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A

Pensions Committee

Date: **WEDNESDAY 5 JUNE 2024**

Time: **5.00 PM**

Venue: **COMMITTEE ROOM 5 - CIVIC CENTRE**

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

This agenda is available online at: www.hillingdon.gov.uk or use a smart phone camera and scan the code below:

To Members of the Committee:

Reeta Chamdal (Chair)
Kaushik Banerjee (Vice-Chair)
John Riley
Stuart Mathers
Tony Burles

Published: Tuesday 28 May 2024

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Lloyd White
Head of Democratic Services
London Borough of Hillingdon,
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Agenda

CHAIRMAN'S ANNOUNCEMENTS

PART I - Members, Public and Press

PART II - Members Only

That the reports in Part 2 of this agenda be declared not for publication because they involve the disclosure of information in accordance with Section 100(A) and Part 1 of Schedule 12 (A) to the Local Government Act 1972 (as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

Minutes

PENSIONS COMMITTEE

26 March 2024

Meeting held at Committee Room 5 - Civic Centre

	Committee Members Present: Councillors Stuart Mathers (Chair) Tony Burles (Vice-Chair) Kaushik Banerjee Mohammed Islam **LBH Officers Present**: Tunde Adekoya Andy Evans, Corporate Director of Finance, Section 151 Officer James Lake, Head of Finance – Statutory Accounting & Pension Fund Liz Penny, Democratic Services Officer Marie Stokes, Finance Business Partner **Also Present**: Sahil Arora, Portfolio Manager – London CIV Marion George, Prospective New Independent Adviser Roger Hackett, Pensions Board Chair Sunny Jheeta, Isio Silvia Knott-Martin, London CIV Andy Lowe, Hampshire County Council Tony Noakes, Pensions Board Member Clare Scott, Independent Adviser Andrew Singh, Isio
44.	**APOLOGIES FOR ABSENCE** *(Agenda Item 1)* Apologies for absence were received from Councillor John Riley.
45.	**DECLARATIONS OF INTEREST IN MATTERS COMING BEFORE THIS MEETING** *(Agenda Item 2)* There were no declarations of interest.
46.	**MINUTES OF THE MEETING DATED 13 DECEMBER 2023** *(Agenda Item 3)* **RESOLVED: That the minutes of the meeting dated 13 December 2023 be agreed as an accurate record.**
47.	**TO CONFIRM THAT ITEMS MARKED PART I WILL BE CONSIDERED IN PUBLIC AND THOSE MARKED PART II WILL BE CONSIDERED IN PRIVATE** *(Agenda Item 4)* It was confirmed that agenda items 5 – 11 were marked Part I and would be considered in public while agenda items 12 – 15 were marked Part II and would be considered in private.

48.	**VERBAL UPDATE - GIFFORDGATE LTD** *(Agenda Item 5)* Clare Scott, Independent Adviser, was thanked for all her hard work in supporting the Pensions Committee over a number of years. It was noted that Marion George had been invited to replace her as Independent Adviser to the Committee, subject to the agreement of Members. **RESOLVED: That the verbal update be noted.**
49.	**ADMINISTRATION REPORT** *(Agenda Item 6)* Tunde Adekoya, Finance Manager, Pensions and Governance, presented the Administration Report. It was noted that the KPIs were unchanged at 100% across all indicators. Hampshire County Council continued to provide a good service and member portal registrations had increased to 41.67% as at the 31 January 2024. Inherited backlog cases continued to be cleared with total cases reducing from 4,158 at inception to 1,260 as of 01 February 2024. Hampshire was on target to clear this backlog by 2025. With regard to McCloud, it was confirmed that, at the end of January 2024, Hampshire had decided to no longer chase employees' data for the period 2014-2021. The remaining data sets for those years would be based on assumptions. Roger Hackett, Pensions Board Chair noted that the administration team had received three compliments; this was highly unusual and officers at Hampshire were thanked for providing such a good service. Clare Scott, Independent Adviser, observed that greater visibility on monitoring and reporting to reassure the Pensions Committee and the Pensions Board would be welcomed in the future. In response to further questions from the Committee, it was confirmed that, in terms of the data backlog, the more problematic cases remained, hence progress would not be as rapid as it had been in the past. Hampshire could now apply assumptions and would no longer be chasing the older data sets for McCloud. Andy Lowe of Hampshire County Council informed the Committee that the number of portal registrations had continued to improve during February 2024. Nearly 50% of active members were now online, **RESOLVED: That the Pensions Committee noted the administration update.**
50.	**INVESTMENT STRATEGY AND FUND MANAGER PERFORMANCE - PART I** *(Agenda Item 7)* Officers presented the Investment Strategy and Fund Manager Performance update. In terms of the Funding Update, it was confirmed that an interim funding level update had been produced by the actuary on 31 December 2023. It had shown funds' assets were £1.25m and equated funding level of 107%, a decrease of 6% from the previous quarter. The primary reason for the reduced funding level was a decrease in discount rate from 6.4% (September) down to 5.8% (December).

	With regard to the Fund Performance, the Committee was advised that, over the last quarter to 31 December 2023, the Fund had outperformed the benchmark return by 0.89%. The Fund value had also increased over the quarter by £65m, up to £1,248m. Longer term, three and five-year performance was 3.56% 4.68% but behind the benchmark. Two portfolios managed by the LCIV were the best performers in the quarter under review. Longer term, Macquarie was the standout manager over one and three-year performance measurements, with 18.58% & 17.18% returns above its set benchmark for both periods. Baillie Gifford and Ruffer had both surpassed their benchmarks for the quarter so were performing better in the short term. In terms of Asset Allocation relative to Benchmark Allocation, it was noted that investment in property was overweight due to the change in the benchmark weight. Investment in UBS and index linked gilts would be reduced for rebalancing. Members sought further clarification as to what had changed in the market as a whole over the quarter in question. Andrew Singh, Isio, confirmed that quarter 4 2023 had been very good. This trend had continued through March 2024. Inflation had started to decrease leading to more certainty and markets had reacted positively to that. Longer term yields had also come down creating a good dynamic for pensions funds. It was anticipated that there would be more certainty in the market going forward. Clare Scott, Independent Adviser, noted that, as indicated in the table on page 31 of the agenda pack, LCIV, LGIM and UBS had a large share of the fund allocation while the remaining managers were small. A 3-month period was therefore not representative of typical performance, and it was important to not treat all the numbers equally. Siliva Knott-Martin of LCIV observed that, in the private market, there was a ramp up period of approximately four years; it was therefore not possible to assess performance during this period. The official performance of the private debt fund would be measured in April 2025. Members noted that they were keen to see growth over the next three years. Officers were requested to continue to work on how the information was presented; a ‘since inception’ column and dates would be very useful. In response to questions from the Committee, it was acknowledged that some managers had negative performance and had yet to demonstrate longer term improvements. It was likely to be three or four years before positive numbers were seen over longer periods. The importance of focussing on the longer-term numbers was highlighted as the quarterly market was very volatile. **RESOLVED: That the Pensions Committee noted the funding and performance update.**
51.	**RESPONSIBLE INVESTMENT** *(Agenda Item 8)* James Lake, Director of Pensions, Treasury and Statutory Accounts, provided an update on Responsible Investments. It was noted that it had been useful to receive an update on LCIV – a video had been circulated to Members of the Pensions Committee prior to the meeting.

	The Pensions Committee was requested to note LAPFF fee increase, continue with membership and ratify the decision of the Pensions Sub-Group not to proceed with signatory status of the UK Stewardship Code. Members agreed LAPFF membership and fees, noted the content of the LCIV video and ratified the decision of the Pensions Sub-Group. Siliva Knott-Martin provided a brief update in relation to LCIV. Members heard that new staff had been hired to the investment team; Zara who was very experienced had joined the Climate Analytics Team from PWC. An analyst worked alongside her; in December 2023 they had worked with the Sustainable Working Group to streamline themes to priorities, namely climate change, human rights, and principles of governance. Having watched the video, Members commented that they were very impressed with the LCIV team. Further updates would be welcomed throughout the year. It was confirmed that Silvia would issue another short video shortly after the end of May 2024. A report was due to go out giving case studies in relation to the Fund; highlights would be extracted for the video. Members noted a disparity in the voting recommendations of EOS and LAPFF. It was confirmed that LCIV benefited from the input of EOS and LAPFF amongst others e.g. Climate Action. EOS employed LCIV voting guidelines. On occasion inputs would differ and LCIV could vote differently to both EOS and LAPFF. If the vote diverged, the rationale would be documented. As such, LCIV consider all inputs to inform their decisions. A report setting out votes and resolutions was sent to the Director of Pensions, Treasury and Statutory Accounts every six months. Councillors observed that they had confidence in the local authority's partners. It was helpful to move away from numbers of votes and consider different ways to digest the information. **RESOLVED that the Pensions Committee:** 1. **Noted the fund managers' ESG activities and compliance efforts;** 2. **Noted LAPFF activities;** 3. **Ratified the Pension Subgroup (PSG) Stewardship Code decision;** 4. **Noted the LAPFF fees for 2024/25 (within Financial Implications); and** 5. **Noted the LCIV video update.**
52.	**RISK REGISTER REPORT** *(Agenda Item 9)* Officers provided an update on the Risk Register report noting that there had been no changes to the previous 13 risks identified but a new risk had been added – PEN 14 in relation to the 'Failure of employers to deliver accurate and timely employee administration information'. This was a result of continued poor employer performance in terms of unsatisfactory compliance with delivering accurate and timely administration information records,

	which were required in order that members' pension records could be recorded properly. This had been highlighted as a risk as there was potential for these employers to be referred to the Pension Regulator for non-compliance. This risk had been rated as B2 as there was a high likelihood (most employers were not delivering) and large impact (should the Fund report to the Pension Regulator). In response to questions from the Committee, it was confirmed that officers regularly engaged with the Schools' Forum. Hampshire had attended to present to employers. The last Forum had been very positive, and the message was getting across. The Pensions Board Chair commented that schools dealt with two pensions schemes – it was important to emphasise that the LGPS was equally as important as the Teachers' Pension Scheme. In response to queries regarding risk no.10, it was confirmed that the Fund had the ability to pay this. **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.	**GOVERNANCE** *(Agenda Item 10)* It was noted that Councillor Riley had yet to complete the training sessions, and this was now overdue. An updated Administration Strategy had been brought before the Pensions Committee at its meeting in December 2023. This had now been sent out to all employers for consultation, but no responses had been received. The strategy could therefore be approved for publication. The outcome of the Knowledge and Skills Assessment had been included in the paperwork – the results were largely positive, but a higher score was aspired to. There was generally a good spread of knowledge between Members. Individuals were aware of their own scores and knowledge gaps. Members who required further training to bolster their current knowledge gaps should revisit the fundamental recorded training sessions. It was noted that additional pensions administration and legislation training would be beneficial. Clare Scott, Independent Adviser, observed that different Committee Members had varying levels of knowledge. It was again suggested that it would be useful to re-visit the induction materials in a more structured way. It was confirmed that officers were developing a handbook comprising concise high-level information for Members. It was anticipated that this would be ready in time for the June 2024 Pensions Committee meeting. In response to questions from Members, the Committee heard that the LCIV planned to offer more workshops across London in the future; topics would include climate reporting. Investment update calls were also available throughout the year and Members could access recordings of these sessions via the LCIV portal. Additionally, monthly calls (on the last Thursday of each month at 10:00) were available at which Members could hear from chief LCIV officers. These monthly calls were also recorded and made available via the LCIV portal.

	The Director of Pensions, Treasury and Statutory Accounts noted that the aforementioned LCIV sessions were extremely useful; Committee Members were encouraged to attend them or watch the videos when possible. He agreed to re-circulate the training recordings email with the appropriate links for ease of access. **RESOLVED That the Pensions Committee:** **1. Noted the dates for Pensions Committee meetings.** **2. Made suggestions for future agenda items, working practices and / or reviews.** **3. Noted Committee's training update.** **4. Approved Conflicts of Interest Policy.** **5. Approved Administration Strategy.** **6. Approved Training Plan.**
54.	**ANNUAL REPORT OF THE PENSION BOARD** *(Agenda Item 11)* Roger Hackett, Chair of the Pension Board, presented the report. The Committee Members heard that Hampshire Pensions Services regularly attended meetings of the Board which was extremely helpful. The report set out the key achievements of the Pension Board, but it was acknowledged that there would be significant challenges ahead in relation to McCloud, the dashboard programme etc. It was confirmed that a report on the General Code would be received by the Pension Board in May 2024. Members of the Pensions Committee were thanked for working collaboratively with the Pension Board. The Chair expressed his gratitude to the Pension Board for being a valuable critical friend to the Pensions Committee. **RESOLVED: That the Pensions Committee noted the annual report of the Local Pension Board for the year 2023.**
55.	**INVESTMENT PART II - STRATEGY REVIEW AND MANAGER UPDATES - INCLUDING INVESTMENT STRATEGY STATEMENT** *(Agenda Item 12)* *This item was discussed as a Part II item without the press or public present as the information under discussion contained confidential or exempt information as defined by law in the Local Government (Access to Information) Act 1985. This was because it discussed 'information relating to the financial or business affairs of any particular person (including the authority holding that information)' (paragraph 3 of the schedule to the Act).*
56.	**2023/24 BUDGET UPDATE** *(Agenda Item 13)* *This item was discussed as a Part II item without the press or public present as the information under discussion contained confidential or exempt information as defined by law in the Local Government (Access to Information) Act 1985. This was because it discussed 'information relating to the financial or business affairs of any particular person (including the authority holding that information)' (paragraph 3 of the schedule to the Act).*

57.	**CUSTODIAN APPOINTMENT** *(Agenda Item 14)* *This item was discussed as a Part II item without the press or public present as the information under discussion contained confidential or exempt information as defined by law in the Local Government (Access to Information) Act 1985. This was because it discussed 'information relating to the financial or business affairs of any particular person (including the authority holding that information)' (paragraph 3 of the schedule to the Act).*
58.	**APPOINT INDEPENDENT ADVISER** *(Agenda Item 15)* *This item was discussed as a Part II item without the press or public present as the information under discussion contained confidential or exempt information as defined by law in the Local Government (Access to Information) Act 1985. This was because it discussed 'information relating to the financial or business affairs of any particular person (including the authority holding that information)' (paragraph 3 of the schedule to the Act).*
	The meeting, which commenced at 5.00 pm, closed at 7.24 pm.

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

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Minutes

PENSIONS COMMITTEE

9 May 2024

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

	Committee Members Present: Councillors Reeta Chamdal (Chair) Kaushik Banerjee (Vice-Chair) John Riley Stuart Mathers Tony Burles	
59.	**ELECTION OF CHAIR** *(Agenda Item 1)* **RESOLVED: That Councillor Reeta Chamdal be elected as Chair of the Pensions Committee for the 2024/2025 municipal year.**	**Action by**
60.	**ELECTION OF VICE-CHAIR** *(Agenda Item 2)* **RESOLVED: That Councillor Banerjee be elected as Vice-Chair of the Pensions Committee for the 2024/2025 municipal year.**	**Action by**
	The meeting, which commenced at 9.05 pm, closed at 9.10 pm.	

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

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Pensions Administration & Performance	Item 5

Committee	Pensions Committee
Contact Officers	Tunde Adekoya – Finance
Papers with this report	Hampshire Administration Annual Report 2023/24 – on shared drive

REASON FOR ITEM

The provision of administration services for the Hillingdon Pension Fund is delivered in partnership with Hampshire County Council (HCC) under a section 101 agreement. The agreement includes Key Performance Indicators (KPIs) which are generally consistent with national standards.

The purpose of this report is to update the Pension Board on pensions administration activities and the performance of the administration providers against the agreed indicators.

This report also provides an update on regulatory and governance matters relating to the pension fund and compliance with the Pensions Regulatory Code of Practice 14.

RECOMMENDATIONS

1. That the Pensions Board note this update

INFORMATION

The March 2024 Annual report was distributed to both Pensions Committee and Pension Board. The report summarises the work and achievements of the partnership throughout 2023/24.

In addition, the Corporate Directors of Finance for both Hillingdon and Hampshire met with officers to discuss and evaluate the performance of the partnership over the year.

Highlights include:

- 100% delivery against performance targets.
- Improved data quality overall – increased TPR conditional data score and high rate of benefit statement production reflect the annual returns, historic leaver, and day-to-day work completed throughout the year.
- 99.38% of active benefit statements and 100.00% of deferred benefit statements produced and published within the statutory deadline.
- Continued increase in Member Portal registrations – 43.06% of all members registered.
- Low number of complaints in comparison to the total membership and casework processed.

- Significant development of our online services for both Members and Employers.
- Significant work undertaken and processes implemented to monitor and improve Cyber Security.
- Achieved re-accreditation of Customer Service Excellence award, with 6 ‘compliance pluses’ where expectations are exceeded.

Audit of HPS is an on-going process and below are the position of 2023/24 pension audits:

Audit Area	Timing
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.	Completed – Substantial assurance confirmed
UPM – Application Review: ***(This has been identified as a new audit review area)*** Assurance over the management of the UPM application, including supporting infrastructure such as servers, databases, pre-production environments and system changes.	Completed – Reasonable assurance confirmed.
Pensions Payroll and Benefit Calculations: Annual review to provide assurance that systems and controls ensure that: - • Lump sum and on-going pension payments are calculated correctly, are valid and paid to the correct recipients. • All changes to on-going pensions are accurate and timely. • Pension payroll runs are accurate, complete, timely and secure with all appropriate deductions made and paid over to the relevant bodies.	Completed – Substantial assurance confirmed

Future audit areas planned for 2024/25 include

Audit Area	Timing
Pension leavers Audit of the controls to ensure accurate, prompt and complete administration of pension leavers, including the production of on-going annual benefit statements within agreed timescales, by HPS.	Quarter 2/3
Pension starters Review of the control framework to support appropriate, complete and prompt admission of new starters to the various pension schemes administered by HPS.	Quarter 3
Cyber Security To provide assurance over the cyber security arrangements within HPS.	Quarter 3

Pensions payroll and benefit calculations Annual review to provide assurance that Hampshire Pension Services' (HPS) systems and controls ensure that:- • Lump sum and on-going pension payments are calculated correctly, are valid and paid to the correct recipients; • All changes to on-going pensions are accurate and timely; • Pension payroll runs are accurate, complete, timely and secure with all appropriate deductions made and paid over to the relevant bodies.	Quarter 3/4

Historic leavers
The historic back backlog continues to be cleared with 3287 of the 4158 cases now cleared. This leaves 871 remaining.

FINANCIAL IMPLICATIONS
Financial implications are included in the body of the report.

LEGAL IMPLICATIONS
Legal implications have been included in the body of the report.

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External Audit Update — Item 6

Committee name	Pensions Committee
Officer reporting	James Lake, Finance
Papers with report	2022/23 Draft Pension Fund Audit Results Report 2023/24 EY Audit Plan London Borough of Hillingdon Pension Fund
Ward	All

HEADLINES

The attached reports were taken to the Audit Committee in April 2024 as the committee charged with governance. They are now brought to Pensions Committee for noting.

The 2022/23 Pension Fund audit is materially complete with only minor items outstanding. It is expected the audit opinion will state the Pension Fund financial statements give a true and fair view of the financial transactions of the Fund and the statements have been properly prepared in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting.

The initial plans for the 2023/24 Pension Fund audit detail the approach to the audit, including a broad timetable which should enable the whole process to be completed around November 2024. Whilst the Pension Fund forms part of the Council's published Financial Statement of Accounts, a separate plan is prepared for that audit.

RECOMMENDATIONS:

That the Committee:

1. **Note this report**

SUPPORTING INFORMATION

2022/23 Pension Fund Audit Results Report

The 2022/23 Pension Fund audit is materially complete. Since the issue of the report to the Audit Committee two outstanding areas have progressed. Once the government confirm the outcome of the recent consultation EY will be in a position to issue the final Audit Results Report. The following remains outstanding:

- Review of audit work by the Engagement Partner and Quality Control Reviewer, which could lead to further queries
- Receipt and check of a signed accounts and a signed letter of management representation

The report gives a provisional audit assessment stating:

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 2023 and the amount and disposition at that date of its assets and liabilities; and
- have been properly prepared in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2022/23.

Fees attributable to this audit are forecast to be between £67,738 and £77,738 (2021/22 £75,307).

Pension Fund Audit Plan

Timeline
As with the Council, EY undertook interim audit work between February and early April 2024. The Pension Fund main audit will run alongside the Council audit and is forecast to be completed in November 2024.

Materiality
Materiality remains unchanged on a basis of 1.0% of the prior year's net assets of the fund, which for 2022/23, which for planning is estimated as £11.8m (2021/22 £11.6m). Based on this amount, EY have set a 75% performance materiality of £8.9m They expect to report on all unadjusted misstatements greater than £0.6.

Key Financial Statement Risks
The plan highlights the key audit risks, these being the main areas on which specific audit work will focus. For 2022/23 there has been no change with audit risk areas including:

- Misstatement due to fraud or error
- Risk of incorrect valuation of level 3 unquoted investments
- Classification of level 2 and 3 investments
- IAS26 Disclosure Actuarial Present Value of Promised Retirement Benefits.

Fees
EY forecast scale fees to be £81,688 for the main audit with an additional £6,500 for separate IAS19 assurance work.

Financial Implications
Included within the body of this report.

Legal Implications
Included within the body of this report.

Hillingdon Pension Fund
Provisional Audit Results Report

Year ended 31 March 2023

April 2024

Building a better working world

Hillingdon Pension Fund

18 April 2024

Dear Audit Committee/Pension Committee Members,

2022/23 Provisional Audit Results Report

We are pleased to attach our Provisional Audit Results Report, summarising the status of our audit for the forthcoming meeting of the Audit Committee. We will update the Audit Committee at its meeting scheduled for 30 April 2024 on further progress to that date and explain the remaining steps to the issue of our final opinion.

The audit is designed to express an opinion on the 2023 financial statements and address current statutory and regulatory requirements. This report contains our findings related to the areas of audit emphasis, our views on Hillingdon Pension Fund's accounting policies and judgements and material internal control findings. Each year sees further enhancements to the level of audit challenge, the exercise of professional judgement and the quality of evidence required to achieve the robust professional scepticism that society expects. We thank the management team for supporting this process. Our audit work is still in progress and we will provide a final report to the Committee once all our work has been completed.

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

We welcome the opportunity to discuss the contents of this report with you at the Audit Committee meeting on 30 April 2024.

Yours faithfully

Debbie Hanson

Debbie Hanson

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.psaa.co.uk/managing-audit-quality/statement-of-responsibilities-of-auditors-and-audited-bodies/psaa-statement-of-responsibilities-of-auditors-and-audited-bodies-upto-2022-23/). 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 from July 2021" 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 London Borough of Hillingdon Council and Hillingdon Pension Fund in accordance with our engagement letter. 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 London Borough of Hillingdon Council and 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

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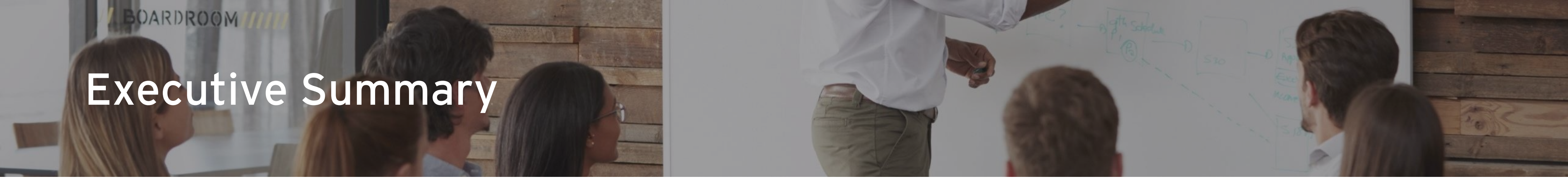


Executive Summary

Scope update

In our Provisional Audit Planning Report presented to the 7 November 2023 Audit Committee meeting, we provided you with an overview of our audit scope and approach for the audit of the financial statements. We carried out our audit in accordance with this Plan with one exception were we have updated our risk assessment to remove the risk of material misstatement arising from investment income journals, as detailed in Section 02 of this report. There were no other changes in scope of the audit.

Status of the audit

Our audit work in respect of the Hillingdon Pension Fund 2022/23 audit is substantially complete, subject to final Partner review. The following items relating to the completion of our audit procedures were outstanding at the date of this report:

- Completion of going concern and subsequent events procedures up to the date of our audit report;
- Completion of membership numbers, where we are still evaluating responses to queries raised to the fund administrator;
- Review of audit work by the Engagement Partner and Quality Control Reviewer, which could lead to further queries.
- Receipt and check of a signed accounts and a signed letter of management representation.

Details of each outstanding item, actions required to resolve them and responsibilities are included in Appendix B.

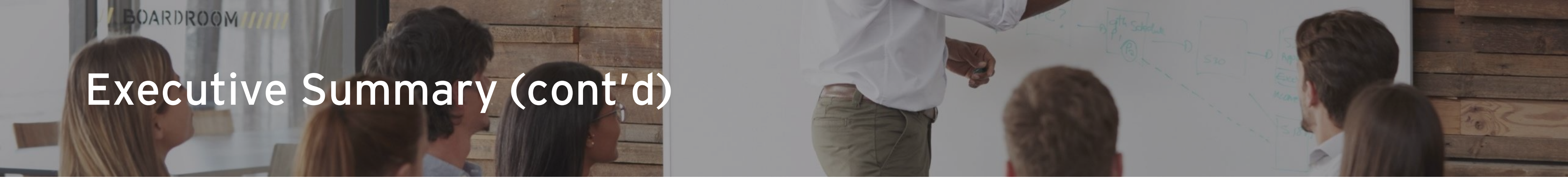
Given that the audit process is still ongoing, we will continue to challenge the remaining evidence provided and the final disclosures in the Financial Statements which could influence our final audit opinion, a current draft of which is included in Section 03 of this report.

Audit differences

We have identified the following audit differences, based on work completed to date:

- Understatement of investment asset valuations in the financial statements of £2.7 million, due to the provision of more up to date valuations.
- A misstatement between investment income and profit and loss on disposal of investments and changes in market value of £4.3 million. This was mainly due the fact that the distribution by LCIV MAC Fund was processed as a cash distribution rather than a re-investment of dividends. Management did not identify this error because the year end valuation matched that of the fund manager.
- Differences in relation to the fair value hierarchy classification of investments. The classification was based on previous year's (2021/22) classification. The fund manager had not informed management of any changes in valuation techniques from the previous year and as a result management did not make any changes to the classification. There was no net impact on the financial statement investment disclosures as the two differences between level 2 and level 3 netted to zero. The gross adjustment is £64.3 million.
- Other minor audit differences in the financial statement disclosures.

For further information on audit differences refer to Section 04 of this report. Until our audit is complete further differences may be identified.



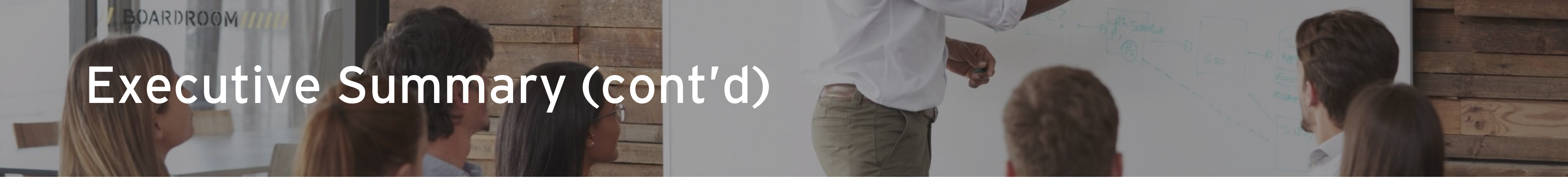
Executive Summary (cont'd)

Areas of audit focus

In our Provisional Audit Plan, we identified a number of key areas of focus for our audit of Hillingdon Pension Fund. This report sets out our observations and the status of our work 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 explained within the 'Areas of Audit Focus' section of this report and summarised below. The audit work in a number of areas remains subject to Partner, as noted below and throughout this report.

Fraud risks	Findings & conclusions
Misstatements due to fraud or error (management override)	We carried out procedures to address this risk as set out in our Provisional Audit Plan, including identifying risks, considering controls and their effectiveness, testing journal entries and testing estimates for evidence of management bias. Subject to review, we have completed our work in this area and have no matters to bring to your attention.
Misstatement due to fraud or error (incorrect posting of investment valuation journals)	We carried out our planned audit procedures to address the risk related to incorrect posting of investment valuation journals. This included a reconciliation between the fund manager reports and the custodian reports to address the risk of manipulation of investment asset valuations. Subject to final review, we have completed our audit procedures and have identified an audit difference of £2.7 million that understated the investment asset valuations as reported in the Pension Fund's Financial Statements compared to the value reported by the fund manager. This misstatement was due to the due to more up to date valuations by the fund managers, as noted below, and is not an indication of fraud.

Significant risk	Findings & conclusions
Incorrect valuation of unquoted (Level 3) investments	We undertook additional procedures, as described more fully in Section 02 of this report, to gain assurance over the material accuracy of the year-end valuation of the Pension Fund's Level 3 complex investments, which are inherently more difficult to value. We have completed our work in this area and final review is in progress. We identified an understatement of £2.7 million in the valuation of investment assets. This is due to differences in values reported by the fund managers compared to the figures included in the financial statements. This was due to the fund managers having more to up date information on the asset valuations compared to the custodian at the time the Pension Fund prepared it's financial statements.
Higher inherent risk	**Findings & conclusions**
IAS26 disclosure – Actuarial present value of promised retirement benefits	We carried out procedures to address this risk as set out in our Provisional Audit Plan. Subject to review, we have completed these procedures and have no matters to bring to your attention.



Executive Summary (cont'd)

Control observations

During the course of the audit we have identified the following control observations which we wish to bring to your attention:

- Weakness in the review controls with regards to disclosure of membership numbers as a result of the processing of the backlog unprocessed records, which led to the incorrect disclosure in the Pension Fund accounts submitted for audit. There remains a backlog in processing new members and therefore we recommend that management undertake a detailed review of the new joiners listing to ensure members are disclosed in the correct category going forward. We would also recommend that management review year-end membership numbers to ensure movements in numbers can be explained relative to the contributions received for the year.

- 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 of £62.3 million. Although there is an element of judgment in the fair value hierarchies classification, strengthening controls around the identification and documentation of observable and unobservable inputs used in valuations would minimise the risk of such audit findings in the future.

- Weaknesses in the procedures in place for the Pension Fund to obtain declarations of interests from Members of the Pensions Committee and the Audit Committee. Two out of the five required declarations were not initially obtained by management and were also not on the Pension Fund/Council website. Although these were subsequently provided, the failure to obtain such declarations on a timely basis exposes the Pension Fund to the risk that they may not be able to obtain the required declarations retrospectively, for example If a member resigns before the declaration is received. In this situation, management would not have sufficient audit evidence to confirm if the member engaged in related party transactions and alternative audit procedures would need to be performed.

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Further detail on control observations is included in Section 06

Independence

Please refer to Section 07 for our update on Independence.

02 Areas of Audit Focus

Areas of Audit Focus

Misstatements due to fraud or error

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.

We have considered where this risk specifically manifests itself and this is in the posting of investment valuation journals. This consideration is set out on the next page.

What judgements we focused on?

The risk of management override at Hillingdon Pension Fund is mainly through the possibility that management could override controls and manipulate financial transactions which intend to adjust the Pension Fund's Fund Account or Net Asset Statement.

This could be done through manipulation of manual adjustments, including via manual journals, in the preparation of financial statements or through management bias in accounting estimates.

Our response to the key areas of challenge and professional judgement

- 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 considered the effectiveness of management's controls designed to address the risk of fraud.
- We tested the appropriateness of journal entries recorded in the general ledger and other adjustments made in preparing the financial statements.
- We reviewed accounting estimates for evidence of management bias.
- We evaluated the business rationale for any significant unusual transactions.
- 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 for business rationale.

What are our conclusions?

Subject to review, our procedures to address this risk are complete.

We have not identified any material weaknesses in controls or evidence of material management override.

We have not identified any instances of inappropriate judgements being applied.

We did not identify any evidence of management bias in relation to accounting estimates.

Our journal testing did not identify any journal entries without a valid business purpose.

We did not identify any other transactions during our audit which appeared unusual or outside Hillingdon's Pension Fund's normal course of business.

Areas of Audit Focus

Misstatements due to fraud or error: Incorrect posting of investment valuation journals

What is the risk?

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.

We have considered the key areas where management has the opportunity and incentive to specifically override controls that could affect the Pension Fund's Financial Statements. We have identified the main risk to be the incorrect posting investment valuation journals.

What are the key judgement?

The posting of incorrect investment valuation journals at year end to the Pension Fund's general ledger would impact the performance and funding level of the Pension Fund's investment assets as reported in the Net Asset Statement.

Our response to the key areas of challenge and professional judgement

- We performed a reconciliation to test the agreement of the Pension Fund's investment asset holdings as at 31 March 2023, including asset values, to source reports from the Pension Fund's custodian and individual fund managers.
- We tested any significant reconciling amounts between the investment asset valuations as reported in the Pension Fund's Net Asset Statement compared to the custodian's investment report as of 31 March 2023.

What are our conclusions?

Subject to review we have completed our procedures in relation to investment valuation journals.

We have not identified any indication of management override in relation to investment journals

Refer to Section 04 for more detail on audit differences.

Areas of Audit Focus

Valuation of complex investments (including level 3 investments)

What is the risk?

The Fund's investments include unquoted investment vehicles such as private equity and pooled property funds. We have identified the valuation of these investments, which are classified as complex investments, as an area of specific risk.

Judgements are taken by the Fund Managers to value those investments whose prices are not publicly available. The material nature of the 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. These investment types made up 15% of the fund's total net assets as per the 2022/23 draft account. As these investments are more difficult to value, we have assessed the valuation of these investments as a significant risk, as even a small movement in the assumptions could have a material impact on the financial statements

What judgements are we focused on?

Level 3 investment asset valuations, including the net asset values of each of the individual underlying investments funds. We also considered the potential changes in values where the date of valuation information where is not coterminous with the Pension Fund's year end date of 31 March 2023.

Our response to the key areas of challenge and professional judgement

For a sample of Level 3 investments we:

- Reviewed the basis of valuation for property investments and other unquoted investments and assessed the appropriateness of the valuation methods used;
- Where available, reviewed the latest audited accounts for the relevant fund managers and ensured there are no matters arising that highlight material differences in the reported funds valuation within the financial statements;
- If the latest audited accounts are issued at a different date compared to the reporting date of the Pension Fund, we performed a roll forward procedures to support the valuation of the investments as of 31 March 2023. These included benchmark indexation for similar assets and analysis of cash movements in the gap period as well as gaining an understanding of what the Pension Fund has done to assess how the valuations are still materially correct as at 31 March 2023
- Performed analytical procedures and checked the valuation output for reasonableness against our own expectations;
- Obtained and reviewed internal control reports for fund managers to identify any internal control issues which could impact on valuations and assessed whether these would have an impact on the valuations provided by the fund managers;
- Reviewed investment valuation disclosures to verify that significant judgements supporting the valuation of level 3 investments have been disclosed in the Pension Fund's financial statements.

What are our conclusions?

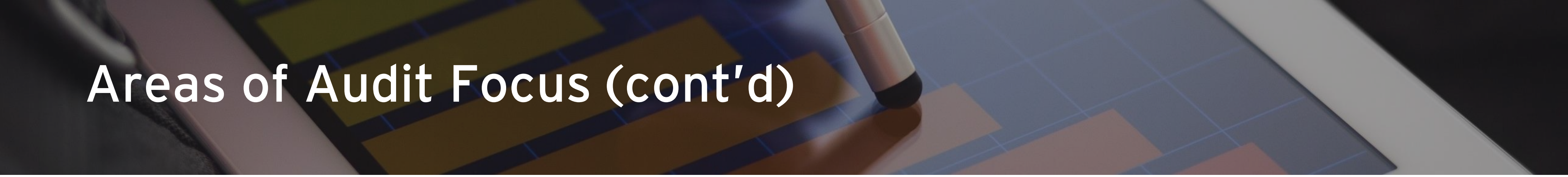
We have completed our audit procedures related to this risk, including manager and partner review.

We identified audit differences in the valuation of Level 3 investment assets. In total, these audit differences understate the Pension Fund's investment asset value by £2.7 million. These differences were identified based on more up to date valuation reports from the investment fund managers that were not available to the Pension Fund at the time of preparation the draft financial statements.

In addition, we identified a reclassification misstatement between Level 2 and Level 3 investment of £64,3 million.

We were satisfied that the Pension Fund's disclosures of significant judgements surrounding the valuation of Level 3 investments were appropriate

Refer to Section 04 for more detail on audit differences.



Areas of Audit Focus (cont'd)

IAS 26 disclosure – Actuarial present value of promised retirement benefits

What is the risk/area of focus

The Fund's IAS 26 calculation shows that the present value of promised retirement benefits amount to £1,457 million as at 31 March 2023 (£1,965 million as at 31 March 2022).

The figure is 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 2022, 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 2023.

What did we do?

We have:

- Evaluated whether the IAS26 disclosure is in line with the relevant standards and consistent with the valuation provided by the Actuary.
- Engaged EY Pensions to review the roll forward procedures associated with the IAS 19 reports for the London Borough of Hillingdon which makes up 84% of the total pension fund asset and supports the our IAS 26 disclosures work.
- Evaluated and placed reliance on EY Pension's and PwC's review of the underlying pension IAS19 assumptions used by the actuary, which also support the IAS26 figures.
- Assessed the competence of management experts, Hymans Robertson as the Pension Fund's actuary.
- Performed audit procedures to assess the accuracy of membership numbers provided to the actuary and included in the 31 March 2022 Triennial Report

Subject to review, we have not identified any issues from these procedures.

03 Audit Report

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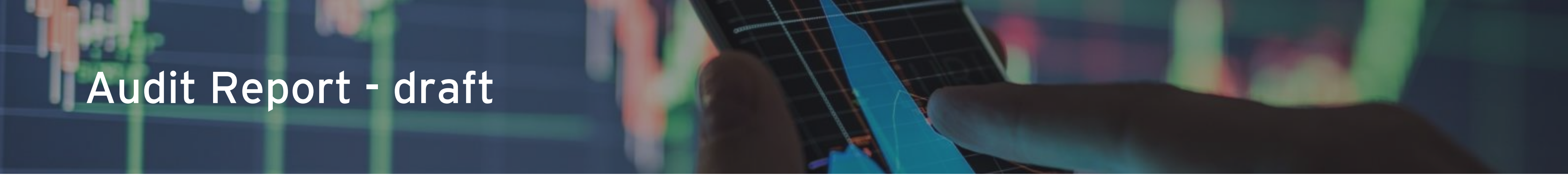

Audit Report - draft

Draft audit report

Please note our audit opinion is draft subject to the resolution of outstanding matters for the audit as detailed in Appendix B.

Our opinion on the financial statements

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

Opinion

We have audited the Pension Fund ("the Fund") financial statements for the year ended 31 March 2023 under the Local Audit and Accountability Act 2014 (as amended). The pension fund financial statements comprise the 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 2022/23.

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 2023 and the amount and disposition at that date of its assets and liabilities; and
- have been properly prepared in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2022/23.

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 authority's ability to continue as a going concern to [insert date - at least 12 months from the date of the audit report].

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 authority's ability to continue as a going concern.

Other information

The other information comprises the information included in the Statement of Accounts 2022/23, 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 2022/23.

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.

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Please note our opinion could be affected by items still pending as noted in section 1

Our opinion on the financial statements

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

We have nothing to report in this regard.

Matters on which we report by exception

We report to you if:

- we issue a report in the public interest under section 24 of the Local Audit and Accountability Act 2014 (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 Corporate Director of Finance's Responsibilities set out on page 50, the Corporate Director of Finance is responsible for the preparation of the Council'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 2022/23, 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 Corporate Director of Finance .

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Audit Report (cont'd)

Please note our opinion could be affected by items still pending as noted in section 1

Our opinion on the financial statements

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 enquires of the management. We corroborated this through our reading of the Pension Board minutes, through enquiry of employees, and through the inspection of other information.
- Based on this understanding, we designed our audit procedures to identify non-compliance with such laws and regulations. Our procedures involved making enquiries of the management for their awareness of any non-compliance of laws or regulations, inspecting correspondence with the Pensions Regulator and review of minutes.
- 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.
- 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.
- To address our fraud risk we tested the consistency of the investment asset valuations from the independent sources of the custodian and the fund managers to the financial statements.
- 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 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.

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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 the London Borough of Hillingdon and its members as a body, for our audit work, for this report, or for the opinions we have formed.

Debbie Hanson (Key Audit Partner)
Ernst & Young LLP (Local Auditor)
Luton
Date

04 Audit Differences

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Audit Differences (cont'd)

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Summary of audit differences

We have detailed in this section the identified audit differences. We have yet to agree with management which differences will be amended for in the final audited financial statements. Until our audit is fully complete further differences may be identified.

For any audit differences that are not amended by management, we will ask the Audit Committee to request of management that the uncorrected audit differences be corrected or a rationale as to why they are not corrected be considered and approved by the Audit Committee and provided within the Letter of Representation.

Identified audit differences 31 March 2023 (£'000)	Effect on the current period:		Net assets (Decrease)/Increase			
	OCI Debit/(Credit)	Fund Account Debit/(Credit)	Assets current Debit/(Credit)	Assets non-current Debit/(Credit)	Liabilities current Debit/(Credit)	Liabilities non-current Debit/(Credit)
Errors						
Known differences:						
► **Investment assets:** Understatement of level 3 investment valuation due to timing difference compared to investment fund manager reports		(2,684)		2,684		
► **Investment income:** Recognition of investment income incorrectly accounted for as a profit on loss on disposal of investment		4,285				
► Profit and losses on disposal of investments and changes in market value of investments: See above		(4,285)				
Overall financial statement impact:		(2,684)		2,684		
Disclosure misstatements						
Note 14: Fair value investment disclosures; Misclassification of £0,985 million relating to level 2 assets (Nuveen Retail Warehouse Fund) which should be classified as level 3. Misclassification of £63,290 million relating to level 2 assets (**AEW UK Core Property Fund Plus**) which should be classified as level 3.						
Note 14: Realised loss of £4,333k relating to private equity was incorrectly accounted for as an unrealised loss						

Further audit differences may be identified in relation to the outstanding matters as set out in Appendix B.

05 Other Reporting Issues

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Other Reporting Issues

Consistency of other information published with the financial statements

We must give an opinion on whether other information published together with the audited financial statements is consistent with the financial statements We have no inconsistencies to draw to your attention.

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 currently in process.

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 Authority 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 Authority, copied to the Secretary of State, and take action in accordance with our responsibilities under the Local Audit and Accountability Act 2014.

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We had no reason to exercise these duties in relation to Hillingdon Pension Fund.

Other matters

As required by ISA (UK&I) 260 and other ISAs specifying communication requirements, we must inform you of significant findings from the audit and other matters if they are significant to your oversight of the Fund's financial reporting process.

We have undertaken additional testing undertake this year to provide assurance on the Pension Fund membership data that was submitted to the actuary for the 31 March 2022 triennial valuation of the Pension Fund. In total, we sample tested 25 member records, checking information back to source evidence to verify the data points contained in the Pension Fund's membership system were accurate.

We identified a number of differences as part of this work and are still awaiting responses from the fund administrator in relation to these.

We are only required to conduct procedures on the triennial membership submission once every 3 years. Therefore, there is an additional fee this year for completion of these procedures. This is set out in Section 07 of this report.

Other Reporting Issues

Other matters (Continued)

There have been delays in the completion of the audit this year due to issues with the reconciliation of membership numbers, mainly related to the processes related to the clearing of the historical backlog. This impacted the audit of membership contributions, as the difference between our expectation and the amount recorded in the Pension Fund accounts exceeded our allowable threshold. There will be an additional audit fee associated with the additional time it has taken the audit team to progress the audit as the result of these issues. This additional audit fee is set out in Section 07 of this report.

Except for our observations on the control environment, as set out in Section 06 of this report, we have no other matters to report.

Other Reporting Issues

ISA (UK) 315 (Revised): Identifying and Addressing the Risks of Material Misstatement

ISA 315 revised is effective from financial year 2022/23 onwards and is the critical standard which drives the auditor's approach to the following areas:

- Risk assessment
- Understanding the entity's internal control
- Significant risks
- Approach to addressing significant risk (in combination with ISA 330)

The International Auditing & Assurance Standards Board (IAASB) concluded that whilst the existing version of the standard was fundamentally sound, feedback determined that it was not always clear, leading to a possibility that risk identification was not consistent. The aims of the revised standard is to:

- Drive consistent and effective identification and assessment of risks of material misstatement
- Improve the standard's applicability to entities across a wide spectrum of circumstances and complexities ('scalability')
- Modernise ISA 315 to meet evolving business needs, including:
  - how auditors use automated tools and techniques, including data analytics to perform risk assessment audit procedures; and
  - how auditors understand the entity's use of information technology relevant to financial reporting.
- Focus auditors on exercising professional scepticism throughout the risk identification and assessment process.

We set out the findings and conclusions from our work to implement ISA 315 in the table below.

Audit Procedures	Audit findings and conclusions
We obtained an understanding of the IT processes related to the IT applications of the Fund. The Fund has two relevant IT applications for the purposes of ISA 315 risk assessment. We performed procedures to determine if there are typical controls missing or control deficiencies identified and evaluated the consequences for our audit strategy. When we have identified controls relevant to the audit that are application controls or IT-dependent manual controls, where we do not gain assurance substantively, we performed additional procedures to assess: • Manage entity-programmed changes IT process • Manage vendor supplied changes • Manage security settings • Manage user access • Job scheduling and managing IT process.	Our work in this area is complete subject to review. Based on the procedures performed, no significant issues were identified in our review of the various processes, including the design and implementation effectiveness of relevant controls around the financial statement close process. We have not tested the operation of any controls through this review.

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06 Assessment of Control Environment

Assessment of Control Environment

Financial controls

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. 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.

During the course of the audit we have identified three areas of weakness in relation to the Pension Fund's control environment. We have summarised these weakness and associated recommendations (along with the risk rating) below:

1) Weakness in the review controls with regards to the disclosure of membership numbers in relation to the capturing of information related to the backlog of unprocessed records. (Moderate). *Recommendations*

- Management should review the membership numbers provided by the administrator for reasonableness in comparison to prior year.
- Management should ensure the correct categorisation of members captured in the current year relating to the backlog of unprocessed records.
- As part of management's quality review process for the preparation of the financial statements, management should review the relationship between the movement in membership numbers and contributions and have supporting working papers explaining where there are disparities.

2) Weakness in the identification and documentation of observable and unobservable inputs used in valuations of level 2 and Level 3 investments. This was also reported in the prior year. (Moderate) *Recommendations*

- Management should strengthen controls around the identification and of observable and unobservable inputs used in valuations. This would minimise the risk of such audit findings in the future.

3) Weaknesses in the procedures in place for the Pension Fund to obtain declarations of interests from Members of the Pensions Committee and the Audit Committee. (Low) *Recommendations*

- Management should review the processes it has in place to obtain declarations of interest from members.

The table below provides an overview of the 'high' 'moderate' and 'low' rated observations we have from the 2022/23 audit.

	High	Moderate	Low	Total
Open at beginning of 2022/23	0	1	0	1
New points raised in 2022/23	0	1	1	2
Total open recommendations	0	2	1	3

Key:

A weakness which does not seriously detract from the internal control framework. If required, action should be taken within 6-12 months.

Matters and/or issues are considered to be of major importance to maintenance of internal control, good corporate governance or best practice for processes. Action should be taken within six months.

Matters and/or issues are considered to be fundamental to the mitigation of material risk, maintenance of internal control or good corporate governance. Action should be taken either immediately or within three months.

The matters reported on the next slide are limited to those that we identified during the audit and that we concluded are of sufficient importance to merit being reported to you.

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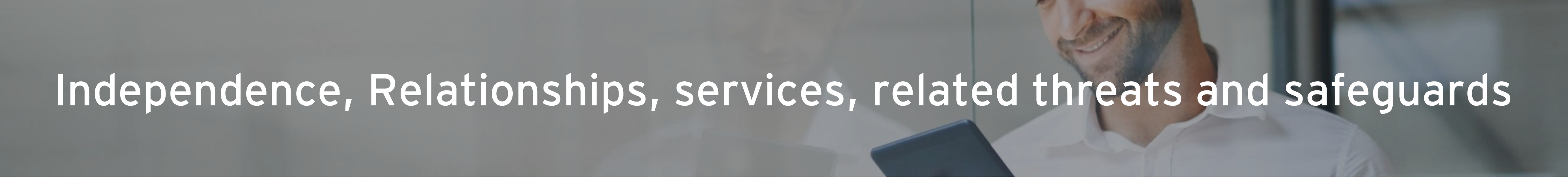
07 Independence



Independence, Relationships, services, related threats and safeguards

Confirmation

We are not aware of any inconsistencies between Ernst & Young (EY)'s policy for the supply of non-audit services and FRC Ethical Standard. We are not aware of any apparent breach of that policy.

We confirm that, in our professional judgment, EY is independent, our integrity and objectivity is not compromised and we have complied with the FRC Ethical Standard.

We confirm that your engagement team (partners, senior managers, managers and all others involved with the audit) and others within the firm, the firm and network firms have complied with relevant ethical requirements regarding independence.

Relationships

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 the 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 2022 to the date of this report which we consider may reasonably be thought to bear on our independence and objectivity.

EY Transparency Report 2023

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

Details of the key policies and processes in place within EY for maintaining objectivity and independence can be found in our annual Transparency Report which the firm is required to publish by law. The most recent version of this Report is for the year end 30 July 2023:

EY UK 2023 Transparency Report | EY UK https://www.ey.com/en_uk/about-us/transparency-report

Independence, Relationships, services, related threats and safeguards

Services provided by Ernst & Young

There are no services provided by EY from 1 April 2022 to the date of this report, which we consider may reasonably be thought to bear on our independence and objectivity.

The table includes a summary of the fees due to EY in line with the disclosures set out in FRC Ethical Standard and in statute. Full details of the services that we have provided and the related threats and safeguards are included below.

We highlight in the table below the most significant services that may be reasonably considered to bear upon our integrity, objectivity and independence.

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	Current Year 2022/23	Current Year 2022/23	Prior Year 2021/22
	Proposed fee £	Planned fee £	Proposed fee £
Scale Fee – Code work	24,954	24,954	16,170
Changes in work required to address professional and regulatory requirements and scope associated with risk – Note 1	8.784	8,784	17,719
Additional fee for the provision of IAS19 assurance letters (2021/22) - Note 2	NA	N/A	6,000
Additional fee with respect to testing of triennial membership data submissions – Note 3	8,700	5,500	0
Additional fees charged for specific in year risks - Note 3	£20,000 to £30,000	TBC	35,418
Total fees	**67,738 to £77,738**	**TBC**	**75,307**

Note 1 – We do not believe that the current scale fee reflects the changes in the audit market and increases in regulation since the most recent PSAA tender exercise. For 2021/22 and 2022/23, we have therefore proposed increases to the scale fee to take into account a number of risk factors including: Procedures performed to address the risk profile of the Pension Fund; Additional work to address increase in Regulatory Standards; Client readiness and IT support for data analytics. For 2022/23 PSAA have increased the base scale fee, but in our view this still does not fully cover the additional work required and we will therefore be submitting a further proposed increase for 2022/23 for determination by PSAA. The final fee for 2021/22 is still to be determined by PSAA. For reference, the scale fee for the 2023/24 Hillingdon Pension Fund audit, as set by PSAA under the new local government sector audit contract, is £81,688.

Independence, Relationships, services, related threats and safeguards

Note 2 – We plan to charge an additional fee of to take into account the work required to respond to IAS19 assurance requests from admitted body auditors for 2021/22. As the audit of the London Borough of Hillingdon for 2022/23 is not currently planned to be undertaken, we have not been asked to provide similar assurances for 2022/23.

Note 3 - We will charge an additional fee of £8,700 with respect to detailed testing of the triennial membership submission to the actuary. We perform this testing on a triennial basis based on when the actuary conducts a full valuation of the Pension Fund. This work supports the assurance we need to obtain in relation to the IAS26 disclosures in the pension fund accounts as well as any IAS19 assurance letters. The fee for this will be finalised once the work is complete. At present, we expect the final fee to be higher than planned due to additional work we have had to undertake in this area. Fees for the membership testing are not subject to determination by PSAA.

Note 3 - The proposed additional fee range for 2022/23, includes additional procedures in relation to the following areas:

- additional testing of level 3 investment valuations,
- review by EY Pensions team to support procedures performed on the IAS 26 (actuarial present value of promised retirement benefits) disclosure
- Additional work by EY Pensions on the roll forward estimate of the net pension liability for the Council for 2022/23. We leverage this work, which is normally undertaken as part of the Council audit, to gain assurance over the IAS 26 processes and resulting disclosures.
- going concern assessment and disclosures,
- work to meet the requirements of the revised auditing standard ISA 540 (going concern) and ISA 240 (fraud assessment)
- Additional work to meet the requirements of ISA 315 (audit risk assessment, including IT risks). We have to perform additional risk assessment procedures to understand the Pension Fund's use of IT applications and controls. The estimated fee for this work is between £4,000 and £6,000
- inefficiencies in the execution of the audit due to incorrect membership numbers,
- additional audit procedures on investment disclosures as the result of identified audit differences

As the 2022/23 audit is in not yet concluded, we are not yet able to confirm the final fee for the specific additional procedures and identified risk areas as noted above. Our estimated additional fee with respect to the above areas is between £20,000 and £30,000. The final audit fee will be submitted to management and determined by PSAA.

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08 Appendices

Appendix A - Required communications with the Audit Committee

Required communications with the Audit Committee

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

		Our Reporting to you
Required communications	**What is reported?**	**When and where**
Terms of engagement	Confirmation by the audit committee of acceptance of terms of engagement as written in the engagement letter signed by both parties.	The statement of responsibilities serves as the formal terms of engagement between the PSAA's appointed auditors and audited bodies
Our responsibilities	Reminder of our responsibilities as set out in the engagement letter.	Audit planning report 7 November 2023
Planning and audit approach	Communication of the planned scope and timing of the audit, any limitations and the significant risks identified. When communicating key audit matters this includes the most significant risks of material misstatement (whether or not due to fraud) including those that have the greatest effect on the overall audit strategy, the allocation of resources in the audit and directing the efforts of the engagement team.	Audit planning report 7 November 2023
Significant findings from the audit	▸ 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	Audit planning report 7 November 2023

Appendix A - Required communications with the Audit Committee (cont'd)

		Our Reporting to you
Required communications	**What is reported?**	**When and where**
Going concern	Events or conditions identified that may cast significant doubt on the entity's ability to continue as a going concern, including: ▸ Whether the events or conditions constitute a material uncertainty related to going concern ▸ Whether the use of the going concern assumption is appropriate in the preparation and presentation of the financial statements ▸ The appropriateness of related disclosures in the financial statements	Provisional Audit results report – 19 April 2024
Misstatements	▸ Uncorrected misstatements and their effect on our audit opinion, unless prohibited by law or regulation ▸ The effect of uncorrected misstatements related to prior periods ▸ A request that any uncorrected misstatement be corrected ▸ Material misstatements corrected by management	Provisional Audit results report – 19 April 2024

Appendix A - Required communications with the Audit Committee (cont'd)

		Our Reporting to you
Required communications	**What is reported?**	**When and where**
Fraud	▸ Enquiries of the audit committee to determine whether they have knowledge of any actual, suspected or alleged fraud affecting the entity ▸ Any fraud that we have identified or information we have obtained that indicates that a fraud may exist ▸ Unless all of those charged with governance are involved in managing the entity, any identified or suspected fraud involving: 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 ▸ Matters, if any, to communicate regarding management's process for identifying and responding to the risks of fraud in the entity and our assessment of the risks of material misstatement due to fraud ▸ Any other matters related to fraud, relevant to Audit Committee responsibility.	Provisional Audit results report – 19 April 2024
Related parties	Significant matters arising during the audit in connection with the entity's related parties including, when applicable: ▸ Non-disclosure by management ▸ Inappropriate authorisation and approval of transactions ▸ Disagreement over disclosures ▸ Non-compliance with laws and regulations ▸ Difficulty in identifying the party that ultimately controls the entity	Provisional Audit results report – 19 April 2024

Appendix A - Required communications with the Audit Committee (cont'd)

		Our Reporting to you
Required communications	**What is reported?**	**When and where**
Independence	Communication of all significant facts and matters that bear on EY's, and all individuals involved in the audit, objectivity and independence. Communication of key elements of the audit engagement partner's consideration of independence and objectivity such as: ▸ 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 Communications whenever significant judgements are made about threats to objectivity and independence and the appropriateness of safeguards put in place. For public interest entities and listed companies, communication of minimum requirements as detailed in the FRC Revised Ethical Standard 2019: ▸ Relationships between EY, the company and senior management, its affiliates and its connected parties ▸ Services provided by EY that may reasonably bear on the auditors' objectivity and independence ▸ Related safeguards ▸ Fees charged by EY analysed into appropriate categories such as statutory audit fees, tax advisory fees, other non-audit service fees ▸ A statement of compliance with the Ethical Standard, including any non-EY firms or external experts used in the audit ▸ Details of any inconsistencies between the Ethical Standard and Fund's policy for the provision of non-audit services, and any apparent breach of that policy ▸ Where EY has determined it is appropriate to apply more restrictive rules than permitted under the Ethical Standard ▸ The audit committee should also be provided an opportunity to discuss matters affecting auditor independence	Audit planning report 7 November 2023 and Provisional Audit results report - 19 April 2024
External confirmations	▸ 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

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Appendix A - Required communications with the Audit Committee (cont'd)

		Our Reporting to you
Required communications	**What is reported?**	**When and where**
Consideration of laws and regulations	▸ 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	▸ Significant deficiencies in internal controls identified during the audit.	Provisional Audit results report – 19 April 2024
Written representations we are requesting from management and/or those charged with governance	▸ Written representations we are requesting from management and/or those charged with governance	Provisional Audit results report – 19 April 2024
Material inconsistencies or misstatements of fact identified in other information which management has refused to revise	▸ Material inconsistencies or misstatements of fact identified in other information which management has refused to revise	Provisional Audit results report – 19 April 2024
Auditors report	▸ Key audit matters that we will include in our auditor's report ▸ Any circumstances identified that affect the form and content of our auditor's report	Provisional Audit results report – 19 April 2024

Appendix B - Outstanding matters

Outstanding matters

The following items relating to the completion of our audit procedures are outstanding at the date of the release of this report:

Item	Actions to resolve	Responsibility
Going concern review and disclosures	Receipt of management's going concern assessment. EY to review and undertake audit procedures on the assessment and cash flow forecast.	Management and EY
Subsequent events review procedures	Completion of subsequent events procedures to the date of signing the audit report	EY and management
Partner and EQCR Review	Completion of review of audit file	EY
Management representation letter	Receipt of signed management representation letter	EY, management and Audit Committee
Annual Report and Financial Statements consistency	Review of the Pension Fund's Annual Report for consistency with the Pension Fund's financial statements within the administering authority's Statement of Accounts.	EY and management
Final signed accounts	Receipt and review of final set of financial statements to check agreed amendments. Signed approval of the accounts by s151 Officer.	EY and management

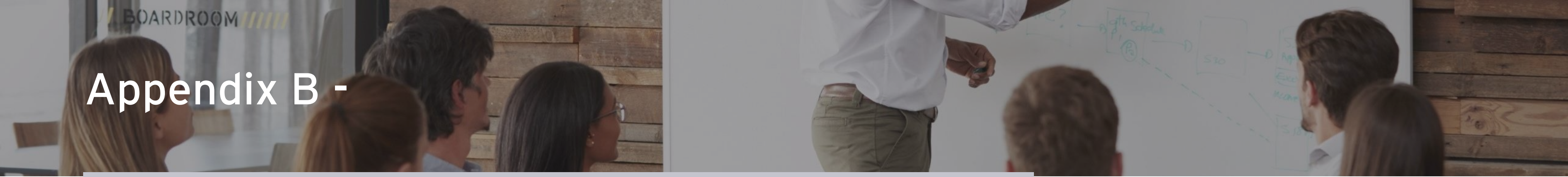
*See next page.

Appendix B - Outstanding matters

Outstanding matters

- We are currently unable to issue the final audit opinion on Hillingdon Pension Fund's financial statements until the audit report on the administering authority's (London Borough of Hillingdon) statement of accounts for 2022/23 is issued. This is currently under consideration as part of the proposals to clear the local audit sector backlog and at present we do not expect the audit report to be issued until September or October 2024. We will update the Committee if there is any change to this position.
- The Government proposals to clear the backlog in local audit and put the local audit system on a sustainable footing will impact on the audit of London Borough of Hillingdon's 2022/23 financial statements. The joint statement on the update to proposals to clear the backlog and embed timely audit recognises that timely, high-quality financial reporting and audit of local bodies is a vital part of the democratic system. Not only does it support good decision making by local bodies, by enabling them to plan effectively, make informed decisions and manage their services, it also ensures transparency and accountability to local taxpayers. All stakeholders have a critical role to play in addressing the audit backlog.
- As a result of the planned system wide implementation of backstop dates, the opinion on the London Borough of Hillingdon's 2022/23 accounts is likely to be disclaimed. We will issue our opinion on the Pension Fund accounts alongside our opinion on London Borough of Hillingdon's accounts once the final position regarding this is confirmed.

Until all our audit procedures are complete, we cannot confirm the final form of our audit opinion as new issues may emerge or we may not agree on final detailed disclosures in the financial statements and annual report. At this point, no issues have been identified that would cause us to modify our opinion. A draft of the current audit opinion is included in section 03 of this report.



Appendix B -

Context for the 2022/23 audit of London Borough of Hillingdon and Hillingdon Pension Fund – Department for Levelling-up, Housing and Communities (DLUHC) and Financial Reporting Council (FRC) measures to address local audit delays

Timely, high-quality financial reporting and audit of local bodies is a vital part of our democratic system. It supports good decision making by local bodies and ensures transparency and accountability to local taxpayers. There is general agreement that the backlog in the publication of audited financial statements by local bodies has grown to an unacceptable level and there is a clear recognition that all stakeholders in the sector will need to work together to address this. DLUHC has worked collaboratively with the FRC, as incoming shadow system leader, and other system partners, to develop measures to clear the backlog. The proposals, which have been developed to maintain auditor independence and enable compliance with International Standards on Auditing (UK) (ISAs (UK)), consist of three phases:

- Phase 1: Reset involving clearing the backlog of historic audit opinions up to and including financial year 2022/23 by 30 September 2024.
- Phase 2: Recovery from Phase 1 in a way that does not cause a recurrence of the backlog by using backstop dates to allow assurance to be rebuilt over multiple audit cycles.
- Phase 3: Reform involving addressing systemic challenges in the local audit system and embedding timely financial reporting and audit.

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To support the further development and testing of the measures, consultations are taking place to receive further feedback and inform the decision on how to proceed. Specifically:

- DLUHC has launched a consultation on changes to the Accounts and Audit Regulations 2015 to insert statutory backstop dates for historic financial statements and for the financial years 2023/24 to 2027/28.
- The National Audit Office (NAO) has launched a consultation on amending the Code of Audit Practice to :
    - Require auditors to issue audit opinions according to statutory backstop data for historic audits, and place specific duties on auditors to co-operate during the handover period for the new PSAA contract for the appointment of local authority auditors covering the years 2023/24 to 2027/28.
    - Allow auditors to produce a single value for money commentary for the period to 2022/23 and use statutory reporting powers to draw significant matters to the attention of councils and residents.
- The Chartered Institute of Public Finance and Accountancy (CIPFA) is expected to consult on temporary changes to the accounting code for preparation of the financial statements. The proposed temporary changes to the financial reporting framework have an impact on both how the financial statements are prepared and our audit procedures necessary to gain assurance.

Appendix D – Management representation letter

Management representation letter

The management representation letter as shown below is draft and subject to change pending resolution of the outstanding matters for the audit.

Management Rep Letter

Debbie Hanson
Ernst & Young
400 Capability Green
Luton
LU1 3LU

This letter of representations is provided in connection with your audit of the financial statements of Hillingdon Pension Fund ("the Fund") for the year ended 31 March 2023. 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 2022 to 31 March 2023, and of the amount and disposition at that date of its assets and liabilities as at 31 March 2023, other than liabilities to pay pensions and benefits after the end of the year, in accordance with applicable law and the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2022/23.

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 applicable law and the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2022/23 and for keeping records in respect of contributions received in respect of active members of the Fund.

2. We confirm that the Fund is a Registered Pension Fund. We are not aware of any reason why the tax status of the Fund should change.

3. We acknowledge, as members of management of the Fund, our responsibility for the fair presentation of the financial statements and the Summary of Contributions. We believe the financial statements referred to above give a true and fair view of the financial transactions and the financial position of the Fund in accordance with the applicable law and CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2022/23, and are free of material misstatements, including omissions. We have approved the-financial statements.

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 applicable law and CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2022/23 that are

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Appendix D – Management representation letter

Management representation letter

Management Rep Letter

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 and the effects of the conflict and related sanctions in Ukraine, Russia and/or Belarus on our system of internal controls.

6. There are no unadjusted audit differences identified during the current audit and pertaining to the latest period presented.

B. Non-compliance with laws and regulations, including fraud

1. We acknowledge that we are responsible to determine that the Fund's activities are conducted in accordance with laws and regulations and that we are responsible to identify and address 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 confirm that we are not aware of any breaches of the Payment Schedule/Schedule of Contributions or any other matters that have arisen which we considered reporting to the Pensions Regulator.

7. 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's business, its ability to continue in business, 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

Management Rep 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; and
   - 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 members of the management of the Fund and committees of members of the management of the Fund (or summaries of actions of recent meetings for which minutes have not yet been prepared) held through the period to the most recent meeting on the following date: *[list date]*

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

6. We confirm the completeness of information provided regarding annuities held in the name of the members of management of the Fund.

7. 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.

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

9. 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 the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2022/23.

Management representation letter

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10. From 27 September 2023 through the date of this letter we have disclosed to you, to the extent that we are aware, any (1) unauthorized access to our information technology systems that either occurred or is reasonably likely to have occurred, 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, and (2) ransomware attacks when we paid or are contemplating paying a ransom, regardless of the amount.

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 litigation and claims, both actual and contingent, and have disclosed in Note 23 to the financial statements all guarantees that we have 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 Fund's ability to continue as a going concern, including significant conditions and events, our plans for future action, and the feasibility of those plans. We do not intend to wind up the Fund. We are satisfied that the use of the going concern basis of accounting is appropriate in the preparation and presentation of the financial statements.

F. Subsequent Events

1. There have been no events, including events related to the COVID-19 pandemic, and including events related to the conflict and related sanctions in Ukraine, Russia and/or Belarus, 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 statement of accounts 22/23, other than the financial statements, the auditor's report and the statement about contributions.

2. We confirm that the content contained within the other information is consistent with the financial statements.

H. Independence

1. As members of management of the Fund, we are not aware of any matters which would render Ernst & Young LLP ineligible to act as auditor to the Fund.

Appendix D – Management representation letter

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I. Derivative Financial Instruments

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

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

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

K. Actuarial valuation

The latest report of the actuary Hyman Robertson as at 31 March 2023 and dated 15 September 2023 has been provided to you. To the best of our knowledge and belief we confirm that the information supplied by us to the actuary was true and that no significant information was omitted which may have a bearing on his report.

L. Estimates

Level 3 Investment Asset Valuation Estimate and Actuarial Present Value of Promised Retirement Benefits Estimate

1. We confirm that the significant judgments made in making the level 3 investment asset valuation estimate and actuarial present value of promised retirement benefits estimate 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 level 3 investment asset valuation estimate and actuarial present value of promised retirement benefits estimate.
3. We confirm that the significant assumptions used in making the level 3 investment asset valuation estimate and actuarial present value of promised retirement benefits estimate appropriately reflect our intent and ability to continue to maintain the pension fund investments for the purpose of management of the fund and payment of future benefits on behalf of the entity.
4. We confirm that the disclosures made in the financial statements with respect to the accounting estimate(s), 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 22/23.
5. We confirm that appropriate specialized skills or expertise has been applied in making the level 3 investment asset valuation estimate and actuarial present value of promised retirement benefits estimate.
6. We confirm that no adjustments are required to the accounting estimate(s) and disclosures in the financial statements, including due to the COVID-19 pandemic.

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Appendix D – Management representation letter

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M. Use of the Work of a Specialist

1. We agree with the findings of the specialist, Hymans Robertson as the Pension Fund's actuary, that we have engaged to value fund assets and liabilities 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.

N. Climate-Related Matters

1. Whilst recognising that the Climate Change Governance and Reporting Regulations do not cover the Local Government Pension Scheme, we confirm that to the best of our knowledge all information that is relevant to the recognition, measurement, presentation and disclosure of climate-related matters has been considered in the financial statements.

2. The key assumptions used in preparing the financial statements are, to the extent allowable under the requirements of United Kingdom Generally Accepted Accounting Practice aligned with the statements we have made in the other information or other public communications made by us.

Yours faithfully,

____

S151 Officer & Audit Committee Chair

Date

EY | Building a better working world

EY exists to build a better working world, helping to create long-term value for clients, people and society and build trust in the capital markets.

Enabled by data and technology, diverse EY teams in over 150 countries provide trust through assurance and help clients grow, transform and operate.

Working across assurance, consulting, law, strategy, tax and transactions, EY teams ask better questions to find new answers for the complex issues facing our world today.

Ernst & Young LLP

The UK firm Ernst & Young LLP is a limited liability partnership registered in England and Wales with registered number OC300001 and is a member firm of Ernst & Young Global Limited.

Ernst & Young LLP, 1 More London Place, London, SE1 2AF.

UKC-024050 (UK) 07/22. Creative UK.

ED None

ey.com/uk

Hillingdon Pension Fund
Outline Audit planning report

Year ending 31 March 2024

April 2024

18 April 2024

Audit Committee
London Borough of Hillingdon
Uxbridge
UB8 1UW Address

Dear Audit Committee Members

Outline Audit Planning Report

Attached is our Outline Audit Planning Report for the forthcoming meeting of the Audit Committee. The purpose of this report is to provide the Audit Committee of Hillingdon Pension Fund (the Fund) with a basis to review our proposed audit approach and scope for the 2023/24 audit, in accordance with the requirements of the Local Audit and Accountability Act 2014, the National Audit Office's 2020 Code of Audit Practice, the Statement of Responsibilities issued by Public Sector Audit Appointments (PSAA) Ltd, auditing standards and other professional requirements, but also to ensure that our audit is aligned with the Audit Committee's service expectations.

We have not yet fully completed our planning at the date of issue of this report and therefore this is an outline plan. If there are any changes to the risks we have identified or our planned response to these risks, once we have fully concluded our planning, we will update the Committee.

This report summarises our initial assessment of the key risks driving the development of an effective audit for the Fund. We have aligned our audit approach and scope with these.

The Audit Committee, as the Fund's body charged with governance, has an essential role in ensuring that it has assurance over both the quality of the draft financial statements prepared by management and the Fund's wider arrangements to support the delivery of a timely and efficient audit. Where this is not done it will impact the level of resource needed to discharge our responsibilities.

We draw Audit Committee members and officers attention to the Public Sector Audit Appointment Limited's Statement of Responsibilities (paragraphs 26-28) which clearly set out what is expected of audited bodies in preparing their financial statements (see Appendix A).

This report is intended solely for the information and use of the Audit Committee, and management, and is not intended to be and should not be used by anyone other than these specified parties. We welcome the opportunity to discuss this report with you on 30 April 2024 as well as understand whether there are other matters which you consider may influence our audit.

Yours faithfully

Debbie Hanson

Partner

For and on behalf of Ernst & Young LLP

Enc

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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.psaa.co.uk/managing-audit-quality/statement-of-responsibilities-of-auditors-and-audited-bodies/statement-of-responsibilities-of-auditors-and-audited-bodies-from-2023-24-audits/). 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 July 2021)" issued by the PSAA (https://www.psaa.co.uk/managing-audit-quality/terms-of-appointment/terms-of-appointment-and-further-guidance-1-july-2021/) 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. 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.

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01 Overview of our 2023/24 audit strategy

Overview of our 2023/24 audit strategy

The following ‘dashboard’ summarises the significant accounting and auditing matters outlined in this report. It seeks to provide the Audit Committee with an overview of our initial risk identification for the upcoming audit and any changes in risks identified in the current year. We continue to assess risk throughout the audit. We will bring any changes in our risk assessment to the attention of the Audit Committee.

Audit risks and areas of focus

Risk / area of focus	Risk identified	Change from PY	Details
Misstatements due to fraud or error	Fraud risk	No change in risk, but change in focus	As identified in ISA 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 would otherwise appear to be operating effectively. We perform mandatory procedures to address this risk regardless of specifically identified fraud risks. In the prior year, we identified the risk of manipulation of investment income and valuation as the most likely way management would seek to override controls and presented this as a specific fraud risk. In the current year, we have associated the specific risk to investment income only as we consider that this is more susceptible to manipulation than investment valuation.
Valuation of level 3 (complex) investments	Significant risk	No change in risk or focus	We consider the valuation of level 3 (complex) investments to be a significant risk due to the unobservable inputs making up the valuations. Significant judgements are made by the investment managers to value these investments whose prices are not publicly available. The value of investments valued at level 3 as at 31-3-23 was £245m. The Fund’s private debt investments are categorised as being at level 3 in the fair value hierarchy. This is due to the uncertainty associated with the valuation of such investments where the valuations are not based on observable inputs.
Classification of level 2 and level 3 investments.	Significant risk	Increase in risk no change in focus	The assessment of Fair Value hierarchies can be subjective. For 2022/23, as part of our audit of fair value hierarchies of the Pension Fund’s assets we agreed with the Fund that the classification of a number of investments should be adjusted. This resulted in £64 million of investments being reclassified. There was a similar reclassification in the 2021/22 year of £47 million. As a result of these reclassifications, we have increased this risk from an inherent risk in the prior year to a significant risk in 2022/23. As there is an element of judgment in the fair value hierarchy classification we will work with the Pension Fund to agree proposed classifications early in the audit process and as part of this we will scrutinise and challenge the Pension Fund’s proposed classifications.
IAS 26 – Actuarial present value of promised retirement benefits	Inherent risk	No change in risk or focus	We consider the valuation of IAS 26 disclosures to have a higher degree of inherent risk because of the level of estimation uncertainty resulting from the calculation using a number of underlying assumptions. The actuary is required to make assumptions on salary increases, discount rates, pension rates, scheme member longevity and other variables.

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Overview of our 2023/24 audit strategy

Materiality

Planning materiality

£11.8 m

Materiality for the Fund has been set at £11.8 million, which represents 1% of net assets in the final draft 2022/23 financial statements. We consider net assets, to be the appropriate basis of materiality for the Fund due to the scale and interest to users of the financial statements. This is the same basis as that used in the prior year.

Performance materiality

£8.9 m

Performance materiality has been set at £8.9 million, which represents 75% of materiality. This is consistent with the prior year. Our assessment reflects the strong control environment present at the Fund and our expectation of a relatively low level of misstatements based on results from previous audits.

Audit differences

£0.59m

We will report all uncorrected misstatements relating to the primary statements (fund account and net asset statement) greater than £0.59 million. Other misstatements identified will be communicated to the extent that they merit the attention of the Audit Committee.

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Overview of our 2023/24 audit strategy

Audit scope

This Outline Audit Planning Report covers the work that we plan to perform to provide you with:

- Our audit opinion on whether the financial statements of the Fund give a true and fair view of the financial transactions of the Fund during the year ended 31 March 2024 and the amount and disposition at that date of its assets and liabilities for 2023/24.
- Our opinion on the consistency of the Fund financial statements within the Fund annual report with the published financial statements of the London Borough of Hillingdon.

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

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

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

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

Taking the above into account, and as articulated in this Outline Audit planning report, our professional responsibilities require us to independently assess the risks associated with providing an audit opinion and undertake appropriate procedures in response to those risks. Our Terms of Appointment with PSAA allow them to vary the fee dependent on "the auditors assessment of risk and the work needed to meet their professional responsibilities". Therefore to the extent any of these or any other risks are relevant in the context of the Fund's audit, we set those within this Outline Audit planning report and we will continue to discuss these with management as to the impact on the scale fee.

Effects of climate-related matters on financial statements

Public interest in climate change is increasing. We are mindful that climate-related risks may have a long timeframe and therefore while risks exist, the impact on the current period financial statements may not be immediately material to the Fund. It is, nevertheless, important to understand the relevant risks to make this evaluation. In addition, understanding climate-related risks may be relevant in the context of qualitative disclosures in the notes to the financial statements.

We make inquiries regarding climate-related risks on every audit as part of understanding the entity and its environment. As we re-evaluate our risk assessments throughout the audit, we continually consider the information that we have obtained to help us assess the level of inherent risk.

Audit scope and approach

We intend to take a substantive audit approach.

Overview of our 2023/24 audit strategy

Audit team

The audit will be led by Debbie Hanson as the Partner in Charge. Debbie will be supported by Ruth Plucknett, Manager, and Josna Jose , Lead Senior. See Section 05 for further details of the audit team and the areas where management and EY specialists are expected to provide input for the current year audit.

Timeline

Details of the planned timeline for delivery of the audit are set out in Section 06.

We expect to have fully completed our risk assessment and work to walkthrough the Fund's key systems and processes, including work to comply with the enhanced requirements of ISA (UK) 315 (Revised), by the end of April 2024.

Our detailed testing of balances and disclosure in the financial statements is expected to be complete by the end of October 2024. Our reporting and presentation to you of our final Audit Results Report is however yet to be confirmed, as we need to take into account the Department for Levelling-up, Housing and Communities (DLUHC) and Financial Reporting Council (FRC) measures to address local audit delays, and the associated impact on the Council and Pension Fund audits.

02 Audit risks

Our response to significant risks

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

Misstatements due to fraud or error*

What is the risk?

The financial statements as a whole are not free of material misstatements whether caused by fraud or error.

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

We identify and respond to this fraud risk on every audit engagement.

What will we do?

We will undertake our standard procedures to address fraud risk, which include:

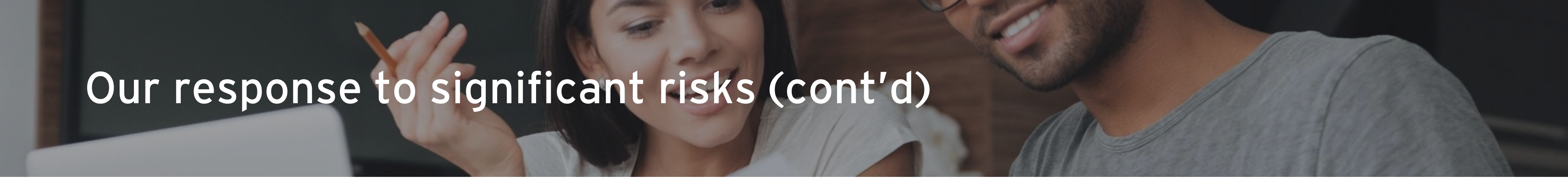
- Inquiry of management about risks of fraud and the controls put in place to address those risks.
- Understanding the oversight given by those charged with governance of management's processes over fraud.
- Consideration of the effectiveness of management's controls designed to address the risk of fraud.

Performing mandatory procedures regardless of specifically identified fraud risks, including:

- Testing the appropriateness of journal entries recorded in the general ledger and other adjustments made in the preparation of the financial statements.
- Assessing accounting estimates for evidence of management bias.
- Evaluating the business rationale for any significant unusual transactions.

We will utilise our data analytics capabilities to assist with our work.

We have identified the risk of manipulation of investment income as the most likely way management would seek to override controls. Our approach will focus on testing to confirm that investment income provided through the custodian and fund managers is appropriately journaled into the financial statements.



Our response to significant risks (cont'd)

Valuation of level 3 (complex) investments

What is the risk?

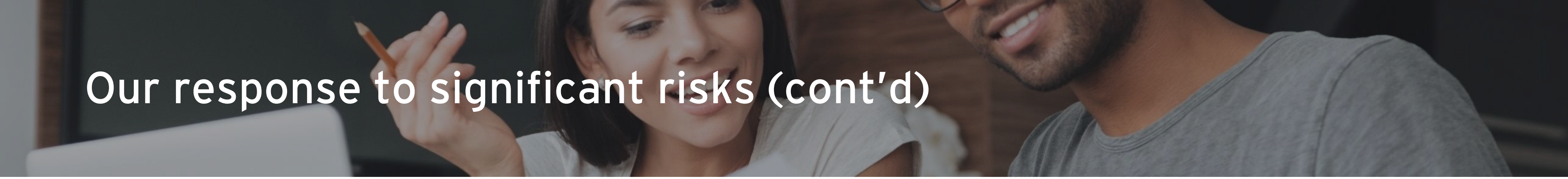
We consider the valuation of level 3 (complex) investments to be of a higher degree of inherent risk due to the unobservable inputs making up the valuations. Significant judgements are made by the investment managers or administrators to value these investments whose prices are not publicly available. The value of investments valued at level 3 as at 31-3-23 was £245m.

The Fund's private debt and infrastructure investments are categorised as being at level 3 in the fair value hierarchy.

What will we do?

We will:

- Assess the competence of valuation experts through review and analysis of ISAE 3402 internal control reports issued on the fund managers and the custodian;
- Where the ISAE 3402 reports are not issued at 31 March 2024, we will obtain and review bridging letters;
- Review the control reports for any issues or qualifications which impact the valuation controls over the funds.
- Review the basis of valuation for property investments and other unquoted investments, assessing the appropriateness of the valuation methods used;
- Where available, review the latest audited accounts for the relevant underlying investment funds and compare the net asset values with the valuation of the assets in the accounts of the Fund. We will also ensure there are no matters arising that highlight weaknesses in the Fund's valuation;
- If the latest audited accounts are issued at a different date compared to the reporting date of the Fund, we will perform roll forward procedures to support the valuation of the investments as of 31 March 2024, such as benchmark indexation for similar assets and analysis of cash movements in the gap period and understand what the Pension Fund has done to assess how the valuations are still materially correct as at 31 March 2024; and
- Perform analytical procedures by checking the valuation output for reasonableness against our own expectations.



Our response to significant risks (cont'd)

Classification of level 2 and level 3 investments

What is the risk?

The classification of investments using the fair value hierarchy requires the accurate identification of observable and unobservable inputs and requires a high level of professional judgement,

The assessment of Fair Value hierarchies can be subjective and includes an element of judgement. There have been reclassifications in the fair value hierarchies of the pension fund assets as a result of the audit in the last two years. In 2022/23, the reclassification was £64 million from level 2 to level 3 and in 2021/22 it was £47.8 million.

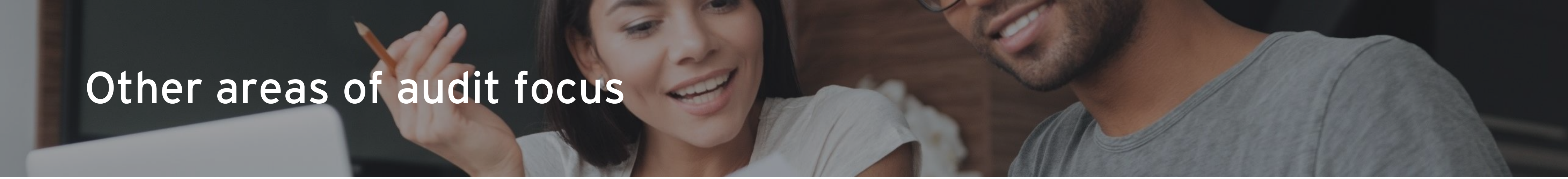
We have, as a result, raised this from an inherent risk to a significant risk.

What will we do?

We will:

- Gain an understanding of the Pension Fund's approach to classification and the nature of its investments and work with the Pension Fund to agree the proposed classifications early in the audit process
- Assess the significance of market inputs used in the hierarchy valuation as well as the sources of the inputs.
- Confirm the basis of the valuation of each class of investment asset and assess whether it is appropriate
- Obtain quoted prices directly from independent sources and compare these with the Pension Fund's assessment of observable market inputs (bid market price, current yields, and closing bid price) to confirm correct classification.
- Test accounting entries have been correctly processed in the financial statements.

Other areas of audit focus



We have identified other areas of the audit, that have not been classified as significant risks, but are still important when considering the risks of material misstatement to the financial statements and disclosures and therefore may be key audit matters we will include in our audit report.

What is the risk/area of focus, and the key judgements and estimates?	Our response: Key areas of challenge and professional judgement
IAS 26 (inherent risk) We consider the valuation of IAS 26 to be of a higher degree of inherent risk because of the level of estimation uncertainty resulting from the calculation using a number of underlying assumptions. The actuary is required to make assumptions on salary increases, discount rates, pension rates, scheme member longevity and other variables.	We will: ▸ Assess the competence of management experts, Hymans Robertson; ▸ Engage 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; ▸ Leverage the work of EY Pensions undertake as part of the London Borough of Hillingdon to create an auditor's estimate for the pension liability, to gain assurance over the process and assumptions used to estimate the present value of future retirement benefits; and ▸ Ensure that the IAS26 disclosure is in line with the relevant standards and consistent with the valuation provided by the actuary.

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03 Audit materiality

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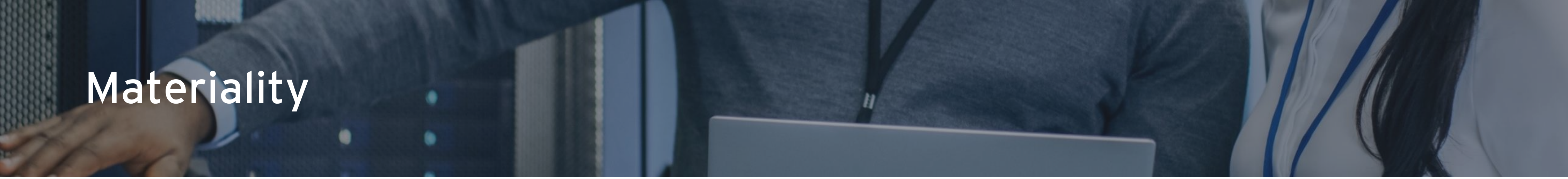

Materiality

Fund Materiality

For planning purposes, materiality for 2023/24 has been set at £11.8 million. This represents 1% of the Fund's net assets in the draft 2022/23 financial statements. We consider net assets to be the appropriate basis of materiality for the Fund due to the scale and interest to users of the financial statements. We have provided supplemental information about audit materiality in Appendix D.

Net Assets

£1,185m

Planning materiality
£11.8m

Performance materiality
£8.9m

Audit differences
£0.59m

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

Key definitions

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

Performance materiality – the amount we use to determine the extent of our audit procedures. We have set performance materiality at 75% of planning materiality. This is based on our expectation of few misstatements for the audit.

Audit difference threshold – we propose that misstatements identified below this threshold are deemed clearly trivial. We will report to you all uncorrected misstatements over this amount.

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

04 Scope of our audit

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Audit process and strategy

Objective and Scope of our Audit scoping

Under the Code of Audit Practice, our principal objectives are to undertake work to support the provision of our audit report to the audited body and to satisfy ourselves that the audited body has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources to the extent required by the relevant legislation and the requirements of the Code.

We issue an audit report that covers:

Our opinion on the financial statements:

- whether the financial statements give a true and fair view of the financial transactions of the Fund during the year ended 31 March 2024 and the amount and disposition at that date of its assets and liabilities for 2023/24; and
- whether the financial statements have been prepared properly in accordance with the relevant accounting and reporting framework as set out in legislation, applicable accounting standards or other direction.

Consistency statement:
•Our opinion on the consistency of the Fund financial statements within the Fund annual report with the published financial statements of London Borough of Hillingdon Council.
Our opinion on other matters:
•whether other information published together with the audited financial statements is consistent with the financial statements.

We are also required to discharge our statutory duties and responsibilities as established by the Local Audit and Accountability Act 2014 and Code of Audit Practice.

Procedures required by standards

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

Audit process and strategy

Audit Process Overview

Our audit involves:

- Identifying and understanding the key processes and internal controls;
- Substantive tests of detail of transactions and amounts;
- Reliance on the work of other auditors where appropriate; and
- Reliance on the work of experts in relation to areas such as disclosures based on actuarial reports.

Our initial assessment of the key processes across the Fund has not identified any processes where we will seek to test key controls, either manual or IT. Our audit strategy will, as in previous years, follow a fully substantive approach. This will involve testing the figures within the financial statements rather than looking to place reliance on the controls within the financial systems. We assess this as the most efficient way of carrying out our work and obtaining the level of audit assurance required to conclude that the financial statements are not materially misstated.

Analytics

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

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

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

Internal Audit

We will review Internal Audit plans and the results of their work. We will reflect the findings from these reports, together with reports from any other work completed in the year, where they raise issues that could have an impact on the financial statements.

05 Audit team

Audit team

Debbie Hanson*
Audit partner

Ruth Plucknett
Engagement manager

Josna Jose
Lead senior

Specialist
(Specialist PWC consulting actuary and EY Pensions Advisory team)

* Key Audit Partner

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Use of specialists

When auditing key judgements, we are often required to use the input and advice provided by specialists who have qualifications and expertise not possessed by the core audit team. The areas where management and EY specialists are expected to provide input for the current year audit are:

Area	Specialists
IAS 26 disclosure	Management Specialist – Hymans Robertson EY Specialist – PwC (Consulting Actuary to the NAO on behalf of audit providers) and EY Pensions Advisory Team

In accordance with Auditing Standards, we will evaluate each specialist's professional competence and objectivity, considering their qualifications, experience and available resources, together with the independence of the individuals performing the work.

We also consider the work performed by the specialist in light of our knowledge of the Fund's business and processes and our assessment of audit risk in the particular area. For example, we would typically perform the following procedures:

- Analyse source data and make inquiries as to the procedures used by the specialist to establish whether the source data is relevant and reliable
- Assess the reasonableness of the assumptions and methods used
- Consider the appropriateness of the timing of when the specialist carried out the work
- Assess whether the substance of the specialist's findings are properly reflected in the financial statements

06 Audit timeline

Timetable of communication and deliverables

Timeline

Below is a draft timetable showing the key stages of the audit and the deliverables we have agreed to provide to you through the audit cycle in 2023/24.

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

Audit phase	2024 Timetable	Deliverables
Planning: Risk assessment and setting of scopes	**March/April**	This Audit Planning Report to be presented to the 30 April 2024 meeting of the Audit Committee.
Walkthrough of key systems and processes	**March/April**	
Execution of audit procedures on the financial statements	**September - October**	
Audit completion procedures	**November ***	Audit Results Report shared with management and, in turn, the Audit Committee.
Audit conclusion	**November ***	Audit opinion and completion certificates. The Auditor's Annual Report to bring together all of our work's over the year. This will be a joint report with the London Borough of Hillingdon

* The final timetable is yet to be confirmed as we need to take into account the Department for Levelling-up, Housing and Communities (DLUHC) and Financial Reporting Council (FRC) measures to address local audit delays, and the consequent impact on the Council and Pension Fund audits.

07 Independence

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Introduction

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

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

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

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

Relationships, services and related threats and safeguards

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

Overall Assessment

Overall, we consider that the safeguards that have been adopted appropriately mitigate the principal threats identified and we therefore confirm that EY is independent and the objectivity and independence of Debbie Hanson, your audit engagement partner, and the audit engagement team have not been compromised.

Self interest threats

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

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

None of the services are prohibited under the FRC's ES and the services have been approved in accordance with your policy on pre-approval. In addition, when the ratio of non-audit fees to audit fees exceeds 1:1, we are required to discuss this with our Ethics Partner, as set out by the FRC ES, and if necessary agree additional safeguards or not accept the non-audit engagement. We will also discuss this with you.

At the time of writing, there are no non-audit fees associated with Hillingdon Pension Fund. No additional safeguards are required.

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

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

Self review threats

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

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

Management threats

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

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

Other threats

Other threats, such as advocacy, familiarity or intimidation, may arise.

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

Other communications

EY Transparency Report 2023

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 period ended 30 June 2023 and can be found here: EY UK 2023 Transparency Report.

08 Appendices

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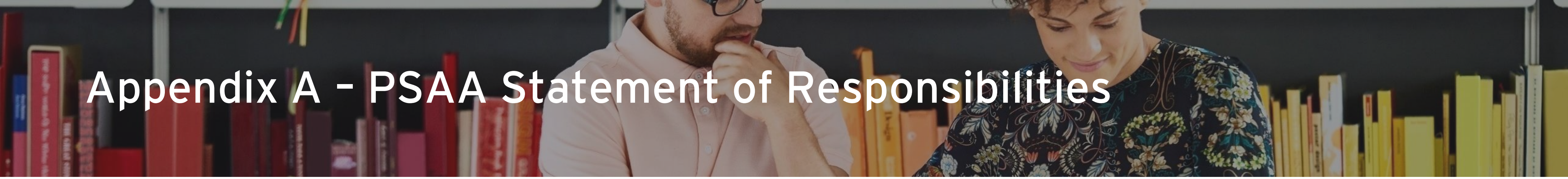


Appendix A – PSAA Statement of Responsibilities

As set out on the next page our fee is based on the assumption that the Fund complies with PSAA's Statement of Responsibilities of auditors and audited bodies. See https://www.psaa.co.uk/managing-audit-quality/statement-of-responsibilities-of-auditors-and-audited-bodies/statement-of-responsibilities-of-auditors-and-audited-bodies-from-2023-24-audits/. In particular the Fund should have regard to paragraphs 26-28 of the Statement of Responsibilities which clearly set out what is expected of audited bodies in preparing their financial statements. We set out these paragraphs in full below:

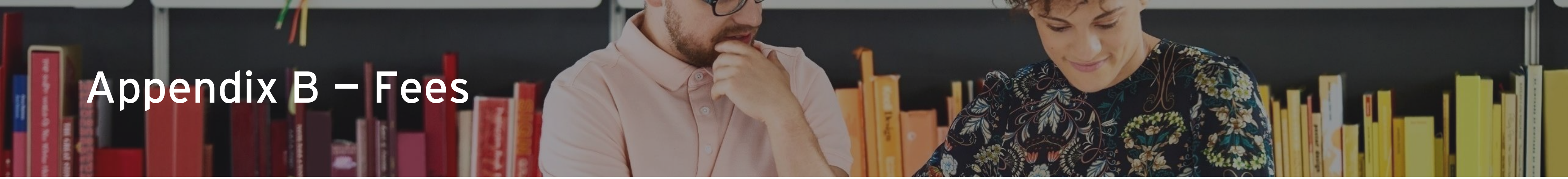
Preparation of the statement of accounts

26. Audited bodies are expected to follow Good Industry Practice and applicable recommendations and guidance from CIPFA and, as applicable, other relevant organisations as to proper accounting procedures and controls, including in the preparation and review of working papers and financial statements.

27. In preparing their statement of accounts, audited bodies are expected to:

- *prepare realistic plans that include clear targets and achievable timetables for the production of the financial statements;*
- *ensure that finance staff have access to appropriate resources to enable compliance with the requirements of the applicable financial framework, including having access to the current copy of the CIPFA/LASAAC Code, applicable disclosure checklists, and any other relevant CIPFA Codes.*
- *assign responsibilities clearly to staff with the appropriate expertise and experience;*
- *provide necessary resources to enable delivery of the plan;*
- *maintain adequate documentation in support of the financial statements and, at the start of the audit, providing a complete set of working papers that provide an adequate explanation of the entries in those financial statements including the appropriateness of the accounting policies used and the judgements and estimates made by management;*
- *ensure that senior management monitors, supervises and reviews work to meet agreed standards and deadlines;*
- *ensure that a senior individual at top management level personally reviews and approves the financial statements before presentation to the auditor; and*
- *during the course of the audit provide responses to auditor queries on a timely basis.*

28. If draft financial statements and supporting working papers of appropriate quality are not available at the agreed start date of the audit, the auditor may be unable to meet the planned audit timetable and the start date of the audit will be delayed.



Appendix B – Fees

The duty to prescribe fees is a statutory function delegated to Public Sector Audit Appointments Ltd (PSAA) by the Secretary of State for Housing, Communities and Local Government.

This is defined as the fee required by auditors to meet statutory responsibilities under the Local Audit and Accountability Act 2014 in accordance with the requirements of the Code of Audit Practice and supporting guidance published by the National Audit Office, the financial reporting requirements set out in the Code of Practice on Local Authority Accounting published by CIPFA/LASAAC, and the professional standards applicable to auditors' work.

As part of our reporting on our independence, we set out here a summary of the expected fees for the year ended 31 March 2024.

Scale fee variations are agreed when we incur work in addition to the planned level of work built into the scale fee.

	Current Year 2023/24	Prior Year 2022/23
	Proposed fee £	Proposed fee £
Scale Fee – Code work	81,688	24,954
Scale Fee Variation – Note 1	0	8,784
Requested rebased fee sub-total	**81,688**	**33,738**
Additional fee for the provision of IAS 19 assurance letters – Note 2	6,500	0
Additional fee with respect to testing of triennial membership data submissions – Note 3	0	8,700
Additional specific in year risks – Note 4	TBC	20.000 to £30,000
Total fees		tbc

All fees exclude VAT

Note 1 – In order to meet regulatory and compliance audit requirements not present at the time of PSAA awarding the audit contract for audits up to and including the 2022/23 financial year, we assessed that the recurrent cost of additional requirements to carry out our 2022/23 audit should increase to £33,738. PSAA have increased the base scale fee, but in our view this still does not fully cover the additional work required and we will therefore be submitting a further proposed increase to PSAA for 2022/23 for their determination. This does not apply for 2023/24.

Note 2 – We plan to charge an additional fee in relation to the work required to respond to IAS19 assurance requests from admitted body auditors for 2021/22 and 2023/24. As the audit of the London Borough of Hillingdon for 2022/23 is not currently planned to be undertaken, we have not been asked to provide similar assurances for 2022/23.

Note 3 – We will charge an additional fee in 2022/23 with respect to detailed testing of the triennial membership submission to the actuary. This work is only required every three years

Note 4 – we have identified a number of specific in year risks in this Plan and further issues may be identified through our audit which require additional work and therefore fee. We will identify any such issues throughout our audit and report these to management and submit any resulting additional fees to PSAA for determination once the audit is concluded. ISA 315 in particular is likely to result in an additional fee, as this is not currently reflected in the PSAA scale fee. The fee for this is likely to be in the range of £4,000 to £6,000

Appendix C – Required communications with the Audit Committee

We have detailed the communications that we must provide to the Audit Committee.

		Our Reporting to you
Required communications	**What is reported?**	**When and where**
Terms of engagement	Confirmation by the Audit Committee of acceptance of terms of engagement as written in the engagement letter signed by both parties.	The statement of responsibilities serves as the formal terms of engagement between the PSAA's appointed auditors and audited bodies.
Our responsibilities	Reminder of our responsibilities as set out in the engagement letter.	The statement of responsibilities serves as the formal terms of engagement between the PSAA's appointed auditors and audited bodies.
Planning and audit approach	Communication of: ► The planned scope and timing of the audit ► Any limitations on the planned work to be undertaken ► The planned use of internal audit ► The significant risks identified When communicating key audit matters this includes the most significant risks of material misstatement (whether or not due to fraud) including those that have the greatest effect on the overall audit strategy, the allocation of resources in the audit and directing the efforts of the engagement team.	Outline Audit planning report – April 2024
Significant findings from the audit	► 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	Audit results report – November 2024

Appendix C — Required communications with the Audit Committee (cont'd)

Our Reporting to you

Required communications	What is reported?	When and where
Going concern	Events or conditions identified that may cast significant doubt on the entity's ability to continue as a going concern, including: ▶ Whether the events or conditions constitute a material uncertainty ▶ Whether the use of the going concern assumption is appropriate in the preparation and presentation of the financial statements ▶ The adequacy of related disclosures in the financial statements	Audit results report - November 2024
Misstatements	▶ Uncorrected misstatements and their effect on our audit opinion, unless prohibited by law or regulation ▶ The effect of uncorrected misstatements related to prior periods ▶ A request that any uncorrected misstatement be corrected ▶ Material misstatements corrected by management	Audit results report - November 2024
Subsequent events	▶ Enquiries of the Audit Committee where appropriate regarding whether any subsequent events have occurred that might affect the financial statements	Audit results report - November 2024
Fraud	▶ Enquiries of the Audit Committee to determine whether they have knowledge of any actual, suspected or alleged fraud affecting the entity ▶ Any fraud that we have identified or information we have obtained that indicates that a fraud may exist ▶ Unless all of those charged with governance are involved in managing the entity, any identified or suspected fraud involving: a. Management; b. Employees who have significant roles in internal control; or c. Others where the fraud results in a material misstatement in the financial statements ▶ The nature, timing and extent of audit procedures necessary to complete the audit when fraud involving management is suspected ▶ Any other matters related to fraud, relevant to Audit Committee responsibility	Audit results report - November 2024

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Appendix C — Required communications with the Audit Committee (cont'd)

Our Reporting to you

Required communications	What is reported?	When and where
Related parties	► Significant matters arising during the audit in connection with the entity's related parties including, when applicable: ► Non-disclosure by management ► Inappropriate authorisation and approval of transactions ► Disagreement over disclosures; ► Non-compliance with laws and regulations ► Difficulty in identifying the party that ultimately controls the entity	Audit results report - November 2024
Independence	Communication of all significant facts and matters that bear on EY's, and all individuals involved in the audit, objectivity and independence Communication of key elements of the audit engagement partner's consideration of independence and objectivity such as: ► 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 Communication whenever significant judgements are made about threats to objectivity and independence and the appropriateness of safeguards put in place.	Outline Audit planning report - April 2024 Audit results report - November 2024

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Appendix C — Required communications with the Audit Committee (cont'd)

Required communications	What is reported?	Our Reporting to you When and where
External confirmations	▶ Management's refusal for us to request confirmations ▶ Inability to obtain relevant and reliable audit evidence from other procedures	Audit results report - November 2024
Consideration of laws and regulations	▶ Subject to compliance with applicable regulations, matters involving identified or suspected non-compliance with laws and regulations, other than those which are clearly inconsequential and the implications thereof. Instances of suspected non-compliance may also include those that are brought to our attention that are expected to occur imminently or for which there is reason to believe that they may occur ▶ Enquiry of the Audit Committee into possible instances of non-compliance with laws and regulations that may have a material effect on the financial statements and that the Audit Committee may be aware of	Audit results report - November 2024
Internal controls	▶ Significant deficiencies in internal controls identified during the audit	Audit results report - November 2024
Representations	▶ Written representations we are requesting from management and/or those charged with governance	Audit results report - November 2024
Material inconsistencies and misstatements	▶ Material inconsistencies or misstatements of fact identified in other information which management has refused to revise	Audit results report - November 2024
Auditors report	▶ Any circumstances identified that affect the form and content of our auditor's report	Audit results report - November 2024
Fee reporting	▶ Breakdown of fee information when the audit plan is agreed ▶ Breakdown of fee information at the completion of the audit ▶ Any non-audit work	Outline Audit planning report - April 2024 Audit results report - November 2024

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Appendix D — Additional audit information

Regulatory update

Our objective is to form an opinion on the Fund's financial statements under International Standards on Auditing (UK) as prepared by you in accordance with International Financial Reporting Standards as adopted by the UK, and as interpreted and adapted by the Code of Practice on Local Authority Accounting.

Our responsibilities in relation to the financial statement audit are set out in the formal terms of engagement between the PSAA's appointed auditors and audited bodies. We are responsible for forming and expressing an opinion on the financial statements that have been prepared by management with the oversight of the Audit Committee. The audit does not relieve management or the Audit Committee of their responsibilities.

Other required procedures during the course of the audit

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

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Our responsibilities required by auditing standards

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

Appendix D — Additional audit information (cont'd)

Other required procedures during the course of the audit

Procedures required by the Audit Code	
	- Discharging our statutory duties and responsibilities as established by the Local Audit and Accountability Act 2014 and Code of Audit Practice - Reviewing, and reporting on as appropriate, other information published with the financial statements.

We have **included in Appendix C a list** of matters that we are required to communicate to you under professional standards.

Purpose and evaluation of materiality

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

Materiality determines the level of work performed on individual account balances and financial statement disclosures.

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

Appendix E - Non-Compliance with Laws and Regulations (NOCLAR)

Non-Compliance with Laws and Regulations includes:

Any act or suspected act of omission or commission (intentional or otherwise) by the entity (including any third parties under the control of the entity such as subsidiaries, those charged with governance or management or an employee acting on behalf of the company), either intentional or unintentional, which are contrary to the prevailing laws or regulations

Management Responsibilities:

"It is the responsibility of management, with the oversight of those charged with governance, to ensure that the entity's operations are conducted in accordance with the provisions of laws and regulations, including compliance with the provisions of laws and regulations that determine the reported amounts and disclosures in an entity's financial statements."

ISA 250A, para 3

"The directors' report must contain a statement to the effect that... so far as the director is aware, there is no relevant audit information of which the company's auditor is unaware, and he has taken all the steps that he ought to have taken as a director in order to make himself aware of any relevant audit information and to establish that the company's auditor is aware of that information."

ISA 250A, para 3

"Management is responsible for communicating to us on a timely basis, to the extent that management or those charged with governance are aware, all instances of identified or suspected non-compliance with laws and regulations …"

Audit Engagement Letter

Management's responsibilities are also set out in the International Ethics Standard Board of Accountants' International Code of Ethics (IESBA Code) Para 360.08

Auditor Responsibilities

The International Ethics Standard Board of Accountants' International Code of Ethics (IESBA Code) section 360 sets out the scope and procedures in relation to responding to actual or suspected non-compliance with laws and regulations.

Professional accountancy organisations who are members of the International Federation of Accountants (IFAC), such as the Institute of Chartered Accountants in England and Wales (ICAEW) are required to adopt the IESBA Code of Ethics.

We as your auditor are required to comply with the Code by virtue of our registration with ICAEW.

"If the auditor becomes aware of information concerning an instance of non-compliance or suspected non-compliance with laws and regulations, the auditor shall obtain:

An understanding of the nature of the act and the circumstances in which it has occurred; and

Further information to evaluate the possible effect on the financial statements

The auditor shall evaluate the implications of the identified or suspected non-compliance in relation to other aspects of the audit, including the auditor's risk assessment and the reliability of written representations, and take appropriate action."

ISA 250A, paras 19 and 22

Examples of Non-Compliance with Laws and Regulations (NOCLAR)

Matter	Implication
▸ Suspected or known fraud or bribery	▸ Potential fraud/breach of anti-bribery legislation
▸ Health and Safety incident	▸ Potential breach of section 2 of the Health and Safety at Work Act 1974
▸ Payment of an unlawful dividend	▸ Potential breach of Companies Act 2006
▸ Loss of personal data	▸ Potential GDPR breach
▸ Allegation of discrimination in dismissal	▸ Potential non-compliance with employment laws
▸ HMRC or other regulatory investigation	▸ Suspicion of non-compliance with laws/regulations
▸ Deliberate journal mis-posting or allegations of financial impropriety	▸ Potential fraud / breach of Companies Act 2006
▸ Transacting business with sanctioned individuals	▸ Potential breach of sanctions regulations

Appendix E - Non-Compliance with Laws and Regulations (NOCLAR) (cont'd)

What are the implications of NOCLAR matters arising?

Depending on the nature and significance of the NOCLAR matter the following steps are likely to be required, involving additional input from both management and audit.

This can have an impact on overall achievability of audit timeline and fees.

Across our portfolio of audits we have seen a steady increase in NOCLAR matters that need to be addressed as part of the audit over the past 3 years

Management response:	Audit response:
Timely communication of the matter to auditors (within a couple of days)	Initial assessment of the NOCLAR matter and its potential impact
Determine who will carry out any investigation into the matter - in-house or external specialists or mix of both	Initial consultation with risk team to determine responsive procedures and the involvement of specialists
Scope the investigation, in discussion with the auditors	Understand and agree scope of management's investigation with support from specialists as needed
Evaluate findings and agree next steps	Evaluate findings and undertake appropriate audit procedures
Determine effect on financial statements including disclosures	Determine audit related impact including accounting and disclosure and audit opinion implications
Prepare a paper, summarising the outcome of the investigation and management's conclusions	Document and consult on the outcome of our procedures
Communicate the outcome to Those Charged With Governance (TCWG) and to us as your auditors. Report to regulators where required.	Communicate the outcome with management, TCWG and where necessary other auditors within the group or regulators

Key Reminders:

- Make sure that all areas of the business are aware of what constitutes actual or potential non-compliance and associated requirements
- Communicate with us as your auditors on a timely basis - do not wait for scheduled audit catch-ups
- Engage external specialists where needed
- Ensure that your investigation assesses any wider potential impacts arising from the matter, not just the matter itself.
- Plan upfront and consider any impact on overall accounts preparation and audit timeline - discuss the implications with us as your auditor

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INVESTMENT STRATEGY and FUND MANAGER PERFORMANCE (Part I)	ITEM 7

Committee	Pensions Committee
Officer Reporting	Babatunde Adekoya, Finance
Papers with this report	NT performance report on shared drive LCIV Performance reporting on shared drive Hymans Interim Valuation Report 31 March 2024

HEADLINES

The overall investment return of the Fund was 4.77% over the quarter which was 0.08% ahead of the benchmark of 4.69%. Performance over longer-term periods (3 and 5 years) was 4.54% and 4.68% per annum, which are both behind the set benchmark. However, the 3-year figure is 0.44% above the 4.1% return required in the Funding Strategy Statement, and the 5- year figure 0.58% above this requirement.

The Fund's actual asset allocation is regularly monitored and from time-to-time may require adjustments following the revisions agreed by Committee to the target investment strategy.

RECOMMENDATIONS

It is recommended that Pensions Committee:

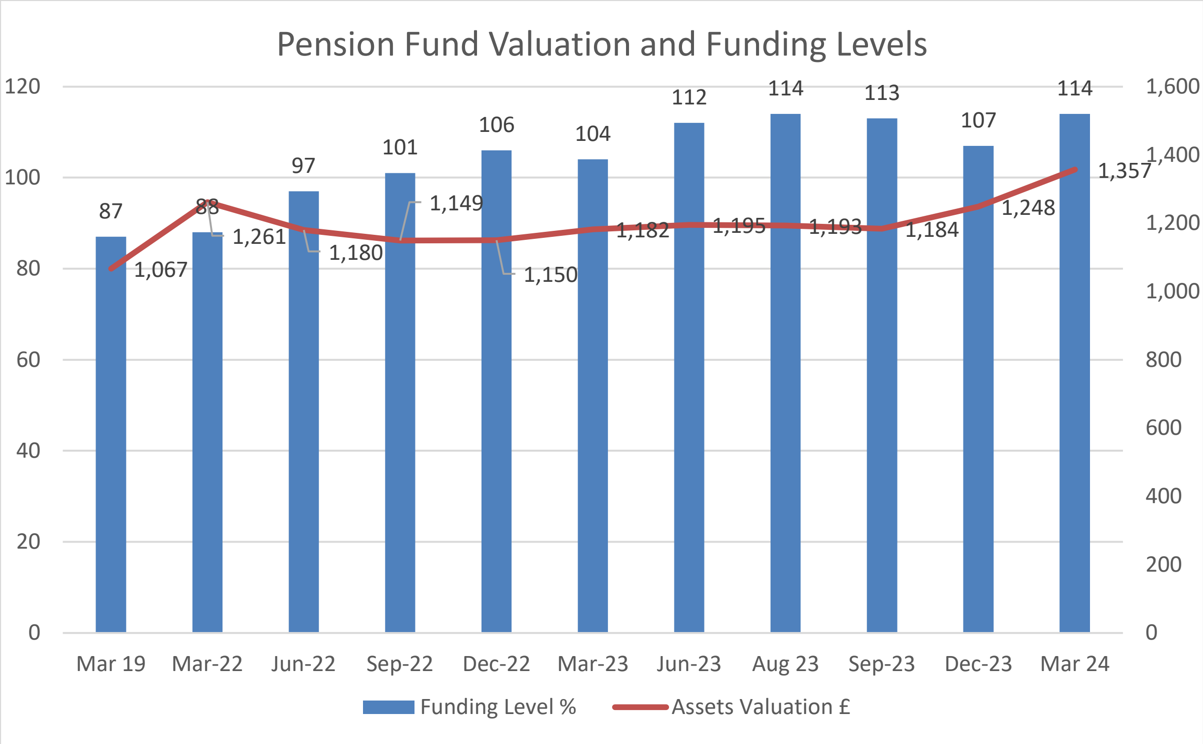
1. **Note the funding and performance update.**

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%.

An interim funding level update was produced by the actuary on 31 March 2024. it showed funds' assets were £1,357m and equated funding level of 114%, an increase of 7% from the previous quarter. The primary reason for the improved funding level is an Increase in discount rate from 5.8% (December) up to 6.1% (March 24).



2. Fund Performance

Over the last quarter to 31 March 2024, the Fund returned 4.77%, outperforming the benchmark return by 0.07%. The Fund value also increased over the quarter by £109m, up to £1,357m, in part due to £45.2m received from HCUC after finalisation of its merger with Richmond College. Longer term performance is behind the benchmark in all time periods.

Period of measurement	Fund Return %	Benchmark %	Relative Performance
Quarter	4.77	4.69	0.07
1 Year	11.48	11.33	0.13
3 Year	4.54	5.39	-0.81
5 Year	4.68	5.91	-1.17
Since Inception (09/1995)	6.54	6.71	-0.16

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

- Permira LLP and AEW UK were the best performers in the quarter under review. Both outperformed their respective benchmarks by 3.85% and 0.39%, with portfolio returns of 6.19% and 0.91% respectively.
- Macquarie again was the standout manager over one and three-year performance measurements, with 16.57% & 14.40% returns above its set benchmark for both periods. The performances are attributable to

the maturity profile of the funds in the portfolio, which are being wound up and assets disposed at considerable profits.

- Notable significant relative underperformance continues with both private equity portfolios managed by Adams Street and LGT Capital Partners. It is, however, not surprising as the funds are past their investment cycle and are in the process of being completely wound down. Both portfolios underperformed their respective benchmarks overall performance measurement periods of current quarter, one and three-year periods.

Fund Performance by Manager Relative to Benchmark
as of 31 March 2024

	3 Months		1 Year		3 Years		Since Inception		
	Manager	Benchmark	Manager	Benchmark	Manager	Benchmark	Manager	Benchmark	Inception Date
Adam Street	2.27	10.29	-3.83	25.31	0.26	14.75	7.10	0	31/01/2005
AEW UK	0.91	0.51	1.91	-0.70	2.74	1.50	6.47	4.99	30/06/2014
Blackstone	0.00	0.00	0.00	0.00	0.00	0.00	-0.20	0.11	27/03/2024
LCIV Global Alpha Growth Fund Paris Aligned	8.73	10.62	15.98	25.56	0	0	-1.11	13.84	22/04/2021
LCIV Infrastructure Fund	0.46	2.01	4.99	8.12	7.59	5.68	4.73	5.00	14/11/2019
LCIV Mac Fund	2.32	2.38	11.52	9.62	0	0	6.57	8.66	26/05/2022
LCIV Private Debt	0.00	1.47	6.12	6.00	0	0	7.07	6.00	16/11/2021
LCIV Ruffer	-0.79	1.32	-6.01	5.17	0.65	2.52	4.86	1.17	28/05/2010
Legal & General World Developed Equity	9.02	8.99	21.77	21.70	9.14	9.19	9.48	9.58	31/10/2016
Legal & General Index Linked Gilts	-1.81	-1.81	-5.00	-4.98	-9.88	-9.88	-1.93	-1.79	22/02/2017
LGIM - Future World Equity IND	9.32	9.28	21.45	21.05	10.52	10.31	10.79	10.61	23/09/2020
LGIM LPI Income Property	1.34	1.06	-1.58	4.30	-2.13	8.86	-1.74	6.90	11/03/2020
LGT Capital	-2.38	10.29	0.96	25.31	5.08	14.75	10.25	0	31/05/2004
M&G Investments	-13.06	2.26	-14.62	9.12	14.68	6.68	4.21	5.13	31/05/2010
Macquarie	1.53	2.01	26.03	8.12	20.90	5.68	9.79	4.13	30/09/2010
Permira Credit	6.19	2.26	13.87	9.12	8.82	6.68	7.74	5.31	30/11/2014
UBS Property	-0.55	0.51	-0.39	-0.70	2.43	1.50	3.32	3.27	31/03/2006

NB: Information from Northern Trust Quarterly performance report

3. Asset Allocation

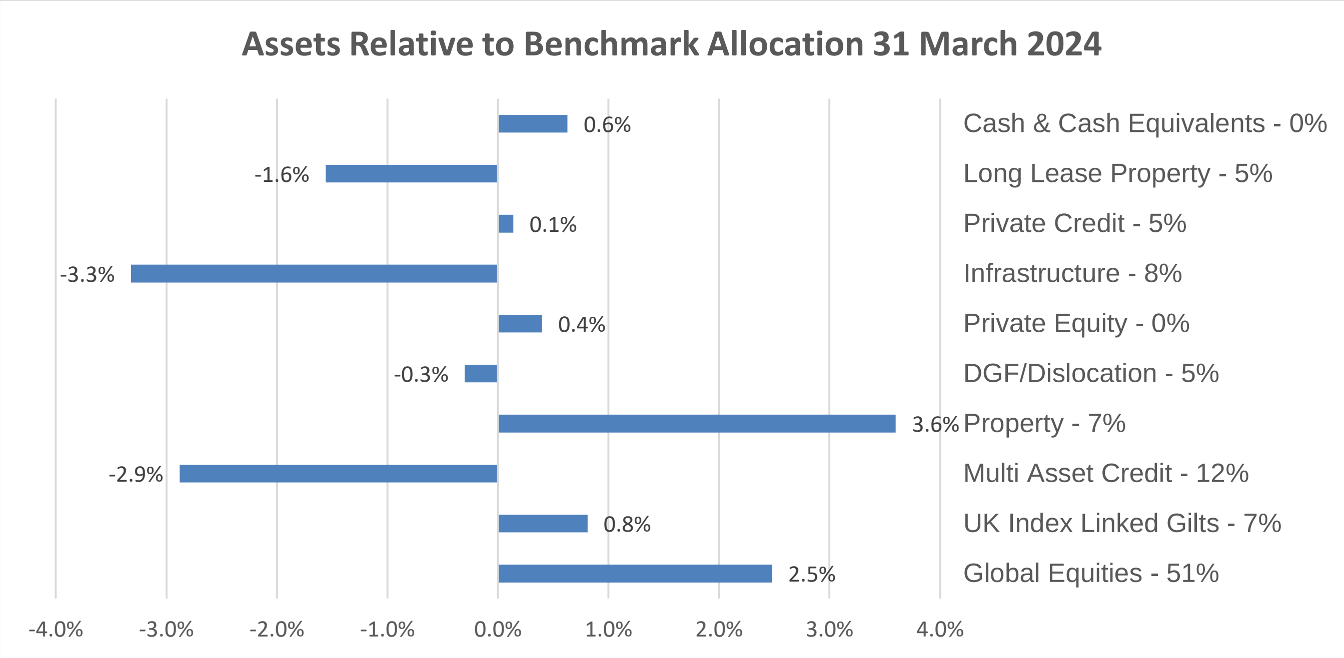
The current asset allocation, the key strategic tool for the Committee, is in the table below.

Current Asset Allocation by Asset Class

ASSET CLASS	Market Value As of 01 April 2023	Actual Asset Allocation As of 01 April 2023	Market Value As of 31 March 2024	Actual Asset Allocation As of 31 March 2024	Benchmark Allocation	Market Value As of 30 April 2024
	£'000	%	£'000	%	%	£'000
Global Equities	562,149	48	725,928	53.48	51	702,665
UK Index Linked Gilts	111,642	9	106,057	7.81	7	102,207
Multi Asset Credit	110,959	9	123,740	9.12	12	123,308
Property	148,291	13	143,822	10.60	7	144,303
DGF/Dislocation	47,406	4	63,800	4.70	5	64,325
Private Equity	6,666	1	5,446	0.40	0	5,475
Infrastructure	54,771	5	63,548	4.68	8	63,614
Private Credit	75,923	6	69,709	5.14	5	69,681
Long Lease Property	47,386	4	46,638	3.44	5	46,858
Cash & Cash Equivalents	16,650	1	8,584	0.63	0	12,009
Totals	**1,181,843**	**100**	**1,357,272**	**100**	**100**	**1,334,445**

Current Asset Allocation by Asset Class

ASSET CLASS	01 April 2023		31 March 2024			30 April 2024
	Market Value £m	%	Market Value £m	%	Benchmark %	Market Value £m
Global Equities	562.1	48	725.9	53.5	51	702.6
UK Index Linked Gilts	111.6	9	106.1	7.8	7	102.2
Multi Asset Credit	111.0	9	123.7	9.1	12	123.3
Property	148.3	13	143.8	10.6	7	144.3
DGF/Dislocation	47.4	4	63.8	4.7	5	64.3
Private Equity	6.7	1	5.4	0.4	0	5.5
Infrastructure	54.8	5	63.5	4.7	8	63.6
Private Credit	75.7	6	69.7	5.1	5	69.7
Long Lease Property	47.4	4	46.6	3.4	5	46.9
Cash & Cash Equivalents	16.7	1	8.6	0.6	0	12.0
Totals	**1,181.8**	**100**	**1,357,272**	**100**	**100**	**1,334.4**



Highlights of transactions during the quarter under review:

Total gross drawdown of £3.3m by LCIV Infrastructure Fund in the period under review.

- During the quarter, distributions received totalled £832k from Permira Private Debt, $178k & Euro 126k from Private Equity and US$1.14m from Macquarie Infrastructure.

Undrawn commitments on 31 March 2024 are as follows:

- £3.2m (8% of commitment) awaiting drawdown on Private Credit (Permira).
- £11.4m (21% of commitment) to London CIV Infrastructure Fund.
- £2.8m in for the AEW Urban Renewal property fund.
- LCIV Private Debt £22.9m (33% 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 2024	Actual Asset Allocation	Market Value As of 30 April 2024
FUND MANAGER	**ASSET CLASS**	**£'000**	**%**	**£'000**
LGIM	Global Equities	359,696	26.50	351,583
LGIM	Future World	304,306	22.42	291,236
LCIV - BALLIE GIFFORD	Global Equities	61,926	4.56	59,846
LGIM	UK Index Linked Gilts	106,057	7.81	102,207
LCIV MAC Fund	Multi Asset Credit	123,740	9.12	123,308
UBS PROPERTY	Property	74,913	5.52	74,988
AEW	Property	72,517	5.34	73,013
Blackstone	DGF/Absolute Returns	19,241	1.42	19,411
LCIV - RUFFER	DGF/Absolute Returns	44,559	3.28	44,914
ADAMS STREET	Private Equity	3,736	0.28	3,757
LGT	Private Equity	1,710	0.13	1,718
LCIV - STEPSTONE	Infrastructure	49,716	3.66	49,716
MACQUARIE	Infrastructure	13,832	1.02	13,898
M&G	Private Credit	488	0.04	460
LCIV Private Debt	Private Credit	54,689	4.03	54,689
PERMIRA	Private Credit	14,532	1.07	14,532
LGIM	LPI Property	46,638	3.44	46,858
Non-Custody	Cash & Cash Equivalents	4,976	0.37	8,311
		1,357,272	**100**	**1,334,445**

5. Market and Investment/Economic outlook (March 2024 provided by London CIV)

We ended our December update with a warning that investors had become complacent about risks to inflation and expectations for monetary policy, specifically the timing and magnitude of cuts in official interest rates by central banks in the U.K., Eurozone, and U.S. These expectations were a big driver of the strong performance of equity and credit markets in 2023.

Inflation and employment data released in the first half of Q1 caused concerns which were reflected quickly in bond yields and equity markets. These concerns faded but then reappeared late in Q1. This did not cause much of a ripple in credit and equity markets in Q1. Spreads on investment grade and high-yield debt declined and equities continued to perform well.

Fluctuations in yields have been less extreme than they were for most of 2023, and we think the UK have made progress in moving towards the ‘normalisation’ of the relationship between monetary policy and economic conditions. However, sentiment shifts quickly as new data is released. This was evident early in the second quarter, particularly in the U.S., when inflation, growth and employment data all came in

above expectations, prompting the Chair of the U.S. Federal Reserve to remind investors that the case for early reductions in interest rates is not clear cut.
As shown, yields on U.K. government bonds ended the first quarter higher than their starting point for the year and then moved up again in early Q2 as investors moderated their expectations for cuts in interest rates. The pattern is similar in the U.S. Treasury market.

The generally positive tone in Q1 also belies the lack of progress on resolving conflicts in Europe and the Middle East, as well as heightened geopolitical risks in a big year for elections. In addition, we should not discount the potential for an unexpected shock in the financial markets, along the lines of the crisis in the banking sector in the first quarter of 2023.

One of the interesting features of Q1 was the surge in the price of gold, despite the declining trend in inflation. Bullion gained 8% to set new record highs above $2,300 an ounce, reflecting strong demand amidst concerns about geopolitical risks and the outlook for the U.S. Dollar should differentials in interest rates on government bonds begin to narrow. Oil prices have also been strong this year (Brent crude +13.5% in Q1) because of production cuts and geopolitical concerns.

The grounds for optimism we highlighted in our previous update are having a positive impact. Opportunities linked to adjustments in global supply chains, fiscal measures to promote investment in infrastructure and renewable energy and innovation in the use of artificial intelligence to boost productivity and create new channels for growth are evident in overall corporate earnings data.
This has boosted confidence, as evidenced by a small narrowing of the differential in valuation multiples between the market leaders in 2023, specifically the 'Magnificent 7' group, and the broader market late in Q1. We have also seen cracks appear in the Magnificent 7, with Apple and Tesla shares dropping by 10% and 28% respectively in Q1 (in Sterling terms), Alphabet and Microsoft 'subdued' with gains of 9% and 13% respectively whereas Nvidia propelled itself into the 3rd spot in the ranking of the world's largest companies by market cap (2.2 trillion in U.S. Dollar terms) with a gain of more than 84%. Nvidia shares are up 218% in the year to the end of March 2024.

Japanese stocks have surged back into the spotlight with a gain of 23% over one year and a new record high, more than thirty years after the previous record was set. Japan is the second largest constituent of the MSCI World Index, albeit with a weight of only 6.1% at the end of March 2024. The Bank of Japan moved official interest rates above zero, if only just, and scrapped its yield curve control programme, reflecting increasing confidence that deflation has been conquered. Equity investors have seized on the improved outlook for corporate earnings to push stock prices up.

The actions taken by the Bank of Japan had been expected to push the Yen higher against the U.S. Dollar and other major currencies. Instead, the Yen weakened based on the view that the differential between yields on Japanese Government Bonds and other sovereign bonds would not narrow as quickly as had been expected at the beginning of the year. This is an important watching point because of the volume of overseas assets purchased using Yen as the funding currency. A rapid narrowing of the gap could accelerate the repatriation of capital back to Yen-denominated assets and prompt a surge in volatility in global capital markets.

Developed markets companies outperformed emerging markets companies by a margin of more than 16% over one year. The poor performance of Chinese stocks (-1.3% in Q1 2024 and -18.7% over 12 months based on MSCI index constituents), which accounted for about 25% of the MSCI Emerging Markets Index in Q1, has diluted strong performance in other markets, notably Taiwan (+13.5% in Q1), led by Taiwan Semiconductor Manufacturing Company, and India (+7.1%), where industrial and consumer companies geared to growth in the local economy have offset the weak performance of leading banks.

Outlook

With inflation on a clearer downward path, albeit with the risk of setbacks (possibly linked to disruption of supply chains caused by geopolitical events or an unexpected shock in the financial system), we think bond yields will move in a tighter range than we have seen since early 2021. This should allow for a more rational assessment of the outlook for economies and companies, and in turn, the pricing of assets.
Yields available from credit assets are attractive, although spreads have narrowed and don't look compelling by historic standards. The same can be said about headline valuations of equities. However, divergences in performance across regions and sectors are wider than they were during the long period of easy money. This will create opportunities for active credit and equity investors to add value through sector rotation and/or good security selection.

Consistent with our message at the end of 2023, we encourage Partner Funds to review the strongest sources of performance within their funds and consider opportunities to adjust the balance of exposure across asset classes, and within the main blocks of risk, equities, and credit in particular.

London CIV Team

FINANCIAL IMPLICATIONS

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

LEGAL IMPLICATIONS

There are no legal implications in the report.

London Borough of Hillingdon Pension Fund

Funding update report at 31 March 2024

This report is addressed to the Administering Authority of the London Borough of Hillingdon Pension Fund. This document should be read in conjunction with the fund's current Funding Strategy Statement.

The purpose of this report is to provide the funding position of the London Borough of Hillingdon Pension Fund as at 31 March 2024 and show how it has changed since the previous valuation at 31 March 2022. This report has not been prepared for use for any other purpose and should not be so used. The report should not be disclosed to any third party except as required by law or regulatory obligation or with our prior written consent. Hymans Robertson LLP accept no liability where the report is used by or disclosed to a third party unless such liability has been expressly accepted in writing. Where permitted, the report may only be released or otherwise disclosed in a complete form which fully discloses the advice and the basis on which it is given.

The figures presented in this report are prepared only for the purposes of providing an illustrative funding position and have no validity in other circumstances. In particular, they are not designed to meet regulatory requirements for valuations and do not constitute an 'indicative actuarial valuation' under LGPS (Scotland) Regulation 61 (2A).

This report also contains the data and assumptions underlying the results and the reliances and limitations which apply to them.

1 Results

1.1 Funding position update

The table below shows the estimated funding position at 31 March 2022 and 31 March 2024.

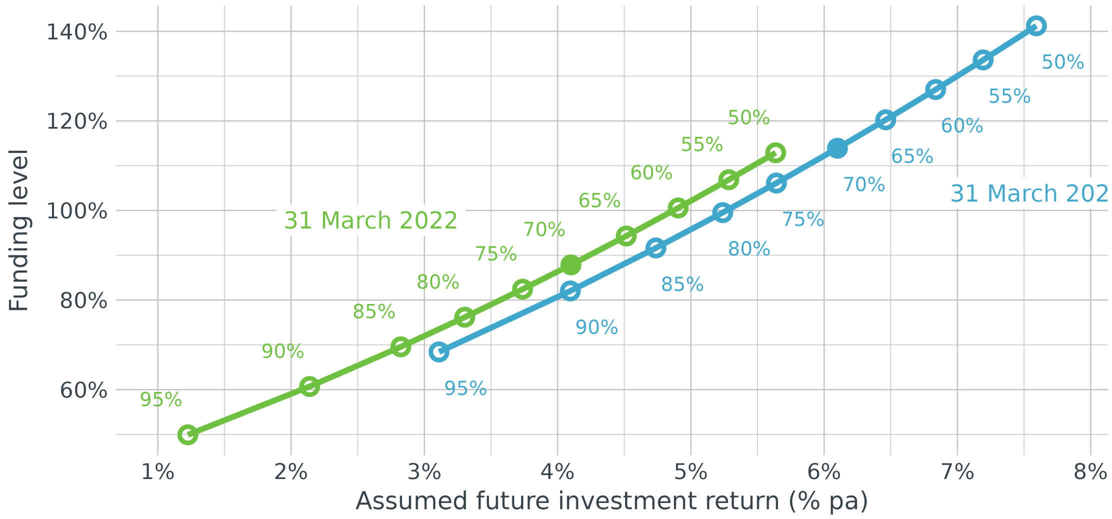
Please note that the asset value at 31 March 2024 shown in this report may differ to the actual asset value at that date because it is an estimate based on estimated cashflows (see section 3.2). However, the estimated value is consistent with the liabilities and therefore gives a more reliable estimate of the funding position than the actual asset value at the same date.

The table also shows what assumed investment return would be required at each date for the deficit to be exactly zero, along with the likelihood of the investment strategy achieving this return. An increase in this likelihood corresponds to an improvement in the funding position.

	Ongoing basis	
Monetary amounts in £bn	**31 March 2022**	**31 March 2024**
Assets	1.26	1.32
Liabilities		
– Active members	0.39	0.33
– Deferred pensioners	0.37	0.27
– Pensioners	0.67	0.56
Total liabilities	1.43	1.16
Surplus/(deficit)	(0.17)	0.16
Funding level	88%	114%
Required return assumption (% pa) for funding level to be 100%	4.9%	5.3%
Likelihood of assets achieving this return	60%	80%

1.2 Funding level range chart

The chart below shows how the funding level varies with the assumed rate of future investment returns, comparing the position at 31 March 2022 with the updated position at 31 March 2024 . The percentages next to each point show the likelihood of the investment strategy achieving that return (for further details see section 3.4). The solid coloured point indicates the assumed future investment return and funding level on the Ongoing basis.



1.3 Funding level progression

The chart below shows the estimated funding level (ratio of assets to liabilities) over time between 31 March 2022 and 31 March 2024. It allows for changes in market conditions and other factors described in Appendix A. If the fund has moved to a different basis since 31 March 2022 this may give rise to step changes in the funding level on the date of the change.

2 Next steps

2.1 Understanding the results

The results at 31 March 2024 in this report are estimates based on rolling forward the fund's funding position from 31 March 2022. You should understand the methodology and limitations of this approach described in appendices A and B.

Decisions should not be based solely on these results and your Hymans Robertson LLP consultant should be contacted to discuss any appropriate action before any is taken. Please also bear in mind that the information is estimated and consider other factors beyond the funding level or surplus/deficit. These could include, but are not limited to, changes to investment strategy, membership profile and covenant strength (where relevant).

Please get in touch with your usual Hymans Robertson contact if you wish to discuss the results in this report further.

3 Data and assumptions

3.1 Membership data

The membership data underlying the figures in this report was supplied by the fund for the purpose of the valuation at 31 March 2022 and is summarised below:

31 March 2022	Number	Average age	Accrued benefit (£k pa)	Payroll (£k pa)
Active members	8,691	53.2	23,167	152,450
Deferred pensioners	12,903	53.1	20,151	
Pensioners and dependants	7,675	69.6	42,417	

Average ages are weighted by liability.

The membership is assumed to evolve over time in line with the demographic assumptions described in the Funding Strategy Statement. Please see Appendix A for details of the rollforward methodology which includes the estimated changes in membership data which have been allowed for.

3.2 Cashflows since the valuation at 31 March 2022

We have allowed for the following cashflows in estimating the assets and liabilities at 31 March 2024. Cashflows are assumed to be paid daily. Contributions are based on the estimated payroll, certified employer contributions (including any lump sum contributions) and the average employee contribution rate at 31 March 2022. Benefits paid are projections based on the membership at 31 March 2022.

Estimated cashflows (£k)	31 March 2022 to 31 March 2024
Employer contributions	82,555
Employee contributions	21,266
Benefits paid	108,076
Transfers in/(out)	0

3.3 Investment returns since the valuation at 31 March 2022

Investment returns are based on actual returns where available and index returns otherwise.

Investment strategy	Actual/index	From	To	Return
Whole fund	Actual	1 April 2022	31 March 2024	4.65%

The total investment return for the whole period is 4.65%.

3.4 Financial assumptions

The financial assumptions used to calculate the liabilities are detailed below. For further details please see the Funding Strategy Statement.

Assumption	31 March 2022	31 March 2024
Funding basis	Ongoing	Ongoing
Discount rate methodology	Expected returns on the Whole Fund strategy over 20 years with a 70% likelihood	Expected returns on the Whole Fund strategy over 20 years with a 70% likelihood
Discount rate (% pa)	4.1%	6.1%
Pension increase methodology	Expected CPI inflation over 20 years with a 50% likelihood	Expected CPI inflation over 20 years with a 50% likelihood
Pension increases (% pa)	2.7%	2.4%

Salary increases are assumed to be 0.5% pa above pension increases, plus an additional promotional salary scale.

3.5 Demographic assumptions

Demographic assumptions are set out in the Funding Strategy Statement. All demographic assumptions, including longevity assumptions, are the same as at the most recent valuation at 31 March 2022.

Life expectancies from age 65, based on the fund's membership data at 31 March 2022, are as follows. Non-pensioners are assumed to be aged 45 at that date.

	Ongoing basis	
Life expectancy from age 65 (years)	Male	Female
Pensioners	22.3	24.8
Non-pensioners	23.0	26.0

Appendix A - Technical information

A.1 Funding update methodology

The last formal valuation of the fund was carried out as at 31 March 2022. The results in this report are based on projecting the results of this valuation forward to 31 March 2024 using approximate methods. The rollforward allows for

- estimated cashflows over the period as described in section 3.2;
- investment returns over the period (estimated where appropriate) as described in section 3.3;
- changes in financial assumptions as described in section 3.4;
- estimated additional benefit accrual.

The CARE, deferred and pensioner liabilities at 31 March 2024 include a total adjustment of 11.4% to reflect the difference between actual September CPI inflation values (up to 30 September 2023) and the assumption made at 31 March 2022. The adjustment for each year's actual inflation is applied from 31 October that year, cumulative with prior years' adjustments, which may lead to step changes in the funding level progression chart.

In preparing the updated funding position at 31 March 2024 no allowance has been made for the effect of changes in the membership profile since 31 March 2022. The principal reason for this is that insufficient information is available to allow me to make any such adjustment. Significant membership movements, or any material difference between estimated inputs and actual ones, may affect the reliability of the results.The fund should consider whether any such factors mean that the rollforward approach may not be appropriate.

No allowance has been made for any early retirements or bulk transfers since 31 March 2022. There is also no allowance for any changes to Local Government Pension Scheme (LGPS) benefits except where noted in the formal valuation report or Funding Strategy Statement.

A.2 Sensitivity of results to assumptions

The results are particularly sensitive to the real discount rate assumption (the discount rate net of pension increases) and the assumptions made for future longevity.

If the real discount rate used to value the accrued liabilities was lower then the value placed on those liabilities would increase. For example, if the real discount rate at 31 March 2024 was 1.0% pa lower then the liabilities on the Ongoing basis at that date would increase by 18.2%.

In addition, the results are sensitive to unexpected changes in the rate of future longevity improvements. If life expectancies improve at a faster rate than allowed for in the assumptions then, again, a higher value would be placed on the liabilities. An increase in life expectancy of 1 year would increase the accrued liabilities by around 3-5%.

Appendix B - Reliances and limitations

The last formal valuation of the fund was carried out as at 31 March 2022 and these calculations rely upon the results of that valuation. The reliances and limitations that applied to that valuation apply equally to these results. The results of the valuation have been projected forward using approximate methods. The margin of error in these approximate methods increases as time goes by. The method may not be appropriate if there have been significant data changes since the previous formal valuation (for example redundancy exercises, significant unreduced early retirements, ill health retirements and bulk transfers). The methodology assumes that actual experience since the valuation at 31 March 2022 has been in line with our expectations.

The data used in this exercise is summarised in section 3. Data provided for the purposes of the formal valuation at 31 March 2022 was checked at the time for reasonableness and consistency with other sources. Data provided since then (eg actual investment returns) has been used as-is. The data is the responsibility of the Administering Authority and the results rely on the data.

The results in this schedule are based on calculations run on 10 May 2024 using the data set out in section 3. Any other factors coming to light after this report was prepared have not been allowed for and could affect the results. If any data has materially changed since 10 May 2024 the results could be materially different if they were recalculated.

Some financial assumptions may be based on projections from our Economic Scenario Service (ESS) model which is only calibrated at each monthend. Results between monthends use the latest available calibration, adjusted in line with the movement in market conditions. This adjustment is approximate and there may be step changes at monthend dates when a new ESS calibration is factored in.

The methodology underlying these calculations mean that the results should be treated as indicative only. The nature of the fund's investments means that the surplus or deficit identified in this report can vary significantly over short periods of time. This means that the results set out should not be taken as being applicable at any date other than the date shown.

As with all modelling, the results are dependent on the model itself, the calibration of the underlying model and the various approximations and estimations used. These processes involve an element of subjectivity and may be material depending on the context. No inferences should be drawn from these results other than those confirmed separately in writing by a consultant of Hymans Robertson LLP.

Decisions should not be based solely on these results and your Hymans Robertson LLP consultant should be contacted to discuss any appropriate action before any is taken. Hymans Robertson LLP accepts no liability if any decisions are based solely on these results or if any action is taken based solely on such results.

This report complies with the relevant Technical Actuarial Standards.

RESPONSIBLE INVESTMENTS UPDATE	ITEM 8

Committee	Pensions Committee
Officer Reporting	James Lake & Babatunde Adekoya, Finance
Papers with this report	Full manager voting - Shared drive. LGIM Engagement Report Q1 2024 – Shared drive LAPFF Engagement Report Q1 2024 – Shared drive LCIV Engagement March 2024 – Shared drive Draft LAPFF Workplan – 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 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 102 meetings.

Fund Managers Voting Breakdown Q1, 2024					
LCIV	**Meetings**	**Resolutions**	**Votes With**	**Against**	**Abstention/Non-Voting**
Mar-24					
LCIV - Ruffer	5	58	57	1	0
LCIV - Baillie Gifford	79	1,346	1,093	174	79
Eos	102	1,467	N/A	N/A	N/A
	186	**2,871**	**1,150**	**175**	**79**
%			**81.91**	**12.46**	**5.63**
LGIM	**Meetings**	**Resolutions**	**Votes With**	**Against**	**Abstention**
Mar-24	2,293	17,477	13,151	3,944	382
	2,293	**17,477**	**13,151**	**3,944**	**382**
%			**75.25**	**22.57**	**2.19**

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

The voting breakdown above indicates LGIM have voted against proposed management resolutions on 23% of voting opportunities and supported resolutions on approximately 75% of occasions. The London CIV through Eos and two equities portfolio managers, Ruffer and Baillie Gifford combined to back various management resolutions on 82% of voting opportunities and about 12% against the resolutions proposed by company managements. Abstentions for LGIM and LCIV were 2% & 6%respectively.

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.

LCIV
During the quarter under review Federated Hermes (Eos) on behalf of the LCIV engaged various companies on issues such as ESG, Strategy, Risk and Communications, globally.

Compass Group
Engagement theme: Conduct and culture
At the time of EOS initial engagement in 2015, the company's strategy was to expand its operations in regions with the potential for growth in the food service market. This included high-risk emerging markets, where the food service market remained self-operated. They began engagement seeking reassurances about the robustness of the compliance programme, and whether appropriate policies, processes and oversight was in place.

A meeting in 2017 with the chair of the corporate social responsibility (CSR) committee did not provide comfort that the board was effectively overseeing the company's management of bribery and corruption risk. Concerns mounted when, despite operations in over 50 countries, the number of calls to the company's whistleblowing helpline relating to corruption risk were so few that they were not reflected in its reporting. Compass said it would take on board suggestion to provide examples of case management in its reporting. From 2018 to 2020, there were numerous calls and meetings with Compass on the revision of its code of conduct, which the company supported. During a call ahead of the 2020 AGM, the company secretary confirmed that the review of the ethics and compliance programme was progressing well, and a new version of the code of conduct would be published in 2020.

Outcomes and next steps
In 2020, Compass confirmed that since the new CEO had taken the reins in 2018, the sustainability agenda had become a priority and a new role of group head of ethics and integrity had been created. In 2021, Compass relaunched its 'Speak Up, We're Listening' programme, along with a comprehensive training programme. Accessible internally and externally, and managed by the group's ethics and integrity function, the programme aimed to empower anyone to raise concerns or allegations of potential misconduct.
Feedback from biannual training and employee surveys showed the effectiveness of training, and that the level of awareness of issues and reporting processes had improved along with the willingness to report concerns, and the observance of integrity-driven decisions. EOS on behalf of LCIV, will continue to focus on how Compass keeps its code of conduct relevant and up to date.

General Electric
Engagement theme: Reduction of customers' greenhouse gas emissions
In 2017, EOS began engaging with General Electric (GE) on setting Scope 3 targets for its sold products to help reduce the greenhouse gas emissions of its customers. These Scope 3 emissions were considered to be more material for the company than those generated from its own operations. By setting Scope 3 targets for its products, it was hoped this would send a powerful message to its customers and the

sector. Many of the competitive advantages of GE's products come through maximising efficiency, and EOS believed that Scope 3 targets would provide greater direction to the company and its decarbonisation strategy.

In 2021, EOS engaged GE on its progress towards developing Scope 3 emissions targets related to product use. At the time, it was considering its response to a related shareholder proposal that management had supported, on how it would set a net-zero target that included Scope 3 emissions. EOS highlighted the importance of short- and medium-term greenhouse gas reduction targets that were aligned with the goals of the Paris Agreement and encouraged disclosures in line with the TCFD recommendations and the Climate Action 100+ benchmark. It also recommended that GE should put forward carbon intensity targets for its different business units.

Outcomes and next steps
In 2021, GE announced an ambition to be a net-zero company by 2050 including for its sold products. Building on its past actions, the company worked with external advisers and experts to refine its business unit focus on Scope 3 product emissions for power turbines and aircraft engines, which account for most of GE's greenhouse gas emissions across all reporting scopes. GE's 2021 sustainability report, released in June 2022, included a 2030 Scope 3 target for new gas turbine and steam turbine products sold, and a commitment to advance technologies to reduce the carbon intensity of its aviation products. EOS will continue to engage with GE on progress towards its climate ambitions.

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 - Climate
APA
APA is Australia's largest energy infrastructure business. Under LGIM's Climate Impact Pledge campaign, it has been engaging with the company directly since 2022; as one of the selected 'dial mover' companies, It believes it has the scale and influence across its industry and value chain for its actions to have positive reverberations beyond its direct corporate sphere. In LGIM engagements with them, which are guided by their qualitative assessment criteria as set out in its multi-utilities sector guide, in terms of 'red lines' the company was identified as lagging their expectations on climate-related lobbying activities.

LGIM expect companies to introduce credible transition plans, consistent with the Paris goals of limiting the global average temperature increase to 1.5°C. This includes the disclosure of Scope 1, 2 and material Scope 3 GHG emissions and short, medium, and long-term GHG emissions reduction targets consistent with the 1.5°C goal. As a consequence, when APA Group brought its climate transition plan to a vote, the manager was unable to support it: although the plan presented Scope 1 and 2 goals for the medium and long term on a path to achieving net zero emissions by 2050, no Scope 3 targets were included. The company noted that these would be finalised no later than 2025.

LGIM initiated engagement with the company after this vote and met with them for the first time in early 2023 as part of our Climate Impact Pledge engagement, and they have continued to build the relationship, setting out our expectations as per their net zero guide, and working with the company to understand the hurdles it faces and the challenges to meeting these expectations.

Outcome
LGIM were very pleased that, in their meeting with them in early 2024, APA confirmed that they will include a Scope 3 goal in the 2025 refresh of their Climate Transition Plan, and they outlined their proposed Scope 3 reduction pathway. The company noted that feedback from the 20% of investors, including LGIM, who voted against their proposed Climate Transition Plan in 2022, had solidified their decision to commit to a Scope 3 target. This demonstrates the effect of the manager's engagement strategy, fully aligned with their voting policy, to encourage progress towards decarbonisation. LGIM look forward to continuing engagement with the company on their decarbonisation pathway and journey to net zero.

Social - Nutrition: Nestlé
Identify
As the largest food company in the world,13 Nestlé sets an example for the rest of the industry in terms of driving positive change and raising market standards.
There is a clear link between poor diets and chronic health conditions such as obesity, heart disease and diabetes. These in turn may lead to increased healthcare costs and decreased productivity, both of which will have negative impacts on the economy and, ultimately, on our clients' assets.

Engage
In the fourth quarter of 2022 LGIM co-signed, with peers, letters to 12 food and beverage manufacturers, under the leadership of ShareAction's Healthy Markets Initiative. Nestlé was among the companies they wrote to. In the individually tailored letters, the manager encouraged the companies to do more in several areas. These included, for example, transparency around their nutrition strategy, demonstrating progress on their nutrition strategy, committing to disclosures around the proportion of the company's portfolio and sales associated with healthy food and drinks products (using government endorsed nutrient-profiling models), and setting targets to increase the proportion of these sales. It also praised companies for the positive steps taken so far.

Following the letter, together with the Healthy Markets Initiative, LGIM met with Nestlé several times. In late 2022, Nestlé announced that they would report on their global portfolio using the nutrient profiling system Health Star Rating (HSR) – LGIM were pleased to see this development and continued to meet with Nestlé as part of this collaboration during 2023 to discuss ongoing concerns, particularly regarding their plans not just to monitor but also actively to increase their sales of healthier products. In September 2023, Nestlé announced a new nutrition target which LGIM believed is not ambitious enough.

Escalate
Reflecting our shared concerns with ShareAction, LGIM agreed in early 2024 to co-file a shareholder resolution at Nestlé's AGM, calling on the company to:
• Set key performance indicators (KPIs) regarding the absolute and proportional sales figures for food and beverage products according to their healthfulness, as defined by a government-endorsed Nutrient Profiling Model
• Provide a timebound target to increase the proportion of sales derived from these healthier products

These requests are intended to address their main concerns and strengthen the link between Nestlé's targets and real-world impact by increasing the proportion of healthier food available in consumer markets.
The manager will monitor the company's response and actions and continue its engagement with them on this crucial issue.

Governance - Significant votes

Apple Inc.
Issue identified: In line with their published expectations, LGIM believe companies like Apple should be transparent in their uses of AI and their risk management processes.
Summary of the resolution: Resolution 7 – Report on Use of AI AGM date: 28 February 2024.
How LGIM voted: For resolution 7 (against management recommendation)

Rationale for the vote decision: LGIM met with the company to discuss these topics, and it did not commit to increasing transparency and disclosures around AI at this time. Apple is among several companies that have outsized influence on the integration of AI into our economy. The manager pre-declared out vote intention on their 2024 pre-declaration blog. The rationale for the vote decision was that a vote in favour of the proposal was warranted, as it believes investors would benefit from further disclosure and transparency on the company's use of and internal governance over artificial intelligence.

Outcome: 37.5% shareholders voted in favour of this proposal.

Why is this vote 'significant'?
This vote is significant as it relates directly to one of LGIM's six global stewardship themes: Digitisation. The manager published its expectations of companies regarding governance of AI on their blog last year.

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

In January 2024 LAPFF issued their draft workplan for 2024 which sets out a range of current and anticipated company and policy engagement areas for the coming year. This gives members the ability to comment to ensure that members are content with LAPFF's areas of focus and that engagements align.

The plan covers various themes within:

- Responsible Investment
- Promoting good governance
- Positioning the forum, communication, and member services

Details on the various LAPFF engagements can be found on the members shared drive in the 'LAPFF Engagement Report Q1 2024'

FINANCIAL IMPLICATIONS
ESG initiatives included within the Pension Fund budget.

LEGAL IMPLICATIONS
Legal implications are included in the report.

Pension Fund Risk Register	Item 9

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

HEADLINES

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

RECOMMENDATIONS

It is recommended that Pensions Committee:

- **Consider the Risk Register in terms of the approach, the specific risks identified, and the measures being taken to mitigate those current risks.**

SUPPORTING INFORMATION

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

There are 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.

For Q2 2024 there are no deletions, additions, or changes to DoT to report.

Going forward, Pension Fund risks will be uploaded and managed through the Council's new risk management system JCAD. This will provide a more interactive platform to manage and monitor risks.

One feature is that it will allow for risks to remain in view but be treated as 'tolerated' where they can be seen but where day-to-day monitoring and action is not required. For example, 'PEN05 Pensioners living longer' could be considered as a tolerated risk due to its nature; we are aware of the risk, and we can monitor the risk, but there is little actual action we can do to avoid or mitigate the actual risk. It is envisaged the new JCAD reporting will be available for the September Committee.

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

Description	Actions in Place	Progress Comment	Risk Category / Rating / DOT	Lead Officer / Committee Member	Date of last review
PEN 01 - Fund assets fail to deliver returns in line with the anticipated returns underpinning valuation of liabilities over the long-term	1. Anticipate long-term return on a relatively prudent basis to reduce risk of failing to meet return expectations. Funding Strategy outlines key assumptions that must be achieved in agreeing rates with employers for a significant chance of successfully meeting the funding target. 2. Analyse progress at three yearly valuations for all employers. 3. Undertake Inter-valuation monitoring.	With the assistance of Hymans quarterly funding report, the position is kept under regular review and Pension Committee is informed of the impact of prevailing market conditions on the funding level The 2022 initial triennial valuation results show a marginal improvement on the 2019 valuation. Interim valuations currently show an overfunded position. A revised investment strategy has been produced to be robust but now with a tilt to growth. The current position should be viewed with caution as there is still much uncertainty relating to economic growth and inflation, however the objectives of the fund are long term and the portfolio is well positioned to withstand volatility over the long term. Officers are closely monitoring developments and liaising with fund managers and advisors. Member cashflow continues to be monitored.	Strategic risk Likelihood = Significant Impact = Large **Rating = C2** **(Static)**	James Lake / Cllr Chamdal	05/06/24
PEN 02 - Inappropriate long-term investment strategy	1. Set Pension Fund specific strategic asset allocation benchmark after taking advice from investment advisers, balancing risk and reward, based on historical data. 2. Keep risk and expected reward from strategic asset allocation under review. 3. Review asset allocation formally on an annual basis. 4. Asset allocation reported quarterly to committee. 5. Officer and advisers actively monitors this risk.	A separate Officer and Advisor working group regularly monitors the investment strategy and develops proposals for change / adjustment for Pension Committee consideration. The impact of each decision is carefully assessed to ensure that long-term returns are being achieved and are kept in line with liabilities. In May 2021, a new Pension Sub-Group was established to allow Members, advisers and officers to meet regularly and provide a platform for greater oversight and scrutiny of Fund investments. A revised Investment Strategy Statement has been prepared in line with the triennial valuation process. The strategy revisions are currently being implemented.	Strategic risk Likelihood = Low Impact = Large **Rating = E2** **(Static)**	James Lake / Cllr Chamdal	05/06/24
PEN 03 - Active investment manager under-performance relative to benchmark	1. The structure includes active and passive mandates and several managers are employed to diversify the risk of underperformance by any single manager. 2. Short term investment monitoring provides alerts on significant changes to key personnel or changes of process at the manager. 3. Regular monitoring measures performance in absolute terms and relative to the manager's index benchmark, supplemented with an analysis of absolute returns against those underpinning the valuation. 4. Investment managers would be changed following persistent or severe under-performance.	The Fund is widely diversified, limiting the impact of any single manager on the Fund. Active monitoring of each manager is undertaken with Advisors and Officers meeting managers on a quarterly basis and communicating regularly. The LCIV as pool is increasingly managing more assets on the funds behalf as per regulation. The Fund is working closely with LCIV regarding oversight reporting to aid Committee assessment. Comments on whether mandates should be maintained or reviewed are included quarterly and where needed specific performance issues will be discussed and reviewed. Action is taken to remove under-performing managers where appropriate.	Strategic risk Likelihood = Low Impact = Small **Rating = E4** **(Static)**	James Lake / Cllr Chamdal	05/06/24

PEN 04 - Inflation - Pay and price inflation significantly more than anticipated	1. The focus of the actuarial valuation process is on real returns on assets, net of price and pay increases. The actuarial basis examines disparity between the inflation linking which applies to benefits of Deferred and Pensioner members as well as the escalation of pensionable payroll costs which only applies to active members, and on which employer and employee contributions are based. 2. Inter-valuation monitoring gives early warning and investment in index-linked bonds also helps to mitigate this risk. 3. Employers pay for their own salary awards and are reminded of the geared effect on pension liabilities of any bias in pensionable pay rises towards longer-serving employees. 4. Covenant's are in place with security of a guarantee or bond for admission agreements. 5. Inter-valuation monitoring gives early warning. 6. Investment in index-linked bonds helps to mitigate this risk. 7. Contribution rate setting as part of the triennial valuation process considers 5000 scenarios in achieving a fully funded position.	The impact of pay and price inflation is monitored as part of the Council's MTFF processes and any potential impact on pension fund contributions is kept under review and factored into the Council's overall position. The impact of inflation is reviewed through all strategic investment decision making, however inflation risk is diminishing as rates fall. The increase in interest rates to counter inflation has had a positive effect on the Fund valuation. Inflation linked investments form part of the investment strategy and are aimed at balancing this risk and protecting against the impact of inflation. Ongoing monitoring of inflation forms part of business as usual activities. The Fund's cashflow is constantly monitored and additional cash requirements are factored into the Investment Strategy.	Strategic risk Likelihood = Significant Impact = Large **Rating = C2** **(Static)**	James Lake / Cllr Chamdal	05/06/24
PEN 05 - Pensioners living longer	1. Mortality assumptions are set with some allowance for future increases in life expectancy. Sensitivity analysis in triennial valuation helps employers understand the impact of changes in life expectancy. 2. Club Vita monitoring provides fund specific data for the valuation, enabling better forecasting.	The Fund is part of Club Vita, a subsidiary of the Fund Actuary, which monitors mortality data and feeds directly into the valuation. Results also feed into the quarterly funding position which is reported to and assessed by Committee Members and officers.	Strategic risk Likelihood = Low Impact = Small **Rating = E4** **(Static)**	James Lake / Cllr Chamdal	05/06/24
PEN 06 - Poor Performance of Outsourced Administrator leading to poor quality information supplied to both members and the Fund Actuary	1. New partnership in place with HCC. 2. Regular service meetings in place. 3. Monthly KPI reports are provided to track and monitor performance. 4. Critical errors cleared prior to transfer of valuation data to actuary. 5. Data Improvement plan will be developed and implemented in 2022.	Regular meetings will take place between HCC & LBH to ensure the new partnership is working in accordance with expectations and that any issues are addressed. Performance against KPI's and other metrics are also discussed. KPI's have been at 100% since partnership inception and all other levels of service, reporting and interaction have been positive and pro-active. HCC attend and report directly at Committee and Board meetings to allow first-hand scrutiny.	Strategic risk Likelihood = Low Impact = Large **Rating = E2** **(Static)**	James Lake / Cllr Chamdal	05/06/24

PEN 7 - Cyber Security - Pension schemes hold large amounts of personal data and assets which can make them a target for fraudsters and criminals	1. Council wide policies and processes in place around: acceptable use of devices, email and internet use of passwords and other authentication home and mobile working data access, protection (including encryption), use and transmission of data. 2. Risk is on the Corporate risk register with risk mitigation in place. 3.All member and transactional data flowing from HCC and Hillingdon is sent via encryption software or via the employer portal. 4.Data between the fund, HCC and Hymans is distributed via upload to an encrypted portal. 5. Systems at Hillingdon and HCC are protected against viruses and other system threats. 6. HCC are accredited to ISO27001:2013 and signed up to the Pensions Regulator Pensions Pledge. HCC currently undergoing penetration testing to ensure they are PSN compliant.	This risk has been recognised in response to recommendations by the Pensions Regulator and work carried out by Pensions Board A Data Mapping exercise has been carried out to understand data transfers and risks in this area. The results and undergone an Internal Audit assessment with a reasonable assessment level applied. Recommendations from the audit have been implemented. As a result of work with the Pensions Board in gaining assurance in this area the fund will create a policy to ensure a sufficient action plan is in place. The Fund recently participated in the AON LGPS cyber scorecard exercise which is a high level assessment of the Fund's cyber resilience. The results show the Hillingdon Fund is generally either average or above average. No immediate concerns were highlighted. HCC has a number of cyber controls in place, upgraded the member portal security and has produced a cyber compliance statement which sets out for all partners the controls they have in place and detailing areas of improvement. HCC continue with their programme of security updates. HCC apply a policy of continuous improvement as evidenced in they IT improvement road plan. Twice yearly PEN testing is now fully embedded. The latest HCC internal audit report on cyber security was issued in 2023.	Strategic risk Likelihood = Medium Impact = Large **Rating = D2** **(Static)**	James Lake / Cllr Chamdal	05/06/24
PEN 8 - ESG - Risk of financial loss through the negative impact of ESG matters	1. The fund have an ESG policy in place as part of the ISS. 2. Active equities within fossil fuel sector have been assessed in relation to the Transition pathway analysis tool to identify those companies transitioning to a lower carbon world. 3. Manger selections take into account ESG policy. 4. Mangers are expected to be signed up to the stewardship Code. 5. Managers are expected to have signed up to the UN Principles for Responsible Investment (UK PRI) 6. ESG Issues are discussed with managers at review meetings. 7. The Fund submitted its application report for the new 2020 UK Stewardship Code ahead of the April 2022 deadline. 8. The Fund has signed up to support TCFD.	The Pensions Committee has created a stand alone RI policy which supports principles and implementation of the investment portfolio. The policy is a live document and is regularly. The Fund actively invests in portfolios with an ESG tilt, including the LGIM Future World Global Index and the LCIV Global Alpha Paris Aligned Fund. These actions have considerable reduced the carbon metric of the Fund. The Fund aims to work towards UN SDG 7 & 13 objectives and will start to report on complementing TCFD metrics. The Fund will also collaborate and has signed up to TCFD. The Fund has agreed to being reporting against TCFD. The Fund was granted UK Stewardship Code signatory status in September 2022 and again in August 2023.. The fund however has decided not proceed with the 2024 application. An FRC roundtable event was attended in May 2024 where current signatories discussed improvements to the Code application process. In March 2023 the fund joined LAPFF to bolster engagement on ESG issues.	Strategic risk Likelihood = Medium Impact = Medium **Rating = D3** **(Static)**	James Lake / Cllr Chamdal	05/06/24

PEN 9 - Liquidity on asset management - risk of failure to liquidate assets or meet drawdown calls	1. The fund has an active daily cash management process in place to ensure there is sufficient cash available to meet any drawdown requirements. 2. Cash management includes investing large amounts of surplus cash to balance the investment portfolio or hold in liquid asset classes in anticipation of cash calls. 3. Officers liaise with managers where commitments have been made to keep track of predicted drawdown timescales. 4. The fund is significantly diversified in different asset classes and asset managers to ensure if there is a stop on any one holding then the portfolio will continue to operate as normal.	There is a detailed cash management process in place. This is signed off daily to ensure liquidity. The fund continues to invest in illiquid asset classes to benefit from illiquidity premium, however this is a relatively small portion of the portfolio and there are other liquid asset classes easily accessible. All trade times are listed in the cash management policy. The Fund has sufficient liquidity should it need to draw on investments or divert income to settle trades.	Strategic risk Likelihood =Low Impact = Large **Rating = E2** **(Static)**	James Lake / Cllr Chamdal	05/06/24
Pen 10 - Liquidity on members dealings - risk that the fund is unable to settle member payments	1. The fund has an active daily cash management process in place to ensure there is sufficient cash available to meet all beneficiary payments. 2. The fund is significantly diversified in different asset classes with the option of distribution portfolios.	There is a detailed cash management process in place. This is signed off daily to ensure liquidity. The fund continues to invest in illiquid asset classes to benefit from illiquidity premium, however this is a relatively small portion of the portfolio and there are other liquid asset classes easily accessible. All trade times are listed in the cash management policy. The Fund has sufficient liquidity should it need to draw on investments or divert income. As part of the Investment Strategy Review options are being discussed to bolster operational income and set out funding streams for any changes in the investment portfolio.	Strategic risk Likelihood =Low Impact = Medium **Rating = E3** **(Static)**	James Lake / Cllr Chamdal	05/06/24
PEN 11 - Failure of the pool in management of funds / access to funds	1. Quarterly review meetings held with the pool. 2. Regular reporting out of the pool informing the fund of manager performance. 3. Swift communications received from the pool with staff turnover and concerns the fund may need to be aware. 4. Independent adviser carried out a review of governance for manager selection and manager monitoring to add assurance and discussion points with the pool. 5. Active Shareholder representation at General meeting and AGM. 6. Pool to attend Committee meetings where required, to provide assurance over progress and activity.	Aoifinn Devitt has been appointed as new LCIV CIO. It is expected Aoifinn will during 2024 meet the Committee so she may introduce herself and so the Committee may ask any questions. Governance remains high on the agenda and Hillingdon have been key in forging improvements. There has been positive progress by LCIV and promised governance improvements have largely been implemented. The Hillingdon Fund has taken the lead in actively managing its underlying Pool investments with action being taken when necessary. LCIV continue to develop a pipeline of investment offerings based on client demand. The Value Equity offering is due to be available around the end of Q2 2024. New shareholder agreement and articles of association signed by all relevant parties 10 May 2023. The FCA and LCIV auditors have been advised. FCA has approved. Key items to note following the release of the Pooling consultation include the requirement for Pools to be a minimum £50b in size. LCIV are to provide update as they are unlikely to meet this critical mass. LCIV need to create vehicles to allow for the new levelling up and private equity allocations. Note potential conflict with fiduciary duty.	Strategic risk Likelihood = Low Impact = Small **Rating = E4** **(Static)**	James Lake / Cllr Chamdal	05/06/24

PEN 12 - Failure of the Fund's governance to comply with statutory requirements and/or The Pension Regulator expectations including: **Failure to ensure that Committee members' knowledge and understanding of pension matters is robust and meets statutory requirements** **Failure to ensure that the Pension Board is effective in carrying out its role**	1. Governance Policy Statement, reviewed every 3 years. 2. Policies on range of issues, reviewed regularly. 3. Compliance with CIPFA Code of Practice on Public Sector Pensions Finance, Knowledge and Skills. 4. Programme of training sessions and access to external events. 5. Use of Regulator's on-line toolkit. 6. A knowledge self-assessment framework for Committee and Board members to identify training requirements. 7. The Fund's Annual Report includes details of Committee and Board members' training activities. 8. Fund Governance Adviser in place. 9. Access is provided to CIPFA K&S Framework training modules.	The Fund has undergone a COP14 Governance review and implementing changes to be either fully or partially compliant. Regular monitoring is required to ensure this is maintained. Updates are presented at Pensions Board. Committee and Board members receive regular training and specific training aligned with decision making where required. Training logs are to be brought to Pensions Committee & Board with a mandatory training plan in place. Mandatory training, in line with the CIPFA K&S Framework, is to be undertaken by all Committee members. A knowledge and skills assessment took place with result being discussed in Q1 2024. A training plan has been developed in line with the assessment and Fund requirements. The fund has a schedule of policies in place to ensure reviews are carried out at the required intervals. Reviewed Pension Board's Terms of Reference were approved by Council and a new Operations Manual has been developed. Maximum tenure and staggered terms are to be put in place to allow for smooth succession planning. The Fund will monitor progress on the Regulator's new combined Code of Practice and implications of Scheme Advisory Board's Good Governance recommendations. A toolkit was purchased in May 2024 to allow a gap analysis to be performed against the new code.	Strategic risk Likelihood = Low Impact = Very Large Rating = E1 (Static)	James Lake / Cllr Chamdal	05/06/24
PEN 13 - Key officer risk - small team with specialists knowledge in key roles results in the Fund being vulnerable if staff leave	1. The team endeavours to maintain a broad knowledge across the pension function. 2. The Fund has access to specialist support should it be required. 3. The Fund has access to the interim employment market should it be required.	Succession planning is underway to bolster knowledge.	Strategic risk Likelihood = Medium Impact = Small Rating = D4 (Static)	James Lake / Cllr Chamdal	05/06/24
PEN 14 - Failure of employers to deliver accurate and timely employee administration information	1. Training provided to educate and empower employers. 2. Regular updates at Schools' Forum on the importance of accurate and timely information. 3. Regular newsletters and update from Hampshire. 4. Benchmarking and escalation to Head Teachers. 5. Regular meetings with payroll providers on behalf of schools to escalate and manage backlog work..	Work continues as described to embed good behaviour. Director of SEND and Education will include pension matters in regular briefings. Board members may begin to visit Head Teachers in person to escalate. 24/25 benchmarking to asses progress and highlight delinquent offenders. Consideration to report repeat offender to the Pension Regulator. Early indications for 2023/24 annual return are positive in terms of improvements.. The Corporate Director of Finance wrote to Datapalan highlighting performance issues. A follow-up meeting is to be arranged.	Strategic risk Likelihood = High. Impact = Large Rating = B2 (Static)	James Lake / Cllr Chamdal	05/06/24

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Attributes:

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

	Attributes:	**IMPACT**			
THREATS:	Financial	up to £500k	Between £500k and	Between £10m and	Over £50m
	Reputation	Minor complaint, no	One off local media	Adverse national	Ministerial

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GOVERNANCE	Item 10

Committee	Pensions Committee
Officer Reporting	James Lake, Finance
Papers with report	Pension Committee Workplan

HEADLINES
This report is to enable the Pension Committee to review the Committee workplan, note governance updates as well as approval of various triennial and interim policy updates.

RECOMMENDATIONS

That the Committee:

1. **Note the dates for Pensions Committee meetings.**
2. **Make suggestions for future agenda items, working practices and / or reviews.**
3. **Note Committee's Continuous Professional Development update**
4. **Note general governance issues**

SUPPORTING INFORMATION

The Pension Committee workplan has been updated and is now shown as an appendix to this report. The revised presentation is designed to assist with planning and prioritisation of actions.

Committee are asked to review the workplan and make suggestions for consideration and inclusion.

Future meeting dates:
25 September 2024
10 December 2024
26 March 2025

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. As a foundation requirement, Pension Committee members are asked to complete the AON CIPFA Knowledge & Skills Framework sessions.

Pensions Committee Continuous Professional Development 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	✓	-	-	-	-	-
12 Jul 23	LAPFF Mid-Year Conference	✓	✓	-	n/a	-	-
22 Aug 23	Pension Fund Pooling	✓	✓	✓	n/a	✓	✓
29 Nov 23	AEW & ESG	✓					
13 Dec 23	Equity Styes	✓	✓	✓	n/a	✓	✓
28 Feb 24	Baillie Gifford Investment Forum	✓					
22 Mar 24	Giffordgate - Conflicts of Interest	✓	✓	✓	n/a		✓
22 Mar 24	LCIV – Understanding Benchmarks & Performance	✓	✓	✓	n/a		✓
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 Pension Committee in May 2023
**Cllr Riley joined Pension Committee in May 2023 – training to be completed.

Knowledge & Skills Assessment
In January 2024 the members of the Pension Committee and Board were invited to complete an online knowledge assessment.

In March 2024 the results of the assessment were discussed at Pensions Committee. Members were asked to revisit AON modules where their individual scores did not meet the required level.

To date, Cllr Burles has confirmed he has revisited the relevant AON modules applicable to their assessments.

Committee should note that for the Pension Board, the Chair, Roger Hackett has confirmed he has revisited the relevant AON modules.

Training Plan
The next phase in the training plan is being developed and is expected to focus on the new Pension Regulator's General Code of Practice, the Risk Framework in which we operate and Investment Manager selection and monitoring. Once presenters and material have been agreed, date options will be sent to Committee and Board members.

Breaches, Complaints and Appeals
The Pension Board receives quarterly updates on breaches, complaints and appeals whereas they are now brought to Committee at a summary level on an annual basis.

In 2023/24 four items were noted on the breaches log, three of which related to information being sent to the wrong email address and one relating to not producing 100% of Annual Benefit Statements. The latter due to missing employer data, however 99.38% of active statements were sent. All events were deemed as minor and not reportable to the Pensions Regulator or Information Commissioner.

Two Ombudsman cases was received to which the Fund responded. To date no further communications have been received from the Ombudsman.

The Fund received six formal complaints and fifteen compliments in 2023/24. Where applicable, Hampshire has taken learning opportunities from the complaints to improve processes.

Department of Levelling Up, Housing & Communities (DLUHC)
In May 2024 DLUHC wrote to Chief Executives and Section 151 Officers referring to efficiencies in local government and management of local government pension schemes. It asks for responses on the progress of asset pooling under the current regime, plans for future pooling and how the Fund perceives the efficiency and governance of Pools, in our case LCIV. It also asks about efficiencies of merging funds.

Society of London Treasurers are consulting with officers so that a collective London response can be delivered.

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

LEGAL IMPLICATIONS
The legal implications included within the body of the report.

London Borough of Hillingdon Pension Fund - Pensions Committee agenda plan

	Frequency	Last review	Jun-24	Sep-24	Dec-24	Mar-25
Governance						
Business Plan & Budget	Annual		Y			
Business Plan & Budget - Update on progress/outturn	Quarterly		Y	Y	Y	Y
Annual Report and Accounts Draft - unaudited	Annual			Y		
External audit plan	Annual		Y			
External audit results report	Annual		Y			
Internal audit - outcomes	As required					
Local Pensions Board Operating Procedures	Every 3 years	Nov-21				
Local Pensions Board - Annual Report	Annual					Y
Compliance with Pensions Regulator Code of Practice	Annual					Y
Benchmarking - Investment; Admin; Funding (Section 13)	Various					
CTI	Annual		Y			
Procurement of services	As required					
Governance Update	Quarterly		Y	Y	Y	Y
Risk register	Quarterly		Y	Y	Y	Y
Policies						
Governance Policy & Compliance Statement inc Governance Compiance Statement		Sep-20		Y		
Conflicts of Interests Policy		Mar-23				
Risk Management Policy		Mar-22				Y
Procedure for Reporting Breaches of the Law		Oct-21		Y		
Funding Strategy Statement		Mar-23				
Investment Strategy Statement	At least every	Dec-23				
Responsible Investment Policy	3 years	Mar-23				
Training Policy		Dec-23				
Pensions Administration Strategy		Sep-21				
Scheme pays policy		Oct-20		Y		
Internal Disputes Resolution Procedure (IDRP) Employees Guide		Oct-22				
Communications Policy		Sep-21		Y		
Discretions Policy		Jun-22				
Pensions Administration						
Pensions Administration Performance	Quarterly		Y	Y	Y	Y
Breaches, Complaints and Appeals	Annually		Y			
Data Quality Improvement Plan??	Ad-hoc					
Funding						
Actuarial Valuation	Every 3 years	Mar-23				
Investment						
Review of Investment Strategy	Every 3 years	Jun-23				
Investment update and manager review	Quarterly		Y	Y	Y	Y
Responsible Investment Update	Quarterly		Y	Y	Y	Y
Stewardship Code	as required	Mar-23				
Climate Risk Dashbaord (TCFD)	Every 3 years	Mar-22				

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Agenda Item 11

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