

- Nanak Sar Primary School
- Guru Nanak Sikh Academy

Global Academy

Harefield Academy

Harrow & Uxbridge College

Notes to the Pension Fund Account

Haydon Academy

Heathrow Aviation Engineering

Hermitage Primary School

LBDS Frays Academy Trust

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

London Housing Consortium

Orchard Hill College Academy Trust

- Young Peoples Academy
- Skills HUB

Park Federation Trust

- Cranford Park Academy
- Lake Farm Park Federation

QED Academy Trust

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

Rosedale Hewens Academy Trust

- Rosedale College
- Brookside Primary School

Ruislip Academy

Ryefield Primary School

Vyners Academy

Park Academy West London

Swakeleys Academy

Uxbridge Academy

William Byrd School

Willows Academy

Notes to the Pension Fund Account

London Borough of Hillingdon Pension Fund	31 March 2022	31 March 2021
Number of employers with active members	69	61
Number of employees in scheme		
London Borough of Hillingdon	4,138	4,972
Other employers	2,543	2,796
Total	6,681	7,768
Number of Pensioners		
London Borough of Hillingdon	6,305	6,187
Other employers	1,037	674
Total	7,342	6,861
Deferred Pensioners		
London Borough of Hillingdon	7,896	7,566
Other employers	3,023	2,659
Total	10,919	10,225

Note: 20/21 number of employees in the scheme was calculated using a different method and if the method was aligned with 21/22, then the number of employees for London Borough of Hillingdon would be 4,091 and for other employees it would be 2,225, with a total of 6,316 employees in scheme.

c. Funding

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

Contributions are made by active members of the Fund in accordance with the LGPS Regulations 2013 and range from 5.5 % to 12.5% of pensionable pay for the financial year ending 31 March 2022. Employers also pay contributions into the Fund based on triennial funding valuations. The last such valuation was as of 31 March 2019, this covers the three financial years following 2019/20 (2020/21, 2021/2022 & 2022/23). Currently employer contribution rates range from 18.5% to 37.4% of pensionable pay, as per the 2019 valuation.

d. Investments

The Pension Fund investments are managed externally by fund managers: Adams Street Partners, AEW UK, JP Morgan Asset Management, Legal & General Investment Management, LGT Capital Partners, London CIV, Macquarie Investments, Permira LLP, and UBS Global Asset Management. In addition, there is one direct investment into pooled funds with M&G Investments.

e. Governance

The Fund is overseen by the Pensions Committee (comprised of Councillors) and the Pensions Board (comprised of an even number of employer and member representatives). The performance of the fund managers is monitored by the Pensions Committee (Four meetings in 2021-22) and governance is overseen by the Pensions Board (Four meetings in 2021-22). Pensions Committee and Pensions Board consisted of the following members in 2021/22:

Pensions Committee

Cllr Martin Goddard (Chairman)	Cllr John Morse
Cllr Duncan Flynn (Vice-Chairman)	Cllr Raju Sansarpuri
Cllr Carol Melvin - until Nov 21	Cllr John Hensley – From Dec 2021
Cllr Tony Eginton - Reserve	

Pensions Board

Roger Hackett (Scheme Member Representative)	Hayley Seabrook (Employer Representative)- until July 2021
Tony Noakes (Employee Representative)	Shane Woodhatch (Employer Representative)
Anil Mehta – From November 2022	

Notes to the Pension Fund Account

2. BASIS OF PREPARATION

The accounts have been compiled in accordance with the CIPFA Code of Practice on Local Authority Accounting in the United Kingdom 2021/22, which is based on International Financial Reporting Standards (IFRS) as amended for the public sector and underpinned by the Local Government Pension Scheme Regulations. The accounts have been prepared on an accrual basis, except for transfer values, which are accounted for on a cash basis, and summarise the Fund transactions and report on the net assets available to pay pension benefits as of 31 March 2022.

The accounts do not take into account obligations to pay benefits and pensions that fall due after the reporting date (31 March 2022). The Pension Fund Accounts have been prepared on a going concern basis.

3. ACCOUNTING POLICIES

a. Valuation of assets

- Market quoted investments: Equities are valued at bid market prices available on the final day of the accounting period.

- Fixed income securities including short-term instruments are priced based on evaluated prices provided by independent pricing services.

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

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

b. Foreign currency translation of assets and liabilities and forward foreign exchange contracts are converted into sterling at the closing middle rates of exchange in the Net Assets Statement. Overseas income is converted at rates of exchange ruling when remitted.

c. Acquisition costs of investments occur as brokerage commission when investments are purchased. They are recorded in the cost figure on an accrual basis.

d. Investment management expenses are recorded at cost when the fund managers/custodian invoice the fund on a quarterly basis or provide a fee schedule deducted at source. Expenses are recorded on an accrual basis. Where an investment manager's complete fee schedule has not been received by year end, an estimate based on the previous quarter's amount is included in the accounts. In 2021/22, no such fees are based on estimates (2020/21: £41k). The fund also agreed with the following fund managers that their fees include elements of performance, Adams Street Partners, AEW UK, Macquarie Infrastructure Partners and Permira LLP.

e. Administration expenses are paid when invoiced by third party providers through the administering authority's payment system and recharged to the Pension Fund.

f. Interest on property developments - property is held in unit trusts for the Pension Fund, the return received is calculated in accordance with the unit price at the Net Assets Statement date.

g. Contribution Income

Normal contributions are accounted for on accrual basis as follows:

- Employee contribution rates are set in accordance with LGPS regulations, using common percentage rates for all schemes, that rise according to pensionable pay.
- Employer contributions are set at a percentage rate recommended by the fund actuary for the period which they relate.

Employer deficit funding contributions are accounted for on the basis advised by the fund actuary in the rates and adjustment certificate issued to the relevant body.

Additional employers' contributions in respect of ill-health are accounted for as part of the tri-ennial valuation exercise and employers' contribution rates adjusted accordingly for relevant employers. Early retirement strain costs are accounted for on accrual basis.

Notes to the Pension Fund Account

- h. Benefits are accounted for in the period in which they fall due. All benefits are calculated in accordance with the statutory regulations in force at the relevant benefit date.
- i. Transfers are accounted for on a cash basis, as the amount payable or receivable by the scheme is not determined until payment is made and accepted by the recipient. Group transfers are accounted for under the agreement upon which they are made.
- j. Cash and cash equivalents are held in the custody accounts by fund managers as agreed in the individual Investment Management Agreements (IMA). Cash held is at the discretion of the manager but must not exceed the stipulated permitted range in the IMA.
- k. Investment Income - dividends from quoted securities are accrued when the securities are quoted ex-dividend. Interest on cash deposits is accrued on daily basis.

Critical Judgements and Uncertainties

- l. Unquoted Alternative Investments - Fair values of alternative investments are highly subjective in nature. They are inherently based on forward-looking estimates and judgements involving many factors. Unquoted alternative investments are valued by investment managers using methods such as IFRS fair value principles, discounted cash flow method and guidelines set out by the International Private Equity and Venture Capital Association (IPEV), of which the British Venture Capital Association is a founding member. The value of alternative investments as of 31 March 2022 was £168,884k (£294,037k on 31 March 2021).
- m. Assumptions made about the future and other major sources of estimation uncertainty - The Pension Fund accounts contains estimated figures that are based on assumptions made by the Fund about the future or events that are otherwise uncertain. Estimates are made taking into account historical experience, current trends, and other relevant factors. However, because balances cannot be determined with certainty, actual results could be materially different from the assumptions and estimates.

Notes to the Pension Fund Account

Items where there is a significant risk of material movements in value in the financial year are as follows:

Item	Uncertainties	Effect if actual results differ from assumptions
Private equity	<p>Private equity investments are valued at fair value in accordance with British Venture Capital Association guidelines or commensurate overseas equivalent. These investments are not publicly listed and as such there is a degree of estimation involved in the valuation. The fair value principles employed to value the underlying investments and the valuation policy remains unchanged. Both managers continue to use the latest valuation available from underlying investment managers, adjusting for any known cash flows and take into account any known and measurable impact. It is important to note that given the evolving situation and the quarterly cycle of private equity valuations, additional data needs to be accessible before a more accurate estimate can be made with regard to potential effects of market events on net asset values.</p>	<p>The total private equity investments in the financial statements are £8,545k. There is a risk that this investment may be under or overstated in the accounts.</p>
Item	Uncertainties	Effect if actual results differ from assumptions
Infrastructure - Macquarie Infrastructure Real Assets and LCIV Stepstone	<p>Infrastructure Valuation represents the fair value of investments held at 31 March 2022. The valuations have been completed by MIRA (Macquarie Infrastructure Real Assets) in accordance with ASC 820-10 (Fair Value Measurements), under which the fair value is determined to be the price that would be received upon sale of the investments in an orderly transaction between market participants. These investments are not publicly listed and as such there is a degree of estimation involved in the valuation.</p>	<p>The total infrastructure alternative investments in the financial statements are £43,208k. There is a risk that this investment may be under or overstated in the accounts. There are no openly traded market prices available for this asset category.</p>
Item	Uncertainties	Effect if actual results differ from assumptions
Private Finance - M&G	<p>Private Finance investments are valued at par as they are mostly floating rate notes tied to LIBOR. Final valuation is undertaken by the analysts employed by the fund manager as they are not traded on the open market.</p>	<p>The total private finance investments in the financial statements are £1,641k. There is a risk that this investment may be under or overstated in the accounts. There are no openly traded market prices available for this asset category.</p>

Notes to the Pension Fund Account

Item	Uncertainties	Effect if actual results differ from assumptions
Direct Lending - Permira Credit Solutions & LCIV Private Debt	Private Debt Investments are valued on a quarterly basis and in accordance with International Private Equity and Venture Capital valuation guidelines. These investments are not publicly listed and as such there is a degree of estimation involved in the valuation.	The total Private Debt investments in the financial statements are £66,537k. There is a risk that this investment may be under or overstated in the accounts. There are no openly traded market prices available for this asset category.
Item	Uncertainties	Effect if actual results differ from assumptions
Pooled Property - AEW UK & UBS Property	Pooled property assets are valued independently for the respective managers with a lot of subjective and unobservable inputs that may be affected by prevalent socio-economic issues. The underlying assets do not have the luxury of an open market transactional data like Equities and does result in valuation varying by wide degrees. The Assets Value as at 31 March 2022 were not subject to any uncertainty clauses as the funds had fully recovered from the effects of COVID19.	The total Pooled property investments in the financial statement is £48,912k. There is a risk the investments may be over or under stated in the accounts. These asset class of investments are not openly traded and a lot of unobservable inputs are utilised in the valuation of the assets. These unobservable valuation assumptions may have a profound effect on the actual pricing at year end thus skew shown valuation the fund accounts.
Item	Uncertainties	Effect if actual results differ from assumptions
Actuarial present value of promised retirement benefits	Estimation of the net liability to pay pensions depends on a number of complex judgements relating to the discount rates used, the rates at which salaries are projected to increase, changes in retirement ages, mortality rates and expected returns on Pension Fund assets. A firm of actuaries, Hymans Robertson, are engaged to provide the fund with expert advice about the assumptions to be applied. The IAS19 balance sheet is based on financial market values and future market expectation indicators as at 31 March 2022 to comply with the accounting standard. The financial markets at the accounting date will have taken into account COVID19 risks (and opportunities) as one of many national and worldwide economic considerations. There has been no explicit additional allowance or adjustment made for COVID19 by Hymans Robertson.	The effects on the net pension liability of changes in individual assumptions can be measured. For instance, an increase in the discount rate assumption would result in a decrease in pension liability. An increase in assumed earnings would increase the value of liabilities and an increase in assumed life expectancy would increase the liability. This would not effect the Fund Account or Net Asset Statement, but would impact the Council Accounts. Below are the details of the sensitivity analysis to the method of assumptions used for year ended 31 March 2022 by the fund's actuaries.

Notes to the Pension Fund Account

Sensitivity to Unquoted Alternative Assets valuation and Pricing: Information on sensitivities of the valuation and pricing methodologies of these asset classes are disclosed in notes 14 and 16.

Sensitivity Analysis

Sensitivity to the assumptions for the year ended 31 March 2022	Approximate % increase to liabilities	Approximate monetary amount (£m)
0.1% p.a increase in the Discount Rate	2%	37
1 year increase in member life expectancy	4%	79
0.1% p.a. increase in the Salary Increase Rate	0%	2
0.1% p.a. increase in the Pension Increase Rate (CPI)	2%	35

The principal demographic assumption is the longevity assumption. For sensitivity purposes, it is estimated that a 1-year increase in life expectancy would approximately increase the liabilities of the Pension Fund by around 3-5%.

4. CONTRIBUTIONS

By category	31 March 2022 £'000	31 March 2021 £'000
Employees	11,015	10,231
Employers Contributions:		
Normal	33,824	32,737
Deficit Funding	5,830	5,713
	50,669	48,681

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

By authority	31 March 2022 £'000	31 March 2021 £'000
LB Hillingdon	35,181	34,759
Scheduled Bodies	14,889	13,528
Admitted Bodies	599	394
	50,669	48,681

5. TRANSFERS IN

	31 March 2022 £'000	31 March 2021 £'000
Individual transfers in from other schemes	4,297	4,803
	4,297	4,803

Notes to the Pension Fund Account

6. BENEFITS

	31 March 2022 £'000	31 March 2021 £'000
By category		
Pensions	(42,557)	(39,955)
Commutations and Lump Sum Retirement Benefits	(8,024)	(6,478)
Lump Sum Death Benefits	(1,448)	(778)
	(52,029)	(47,211)

	31 March 2022 £'000	31 March 2021 £'000
By authority		
LB Hillingdon	(47,038)	(43,708)
Scheduled Bodies	(4,439)	(3,177)
Admitted Bodies	(552)	(326)
	(52,029)	(47,211)

7. PAYMENTS TO AND ON ACCOUNT OF LEAVERS

	31 March 2022 £'000	31 March 2021 £'000
Refunds to members leaving service	(161)	(82)
Individual transfers out to other schemes	(4,887)	(3,459)
	(5,048)	(3,541)

8. MANAGEMENT EXPENSES

The administering authority incurred costs in managing the Fund for the period ending 31 March 2022 as follows:

	31 March 2022 £'000	31 March 2021 £'000
Administrative Costs	(1,385)	(963)
Investment Management Expenses	(9,222)	(9,548)
Oversight and Governance	(225)	(238)
	(10,832)	(10,749)

Notes to the Pension Fund Account

8A. INVESTMENT MANAGEMENT EXPENSES BREAKDOWN

2021/2022	£'000	£'000	£'000	£'000
	Total	Management Expenses	Performance Fees	Transaction Costs
Equities	0	0	0	0
Pooled Investments	(5,703)	(3,464)	(979)	(1,260)
Pooled Property Investments	(3,361)	(2,449)	(148)	(764)
Private Equity	(98)	(71)	(5)	(22)
	(9,162)	(5,984)	(1,132)	(2,046)
Custody Fees	(60)			
Total	(9,222)			

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

8B. EXTERNAL AUDIT COSTS

	31 March 2022 £'000	31 March 2021 £'000
Payable in Respect of External Audit	(26)	(40)
	(26)	(40)

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

Notes to the Pension Fund Account

9. INVESTMENT INCOME

	31 March 2022 £'000	31 March 2021 £'000
Income from Equities	57	1,398
Pooled Property Investments	3,104	2,108
Pooled Investments- Unit trusts and other managed funds	8,546	10,061
Interest on cash deposits	42	18
Other (for example from stock lending or underwriting)	109	82
	11,858	13,667

10. INVESTMENTS

	31 March 2022 £'000	31 March 2021 £'000
Investment Assets		
Equities	29	42
Pooled investments	1,011,872	943,976
Pooled property investments	231,826	188,926
Private equity	8,545	13,369
Other Investment balances		
Cash deposits	11,821	15,166
Investment income due	107	89
Total investment assets	1,264,200	1,161,568
Net investment assets	1,264,200	1,161,568

Notes to the Pension Fund Account

10A. RECONCILIATION OF MOVEMENTS IN INVESTMENTS AND DERIVATIVES

2021/22	Value 1 April 2021 £'000	Purchases at cost £'000	Sales proceeds £'000	Profits and losses on disposal of investments and Changes in market value of investments £'000	Value 31 March 2022 £'000
Equities	42	0	0	(13)	29
Pooled Investments	943,976	422,330	(414,496)	60,062	1,011,872
Pooled Property Investments	188,926	12,294	(3,060)	33,666	231,826
Private Equity	13,369	122	(5,763)	817	8,545
	1,146,313	434,746	(423,319)	94,532	1,252,272
Other investment balances	1,146,313	434,746	(423,319)	94,532	1,252,272
Cash Deposits	15,166	0	0	0	11,821
Investment Income Due	89	0	0	0	107
Adjustments to Market Value Changes	0	0	0	7,501	0
Total Investment Assets	1,161,568			102,033	1,264,200
2020/21	Value 1 April 2020 £'000	Purchases at cost £'000	Sales proceeds £'000	Profits and losses on disposal of investments and Changes in market value of investments £'000	Value 31 March 2021 £'000
Equities	84,471	3,657	(90,547)	2,461	42
Pooled Investments	706,512	216,071	(126,184)	147,577	943,976
Pooled Property Investments	165,448	14,970	(181)	8,689	188,926
Private Equity	13,614	11	(3,916)	3,660	13,369
	970,045	234,709	(220,827)	162,386	1,146,313
Other investment balances	970,045	234,709	(220,827)	162,386	1,146,313
Cash Deposits	15,520	0	0	0	15,166
Investment Income Due	502	0	0	0	89
Outstanding Sales	64	0	0	0	0
Adjustments to Market Value Changes	0	0	0	8,133	0
Total Investment Assets	986,131			170,519	1,161,568

Notes to the Pension Fund Account

10B. ANALYSIS OF INVESTMENTS

	31 March 2022 £'000	31 March 2021 £'000
Equities		
UK		
Quoted	29	42
	29	42
Pooled funds - additional analysis		
Fixed income unit trust	268,297	261,498
Diversified Growth Funds	54,528	50,833
Infrastructure Funds	43,208	34,327
Global Equity	577,640	537,065
Limited liability partnerships	68,176	60,253
	1,011,849	943,976
Other Investments		
Pooled property Investments	231,849	188,926
Private equity	8,545	13,369
	240,394	202,295
Cash deposits	11,821	15,166
Investment income due	107	89
	11,928	15,255
Total investment assets	1,264,200	1,161,568
Net investment assets	1,264,200	1,161,568

10C. INVESTMENTS ANALYSED BY FUND MANAGER

Fund Manager	Market Value 31 March 2022 £'000	%	Market Value 31 March 2021 £'000	%
Investments Managed by London CIV Pool				
Legal & General Investment Management	729,696	58	668,045	58
London CIV Asset Pool	166,219	13	127,945	11
	895,915	71	795,990	69
Investments Managed Outside of London CIV Asset Pool				
Adams Street Partners	5,823	0	10,103	1
AEW UK	82,349	7	60,712	5
JP Morgan Asset Management	115,979	9	116,580	10
LGT Capital Partners	2,722	0	3,266	0
M&G Investments	1,641	0	1,248	0
Macquarie Infrastructure	17,853	1	20,862	2
Permira Credit Solutions	36,624	3	59,005	5
UBS Global Asset Management (Equities)	93	0	119	0
UBS Global Asset Management (Property)	93,954	7	78,990	7
Other*	11,247	1	14,693	1
	368,285	29	365,578	31
Total	1,264,200	100	1,161,568	100

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

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

Notes to the Pension Fund Account

10D. STOCK LENDING

The Fund's investment strategy sets the parameters for the Fund's stock-lending programme. At the year-end, the value of quoted equities on loan was £29k (31 March 2021: £29k). These equities continue to be recognised in the Fund's financial statements.

Counterparty risk is managed through holding collateral at the Fund's custodian bank. At the year-end the Fund held collateral (via the custodian) at fair value of £31k (31 March 2021: £30k) representing 106% of stock lent. Collateral consists of acceptable securities and government debt.

Stock-lending commissions are remitted to the Fund via the custodian. During the period the stock is on loan, the voting rights of the loaned stock pass to the borrower. There are no liabilities associated with the loaned assets.

11. CURRENT ASSETS

	31 March 2022 £'000	31 March 2021 £'000
Debtors		
Employers' contributions due	374	63
Employees' contributions due	107	16
Other	83	0
Cash balances	2,375	4,244
	2,939	4,323

12. CURRENT LIABILITIES

	31 March 2022 £'000	31 March 2021 £'000
Creditors		
Other local authorities (LB Hillingdon)	(244)	(172)
Other entities	(780)	(517)
	(1,024)	(689)

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

13. ADDITIONAL VOLUNTARY CONTRIBUTIONS

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

According to information provided by Prudential, £106k was received in additional voluntary contributions by members, in 2021/22 (£154k 2020/21) and AVC Fund value was £4,997k (£5,175k 2020/21). Any transfer of additional contributions into the Fund during the year are included in the employee contributions value as detailed in note 4.

	Market Value 31 March 2022 £'000	Market Value 31 March 2021 £'000
Prudential Assurance Company	4,997	5,175
	4,997	5,175

Notes to the Pension Fund Account

14. FAIR VALUE - BASIS OF VALUATION

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

Description of asset	Valuation hierarchy	Basis of valuation	Observable and unobservable inputs	Key sensitivities affecting the valuations provided
Market quoted investments	Level 1	Published bid market price ruling on the final day of accounting period.	Not required	Not required
Quoted bonds	Level 2	Fixed interest securities are valued at market value based on current yields.	Not required	Not required
Pooled investments - overseas unit trusts and property funds	Level 2	Closing bid price where bid and offer prices are published. Closing single price where single price is published.	NAV-based pricing set on a forward pricing basis	Not required
Unquoted equity and Property	Level 3	Comparable valuation of similar companies in accordance with International Private Equity and Venture Capital Valuation Guidelines (2012)	EBITDA multiple Revenue multiple Discount for lack of marketability Control premium	Valuations could be affected by material events occurring between the date of the financial statements provided and the pension fund's own reporting date, by changes to expected cashflows, and by any differences between audited and unaudited accounts.

Notes to the Pension Fund Account

Having analysed historical data and current market trends, and consulted with fund managers, the Fund has determined that the valuation methods described above are likely to be accurate to within the following ranges and has set out below the consequent potential impact on the closing value of investments held on 31 March 2022.

It is worth noting the sensitivity analysis below is just one of the possible changes to assets value due to the impact of factors affecting valuation methodology employed by the fund managers. Sensitivity being measured in this note differs from those in note 16 (other price risks).

Sensitivity of assets valued at level 3

	Valuation range (+/-)	Market Value 31 March 2022 £'000	Value on Increase £'000	Value on Decrease £'000
Pooled investments - Limited Liability Partnerships (Infrastructure) a	10%	43,208	47,529	38,887
Pooled investments - Limited Liability Partnerships (Private Credit) b	10%	68,178	74,832	61,524
Pooled Property - UBS Property & AEW UREF	10%	48,912	53,803	44,021
Private Equity - d	5%	8,545	8,972	8,118
Venture Capital	5%	41	43	39
Total		168,884	185,179	152,589

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

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

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

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

14A. FAIR VALUE HIERARCHY

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

Level 1

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

Level 2

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

Level 3

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

Notes to the Pension Fund Account

The following table provides an analysis of the financial assets and liabilities of the pension fund grouped into levels 1 to 3, based on the level at which the fair value is observable.

Values as at 31 March 2022	Quoted Market Price	Using Observable Inputs	With Significant Unobservable Inputs	Total £'000
	Level 1 £'000	Level 2 £'000	Level 3 £'000	
Financial Assets at Fair Value through Profit and Loss				
Equities	29	0	0	29
Pooled Investments	0	900,445	111,427	1,011,872
Pooled Property Investments	0	182,914	48,912	231,826
Private Equity	0	0	8,545	8,545
	29	1,083,359	168,884	1,252,272
Financial Liabilities at Fair Value through Profit and Loss				
Total	29	1,083,359	168,884	1,252,272

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

Notes to the Pension Fund Account

14B. RECONCILIATION OF FAIR VALUE MEASUREMENTS WITHIN LEVEL 3

Level 3 Assets Reconciliation

Fund Managers & Asset Categories	Value 1 April 2021	Transfers Out of Level 3	Purchases at cost	Sales proceeds	Unrealised gains/(losses)	Realised gains/(losses)	Value 31 March 2022
	£'000	£'000	£'000	£'000	£'000	£'000	£'000
Private Equity - Adams Street Partners, LGT Capital Partners & UBS	13,369	0	122	(5,763)	(840)	1,657	8,545
Private Finance - M&G	1,248	0	0	(333)	836	(110)	1,641
Infrastructure - Maquarie & LCV	34,327	0	9,704	(5,342)	(348)	4,867	43,208
Venture Capital - UBS	41	0	0	0	0	0	41
Property - UBS Property, LGIM LPI & AEW UREF	188,926	(157,426)	9,477	(65)	8,052	(52)	48,912
Direct Lending - Permira & LCV Private Debt	59,005	0	29,481	(20,563)	(1,448)	62	66,537
Total Level 3 Assets	296,916	(157,426)	48,784	(32,066)	6,252	6,424	168,884

There were transfers out of level 3 assets in 2021/22. Property Investments in UBS Fund of Funds, AEW & LGIM were reclassified as Level 2 assets due to the removal of uncertainty clauses in the valuation of these assets for the year under consideration.

Notes to the Pension Fund Account

14C. LEVEL 3 PRICING HIERARCHY DISCLOSURES

Quantitative Information on Significant unobservable inputs

Private Equity: Adams Street & LGT capital

The significant unobservable inputs used in the fair value measurement of privately held securities are Revenue multiples, EBITDA multiple, net income multiple and discount for lack of marketability and potential bids.

Private Finance: M&G

The assets are mostly floating rate notes and held at par value.

Infrastructure: Macquarie

The following quantitative information are considered for significant unobservable inputs, in valuation of infrastructure assets:

- The acquisition financial model is used as a base case.
- Update for any material changes in economic, operational, and financial assumptions.
- Discount equity cash flows at the sum of the risk-free rate and the appropriate risk premium (as determined by the implied risk premium at acquisition unless there is an inherent change in the riskiness of the underlying investments which may necessitate a change in the risk premium).

Direct Lending: Permira

The following key terms are confirmed as inputs for each yield analysis calculation:

- Cash / PIK (Payment in Kind) margin
- Frequency of interest payments
- Commitment and settlement date
- Contracted and expected maturity date

Pooled Property: AEW, UBS Property & LGIM LPI

Fair value is primarily derived using recent market transactions on arm's length terms, where available and discounted cashflow of future earnings are taking into consideration, alongside observable and unobservable inputs.

Description of Valuation Process

Private Equity

The fair value of financial instruments that are not traded in an active market are determined by using valuation techniques. Private equity investments for which market quotations are not readily available are valued at their fair values by the Board of Directors. Private equity valuations are usually generated by the managers of the underlying portfolio of investments on a quarterly basis and are actually received with a delay of at least one-to-two months after the quarter end date. As a result, the year-end net asset value predominantly consists of portfolio valuations provided by the investment managers of the underlying funds at a specific date, adjusted for subsequent capital calls and distributions. If the Board of Directors comes to the conclusion upon recommendation of the Investment Manager (after applying the above-mentioned valuation methods), that the most recent valuation reported by the manager/administrator of a Fund investment is materially misstated, it will make the necessary adjustments using the results of its own review and analysis. The valuation adjustments relate to events subsequent to the last capital account valuation statement received but based upon information provided by the investment manager and all other available unobservable inputs. In estimating the fair value of fund investments, the Investment Manager in its valuation recommendation to the Board of Directors considers all appropriate and applicable factors.

Private Finance: M&G

These assets are floating rate and are held to maturity, they are valued at par unless suffering from impairment. Impairments may be applied if an asset's credit rating deteriorates.

Direct Lending: Permira

- In each case, valuations are prepared in accordance with International Private Equity & Venture Capital Valuation ("IPEV") Guidelines
- All direct lending investments are valued on a mark-to-market basis at the date of valuation
- Where an investment is considered illiquid (level 3), a yield analysis is performed to infer a fair market value for that investment.
- Each valuation is reviewed to ensure:

Notes to the Pension Fund Account

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

Infrastructure: Macquarie

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

DCF-Based Market Valuation Process

Financial Model

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

Update for Economic, Operational and Financial Assumptions

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

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

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

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

Discount Rate

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

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

Pooled Property: AEW, UBS Property & LGIM LPI

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

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

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

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

Private Equity

Market valuation method applied to investments is sensitive to four main components:

- i) changes in actual market prices.
- ii) interest rate risk;
- iii) foreign currency movements; and
- iv) other price risks

Notes to the Pension Fund Account

Private Finance (M&G)

The only possible sensitivity associated with private finance valuations and methodology is credit rating. This may result in an analyst impairing an asset if there is a change in the asset's credit rating.

Infrastructure: Macquarie

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

Infrastructure: LCIV

See Direct Lending, LCIV Private Debt below

Direct Lending: Permira

The yield analysis methodology used to value the level 3 assets are sensitive to the following inputs:

- EURIBOR swap rates (up to 7 years)
- LIBOR swap rates (up to 7 years)
- ELLI (3 year discounted spread data)

These inputs are sourced directly from Bloomberg feeds or independently from Duff & Phelps (ELLI data) relevant to each period end date.

These inputs impact on: (1) the implied IRR calculations at the period end valuation date; (2) the forecast cash and/or PIK yields that track LIBOR or EURIBOR; and (3) ultimately the implied asset price calculated from these inputs as the period end to determine the valuation price.

Direct Lending: LCIV Private Debt

Investments are initially recognized at cost and subsequently measured at fair value. Investments are valued on a basis that the Manager considers fair and reasonable having considered the latest available valuation provided by the investment entity. The level of estimation uncertainty is significant and actual values may differ significantly from estimates.

Purchases and sales are recognised when a legally binding and unconditional right to obtain, or an obligation to deliver, an asset or liability arises. All realised and unrealised gains and losses on investments are recognized as net capital gains/(losses) in the Statement of Total Return. Unrealised gains and losses comprise changes in the fair value of investments for the period.

Pooled Property – AEW, UBS Property & LGIM LPI

Prevalent economic conditions may affect occupancy rate or possible default in rent payments and conversely affecting transaction values. Local authority intentions, planning proposals and onerous restrictions are some of the other factors to which Pooled Property assets transactions may be sensitive towards. These are:

- i) Market price risk: Future values of investments in direct property and related property investments will fluctuate due to changes in market prices.
- ii) Real Estate valuation changes: Property investments are illiquid assets and valuing is difficult.
- iii) Credit risk: counterparty (to a financial instrument) or tenant (of a property) will cause a financial loss to the Fund by failing to meet a commitment it has entered into with the Fund.

Notes to the Pension Fund Account

15. CLASSIFICATION OF FINANCIAL INSTRUMENTS

The following table analyses the carrying amounts of financial instruments by category and net assets statement heading. No financial instruments were reclassified during the accounting period.

	Designated as fair value through P&L	Assets at amortised cost	Financial Liabilities at Amortised Cost	Total	Designated as fair value through P&L	Assets at amortised cost	Financial Liabilities at Amortised Cost	Total
	31 March 2022 £'000	31 March 2022 £'000	31 March 2022 £'000	31 March 2022 £'000	31 March 2021 £'000	31 March 2021 £'000	31 March 2021 £'000	31 March 2021 £'000
Financial Assets								
Equities	29	0	0	29	42	0	0	42
Pooled Investments	1,011,872	0	0	1,011,872	943,976	0	0	943,976
Pooled property investments	231,826	0	0	231,826	188,926	0	0	188,926
Private Equity	8,545	0	0	8,545	13,369	0	0	13,369
Cash	0	11,821	0	11,821	0	15,166	0	15,166
Other Investment balances	0	107	0	107	0	89	0	89
	1,252,272	11,928	0	1,264,200	1,146,313	15,255	0	1,161,568
Total	1,252,272	11,928	0	1,264,200	1,146,313	15,255	0	1,161,568

15A. NET GAINS AND LOSSES ON FINANCIAL INSTRUMENTS

	31 March 2022 £000's	31 March 2021 £000's
Financial Assets		
Designated at Fair Value through profit and loss	102,033	170,519
	102,033	170,519

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

Risk and Risk Management

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

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

Market risk

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

Notes to the Pension Fund Account

Other price risk

Other price risk represents the risk that the value of a financial instrument will fluctuate as a result of changes in market prices (other than those arising from interest rate risk or foreign exchange risk), whether those changes are caused by factors specific to the individual instruments or its issuer, or factors affecting all such instruments in the market. The Fund is exposed to share and derivative price risk. This arises from investments held by the Fund for which the future price is uncertain. All securities investments present a risk of loss of capital. Except for shares sold short, the maximum risk resulting from financial instruments is determined by the fair value of the financial instruments. The potential losses from shares sold short are unlimited. The Fund's investment managers mitigate this price risk through diversification and the selection of securities and other financial instruments is monitored by the Council to ensure it is within limits specified in the Fund Investment Strategy Statement.

Other price risk - Sensitivity Analysis

Following analysis of historical data and expected investment return movement during the financial year, the Fund has determined that the following potential change in market price risk are reasonably possible for the relevant reporting periods.

Potential price changes are determined based on the observed historical volatility of asset class returns. 'Riskier' assets such as equities will display greater potential volatility than bonds as an example, so the overall outcome will depend largely on Fund asset allocations. The potential volatilities are consistent with one standard deviation movement of the change in value of assets over the last three years. This can then be applied to period end asset mix.

Had the market price of the Fund investments increased or decreased in line with the percentage change below, the change in the net assets available to pay benefits in the market price would have been as follows (the prior year comparator is shown below).

Asset Type	Value as at 31 March 2022 £'000	Percentage Change %	Value on Increase £'000	Value on Decrease £'000
Global Equity	632,167	15.00%	726,992	537,342
UK Equity	29	15.00%	33	25
Bonds	268,297	6.60%	286,005	250,589
Alternatives	119,931	3.50%	124,129	115,733
Property	231,848	5.50%	244,600	219,096
Total	1,252,272		1,381,758	1,122,786

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

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

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

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

The Fund's direct exposure to interest rate movements as of 31 March 2022 and 31 March 2021 is set out below. These disclosures present interest rate risk based on the underlying financial assets at fair value.

Notes to the Pension Fund Account

Interest Rate Risk Sensitivity Analysis

The Fund recognises that interest rates can vary and can affect both income to the Fund and the value of net assets available to pay benefits. A 120 basis points (1.2%) movement in interest rates is consistent with the level of sensitivity applied as part of the Fund's risk management strategy.

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

	Value as at 31 March 2022	Potential movement on 1% change in interest rates	Value on increase	Value on decrease
	£'000	£'000	£'000	£'000
Assets exposed to interest rate risks				
Cash balances	11,821	118	11,939	11,703
Bonds - pooled funds	268,297	2,683	270,980	265,614
Total change in assets available	280,118	2,801	282,919	277,317

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

Currency Risk - The risk to which the pension fund is exposed to fluctuations in foreign currency exchange rates.

The Pension Fund has the ability to set up a passive currency hedge where these risks are perceived to be adverse. As of 31 March 2022, the Fund had no currency hedge in place for those managers who do not hedge their own portfolios. The following table summarises the fund's currency exposure as of 31 March 2022 and as at the previous period ending 31 March 2021.

Currency exposure by asset type

Currency risk sensitivity analysis

Following analysis of historical data in consultation with PIRC Ltd, the Funds data provider, the Fund considers the likely volatility associated with foreign exchange rate movements to be 5.30%, based on the data provided by PIRC. A 5.30% fluctuation in the currency is considered reasonable based on PIRC's analysis of historical movements in month end exchange rates over a rolling twelve-month period. This analysis assumes that all variables, in particular interest rates, remain constant. Managers that hedge against currency risk are not included in this sensitivity analysis. A 5.30% strengthening/weakening of the pound against various currencies in which the Fund holds investments would increase/decrease the net assets available to pay benefits as follows:

Notes to the Pension Fund Account

Assets exposed to currency risk

	Asset Value 31 March 2022	Potential market movement	Value on increase	Value on decrease
		5.30%		
	£'000	£'000	£'000	£'000
Pooled Funds	521,174	27,622	548,796	493,552
Private Equity/Infrastructure	51,753	2,743	54,496	49,010
	572,927	30,365	603,292	542,562

Assets exposed to currency risk

	Asset Value 31 March 2021	Potential market movement	Value on increase	Value on decrease
		6.60%		
	£'000	£'000	£'000	£'000
Pooled Funds	473,377	31,243	504,620	442,134
Private Equity/Infrastructure	47,696	3,148	50,844	44,548
	521,073	34,391	555,464	486,682

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

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

The prime objective of the Pension Fund treasury management activity is the security of principal sums invested. As such it will take a prudent approach to organisations employed as the banker and deposit taker. The Pension Fund will ensure it has adequate but not excessive cash resources in order to meet its objectives. The bank accounts are held with NatWest Bank, which holds an S&P long-term credit rating of A. Deposits are placed in the AA Af rated Northern Trust Money Market Fund which is ring fenced from the administering company. Credit ratings, market indicators and media coverage are monitored to ensure credit worthiness is maintained. The Fund's cash holding under its treasury management arrangements on 31 March 2022 was £14,196k (31 March 2021: £19,410k) and this was held with the following institutions:

Summary	Rating S&P	Balances as at 31 March 2022 £'000	Rating S&P	Balances as at 31 March 2021 £'000
Money market funds				
Northern Trust	AA Af S1+	11,821	AA Af S1+	15,366
Bank current accounts				
NatWest	A	2,375	A	4,044
Total		14,196		19,410

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

The Pension Fund holds a working cash balance in its own bank accounts with NatWest as well as Money Market Funds to which it has instant access to cover the payment of benefits and other lump sum payments (£2,375k). At an investment level the fund holds a large proportion of assets in instruments which can be liquidated at short notice, normally three working days. As of 31 March 2022, these assets totalled £900,424k, with a further £11,821k held in cash in the Custody accounts at Northern Trust.

Notes to the Pension Fund Account

Refinancing risk

The key risk is that the fund will be bound to replenish a significant proportion of its financial instruments at a time of unfavourable interest rates. The Fund does not have any financial instruments that have a refinancing risk as part of its investment strategy.

17. FUNDING ARRANGEMENTS

In line with the Local Government Pension Scheme Regulations 2013, the Fund's actuary undertakes a revaluation every three years for the purpose of setting employer contribution rates for the forthcoming triennial period. The last valuation took place as of 31 March 2019 setting rates for the period April 2020 to March 2023. The next triennial valuation will take place as of 31 March 2022.

In line with the triennial valuation the Fund updates its Funding Strategy Statement every three years. The key elements of the funding strategy are:

1. to ensure the long-term solvency of the fund, i.e., that sufficient funds are available to meet all pension liabilities as they fall due for payment
2. to ensure that employer contribution rates are as stable as possible
3. to minimise the long-term cost of the scheme by recognising the link between assets and liabilities and adopting an investment strategy that balances risk and return
4. to reflect the different characteristics of employing bodies in determining contribution rates where it is reasonable to do so
5. to use reasonable measures to reduce the risk to other employers and ultimately to the Council taxpayer from an employer defaulting on its pension obligations

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

At the 2019 actuarial valuation, the Fund was assessed as 87% funded (75% at the March 2016 valuation). This corresponded to a deficit of £161m (2016 valuation: £269m) at that time. The slight improvement in funding position between 2016 and 2019 is mainly due to investment performance over the inter-valuation period. The liabilities have also increased due to a reduction in the future expected investment return, although this has partially been offset by lower-than-expected pay and benefit growth (both over the inter-valuation period and forecast to continue into the long term). A new actuarial valuation will be carried out based on assets and liabilities value as of 31 March 2022, with the results expected to be published later in the year.

Significant events

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

Contribution rates

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

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

The Primary rate above includes an allowance for administration expenses of 0.8% of pay. The employee average contribution rate is 6.5% of pay.

Notes to the Pension Fund Account

At the previous formal valuation on 31 March 2016, a different regulatory regime was in force. Therefore, a contribution rate that is directly comparable to the rates above is not provided.

The valuation of the Fund has been undertaken using a risk-based approach, this approach recognises the uncertainties, and risks posed to funding and follows the process outlined below:

Step 1: The Fund sets a funding target (or funding basis) which defines the target amount of assets to be held to meet the future cash flows. The assumptions underlying the funding target are discussed further in the next section. A measurement is made at the valuation date to compare the assets held with the funding target.

Step 2: The Fund sets the time horizon over which the funding target is to be reached.

Step 3: The Fund sets contributions that give a sufficiently high likelihood of meeting the funding target over the set time horizon.

Assumptions

Due to the long-term nature of the Fund, assumptions about the future are required to place a value of the benefits earned to date (past service) and the cost of benefits that will be earned in the future (future service). Assumptions fall into three categories when projecting and placing a value on the future benefit payments and accrual – financial, demographic and Commutation.

Financial Assumptions

A summary of the financial assumptions underpinning the target funding basis and adopted during the assessment of the liabilities of the Fund as of 31 March 2019 (alongside those adopted at the previous valuation for comparison) are shown below.

Description	31 March 2019	31 March 2016
Funding Basis Discount Rate	4.0%	4.0%
Benefit Increases (CPI)	2.3%	2.1%
Salaries Increases	2.6%	2.6%

Demographic Assumptions

The main demographic assumption to which the valuation results are most sensitive is that relating to the longevity of the Fund's members. The longevity assumptions result in the following typical future life expectancies from age 65. For this valuation, the Fund has adopted assumptions which give the following sample average future life expectancies for members:

Description	31 March 2019	31 March 2016
Male		
Pensioners	22.1 years	22.6 years
Non- Pensioners	22.8 years	24.0 years
Female		
Pensioners	24.3 years	24.6 years
Non- Pensioners	25.5 years	26.5 years

Commutation assumptions

An allowance is included for future retirements to elect to take 65% of the maximum additional tax-free cash up to HMRC limits for pre-April 2008 service and 85% of the maximum tax-free cash for post-April 2008 service.

Notes to the Pension Fund Account

18. ACTUARIAL PRESENT VALUE OF PROMISED RETIREMENT BENEFITS

In addition to the triennial funding valuation, the Fund's actuary also undertakes a valuation of the Pension Fund liabilities, on an IAS 19 basis, every year using the same base data as the funding valuation rolled forward to the current financial year taking account of changes in membership numbers and updating assumptions to the current year. This valuation is not carried out on the same basis as that used for setting Fund contribution rates and the Fund accounts do not take account of liabilities to pay pensions and other benefits in the future.

The IAS19 balance sheet is based on financial market values and future market expectation indicators as of 31 March 2022 to comply with the accounting standard. The financial markets at the accounting date will have considered COVID19 risks (and opportunities) as one of many national and worldwide economic considerations. There has been no explicit additional allowance or adjustment made for COVID19 by Hymans Robertson.

Description	31 March 2022 % per annum	31 March 2021 % per annum
Inflation /Pensions Increase Rate	3.2%	2.9%
Salary Increase Rate	3.5%	3.2%
Discount Rate	2.7%	2.0%

An IAS 19 valuation was carried out for the Fund as of 31 March 2022 by Hymans Robertson with the following results:

Description	31 March 2022 £m	31 March 2021 £m
Present Value of Promised Retirement Benefits	1,965	2,039
Active Members	787	770
Deferred Members	530	572
Pensioners	648	697

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

These figures are presented as required by IAS 26. They are not relevant for the calculations undertaken for funding purposes or other statutory purposes under UK pension legislation. This item is not recognised in the Net Asset Statement, hence is considered not to be in opposition to the assertion included in the Net Asset Statement surrounding future liabilities of the Fund.

The promised retirement benefits on 31 March 2022 have been projected using a roll forward approximation from the latest formal funding valuation as of 31 March 2019. The above figures include both vested and non-vested benefits, although the latter is assumed to have a negligible value.

Note that the above figures on 31 March 2022 (and 31 March 2021) include an allowance for the "McCloud ruling", i.e. an estimate of the potential increase in past service benefits arising from this case affecting public service pension schemes.

Net Liability

The table below shows the total net liability of the Fund as of 31 March 2022. The figures have been prepared by Hymans Robertson, the Fund's actuary, only for the purposes of providing the information required by IAS26. In particular, they are not relevant for calculations undertaken for funding purposes or for other statutory purposes under UK pension's legislation. In calculating the required numbers, the actuary adopted methods and assumptions that are consistent with IAS19.

Description	31 March 2022 £m	31 March 2021 £m
Present Value of Promised Retirement Benefits	(1,965)	(2,039)
Fair Value of Scheme Assets (bid value)	1,261	1,162
Net Liability	(704)	(877)

Notes to the Pension Fund Account

19. Going Concern

The Pension Fund accounts, and Notes have been prepared on a going concern basis. The concept of a going concern assumes that an authority's functions and services will continue in operational existence for the foreseeable future. The provisions in the Code (Code of Practice on Local Authority Accounting in the United Kingdom 2021/22) in respect of going concern reporting requirements reflect the economic and statutory environment in which local authorities operate. These provisions confirm that, as authorities cannot be created or dissolved without statutory prescription, they must prepare their financial statements on a going concern basis of accounting.

The Fund's triennial valuation on 31 March 2019 reported a funding level of 87%. Currently, contributions and investment income are sufficient to fund benefits as they fall due without the need to liquidate investments. The Fund is currently operating with a cash flow surplus. If a need to obtain liquidity arises, approximately 72% of the Fund's assets are held in liquid investments. A recent review undertaken in response to the Covid-19 effects as of 31st March 2022 determined that there was no material risk to the Fund of employers defaulting on their contributions. LGPS regulations remain in force with no expectation that the scheme will be wound up or substantive changes made to it.

A cash flow forecast covering a 12 month period has been produced to confirm the solvent position and outlook of the Pension Fund over the period stated above.

20. RELATED PARTY TRANSACTIONS

It is required under IAS 24 "Related Party Disclosures" that material transactions with related parties which are not disclosed elsewhere should be included in a note to the financial statements. The London Borough of Hillingdon is a related party to the Pension Fund, represented by the Pensions Committee members. The committee is responsible for management of fund assets, including investment directions and administration of the fund. List of committee members may be found in Note 1C. The revenue contributions the Council has made into the Pension Fund are set out in note 4 to the Pension Fund accounts. No senior officer or Pension Committee member had any interest with any related parties to the Pension Fund.

Governance

There are three members of the Pension Fund Committee who are retired members of the Pension Fund, Cllr Raju Sansarpuri, Cllr John Hensley and Cllr Tony Eginton (Reserve). Each member is required to declare their interest at each meeting.

Notes to the Pension Fund Account

Key Management Personnel

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

	31 March 2022 £'000	31 March 2021 £'000
Short term benefits	94	55
Post employment benefits	155	145
	249	200

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

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

21. BULK TRANSFER

There were no bulk transfers in 2021-22.

22. CONTRACTUAL COMMITMENTS

Outstanding capital commitments (investments) as of 31 March 2022 totalled £85,428k (£50,576k on 31 March 2021).

These commitments relate to outstanding call payments due on unquoted limited partnership funds held in the Private Equity, Infrastructure, Property and Private Credit parts of the portfolio. The amounts called by these funds vary both in size and timing over a period of up to six years from the date of each original commitment.

23. CONTINGENT ASSETS

Six admitted body employers in the London Borough of Hillingdon Pension Fund hold insurance bonds to guard against the possibility of being unable to meet their pension obligations. These bonds are drawn in favour of the Pension Fund and payment will only be triggered in the event of employer default. Total value of bonds held come to £244,000.00.

24. POST BALANCE SHEET EVENTS

Events taking place after the 31st of March 2022 are not reflected in the financial statements or notes, unless they are of such importance that non-disclosure would affect the ability of users to make proper evaluations and decisions. Where events taking place before this date provided information about conditions existing on 31 March 2022, the figures in the financial statements and notes have been adjusted in all material respects to reflect the impact of this information.

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

ADMINISTRATION REPORT

Committee	Pensions Committee
Officer Reporting	James Lake, Finance
Papers with this report	<ol style="list-style-type: none">1. Hampshire Pensions Services Annual Partnership Report2. April 2023 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 2022/23 administration headline achievements; and,
2. Note the latest administration update.

INFORMATION

2022/23 Headline administration achievements.

- 100% delivery against performance targets.
- Improved data quality in relation, to annual returns, tPR Data Score and historic backlog rectification.
- Annual Benefit Statements and Pension Savings Statements published within the statutory deadline, and 100% of both active and deferred benefit statements produced.
- A significant increase in Member Portal registrations – 33.10% of all members registered and 2.2% higher than of the maximum figure achieved by Surrey over their 5-year tenure of 30.9%.
- Good progress made in the collection of McCloud service data, and significant time spent on reviewing accuracy of data received, before uploading to member records.
- Continued low number of complaints in comparison to the total membership and casework processed.
- Efficient call response time.
- Achieved re-accreditation of Customer Service Excellence award, with 6 'compliance pluses' where expectations are exceeded.
- Good progress on the Pension Dashboard
- Substantial assurance on internal audit assessments
- The actuary complimented Hampshire on their support during the valuation stating this was the best experience to date.

Classification: Public
Pensions Committee - 8 June 2023

- High levels of employer engagement
- Improved cyber security measures
- Hampshire's engagement with the Committee and Board and their transparency and assistance with the cyber testing.

April 2023 Report

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 April 2023 now show 36.23%, up from 33.1% in March 2023,

Inherited backlog cases continue to be cleared with 1203 cases processed from the initial 4158.

FINANCIAL IMPLICATIONS

Financial implications have been previously disclosed.

LEGAL IMPLICATIONS

The legal implications are in the body of the report.

Annual administration report

2022/2023



Working in partnership with



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1. Summary

- 1.1. The purpose of this report is to update the London Borough of Hillingdon with an annual summary of pension administration for 2022/23.

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 Local Government Pension Scheme (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. Summary Review of the past 12 months

- 3.1. The past 12 months has seen continued strong performance in the delivery of pension administration for LBH; our partnership working is excellent, and relationships remain strong.
- 3.2. Particular highlights include:
 - 100% delivery against performance targets.
 - Improved data quality, particularly in relation to annual returns, despite the query rate being 18.25% of the active membership.
 - Annual Benefit Statements and Pension Savings Statements published within the statutory deadline, and 100% of both active and deferred benefit statements produced.
 - A significant increase in Member Portal registrations – 33.10% of all members registered.
 - Good progress made in the collection of McCloud service data, and significant time spent on reviewing accuracy of data received, before uploading to member records.
 - Continued low number of complaints in comparison to the total membership and casework processed.
 - Achieved re-accreditation of Customer Service Excellence award, with 6 ‘compliance pluses’ where expectations are exceeded.

4. Membership

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

Scheme	Active*	Deferred	Pensioner	Preserved Refunds**	Total
Local Government	12,512	8,975	7,908	1,195	30,950
Total membership April 22	12,806	7,831	7,689	912	29,238
Change since April 22	-2.29%	14.60%	2.84%	31.03%	5.85%

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

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

5. Administration performance

- 5.1. 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.
- 5.2. The table below shows performance from 1st March 2023 to 31st March 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 taken to complete	Total Cases (previous month)	% completed on time (previous month)
Active Retirement	6	3	0	0	0	0	9	100.00%	4	8	100%
Deferred Retirement	26	17	5	0	0	0	48	100.00%	6	38	100%
Estimates	7	25	91	0	0	0	123	100.00%	11	38	100%
Deferred Benefits	5	1	3	2	72	0	83	100.00%	24	56	100%
Transfers In & Out	0	0	0	0	0	0	0	100.00%		1	100%
Divorce	1	1	0	0	0	0	2	100.00%	7	7	100%
Refunds	0	2	8	0	0	0	10	100.00%	12	12	100%
Rejoinders	3	0	5	12	0	0	20	100.00%	14	11	100%
Interfunds	8	5	16	0	0	0	29	100.00%	9	30	100%
Death Benefits	5	0	2	0	0	0	7	100.00%	6	21	100%
GRAND TOTAL	61	54	130	14	72	0	331	100.00%		222	100%

5.3. The table below shows performance for the last 12 months; 1 April 2022 to 31 March 2023.

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
Active Retirement	64	21	35	0	0	0	120	100%
Deferred Retirement	80	68	151	0	0	0	299	100%
Estimates	59	139	405	0	0	0	603	100%
Deferred Benefits	38	19	36	43	983	0	1,119	100%
Transfers In & Out	11	9	8	0	0	0	28	100%
Divorce	3	15	12	0	0	0	30	100%
Refunds	39	86	34	0	0	0	159	100%
Rejoinders	17	7	25	101	0	0	150	100%
Interfunds	39	79	176	0	0	0	294	100%
Death Benefits	122	23	40	0	0	0	185	100%
GRAND TOTAL	472	466	922	144	983	0	2,987	100%

Complaints and Compliments

- 5.4. We received a total of 3 formal complaints during 2022/23 and Appendix 1 summarises the complaints and lessons learned for the year.
- 5.5. As part of the complaint resolution process, actions to prevent recurrence are considered and put in place if necessary. There were no recurring trends in the complaints received, but we did identify a need for staff training, to ensure that communications are handled appropriately and in a timely manner. “Customer Care” training has since been developed by our CPD team and delivered to relevant staff.
- 5.6. The detail of each complaint is shared with our monthly partnership reports and discussed in the subsequent partnership meeting if necessary.
- 5.7. We received 15 compliments in 2022/23 – these commented on our customer service, communication, and positive experience of using our Portal and website.

6. Audit

- 6.1. The Southern Internal Audit Partnership (SIAP) provides the internal audit function for Hampshire. The following internal audits relating to pensions administration for 2022/23 have been completed:

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.	Completed – ‘substantial’ rating confirmed.
UPM - Cyber Security: <i>(This has been identified as a new audit review area)</i> To provide assurance over the Cyber Security arrangements for the UPM application	Close of audit meeting booked for 18 th April.

Audit Area	Timing
<p>Pensions Payroll and Benefit Calculations: Annual review to provide assurance that systems and controls ensure that:-</p> <ul style="list-style-type: none"> • 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. 	Completed to draft report stage – ‘Substantial’ rating proposed.

6.2. The pensions administration audits being completed in the coming financial year are as follows. The fourth audit focuses on Hampshire Pension Fund investments, and therefore won't be included in the update to Partners.

Audit Area	Timing
<p>Pension Refunds: To assess that there are appropriate arrangements to ensure all refunds are valid, accurate and are paid promptly to the correct recipients following a validated request to withdraw from the schemes administered by HPS.</p>	Quarter 1
<p>UPM – Application Review: <i>(This has been identified as a new audit review area)</i> Assurance over the management of the UPM application, including supporting infrastructure such as servers, databases, pre-production environments and system changes.</p>	Quarter 3
<p>Pensions Payroll and Benefit Calculations: Annual review to provide assurance that systems and controls ensure that:-</p> <ul style="list-style-type: none"> • 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. 	Quarter 3 / 4

7. Customer Service Excellence (CSE)

7.1. On 25th January 2023 we completed a re-assessment of our CSE accreditation. The feedback report confirmed that we continue to meet the required CSE standards across the 57 areas assessed.

7.2. We were awarded ‘compliance plus’ against 6 areas, which shows that we are performing to a very high standard against these CSE requirements;

- There is corporate commitment to putting the customer at the heart of service delivery and leaders in our organisation actively support this and advocate for customers.
- We can demonstrate how customer facing staff insights, and experiences are incorporated into internal processes, policy development and service planning.
- We make our services easily accessible to all customers through provision of a range of alternative channels.
- We monitor and meet our standards, meet departmental and performance targets, and we tell our customers about our performance.
- We have developed and learned from best practice identified within and outside our organisation, and we publish our examples externally where appropriate.
- We empower and encourage all employees to actively promote and participate in the customer focused culture of our organisation.

8. Data Improvement

Annual Returns

8.1. The Employer Services team have worked hard over the last year to finalise the annual returns (current and previous years) for as many members as possible, and this plays through to the 100% production rate of active benefit statements which we were able to produce in 2022.

Unprocessed historic leaver project

8.2. At the point of onboarding, 3,840 unprocessed leavers were passed to us by the previous administrators – the date of leaving for these members was prior to 1st September 2021.

8.3. As of 31st March 2023, the 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	1,167
Outstanding leavers to be processed	2,991

- 8.4. The team dedicated to processing these cases have completed an average of 97 cases a month which exceeds our original commitment to process 80 cases a month.
- 8.5. Most of the outstanding leaver calculations are under employers who have their payroll service provided by Dataplan. We have experienced delays in receiving responses to nearly all queries we have sent to Dataplan and understand that they are charging the employers per case, where we are asking them to check the leaving information provided. We have received emails from some employers asking if they must pay the charge and/or if we need the data we have requested; we are concerned this will impact the rate that we can clear these cases, but we will keep Hillingdon updated each month on this matter.

The Pensions Regulator (TPR) Data Scores

- 8.6. In November 2022 we confirmed the common and conditional data scores, for submission to the Pensions Regulator, as follows.

Scheme	Common Data Score		Conditional Data Score	
	2022	2021	2022	2021
Hillingdon	89%	83%	87%	82%

- 8.7. It is pleasing to note that our work over the last year through both BAU, Annual Returns and the historic leavers work has contributed to improved data scores for both Common and Conditional data.
- 8.8. Due to the movement in membership over the last year, the scores above are not based on a like-for-like group. For example, the total membership has increased; a number of active members last year, are now deferred or pensioner members, and the data validations for each status are different. We have identified the following key themes as the biggest contributors to negatively impacting the data scores achieved.

Data Type	Data Check	Issue	Resolution
Common	Date Pensionable Service Started	This date is not recorded consistently across the member's record and is responsible for 2,913 the fails.	Data cleansing is ongoing, but this check is also applied to pensioner records, and has no bearing on the benefits being paid, so is deemed low risk.
Common	Address status 'Lost Contact'	This affects 357 members and has been reduced compared to last year.	An address tracing project has been completed, and we need to consider what more can be done to address this.
Conditional	'CARE Revaluation'	The CARE pension for a previous or current year is either missing, or the correct revaluation rate has not been applied. This currently impacts 1,617 members – a combination of active and deferred members.	This will be picked up in ongoing data cleansing work.
Conditional	'Crystallisation Benefit Value'	The value of crystallised benefits is missing from a specific field within UPM for 971 members.	The records missing the 'crystallised benefit value' are all pensioner status and the data does not impact anything in terms of benefits payable or external reporting to HMRC. Consequently, this is a low priority data cleanse item.

- 8.9. It is important to highlight that none of the issues above prevent us from calculating or paying a member's benefits, and as individual records are picked up by the teams for processing, they will naturally cleanse the record.

9. Support to Governance

- 9.1. During the year the Assistant Director Pensions has been in regular (virtual) attendance at the Hillingdon Pension Fund Committee and Pension Fund Board meetings.

10. 2022/2023 Achievements

Performance

- 10.1. Throughout 2022/2023 we have maintained 100% performance for all measurable BAU work.
- 10.2. Each monthly pensioner payroll was run successfully and without delay.
- 10.3. Our Pensions Customer Support Team have received 1,640 calls for Hillingdon members in 2022/23, of which 31 calls were abandoned by the member. This equates to an answer rate of 98.11% for 2022/23.
- 10.4. Throughout 2022/23 the average maximum call wait time was 1 minute 10 seconds for Hillingdon members - this includes abandoned calls – which demonstrates that members are not waiting for a substantial amount of time before abandoning their call.

2022 Annual Returns and valuation

- 10.5. The employer services team have worked hard with Hillingdon employers to finalise all 2022 Annual Returns.
- 10.6. The number of annual return queries needing to be raised with employers in 2022 totalled 2,263 which equated to 18.25% of the active membership. 997 of these queries were caused by joiner and leaver forms not being submitted by the employer at the appropriate time, in the year. Despite this, we were able to produce 100% of active benefit statements.
- 10.7. For the 2022 valuation, HPS provided data to Hymans Robertson for the Hillingdon Pension Fund, ahead of the agreed timetable and queries were dealt with promptly. The verbal feedback from the actuary was positive in terms of the timeliness and the quality of the data that was submitted.

Annual Returns Employer Bench Marking

- 10.8. Following the upload of the 2022 annual returns, we completed the bench marking of employers' performance; as this was our first year processing Hillingdon LGPS annual returns, these results were not shared with employers.
- 10.9. 85 employers were highlighted as being a major concern for data quality and 58 of these have Dataplan as their payroll provider; the detailed benchmarking report has been shared with Hillingdon.

Employer Engagement

- 10.10. We continue to experience an overall positive engagement with the vast majority of Hillingdon employers.
- 10.11. In 2022/23 we ran 23 bitesize sessions – which are open to all employers, across all schemes we administer – and 502 bookings were received. Those sessions were attended by 251 individuals representing 214 employers and covered the following.
- Employers in the LGPS, Starters and Opt Outs
 - Leavers and Retirements, including Starter, Leaver and Estimate Forms
 - Pensionable Pay Workshop - Cumulative Pay (post 2014), Full Time Equivalent and Final Pay (2008 regulations)
 - APC's, Absences, Paying in more, Paying in less - 50:50
 - Organisation changes (Outsourcing, Mergers, Change of Payroll)
 - Discretions and Disputes
- 10.12. We held 3 annual return workshops for Hillingdon employers in February and March 2023 – 79 individuals attended, representing 58 employers.

Member Portal

- 10.12. Active, Deferred and Pensioner members of the London Borough of Hillingdon Local Government pension scheme 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 P60's; and run voluntary retirement estimates.
- 10.13. The table below shows the total number of registrations for each status as of 31 March 2023, and for comparison, as of 31 March 2022. The current position now exceeds that achieved by Surrey, which was 30.95% of membership at the point of onboarding.

Status	Registrations to date	% of total membership	Registrations at 31/03/2022	% of total membership
Active	4,331	34.61%	3,324	25.95%
Deferred	2,637	29.38%	1,296	16.55%
Pensioner	2,763	34.94%	1,088	14.15%
TOTAL	9,731	33.10%	5,708	20.15%

- 10.14. We actively encourage all members to register for and use the Member Portal in the following ways.
- We send all new joiners – where the employer has provided an email address – an email notifying them that they have joined the LBH LGPS and ask them to register for the Member Portal;

- We issue our active and deferred benefit statement notifications by email;
- Various other notifications – deferred benefit and retirement letters, for example – are published on the Portal and the member is sent an email notification asking them to log in;
- The pension customer support team (PCST) direct members to use the Portal if they contact us to update their personal information, death grant expression of wish and bank details;
- We encourage members to use the online retirement estimate tool if they are thinking about retiring;
- We ask members to complete their membership option and retirement declaration form online, rather than submitting a paper copy by post;
- Pensioner members – unless opted out of our online service – are issued notifications asking them to view their April payslips and P60 online.

10.15. The below table summarises our engagement with members:

Engagement	Active	Deferred	Pensioner	Total
Portal	4,331	2,637	2,763	9,731
Opt out	42	122	1,786	1,950
No contact	8,139	6,216	3,359	17,714
Total	12,512	8,975	7908	29,395

Employer Hub

- 10.16. The Employer Hub allows employers to view their employee’s pension records and relevant documents; submit changes to the member’s employment which may impact their pension; run reports to identify groups of members, for example those who are not registered for the Member Portal; and submit leaver forms, which are allocated straight to our Member Services team to process.
- 10.17. To date we have 34 LBH employers registered to use the Employer Hub. Of the 34 employers, 117 individual users have access to a Hub account.
- 10.18. Those employers who are not yet registered are responsible for a low proportion of the overall scheme membership; although we continue to encourage them to register, the impact of them not using the Employer Hub is minimal.
- 10.19. As detailed in section 11 we are working with Civica to introduce new functionality to the Employer Hub and will share updates with all Hub users as we know more.

Annual Benefit Statements and Pensions Savings Statements

- 10.20. A significant amount of work was carried out to ensure that 100% of active and deferred LBH members received a benefit statement in 2022.
- 10.21. All Pensions Savings Statements were issued to relevant members – 27 in total – by the statutory deadline of 6 October 2022.

11. Software Development for 2023/2024

- 11.1. The development plan for 2023/24 will focus on enhancing the functionality and experience of using our Employer Hub and Member Portal - key improvements are as follows.

Employer Hub

- All Hub forms (Joiner, Leaver etc.) to be broken down into sections and 'tabbed' – *this should look and feel better for the employer when completing the various data inputs; and reduce the risk of sessions timing out.*
- The ability to upload documents securely, for example ill health certificates – *this will save the employer having to email documents separately to us and will be a more secure method of sharing sensitive information.*

Member Portal

- One Time Codes (two factor authentication) to be sent by SMS/text message in addition to the existing email notification – *this will increase security and based on member feedback should make the process of registering, logging in and resetting passwords, more user-friendly.*
- Preserved Refund members will be able to register for the Portal to complete and submit their refund claim form – *this will significantly reduce the volume of printing/postage and we are hopeful this will increase the rate of response from members.*
- Implementation of additional online forms – *like the existing membership option and retirement declaration forms, we will review our other processes which are still mainly paper-based and convert them into online forms, where it is appropriate to do so.*
- Email confirmation sent when a member submits an online form or makes an amendment to their record – *confirmation is currently displayed on screen within the Member Portal, but feedback suggests that members would prefer to receive email confirmation, as they find this more reassuring.*

- Increase the 'My Message' functionality to allow members to upload documents/forms – *supporting evidence/documentation is currently being emailed separately to the online secure messaging service. Allowing the member to do all they need to within the 'My Message' function is more user-friendly and enables teams to better support the member.*
- 11.2. Alongside this work we will also be looking at further automation of some of our back-office processes, so individuals can focus on the tasks/processes which need their input. This further utilises the 'Task Runner' which was implemented in 2021 and used last year to produce some of our annual benefit statements.

12. McCloud

Data and Project Approach

- 12.1. Our focus over the last year has been to obtain from employers, the service and service break data required to implement McCloud remedy.
- 12.2. We have received 98 of 124 completed service/break data sets from LBH employers; initial data checks have been completed on 92 of the data sets received and there are queries outstanding with 44 employers.
- 12.3. In Appendix 2 we have set out the current position of data returns, for those employers who have more than 150 members in the scheme – overall representing 80% of the total scheme membership – and this will be updated and shared monthly.
- 12.4. Those employers who are yet to share data with us have been escalated to the LBH pension fund, and in May 2023 we will be formally proposing a plan to all Partners, that if good quality data is not shared by an individual employer by 31 August 2023, then the SAB guidance – covered in point 12.10 – should be implemented.
- 12.5. A team within Employer Services is dedicated to monitoring the McCloud data returns and reviewing the quality of data we have received. A significant amount of the team's time has also been spent on 'matching' UPM records to the data returns, to ensure the correct member records are being updated.
- 12.6. Our monthly McCloud project meetings have continued internally, which are led by a dedicated project manager and attended by all senior management.
- 12.7. In January 2023 we shared a report which set out our approach to the McCloud remedy project – this document will be updated and re-shared as the project progresses this year.

Regulations and Guidance

- 12.8. From November 2022 to January 2023, HMRC consulted on draft Public Services Pension Schemes (Rectification of Unlawful Discrimination) (Tax) Regulations 2023 – on 6 February these regulations were laid, and they address various tax consequences because of McCloud recalculations. The regulations aim, as far as possible, to put individuals in the tax position they would have been in had the McCloud discrimination not happened. They take effect from 6 April 2023, but they only have practical effect once the LGPS regulations setting out the remedy come into force.
- 12.9. On 14 December 2022, HM Treasury (HMT) made the Public Service Pensions (Exercise of Powers, Compensation, and Information) Directions 2022. They came into force on 19 December 2022 and apply to England, Northern Ireland, Scotland and Wales. The Directions sets out how certain powers in the Public Service Pensions and Judicial Offices Act 2022 must be exercised. The Act gives relevant government departments powers to rectify McCloud discrimination.
- 12.10. On 3 March 2023 guidance was issued by the Scheme Advisory Board (SAB) explaining an alternative to updating member records, where an employer hasn't been able to provide data; or we have concerns with the quality of data provided. We will be reviewing the guidance in April 2023 and deciding the best approach to implementing this. Partners will be consulted before any action is taken.

13. Pensions Dashboards Program (PDP)

Preparation for onboarding

- 13.1. Over the last year, we have attended all dashboard related webinars, hosted by the PDP and/or the Pensions Regulator to ensure we are fully informed of progress and what is expected of us as administrators.
- 13.2. Since our last annual update, we have appointed our Integrated Service Provider (ISP) who will support our connection to the Pensions Dashboard and enable our compliance with Dashboard regulations. Civica were awarded the ISP contract – which is being handled as a change to our existing software contract with them – based on the following considerations.
- The preference to expand our existing relationship with Civica and avoid an additional third-party contract.
 - Civica's substantial knowledge of our administration software (UPM) – therefore no requirement to ensure another party (ISP) has a full and detailed understanding of the database and infrastructure.

- Civica’s ability to automate the bulk data upload; and individual processes which will be ‘triggered’ by members accessing the pensions dashboard.
 - Confirmation that Civica can meet the 24/7 requirements of the pensions dashboard, without any performance impact on our administration software, the member portal and employer hub.
 - Integration with our existing Member Portal – supporting ‘partial matches’.
 - Cost comparison to another established ISP resulted in Civica being significantly more competitive on price.
 - If another ISP was appointed, a ‘connector’ is still required from UPM (via Civica) to the ISP which carries additional set up and maintenance cost.
- 13.3. We have also attended all of Civica’s Pensions Dashboard working groups where technical requirements, data readiness, and the process of dealing with ‘partial matches’ have been discussed.
- 13.4. A full report on the PDP was shared with Partners in October 2022 – this is a working document and will be updated as the project progresses.
- 13.5. Our focus over the next year will be to work with Civica to implement all the necessary ISP software and ensure that – where possible – we are cleansing the specific data items required to comply with dashboard regulations. Some ‘find’ (personal) data issues may be unknown to us, until the dashboard is made available to users, but we are confident in the current quality of ‘value’ (benefit) data, due to the high rate of benefit statement production.

Regulations and Guidance

- 13.6. On 28 June 2022, the DWP launched a further consultation on pension dashboards, and covered two proposals - the first proposal provided clarity on the ‘Dashboard Available Point’ (DAP). The second proposal allowed the Money and Pensions Service and the Pensions Regulator to share information about dashboards with each other. We responded to the consultation and did not disagree with either proposal.
- 13.7. On 19 July 2022, the PDP launched a consultation on ‘standards’ – we responded on 30 August and chose to focus our review on the areas which we felt were relevant to scheme administrators; namely the Data and Reporting standards. We did not object to any of the proposed standards. Revised standards were published in November 2022, and incorporated feedback from the consultation.

- 13.8. On 24 November 2022, the Pensions Regulator (TPR) launched a consultation on its draft dashboards compliance and enforcement policy. We responded on 14 February and shared a summary of our responses with Partners.
- 13.9. On 2 March 2023, the Department for Work & Pensions (DWP) confirmed a delay to pensions dashboards connection deadlines – the full statement can be found below – and we await notification of the revised connection date for public sector pension schemes.

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

- 13.10. Over the last year, the Pensions Administration Standards Association (PASA) have published various guidance documents to support dashboard readiness, which we will be using over the next year to check we are doing all we can to prepare. All guidance documents can be found here - <https://www.pasa-uk.com/guidance-2/>

14. Cyber Security

- 14.1. In December 2022, we shared our Cyber Compliance statement and Cyber Improvement Plan with all Partners; both documents will be reviewed and shared annually, however since the improvement plan was shared, we have completed the following actions.
- Assess and understand the risk – Knowledge of data flows in and out of the teams.
 - Put controls in place - Reliance on 3rd party cyber security arrangements.
- 14.2. As covered in both Cyber documents, we are moving to a 6-monthly penetration testing cycle, with the first test of this year originally planned for January 2023, followed by another in July 2023.
- 14.3. However, Partners will be aware, the first test was delayed as we were expecting a delivery from Civica which should have addressed multiple vulnerabilities that were highlighted in last years' testing.
- 14.4. The delivery will be a substantial update to the software that we use to maintain the Member Portal, and Civica's testing highlighted UPM compatibility issues, which must be addressed first – this work is ongoing, and we await confirmation of when this can be installed.
- 14.5. We acknowledged that the penetration testing could not be delayed any further, and therefore instructed 2sec – the external testing company – in early March to commence their testing as soon as possible. Testing began on 31st March and their full technical report is expected by the end of April 2023.

- 14.6. The full report will be shared with Civica, so they can work with our colleagues in IT to address any vulnerabilities that have been highlighted; and a summary of the report will be shared with Partners.
- 14.7. Once the delivery – referenced in 14.3 – can be installed and we have completed our own functionality testing, we will arrange penetration testing again, to prove earlier vulnerabilities have been resolved. Depending on the timing of that testing, we may carry out a third round of penetration testing before the end of the year.

15. Looking ahead to 2023/24

Uxbridge & Harrow College (HCUC) merger – transfer of members from Wandsworth pension fund

- 15.1. We are working with the Wandsworth pension fund and Civica to transfer the pension records for those employees who are being transferred to HCUC from Richmond Upon Thames college.
- 15.2. Despite the small volume of members transferring, the process is more complicated than we have worked on previously, due to the number of data and image sources – administration data is held in Altair software; data for pensioners is being taken from two payrolls which are processed in Midlands iTrent software; and images are held in two separate systems, one of which is operated by Wandsworth council.
- 15.3. Due to these complexities, we agreed two test data cuts were required – in May and June – before the Live data cut is provided to us in early July. We will subsequently run the payroll including the transferred pensioners, in July so they are paid on the last working day of the month.
- 15.4. The LBH pension fund are involved in project calls where necessary, and we are in regular contact with James Lake to discuss progress.

GMP Rectification

- 15.5. We are working with Intellica, who have partnered with Civica, to complete the GMP Rectification process for LBH – this project is running alongside Hampshire's.
- 15.6. Phase 1 of the process has been completed, based on data provided by Mercer – who completed the Reconciliation project prior to the transfer of pension administration – and this has allowed Intellica to plan the detailed work that is required to update all relevant member records.
- 15.7. With Intellica, we are currently establishing the best approach to cases where manual intervention is required.

- 15.8. A detailed project plan will be shared with LBH in due course, but members effected by this project will be contacted ahead of any amendment to their pension – the record amendments must be finalised by the end of January 2024.

2023 Year End

- 15.9. The timeline of key events for the 2023-year end, including the production of benefit statements is set out below.

Completed By	Task
14/03/2023	2023 Pensions Increase to be applied to all advance pensions in payment (Completed)
31/03/2023	Annual Return requests and templates sent to Employers. (Completed)
13/04/2023	2023 Pensions Increase to be applied to all arrears pensions in payment. (Completed)
Feb/March	Online employer annual return workshops (Completed)
30/04/2023	Annual return deadline for Employers
15/05/2023	2023 Pensions increase applied to all deferred benefit members.
April/May	Pensioner Mailings – payslips, P60 and newsletter shared with all pensioners.
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.
30/09/2023	Employer Benchmarking
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.
15/12/2023	Data validation exercise – for employers highlighted in benchmarking

15.10. All the project and development work described above, alongside business-as-usual activities for 2023/24, are captured in a high-level plan in the attached Appendix 3.

15.11. Bi-monthly Partnership; Pensions Committee and Pension Fund Advisory Board meetings are scheduled for the following dates, and as a minimum, the Assistant Director Pensions will be in (virtual) attendance.

Date	Event
26 April 2023	Hillingdon Pension Board
9 May 2023	Partnership/administration update
8 June 2023	Hillingdon Pension Committee
13 June 2023	Partnership/administration update
10 July 2023	Partnership/administration update
19 July 2023	Hillingdon Pension Board
8 August 2023	Partnership/administration update
12 September 2023	Partnership/administration update
26 September 2023	Hillingdon Pension Committee
10 October 2023	Partnership/administration update
8 November 2023	Hillingdon Pension Board
13 December 2023	Hillingdon Pension Committee
24 January 2024	Hillingdon Pension Board

Date	Event
26 March 2024	Hillingdon Pension Committee

15.12. Additional Partnership/administration update meetings will take place monthly between November 2023 to March 2024, but they are not yet diarised.

16. Administration Budget 2023/24

- 16.1. The 2022/23 local government pay award was agreed in November 2022. Taking into account the change to national insurance, the cost per FTE of the award is £2,100. The table below shows the revised costs for 2022/23 and sets out the administration budget for 2023/24 and 2024/25, including the costs of data cleansing, McCloud, Pensions Dashboards and GMP rectification which have also been communicated separately.

Budget headings	2022/23 (revised for 22/23 pay award)	2023/24 (pre 23/24 pay award)	2024/25 (pre pay award)
Staff	492,000	503,000	515,000
Non pay (inc contribution to overheads)	64,000	69,000	70,000
UPM software licence and annual maintenance	61,000	62,000	64,000
Contribution to future software development	11,000	12,000	12,000
BAU total	628,000	646,000	661,000
McCloud - project team	8,692	15,232	15,593
McCloud - software costs	6,232	607	637
McCloud total	14,924	15,839	16,230
Historic leaver processing total	64,875	129,000	21,500
PDP - software costs	1,255	0	8,200
PDP - contribution to resource	0	6,300	6,300
PDP total	1,255	6,300	14,500
GMP rectification total	24,000	0	0
Grand total	733,054	797,139	713,230

16.2. The budget for BAU administration is rolled forward from the original amount agreed in the OBC. 13.3.2 of the OBC states that staffing costs are uplifted in line with step progressions and any pay awards; other budgets are increased in line with September CPI. However it is proposed that for 2023/24, non pay budgets are instead increased by 2% inflation with an additional £3,000 contribution towards having a twice yearly cyber vulnerabilities test (increased from annual).

16.3. The table below shows the impact of this approach, which is a saving over applying September 2022 CPI of 10.1% to non pay budgets.

Inflation comparison	2022/23	2023/24 - proposed (2% inflation plus £3k towards 2nd annual pen	2023/24 - OBC (10.1%)
Staff	492,000	503,000	503,000
Non pay (inc contribution to overheads)	64,000	69,000	71,000
UPM software licence and annual maintenance	61,000	62,000	67,000
Contribution to future software development	11,000	12,000	13,000
Total	628,000	646,000	654,000



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Monthly administration report

April 2023



Working in partnership with



Page 113



Hampshire
& Isle of Wight
FIRE & RESCUE SERVICE



West Sussex
Fire & Rescue Service

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1. Summary

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

2. Background

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

3. Membership

- 3.1. The table below details the number of members against status for each of the Local Government pension schemes and is correct as of the date this report was prepared. 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
April 2023	12,040	9,388	7,932	1,200	30,560
Growth	33.48%	-17.64%	12.73%	-	11.30%

*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 April to 30th April 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	9	0	0	0	0	0	9	100.00%	3	9	100.00%
Deferred Retirement	12	7	8	0	0	0	27	100.00%	7	48	100.00%
Estimates	6	14	27	0	0	0	47	100.00%	11	123	100.00%
Deferred Benefits	3	0	0	2	365	0	370	100.00%	27	83	100.00%
Transfers In & Out	0	2	0	0	0	0	2	100.00%	9	0	100.00%
Divorce	0	0	0	0	0	0	0	100.00%		2	100.00%
Refunds	0	2	20	0	0	0	22	100.00%	12	10	100.00%
Rejoiners	1	3	12	11	0	0	27	100.00%	14	20	100.00%
Interfunds	13	6	2	0	0	0	21	100.00%	5	29	100.00%
Death Benefits	5	2	5	0	0	0	12	100.00%	8	7	100.00%
GRAND TOTAL	49	36	74	13	365	0	537	100.00%		331	100.00%

- 4.3. The table below shows outstanding work as of 30th April 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.

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	1	1	0	0	0	0	2	2
Deferred Retirement	1	5	3	0	0	0	9	9
Estimates*	55	37	20	5	2	0	119	34
Deferred Benefits	10	65	143	165	116	0	449	499
Transfers In & Out	0	1	0	0	0	0	1	1
Divorce	4	1	0	0	0	0	5	5
Refunds	8	6	0	0	0	0	14	14
Rejoiners	21	9	17	5	0	0	52	52
Interfunds	5	9	4	0	0	0	18	18
Death Benefits	2	2	7	2	1	0	14	14
GRAND TOTAL	107	136	194	177	119	0	733	648

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

- 4.5. On 30th March 2023 the LGA confirmed that the SCAPE discount rate had been adjusted to take into account the long term expected GPD growth figures. As the SCAPE discount rate impacts the factors used in transfers in and out calculations, we have been instructed to pause processing these cases. As it stands there are 24 calculations on hold – all affected members have been notified of the delay. We are expecting to receive revised factors in May at which point we will arrange for UPM to be updated.

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 May 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	1,203
Outstanding leavers to be processed	2,955

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

Employer	Number of leavers outstanding
London Borough Of Hillingdon	479
Hedgewood School	183
Uxbridge Harrow College (HCUC)	97
Qed - Queensmead Academy	69
Eden Academy - Grangewood	64

- 5.4. As discussed in your annual review, as of 1st May 2023, the team that process the historic leaver cases will spend 100% of their time working on Hillingdon unprocessed historic casework therefore we will be charging the full cost of the team which for 2023/2024 is £9,250 per month. This has increased from the original quote due to the 2022/2023 staff pay awards.
- 5.5. Now that we have a better understanding of the unprocessed historic leaver cases, we also want to review our overall approach and project timelines. We have booked a separate meeting to discuss this with you in detail so that we can agree how best to proceed.

6. Call and email volumes

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

Calls Received	194
Calls Answered	189
Calls Answered Percentage	97.42%
Calls Abandoned	7
Abandoned Percentage	2.58%
Average Wait Time	1 minute 7 seconds
Calls Answered Within 5 Minutes	189
Calls Abandoned After Waiting For More Than 5 Minutes	0
Percentage Of Calls Answered Within 5 Minutes	100.00%

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 3,831 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*
April	6,832	5,778	1,052
March	6,468	5,359	1,109

- 6.5. Of the emails responded to by PCST, 220 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 30th April 2023.

Status	Registrations to date	% of total membership	Registrations to 31/03/2023	% of total membership
Active	4,258	35.37%	4,331	34.61%
Deferred	2,835	30.20%	2,637	29.38%
Pensioner	2,874	36.23%	2,763	34.94%
TOTAL	9,967	36.23%	9,731	33.10%

- 7.3. 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
April 2023	655	400	1,522
March 2023	647	407	558

- 7.4. 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	4,258	2,835	2,874	9,967
Opt out	43	131	1,795	1,969
No contact	7,739	6,422	3,263	17,424
Total	12,040	9,388	7,932	29,360

Employer Hub

- 7.5. To date we have 34 LBH employers registered to use the Employer Hub. Of the 34 employers, 117 individual users have access to a Hub account.

Cyber Security

- 7.6. The security penetration testing has been completed by 2-sec and we are waiting for their final report – once this has been reviewed by our colleagues in IT, and discussed with Civica, a summary of the vulnerabilities, with proposed resolutions, will be shared with all Partners.
- 7.7. The Umbraco 10 installation – required to address previously identified vulnerabilities – is scheduled for release on 31 May. We will arrange delivery to our test environment in early June, and a 4-week period of testing will be required before the upgrade can be delivered to our Live environment. We envisage the Live delivery being completed in early July.
- 7.8. We previously notified Partners, that due to an in progress upgrade in Hampshire County Council’s IT infrastructure, that geo-blocking had been switched on for all users/IP addresses from outside of the UK.
- 7.9. We can now confirm that the infrastructure upgrade is complete, and a new security layer is now In place, utilising software from ‘CloudFlare’; this product provides additional security

protection, and is country agnostic, replacing the blunt geo-blocking tool which had been in place.

- 7.10. Overseas members should now be able to access the Portal, although an additional security screen may be encountered if the CloudFlare algorithm in any way suspects that the originator is from a suspicious source – regardless of country or origination (whilst CloudFlare is county agnostic, should a particular country show heavy traffic originating from within their borders in terms of attempted cyber attacks, then access from that specific country can be blocked by default; Hampshire IT will be monitoring and keeping this under review, and will block a particular country when deemed necessary).

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
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 has been completed for all pensioners and was reflected in their pension paid for April 2023. We are currently in the process of applying pensions increase to deferred members, in preparation for producing their deferred benefit statements.

8.3. **Annual Returns** – on 30 April 2023, we had received 66% of annual returns from employers. Employer Services will be working through the data received and starting the upload process. They will chase outstanding returns by email over the next week, and by phone from 22 May onwards. Any remaining outstanding returns will be escalated to the Fund from 1 June.

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	123
Proportion received	79.67
Number of returns missing	25
Lines of data submitted	17,259
Number of Employers initial checks complete on	98
Proportion of employers initial checks completed on	81.3
Number of Employers outstanding queries from initial checks	40

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.

9.3. We are currently preparing a proposal – based on SAB guidance – for those employers who have either not returned data to us or have returned poor quality data. This will be shared separately with all Partners, and approval sought to proceed as described.

10. Pensions Dashboard Programme (PDP)

- 10.1. As confirmed in our annual administration review, we have now appointed Civica as our Integrated service Provider (ISP) and an amendment to our software contract has been finalised.
- 10.2. Civica's engagement with the PDP has also been delayed and they are currently waiting for confirmation of when they will be asked to connect to the dashboard. However, we are still working on the basis that public sector schemes will be required to connect in September 2024, until we hear otherwise.
- 10.3. In relation to data cleansing, our first task will be to contact all employers who have active members with temporary national insurance numbers. We plan to start this exercise once the annual returns process has been completed.

11. 2023/2024 Software Development

- 11.1. The implementation and testing of most of our new Employer Hub forms – leaver notification, change of details etc. – has been completed and Employer Services will be contacting select employers to pilot the new forms before they are rolled out to all users. The new Hub joiner notification requires further work, and we have consultancy time booked with Civica to investigate and resolve the outstanding issue.
- 11.2. An upload document facility for the Employer Hub has also been set up and tested by the Systems team – this has been handed over to Employer Services for further testing and feedback before this functionality is made available to employers.
- 11.3. The installation of SMS one-time codes has been completed in our test environment – the Systems team will now complete their testing and liaise with PCST to ensure they understand the new process. The Live installation is due on 20 June, and we will be encouraging members to provide us with a mobile phone number, by using our portal's 'Dynamic Homepage' - a message will be displayed as soon as the member logs in, asking them to update their contact details, so their one-time code can be sent to their phone rather than by email when they log in again.
- 11.4. We have started the process to allow Preserved Refund members access to the Member Portal, so they can claim their refunds online, rather than completing a paper form – we estimate this access will be in place by the end of June 2023.

12. Audit

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

Audit Area

Timing

<p>Pension Transfers:</p> <p>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.</p>	<p>Completed – ‘substantial’ rating confirmed.</p>
<p>Member Deaths:</p> <p>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.</p>	<p>Completed – ‘substantial’ rating confirmed.</p>
<p>UPM - Cyber Security:</p> <p><i>(This has been identified as a new audit review area)</i></p> <p>To provide assurance over the Cyber Security arrangements for the UPM application</p>	<p>Draft audit report received – ‘reasonable’ rating confirmed.</p>
<p>Pensions Payroll and Benefit Calculations:</p> <p>Annual review to provide assurance that systems and controls ensure that:-</p> <ul style="list-style-type: none"> • 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. 	<p>Completed – ‘substantial’ rating confirmed.</p>

13. Scheme legislation updates

- 13.1. Legislation updates that have been received during April 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** – The Spring Pensions Matters was published in April.
- 14.2. **Member communications** – There were no member communications issued in April.

15. Quality Assurance

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

16. Compliments and Complaints

- 16.1. We have not received any complaints in April from any members of the LBH LGPS.
- 16.2. We received two compliments in April from members of the LBH LGPS, further detail can be found in Appendix 3.

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 2.78% over the quarter which was 0.49% lower than the benchmark of 3.28%. Performance over longer-term periods (3 and 5 years) was 6.28% and 3.44% per annum, which are both behind the set benchmark. The 3-year figure is 2.28% above the 4% return required in the Funding Strategy Statement, but with the 5- year figure 0.56% below this requirement.

Committee should note that the revised return requirement in the FSS commencing 1 Apr 2023 is 4.1%.

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

RECOMMENDATIONS

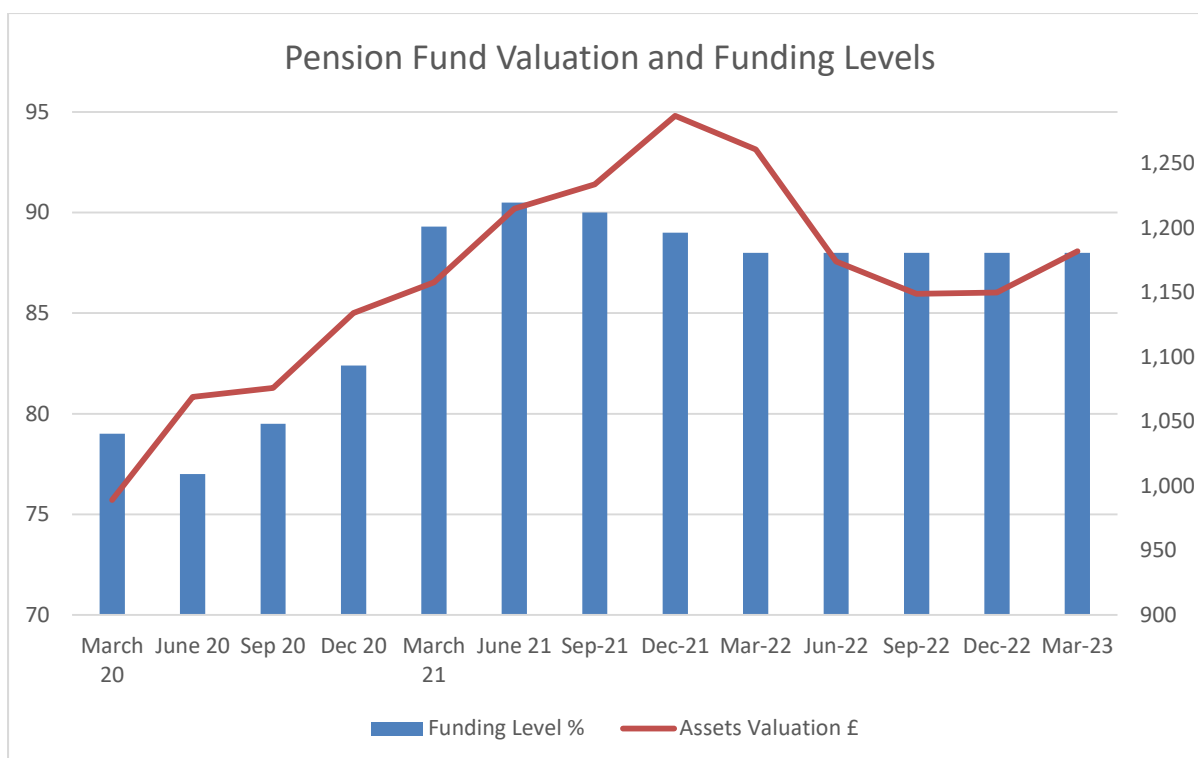
That the Pensions Committee note the funding and performance update.

SUPPORTING INFORMATION

1. Funding Update

At the last formal valuation as of March 2022, the Fund assets were £1,263m and the liabilities were £1,430m. This represented a deficit of £167m and equated to a funding level of 88%.

Regular interim funding levels will be produced by the actuary going forward.



2. Fund Performance

Over the last quarter to 31 March 2023, the Fund returned 2.78%, underperforming the benchmark return by 0.49%. The Fund value however increased over the quarter by £32m to £1,182m. Longer term performance is behind the benchmark in all time periods.

Period of measurement	Fund Return %	Benchmark %	Relative Performance
Quarter	2.78	3.28	-0.49
1 Year	-6.13	-4.97	-1.21
3 Year	6.28	7.44	-1.08
5 Year	3.44	4.89	-1.38
Since Inception (09/1995)	6.37	6.55	-0.17

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

- Alternative investments mostly kept their performance in positive territory. AEW UK, Macquarie and LCIV Infrastructure Funds posted relative returns of 7.02%, 1.24% and 1.23% for the quarter. The three funds were also the best performers with 5.05%, 9.87% & 8.80% for the one-year respectively.
- LGIM LPI Income Property Fund had the largest underperformance in the quarter, 7.15% below the benchmark. One year performance is 25.7% below the benchmark. Valuations of long lease properties continue to fall as a result of rising interest rates and at the same time, the benchmark of inflation has been high.

Classification: Public
Pensions Committee - 8 June 2023

- 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 -0.86% over the quarter and -7.38% 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

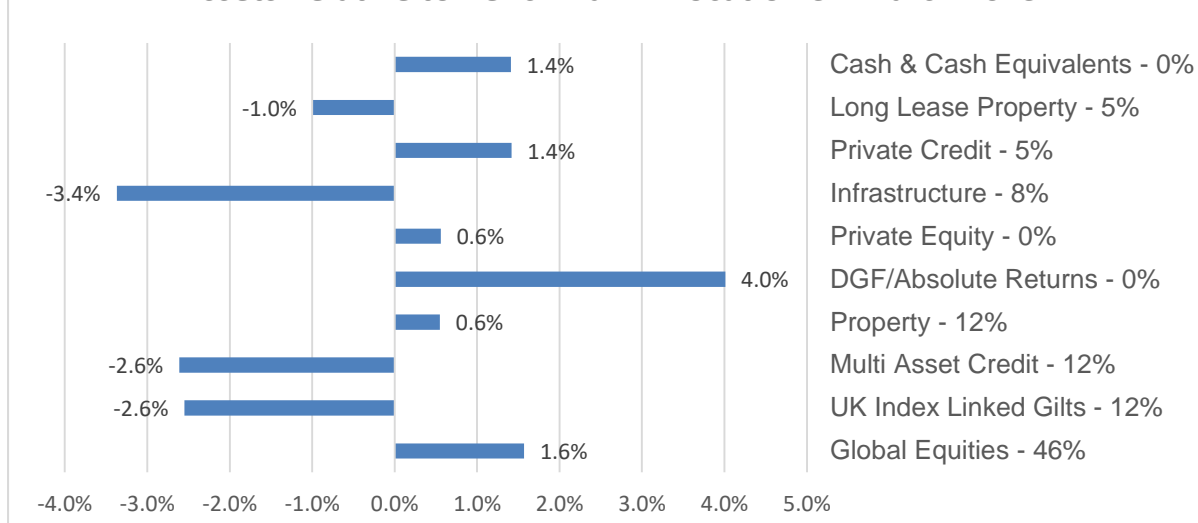
3. Asset Allocation

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 March 2023	Actual Asset Allocation As of 31 March 2023	Benchmark Allocation	Market Value As of 30 April 2023
	£'000	%	£'000	%	%	£'000
Global Equities	551,163	45	562,149	47.57	46.00	562,254
UK Index Linked Gilts	142,671	12	111,642	9.45	24.00	107,292
Multi Asset Credit	113,127	9	110,959	9.39		110,959
Property	170,918	14	148,291	12.55	12.00	147,639
DGF/Absolute Returns	54,449	4	47,406	4.01	0.00	46,495
Private Equity	9,257	1	6,666	0.56	0.00	6,429
Infrastructure	41,776	3	54,771	4.63	8.00	55,726
Private Credit	65,928	5	75,923	6.42	5.00	73,098
Long Lease Property	56,836	5	47,386	4.01	5.00	47,132
Cash & Cash Equivalents	12,411	1	16,650	1.41	0.00	19,193
Totals	1,218,536	100.00	1,181,843	100.00	100	1,176,217

Assets Relative to Benchmark Allocation 31 March 2023



Highlights of transactions during the quarter under review:

- Total gross drawdown of £3.2m by LCIV Private Debt Fund in the period under review.
- During the quarter, distributions received totalled £5.5m from Permira private debt, \$37k & Euro 112k from Private Equity and \$78k from Macquarie Infrastructure.

Undrawn commitments on 31 March 2023 are as follows:

- £3.2m (8% of commitment) awaiting drawdown on Private Credit (Permira).
- £19.2m (35% of commitment) 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 £25.7m (37% of commitment).

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 March 2023	Actual Asset Allocation	Market Value As of 30 April 2023
FUND MANAGER	ASSET CLASS	£'000	%	£'000
LGIM	Global Equities	295,450	25.00	296,800
LGIM	Future World	213,304	18.05	213,048
LCIV - BALLIE GIFFORD	Global Equities	53,395	4.52	52,406
LGIM	UK Index Linked Gilts	111,642	9.45	107,292
LCIV MAC Fund	Multi Asset Credit	110,959	9.39	110,959
UBS PROPERTY	Property	77,793	6.58	77,902
AEW	Property	73,067	6.18	73,049
LCIV - RUFFER	DGF/Absolute Returns	47,406	4.01	46,495
ADAMS STREET	Private Equity	4,484	0.38	4,365
LGT	Private Equity	2,182	0.18	2,064
LCIV - STEPSTONE	Infrastructure	40,969	3.47	42,096
MACQUARIE	Infrastructure	13,802	1.17	13,630
M&G	Private Credit	667	0.06	682
LCIV Private Debt	Private Credit	48,763	4.13	48,763
PERMIRA	Private Credit	26,493	2.24	23,653
LGIM	LPI Property	47,386	4.01	47,132
Non-Custody	Cash & Cash Equivalentents	14,081	1.19	15,881
		1,181,843	100	1,176,217

5. Market and Investment/Economic outlook (March 23 provided by London CIV)

2023 started as 2022 ended, with rapid changes in sentiment in the bond and equity markets linked to data on inflation and growth, and expectations for interest rates. Equity markets rallied strongly (MSCI All Country World Total Return Index GBP; +5.2%), led by growth stocks. Bonds also performed well (Bloomberg Global Aggregate Credit Index Hedged to GBP: +3.0%) as yields and spreads on credit instruments declined.

Consistent with the pattern seen in the past 12 to 15 months, this period of calm was short-lived. Most of January's gains in bonds were lost in February, prompted by high core inflation, especially food prices, and strong employment reports. Equities also fell, but more moderately (MSCI All Country World Total Return Index GBP: -1.0%).

Classification: Public

Pensions Committee - 8 June 2023

These reversals looked mundane in March. Jerome Powell, the Chair of the U.S. Federal Reserve (the 'Fed'), intervened early in the month to remind investors that the Fed was prepared to step up the pace of interest rate increases to combat inflation. However, warnings about the dangers of complacency were supplanted later the same week when Silicon Valley Bank ('SVB') failed, followed in short order by Signature Bank ('SB').

Swift action by U.S. state banking regulators, the Federal Reserve, and other institutions to protect the interests of uninsured depositors helped calm the situation. It also became apparent that the problems encountered by SVB and SB, although exacerbated by the pace and magnitude of interest rate increases, were caused by poor management, peculiarities in the sources of funding the banks relied on and ultimately a dangerous mismatch in assets and liabilities which went undetected because the banks were not large enough, under U.S. regulations, to be subject to the full array of stress tests and controls.

Although damage limitation measures helped calm investors, attention shifted to other second tier lenders, such as First Republic Bank ('FRB'), which were perceived to be exposed to imbalances in their funding models. A rescue deal for FRB was put in place by a consortium of the biggest U.S. banks, but this did not fully resolve the situation. The view at that point was that problems in the U.S. banking system were not representative of issues in Europe. That view was challenged a few days later when the Swiss National Bank ('SNB') mandated the sale of Credit Suisse ('CS') to UBS. The transaction was imposed without shareholder votes and with an accelerated regulatory approval process.

Under the terms of the deal, UBS assumes responsibility for CS senior and Tier 2 debt, and owners of CS equity receive shares in UBS. However, the holders of additional Tier 1 bonds ('AT1s'), which is the layer of capital used to supplement the core equity capital ratio of banks, were wiped out completely. CS was the largest issuer of AT1 instruments in Europe, so this could have important ramifications. The SNB opted to be decisive to address the risk that an acceleration of the withdrawal of deposits could precipitate a more damaging crisis.

At the time of writing, the view on European banks was, on the whole, in good health based on capital ratios and sources of funding. One important watching point, for both U.S. and European banks, is exposure to commercial real-estate. Bond and equity markets were jittery before this storm, and predictably, volatility spiked when SVB and SB failed. The movements in yields on U.S. Treasury bonds, particularly bonds maturing in 3 years or less, were exceptional by historic standards. The moves were less extreme in Gilts, but still significant in the short period since the end of 2022. This is linked to speculation about the response of central bankers: would the bank failures prompt a pullback on interest rate increases, or even a 'pivot' to rate cuts?

Outlook

The impact of recent events, and interest rate increases already implemented, on the 'real' economy is difficult to predict, even for central bankers armed with the best data. Although the risk that excessive tightening of monetary policy precipitates a deep and/or prolonged recession has eased, we are still exposed to the potential for a mild recession or extended period of slow growth, possibly accompanied by higher core inflation for longer than is currently expected. With the rapid disappearance of Credit Suisse and two substantial regional banks in the U.S. we have a stark reminder that big changes in policy regimes will inevitably cause damage, but not always where it is expected.

We are monitoring corporate earnings reports and looking for signs that pressure on consumers and companies is flowing through to default rates. Sentiment could change quickly, resulting in surges in volatility (for both bonds and equities) and possibly, liquidity flight.

The investment managers employed by London CIV are investing as LCIV expect. On balance, they are cautious when making forecasts and careful to ensure that the sources of risk and drivers of returns are reasonably diverse at the portfolio level. On a positive note, they are also alert to opportunities to capitalise on volatility and dispersion across and within asset classes to put capital to work at attractive prices.

LCIV suggest investors should stay patient, use the resetting of strategic allocations to diversify the sources of risk in their portfolios, both across and within asset classes, and focus on investment and ESG themes which are expected to drive growth over the long term.

FINANCIAL IMPLICATIONS

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

The triennial valuation based on the Fund status on 31 March 2022 is complete and revised employer contribution have been put in place 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, Finance Babatunde Adekoya, Finance
Papers with this report	Full manager voting - Shared drive. LGIM Active Ownership Report – Shared Drive LGIM ESG Score update – Shared Drive LAPFF Business Meeting – Shared Drive

HEADLINES

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

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

In addition, the report details the progress on the UK Stewardship Code project, 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 Stewardship Code submission to FRC; and,**
- 3. Note LAPFF activities**

SUPPORTING INFORMATION

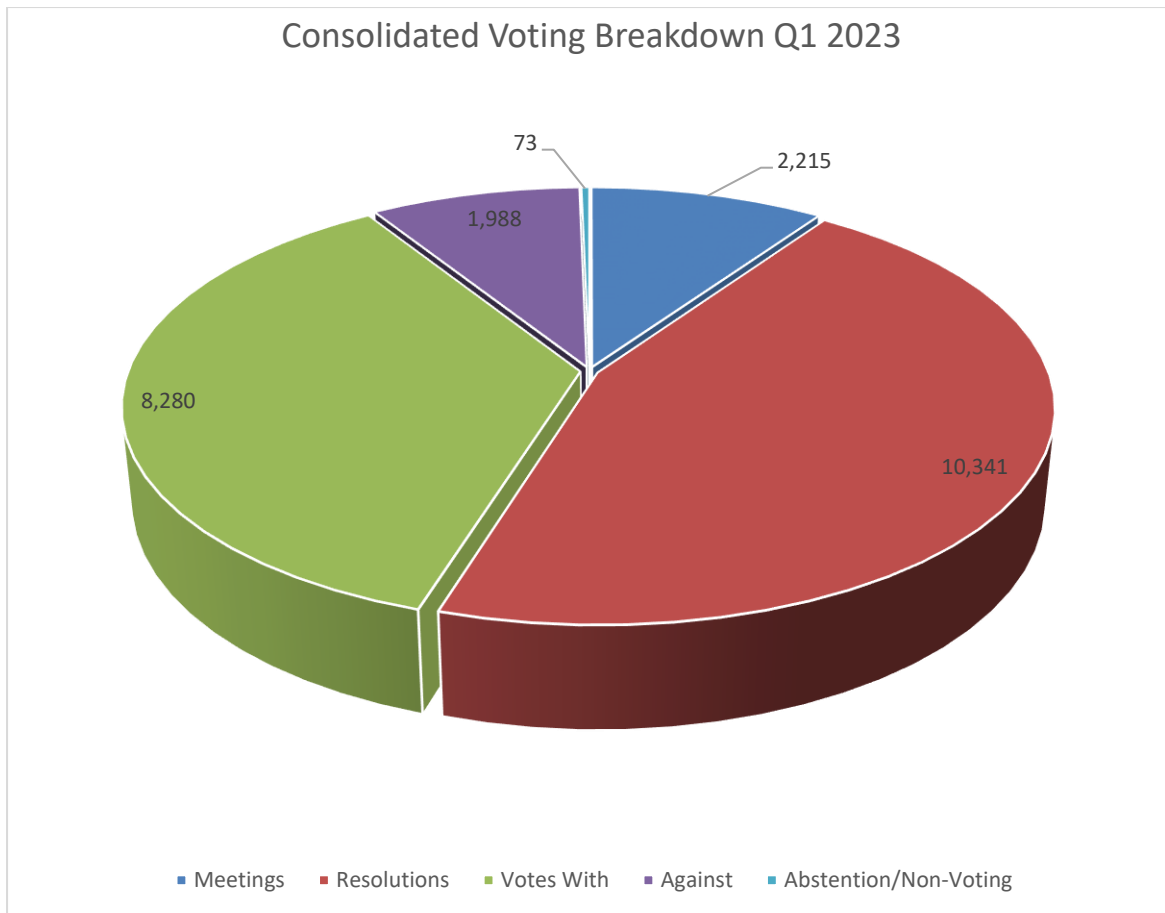
Voting and Engagement

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 Q1, 2023						
LCIV		Meetings	Resolutions	Votes With	Against	Abstention/Non-Voting
	Mar-23					
LCIV - Ruffer		3	67	65	1	1
LCIV - Baillie Gifford		5	69	53	11	5
London CIV Ltd		100	1,601	1,395	206	0
		108	1,737	1,513	218	6
	%			87.10	12.55	0.35
LGIM		Meetings	Resolutions	Votes With	Against	Abstention
	Mar-23	2,107	8,604	6,767	1,770	67
		2,107	8,604	6,767	1,770	67
	%			78.65	20.57	0.78

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 20% 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 87% of voting opportunities and about 13% against the resolutions proposed by company managements. Abstentions for LGIM and LCIV were 1% respectively.



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

Global Research & Engagement Groups focus: Water pollution in the UK Background: UK water companies have attracted plenty of press attention and criticism in recent months. There has been an increased focus on their environmental performance, which the UK Environment Agency described in its report covering 2021 as “the worst we have seen for years”. Lobbying groups such as Surfers Against Sewage have also had an impact with high-profile campaigns tracking and highlighting pollution incidents. It is noting that some water companies are more indebted than the sector regulator Ofwat assumes when it sets prices, despite a heavy future investment need.

What LGIM did:

During the quarter, LGIM arranged an engagement call with Macquarie Asset Management, Southern Water's majority shareholder, to share its views on the topic. This builds on LGIM's engagement over recent months, including with management at other companies in the sector such as Thames Water and with the regulator, Ofwat. In the first quarter of 2023, LGIM also signed up to the Ceres investor-led 'Valuing Water Finance Initiative', aimed at engaging water users and polluters to address water risks and protect this precious and essential natural resource.

Social

Paid sick leave in the US:

Identify human capital issues have been a point of focus for LGIM for quite some time. LGIM understand human capital issues represent risk to a company's operations, whether it be through heightened attrition or decreased productivity. In 2022, LGIM held a series of engagements and signed investor letters directed at companies that lacked paid sick leave and could benefit from providing it. In the latter half of that year, they zeroed in on the railway industry given the unique situation that the industry was facing.

Engage and Escalate

Since the government-mediated deal excluded sick leave, LGIM took charge by writing a letter to the four largest railway carriers in the US – Norfolk Southern, Union Pacific, BNSF, and CSX. They aggregated approximately 146 to 148 other investors per letter, with around US\$1 trillion in additional assets under management, to come on board

Classification: Public

Pensions Committee 8 June 2023

as signatories. In the letter it was specified the importance of paid sick leave in the face of post-pandemic labour dynamics as well the types of disclosures investors would find helpful, such as the types of benefits available, the usage of such benefits, employee eligibility criteria, and others. LGIM had correspondence with CSX and Norfolk Southern via email and have maintained an ongoing dialogue.

Eventually, one by one, the companies contacted re-ignited negotiations with their workforces. Those negotiations led to deals being struck by three out of the four railways – CSX, Union Pacific, and Norfolk Southern – leading to thousands of railway workers obtaining paid sick leave as a benefit. The manager intends to continue engaging with the holdout railway carrier, BNSF, to understand how worker conditions can be improved so that future strikes and service disruptions are less likely.

Governance

Kansai Electric Power - governance and climate:

Kansai Electric Power is one of the largest electric utilities companies in Japan. LGIM identified several governance areas for improvement and the company appears to lag some of our minimum expectations on board composition. LGIM believe that through its improvement, it could have a positive influence more broadly upon its sector in Japan.

Following a bribery scandal in 2020 involving former directors, the company underwent significant changes to improve governance. These changes have been positive, but we still observe some areas where LGIM think improvements could be made, relative to their minimum expectations.

Specifically, these include:

1. Director independence and the presence of executives on committee which LGIM think should be fully independent (e.g., the Remuneration Committee)
2. Cross-shareholdings
3. Limits to tenure of senior advisors to the board ('Komon')

LGIM is pleased to note that the company meets their expectations for gender diversity in Japan of 15% female representation on the board, which they also expect to increase over time.

Regarding climate change and expectations under the Climate Impact Pledge, the manager noted its lack of interim emissions targets and lack of time-bound commitment to exit coal-fired power generation as an area for discussion.

In the meeting with Kansai Electric Power, they were able to discuss these areas in detail to better understand its approaches to governance and climate, and to talk in-depth about related areas such as responsibility for executing the net zero transition plan.

LGIM Active Ownership Update

LGIM is responsible for managing the Fund's index tracking equity portfolios. The Members shared drive shows their Active Ownership 2022 report which shows their activities as a fund manager in delivering ESG initiatives. Key highlights include:

- £332.2b managed in responsible investment strategies
- Voted on 171,000 resolutions worldwide

- LGIM launched 19 new responsible investment strategies
- Engaged with 902 companies on investment stewardship with 1224 engagements.

LGIM state their objective is effect positive change in the companies and assets in which they invest, and for society as a whole.

LGIM's global policy dialogue is aimed at helping to create an appropriate regulatory backdrop by removing policy and structural barriers to reform on ESG issues.

Nature was a core area of focus in their policy work during 2022, covering agriculture, water, biodiversity, and deforestation.

Under their Climate Impact Pledge (CIP), 80 companies were subject to potential voting sanctions for not meeting their minimum standards.

In October 2022, LGIM expanded the CIP from covering c.1,000 companies in 15 sectors to now cover 5,000+ companies across 20 climate-critical sectors.

In September 2022, LGIM published their deforestation policy and launched an engagement campaign, writing to 300 companies from a set of deforestation-critical sectors explaining their expectations and potential consequences if these were not met.

The 2022 AGM season was the first in which LGIM voted against specific companies due to a lack of board-level ethnic diversity.

LGIM voted against 69 companies in the FTSE 100 and S&P 500 for having all-male executive committees.

In 2022, LGIM expanded their diversity engagement to Brazil, India, China and South Africa.

LGIM used their votes to push for progress on antimicrobial resistance by supporting three shareholder proposals on this issue.

In 2022, LGIM gave companies an ultimatum to disclose their living wage strategy by 2025.

LGIM placed just over 100 votes on social and people-related matters, including labour rights, inequality and discrimination.

In 2022, LGIM reinforced their commitment to 'one share, one vote'.

LGIM took a holistic approach to ESG themes, understanding that there is a governance angle to a company's management of many ESG-related issues.

LGIM provided clear expectations to the market and review of company pay structures against transparent policy red lines.

During 2022, LGIM continued to focus on stakeholder experience and the fair treatment of employees in a high-inflation environment.

2022, LGIM won the following industry awards for their efforts in responsible investing:

- The 'ESG' award at the City AM Awards
- The 'ESG Identity' award at the SRI Awards
- The 'Most innovative sustainable ETF launch' award at the Investment Week Sustainable Investment Awards
- 'ESG/SRI Provider of the Year' at the Irish Pensions Awards
- 'Best Asia-Pacific ESG Equity ETF' at the Mondo ETF Awards
- 'Investment House of the Year' at the Risk.net's Risk Awards

LGIM ESG Scoring Update

The LGIM ESG Score is being evolved through the addition of four new ESG metrics. The inclusion of the four new metrics will be split between the E and G score pillars; these additions take the number of metrics within the ESG Score to 34.

E Score Pillar:

- Deforestation Programme
- Water Management Programme
- Value Chain Emissions Intensity (Scope 3 Emissions)

G Score Pillar

- Climate Lobbying (to be named 'Lobbying Activities')

Restructuring of the E Score pillar to better reflect LGIM's environmental engagement themes and allow for further future developments within the sub pillar as data availability improves.

There will be an update to the stock and sector constraints within the index methodology used within the Future World index strategies linked to the LGIM ESG Score to allow for more efficient implementation of ESG objectives such as decarbonisation pathways. The link allows access to LGIM website to ascertain a company ESG score. <https://esgcores.lgim.com/en/uk/institutional/>

LAPFF

During the quarter LAPFF issued a number of voting alerts which have been shared with LGIM for their consideration.

The LAPFF Business Meeting was held on the 19 April 2023 where the following items were tabled for discussion and agreement.

- Update on LDIs and the pension crisis
- Energy companies and the cost-of-living crisis
- Member workplan
- New Draft LAPFF Workplan 2023/2024
- Draft Quarterly Engagement Report
- Grupo Mexico – Proposed Engagement

- Workforce Disclosure Initiative (WDI) Review

The remaining items were held in private.

Cllr Mathers attended the meeting and noted for the benefit of the Committee:

Hillingdon was introduced as one of the newest members and congratulated on achieving the Stewardship Code.

The meeting was predominantly presentations of the last quarter's engagement with corporations on a number of themes including EV transition, water stewardship, sustainable farming and mining standards.

During the meeting there was significant discussion on LAPFF's membership of the Workforce Disclosure initiative, a database of workplace standards which in the past was supported by government. It was noted that it was best for LAPFF to remain a member as there is currently no alternative initiative and to start this piece of again would be very costly this is under continuous review.

Cllr Mathers noted that LAPFF has a place on the LGPS SAB.

As part of the meeting the work plan and budget were approved.

Stewardship Code

Following various meetings held by the Committee and noted in previous reports and subsequent requests for information the 2023 Stewardship Code report was prepared and reviewed by Committee in May 2023.

The final report was submitted to the Financial Reporting Council ahead of the 31 May 2023 deadline. The outcome will be announced in approximately four months.

FINANCIAL IMPLICATIONS

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

LEGAL IMPLICATIONS

Legal implications are included in the report.

PENSION FUND RISK REGISTER

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

HEADLINES

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

RECOMMENDATIONS

It is recommended that Pensions Committee:

- 1) Consider the Risk Register in terms of the approach, the specific risks identified, and the measures being taken to mitigate those current risks; and,**
- 2) Remove PEN 12 - Threat of COVID 19 to Business Continuity from the Risk Register**

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.

It is recommended that PEN 12 - Threat of COVID 19 to Business Continuity, is removed from the risk register. Post COVID IT and working arrangements have been in place for over two years and the hybrid environment is fully established and functional. Furthermore, due to the vaccination programme, the reduced impact of the

virus, and subsequent reduction in contagion, means the impact of serious illness has been considerably reduced to the point where it sits alongside influenza in terms of a normal acceptable risk level.

Committee should also note that the progress comment in Pen11 - Failure of the pool in management of funds / access to funds, has been updated to note that the new shareholder agreement and articles of association have been signed by all relevant parties on 10 May 2023. The FCA and LCIV auditors have been advised.

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 2023/24

Description	Actions in Place	Progress Comment	Risk Category / Rating / DOT	Lead Officer / Committee Member	Date of last review
PEN 01 - Fund assets fail to deliver returns in line with the anticipated returns underpinning valuation of liabilities over the long-term	<ol style="list-style-type: none"> 1. Anticipate long-term return on a relatively prudent basis to reduce risk of failing to meet return expectations. Funding Strategy outlines key assumptions that must be achieved in agreeing rates with employers for a significant chance of successfully meeting the funding target. 2. Analyse progress at three yearly valuations for all employers. 3. Undertake Inter-valuation monitoring. 	<p>With the assistance of Hymans quarterly funding report, the position is kept under regular review and Pension Committee is informed of the impact of prevailing market conditions on the funding level</p> <p>The 2022 initial triennial valuation results show a marginal improvement on the 2019 valuation.</p> <p>A revised investment strategy is being developed to be robust in volatile market conditions..</p> <p>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.</p> <p>Officers are closely monitoring developments and liaising with fund managers and advisors.</p> <p>Member cashflow continues to be monitored.</p>	Strategic risk Likelihood = Significant Impact = Large Rating = C2 (Static)	James Lake / Cllr Mathers	08/06/23
PEN 02 - Inappropriate long-term investment strategy	<ol style="list-style-type: none"> 1. Set Pension Fund specific strategic asset allocation benchmark after taking advice from investment advisers, balancing risk and reward, based on historical data. 2. Keep risk and expected reward from strategic asset allocation under review. 3. Review asset allocation formally on an annual basis. 4. Asset allocation reported quarterly to committee. 5. Officer and advisers actively monitors this risk. 	<p>A separate Officer and Advisor working group regularly monitors the investment strategy and develops proposals for change / adjustment for Pension Committee consideration.</p> <p>The impact of each decision is carefully assessed to ensure that long-term returns are being achieved and are kept in line with liabilities.</p> <p>In May 2021, a new Pension Sub-Group was established to allow Members, advisers and officers to meet regularly and provide a platform for greater oversight and scrutiny of Fund investments.</p> <p>A revised Investment Strategy Statement will be prepared in line with the triennial valuation process.</p>	Strategic risk Likelihood = Low Impact = Large Rating = E2 (Static)	James Lake / Cllr Mathers	08/06/23

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	<p>1. The structure includes active and passive mandates and several managers are employed to diversify the risk of underperformance by any single manager.</p> <p>2. Short term investment monitoring provides alerts on significant changes to key personnel or changes of process at the manager.</p> <p>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.</p> <p>4. Investment managers would be changed following persistent or severe under-performance.</p>	<p>The Fund is widely diversified, limiting the impact of any single manager on the Fund.</p> <p>Active monitoring of each manager is undertaken with Advisors and Officers meeting managers on a quarterly basis and communicating regularly.</p> <p>The LCIV as pool is increasingly managing more assets on the funds behalf as per regulation. The Fund has been in consultation with LCIV regarding improved oversight, reporting and communication; requested improvements have mostly been implemented.</p> <p>Comments on whether mandates should be maintained or reviewed are included quarterly and where needed specific performance issues will be discussed and reviewed.</p> <p>Action is taken to remove under-performing managers where appropriate.</p>	<p>Strategic risk Likelihood = Low Impact = Small Rating = E4 (Static)</p>	James Lake / Cllr Mathers	08/06/23
PEN 04 - Inflation - Pay and price inflation significantly more than anticipated	<p>1. The focus of the actuarial valuation process is on real returns on assets, net of price and pay increases. The actuarial basis examines disparity between the inflation linking which applies to benefits of Deferred and Pensioner members as well as the escalation of pensionable payroll costs which only applies to active members, and on which employer and employee contributions are based.</p> <p>2. Inter-valuation monitoring gives early warning and investment in index-linked bonds also helps to mitigate this risk.</p> <p>3. Employers pay for their own salary awards and are reminded of the geared effect on pension liabilities of any bias in pensionable pay rises towards longer-serving employees.</p> <p>4. Covenant's are in place with security of a guarantee or bond for admission agreements.</p> <p>5. Inter-valuation monitoring gives early warning.</p> <p>6. Investment in index-linked bonds helps to mitigate this risk.</p> <p>7. Contribution rate setting as part of the triennial valuation process considers 5000 scenarios in achieving a fully funded position.</p>	<p>The impact of pay and price inflation is monitored as part of the Council's MTFF processes and any potential impact on pension fund contributions is kept under review and factored into the Council's overall position.</p> <p>The impact of pay inflation is diminishing since the introduction of the CARE benefits in 2014 as there is less linkage to final salary in future liabilities.</p> <p>The impact of inflation is reviewed through all strategic investment decision making, however inflation risk is gaining greater prominence and is raising concern with the potential detrimental impact on liabilities and assets.</p> <p>Inflation linked investments form part of the investment strategy and are aimed at balancing this risk and protecting against the impact of inflation.</p> <p>Ongoing monitoring of inflation forms part of business as usual activities.</p> <p>The Fund's cashflow is constantly monitored and additional cash requirements will be factored into the revised Investment Strategy.</p>	<p>Strategic risk Likelihood = Significant Impact = Large Rating = C2 (Static)</p>	James Lake / Cllr Mathers	08/06/23

Description	Actions in Place	Progress Comment	Risk Category / Rating / DOT	Lead Officer / Committee Member	Date of last review
PEN 05 - Pensioners living longer	<p>1. Mortality assumptions are set with some allowance for future increases in life expectancy. Sensitivity analysis in triennial valuation helps employers understand the impact of changes in life expectancy.</p> <p>2. Club Vita monitoring provides fund specific data for the valuation, enabling better forecasting.</p>	<p>The Fund is part of Club Vita, a subsidiary of the Fund Actuary, which monitors mortality data and feeds directly into the valuation.</p> <p>Results also feed into the quarterly funding position which is reported to and assessed by Committee Members and officers.</p>	<p>Strategic risk Likelihood = Low Impact = Small Rating = E4 (Static)</p>	James Lake / Cllr Mathers	08/06/23
PEN 06 - Poor Performance of Outsourced Administrator leading to poor quality information supplied to both members and the Fund Actuary	<p>1. New partnership in place with HCC.</p> <p>2. Regular service meetings in place.</p> <p>3. Monthly KPI reports are provided to track and monitor performance.</p> <p>4. Critical errors cleared prior to transfer of valuation data to actuary.</p> <p>5. Data Improvement plan will be developed and implemented in 2022.</p>	<p>Transfer of pension administration services to a new partner, Hampshire County Council (HCC) has been in place since September 2021.</p> <p>Regular meetings will take place between HCC & LBH to ensure the new partnership is working in accordance with expectations and that any issues are addressed. Performance against KPI's and other metrics are also discussed.</p> <p>KPI's have been at 100% since partnership inception and all other levels of service, reporting and interaction have been positive and pro-active.</p> <p>HCC attend and report directly at Committee and Board meetings to allow first-hand scrutiny.</p>	<p>Strategic risk Likelihood = Low Impact = Large Rating = E2 (Static)</p>	James Lake / Cllr Mathers	08/06/23
PEN 7 - Cyber Security - Pension schemes hold large amounts of personal data and assets which can make them a target for fraudsters and criminals	<p>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.</p> <p>2. Risk is on the Corporate risk register with risk mitigation in place.</p> <p>3. All member and transactional data flowing from HCC and Hillingdon is sent via encryption software or via the employer portal.</p> <p>4. Data between the fund, HCC and Hymans is distributed via upload to an encrypted portal.</p> <p>5. Systems at Hillingdon and HCC are protected against viruses and other system threats.</p> <p>6. HCC are accredited to ISO27001:2013 and signed up to the Pensions Regulator Pensions Pledge. HCC currently undergoing penetration testing to ensure they are PSN compliant.</p>	<p>This risk has been recognised in response to recommendations by the Pensions Regulator and work carried out by Pensions Board</p> <p>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.</p> <p>As a result of work with the Pensions Board in gaining assurance in this area the fund will create a policy to ensure a sufficient action plan is in place.</p> <p>The Fund recently participated in the AON LGPS cyber scorecard exercise which is a high level assessment of the Fund's cyber resilience. The results show the Hillingdon Fund is generally either average or above average. No immediate concerns were highlighted.</p> <p>HCC has in place a number of cyber controls in place, upgraded the member portal security in December 2021 and has produced a cyber compliance statement which sets out for all partners the controls they have in place and detailing areas of improvement.</p> <p>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.</p> <p>The latest HCC internal audit report on cyber security is due in Q2 2023.</p>	<p>Strategic risk Likelihood = Medium Impact = Large Rating = D2 (Static)</p>	James Lake / Cllr Mathers	08/06/23

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	<ol style="list-style-type: none"> The fund have an ESG policy in place as part of the ISS. 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. Manger selections take into account ESG policy. Mangers are expected to be signed up to the stewardship Code. Managers are expected to have signed up to the UN Principles for Responsible Investment (UK PRI) ESG Issues are discussed with managers at review meetings. The Fund submitted its application report for the new 2020 UK Stewardship Code ahead of the April 2022 deadline. The Fund has signed up to support TCFD. 	<p>The Pensions Committee has created a stand alone RI policy which supports principles and implementation of the investment portfolio. The policy is a live document and is updated annually through the Stewardship Code 2020 sign-up process. A revised policy was approved by Committee in March 2023.</p> <p>Fund manager engagement now forms part of an annual assessment and engagement process to improve manager ESG credentials.</p> <p>The Fund actively invests in portfolios with an ESG tilt, including the LGIM Future World Global Index and the LCIV Global Alpha Paris Aligned Fund. These actions have considerably reduced the carbon metric of the Fund.</p> <p>The Fund aims to work towards UN SDG 7 & 13 objectives and will start to report on complementing TCFD metrics. The Fund will also collaborate and has signed up to TCFD. The Fund has agreed to being reporting against TCFD.</p> <p>The Fund was granted UK Stewardship Code signatory status in September 2022. The 2023 report was submitted in May 2023.</p> <p>In March 2023 the fund joined LAPFF to bolster engagement on ESG issues.</p>	<p>Strategic risk Likelihood = Medium Impact = Medium Rating = D3 (Static)</p>	James Lake / Cllr Mathers	08/06/23
PEN 9 - Liquidity on asset management risk of failure to liquidate assets or meet drawdown calls	<ol style="list-style-type: none"> The fund has an active daily cash management process in place to ensure there is sufficient cash available to meet any drawdown requirements. 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. Officers liaise with managers where commitments have been made to keep track of predicted drawdown timescales. The fund is significantly diversified in different asset classes and asset managers to ensure if there is a stop on any one holding then the portfolio will continue to operate as normal. 	<p>There is a detailed cash management process in place. This is signed off daily to ensure liquidity.</p> <p>The fund continues to invest in illiquid asset classes to benefit from illiquidity premium, however this is a relatively small portion of the portfolio and there are other liquid asset classes easily accessible. All trade times are listed in the cash management policy.</p> <p>The Fund has sufficient liquidity should it need to draw on investments or divert income to settle trades.</p>	<p>Strategic risk Likelihood =Low Impact = Large Rating = E2 (Static)</p>	James Lake / Cllr Mathers	08/06/23
Pen 10 - Liquidity on members dealings - risk that the fund is unable to settle member payments	<ol style="list-style-type: none"> The fund has an active daily cash management process in place to ensure there is sufficient cash available to meet all beneficiary payments. The fund is significantly diversified in different asset classes with the option of distribution portfolios. 	<p>There is a detailed cash management process in place. This is signed off daily to ensure liquidity.</p> <p>The fund continues to invest in illiquid asset classes to benefit from illiquidity premium, however this is a relatively small portion of the portfolio and there are other liquid asset classes easily accessible. All trade times are listed in the cash management policy.</p> <p>The Fund has sufficient liquidity should it need to draw on investments or divert income.</p> <p>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.</p>	<p>Strategic risk Likelihood =Low Impact = Medium Rating = E3 (Static)</p>	James Lake / Cllr Mathers	08/06/23

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	<ol style="list-style-type: none"> 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. 	<p>LCIV staff turnover has stabilised with all key post now in place. The team is steadily building to cover ESG, new markets and reporting requirements, as the underlying portfolio grows.</p> <p>Governance remains high on the agenda and Hillingdon have been key in forging improvements. There has been positive progress by LCIV and promised governance improvements have largely been implemented.</p> <p>The Hillingdon Fund has taken the lead in actively managing its underlying Pool investments with action being taken when necessary.</p> <p>LCIV continue to develop a pipeline of investment offerings based on client demand.</p> <p>New shareholder agreement and articles of association signed by all relevant parties 10 May 2023. The FCA and LCIV auditors have been advised.</p>	<p>Strategic risk Likelihood = Low Impact = Small Rating = E4 (Static)</p>	James Lake / Cllr Mathers	08/06/23
PEN 12 - Threat of COVID 19 to Business Continuity	<ol style="list-style-type: none"> 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. 	<p>Since the Covid emergency was enacted in March 2020, the business continuity plan for the Pensions Section has been updated to identify critical tasks and resources and systems required to maintain services.</p> <p>Business continuity plans have been obtained from the Hampshire to ensure continuity of essential member services. Staff have been principally working from home.</p> <p>With the success of the vaccine programme resulting in significantly reduced Covid cases in the UK, the government has removed restrictions albeit whilst still exercising the need for caution.</p> <p>Service delivery has been maintained through a hybrid arrangement of actual and virtual meetings and office and home working. Officers continue to monitor and follow government and Council advice.</p>	<p>Strategic risk Likelihood = Very Low Impact = Large Rating = F2 (Static)</p>	James Lake / Cllr Mathers	08/06/23

Description	Actions in Place	Progress Comment	Risk Category / Rating / DOT	Lead Officer / Committee Member	Date of last review
<p>PEN 13 - Failure of the Fund's governance to comply with statutory requirements and/or The Pension Regulator expectations including:</p> <p>Failure to ensure that Committee members' knowledge and understanding of pension matters is robust and meets statutory requirements</p> <p>Failure to ensure that the Pension Board is effective in carrying out its role</p>	<ol style="list-style-type: none"> 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. 	<p>The Fund has undergone a COP14 Governance review and has been implementing changes to be either fully or partially compliant. Regular reports and updates are presented at Pensions Board.</p> <p>Committee and Board members receive regular training and specific training aligned with decision making where required. Training logs are to be brought to Pensions Committee & Board with a mandatory Committee training programme in place.</p> <p>Mandatory training, in line with the CIPFA K&S Framework, is to be undertaken by all Committee members.</p> <p>The fund has a schedule of policies in place to ensure reviews are carried out at the required intervals.</p> <p>Reviewed Pension Board's Terms of Reference were approved by Council and a new Operations Manual has been developed. Maximum tenure and staggered terms are to be put in place to allow for smooth succession planning.</p> <p>The Fund will monitor progress on the Regulator's new combined Code of Practice and implications of Scheme Advisory Board's Good Governance recommendations. Following the outcome update relevant policies which cover all aspects of the Fund's governance.</p>	<p>Strategic risk Likelihood = Low Impact = Very Large Rating = E1 (Static)</p>	James Lake / Cllr Mathers	08/06/23
<p>PEN 14 - Key officer risk - small team with specialists knowledge in key roles results in the Fund being vulnerable if staff leave</p>	<ol style="list-style-type: none"> 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. 	<p>Succession planning is underway to bolster knowledge. Additions to the team are being considered to expand the resource base.</p>	<p>Strategic risk Likelihood = Medium Impact = Small Rating = D4 (Static)</p>	James Lake / Cllr Mathers	08/06/23

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

Committee	Pensions Committee
Officer Reporting	James Lake, Finance
Papers with report	Effectiveness of the Pension Board Review

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 the Committee’s training update; and,**
- 4. Note the ‘Effectiveness of the Pension Board’ assessment.**

SUPPORTING INFORMATION

Meeting Date	Item
8 June 2023	<ul style="list-style-type: none"> Training - Dislocation Funds 2021/22 EY PF Audit Results Report Investment update and manager review Responsible Investment Investment Strategy Statement Administration Report Risk Register 2022/23 Budget Outturn 2023/24 Budget Approval Workplan & Training Log Investment Adviser Contract Award
26 September 2023	<ul style="list-style-type: none"> Training tba Investment update and manager review Responsible Investment Investment Strategy Statement Administration Report Risk Register 2023/24 Business Plan & Training programme Workplan & Training Log
13 December 2023	<ul style="list-style-type: none"> Training tba Investment update and manager review

	<ul style="list-style-type: none"> • Responsible Investment • Administration Report • Risk Register • 2023/24 Expense Budget • Workplan & Training Log • Annual Audit Plan
26 March 2024	<ul style="list-style-type: none"> • 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 2023/24

Date	Details	Cllr Mathers	Cllr Burles	Cllr Islam	**Cllr Goddard	**Cllr Riley	Cllr Banerjee
Bespoke Sessions							
13 Apr 23	AEW Property	✓	✓	✓	✓	n/a	No
2 May 23	Dislocation Fund and ISS	✓	✓	✓	✓	n/a	✓
10 May 23	LCIV Impact Investing	✓	-	-	-	-	-
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 Knowledge and Skills training prior to 2023/24 either via AON or the LGA Fundamentals course.

**Cllr Goddard left Pensions Committee in May 2023

**Cllr Riley joined Pensions Committee in May 2023 – training to be completed.

In line with the expected requirements in the new Single Code and Good Governance Framework, there will be a specific requirement for the Pension Committee, Board, and officers to undertake the appropriate training needed to fulfil their obligations.

As noted in the workplan officers, along with the Independent Adviser, will develop a business plan to incorporate specific training requirements in line with the updated requirements.

Effectiveness of the Pension Board

The Board held a separate meeting on 15 February 2023 to discuss their compliance against the objectives set out in the SAB guidance.

The attached review details the outcome of the assessment and shows the Board generally meets the requirements but with the following expectations where there is some potential for improvement.

- Review the compliance of scheme employers with their duties under the Regulations and relevant legislation.
 - The Board noted this needed further consideration.
- Assist with the development of and continually review scheme member and employer communications as required by the Regulations and relevant legislation.
 - The Communication Strategy is brought to the Board meeting 26 April 2023 for consideration and comment.
- Assist with the application of the Internal Dispute Resolution Process.
 - It was agreed that IDPR cases would be brought to the Board for consideration and comment.
- Review the compliance of particular cases, projects or process on request of the Committee.
 - The Board noted this has never been requested by the Committee.

FINANCIAL IMPLICATIONS

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

LEGAL IMPLICATIONS

The legal implications included within the body of the report.

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SAB Guidance on the creation and operation of Local Pension Boards in England and Wales

SCHEDULE A

Administering Authorities should remember that the Local Pension Board does not replace the Administering Authority or make decisions or carry out other duties which are the responsibility of the Administering Authority.

The first core function of the Board is to assist the Administering Authority in securing compliance with the Regulations, any other legislation relating to the governance and administration of the Scheme, and requirements imposed by the Pensions Regulator in relation to the Scheme. Within this extent of this core function the Board may determine the areas it wishes to consider including but not restricted to:

	Does Board Carry this out? Yes/No	Summarise Evidence for this conclusion
a. Review regular compliance monitoring reports which shall include reports to and decisions made under the Regulations by the Committee.	YES	Pensions Board reviews all Pensions Committee reports from the previous Pensions Committee meeting. Board therefore regularly reviews decisions made under the Regulations by the Committee

<p>b. Review management, administrative and governance processes and procedures in order to ensure they remain compliant with the Regulations, relevant legislation and in particular the Code of Practice</p>	<p>YES</p>	<p>The Pensions Board has reviewed compliance with the current tPR Code of Practice. As a result of these reviews 100% compliance with the existing Code of Practice has been identified and this has been the case for some time. In addition management, and administrative, are reviewed by examining a Fund Administration Report and a HPS Administration Report at each Pensions Board meeting along with other relevant reports such as the report on Breaches. This included reviewing the strategic aspects of Governance process and procedures.</p>
<p>c. Review the compliance of scheme employers with their duties under the Regulations and relevant legislation.</p>	<p>Further consideration needed</p>	<p>References are made to the performance of employers with regard to specific functions in the HPS Administration Report. A specific review of the compliance of scheme employers with their duties under the Regulations and relevant legislation has not been carried out.</p>

		There is a greater focus on the larger employers.
d. Assist with the development of and continually review such documentation as is required by the Regulations including Governance Compliance Statement, Funding Strategy Statement and Statement of Investment Principles.	YES	Responsibility for the development and review of the Governance Compliance Statement, Funding Strategy Statement and Statement of Investment Principles rests with the Pensions Committee. The Committee regularly carries out this role and is currently in the middle of a review. Pensions Board members can attend and comment on these reviews at Pensions Committee meetings. In addition at every Pensions Board Meeting all reports to the previous Pensions Committee including these reviews can be reviewed by the Board if members consider it appropriate. Board members are regularly invited to attend Pension Committee meetings where these issues are discussed.
e. Assist with the development of and continually review scheme member and employer communications as required by the Regulations and	YES. the Fund has undertaken to bring	In the past Board has reviewed communications and the Communication Strategy. The

relevant legislation.	an report to a future Board meeting on the current position	Strategy is not yet due for review. Board need to ascertain when will the next review of the Communications Strategy will take place and whether any action is needed before that review. The Fund has agreed that there should be a review of how communications are operating for employers and members after the administration had been taken over by HPS.
f. Monitor complaints and performance on the administration and governance of the scheme.	YES	This is done via the Fund Administration and HPS Administration Report to Pensions Board .
g. Assist with the application of the Internal Dispute Resolution Process.	YES with the additional monitoring information to be provided to the Board	Pensions Board is to monitor IDR cases that may have significant implications for the Fund. Additional monitoring information is to be provided by the Fund.
h. Review the complete and proper exercise of Pensions Ombudsman cases.	YES	There has not been a Hillingdon Pensions Ombudsman case so far but if there were to be then it was

		confirmed that Pensions Board would be involved with responding to it.
i. Review the implementation of revised policies and procedures following changes to the Scheme.	YES	This is done via the Administration reports from the Fund and HPS that the board receives at each meeting. Pensions Board meeting.
j. Review the arrangements for the training of Board members and those elected members and officers with delegated responsibilities for the management and administration of the Scheme.	YES	At each Board meeting Board reviews the arrangements for the training of Board Members. It has in the past reviewed and commented on the arrangements for the training of Pensions Committee Members. Board has not reviewed the arrangements for the training of officers with delegated responsibilities for the management and administration of the Scheme as Board's view is that this is outside of the scope of its responsibilities.
k. Review the complete and proper exercise of employer and administering authority	YES	Pensions Committee has reviewed the policies that apply to the way in

discretions.		which discretionary powers are exercised and Pensions Board reviewed this report. Board's view is that its role does not extend to operational aspects of how the policies are operated in practice or specific cases.
l. Review the outcome of internal and external audit reports.	YES	Relevant Internal and External Audit reports for both the Fund, the Council and HPS are monitored by the Pensions Board
m. Review draft accounts and scheme annual report.	YES	Pensions Board regularly reviews the reports on these matters that go to the Pensions Committee
n. Review the compliance of particular cases, projects or process on request of the Committee.	NOT BOARD'S ROLE	The Committee has not asked Pensions Board to do this. Board's view is that it should be operating strategically and not looking at individual cases.
o. Any other area within the core function (i.e. assisting the Administering Authority) the Board deems appropriate.	YES	Board feels empowered to do this if the need arose

The second core function of the Board is to ensure the effective and efficient governance and administration of the Scheme. Within this extent of this core function the Board may determine the areas it wishes to consider including but not restricted to:

	Does Board Carry this out? Yes/No	Summarise Evidence for this conclusion
a. Assist with the development of improved customer Service	YES	In reviewing th HPS and Fund Administration Reports Board assists with the development of improved customer service. Board reviews the monitoring statistics produced on the current levels of customer service.
b. Monitor performance of administration, governance and investments against key performance targets and indicators.	YES	Board reviews the Fund and HPS Administration reports, reviews all Pensions Committee Reports including Investment. These reports have key performance targets and indicators
c. Review the effectiveness of processes for the appointment of advisors and suppliers to the Administering Authority.	YES	Appointment of Advisors rests with either the Pensions Committee or the Fund. All Pensions Committee Reports including these appointments are reviewed by Pensions Board. Appointments by the Fund are reported to Pensions

		Committee so can also be reviewed by Pensions Board.
d. Monitor investment costs including custodian and transaction costs	YES	Pensions Board reviews all Pensions Committee Reports including those on investment costs including custodian and transaction costs
e. Monitor internal and external audit reports.	YES	Relevant Internal and External Audit reports for the Fund, the services provided by the Council to the Fund and HPS are monitored by the Pensions Board
f. Review the risk register as it relates to the scheme manager function of the authority.	YES	The Risk Register for the Fund is regularly reviewed and updated by the Pensions Committee. Pensions Board reviews all Pensions Committee Reports and has reviewed the Risk Register and made comments to both the Fund and the Committee.
g. Assist with the development of improved management, administration and governance structures and policies.	YES	During discussion of reports to Pension Board and of the Pensions Committee Pensions Board has discussed way to improve

		management, administration and governance structures particularly in respect of the Good Governance Project. Pensions Board was directly involved with the change of the Administrator.
h. Review the outcome of actuarial reporting and valuations.	YES	Actuarial Reports and Valuations are reported to Pensions Committee. Pensions Board members are invited to attend Committee and can comment. Pension Board reviews all Pensions Committee reports and has made r comments upon these Reports to the Fund and the Committee.
i. Assist in the development and monitoring of process improvements on request of Committee	YES	The Committee has not asked specifically asked Pensions Board to do this as the normal monitoring and review procedures that are in place mean that this happens. .
j. Assist in the development of asset voting and engagement processes and compliance with the UK Stewardship Code.	YES	The Pensions Committee has decided that the Scheme should sign up to the UK Stewardship Code and is monitoring whether the Scheme is compliant with this

		obligation. Pension Board members attend the Pensions Committees and can comment on these reports. Pensions Board reviews all Pensions Committee Reports and can assist with compliance if this is needed.
k. Any other area within the core function (i.e. ensuring effective and efficient governance of the Scheme) the Board deems appropriate	YES	Board feels empowered to do this if the need arose.

In support of its core functions the Local Pension Board may make a request for information to Committee with regard to any aspect of the Administering Authority function. Any such request should be reasonably complied with in both scope and timing.

In support of its core functions the Local Pension Board may make recommendations to Committee which should be considered and a response made to the Board on the outcome within a reasonable period of time.

***Schedule A has been added as an example only - it should not be considered an exhaustive list and full consideration should be given locally to the remit of the Local Pension Board.**

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Exempt information by virtue of paragraph(s) 3 of Part 1 of Schedule 12A
of the Local Government Act 1972 (as amended).

Agenda Item 12

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Agenda Item 13

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