London Borough of Hounslow Pension Fund

REPORT AND ACCOUNTS

for the year ended 31 March 2021

London Borough of Hounslow

Contents

Section 1
Introduction

Introduction by Clive Palfreyman – Executive Director of Finance and Resources

Welcome to the Annual Report of the London Borough of Hounslow Pension Fund.

The Pension Fund Panel is responsible for overseeing the management of the Pension Fund, including both investment management and pension administration. As the S151 officer of the administering authority I am pleased to introduce the Pension Fund's Annual Report for the year 2020/21.

During the year, the value of the Fund increased by 24%%, £228.7m, from £958m to £1,186.8m. The significant increase reflects how quickly financial markets recovered from the sharp falls witnessed at the onset of the COVID 19 pandemic in February 2020. Officers and their advisers continue to monitor the Fund closely and challenge the investment managers as necessary to ensure the Fund's investments are being managed effectively during this unprecedented time.

The triennial actuarial valuation of the fund at March 2019 was carried out by Barnett Waddingham and reported to Panel in January 2020. At that time it was pleasing to note that the funding position had substantially increased from 86% to 94%, meaning that the Fund had assets to cover 94% liabilities. This primarily reflected the significant increase in the performance of the investments during the previous three years. The next actuarial valuation will be carried out at the end of March 2022.

In March 2020 the Panel agreed to the following actions:

- to switch the passive global equity portfolio to a low carbon passive global equity portfolio;
- to transfer the residual active global equity portfolio into a sustainable equity fund on the London Collective Investment vehicle (LCIV); and
- to consider investing resources into renewable energy.

the Panel agreed to delegate authority to officers, to instruct managers to measure carbon footprint on the equity portfolios

The switch to a low carbon passive global equity fund and the transfer to the sustainable equity fund were completed by June 21 while a decision on whether to invest in renewable infrastructure will likely be made in 2022. Officers are currently working on proposals for measuring the carbon footprint of the fund that will be brought to the Panel in 2022.

I would like to thank the officers and all our stakeholders involved in the management of the Pension Fund during the year during 2020/21.

Clive Palfreyman

Executive Director of Finance and Resources

Section 2
Management of the Scheme

MANAGEMENT OF THE SCHEME

Administering Authority	London Borough of Hounslow
Trustees	Pension Fund Panel of the London Borough of Hounslow
Pension Fund Officers	
Executive Director of Finance & Corporate Resources	Clive Palfreyman
Head of Pensions & Investments	Patrick Kilgallen
Strategic Pensions Manager	Hitesh Sharma
Strategic Pensions & Treasury Accountant	Joan Coelho
Professional Advisors	
Independent Investment Advisor	MJ Hudson Allenbridge
Pension Fund Actuary	Barnett Waddingham
Fund Banker	National Westminster Bank Plc
Custodian of Assets	The Northern Trust Company
External Auditors	Mazars
Legal Advisors	HB Public Law
Assest Pool & Fund Managers	
Assest Pool and Operator	London LGPS CIV
Fund Managers	Aberdeen Asset Management (UK) Ltd
	BlackRock Investment Management (UK) Ltd
	CBRE Global Investors
	Fidelity
	Columbia Threadneedle Investments
	Longview Partners (London LGPS CIV)
Administration	
Pension admininstration services	West Yorkshire Pension Fund
Additional Voluntary Contributions (AVC) providers	Standard Life
	Utmost Life & Pensions

Section 3
Pension Fund Panel

Pension Fund Panel


Cllr. Hina Mir (Lab) - Chair


Cllr. Jagdish Sharma (Lab)


Cllr. John Todd (Con)


Cllr. Sukhbir Dhaliwal (Lab)


Cllr. Shivraj Grewal (Lab)


Cllr. Sohan Sumra (Lab)

Observer members

- Riaz Haq (Staff representative)
- John Wiffen (employer representative)
- Mohomed Ladha (Pensioner representative)

The Pension Fund Panel have responsibility for the management of the investments of the pension fund. They are appointed by the Borough Council and their responsibilities include:

- To consider, on the advice of the Executive Director of Finance & Corporate Services and Council's Fund Managers, the Council's general policy with regard to Pension Fund Investments.
- To make arrangements for the management of the Fund in line with the Investment Strategy.
- To monitor the performance of the Fund and its Managers.
- To exercise the Council's voting rights at AGMs and EGMs of companies in which the Fund has holdings, after considering the advice of the Executive Director of Finance & Corporate Services and appropriate Manager(s).
- To overview and agree pension administration matters

Further details on how our fund is managed are available in our Governance Compliance Statement.

Attendance at Pension Fund Panel Meetings in 2020/21

	Jun-20 *	Sep-20	Dec-20	Mar-21	Total	%
Councillior Hina Mir (Chair)		x	x	x	3	100
Councillor Sukhbir Singh Dhaliwal			x	x	2	66
Councillor Shivraj Grewal		x	x		2	66
Councillor Jagdish Sharma		x	x	x	3	100
Councillor Sohan Sumra			x	x	2	66
Councillor John Todd		x	x	x	3	100
Riaz Haq		x	x	x	3	100
Mohomed Ladha		x	x	x	3	100
John Wiffen			x	x	2	66

* The June meeting of the Panel was cancelled, due to Covid.

Section 4
The Pension Board

The Pension Board

As part of the national public sector pension reform the Public Service Pensions Act 2013 Hounslow's Pension Board was established in March 2015, with both employer and scheme member representatives. The intention of Pension Boards is to ensure that pension funds are well managed at the local level.

The Pension Board will be responsible for assisting Hounslow Council, the pension scheme manager, to:

- secure compliance with the Local Government Pension Scheme Regulations and any requirements imposed by The Pension Regulator; and
- to ensure the effective governance and administration of the Scheme.

The Pension Board is an oversight body. It does not replace existing governance arrangements or the role of our Pension Fund Panel. The Board produces an annual report which is presented at the Pension Fund Panel and the Borough Cabinet meetings. This year's report of the Pension Board is included at Appendix 5.

Pension Board Members

Cllr. Sam Hearn (Con) – Chair and Employer Representative

Neil Mason – Vice Chair and Independent Adviser

Thomas Ribbits – Member Representative

Harminder Persad – Employer Representative

William Cassell – Member Representative

Attendance at Pension Board Meetings in 2020/21

	Sep-20	Mar-21	Total	%
Councillor Sam Hearn (Chair)	x	x	2	100
Neil Mason	x	x	2	100
William Cassell		x	1	50
Harminder Persad	x	x	2	100
Thomas Ribbits	x	x	2	100

Pension Fund Panel/ Pension Board Training Log 2020/2021

Date	Description of Training	Attended by	Member/Officer
15/04/20	Covid 19 Issues for the LGPS - Eversheds Webinar	Hitesh Sharma	PFP Officer
16/04/20	UK Renewables and Flexible Energy Webinar	Lorelei Watson	PFP Officer
30/04/20	How equity protection can help even if you don't need protection.	Lorelei Watson	PFP Officer
18/05/20	PLSA Webinar: Covid-19's impact on the LGPS and the Regulator's response	Lorelei Watson	PFP Officer
22/05/20	PLSA Webinar: Dealing with Covid-19: LGPS member surgery and launch of the Scheme Advisory Board's annual report"	Lorelei Watson	PFP Officer
28/05/20	CIPFA Economic Update	Rapinder Sangha	PFP Officer
28/05/20	CIPFA Economic Update	Lorelei Watson	PFP Officer
03/06/20	LGPS-Live - the online webinar for the LGPS	Lorelei Watson	PFP Officer
05/06/20	LCIV Cost Transparency Reports Workshop	Lorelei Watson	PFP Officer
24/06/20	LGPS Members Pension Board Seminar	Cllr Sam Hearn	Pension Board
01/10/20	LGPS Local Pension Board Members Autumn Seminar	Cllr Sam Hearn	Pension Board

Section 5
Actuary's Statement

Actuary's Statement as at 31 March 2021

BARNETT WADDINGHAM LLP

7 JUNE 2021

INTRODUCTION

The last full triennial valuation of the London Borough of Hounslow Pension Fund was carried out as at 31 March 2019 as required under Regulation 62 of the Local Government Pension Scheme Regulations 2013 (the Regulations) and in accordance with the Funding Strategy Statement of the Fund. The results were published in the triennial valuation report dated 31 March 2020.

2019 VALUATION RESULTS

The 2019 valuation certified an average primary contribution rate of 18.9% of pensionable pay to be paid by each employing body participating in the London Borough of Hounslow Pension Fund. In addition to this, each employing body has to pay an individual adjustment to reflect its own particular circumstances and funding position within the Fund. Details of each employer's contribution rate are contained in the Rates and Adjustment Certificate in the triennial valuation report.

Contribution rates

The contributions rates, in addition to those paid by the members of the Fund, are set to be sufficient to meet:

- The annual accrual of benefits allowing for future pay increases and increases to pensions in payment when these fall due; plus
- An amount to reflect each participating employer's notional share of the Fund's assets compared with 100% of their liabilities in the Fund, in respect of service to the valuation date.

Asset value and funding level

The smoothed market value of the Fund's assets as at 31 March 2019 for valuation purposes was £1,034m which represented 94% of the Fund's accrued liabilities at that date, allowing for future increases in pay and pensions in payment.

ASSUMPTIONS

The key assumptions used to value the benefits at 31 March 2019 are summarised below:

Assumption	31 March 2019
Discount rate	4.7% p.a.
Pension increases (CPI)	2.6% p.a.
Salary increases	3.6% p.a.
Pension increases on GMP	Funds will pay limited increases for members that have reached SPA by 6 April 2016, with the Government providing the remainder of the inflationary increase. For members that reach SPA after this date, we have assumed that Funds will be required to pay the entire inflationary increases.
Mortality	The post retirement mortality assumptions adopted are the S3PA (Heavy) tables with a multiplier of 90% for males and 95% for females, making allowance for CMI 2018 projected improvements and a long term rate of improvement of 1.25% p.a. with an initial rate of improvement of 0.5% p.a. and smoothing parameter of 7.5.
Retirement	Each member retires at a single age, weighted based on when each part of their pension is payable unreduced
Commutation	Members will convert 50% of the maximum possible amount of pension into cash

UPDATED POSITION SINCE THE 2019 VALUATION

Assets

Returns over the year to 31 March 2021 have been strong, helping to offset the significant fall in asset values at the end of the previous year. As at 31 March 2021, in market value terms, the Fund assets were more than where they were projected to be based on the previous valuation.

Liabilities

The key assumption which has the greatest impact on the valuation of liabilities is the real discount rate (the discount rate relative to CPI inflation) – the higher the real discount rate the lower the value of liabilities. As at 31 March 2021, the real discount rate is estimated to be lower than at the 2019 valuation due to lower future expected returns on assets in excess of CPI inflation.

Please note that, from 31 March 2021, we have updated the derivation of the CPI inflation assumption to be 0.8% p.a. below the 20 year point on the Bank of England (BoE) implied inflation curve. The assumption adopted at the 2019 valuation was that CPI would be 1.0% p.a. below the 20 year point on the BoE implied inflation curve. This update was made following the Government's response (on 25 November 2020) to the consultation on the reform of RPI, and the expectation that the UK Statistics Authority will implement the proposed changes to bring RPI in line with CPIH from 2030. This updated approach leads to a small increase in the value of liabilities.

The value of liabilities will also have increased due to the accrual of new benefits net of benefits paid.

It is currently unclear what the impact of the COVID-19 pandemic is on the Fund's funding position. It is expected that COVID-related deaths will not have a material impact on the Fund's current funding level, however, impact on future mortality rates may be more significant and we will be reviewing the Fund's mortality assumption as part of the next valuation.

OVERALL POSITION

On balance, we estimate that the funding position is likely to similar to the funding position as at 31 March 2019 on a consistent basis (allowing for the update to the CPI inflation assumption).

The change in the real discount rate since 31 March 2019 is likely to place a higher value of the cost of future accrual, which results in a higher primary contribution rate.

Future investment returns that will be achieved by the Fund in the short term are more uncertain than usual, in particular the return from equites due to actual and potential reductions and suspensions of dividends. There are also the other uncertainties around future benefits, relating to the McCloud and Sargeant cases and the ongoing cost cap management process.

The next formal valuation will be carried out as at 31 March 2022 with new contribution rates set from 1 April 2023.

Barry McKay

Barry McKay FFA

Partner, Barnett Waddingham LLP

Section 6
Investment Overview

Investment strategy and performance

The Investment Strategy of the Fund is attached at Appendix 2. This details the Fund's governance structure and the assets and fund managers it is invested in.

The Investment Strategy also explains our approach to responsible investment policies, including our approach to the UK Stewardship Code, and our approach to voting arrangements and other initiatives such as engagement with companies.

This Section of the Annual Report refers to the performance of the Fund over the last 1 to 5 years.

ASSET ALLOCATION OF THE FUND

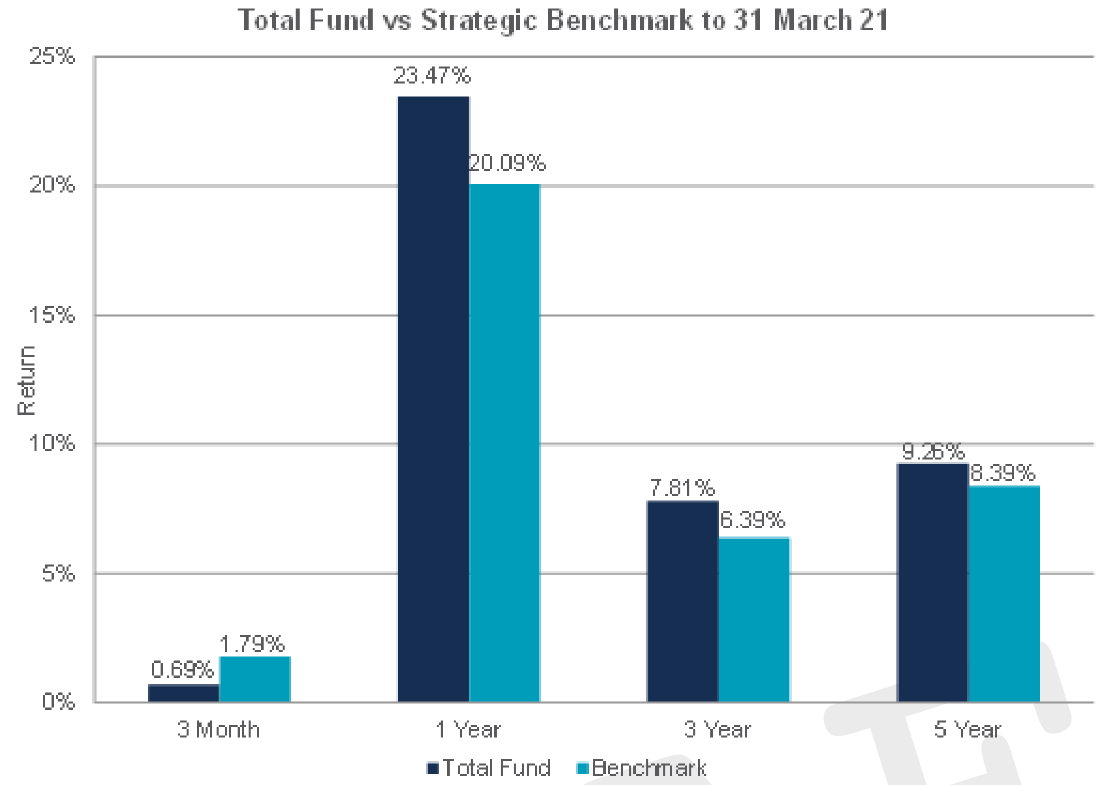
The asset allocation of the Fund, compared to the strategic benchmark, as at end March 2021 is shown in the table below. The Fund was slightly overweight in overseas equities, and underweight in UK equities and diversifying assets. The Fund has a tolerance of +/- 5% so this is within our tolerance limits.

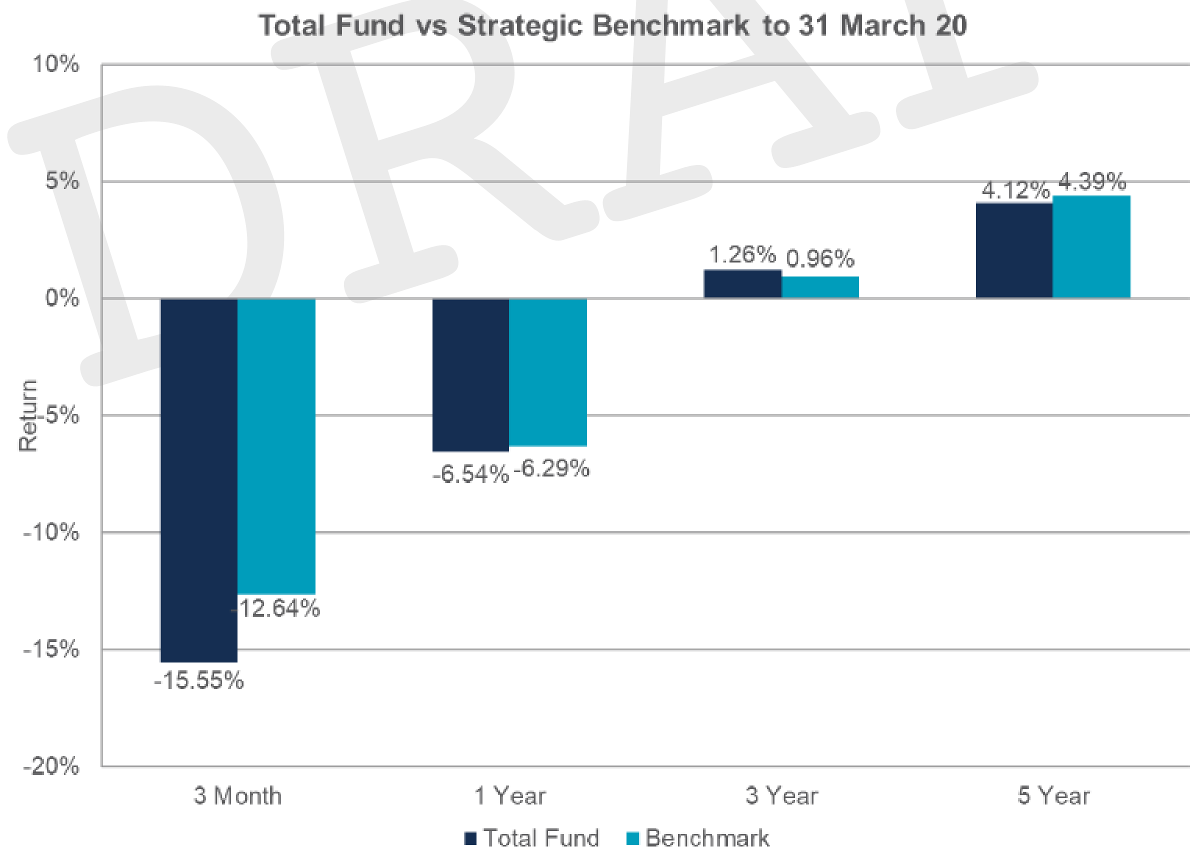
Asset Class	Fund	Strategic Benchmark	Difference	Benchmark
UK equities	32.6%	31.0%	+1.6%	FTSE All-Share
Overseas equities	28.9%	28.0%	+0.9%	MSCI ACWI ex-UK
Conventional bonds	11.3%	10.0%	+1.3%	iBoxx Non-Gilt
Index-linked bonds	4.6%	5.0%	-0.4%	FTSE Index-Linked Gilts >5 Year
Property	4.5%	5.0%	-0.5%	IPD UK All Property
Income assets (Fidelity)	13.8%	15.0%	-1.2%	4% Absolute Return
Diversifying assets and cash	4.2%	6.0%	-1.8%	LIBOR

PERFORMANCE OF THE FUND

The overall performance of the fund over the last 1, 3 and 5 years is in the charts below. Two charts are shown, performance as at March 2021 and performance as at March 2020. At March 2020 the Fund was a was performing poorly in the 1 year and three-month time periods while marginally outperforming its benchmark in the last 3 years. This was due to Covid-19 and this had such a large destabilising effect that this also impacted the three-year returns. Contrast that with the March-21 performance.

Reporting at March-21 shows the impact of the rebound from COVID-19 with extremely strong performance in the one-year period and three year performance also being pulled up as a result of the 20/21 increases. Good performance then continued into the next quarter with the fund achieving higher than benchmark returns.


Total Fund vs Strategic Benchmark to 31 March 21
25%
20%
15%
10%
5%
0%
Return
23.47%
20.09%
7.81%
6.39%
9.26%
8.39%
0.69%
1.79%
3 Month
1 Year
3 Year
5 Year
Total Fund
Benchmark


Total Fund vs Strategic Benchmark to 31 March 20
10%
5%
0%
-5%
-10%
-15%
-20%
Return
4.12%
4.39%
1.26%
0.96%
-6.54%
-6.29%
-12.64%
-15.55%
3 Month
1 Year
3 Year
5 Year
Total Fund
Benchmark

PERFORMANCE BY FUND MANAGER, AND ASSET CLASS

The breakdown of performance, by fund manager, as at 31st March 2021 is shown below. Markets rebounded strongly (as evidenced by 1 year returns) through the year after the turbulence of March 2020.

Table 1

Manager	3-month return (%)	1-year return (%)	3-year return (% p.a.)	5-year return (% p.a.)
Total Fund	**+0.69**	**+23.47**	**+7.81**	**+9.26**
Benchmark	+1.79	+20.09	+6.39	+8.39
Difference	*-1.10*	*+3.39*	*+1.42*	*+0.86*
BlackRock Multi-Asset	**+0.39**	**+25.06**	**+8.54**	**+10.07**
Benchmark	+1.38	+24.76	+6.36	+8.78
Difference	*-0.98*	*+0.30*	*+2.18*	*+1.29*
Aberdeen Multi-Asset	**-1.53**	**+24.88**	**+8.51**	**+10.00**
Benchmark	+1.64	+22.72	+5.50	+8.25
Difference	*-3.18*	*+2.16*	*+3.00*	*+1.75*
RBC Sustainable Equity	**+0.19**	**N/a**	**N/a**	**N/a**
Benchmark	+3.95	N/a	N/a	N/a
Difference	*-3.77*	*N/a*	*N/a*	*N/a*
Longview Global Equities	**+6.60**	**+35.95**	**+11.42**	**N/a**
Benchmark	+3.95	+38.43	+13.44	N/a
Difference	*+2.64*	*-2.48*	*-2.01*	*N/a*
Fidelity Multi Asset Income	**-0.32**	**+15.42**	**+5.07**	**N/a**
Benchmark	+0.99	+4.00	+4.00	N/a
Difference	*-1.31*	*+11.42*	*+1.07*	*N/a*
BlackRock ALMA	**+0.58**	**+14.40**	**+3.33**	**+4.80**
Benchmark	+0.87	+3.66	+4.07	+4.04
Difference	*-0.29*	*+10.74*	*-0.74*	*+0.42*
Aberdeen DGF	**+0.32**	**+19.20**	**+2.66**	**+4.55**
Benchmark	+1.11	+4.61	+5.02	+4.97
Difference	*-0.79*	*+14.59*	*-2.36*	*-0.42*
Columbia Threadneedle[1]	**+2.20**	**+1.60**	**+1.90**	**+3.80**
Benchmark	+2.20	+2.50	+2.40	+4.10
Difference	*+0.00*	*-0.90*	*-0.50*	*-0.30*
CBRE UK Property Fund[2]	**+2.60**	**+1.60**	**+2.20**	**+4.00**
Benchmark	+2.20	+2.50	+2.40	+4.10
Difference	*-0.40*	*-0.90*	*-0.20*	*-0.10*

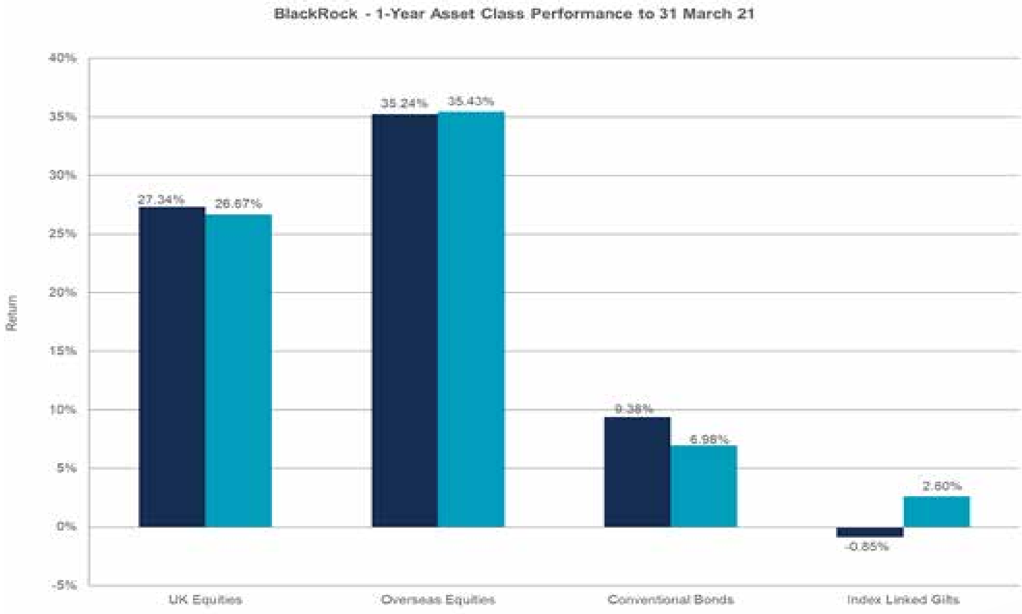
[1] Source: Columbia Threadneedle

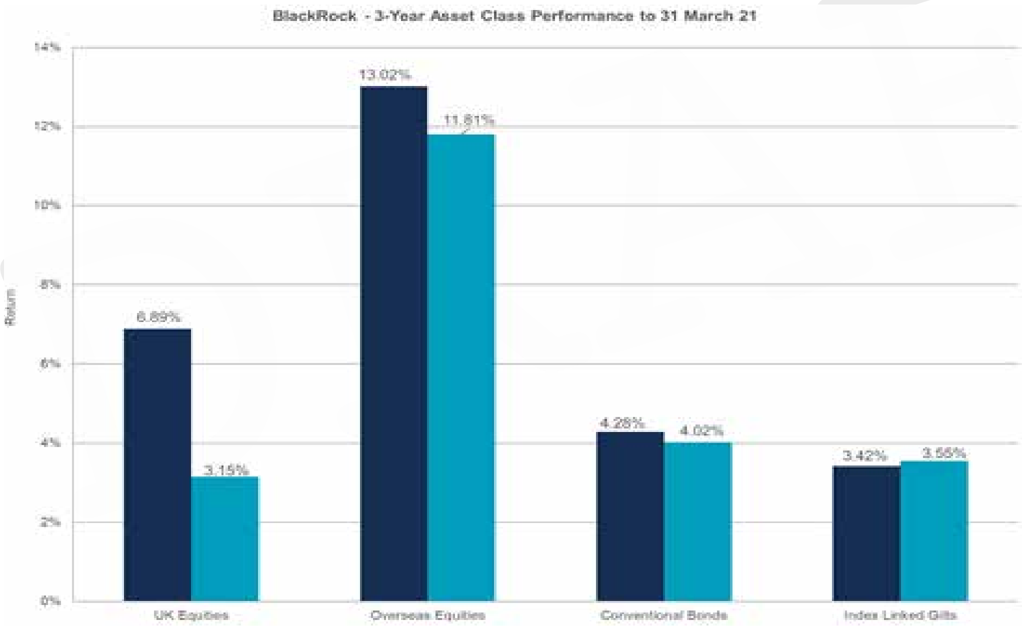
[2] Source: CBRE-

PERFORMANCE BY ASSET CLASS OF THE MULTI ASSET MANDATES

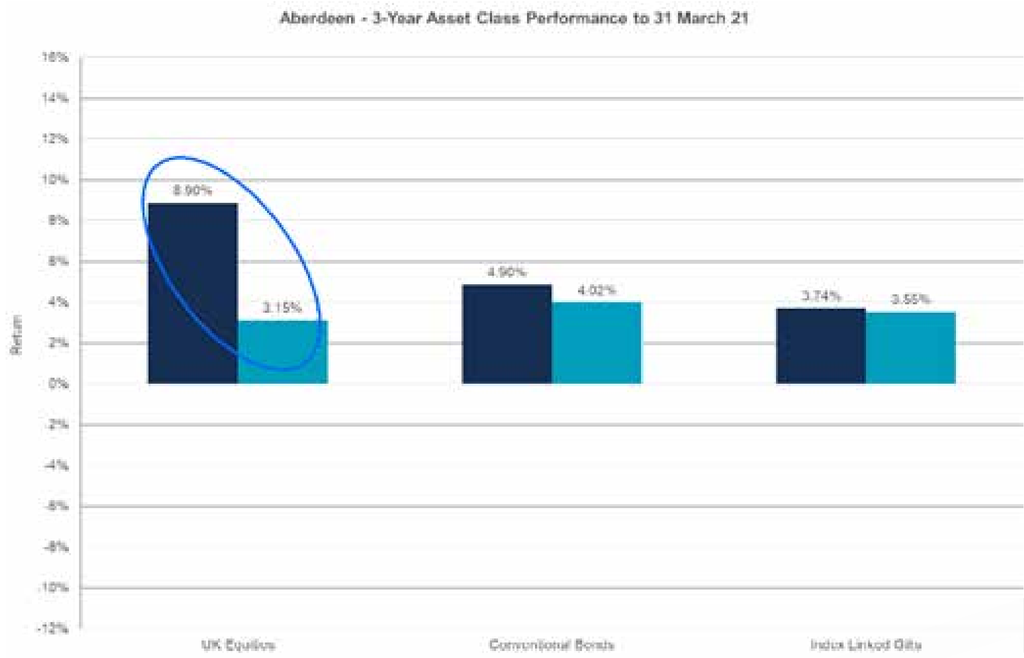
The performance of the individual asset classes of the BlackRock and Aberdeen multi-asset mandates, not referred to above, for 1-year and 3-year periods are shown in the tables below.

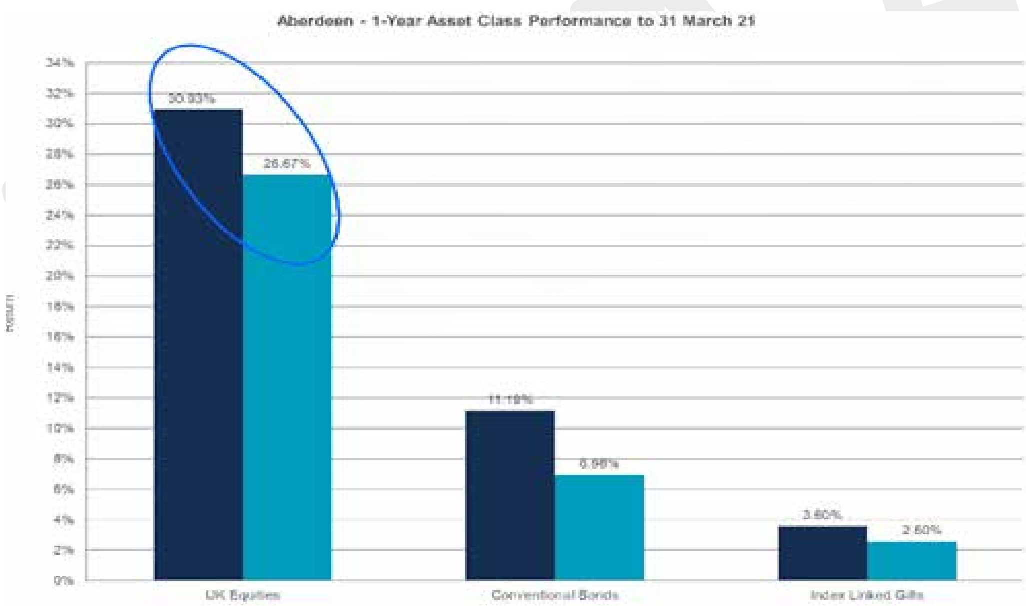
BlackRock Multi-Asset Mandate





Aberdeen Multi-Asset Mandate





Section 7
Risk Management

Risk Management

Risk management is a major part of the governance of the Pension Fund, and is embedded within the decision making of the Pension Fund Panel. The Risk Register is reviewed at every Pension Fund Panel meeting. Risk management allows the Pension Fund to identify, analyse and mitigate threats to its effective management. It does not eliminate all risks, but enables identified risks to be mitigated. The Pension Fund has a Risk register which is based on the Zurich methodology. This measures likelihood on a range of 1, almost impossible, to 6, very high. Impact is measured on a range of 1, negligible, to 4, catastrophic. The combined scores then give the total risk score. Depending on the score, the risks are identified as red, amber or green. Red and amber risks have mitigating actions identified, which are monitored quarterly. Successful risk management leads to improved performance, governance and compliance

There are four approaches to managing risk – avoid, transfer, reduce, accept

- Avoid – avoid the activity that is likely to trigger the risk
- Transfer – transfer the risk elsewhere through partnerships, transferring to a third party, or insurance
- Reduce – take mitigating actions to reduce the likelihood or impact of the risk
- Accept – acknowledge that the ability to take action to mitigate some risks may be limited, or that it may not be cost-effective to do so. Hence the decision to accept, and live with the risk.

Hounslow Pension Fund's risks are grouped by originating function, and cover the following areas:

- administration – client side risks
- administration – outsourced pension administration
- funding
- demographic
- governance
- cross cutting

As of 31 March 2021 there are two red rated risks, both in respect of funding.

Many of the Pension Fund's functions are outsourced and managed by third parties. The Risk Register details how assurance is sought over third party operations. Assurance is sought regarding areas such as cyber risk and the internal control frameworks. Regular assurances (ISAE 3402 reports) are sought from our third parties re the effectiveness of their controls. This includes our fund managers, our custodian, and our pension fund administrator.

Section 8
Pension Fund Accounts

The London Borough of Hounslow Pension Fund (the Fund) provides for the payment of pensions and other benefits to former employees of the Authority and certain admitted and scheduled bodies. A separate annual report is published and is available via **https://www.wypf.org.uk/publications/report-accounts/hounslow-pension-fund-report-and-accounts/** to all including pensioners, people with deferred benefits and employees of the Authority who are members of the pension scheme. The annual report sets out the Fund's Statement of Investment Principles. A separate Annual General Meeting for the Fund is also held.

Responsibility for the overall direction of the Fund's investment policy rests with the Authority's Pension Fund Panel and draft accounts will be submitted and approved by the Panel on 23 September 2021. These accounts summarise the transactions and net assets of the scheme. In implementing the Fund's investment policy, the Authority has appointed seven investment managers; Aberdeen Standard Investments, Black Rock Investment Management Ltd, Fidelity International Ltd, Columbia Threadneedle Investments Ltd, CBRE Global Investments Ltd, CCLA Investment Management Ltd and Longview Partners which is held within the London LGPS CIV) to deal at discretion within investment objectives laid down by the Authority.

FUND ACCOUNT FOR THE YEAR ENDED 31 MARCH 2021

	2019/20	2020/21	Notes
	£m	£m	
Dealings with members, employers and others directly involved in the fund			
Contributions			6
From Employers	32.0	31.1	
From Employees	9.0	9.6	
Individual Transfers in from Other Pension Funds	5.8	6.2	
	46.8	**46.9**	
Benefits			7
Pensions	(34.3)	(35.1)	
Commutation, Lump Sum Retirement and Death Benefits	(12.4)	(8.1)	
Payments to and on Account of Leavers			
Individual Transfers out to Other Pension Funds	(5.3)	(4.0)	
Refunds to Members Leaving Service	(0.4)	(0.2)	
	(52.4)	**(47.4)**	
Net Additions/(Withdrawals) from Dealings with Members	**(5.6)**	**(0.5)**	
	excl £1.2m of admin exp which is incl in mgt exp below		
Management Expenses	**(5.7)**	**(4.9)**	8
Returns on Investments			9
Investment Income	26.2	23.9	
Taxes on Income (Irrecoverable Witholding Tax)	(0.1)	(0.1)	
	26.1	**23.8**	
Profit and Loss on Disposal of Investments and Change in the Market Value of Investments	**(95.7)**	**210.3**	14
Net Returns on Investments	**(69.6)**	**234.1**	
Net Increase/(Decrease) in the Net Assets available for Benefits During the Year	**(80.9)**	**228.7**	
Opening Net Assets of the Scheme	**1,039.0**	**958.1**	
Closing Net Assets of the scheme	**958.1**	**1,186.8**	

NET ASSETS STATEMENT AS AT 31 MARCH 2021

	2019/20	2020/21	Note
	£m	£m	
Investment Assets			16
Equities	327.7	378.5	
Pooled investment Vehicles	612.8	790.5	
Property	0.0	0.0	
Private Equity	1.7	1.4	
Long term investment	0.2	0.2	
Derivative Contracts:			
Forward Currency Contracts	0.0	0.0	
Cash (Money Market Fund)	2.1	7.1	
Other Investment Balances:			
Income Due	2.2	2.8	
Amounts Receivable for Sale of Investments	19.0	4.1	14
Cash Deposits	3.2	2.4	
	968.9	1,187.0	
Investment Liabilities			
Derivative Contracts:			
Forward Currency Contracts	0.0	0.0	16
Amounts Payable for Purchase of Investments	(15.1)	(8.2)	14
Net Value of Investments Assets	953.8	1,178.8	
Current Assets	5.4	10.2	20
Current Liabilities	(1.1)	(2.2)	21
Net Assets of the Fund Available to Fund Benefits at the Period End	958.1	1186.8	

Notes To The Pension Fund Accounts 2020/21

NOTE 1 – DESCRIPTION OF THE LONDON BOROUGH OF HOUNSLOW PENSION FUND

a) General

The Fund is part of the Local Government Pension Scheme (LGPS) and is administered by the London Borough of Hounslow. The Fund is a contributory defined benefits scheme established in accordance with statute, which provides for the payment of benefits to employees and former employees of the London Borough of Hounslow and the admitted and scheduled bodies in the Fund. The Fund is overseen by the Pension Fund Panel, with the responsibility for deciding on the most appropriate investment policy for the Fund. For more detail, reference should be made to the London Borough of Hounslow Pension Fund Annual Report 2020/21 and the underlying statutory powers underpinning the Scheme, namely, the Public Service Pensions Act 2013 and The Local Government Pensions Scheme (LGPS) Regulations 2013 (as amended), LGPS (Transitional Provisions, Savings and Amendment) Regulations 2014 (as amended) and the LGPS (Management and Investment of Funds) Regulations 2016 (as amended)

b) Membership

Membership of the LGPS is voluntary and employees are free to choose whether to join the scheme, remain in the scheme or make their own personal arrangements outside the scheme. There are 48 employers within the Fund. Organisations participating in the Fund include:

- Scheduled bodies, which are local authorities and similar bodies whose staff are automatically entitled to be members of the Fund,
- Admitted bodies, which are other organisations that participate in the Fund under an admission agreement between the Fund and the relevant organisation. Admitted bodies include voluntary, charitable and similar bodies or private contractors undertaking a local authority function following outsourcing to the private sector.

More information is available on the LGPS scheme on **https://www.wypf.org.uk/**. This site is managed by West Yorkshire Pension Fund who are the Fund's pension benefits administrator.

The following table summarises the membership of the Fund as at 31 March 2021:

	2019/20	2020/21
	No.	No.
Number of employers	48	60
Number of employees in scheme		
Council	4,612	4,552
Other employers	2,027	1,997
Total	6,639	6,549
Pensioners		
Council	5,964	5,488
Other employers	1,077	1,234
Total	7,041	6,722
Deferred pensioners		
Council	6,293	6,296
Other employers	1,386	1,432
Total	**7,679**	**7,728**
Total number of members in scheme	**21,359**	**20,999**

c) Benefits

Prior to 1 April 2015, pension benefits under the LGPS were based on final pensions pay and length of pensionable service. From 1 April 2015, benefits payable in respect of service are now based on career average revalued earnings and the number of years of eligible service. Pensions are increased annually in line with the Consumer Price Index.

d) Funding

Benefits are funded by contributions from employees, the Council, the admitted and scheduled bodies, and the Fund's investment income. Contributions are made by active members of the Fund in accordance with the LGPS Regulations 2013 and range from 5.5% to 12.5% of pensionable pay for the financial year ending 31 March 2021. Employee contributions are matched by employer contributions which are set based on triennial actuarial funding valuations. Employer contributions paid in 2020-21 were based on the 2016 triennial

e) Investment Principles

The LGPS (Management and Investment of Funds) Regulations 2016 requires administering authorities to prepare and review from time to time, a written statement recording the investment policy of the Fund. The Pension Fund Panel approved an Investment Strategy Statement in October 2018 and this is available at the link below. The Statement shows the Fund's compliance with the Myners principles of investment management.

https://www.wypf.org.uk/publications/policy-home/hpf-index/

The Pension Fund Panel has delegated the management of the Fund's investments to external investment managers (see Note 10), appointed in accordance with regulations, whose activities are specified in detailed investment management agreements and monitored on a quarterly basis.

NOTE 2 – BASIS OF PREPARATION OF FINANCIAL STATEMENTS

The Statement of Accounts summarise the Fund's transactions for the financial year 2020/21 and its position at 31 March 2021. The accounts have been prepared in accordance with the Code of Practice on Local Authority Accounting in the United Kingdom 19/20 (the Code) issued by the Chartered Institute of Public Finance and Accountancy (CIPFA) which is based upon International Financial Reporting Standards (IFRS) as amended for the UK public sector. The accounts have been prepared on a going concern basis and an accruals basis, apart from individual transfer values which have been accounted for on a cash basis.

The accounts summarise the transactions of the Fund and report on the net assets available to pay pension fund benefits. The accounts do not take account of obligations to pay pensions and benefits which fall due after the end of the financial year nor do they take into account the actuarial present value of promised retirement benefits. The Code gives administering authorities the option to disclose this information in the Net Asset Statement, in the notes to the accounts or by appending an actuarial report prepared for this purpose. The Authority has opted to disclose this information in Note 19.

NOTE 3 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Fund Account – Revenue Recognition

c) Investment Income

Interest income is recognised in the fund account as it accrues, using the effective interest rate of the financial instrument as at the date of acquisition or origination. Income includes the amortisation of any discount or premium, transaction costs (where material) or other differences between the initial carrying amount of the instrument and its amount at maturity calculated on an effective interest rate basis.

Dividend income is recognised on the date the shares are quoted ex-dividend. Any amount not received by the end of the reporting period is disclosed in the net assets statement as a current financial asset. Investment income is reported gross of withholding tax.

Distributions from pooled funds are recognised at the date of issue. Any amount not received by the end of the reporting period is disclosed in the net assets statement as a current financial asset.

Changes in the net market value of investments are recognised as income or loss and comprise all realised and unrealised profits/losses during the year.

Fund Account – Expense Items

d) Benefits Payable

Pensions and lump-sum benefits payable include all amounts known to be due as at the end of the financial year. Any amounts due but unpaid are disclosed in the net assets statement as current liabilities.

e) Taxation

The Fund is exempt from UK income tax on interest received and from capital gains tax on the proceeds of investments sold. This is as a result of being a registered public service scheme under section 1(1) of Schedule 36 of the Finance Act 2004. Income from overseas investments suffers withholding tax in the country of origin, unless exemption is permitted. Irrecoverable tax is accounted for as a fund expense as it arises. As the Council is the administering authority for the Fund, VAT input tax is recoverable on all Fund activities including expenditure on investment expenses.

f) Management Expenses

In the interest of greater transparency, the Council discloses its Fund management expenses in accordance with the CIPFA guidance *Accounting for Local Government Pension Scheme Management Costs*. The profit and loss on disposal of investments and changes in the market value of investments reflect the fees which had been deducted at source.

Administrative Expenses

All administrative expenses are accounted for on an accruals basis. All staff costs associated with governance and oversight are charged direct to the fund. Associated management, accommodation and other overheads are apportioned to this activity and charged as expenses to the fund.

Oversight and Governance Costs

All oversight and governance expenses are accounted for on an accruals basis. All staff costs associated with governance and oversight are charged direct to the fund. Associated management, accommodation and other overheads are apportioned to this activity and charged as expenses to the fund.

Investment Management Expenses

All investment management expenses are accounted for on an accruals basis.

The Pension Fund Panel has appointed external investment managers to manage the investments of the Fund. Fees of the investment managers and custodian are agreed in the respective mandates governing their appointments. Their fees are based on the market value of the investments under their management and therefore increase or reduce as the value of these investments change. Additionally, the Fund has negotiated with BlackRock Fund managers that an element of their fee be performance related.

Where an investment manager's fee note has not been received by the balance sheet date, an estimate based upon the market value of the mandate as at the end of the year is used for inclusion in the Fund account.

The costs of the Council's in-house management team are charged direct to the Fund and a proportion of the Council's costs representing management time spent by officers on investment management is also charged to the Fund.

Net Assets Statement

g) Financial Assets

Financial assets are included in the net assets statement either on a fair value or amortised cost basis as at the reporting date. Quoted securities and pooled investment vehicles have been valued at the bid price and fixed interest securities are recorded at net market value based on their current yields at the balance sheet date. Quoted securities are valued by the Fund's custodian and pooled investment vehicles at the published bid prices or those quoted by their managers. Investments in private equity funds are valued based on the Fund's share of the net assets in the private equity fund using the latest financial statements published by the respective fund managers in accordance with the guidelines set out by the British Venture Capital Association. All other assets are valued at amortised cost.

h) Foreign Currency Transactions

Dividends, interest and purchases and sales of investments in foreign currencies have been accounted for at the spot market rates at the date of transaction. Spot market exchange rates at the end of the financial year are used to value cash balances held in foreign currency bank accounts, market values of overseas investments and purchases and sales outstanding at the end of the reporting period.

i) Derivatives

The Fund uses derivative financial instruments to manage its exposure to specific risks arising from its investment activities. The Fund does not hold derivatives for speculative purposes. Derivatives are valued at fair value on the following bases: assets at bid price and liabilities at offer price. Changes in the fair value are included in the change in market value in the Fund Account.

The Value of futures contracts is determined using exchange prices at the reporting date. Amounts due from or owed to the broker are the amounts outstanding in respect of the initial margin and variation margin.The value of forward foreign exchange contracts is based on market forward exchange rates at year-end and determined as the gain or loss that would arise if the contract were matched at year-end with an equal and opposite contract.

j) Cash and Cash Equivalents

Cash comprises cash in hand and deposits with financial institutions which are repayable on demand without penalty and includes amounts held by the Fund's external managers. Cash equivalents are short-term, highly liquid investments that are readily convertible to known amounts of cash and that are subject to minimal risk of changes in value.

k) Financial Liabilities

The Fund recognises financial liabilities at fair value as at the reporting date. A financial liability is recognised in the net assets statement on the date the Fund becomes party to the liability. From this date, any gains or losses arising from changes in the fair value of the liability are recognised by the Fund.

l) Actuarial Present Value of Promised Retirement Benefits

The actuarial present value of promised retirement benefits is assessed on a triennial basis by the scheme actuary in accordance with the requirements of IAS 19 (post-retirement benefits) and relevant actuarial standards.

m) Additional Voluntary Contributions

The London Borough of Hounslow provides an additional voluntary contributions (AVC) scheme for its members, the assets of which are invested separately from those of the Fund. The Fund has appointed Standard Life as its AVC provider. AVCs are paid to the AVC provider by employers and are specifically for providing additional benefits for individual contributors. Each AVC contributor receives an annual statement showing the amount held in their account and the movements in the year.

AVCs are not included in the accounts in accordance with Regulation 4(1)(b) of the Local Government Pension Scheme (Management and Investment of Funds) Regulations 2016, but are disclosed as a note only (Note 22).

NOTE 4 – CRITICAL JUDGEMENTS IN APPLYING ACCOUNTING POLICIES

The Fund has had to make certain critical judgements about complex transactions or those involving uncertainty about future events.

Pension Fund Liability

The Pension Fund liability is calculated every three years by the appointed actuary, with annual updates in the intervening years. The methodology used is in line with accepted guidelines and in accordance with IAS 19. Assumptions underpinning the valuations are agreed with the actuary and are summarised in Note 19 below.These estimates are sensitive to changes in the underlying assumptions underpinning the valuations.

NOTE 5 – ASSUMPTIONS MADE ABOUT THE FUTURE AND OTHER MAJOR SOURCES OF UNCERTAINTY

The preparation of financial statements requires management to make judgements, estimates and assumptions that affect the amounts reported for assets and liabilities at the balance sheet date and the amounts reported for the income and expenditure during the year. Estimates and assumptions are made taking into account historical experience, current trends and other relevant factors. However, the nature of estimation means that the actual outcomes could differ from the assumptions and estimates.

Items in the net assets statement at 31 March 2021 for which there is a significant risk of material adjustment in the forthcoming financial year are as follows:

Item	**Uncertainties**	**Effect if actual results differ from assumptions**
Actuarial present value of promised retirement benefits	Estimation of the net liability to pay pensions depends on a number of complex judgements relating to the discount rate used, the rate at which salaries are projected to increase, changes in retirement ages, mortality rates and expected returns on Fund assets. A firm of consulting actuaries is engaged to provide the Fund with expert advice about the assumptions to be applied.	The effects on the net pension liability of changes in individual assumptions can be measured. For instance, an 0.1% increase in the discount rate assumption would result in a decrease in the pension liability of £30.3m. An 0.1% increase in assumed earnings would increase the value of liabilities by £1.9m and an increase in assumed life expectancy would increase the liability by £70.2m.

NOTE 6 – CONTRIBUTIONS RECEIVABLE

Employee contributions are calculated on a sliding scale based on a percentage of their pensionable pay. The Council, scheduled and admitted bodies are required to make contributions determined by the Fund's actuary to maintain the solvency of the Fund. The following table shows a breakdown of the total amount of employer and employee contributions.

By type of employer		
	2019/20	2020/21
	£m	£m
Administering Authority	31.4	30.1
Scheduled Bodies	6.1	7.0
Admitted Bodies	3.5	3.6
Total	41.0	40.7
By type of contribution		
	2019/20	2020/21
	£m	£m
Total	**41.0**	**40.7**

By type of employer		
Employees' Normal Contributions	9.0	9.6
Employer's Contributions:		
Normal Contributions	19.7	30.8
Deficit Recovery Contributions	11.9	0.3
Augmentation Contributions	0.4	0.0
Total	**41.0**	**40.7**

NOTE 7 – BENEFITS PAYABLE

The table below shows a breakdown of the total amount of benefits payable by category.

By type of employer	2019/20 £m	2020/21 £m
Administering Authority	42.8	39.1
Scheduled Bodies	2.0	2.4
Admitted Bodies	1.9	1.7
Total	46.7	43.2

By category	2019/20 £m	2020/21 £m
Pensions	34.3	35.1
Commutation and lump sum retirement benefits	11.4	7.0
Lump sum death benefits	1.0	1.1
Total	**46.7**	**43.2**

NOTE 8 – MANAGEMENT EXPENSES

The following table shows a breakdown of the management expenses incurred during the year.

	2019/20 £m	2020/21 £m
Administration Expenses	1.0	0.9
Oversight and Governance	0.2	0.1
Investment Management Expenses	4.5	3.9
Total	**5.7**	**4.9**

Investment management expenses include £0.1m relating to custodian fees (£0.1m for 2019/20), performance related fees £1.3m (£1.3m for 2019/20) and £0.6m in respect of transaction costs (£0.5 m in 2019/20) whilst the remainder relates to management fees.

Included in the administration expenses above are audit fees for the Fund of £16k (£16k for 2019/20).

NOTE 9 – INVESTMENT INCOME

The table below shows a breakdown of the investment income for the year:

	2019/20	2020/21
	£m	£m
Equity Dividends	10.3	9.0
Pooled Investments – unit trusts and other managed funds	15.8	14.9
Interest on cash deposits	0.1	0.0
	26.2	**23.9**

NOTE 10 – INVESTMENT MANAGEMENT ARRANGEMENTS

As at 31 March 2021, the investment portfolio was mainly managed by eightseven external managers:

- Aberdeen Standard Investments
- BlackRock Investment Ltd
- Fidelity International Ltd
- Columbia Threadneedle Investments Ltd
- CBRE Global Investors Ltd
- Longview Partners Ltd (London LGPS CIV)
- CCLA Investment Management Ltd
- RBC Investor & Treasury Services Ltd (London LGPS CIV)

All managers have discretion to buy and sell investments within the constraints set by the Fund Panel and their respective Investment Management Agreements. Each manager has been appointed with clear strategic benchmarks which place maximum accountability for performance against that benchmark on the investment manager.

The Pension Fund Panel appointed Northern Trust as its global custodian, with effect from February 2007. They are responsible for the safe custody and settlement of all investment transactions and collection of income. The bank account for the Fund is held with Natwest Bank.

The market value and proportion of investments managed by each fund manager at 31 March 2021 was as follows:

2019/20				2020/21	
Market Value		Fund Manager	Mandate	Market Value	
£m	%			£m	%
254.7	26.7	Aberdeen	Global Balanced	252.9	21.5
407.6	42.7	BlackRock	Global Balanced	511.6	43.4
138.0	14.5	Fidelity	Income Fund	152.9	13.0
101.9	10.7	Longview	Global Equities	138.6	11.7
NA	NA	RBC	Sustainable Equity Fund	66.3	5.6
30.5	3.2	Threadneedle	Property	31.1	2.6
17.8	1.9	CBRE	Property	17.6	1.5
0.5	0.0	LAMIT	Property	0.5	0.0
1.7	0.2	Various	Private Equity	1.4	0.1
953.8	100.0			1,178.8	100.0

2019/20 Market Value £m	%	Fund Manager	Mandate	2020/21 Market Value £m	%
1.1	0.1	Internal	Other	5.9	0.5
953.8	100.0			1,178.8	100.0

The following investments represent more than 5% of the net assets of the scheme.

2019/20 Market Value £m	%	Asset Name	2020/21 Market Value £m	%
137.5	14.4	Fidelity Multi Asset Income Fund	152.8	13.0
119.0	12.5	Blackrock ACS World ex UK Equity Tracke	142.6	12.1
101.9	10.7	Longview Partners (LCIV) Global Equity	138.6	11.8
55.3	5.8	Blackrock All Stocks Corporate Bond Fund	77.0	6.5
0.0	0.0	RBC (LCIV) Sustainable Equities	66.3	5.6
413.7	43.4		577.3	49.0

NOTE 11 – EQUITIES

2019/20 £m		2020/21 £m
274.0	UK Investments (listed)	370.5
	Overseas Investments (listed):	
25.3	North America	5.8
4.0	Japan	0.0
12.8	Europe	2.2
11.6	Other	0.0
327.7		**378.5**

The top 10 equity holdings of the London Borough of Hounslow Pension Fund worldwide as at 31 March 2021 were:

	Bid value £m	% of Total Fund %	% of Equities %
Astra Zeneca Plc	30.3	2.6	8.0
Relx Plc	23.8	2.0	6.3
Rio Tinto Ltd	20.7	1.8	5.5
Next Plc	20.7	1.8	5.5
Ferguson Plc	17.8	1.5	4.7
Compass Group Plc	15.8	1.3	4.2
Standard Chartered Plc	15.8	1.3	4.2
	185.3	**15.7**	**49.1**

	Bid value	% of Total Fund	% of Equities
	£m	%	%
Reckitt Benckiser Group	15.7	1.3	4.1
Smith & Nephew Plc	12.7	1.1	3.4
British American Tobacco Plc	12.0	1.0	3.2
	185.3	**15.7**	**49.1**

NOTE 12 – POOLED INVESTMENTS

2019/20		2020/21
£m		£m
	Pooled Investments (listed)	
88.6	UK Bond Funds	114.1
11.3	Overseas Bond Funds	11.1
233.0	Overseas Equity Funds	371.8
137.5	Overseas Income Fund	152.9
53.8	UK Index Linked	51.1
5.7	UK Mid Cap & Smaller Companies	1.0
48.8	UK Property	49.1
34.1	UK Absolute Return	39.4
612.8		790.5

The top 10 pooled investment holdings of the London Borough of the Fund worldwide as at 31 March 2021 were:

	Market value	% of Total Fund	% of Pooled Investments
	£m	%	%
Fidelity Investments Multi Asset Income Fund	152.9	13.0	19.3
Blackrock Pensions Aquila Life World (ex UK) Fund	142.7	12.1	18.1
Longview Partners (LCIV) Global Equity	138.6	11.8	17.5
Blackrock All Stocks Corporate Bond	77.0	6.5	9.7
Longview Partners (LCIV) Global Sustainable Equities	66.3	5.6	8.4
Aberdeen Fund Managers Corporate Bond	37.1	3.1	4.7
Columbia Threadneedle Property Fund	31.0	2.6	3.9
Aberdeen Fund Managers Sterling Index Linked Bond	28.6	2.4	3.6
BlackRock Index Linked A Bond Fund	27.8	2.4	3.5
Blackrock iShares Emerging Markets Index Fund	24.3	2.1	3.1
	726.3	**61.6**	**91.9**

NOTE 13 – PRIVATE EQUITY

2019/20		2020/21
£m		£m
1.7	Private equity (unlisted)	1.4
1.7		**1.4**

Private equity holdings of the Fund as at 31 March 2021 were:

	Valuation	% of Total Fund	% of Private Equity
	£m	%	%
Schroder Private Equity Fund of Funds IV	0.4	0.1	28.6
The Chandos Fund	0.3	0.0	21.4
Environmental Technologies Fund	0.2	0.0	14.3
Schroder Private Equity Fund of Funds III	0.2	0.0	14.3
Schroder Private Equity Fund of Funds II	0.1	0.0	7.1
Hg Capital Fund	0.1	0.0	7.1
Schroder Private Equity Fund of Funds	0.1	0.0	7.1
Barings English Growth Fund	0.0	0.0	0
	1.4	**0.1**	**100.0**

All private equity holdings are held within the UK.

NOTE 14 – RECONCILIATION OF MOVEMENT IN INVESTMENTS

Market Value as at 31 March 2020		Purchases during the year	Sales during the year	Change in Market Value during the year	Market Value as at 31 March 2021
£m		£m	£m	£m	£m
0.0	Fixed Interest Securities				
327.7	Equities	143.4	(125.0)	32.4	378.5
564.0	Pooled Investments	58.4	(62.4)	181.4	741.4
0.2	Long term investment				0.2
48.8	Pooled Property Investments			0.3	49.1
1.7	Private Equity			(0.3)	1.4
2.1	Cash Funds	24.8	(19.9)	0.1	7.1
944.5		**226.6**	**(207.3)**	**213.9**	**1,177.7**
	Other Investment Balances:				
3.2	Cash deposits			(3.6)	2.4
19.0	Amount receivable for sales of investments				4.1
953.8	**Net Investment Assets**			**210.3**	**1178.8**

Market Value as at 31 March 2020		Purchases during the year	Sales during the year	Change in Market Value during the year	Market Value as at 31 March 2021
£m		£m	£m	£m	£m
2.2	Investment income due				2.8
(15.1)	Amounts payable for purchases				(8.2)
953.8	**Net Investment Assets**			**210.3**	**1178.8**

Market Value as at 31 March 2019		Purchases during the year	Sales during the year	Change in Market Value during the year	Market Value as at 31 March 2020
£m		£m	£m	£m	£m
0.0	Fixed Interest Securities				
359.6	Equities	104.3	(90.1)	(46.1)	327.7
606.0	Pooled Investments	76.5	(76.7)	(41.8)	564.0
0.2	Long term investment				0.2
51.7	Pooled Property Investments			(2.9)	48.8
4.1	Private Equity		(2.3)	(0.1)	1.7
1.5	Cash Funds				2.1
1,023.1		**180.8**	**(168.5)**	**(90.9)**	**944.5**
	Other Investment Balances:				
8.1	Cash deposits			(4.8)	3.2
1.4	Amount receivable for sales of investments				19.0
3.5	Investment income due				2.2
(2.7)	Amounts payable for purchases				(15.1)
1,033.4	**Net Investment Assets**			**(95.7)**	**953.8**

NOTE 15 – ANALYSIS OF DERIVATIVES

Objectives and policies for holding derivatives

The Pension Fund Panel has authorised the use of derivatives for efficient portfolio management purposes and to reduce certain investment risks, in particular, foreign exchange risk. All uses of derivatives are outsourced to the Fund's external asset managers which must adhere to the detailed requirements set out in their investment management agreements.

Forward foreign currency

The Fund uses forward foreign exchange contracts to reduce the foreign currency exposure from overseas bond holdings that are within the portfolio.

NOTE 16A – CLASSIFICATION OF FINANCIAL INSTRUMENTS

The table below shows the classification of the Fund's financial instruments.

		31-Mar-20				31-Mar-21
Fair value through profit and loss	Assets at amortised cost	Financial liabilities at amortised cost		Fair value through profit and loss	Assets at amortised cost	Financial liabilities at amortised cost
£m	£m	£m		£m	£m	£m
			Financial assets			
327.7			Equities	378.5		
612.8			Pooled investments	790.5		
1.7			Private equity	1.4		
0.2			Long term investment	0.2		
	2.1		Cash (Money Market Fund)		7.1	
	3.2		Short term deposits		0.0	
	2.2		Other investment balances		2.8	
	20.2		Debtors		4.8	
	4.2		Cash at bank		11.8	
942.4	**31.9**	**0.0**	**Total Financial assets**	**1,170.6**	**26.5**	**0.0**
			Financial liabilities			
			Other investment balances			
			Outstanding settlements			
		(16.2)	Creditors			(10.3)
0.0	**0.0**	**(16.2)**	**Total Financial liabilities**	**0.0**	**0.0**	**(10.3)**
942.4	**31.9**	**(16.2)**	**Net Assets**	**1,170.6**	**26.5**	**(10.3)**

NOTE 16B – NET GAINS AND LOSSES ON FINANCIAL INSTRUMENTS

The following table summarises the net gains and losses on financial instruments classified by type of instrument.

31 March 2020		31 March 2021
£m		**£m**
	Financial assets	
(95.8)	Fair value through profit and loss	210.3
0.1	Assets at amortised cost	0.0
(95.7)	**Total Financial assets**	**210.3**

NOTE 16C –VALUATION OF FINANCIAL INSTRUMENTS CARRIED AT FAIR VALUE

All investments are held at fair value in accordance with the requirements of the Code and IFRS 13. The valuation basis of financial instruments has been classified into three levels, according to the quality and reliability of information used to determine fair values of each instrument, with the overall objective of maximising the use of market based information. There has been no change in the valuation techniques used during the year.

Level 1 – these are financial instruments where fair values are derived from unadjusted quoted prices in active markets for identical assets or liabilities (quoted equities, quoted fixed securities, quoted index linked securities and unit trusts). Listed investments are shown at bid prices based on the market quotation of the relevant stock exchange.

Level 2 – these are financial instruments where market prices are not available, for example, where an instrument is traded in a market that is not considered to be active or where valuation techniques are used to determine fair value and where these techniques use inputs that are significantly based on observable market data. This includes NAV based pricing for units held in unquoted pooled funds.

Level 3 – these are financial instruments where at least one input that could have a significant impact on the instrument's valuation is not based on observable market data. Examples of the basis of valuation can include comparable valuations of similar companies or as a multiple of revenue. This would include unquoted private equity investments which are based on partners' share of net assets.

The following table provides an analysis of the financial assets and liabilities of the Fund grouped into the level at which fair value is observable.

2019/20					2020/21			
Quoted Market price	Using observable inputs	With significant unobservable inputs	Total		Quoted Market price	Using observable inputs	With significant unobservable inputs	Total
Level 1	Level 2	Level 3			Level 1	Level 2	Level 3	
£m	£m	£m	£m		£m	£m	£m	£m
549.6	344.4	50.5	942.4	At fair value though profit and loss	728.2	448.0	1.4	1,177.6
5.1	24.7		31.9	Assets at amortised cost	14.2	5.3		19.5
554.7	**369.1**	**50.5**	**974.3**	**Total Financial assets**	**742.4**	**453.3**	**1.4**	**1197.1**
				Financial liabilities				
	(15.1)		(15.1)	At fair value though profit and loss				
(1.1)			(1.1)	At amortised cost		(10.3)		(10.3)
(1.1)	**(15.1)**	**0.0**	**(16.2)**	**Total Financial liabilities**		**(10.3)**	**0.0**	**(10.3)**
553.6	**354.0**	**50.5**	**958.1**	**Total**	**742.4**	**443.0**	**1.4**	**1,186.8**

NOTE 17 – NATURE AND EXTENT OF RISKS ARISING FROM FINANCIAL INSTRUMENTS

Risk and Risk Management

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

Responsibility for the Fund's risk management strategy rests with the Pension Fund Panel. Risk management policies are established to identify and analyse the risks faced by the Fund and these are regularly reviewed to reflect changes in Fund activities and market conditions. The objective of the Fund's risk management strategy is to identify, manage and control its risk exposure within acceptable parameters, whilst optimising the return on risk.

Market Risk

Market risk is the risk of loss from fluctuations in equity and commodity prices, interest and foreign exchange rates and credit spreads. The Fund is exposed to market risk from its investment activities, particularly through its equity holdings. The level of risk exposure depends on market conditions, expectations of future price and yield movements and asset mix. Generally, excessive volatility in market risk is managed through diversification of the portfolio in terms of asset class, geographical and industry sectors and individual securities. Regular monitoring of market conditions and benchmark analysis is undertaken by the Pension Fund Panel to mitigate market risk.

Price Risk

Price risk represents the risk that the value of a financial instrument will fluctuate as a result of changes in market prices (other than those arising from interest rate risk or foreign exchange risk), whether those changes are caused by factors specific to the individual instrument or its issuer or factors affecting all such instruments in the market.

The Fund is exposed to share and derivative price risk. This arises from investments held by the Fund for which the future price is uncertain. All securities investments present a risk of loss of capital. Except for shares sold short, the maximum risk resulting from financial instruments is determined by the fair value of the financial instruments. Possible losses from shares sold short are unlimited. The Fund's investment managers mitigate price risk through diversification and the selection of securities and other financial instruments. This is regularly monitored by the Fund to ensure it is within the limits specified in the Fund investment strategy.

Following analysis of historical data and expected movement of return on investment during the financial year, the Fund, in consultation with the Fund's performance measurement provider, the PIRC Limited, has determined that the following movements in market price risk are reasonably possible for the 2020/21 reporting period:

	Value as at 31 March 2021	Percentage Change	Value on increase	Value on decrease
Asset type	£m	%	£m	£m
UK Equities	371.5	13.5	421.7	321.3
Overseas Equities	379.8	13.5	431.1	328.5
Total Bonds	176.3	6.6	187.9	164.7
Long Term Investment	0.2	0.0	0.2	0.2
Diversified Growth	39.4	6.2	41.8	37.0
Income Fund	152.9	6.2	162.4	143.4
Cash	8.2	1.0	8.3	8.1
Property Units	49.1	2.3	50.2	48.0
Alternatives	1.4	5.5	1.5	1.3
Total Investment Assets	1,178.8		1,305.1	1,052.5

	Value as at 31 March 2020	Percentage Change	Value on increase	Value on decrease
Asset type	£m	%	£m	£m
UK Equities	279.7	13.5	317.5	241.9
Overseas Equities	286.7	13.5	325.4	248.0
Total Bonds	153.7	6.6	163.8	143.6
Long Term Investment	0.2	0.0	0.2	0.2
Diversified Growth	34.1	6.2	36.2	32.0
Income Fund	137.5	6.2	146.0	129.0
Total Investment Assets	953.8		1,052.4	855.2

	Value as at 31 March 2020	Percentage Change	Value on increase	Value on decrease
Asset type	£m	%	£m	£m
Cash	11.4	1.0	11.5	11.3
Property Units	48.8	2.3	49.9	47.7
Alternatives	1.7	5.5	1.8	1.6
Total Investment Assets	953.8		1,052.4	855.2

Interest Rate Risk

The Fund invests in financial assets for the primary purpose of obtaining a return on investments. These investments are subject to interest rate risks, which represent the risk that the fair value or future cash flows of a financial instrument will fluctuate with changes in market interest rates. The Fund and its investment advisors routinely monitor the Fund's interest rate risk in accordance with the Fund's risk management strategy, including monitoring the exposure to interest rates and assessment of actual interest rates against relevant benchmarks. Fixed interest securities, cash and cash equivalents are exposed to interest rate risk.

Long term average rates are expected to move less than 100 basis points (1%) from one year to the next. The total value of fixed interest securities and cash and cash equivalent investments is £60.6m as at the end of 2020/21. (2019/20: £59.2m). Assuming that all other variables, in particular exchange rates, remain stable a 1% increase in valuation of these assets would increase the value by £0.6m (2019/20: £0.6m) and equally a 1% decrease would reduce the value by £0.6m (2019/20: £0.6m).

Currency Risk

Currency risk represents the risk that the fair value of future cash flows of a financial instrument will fluctuate as a result of changes in foreign exchange rates. The Fund is exposed to currency risk on financial instruments that are denominated in any currency other than sterling (the functional currency). The Fund aims to mitigate this risk through the use of derivatives (See Note 15). A strengthening/weakening of the pound sterling against the various currencies in which the Fund holds investments would increase/decrease the net assets available to pay benefits.

Following analysis of historical data in consultation with the PIRC Limited, the Fund considers the following likely volatility associated with foreign exchange rate movements:

Currency exposure – asset type	Value as at			
	31 March 2021	Percentage Change	Value on increase	Value on decrease
	£m	%	£m	£m
Overseas Equities	379.8	6.4	404.1	355.5
Multi Asset income	152.9	6.9	163.5	142.3
Alternatives	0.8	7.3	0.9	0.7
Total Investment Assets	**533.5**		**568.4**	**498.6**

Currency exposure – asset type	Value as at			
	31 March 2020	Percentage Change	Value on increase	Value on decrease
	£m	%	£m	£m
Overseas Equities	286.7	6.4	305.0	268.4
Multi Asset income	137.5	6.9	147.0	128.0
Total Investment Assets	**425.1**		**453.0**	**397.2**

Currency exposure – asset type	Value as at			
	31 March 2020	Percentage Change	Value on increase	Value on decrease
	£m	%	£m	£m
Alternatives	0.9	7.3	1.0	0.8
Total Investment Assets	**425.1**		**453.0**	**397.2**

Liquidity Risk

Liquidity risk represents the risk that the Fund will not be able to meet it's financial obligations as they fall due.The Fund therefore takes steps to ensure it it always has adequate cash resources to meet it's commitments. The purpose of the Fidelity income fund mandate is to insure a monthly income into the current account.

As at 31 March 2021 the Fund has £9.4m (2019/20: £4.2m) in it's current account. The Fund also has access to an overdraft facility for short term cash needs.

The Fund defines liquid assets as assets that can be converted to cash within three months. Illiquid assets are those which will take longer to convert into cash. As at 31 March 2021 the value of the liquid assets represented 99.9% of the total fund value (94.7% of total fund value in 2019/20).

Credit Risk

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

In essence the Fund's entire investment portfolio is exposed to some form of credit risk. However the selection of high quality counterparties, brokers and financial institutions minimises credit risk that may occur through the failure to settle a transaction in a timely manner.

BlackRock Investment Management Ltd use their Money Market Fund to manage invested cash and held £7.1m in this fund at 31 March 2021 (2019/20: £2.1m). Money market funds have AAA ratings from leading ratings agencies. This fund is the £7.1rm Cash Fund figure in the Net Assets Statement .

The remainder of invested cash is held in short term bank deposits. Aberdeen Standard Investments held £0.5m in a call account with Standard Chartered at 31 March 2021 (2019/20: £0.8m). A further £2.0m invested cash is held with the Fund's Custodian, Northern Trust (2019/20: £2.4m). As at 31 March 2021 both Standard Chartered and Northern Trust had a credit rating of AA-. These funds account for the £2.5m cash deposits of the Net Assets Statement. 2019/20: £3.2m).

NOTE 18 – FUNDING ARRANGEMENTS

The LGPS Regulations require that a full actuarial valuation of the Fund is carried out every three years. The purpose of this is to establish that the London Borough of Hounslow is able to meet its liabilities to past and present contributors and to review employer contribution rates. The last triennial valuation was carried out by Barnett Waddingham, the Fund's Actuary as at 31 March 2019 in accordance with the Funding Strategy statement of the Fund and Regulation 62 of the Local Government Pension Scheme (Administration) Regulations 2013. This is effective from 1 April 2020. The report and Funding Strategy Statement are both available at

https://www.wypf.org.uk/publications/policy-home/hpf-index/

The common rate of contribution for the London Borough of Hounslow, for the 3 year period from 1 April 2017 to 31 March 2020, is 11.7% of payroll. The common rate of contributions is the rate that, in addition to contributions paid by members, is sufficient to meet 100% of the liabilities arising in respect of service after the valuation.

Adjustments to contributions by individual employers are required to make good the deficiency resulting from the change in funding requirement, i.e. £67 million as at the date of the actuarial valuation. The Authority has agreed to keep the employer's contribution stable to meet the 100% funding requirement over a period of 17 years.

The actuarial valuation, carried out using the projected unit method, is based on economic and statistical assumptions, the main ones being:

Future Assumed Returns at 2019	2019 allocation	% return per annum
Equities	59%	6.7
Gilts	5%	1.7
Other Bonds	10%	2.6
Property	5%	6.1
Cash	0%	0.8
Cash Plus	21%	5.0
Less Expense Allowance		(0.2)
Estimated discount rate based on long-term investment strategy		5.4
Prudence allowance		(0.7)
Final discount rate assumption		**4.7**

Financial Assumptions	2016	2019
Discount rate	5.4% per annum	4.7% per annum
Retail Price Inflation (RPI)	3.3% per annum	3.4% per annum
Consumer Price Inflation (CPI)	2.4% per annum	2.6% per annum
Pension and Deferred Pension Increases	2.4% per annum	2.6% per annum
Short – Term Pay Increases	In line with the CPI assumption for the 4 years to 31 March 2020	n/a
Long – Term Pay Increases	3.9% per annum	3.6% per annum

The actuarial value of the fund's assets and liabilities are set out in the table below.

	2016	2019
Actuarial value of liabilities	£916m	£1,034m
Actuarial value of assets	£772m	£1,101m
Deficit	£144m	£67m
Funding Level	84%	94%

NOTE 19 – ACTUARIAL PRESENT VALUE OF PROMISED RETIREMENT BENEFITS

The table below shows the total net liability of the Fund as at 31 March 2021. The figures have been prepared by Barnett Waddingham, the Fund's Actuary, only for the purposes of providing the information required by IAS26 and are provided in addition to the triennial valuation. In particular, they are not relevant for calculations undertaken for funding purposes or for other statutory purposes under UK pension's legislation.

In calculating the required numbers, the Actuary adopted methods and assumptions that are consistent with IAS19.

2019/20 £m		2020/21 £m
(1,524.9)	Present Value of Promised Retirement Benefits	(1,974.8)
957.7	Fair Value of Scheme Assets (bid value)	1,181.5
(567.2)	**Net Liability**	**(793.3)**

Assumptions

To assess the value of the Fund's liabilities at 31 March 2021, the value of the Fund's liabilities calculated for the funding valuation as at 31 March 2012 have been rolled forward, using financial assumptions that comply with IAS 19.

Demographic Assumptions

The demographic assumptions used are consistent with those used for the most recent Fund valuation, which was carried out as at 31 March 2019. The post retirement mortality tables adopted are the SIPA tables with a multiplier of 90%, for males and 95% for females. These base tables are then projected using the CMI 2018 Model, allowing for a long-term rate of improvement of 1.25% p.a.

The assumed life expectations from age 65 are:

31-Mar-20	Life Expectancy from Age 65		31-Mar-20
21.2	Retiring today	Males	21.0
23.9		Females	23.8
22.8	Retiring in 20 years	Males	22.4
25.5		Females	25.3

Financial Assumptions

The main financial assumptions are:

31-Mar-20		31-Mar-21
2.7	RPI increases	2.7
1.9	CPI increases	2.6
2.9	Salary increases	3.6
1.9	Pension increases	2.6
2.4	Discount rate	4.7

NOTE 20 – CURRENT ASSETS

2019/20		2020/21
£m		£m
	Debtors:	
0.5	Amount due from the London Borough of Hounslow	0.0
0.5	Contributions due – employers	0.6
0.2	Contributions due – employees	0.2
5.4	**Total**	**10.2**

2019/20		2020/21
£m		**£m**
4.2	Cash balances	9.4
5.4	**Total**	**10.2**

Debtors

Debtors represent those sums of money owed to the Fund for contributions due from scheduled and admitted bodies for 2020/21, for which payment had not been received as at 31 March 2021.

NOTE 21 – CURRENT LIABILITIES

2019/20		2020/21
£m		**£m**
	Creditors:	
0.0	London Borough of Hounslow	[illegible]
0.3	Investment Management Fees	1.6
0.4	PAYE tax due to HMRC	0.4
0.4	West Yorkshire Pension Fund	0.1
1.1	**Total**	[illegible]

Credit[illegible]

Cre[illegible]ors represent [illegible]se sum[illegible] [illegible]ed by the Fund for fund [illegible]agement services received during 2020/21, for whi[illegible] payment had [illegible] been m[illegible]e as at 31 [illegible]ch 202[illegible] [illegible]ts due to HMRC in respect of tax and NI contributions for Marc[illegible] 021 as well as [illegible]yments [illegible]cessed by W[illegible]orkshire Pension Fund (the Fund's administrator) for which they had not ye[illegible] een re-imbu[illegible]d as at th[illegible] end.

NOTE 22 – ADDITIONAL VOLUNTARY CONTRIBUTIONS

The Fund's Additional Voluntary Contributions (AVC) provider is currently Standard Life.

Additional voluntary contributions of £30.9k were paid directly to Standard Life during the year (2019/20: £29k). Employees can contribute and the Fund acts only as an agent, the contract being between the employee and Standard Life. The value of these separately invested additional voluntary contributions at 31 March 2021 was £342.0k (2019/20: £354k). A further £135.3k is held within Utmost Life and Pensions (formerly Equitable Life), the former provider of AVCs to Fund members. The value of these in 18/19 was £114k.

In accordance with Regulation 4(1)(b) of the Pension Scheme (Management and Investment of Funds) Regulations 2016, the contributions paid and the assets of these investments are not included in the Fund's accounts.

The AVC providers secure benefits on a money purchase basis for those members electing to pay AVCs. Members of the AVC schemes each receive an annual statement confirming the amounts held in their account and the movements in the year. The Fund relies on individual contributors to check that deductions are accurately reflected in the statements provided by the AVC provider.

NOTE 23 – RELATED PARTY TRANSACTIONS

The Fund is administered by the London Borough of Hounslow and the Council is a related party to the Fund. During 2020/21, some Fund payments and receipts were made through the Council's General Account as a result of the day-to-day administration of the Fund. At 31 March 2021 £0.0m was owed by the General Account to the Fund (At 31 March 2020 £0.5m was owed by the Fund to the General Account).

The Fund incurred administrative expenses of £0.6m in 2020/21 (£0.6m 2019/20) for Council officers' time spent in administering the Fund.

No other material transactions with related parties of the Fund during 2020/21 were identified.

NOTE 24 – EVENTS AFTER THE REPORTING DATE

The Fund has carried out a review and can confirm that there were no significant events occurring after the reporting date.

Section 9
Governance

Governance of The Pension Fund

The Governance Compliance Statement is attached at Appendix 4. This details how the Fund is governed. The Fund is overseen by a Pension Fund Panel whose remit is to overview the investments and the administration of the Fund. In addition the Authority has a Pension Board. Its remit is to ensure that the Council and Pension Fund Panel comply with the LGPS Regulations and any other legislation relating to the governance and administration of the Scheme, and any requirements imposed in relation to the LGPS by the Pensions Regulator. The Annual Report of the Pension Board is attached at Appendix 1.

The Business Plan including training provided is in the table below. Training attended is elsewhere in this report.

WORK PROGRAMME OF PENSION FUND PANEL 2020/21

22 June 2020 3 pm **CANCELLED**	**Overview/General Matters** risk review valuation asset transitions cashflow action points March meeting Annual Business Plan Pension Fund Administration Monitoring SMD Discretions Adviser's Report – abbreviated
23 September 5pm 2020 **TRAINING SESSION** **London CIV – sustainable equities;** **Renewable energy**	**Part 1** Appointment of vice-chair Overview/General Matters Monitoring of Risk Register Update of Investment Strategy Statement Accounts and Annual Report Annual Report of Pension Board London CIV Transition to sustainable eq Longview **Part 2** Pension Fund Administration Adviser's Report Asset Transitions
Pension Fund AGM	The 2020 Pension Fund AGM was cancelled due to the Covid-19 restrictions
16th December 3pm 2020 **TRAINING SESSION** **BlackRock – renewable energy**	**Part 1** Overview/General Matters Annual Report on Corporate Governance **Part 2** Pension Fund Administration Adviser's Report BlackRock

16th March 2021 3pm	Part 1 Overview/General Matters Monitoring of Risk Register Part 2 Pension Fund Administration Adviser's Report Strategic Asset Review London CIV

Section 10
Pensions Administration

Pensions Administration

From 1 August 2018 the administration of the London Borough of Hounslow (LBH) pension scheme was transferred to the West Yorkshire Pension Fund (WYPF).

The decision to appoint WYPF followed a thorough selection process and was on a shared service arrangement with WYPF who have been administering the Lincolnshire Pension Fund under the same arrangement since 2015.

WYPF are on hand to answer your queries, whether you are a contributing member, deferred member or pensioner in the scheme. They process your final pension or deferred benefits when you leave the pension scheme. They will also deal with any transfers to and from the scheme. If you are an active or deferred member they will provide pension estimates and administer any additional pension contributions or additional voluntary contributions you choose to make. The payment of your pension is made by the London Borough of Hounslow's payroll partner, Liberata.

MANAGEMENT AND CUSTOMER SERVICE KEY PERFORMANCE INDICATORS

The London Borough of Hounslow monitors its performance against several Key Performance Indicators (KPIs). All aspects of our shared service administrative structure, processes and systems are reviewed on a planned cycle.

Our key performance indicators during the year measured against our targets are shown in the table below. Critical business areas impacting on pensioners and their family takes priority, these being, members requiring immediate payment for retirements, redundancies, dependents pensions and death grants. Table shows 1 April 2019 to 31 March 2020.

1 April 2020 to 31 March 2021

WORK TYPE	TOTAL CASES	TARGET DAYS FOR EACH CASE	TARGET MET CASES	MINIUM TARGET PERCENT	TARGET MET PERCENT
AVC In-house (General)	53	10	38	85	71.7
Age 55 Increase to Pension	3	20	3	85	100
Change of Address	400	5	381	85	95.25
Change of Bank Details	6	5	6	85	100
DWP request for Information	1	10	1	85	100
Death Grant Nomination Form Received	1617	20	1616	85	99.94
Death Grant to Set Up	38	5	34	85	89.47
Death In Retirement	261	5	252	85	96.55
Death In Service	4	5	4	85	100
Death on Deferred	14	5	14	85	100
Deferred Benefits Into Payment Actual	378	5	341	90	90.21
Deferred Benefits Into Payment Quote	446	35	444	85	99.55
Deferred Benefits Set Up on Leaving	889	10	879	85	98.88
Divorce Quote	20	20	18	85	90
Enquiry	12	5	12	85	100
Estimates for Deferred Benefits into Payment	11	10	11	90	100
General Payroll Changes	1	5	1	85	100
Initial Letter Death in Service	4	5	3	85	75
Initial letter Death in Retirement	261	5	225	85	86.21
Initial letter Death on Deferred	14	5	14	85	100
Life Certificate Received	78	10	72	85	92.31
Monthly Posting	648	10	619	95	95.52
NI adjustment to Pension at State Pension Age	8	20	8	85	100
Pension Estimate	95	10	91	75	95.79
Pension Saving Statement	1	20	1	100	100
Phone Call Received	2333	3	2266	95	97.13
Refund Actual	193	10	192	95	99.48
Refund Quote	380	35	364	85	95.79
Retirement Actual	167	3	160	90	95.81
Spouse Potential	11	20	11	85	100
Transfer In Actual	19	35	19	85	100
Transfer In Quote	38	35	38	85	100
Transfer Out Payment	13	35	13	85	100
Transfer Out Quote	96	20	80	85	83.33
Update Member Details	999	20	994	100	99.5

CUSTOMER SATISFACTION LEVELS

Surveys were sent out to a random sample of two hundred and forty members. Sixty-one surveys were returned.

1 April 2020 to 31 March 2021
89.93%

The level of resources and comparability of key performance indicators to national averages

Industry Standard Performance Indicators	Target days	Achieved %	National average %
Letter detailing transfer in quote	10	98.18	88.8
Letter detailing transfer out quote	10	73.78	89.1
Process and pay refund	5	99.61	87.8
Letter notifying estimate of retirement benefits	10	96.42	86.1
Letter notifying actual retirement benefits	5	92.99	93.0
Process and pay lump sum retirement grant	5	95.76	86.1
Letter acknowledging death of a member	5	98.11	85.9
Letter notifying amount of dependants benefit	5	92.99	87.1
Calculate and notify deferred benefits	10	94.07	81.7

Membership numbers as at 31st March 2021 for each category are:

Membership category	Number
Active Members	6,550
Pensioners	6,722
Beneficiaries	889
Deferred pensioners	7,728
Undecided leavers	195
Frozen refunds	1,382
Total	**23,466**

Pension overpayments from 1st April 2020 to 31st March 2021

Occasionally pensions are paid in error. When this happens, we have processes in place to recover the overpayments. The table below shows a summary of the value of the overpayments involved. Every effort is made to recover these, whilst managing the financial impact on overpaid pensioners.

The table below shows a summary of transactions processed during the year:

Analysis of overpayments	2020/21
	No. of payments

Analysis of overpayments	2020/21
Number of cases overpaid	138
Number of cases written off	0
Number of cases recovered	67

1. Results of participation in National Fraud Initiative (NFI) exercises (data matches, overpayments identified, actions taken, etc)

Fraud Prevention – National Fraud Initiative

Lincolnshire Pension Fund, West Yorkshire Pension Fund, Hounslow Pension Fund, Barnet Pension Fund and a number of Fire authorities are in shared service arrangement hosted by West Yorkshire Pension Fund. The Funds participate twice a year in the National Fraud Initiative (NFI). The data that is submitted includes pensioners, beneficiaries and deferred member information for Local Government Pension Scheme and Fire Services Pension members managed by the Fund.

A summary of the latest NFI results for the whole shared service is shown below:

Pensioners, beneficiaries and deferred members	No of record sent	No of mismatches		Overpayments identified		Possible Frauds	mismatches carried forward at 31 March
2020/21	286,429	963	0.34%	4	0.00%	0	1
2019/20	277,293	3,845	1.39%	17	0.01%	2	10
2018/19	260,387	3,339	1.28%	3	0.00%	2	2
2017/18	229,994	518	0.23%	35	0.02%	2	10
2016/17	224,122	1,425	0.64%	5	0.00%	4	5
2015/16	219,313	868	0.40%	61	0.03%	3	10
2014/15	159,928	656	0.41%	25	0.02%	0	5
2013/14	154,616	1,456	0.94%	82	0.05%	3	8

2. A STATEMENT ON THE VALUE FOR MONEY ACHIEVED BY THE ADMINISTRATION FUNCTION

Cost per member

The latest published data (2019/20) for all LGPS funds administration costs shows that London Borough of Hounslow (LBH) pensions administration cost per member is £41.96, the 67th cost amongst 86 LGPS funds, the national average is £23.50.

LBH has a below average total cost per member (administration, investment and oversight & governance) at £238.91, the national average for LGPS in 2019/20 is £245.41.

Cost per member 2019/20	Position	Hounslow Pension Fund	LGPS Lowest	LGPS Highest	LGPS Avg
Admin cost per member	67th	£41.96	£0.74	£118.78	£23.50
Investment cost per member	37th	£190.28	£20.68	£774.27	£209.71
Oversight & Governance	16th	£6.67	£0.00	£52.64	£12.21

Cost per member 2019/20	Position	Hounslow Pension Fund	LGPS Lowest	LGPS Highest	LGPS Avg
Total cost per member	41th	£238.91	£21.42	£945.69	£245.41

KEY ACTIVITIES DURING THE YEAR

Covid-19

The impact of the covid-19 pandemic has resulted in a number of changes to the way we have delivered our services to both members and employers in the pension fund.

Employer Training

During the summer we launched our Employer Webcasts under the heading 'Training Tuesdays'. This replaced our popular half day workshops and allowed us to continue offering employers training throughout the year. The webcasts were also recorded and available on demand on our employer website. Many topics were covered and included understanding pensionable pay, employer discretions, using online forms and ill health retirement.

In the second half of the year we began working with our second London Borough, Barnet Pension Fund, and over the autumn we held extensive employer training sessions to help the employers with the on-boarding process.

Member engagement

We've continued to work with our pre-retirement partner Affinity Connect to offer 2 hour courses to members covering the financial and emotional aspects of retiring. Like our employer training, this has moved online this year with plans to move to a hybrid delivery model once the pandemic has passed. This year was also notable as we restructured our Employer Relations and Communications functions splitting the responsibilities into two dedicated teams in WYPF.

Pension Increase

Each year, HPF pensioners receive an annual increase in accordance with pension increase legislation. The increase is linked to movements in the Consumer Price Index (CPI). Deferred member benefits are also increased by CPI. For the 2020/21 year an increase of 1.7% was applied on 6 April 2020.

Pension administration

As in previous years, the workload of the pension administration section continued to increase, member numbers continue to rise, particularly with the addition of new clients. WYPF's service delivery continues to be underpinned by our accreditation to the International Organisation for Standardisation – ISO 9001:2000. Our quality management systems ensure that we are committed to providing the best possible service to customers, and will continue to ensure that we deliver best value to all our stakeholders.

WYPF achieved accreditation for ISO27001 Information Security Management System Certification (ISMS). This accreditation is particularly important to us and highlights our continued commitment to information security and provides assurance to our customers that we have the ability to protect their data and reputation at all times.

Shared Service

Our shared service partnership continues to flourish with the addition of four new Fire and Rescue Service clients. This brings the total number of Fire Authorities we provide administration for to nineteen. We also welcomed the London Borough of Barnet to our LGPS partnership.

Data Quality

The Fund is required to report on the data quality to the Pensions Regulator as part of the annual scheme returns. The Pensions Regulator has set a target of 100% accuracy for new common data received after June 2010.

Data Type	%
Forename	100.00%
Surname	100.00%
Membership status	99.97%
Date of birth	100.00%
NI number	99.03%
Postcode	95.14%
Address	99.99%

Work continues to be undertaken to improve address data and this work will continue over the next twelve months and beyond as members continue to change address without informing the Fund.

Communications

Our Contact Centre has remained closed to visitors to our offices but we have continued to provide a full telephone service. Contact through emails and our secure member portal has increased as a result.

100% of annual pension benefit statements for active and deferred members were produced on time giving members information on their benefits accrued to date and what their potential benefits will be at retirement age, as well as other useful information.

Regular newsletters continue to be issued to our members to keep them informed of important pensions news.

MyPension

With the new WYPF members' web service "MyPension" members can view their pension record and statements, update personal details, tell us they have moved house and more. Members are being encouraged to sign up as we move to more online communications. Enhancements to be introduced shortly include the facility for members to run their own estimate of retirement benefits calculations.

Pension Age Awards

It has proved to be another successful year for WYPF having been shortlisted by Pensions Age under the following categories:

- DB Scheme of the Year
- Pension Scheme Communications Award
- Pensions Administration Award

Due to the pandemic the awards ceremony has been postponed to later in 2021.

Disaster recovery and risk management monitoring

Our shared service partnership systems are hosted by WYPF and uses Bradford Council's pair of geographically separated data centres, which are 3.2km apart. Both purpose-built data centres are protected by redundant power (UPS), a backup generator and cooling.

- The data centres are connected by point-to-point council-owned fibre runs. Data centres have secure access systems and are monitored 24/7 by Bradford's CCTV Unit.
- Both sites are permanently live and accessible by our internal end-users who are networked to the sites via diverse fibre cable routes.
- Where possible, servers are virtualised, using Microsoft Hyper-V. The servers and data are replicated between the Hyper-V hosts at both sites to ensure a short recovery time.
- Data is backed up to disk medium in a 24-hour cycle and written to tape archive on robotic tape libraries at both sites. An encrypted archive copy is sent to a dedicated offsite storage facility every week.
- WYPF's server, disk and core network infrastructure is monitored for errors and warnings, and these generate a ticket on the WYPF IT ITIL system for investigation and resolution.
- Critical data stores are also replicated at disk level between sites. In the event of serious system failures, WYPF would re-provision testing hardware and the infrastructure environment for live running.

In the event of WYPF office accommodation becoming unavailable, staff will be relocated to other council offices or our Lincoln office, or work remotely. WYPF is covered by the council's comprehensive disaster recovery plan for the email, web, phone, network and SAP services they deliver for our shared services.

Social media

WYPF's Facebook and Twitter accounts were launched in November 2014 to encourage members of all ages to engage more with the fund.

www.twitter.com/wypf_lgps
www.facebook.com/westyorkshirepensionfund

General Data Protection Regulation (GDPR)

The General Data Protection Regulations came into effect on 25 May 2018. This is an EU legislation intended to strengthen and unify data protection for all individuals within the EU. These impose new requirements for organisations relating to the protection and management of personal data. It is no longer just about organisations storing and securing data, it is about capturing the context of data and being able to prove everything is being done to protect the member's data and the rights of the member. The new regulations will impact almost every area of our business – hardcopy, electronic, website data, images, recordings and written records.

Organisations who failed to prepare for these changes leave themselves open to heavy penalties in the form of fines for up to €20 million or 4% of revenue/turnover for any breaches. Work has started to ensure compliance with this regulation.

Participating employers

As of 31 March 2021 there were 45 different employers in the pension fund

Scheme Employers – Schedule Bodies	Scheme Employers – Admitted Bodies
Berkeley Academy	Alliance in Partnership
Bolder Academy	Caterlink Ltd.
Brentford School for Girls	Coalo Ltd.
Chiswick School	Chartwells
Cranford Community College	City West Support Services
Edison Primary School	Cucina
Gumley House Catholic School	David Henry Waring
Heston Community School	Edwards & Ward
Isleworth & Syon School for Boys	Hounslow Action for Youth

Scheme Employers – Schedule Bodies	Scheme Employers – Admitted Bodies
Kingsley Academy	Hounslow Highways – Ringway
Lampton School	Hounslow Music Service
Logic Studio	Lampton Greenspace 360
London Borough of Hounslow	Lampton Leisure
Nishkam School West London	Lampton Recycle 360
Norwood Green Junior School	May Harris
Oakhill Academy	Olive Dining Ltd.
Oriel Academy	Serco
Reach Academy	Wilson Jones Catering
Rivers Academy	Spectra
Space Studio	
Springwest Academy	
St Mark's Catholic School	
St. Richards CE Primary School	
The Green School Trust	
West Thames College	
Westbrook Primary School	

Section 11
Pooling Report

In 2015, the UK Government initiated a major reform of the Local Government Pension Scheme (LGPS) when it invited administering authorities in England and Wales to develop regional asset pools for investment. The London Borough of Hounslow joined other London Boroughs in creating the London

Collective Investment Vehicle (CIV), a regional pool operator for London.

The London CIV is now established and had £23.8bn of LGPS assets under management as at 31 March 2021. It continues to develop its fund range to meet the investment needs of London's LGPS pension funds.

Pooled Investment Assets

Hounslow's policy in relation to pooling is to look to transition assets on to the CIV as and when appropriate to do so once the relevant investment strategies are available to meet the Fund's asset allocation and investment strategy needs. More information on the Fund's approach to pooling can be found in the Investment Strategy Statement. At the end of March 2021 Hounslow had the passive BlackRock passive global equities and the Longview active global equities on the CIV platform. In future years more of our assets will be transitioned into the London CIV to fit with our investment strategy needs.

Pool management costs and savings

The below table summarises Hounslow's pooling costs incurred during 2019/20 and 2020/21*

London CIV pooling costs

	2019/20 £000	2020/21 £000
Annual fees		
Annual service charge	25	25
Development fees	65	85
CIV management fee	38	46
Total costs	128	156
Savings/(Dissaving)		
Active dissaving	(305)	(482)
Net savings/(Dissaving)	(433)	(638)

In addition to the annual costs Hounslow Pension Fund also has a shareholding in the London CIV valued at £150k at cost.

*Please note 19/20 has been restated and 20/21 has been stated to reflect updated CIPFA advised practise for calculating pooling savings.

Appendix 2
Investment Strategy Statement

Investment Strategy Statement, September 2020

1. Background

1.1 The London Borough of Hounslow (LBH) operates the Local Government Pension Scheme which was established in accordance with statute to provide death and retirement benefits to all eligible employees of the Council and its admitted bodies.

1.2 The revised Local Government Pension Scheme (Management and Investment of Funds) (Amendment) Regulations 2016 require administering authorities to prepare and review from time to time a written statement recording the investment policy of their Pension Fund. The purpose of this Strategy is to satisfy the requirements of these Regulations, and to explain to Fund members, employees and other interested parties how the Fund is managed, and the factors considered in doing so.

1.3 Under the Local Government Pension Scheme (Management and Investment of Funds the ISS must include the following

a. A requirement to invest money in a wide variety of investments

b. The authority's assessment of the suitability of particular investments and types of investments

c. The authority's approach to risk, including the ways in which risks are to be measured and managed

d. The authority's approach to pooling investments, including the use of collective investment vehicles and shared services

e. The authority's policy on how social, environmental or corporate governance considerations are taken into account in the selection, non-selection, retention and realisation of investments;and

f.The authority's policy on the exercise of rights (including voting rights) attaching to investments.

1.4 The Investment Strategy Statement must also set out the maximum percentage of the total value of all investments of fund money that it will invest in particular investments or classes of investment. This is known as the prudential framework and means funds now have control over limits placed on specific types of investment. This replaces Schedule 1 to the Local Government Pension Scheme (management and investment of funds) regulations 2009 which placed restrictions on specific types of investment such as partnerships, unlisted securities, single holdings, sub-underwriting contracts (Life funds), unit trust, open ended investment companies, insurance contracts and stock lending.

1.5 The Ministry for Housing, Communities and Local Government (MHCLG) has issued guidance on preparing and maintaining Investment Strategy Statements. This Statement complies with this guidance.

1.6 The Secretary of State has the power under these regulations to issue a Direction if he is satisfied that an administering authority is failing to act in accordance with the guidance. These powers are a last resort and before exercising them the Secretary of State will consult with Funds if he believes they are acting unreasonably.

2. Introduction

2.1 The London Borough of Hounslow Pension Fund, (the Fund) is a Career Average Revalued Earnings (CARE) defined benefit pension scheme established by statute, operating under the Public Sector Pensions Act 2013. It provides retirement and death benefits for eligible members and their dependants. The benefits are defined in law and increased each year in-line with movements in inflation (Consumer price inflation.

2.2 The Council has delegated the investment management of the scheme to its Pension Fund Panel (the Panel, PFP). The ultimate responsibility for the investment strategy lies with the Panel.

2.3 The Investment Strategy Statement (ISS) reflects the current structure of the fund's investments. Hence it reflects the structure of Black Rock's and Aberdeen's investment mandates, Aberdeen's Diversified Growth Fund and Black Rock's Aquila Life Market Advantage Fund invested in 2013, investments in the CBRE Lionbrook Property Fund and the Columbia Threadneedle Pension Property Fund undertaken in 2014, the investment in the Fidelity Multi Asset Income initially undertaken in November 2016, and the investment in the active equity manager on the London CIV (Collective Investment Vehicle) initiated in September 2017.

2.4 The Pension Fund Panel has appointed an independent advisor, MJHudson – Allenbridge, to advise on investment strategy, oversee the activities of the investment managers, and be generally available for consultation on fund investment matters.

2.5 Barnett Waddingham has been appointed as actuaries to the Fund.

2.6 Northern Trust has been appointed as the custodian to theFund.

2.7 Administration of the fund is undertaken by a third party, West Yorkshire Pension Fund. Pensioner payroll is also undertaken by a third party, Liberata.

2.8 The main responsibilities of the key stakeholders are laid out in Appendix 1 to this Strategy.

2.9 Aim of the Fund

2.9.1 The LBH Pension Fund is a long-term Fund, and the investment strategy must reflect this. Ultimate responsibility is to present and future pensioners. The aim of the Fund is to provide a pool of assets sufficient to meet the long-term pensions and benefits liabilities (as prescribed by the Local Government Pension Scheme Regulations) for the members of the Fund.

2.9.2 As referenced in the Funding Strategy Statement, based on the trie-ennial actuarial valuation last undertaken in 2019, the long-term objective is for the Fund to achieve a funding level of 100% over a maximum fund recovery period of seventeen years from April 2020. This target will be reviewed following each actuarial valuation and consultation with Fund employers.

3. Diversification

3.1 The Regulations require that the Statement demonstrates the requirement to invest money in a wide variety of investments. The Fund will hold a range of asset classes as set out in the table below. These will be reviewed continually, in the light of market conditions. The Fund has moved from having a peer group benchmark to having a tailored asset allocation benchmark. The benchmark sets out the mix of assets to be held in the Fund's portfolio of investments. This benchmark is consistent with the Pension Fund Panel's views on the appropriate balance between generating a satisfactory long-term return on investments whilst taking account of market volatility and risk and the nature of the Fund's liabilities. The detailed specific benchmarks for the Fund's individual managers are shown in Appendix2.

3.2 Advisory ranges for the assets are detailed in Column 3 of the table below. This gives more flexibility to ensure the Fund's allocation does not deviate substantially from its benchmark and mean that the fund does not need to be rebalanced if assets have short term moves within these ranges. Any rebalancing will only take place after discussion with Pension Fund Panel.

Asset Class	Proportion %	Advisory range %	Benchmark Index
Equities			
UK	31	+/-5	FTSE All Share Index
Overseas Equities	28	+/-5	MSCI AC World excl UK
Bonds			
Conventional Bonds	10	+/-2	iBoxx Non Gilt All Maturities
Index-Linked Gilts	5	+/-2	FTSE Over 5 Years ILG All Stocks
Property	5	N/A	IPD UK All Properties Monthly
Diversifying assets	6	+/-2	LIBOR
Income sleeve	15	N/A	4% Absolute return
TOTAL	**100**		

4. Suitability Of Investments

4.1 The Funding Strategy Statement (FSS) compares the Fund's liabilities with its assets. It is based on each triennial actuarial valuation. The current FSS based on the 2019 actuarial valuation. Based on the Investment Strategy of the fund it estimates that the Fund will be 100% financed in 17 years' time. However, fund maturity is also now an important element of our Investment Strategy. The Fund has become cashflow negative i.e. its employer and employee contributions no longer cover its pension payments. Hence the Fund has invested in a Multi Asset Income mandate to generate both cashflow to pay pensions, and to contribute capital growth. This balancing of cashflow requirements and capital growth will be an important element of reviewing the Investment Strategy going forward.

4.2 The types of investment held each have separate roles to play within our strategy, as explained in the table below.

Asset Class	Role Within Strategy
Listed Equities	Generate returns in excess of inflation, through exposure to the shares of domestic and overseas companies.
Bonds	Debt instruments issued by Governments and other borrowers. Expected to provide relatively low risk income stream and capital appreciation of underlying bonds. Prices tend to fluctuate less than equities.
Index Linked Gilts	Debt instruments mainly issued by Governments. Low risk income stream with an explicit linkage to inflation
Property	Investments in land or buildings such as offices, warehouses, or retail units. Generate returns in excess of inflation through exposure to UK property through income and capital appreciation, whilst providing some diversification away from equities and bonds.
Diversifying assets	Pooled funds that invest in a variety of investment classes and use active asset allocation between asset classes to drive performance. Some private equity which is now maturing. Deliver returns in excess of inflation, with a reasonably low correlation to traditional equity markets and providing a degree of downside protection in periods of equity market stress.
Dedicated Income sleeve	Provide significant income stream and also capital growth by matching investments to economic cycle, and matching our liability profile.

5. Risk Management

5.1 Risk management is the process by which the Administering Authority systematically identifies and addresses the risks associated with its Pension Fund activities; it is a key element of good governance for any organisation. Officers of the Fund maintain the Hounslow LGPS (Local Government Pension Scheme) risk register. This is a dynamic document and is reviewed at Pension Fund Panel meetings. The report incorporates details of the major risks facing the Fund and includes a traffic light scoring system to categorise the anticipated likelihood and impact of each risk. Officers are charged with actively monitoring progress in relation to controls and actions taken to mitigate risk. The Risk Register is reported to Members twice a year.

5.2 The following risks are recognised in the Funding Strategy Statement, this Statement, and in the Risk Register:

Valuation risk: the Actuarial valuation assumes that the Fund generates an expected return equal to or in excess of the Fund's discount rate. An important risk to which the Fund is exposed is that the return is not achieved if the assets do not deliver as expected.

Longevity risk: this is the risk that the members of the Fund live longer than expected under the Actuarial Valuation assumptions. This risk is captured within the Actuarial Valuation report which is conducted at least triennially and monitored by the Panel, but any increase in longevity will only be realised over the long term.

Sponsor Covenant risk: the financial capacity and willingness of the sponsoring employers to support the Fund is reviewed on a regular basis.

Diversification risk: the Panel recognises the risks that may arise from the lack of diversification of investments. Subject to managing the risk from a mismatch of assets and liabilities, the Panel aims to ensure that the asset allocation policy results in an adequately diversified portfolio.

Concentration risk: the Panel takes into consideration concentration risk which arises, for example, when a high proportion of the Fund's assets are invested in securities, whether debt or equity, of the same or related issuers or in the same or similar industry sectors. The overall investment arrangements are intended to provide an appropriate spread of assets by type and spread of individual securities within each asset class.

Liquidity risk: the Panel recognises that there is liquidity risk in holding assets that are not readily marketable and realisable. Given the long term investment horizon, the Panel believes that a degree of liquidity risk is acceptable, given the potential return. The majority of the Fund's assets are realisable at short notice.

Manager risk: the Fund's assets are invested with a number of managers to provide appropriate diversification.

Governance: members of the Panel and Local Pension Board are encouraged to participate in regular training. Both the Panel and Local Pension Board are aware that poor governance may prove detrimental to the investment strategy, fund administration, liability management and corporate governance and seeks to minimise membership turnover where possible.

6. Asset Pooling

6.1 The Government has mandated (LGPS (Management and Investment of Funds) Regulations 2016) that the 89 separate LGPS Funds should combine their assets into a small number of investment pools. The basis of the pooling must be in line with guidance issued by the Secretary of State and meet the four criteria set out below:

a. Benefits of scale – a minimum asset size per pool of£25bn.

b. Strong governance and decision making

c. Reduced costs and value for money

d. Improved capacity to invest in infrastructure

6.2 Eight pools nationally have been set up. This Fund is part of the London Collective Investment Vehicle (CIV) which has been set up for all the London Borough Pension Funds. The London CIV is fully authorised by the Financial Conduct Authority (FCA) as an Alternative Investment Fund Manager (AIFM) with permission to operate a UK based Authorised Contractual Scheme (ACS) fund.

6.3 Hounslow Pension Fund will maintain control of its Investment Strategy and asset allocation, with the CIV aiming to open sub-funds to enable London Borough Pension Funds to implement their investment strategies in a cost-effective manner.

6.4 The Fund holds assets in the BlackRock passive global equity ACS Fund. The Fund has benefited from lower fees from this facilitated relationship between BlackRock and the CIV.

6.5 The Fund has also invested in the active equity manager Longview, which is on the CIV platform. We will look to transition further assets as and when there are suitable investment strategies available on the platform that meet the needs of the Fund.

7. Environmental, Social and Corporate Governance (ESG) Policy

7.1 External fund managers are expected to consider ESG issues when assessing potential investment opportunities. It is the belief of the Fund that well governed companies that manage their business in a responsible manner will produce superior returns over the long term, and the Fund expects these considerations to form part of the investment selection criteria for external fund managers in carry out stock selection. The Fund also holds expectations of its fund managers to hold companies to account with reference to the highest standards of behaviour and reputational risk management which may affect long term performance, and for those issues to be part of their stock selection criteria. The Fund believes that 'robust' engagement with companies is a better approach than placing restrictions on particular types of investment.

7.2 The Fund is an active shareholder in the exercising of its company share voting rights to promote and support good corporate governance principles. Share voting is undertaken internally, with a specialist corporate governance advisor.

An Annual Report on voting is presented to the PFP, and forms part of the Annual Report and Accounts.

7.3 The Fund is a member of the Local Authority Pension Fund Forum (LAPFF), a membership group of 80 individual LGPS (Local Government Pension Scheme) funds, and also the pooling organisations, that campaigns on corporate governance issues, thus demonstrating a commitment to sustainable investment and the promotion of high standards of corporate governance and responsibility.

7.4 The Fund is a regular co-filer on shareholder resolutions on matters relating to climate change. It has been a co-filer on resolutions at the BP, Shell and Rio – Tinto AGMs (Annual General Meetings). All of these resolutions were passed by shareholders with votes of over 98% at all the meetings, and hence are legally binding on the companies.

7.5 Climate Change

In March 2020 the PFP agreed this specific statement on climate change:

"Climate change has the potential to have a serious impact on financial markets and this risk will be measured, monitored and managed by the Fund. Equally, climate change presents the Fund with investment opportunities in areas such as energy efficiency and renewable energy sources.

The United Nations Sustainable Development Goals 7 (affordable and clean energy), 11 (sustainable cities and communities) and 13 (climate action) represented the strongest investment risks and return opportunities for the Fund. Over time, it expects all its investment managers and advisers to prioritise these SDGs when making investment decisions on behalf of theFund."

The initial steps to implement this statement cover:

1. measuring the carbon footprint of the equity holdings of the fund

2. transferring the passive global equity portfolio to a low carbon portfolio

3. transferring the residual active segregated global equity portfolio to the London CIV sustainable equity fund.

8. Voting Rights and Policy

8.1 The Fund believes that its long-term investment interests are enhanced by the highest standards of corporate governance and corporate responsibility amongst the companies in which we invest. Poor governance can negatively impact shareholder value. Stewardship aims to promote long term success of companies in order to benefit shareholders too. Stewardship involves monitoring and engaging with companies on matters such as strategy, performance, risk, capital structure and corporate governance. This includes culture and remuneration.

8.2 The Fund exercises its voting rights at the Annual/Extraordinary General Meetings of all UK companies within the FTSE 350, European companies within the Eurotop 300, and US companies in the S & P 500, in which the Fund has shareholdings. The voting policy is based on best practice. For the UK this is encompassed in the UK Governance Code. In overseas markets, the voting policy takes account of local best practice principles. The voting system is operated by templates monitored by PIRC. For controversial issues the views of the Pension Fund Panel will besought.

8.3 The Fund reports annually to the Pension Fund Panel on the operation ofits voting policy throughout the year. This report is comprehensive and ensures transparency, and is a public document.

8.4 The Financial Reporting Council has introduced a tier system, to evaluate the Stewardship policies of signatories. MHCLG (Ministry of Housing, Communities and Local Government) encourage administering authorities to state how they implement the seven principles and guidance of the UK Stewardship Code, which apply on a comply or explain basis. Our approach to this is attached at Appendix 3. Our corporate governance provider, PIRC, has received a top Tier 1 rating for its policies. The Fund expects its external investment managers, where applicable, to be signatories to the Stewardship Code and to have reached Tier One level of compliance. As at the time of writing this was confirmed

APPENDIX 1 : GOVERNANCE OF FUND

1. LBH is the Administering Authority

LBH is responsible for managing the Fund in accordance with the Regulations. The Statement of Corporate Governance gives details of the membership and operation of the Pension Fund Panel. Trustees include Councillors, an employers' representative, a pensioners' representative and a staff representative. The Panel meets at least quarterly.

The Terms of Reference of the Pension Fund Panel are:

a. To consider on the advice of the S151 Officer and Council's Fund Managers, the Council's general policy with regard to Pension Fund Investments

b.To make arrangements for the management of the Fund in line with the Investment Strategy Statement

c. To monitor the performance of the Fund and its Managers

d. To exercise the Council's voting rights at AGM's and EGM's of companies in which the Fund has holdings,afterconsideringtheadviceoftheS151Officerand appropriate Manager (s);and

e. To overview and agree pension fund administration matters e.g. approval of Administration Strategy and delivery of the benefits service.

2. The Fund Managers are responsible for:

a. attending meetings with the Pension Fund Panel and with officers, as requested;

b. the investment of the Pension Fund assets in compliance with prevailing legislation, the constraints imposed by this document and their detailed Investment Management Agreements

c. security selection within asset classes;and

d. active management of their cash balances.

3. The Custodian, Northern Trust, is responsiblefor:

a. its own compliance with prevailing legislation

b. ensuring the Fund's relevant investment holdings are properly and securely held and registered

c. providing the administering authority with monthly valuations of the Scheme's assets and details of all transactions during the month;and processing income and corporate actions arising from the Fund's relevant investment holdings.

4. The Independent Advisor, MJHudson-Allenbridge, is responsiblefor:

a. provision of expert advice, for example on implementing the Investment Strategy Statement and on other compliance issues

b. provision of expert advice on Pension Fund performance i.e. investment selection, and research into specific issues

c. attendance at each meeting of the Pension Fund Panel;and

d. liaison with Trustees and officers of the LBH Pension Fund.

5. The Actuary, Barnett-Waddingham, is responsiblefor:

a. undertaking a triennial valuation of theFund;

b. undertaking an annual assessment of the liabilities and assets of relevant employers of the Fund under international accounting standards for their Statement of Accounts;and

c. providing advice as to the maturity of the Scheme and its funding level, in order to aid the Pension Fund Panel in balancing the short term and long term objectives of the Pension Fund.

6. The Director of Finance and Corporate Services (S151 Officer) is responsiblefor:

a. acting as professional advisor to theFund;

b. the appointment of any professional external consultants, as required, and subject to the approval of the Pension Fund Panel

c. alerting the Pension Fund Panel and the Executive of any problems in the funding level or administration of the Fund (in his capacity as the Council's Section 151 Officer);and

d. ensuring compliance with this document and bringing breaches thereof to the attention of the Pension Fund Panel.

7. LBH has an established Pension Board

The Pension Board is defined by the Public Service Pensions Act 2013, will be responsible for assisting the Administering Authority as Scheme Manager to:

a. secure compliance with the LGPS regulations and any other legislation relating to the governance and administration of the LGPS;

b. secure compliance with requirements imposed in relation to the LGPS by the Pensions Regulator

c. carry out such other matters as the LGPS regulations may specify;and

d. secure the effective and efficient governance and administration of the Lgps for the Hounslow Pension Fund.

The role is one of providing oversight of assurance in and governance of the scheme administration and not decision making.

8. Administration of benefits is undertaken by West Yorkshire Pension Fund. They are responsiblefor:

a. calculation of pension benefits, lump sum benefits and early retirements;

b. collection of pension related data from employers and members; and

c. correspondence and communications.

9. The London CIV (Collective Investment Vehicle) will be responsible for administering the management the Fund's investments that are on the CIV platform.

Hounslow Pension Fund will maintain control of its Investment Strategy and asset allocation, with the CIV aiming to open sub-funds to enable London Borough Pension Funds to implement their investment strategies in a cost effective manner.

Over time, the proportion of our investments managed by the CIV will increase, as long as those sub-funds managed by the CIV meet our Investment Strategy objectives.

APPENDIX 2 : FUND MANAGER MANDATES AND BENCHMARKS

1. BlackRock

BlackRock is appointed to manage a multi-asset portfolio covering equities and bonds. The asset allocation benchmark and the ranges within which BlackRock are allowed to diverge from the benchmark allocation is set out below.

Asset Class	Benchmark	Allocation %	Range %
UK Equities – segregated	FTSE All Share	45	+/ – 5
Global equities excl UK – passive	MSCI AC World Excl UK	33	+/ – 5
Index-Linked Gilts	FTSE Over 5 Years ILG	6	+/ – 5
Conventional Bonds	iBoxx Sterling Non Gilts	16	+/ – 5
Cash		0	0–10
TOTAL		100	

The manager's target is to outperform the benchmark by 1% p.a. over three years. In addition, there is a performance related fee.

2. Aberdeen

Aberdeen is appointed to manage a multi-asset portfolio covering equities and bonds. The asset allocation benchmark and the ranges within which Aberdeen are allowed to diverge from the benchmark allocation is set out below.

Asset Class	Benchmark	Allocation %	Range %
UK Equities	FTSE All Share	52	+/ – 10
Global equities excl UK	MSCI AC World Excl UK	20	+/ – 10
Index-Linked Gilts	FTSE Over 5 Years ILG	11	+/ – 10
Conventional Bonds	iBoxx Sterling Non Gilts	17	+/ – 10
Cash		0	0-5
TOTAL		**100**	

The manager's target is to outperform the benchmark by 1.0% p.a. over three years.

3. Aberdeen Diversified GrowthFund

Aberdeen is appointed to manage a Diversified Growth Fund. The strategy is to invest in a range of diversifying assets, including infrastructure.

The manager's benchmark is 1 month LIBOR + 4.5% over five years, with lower volatility than equities.

4. BlackRock Aquila Life Market Advantage Fund

BlackRock is appointed to manage the Aquila Life Market Advantage Fund. The strategy is to pursue a diversified, risk-controlled investment process that aims to achieve returns equivalent with a global 60% equity/40% bond portfolio over a market cycle, but with approximately 40 % less risk than the comparator i.e. there is less downside exposure during extreme market conditions.

The manager's benchmark is 3 month LIBOR + 3.5%, over three years.

5. Long view Active Global Equity Mandate on the London CIV

This is an actively managed pooled fund investing in global equities. The portfolio is concentrated on around 35 stocks, with a strong tilt towards the United States.

The aim is to outperform the benchmark (MSCI World Index) by at least 2% p.a. net of fees.

6. Columbia Threadneedle Pensions Property Fund

The Fund invests in the Columbia Threadneedle Pensions Property Fund. This is a diversified, multi-sector commercial UK property portfolio. The Fund concentrates on high yield grade B properties.

The manager's target is to outperform the IPD Index by at least 1% per annum, net of fees, on a rolling three year basis.

7. CBRE Lionbrook Property Fund

The Fund invests in the CBRE Lionbrook Property Fund. This is a diversified, multi-sector commercial UK property portfolio. The Fund concentrates on prime properties.

The manager's target is to outperform the IPD Index, net of fees, on a rolling three year basis.

8. Fidelity Multi-Asset Income Fund

The Fund is structured to delivering our twin requirements of yield and capital growth. It invests in a mixture of growth, hybrid and income assets, targeting market inefficiencies through flexible asset allocation. The aim is to deliver 4% income absolute return (gross of fees). In addition, it is expected to deliver 2 – 3% capital growth p.a.

APPENDIX 3 : STATEMENT OF COMPLIANCE WITH THE UK STEWARDSHIP CODE

Principle 1: Institutional investors should publicly disclose their policy on how they will discharge their stewardship responsibilities.

This Investment Strategy Statement explains how we discharge our stewardship responsibilities.

Principle 2: Institutional investors should have a robust policy on managing conflicts of interest in relation to stewardship and this policy should be publicly disclosed.

The Fund expects its fund managers to have effective policies addressing potential conflicts of interest. In respect of conflicts of interest within the Fund, Panel members are required to make declarations of interest prior to panel meetings.

Principle 3: Institutional investors should monitor their investee companies.

Day-to-day responsibility for managing the Fund's equity holdings is delegated to our appointed fund managers and the fund expects them to monitor companies, intervene where necessary, and report back regularly on activity undertaken.

The Fund actively votes all its segregated equity holdings directly and liaises with the fund managers as necessary.

Principle 4: Institutional investors should establish clear guidelines on when anyhow they will escalate their activities as a method of protecting and enhancing shareholder value.

Responsibility for day-to-day interaction with companies is delegated to the Fund's investment managers, including the escalation of engagement when necessary. On occasion, the Fund may itself choose to escalate activity; this will typically be through our membership of the LAPFF e.g. through co-filing shareholder resolutions.

Principle 5: Institutional investors should be willing to act collectively with other investors where appropriate.

The Fund seeks to work collaboratively with other institutional shareholders in order to maximise the influence that it can have on individual companies. This is achieved through our LAPFF membership, together with initiatives proposed by our investment managers or other advisors.

Principle 6: Institutional investors should have a clear policy on voting and disclosure of voting activity.

The Fund aims to exercise all votes associated with its segregated equity holdings and operates a custom policy which reflects the Fund's investment objectives. Fund officers are responsible for voting decisions and are supported by specialist proxy research.

On a general basis, the Fund will support resolutions which are consistent with the UK Governance Code and represent best practice. In overseas markets, we will take account of local best practice principles. Where resolutions or issues fall short of the expected standards, we will either abstain or vote against, depending on the individual circumstances of the company and the issues presented.

Principle 7: Institutional investors should report periodically on their stewardship and voting activities.

The Fund reports on its stewardship activity to the Panel annually, and this document is publicly available.

Appendix 3
Funding Strategy Statement

Contents

Introduction

This is the Funding Strategy Statement for the London Borough of Hounslow Pension Fund (the Fund). It has been prepared in accordance with Regulation 58 of the Local Government Pension Scheme Regulations 2013 as amended (the Regulations) and describes the London Borough of Hounslow's strategy, in its capacity as administering authority, for the funding of the London Borough of Hounslow Pension Fund.

The Fund's employers and the Fund Actuary, Barnett Waddingham LLP, have been consulted on the contents of this statement.

This statement should be read in conjunction with the Fund's Investment Strategy Statement (ISS) and has been prepared with regard to the guidance (*Preparing and Maintaining a funding strategy statement in the LGPS 2016 edition)* issued by the Chartered Institute of Public Finance and Accountancy (CIPFA).

Purpose of the Funding Strategy Statement

The purpose of this Funding Strategy Statement (FSS) is to:

- Establish a clear and transparent fund-specific strategy that will identify how employers' pension liabilities are best met going forward;
- Support the desirability of maintaining as nearly constant a primary contribution rate as possible, as defined in Regulation 62(6) of the Regulations;
- Ensure that the regulatory requirements to set contributions to meet the future liability to provide Scheme member benefits in a way that ensures the solvency and long-term cost efficiency of the Fund are met; and
- Take a prudent longer-term view of funding those liabilities.

Aims and purpose of the Fund

The aims of the Fund are to:

- Manage employers' liabilities effectively and ensure that sufficient resources are available to meet all liabilities as they fall due;
- Enable primary contribution rates to be kept as nearly constant as possible and (subject to the administering authority not taking undue risks) at reasonable cost to all relevant parties (such as the taxpayers, scheduled, resolution and admitted bodies), while achieving and maintaining Fund solvency and long-term cost efficiency, which should be assessed in light of the risk profile of the Fund and employers, and the risk appetite of the administering authority and employers alike; and
- Seek returns on investment within reasonable risk parameters.

The purpose of the Fund is to:

- Pay pensions, lump sums and other benefits to Scheme members as provided for under the Regulations;
- Meet the costs associated in administering the Fund; and
- Receive and invest contributions, transfer values and investment income.

Funding objectives

Contributions are paid to the Fund by Scheme members and the employing bodies to provide for the benefits when they become payable.

The funding objectives are to:

- Ensure that pension benefits can be met as and when they fall due over the lifetime of the Fund;
- Ensure the solvency of the Fund;
- Set levels of employer contribution rates to target a 100% funding level over an appropriate time period and using appropriate actuarial assumptions, while taking into account the different characteristics of participating employers;
- Build up the required assets in such a way that employer contribution rates are kept as stable as possible, with consideration of the long-term cost efficiency objective; and
- Adopt appropriate measures and approaches to reduce the risk, as far as possible, to the Fund, other employers and ultimately the taxpayer from an employer defaulting on its pension obligations.

In developing the funding strategy, the administering authority should also have regard to the likely outcomes of the review carried out under Section 13(4)(c) of the Public Service Pensions Act 2013. Section 13(4)(c) requires an independent review of the actuarial valuations of the LGPS funds; this involves reporting on whether the rate of employer contributions set as part of the actuarial valuations are set at an appropriate level to ensure the solvency of the Fund and the long-term cost efficiency of the Scheme so far as relating to the pension Fund. The review also looks at compliance and consistency of the actuarial valuations.

Key parties

The key parties involved in the funding process and their responsibilities are set out below.

The administering authority

The administering authority for the Fund is the London Borough of Hounslow. The main responsibilities of the administering authority are to:

- Operate the Fund in accordance with the LGPS Regulations;

- Collect employee and employer contributions, investment income and other amounts due to the Fund as stipulated in the Regulations;
- Invest the Fund's assets in accordance with the Fund's Investment Strategy Statement;
- Pay the benefits due to Scheme members as stipulated in the Regulations;
- Ensure that cash is available to meet liabilities as and when they fall due;
- Take measures as set out in the Regulations to safeguard the Fund against the consequences of employer default;
- Manage the actuarial valuation process in conjunction with the Fund Actuary;
- Prepare and maintain this FSS and also the ISS after consultation with other interested parties;
- Monitor all aspects of the Fund's performance;
- Effectively manage any potential conflicts of interest arising from its dual role as both Fund administrator and Scheme employer; and
- Enable the Local Pension Board to review the valuation process as they see fit.

Scheme employers

In addition to the administering authority, a number of other Scheme employers participate in the Fund.

The responsibilities of each employer that participates in the Fund, including the administering authority, are to:

- Collect employee contributions and pay these together with their own employer contributions, as certified by the Fund Actuary, to the administering authority within the statutory timescales;
- Notify the administering authority of any new Scheme members and any other membership changes promptly;
- Develop a policy on certain discretions and exercise those discretions as permitted under the Regulations;
- Meet the costs of any augmentations or other additional costs in accordance with agreed policies and procedures; and
- Pay any exit payments due on ceasing participation in the Fund.

Scheme members

Active Scheme members are required to make contributions into the Fund as set by the Ministry of Housing, Communities and Local Government (MHCLG).

Fund Actuary

The Fund Actuary for the Fund is Barnett Waddingham LLP. The main responsibilities of the Fund Actuary are to:

- Prepare valuations including the setting of employers' contribution rates at a level to ensure Fund solvency and long-term cost efficiency after agreeing assumptions with the administering authority and having regard to the FSS and the Regulations;
- Prepare advice and calculations in connection with bulk transfers and the funding aspects of individual benefit-related matters such as pension strain costs, ill-health retirement costs, compensatory added years costs, etc;
- Provide advice and valuations on the exiting of employers from the Fund;
- Provide advice and valuations relating to new employers, including recommending the level of bonds or other forms of security required to protect the Fund against the financial effect of employer default;
- Assist the administering authority in assessing whether employer contributions need to be revised between valuations as permitted or required by the Regulations;

- Ensure that the administering authority is aware of any professional guidance or other professional requirements which may be of relevance to their role in advising the Fund; and
- Advise on other actuarial matters affecting the financial position of the Fund.

Funding strategy

The factors affecting the Fund's finances are constantly changing, so it is necessary for its financial position and the contributions payable to be reviewed from time to time by means of an actuarial valuation to check that the funding objectives are being met.

The most recent actuarial valuation of the Fund was carried out as at 31 March 2019. The results of the 2019 valuation are set out in the table below:

2019 valuation results	
Surplus (Deficit)	(£67m)
Funding level	94%

On a whole Fund level, the primary rate required to cover the employer cost of future benefit accrual was 18.9% of payroll p.a.

The individual employer contribution rates are set out in the Rates and Adjustments Certificate which forms part of the Fund's 2019 valuation report.

The actuarial valuation involves a projection of future cashflows to and from the Fund. The main purpose of the valuation is to determine the level of employers' contributions that should be paid to ensure that the existing assets and future contributions will be sufficient to meet all future benefit payments from the Fund. A summary of the methods and assumptions adopted is set out in the sections below.

Funding method

The key objective in determining employers' contribution rates is to establish a funding target and then set levels of employer contribution rates to meet that target over an agreed period.

The funding target is to have sufficient assets in the Fund to meet the accrued liabilities for each employer in the Fund.

For all employers, the method adopted is to consider separately the benefits accrued before the valuation date (past service) and benefits expected to be accrued after the valuation date (future service). These are evaluated as follows:

- The past service funding level of the Fund. This is the ratio of accumulated assets to liabilities in respect of past service. It makes allowance for future increases to members' pay and pensions. A funding level in excess of 100% indicates a surplus of assets over liabilities; while a funding level of less than 100% indicates a deficit; and
- The future service funding rate (also referred to as the primary rate as defined in Regulation 62(5) of the Regulations) is the level of contributions required from the individual employers which, in combination with employee contributions is expected to cover the cost of benefits accruing in future.

The adjustment required to the primary rate to calculate an employer's total contribution rate is referred to as the secondary rate, as defined in Regulation 62(7). Further details of how the secondary rate is calculated for employers is given below in the Deficit recovery/surplus amortisation periods section.

The approach to the primary rate will depend on specific employer circumstances and in particular may depend on whether an employer is an "open" employer – one which allows new recruits access to the Fund, or a "closed" employer – one which no longer permits new staff access to the Fund. The expected period of participation by an employer in the Fund may also affect the total contribution rate.

For open employers, the actuarial funding method that is adopted is known as the Projected Unit Method. The key feature of this method is that, in assessing the future service cost, the primary rate represents the cost of one year's benefit accrual only.

For closed employers, the actuarial funding method adopted is known as the Attained Age Method. The key difference between this method and the Projected Unit Method is that the Attained Age Method assesses the average cost of the benefits that will accrue over a specific period, such as the length of a contract or the remaining expected working lifetime of active members.

The approach by employer may vary to reflect an employer's specific circumstance, however, in general the closed employers in the Fund are admission bodies who have joined the Fund as part of an outsourcing contract and therefore the Attained Age Method is used in setting their contributions. All other employers (for example councils, higher education bodies and academies) are generally open employers and therefore the Projected Unit Method is used. The administering authority holds details of the open or closed status of each employer.

Valuation assumptions and funding model

In completing the actuarial valuation it is necessary to formulate assumptions about the factors affecting the Fund's future finances such as price inflation, pay increases, investment returns, rates of mortality, early retirement and staff turnover etc.

The assumptions adopted at the valuation can therefore be considered as:

- The demographic (or statistical) assumptions which are essentially estimates of the likelihood or timing of benefits and contributions being paid, and
- The financial assumptions which will determine the estimates of the amount of benefits and contributions payable and their current (or present) value.

Future price inflation

The base assumption in any valuation is the future level of price inflation over a period commensurate with the duration of the liabilities, as measured by the Retail Price Index (RPI). This is derived using the 20 year point on the Bank of England implied Retail Price Index (RPI) inflation curve, with consideration of the market conditions over the six months straddling the valuation date. The 20 year point on the curve is taken as 20 years is consistent with the average duration of an LGPS Fund. The RPI assumption adopted as at 31 March 2019 was 3.6% p.a.

This assumption was reviewed following the Chancellor's November 2020 announcement on the reform of RPI. From 31 March 2021 RPI inflation is assumed to be 0.4% p.a. lower than the 20 year point on the inflation curve. This adjustment accounts for both the shape of the curve in comparison to the Fund's liability profile and the view that investors are willing to accept a lower return on investments to ensure inflation linked returns.

Future pension increases

Pension increases are linked to changes in the level of the Consumer Price Index (CPI). Inflation as measured by the CPI has historically been less than RPI due mainly to different calculation methods. A deduction of 1.0% p.a. is therefore made to the RPI assumption to derive the CPI assumption. The CPI assumption adopted as at 31 March 2019 was 2.6% p.a.

This assumption was also reviewed in light of the Chancellor's announcement on the reform of RPI mentioned above. From 31 March 2021 CPI inflation is assumed to be 0.4% p.a. lower than the RPI assumption (i.e. a total of 0.8% p.a. below the 20 year point on the Bank of England implied RPI inflation curve). This reflects the anticipated reform of RPI inflation from 2030 following the UK Statistics Authority's proposal to change the RPI calculation method in line with the Consumer Prices Index including Housing costs (CPIH). This assumption will be reviewed at future valuations and the difference between RPI and CPI is expected to move towards 0.0% p.a. as we get closer to 2030.

Future pay increases

As some of the benefits are linked to pay levels at retirement, it is necessary to make an assumption as to future levels of pay increases. Historically, there has been a close link between price inflation and pay increases with pay increases exceeding price inflation in the longer term. The long-term pay increase assumption adopted as at 31 March 2019 was CPI plus 1.0% p.a. which includes allowance for promotional increases.

Future investment returns/discount rate

To determine the value of accrued liabilities and derive future contribution requirements it is necessary to discount future payments to and from the Fund to present day values.

The discount rate that is applied to all projected liabilities reflects a prudent estimate of the rate of investment return that is expected to be earned from the Fund's long-term investment strategy by considering average market yields in the six months straddling the valuation date. The discount rate so determined may be referred to as the "ongoing" discount rate.

It may be appropriate for an alternative discount rate approach to be taken to reflect an individual employer's situation. This may be, for example, to reflect an employer targeting a cessation event or to reflect the administering authority's views on the level of risk that an employer poses to the Fund. The Fund Actuary will incorporate any such adjustments after consultation with the administering authority.

A summary of the financial assumptions adopted for the 2019 valuation is set out in the table below:

Financial assumptions as at 31 March 2019	
RPI inflation	3.6% p.a.
CPI inflation	2.6% p.a.
Pension/deferred pension increases and CARE revaluation	In line with CPI inflation
Pay increases	CPI inflation + 1.0% p.a.
Discount rate	4.7% p.a.

Asset valuation

For the purpose of the valuation, the asset value used is the market value of the accumulated fund at the valuation date, adjusted to reflect average market conditions during the six months straddling the valuation date. This is referred to as the smoothed asset value and is calculated as a consistent approach to the valuation of the liabilities.

The Fund's assets are notionally allocated to employers at an individual level by allowing for actual Fund returns achieved on the assets and cashflows paid into and out of the Fund in respect of each employer (e.g. contributions received and benefits paid).

Demographic assumptions

The demographic assumptions incorporated into the valuation are based on Fund-specific experience and national statistics, adjusted as appropriate to reflect the individual circumstances of the Fund and/or individual employers.

Further details of the assumptions adopted are included in the Fund's 2019 Initial Results Advice report and the formal valuation report.

McCloud/Sargeant judgements

The McCloud/Sargeant judgements were in relation to two employment tribunal cases which were brought against the government in relation to possible age and gender discrimination in the implementation of transitional protection following the introduction of the reformed 2015 public service pension schemes from 1 April 2015. These judgements were not directly in relation to the LGPS, however, do have implications for the LGPS.

In December 2018, the Court of Appeal ruled that the transitional protection offered to some members as part of the reforms amounted to unlawful discrimination. On 27 June 2019 the Supreme Court denied the government's request for an appeal in the case. A remedy is still to be either imposed by the Employment Tribunal or negotiated and applied to all public service schemes, so it is not yet clear how this judgement may affect LGPS members' past or future service benefits. It has, however, been noted by government in its 15 July 2019 statement that it expects to have to amend all public service schemes, including the LGPS.

Further details of this can be found below in the Regulatory risks section.

At the time of drafting this FSS, it is still unclear how this will affect current and future LGPS benefits. As part of the Fund's 2019 valuation, in order to mitigate the risk of member benefits being uplifted and becoming more expensive, the potential impact of McCloud was covered by the prudence allowance in the discount rate assumption. As the remedy is still to be agreed the cost cannot be calculated with certainty, however, the Fund Actuary expects it is likely to be less than the impact of reducing the discount rate assumption by 0.1% and so has implicitly allowed for these costs within the valuation by increasing the prudence allowance within the discount rate by 0.1% p.a.

On 16 July 2020, the Government published a consultation on the proposed remedy to be applied to LGPS benefits. The consultation closed on 8 October 2020 and the final remedy will only be known after the consultation responses have been reviewed and a final set of remedial Regulations are published.

Guaranteed Minimum Pension (GMP) indexation and equalisation

As part of the restructuring of the state pension provision, the government needs to consider how public service pension payments should be increased in future for members who accrued a Guaranteed Minimum Pension (GMP) from their public service pension scheme and expect to reach State Pension Age (SPA) post-December 2018. In addition, a resulting potential inequality in the payment of public service pensions between men and women needs to be addressed. Information on the current method of indexation and equalisation of public service pension schemes can be found here.

On 22 January 2018, the government published the outcome to its Indexation and equalisation of GMP in public service pension schemes consultation, concluding that the requirement for public service pension schemes to fully price protect the GMP element of individuals' public service pension would be extended to those individuals reaching SPA before 6 April 2021. HMT published a Ministerial Direction on 4 December 2018 to implement this outcome, with effect from 6 April 2016. Details of this outcome and the Ministerial Direction can be found here.

On 23 March 2021, the government published the outcome to its Guaranteed Minimum Pension Indexation consultation, concluding that all public service pension schemes, including the LGPS, will be directed to provide full indexation to members with a GMP reaching SPA beyond 5 April 2021. This is a permanent extension of the existing 'interim solution' that has applied to members with a GMP reaching SPA on or after 6 April 2016. Details of the consultation outcome can be found at: https://www.gov.uk/government/consultations/public-service-pensions-guaranteed-minimum-pension-indexation-consultation.

The 2019 valuation assumption for GMP is that the Fund will pay limited increases for members that have reached SPA by 6 April 2016, with the government providing the remainder of the inflationary increase. For members that reach SPA after this date, it is assumed that the Fund will be required to pay the entire inflationary increase. This is consistent with the government's 23 March 2021 outcome noted above.

Deficit recovery/surplus amortisation periods

Whilst one of the funding objectives is to build up sufficient assets to meet the cost of benefits as they accrue, it is recognised that at any particular point in time, the value of the accumulated assets will be different to the value of accrued liabilities, depending on how the actual experience of the Fund differs to the actuarial assumptions. This theory applies down to an individual employer level; each employer in the Fund has their own share of deficit or surplus attributable to their section of the Fund.

Where the valuation for an employer discloses a deficit then the level of required employer contributions includes an adjustment to fund the deficit over a maximum period of 17 years. The adjustment may be set either as a percentage of payroll or as a fixed monetary amount.

Where the valuation for an employer discloses a surplus then the level of required employer contribution may include an adjustment to amortise the surplus over an appropriate period as described below.

The deficit recovery period or amortisation period that is adopted for any particular employer will depend on:

- The significance of the surplus or deficit relative to that employer's liabilities;
- The covenant of the individual employer (including any security in place) and any limited period of participation in the Fund;
- The remaining contract length of an employer in the Fund (if applicable); and
- The implications in terms of stability of future levels of employers' contribution.

Prior to the 2019 valuation, the Fund commissioned an employer covenant review from Barnett Waddingham LLP based on an analysis of credit risk reports obtained from Dun & Bradstreet (D&B). Where the review highlighted any concerns with regard to the default risk of an employer, particular attention was given to the deficit recovery period adopted for the employer and whether any security for the Fund was in place.

A general summary of the approach used for employers in the Fund is set out in the table below, however, the approach adopted may differ to reflect the situation specific to the employer.

Type of employer	Examples	Maximum recovery period
Major scheduled bodies	County and district councils, police and fire bodies	17 years
Academies	Academies, free schools	17 years
Admission bodies	Contractors	Remaining contract length
Admission bodies (other than contractors)	Charities, etc….	Future working lifetime

Pooling of individual employers

The policy of the Fund is that each individual employer should be responsible for the costs of providing pensions for its own employees who participate in the Fund. Accordingly, contribution rates are set for individual employers to reflect their own particular circumstances.

However, certain groups of individual employers are pooled for the purposes of determining contribution rates to recognise common characteristics or where the number of Scheme members is small.

Currently, the Academy pool is the only funding pool in the Fund. The Academy pool consists of all academies and free-schools with an aim of maintaining consistency in contributions between all non-authority controlled schools in the Fund.

The main purpose of pooling is to produce more stable employer contribution levels, although recognising that ultimately there will be some level of cross-subsidy of pension cost amongst pooled employers.

Forming/disbanding a funding pool

Where the Fund identifies a group of employers with similar characteristics and potential merits for pooling, it is possible to form a pool for these employers. Advice should be sought from the Fund Actuary to consider the appropriateness and practicalities of forming the funding pool.

Conversely, the Fund may consider it no longer appropriate to pool a group of employers. This could be due to divergence of previously similar characteristics or an employer becoming a dominant party in the pool (such that the results of the pool are largely driven by that dominant employer). Where this scenario arises, advice should be sought from the Fund Actuary.

Funding pools should be monitored on a regular basis, at least at each actuarial valuation, in order to ensure the pooling arrangement remains appropriate.

Risk-sharing

It is possible for employers that participate in the Fund to enter a risk-sharing arrangement with another employer in the Fund.

For example, there are employers participating in the Fund with pass-through provisions: under this arrangement the pass-through employer does not take on the risk of underfunding as this risk remains with the letting authority or relevant guaranteeing employer. When the pass-through employer ceases participation in the Fund, it is not responsible for making any exit payment, nor receiving any exit credit, as any deficit or surplus ultimately falls to the letting authority or relevant guaranteeing employer.

New employers joining the Fund

When a new employer joins the Fund, the Fund Actuary is required to set the contribution rates payable by the new employer and allocate a share of Fund assets to the new employer as appropriate. The most common types of new employers joining the Fund are admission bodies and new academies. These are considered in more detail below.

Admission bodies

New admission bodies in the Fund are commonly a result of a transfer of staff from an existing employer in the

Fund to another body (for example as part of a transfer of services from a council or academy to an external provider under Schedule 2 Part 3 of the Regulations). Typically these transfers will be for a limited period (the contract length), over which the new admission body employer is required to pay contributions into the Fund in respect of the transferred members.

Funding at start of contract

Generally, when a new admission body joins the Fund, they will become responsible for all the pensions risk associated with the benefits accrued by transferring members and the benefits to be accrued over the contract length. This is known as a full risk transfer. In these cases, it may be appropriate that the new admission body is allocated a share of Fund assets equal to the value of the benefits transferred, i.e. the new admission body starts off on a fully funded basis. This is calculated on the relevant funding basis and the opening position may be different when calculated on an alternative basis (e.g. on an accounting basis).

However, there may be special arrangements made as part of the contract such that a full risk transfer approach is not adopted. In these cases, the initial assets allocated to the new admission body will reflect the level of risk transferred and may therefore not be on a fully funded basis or may not reflect the full value of the benefits attributable to the transferring members.

Contribution rate

The contribution rate may be set on an open or a closed basis. Where the funding at the start of the contract is on a fully funded basis then the contribution rate will represent the primary rate only; where there is a deficit allocated to the new admission body then the contribution rate will also incorporate a secondary rate with the aim of recovering the deficit over an appropriate recovery period.

Depending on the details of the arrangement, for example if any risk sharing arrangements are in place, then additional adjustments may be made to determine the contribution rate payable by the new admission body. The approach in these cases will be bespoke to the individual arrangement.

Security

To mitigate the risk to the Fund that a new admission body will not be able to meet its obligations to the Fund in the future, the new admission body may be required to put in place a bond in accordance with Schedule 2 Part 3 of the Regulations, if required by the letting authority and administering authority.

If this form of security is not available for a new admission body the administering authority have discretion to allow, an alternative form of security if and only if, this is satisfactory to the administering authority.

Risk-**sharing**

Although a full risk transfer (as set out above) is most common, subject to agreement with the administering authority where required, new admission bodies and the relevant letting authority may make a commercial agreement to deal with the pensions risk differently. For example, it may be agreed that all or part of the pensions risk remains with the letting authority.

Although pensions risk may be shared, it is common for the new admission body to remain responsible for pensions costs that arise from:

- above average pay increases, including the effect on service accrued prior to contract commencement; and
- redundancy and early retirement decisions.

The administering authority may consider risk-sharing arrangements as long as the approach is clearly documented in the admission agreement, the transfer agreement or any other side agreement. The arrangement also should not lead to any undue risk to the other employers in the Fund.

Legal and actuarial advice in relation to risk-sharing arrangements should be sought where required.

New academies

When a school converts to academy status, the new academy (or the sponsoring multi-academy trust) becomes a Scheme employer in its own right.

Funding at start

On conversion to academy status, the new academy will join the Academies sub-pool and will be allocated assets based on the funding level of the sub-pool at the conversion date, allowing for any transferred deficit.

Assets are transferred from the local authority to the academy sub-pool using the active cover approach. The active cover approach is based on the funding level of the local authority's active liabilities, after fully funding the local authority's deferred and pensioner liabilities. This determines any deficit attributable to the transferring members.

Note that if the local authority is more than fully funded at conversion date, based on the active cover approach, the academy will not transfer any surplus to the pool.

When a free-school joins the Fund they have no previous past service and so start with zero assets and liabilities though will later be allocated notional assets based on the funding level of the sub-pool.

Contribution rate

The contribution rate payable when a new academy joins the Fund will be in line with the contribution rate certified for the Academies funding sub-pool at the 2019 valuation.

Contribution reviews between actuarial valuations

It is anticipated for most Scheme employers that the contribution rates certified at the formal actuarial valuation will remain payable for the period of the rates and adjustments certificate. However, there may be circumstances where a review of the contribution rates payable by an employer (or a group of employers) under Regulation 64A is deemed appropriate by the administering authority.

A contribution review may be requested by an employer or be required by the administering authority. The review may only take place if one of the following conditions are met:

(i) it appears likely to the administering authority that the amount of the liabilities arising or likely to arise has changed significantly since the last valuation;

(ii) it appears likely to the administering authority that there has been a significant change in the ability of the Scheme employer or employers to meet the obligations of employers in the Scheme; or

(iii) a Scheme employer or employers have requested a review of Scheme employer contributions and have undertaken to meet the costs of that review. A request under this condition can only be made if there has been a significant change in the liabilities arising or likely to arise and/or there has been a significant change in the ability of the Scheme employer to meet its obligations to the Fund.

In the event that a contribution review arises either requested by the employer or deemed appropriate by the administering authority, the administering authority will consult with the Fund Actuary regarding the next steps and potentially issuing a revised rates and adjustment certificate for the period until the next triennial actuarial valuation.

Cessation valuations

When a Scheme employer exits the Fund and becomes an exiting employer, as required under the Regulations the Fund Actuary will be asked to carry out an actuarial valuation in order to determine the liabilities in respect of the benefits held by the exiting employer's current and former employees. The Fund Actuary is also required to determine the exit payment due from the exiting employer to the Fund or the exit credit payable from the Fund to the exiting employer.

Any deficit in the Fund in respect of the exiting employer will be due to the Fund as a single lump sum payment, unless it is agreed by the administering authority and the other parties involved that an alternative approach is permissible. For example:

- It may be agreed with the administering authority that the exit payment can be spread over some agreed period;
- the assets and liabilities relating to the employer may transfer within the Fund to another participating employer; or
- the employer's exit may be deferred subject to agreement with the administering authority, for example if it intends to offer Scheme membership to a new employee within the following three years.

Similarly, any surplus in the Fund in respect of the exiting employer may be treated differently to a payment of an exit credit, subject to the agreement between the relevant parties and any legal documentation.

In assessing the value of the liabilities attributable to the exiting employer, the Fund Actuary may adopt differing approaches depending on the employer and the specific details surrounding the employer's cessation scenario.

For example, if there is no guarantor in the Fund willing to accept responsibility for the residual liabilities of the exiting employer, then those liabilities are likely to be assessed on a "minimum risk" basis leading to a higher exit payment being required from (or lower exit credit being paid to) the employer, in order to extinguish their liabilities to the Fund and to reduce the risk of these liabilities needing to be met by other participating employers in future.

If it is agreed that another employer in the Fund will accept responsibility for the residual liabilities, then the assumptions adopted will be consistent with the current ongoing funding position, but additional prudence may be included in order to take into account potential uncertainties and risk e.g. due to adverse market changes, additional liabilities arising from regulatory or legislative change and political/economic uncertainties. The additional level of prudence will be set by considering the distribution of funding levels under a large number of economic scenarios, with the aim being to gain a reasonable level of confidence that the Fund will be able to meet its benefits obligations to the relevant members in future.

Where a cessation valuation reveals a deficit and an exit payment is due, the expectation is that the employer settles this debt immediately through a single cash payment. However, should it not be possible for the employer to settle this amount, providing the employer puts forward sufficient supporting evidence to the administering authority, the administering authority may agree a deferred debt agreement (DDA) with the employer under Regulation 64(7A) or a debt spreading agreement (DSA) under Regulation 64B having taken advice from the Fund Actuary.

Under a DDA, the exiting employer becomes a deferred employer in the Fund (i.e. they remain as a Scheme employer but with no active members) and remains responsible for paying the secondary rate of contributions to fund their deficit. The secondary rate of contributions will be reviewed at each actuarial valuation until the termination of the agreement.

Under a DSA, the cessation debt is crystallised and spread over a period deemed reasonable by the administering authority having regard to the views of the Fund Actuary.

Whilst a DSA involves crystallising the cessation debt and the employer's only obligation is to settle this set amount, in a DDA the employer remains in the Fund as a Scheme employer and is exposed to the same risks (unless agreed otherwise with the administering authority) as active employers in the Fund (e.g. investment, interest rate, inflation, longevity and regulatory risks) meaning that the deficit will change over time.

Exit Credit policy

Following the recent Regulations coming into force on 20 March 2020 which are effective from May 2018, the Fund have set out their exit credit policy as follows.

- Exit credits will only be paid if the ceasing employer has a surplus on the minimum risk basis at the cessation date. Allowance will be made for additional liabilities incurred as a result of redundancies.
- Any exit credit payable will be subject to a maximum of the actual employer contributions paid into the Fund. Where risk sharing arrangements are in place, any contributions made or required to be made to meet additional liabilities incurred as a result of redundancies, ill health retirement strains, excessive salary increases or anything else covered in the risk sharing agreement will not be included in the calculation of any exit credit payable.
- Any employer who cannot demonstrate that they have been exposed to underfunding risk during their participation in the Fund will not be entitled to an exit credit payment. This will include the majority of "pass-through" arrangements. This is on the basis that these employers would not have not been asked to pay an exit payment had a deficit existed at the time of exit.
- The administering authority does not need to enquire into the precise risk sharing arrangement adopted by an employer but it must be satisfied that the risk sharing arrangement has been in place before it will pay out an exit credit. The level of risk that an employer has borne will be taken into account when determining the amount of any exit credit. It is the responsibility of the exiting employer to set out why the arrangements make payment of an exit credit appropriate.
- The administering authority will pay out any exit credits within six months of the cessation date where possible. A longer time may be agreed between the administering authority and the exiting employer where necessary. For example if the employer does not provide all the relevant information to the administering authority within one month of the cessation date the administering authority will not be able to guarantee payment within six months of the cessation date.
- Under the Regulations, the administering authority has the discretion to take into account any other relevant factors in the calculation of any exit credit payable and they will seek legal advice where appropriate.

Regulatory factors

At the date of drafting this FSS, the government is currently consulting on potential changes to the Regulations, some which may affect the regulations surrounding an employer's exit from the Fund. This is set out in the Local government pension scheme: changes to the local valuation cycle and the management of employer risk consultation document.

Further details of this can be found in the Regulatory risks section below.

Bulk transfers

Bulk transfers of staff into or out of the Fund can take place from other LGPS Funds or non-LGPS Funds. In either case, the Fund Actuary for both Funds will be required to negotiate the terms for the bulk transfer – specifically the terms by which the value of assets to be paid from one Fund to the other is calculated.

The agreement will be specific to the situation surrounding each bulk transfer but in general the Fund will look to receive the bulk transfer on no less than a fully funded transfer (i.e. the assets paid from the ceding Fund are sufficient to cover the value of the liabilities on the agreed basis).

A bulk transfer may be required by an issued Direction Order. This is generally in relation to an employer merger, where all the assets and liabilities attributable to the transferring employer in its original Fund are transferred to the receiving Fund.

Links with the Investment Strategy Statement (ISS)

The main link between the Funding Strategy Statement (FSS) and the ISS relates to the discount rate that underlies the funding strategy as set out in the FSS, and the expected rate of investment return which is expected to be achieved by the long-term investment strategy as set out in the ISS.

As explained above, the ongoing discount rate that is adopted in the actuarial valuation is derived by considering the expected return from the long-term investment strategy. This ensures consistency between the funding strategy and investment strategy.

Risks and counter measures

Whilst the funding strategy attempts to satisfy the funding objectives of ensuring sufficient assets to meet pension liabilities and stable levels of employer contributions, it is recognised that there are risks that may impact on the funding strategy and hence the ability of the strategy to meet the funding objectives.

The major risks to the funding strategy are financial, although there are other external factors including demographic risks, regulatory risks and governance risks.

Financial risks

The main financial risk is that the actual investment strategy fails to produce the expected rate of investment return (in real terms) that underlies the funding strategy. This could be due to a number of factors, including market returns being less than expected and/or the fund managers who are employed to implement the chosen investment strategy failing to achieve their performance targets.

The valuation results are most sensitive to the real discount rate (i.e. the difference between the discount rate assumption and the price inflation assumption). Broadly speaking an increase/decrease of 0.5% p.a. in the real discount rate will decrease/increase the valuation of the liabilities by 10%, and decrease/increase the required employer contribution by around 2.5% of payroll p.a.

However, the Investment and Pension Fund Panel regularly monitors the investment returns achieved by the fund managers and receives advice from the independent advisers and officers on investment strategy.

The Committee may also seek advice from the Fund Actuary on valuation related matters.

In addition, the Fund Actuary provides funding updates between valuations to check whether the funding strategy continues to meet the funding objectives.

Demographic risks

Allowance is made in the funding strategy via the actuarial assumptions for a continuing improvement in life expectancy. However, the main demographic risk to the funding strategy is that it might underestimate the continuing improvement in longevity. For example, an increase of one year to life expectancy of all members in the Fund will increase the liabilities by approximately 3%.

The actual mortality of pensioners in the Fund is monitored by the Fund Actuary at each actuarial valuation and assumptions are kept under review. At the 2019 valuation, the Fund commissioned a bespoke longevity analysis by Barnett Waddingham's specialist longevity team in order to assess the mortality experience of the Fund and help set an appropriate mortality assumption for funding purposes.

The liabilities of the Fund can also increase by more than has been planned as a result of the additional financial costs of early retirements and ill-health retirements. However, the administering authority monitors the incidence of early retirements; and procedures are in place that require individual employers to pay additional amounts into the Fund to meet any additional costs arising from early retirements.

To mitigate the risk to employers and the Fund against additional ill-health retirement strain costs, the administering authority is currently implementing an ill-health self-insurance pool within the Fund. This will be effective from 1 April 2020. A portion of all employers' contributions into the Fund are allocated to a segregated ill-health section of the Fund. When an ill-health retirement occurs, a funding strain (i.e. the difference between the value of the benefits payable to the ill-health member and the value that was assumed as part of the actuarial valuation) is generated in the employer's section of the Fund. As part of the self-insurance policy, assets equal to the funding strain are transferred from the segregated ill-health assets section of the Fund to the employer's section of the Fund to cover the funding strain. Employers will pay the same total contribution rate to the Fund and so this self-insurance approach will not impact employers' contributions.

Maturity risk

The maturity of a Fund (or of an employer in the Fund) is an assessment of how close on average the members are to retirement (or already retired). The more mature the Fund or employer, the greater proportion of its membership that is near or in retirement. For a mature Fund or employer, the time available to generate investment returns is shorter and therefore the level of maturity needs to be considered as part of setting funding and investment strategies.

The cashflow profile of the Fund needs to be considered alongside the level of maturity: as a Fund matures, the ratio of active to pensioner members falls, meaning the ratio of contributions being paid into the Fund to the benefits being paid out of the Fund also falls. This therefore increases the risk of the Fund having to sell assets in order to meets its benefit payments. The Fund recently carried out cash flow analysis and scenario testing to help monitor this risk.

The government has published a consultation (Local government pension scheme: changes to the local valuation cycle and management of employer risk) which may affect the Fund's exposure to maturity risk. More information on this can be found in the Regulatory risks section below.

Regulatory risks

The benefits provided by the Scheme and employee contribution levels are set out in Regulations determined by central government. The tax status of the invested assets is also determined by the government.

The funding strategy is therefore exposed to the risks of changes in the Regulations governing the Scheme and changes to the tax regime which may affect the cost to employees and/or individual employers participating in the Scheme.

However, the administering authority participates in any consultation process of any proposed changes in

Regulations and seeks advice from the Fund Actuary on the financial implications of any proposed changes.

There are a number of general risks to the Fund and the LGPS, including:

- If the LGPS was to be discontinued in its current form it is not known what would happen to members' benefits.
- The potential effects of GMP equalisation between males and females, if implemented, are not yet known.
- More generally, as a statutory scheme the benefits provided by the LGPS or the structure of the scheme could be changed by the government.
- The State Pension Age is due to be reviewed by the government in the next few years.

At the time of preparing this FSS, specific regulatory risks of particular interest to the LGPS are in relation to the McCloud/Sargeant judgements, the cost cap mechanism and the timing of future funding valuations consultation. These are discussed in the sections below.

McCloud/Sargeant judgements and cost cap

The 2016 national Scheme valuation was used to determine the results of HM Treasury's (HMT) employer cost cap mechanism for the first time. The HMT cost cap mechanism was brought in after Lord Hutton's review of public service pensions with the aim of providing protection to taxpayers and employers against unexpected changes (expected to be increases) in pension costs. The cost control mechanism only considers "member costs". These are the costs relating to changes in assumptions made to carry out valuations relating to the profile of the Scheme members; e.g. costs relating to how long members are expected to live for and draw their pension. Therefore, assumptions such as future expected levels of investment returns and levels of inflation are not included in the calculation, so have no impact on the cost management outcome.

The 2016 HMT cost cap valuation revealed a fall in these costs and therefore a requirement to enhance Scheme benefits from 1 April 2019. However, as a funded Scheme, the LGPS also had a cost cap mechanism controlled by the Scheme Advisory Board (SAB) in place and HMT allowed SAB to put together a package of proposed benefit changes in order for the LGPS to no longer breach the HMT cost cap. These benefit changes were due to be consulted on with all stakeholders and implemented from 1 April 2019.

However, on 20 December 2018 there was a judgement made by the Court of Appeal which resulted in the government announcing their decision to pause the cost cap process across all public service schemes. This was in relation to two employment tribunal cases which were brought against the government in relation to possible discrimination in the implementation of transitional protection following the introduction of the reformed 2015 public service pension schemes from 1 April 2015. Transitional protection enabled some members to remain in their pre-2015 schemes after 1 April 2015 until retirement or the end of a pre-determined tapered protection period. The claimants challenged the transitional protection arrangements on the grounds of direct age discrimination, equal pay and indirect gender and race discrimination.

The first case (McCloud) relating to the Judicial Pension Scheme was ruled in favour of the claimants, while the second case (Sargeant) in relation to the Fire scheme was ruled against the claimants. Both rulings were appealed and as the two cases were closely linked, the Court of Appeal decided to combine the two cases. In December 2018, the Court of Appeal ruled that the transitional protection offered to some members as part of the reforms amounts to unlawful discrimination. On 27 June 2019 the Supreme Court denied the government's request for an appeal in the case. A remedy is still to be either imposed by the Employment Tribunal or negotiated and applied to all public service schemes, so it is not yet clear how this judgement may affect LGPS members' past or future service benefits. It has, however, been noted by government in its 15 July 2019 statement that it expects to have to amend all public service schemes, including the LGPS.

On 16 July 2020, the Government published a consultation on the proposed remedy to be applied to LGPS benefits and at the same time announced the unpausing of the 2016 cost cap process which will take into account the remedy for the McCloud and Sargeant judgement. The consultation closed on 8 October 2020 and the final remedy will only be known after the consultation responses have been reviewed and a final set of remedial

Regulations are published.

At the time of drafting this FSS, it is not yet known what the effect on the current and future LGPS benefits will be.

Consultation: Local government pension scheme: changes to the local valuation cycle and management of employer risk

On 8 May 2019, the government published a consultation seeking views on policy proposals to amend the rules of the LGPS in England and Wales. The consultation covered:

- amendments to the local fund valuations from the current three year (triennial) to a four year (quadrennial) cycle;
- a number of measures aimed at mitigating the risks of moving from a triennial to a quadrennial cycle;
- proposals for flexibility on exit payments;
- proposals for further policy changes to exit credits; and
- proposals for changes to the employers required to offer LGPS membership.

The consultation is currently ongoing: the consultation was closed to responses on 31 July 2019 and an outcome is now awaited. This FSS will be revisited once the outcome is known and reviewed where appropriate.

Timing of future actuarial valuations

LGPS valuations currently take place on a triennial basis which results in employer contributions being reviewed every three years. In September 2018 it was announced by the Chief Secretary to HMT, Elizabeth Truss, that the national Scheme valuation would take place on a quadrennial basis (i.e. every four years) along with the other public sector pension schemes. The results of the national Scheme valuation are used to test the cost control cap mechanism and HMT believed that all public sector scheme should have the cost cap test happen at the same time with the next quadrennial valuation in 2020 and then 2024.

Managing employer exits from the Fund

The consultation covers:

- Proposals for flexibility on exit payments. This includes:
- Formally introducing into the Regulations the ability for the administering authority to allow an exiting employer to spread the required exit payment over a fixed period.
- Allowing employers with no active employers to defer payment of an exit payment in return for an ongoing commitment to meeting their existing liabilities (deferred employer status).
- Proposals for further policy changes to exit credits. The proposed change would require the exiting employer’s exposure to risk to be taken into account in calculating any exit credit due (for example a pass through employer who is not responsible for any pensions risk would likely not be due an exit credit if the amendments are made to the Regulations).

Changes to employers required to offer LGPS membership

At the time of drafting this FSS, under the current Regulations further education corporations, sixth form college corporations and higher education corporations in England and Wales are required to offer membership of the LGPS to their non-teaching staff.

With consideration of the nature of the LGPS and the changes in nature of the further education and higher education sectors, the government has proposed to remove the requirement for further education corporations, sixth form college corporations and higher education corporations in England to offer new employees access to the LGPS. This could impact on the level of maturity of the Fund and the cashflow profile. For example, increased risk of contribution income being insufficient to meet benefit outgo, if not in the short term then in the long term as the payroll in respect of these types of employers decreases with fewer and fewer active members participating in the Fund.

This also brings an increased risk to the Fund in relation to these employers becoming exiting employers in the Fund. Should they decide not to admit new members to the Fund, the active membership attributable to the employers will gradually reduce to zero, triggering an exit under the Regulations and a potential significant exit payment. This has the associated risk of the employer not being able to meet the exit payment and thus the exit payment falling to the other employers in the Fund.

Employer risks

Many different employers participate in the Fund. Accordingly, it is recognised that a number of employer-specific events could impact on the funding strategy including:

- Structural changes in an individual employer's membership;
- An individual employer deciding to close the Scheme to new employees; and
- An employer ceasing to exist without having fully funded their pension liabilities.

However, the administering authority monitors the position of employers participating in the Fund, particularly those which may be susceptible to the events outlined, and takes advice from the Fund Actuary when required. If appropriate, the Fund could commission an employer risk review from the Fund Actuary on a regular basis to help identify the employers in the Fund that might be considered as high risk. In the case of admitted bodies, the Fund has a policy of requiring some form of security from the employer, in the form of a guarantee or a bond, in case of employer default where the risk falls to the Fund. Where the risk of default falls on the liabilities of an original letting authority, the Fund provides advice to the letting authority to enable them to make a decision on whether a guarantee, some other form of security or a bond should be required.

In addition, the administering authority keeps in close touch with all individual employers participating in the Fund to ensure that, as administering authority, it has the most up to date information available on individual employer situations. It also keeps individual employers briefed on funding and related issues.

Governance risks

Accurate data is necessary to ensure that members ultimately receive the correct benefits. The administering authority is responsible for keeping data up-to-date and results of the actuarial valuation depend on accurate data. If incorrect data is valued then there is a risk that the contributions paid are not adequate to cover the cost of the benefits accrued.

In addition, if data provided by the employer is incomplete or inaccurate then the fund actuary will need to estimate the data for the purposes of the valuation. These estimates will err on the side of caution and therefore if employers provide incomplete/inaccurate data they may pay higher contributions than otherwise.

It is therefore imperative that employers provide complete and accurate data in a timely manner, as requested by the Administering Authority.

Monitoring and review

This FSS is reviewed formally, in consultation with the key parties, at least every three years to tie in with the triennial actuarial valuation process.

The most recent valuation was carried out as at 31 March 2019, certifying the contribution rates payable by each employer in the Fund for the period from 1 April 2020 to 31 March 2023.

The timing of the next funding valuation is due to be confirmed as part of the government's Local government pension scheme: changes to the local valuation cycle and management of employer risk consultation which closed on 31 July 2019. At the time of drafting this FSS, it is anticipated that the next funding valuation will be due as at 31 March 2022 but the period for which contributions will be certified remains unconfirmed.

The administering authority also monitors the financial position of the Fund between actuarial valuations and may review the FSS more frequently if necessary.

2019 valuation results summary

The last full triennial valuation of the London Borough of Hounslow Pension Fund was carried out by Barnett Waddingham LLP as at 31 March 2019. The tables below summarise the results of both the valuation and the previous full valuation which was carried out as at 31 March 2016 for both the Whole Fund and for the London Borough of Hounslow as an independent Scheme Employer.

Whole Fund results

Past service funding position	2016 valuation	2019 valuation
	£m	£m
Smoothed asset value	**772**	**1,034**
Past service liabilities:		
Active members	344	304
Deferred pensioners	179	303
Pensioners	393	494
Value of scheme liabilities	**916**	**1,101**
Surplus (deficit)	(144)	(67)
Funding level	**84%**	**94%**

It can be seen from the above that the deficit has decreased from £144m to £67m between the 2016 and 2019 triennial valuations for the Whole Fund. The funding level, that is the value of the accumulated assets as a percentage of the value of the accrued liabilities, has increased from 84% to 94% between the two valuation dates for the Whole Fund.

London Borough of Hounslow results

Past service funding position	2016 valuation	2019 valuation
	£m	£m
Smoothed asset value	**657**	**861**

Past service funding position	2016 valuation	2019 valuation
	£m	£m
Past service liabilities:		
Active members	254	212
Deferred pensioners	156	259
Pensioners	357	447
Value of scheme liabilities	**767**	**917**
Surplus (deficit)	(124)	(57)
Funding level	**86%**	**94%**
Employer contribution rates	% of payroll	% of payroll
Primary contribution rate	13.7%	18.7%
Secondary contribution rate (17 years)	7.6%	2.84%
Monetary deficit contribution (17 years)	£7.8m	n/a

Consistent with the whole fund the deficit for the London Borough of Hounslow as a scheme employer decreased from £123m to £57m over the intervaluation period. The funding level has increased from 86% to 94% for the London Borough of Hounslow as a scheme employer.

The results of the valuation mean that the deficit recovery period remains at 17 years. This is equal to the period adopted at the 2016 valuation.

London Borough of Hounslow Pension Fund– 2019 valuation draft Rates and Adjustment Certificate

Introduction

In accordance with Regulation 62 of the Local Government Pension Scheme Regulations the Fund actuary has made an assessment of the contributions that should be paid into the Fund by participating employers for the period 1 April 2020 to 31 March 2023.

The method and assumptions used to calculate the contributions set out in the Rates and Adjustments Certificate are detailed in the Funding Strategy Statement and the 2019 Valuation report.

The primary rate of contribution as defined by Regulation 62(5) for each employer for the period 1 April 2020 to 31 March 2023 is set out below. The primary rate is the employer's contribution towards the cost of benefits accruing in each of the three years beginning 1 April 2020. In addition each employer pays a secondary contribution as required under Regulation 62(7) that when combined with the primary rate results in the minimum total contributions as set out below. This secondary rate is based on their particular circumstances and so individual adjustments are made for each employer.

Primary and secondary rate summary

The primary rate for the Fund is the weighted average (by payroll) of the individual employers' primary rates, and is 19.1% of payroll.

The secondary rates across the entire Fund (as a percentage of projected payroll and as an equivalent monetary amount) in each of the three years in the period 1 April 2020 to 31 March 2023 is set out in the table below.

Secondary Contributions	2020/21	2021/22	2022/23
Total as a % of payroll	2.9%	2.9%	2.9%
Equivalent to total monetary amounts of	£4,029,000	£4,176,000	£4,328,000

General and specific notes

The final rates and adjustment certificate will include any general notes applicable to the Fund's employer contributions and any specific notes applicable to a particular individual employer.

Employer Code	Employer name	Primary rate	Secondary rate (% pay plus monetary adjustment)			Total contributions (primary rate plus secondary rate)		
		(% pay)	2020/21	2021/22	2022/23	2020/21	2021/22	2022/23
Tax-raising Bodies								
HOUNSLBC	London Borough of Hounslow	18.7%	2.84%	2.84%	2.84%	21.54%	21.54%	21.54%
	Council maintained Schools	18.7%	3.5%	3.5%	3.5%	22.2%	22.2%	22.2%
Academies and Free Schools								
BRENACAD	Brentford School for Girls	19.1%	4.2%	4.2%	4.2%	23.3%	23.3%	23.3%

Employer Code	Employer name	Primary rate	Secondary rate (% pay plus monetary adjustment)			Total contributions (primary rate plus secondary rate)		
		(% pay)	2020/21	2021/22	2022/23	2020/21	2021/22	2022/23
CHISWICK	Chiswick School	19.1%	4.2%	4.2%	4.2%	23.3%	23.3%	23.3%
FELTHAM	Springwest Academy	19.1%	4.2%	4.2%	4.2%	23.3%	23.3%	23.3%
GUMACAD	Gumley House Catholic School	19.1%	4.2%	4.2%	4.2%	23.3%	23.3%	23.3%
HESTON	Heston Community School	19.1%	4.2%	4.2%	4.2%	23.3%	23.3%	23.3%
ISLEWOR	Isleworth & Syon School for Boys	19.1%	4.2%	4.2%	4.2%	23.3%	23.3%	23.3%
RIVERS	Rivers Academy West London	19.1%	4.2%	4.2%	4.2%	23.3%	23.3%	23.3%
STMARK	St Mark's Catholic School	19.1%	4.2%	4.2%	4.2%	23.3%	23.3%	23.3%
LAMPSCHL	Lampton School	19.1%	4.2%	4.2%	4.2%	23.3%	23.3%	23.3%
CRANFORD	Cranford Community College	19.1%	4.2%	4.2%	4.2%	23.3%	23.3%	23.3%
REACH	Reach Academy	19.1%	4.2%	4.2%	4.2%	23.3%	23.3%	23.3%
HOUNSMAN	Kingsley Academy	19.1%	4.2%	4.2%	4.2%	23.3%	23.3%	23.3%
ORIEL	Oriel Primary School	19.1%	4.2%	4.2%	4.2%	23.3%	23.3%	23.3%
OAKSCH	Oakhill Academy	19.1%	4.2%	4.2%	4.2%	23.3%	23.3%	23.3%
NORWOOD	Norwood Green Junior School	19.1%	4.2%	4.2%	4.2%	23.3%	23.3%	23.3%
WESTBRPS	Westbrook Primary School	19.1%	4.2%	4.2%	4.2%	23.3%	23.3%	23.3%
GREENGIR	The Green School for Girls	19.1%	4.2%	4.2%	4.2%	23.3%	23.3%	23.3%
RISE	The Rise School	19.1%	4.2%	4.2%	4.2%	23.3%	23.3%	23.3%
NISHKAM	Nishkam School West London	19.1%	4.2%	4.2%	4.2%	23.3%	23.3%	23.3%
SPACESWL	Space Studio	19.1%	4.2%	4.2%	4.2%	23.3%	23.3%	23.3%
LOGIC	Logic Studios	19.1%	4.2%	4.2%	4.2%	23.3%	23.3%	23.3%
BERKELEY	Berkeley Academy	19.1%	4.2%	4.2%	4.2%	23.3%	23.3%	23.3%
STRICHSC	St Richard's Church of England Primary School	19.1%	4.2%	4.2%	4.2%	23.3%	23.3%	23.3%
BOLDERAC	Bolder Academy	19.1%	4.2%	4.2%	4.2%	23.3%	23.3%	23.3%
Higher Education Bodies								
WTHMSCOL	West Thames College	18.8%	18.8%	18.8%	18.8%	18.8% plus £282,000	18.8% plus £292,000	18.8% plus £303,000
Other Employers								

Employer Code	Employer name	Primary rate	Secondary rate (% pay plus monetary adjustment)			Total contributions (primary rate plus secondary rate)		
		(% pay)	2020/21	2021/22	2022/23	2020/21	2021/22	2022/23
FUSION	Fusion	22.2%	-	-	-	22.2%	22.2%	22.2%
RINGWAY	Highways PFI Contract - VINCI Ringway	22.9%	-	-	-	22.9%	22.9%	22.9%
NVIRO	NVIRO	31.5%	-3.0%	-3.0%	-3.0%	28.5%	28.5%	28.5%
HOUNSHAY	Hounslow Action for Youth	19.6%	-	-	-	19.6%	19.6%	19.6%
SERCO	Serco	23.4%	-9.2%	-9.2%	-9.2%	14.2%	14.2%	14.2%
WLGMP	WLGMP	21.4%	-	-	-	21.4%	21.4%	21.4%
CUCINA	Cucina	27.8%	£1,124	£1,165	£1,207	27.8% plus £1,124	27.8% plus £1,165	27.8% plus £1,207
CHARTWEL	Chartwells	26.1%	-	-	-	26.1%	26.1%	26.1%
EDWAOAK	Edwards & Ward - Oak Hill	20.9%	1.9%	1.9%	1.9%	22.9%	22.9%	22.9%
EDWAORL	Edwards & Ward - Oriel	25.8%	0.3%	0.3%	0.3%	26.1%	26.1%	26.1%
WILSWEST	Wilson Jones Catering Ltd - Westbrook	26.9%	£810	£839	£870	26.9% plus £810	26.9% plus £839	26.9% plus £870
WILSWELL	Wilson Jones Catering Ltd - Wellington	27.7%	-	-	-	27.7%	27.7%	27.7%
MUSICSER	Hounslow Music Service	23.5%	-	-	-	23.5%	23.5%	23.5%
LAMPTON	Lampton 360	23.8%	£15,065	£15,615	£16,184	23.8% plus £15,065	23.8% plus £15,615	23.8% plus £16,184
FM360	Coalo Limited	21.8%	-	-	-	21.8%	21.8%	21.8%
LIBERATA	Liberata	21.3%	1.0%	1.0%	1.0%	22.3%	22.3%	22.3%
OLIVEDBS	Olive Dining	23.0%	-	-	-	23.0%	23.0%	23.0%
ALLIAPART	Alliance in Partnership	16.5%	0.6%	0.6%	0.6%	17.1%	17.1%	17.1%
LAMPGS360	Lampton Greenspace 360	24.3%	0.2%	0.2%	0.2%	24.5%	24.5%	24.5%
CITYWEST	City West - WIM Market Orderlies	21.5%	-	-	-	21.5%	21.5%	21.5%
CITYWESTSECURITY	City West - WIM Security	18.9%	£7,777	£8,060	£8,354	18.9% plus £7,777	18.9% plus £8,060	18.9% plus £8,354
WILSHOUNHEATH	Wilson Jones - Hounslow Heath	27.1%	-	-	-	27.1%	27.1%	27.1%
WILSMARLBOROUGH	Wilson Jones - Marlborough	24.3%	-	-	-	24.3%	24.3%	24.3%
WILSSPRINGWELL	Wilson Jones - Springwell	26.0%	-	-	-	26.0%	26.0%	26.0%

Employer Code	Employer name	Primary rate	Secondary rate (% pay plus monetary adjustment)			Total contributions (primary rate plus secondary rate)		
		(% pay)	2020/21	2021/22	2022/23	2020/21	2021/22	2022/23
WILSCRANFORD	Wilson Jones - Cranford	18.6%	-	-	-	18.6%	18.6%	18.6%

Appendix 4
Governance Compliance Statement

Governance Compliance Statement

1. Background

Regulation 55 of the Local Government Pension Scheme Regulations 2013 requires Local Government Pension Scheme (LGPS) administering authorities to publish Governance Compliance Statements setting out information relating to how the administering authority delegates its functions under these regulations and whether it complies with guidance given by the Secretary of State for Communities and Local Government. It also requires the Authority to keep the Statement under review and to make revisions as appropriate.

Regulation 55 requires that the Governance Compliance Statement must include the following information:

- the delegation arrangements
- the frequency of meetings and terms of reference
- whether the Board/Committee includes representatives of employing bodies and members, and if so, whether those representatives have voting rights
- explain or comply approach to the guidance given by the Secretary of State for Communities and Local Government (Appendix 2)

2. Structure

The Constitution of the Council sets out how the Council operates, how decisions are made and the procedures which are followed to ensure that these are efficient, transparent and accountable. The Constitution sets out the framework under which the Pension Fund is administered. The Pension Fund Panel and the Pension Board have their functions delegated by the Borough Council.

2.1 Terms of Reference for the Pension Fund Panel (PFP)

Part 1 (for decision by the Panel)

1. To consider, on the advice of the Director of Finance and Corporate Services and the Council's Fund Managers, the Council's general policy with regard to Pension Fund Investments.

2. To make arrangements for the management of the Fund in line with the Investment Strategy Statement.

3. To monitor the performance of the Fund and its Managers.

4. To exercise the Council's voting rights at AGM's and EGM's of companies in which the Fund has holdings, after considering the advice of the Director of Finance and Corporate Services and appropriate Manager(s).

5. To overview and agree pension fund administration matters e.g. approval of

Administration Strategy and delivery of the benefits service.

Part 2 (for recommendation to the Borough Council)

None.

Other Requirements

1. Size of Committee – 5 elected members; one retired member; one staff representative; one employing body representative.

2. Quorum – 3 of the elected members.

3. All members and representatives are required to undertake introductory mandatory 3 day training with LGE (Local Government Employers). This is over 3 separate days in the autumn in London – September, October, and November.

The Council decides the composition and makes appointments to the Pension Fund Panel. Currently the membership of the Panel is five elected Members from Hounslow Council on a politically proportionate basis. All Hounslow Council elected Members have voting rights on the Committee and three voting Members of the Panel are required to deem the meeting quorate.

In addition there are three co-opted non-voting members representing employer and Scheme member interests. Although the co-opted representatives do not have voting rights they are treated as equal members of the Panel. They have access to all Panel Advisers, officers, meetings and training as if they were Council Members and have the opportunity to contribute to the decision making process. Voting rights are restricted to elected Members as they are deemed to be fulfilling the role of Trustees of the Pension Fund with all the legal responsibilities that this entails. It was not felt appropriate to apply the same legal definition to the lay members of the Panel and hence their role as non-voting members.

Members of the Pension Fund Panel, including co-opted members, are required to declare any interests that they have in relation to the Pension Fund or items on the agenda at the commencement of the meeting.

The PFP will meet at least four times a year, and additional meetings may be arranged to facilitate its work.

2.2 Other Delegations of Powers

Under the Council's Constitution delegated powers have been given to the Director of Finance & Corporate Services in his role as Chief Financial Officer (S151 Officer). As Chief Financial Officer he is responsible for the preparation of the Pension Fund Annual Report & Accounts and ensuring the proper financial administration of the Fund. As appropriate the Director of Finance & Corporate Services will delegate aspects of the role to other officers of the Council.

2.3 Terms of Reference for Hounslow Pension Board

In accordance with Section 5 of the Public Service Pensions Act 2013, the local Pension Board will assist Hounslow Council in the governance and administration of the London Borough of Hounslow Pension Fund. The Board's role, members, and working arrangements are contained in these Terms of Reference.

1. Introduction

1.1 The Pension Board is established by Hounslow Council under the powers of clause 5 of the Public Service Pensions Act 2013 and regulation 106 of the Local Government Pension Scheme Regulations 2015. As such, the Constitution of Hounslow Council does not apply to this Pension Board unless expressly referred to within and permitted by these Terms of Reference.

2. Powers of the Pension Board

2.1 The Pension Board will exercise all its powers and duties in accordance with the law and this Terms of Reference.

3. Role of the Pension Board

3.1 The role of the Pension Board is defined by regulation 106 (1) of the LGPS Regulations. It will assist Hounslow Council as Scheme Manager of the London Borough of Hounslow Pension Fund to secure compliance with the LGPS Regulations and any other legislation relating to the governance and administration of the Scheme, and any requirements imposed in relation to the LGPS by the Pensions Regulator. The Regulations give more detail as to these matters. Regulation 106 specifies that the Pension Boards will assist the Administering Authority to secure compliance with:

- the Regulations; and
- with other legislation relating to the governance and administration of the LGPS; and
- with any requirements imposed by the Regulator in relation to the LGPS; and
- to ensure the effective and efficient governance and administration of the LGPS.

Regulation 106 (8) also states that 'A local pension board shall have the power to do anything which is calculated to facilitate, or is conducive or incidental to, the discharge of any of its functions'.

3.2 The Council considers para 3.1 to mean that the Pension Board is providing oversight of pension matters and, accordingly, the Pension Board is not a decision making body in relation to the management of the Pension Fund. In relation to ensuring the effective and efficient governance and administration of the Pension Fund, this will be interpreted to mean having oversight of whether the aims and objectives outlined within the Pension Fund's Governance and Administration strategies are being achieved, having regard to any overriding requirements included within guidance from the DCLG, the Scheme Advisory Board or the Pensions Regulator.

Membership comprises of two employer representatives, one of which to be the London Borough Hounslow, the largest employer and two scheme member representatives. Member representatives in this context refer to members of the Pension Scheme i.e. active members, deferred members, or pensioner members. At least one employer representative will be a Councillor from any party but who may not be a member of the Pension Fund Panel. Appointments to be made by an appointments panel rather than Council.

Quorum

- All Members of the Pension Board are expected to regularly attend meetings.
- A meeting of the Pension Board will only be quorate when three of the four Employer and Scheme Member Representatives are present.
- A meeting that becomes inquorate may continue but decisions will not be binding.

Voting

- All Pension Board members will have individual voting rights but it is expected the Pension Board will as far as possible reach a consensus.
- The Chair will have the final deciding vote in cases where an equality of votes exists. Any other person attending a meeting will not have the right to vote.
- The results of any voting outcomes will be reported in the Board minutes.

Meetings

- The Pension Board meets twice a year. The Chair may call additional meetings in exceptional circumstances.

APPENDIX 2

Compliance Statement with Statutory Principles

1. Introduction

Regulation 55 of the Local Government Pension Scheme Regulations 2013 requires Local Government Pension Scheme (LGPS) administering authorities to measure their performance against the standards set out in the Statutory Guidance issued by Secretary of State for Communities and Local Government.

The following statement sets out where the Pension Fund is compliant with the guidance and where it is not compliant provides an explanation for non-compliance.

2. Structure

2.1 DCLG principle: 'The management of the administration of benefits and strategic management of fund assets clearly rests with the main committee established by the appointing council.'

Compliant

London Borough of Hounslow (LBH) Pension Fund is compliant. The Terms of Reference of the Pension Fund Panel (PFP), agreed at Borough Council, are:

1. To consider on the advice of the Director of Finance and Corporate Services Council's Fund managers, the Council's general policy with regard to Pension Fund Investments.

2. To make arrangements for the management of the Fund in line with the Investment Strategy Statement.

3. To monitor the performance of the Fund and its Managers.

4. To exercise the Council's voting rights at AGM's and EGM's of companies in which the Fund has holdings, after considering the advice of the Director of Finance and Corporate Services and appropriate Manager (s).

5. To overview and agree pensions fund administration matters e.g. approval of the Administration Strategy and delivery of the pension fund benefits service.

2.2 DCLG principle: 'That representatives of participating LGPS employers, admitted bodies and scheme members (including pensioner and deferred members) are members of either the main or secondary committee established to underpin the work of the main committee.'

Compliant

Representatives include Administering Authority councillors, an employer representative, a staff side representative and a pensioner representative.

2.3 DCLG principle: 'That where a secondary committee or panel has been established the structure ensures effective communication across both levels'.

Compliant

Not applicable as there is no secondary committee. The Pension Fund Panel has considered that the additional resource and time allocated to such a permanent secondary committee could not be justified within the current management of the fund. However it was considered that this could be reviewed if it was felt that there was significant demand from scheme members or employers for such a committee at some future time.

The Pension Fund Panel periodically sets up Sub-Groups to deal with fund manager selection. Such sub groups report to the full Panel.

2.4 DCLG principle: 'That where a secondary committee or panel has been established, at least one seat on the main committee is allocated for a member from the secondary committee or panel'.

Compliant

Not applicable as there is no secondary committee.

3. Representation

3.1 DCLG principle: 'That all key stakeholders are afforded the opportunity to be represented within the main or secondary committee structure. These include:

i) employing authorities (including non-scheme employers, e.g., admitted bodies);

ii) scheme members (including deferred and pensioner scheme members);

iii) independent professional observers; and

iv) expert advisors (on an ad-hoc basis).'

Compliant

LBH Pension Fund has representation from the Administering Authority, a further scheme employer, a current scheme member and a pensioner representative. In addition an independent expert adviser attends all meetings. Specialist advisers attend the Panel as required, depending on the issues being considered e.g. the actuary attends to discuss actuarial valuation matters.

3.2 DCLG principle: 'That where lay members sit on a main or secondary committee, they are treated equally in terms of access to papers and meetings, training and are given full opportunity to contribute to the decision making process, with or without voting rights.'

Compliant

All members are sent Committee papers ahead of meetings, are invited to training, and are able to fully contribute to the decision-making process.

3.3 DCLG principle: 'That committee or panel members are made fully aware of the status, role and function they are required to perform on either a main or secondary committee.'

Compliant

Representatives are aware of their roles and responsibilities as members of the Pension Fund Panel.

3.4 DCLG principle: 'That at the start of any meeting, committee members are invited to declare any financial or pecuniary interest related to specific matters on the agenda'.

Compliant

Members of the committee declare their interests at the start of each meeting.

4. Voting

DCLG principle: 'The policy of individual administering authorities on voting rights is clear and transparent, including the justification for not extending voting rights to each body or group represented on main LGPS committees.'

Compliant

Although the co-opted representatives do not have voting rights they are treated as equal members of the Panel. They have access to all Panel Advisers, officers, meetings and training as if they were Council Members and have the opportunity to contribute to the decision making process. Voting rights are restricted to elected Members as they are deemed to be fulfilling the role of Trustees of the Pension Fund with all the legal responsibilities that this entails. It was not felt appropriate to apply the same legal definition to the lay members of the Panel and hence their role as non-voting members.

5. Training/Facility time/Expenses

5.1 DCLG principle: 'That in relation to the way in which statutory and related decisions are taken by the administering authority, there is a clear policy on training, facility time and reimbursement of expenses in respect of members involved in the decision-making process.'

Compliant

- The Council has a clear policy regarding expenses.
- Training is provided to all members of the PFP to assist with the decision making process. All members are required to attend the 3 day trustee training provided by the Local Government Employers' Association.
- Additional training events are provided and access is available to all Panel members.
- A Training Log is maintained for all activities.

5.2 DCLG principle: 'That where such a policy exists, it applies equally to all members of committees, sub-committees, advisory panels or any other form of secondary forum.'

Compliant.

5.3 DCLG principle: 'That the administering authority considers the adoption of annual training plans for committee members and maintain a log of all such training undertaken'

Partially compliant

PFP regularly consider the training needs of its members. To date the adoption of personal training plans are delegated to the representatives themselves.

A Training Log is maintained.

6. Meetings (frequency/quorum)

6.1 DCLG principle: 'That an administering authority's main committee or committees meet at least quarterly.'

Compliant

PFP meets at least once a quarter.

6.2 DCLG principle: 'That an administering authority's secondary committee or panel meet at least twice a year and is synchronised with the dates when the main committee sits. '

Compliant

Not applicable as there is no secondary committee.

6.3 DCLG principle: 'That administering authorities who do not include lay members in their formal governance arrangements, provide a forum outside of those arrangements by which the interests of key stakeholders can be represented.'

Compliant

Lay members have representation on the PFP. In addition an Annual General Meeting is held for all scheme members and employers. An annual Employers' Forum is also held.

7. Access

DCLG principle: 'That subject to any rules in the Council's constitution, all members of main and secondary committees or panels have equal access to committee papers, documents and advice that falls to be considered at meetings of the main committee. '

Compliant

8. Scope

DCLG principle: 'That administering authorities have taken steps to bring wider scheme issues within the scope of their governance arrangements.'

Compliant

PFP covers investment, liability, administration and governance matters.

9. Publicity

DCLG principle: 'That administering authorities have published details of their governance arrangements in such a way that stakeholders with an interest in the way in which the scheme is governed can express an interest in wanting to be part of those arrangements.'

Compliant

This Governance Compliance Statement is a public document on Part 1 of the PFP Agenda of 19th July 2017. It is also an Appendix to the Annual Report which is publicly available to all on Hounslow's main website.

Appendix 5
Communications Policy

Communications policy statement

This is the Communications policy statement of the London Borough of Hounslow, the Administering Authority for the Hounslow Pension Fund.

The Administering Authority has over 45 employers in to the fund, ranging from the London Borough of Hounslow itself with nearly 7,000 active members, new free schools, scheduled employers and admitted bodies.

The effective provision of Local Government Pension Scheme (LGPS) benefits is dependent on effective communications.

The LGPS 2013 Regulations (61) instructs the Administering Authority to publish and periodically review a written statement setting out its policy concerning communications with:

- Members;
- Representatives of members;
- Prospective members; and
- Scheme Employers

MEMBERS, REPRESENTATIVES OF MEMBERS AND PROSPECTIVE MEMBERS

The aims of the Administering Authority in its communications with its members, representatives of members and prospective members are:

- To enhance the way that the LGPS is valued by employees and potential employees as an integral part of employee remuneration;
- For the number of pension administration queries and complaints to be reduced;
- To reduce the number of opt-outs from the LGPS;
- To provide an effective channel for members to feedback their views of the Administering Authority;
- To ensure the message meets as large and diverse an audience as possible.
- Comply with guidance issued by the Pensions Regulator

In order to meet these aims the Administering Authority will communicate an accurate, clear and easy to understand message in a variety of ways:

Method	Communication message
Electronic	Electronic: all members have access to the Administering Authority website delivered in partnership with our pension administrators West Yorkshire Pension Fund, www.wypf.org.uk. The website provides scheme information and access to individual member details
Newsletters	The Administering Authority issues an annual newsletter to all members in the scheme providing the latest information on the LGPS
Annual Benefit Statements	Active and deferred members are issued with an annual benefit statement which provides the current value of the benefits with the Hounslow LGPS
Annual General Meeting	The Administering Authority AGM includes presentations regarding the fund performance and administration matters. The Fund will decide on the format and media of the AGM annually.
Annual report and accounts	Available on the Hounslow pension website. Provides information on the annual management of the Administering Authority
Pension Fund Panel Reports	Public reports available on the Hounslow website, www.hounslow.gov.uk.
This provides information on decisions made by the Pension Fund Panel	
Pension increase note	Provided annually to pensioners, this provides information on any pension increase due to their benefits
Face to face pension surgeries	Allows members to meet with the administrator representatives to discuss their specific queries

Method	Communication message
Dedicated information sessions	Dedicated information sessions will be presented on an ad hoc basis to provide information on relevant pension issues
Hounslow pensions website	www.wypf.org.uk
Dedicated email	pensions@wypf.org.uk
Dedicated telephone helpline	01274 434 999
Member guides	Printed guides to LGPS membership

SCHEME EMPLOYERS

The aims of the Administering Authority in its communications with Scheme Employers are:

- To enhance the understanding of Scheme Employer responsibilities in the LGPS;
- To improve the accuracy of data flows between Scheme Employers and the Administering Authority ;
- To ensure Scheme Employers comply with the LGPS Regulations;
- To enable Scheme Employers to view the LGPS as a valuable recruitment and retention tool;
- To provide an effective channel for Scheme Employers to feedback their views of the Administering Authority.

In order to meet these aims the Administering Authority will communicate an accurate, clear and easy to understand message in a variety of ways:

Method	Communication message
The Administering Authority Pension Administration Strategy (and appendices)	Information regarding the policies of the Administering Authority and Scheme Employer responsibilities in the LGPS
Electronic	Electronic: Scheme Employers have access to an employer section of Administering Authority website delivered in partnership with administrators, www.wypf.org.uk. The website provides scheme information specific to scheme employers
Newsletters	The Administering Authority issues an annual newsletter to scheme employers providing the latest information on the LGPS
Employer meetings	Held annually to provide Scheme Employers with a forum to address queries regarding the Administering Authority
Dedicated contact	Scheme Employers are provided with a dedicated contact in the Administering Authority who will provide a phone and email advisory service for up to 2 hours per annum (additional advice will be charged at the prevailing Pension Fund officer rates). Employer visits may be available on request and will be charged at the prevailing Pension Fund officer rates : The Strategic Pensions Manager: 020 8583 5635 hitesh.sharma1@hounslow.gov.uk
Dedicated information sessions	Dedicated information sessions will be presented on an ad hoc basis to provide information to scheme employers on relevant pension issues

PUBLIC STATEMENTS MADE ABOUT THE PENSION FUND

In order to promote the Pension Fund in a consistent and positive manner, the Administering Authority will follow the guidelines below in making all public statements. This includes interviews, publications, awards & nominations, press releases and responding for public calls for information (eg consultation responses).

- Statements must be reviewed and authorised by the Section 151 Officer
- Where relevant, advice from Corporate Communications will be sought.
- Notification to the Pension Fund Panel if required in the view of the s151 Officer.

Appendix 6
Voting Report

Report for: INFORMATION

Contains Confidential or Exempt Information	No
Title	Voting Annual Report
Member Reporting	Councillor Hina Mir, Chair Pension Fund Panel
Contact Details	Rapinder Sangha, Strategic Pensions and Treasury Accountant Telephone: 020 8583 2335 Email: rapinder.sangha@hounslow.gov.uk
For Consideration By	Pension Fund Panel
Date to be Considered	16 December 2020
Implementation Date if Not Called In	Not applicable
Affected Wards	All
Keywords/Index	Pension Fund

10. Details of Recommendations

Members are asked:

10.1 To note the overall voting outcome for all votes cast for the period October 2019 to September 2020.

If the recommendations are adopted, how will residents benefit?	
Benefits to residents and reasons why they will benefit, link to Values	Dates by which they can expect to notice a difference
Links to Spending Wisely – Every Penny Counts Contributes to efficient running of authority	On-going

11. Report Summary

PIRC Ltd is the proxy voting agent appointed to cast votes on behalf of the London Borough of Hounslow's Pension Fund with regard to the voting rights attached to the shares held within its investment portfolio.

This report summarises the votes cast for the period October 2019 to September 2020 and highlights the key corporate governance issues considered when casting a vote.

12. Reason for the Report

This report is a summary of a current service provision to the Pension Fund.

13. Key Implications

Seereportcontent.

14. Financial Details Introduction

14.1 The Fund is committed to carrying out its duty as a shareholder by activelyengaging with those companies in which we invest by way of exercising ourvoting rights.This is considered good practice and is in accordance with theMynersPrinciples to whichwe adhere.

14.2 PIRC Ltd are the Fund's appointed proxy voting service provider who, alongwith being responsible for submitting all votes, provide advice on corporategovernanceissues.

14.3 Votes are cast in accordance with a bespoke template which has beenprepared by PIRC Ltd in association with Officers to ensure that best practicein corporate governance is encouraged in all companies in which we invest.The template has been designed to reflect the latest guidance available ascovered by the UK Corporate Governance Code which provides guidance forcompanies and includes matters relating to Board governance andremuneration as well as social, economic and environmental policies. Foroverseas companies the relevant local best practice guidance is used todetermineour votingpolicy.

14.4 ThisreportcoverstheperiodOctober2019toSeptember2020.

Thetablebelowshowsthecurrentportfoliosforwhichweholddirectvotingrights.

Table1:Portfolioswithdirectvotingrights

InvestmentPortfolio	MarketValue £m	%of Total Fund as atSept 20
Aberdeenglobalequities(incl.UK)	200.9	18.4
BlackrockUKequities	190.9	17.5
Total	391.8	35.9

Overviewofvotescast

14.5 Table 2 below shows the number of events (for e.g. Annual General Meetings,Extraordinary General Meetings), the total number of resolutions and thereforevotes cast and finally the proportion of votes cast in favour or against includingabstainedor withheld votes.

14.6 In total, 1,786 resolutions across 111 meetings were considered (in theprevious year there were 1,625 resolutions across 105 meetings) whichequates to approximately 15 resolutions per meeting. In recent years changesto the Fund's portfolio has decreased the number of direct holdings for whichwe hold voting rights and increased the number of pooled holdings in whichwe do not have voting rights. Pooled holdings are held as units within aparticular investment fund which may hold shares in a number of companiesas part of its portfolio. However, as the pooled fund is the direct holder (andthe Fund is only an indirect holder) of these shares it consequently owns thevotingrightsattributedtotheseholdings.

14.7 Table 2 highlights that for the period under consideration, almost two-thirds ofall resolutions proposed were supported whilst just over 34% were votedagainst or abstained. Abstain or withheld votes are essentially votes againstthe resolution and most usually concern the appointment of directors in theUnited States which allow for either a 'for' or 'withhold' vote option as opposedto votingagainst anyparticular nominee.

Table2: Analysisofvotescast

Period	No. ofmeetings	No. ofresolutions	% of resolutionssupported	% ofresolutionsvoted against
Oct19- Dec19	19	241	70.5	29.5
Jan20-Mar20	13	213	69.0	31.0
Apr20 -Jun20	64	1,130	63.5	36.5
Jul20-Sep20	15	202	68.3	31.7
Total	111	1,786	65.7	34.3

14.8 Table 3 below shows that over half of all meetings, at which we exercised ourvoted rights, are held by UK listed companies. This is due to the vast majority of our global holdings being held within pooled funds for which we do not holddirectvotingrights.Table 3 below splits the number of meetings and resolutions across thedifferentgeographical regionswithin which we vote.

Table3: Geographic Voting Overview		
GeographicRegion	**No.ofMeetings**	**Resolutions**
UK	63	1,078
EU	14	295
NorthAmerica	20	279
Other	14	134
Total	111	1,786

A point to note is that as of Oct 2020 the Fund will not hold any directoverseas equities therefore voting rights will only apply to direct UK equityholdings.

Table 4 further analyses the votes cast against each of the main resolutiontypes.

Table4:AnalysisofVotingRecommendations				
ResolutionType	For	(%)	Oppose	(%)
AnnualReports	50	26.9	136	73.1
Executive/AllEmployer-PayScheme	28	27.5	74	72.5
ArticlesofAssociation	24	92.3	2	7.7
AuditorsAppointment	102	69.9	44	30.1
Directors	657	76.1	206	23.9
Dividend	54	91.5	5	8.5
ShareIssue/Re-Purchase	130	51.0	125	49.0
CorporateDonations	27	87.1	4	12.9
Other	101	85.6	17	14.4

KeyCorporateGovernanceIssuesConsidered

14.9 The first version of the UK Corporate Governance Code was produced in 1992by the Cadbury Committee. The current version in practice was last issued inearly 2019. Based on this our voting template is updated to ensure that ourvotingpolicyisalwaysinline with bestpracticein corporategovernance.

14.10 PIRC Ltd provide a comprehensive analysis of the corporate governanceissuesraisedforeachmeetingandbelowlisted arethe keyareasconsidered.

BoardStructure

14.11 Best practice dictates that at least half of the Board should be made up ofindependent Non-Executive Directors (NEDs) to ensure that there is sufficientscrutiny of decisions made by the executive directors whom effectivelyrepresent the management of the company. This ensures that no oneindividual has unfettered powers of decision and that the Board collectively isresponsiblefor thelong-termsuccessofthe company.

14.12 In addition, the Chairman who is ultimately responsible for the Board shouldnot be a former executive of the company and that this role should operate asadistinctroleindependenttothat of theChief Executive.

14.13 One of the more recent updates to the UK Corporate Governance Code was arequirement for a NED to be designated as a Senior Independent Director(SID)toprovideadditionaloversight to support theChairman.

14.14 Our voting template is designed to vote against the appointment or re-electionofDirectors inthefollowinginstances;

- If the role of the Chairman and Chief Executive is combined,
- If the Chairman was not independent upon appointment or has been in post for over 9 years,
- if a NED has been in post for over 9 years,
- if there is an insufficient number of independent members on the Board. At least50% of the Board should consist of independent members.

Almost24% of Director appointments were opposed as shown in Table4.

Remuneration

14.15 Currently the areas which receives the most 'oppose' votes are those relatingto the approval of pay schemes. Proposals within this category vary betweenallstaffshareschemes(whicharegenerallywellreceivedbyshareholdersdue to the inclusive nature of schemes as they are open to all staff andimprove staffengagement), remuneration of non-executive directorsand finally executive director remuneration policies. Table4 shows that over72% of resolutions relating to pay schemes were voted against. The vast majority of these oppose votes fall into the last category.

14.16 Approval of the executive remuneration policy is now a binding vote and therefore a company would require at least a 50% vote for implementation of the policy.

14.17 Good corporate governance requires that the remuneration of executives islinked to clear performance targets with caps in place to avoid excessivepayouts.

14.18 When considering whether to vote for the remuneration policy for anyparticular company or not the following includes some of the factors considered:

- sufficient disclosure of all payments made including salary, pension contributions annual bonuses and LTIPs (Long Term Incentive Plans),
- salary paid in relation to peer companiesandinternalpayratios,
- varied metrics to measure performance including non financial measures,
- contracttermsincludingrightsuponterminationortakeover,
- vestingperiodsofLTIPs.

14.19 Explicit reference to maximum awards received under LTIPs are required inaddition to specific details of the performance measures used, contract termsas well as clear link between remuneration and the sustained (long term) successof the business.

14.20 PIRC provide a ranking system which covers all of the above areas when determining whether to vote 'for' or 'against' the remuneration report for any particular company and will provide a two letter rating from A to E which looksat both transparency of disclosure and 'pay for performance'. The Fundtemplate is set to approve only those reports which rate either an A or Bstatus.

14.21 PIRC's reports also include sector comparisons as well as analysis ofsupplementary payments which are a growing area of concern as attempts tocurbbonuses are introduced.

Audit appointment,fees and rotation

14.22 The introduction of the EU Audit Regulation in April 2016 means that certainnon-audit fees will now not be permissible. Our policy has therefore beenupdated to oppose the re-election of auditors in instances where the non-auditfeeisover 25% of auditfees.

14.23 Other key governance issues considered include the following;

- the audit committee should compromise of independent Board members,
- all FTSE 350 companies to put theirexternal audit contract out to tender at leastevery three years,
- at least one member should have competence in accounting and/or auditing,

14.24 Our template will vote against the appointment of auditors if all of the abovecriteria is not met and Table 4 shows that just over 30% of proposed auditappointmentsarevotedagainst.

Annual reports

14.25 All UK listed companies are required to report on how they have applied themain principles of the Code and where not applied, provide an explanation fornon-compliance. In addition, shareholders must have an opportunity toapprove the dividend. If this is not the case, then the annual reports will bevotedagainst.

14.26 Over 73% of annual reports were voted against as shown in Table 4, themajorityof whichdidnotallowforshareholdersto approvethedividend.

Share Issuance/re-purchase

14.27 Requests to issue additional shares or to re-purchase shares already in issueis considered a normal resolution if up to a set limit of 5% for new share issuesand 10% for share buy-backs. Most of the proposals in this category relate tonew share issuances and our policy is to vote against this proposal if the limitisover5%andnotaccompaniedbyareason forbreachingthenormallimit,for e.g. to raise cash for a viable takeover bid. Companies should clearlyprovide a justification for all share related changes and state how thesebenefitstheexistingshareholders topreventdilutionofsharevalue.

14.28 Table4showsthatjusthalfofallproposalsinthiscategory wereopposed.

Comments of the Executive Director of Finance and CorporateResources

The Executive Director of Finance and Corporate Resources has approvedthisreport.

15. Legal

Therearenoimmediate legalimplicationsarisingfromthisreport

16. ValueForMoney

Notapplicableforthisreport.

17. SustainabilityImpact Appraisal

There are no direct sustainability issues and as such no appraisal isnecessary.

18. RiskManagement

Research has shown that companies with good corporate governance perform better than those with poor corporate governance practices in the long term.

19. Links to Council Priorities

Indirectly links toSpending Wisely–Every Penny Counts

20. Equalities,Human Rights and Community Cohesion

The Council is not being asked to make any decisions on actions related toequalities,human rights andcommunitycohesion.

21. Staffing/Workforce and Accommodation implications

There are no direct implications in relation to staffing or accommodation.

22. Property and Assets

There are no direct implications.

23. AnyOtherImplications

There are no further implications.

24. Consultation

The appointment of a proxy voting service provider has previously beenapprovedbythe Pension Fund Panel.

25. Timetable forImplementation

This report is for information only. The current contract is in place until July 2021.

26. Appendices

None.

Appendix 7
Pensions Administration Strategy

Contents

REGULATORY FRAMEWORK AND PURPOSE

1. THE REGULATIONS

This Strategy is made under Regulation 59 of The Local Government Pension Scheme Regulations (LGPS) 2013.

In line with these regulations West Yorkshire Pension Fund (WYPF) employers have been consulted on the strategy, and a copy has been sent to the secretary of state.

1.1 PURPOSE

This strategy outlines the processes and procedures to allow WYPF and employers to work together in a cost-effective way to administer the LGPS whilst maintaining an excellent level of service to members. It recognises that working co-operatively and collaboratively will be key to achieving these aims.

2. REVIEW OF THE STRATEGY

This Strategy will be reviewed as soon as reasonably possible following any changes to the regulations, processes or procedures that affect the strategy or on a tri-annual basis if this occurs sooner.

Changes to this strategy will be made following consultation with employers and a copy of the updated strategy will be sent to the secretary of state.

WYPF will constantly seek to improve communications between itself and the employers.

Employers are welcome to discuss any aspect of this strategy with WYPF at any time and may make suggestions for improvement to the strategy.

3. LIAISON AND COMMUNICATION

3.1 AUTHORISED CONTACTS FOR EMPLOYERS

Each employer will nominate a contact to administer the three main areas of the LGPS:

- a strategic contact for valuation, scheme consultation, discretionarystatements and IDRP
- An administration contact for the day-to-day administration of WYPF, completing forms and responding to queries, and
- a finance contact for completion and submission of monthly postings and co-ordination of exception reports

If they wish, employers may also nominate additional contacts.

All contacts will receive a login name and password that allows them to access the Civica employer portal for online administration and the combined remittance and monthly return.

When registering, each contact should complete a **Main contact registration** form and **Authorised user list** form, and sign WYPF's user agreement for the secure administration facility.

The three main contacts are responsible for ensuring that contacts are maintained by notifying WYPF when one leaves and registering new contacts where necessary.

3.2 LIAISON AND COMMUNICATION WITH EMPLOYERS

WYPF will provide the following contact information for employers and their members:

- A named Pension Fund Representative for regulatory or administration queries, training, advice and guidance.

- A named finance business partner to assist with the monthly returns process
- A dedicated contact centre for member queries

In addition to this, WYPF takes a multi-channel approach to communication with its employers.

Format of communication	Frequency	Method of distribution
Pension Fund Representatives	8.30am to 4.30pm Monday to Friday	Face-to-face/telephone/e-mail
Website	Constant	Web
Fact card	1 per year	Mail
Fact sheets	Constant	Web
Employer guide	Constant	Web/electronic document
Ad hoc training	As and when required	Face-to-face
Update sessions	2 per year	Meeting
Annual meeting	1 per year	Meeting
Manuals/toolkits	Constant	Web/electronic document
Pension Matters and *Xtra*	12 per year and as and when required	E-mail
Social media	Constant	Web
Ad hoc meetings	As and when required	Face-to-face
Workshops	10 per year	Face-to-face

4. EMPLOYER DUTIES AND RESPONSIBILITIES

When carrying out their functions employers must have regard to the current version of this strategy.

4.1 EVENTS FOR NOTIFICATION

Event	Preferred method of notification	Other methods available	Target	Acceptable performance
Monthly postings (submitted via secure portal)	Approved spreadsheet	None	19th day of the month following the month in which contributions were deducted	100% compliance of returns received in target
New starters	Monthly return		Notified via the monthly return, WYPF will process the data within 2 weeks following monthly return submission	90% compliance or better
Change of hours, name, payroll number, or job title	Monthly return (exception report)	Web form	Notified via monthly returns, WYPF will process the data within 2 weeks following monthly return submission For exception report output from the monthly return, change data response must be provided to WYPF within 2 weeks of receipt of the exception report	90% compliance or better

Event	Preferred method of notification	Other methods available	Target	Acceptable performance
			If the employer is not using monthly return, then information is due within 6 weeks of change event	
50/50 & main scheme elections	Monthly return		Notified by the employer via monthly return, WYPF will process the data within 2 weeks following monthly data submission	90% compliance or better
Service breaks/absence	Web form		Within 6 weeks of the date of the absence commencing	90% compliance or better
Under 3 month opt-outs	Monthly return		Notified by the employer via monthly return, WYPF will process the data within 2 weeks following monthly data submission	90% compliance or better
Leavers	Monthly return Web form Monthly returns (exception reports)		Notified by the employer via monthly return, WYPF will process the data within 2 weeks following monthly data submission, else within 6 weeks of leaving For exception reports leaver forms must be provided to WYPF within 2 months of receipt of the exception report	90% compliance or better
Retirement notifications	Web form		10 days before the member is due to retire unless the reason for retirement is ill health or redundancy	90% compliance
Death in service notifications	Web form		Within 3 days of the date of notification	100% compliance

4.2 RESPONSIBILITIES

Employers are responsible for ensuring that member and employer contributions are deducted at the correct rate, including any additional contributions.

WYPF is not responsible for verifying the accuracy of any information provided by the employer for the purpose of calculating benefits under the provisions of the Local Government Pension Scheme. That responsibility rests with the employer.

Any over-payment as a result of inaccurate information being supplied by the employer shall be recovered from that employer.

In the event of WYPF being fined by The Pensions Regulator, this fine will be passed on to the relevant employer where that employer's actions or inaction caused the fine.

4.3 DISCRETIONARY POWERS

The employer is responsible for exercising the discretionary powers given to employers by the regulations. The employer is also responsible for compiling, reviewing and publishing its policy to employees in respect of the key discretions as required by the regulations.

4.4 MEMBER CONTRIBUTION BANDS

Employers are responsible for assessing and reassessing the contribution band that is allocated to a member. The employer must also inform the member of the band that they have been allocated on joining the scheme and when they have been reallocated to a different band.

4.5 INTERNAL DISPUTE RESOLUTION PROCEDURE (IDRP)

Employers must nominate an adjudicator to deal with appeals at stage one of the IDRP where the dispute is against a decision the employer has made or is responsible for making. Employers are responsible for providing details of the IDRP and the adjudicator in writing to members when informing them of decisions they have made.

5. PAYMENTS AND CHARGES

5.1 PAYMENTS BY EMPLOYING AUTHORITIES

Employing authorities will make all payments required under the LGPS regulations, and any related legislations, promptly to WYPF and /or its Additional voluntary contribution (AVC) providers (Prudential/Scottish Widows) as appropriate.

5.2 PAYING CONTRIBUTIONS

Member and employer contributions can be paid over at any time and should be accompanied by a monthly postings submission, the latest date contributions can be paid is the 19th day of the month following the month in which the deductions were made.

Where the 19th falls on a weekend or bank holiday, the due date becomes the last working day prior to the 19th.

5.3 AVC DEDUCTIONS

Employers will pay AVCs to the relevant provider within one week of them being deducted.

5.4 LATE PAYMENT

The employer is reported to The Pensions Regulator where contributions are receive late in accordance with the regulator's code of practice.

5.5 PAYMENT METHOD

Contributions (but not AVCs) should be paid to WYPF by BACS payment direct to WYPF's bank account.

5.6 EARLY RETIREMENT AND AUGMENTATION COSTS

Employers have the option to pay the full early retirement cost or pay by instalments over 5 years, depending on their ability to pay. Interest is charged if the option to pay by instalments is taken, and the annual interest used Base Rate + 1%.

All augmentation cost must be paid in full in one payment.

5.7 INTEREST ON LATE PAYMENT

In accordance with the LGPS regulations, interest will be charged on any amount overdue from an employing authority by more than one month.

5.8 EMPLOYER CONTRIBUTIONS

Employers' contributions rates are not fixed and employers are required to pay whatever is necessary to ensure that the portion of the fund relating to their organisation is sufficient to meet its liabilities.

5.9 ACTUARIAL VALUATION

An actuarial valuation of the fund is undertaken every three years by the fund actuary. The actuary balances the fund's assets and liabilities in respect of each employer and assesses the appropriate contribution rate and deficit payment if appropriate for each employer for the subsequent three years.

5.10 ADMINISTRATION CHARGES

The cost of running WYPF is charged directly to the fund; the actuary takes these costs into account in assessing employers' contribution rates.

6. ADMINISTERING AUTHORITY DUTIES AND RESPONSIBILITIES

When carrying out their functions WYPF will have regard to the current version of the strategy.

6.1 SCHEME ADMINISTRATION

WYPF will ensure that workshops and annual meetings are held on a regular basis and actively seek to promote the Local Government Pension Scheme via the following events.

- Employer annual meeting
- Member annual meeting
- Pre retirement courses
- New starters induction courses
- Complete guide to administration
- Your responsibilities
- Monthly contributions
- Ill Health retirement

6.2 RESPONSIBILITIES

WYPF WILL ENSURE THE FOLLOWING FUNCTIONS ARE CARRIED OUT.

6.2.1 Provide a helpdesk facility for enquiries, available during normal officehours, providing a single point of access for information relating to theLGPS

6.2.2 Create a member record for all new starters admitted to the LGPS

6.2.3 Collect and reconcile employer and employee contributions

6.2.4 Maintain and update members' records for any changes received by WYPF

6.2.5 At each actuarial valuation WYPF will forward the required data in respect of each member and provide statistical information over the valuation period to the fund actuary so that they can determine the assets and liabilities for each employer

6.2.6 Communicate the results of the actuarial valuation of the fund to each employer

3.2.7 Provide every active, deferred and pension credit member with a benefit statement each year

6.2.8 Provide estimate of retirement benefits on request by theEmployer

6.2.9 Calculate and pay retirement benefits, deferred benefits and death in service benefits in accordance with LGPS rules, members' options and statutory limits.

6.2.10 Comply with HMRC legislation

6.3 DECISIONS

WYPF will ensure that members are notified of any decisions made under the scheme regulations in relation to their benefits within 10 working days of the decision being made and will ensure the member is informed of their right of appeal.

6.4 DISCRETIONARY POWERS

WYPF will ensure the appropriate policies are formulated, reviewed and publicised in accordance with the scheme regulations.

6.5 INTERNAL DISPUTE RESOLUTION PROCEDURE (IDRP)

WYPF will deal with employer appeals at stage two of the IDRP.

WYPF will nominate an adjudicator to deal with appeals at stage one and stage two of the IDRP where the appeal is against a decision WYPF has made or is responsible for making.

6.6 FUND PERFORMANCE LEVELS

The minimum performance targets are shown below.

Service	Days	Minimum target
1. New member recordscreated	10	85%
2. Update personalrecords	10	85%
3. Posting monthly contributions to member records	10	90%
4. Calculate and action incoming transfer values	2 months	100%
5. Deferred benefits – payment of lump sums	3	85%
6. Provide details of deferred benefit entitlement	10	85%
7. Refund of contributions – notification of entitlement	5	85%
8. Refund of contributions – payment	5	85%
9. Action agreed transfers out on receipt of acceptance	10	85%
10. Provide estimate of retirementbenefits	10	85%
11. Retirement benefits – payment of lump sum	3	85%
12. Retirement benefits – recalculation of pension/lump sum	10	85%
13. Calculation and payment death benefits on receipt of all necessary information	5	85%
14. Make death grant payment to themember's nomination (provided all relevant information is received)	1 month	100%

Service	Days	Minimum target
15. Percentage of telephone calls answered within 20 seconds		90%
16. Annual benefit statements issued to deferred members by		31 May
17. Annual benefit statements issued to active members by		31 August
18. Make payment of pensions on the due date		100%
19. Issue P60s to pensioners within statutory deadlines		100%
20. Provide information on request in respectof pension share on divorce within legislative timescales		100%
21. Implement Pension Share Orders within legislative timescales		100%
22. Undertake annual reviews to establish continuing entitlements to pensions for children over the age of 17		100%
23. Implement changes in pensioner circumstances for the next available pensioner payroll		100%

7. UNSATISFACTORY PERFORMANCE

7.1 MEASURING PERFORMANCE

Both employer and WYPF targets will be measured on a quarterly basis using the Civica document management system. Employers will be notified of their performance level each quarter.

WYPF performance levels will be published on a quarterly basis in the employer newsletter.

Overall employer and WYPF performance will be published by WYPF in the Report and Accounts.

7.2 UNSATISFACTORY PERFORMANCE

Where an employer materially fails to operate in accordance with the standards described in this strategy, and this leads to extra costs being incurred by the administering authority, the administering authority may issue a written notice to the employer requiring that these extra costs be met by the employer. A schedule of charges is detailed in Appendix B.

1. REGULATORY FRAMEWORK AND PURPOSE

2. REVIEW OF THE STRATEGY

3. LIAISON AND COMMUNICATION

4. EMPLOYER DUTIES AND RESPONSIBILITIES

5. PAYMENTS AND CHARGES

6. ADMINISTERING AUTHORITY DUTIES AND RESPONSIBILITIES

7. UNSATISFACTORY PERFORMANCE

8. APPENDICES

af.Authorised contacts form
ag. Schedule of charges
ah. Charging levels

REGULATORY FRAMEWORK AND PURPOSE

1. THE REGULATIONS

This Strategy is made under Regulation 59 of The Local Government Pension Scheme Regulations (LGPS) 2013.

In line with these regulations West Yorkshire Pension Fund (WYPF) employers have been consulted on the strategy, and a copy has been sent to the secretary of state.

1.1 PURPOSE

This strategy outlines the processes and procedures to allow WYPF and employers to work together in a cost-effective way to administer the LGPS whilst maintaining an excellent level of service to members. It recognises that working co-operatively and collaboratively will be key to achieving these aims.

2. REVIEW OF THE STRATEGY

This Strategy will be reviewed as soon as reasonably possible following any changes to the regulations, processes or procedures that affect the strategy or on a tri-annual basis if this occurs sooner.

Changes to this strategy will be made following consultation with employers and a copy of the updated strategy will be sent to the secretary of state.

WYPF will constantly seek to improve communications between itself and the employers.

Employers are welcome to discuss any aspect of this strategy with WYPF at any time and may make suggestions for improvement to the strategy.

3. LIAISON AND COMMUNICATION

3.1 AUTHORISED CONTACTS FOR EMPLOYERS

Each employer will nominate a contact to administer the three main areas of the LGPS:

- a strategic contact for valuation, scheme consultation, discretionarystatements and IDRP
- An administration contact for the day-to-day administration of WYPF, completing forms and responding to queries, and
- a finance contact for completion and submission of monthly postings and co-ordination of exception reports

If they wish, employers may also nominate additional contacts.

All contacts will receive a login name and password that allows them to access the Civica employer portal for online administration and the combined remittance and monthly return.

When registering, each contact should complete a **Main contact registration** form and **Authorised user list** form, and sign WYPF's user agreement for the secure administration facility.

The three main contacts are responsible for ensuring that contacts are maintained by notifying WYPF when one leaves and registering new contacts where necessary.

3.2 LIAISON AND COMMUNICATION WITH EMPLOYERS

WYPF will provide the following contact information for employers and their members:

- A named Pension Fund Representative for regulatory or administration queries, training, advice and guidance.

- A named finance business partner to assist with the monthly returns process
- A dedicated contact centre for member queries

In addition to this, WYPF takes a multi-channel approach to communication with its employers.

Format of communication	Frequency	Method of distribution
Pension Fund Representatives	8.30am to 4.30pm Monday to Friday	Face-to-face/telephone/e-mail
Website	Constant	Web
Fact card	1 per year	Mail
Fact sheets	Constant	Web
Employer guide	Constant	Web/electronic document
Ad hoc training	As and when required	Face-to-face
Update sessions	2 per year	Meeting
Annual meeting	1 per year	Meeting
Manuals/toolkits	Constant	Web/electronic document
Pension Matters and *Xtra*	12 per year and as and when required	E-mail
Social media	Constant	Web
Ad hoc meetings	As and when required	Face-to-face
Workshops	10 per year	Face-to-face

4. EMPLOYER DUTIES AND RESPONSIBILITIES

When carrying out their functions employers must have regard to the current version of this strategy.

4.1 EVENTS FOR NOTIFICATION

Event	Preferred method of notification	Other methods available	Target	Acceptable performance
Monthly postings (submitted via secure portal)	Approved spreadsheet	None	19th day of the month following the month in which contributions were deducted	100% compliance of returns received in target
New starters	Monthly return		Notified via the monthly return, WYPF will process the data within 2 weeks following monthly return submission	90% compliance or better
Change of hours, name, payroll number, or job title	Monthly return (exception report)	Web form	Notified via monthly returns, WYPF will process the data within 2 weeks following monthly return submission For exception report output from the monthly return, change data response must be provided to WYPF within 2 weeks of receipt of the exception report	90% compliance or better

Event	Preferred method of notification	Other methods available	Target	Acceptable performance
			If the employer is not using monthly return, then information is due within 6 weeks of change event	
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The cost of running WYPF is charged directly to the fund; the actuary takes these costs into account in assessing employers' contribution rates.

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When carrying out their functions WYPF will have regard to the current version of the strategy.

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WYPF will ensure that workshops and annual meetings are held on a regular basis and actively seek to promote the Local Government Pension Scheme via the following events.

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6.2.3 Collect and reconcile employer and employee contributions

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6.2.6 Communicate the results of the actuarial valuation of the fund to each employer

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6.2.9 Calculate and pay retirement benefits, deferred benefits and death in service benefits in accordance with LGPS rules, members' options and statutory limits.

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WYPF will ensure that members are notified of any decisions made under the scheme regulations in relation to their benefits within 10 working days of the decision being made and will ensure the member is informed of their right of appeal.

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WYPF will ensure the appropriate policies are formulated, reviewed and publicised in accordance with the scheme regulations.

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WYPF will deal with employer appeals at stage two of the IDRP.

WYPF will nominate an adjudicator to deal with appeals at stage one and stage two of the IDRP where the appeal is against a decision WYPF has made or is responsible for making.

6.6 FUND PERFORMANCE LEVELS

The minimum performance targets are shown below.

Service	Days	Minimum target
1. New member recordscreated	10	85%
2. Update personalrecords	10	85%
3. Posting monthly contributions to member records	10	90%
4. Calculate and action incoming transfer values	2 months	100%
5. Deferred benefits – payment of lump sums	3	85%
6. Provide details of deferred benefit entitlement	10	85%
7. Refund of contributions – notification of entitlement	5	85%
8. Refund of contributions – payment	5	85%
9. Action agreed transfers out on receipt of acceptance	10	85%
10. Provide estimate of retirementbenefits	10	85%
11. Retirement benefits – payment of lump sum	3	85%
12. Retirement benefits – recalculation of pension/lump sum	10	85%
13. Calculation and payment death benefits on receipt of all necessary information	5	85%
14. Make death grant payment to themember's nomination (provided all relevant information is received)	1 month	100%

Service	Days	Minimum target
15. Percentage of telephone calls answered within 20 seconds		90%
16. Annual benefit statements issued to deferred members by		31 May
17. Annual benefit statements issued to active members by		31 August
18. Make payment of pensions on the due date		100%
19. Issue P60s to pensioners within statutory deadlines		100%
20. Provide information on request in respectof pension share on divorce within legislative timescales		100%
21. Implement Pension Share Orders within legislative timescales		100%
22. Undertake annual reviews to establish continuing entitlements to pensions for children over the age of 17		100%
23. Implement changes in pensioner circumstances for the next available pensioner payroll		100%

7. UNSATISFACTORY PERFORMANCE

7.1 MEASURING PERFORMANCE

Both employer and WYPF targets will be measured on a quarterly basis using the Civica document management system. Employers will be notified of their performance level each quarter.

WYPF performance levels will be published on a quarterly basis in the employer newsletter.

Overall employer and WYPF performance will be published by WYPF in the Report and Accounts.

7.2 UNSATISFACTORY PERFORMANCE

Where an employer materially fails to operate in accordance with the standards described in this strategy, and this leads to extra costs being incurred by the administering authority, the administering authority may issue a written notice to the employer requiring that these extra costs be met by the employer. A schedule of charges is detailed in Appendix B.

APPENDIX A – MAIN CONTACT REGISTRATION AND AUTHORISED USER LIST

Main contact registration form

West Yorkshire Pension Fund | Lincolnshire Pension Fund

main contact registration oct 2016

Main contact registration form

Employer name and location code
Employer address

Important: please read the guidance note on **Managing your WYPF contacts** before you complete this form.

Strategic contact

Name	Address if different from above
Job title	
Phone	Specimen signature
Email	

Administration contact

Name	Address if different from above
Job title	
Phone	Specimen signature
Email	

Finance contact

Name	Address if different from above
Job title	
Phone	Specimen signature
Email	

Contact at third-party payroll provider (if applicable and not listed above)

Name	Company name and address
Job title	
Phone	Specimen signature
Email	

Date signatures valid from	**Signed (by current authorised signatory)**

Authorised user list

authorised payroll user list oct 2016

West Yorkshire Pension Fund

Employer name

Authorised payroll user list

Please give the full name, phone number and email address of the additional people you authorise to submit information for you. We will give them a secure administration account.

Full name	Phone number	Email address

Date authorised users valid from

Signed (by current authorised signatory)

APPENDIX B – SCHEDULE OF CHARGES

Performance areas	Reason for charge	Basis of charge
1. Any overpayment made to a member due to inaccurate information provided by an employer will be recovered from employer, if the total overpaid is more than £50.	If the overpaid amount is the result of the employer's error, and the amount is over £50, then as such it will be recharged to the employer, plus costs of resolving and recovering the overpayment. If the over-payment is recovered from the member, then the amount recovered will be passed back to the employer, less any cost of overpayment recovery actions.	Actual amount overpaid + admin charge (admin charge will be based on managerial input at level III), minimum half day charge of £110 + VAT + cost of recovery actions (court and legal fees). Any part or all of this charge may be waived at head of service discretion.
2. Contributions to be paid anytime but latest date by 19th of month (weekends and bank holidays on the last working day before 19th)	Due by 19th month – late receipt of funds, plus cost of additional time spent chasing payment.	Number of days late interest charged at base rate plus 1%.
3. Monthly return due anytime but latest by 19th month, errors on return, i.e. employer/employee rate deducted incorrectly, exception reporting errors to be resolved within two months.	Due by 19th month, any additional work caused by late receipt of information incor-rect information, incorrect contributions.	Failure to provide appropriate information, resulting in significant work will result in admin charge (at Senior Pensions Officers level II) at £136 + VAT a day. This may be waived at head of service discretion.
4. Change in member detail	If submitted via monthly data, WYPF will process data within 2 weeks following monthly data submission. For exception reports output from monthly returns, change data response must be provided to WYPF within 2 weeks of receipt of the exception report.	Failure to provide appropriate information, resulting in significant work will result in admin charge (at Pensions Officer level I) at £96 + VAT a day. This may be waived at head of service discretion.
5. Early leavers information	If submitted via monthly data, WYPF will process data within 2 weeks following monthly data submission, else within 6 weeks of date of leaving. For exception reports leaver forms provided to WYPF within two months of receipt of the excep-tion report.	Failure to provide appropriate information, resulting in significant work will result in admin charge (at pension officers level I) at £96 + VAT a day. This may be waived at head of service discretion.
6. Retirement notifications	Due 10 working days before last day of employment unless the reason for retirement is ill health or redundancy – additional work caused by late receipt of information.	Failure to provide appropriate information, resulting in significant work will result in admin charge (at senior pension officers level II) at £136 + VAT a day. This may be waived at head of service discretion.
7. Death in membership	Due within 3 working days of the notifi-cation – additional work caused by late receipt of information.	Failure to provide appropriate information, resulting in significant work will result in admin charge (at pension manager level III) at £220 + VAT a day. This may be waived at head of service discretion.
8. AVC deducted from pay to be paid anytime but latest date by 19th month. (weekends and bank holidays on the last working day before 19th)	Additional investigative work caused through lack of compliance by employer.	Failure to comply by employer, causing additional work for WYPF will result in admin charge (at pension officers level I) at £96 + VAT a day. This may be waived at head of service discretion.
9. Re-issue of invoices	Charge based on number of request.	Additional work caused by reproducing invoices will result in admin charge (at pension officer level I) at £96 + VAT a day. This may be waived at head of service discretion.

Performance areas	Reason for charge	Basis of charge
10. Authorised officers list not updated – Pension Liaison Officers, monthly contributions responsible officers	Costs of additional work resulting from employer's failure to notify WYPF of change in authorised officers list.	Failure to comply by employer, causing additional work for WYPF will result in admin charge (at Pensions Officer level I) at £96 + VAT a day. This may be waived at head of service discretion.
11. Security breach on system re data protection	Recharge employers any fines imposed on us in this event	Actual amount fine imposed + admin charge (admin charge will be based on managerial input at level III) at £220 + VAT a day. This charge may be waived at head of service discretion.
12. Member requests estimate	The first estimate provided in each financial year is free, then subsequent estimates are chargeable.	1st request in each financial year is free. Additional request is charged at a notional charge of £50 + VAT is made. This charge is for each member's record folder reference.
13. Pension sharing order	For pension sharing order work, each party will be charged according to the instruction in the court order.	The charge is £250 + VAT for this work.
Miscellaneous items: • Benefit recalculation • Member file search and record prints • Supplementary information requests	Where information is requested by members that is in addition to routine information.	A notional charge of £50 + VAT will be levied. This charge is for each members record folder reference.

APPENDIX C – CHARGING LEVELS

Charges will be made on half a day basis, but for less than a quarter day no charge will be made and for more than half a day a full-day charge will be made.

Charge levels	I	II	III
Daily charge	£96	£136	£220
Half day charge	£48	£68	£110

- Level I – work at Pensions Officer level
- Level II – work at Senior Pensions Officer level
- Level III – work at Pensions Manager level