

London Borough of Hillingdon Pension Fund Annual Report 2019/20



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CHAIRMAN'S FOREWORD

By the end of the 2019/20 financial year the value of the Fund stood at £989m. Membership of the scheme continued to increase over the previous year in all membership categories. The Fund remains broadly cash neutral on member transactions with member contributions equivalent to monies paid out in benefits. Cash flow is regularly monitored by the Committee with a keen eye towards future trends to ensure liquidity is maintained. In addition, the Fund has income generating asset classes that can support cash flows, should this become necessary.

The results of the 2019 triennial valuation were approved by Committee in March 2020 and showed an improvement over the previous three years, moving from a 75% funding position in 2016 to 87% funded in 2019. In line with this, the funding deficit reduced from £269m to £161m. The improvement was mainly driven by a positive investment performance over the three-year period and a genuine increase in the assets held per pound of benefit paid. Following on from the valuation and its consultation, a revised Funding Strategy Statement was also approved in March 2020. This statement was subsequently reviewed and updated to reflect the lessons learnt from the COVID-19 lockdown period. This strategy sets out how the Council, in its role as Administering Authority, has balanced the conflicting aims of affordability, stability and prudence in the approach to funding the scheme's liabilities and sets the scene for updating the Investment Strategy.

With a greater focus on Environmental, Social and Governance (ESG) issues the Committee published its formal Responsible Investment Policy. The Committee believes ESG considerations should be integrated into all investment decision making as it helps reduce risk, improve performance and aligns with the fiduciary responsibility of the Committee. This policy reinforces that belief and provides a framework to complement investment decisions.

The Committee has continually monitored the Fund's investments and its strategy and has made various adjustments to allocations throughout the year, taking account of professional expert advice. With a focus on the Responsible Investment Policy, one of the larger reallocations included the decision to remove its UK only equity exposure in favour of a global Future World allocation designed to focus on ESG issues.

The Fund has continued to work with the London Collective Investment Vehicle (LCIV) whilst also monitoring the evolution of governance within the pool to ensure assets are securely managed on the Fund's behalf. As of 31 March 2020, the Fund had a slight increase in the value of assets held with LCIV, representing 57.5% of the Fund compared with 56% from the previous year. During the year the Fund made a commitment to allocate 5% to the LCIV Infrastructure sub fund, however due to the infancy of the fund, as at 31 March 2020 no drawdown requests had been received. In addition, the Future World allocation which sits in a passive index alongside the LCIV has yet to be transitioned.

The Pensions Board has been active during the financial year ensuring compliance with governance issues as well as updating and contributing towards policy documentation. The Board has also continued to ensure compliance with the Pension Regulator's code of practice with an independent annual review taking place, monitoring the implementation of recommendations to ensure full compliance where possible. This year also saw a focus on a cyber-security processes and robustness throughout operations of the Fund. The Board and Committee continue to work well together to ensure governance and oversight are at the highest levels.

Both the Pensions Committee and Pensions Board have taken a strong interest in improving knowledge and skills and have been active in attending various training sessions throughout the year.

By March 2020, COVID-19 had reached pandemic status with unprecedented changes required in social and working behaviours. Financial markets suffered large losses due to an indiscriminate sell-off across all asset classes. The main priority for the Fund in terms of members, was to ensure the payment of benefits were not delayed or interrupted. The Fund also concentrated on the priorities set out by the Pensions Regulator to ensure there were no adverse effects to members in the specified areas. Home and remote working systems were quickly introduced to ensure service and governance was maintained throughout the Fund, not only in terms of administration but also within the investment portfolio. The Investment Strategy demonstrated its defensive qualities and although not completely immune, the value was protected somewhat against the potential full effect of general market losses. To further complement the investment governance overview, a separate strategy assessment was commissioned to ascertain what changes, if any, were needed. The impact of COVID-19 on cash flow was also assessed and no concerns around ongoing liquidity being identified.

The Committee and Fund have many challenges coming up; including developing a and applying a revised investment strategy alongside monitoring of LCIV governance in conjunction with potential further transitioning into the pool. In addition, the implementation of new regulations involving McCloud, Exit Caps, Guaranteed Minimum Pensions and Goodwin amongst others will be challenging and will require increased resources. Furthermore, ESG will continue to be at the forefront of thinking and investment decisions, requiring increased reporting. Adapting to a constantly changing COVID-19 world will also focus the way the Fund operates in ensuring it delivers a quality service to members whilst also managing the risks, opportunities and returns relating to investments.

Cllr Martin Goddard
Chairman Pensions Committee 2019/20

INTRODUCTION TO THE FUND

The London Borough of Hillingdon Pension Fund is part of the Local Government Pension Scheme (LGPS) and is governed by statute. The scheme moved to a career average revalued earning (CARE) scheme, from a final salary scheme in 2014 as a result of the Local Government Pension Scheme Regulations 2013. In 2016/17, the regulations surrounding investments were amended with the Local Government Pension Scheme (Management and Investment of Funds) Regulations 2016.

Hillingdon is the Administering Authority for the Fund. Pensions and entitlement to benefits are fully protected in law. Membership of the Scheme is open to all employees of the Council including school employees with the exception of teachers (who have their own pension scheme). Other employers are admitted to the Pension Fund and depending on their status; their employees may also be able to participate in the LGPS. Employee contributions are determined by central government and are between 5.5% and 12.5% of pensionable pay. Employer rates are set by the Fund actuary every 3 years following a valuation of the assets and liabilities of the Fund, with the latest valuation on 31 March 2019.

The conditions of the Local Government Pension Scheme (LGPS) Regulations set out in clear terms the benefits that are payable to Scheme members. The benefits are guaranteed for those members and therefore members are not reliant on investment performance for their pension benefits. Contributions payable by Scheme members are also defined in the regulations. Employing Authorities are required to pay contributions into the Scheme in order to meet the cost of funding employee benefits and are required to meet any shortfall in funding the pension liabilities of Scheme members.

The Pension Scheme during the financial year 2019/20 was a defined benefit career average revalued earnings scheme, which aligns LGPS retirement age with an individual's state pension age. The key benefits of the scheme are outlined below:

- Pension benefits based on a 1/49th accrual basis for each year of pensionable service with benefits calculated on the career average pay revalued annually in line with inflation.
- Pre-2014 benefits guaranteed with a final salary link for any benefits earned prior to 1 April 2014.
- Option to pay 50% of the contribution rate to accrue 50% of the benefits.
- Option to convert some pension to lump sum on retirement on a 1:12 ratio.
- Life assurance cover 3x member final pay applicable from the day of joining scheme.
- Pensions for dependents: - spouses, civil partners and eligible co-habiting partners and eligible children.
- An entitlement to have pension paid early on medical grounds.
- Pensions increase annually in line with the cost of living (CPI).

It should be noted that the foregoing is not an exhaustive list and that certain conditions have to be met for an individual to be entitled to the benefits outlined. The foregoing benefit structure came into effect on 1 April 2014 and saw the start of significant changes to the public sector pension schemes, with most other schemes introducing their changes a year later on 1 April 2015. The previous LGPS introduced in 2008 was a defined benefit final salary scheme and was in operation until 31 March 2014. It should be recognised that a large number of scheme members will have benefits accrued under both schemes and indeed some under the pre-2008 scheme. The key benefits under the 2008 scheme are outlined below:

- A guaranteed pension based on final pay and length of time in the scheme and an accrual rate of 1/60th per annum.
- Tax-free lump sum on benefit accumulated prior to 1 April 2008 and option to convert some of the pension into tax-free lump sum on post 1 April 2008 service.
- Life assurance cover 3x member final pay applicable from the day of joining Scheme.
- Pensions for dependents: - spouses, civil partners and eligible co-habiting partners and eligible children.
- An entitlement to have pension paid early on medical grounds.
- Pensions increase annually in line with the cost of living (CPI).

Contracting Out Status (with effect from 1 April 2002 until 5 April 2016)

The LGPS was contracted-out of the State Second Pension Scheme (S2P), up to 5 April 2016 when contracting-out ceased. This meant that members paid reduced National Insurance contributions and they did not earn a pension under S2P. Instead, the LGPS must guarantee to pay a pension that in general is as high as the pension that would have been earned in the State Earnings Related Pension Scheme (SERPS) / S2P. For contracted-out membership between 6 April 1978 and 5 April 1997, HMRC calculates a Guaranteed Minimum Pension (GMP), which is the minimum pension, which must be paid from the London Borough of Hillingdon Pension Fund to the member. For membership after 5 April 1997, the LGPS has guaranteed that the benefits it provides will generally be no less favourable than those provided under a Reference Scheme prescribed under the Pensions Act 1995.

Additional Voluntary Contributions

A facility is available for scheme members to make Additional Voluntary Contributions (AVCs). The Pension Fund Committee has appointed Prudential as the nominated provider for this purpose. This is run separately to the Hillingdon Pension Fund. Further details are available from the Prudential Pensions Connection Team on 0800 032 6674.

Regulations

The Local Government Pension Scheme Regulations 2013 (as amended)

The Local Government Pension Scheme (Transitional Provisions, Savings and Amendment) Regulations 2014 (as amended)

The Local Government Pension Scheme (Management and Investment of Funds) Regulations 2016

A: OVERALL FUND MANAGEMENT

SCHEME MANAGEMENT AND ADVISERS

The London Borough of Hillingdon Pension Fund ('the Fund') is part of the Local Government Pension Scheme (LGPS). The benefits paid out and the regulations are set nationally, but the Fund is administered locally. As the Administering Authority, the London Borough of Hillingdon has legal responsibility for the effective management of the Fund. The Council delegates this responsibility to the Pensions Committee ('the Committee'), which is the formal decision-making body for the Fund. The Corporate Director of Finance has delegated authority for the day-to-day running of the Fund. The local Pension Board ('the Board') was established in 2015 to assist the scheme manager in securing compliance with regulations relating to the governance and administration within the requirements set by the Pension Regulator.

Corporate Director of Finance

Paul Whaymand in his role of Corporate Director of Finance has delegated responsibility for the day-to-day running of the Pension Fund.

Officers Responsible for the Fund

The Pensions and Statutory Accounts team ensures that both the Committee and Board receive relevant advice on investment strategy, monitoring of the performance of the Fund and on administration matters, in addition to undertaking the accounting duties of the Fund.

James Lake	Chief Accountant
Tunde Adekoya	Pension Fund Accountant
Seby Carvalho	Pensions Technical Officer
Jean Boeg	Pensions Officer

Scheme Administration

Administration of the scheme was contracted out to Surrey County Council (SCC) to provide the pensions administration under delegated authority for the London Borough of Hillingdon. SCC maintains pension scheme membership records and calculates benefits.

Email: myhelpdeskpensions@surreycc.gov.uk

Telephone: 020 8213 2802

Address: Pension Services, Surrey County Council, Room 243, County Hall, Penrhyn Road, Kingston upon Thames, KT1 2DN

Fund Custodian and Performance Monitoring

The Northern Trust Company acts as the global custodian of the Fund's assets. As part of its normal procedures Northern Trust holds all assets in safe custody, settles trades, collects dividend income, provides data for corporate actions, liaises closely with all of the investment managers and reports on all activity on a monthly and quarterly basis. Where holdings are in pooled funds, the underlying assets held by the relevant funds' custodian are reported to Northern Trust. Regular service reviews take place with Northern Trust to ensure continuous monitoring of the Fund's requirements. Additionally, Northern Trust provide performance analytics, comparing the performance of the Fund and individual managers to agreed benchmarks and market indices on a monthly, quarterly and annual basis.

*Northern Trust
50 Bank Street
Canary Wharf
London
E14 5NT*

Fund Actuary

The Fund's actuary is Hymans Robertson

*Catherine McFadyen FFA
Hymans Robertson LLP
20 Waterloo Street
Glasgow
G2 6DB*

Fund Managers

Day-to-day investment management of the Fund's assets is delegated to specialist managers in accordance with the LGPS (Management and Investment of Funds) Regulations 2016. During 2019/20, the following managers managed the Fund's investments externally:

Fund Manager	Asset Class
Adam Street Partners	Private Equity
AEW UK	UK Core Property
JP Morgan Asset Management	Multi Asset Credit
Legal & General Investment Management	Listed Equities and Index Linked Bonds - (Passive) – Pooled & Property Pooled
London CIV - Epoch	Global Equity Income - Pooled
London CIV - Ruffer	Absolute Return Fund - Pooled
London CIV - Stepstone	Infrastructure - Pooled
LGT Capital Partners	Private Equity
M&G Investments (Direct Investment)	Private Debt
Macquarie Investment	Infrastructure
Permira LLP	Private Debt
UBS Global Asset Management	UK Equities & UK Pooled Property Fund of Funds

Fund Pool and Pool Operator

The London Borough of Hillingdon is a member of the London CIV Pool. The London CIV Pool is run and managed by the London LGPS CIV Ltd, an FCA authorised and regulated company.

Advisors to the Fund

The Fund's Investment Advisor is Iseran Bidco Ltd trading as Isio, (*formally* KPMG) who was appointed July 2014. They advise the Committee on the Fund's strategic asset allocation and assist in the monitoring of fund managers.

David O'Hara
Partner
Investment Advisory
Tax & Pensions
Iseran Bidco Ltd (Isio)
10 Norwich Street
London EC4A 1BD

In addition, the Fund had an Independent Advisor for 2019/20 – Clare Scott.

AON Hewitt advises and supports the Fund on governance arrangements to the Board.

Aon Hewitt
25 Marsh Street
Bristol
BS1 4AQ

Legal Services

Legal support to the Fund is provided in-house by the Council. The Council's Borough Solicitor is Raj Alagh.

Auditor

The Fund's external auditor, appointed by the Public Sector Audit Appointments (PSAA), is Ernst & Young.

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

Banker

Banking services are provided to the Fund by the Council's banker Lloyds.

*Lloyds Bank plc**
25 Gresham Street
London
EC2V 7HN

**National Westminster Bank from 01 April 2020*

AVC Provider

The Fund's provider for additional voluntary contributions is Prudential.

Prudential AVC Customer Services
Prudential
Craigforth
FK9 9UE

RISK MANAGEMENT**Risk Management within the Governance Structure**

The Administering Authority recognises that effective risk management is an essential element of good governance in the LGPS and is part of the ongoing decision-making process of Committee. By identifying and managing risks, the Administering Authority can:

- demonstrate best practice in governance
- improve financial management
- minimise the risk and effect of adverse conditions
- identify and maximise opportunities that might arise
- minimise threats

The Administering Authority adopts best practice risk management, which supports a structured and focused approach to managing risks and ensures risk management is an integral part in the governance of the Fund at a strategic and operational level.

In relation to understanding and monitoring risk, the Administering Authority aims to:

- integrate risk management into the culture and day-to-day activities of the Fund
- raise awareness of the need for risk management by all those connected with the management of the Fund (including advisers, employers and other partners)
- anticipate and respond positively to change
- minimise the probability of negative outcomes for the Fund and its stakeholders
- establish and maintain a robust framework and procedures for identification, analysis, assessment and management of risk, and the reporting and recording of events, based on best practice

- ensure consistent application of the risk management methodology across all Fund activities, including projects and partnerships.

Responsibility

The Administering Authority must be satisfied that risks are appropriately managed. For this purpose, the Chief Accountant is the designated individual for ensuring the process outlined below is carried out, subject to the oversight of the Pension Committee.

However, it is the responsibility of each individual covered by this Policy to identify any potential risks for the Fund and ensure that they are fed into the risk management process.

Risk Identification

The risk identification process is both proactive and reactive: looking forward i.e. horizon scanning for potential risks, and looking back, by learning lessons from reviewing how previous decisions and existing processes have manifested in risks to the organisation.

Risks are identified by several means including, but not limited to:

- formal risk assessment exercises managed by the Pension Committee
- performance measurement against agreed objectives
- findings of internal and external audit and other adviser reports
- feedback from the local Pension Board, employers and other stakeholders
- informal meetings of senior officers or other staff involved in the management of the Fund
- liaison with other organisations, regional and national associations, professional groups, etc.

Once identified, risks will be documented on the Fund's risk register, which is the primary control document for the subsequent analysis, control and monitoring of those risks.

Risk Management

The Chief Accountant will review the extent to which the identified risks are covered by existing internal controls and determine whether any further action is required to control the risk, including reducing the likelihood of a risk event occurring or reducing the severity of the consequences should it occur. Before any such action can be taken, Pension Committee approval may be required where appropriate officer delegations are not in place. The result of any change to the internal controls could result in any of the following:

- **Tolerate** – the exposure of a risk may be tolerable without any further action being taken; this is partially driven by the Administering Authority's risk 'appetite' in relation to the Pension Fund;
- **Treat** – action is taken to constrain the risk to an acceptable level;
- **Terminate** – some risks will only be treatable, or containable to acceptable levels, by terminating the activity;

- **Transfer** - for example, transferring the risk to another party either by insurance or through a contractual arrangement.

The Fund's risk register details all further action in relation to a risk and the owner for that action.

The Fund has a cautious risk appetite, particularly in relation to investment, reflecting the Fund's preference for safe delivery options that have a low degree of residual risk with a strong control framework in place for investment operations. The Fund will take risks that have been carefully considered and where controls have been implemented to reduce the likelihood of a risk materialising or the impact if one did materialise. This means that the Fund puts processes and systems in place that ensure achievement of planned outcomes, although controls would not be put in place where the cost of these exceeds the value of the expected benefits.

A risk report, including the latest risk register showing the status and direction of each risk, is maintained and updated regularly and reported to Pension Committee on a quarterly basis. The key types of risk facing the Fund are explained briefly below. Further detail on the risks and the mitigating actions are included in the Funding Strategy Statement.

Key Risk 1 – Financial Risks - a team of experienced officers and advisors support the Pension Committee who ensure the monitoring of all financial risks for impact. The financial risks cover all aspects of the Fund's investment strategy, the impact of changes on the returns on investments, the impact of active manager performance, and the impact of pay and price inflation. Currently only the risk of the Fund's investment returns failing to match arising liabilities is reported corporately to the Council.

Key Risk 2 – Demographic Risks - The risk of pensioners living longer is the key risk in this area. Active monitoring of retirement patterns allows additional employer contributions to be requested if required.

Key Risk 3 – Regulatory Risks - Changing regulations remain a long-term risk to the Fund; however, Hillingdon fully participates in consultation exercises where their influence can impact on this risk.

Key Risk 4 – Governance Risks - These risks relate mainly to an employer failing to notify the administering authority of changes to their structure or operation. Good employer communication is vital to keep this risk under control and officer support to the Fund helps to further mitigate these risks.

The specific risks identified within the Pension Fund risk register as at March 2020 were:

1. Fund assets fail to deliver returns in line with the anticipated returns underpinning valuation of liabilities over the long-term
2. Inappropriate long-term investment strategy
3. Active investment manager under-performance relative to benchmark

4. Pay and price inflation significantly more than anticipated impacting the ability for employers to afford contributions Pensioners living longer
5. Inflation significantly more than anticipated
6. Pensioners living longer.
7. Poor Performance of Outsourced Administrator leading to poor quality information supplied to both members and the Fund Actuary
8. Failure to invest in appropriate investment vehicles as a result of MiFID II (legislative framework instituted by the European Union (EU) to regulate financial markets in the bloc and improve protections for investors) regulations in place from 3 January 2018
9. Cyber Security - Pension schemes hold large amounts of personal data and assets which can make them a target for fraudsters and criminals
10. Climate Change - Risk of financial loss through climate change impacts
11. Portfolio liquidity - risk of failure to liquidate assets or meet drawdown calls
12. Failure of the pool in management of funds / access to funds
13. Change in ownership/business model of KPMG - Investment Advisors to the Fund
14. Threat of COVID 19 to Business Continuity

Management of investment risk

Investments risk is the risk that investments assets underperform the assumed level in the triennial actuarial valuation. This can occur due to poor economic/market conditions, the wrong investment strategy or poor selection of investment managers.

The Fund's investments risk is managed in line with the risk budget specified in the triennial actuarial valuation by the Fund's actuaries, Hymans Robertson. The valuation specifies the required rate of return on assets employed to ensure the main objective of the Fund, meeting its obligation of paying Pensioners when due, is met. The officers of the Fund implement Pensions Committee decisions based on professional advice provided by engaged investment advisers, by constantly monitoring the Fund's asset allocation on a risk return basis. An asset allocation review is undertaken annually to ensure the required rate of returns are being met and adjustments made to the asset allocation if necessary to de-risk after consultation between the Fund's actuaries and investment advisers and such decisions are then presented to the Pensions Committee for consideration and ratification.

Third Party risk such as late payment of contributions

Contribution payments are monitored closely for accuracy and timeliness. A reporting process is in place to escalate any late/inaccurate payments to ensure all payments are received on 19th of the subsequent month of payment due date as prescribed by the regulations.

In respect of Investment Managers, internal control reports (AAF 01/06 and SSAE16) are received and reviewed regularly for any non-compliance issues. If management response to non-compliant issues are unsatisfactory, the matter is then addressed directly with the fund manager for further assurance.

Controls assurance reports

Fund manager	Type of report	Assurance obtained	Reporting accountant
Adams Street Partners	SSAE 16 SOC 1	Reasonable Assurance	KPMG LLP
AEW UK Ltd	ISAE 3402	Reasonable Assurance	KPMG LLP
JP Morgan Asset management	SOC 1	Reasonable Assurance	PWC LLP
Legal & General Investments Management	AAF 01/06/ ISAE 3402	Reasonable Assurance	KPMG LLP
London CIV - Epoch	SOC 1	Reasonable Assurance	Ashland Partners & Company LLP
London CIV – Ruffer LLP	AAF 01/06/ ISAE 3402	Reasonable Assurance	Ernst & Young LLP
M&G	SOC 1 (Custodian Report by State Street)	Reasonable Assurance	Ernst & Young LLP
Macquarie Infrastructure Real Assets	Internal Controls Report	Reasonable Assurance	RMG Internal Audit (Macquarie Risk Management Group)
Northern Trust Company	SOC 1	Reasonable Assurance	KPMG LLP
Permira LLP	SOC 1	Reasonable Assurance	Ernst & Young LLP
UBS Asset Management	SOC 1	Qualified Opinion	Ernst & Young LLP

The risk management policy was introduced during 2016 as part of the work undertaken by the local Pension Board. While Committee regularly review Fund risks through the risk register, it was identified that a formal risk management policy had not been drafted. The policy is available at:

<http://www.hillingdon.gov.uk/article/6492/Pension-fund>

B: FINANCIAL PERFORMANCE

The London Borough of Hillingdon Pension Fund is open to employees of the Council, non-teaching staff of local authority schools and certain other bodies eligible to join the Fund. Membership of the LGPS is not compulsory, although employees are automatically admitted to the Fund unless they elect otherwise. Over the last few years, total membership of the Fund has continued to grow, as have the number of employers participating in the Fund.

General Scheme membership

Membership of the scheme is split between

- Active members - those still contributing to the scheme;
- Deferred members - those who are no longer active but have accrued benefits to be held until retirement or transfer to a new employer's scheme; and
- Pensioner members - comprise former active members now drawing their benefits and dependents of former active members.

The membership of the scheme analysed over the relevant membership profile is shown below:

Membership Summary

	2019/20	2018/19	2017/18	2016/17
Active Members	7,435	6,968	8,591	8,684
Pensioners/Dependants	6,682	6,405	6,453	6,194
Deferred	10,571	10,258	8,510	7,225
Total Membership	24,688	23,631	23,554	22,103

CONTRIBUTIONS

Total Employee and Employers contributions (including transfers) into the Fund during 2019/20 amounted to £49.1m compared to £44.7m for the previous year. The 9% Increase from previous year is attributable to the increased active membership as a result of the auto enrolment programme in April 2019. Employee contributions ranged from 5.5% to 12.5% dependent on pensionable pay. The Fund actuary sets employer contribution rates and the rates that applied during 2019/20 were set from the 2019 valuation.

Analytical Review of Performance

	2019/20	2018/19	2017/18	2016/17	2015/16
Pension Fund Account	£' 000	£' 000	£' 000	£' 000	£' 000
Dealings with Members					
Contributions	49,051	44,663	77,191	42,707	42,012
Pensions	-54,058	-46,642	-45,300	-41,596	-42,476
Net Additions/(Withdrawals) from Dealings with members	-5,007	-1,979	31,891	1,111	-464
Management Expense	-9,882	-8,833	-7,332	-8,385	-6,353
Net Investment Returns	23,101	22,732	15,203	16,004	15,511
Change In Market Value	-86,092	42,843	15,834	137,690	-707
Taxes On Income	-48	-83	-86	0	0
Net Increase/(Decrease) In Fund	-77,928	54,680	55,510	146,420	7,987

Analysis of dealings with members

	2019/20	2018/19	2017/18	2016/17
	£' 000	£' 000	£' 000	£' 000
Contributions Receivable				
Employees	10,109	9,846	9,920	9,356
Employers	37,196	33,330	32,909	32,110
Transfers In - Individual Transfers In	1,746	1,487	3,313	1,241
Transfers In - Bulk Transfer In	0	0	31,049	0
Total Contributions	49,051	44,663	77,191	42,707

	2019/20	2018/19	2017/18	2016/17
	£' 000	£' 000	£' 000	£' 000
Benefits and Other payments				
Pensions	-38,846	-36,423	-33,721	-32,435
Lump Sum Retirements and Death Benefits	-8,342	-7,593	-8,282	-6,918
Transfers Out	-6,767	-2,547	-3,235	-2,162
Refunds	-103	-79	-62	-81
Total Payments	-54,048	-46,642	-45,300	-41,596

The Key variances in members dealings were due to the following:

- Lump Sum Paid in 2019/20 increased marginally
- Transfers In and Out for 2019/20 were higher as more members transferred their pensions both ways under the freedom of choice legislation compared to 2018/19.

Analysis of Operational Expenses

Analysis of Operational Expenses				
	2019/20	2018/19	2017/18	2016/17
	£' 000	£' 000	£' 000	£' 000
Administration				
Employees	-324	-355	-301	-272
Outsourced Administration Costs	-481	-433	-400	-588
Support Services Charges	-20	-52	-52	-42
	-825	-840	-753	-902
Governance and Oversight				
Investment Advisory Services	-95	-55	-81	-103
Governance & Compliance	-36	-12	-50	-484
External Audit	17	-22	-20	-21
Actuarial Fees	-142	-7	-36	-114
	-290	-96	-187	-722
Investment Management				
Management Fees	-6,485	-5,934	-5,291	-5,359
Performance Fees	-1,080	-1,405	-525	-917
Transaction Costs	-1,143	-492	-520	-389
Custodian fees	-59	-66	-56	-96
	8,767	-7,897	-6,392	-6,761
Total Operational Expenses	-9,882	-8,833	-7,332	-8,385

The Key points to note from the operational expenses are as follows:

- Transaction costs increased by about 57% due to increased portfolio activities by active fund managers and divestment from the LCIV Ruffer fund.
- Investment management expenses increased mainly due to Fund performance and value in the first three quarters of 2019/20 (April 19 – December 19).
- Governance and Oversight costs increased by 67% due to triennial valuation costs incurred during the year,

C: INVESTMENT POLICY AND PERFORMANCE

Investment Policy

The Pension Fund Committee sets out a broad statement of the principles it has employed in establishing its investment and funding strategy in the Investment Strategy Statement (ISS).

The ISS sets out responsibilities relating to the overall investment policy of the Fund including:

- asset allocations
- restrictions on investment types
- methods of investment management
- performance monitoring.

The ISS also sets out the Fund's approach to Environmental Social Governance issues, and how the Fund demonstrates compliance with the 'Myners Principles'. These principles are a set of recommendations relating to the investment of pension funds originally prepared by Lord Myners in 2001 and subsequently endorsed by Government. The current version of the Myners Principles covers the following areas:

- Effective decision making;
- Clear objectives;
- Risk & liabilities;
- Performance Measurement;
- Responsible ownership;
- Transparency and reporting.

From 2017/18, the LGPS (Management and Investment of Funds) Regulations 2016, requires the Fund to publish an Investment Strategy Statement (ISS), which replaces the Statement of Investment Principles.

The ISS addresses each of the objectives included in the 2016 Regulations, namely:

- The administering requirement to invest Fund money in a wide range of instruments
- The administering authority's assessment of the suitability of investments and types of investment
- The administering authority's approach to risk, including the ways in which risks are to be measured and managed

- The administering authority's approach to pooling investments, including the use of collective investment vehicles
- The administering authority's policy on how social, environmental or corporate governance considerations are considered in the selection, non-selection, retention and realisation of investments.

Fund Value and Asset allocation

The strategic asset allocation is agreed by the Pension Fund Committee based on the risk appetite and return on investments required to fulfil its paramount obligation of paying Pensions to members. The strategy benefits from input by both officers and the Fund's investment advisors.

Whilst managers are able to use their discretion to make minor variations in the allocation of investments between markets, the major movements are a combination of market gains, revised asset allocation and maturation of Private Equity and alternative investments during the year.

Cash movement is incidental as the Fund has a zero cash policy but cash returns from alternative investments during the year are received in the custody account pending reinvestment.

The asset allocation as at 31 March 2020 is as follows:

Asset Category	Opening Value 01 April 2019	Strategic Weighting	Actual Weighting	Closing Value 31 March 2020	Strategic Weighting	Actual Weighting
	£'000	%	%	£'000	%	%
Equities	492,526	44	46	408,483	45	41
DGF	102,701	10	10	55,573	0	6
Bonds	211,512	14	20	230,844	24	23
Property	135,448	12	13	118,060	12	12
Alternatives:						
Private Equity	17,329	2	2	13,645	1	1
Infrastructure	29,133	3	3	27,265	8	3
Private Credit	69,390	10	7	68,777	5	7
Long Lease						
Property	0	5	0	47,399	5	5
Cash	8,086	0	1	16,068	0	2
Total	1,066,126	100	100	986,114	100	100

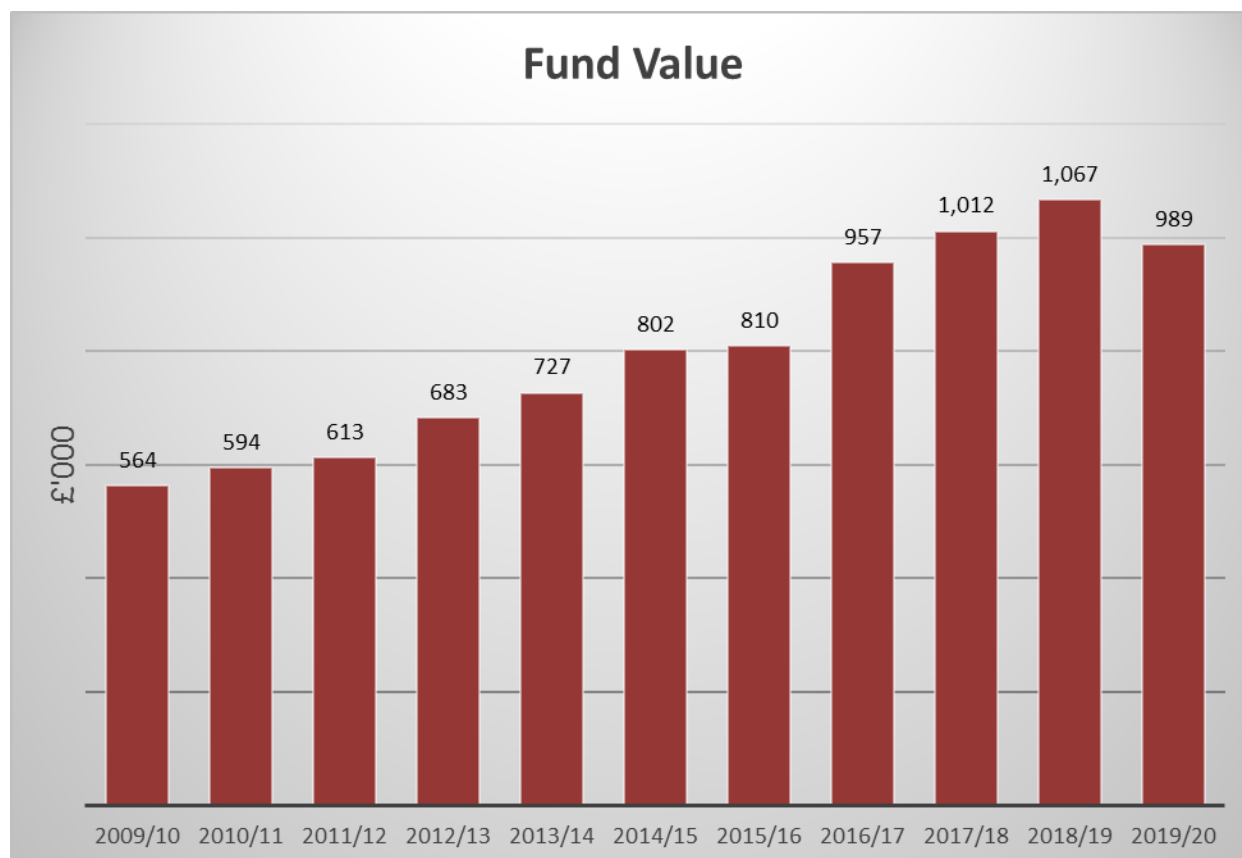
Asset Allocation Variances

The table above shows 6% variances between DGF strategic and actual weightings compared to its strategic allocation. This attributable to asset allocation decisions taken during the year to fund LPI I/L Property portfolio with LGIM and Infrastructure with DGF allocation reduced to zero.

Weighting difference in Infrastructure is due to the allocated commitments to LCIV-Infrastructure offerings yet to be drawn-down and still invested in DGF.

Fund Value

The value of the Fund has undergone significant increase over the last few years. Most of the gains has been attributable to buoyant world economies and financial markets. Despite the defensive nature of the portfolio the effects of COVID-19 are manifested in the value of Fund assets at end of period under review with £78m difference compared to 2018-19 valuation.



Funding Strategy Statement

The Funding Strategy Statement sets out the aims and purpose of the pension fund and the responsibilities of the administering authority as regards funding the scheme. Its purpose is:

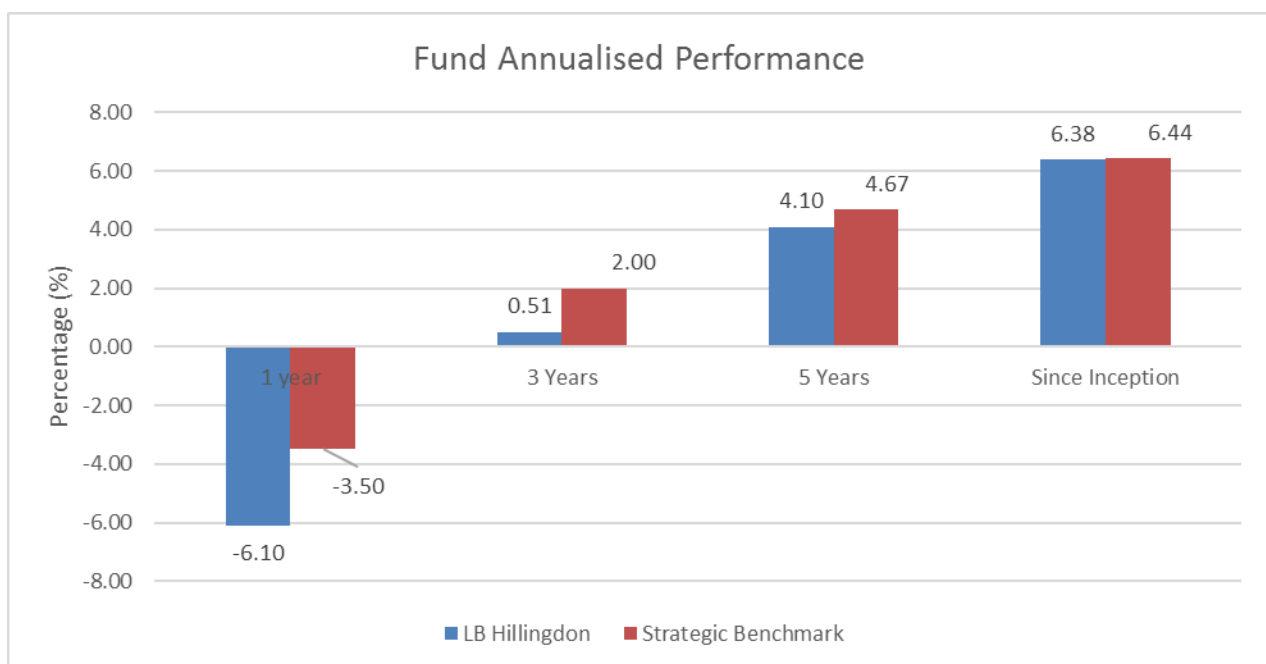
- To establish a clear and transparent fund-specific strategy to identify how employers' pension liabilities are best met going forward;
- To support the regulatory requirement to maintain as nearly constant employer contribution rates as possible;
- To take a prudent longer-term view of funding those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

The latest Funding Strategy Statement can be accessed via the Pension Fund Web page. file:///C:/Users/Babatundea/Downloads/Funding_Strategy_Statement.pdf

Investment Performance

Overall relative performance of the Fund for the year 2019/20 was 2.69% below the overall benchmark. Across all performance measurement intervals of one, three and five years, the annualised returns were behind the respective benchmarks as shown in the chart below.

The since inception relative performance was 0.05% behind the benchmark.

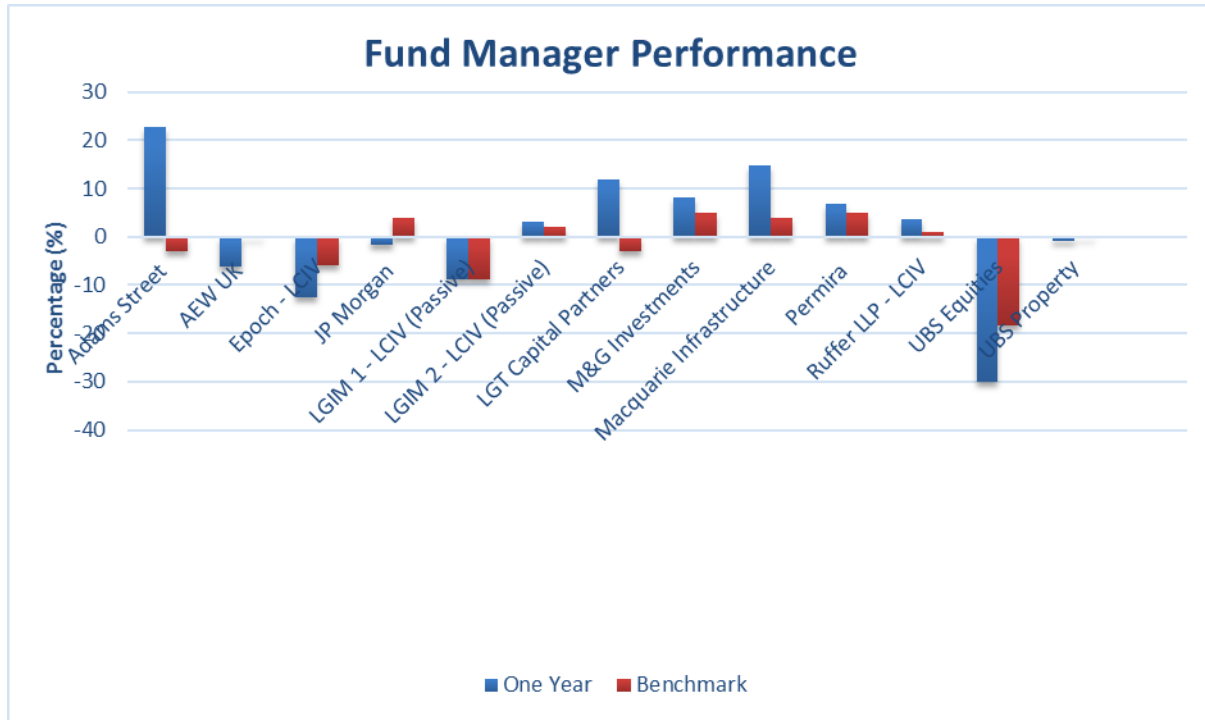


Performance of the Fund is measured against an overall strategic benchmark. Below this, each Fund Manager is given individual performance targets, which are linked to index returns for the assets they manage. Details of these targets can be found in the ISS.

Performance of fund managers is reviewed quarterly by the Pension Fund Committee, which is supported by officers and the Fund's investment and independent advisers.

Investment Managers Performance

The overall performance of each manager is measured over rolling three-year periods, as inevitably there will be short-term fluctuations in performance.



Fund Manager Performance 2019/20		
	One Year	Benchmark
	%	%
Adams Street	22.74	-2.89
AEW UK	-6.30	-0.01
Epoch - LCIV	-12.51	-5.83
JP Morgan	-1.67	3.95
LGIM 1 - LCIV (Passive)	-8.81	-8.74
LGIM 2 - LCIV (Passive)	3.14	2.00
LGT Capital Partners	11.87	-2.89
M&G Investments	8.28	4.95
Macquarie Infrastructure	14.67	3.95
Permira	6.81	4.95
Ruffer LLP - LCIV	3.55	0.95
UBS Equities	-30.01	-18.45
UBS Property	-0.92	-0.01

The portfolio is a mixture of active and passively managed asset classes:

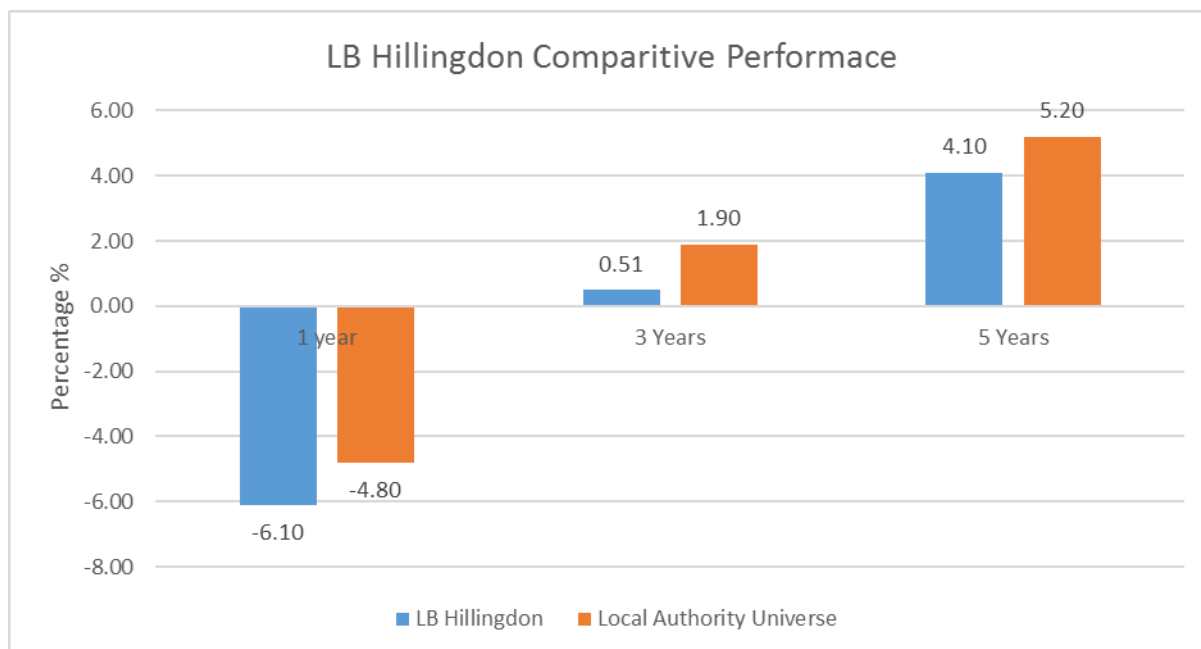
- Targets for active fund mandates are set to out-perform the benchmark by a set percentage through active stock selection and asset allocation. Fund managers with active fund mandates are Adams Street, AEW UK, Epoch, JP Morgan (LCIV), LGT Capital, M&G, Macquarie, Permira, Ruffer (LCIV) UBS Equities and UBS Property
- Targets for passive funds are set to achieve the benchmark through investment in a stable portfolio. Both LGIM mandates are passive.

Historical Fund Managers Performance and Benchmarks				
Benchmark	One Year	Three Years	Five Years	Benchmark
	%	%	%	
Adams Street	22.74	13.34	14.35	MSCI All Countries World Index
AEW UK	-6.3	2.20	4.93	IPD UK PPFi All Balanced Funds Index
Epoch – LCIV*	-12.51	0	0	MSCI World ND
JP Morgan	-1.67	0.97	2.38	LIBOR +3%pa
LGIM 1 - LCIV (Passive)*	-8.81	-0.27	0	FTSE World Developed Equity index Currency Hedged, FTSE World Developed Equity index unHedged, FTSE Emerging Markets
LGIM 2 - LCIV (Passive)*	3.14	4.52	0	Markit iBoxx £ Non-Gilt, FTSE A Govt Index-Linked (All Stocks), FTSE A Govt Index-Linked (Over 15 Year)
LGT Capital Partners	11.87	15.2	18.73	MSCI All Countries World Index
M&G Investments	8.28	4.7	7.1	LIBOR +4%pa
Macquarie Infrastructure	14.67	12.96	16.56	LIBOR +3%pa
Permira	6.81	6.60	8.33	LIBOR +4%pa
Ruffer LLP - LCIV	3.55	0.60	2.31	LIBOR
UBS Equities	-30.01	-9.27	-1.51	FTSE All Share Ex-Tobacco
UBS Property	-0.92	3.87	5.93	IPD UK PPFi All Balanced Funds Index

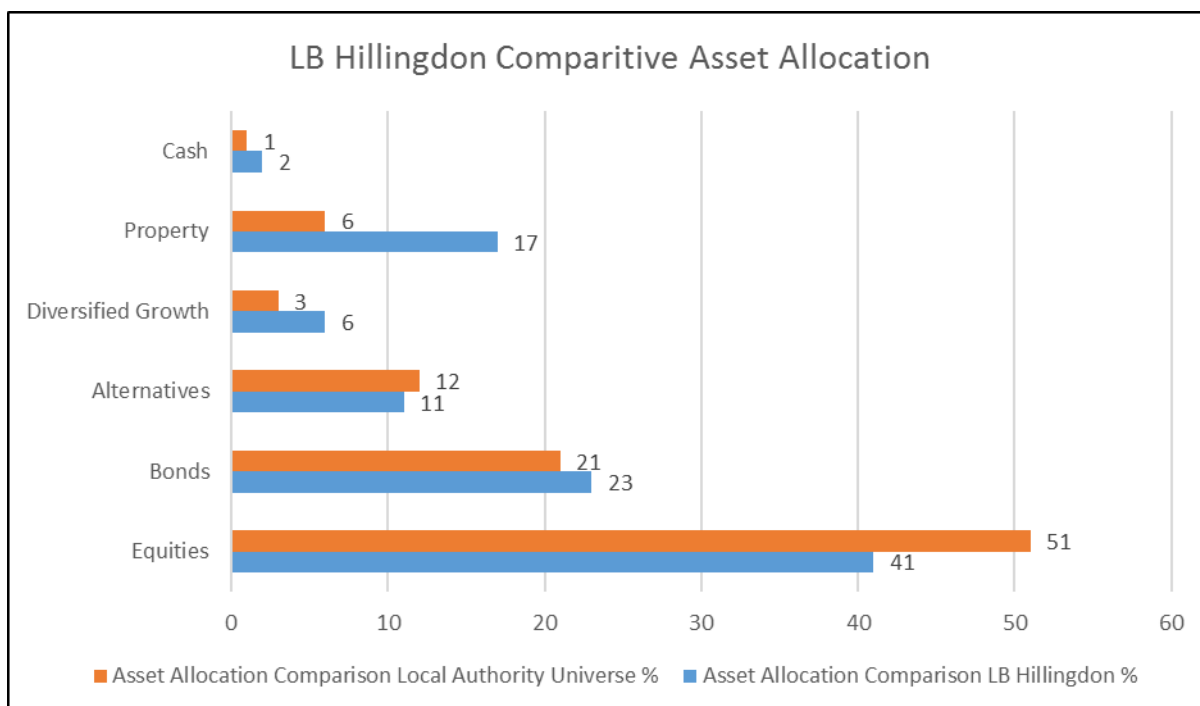
*Pooled Investments with London CIV. Three and five year returns unavailable

The above tables provide information on those managers that manage fund assets and performance return over three different periods and their respective measurement benchmarks.

Comparative Performance



The graph above shows the Fund's investment returns in comparison with Uk Local Authorities average over one, three and five-year periods. The performance difference is partly attributable to the cautious investment philosophy and risk averse asset allocation strategy adopted by the Fund. In addition, performance has also been negatively impacted by poor results from the active equity managers.



Responsible Investing

The Fund is committed to being a long-term steward of the assets in which it invests and expects this approach to protect and enhance the value of the Fund in the long term. External investment managers are expected to undertake appropriate monitoring of underlying investments with regard to their policies and practices on all issues that could present a material financial risk to the long-term performance of the Fund such as corporate governance and environmental factors, integrating material ESG factors within its investment analysis and decision-making.

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

The Fund's approach to engagement recognises the importance of working in partnership to magnify the voice and maximise the influence of investors as owners. The Fund expects its investment managers to work collaboratively with others if this will lead to greater influence and deliver improved outcomes for shareholders and more broadly.

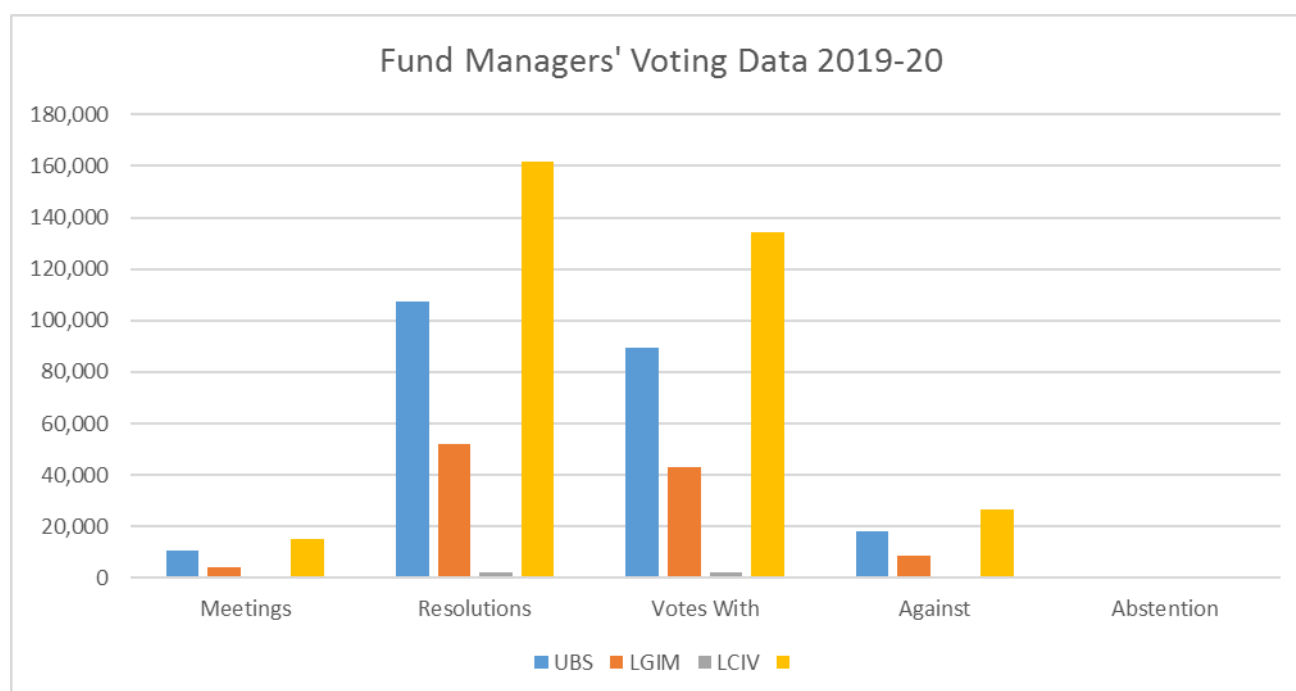
We as a Fund appreciates that to gain the attention of companies in addressing governance concerns; collaborating with other investors sharing similar concerns may be an effective tool.

Exercise of voting rights

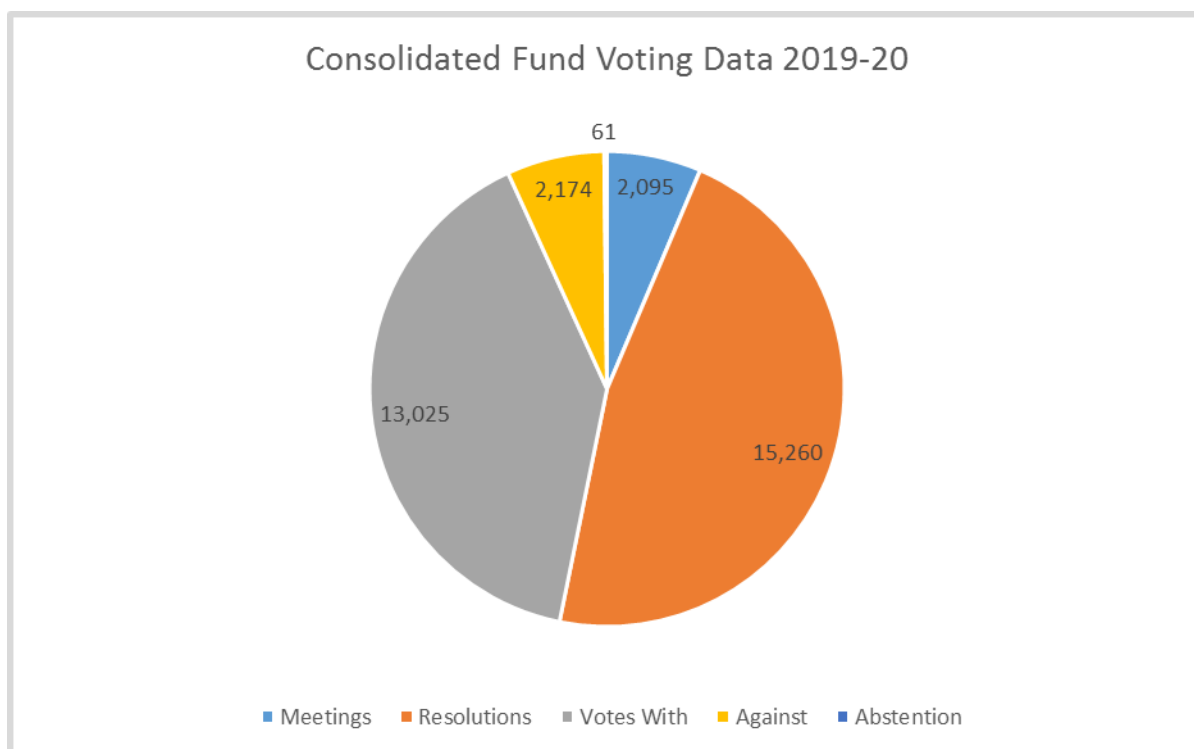
To ensure effective and consistent use of the voting rights, investment managers are tasked with exercising the voting rights accruing to the Fund. If important issues affecting local residents do emanate from actions of invested companies, the

Pensions Committee will contact investment managers in charge of assets of such a company to make their opinion known and ask for such to be presented at meetings with the company or reflected in their voting pattern.

The Fund complies with the UK Stewardship Code and a statement of compliance that explains the arrangements supporting its commitment to each of the seven Myners principles.



The graph above shows a breakdown of voting activities by Fund's investment managers during 2019-20 financial year. UBS Asset Management were the most active in terms of voting activities by attending and voting at 10,641 meetings, more than double the activities of all other managers represented in the chart above. All managers voting activity relates to the managers votes to cast for the funds rather than Hillingdon specific shares. The UBS figures relate to their equities fund that holds a number of companies in addition to those held by Hillingdon.



Custody

The Northern Trust Company acts as the global custodian of the Fund's assets. As part of its normal procedures Northern Trust holds all assets in safe custody, settles trades, securities lending, collects dividend income, provides data for corporate actions, liaises closely with all of the investment managers and reports on all activity on a monthly and quarterly basis. Where holdings are in pooled funds, the underlying assets held by the relevant funds' custodian are reported to Northern Trust. Regular service reviews take place with Northern Trust to ensure continuous monitoring of the Fund's requirements.

Separation of Responsibilities

The Fund employs a global custodian (Northern Trust), independent to the investment managers, to be responsible for the safekeeping of all of the Fund's investments. Northern Trust is responsible for the settlement of all investment transactions and the collection of income.

As at the 31st March 2020 the Fund's bank accounts were held with Lloyd's Bank (From the 1st April 2020 Nat West). Funds not immediately required to pay benefits are held as interest bearing operational cash with the bankers and the custodian.

The actuary, Hymans Robertson is responsible for assessing the long-term financial position of the pension fund and issues a Rates and Adjustments statement following their triennial valuation of the Pension Fund, which sets out the minimum contributions which each employer in the Scheme is obliged to pay over the following three years.

D. SCHEME ADMINISTRATION

Service Delivery

Administration of the scheme is undertaken under delegated authority by the Pensions Team at Surrey County Council. Surrey are responsible for:

- Administering the LGPS on behalf of London Borough of Hillingdon as an Employing Authority in accordance with relevant legislation and Committee decisions;
- Administering the Council's early retirement arrangements in accordance with relevant legislation and Committee decisions;
- Providing advice to scheme members and external scheme Employers on options available under the Council's Pension Scheme; and
- Exploiting information technology to improve service standards and efficiency.

Surrey and LB Hillingdon are working closely together to provide a full administration service covering the collecting, and reconciling of pension contributions, transfers of pension rights in to and out of the LGPS and deferred benefits, payment of pensions, calculations for retirements, re-employment, and death benefits.

The agreement with Surrey details agreed performance targets and key performance indicators are reviewed quarterly at Pensions Committee and Pensions Board.

PERFORMANCE INDICATORS

The contract with Surrey County Council includes a number of key performance indicators included to ensure that service to members of the pension fund is effective. The targets are set out below, along with actual performance.

Performance Indicators	Target	Performance	
		2018/19	2019/20
Death notification acknowledged, recorded and documentation sent	5 working days	83%	95%
Payment of death grant made	10 working days	86%	96%
Retirement notification acknowledged, recorded and documentation sent	10 working days	94%	95%
Payment of lump sum made	10 working days	91%	96%
Calculation of spouses benefits	10 working days	84%	94%
Transfers In - Quotes	20 working days	92%	97%
Transfers In - Payments	20 working days	100%	89%
Transfers Out - Quote	20 working days	87%	89%
Transfers Out - Payments	20 working days	89%	96%

Employer estimates provided	10 working days	94%	91%
Employee projections provided	10 working days	84%	96%
Refunds	20 working days	96%	99%
Deferred benefit notifications	20 working days	88%	80%

Staff shortages and legacy data integrity issues had a negative impact on the performance indicators shown above. However, there have been no delays in processing pension payments and no impact on the accuracy of final calculations made.

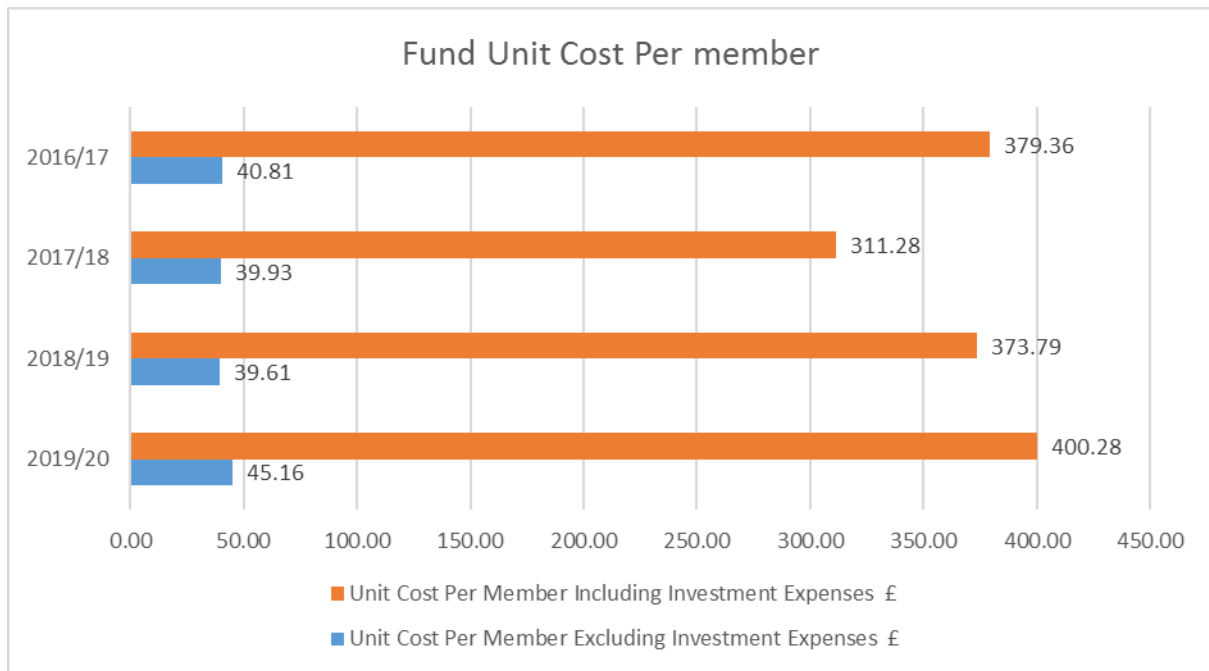
During 2019/20, staffing issues have been partly addressed with new appointments made to complement the existing work force. This should contribute towards improved efficiency and improvement in all areas of performance indicators above.

STAFFING COSTS ANALYSIS

The administration of the Fund is outsourced to Surrey County Council run consortium, Orbis, under a Service Level Agreement. Agreed monthly charges are invoiced to cover the administration charges along with any added costs for software licences incurred by Orbis.

1.75 FTE staff are employed by Hillingdon to deal with the added internal administration of the Fund and liaise with Surrey CC on issues or concerns raised by members.

1.80 FTE staff are employed by the Finance Directorate to oversee the governance and accounting side of the Fund.

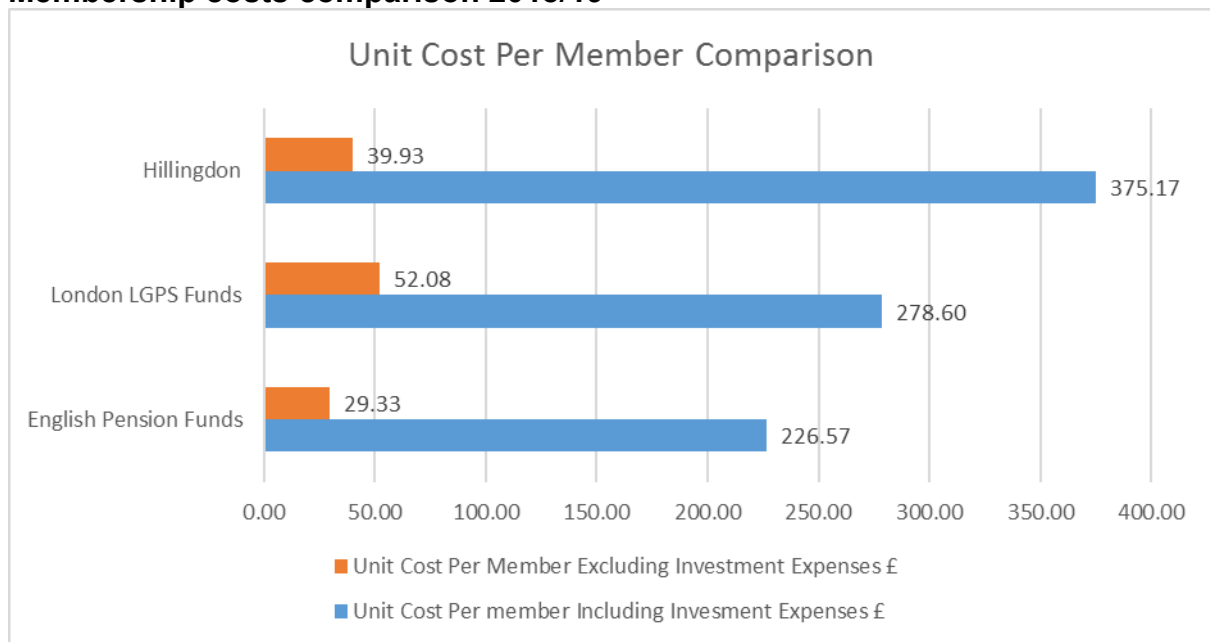


The staffing costs for the Fund has increased with membership numbers over the years and the spike in 2016/17 coincided with the change in outsourced administration contract from CAPITA to Surrey County Council run Orbis and the accompanying initial set up and data migration costs contributed largely to the high administration costs recorded during that year.

The increase in administration costs was largely responsible for increased in costs per member from £40 in 2018/19 to £45 per head in 2019/20. The triennial valuation costs incurred significantly affected the membership costs per head.

The cost comparison chart below is the latest comparative figure available from the ONS. At time of publishing this report 2019/20 figures were yet to be released.

Membership costs comparison 2018/19

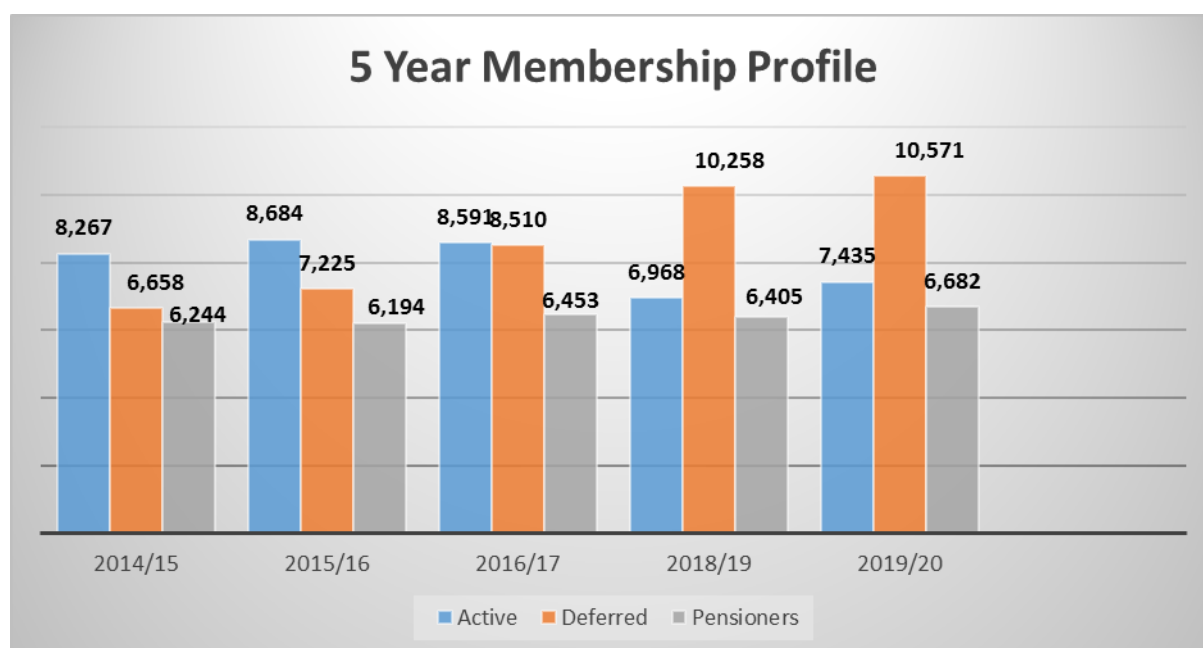


For the year 2018/19, the unit cost per member excluding investment expenses is about 17% higher than the average for Pension Funds in England but less than London Funds' average at £40 per member. The cost per member including Investment management expenses is about £375 per member and comes out higher than most English and London Pension Funds in comparison.

Based on comparative figures obtained from ONS SF3 available as at 31 March 2020.

MEMBERSHIP

Active and deferred membership continued to grow over the last two financial years. The most significant movement year-on-year is the increase in deferred membership by 467 and overall scheme membership increased year-on-year by 4.5% from 23,631 to 24,688 in 2019/20. The membership profile over the last five years is shown below:



The total number of pensioners in receipt of enhanced benefits due to ill-health or early retirement on the grounds of redundancy or efficiency of the service on 31 March over a five year period is shown in the table below.

Reasons for leaving	2015/16	2016/17	2017/18	2018/19	2019/20
Ill-Health Retirement	6	3	8	8	10
Redundancy	19	34	58	39	41
Total	25	37	66	47	51

COMPLAINTS

The Council's complaints procedure is available to any person who wishes to make a suggestion or complaint about the service. Number of complaints are reported as part of the administration KPI monitoring quarterly to Pensions Committee.

There is also a two stage statutory Independent Dispute Resolution Procedure (IDRP) within the LGPS regulations. Details of this procedure are available on the Pensions web pages at www.hillingdon.gov.uk or on request. An application at stage one of the process is to the Chief Accountant, London Borough of Hillingdon.

CONTRIBUTING EMPLOYERS AND CONTRIBUTIONS RECEIVED

Below is a list of the current active contributing employers and the contributions received for 2019/20 (Figures include early retirement and deficit funding contributions).

Employer	Type	Total Contributions	Contribution Rate %
London Borough of Hillingdon	Administering Authority	25,382,011.62	24.1
Barnhill School - ACADEMY	Scheduled Body	221,717.86	24.9
Belmore Primary School - ACADEMY	Scheduled Body	195,771.25	24.1
Bishop Ramsey C Of E School - ACADEMY	Scheduled Body	262,131.15	25.2
Bishopshalt School - ACADEMY	Scheduled Body	315,987.26	28.8
Charville Primary School	Scheduled Body	178,051.95	24.3
Coteford Academy - QED Academy Trust	Scheduled Body	139,204.53	27.1
Cowley St Laurence - LBDS FRAYS ACADEMY	Scheduled Body	134,027.70	24.9
Cranford Park School - Park Federation Academy	Scheduled Body	306,505.94	24.8
Douay Martyrs School - ACADEMY	Scheduled Body	264,255.33	26.9
The Eden Academy (Payroll Staff - Eden Academy Trust)	Scheduled Body	210,065.85	21.7
Grangewood School - EDEN ACADEMY	Scheduled Body	241,531.26	21.7
Global Academy - Heathrow	Scheduled Body	86,471.46	17.3
Guru Nanak Sikh Secondary - Guru Nanak Academy Trust	Scheduled Body	338,072.39	22.4
Harefield ACADEMY	Scheduled Body	185,335.88	22.3
Haydon Secondary School - ACADEMY	Scheduled Body	410,826.01	25.1
Heathrow Aviation (UTC) Alet	Scheduled Body	23,752.55	18.8
Hillingdon Primary School - Elliot Foundation Trust	Scheduled Body	157,766.59	23.5
The Skills Hub - Orchard Hill College Academy Trust	Scheduled Body	82,172.81	29.6
John Locke Academy - Elliot Foundation Trust	Scheduled Body	99,488.82	19.1
Lake Farm Academy - Park Federation Academy	Scheduled Body	145,476.34	18.9
Laurel Lane Primary School	Scheduled Body	133,864.43	24.9
LBDS FRAYS ACADEMY BGC	Scheduled Body	50,480.99	24.9

FRAYS TRUST		
LHC	Scheduled Body	403,588.06 24.1
Moorcroft Special School - EDEN ACADEMY	Scheduled Body	180,635.69 21.7
NANAKSAR PRIMARY - Guru Nanak Academy Trust	Scheduled Body	53,389.45 20.4
Northwood Academy - QED Academy Trust	Scheduled Body	143,363.21 23.8
Park Federation - Academy (Payroll Staff)	Scheduled Body	73,996.42 24.8
Pentland Field School - Eden Academy	Scheduled Body	293,580.20 21.7
Pinkwell Primary School - Elliot Foundation Trust	Scheduled Body	270,830.48 26.6
Queensmead Secondary School - QED Academy Trust	Scheduled Body	265,948.45 21.8
Rosedale College - Rosedale Hewens Academy Trust	Scheduled Body	362,301.54 23.9
Ruislip Academy	Scheduled Body	246,333.79 25.9
Ryefield ACADEMY - Multi Academy Trust	Scheduled Body	128,809.66 28.9
St Martins Primary School	Scheduled Body	72,390.79 24.9
St Matthews Primary School - LBDS FRAYS ACADEMY	Scheduled Body	92,925.50 24.9
Stockley Academy - (Park West Academy)	Scheduled Body	121,248.76 21
Swakeleys School - ACADEMY	Scheduled Body	207,699.66 23.9
Uxbridge College	Scheduled Body	1,966,762.11 25.4
Uxbridge High School - ACADEMY	Scheduled Body	313,750.64 21.5
Vyners School - Multi Academy Trust	Scheduled Body	232,702.69 25.7
West Drayton Primary School	Scheduled Body	170,803.55 25.5
William Byrd Primary	Scheduled Body	184,151.38 26.6
Willows Special School - ACADEMY	Scheduled Body	68,082.46 32.5
Woodend Park School - Park Federation Academy	Scheduled Body	219,326.22 23
Young Peoples Academy - Orchard Hill Academy College Trust	Scheduled Body	93,055.24 29.6
BRAYBORNE FAC - Bishop Ramsey	Admitted Body	10,419.24 34.3
BISHOP RAMSEY	Admitted Body	1,840.51 32.3
Busy Bee	Admitted Body	4,461.35 30
Barnhill Academy - CSE	Admitted Body	16,550.03 28.3
Caterlink - Frays Academy	Admitted Body	22,679.22 26
Caterplus - Genuine Dining	Admitted Body	7,961.02 35.5
Cleantec (Harlington School)	Admitted Body	3,927.38 42.1
First Choice	Admitted Body	3,563.54 28
CUCINA - Ruislip High School	Admitted Body	693.52 36
Get Active RSR Sports	Admitted Body	10,834.75 31.5
E/N HERTS NHST	Admitted Body	1,472.45 34.2
Hayward Services (Ruislip)	Admitted Body	4,522.64 32.4
Hayward Services (Highfield)	Admitted Body	13,457.56 33.4
Hayward Services (Hillingdon)	Admitted Body	49,926.87 18.9
HEATHROW TRAVEL CARE	Admitted Body	60,563.96 25.2
Hillingdon & Ealing Citizens Advice	Admitted Body	2,399.60 23.1
Kingdom Services	Admitted Body	

Taylor Shaw - Haydon Academy	Admitted Body	14,277.08	34.5
Whiteheath School - Pantry	Admitted Body	2,065.75	32.9
Frithwood & Hillside Schools - Pantry	Admitted Body	2,155.52	31.8
West Drayton Primary - Pabulum	Admitted Body	9,633.97	34.4
Total		35,974,051.89	

Analysis of Fund Membership Data

The following table summarises the number of employers in the Fund analysed by scheduled bodies and admitted bodies which are active (with active members) and ceased (no active members but with some outstanding liabilities).

2019/20			
	Active	Ceased	Total
Administering Authority	1	0	1
Scheduled Bodies	45	0	45
Admitted Bodies	20	0	20
	66	0	66

E. REPORT OF THE FUND ACTUARY

London Borough of Hillingdon Pension Fund (“the Fund”) Actuarial Statement for 2019/20

This statement has been prepared in accordance with Regulation 57(1)(d) of the Local Government Pension Scheme Regulations 2013. It has been prepared at the request of the Administering Authority of the Fund for the purpose of complying with the aforementioned regulation.

Description of Funding Policy

The funding policy is set out in the Administering Authority’s Funding Strategy Statement (FSS). In summary, the key funding principles are as follows:

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

The FSS sets out how the Administering Authority seeks to balance the conflicting aims of securing the solvency of the Fund and keeping employer contributions stable. For employers whose covenant was considered by the Administering Authority to be sufficiently strong, contributions have been stabilised to have a sufficiently high likelihood of achieving the funding target over 20 years. Asset-liability modelling has been carried out which demonstrate that if these contribution rates are paid and future contribution changes are constrained as set out in the FSS, there is at least a 75% likelihood that the Fund will achieve the funding target over 20 years.

Funding Position as at the last formal funding valuation

The most recent actuarial valuation carried out under Regulation 62 of the Local Government Pension Scheme Regulations 2013 was as at 31 March 2019. This valuation revealed that the Fund’s assets, which at 31 March 2019 were valued at £1,067 million, were sufficient to meet 87% of the liabilities (i.e. the present value of promised retirement benefits) accrued up to that date. The resulting deficit at the 2019 valuation was £161 million.

Each employer had contribution requirements set at the valuation, with the aim of achieving their funding target within a time horizon and liability measure as per the FSS. Individual employers’ contributions for the period 1 April 2020 to 31 March 2023 were set in accordance with the Fund’s funding policy as set out in its FSS.

Principal Actuarial Assumptions and Method used to value the liabilities

Full details of the methods and assumptions used are described in the 2019 valuation report.

Method

The liabilities were assessed using an accrued benefits method which takes into account pensionable membership up to the valuation date; and makes an allowance for expected future salary growth to retirement or expected earlier date of leaving pensionable membership.

Assumptions

A market-related approach was taken to valuing the liabilities, for consistency with the valuation of the Fund assets at their market value.

The key financial assumptions adopted for the 2019 valuation were as follows:

Financial assumptions	31 March 2019
Discount rate	4.0%
Salary increase assumption	2.6%
Benefit increase assumption (CPI)	2.3%

The key demographic assumption was the allowance made for longevity. The life expectancy assumptions are based on the Fund's VitaCurves with improvements in line with the CMI 2018 model, an allowance for smoothing of recent mortality experience and a long term rate of 1.25% p.a. Based on these assumptions, the average future life expectancies at age 65 are as follows:

	Males	Females
Current Pensioners	22.1 years	24.3 years
Future Pensioners*	22.8 years	25.5 years

*Aged 45 at the 2019 Valuation.

Copies of the 2019 valuation report and Funding Strategy Statement are available on request from the Administering Authority to the Fund.

Experience over the period since 31 March 2019

Markets were disrupted by COVID 19 which resulted in difficult market conditions towards the end of the financial year. As a result, the funding level of the Fund as at 31 March 2020 has reduced versus that reported in the previous formal valuation.

The next actuarial valuation will be carried out as at 31 March 2022. The Funding Strategy Statement will also be reviewed at that time.

Craig Alexander FFA

11 May 2020

For and on behalf of Hymans Robertson

F: GOVERNANCE

Pension Committee

The Pensions Committee is the formal decision making body for the Fund. The Committee consists of five Councillor Members, all with voting rights. During 2019/20 these were:



Councillor
Martin Goddard
(Chairman)



Councillor
Philip Corthorne
(Vice-Chairman)



Councillor
Teji Barnes



Councillor
Tony Eginton



Councillor
John Morse
(Labour Lead)

The Committee meets quarterly to discuss investment strategy, legislative changes and developments that may affect the Fund, and to review the performance of the Fund Managers and the Fund Administrators. Committee training has been incorporated into these quarterly meetings to ensure that Committee Members maintain their knowledge and skills at a sufficient level to enable them to discharge their duties in relation to the Fund.

Record of Attendance

Name	Meetings attended
Cllr Philip Corthorne	4/4
Cllr Martin Goddard	4/4
Cllr Teji Barnes	4/4
Cllr Tony Eginton	4/4
Cllr John Morse	4/4

Local Pension Board

The London Borough of Hillingdon local Pension Board was established in 2015 and like the Committee met on a quarterly basis. The Board was reconfigured in November 2017 with a change to membership and terms of reference.

The members of the Board meetings during 2019/20 were:

Employer Representatives:

Zak Muneer
Hayley Seabrook

Scheme Member Representatives:

Roger Hackett
Tony Noakes

Record of Attendance

Four Meetings were held in 2019/20; April 2019, September 2019, November 2019 and February 2020

Name	Meetings attended
Zak Muneer	4/4
Hayley Seabrook	4/4
Roger Hackett	4/4
Tony Noakes	4/4

The Board is not a decision-making body, rather it has a compliance and scrutiny role to ensure the Pensions Committee complies effectively and efficiently with the code of practice on the governance and administration of public service pension schemes issued by the Pension Regulator. Additionally, the Pension Board will help ensure that the London Borough of Hillingdon Pension Fund is managed and administered effectively and efficiently and complies with the code of practice.

Knowledge and Skills

The CIPFA Knowledge and Skills framework has been utilised to track training needs of both Pensions Committee and Pensions Board with some addition categories on asset classes and investment topics for Pension Committee members to ensure investment decisions are supported with knowledge in those areas. All members have been asked to complete a review scoring themselves against each topic from 1-5 of knowledge with 5 being highly skilled and 1 being no knowledge.

The Fund has a training policy in place which is reviewed every 3 years and members are invited on relevant training when courses arise. In addition, training is provided at the start of Pension Committee and Pension Board meetings.

Internal training provision has been focused on topics where members have highlighted they have low knowledge and skills from their training needs analysis or where complex areas of investment decision making are taking place and the Fund want to ensure the Committee are skilled in making those decisions.

Training Received in 2019/20

	Cllr Goddard (Chair)	Cllr Corthorne	Cllr Eginton	Cllr Morse	Cllr Barnes
Understanding Triennial valuation – Hymans Robertson	Y	Y	Y	Y	Y
Pension Fund Governance Training – by Isio	Y	Y	Y	Y	Y
LCIV Q3 LLA Investment forum	Y	N	N	N	N
LCIV ESG Training	Y	N	N	N	N

Pensions Board

	Hayley Seabrook	Zak Muneer	Roger Hackett	Tony Noakes
Pensions Board Training - Reporting Beaches	Y	Y	Y	Y
Barnett Waddingham & CIPFA LGPS LPB Members' Seminar	Y	N	Y	Y
Pensions Committee Training, Triennial valuation	N	Y	Y	Y
ESG Training - Pension Committee special session	N	Y		Y
Pensions Board - Discretions	Y	Y	Y	Y
Hymans An objective view on Pooling.	N	N	Y	N
LGPS Members Spring Seminar – CIPFA & Barnett Waddingham	Y	N	Y	Y
Training On Myners Principles	Y	Y	Y	Y
Accounts and Audit Regulations Training by Chief Accountant	Y	Y	Y	Y

Further Information can be found in Appendix 1 with the full governance and compliance policy for the Fund.

In November 2019 the Pensions Board reported to pensions Committee to explain work completed since last report in January 2019. The report to Committee has been included here.

ANNUAL REPORT TO PENSIONS COMMITTEE

ITEM 10

Committee	Local Pension Board
Reporting Officer	Sian Kunert, Finance
Papers with report	None

REASON FOR ITEM

The report is compiled to provide feedback to Pensions Committee on the work undertaken by the Local Pension Board since the last report presented in Pensions Committee in January 2019 and to meet the legislative requirement for producing an annual report.

INFORMATION

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

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

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

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

Membership and Attendance at Meetings

The membership of the local Pension Board is:

Employer Representatives:

Hayley Seabrook (Hillingdon Council)
Zak Muneer (LHC)

•

Scheme Member Representatives:

•

Roger Hackett
Tony Noakes

Attendance at meetings has been high, with all members in attendance for all meetings.

Record of Attendance

Name	Feb-19	Apr-19	Sep-19	Nov-19
Zak Muneer	Y	Y	Y	Y
Hayley Seabrook	Y	Y	Y	Y
Roger Hackett	Y	Y	Y	Y
Tony Noakes	Y	Y	Y	Y

AON Hewitt is appointed as Governance advisers to support the development and work of the local Pension Board and attend meetings as necessary.

Training

Relevant external training opportunities are made available to Board Members and have been well supported, in particular with regular attendance at quarterly local board specific training sessions held by CIPFA. Pension Board members also utilise internal training opportunities by attending Pension Committee where a training item starts each meeting as well as during the Pensions Board meetings.

Using CIPFA's Training Needs analysis, specific training needs have been identified, and will continue to be identified, and are built into future training.

Training Courses attended in 2019

	Hayley Seabrook	Zak Muneer	Roger Hackett	Tony Noakes
Roles, Responsibilities & Regulation	Y	Y	Y	
Cyber Security	Y	Y	Y	Y
CIPFA LGPS Local Pension Board Members' Spring Seminar	Y	Y	Y	Y
Inflation and UK I/L Bonds Vs US TIPS	Y	N	N	N
Reporting Beaches	Y	Y	Y	Y
Triennial valuation		Y	Y	Y
ESG Training		Y		Y

Discretions	Y	Y	Y	Y
Hymans An objective view on Pooling	N	N	Y	N
CIPFA LGPS Local Pension Board Members' Autumn Seminar	Y	N	Y	Y

Work of the Local Pension Board

Meetings are held shortly after each Pensions Committee. Each meeting undertakes a review of the most recent Pensions Committee reports and decisions, raising any issues for clarification with officers. To date there have been no issues referred back to Pensions Committee. All committee papers are shared with Board Members who are encouraged to attend committee meetings to fully understand the reports.

In addition to reviewing the governance of Pensions Committee papers and effective decision making the board have a work programme focusing on more administrative issues and governance of the Fund with a number of papers presented and discussed at each meeting.

Terms of Reference for the Board:

- I. The Pensions Board will be chaired by a member chosen by the group
- II. The frequency of the Pensions Board will be determined by the Board.
- III. Reports to the Board will either reflect decisions taken by Pensions Committee or be reports for noting already seen by Pensions Committee.
- IV. The role of the Board will be to assist London Borough of Hillingdon Administering Authority as Scheme Manager: to secure compliance with the LGPS regulations and any other legislation relating to the governance and administration of the LGPS;
- V. To secure compliance with requirements imposed in relation to the LGPS by the Pensions Regulator; and in such other matters as the LGPS regulations may specify.
- VI. To secure the effective and efficient governance and administration of the LGPS for the London Borough of Hillingdon Pension Fund.
- VII. To provide the Scheme Manager with such information as it requires to ensure that any member of the Pension Board or person to be appointed to the Pension Board does not have a conflict of interest. (NB: Being a member of the LGPS is not seen as a conflict of interest.)

Key Projects

The key work of the Pension Board in the past year have related to understanding changes in regulation, reviewing performance of the administration of the Fund and to improve Fund governance and in ensuring compliance with the Pension Regulator's code of practice by carrying out a refresh to monitor improvements.

Pension Board have undertaken some significant pieces over the past year including:

- Lead on the development of a Data Improvement Plan
- Cyber security assurance, controls and response
- Reviewed a number of Policy documents to ensure refreshed and up to date
- Carried out an ongoing rolling refresh against Pension regulator's compliance checklist and agreement of actions for improvement; and
- Monitoring the performance of the Pensions Administration by Surrey County Council.

Summary of work in the year

February

- Cyber Security – Training and Discussion
- Administration update – Data improvement, Auto enrolment, Communications
- tPR Checklist review & focus on A – Reporting and B – Knowledge and Understanding
- Governance within Pooling – Structure and regulation of the London CIV
- Statutory reporting requirements and communications – Statutory Communications, Other communications and methods of communicating
- Review of Pension Committee Reports

April

- Reporting Breaches of Law – Training and Discussion
- Administration update – Resourcing, Data Cleansing, Valuation, report of a breach to the regulator
- Specifics of the LGPS – 85-year rule and 50/50 scheme
- Training Policy revision and Training Needs analysis with training plan
- Risk Management Policy revision
- tPR Checklist review & focus on C – Conflicts of Interest and D – Publishing Information
- Review of Pension Committee Reports

September

- Discretionary Powers - Training and Discussion
- Administration update - Annual Benefit Statements, Annual allowance, Auto enrolment opt outs, returns to tPR and other government bodies, Good governance in the LGPS
- Data Improvement Plan
- Reporting Breaches Policy Review
- Breaches Log
- Administration Strategy Policy Review
- tPR Checklist review & focus on E – managing risk and internal control and H – Providing information to members and others
- Update on Cyber Security controls and data mapping
- Review of Pension Committee Reports

November

- Taxation in Pensions and Myners principles – Training
- Draft annual report from Board to Pensions Committee
- tPR Checklist review & focus I - Internal Dispute Resolution, J – Reporting Breaches of the Law and K – Scheme Advisory Board
- Presentation on Cyber Security Controls and response plan on the Hillingdon network
- Administration update on communications, resourcing
- Data improvement plan revision
- Breaches
- Review of Pension Committee Reports

In understanding governance of the Fund, the Pension Board have challenged officers in specific areas of administration and governance arrangements including:

- Whether the Fund has sufficient resources available,
- Implementation and publicity of self-service module for pensioners, actives and deferred members
- Data quality and improvement
- Cash flow
- Annual allowance and Lifetime allowance
- GDPR
- Cyber Security
- ABS production
- Member training
- Review of Pension Committee papers and decision-making process

Future Work Plan

The Pensions Board have a future work plan to ensure areas are regularly monitored such as updating policy document and continually considering the management of the amination contract and data quality. In addition, the Board have a programme of training to continually increase knowledge and skills and is designed to focus on weaker areas as identified in the training needs analysis updates.

Over the coming year the Board plan to carry out the following work

- Carry out a full independent TPR Code of Practice (CoP) 14 compliance review
- Review the Funding Strategy Statement prior to publication and full sign off by Pensions Committee
- Finalise the amendments to the Administration Strategy prior to publication and full sign off by Pensions Committee
- Communication Policy Review prior to publication and full sign off by Pensions Committee
- Training Update
- Continue to assess the governance over decision making of the Pensions Committee
- Continue to challenge the Data Quality and ensure data is continually improving with a robust Data Improvement Plan in place

- Review the Breaches Log for the Fund and consider where areas of weakness may be in the administration of the Fund

Training topics in the programme for Boards development

- Accounts and Audit Regulations (relating to internal controls and proper accounting practice)
- Role played by third party assurance providers
- Public sector procurement, specifically procurement within the LGPS
- Pension Fund Governance including SAB

G: FINANCIAL STATEMENTS and INDEPENDENT AUDIT REPORT

Statement of Responsibilities for the Pension Fund Statement of Accounts

1. Council's Responsibilities

The Council is required to:

- Make arrangements for the proper administration of its financial affairs and to ensure that one of its officers has the responsibility for the administration of those affairs. In this Council that officer is the Corporate Director of Finance;
- Manage its affairs to secure economic, efficient and effective use of resources and safeguard its assets; and
- Approve the Pension Fund of Accounts

2. Corporate Director of Finance Responsibilities

The Corporate Director of Finance is responsible for the preparation of the Pension Fund accounts in accordance with proper practices as set out in the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2019/20 ('the Code').

In preparing this statement of accounts, the Corporate Director of Finance has:

- Selected suitable accounting policies and then applied them consistently;
- Made judgements and estimates that were reasonable and prudent; and
- Complied with the Local Authority Code.

The Corporate Director of Finance has also:

- Kept proper accounting records that were up to date; and
- Taken reasonable steps for the prevention and detection of fraud and other irregularities.

3. Corporate Director of Finance Approval of Pension Fund Accounts

I certify that these accounts present a true and fair view of the financial position of the London Borough of Hillingdon Pension Fund, in terms of the CIPFA/LASAAC Code of Practice on Local Authority Accounting in United Kingdom ('the Code'), as at 31st March 2020 and its income and expenditure for the year then ended.

Paul Whaymand
CORPORATE DIRECTOR OF FINANCE
24 November 2020

Pension Committee Certificate for the Approval of the Pension Fund Accounts

I confirm that the draft Pension Fund accounts were considered by Pensions Committee at meetings held on 28 October 2020.

I confirm that this Annual Report was considered and approved for publications by Pensions Committee at the meeting held on 28 October 2020.

Cllr Martin Goddard
On behalf of London Borough of Hillingdon Pension Fund
CHAIRMAN (PENSION COMMITTEE)
28 October 2020

Pension Fund Account

PENSION FUND ACCOUNT

	Note	31 March 2020 £'000	31 March 2019 £'000
Contributions	4	47,305	43,176
Transfers In from other pension funds	5	1,746	1,487
		49,051	44,663
Less: Benefits	6	(47,188)	(44,016)
Less: Payments to and on account of leavers	7	(6,870)	(2,626)
		(54,058)	(46,642)
Net additions/(withdrawals) from dealings with members		(5,007)	(1,979)
Less: Management expenses	8	(9,882)	(8,833)
Net additions/(withdrawals) including fund management expenses		(14,889)	(10,812)
Return on investments			
Investment income	9	23,101	22,732
Profit and losses on disposal of investments and changes in market value of investments	10A	(86,092)	42,843
Taxes On Income		(48)	(83)
Net return on investments		(63,039)	65,492
Net Increase/(Decrease) in the fund		(77,928)	54,680
Net Assets at start of year		1,066,983	1,012,303
Net Assets at end of year		989,055	1,066,983

NET ASSETS STATEMENT

		31 March 2020 £'000	31 March 2019 £'000
Investment Assets	10	986,131	1,066,215
Investment Liabilities	10	(17)	(89)
Total net investments		986,114	1,066,126
Current Assets	11	3,574	1,424
Current Liabilities	12	(633)	(567)
Net assets of the fund available to fund benefits at the end of the reporting		989,055	1,066,983

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

Paul Whaymand
Corporate Director of Finance
24 November 2020

Notes to the Pension Fund Account

1. DESCRIPTION OF THE FUND

a. General

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

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

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

b. Membership

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

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

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

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

Admitted Bodies:

Braybourne Facilities - Bishop Ramsey Cleaners

Busy Bee - Skills Hub Cleaners

Caterlink - Frays Academy

Caterplus

Cucina - Ruislip High School

CSE – Barnhill Academy

First Choice

Greenwich Leisure

Cleantec - Harlington School Cleaners

Get Active Sports

Taylor Shaw - Haydon Academy Catering

Notes to the Pension Fund Account

Hayward Services

- Hillingdon School
- Highfield School
- Ruislip School

Heathrow Travel Care

Hillingdon & Ealing Citizens Advice

Kingdom Services

NHS - Michael Sobel House

The Pantry

- Frithwood & Hillside Schools
- Whiteheath Infant & Warrender School

Pabulum - West Drayton Academy

Scheduled Bodies:

Barnhill Academy

Belmore Academy

Bishop Ramsey Academy

Bishopshalt Academy

Charville Academy

Douay Martyrs Academy

Eden Academy Trust

- Moorcroft School
- Pentland Field School
- Grangewood School

Elliot Foundation Trust

- Hillingdon Primary School
- John Locke Academy
- Pinkwell School

Guru Nanak Academy Trust

- Nanak Sar Primary School
- Guru Nanak Sikh Academy

Global Academy

Harefield Academy

Harrow & Uxbridge College

Haydon Academy

Heathrow Aviation Engineering

Notes to the Pension Fund Account

LBDS Frays Academy Trust

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

London Housing Consortium

Orchard Hill College Academy Trust

- Young Peoples Academy (formerly Chantry School)
- Skills HUB (formerly Hillingdon Tuition Centre)

Park Federation Trust

- Cranford Park Academy
- Lake Farm Park Federation

QED Academy Trust

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

Rosedale Hewens Academy Trust

- Rosedale College
- Mellowlane School
- Brookside Primary School

Ruislip High School

Ryefield Primary School

Vyners Academy

Stockley Academy

Swakeleys Academy

Uxbridge Academy

William Byrd School

Willows Academy

Notes to the Pension Fund Account

London Borough of Hillingdon Pension Fund	31 March 2020	31 March 2019
Number of employers with active members	66	65
Number of employees in scheme		
London Borough of Hillingdon	4,839	4,551
Other employers	2,596	2,417
Total	7,435	6,968
Number of Pensioners		
London Borough of Hillingdon	6,082	5,833
Other employers	600	572
Total	6,682	6,405
Deferred Pensioners		
London Borough of Hillingdon	7,941	7,906
Other employers	2,630	2,352
Total	10,571	10,258

Note: To better reflect the underlying membership of the Fund the 2018/19 figures have been updated to reflect the number of specific individual members rather than the number of member records.

c. Funding

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

Contributions are made by active members of the Fund in accordance with the LGPS Regulations 2013 and range from 5.5 % to 12.5% of pensionable pay for the financial year ending 31 March 2020. Employers also pay contributions into the Fund based on triennial funding valuations. The last such valuation was as at 31 March 2019, this covers the three financial years following 2019/20. Currently employer contribution rates range from 17.3% to 34.5% of pensionable pay, as per the 2019 valuation.

d. Investments

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

e. Governance

The Fund is overseen by the Pensions Committee (comprised of Councillors) and the Pensions Board (comprised of an even number of employer and member representatives). The performance of the fund managers is monitored by the Pensions Committee (Four meetings in 2019-20) and governance is overseen by the Pensions Board (Four meetings in 2019-20). Pensions Committee and Pensions Board consisted of the following members in 2019/20:

Pensions Committee

Cllr Martin Goddard (Chairman)
Cllr Phillip Corthorne (Vice-Chairman)
Cllr Teji Barnes

Cllr Tony Eginton
Cllr John Morse

Pensions Board

Roger Hackett (Employee Representative)
Tony Noakes (Employee Representative)

Zak Muneer (Employer Representative)
Hayley Seabrook (Employer Representative)

Notes to the Pension Fund Account

2. BASIS OF PREPARATION

The accounts have been compiled in accordance to the CIPFA Code of Practice on Local Authority Accounting in the United Kingdom 2019/20, which is based on International Financial Reporting Standards (IFRS) as amended for the public sector and underpinned by the Local Government Pension Scheme Regulations. The accounts have been prepared on an accruals basis, except for transfer values, which are accounted for on a cash basis, and summarise the Fund transactions and report on the net assets available to pay pension benefits as at 31 March 2020.

The accounts do not take into account obligations to pay benefits and pensions that fall due after the reporting date (31 March 2020). The Pension Fund Accounts have been prepared on a going concern basis.

3. ACCOUNTING POLICIES

a. Valuation of assets

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

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

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

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

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

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

d. Investment management expenses are recorded at cost when the fund managers/custodian invoice the fund on a quarterly basis or provide a fee schedule deducted at source. Expenses are recorded on an accruals basis. Where an investment manager's complete fee schedule has not been received by year end, an estimate based on the previous quarter's amount is included in the accounts. In 2019/20, £76k of such fees is based on estimates (2018/19: £84k). The fund also agreed with the following fund managers that their fees include elements of performance, Adams Street Partners, AEW UK, Macquarie Infrastructure Partners and Permira LLP.

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

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

g. Contributions are accounted for in the period in which they fall due. Normal contributions received during the year are in accordance with the rates and adjustments certificate.

h. Benefits are accounted for in the period in which they fall due. All benefits are calculated in accordance with the statutory regulations in force at the relevant benefit date.

i. Transfers are accounted for on a cash basis, as the amount payable or receivable by the scheme is not determined until payment is actually made and accepted by the recipient. Group transfers are accounted for under the agreement upon which they are made.

Notes to the Pension Fund Account

- j. Cash and cash equivalents are held in the custody accounts by fund managers as agreed in the individual Investment Management Agreements (IMA). Cash held is at the discretion of the manager but must not exceed the stipulated permitted range in the IMA.
- k. Investment Income - dividends from quoted securities are accrued when the securities are quoted ex-dividend. Interest on cash deposits are accrued on daily basis.

Critical Judgements and Uncertainties

- l. Unquoted Alternative Investments - Fair values of alternative investments are highly subjective in nature. They are inherently based on forward-looking estimates and judgements involving many factors. Unquoted alternative investments are valued by investment managers using methods such as IFRS fair value principles, discounted cash flow method and guidelines set out by the International Private Equity and Venture Capital Association (IPEV), of which the British Venture Capital Association is a founding member. The value of alternative investments as at 31 March 2020 was £275,145k (£115,893k at 31 March 2019).
- m. Assumptions made about the future and other major sources of estimation uncertainty - The Pension Fund accounts contains estimated figures that are based on assumptions made by the Fund about the future or events that are otherwise uncertain. Estimates are made taking into account historical experience, current trends and other relevant factors. However, because balances cannot be determined with certainty, actual results could be materially different from the assumptions and estimates.

Notes to the Pension Fund Account

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

Item	Uncertainties	Effect if actual results differ from assumptions
Private equity	Private equity investments are valued at fair value in accordance with British Venture Capital Association guidelines or commensurate overseas equivalent. These investments are not publicly listed and as such there is a degree of estimation involved in the valuation. LGT Capital Partners Limited is currently in active dialogue with all investment managers regarding the potential impact on private equity portfolios. The fair value principles employed to value the underlying investments and the valuation policy remains unchanged. As recommended by the recent International Private Equity and Venture Capital Valuation ("IPEV") guidelines in response to the Covid-19 crisis, we continue to use the latest valuation available from our investment managers, primarily at 31 December 2019, adjusting for any known cash flows and take into account any known and measurable impact. It is important to note that given the evolving situation and the quarterly cycle of private equity valuations, additional data needs to be accessible before a more accurate estimate can be made with regard to potential effects of market events on net asset values.	The total private equity investments in the financial statements are £13,614k. There is a risk that this investment may be under or overstated in the accounts.
Item	Uncertainties	Effect if actual results differ from assumptions
Infrastructure - Macquarie Infrastructure Real Assets and LCV Stepstone	Infrastructure Valuation represents the fair value of investments held at 31 March 2020. The valuations have been completed by MIRA (Macquarie Infrastructure Real Assets) in accordance with ASC 820-10 (Fair Value Measurements), under which the fair value is determined to be the price that would be received upon sale of the investments in an orderly transaction between market participants. These investments are not publicly listed and as such there is a degree of estimation involved in the valuation. 31 March 2020 valuations will be broadly based on a general outlook of a severe COVID-19 related economic impact.	The total infrastructure alternative investments in the financial statements are £27,265k. There is a risk that this investment may be under or overstated in the accounts. There are no openly traded market prices available for this asset category.
Item	Uncertainties	Effect if actual results differ from assumptions
Private Finance - M&G	Private Finance investments are valued at par as they are mostly floating rate notes tied to LIBOR. Final valuation is undertaken by the analysts employed by the fund manager as they are not traded on the open market. The manager has confirmed its investments and valuation will not be impacted by Covid-19.	The total private finance investments in the financial statements are £4,674k. There is a risk that this investment may be under or overstated in the accounts. There are no openly traded market prices available for this asset category.

Notes to the Pension Fund Account

Item	Uncertainties	Effect if actual results differ from assumptions
Direct Lending - Permira Credit Solutions	Private Debt Investments are valued on a quarterly basis and in accordance with International Private Equity and Venture Capital valuation guidelines. These investments are not publicly listed and as such there is a degree of estimation involved in the valuation. As a result of the COVID-19 pandemic, spreads widened and prices fell significantly, and as a result the fair value of the majority of loans in the fund's portfolio have also reduced to below par at 31 March 2020.	The total Private Debt investments in the financial statements are £64,103k. There is a risk that this investment may be under or overstated in the accounts. There are no openly traded market prices available for this asset category.
Item	Uncertainties	Effect if actual results differ from assumptions
Pooled Property - LGIM LPI, AEW UK & UBS Property	Pooled property assets are valued independently for the respective managers with a lot of subjective and unobservable inputs that may be affected by prevalent socio-economic issues. The underlying assets do not have the luxury of an open market transactional data like Equities and does result in valuation varying by wide degrees. The Assets Value as at 31 March 2020 are subject to material uncertainty, due to the unprecedented set of circumstances surrounding the COVID-19 Global Pandemic. Consequently, less certainty and a higher degree of caution should be attached to the reported value.	The total Pooled property investments in the financial statement is £165,448k. There is a risk the investments may be over or under stated in the accounts. These asset class of investments are not openly traded and a lot of unobservable inputs are utilised in the valuation of the assets. These unobservable valuation assumptions may have a profound effect on the actual pricing at year end thus skew shown valuation the fund accounts.
Item	Uncertainties	Effect if actual results differ from assumptions
Actuarial present value of promised retirement benefits	Estimation of the net liability to pay pensions depends on a number of complex judgements relating to the discount rates used, the rates at which salaries are projected to increase, changes in retirement ages, mortality rates and expected returns on Pension Fund assets. A firm of actuaries, Hymans Robertson, are engaged to provide the fund with expert advice about the assumptions to be applied. The IAS19 balance sheet is based on financial market values and future market expectation indicators as at 31 March 2020 to comply with the accounting standard. The financial markets at the accounting date will have taken into account COVID19 risks (and opportunities) as one of many national and worldwide economic considerations. There has been no explicit additional allowance or adjustment made for COVID19 by Hymans Robertson.	The effects on the net pension liability of changes in individual assumptions can be measured. For instance, an increase in the discount rate assumption would result in a decrease in pension liability. An increase in assumed earnings would increase the value of liabilities and an increase in assumed life expectancy would increase the liability. This would not effect the Fund Account or Net Asset Statement, but would impact the Council Accounts. Below are the details of the sensitivity analysis to the method of assumptions used for year ended 31 March 2020 by the fund's actuaries.

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

Notes to the Pension Fund Account

Sensitivity Analysis

Sensitivity to the assumptions for the year ended 31 March 2020	Approximate % increase to liabilities	Approximate monetary amount (£m)
0.5% p.a. increase in the Pension Increase Rate	9%	134
0.5% p.a. increase in the Salary Increase Rate	1%	9
0.5% p.a. decrease in the Real Discount Rate	9%	144

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

4. CONTRIBUTIONS

By category	31 March 2020 £'000	31 March 2019 £'000
Employees	10,109	9,846
Employers Contributions:		
Normal	30,333	27,465
Deficit Funding	6,863	5,865
	47,305	43,176

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

By authority	31 March 2020 £'000	31 March 2019 £'000
LB Hillingdon	33,793	30,267
Scheduled Bodies	13,174	12,509
Admitted Bodies	338	400
	47,305	43,176

5. TRANSFERS IN

	31 March 2020 £'000	31 March 2019 £'000
Individual transfers in from other schemes	1,746	1,487
	1,746	1,487

Notes to the Pension Fund Account

6. BENEFITS

By category	31 March 2020 £'000	31 March 2019 £'000
Pensions	(38,846)	(36,423)
Commutations and Lump Sum	(7,330)	(6,750)
Retirement Benefits	(1,012)	(843)
Lump Sum Death Benefits	(47,188)	(44,016)

By authority	31 March 2020 £'000	31 March 2019 £'000
LB Hillingdon	(42,567)	(40,973)
Scheduled Bodies	(4,246)	(2,579)
Admitted Bodies	(375)	(464)
	(47,188)	(44,016)

7. PAYMENTS TO AND ON ACCOUNT OF LEAVERS

	31 March 2020 £'000	31 March 2019 £'000
Refunds to members leaving service	(103)	(79)
Individual transfers out to other schemes	(6,767)	(2,547)
	(6,870)	(2,626)

8. MANAGEMENT EXPENSES

The administering authority incurred costs in managing the Fund for the period ending 31 March 2020 as follows:

	31 March 2020 £'000	31 March 2019 £'000
Administrative Costs	(825)	(840)
Investment Management Expenses	(8,767)	(7,897)
Oversight and Governance	(290)	(96)
	(9,882)	(8,833)

* Oversight and Governance expenses for 19-20 have increased due to triennial valuation and other fund reviews associated with the exercise.

8A. INVESTMENT MANAGEMENT EXPENSES BREAKDOWN

	31 March 2020 £'000	31 March 2019 £'000
Management Fees	(5,932)	(5,934)
Performance Related Fees	(780)	(1,405)
Custody Fees	(59)	(66)
Transaction Costs	(1,996)	(492)
	(8,767)	(7,897)

Notes to the Pension Fund Account

8B. TRANSACTION COSTS ANALYSIS BY ASSET CLASS

	31 March 2020 £'000	31 March 2019 £'000
Equities	(112)	(28)
Pooled Investments	(1,884)	(464)
	(1,996)	(492)

8C. EXTERNAL AUDIT COSTS

	31 March 2020 £'000	31 March 2019 £'000
Payable in Respect of External Audit	(22)	(22)
	(22)	(22)

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

9. INVESTMENT INCOME

	31 March 2020 £'000	31 March 2019 £'000
Income from Equities	5,810	6,254
Pooled Property Investments	6,452	4,713
Pooled Investments- Unit trusts and other managed funds	10,362	11,266
Interest on cash deposits	119	110
Other (for example from stock lending or underwriting)	358	389
	23,101	22,732

10. INVESTMENTS

	31 March 2020 £'000	31 March 2019 £'000
Investment Assets		
Equities	84,471	128,054
Pooled investments	706,512	774,129
Pooled property investments	165,448	135,049
Private equity	13,614	17,329
Other Investment balances		
Cash deposits	15,520	10,472
Investment income due	502	1,183
Sales Settlements Outstanding	64	0
Total investment assets	986,131	1,066,215
Investment liabilities		
Derivative contracts:		
Purchase Settlements Outstanding	(17)	(89)
Total investment liabilities	(17)	(89)
Net investment assets	986,114	1,066,126

Notes to the Pension Fund Account

10A. RECONCILIATION OF MOVEMENTS IN INVESTMENTS AND DERIVATIVES

	Value 1 April 2019 £'000	Purchases at cost £'000	Sales proceeds £'000	Profits and losses on disposal of investments and Changes in market value of investments £'000	Value 31 March 2020 £'000
2019/20					
Equities	128,054	14,695	(14,825)	(43,453)	84,471
Pooled Investments	774,128	117,948	(152,591)	(32,973)	706,512
Pooled Property Investments	135,049	103,606	(55,878)	(17,329)	165,448
Private Equity	17,329	105	(4,265)	445	13,614
	1,054,560	236,354	(227,559)	(93,310)	970,045
Other investment balances	1,054,560	236,354	(227,559)	(93,310)	970,045
Cash Deposits	10,472			207	15,520
Investment Income Due	1,183				502
Outstanding Sales					64
Adjustments to Market Value Changes				7,011	
Total Investment Assets	1,066,215			(86,092)	986,131
	Value 1 April 2018 £'000	Purchases at cost £'000	Sales proceeds £'000	Profits and losses on disposal of investments and Changes in market value of investments £'000	Value 31 March 2019 £'000
2018/19					
Equities	128,306	14,362	(11,745)	(2,869)	128,054
Pooled Investments	679,908	490,071	(428,161)	32,310	774,129
Pooled Property Investments	127,808	5,109	(1,288)	3,421	135,049
Private Equity	20,091	201	(6,512)	3,549	17,329
	956,113	509,743	(447,707)	36,411	1,054,560
Other investment balances					
Cash Deposits	53,558			323	10,472
Investment Income Due	757				1,183
Adjustments to Market Value Changes				6,109	
Total Investment Assets	1,010,428			42,843	1,066,215

Outstanding trade of settlements (liabilities) are not included in the above reconciliation.

Notes to the Pension Fund Account

10B. ANALYSIS OF INVESTMENTS

	31 March 2020 £'000	31 March 2019 £'000
Equities		
UK		
Quoted	84,471	128,054
	84,471	128,054
Pooled funds - additional analysis		
UK		
Fixed income unit trust - Quoted	89,137	82,707
Other Unit trusts - Quoted	184,318	249,858
Unitised insurance policies - Quoted	336,973	343,000
Limited liability partnerships - Unquoted	96,084	98,564
	706,512	774,129
Pooled property Investments - Unquoted	165,448	135,049
Private equity - Unquoted	13,614	17,329
Cash deposits	15,520	10,472
Investment income due	502	1,183
Sales Settlements Outstanding	64	0
	195,148	164,032
Total investment assets	986,131	1,066,215
Investment liabilities		
Purchase Settlements Outstanding	(17)	(89)
Total investment liabilities	(17)	(89)
Net investment assets	986,114	1,066,126

10C. INVESTMENTS ANALYSED BY FUND MANAGER

Fund Manager	Market Value 31 March 2020 £'000	%	Market Value 31 March 2019 £'000	%
Investments Managed by London CIV Pool				
Legal & General Investment Management	384,373	39	343,000	32
London CIV Asset Pool	184,884	19	249,858	24
	569,257	58	592,858	56
Investments Managed Outside of London CIV				
Adams Street Partners	9,909	1	12,654	1
AEW UK	50,774	5	58,927	6
JP Morgan Asset Management	89,137	9	82,707	8
LGT Capital Partners	3,705	0	4,675	0
M&G Investments	4,674	0	7,956	1
Macquarie Infrastructure	26,699	3	29,133	3
Permira Credit Solutions	64,103	7	61,434	6
UBS Global Asset Management (Equities)	86,948	9	131,174	12
UBS Global Asset Management (Property)	67,517	7	76,521	7
Other*	13,391	1	8,086	1
	416,857	42	473,268	44
Total	986,114	100	1,066,126	100

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

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

Notes to the Pension Fund Account

10D. STOCK LENDING

The Fund's investment strategy sets the parameters for the Fund's stock-lending programme. At the year-end, the value of quoted equities on loan was £3,572k (31 March 2019: £17,125k). These equities continue to be recognised in the Fund's financial statements.

Counterparty risk is managed through holding collateral at the Fund's custodian bank. At the year-end the Fund held collateral (via the custodian) at fair value of £3,804k (31 March 2019: £18,428k) representing 106% of stock lent. Collateral consists of acceptable securities and government debt.

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

11. CURRENT ASSETS

	31 March 2020 £'000	31 March 2019 £'000
Debtors		
Employers' contributions due	51	68
Employees' contributions due	13	17
Cash balances	3,510	1,339
	3,574	1,424

12. CURRENT LIABILITIES

	31 March 2020 £'000	31 March 2019 £'000
Creditors		
Other local authorities (LB Hillingdon)	(172)	(223)
Other entities	(461)	(344)
	(633)	(567)

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

13. ADDITIONAL VOLUNTARY CONTRIBUTIONS

	Market Value 31 March 2020 £'000	Market Value 31 March 2019 £'000
Prudential Assurance Company	5,249	5,086
	5,249	5,086

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

According to information provided by Prudential, £168k was received in additional voluntary contributions by members, £220k in 2018/19. Any transfer of additional contributions into the Fund during the year are included in the employee contributions value as detailed in note 4.

Notes to the Pension Fund Account

14. FAIR VALUE - BASIS OF VALUATION

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

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

Notes to the Pension Fund Account

Sensitivity of assets valued at level 3

Having analysed historical data and current market trends, and consulted with fund managers, the Fund has determined that the valuation methods described above are likely to be accurate to within the following ranges, and has set out below the consequent potential impact on the closing value of investments held at 31 March 2020.

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

	Valuation range (+/-)	Market Value 31 March 2020 £'000	Value on Increase £'000	Value on Decrease £'000
Pooled investments - Limited Liability Partnerships (Infrastructure) a	10%	27,265	29,992	24,539
Pooled investments - Limited Liability Partnerships (Private Credit) b	10%	68,777	75,655	61,899
Pooled Property - UBS, AEW & LGIM ©	10%	165,448	181,993	148,903
Private Equity - d	5%	13,614	14,295	12,933
Venture Capital	5%	41	43	39
Total		275,145	301,977	248,313

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

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

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

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

14A. FAIR VALUE HIERARCHY

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

Level 1

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

Level 2

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

Level 3

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

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

Notes to the Pension Fund Account

Values as at 31 March 2020

Financial Assets at Fair Value through Profit and Loss

Loans and Receivables

Financial Liabilities at Fair Value through Profit and Loss

Net investment Assets

Quoted Market Price	Using Observable Inputs	With Significant Unobservable Inputs	
Level 1 £'000	Level 2 £'000	Level 3 £'000	Total £'000
84,471	610,429	275,145	970,045
16,086	0	0	16,086
(17)	0	0	(17)
100,540	610,429	275,145	986,114

Values as at 31 March 2019

Financial Assets at Fair Value through Profit and Loss

Loans and Receivables

Financial Liabilities at Fair Value through Profit and Loss

Net investment Assets

Quoted Market Price	Using Observable Inputs	With Significant Unobservable Inputs	
Level 1 £'000	Level 2 £'000	Level 3 £'000	Total £'000
128,054	810,613	115,893	1,054,560
11,655	0	0	11,655
(89)	0	0	(89)
139,620	810,613	115,893	1,066,126

14B. RESTATEMENT OF VALUATION HIERARCHIES

There were no restatements of valuations between hierarchies in 2019/20.

Notes to the Pension Fund Account

14C. RECONCILIATION OF FAIR VALUE MEASUREMENTS WITHIN LEVEL 3

Level 3 Assets Reconciliation

	Value 1 April 2019	Transfers Into Level 3	Purchases at cost	Sales proceeds	Unrealised gains/(losses)	Realised gains/(losses)	Value 31 March 2020
	£'000	£'000	£'000	£'000	£'000	£'000	£'000
Private Equity - Adams Street Partners, LGT Capital Partners & UBS	17,329		105	(4,265)	(2,147)	2,592	13,614
Private Finance - M&G	7,956		0	(4,352)	(537)	1,606	4,674
Infrastructure - Macquarie & LCIV	29,133		643	(3,613)	(935)	2,037	27,265
Venture Capital - UBS	41		0	0	0	0	41
Property - UBS Property, AEW UK & LGIM LPI	0	130,308	103,607	(55,878)	(15,305)	2,716	165,448
Direct Lending - Permira	61,434		844	(1,306)	3,131	0	64,103
Total Level 3 Assets	115,893	130,308	105,199	(69,414)	(15,793)	8,951	275,145

There were two transfers into level 3 assets in 2019/20. AEW UK Ltd and UBS Property assets were transferred to Level 3, effective 31 March 2020 after discussions with the fund managers and the effects of COVID-19, valuation of assets by both managers were subject to material uncertainty following their independent valuer's determination of material valuation uncertainty as directed by the Royal Institute of Chartered Surveyors (RICS). Consequently, less certainty and a higher degree of caution was attached to the assets valuation, thus introducing unobservable inputs to the valuation of these assets. This resulted in a review of the hierarchical classification and subsequent moving of AEW & UBS Property assets from Level 2 to Level 3. LGIM LPI is classified as level 3 due to the same reason alluded to in moving both UBS Property & AEW UK to Level 3 from Level 2.

14D. LEVEL 3 PRICING HIERARCHY DISCLOSURES

Quantitative Information on Significant unobservable inputs

Private Equity: Adams Street & LGT capital

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

Private Finance: M&G

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

Infrastructure: Macquarie

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

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

Direct Lending: Permira

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

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

Pooled Property: AEW, UBS Property & LGIM LPI

Fair value is primarily derived using recent market transactions on arm's length terms, where available.

Notes to the Pension Fund Account

Description of Valuation Process

Private Equity

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

Private Finance: M&G

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

Direct Lending: Permira

- In each case, valuations are prepared in accordance with International Private Equity & Venture Capital Valuation ("IPEV") Guidelines
- All direct lending investments are valued on a mark-to-market basis at the date of valuation
- Where an investment is considered illiquid (level 3), a yield analysis is performed to infer a fair market value for that investment.
- Each valuation is reviewed to ensure:
 - Third party evidence to support pricing (such as Market data, broker quotes or Bloomberg pricing, as well as latest financials and capital structure; and any other adjustments to value) was evidenced;
 - That the valuations are prepared in a consistent manner with previous valuations and that any changes in methodology or valuation are clearly explained; and valuations are derived using methodology consistent with the IPEV guidelines.

Infrastructure: Macquarie

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

DCF-Based Market Valuation Process

Financial Model

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

Update for Economic, Operational and Financial Assumptions

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

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

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

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

Notes to the Pension Fund Account

Discount Rate

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

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

Pooled Property: AEW, UBS Property & LGIM LPI

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

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

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

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

Private Equity

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

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

Private Finance (M&G)

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

Infrastructure: Macquarie

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

Direct Lending: Permira

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

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

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

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

Pooled Property – AEW, UBS Property & LGIM LPI

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

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

Notes to the Pension Fund Account

15. CLASSIFICATION OF FINANCIAL INSTRUMENTS

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

	Designated as fair value through P&L	Assets at amortised cost	Financial Liabilities at Amortised Cost	Total	Designated as fair value through P&L	Assets at amortised cost	Financial Liabilities at Amortised Cost	Total
	31 March 2020 £'000	31 March 2020 £'000	31 March 2020 £'000	31 March 2020 £'000	31 March 2019 £'000	31 March 2019 £'000	31 March 2019 £'000	31 March 2019 £'000
Financial Assets								
Equities	84,471		0	84,471	128,054	0	0	128,054
Pooled Investments	706,512		0	706,512	774,129	0	0	774,129
Pooled property investments	165,448		0	165,448	135,049	0	0	135,049
Private Equity	13,614		0	13,614	17,329	0	0	17,329
Cash	0	15,520	0	15,520	0	10,472	0	10,472
Other Investment balances	0	566	0	566	0	1,183	0	1,183
	970,045	16,086	0	986,131	1,054,560	11,655	0	1,066,215
Financial Liabilities								
Purchase Settlements Outstanding	0	0	(17)	(17)	0	0	(89)	(89)
	0	0	(17)	(17)	0	0	(89)	(89)
Total	970,045	16,086	(17)	986,114	1,054,560	11,655	(89)	1,066,126

15A. NET GAINS AND LOSSES ON FINANCIAL INSTRUMENTS

	31 March 2020 £000's	31 March 2019 £000's
Financial Assets		
Designated at Fair Value through profit and loss	(86,093)	42,843
	(86,093)	42,843

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

Risk and Risk Management

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

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

Market risk

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

Notes to the Pension Fund Account

Other price risk

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

Other price risk - Sensitivity Analysis

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

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

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

Asset Type	Value as at 31 March 2020 £'000	Percentage Change %	Value on Increase £'000	Value on Decrease £'000
Global Equity	379,584	12.00%	425,134	334,034
UK Equity	84,471	18.00%	99,676	69,266
Bonds	230,845	6.00%	244,696	216,994
Alternatives	109,697	2.80%	112,769	106,625
Property	165,448	4.70%	173,224	157,672
Total	970,045		1,055,498	884,592

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

Asset Type	Value as at 31 March 2019 £'000	Percentage Change %	Value on Increase £'000	Value on Decrease £'000
Global Equity	464,052	9.60%	508,601	419,503
UK Equity	128,054	9.60%	140,347	115,760
Bonds	211,512	6.70%	225,683	197,341
Alternatives	115,893	3.70%	120,181	111,605
Property	135,049	5.20%	142,072	128,026
Total	1,054,560		1,136,884	972,236

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

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

The Fund's direct exposure to interest rate movements as at 31 March 2020 and 31 March 2019 is set out below. These disclosures present interest rate risk based on the underlying financial assets at fair value.

Notes to the Pension Fund Account

Interest Rate Risk Sensitivity Analysis

The Fund recognises that interest rates can vary and can affect both income to the Fund and the value of net assets available to pay benefits. A 100 basis points (1%) movement in interest rates is consistent with the level of sensitivity applied as part of the Fund's risk management strategy.

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

	Value as at 31 March 2020	Potential movement on 1% change in interest rates	Value on increase	Value on decrease
	£'000	£'000	£'000	£'000
Assets exposed to interest rate risks				
Cash balances	15,520	155	15,675	15,365
Bonds - pooled funds	230,845	2,308	233,153	228,537
Total change in assets available	246,365	2,464	248,829	243,901

	Value as at 31 March 2019	Potential movement on 1% change in interest rates	Value on increase	Value on decrease
	£'000	£'000	£'000	£'000
Assets exposed to interest rate risks				
Cash balances	10,472	105	10,577	10,367
Bonds - pooled funds	211,512	2,115	213,627	209,397
Total change in assets available	221,984	2,220	224,204	219,764

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

The Pension Fund has the ability to set up a passive currency hedge where these risks are perceived to be adverse. As at 31 March 2020, the Fund had no currency hedge in place for those managers who do not hedge their own portfolios. The following table summarises the fund's currency exposure as at 31 March 2020 and as at the previous period ending 31 March 2019.

Currency exposure by asset type

	Asset Value 31 March 2020	Asset Value 31 March 2019
	£'000	£'000
Pooled Funds	195,267	214,196
Private Equity/Infrastructure	40,879	46,462
	236,146	260,658

Currency risk sensitivity analysis

Following analysis of historical data in consultation with PIRC Ltd, the Funds data provider, the Fund considers the likely volatility associated with foreign exchange rate movements to be 7.40%, based on the data provided by PIRC. A 7.40% fluctuation in the currency is considered reasonable based on PIRC's analysis of historical movements in month end exchange rates over a rolling twelve-month period. This analysis assumes that all variables, in particular interest rates, remain constant. Managers that hedge against currency risk are not included in this sensitivity analysis. A 7.40% strengthening/weakening of the pound against various currencies in which the Fund holds investments would increase/decrease the net assets available to pay benefits as follows:

Notes to the Pension Fund Account

Assets exposed to currency risk

	Asset Value 31 March 2020	Potential market movement	Value on increase	Value on decrease
		7.40%		
	£'000	£'000	£'000	£'000
Pooled Funds	195,267	14,450	209,717	180,817
Private Equity/Infrastructure	40,879	3,025	43,904	37,854
	236,146	17,475	253,621	218,672

Assets exposed to currency risk

	Asset Value 31 March 2019	Potential market movement	Value on increase	Value on decrease
		7.30%		
	£'000	£'000	£'000	£'000
Pooled Funds	214,196	15,636	229,832	198,560
Private Equity/Infrastructure	46,462	3,392	49,854	43,070
	260,658	19,028	279,686	241,630

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

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

The prime objective of the Pension Fund treasury management activity is the security of principal sums invested. As such it will take a prudent approach to organisations employed as the banker and deposit taker. The Pension Fund will ensure it has adequate but not excessive cash resources in order to meet its objectives. The bank accounts are held with Lloyds Plc, which holds an S&P long-term credit rating of A. Deposits are placed in the AAAf rated Northern Trust Money Market Fund which is ring fenced from the administering company. Credit ratings, market indicators and media coverage are monitored to ensure credit worthiness is maintained. The Fund's cash holding under its treasury management arrangements at 31 March 2020 was £19,076k (31 March 2019: £11,811k) and this was held with the following institutions:

Summary	Rating S&P	Balances as at 31 March 2020 £'000	Rating S&P	Balances as at 31 March 2019 £'000
Money market funds				
Northern Trust	AAAf S1+	15,720	AAAf S1+	10,672
Bank current accounts				
Lloyds	A+	3,310	A+	1,139
Total		19,030		11,811

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

The Pension Fund holds a working cash balance in its own bank accounts with Lloyds as well as Money Market Funds to which it has instant access to cover the payment of benefits and other lump sum payments (£3,310k). At an investment level the fund holds a large proportion of assets in instruments which can be liquidated at short notice, normally three working days. As at the 31 March 2020 these assets totalled £694,900k, with a further £15,766k held in cash in the Custody accounts at Northern Trust.

Notes to the Pension Fund Account

Refinancing risk

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

17. FUNDING ARRANGEMENTS

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

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

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

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

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

Significant events

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

McCloud ruling

The LGPS benefit structure is currently under review following the Government's loss of the right to appeal the McCloud and other similar court cases. At the time of writing, the format and scope of any benefit changes in light of the McCloud ruling is still unknown. In line with the advice issued by the Scheme Advisory Board in May 2019, the following allowance has been made at the valuation for the McCloud ruling:

- Employer contribution rates: additional prudence in funding plans via an increase in the likelihood of success (step 3) when setting contribution rates;
- Measurement of funding position at 31 March 2019: no allowance.

Notes to the Pension Fund Account

Contribution rates

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

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

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

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

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

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

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

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

Assumptions

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

Financial Assumptions

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

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

Demographic Assumptions

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

Notes to the Pension Fund Account

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

Commutation assumptions

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

18. ACTUARIAL PRESENT VALUE OF PROMISED RETIREMENT BENEFITS

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

The IAS19 balance sheet is based on financial market values and future market expectation indicators as at 31 March 2020 to comply with the accounting standard. The financial markets at the accounting date will have taken into account COVID19 risks (and opportunities) as one of many national and worldwide economic considerations. There has been no explicit additional allowance or adjustment made for COVID19 by Hymans Robertson.

Description	31 March 2020 % per annum	31 March 2019 % per annum
Inflation /Pensions Increase Rate	1.9%	2.5%
Salary Increase Rate	2.2%	2.9%
Discount Rate	2.3%	2.4%

An IAS 19 valuation was carried out for the Fund as at 31 March 2020 by Hymans Robertson with the following results:

Description	31 March 2020 £m	31 March 2019 £m
Present Value of Promised Retirement Benefits	1,569	1703*
Active Members	503	753
Deferred Members	422	380
Pensioners	644	570

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

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

The promised retirement benefits at 31 March 2020 have been projected using a roll forward approximation from the latest formal funding valuation as at 31 March 2019. The above figures include both vested and non-vested benefits, although the latter is assumed to have a negligible value.

Note that the above figures at 31 March 2020 (and 31 March 2019) include an allowance for the "McCloud ruling", i.e. an estimate of the potential increase in past service benefits arising from this case affecting public service pension schemes.

Notes to the Pension Fund Account

Net Liability

The table below shows the total net liability of the Fund as at 31 March 2020. The figures have been prepared by Hymans Robertson, the Fund's actuary, only for the purposes of providing the information required by IAS26. In particular, they are not relevant for calculations undertaken for funding purposes or for other statutory purposes under UK pension's legislation. In calculating the required numbers, the actuary adopted methods and assumptions that are consistent with IAS19.

Description	31 March 2020	31 March 2019
	£m	£m
Present Value of Promised Retirement Benefits	(1569)	(1703)
Fair Value of Scheme Assets (bid value)	989	1067
Net Liability	(580)	(636)

Going Concern

The Pension Fund accounts and Notes have been prepared on a going concern basis. The concept of a going concern assumes that an authority's functions and services will continue in operational existence for the foreseeable future. The provisions in the Code (Code of Practice on Local Authority Accounting in the United Kingdom 2019/20) in respect of going concern reporting requirements reflect the economic and statutory environment in which local authorities operate. These provisions confirm that, as authorities cannot be created or dissolved without statutory prescription, they must prepare their financial statements on a going concern basis of accounting.

The impact of the Coronavirus pandemic on investment markets did adversely affect the performance of investments to 31 March 2020, however investment performance for the first quarter of 2020/21 has improved significantly and is performing better than the target level of return.

The Fund's triennial valuation at 31 March 2019 reported a funding level of 87%. Currently, contributions and investment income are sufficient to fund benefits as they fall due without the need to liquidate investments. The Fund is currently operating with a cash flow surplus. If a need to obtain liquidity arises, approximately 72% of the Fund's assets are held in liquid investments. A recent review undertaken in response to the Covid-19 effects as at 31st March 2020 determined that there was no material risk to the Fund of employers defaulting on their contributions. LGPS regulations remain in force with no expectation that the scheme will be wound up or substantive changes made to it.

19. RELATED PARTY TRANSACTIONS

It is required under IAS 24 "Related Party Disclosures" that material transactions with related parties which are not disclosed elsewhere should be included in a note to the financial statements. The London Borough of Hillingdon is a related party to the Pension Fund. The revenue contributions the Council has made into the Pension Fund are set out in note 4 to the Pension Fund accounts. No senior officer or Pension Committee member had any interest with any related parties to the Pension Fund.

Governance

There are three members of the Pension Fund Committee who are deferred or retired members of the Pension Fund. Cllr Philip Corthorne (Vice-Chairman), a deferred member; Cllr Tony Eginton, a retired member and Cllr Teji Barnes, a deferred member. Each member is required to declare their interest at each meeting.

Key Management Personnel

Two employees of the London Borough of Hillingdon held key positions in the financial management of the London Borough of Hillingdon Pension Fund. These employees are the Section 151 officer and the Head of Pensions, Treasury and Statutory Accounts (Up to 26 December 19). Total remuneration payable to key management personnel is set out below:

Notes to the Pension Fund Account

	31 March 2020 £'000	31 March 2019 £'000
Short term benefits	64	74
Post employment benefits	78	75
	142	149

* Post-employment benefits for 2018/19 updated for consistency

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

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

20. BULK TRANSFER

There were no bulk transfers in 2019-20.

21. CONTINGENT LIABILITIES AND CONTRACTUAL COMMITMENTS

Outstanding capital commitments (investments) as at 31 March 2020 totalled £65,687k (£10,305k at 31 March 2019).

These commitments relate to outstanding call payments due on unquoted limited partnership funds held in the Private Equity, Infrastructure and Credit Solutions (Permira) parts of the portfolio. The amounts called by these funds vary both in size and timing over a period of up to six years from the date of each original commitment. The big increase is due to new commitments of £55m to LCIV Infrastructure Fund of which £567k has been drawn-down.

There were no contingent liabilities outstanding for the Fund at the end of the financial year 2019/20.

22. CONTINGENT ASSETS

Two admitted body employers in the London Borough of Hillingdon Pension Fund hold insurance bonds to guard against the possibility of being unable to meet their pension obligations. These bonds are drawn in favour of the Pension Fund and payment will only be triggered in the event of employer default.

23. POST BALANCE SHEET EVENTS

Events taking place after the 31st March 2020 are not reflected in the financial statements or notes, unless they are of such importance that non-disclosure would affect the ability of users to make proper evaluations and decisions. Where events taking place before this date provided information about conditions existing at 31 March 2020, the figures in the financial statements and notes have been adjusted in all material respects to reflect the impact of this information.

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

H. ASSET POOLS (LCIV)

In 2015 the Department of Housing Communities and Local Government (now Ministry of Housing Communities and Local Government) issued the LGPS: Investment Reform Criteria and Guidance which set out how the government expected the LGPS to establish a number of pools to deliver:

- Benefits of scale;
- Strong governance and decision making;
- Reduced costs and excellent value for money; and
- Improved capacity to invest in infrastructure.

All administering authorities were invited to submit proposals for pooling of their investments by February 2016 including a commitment to pooling and a description of their progress towards formalising their arrangements with other authorities.

Hillingdon made the decision at Council in February 2016 to join the London CIV (LCIV), to provide the Fund with a mechanism to pool investments with other London Boroughs.

Initial share capital investment of £150k was made on joining the pool in February 2016 as well as £50k for Hillingdon's share of set up costs. In addition to set up costs the fund pay an annual charge to support the work of the LCIV which is currently £25k.

Hillingdon Council delegated functions necessary for the proper functioning of the London CIV company, including the effective oversight of the ACS Operator to the Joint Committee (now the Shareholder Committee). The Chairman of Pensions Committee was appointed to have power to act for the Council in exercising its rights as a shareholder at any general meetings of the LCIV Company.

Delegated authority was given to the Chairman of Pensions Committee to make urgent investment decisions. This delegated authority was to enable the transition of existing mandates into the LCIV once the Fund's existing managers have reached a stage to be included in the LCIV pool. This power was approved to include signing contracts, transferring funds to ensure the relevant sub funds within the LCIV pool would be launched on time. This power was delegated purely to transition existing mandates with existing fund managers to the equivalent with the LCIV and not for any wider investment decision which remains with the Pensions Committee.

In creation of the pools, the individual fund through the Pension Committee remain responsible for the Fund's Investment Strategy and for asset allocation; however, manager selection to meet the strategic asset allocation is managed by the pool. In December 2015 the London CIV opened its first sub-fund.

At the start of 2019/20 the London CIV had the following sub funds available for Hillingdon to invest.

Fund Name	Manager	Launch Date
UK Equities		
LCIV MJ UK Equity Fund	Majedie Asset Management	18-May-17
Global Equities		
LCIV EP Income Equity Fund	Epoch Investment Partners	08-Nov-17
LCIV Global Alpha Growth Fund	Baillie Gifford & Co	11-Apr-16
LCIV Global Equity Alpha Fund	Allianz Global Investors GMBH	02-Dec-15
LCIV LV Global Equity Fund	Longview Partners	17-Jul-17
LCIV NW Global Equity Fund	Newton Investment Management	22-May-17
Emerging Market Equities		
LCIV HN Emerging Market Equity Fund	Henderson Global Investors Limited	11-Jan-18
Multi-Asset		
LCIV Diversified Growth Fund	Baillie Gifford & Co	15-Feb-16
LCIV NW Real Return Fund	Newton Investment Management	16-Dec-16
LCIV PY Global Total Return Fund	Pyrford International Limited	17-Jun-16
LCIV RF Absolute Return Fund	Ruffer LLP	21-Jun-16

In addition, the pool enabled access to Legal and General Investment Management and Blackrock passive investment products, under negotiated fees, to sit alongside the ACS structure with governance of the assets from the pool.

The Fund had total LCIV holdings of £593m at 31 March 2019 accounting for 55.8% of total assets of the Pension Fund. Holdings within the pool were within Ruffer (Multi Asset, Absolute Return Fund) and Epoch (Global Equity Income Fund) on the LCIV platform and LGIM Passive mandate.

As at the 31 March 2020 the London CIV had the following sub funds available for Hillingdon to invest

Fund Name	Manager	Launch Date
Global Equities		
LCIV EP Income Equity Fund	Epoch Investment Partners	08-Nov-17
LCIV Global Alpha Growth Fund	Baillie Gifford & Co	11-Apr-16
LCIV Global Equity Alpha Fund	Allianz Global Investors GMBH	02-Dec-15
LCIV LV Global Equity Fund	Longview Partners	17-Jul-17
LCIV NW Global Equity Fund	Newton Investment Management	22-May-17
LCIV RBC Sustainable Equity Fund	RBC Global Asset Management (UK) Limited	18-Apr-18
LCIV Sustainable Equity Exclusion Fund	RBC Global Asset Management (UK) Limited	11-Mar 2020
Emerging Market Equities		
LCIV HN Emerging Market Equity Fund	Henderson Global Investors Limited	11-Jan-18
Multi-Asset		
LCIV Diversified Growth Fund	Baillie Gifford & Co	15-Feb-16
LCIV NW Real Return Fund	Newton Investment Management	16-Dec-16
LCIV PY Global Total Return Fund	Pyrford International Limited	17-Jun-16
LCIV RF Absolute Return Fund	Ruffer LLP	21-Jun-16
Fixed Income		
LCIV Global Bonds Fund	London CIV	30-Nov-18
LCIV MAC Fund	CQS	31-May-18

In addition, the pool enabled access to Legal and General Investment Management and Blackrock passive investment products, under negotiated fees, to sit alongside the ACS structure with governance of the assets from the pool.

The Fund had total LCIV holdings of £569m at 31 March 2020, accounting for almost 57.6% of total assets of the Pension Fund. This was invested in Ruffer (Multi Asset) and Epoch (Global Equity) on the LCIV platform and LGIM Passive.

Pooled assets

Sub Fund	Value £'000 31/03/2019	Opening Proportion %	Value £'000 31/03/2020	Closing Proportion %
LCIV EP Income Equity Fund	147,156	13.85	128,745	13.02
LCIV RF Absolute Return Fund	102,701	9.67	55,573	5.62
LCIV Stepstone Infrastructure Fund	0	0	567	0.06
LGIM Passive Equities	214,196	20.16	195,267	17.74
LGIM Passive Bonds	128,805	12.13	141,707	14.33
LGIM LPI Property	0	0	47,399	4.79
	592,258	56	569,258	58

Post pool reporting

The costs set out in the table below represents the initial costs of creating the London CIV (LCIV) pool as advised by the LCIV, which the Hillingdon fund is a member.

LONDON CIV WHOLE POOL SET UP COSTS	Total Direct Costs
	£000s
Set Up Costs:	
Recruitment	200
Legal	700
Procurement	200
Other support costs eg IT, accommodation	200
Staff costs	400
TOTAL SET UP COSTS	1,700

LB Hillingdon Annual Pool Set up Costs Breakdown and Fee Savings

	2015/16	2016/17	2017/18	2018/19	2019/20	Cumulative to date
Set Up Costs	£000s	£000s	£000s	£000s	£000s	£000s
Development Charge	0	0	75	65	65	205
Annual Service Charge including establishment of pool	50	25	25	25	25	150
Share Capital Costs	150	0	0	0	0	150
Transition Costs	0	32	132	0	0	164
Fee Savings	0	-84	-167	-181	-115	-547
Net (Savings)/Cost Realised	200	-27	65	-91	-25	122

The figures in the table above represents the service and development costs charges levied on the fund as a member of the London CIV pool. Transition costs refer to costs incurred in transfer of assets currently managed directly by the London CIV and passive portfolios negotiated by the CIV with LGIM. Fee savings represents the current costs of investments managed within the pool and LGIM compared with pre-pooling charges based on current asset valuations.

As at the end of 2019/20 the fund shows a net cost overall from pooling, however if share capital is excluded as it is still a fund asset then the fund has made a minor saving. As fund manager fees of the sub funds Hillingdon invests currently, are lower than before pooling, over time, the fund should show a cumulative saving in the long term.

Ongoing Investment Management Fees

The table below shows the fees paid to managers alongside the combined returns of those managers and the net impact (i.e. taking into account both fees and performance) on the value of Fund assets.

	Asset Pool			Non-Asset Pool			Fund Total
	Direct	Indirect	Total	Direct	Indirect	Total	
	£'00	£'000s	£'000	£'000	£'000s	£'000	£'000
Management Fees							
Ad Valorem	60	1,280	1,340	5,627	0	5,627	6,967
Performance	0	0	0	780	0	780	780
Transaction Costs							
Commissions	0	1,160	1,160	584	0	584	1,744
Custody	10	0	10	59	0	59	69
Other	72	0	72	251	0	251	323
Total £'000	142	2,440	2,582	6,301	0	6,301	9,883

In response to the Scheme Advisory Board Transparency Code the Fund contacted all managers regardless of whether they have signed up to the Code and requested that they complete the Transparency Code template for 2019/20 and future years to allow more transparent reporting. London CIV Ltd, in selecting Managers for the pool, also set this as a requirement that Fund Managers they select are signed up to the Transparency Code. Information from the completed templates were utilised to compile the overall Investment management costs for 2019/20.

Asset Allocation and Performance

Asset Allocation and Performance						
Asset Category	Opening Value		Closing Value		Performance 1 Year	
					Gross	Net
	£'000	%	£'000	%	%	%
Asset Pool Managed Investments						
Active listed Equity	147,156	14	128,745	13	-12.5	-12.5
Passive listed Equity	214,196	20	195,267	20	-8.8	-8.8
Passive Listed Fixed Income	128,805	12	141,707	14	3.1	3.1
Multi-asset funds/diversified growth funds	102,701	10	55,573	6	3.6	3.6
Passive LPI Property	0	0	47,399	5	N/A	N/A
Total	592,858	56	568,691	58		
Non-asset pool managed investments						
Active listed Equity	131,174	12	84,471	9	-30.0	-30.0
Active listed Fixed Income	82,707	8	89,137	9	-1.7	-1.7
Private Debt	7,956	1	5,236	1	8.3	8.3
Private Debt	61,434	6	65,017	7	6.8	6.8
Property	58,927	6	50,774	5	-6.3	-6.3
Property	76,521	7	67,274	7	-0.9	-0.9
Unlisted Equity	12,654	1	11,244	1	22.7	22.7
Unlisted Equity	4,675	0	3,672	0	11.9	11.9
Infrastructure	29,133	3	26,883	3	14.7	14.7
Infrastructure	0	0	567	0	N/A	N/A
Cash	8,086	1	16,068	2		
Total	473,267	44	420,343	42		

Savings

	2016/17	2017/18	2018/19	2019/20
	£	£	£	£
Price Variance	83,609	167,422	181,063	113,505

The price variance in the table measures the extent to which fee rates have generated savings based on the year end value of the assets under management by holding the assets in a sub fund run by the pool. In each case for Hillingdon's pooled assets the fee rate is lower than the fee rate before pooling, this is in part due to a direct transfer of asset class and economies of scale achieved through the pool on negotiating power.

Where assets transfer into different classes this would result in a different fee structure that would not be comparable.

The reduction in fee savings in 2019/20 compared to 2018/19 is mainly due to reduced fund value over the period. The above savings do not take into account additional charges serviced on the fund because of investment in the pool sub funds, which are direct costs of us investing in the pool, for example auditing, FCA regulation and depositary costs.

London Borough of Hillingdon Pension Fund

Administration Strategy

January 2020

Administration Strategy

Introduction and Background

This is the statement outlining the Pension Administration Strategy for the London Borough of Hillingdon Pension Fund ("the Fund") and has been developed following consultation with the Fund's administrators, employers in the Fund, Local Pension Board members and other interested stakeholders.

The aims of the Pension Administration Strategy are to:

- ensure that the parties to which it relates are fully aware of their responsibilities under the Scheme, and
- outline the quality and performance standards expected of the Fund and its scheme employers to ensure the delivery of a high-quality, timely and professional administration service. These performance standards are explained further in the employer service level agreement.

London Borough of Hillingdon (the "Administering Authority") is responsible for the local administration of the Fund, which is part of the Local Government Pension Scheme ("the LGPS"). Operationally, the administration of the Fund is undertaken through a formal delegation agreement by the Pensions Administration team at Surrey County Council - Orbis. Orbis and the Officers in Hillingdon work together to provide a seamless service to scheme employers and members.

This Pension Administration Strategy does not supersede any formal agreements between the Administering Authority and the administrators or between the Administering Authority and the employers. However, it is intended to complement such arrangements and provide greater clarity in relation to each party's role and responsibilities.

This Strategy applies to all existing employers in the Fund, and all new employers joining the Fund after the effective date of TBC. The Statement sets out the expected levels of administration performance of both the Administering Authority and the employers within the Fund, as well as details on how performance levels will be monitored and the action that might be taken where persistent failure occurs.

Implementation

This Strategy outlines the level of service the Administering Authority aims to provide to scheme members and employers, as well as the role employers will need to play in providing that quality of service. It is recognised that the aims and objectives in this Strategy are ambitious in some cases and meeting these is dependent on the implementation of some changes in the existing ways of working. This Strategy is being implemented during a period which continues to present a number of challenges, not least:

- the need to carry out a major scheme reconciliation exercise as a result of the introduction of the new State Pension – GMP reconciliation project
- Unknown changes to the scheme structure as a result of the legal ruling in the landmark McCloud judgment, which found the 2015 pension reforms effecting

firefighters and judges to be discriminatory based on age. On 15 July, the Chief Secretary to the Treasury announced that that remedies relating to the McCloud judgement will be made in relation to all public service pension schemes.

- The unknown impact and implementation of the Local Government Pension Scheme Advisory Board (SAB) cost cap management process
- continuing pressure on resources and budgets for employers and the Administering Authority. Allowing scheme members access their own record online and scheme employers to run calculations within online portal.
- Implementation of pensions Dashboard

This Strategy will be effective from TBC and the performance indicators mentioned herein will demonstrate ongoing progress towards the Strategy's aims and objectives.

Regulatory Basis

The LGPS is a statutory scheme, established by an Act of Parliament. The Local Government Pension Scheme Regulations 2013 provide the conditions and regulatory guidance surrounding the production and implementation of Administration Strategies.

In carrying out their roles and responsibilities in relation to the administration of the Local Government Pension Scheme the Administering Authority and employers will, as a minimum, comply with overriding legislation, including:

- Local Government Pension Scheme Regulations
- Pensions Acts 2004 and 2011 and associated disclosure legislation
- Public Service Pensions Act 2013 and associated record keeping legislation
- Freedom of Information Act 2000
- Equality Act 2010
- Data Protection Act 2003
- Finance Act 2013 and
- Relevant Health and Safety legislation.

As a result of the Public Service Pensions Act 2013, the Pensions Regulator now has responsibility for oversight of a number of elements of the governance and administration of Public Service pension schemes including the LGPS. The Regulator has the power to issue sanctions and fines in respect of failings of the Administering Authority, and also where employers in the Fund fail to provide correct or timely information to the Administering Authority. Should this happen, the Administering Authority would recharge any costs back to employers as set out later in this strategy.

More information relating to the requirements of the Local Government Pension Scheme Regulations is included in Appendix A. This statement has been developed with those provisions in mind, and describes the Administering Authority's approach to meeting these requirements in the delivery of administration.

Aims and Objectives

The primary objectives of the London Borough of Hillingdon Pension Fund are:

- to be known as forward thinking, responsive, proactive and professional; providing excellent customer focused, reputable and credible service to all customers.
- to have instilled a corporate culture of risk awareness, financial governance, and to provide the highest quality, distinctive services within the resource budget.
- to work effectively with partners, being solution focused with a 'can do' approach.

In addition, there are specific aims and objectives in relation to administration responsibilities as set out below.

Administration Aims and Objectives

The purpose of this strategy statement is to set out the quality and performance standards expected of London Borough of Hillingdon in its role as Administering Authority and employer, as well as all other employers within the Fund.

The Administration Strategy has a number of specific objectives, as follows;

- Provide a high quality, professional, proactive, timely and customer focussed administration service to the Fund's stakeholders
- Administer the Fund in a cost effective and efficient manner utilising technology appropriately to obtain value for money
- Ensure the Fund's employers are aware of and understand their roles and responsibilities under the LGPS regulations and in the delivery of the administration functions of the Fund
- Ensure the correct benefits are paid to, and the correct income collected from, the correct people at the correct time
- Maintain accurate records and ensure data is protected and has authorised use only.

Delivery of Administration

London Borough of Hillingdon has delegated responsibility for the management of the Pension Fund to the London Borough of Hillingdon Pensions Committee, taking into consideration advice from the Pensions Board. The Committee will monitor the implementation of this Strategy on a regular basis as outlined later in this statement.

Operationally, the administration of the Fund is undertaken by Orbis with a delegation agreement in place with Surrey County Council, supported by a small 'in-house' capacity within London Borough of Hillingdon.

The London Borough of Hillingdon will look for opportunities to work collaboratively with other Administering Authorities to reduce development costs and enhance the quality of information. This might include:

- working with other administering authorities through the Pensions Officer Group networks to produce communications, which can then be customised further where necessary to the needs of the London Borough of Hillingdon Pension Fund
- Utilising economies of scale through procurement of services with other Orbis managed funds
- participating in joint training sessions with other administering authorities.

Performance Standards – Quality

Local Standards

In addition to the legislative and regulatory standards, the Administering Authority and employers ensure that all administration functions and tasks are carried out to agreed local quality standards. In this respect the standards to be met are:

- compliance with all requirements set out in the employer service level agreement and this Administration Strategy Statement
- information to be provided in the required format and/or on the appropriate forms.
- information to be legible and accurate
- communications to be in a plain language style
- information provided or actions carried out to be checked for accuracy by an appropriately trained member of staff
- information provided or actions carried out to be authorised by an agreed signatory, and
- actions carried out, or information provided, within the timescales set out in this strategy statement.

Secure Data Transfer

The Administering Authority and employers follow London Borough of Hillingdon's data security guidelines when sending any personal data. The pension administration function uses a secure email system to send data when required to prevent any sensitive information from being accidentally sent to unauthorised recipients.

One of the key methods of data transfer relating to the Fund's administration is the receipt of information from employers in relation to scheme members. In order to meet the requirements set out in this document in a secure and efficient way (for both employers and the Administering Authority), employers will use a secure data transfer system, introduced during 2016/17. Any employers not submitting data using this data system, once it is made available to them, may risk compromising data security.

Oversight of Compliance and Quality

Ensuring compliance is the responsibility of the Administering Authority and the employers in the Fund. The Administering Authority has a range of internal controls in place to assist with ensuring compliance and which are articulated in the Fund's risk register and risk management policy. However, there are ways in which the Administering Authority is subject to elements of scrutiny or oversight:

Audit

The Fund is subject to a regular annual audit which includes elements of processes and internal controls. The Administering Authority and the employers are expected to fully comply with any reasonable requests for information from both internal and approved external auditors. Any subsequent recommendations made will be considered by London Borough of Hillingdon, in its role as Administering Authority, and where appropriate duly implemented (following discussions with employers where necessary).

Local Pension Board, the national Scheme Advisory Board and the Pensions Regulator

The Public Service Pensions Act 2013 introduced greater oversight of LGPS Funds. As a result the Local Pension Board of the London Borough of Hillingdon Pension Fund was established from 1 April 2015. In addition, the Pensions Regulator's remit was extended to include the public sector, and a national Scheme Advisory Board was created. The Administering Authority and the employers are expected to fully comply with any guidance produced by the Scheme Advisory Board and the Pensions Regulator. Any recommendations made from any of these entities will be considered by London Borough of Hillingdon, in its role as Administering Authority, and where appropriate duly implemented (following discussions with employers where necessary).

Performance Standards – Timeliness and Accuracy

Overriding legislation, including The Occupational and Personal Pension Schemes (Disclosure of Information) Regulations 2013 (as amended), dictates minimum standards that pension schemes should meet in providing certain pieces of information to the various parties associated with the scheme. Further, the LGPS itself sets out a number of requirements for the Administering Authority or employers to provide information to each other, to scheme members and to prospective scheme members, dependants, other pension arrangements or other regulatory bodies. In addition to the legal requirements, local performance standards have been agreed which cover all aspects of the administration of the London Borough of Hillingdon Pension Fund. In many cases these go beyond the overriding legislative requirements.

The locally agreed performance standards for the Fund are set out in Appendix B. These standards are not an exhaustive list of the Administering Authority's and employers' responsibilities. Employers' responsibilities are provided in more detail in the employers' service level agreement.

Although all the locally agreed performance standards will be monitored on an ongoing basis by the administering authority, the key standards which will be publicly reported on are extracted and shown in the table below. These elements are measured against:

1. Any legal timescale that should be met ("legal requirement")
2. The overall locally agreed target time ("fund target")

3. The locally agreed target time for the Administering Authority or administrator to complete that task ("LBHPF element target").

Generally the LBHPF element target will be a sub-section of the overall process, and hence will have a shorter target timescale than that being measured by the legal and fund targets. This is because the legal and fund targets will generally include periods of time when the Administering Authority is waiting for information to be provided by an employer or scheme member. The LBHPF element target then measures the period of time it takes the administrators to carry out their element of work once that information has been received.

For the avoidance of doubt "accuracy" in this Strategy is defined as when the administrators have received information, for example from an employer, with;

- no gaps in the required areas **and**
- with no information which is either contradictory or which needs to be queried.

Process maps to explain the flow of information from Schools to the Administrator are in the final stages of development and will be included as Appendix C shortly.

Key Performance Indicators

Process	Legal Requirement	LBHPF Administration element target
To send a Notification of Joining the LGPS to a scheme member	2 months from date of joining, or within 1 month of receiving jobholder information where the individual is being automatically enrolled / re-enrolled ¹	Within 20 working days of receipt of all relevant information
To inform members who leave the scheme of their deferred benefit entitlement	As soon as practicable and no more than 2 months from date of initial notification (from employer or from scheme member) ²	Within 20 working days of receipt of all relevant information
Obtain transfer details for transfer in, and calculate and provide quotation to member	2 months from the date of request ¹	Within 20 working days of receipt of all relevant information
Provide details of transfer value for transfer out, on request	3 months from date of request (CETV estimate) ³ or within a reasonable period (cash transfer sum) ⁴	Within 20 working days of receipt of all relevant information
Notification of amount of retirement benefits and payment of tax free cash sum	1 month from date of retirement if on or after Normal Pension Age ¹ 2 months from date of retirement if before Normal Pension Age ¹	Within 15 working days of receipt of all relevant information
Providing quotations on request for retirements	As soon as is practicable, but no more than 2 months from date of request unless there has already been a request in the last 12 months ¹	Individual request within 10 working days of receipt of all relevant information
Calculate and notify dependant(s) of amount of death benefits	As soon as possible but in any event no more than 2 months from date of becoming aware of death, or from date of request ¹	Within 10 working days of receipt of all relevant information

1 - The Occupational and Personal Pension Schemes (Disclosure of Information) Regulations 2013, as amended

2 - The Occupational Pension Schemes (Preservation of Benefit) Regulations 1991

3 – Occupational Pension Schemes (Transfer Value) Regulations 1996

4 – Pension Schemes Act 1993

Improving Employer Performance (where necessary)

This Strategy is focussed on good partnership working between the Administering Authority and the Fund's employers. However, it is recognised there may be circumstances where employers are unable to meet the required standards. The Pension Fund Accountant will seek, at the earliest opportunity, to work closely with employers in identifying any areas of poor performance or misunderstanding, provide opportunities for necessary training and development and put in place appropriate processes to improve the level of service delivery in the future.

It is expected that it will be extremely rare for there to be ongoing problems but, where persistent and ongoing failure occurs and no improvement is demonstrated by an employer, and/or unwillingness is shown by the employer to resolve the identified issue, the steps the Administering Authority will take in dealing with the situation in the first instance are set out below:

- The Pension Fund Accountant will issue a formal written notice to the person nominated by the employer as their key point of contact, setting out the area(s) of poor performance
- The Pension Fund Accountant will meet with the employer to discuss the area(s) of poor performance, how they can be addressed, the timescales in which they will be addressed and how this improvement plan will be monitored.
- The Pension Fund Accountant will issue a formal written notice to the person nominated by the employer, setting out what was agreed at that meeting in relation to how the area(s) of poor performance will be addressed the timescales in which they will be addressed
- A copy of this communication will be sent to the Corporate Director of Finance or other senior officer at that employer.
- The Pension Fund Accountant will monitor whether the improvement plan is being adhered to and provide written updates at agreed periods to the person nominated by the employer, with copies being provided to the Director of Finance (or alternative senior officer) at that employer.
- Where the improvement plan is not being delivered to the standards and/or timescales agreed, the Pension Fund Accountant will escalate the matter to the Chief Accountant who will determine the next steps that should be taken. This may include (but is not limited to):
 - o Meetings with more senior officers at the employer
 - o Escalating to the London Borough of Hillingdon Pensions Committee and/or Pension Board
 - o Reporting to the Pensions Regulator or Scheme Advisory Board.

Circumstances where the Administering Authority may levy costs associated with the Employers' poor performance

The Administering Authority will work closely with all employers to assist them in understanding all statutory requirements, whether they are specifically referenced in the LGPS Regulations, in overriding legislation, or in this Administration Strategy. The Administering Authority will also work with them to ensure that overall quality and timeliness is continually improved.

The Regulations provide that an Administering Authority may recover from an employer any additional costs associated with the administration of the scheme incurred as a result of the unsatisfactory level of performance of that employer. Where an Administering Authority wishes to recover any such additional costs they must give written notice stating:-

- The reasons in their opinion that the employer's level of performance contributed to the additional cost
- The amount the Administering Authority has determined the employer should pay
- The basis on which this amount was calculated, and
- The provisions of the pension administration strategy relevant to the decision to give notice.

London Borough of Hillingdon, as the Administering Authority, will generally not recharge to an employer any additional costs incurred by the Fund in the administration of the LGPS as a direct result of such unsatisfactory performance. However:

- in instances where the performance of the employer results in fines being levied against the Administering Authority by the Pensions Regulator, Pensions Ombudsman or other regulatory body, an amount no greater than the amount of that fine will be recharged to that employer.
- whether or not interest will be charged on late contributions will be stated within the Administering Authority's separate policy on discretionary provisions.
- in exceptional circumstances, particularly where the improvement plan as outlined in the last section of this statement is not being adhered to, the Pensions Committee may determine that any other additional costs will be recharged. In these circumstances the Pensions Committee will determine the amount to be recharged and how this is to be calculated. The employer in question will be provided with a copy of that report and will be entitled to attend the Pensions Committee when this matter is being considered.

Measuring whether the Administration Objectives are met

The Administering Authority will monitor performance in carrying out its responsibilities in relation to the scheme, and will regularly monitor performance by benchmarking against other administering authorities, using benchmarking clubs and other comparators available. How well the Fund performs will be reported in the Fund's Annual Report based on the statistics available at that time.

In addition, the Administering Authority will monitor success against its administration objectives in the following ways:

Objectives	Measurement
Provide a high quality, professional, proactive, timely and customer focussed administration service to the Fund's stakeholders.	Key target service standards (highlighted in table above) achieved in 95% of cases*.
Administer the Fund in a cost effective and efficient manner utilising technology appropriately to obtain value for money.	Cost per member is not in upper quartile when benchmarked against all LGPS Funds using national data (either SF3 or SAB)
Ensure the Fund's employers are aware of and understand their roles and responsibilities under the LGPS regulations and in the delivery of the administration functions of the Fund.	Annual data checks (including ongoing reconciliations) resulting in few issues that are resolved within 2 months. Key target service standards (highlighted in table above) achieved in 95% of cases*. Issues included in formal improvement notices issued to employers resolved in accordance with plan.
Ensure benefits are paid to, and income collected from, the right people at the right time in the right amount.	Mainly positive results in audit and other means of oversight/scrutiny. Key target service standards (highlighted in table above) achieved in 95% of cases*.
Maintain accurate records and ensure data is protected and has authorised use only.	Annual data checks (including ongoing reconciliations) resulting in few issues that are all resolved within 2 months No breaches of data security protocols Mainly positive results in audit and other means of oversight/scrutiny

*Employers are expected to meet their targets in 95% of cases.

An overview of performance against these objectives and in particular against target standards for turnaround times will be reported within the Fund's annual report and accounts and also reported on regularly to the Pensions Committee and Pension Board.

Where performance is substantially below standard (whether by a large margin for a short period of time or a small margin for a longer period of time) the Administering Authority will formulate an improvement plan. This will be reported to the Fund's

Pensions Committee and Pension Board together with an ongoing update on achievement against the improvement plan.

Key Risks

The key risks to the delivery of this Strategy are outlined below. The London Borough of Hillingdon Chief Accountant and other officers will work with the Pensions Committee and the Pension Board in monitoring these and other key risks and considering how to respond to them.

- Lack or reduction of skilled resources due to difficulty retaining and recruiting staff members and also staff absence due to sickness
- Significant increase in the number of employing bodies causes strain on day to day delivery
- Significant external factors, such as national change, impacting on workload
- Incorrect calculation of members' benefits resulting in inaccurate costs (to employer), through for example, inadequate testing of systems
- Failure of employers to provide accurate and timely information resulting in incomplete and inaccurate records, which could lead to incorrect valuation results and incorrect benefits, which in turn could lead to complaints
- Failure to administer scheme in line with regulations and policies, including due to delays in enhancement to software or regulation guidance (e.g. transfers).
- Failure to maintain proper records leading to inadequate data, which could lead to increased complaints and errors
- Issues in production of annual benefits statements, e.g. wrong address and printing errors due to external supplier
- Unable to deliver a service to pension members due to system unavailability or failure
- Failure to maintain employer database leading to information not being sent to correct person

Key Risk areas will be discussed as part of the quarterly performance monitoring meetings with the SCC Orbis team.

Approval and Review

This Strategy Statement was approved for consultation with stakeholders on 15 June 2016 by the London Borough of Hillingdon Pensions Committee. It will be reviewed following consultation with a view to the final strategy being agreed by Pension Committee on 21 September, to become effective from 1 November 2016.

It will be formally reviewed and updated at least every three years or sooner if the administration management arrangements or other matters included within it merit reconsideration, including if there are any changes to the LGPS Regulations or other relevant Regulations or Scheme Guidance which need to be taken into account.

In preparing this Strategy the Administering Authority has consulted with the relevant employers, the scheme member and employer representatives on the London Borough of Hillingdon Pension Board and other persons considered appropriate.

This Strategy Statement will be included within the Fund's Annual Report and Accounts and available on the Administering Authority's website at: <http://www.hillingdon.gov.uk/pensions>.

Further Information

Any enquiries in relation to the day to day administration of the Fund or the principles or content of this Strategy should be sent to:

James Lake, Chief Accountant
London Borough of Hillingdon
Civic Centre
High Street
Uxbridge
UB8 1UW

e-mail - jlake@hillington.gov.uk
Telephone - 01895 277562

Administration Legal Requirements within the LGPS

Regulations 72, 74 and 80 of Local Government Pension Scheme Regulations 2013 require the following:

Employer Responsibilities:

- To decide any rights or liabilities of any person under the LGPS (for example, what rate of contributions a person pays and whether or not a person is **entitled** to any benefit under the scheme) as soon as is reasonably practicable*
- To formally notify that person of the decision in relation to their rights or liabilities in writing as soon as is reasonably practicable (including a decision where a person is not entitled to a benefit and why not), including information about their internal dispute resolution procedure
- To inform the Administering Authority of all such decisions made
- To provide the Administering Authority with such information it requires so it can carry out its functions including, within three months of the end of each Scheme year**, the following information in relation to any person who has been an active member of the scheme in the previous year:
 - o name and gender
 - o date of birth and national insurance number
 - o a unique reference number relating to each employment in which the employee has been an active member
 - o in respect of each individual employment during that year:
 - the dates during which they were a member of the scheme
 - the normal pensionable pay received and employee contributions paid
 - the pensionable pay received and employee contributions paid whilst there was any temporary reduction in contributions
 - the normal employer contributions paid
 - any additional employee or employer contributions paid
 - any Additional Voluntary Contributions paid by the employee or employer
- To appoint a person to consider complaints under stage 1 of the internal dispute resolution procedure relating to employer decisions (or a lack of a decision)***

**And at the latest within 1 month of the need for a decision*

***Note that, in practice, the Administering Authority will require this information by a specific date as outlined in the Service Level Agreement in order to meet statutory deadlines on benefit statements*

****Note that, in practice, employers in the London Borough of Hillingdon Pension Fund may use the same person to consider stage 1 IDRPs complaints as used by the Administering Authority*

Administering Authority Responsibilities:

- To decide the **amount** of benefits that should be paid, including whether the person is entitled to have any previous service counting towards this for LGPS purposes, as soon as is reasonably practicable
- To formally notify that person of the decision in relation to the amount of their benefits in writing as soon as is reasonably practicable, including a statement showing how they are calculated and information about their internal dispute resolution procedure
- To appoint a person to consider complaints under stage 1 of the internal dispute resolution procedure relating to Administering Authority decisions (or a lack of a decision)
- To appoint a person to consider complaints under stage 2 of the internal dispute resolution procedure (which covers both employer and Administering Authority decisions or lack of decisions)
- To provide on request any information to an employer about a complaint under the internal dispute resolution procedure that may be required by an employer

Regulation 59(1) enables an LGPS Administering Authority to prepare a written statement ("the pension administration strategy") to assist in delivering a high-quality administration service to its scheme members and other interested parties, by setting out local standards which often go beyond the minimum requirements set out in overriding legislation as outlined above, and which the Administering Authority and employers should comply with. The statement can contain such of the matters mentioned below as they consider appropriate:-

- Procedures for liaison and communication with the relevant employers in their Fund.
- The establishment of levels of performance which the Administering Authority and the employers are expected to achieve in carrying out their functions under the LGPS by-
 - i. the setting of performance targets;
 - ii. the making of agreements about levels of performance and associated matters; or
 - iii. such other means as the Administering Authority consider appropriate;
- Procedures which aim to secure that the Administering Authority and the employers comply with statutory requirements in respect of those functions and with any agreement about levels of performance.
- Procedures for improving the communication by the Administering Authority and the employers to each other of information relating to those functions.
- The circumstances in which the Administering Authority may consider giving written notice to an employer on account of that employer's unsatisfactory performance in carrying out its functions under the LGPS Regulations when measured against the desired levels of performance.
- The publication by the Administering Authority of annual reports dealing with—
 - i. the extent to which the Administering Authority and the employers have achieved the desired levels of performance, and

- ii. such other matters arising from its pension administration strategy as it considers appropriate
- Such other matters as appear to the Administering Authority to be suitable for inclusion in that strategy.

Regulation 59(2)e allows an Administering Authority to recover additional costs from an employer where they are directly related to the poor performance of that employer. Where this situation arises the Administering Authority is required to give written notice to the scheme employer, setting out the reasons for believing that additional costs should be recovered, the amount of the additional costs, together with the basis on which the additional amount has been calculated.

In addition, regulation 59(6) also requires that, where a pension administration strategy is produced, a copy is issued to each of their relevant employers as well as to the Secretary of State. It is a requirement that, in preparing or revising any pension administration strategy, that the Administering Authority must consult its relevant employers and such other persons as it considers appropriate.

Both the Administering Authority and employers must have regard to the current version of the pension administration strategy when carrying out their functions under the LGPS Regulations.

Detailed Performance Standards

New Appointments	
Employer's responsibility	Target Service Standard
To ensure that pensions information is included as part of the appointment process of new staff	
To provide each new employee with basic scheme information	Within one month of joining

New Scheme Members	
Employer's responsibility	Target Service Standard
Provide new members with starter forms and scheme guides, where not delegated to the Administering Authority	10 working days
Decide and ensure the correct employee contribution rate is applied	Immediately on joining in line with employer's policy, and each April thereafter (as a minimum)
Provide new starter information to the Administering Authority for each new employee joining the LGPS	10 working days
Forward completed starter forms completed by scheme members to the Administering Authority	3 working days from date of first deduction of contributions
Administering Authority's Responsibility	
To accurately record and update member records on the pension administration system	Within 20 working days from receipt of all relevant information
To apply for any transfer value details from a previous fund or scheme	Within 10 working days from receiving all information
To send a Notification of Joining the LGPS to a scheme member	Within 20 working days from receiving all information

Changes in circumstances	
Employer's responsibility	Target Service Standard
Arrange for reassessment of employee contribution rate in line with employer's policy	If applicable, as per employer's policy
Notify the Administering Authority of any eligible employees who opt out of the scheme within three months of appointment.	10 working days from date of receiving opt out
Notify the Administering Authority of all other relevant changes in the circumstances of employees	15 working days from date of change
Refund any employee contributions deducted in error, or where the member opts out in writing within 3 months with no previous LGPS membership.	Month following the month of election
Administering Authority's Responsibility	

To accurately record and update member records on the pension administration system	Within 10 working days from receiving all information
To send a Notification of Change (or equivalent) if legally required	Within 20 working days from receiving all information

Retirement Estimates (including ill-health)	
Employer's responsibility	Target Service Standard
Provide pay (and other membership) details when a member requests an early retirement estimate	Within 8 working days
Administering Authority's Responsibility	
Providing quotations on request for retirements	Within 10 working days from receipt of all relevant information

Actual Retirements (including ill-health)	
Employer's responsibility	Target Service Standard
Notify the Fund when members are due to retire and reason for retirement (and authorisation where appropriate)	As early as possible and no later than 15 working days before date of retirement
Notify the Fund when a member leaves employment, including an accurate assessment of final pay	Within 8 working days from members final pay date
Send a Notification of Entitlement to Benefit if legally required to a scheme member (including determining tier of ill-health retirement if applicable)	No later than 5 working days before date of retirement
Administering Authority's Responsibility	
To accurately record and update member records on the pension administration system	Within 10 working days from receipt of all relevant information
Notification of amount of retirement benefits and payment of tax free cash sum	Within 15 working days from receipt of all relevant information
Notification of amount of recalculated retirement benefits and payment of any balance tax free cash sum following updated information	Within 10 working days from receipt of all relevant information

Ill-Health Retirements (additional responsibilities)	
Employer's responsibility	Target Service Standard
Appoint a qualified independent medical practitioner (from the approved list provided by the Administering Authority) in order to consider all ill health retirement applications, and agree this appointment with the Fund.	Within one month of becoming an employer within the Fund
To keep a record of all Tier 3 ill-health cases and to review these cases after 18 months	
Notify the Fund of the results of any review of Tier 3 ill-health cases with appropriate	5 working days of results of review

information to allow the Fund to recalculate benefits if necessary	
Send a Notification of Entitlement to Benefit (or change in benefit) to a scheme member following the review of his/her Tier 3 ill-health benefits	Within 5 working days of results of review

Members leaving before retirement	
Employer's responsibility	Target Service Standard
Notify the Fund of the member's date of (and reason for) cessation of membership, and all other relevant information.	Within 8 working days from member's most recent pay date
Administering Authority's Responsibility	
To accurately record and update member records on the pension administration system	Within 10 working days from receipt of all relevant information
To inform members who leave the scheme of their deferred benefit entitlement	Within 20 working days from receipt of all relevant information
Provide a refund of contributions where requested	Within 20 working days from receipt of all relevant information
Provide a statement of current value of deferred benefits on request	Within 20 working days from receipt of all relevant information

Death Benefits	
Employer's responsibility	Target Service Standard
Notify the Fund of the death of a member and provide details of next of kin where available	3 working days of being notified
Administering Authority's Responsibility	
Write to next of kin or other contact requesting information following the death of a scheme member	Within 5 working days from notification
Calculate and notify dependant(s) of amount of death benefits	Within 10 working days from receipt of all relevant information
Decide who should be recipient(s) of death grant and pay death benefits appropriately as directed	Within 10 working days from receipt of all relevant information

Transfers	
Administering Authority's Responsibility	
Obtain transfer details for transfer in, and calculate and provide quotation to member	Within 20 working days from receipt of all relevant information
Request transfer value upon acceptance of transfer in	Within 10 working days
Notify scheme member of benefits purchased by transfer in on receipt of payment	Within 20 working days from receipt of all relevant information
Provide details of transfer value for transfer out, on request	Within 20 working days from receipt of all relevant information
Provide payment of transfer value to appropriate recipient.	Within 10 working days

Additional Benefits (APCs and AVCs)	
Employer's responsibility	Target Service Standard
Commence, cease or amend (as appropriate) deduction of APCs and AVCs	In month following election
Administering Authority's Responsibility	
To provide information on APCs / AVCs on request to members and employers.	Within 10 working days from request

Various Financial Obligations	
Employer's responsibility	Target Service Standard
Pay the Fund all employee contributions deducted from payroll and all employer contributions.	Immediately when deducted from pay but at the latest by the 19 th day of the following month.
Pay all rechargeable items to the Fund, including additional fund payments in relation to early payment of benefits.	20 working days from receiving invoice (within standard invoicing terms of 28 calendar days)
Pay all additional costs to the Fund associated with the unsatisfactory performance of the employer	20 working days from receiving invoice (within standard invoicing terms of 28 calendar days)
Administering Authority's Responsibility	
To allocate the received contributions to each employer's cost centre	Prior to closing month end
Issue invoice in relation to additional fund payments in relation to early payment of benefits	Within 10 working days of employer costs being confirmed
Inform the employers of any new contribution banding	At least 1 month prior to the new contribution bands being introduced
Notify calculation and new value of pension following annual pensions increase	No longer than 2 working days before payment of revised pension

Annual Returns, Valuation and Annual Benefit Statements	
Employer's responsibility	Target Service Standard
Provide the Fund with year-end information to 31 March each year, and any other information that may be required for the production of Annual Benefit Statements.	By 30 April annually
Administering Authority's Responsibility	
Process employer year end contribution returns	By 31 July each year
Produce annual benefit statements for all active and deferred members.	In line with LGPS regulation timescales
Provide Pension Saving Statement to members who have exceeded their annual allowance(Legislative)	By 6 October each year
To provide P60 statements to pensioners	By 31 May each year

(HMRC requirement)	
Provide information to the Actuary (or GAD as appropriate) for both the triennial valuation and for accounting purposes.	As agreed between the Fund and the Actuary
Provide an electronic copy of the valuation report and associated certificate to each employer, and to answer any questions arising.	Within 10 working days from publication of report

General	
Employer's responsibility	Target Service Standard
Confirm a nominated representative to receive information from the Fund, and to take responsibility for disseminating it within the organisation.	By effective date of admission or within 5 working days of previous representative leaving
Formulate and publish policies regarding all discretions that the employer may exercise, and provide a copy to the Fund.	Within 2 months of joining and also provided to Administering Authority every 3 years or whenever amended
Respond to enquiries from the Fund.	10 working days
Notify the Fund if the employer intends to outsource services that will involve TUPE transfers of staff, and work with the Fund to ensure an admission agreement is put in place and complied with or a bulk transfer arranged.	Initial notification immediately upon becoming aware of potential outsourcing, and at least 3 months prior to the start of the contract
Distribute any information provided by the Fund to members / potential members	5 working days
Put in place a Stage 1 Internal Dispute Resolution Procedure	Within 1 month of joining and before the effective date of any change to the existing procedure (e.g. an appointed person leaving)
Administering Authority's Responsibility	
Arrange for the setting up of an admission agreement where required	As soon as possible following receipt of information and prior to the start of any contract
Publish (on-line) and keep up to date the Short Scheme Guide and Employers' Procedural Guide.	Updates made as soon as possible from notification of any legislation changes but preferably before effective date
Publish and keep up to date all forms that members, prospective members and employers are required to complete.	Updates made as soon as possible from notification of any legislation changes but preferably before effective date
Publish the Fund's annual report and accounts and any report from the auditor	In line with CIPFA Guidance

Provision of other responses to general enquiries from scheme members and employers	Within 10 working days to provide initial response
Put in place a Stage 1 Internal Dispute Resolution Procedure	Before the effective date of any change to the existing procedure (e.g. an appointed person leaving)
Put in place a Stage 2 Internal Dispute Resolution Procedure	Before the effective date of any change to the existing procedure (e.g. an appointed person leaving)

Pension Payments	
Administering Authority's Responsibility	Target Service Standard
Issue pension payments to designated bank accounts	To arrive on due date
Issue payslips to home addresses for those pensions where net pay has changed by £10 or more	Posted so as to arrive on the due date
Investigate returned payments and action appropriately	Within 10 working days from receipt of return
Respond to pensioner queries in writing	Within 10 working days from receipt of query
Implement a change to pension in payment	By next payroll period where change occurs more than 5 days prior to the payment date

London Borough of Hillingdon Pension Fund

Funding Strategy Statement

March 2020

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Funding Strategy Statement

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1 Introduction

1.1 What is this document?

This is the Funding Strategy Statement (FSS) of the London Borough of Hillingdon Pension Fund (“the Fund”), which is administered by London Borough of Hillingdon, (“the Administering Authority”).

It has been prepared by the Administering Authority in collaboration with the Fund’s actuary, Hymans Robertson LLP, and after consultation with the Fund’s employers and investment adviser. It is effective from 1 April 2020.

1.2 What is the London Borough of Hillingdon Pension Fund?

The Fund is part of the national Local Government Pension Scheme (LGPS). The LGPS was set up by the UK Government to provide retirement and death benefits for local government employees, and those employed in similar or related bodies, across the whole of the UK. The Administering Authority runs the London Borough of Hillingdon Fund, in effect the LGPS for the London Borough of Hillingdon area, to make sure it:

- receives the proper amount of contributions from employees and employers, and any transfer payments;
- invests the contributions appropriately, with the aim that the Fund’s assets grow over time with investment income and capital growth; and
- uses the assets to pay Fund benefits to the members (as and when they retire, for the rest of their lives), and to their dependants (as and when members die), as defined in the LGPS Regulations. Assets are also used to pay transfer values and administration costs.

The roles and responsibilities of the key parties involved in the management of the Fund are summarised in [Appendix B](#).

1.3 Why does the Fund need a Funding Strategy Statement?

Employees’ benefits are guaranteed by the LGPS Regulations, and do not change with market values or employer contributions. Investment returns will help pay for some of the benefits, but probably not all, and certainly with no guarantee. Employees’ contributions are fixed in those Regulations also, at a level which covers only part of the cost of the benefits.

Therefore, employers need to pay the balance of the cost of delivering the benefits to members and their dependants.

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

- affordability of employers’ contributions;
- transparency of processes;
- stability of employers’ contributions; and
- prudence in the funding basis

There are also regulatory requirements for an FSS, as given in [Appendix A](#).

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

- the LGPS Regulations;
- the Rates and Adjustments Certificate (confirming employer contribution rates for the next three years) which can be found in an appendix to the formal valuation report;
- actuarial factors for valuing individual transfers, early retirement costs and the costs of buying added service; and
- the Fund's Investment Strategy Statement (see [Section 4](#)).

1.4 How does the Fund and this FSS affect me?

This depends who you are:

- a member of the Fund, i.e. a current or former employee, or a dependant: the Fund needs to be sure it is collecting and holding enough money so that your benefits are always paid in full;
- an employer in the Fund (or which is considering joining the Fund): you will want to know how your contributions are calculated from time to time, that these are fair by comparison to other employers in the Fund, in what circumstances you might need to pay more and what happens if you cease to be an employer in the Fund. Note that the FSS applies to all employers participating in the Fund;
- an Elected Member whose council participates in the Fund: you will want to be sure that the council balances the need to hold prudent reserves for members' retirement and death benefits, with the other competing demands for council money;
- a Council Tax payer: your council seeks to strike the balance above, and also to minimise cross-subsidies between different generations of taxpayers.

1.5 What does the FSS aim to do?

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

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

1.6 How do I find my way around this document?

In [Section 2](#) there is a brief introduction to some of the main principles behind funding, i.e. deciding how much an employer should contribute to the Fund from time to time.

In [Section 3](#) we outline how the Fund calculates the contributions payable by different employers in different situations.

In [Section 4](#) we show how the funding strategy is linked with the Fund's investment strategy.

In the [Appendices](#) we cover various issues in more detail:

- A. the regulatory background, including how and when the FSS is reviewed,
- B. who is responsible for what,
- C. what issues the Fund needs to monitor, and how it manages its risks,
- D. some more details about the actuarial calculations required,
- E. the assumptions which the Fund actuary currently makes about the future,
- F. a [glossary](#) explaining the technical terms occasionally used here.

If you have any other queries please contact pensions@hillingdon.gov.uk in the first instance.

2 Basic Funding issues

(More detailed and extensive descriptions are given in [Appendix D](#)).

2.1 How does the actuary calculate the required contribution rate?

In essence, this is a three-step process:

1. Calculate the funding target for that employer, i.e. the estimated amount of assets it should hold in order to be able to pay all its members' benefits. See [Appendix E](#) for more details of what assumptions we make to determine that funding target;
2. Determine the time horizon over which the employer should aim to achieve that funding target. See the table in [3.3](#) and [Note \(c\)](#) for more details;
3. Calculate the employer contribution rate such that it has at least a given likelihood of achieving that funding target over that time horizon, allowing for various possible economic outcomes over that time horizon. See [2.3](#) below, and the table in [3.3 Note \(e\)](#) for more details.

2.2 What is each employer's contribution rate?

This is described in more detail in [Appendix D](#). Employer contributions are normally made up of two elements:

- a) the estimated cost of benefits being built up each year, after deducting the members' own contributions and including an allowance for administration expenses. This is referred to as the "*Primary rate*", and is expressed as a percentage of members' pensionable pay; plus
- b) an adjustment for the difference between the Primary rate above and the actual contribution the employer needs to pay, referred to as the "*Secondary rate*". In broad terms, payment of the Secondary rate is in respect of benefits already accrued at the valuation date. The Secondary rate may be expressed as a percentage of pay and/or a monetary amount in each year.

The rates for all employers are shown in the Fund's Rates and Adjustments Certificate, which forms part of the formal Actuarial Valuation Report. Employers have to pay at least their amounts certified but can elect to pay contributions at a higher rate. If employers choose to pay at a higher rate, then this will be reflected in their position at the next valuation.

2.3 What different types of employer participate in the Fund?

Historically the LGPS was intended for local authority employees only. However, over the years, with the diversification and changes to delivery of local services, more types and numbers of employers now participate. There are currently more employers in the Fund than ever before, a significant part of this being due to new academies.

In essence, participation in the LGPS is open to public sector employers providing some form of service to the local community. Whilst the majority of members will be local authority employees (and ex-employees), the majority of participating employers are those providing services in place of (or alongside) local authority services: academies, contractors, colleges, charities, etc.

The LGPS Regulations define various types of employer as follows:

Scheduled bodies - councils, and other specified employers such as academies and further education establishments. These must provide access to the LGPS in respect of their employees who are not eligible to join another public sector scheme (such as the Teachers Scheme). These employers are so-called because they are specified in a schedule to the LGPS Regulations.

It is now possible for Local Education Authority schools to convert to academy status, and for other forms of school (such as Free Schools) to be established under the academies legislation. All such **academies (or Multi Academy Trusts)**, as employers of non-teaching staff, become separate new employers in the Fund. As academies are defined in the LGPS Regulations as “Scheduled Bodies”, the Administering Authority has no discretion over whether to admit them to the Fund, and the academy has no discretion whether to continue to allow its non-teaching staff to join the Fund. There has also been guidance issued by the MHCLG regarding the terms of academies’ membership in LGPS Funds.

Designating employers - employers such as town and parish councils are able to participate in the LGPS via resolution (and the Fund cannot refuse them entry where the resolution is passed). These employers can designate which of their employees are eligible to join the scheme.

Other employers are able to participate in the Fund via an admission agreement and are referred to as ‘admission bodies’. These employers are generally those with a “community of interest” with another scheme employer – **community admission bodies** (“CAB”) or those providing a service on behalf of a scheme employer – **transferee admission bodies** (“TAB”). CABs will include housing associations and charities, TABs will generally be contractors. The Fund is able to set its criteria for participation by these employers and can refuse entry if the requirements as set out in the Fund’s admissions policy are not met. (NB The terminology CAB and TAB has been dropped from recent LGPS Regulations, which instead combine both under the single term ‘admission bodies’; however, we have retained the old terminology here as we consider it to be helpful in setting funding strategies for these different employers.

2.4 How does the calculated contribution rate vary for different employers?

All three steps above are considered when setting contributions (more details are given in [Section 3](#) and [Appendix D](#)).

1. The **funding target** is based on a set of assumptions about the future, (e.g. investment returns, inflation, pensioners’ life expectancies). If an employer is approaching the end of its participation in the Fund then its funding target may be set on a more prudent basis, so that its liabilities are less likely to be spread among other employers after its cessation;
2. The **time horizon** required is the period over which the funding target is achieved. Employers may be given a lower time horizon if they have a less permanent anticipated membership, or do not have tax-raising powers to increase contributions if investment returns under-perform; and
3. The **likelihood of achieving** the funding target over that time horizon will be dependent on the Fund’s view of the strength of employer covenant and its funding profile. Where an employer is considered to be weaker then the required likelihood will be set higher, which in turn will increase the required contributions (and vice versa).

For some employers it may be agreed to pool contributions, see [3.4](#).

Any costs of non ill-health early retirements must be paid by the employer, see [3.6](#).

Costs of ill-health early retirements are covered in [3.7](#) and [3.8](#).

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2.5 How is a funding level calculated?

An employer's "funding level" is defined as the ratio of:

- the market value of the employer's share of assets (see [Appendix D](#), section [D5](#), for further details of how this is calculated), to
- the value placed by the actuary on the benefits built up to date for the employer's employees and ex-employees (the "liabilities"). The Fund actuary agrees with the Administering Authority the assumptions to be used in calculating this value.

If this is less than 100% then it means the employer has a shortfall, which is the employer's "deficit"; if it is more than 100% then the employer is said to be in "surplus". The amount of deficit or shortfall is the difference between the asset value and the liabilities value.

It is important to note that the funding level and deficit/surplus are only measurements at a particular point in time, on a particular set of assumptions about the future. Whilst we recognise that various parties will take an interest in these measures, for most employers the key issue is how likely it is that their contributions will be sufficient to pay for their members' benefits (when added to their existing asset share and anticipated investment returns).

In summary, funding levels and deficits are short term, high level risk measures, whereas contribution setting is a longer term issue.

2.6 How does the Fund recognise that contribution levels can affect council and employer service provision, and council tax?

The Administering Authority and the Fund actuary are acutely aware that, all other things being equal, a higher contribution required to be paid to the Fund will mean less cash available for an employer to use elsewhere. For instance:

- Higher Pension Fund contributions may affect the resources available for council services, and/or greater pressure on council tax levels; and
- Other employers will provide various services to the local community, perhaps through housing associations, charitable work, or contracting council services. If they are required to pay more in pension contributions to the LGPS then this may affect their ability to continue to provide these services at risk.

Whilst all this is true, it should also be borne in mind that:

- The Fund provides invaluable financial security to local families, whether to those who formerly worked in the service of the local community who have now retired, or to their families after their death;
- The Fund must have the assets available to meet these retirement and death benefits, which in turn means that the various employers must each pay their own way. Lower contributions today will mean higher contributions tomorrow: deferring payments does not alter the employer's ultimate obligation to the Fund in respect of its current and former employees;
- Each employer will normally only pay for its own employees and ex-employees (and their dependants), not for those of other employers in the Fund;
- The Fund strives to maintain reasonably stable employer contribution rates where appropriate and possible. However, a recent shift in regulatory focus means that solvency within each generation is considered by the Government to be a higher priority than stability of contribution rates;

- The Fund wishes to avoid the situation where an employer falls so far behind in managing its funding shortfall that its deficit becomes unmanageable in practice: such a situation may lead to employer insolvency and the resulting deficit falling on the other Fund employers. In that situation, those employers' services would in turn suffer as a result;

Overall, therefore, there is clearly a balance to be struck between the Fund's need for maintaining prudent funding levels, and the employers' need to allocate their resources appropriately. The Fund achieves this through various techniques which affect contribution increases to various degrees (see [3.1](#)). In deciding which of these techniques to apply to any given employer, the Administering Authority takes a view on the financial standing of the employer, i.e. its ability to meet its funding commitments and the relevant time horizon.

The Administering Authority will consider a risk assessment of that employer using a knowledge base which will include such information as the type of employer, its membership profile and funding position, any guarantors or security provision, material changes anticipated, etc.

For instance, where an employer is considered relatively low risk then the Fund may permit options such as stabilisation ([see 3.3 Note \(b\)](#)), a longer time horizon relative to other employers, and/or a lower likelihood of achieving their funding target. Such options will temporarily produce lower contribution levels than would otherwise have applied. This is permitted in the expectation that the employer will still be able to meet its obligations for many years to come.

On the other hand, where there is doubt that an employer will be able to meet its funding commitments or withstand a significant change in its commitments, then a higher funding target, and/or a shorter time horizon relative to other employers, and/or a higher likelihood of achieving the target may be required.

The Fund actively seeks employer input, including to its funding arrangements, through various means: see [Appendix A](#).

2.7 What approach has the Fund taken to dealing with uncertainty arising from the McCloud court case and its potential impact on the LGPS benefit structure?

The LGPS benefit structure from 1 April 2014 is currently under review following the Government's loss of the right to appeal the McCloud and other similar court cases. The courts have ruled that the 'transitional protections' awarded to some members of public service pension schemes when the schemes were reformed (on 1 April 2014 in the case of the LGPS) were unlawful on the grounds of age discrimination. At the time of writing, the Ministry of Housing, Communities and Local Government (MHCLG) has not provided any details of changes as a result of the case. However it is expected that benefits changes will be required and they will likely increase the value of liabilities. At present, the scale and nature of any increase in liabilities are unknown, which limits the ability of the Fund to make an accurate allowance.

[The LGPS Scheme Advisory Board \(SAB\) issued advice to LGPS funds in May 2019](#). As there was no finalised outcome of the McCloud case by 31 August 2019, the Fund Actuary has acted in line with SAB's advice and valued all member benefits in line with the current LGPS Regulations.

The Fund, in line with the advice in the SAB's note, considered how to allow for this risk in the setting of employer contribution rates and has taken the following action. At the 2019 valuation, the likelihoods of achieving target have been increased by 5% (i.e. from "minimum 75%" to "minimum 80%"). This increase is an explicit response to the uncertainty around the benefit structure created by the McCloud judgement.

Once the outcome of the McCloud case is known, the Fund may revisit the contribution rates set to ensure they remain appropriate. The Fund is also considering the McCloud judgement in its approach to cessation valuations.

2.8 When will the next actuarial valuation be?

On 8 May 2019 MHCLG issued a [consultation](#) seeking views on (among other things) proposals to amend the LGPS valuation cycle in England and Wales from a three year (triennial) valuation cycle to a four year (quadrennial) valuation cycle.

The Fund intends to carry out its next actuarial valuation in 2022 (3 years after the 2019 valuation date) in line with MHCLG's desired approach in the consultation. The Fund has therefore instructed the Fund Actuary to certify contribution rates for employers for the period 1 April 2020 to 31 March 2023 as part of the 2019 valuation of the Fund.

3 Calculating contributions for individual Employers

3.1 General comments

A key challenge for the Administering Authority is to balance the need for stable, affordable employer contributions with the requirement to take a prudent, longer-term view of funding and ensure the solvency of the Fund. With this in mind, the Fund's three-step process identifies the key issues:

1. What is a suitably (but not overly) prudent funding target?
2. How long should the employer be permitted to reach that target? This should be realistic but not so long that the funding target is in danger of never actually being achieved.
3. What likelihood is required to reach that funding target? This will always be less than 100% as we cannot be certain of the future. Higher likelihood "bars" can simply reflect a desire to be prudent and/or be used for employers where the Fund wishes to reduce the risk that an employer ceases and leaves a deficit to be picked up by other employers.

The above and associated issues are covered in this Section.

The Administering Authority recognises that there may occasionally be particular circumstances affecting individual employers that are not easily managed within the rules and policies set out in the Funding Strategy Statement. Therefore the Administering Authority reserves the right to direct the actuary to adopt alternative funding approaches on a case by case basis for specific employers.

3.2 The effect of paying lower contributions

In limited circumstances the Administering Authority may permit employers to pay contributions at a lower level than is assessed for the employer using the three step process above. At their absolute discretion the Administering Authority may:

- extend the time horizon for targeting full funding;
- adjust the required likelihood of meeting the funding target;
- permit an employer to participate in the Fund's stabilisation mechanisms;
- permit phasing in of contribution rises (or reductions);
- pool contributions amongst employers with similar characteristics; and/or
- accept some form of security or guarantee in lieu of a higher contribution rate than would otherwise be the case.

Employers which are permitted to use one or more of the above methods will often be paying, for a time, contributions less than required to meet their funding target, over the appropriate time horizon with the required likelihood of success. Such employers should appreciate that:

- their true long term liability (i.e. the actual eventual cost of benefits payable to their employees and ex-employees) is not affected by the pace of paying contributions;
- lower contributions in the short term will result in a lower level of future investment returns on the employer's asset share. Thus, deferring a certain amount of contribution may lead to higher contributions in the long-term; and

it may take longer to reach their funding target, all other things being equal.

Overleaf [\(3.3\)](#) is a summary of how the main funding policies differ for different types of employer, followed by more detailed notes where necessary.

[Section 3.4](#) onwards deals with various other funding issues which apply to all employers.

3.3 The different approaches used for different employers

Type of employer	Scheduled Bodies			Community Admission Bodies and Designating Employers		Transferee Admission Bodies (TAB)	
Sub-type	Local Authorities	Colleges	Academies	Open to new entrants	Closed to new entrants	Standard*	Pass-Through (let by London Borough of Hillingdon)
Funding Target Basis used	Ongoing participation basis, assumes long-term Fund participation (see Appendix E)			Ongoing participation basis, but may move to “gilts exit basis” - see Note (a)		Contractor exit basis, assumes fixed contract term in the Fund (see Appendix E)	Ongoing, as per letting authority
Primary rate approach	(see Appendix D – D.2)						Contribution rate set for pass-through arrangements let by the London Borough of Hillingdon is 26% of pay. This rate may change at the absolute discretion of London Borough of Hillingdon and the Admin. Authority.
Stabilised contribution rate?	Yes - see Note (b)	No	No	No	No	No	As per letting authority.
Maximum time horizon – Note (c)	20 years	20 years	20 years	20 years	Future working lifetime	Future working lifetime	As per letting authority
Secondary rate – Note (d)	% of payroll	% of payroll	% of payroll	% of payroll	Monetary amount	% of payroll	None
Treatment of surplus	Covered by stabilisation arrangement	Preferred approach: contributions kept at primary rate. However, secondary rate reductions may be permitted by the Admin. Authority.		Preferred approach: contributions kept at primary rate. However, secondary rate reductions may be permitted by the Admin. Authority.		Set secondary contributions to target 100% funding level by contract end date.	As per letting authority

Minimum likelihood of achieving target – Note (e)	75%, subject to management of downside risk.	80%	80%	80%	80%	80%	N/A
Phasing of contribution changes	Covered by stabilisation arrangement	Discretion of the Administering Authority				None	N/A
Review of rates – Note (f)	Administering Authority reserves the right to review contribution rates and amounts, and the level of security provided, at regular intervals between valuations						
New employer	n/a	n/a	Note (g)	Note (h)		Notes (h) & (i)	
Cessation of participation: debt/credit payable	Cessation is assumed not to be generally possible, as Scheduled Bodies are legally obliged to participate in the LGPS. In the rare event of cessation occurring (machinery of Government changes for example), the cessation calculated principles applied would be as per Note (j) .			Can be ceased subject to terms of admission agreement. Exit debt/credit will be calculated on a basis appropriate to the circumstances of cessation – see Note (i) .		Participation is assumed to expire at the end of the contract. Cessation debt/credit calculated on the contractor exit basis will be due from/to the TAB. Letting employer will be liable for future deficits and contributions. See Note (i) for further details.	Participation is assumed to expire at the end of the contract, where the contractor's assets and liabilities will transfer back to the letting authority with no crystallisation of any deficit or surplus. The letting authority will be liable for any future deficits arising.

* Where the Administering Authority recognises a fixed contribution rate agreement between a letting employer and a contractor, the certified employer contribution rate will be derived in line with the methodology specified in the risk sharing agreement. Additionally, in these cases, upon cessation the contractor's assets and liabilities will transfer back to the letting employer with no crystallisation of any deficit or surplus. Further detail on fixed contribution rate agreements is set out in [note \(i\)](#).

Note (a) (Gilts exit basis for CABs and Designating Employers closed to new entrants)

In the circumstances where:

- the employer is a Designating Employer, or an Admission Body but not a Transferee Admission Body, and
- the employer has no guarantor, and
- the admission agreement is likely to terminate, or the employer is likely to lose its last active member, within a timeframe considered appropriate by the Administering Authority to prompt a change in funding,

the Administering Authority may set a higher funding target for the employer. The target would be higher as no allowance would be made for the anticipated extra returns from “growth” assets in the investment return assumption – instead that assumption would simply reflect the (lower) return from long-term gilt yields. The aim of this policy is to increase regular contributions now in order to reduce, but not entirely eliminate, the possibility of a final deficit payment being required from the employer at the point they leave the Fund.

The Administering Authority also reserves the right to adopt the above approach to employers where their strength of covenant is considered to be weak but there is no immediate expectation that they will leave the Fund.

Note (b) (Stabilisation)

Stabilisation is a mechanism where employer contribution rate variations from year to year are kept within a pre-determined range, thus allowing those employers’ rates to be relatively stable. The Administering Authority, on the advice of the Fund Actuary, believes that stabilising contributions can still be viewed as a prudent longer-term approach.

This stabilisation mechanism allows short term investment market volatility to be managed so as not to cause volatility in employer contribution rates, on the basis that a long term view can be taken on net cash inflow, investment returns and strength of employer covenant.

The current stabilisation mechanism applies if:

- the employer satisfies the eligibility criteria set by the Administering Authority (see below) and;
- there are no material events which cause the employer to become ineligible, e.g. significant reductions in active membership (due to outsourcing or redundancies), or changes in the nature of the employer (perhaps due to Government restructuring).

On the basis of extensive modelling carried out for the 2019 valuation exercise (see [Section 4](#)), the stabilised details are as follows:

Employer	Year Ending 31 March 2021	Year Ending 31 March 2022	Year Ending 31 March 2023	Thereafter
London Borough of Hillingdon	24.1%	24.1%	24.1%	Max increase +1% in any year Max decrease of -1% in any year

The stabilisation criteria and limits will be reviewed at the next formal valuation, to take effect from 1 April 2023.

Note (c) (Maximum time horizon)

The maximum time horizon starts at the commencement of the revised contribution rate (1 April 2020 for the 2019 valuation). The Administering Authority would normally expect the same period to be used at successive triennial valuations, but would reserve the right to propose alternative time horizons, for example where there were no new entrants.

Note (d) (Secondary rate)

The Secondary contribution rate for each employer covering the period until the next formal valuation may be set as a percentage of salaries or in monetary terms. The Administering Authority is, however, likely to require these payments to be set in monetary terms where:

- the employer is relatively mature, i.e. has a large Secondary contribution rate (e.g. above 15% of payroll), or
- there has been a significant reduction in payroll due to outsourcing or redundancy exercises, or
- the employer has closed the Fund to new entrants.

Note (e) (Probability of achieving funding target)

Each employer has its funding target calculated, and a relevant time horizon over which to reach that target. Contributions are set such that, combined with the employer's current asset share and anticipated market movements over the time horizon, the funding target is achieved with a given minimum likelihood. A higher required likelihood bar will give rise to higher required contributions, and vice versa.

The way in which contributions are set using these three steps, and relevant economic projections, is described in further detail in [Appendix D](#).

Different likelihoods are set for different employers depending on their nature and circumstances: in broad terms, a higher likelihood will apply due to one or more of the following:

- the Fund believes the employer poses a greater funding risk than other employers,
- the employer does not have tax-raising powers;
- the employer does not have a guarantor or other sufficient security backing its funding position; and/or
- the employer is likely to cease participation in the Fund in the short or medium term.

At the 2019 valuation, the likelihoods of achieving target were increased by 5% (compared to the 2016 valuation) as an explicit response to the uncertainty around the future benefit structure created by the McCloud judgement.

Note (f) (Regular Reviews)

Such reviews may be triggered by significant events including but not limited to: significant reductions in payroll, altered employer circumstances, Government restructuring affecting the employer's business, or failure to pay contributions or arrange appropriate security as required by the Administering Authority.

The result of a review may be to require increased contributions (by strengthening the actuarial assumptions adopted and/or moving to monetary levels of deficit recovery contributions), and/or an increased level of security or guarantee.

Note (g) (New Academy conversions)

At the time of writing, the Fund's policies on academies' funding issues are as follows:

- i. The new academy will be regarded as a separate employer in its own right and will not be pooled with other employers in the Fund. The only exception is where the academy is part of a Multi Academy Trust (MAT) in which case the academy's figures will be calculated as below but can be combined with, for the purpose of setting contribution rates, those of the other academies in the MAT;
- ii. The new academy's past service liabilities on conversion will be calculated based on its active Fund members on the day before conversion. For the avoidance of doubt, these liabilities will include all past service of those members, but will exclude the liabilities relating to any ex-employees of the school who have deferred or pensioner status;
- iii. The new academy will be allocated an initial asset share from the ceding council's assets in the Fund. This asset share will be calculated using the estimated funding position of the ceding council at the date of academy conversion. The share will be based on the active members' funding level, having first allocated assets in the council's share to fully fund deferred and pensioner members. The assets allocated to the academy will be limited if necessary so that its initial funding level is subject to a maximum of 100%. The asset allocation will be based on market conditions and the academy's active Fund membership on the day prior to conversion;
- iv. The new academy's calculated contribution rate will be based on the time horizon and likelihood of achieving funding target outlined for Academies in the table in Section 3.3 above;
- v. It is possible for an academy to leave one MAT and join another. If this occurs, all active, deferred and pensioner members of the academy transfer to the new MAT.

The Fund's policies on academies are subject to change in the light of any amendments to MHCLG or DfE guidance (or removal of the formal guarantee currently provided to academies by the DfE). Any changes will be notified to academies, and will be reflected in a subsequent version of this FSS.

Note (h) (New Admission Bodies)

With effect from 1 October 2012, the LGPS 2012 Miscellaneous Regulations introduced mandatory new requirements for all Admission Bodies brought into the Fund from that date. Under these Regulations, all new Admission Bodies will be required to provide some form of security, such as a guarantee from the letting employer, an indemnity or a bond. The security is required to cover some or all of the following:

- the strain cost of any redundancy early retirements resulting from the premature termination of the contract;
- allowance for the risk of asset underperformance;
- allowance for the risk of a greater than expected rise in liabilities;
- allowance for the possible non-payment of employer and member contributions to the Fund; and/or
- the current deficit.

Transferee Admission Bodies: For all TABs, the security must be to the satisfaction of the Administering Authority as well as the letting employer, and will be reassessed on regular basis. See also [Note \(i\)](#) below.

Community Admission Bodies: The Administering Authority will only consider requests from CABs (or other similar bodies, such as section 75 NHS partnerships) to join the Fund if they are sponsored by a Scheduled Body with tax raising powers, who also guarantee their liabilities.

Note (i) (New Transferee Admission Bodies)

A new TAB usually joins the Fund as a result of the letting/outsourcing of some services from an existing employer (normally a Scheduled Body such as a council or academy) to another organisation (a “contractor”). This involves the TUPE transfer of some staff from the letting employer to the contractor. Consequently, for the duration of the contract, the contractor is a new participating employer in the Fund so that the transferring employees maintain their eligibility for LGPS membership. At the end of the contract the employees revert to the letting employer or to a replacement contractor.

Historically, the TAB would be set up in the Fund as a new employer with responsibility for all the accrued benefits of the transferring employees; in this case, the contractor would usually be assigned an initial asset allocation equal to the past service liability value of the employees’ Fund benefits. In return, the contractor is then expected to ensure that its share of the Fund is also fully funded at the end of the contract: see [Note \(j\)](#).

The Fund also allows the adoption of a simple pass through approach to lettings/outsourcings in some situations. This refers to an arrangement where the letting employer retains responsibility for liabilities on all of the service earned by members (both transferring past service and service accrued during the contract period) and the contractor is only liable to pay an agreed contribution plan and there is no potential termination payment. Additionally the contractor has no defined benefit pension liability in the LGPS, only a responsibility to pay the agreed contributions. Therefore, the contractor should have no need to prepare a defined benefit pension disclosure for their accounts in respect of LGPS liabilities in the Fund. The contribution rate payable by the contractor can be calculated by the Fund actuary prior to the start of the contract.

Whilst a pass through contractor will not be liable for defined benefit pension liabilities, they will be responsible for additional pension costs arising through factors that would be within its own control. These typically relate to strains arising due to: excessive salary growth; early payment of benefit on unreduced terms; and augmentation of benefit. All risk sharing arrangements will be fully documented in the services contract.

The Admission Agreement may ensure that some element of risk transfers to the contractor where it relates to their decisions and it is unfair to burden the letting employer with that risk. For example, the contractor will typically be responsible for pension costs that arise from:

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

The London Borough of Hillingdon Pension Fund has a standard pass-through contribution rate of 26% of pay for contracts let by London Borough of Hillingdon. This rate applies to contracts which cover less than 300 staff and is available at the absolute discretion of the London Borough of Hillingdon.

Note (j) (Admission Bodies Ceasing)

Notwithstanding the provisions of the Admission Agreement, the Administering Authority may consider any of the following as triggers for the cessation of an admission agreement with any type of body:

- An employer’s last active member stops contributing to the Fund. It should be noted, however, that LGPS Regulation changes mean that the Administering Authority has the discretion, in any given case, to defer taking action for up to three years;

- The insolvency, winding up or liquidation of the Admission Body;
- Any breach by the Admission Body of any of its obligations under the Agreement that they have failed to remedy to the satisfaction of the Fund;
- A failure by the Admission Body to pay any sums due to the Fund within the period required by the Fund; or
- The failure by the Admission Body to renew or adjust the level of the bond or indemnity, or to confirm an appropriate alternative guarantor, as required by the Fund.

On cessation, the Administering Authority will instruct the Fund actuary to carry out a cessation valuation to determine whether there is any deficit or surplus. Where there is a deficit, payment of this amount in full would normally be sought from the Admission Body. Where there is a surplus, the Administering Authority will determine the amount of exit credit to be paid in accordance with the Regulations. In making this determination, the Administering Authority will consider the extent of any surplus, the proportion of surplus arising as a result of the Admission Body's employer contributions, any representations (such as risk sharing agreements - see note (i) above) and any employer providing a guarantee to the Admission Body.

As discussed in Section 2.7, the LGPS benefit structure from 1 April 2014 is currently under review following the Government's loss of the right to appeal the McCloud and other similar court cases. The Fund is considering how it will reflect the current uncertainty regarding the outcome of this judgement in its approach to cessation valuations.

The Fund Actuary charges a fee for carrying out an employer's cessation valuation, and there will be other Fund administration expenses associated with the cessation, both of which the Fund will recharge to the employer. For the purposes of the cessation valuation, this fee will be treated as an expense incurred by the employer and will be deducted from the employer's cessation surplus or added to the employer's cessation deficit, as appropriate. This process improves administrative efficiency as it reduces the number of transactions required to be made between the employer and the Fund following an employer's cessation.

For non-Transferee Admission Bodies whose participation is voluntarily ended either by themselves or the Fund, or where a cessation event has been triggered, the Administering Authority must look to protect the interests of other ongoing employers. The actuary will therefore adopt an approach which, to the extent reasonably practicable, protects the other employers from the likelihood of any material loss emerging in future:

- a) Where a guarantor does not exist then, in order to protect other employers in the Fund, the cessation liabilities and final surplus/deficit will normally be calculated using a "gilts exit basis", which is more prudent than the ongoing participation basis. This has no allowance for potential future investment outperformance above gilt yields, and has added allowance for future improvements in life expectancy. This could give rise to significant cessation debts being required.
- b) Where there is a guarantor for future deficits and contributions, the details of the guarantee will be considered prior to the cessation valuation being carried out. In some cases the guarantor is simply guarantor of last resort and therefore the cessation valuation will be carried out consistently with the approach taken had there been no guarantor in place. Alternatively, where the guarantor is not simply guarantor of last resort, the cessation may be calculated using the ongoing participation basis or contractor exit basis as described in Appendix E;
- c) Again, depending on the nature of the guarantee, it may be possible to simply transfer the former Admission Body's liabilities and assets to the guarantor, without needing to crystallise any deficit or surplus. This approach may be adopted where the employer cannot pay the contributions due, and this is within the terms of the guarantee.

Under (a) and (b), any shortfall would usually be levied on the departing Admission Body as a single lump sum payment. If this is not possible then the Fund may spread the payment subject to there being some security in place for the employer such as a bond indemnity or guarantee

In the event that the Fund is not able to recover the required payment in full, then the unpaid amounts fall to be shared amongst all of the other employers in the Fund. This may require an immediate revision to the Rates and Adjustments Certificate affecting other employers in the Fund, or instead be reflected in the contribution rates set at the next formal valuation following the cessation date.

As an alternative, where the ceasing Admission Body is continuing in business, the Fund at its absolute discretion reserves the right to enter into an agreement with the ceasing Admission Body. Under this agreement the Fund would accept an appropriate alternative security to be held against any deficit on the gilts exit basis, and would carry out the cessation valuation on the ongoing participation basis: Secondary contributions would be derived from this cessation debt. This approach would be monitored as part of each formal valuation and secondary contributions would be reassessed as required. The Admission body may terminate the agreement only via payment of the outstanding debt assessed on the gilts exit basis. Furthermore, the Fund reserves the right to revert to the gilts exit basis and seek immediate payment of any funding shortfall identified. The Administering Authority may need to seek legal advice in such cases, as the Admission Body would have no contributing members.

3.4 Pooled contributions

From time to time, with the advice of the Actuary, the Administering Authority may set up pools for employers with similar or complementary characteristics. This will always be in line with its broader funding strategy.

Community Admission Bodies that are deemed by the Administering Authority to have closed to new entrants are not usually permitted to participate in a pool.

Transferee Admission Bodies are usually also ineligible for pooling. Depending on the contract circumstances, some Transferee Admission Bodies may be pooled with their letting authority.

The intention of a pool is to minimise contribution rate volatility which would otherwise occur when members join, leave, take early retirement, receive pay rises markedly different from expectations, etc. Such events can cause large changes in contribution rates for very small employers in particular, unless these are smoothed out for instance by pooling across a number of employers.

Importantly, it should be noted that the employers in the pool will still have their own individual funding positions tracked by the Actuary, so that some employers will be much better funded, and others much more poorly funded, than the pool average. This therefore means that if any given employer was funding on a stand-alone basis, as opposed to being in the pool, then its contribution rate could be much higher or lower than the pool contribution rate.

It should also be noted that, if an employer is considering ceasing from the Fund, its required contributions would be based on its own funding position (rather than the pool average), and the cessation terms would also apply: this would mean potentially very different (and in particular possibly much higher) contributions would be required from the employer.

3.5 Additional flexibility in return for added security

The Administering Authority may permit greater flexibility to the employer's contributions if the employer provides added security to the satisfaction of the Administering Authority.

Such flexibility includes a reduced rate of contribution, an extended time horizon, or permission to join a pool with another body (e.g. the Local Authority).

Such security may include, but is not limited to, a suitable bond, a legally-binding guarantee from an appropriate third party, or security over an employer asset of sufficient value.

The degree of flexibility given may take into account factors such as:

- the extent of the employer's deficit;
- the amount and quality of the security offered;
- the employer's financial security and business plan; and
- whether the admission agreement is likely to be open or closed to new entrants.

3.6 Non ill health early retirement costs

It is assumed that members' benefits are payable from the earliest age that the employee could retire without incurring a reduction to their benefit (and without requiring their employer's consent to retire). (NB the relevant age may be different for different periods of service, following the benefit changes from April 2008 and April 2014). Employers are required to pay additional contributions ('strain') wherever an employee retires before attaining this age. The Fund's policy is that any such additional contributions are normally payable immediately.

3.7 Ill health early retirement costs

If a member retires early due to ill-health, an additional funding strain will usually arise, which can be very large. Such strain costs are the responsibility of the member's employer to pay. To mitigate this risk, individual employers may elect to use external insurance (see [3.8](#) below).

3.8 External ill health insurance

If an employer provides satisfactory evidence to the Administering Authority of a current external insurance policy covering ill health early retirement strains, then the employer's contribution to the Fund each year is reduced by the amount of that year's insurance premium, so that the total contribution is unchanged.

The employer must keep the Administering Authority notified of any changes in the insurance policy's coverage or premium terms, or if the policy has ceased.

3.9 Employers with no remaining active members

In general an employer ceasing in the Fund, due to the departure of the last active member, will pay a cessation debt or receive an exit credit on an appropriate basis (see [3.3](#), [Note \(i\)](#)) and consequently have no further obligation to the Fund. Thereafter it is expected that one of two situations will eventually arise:

- a) The employer's asset share runs out before all its ex-employees' benefits have been paid. In this situation the other Fund employers will be required to contribute to pay all remaining benefits: this will be done by the Fund actuary apportioning the remaining liabilities on a pro-rata basis at successive formal valuations;
- b) The last ex-employee or dependant dies before the employer's asset share has been fully utilised. In this situation the remaining assets would be apportioned pro-rata by the Fund's actuary to the other Fund.

In exceptional circumstances the Fund may permit an employer with no remaining active members and a cessation deficit to continue contributing to the Fund. This would require the provision of a suitable security or guarantee, as well as a written ongoing commitment to fund the remainder of the employer's obligations over an appropriate period. The Fund would reserve the right to invoke the cessation requirements in the future, however. The Administering Authority may need to seek legal advice in such cases, as the employer would have no contributing members.

3.10 Policies on bulk transfers

Each case will be treated on its own merits, but in general:

- The Fund will not pay bulk transfers greater than the lesser of (a) the asset share of the transferring employer in the Fund, and (b) the value of the past service liabilities of the transferring members;
- The Fund will not grant added benefits to members bringing in entitlements from another Fund unless the asset transfer is sufficient to meet the added liabilities; and
- The Fund may permit shortfalls to arise on bulk transfers if the Fund employer has suitable strength of covenant and commits to meeting that shortfall in an appropriate period. This may require the employer's Fund contributions to increase between valuations.

4 Funding strategy and links to investment strategy

4.1 What is the Fund's investment strategy?

The Fund has built up assets over the years, and continues to receive contribution and other income. All of this must be invested in a suitable manner, which is the investment strategy.

Investment strategy is set by the Administering Authority, after consultation with the employers and after taking investment advice. The precise mix, manager make up and target returns are set out in the Investment Strategy Statement, which is available to members and employers.

The investment strategy is set for the long-term, but is reviewed from time to time. Normally a full review is carried out as part of each actuarial valuation, and is kept under review annually between actuarial valuations to ensure that it remains appropriate to the Fund's liability profile.

The same investment strategy is currently followed for all employers.

4.2 What is the link between funding strategy and investment strategy?

The Fund must be able to meet all benefit payments as and when they fall due. These payments will be met by contributions (resulting from the funding strategy) or asset returns and income (resulting from the investment strategy). To the extent that investment returns or income fall short, then higher cash contributions are required from employers, and vice versa

Therefore, the funding and investment strategies are inextricably linked.

4.3 How does the funding strategy reflect the Fund's investment strategy?

In the opinion of the Fund actuary, the current funding policy is consistent with the current investment strategy of the Fund. The actuary's assumptions for future investment returns (described further in Appendix E) are based on the current benchmark investment strategy of the Fund. The future investment return assumptions underlying each of the fund's three funding bases include a margin for prudence, and are therefore also considered to be consistent with the requirement to take a "prudent longer-term view" of the funding of liabilities as required by the UK Government (see Appendix [A1](#)).

In the short term – such as the three yearly assessments at formal valuations – there is the scope for considerable volatility in asset values. However, the actuary takes a long term view when assessing employer contribution rates and the contribution rate setting methodology takes into account this potential variability.

The Fund does not hold a contingency reserve to protect it against the volatility of equity investments.

4.4 Does the Fund monitor its overall funding position?

The Administering Authority monitors the relative funding position, i.e. changes in the relationship between asset values and the liabilities value, quarterly. It reports this to the regular Pensions Committee meetings, and also to employers through newsletters and Employers Forums.

The Administering Authority monitors investment performance and the relative funding position (i.e. changes in the relationship between the asset and liability values) quarterly. It reports this to the regular Pensions Committee meetings and these reports are available via the Committee meeting papers.

5 Statutory reporting and comparison to other LGPS Funds

5.1 Purpose

Under Section 13(4)(c) of the Public Service Pensions Act 2013 (“Section 13”), the Government Actuary’s Department must, following each triennial actuarial valuation, report to MHCLG on each of the LGPS Funds in England & Wales. This report will cover whether, for each Fund, the rate of employer contributions are set at an appropriate level to ensure both the solvency and the long term cost efficiency of the Fund.

This additional MHCLG oversight may have an impact on the strategy for setting contribution rates at future valuations.

5.2 Solvency

For the purposes of Section 13, the rate of employer contributions shall be deemed to have been set at an appropriate level to ensure solvency if:

- (a) the rate of employer contributions is set to target a funding level for the Fund of 100%, over an appropriate time period and using appropriate actuarial assumptions (where appropriateness is considered in both absolute and relative terms in comparison with other funds); and either
- (b) employers collectively have the financial capacity to increase employer contributions, and/or the Fund is able to realise contingent assets should future circumstances require, in order to continue to target a funding level of 100%; or
- (c) there is an appropriate plan in place should there be, or if there is expected in future to be, a material reduction in the capacity of fund employers to increase contributions as might be needed.

5.3 Long Term Cost Efficiency

The rate of employer contributions shall be deemed to have been set at an appropriate level to ensure long term cost efficiency if:

- i. the rate of employer contributions is sufficient to make provision for the cost of current benefit accrual,
- ii. with an appropriate adjustment to that rate for any surplus or deficit in the Fund.

In assessing whether the above condition is met, MHCLG may have regard to various absolute and relative considerations. A relative consideration is primarily concerned with comparing LGPS pension funds with other LGPS pension funds. An absolute consideration is primarily concerned with comparing Funds with a given objective benchmark.

Relative considerations include:

- 1. the implied deficit recovery period; and
- 2. the investment return required to achieve full funding after 20 years.

Absolute considerations include:

- 1. the extent to which the contributions payable are sufficient to cover the cost of current benefit accrual and the interest cost on any deficit;
- 2. how the required investment return under “relative considerations” above compares to the estimated future return being targeted by the Fund’s current investment strategy;

3. the extent to which contributions actually paid have been in line with the expected contributions based on the extant rates and adjustment certificate; and
4. the extent to which any new deficit recovery plan can be directly reconciled with, and can be demonstrated to be a continuation of, any previous deficit recovery plan, after allowing for actual Fund experience.

MHCLG may assess and compare these metrics on a suitable standardised market-related basis, for example where the local funds' actuarial bases do not make comparisons straightforward.

Appendix A – Regulatory framework

A1 Why does the Fund need an FSS?

The Ministry of Housing, Communities and Government (MHCLG) has stated that the purpose of the FSS is:

*“to establish a **clear and transparent fund-specific strategy** which will identify how employers’ pension liabilities are best met going forward;*

*to support the regulatory framework to maintain **as nearly constant employer contribution rates as possible**;*
and

*to take a **prudent longer-term view** of funding those liabilities.”*

These objectives are desirable individually, but may be mutually conflicting.

The requirement to maintain and publish a FSS is contained in LGPS Regulations which are updated from time to time. In publishing the FSS the Administering Authority has to have regard to any guidance published by Chartered Institute of Public Finance and Accountancy (CIPFA) (most recently in 2016) and to its Investment Strategy Statement.

This is the framework within which the Fund’s actuary carries out triennial valuations to set employers’ contributions and provides recommendations to the Administering Authority when other funding decisions are required, such as when employers join or leave the Fund. The FSS applies to all employers participating in the Fund.

A2 Does the Administering Authority consult anyone on the FSS?

Yes. This is required by LGPS Regulations. It is covered in more detail by the most recent CIPFA guidance, which states that the FSS must first be subject to “consultation with such persons as the authority considers appropriate”, and should include “a meaningful dialogue at officer and elected member level with council tax raising authorities and with corresponding representatives of other participating employers”.

In practice, for the Fund, the consultation process for this FSS was as follows:

- a) A draft version of the FSS was issued to all participating employers on 10 January 2020 for comment;
- b) Comments were requested by 10 February 2020;
- c) No comments were received during the consultation period that required any changes. The document was then updated to include the consultation dates. The FSS was presented to the Pensions Committee on 25 March 2020 for approval then published thereafter.

A3 How is the FSS published?

The FSS is published on the Fund’s website at <https://archive.hillingdon.gov.uk/pensions> and copies are made available on request.

A4 How often is the FSS reviewed?

The FSS is reviewed in detail at least every three years as part of the triennial valuation (which may move to every four years in the future – see Section 2.8). This version is expected to remain unaltered until it is consulted upon as part of the formal process for the next valuation in 2022.

It is possible that (usually slight) amendments may be needed within the three year period. These would be needed to reflect any regulatory changes, or alterations to the way the Fund operates (e.g. to accommodate a new class of employer). Any such amendments would be consulted upon as appropriate:

- trivial amendments would be simply notified at the next round of employer communications,
- amendments affecting only one class of employer would be consulted with those employers,
- other more significant amendments would be subject to full consultation.

In any event, changes to the FSS would need agreement by the Pensions Committee and would be included in the relevant Committee meeting minutes.

A5 How does the FSS fit into other Fund documents?

The FSS is a summary of the Fund's approach to funding liabilities. It is not an exhaustive statement of policy on all issues, for example there are a number of separate statements published by the Fund including the Investment Strategy Statement, Governance Policy, Communication Policy and Administration Strategy. In addition, the Fund publishes an Annual Report and Accounts with up to date information on the Fund.

These documents can be found on the Fund's website at <https://archive.hillingdon.gov.uk/pensions>

Appendix B – Responsibilities of key parties

The efficient and effective operation of the Fund needs various parties to each play their part.

B1 The Administering Authority should:-

1. operate the Fund as per the LGPS Regulations;
2. effectively manage any potential conflicts of interest arising from its dual role as Administering Authority and a Fund employer;
3. collect employer and employee contributions, and investment income and other amounts due to the Fund;
4. ensure that cash is available to meet benefit payments as and when they fall due;
5. pay from the Fund the relevant benefits and entitlements that are due;
6. invest surplus monies (i.e. contributions and other income which are not immediately needed to pay benefits) in accordance with the Fund's Investment Strategy Statement (ISS) and LGPS Regulations;
7. communicate appropriately with employers so that they fully understand their obligations to the Fund;
8. take appropriate measures to safeguard the Fund against the consequences of employer default;
9. manage the valuation process in consultation with the Fund's actuary;
10. provide data and information as required by the Government Actuary's Department to carry out their statutory obligations (see [Section 5](#));
11. prepare and maintain a FSS and a ISS, after consultation;
12. notify the Fund's actuary of material changes which could affect funding (this is covered in a separate agreement with the actuary); and
13. monitor all aspects of the fund's performance and funding and amend the FSS and ISS as necessary and appropriate.

B2 The Individual Employer should:-

1. deduct contributions from employees' pay correctly;
2. pay all contributions, including their own as determined by the actuary, promptly by the due date;
3. have a policy and exercise discretions within the regulatory framework;
4. make additional contributions in accordance with agreed arrangements in respect of, for example, augmentation of scheme benefits, early retirement strain; and
5. notify the Administering Authority promptly of all changes to its circumstances, prospects or membership, which could affect future funding.

B3 The Fund Actuary should:-

1. prepare valuations, including the setting of employers' contribution rates. This will involve agreeing assumptions with the Administering Authority, having regard to the FSS and LGPS Regulations, and targeting each employer's solvency appropriately;
2. provide data and information as required by the Government Actuary's Department to carry out their statutory obligations (see [Section 5](#));
3. provide advice relating to new employers in the Fund, including the level and type of bonds or other forms of security (and the monitoring of these);

4. prepare advice and calculations in connection with bulk transfers and individual benefit-related matters;
5. assist the Administering Authority in considering possible changes to employer contributions between formal valuations, where circumstances suggest this may be necessary;
6. advise on the termination of employers' participation in the Fund; and
7. fully reflect actuarial professional guidance and requirements in the advice given to the Administering Authority.

B4 Other parties:-

1. investment advisers (either internal or external) should ensure the Fund's ISS remains appropriate, and consistent with this FSS;
2. investment managers, custodians and bankers should all play their part in the effective investment (and dis-investment) of Fund assets, in line with the ISS;
3. auditors should comply with their auditing standards, ensure Fund compliance with all requirements, monitor and advise on fraud detection, and sign off annual reports and financial statements as required;
4. governance advisers may be appointed to advise the Administering Authority on efficient processes and working methods in managing the Fund;
5. legal advisers (either internal or external) should ensure the Fund's operation and management remains fully compliant with all regulations and broader local government requirements, including the Administering Authority's own procedures;
6. MHCLG (assisted by the Government Actuary's Department) and the Scheme Advisory Board, should work with LGPS Funds to meet Section 13 requirements.

Appendix C – Key risks and controls

Types of risk

The Administering Authority has an active risk management strategy in place. The key risks that it faces and the measures that it has put in place to control them are set out in the Fund's Risk Management Policy, which can be found on the Fund's website at <https://archive.hillingdon.gov.uk/pensions>.

These key risks generally fall into one of the four following categories:

- financial;
- demographic;
- regulatory; and
- governance.

These categories, and the individual risks within, impact on the Fund's funding strategy to differing levels.

Appendix D – The calculation of Employer contributions

In [Section 2](#) there was a broad description of the way in which contribution rates are calculated. This Appendix considers these calculations in more detail.

The actuary calculates the required contribution rate for each employer using a three-step process:

1. Calculate the funding target for that employer, i.e. the estimated amount of assets it should hold in order to be able to pay all its members' benefits. See Appendix E for more details of what assumptions we make to determine that funding target;
2. Determine the time horizon over which the employer should aim to achieve that funding target. See the table in 3.3 and Note (c) for more details;
3. Calculate the employer contribution rate such that it has at least a given likelihood of achieving that funding target over that time horizon, allowing for various possible economic outcomes over that time horizon. See the table in 3.3 Note (e) for more details.

The calculations involve actuarial assumptions about future experience, and these are described in detail in [Appendix E](#).

D1 What is the difference between calculations across the whole Fund and calculations for an individual employer?

Employer contributions are normally made up of two elements:

- a) the estimated cost of ongoing benefits being accrued, referred to as the "Primary contribution rate" (see [D2](#) below); plus
- b) an adjustment for the difference between the Primary rate above, and the actual contribution the employer needs to pay, referred to as the "Secondary contribution rate" (see [D3](#) below).

The contribution rate for each employer is measured as above, appropriate for each employer's assets, liabilities and membership. The whole Fund position, including that used in reporting to MHCLG (see section 5), is calculated in effect as the sum of all the individual employer rates. MHCLG currently only regulates at whole Fund level, without monitoring individual employer positions.

D2 How is the Primary contribution rate calculated?

The Primary element of the employer contribution rate is calculated with the aim that these contributions will meet benefit payments in respect of members' **future** service in the Fund. This is based upon the cost (in excess of members' contributions) of the benefits which employee members earn from their service each year.

The Primary rate is calculated separately for all the employers, although employers within a pool will pay the contribution rate applicable to the pool as a whole. The Primary rate is calculated such that it is projected to:

1. meet the required funding target for all future years' accrual of benefits*, excluding any accrued assets,
2. within the determined time horizon (see [note 3.3 Note \(c\)](#) for further details),
3. with a sufficiently high likelihood, as set by the Fund's strategy for the category of employer (see [3.3 Note \(e\)](#) for further details).

* The projection is for the current active membership where the employer no longer admits new entrants, or additionally allows for new entrants where this is appropriate.

The projections are carried out using an economic modeller (the “Economic Scenario Service”) developed by the Fund’s actuary Hymans Robertson: this allows for a wide range of outcomes as regards key factors such as asset returns (based on the Fund’s investment strategy), inflation, and bond yields. Further information about this model is included in [Appendix E](#). The measured contributions are calculated such that the proportion of outcomes meeting the employer’s funding target (at the end of the time horizon) is equal to the required likelihood.

The approach includes expenses of administration to the extent that they are borne by the Fund, and includes allowances for benefits payable on death in service and on ill health retirement.

D3 How is the Secondary contribution rate calculated?

The Fund aims for the employer to have assets sufficient to meet 100% of its accrued liabilities at the end of its funding time horizon based on the employer’s funding target assumptions (see Appendix E).

The Secondary rate is calculated as the balance over and above the Primary rate, such that the total contribution rate is projected to:

1. meet the required funding target relating to combined past and future service benefit accrual, including accrued asset share (see [D5](#) below)
2. at the end of the determined time horizon (see [3.3 Note \(c\)](#) for further details)
3. with a sufficiently high likelihood, as set by the Fund’s strategy for the category of employer (see [3.3 Note \(e\)](#) for further details).

D4 What affects a given employer’s valuation results?

The results of these calculations for a given individual employer will be affected by:

1. past contributions relative to the cost of accrual of benefits;
2. different liability profiles of employers (e.g. mix of members by age, gender, service vs. salary);
3. the effect of any differences in the funding target, i.e. the valuation basis used to value the employer’s liabilities at the end of the time horizon;
4. any different time horizons;
5. the difference between actual and assumed rises in pensionable pay;
6. the difference between actual and assumed increases to pensions in payment and deferred pensions;
7. the difference between actual and assumed retirements on grounds of ill-health from active status;
8. the difference between actual and assumed amounts of pension ceasing on death;
9. the additional costs of any non ill-health retirements relative to any extra payments made; and/or
10. differences in the required likelihood of achieving the funding target.

D5 How is each employer’s asset share calculated?

The Administering Authority does not operate separate bank accounts or investment mandates for each employer. Therefore it cannot account for each employer’s assets separately. Instead, the Fund Actuary must apportion the assets of the whole Fund between the individual employers. There are broadly two ways to do this:

- 1) A technique known as “analysis of surplus” in which the Fund actuary estimates the surplus/deficit of an employer at the current valuation date by analysing movements in the surplus/deficit from the previous

actuarial valuation date. The estimated surplus/deficit is compared to the employer's liability value to calculate the employer's asset value. The actuary will quantify the impact of investment, membership and other experience to analyse the movement in the surplus/deficit. This technique makes a number of simplifying assumptions due to the unavailability of certain items of information. This leads to a balancing, or miscellaneous, item in the analysis of surplus, which is split between employers in proportion to their asset shares.

- 2) A 'cashflow approach' in which an employer's assets are tracked over time allowing for cashflows paid in (contributions, transfers in etc.), cashflows paid out (benefit payments, transfers out etc.) and investment returns on the employer's assets.

Until 31 March 2016 the Administering Authority used the 'analysis of surplus' approach to apportion the Fund's assets between individual employers.

Since then, the Fund has adopted a cashflow approach for tracking individual employer assets.

The Fund Actuary tracks employer assets on an annual basis. Starting with each employer's assets from the previous year end, cashflows paid in/out and investment returns achieved on the Fund's assets over the course of the year are added to calculate an asset value at the year end. The approach has some simplifying assumptions in that all cashflows and investment returns are assumed to have occurred uniformly over the course of the year. As the actual timing of cashflows and investment returns are not allowed for, the sum of all employers' asset values will deviate from the whole fund asset total over time (the deviation is expected to be minor). The difference is split between employers in proportion to their asset shares at each triennial valuation.

The Fund is satisfied that this new approach provides the most accurate asset allocations between employers that is reasonably possible at present.

D6 How does the Fund adjust employer asset shares when an individual member moves from one employer in the Fund to another?

Under the cashflow approach for tracking employer asset shares, the Fund has allowed for any individual members transferring from one employer in the Fund to another, via the transfer of a sum from the ceding employer's asset share to the receiving employer's asset share. This sum is equal to the member's Cash Equivalent Transfer Value (CETV) as advised by the Fund's administrators.

Appendix E – Actuarial assumptions

E1 What are the actuarial assumptions used to calculate employer contribution rates?

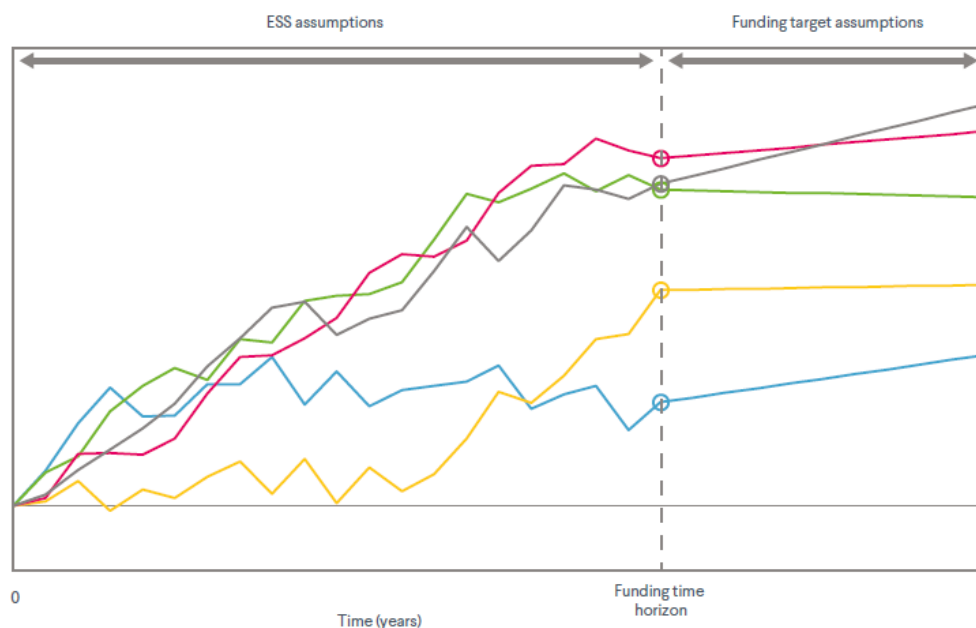
These are expectations of future experience used to place a value on future benefit payments (“the liabilities”) and future asset values. Assumptions are made about the amount of benefit payable to members (the financial assumptions) and the likelihood or timing of payments (the demographic assumptions). For example, financial assumptions include investment returns, salary growth and pension increases; demographic assumptions include life expectancy, probabilities of ill-health early retirement, and proportions of member deaths giving rise to dependants’ benefits.

Changes in assumptions will affect the funding target and required contribution rate. However, different assumptions will not of course affect the actual benefits payable by the Fund in future.

The actuary’s approach to calculating employer contribution rates involves the projection of each employer’s future benefit payments, contributions and investment returns into the future under 5,000 possible economic scenarios. Future inflation (and therefore benefit payments) and investment returns for each asset class (and therefore employer asset values) are variables in the projections. By projecting the evolution of an employer’s assets and benefit payments 5,000 times, a contribution rate can be set that results in a sufficient number of these future projections (determined by the employer’s required likelihood) being successful at the end of the employer’s time horizon. In this context, a successful contribution rate is one which results in the employer having met its funding target at the end of the time horizon.

Setting employer contribution rates therefore requires two types of assumptions to be made about the future:

1. Assumptions to project the employer’s assets, benefits and cashflows to the end of the funding time horizon. For this purpose the actuary uses Hymans Robertson’s proprietary stochastic economic model - the Economic Scenario Service (“ESS”).
2. Assumptions to assess whether, for a given projection, the funding target is satisfied at the end of the time horizon. For this purpose, the Fund has three different funding bases.



Details on the ESS assumptions and funding target assumptions are included below (in E2 and E3 respectively).

E2 What assumptions are used in the ESS?

The actuary uses Hymans Robertson's ESS model to project a range of possible outcomes for the future behaviour of asset returns and economic variables. With this type of modelling, there is no single figure for an assumption about future inflation or investment returns. Instead, there is a range of what future inflation or returns will be which leads to likelihoods of the assumption being higher or lower than a certain value.

The ESS is a complex model to reflect the interactions and correlations between different asset classes and wider economic variables. The table below shows the calibration of the model as at 31 March 2019. All returns are shown net of fees and are the annualised total returns over 5, 10 and 20 years, except for the yields which refer to the simulated yields at that time horizon.

		Annualised total returns							RPI inflation expectation	17 year real govt bond yield	17 year govt bond yield
		Cash	Index Linked Gilts (medium)	Fixed Interest Gilts (medium)	UK Equity	Overseas Equity	Property	A rated corporate bonds (medium)			
5 years	16th %ile	-0.4%	-2.3%	-2.9%	-4.1%	-4.1%	-3.5%	-2.7%	1.9%	-2.5%	0.8%
	50th %ile	0.7%	0.5%	0.3%	4.0%	4.1%	2.4%	0.8%	3.3%	-1.7%	2.1%
	84th %ile	2.0%	3.3%	3.4%	12.7%	12.5%	8.8%	4.0%	4.9%	-0.8%	3.6%
10 years	16th %ile	-0.2%	-1.8%	-1.3%	-1.5%	-1.4%	-1.5%	-0.9%	1.9%	-2.0%	1.2%
	50th %ile	1.3%	0.0%	0.2%	4.6%	4.7%	3.1%	0.8%	3.3%	-0.8%	2.8%
	84th %ile	2.9%	1.9%	1.7%	10.9%	10.8%	7.8%	2.5%	4.9%	0.4%	4.8%
20 years	16th %ile	0.7%	-1.1%	0.1%	1.2%	1.3%	0.6%	0.7%	2.0%	-0.7%	2.2%
	50th %ile	2.4%	0.3%	1.0%	5.7%	5.8%	4.3%	1.9%	3.2%	0.8%	4.0%
	84th %ile	4.5%	2.0%	2.0%	10.3%	10.4%	8.1%	3.0%	4.7%	2.2%	6.3%
	Volatility (Disp) (1 yr)	1%	7%	10%	17%	17%	14%	11%	1%		

E3 What assumptions are used in the funding target?

At the end of an employer's funding time horizon, an assessment will be made – for each of the 5,000 projections – of how the assets held compare to the value of assets required to meet the future benefit payments (the funding target). Valuing the cost of future benefits requires the actuary to make assumptions about the following financial factors:

- Benefit increases and CARE revaluation
- Salary growth
- Investment returns (the “discount rate”)

Each of the 5,000 projections represents a different prevailing economic environment at the end of the funding time horizon and so a single, fixed value for each assumption is unlikely to be appropriate for every projection. For example, a high assumed future investment return (discount rate) would not be prudent in projections with a weak outlook for economic growth. Therefore, instead of using a fixed value for each assumption, the actuary references economic indicators to ensure the assumptions remain appropriate for the prevailing economic environment in each projection. The economic indicators the actuary uses are: future inflation expectations and the prevailing risk free rate of return (the yield on long term UK government bonds is used as a proxy for this rate).

The Fund has three funding bases which will apply to different employers depending on their type. Each funding basis has a different assumption for future investment returns when determining the employer's funding target.

Funding basis	Ongoing participation basis	Contractor exit basis	Gilts exit basis
Employer type	All employers except Transferee Admission Bodies and closed Community Admission Bodies	Transferee Admission Bodies	Community Admission Bodies that are closed to new entrants
Investment return assumption underlying the employer's funding target (at the end of its time horizon)	Long term government bond yields plus an asset outperformance assumption (AOA) of 1.8% p.a.	Long term government bond yields plus an AOA equal to the AOA used to allocate assets to the employer on joining the Fund	Long term government bond yields with no allowance for outperformance on the Fund's assets

E4 What other assumptions apply?

The following assumptions are those of the most significance used in both the projection of the assets, benefits and cashflows and in the funding target.

a) Salary growth

Pay for public sector employees is currently subject to restriction by the UK Government until 2020. Although this “pay freeze” does not officially apply to local government and associated employers, it has been suggested that they are likely to show similar restraint in respect of pay awards. Based on long term historical analysis of the membership in LGPS funds, and continued austerity measures, the salary increase assumption at the 2019 valuation has been set to be a blended rate combined of:

1. 2% p.a. until 31 March 2023, followed by
2. 0.5% above the consumer prices index (CPI) per annum p.a. thereafter.

This gives a single “blended” assumption of CPI plus 0.3% per annum. This is a change from the previous valuation, which assumed a blended assumption of CPI plus 0.4% per annum. The change leads to a slightly lower funding target (all other things being equal).

b) Pension increases

Since 2011 the consumer prices index (CPI), rather than RPI, has been the basis for increases to public sector pensions in deferment and in payment. Note that the basis of such increases is set by the Government, and is not under the control of the Fund or any employers.

At this valuation, we have continued to assume that CPI is 1.0% per annum lower than RPI. (Note that the reduction is applied in a geometric, not arithmetic, basis).

c) Life expectancy

The demographic assumptions are intended to be best estimates of future experience in the Fund based on past experience of LGPS funds which participate in Club Vita, the longevity analytics service used by the Fund, and endorsed by the actuary.

The longevity assumptions that have been adopted at this valuation are a bespoke set of “VitaCurves”, produced by the Club Vita’s detailed analysis, which are specifically tailored to fit the membership profile of the Fund. These curves are based on the data provided by the Fund for the purposes of this valuation.

Allowance has been made in the ongoing valuation basis for future improvements in line with the 2018 version of the Continuous Mortality Investigation model published by the Actuarial Profession and a 1.25% per annum minimum underpin to future reductions in mortality rates. This updated allowance for future improvements will generally result in lower life expectancy assumptions and hence a lower funding target (all other things being equal).

d) General

The same financial assumptions are adopted for most employers (on the ongoing participation basis identified above), in deriving the funding target underpinning the Primary and Secondary rates: as described in [\(3.3\)](#), these calculated figures are translated in different ways into employer contributions, depending on the employer’s circumstances.

The demographic assumptions, in particular the life expectancy assumption, vary by type of member and so reflect the different membership profiles of employers.

Appendix F – Glossary

Administering Authority	The council with statutory responsibility for running the Fund, in effect the Fund's "trustees".
Admission Bodies	Employers where there is an Admission Agreement setting out the employer's obligations. These can be Community Admission Bodies or Transferee Admission Bodies. For more details (see 2.3).
Covenant	The assessed financial strength of the employer. A strong covenant indicates a greater ability (and willingness) to pay for pension obligations in the long run. A weaker covenant means that it appears that the employer may have difficulties meeting its pension obligations in full over the longer term.
Designating Employer	Employers such as town and parish councils that are able to participate in the LGPS via resolution. These employers can designate which of their employees are eligible to join the Fund.
Employer	An individual participating body in the Fund, which employs (or used to employ) members of the Fund. Normally the assets and funding target values for each employer are individually tracked, together with its Primary rate at each valuation.
Funding basis	The combined set of assumptions made by the actuary, regarding the future, to calculate the value of the funding target at the end of the employer's time horizon. The main assumptions will relate to the level of future investment returns, salary growth, pension increases and longevity. More prudent assumptions will give a higher funding target, whereas more optimistic assumptions will give a lower funding target.
Gilt	A UK Government bond, i.e. a promise by the Government to pay interest and capital as per the terms of that particular gilt, in return for an initial payment of capital by the purchaser. Gilts can be "fixed interest", where the interest payments are level throughout the gilt's term, or "index-linked" where the interest payments vary each year in line with a specified index (usually RPI). Gilts can be bought as assets by the Fund, but are also used in funding as an objective measure of a risk-free rate of return.
Guarantee / guarantor	A formal promise by a third party (the guarantor) that it will meet any pension obligations not met by a specified employer. The presence of a guarantor will mean, for instance, that the Fund can consider the employer's covenant to be as strong as its guarantor's.
Letting employer	An employer which outsources or transfers a part of its services and workforce to another employer (usually a contractor). The contractor will pay towards the LGPS benefits accrued by the transferring members, but ultimately the obligation to pay for these benefits will revert to the letting employer. A letting employer will usually be a local authority, but can sometimes be another type of employer such as an Academy.
LGPS	The Local Government Pension Scheme, a public sector pension arrangement put in place via Government Regulations, for workers in local government. These

Regulations also dictate eligibility (particularly for Scheduled Bodies), members' contribution rates, benefit calculations and certain governance requirements. The LGPS is divided into 100 Funds which map the UK. Each LGPS Fund is autonomous to the extent not dictated by Regulations, e.g. regarding investment strategy, employer contributions and choice of advisers.

Maturity	A general term to describe a Fund (or an employer's position within a Fund) where the members are closer to retirement (or more of them already retired) and the investment time horizon is shorter. This has implications for investment strategy and, consequently, funding strategy.
Members	The individuals who have built up (and may still be building up) entitlement in the Fund. They are divided into actives (current employee members), deferreds (ex-employees who have not yet retired) and pensioners (ex-employees who have now retired, and dependants of deceased ex-employees).
Primary contribution rate	The employer contribution rate required to pay for ongoing accrual of active members' benefits (including an allowance for administrative expenses). See Appendix D for further details.
Profile	The profile of an employer's membership or liability reflects various measurements of that employer's members, i.e. current and former employees. This includes: the proportions which are active, deferred or pensioner; the average ages of each category; the varying salary or pension levels; the lengths of service of active members vs their salary levels, etc. A membership (or liability) profile might be measured for its maturity also.
Rates and Adjustments Certificate	A formal document required by the LGPS Regulations, which must be updated at the conclusion of the formal valuation. This is completed by the actuary and confirms the contributions to be paid by each employer (or pool of employers) in the Fund for the period until the next valuation is completed.
Scheduled Bodies	Types of employer explicitly defined in the LGPS Regulations, whose employees must be offered membership of their local LGPS Fund. These include Councils, colleges, universities, academies, police and fire authorities etc, other than employees who have entitlement to a different public sector pension scheme (e.g. teachers, police and fire officers, university lecturers).
Secondary contribution rate	The difference between the employer's actual and Primary contribution rates. See Appendix D for further details.
Stabilisation	Any method used to smooth out changes in employer contributions from one year to the next. This is very broadly required by the LGPS Regulations, but in practice is particularly employed for large stable employers in the Fund.
Valuation	A risk management exercise to review Primary and Secondary contribution rates, and other statutory information for a Fund, and usually individual employers too.

London Borough of Hillingdon Pension Fund

Investment Strategy Statement

April 2020



HILLINGDON
LONDON

www.hillingdon.gov.uk

1. Introduction

This is the Investment Strategy Statement (ISS) of the Hillingdon Pension Fund (the “Fund”) as required by regulation 7 of the Local Government Pension Scheme (Management and Investment of Funds) Regulations 2016 (the “Regulations”).

The Hillingdon Pension Fund is administered by Hillingdon Council as the Administering Authority. The authority to administer the Fund on behalf of the Council is delegated to the Pensions Committee.

As set out in the Local Government Pension Scheme (Management and Investment of Funds) Regulations 2016, the Pensions Committee will review this ISS from time to time, and at least every three years. In the event of any significant change affecting any matter contained within this ISS, changes will be published within three months of the change occurring.

This ISS has been prepared by the Pensions Committee after taking advice from the Fund's investment advisor ISIO (formerly KPMG) and Clare Scott the independent advisor to the Fund, in accordance with the Regulations.

The Investment Strategy Statement required by Regulation 7 must include:

- 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.

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.

Consistent with the 2019 triennial revaluation of the Fund, the agreed investment aim is to generate, over time, a rate of return that is at least 4.0% p.a. and to achieve this, the Fund will invest in a wide variety of investments to reduce portfolio risk and reduce volatility.

2. The suitability of particular investments and types of investments;

2.1 Investment Objectives

The Fund's primary investment objective is to ensure that over the long term the Fund will have sufficient assets to meet all pension liabilities as they fall due. To achieve this objective the Fund will aim to:-

- Maximise the returns on its investments
- Manage risk within acceptable levels
- Maintain liquidity to meet obligations as they fall due
- Contribute towards 100% Funding level
- Stabilise employer contribution rates as far as possible
- Invest in a wide range of investments
- Pool assets
- Take proper advice
- Consider Environmental Social and Governance (ESG) factors when making all investment decisions.

The Committee has translated these objectives after taking proper advice, into suitable strategic asset allocation benchmarks for the Fund. These benchmarks are consistent with the Committee's views on the appropriate balance between maximising returns on investment and maintaining an appropriate level of risk over the long term as set out in the risk management policy of the fund.

3. Investment of money in a wide variety of investments

3.1 Asset allocation

Asset allocation of the Fund is determined by the administering authority acting on professional advice in the best long term interest of scheme beneficiaries, while looking to maintain overall target return. The Pensions Committee review asset allocation and performance against achieving the target return regularly at quarterly meetings. A full formal review will be undertaken every three years following publication of the triennial revaluation results.

The Fund will only invest in asset classes that are deemed to be suitable investments and so must meet the following criteria:

- investments that are well understood by the Committee;
- investments which are consistent with the Fund's risk and return objectives;
- investments which make a significant contribution to the portfolio by improving overall return and risk characteristics; and
- a wide range of assets will be selected to increase diversification.

The Fund's current asset allocation includes seven asset classes that combine to form the policy portfolio. Each asset class is selected to have different exposures to economic factors (GDP growth and inflation); to combine different geographies; and

span different currencies. In assessing suitability, the Pension Committee considered the respective return drivers, exposure to economic growth and sensitivity to inflation – each an important consideration, relative to the sensitivities of the Fund’s liabilities and managing risk.

These seven asset classes are the building blocks used to create the policy portfolio. The Pension Committee determined benchmark weights to each asset class which it believes to be best suited to meeting the long term objectives of the Fund. Committee also identified tolerance ranges within which shorter term variations would be tolerated and/or actively pursued due to a combination of relative returns and investment opportunity.

The agreed benchmark weight and tolerances are shown in the table below. The weights will be maintained within the ranges if the scheme can find attractive opportunities that meet its return, risk, and cash flow requirements. In the absence of opportunities, investments will not be “forced” and the fund will be under or over allocated to any asset class.

Asset Class	Target Allocation*	Range
Equities	45.00%	35%-60%
Private Equity	1.00%	0%-3%
Government Bonds	12.00%	0%-20%
Private Credit	5.00%	0%-15%
Property	17.00%	0%-25%
Infrastructure	8.00%	0%-15%
Diversified Credit	12.00%	0%-25%

* Target allocation reflects agreed changes to asset allocation at Pensions Committee of January 2020

Each asset class has its own specific investment objective and within each asset class there are further diversification controls. The mandates are managed by various Fund managers and the London Collective Investment Vehicle (LCIV), to whom the Fund has delegated investment management and implementation duties in line with LGPS asset pooling.

Equities: Global

The Fund invests in Equities through both active and passive management. For active Global Equities the Funds objective is seek which offer a balance between growth and income whilst exhibiting defensive qualities; the aim is to outperform the MSCI All Country World benchmark. Net dividends will continue to be reinvested until the funds cash flow changes. Passive Equities are held to keep investment manager fees low and to contribute to the return objective by tracking the relevant benchmarks. All equity investments can be made via segregated or pooled fund mandates and where appropriate investments will be held within the London CIV.

Bonds & Diversified Credit

The Fund invests in inflation-linked government and diversified credit to improve the resilience of the portfolio. Exposure includes index linked securities issued by the UK Government, given their similarities within the Scheme's liabilities. To enhance yield, the Fund may place investments in credit securities issued by UK and global companies. This asset class is managed through both passive and active mandates. When active management is selected the manager will aim to maximise risk adjusted returns across a full market cycle.

Private Equity

The Fund is invested in Private Equity with the objective to outperform the MSCI World benchmark. Private Equity is an illiquid asset class; harvesting illiquidity premia is an attractive means of enhancing aggregate returns. The Fund aims to hold Private Equity until maturity.

Infrastructure

The Fund has committed to investing in infrastructure as the duration of this class of assets matches the long-term nature of the Funds liabilities. The Funds existing holding in Infrastructure looks to gain cost-effective, diversified exposure to global infrastructure assets. The aim is to generate predictable, index-linked cash flows; this reduces the inflation risk of the portfolio and adds diversification

Private Credit

The Fund invests in Private credit to seek income and benefit from the long term nature of the Fund. The existing allocation seeks to generate value from direct lending via the secondary market and also exploit specific opportunistic investments. This allocation is directly invested in pooled Funds and provides a contractual income to the fund.

Property

The Fund holds an allocation in UK Property to support the overall aim to generate a return in excess of the IPD benchmark while earning predictable cash flows. The class also includes an allocation long-lease property to deliver reliable income streams with inflation protection.

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

The Fund is committed to pooling of assets and the London Borough of Hillingdon as Administering Authority of the London Borough of Hillingdon Pension Fund formally agreed to join the London Collective Investment Vehicle (LCIV) on 25 February 2016 and were on-boarded on 1 March 2016. Through the LCIV the Fund will benefit from economies of scale, by pooling assets with other Funds, enabling the LCIV to negotiate lower investment and implementation fees across the board on various asset classes.

4.1 London CIV

The London CIV was formed as a voluntary collaborative venture by the 33 London

Boroughs in 2014 to pool their LGPS investments. It received regulatory authorisation from the Financial Conduct Authority in November 2015 and launched its first sub Fund in December 2015. The London CIV has been established as a collective investment vehicle for LGPS Funds. The current regulatory permissions allow for operation as an Authorised Contractual Scheme (ACS) Fund. The London CIV was created in line with the government directive aimed at reducing investment costs across the board for all LGPS Funds pooling assets of 89 administering authorities into 6 "wealth Funds".

Since its initial launch, the London CIV has opened a diversified range of funds and continues to increase the available suite to provide a various asset classes and styles. The London CIV structure and associated business plan is consistent with the criteria contained within the November 2015 Investment Reform and Criteria guidance.

The Fund's aim is for the London CIV to ultimately be responsible for managing all the Fund's assets. The Fund has transitioned a portion of its assets into the London CIV. In addition to the funds held directly on the London CIV platform the Fund has an allocation to passive funds retained outside of the London CIV operating model, which for the time being is in accordance with government guidance on the retention of life funds outside pools, although the London CIV will monitor the passive funds as part of the broader pool. The Fund benefits in this regard from work carried out by the London CIV to reduce fees through economies of scale. The Fund will look to transition further liquid assets as and when there are suitable investment strategies available on the platform that meet the needs of the Fund's investment strategy and governance requirements.

The Fund currently holds a considerable portion of illiquid assets. The cost of exiting these strategies early would have a negative financial impact on the Fund as the costs of transitioning outweigh any potential gains. These will be held as legacy assets until they mature and proceeds will be re-invested through the Pool, if it has appropriate strategies available, or until the Fund changes asset allocation and decides to disinvest. The Fund's illiquid assets currently held include Private Equity, Private Credit, Infrastructure and Property.

4.2 Pool Governance

The legal ownership of assets held within the LCIV is with the depository which is currently Northern Trust, with the beneficial ownership of the assets remaining with the Fund; the LCIV is the Fund manager.

The governance structure of the LCIV has been designed to ensure that there are both formal and informal routes to engage with the investing Funds both as shareholders and investors, making the LCIV accountable at both levels. Governance is achieved through the Shareholder Committee, comprising nominated Member representatives from investing Funds within the pool; including the Chairman of the London Borough of Hillingdon Pensions Committee, Councillor Goddard.

At a company level for London CIV the Board of Directors is responsible for decision making, which includes the decisions to appoint and remove investment managers. The share structure of London CIV involves each member body being shareholders who all retain equal shares in the ownership and voting making the company accountable to its shareholders. In addition the Company has a highly respected Non-Executive Board, meeting the requirements for strong governance arrangements to be in place.

The Fund continues to work with the London CIV to improve the robustness of their governance framework and to ensure it meets the Fund's needs.

4.3 Investment implementation

The implementation of all investments is delegated to the Corporate Director of Finance, supported by a team of officers. The officers are assisted in the implementation of the investment strategies by the Fund's appointed investment advisors. Although investment decisions will firstly look to implementation into a sub Fund held within the London CIV, the Fund will ultimately ensure it meets its fiduciary duties.

4.4 Investment Governance

The Pensions Committee sets the objectives, risk tolerances and sets the required rate of return in conjunction with the scheme's actuary. Once the parameters are established, the Committee determine the strategic asset allocation that it believes has the highest probability of succeeding, taking into account proper advice from the Fund's investment advisors.

The Pensions Committee meet quarterly to discuss investment decisions and review Fund performance, in addition to receiving a training discussion item at each meeting to ensure effective governance of the Fund investments.

In April 2015, a Local Pensions Board was created to ensure further governance over the administration of the Fund and decision making processes. The Local Pensions Board reviews compliance and Pensions Committee decisions to ensure the Fund complies with the code of practice on the governance and administration as issued by the Pension Regulator.

4.5 Performance Measurement

The Pension Committee reviews the performance of the investment managers and assets on a quarterly basis discussing performance, market conditions and asset allocation and making appropriate decisions where necessary. They review the report from Northern Trust, the Fund's custodian who provides an independent monitoring service and reports from officers and advisors on performance review meetings with Fund Managers. In addition, the performance of the pooling arrangements is monitored via regular reporting and updates from the London CIV.

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

The Fund has a Risk Management Policy which can be found on the Council's website at <https://archive.hillingdon.gov.uk/article/6492/Pension-fund>

The Risk Management Policy details the risk management strategy for the Fund, which explains:

- the risk philosophy for the management of the Fund, and in particular attitudes to, and appetite for, risk;
- how risk management is implemented;
- risk management responsibilities;
- the procedures that are adopted in the Fund's risk management process; and
- the key internal controls operated by the Administering Authority and other parties responsible for the management of the Fund.

The Fund adopts best practice risk management, which supports a structured and focused approach to managing risks, and ensures risk management is an integral part in the governance at a strategic and operational level.

The Fund recognises that it is not possible or even desirable to eliminate all risks. Accepting and actively managing risk is therefore a key part of the risk management strategy. A key determinant in selecting the action to be taken in relation to any risk will be its potential impact on the Fund's objectives in light of the risk appetite, particularly in relation to investment matters. Equally important is striking a balance between the cost of risk control actions against the possible effect of the risk occurring.

In managing risk, the Administering Authority on behalf of the Fund will:

- ensure that there is a proper balance between risk taking and the opportunities to be gained;
- adopt a system that will enable the Fund to anticipate and respond positively to change;
- minimise loss and damage to the Fund and to other stakeholders who are dependent on the benefits and services provided; and
- make sure that any new areas of activity (new investment strategies, joint-working, framework agreements etc.), are only undertaken if the risks they present are fully understood and taken into account in making decisions.

Risk Management is a sound management technique that is an essential part of stewardship of the Fund. The benefits of a sound risk management approach include better decision-making, improved performance and delivery of services, more effective use of resources and the protection of reputation.

The Pensions Committee analyse the level of risk and the drivers of risk and monitor and review the investment strategy and investment performance on an ongoing basis and take mitigating action where required. This may include rebalancing the allocation of assets when set benchmark weighting of asset classes exceeds

tolerance thresholds

The Committee has established a strategic asset allocation benchmark for the Fund. They assess risk relative to that benchmark by monitoring the asset allocation and investment returns relative to the benchmark. The Committee also assesses risk relative to liabilities, monitoring the delivery of benchmark returns relative to liabilities on a regular basis.

The Pensions Committee provides a practical constraint on the Funds investments deviating greatly from the intended approach by adopting a specific asset allocation benchmark and by monitoring the underlying asset class weights relative to this benchmark on a regular basis.

The investment strategy is suitable diversified, with the balance of different asset classes and investment managers mitigating the impact at an aggregate level of underperformance of an individual manager. Diversification is a very important risk management tool. The scheme seeks to maintain a diversified exposure via a wide range of asset classes, geographies, and currencies.

7. How social, environmental or corporate governance considerations are taken into account in the selection, non-selection, retention and realisation of investments

The Fund is committed to being a long-term steward of the assets in which it invests and expects this approach to protect and enhance the value of the Fund in the long term. In making investment decisions, the Fund seeks and receives proper advice from specialist investment advisers.

The Fund expects its external investment managers, including the London CIV to undertake appropriate monitoring of current investments with regard to their policies and practices on all issues which could present a material financial risk to the long-term performance of the Fund such as corporate governance and environmental factors. The Fund expects its Fund managers to integrate material ESG factors within its investment analysis and decision making.

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

The Fund in preparing and reviewing its Investment Strategy Statement will consult with interested stakeholders including, but not limited to Fund employers, investment managers, Local Pension Board, advisers to the Fund and other parties that it deems appropriate to consult with.

The Fund has prepared a Responsible Investment policy which outlines its approach ESG and can be found at <https://archive.hillingdon.gov.uk/article/6492/Pension-fund>

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

The Fund through its participation in the London CIV will work closely with other LGPS Funds in London to enhance the level of engagement both with external managers and the underlying companies in which invests. The Fund's investments through the London CIV are covered by the voting policy as agreed by the Pensions Sectoral Joint Committee advising managers to vote in accordance with voting alerts issued by the Local Authority Pension Fund Forum (LAPFF) as far as practically possible. The London CIV will hold managers to account where they have not voted in accordance with these directions.

The Fund's approach to engagement recognises the importance of working in partnership to magnify the voice and maximise the influence of investors as owners. The Fund expects its investment managers to work collaboratively with others if this will lead to greater influence and deliver improved outcomes for shareholders and more broadly. The Fund appreciates that to gain the attention of companies in addressing governance concerns; it needs to join with other investors sharing similar concerns. To ensure effective and consistent use of the voting rights, investment managers are tasked with exercising the voting rights accruing to the Fund. If important issues impacting local residents do emanate from actions of invested companies, the Pensions Committee will contact investment managers in charge of assets of such a company to make their opinion known and ask for such to be presented at meetings with the company or reflected in their voting pattern.

Going forwards, the Fund will incorporate a report of voting activity as part of its Pension Fund Annual report which is published on the Council's website. The Fund complies with the UK Stewardship Code and a statement of compliance which explains the arrangements which support its commitment to each of the principles is also published on the website.

9. COVID-19 Review of Investment Strategy

As a result of the COVID-19 pandemic and resulting market stress displayed during February and March the Fund commissioned an in depth review of the Investment Strategy Statement (ISS) and strategy amendments agreed in January 2020 to ascertain whether revised strategy remained appropriate in the current investment climate and still met the needs of the Fund over the longer term. Furthermore the review highlighted potential opportunities which the Fund might consider.

The assessment concluded that the existing strategic asset allocation provided defensive qualities and sheltered the Fund from the more severe outcomes during this stress period. Particularly the lower equity exposure compared with other LGPS, the allocation to asset classes with a contractual and more certain return profile and the strong overall asset class diversification.

It was also confirmed that no adjustments were required to the ISS revisions agreed In January 2020 and still remain relevant and should be implemented.

Opportunities were also highlighted and the Fund is appropriately structured to execute these where applicable.

London Borough of Hillingdon
Administering Authority for the
London Borough of Hillingdon Pension Fund

COMMUNICATION STRATEGY

August 2020

COMMUNICATION STRATEGY

Introduction and Background

This is the Statement outlining our Pension Communication Strategy for the London Borough of Hillingdon Pension Fund ("the Fund") and has been developed following consultation with employers in the Fund, scheme member representatives, Pension Board members and other interested stakeholders.

The aim of this Communication Strategy is to ensure that scheme members appreciate the benefits of the scheme and all stakeholders are kept informed of developments within the Pension Fund, and effective communications will also help to maintain the efficient running of the Scheme.

London Borough of Hillingdon (the "administering authority") is responsible for the local administration of the Fund, which is part of the Local Government Pension Scheme ("the LGPS"). Operationally, the administration of the Fund is undertaken by Surrey County Council under a delegation agreement and the team at Surrey and Hillingdon Council staff work together to provide a seamless service to scheme employers and members, and as such effective communication *between* the two organisations is vitally important. This policy focuses on effective communication between the Fund (i.e. the Council and Surrey County Council as administrator) and its external stakeholders.

The Statement sets out who we will communicate with, how this will be done and how the effectiveness of that communication will be monitored.

Implementation

This Strategy outlines the type of communications the administering authority would like to provide to scheme members and employers. It includes making more use of technology to provide quicker and more efficient communications for the Fund's stakeholders.

This Strategy will be effective from 1 August 2020 and the performance indicators mentioned herein will demonstrate ongoing progress towards the Strategy's aims and objectives.

Regulatory Basis

The LGPS is a statutory scheme, established by an Act of Parliament. Regulation 61 of the Local Government Pension Scheme Regulations 2013, reproduced below, provides the conditions and regulatory guidance surrounding the production and implementation of Communications Strategies:

Statements of policy concerning communications with members and Scheme employers

61. (1) An administering authority must prepare, maintain and publish a written statement setting out its policy concerning communications with —

- (a) members;*
- (b) representatives of members;*
- (c) prospective members; and*
- (d) Scheme employers.*

(2) In particular the statement must set out its policy on —

- (a) the provision of information and publicity about the Scheme to members, representatives of members and Scheme employers;*
- (b) the format, frequency and method of distributing such information or publicity; and*
- (c) the promotion of the Scheme to prospective members and their employers.*

(3) The statement must be revised and published by the administering authority following a material change in their policy on any of the matters referred to in paragraph (2).

This statement has been developed to include the information required by those provisions and to describe our approach in relation to meeting these requirements in the delivery of communications.

Our Aims and Objectives

Mission Statement

The primary objectives of the London Borough of Hillingdon Pension Fund are:

- to be known as forward thinking, responsive, proactive and professional providing excellent stakeholder focused, reputable and credible service to all customers.
- to have instilled a corporate culture of risk awareness, financial governance, and to provide the highest quality, distinctive services within the resource budget.
- to work effectively with partners, being solution focused with a 'can do' approach.

In addition, we have specific aims and objectives in relation to our communication responsibilities as set out below.

Communication Aims and Objectives

This Communications Strategy has a number of specific objectives relating to how we communicate with our stakeholders, as follows;

- Promote the Scheme as a valuable benefit and provide sufficient information to educate members to help them to make informed decisions about their benefits.
- Communicate in a clear, concise manner.
- Ensure we use the most appropriate means of communication, taking into account the different needs of different stakeholders.

- Look for efficiencies in delivering communications, including through greater use of technology and partnership working, with the view that digital communications is the preferred long term communications solution.
- Annually evaluate the effectiveness of communications and shape future communications appropriately.

Ultimately, achieving these objectives should result in fewer member and employer queries, which will help all stakeholders whilst maintaining and improving the efficient running of the Scheme.

Delivery of Communications

London Borough of Hillingdon has delegated responsibility for the management of the Pension Fund to the London Borough of Hillingdon Pensions Committee, taking into consideration the thoughts of the Pensions Board. The Committee will monitor the implementation of this Strategy on a regular basis as outlined later in this statement.

Operationally, the communications of the Fund are undertaken partially by Surrey and partly 'in-house' within London Borough of Hillingdon. The London Borough of Hillingdon will also look for opportunities to work collaboratively with other Administering Authorities so as to reduce development costs and enhance the quality of information. This might include:

- working with other administering authorities through the Pensions Officer Group networks to produce communications, which can then be customised further where necessary to the needs of the London Borough of Hillingdon Pension Fund
- participating in joint training sessions with other administering authorities.

How we Communicate

Ensuring that key stakeholders are well informed about the LGPS is of paramount importance, and London Borough of Hillingdon recognises that communicating in a clear informative style is vital in achieving this aim.

Who we Communicate with

London Borough of Hillingdon recognises that there are several distinct stakeholder groups, such as:

- Scheme Members (active, deferred, pensioner and dependant members) and prospective Scheme Members
- Scheme Employers and prospective Scheme Employers
- Pension Fund Committee and Pension Board members
- Pension Fund Staff
- Other interested organisations including Government Departments, Scheme Advisory Board and Advisors to the Pension Fund.

The main means of communication with these key stakeholders are outlined in the next section.

Diversity of Communication

The London Borough of Hillingdon Pension Fund's information is also available in alternative formats for example, Braille or large print on request. The London Borough of Hillingdon Pension Fund always aims to use the most appropriate communication medium(s) for the audience receiving the information. However, the London Borough of Hillingdon acknowledges that digital communications is the preferred long term communications solution.

Methods of Communication

a) With Scheme Members and Prospective Scheme Members

Effective communication reminds, or alerts, employees to the value of the LGPS which negates misleading media information and aids recruitment, retention and the motivation of the workforce.

Website

All members have access to the Fund's website <https://archive.hillingdon.gov.uk/pensions> which contains information about the Fund and the LGPS, and members are able to download scheme literature and forms. The website also links to the Surrey website <https://mypension.surreycc.gov.uk/> which provides a self-service facility for them to update their personal details online (including their expression of wish for any death grant that may become payable), calculate their own pension projections and check their membership history.

Annual Benefit Statements

These statements are distributed annually to all active and deferred scheme members and are currently distributed to home addresses. From 2018 these will be made available online rather than posted to home addresses

Newsletters

The Fund issues a periodic newsletter to contributing members, bringing to their attention information such as changes to scheme rules. The Fund also sends an annual newsletter to its pensioners. This is sent with the annual pensions increase notification and explains how their new annual rate of pension has been calculated. It also includes topical information such as relating to the budget and State benefits. The newsletter to contributing members is distributed electronically and the pensioner's notification is sent to home addresses

Telephone and email

All members have the opportunity to telephone, fax or email the London Borough of Hillingdon Pension Fund / Surrey County Council Pension Fund (as appropriate) for information in addition to the other lines of communication open to them.

Literature

The London Borough of Hillingdon Fund makes pension-related literature available to scheme members, including:

- A New Joiner Option Form which is the responsibility of employers to issue to all new members upon joining the London Borough of Hillingdon Pension Fund.
- A retirement pack sent to all members about to retire from the London Borough of Hillingdon Pension Fund.
- A welcome letter which is sent to all members joining the scheme to confirm their membership and provide information about the option to transfer in benefits and pay additional contributions if they wish.

Pensions Taxation Correspondence

Where appropriate, letters are distributed to all members who are affected by the Annual Allowance or the Lifetime Allowance, explaining changes to taxation rules and how this may affect their pension savings.

Annual Report

The Annual Report is published to highlight how the Fund has performed during the previous financial year. It also includes statements with regards to investment strategy, funding strategy, and governance. It is available on the Fund's website.

b) With Employers

Effective communication between an administering authority and its Fund employers reduces errors, improves efficiency and leads to good working relationships. The main means of communication with employers are outlined below.

Employer key contact officers and meetings

We expect each employer in the Fund to designate a named individual to act as their key contact officer; this individual will be the main contact with regard to any aspect of administering the LGPS and the employer must keep the administering authority aware of the contact details for that person.

The Fund, where appropriate, will contact, and where relevant, meet with the employer key contact officer to discuss any issues relating to the LGPS and/or raise any issues around the performance of the employer or services provided by the administering authority. Meetings will be arranged if necessary (particularly if specific issues around the performance of the employer arise).

Individual Employer Meetings

Employers have the opportunity to meet with members of staff from the London Borough of Hillingdon Pension Fund / Surrey County Council Pension Fund (as appropriate) to discuss any issues with regard to the Local Government Pension Scheme. These meetings take place as and when they are required.

Administration Strategy

Introduced in April 2016, the administration strategy provides an overview of how the administering authority and employers will work together to achieve a high quality service. It is available on the Fund's website.

Website

The London Borough of Hillingdon Pension Fund website <https://archive.hillingdon.gov.uk/pensions> includes a range of information relating to the scheme benefits and also management of the London Borough of Hillingdon Pension Fund. Employers are able to download password protected pensions forms which must be completed by the employer in order for pension benefits to be calculated. The London Borough of Hillingdon Pension Fund can also update employers via the website on urgent LGPS issues. Greater self-service functionality was introduced for employers on the website during 2017/18 including the ability for employers to set up new joiner records online and calculate early retirement projections in respect of their employees.

Email Updates

We will often communicate with employers using an email distribution list of all employers. This is how we highlight general updates about the LGPS. This email distribution list is also used to remind employers of facilities available to them and their staff, i.e. pension presentations and drop-in sessions.

Employer specific events

The Pension Administration Section will also be happy to attend any employer specific events to assist employers understand their responsibilities.

c) With Pension Committee and Pension Board members:

Effective communication ensures that Pension Committee and Pension Board members are appropriately knowledgeable and able to act in the best interests of the Fund and its members:

Members are provided with regular reporting on all areas relevant to pensions, including investment, funding, audit, governance, administration and risk. This is communicated in a variety of formats including via the external website, the intranet, the annual report and accounts, through committee meetings and through regular training in line with the Fund's training policy. The majority of reports provided to Pension Committee together with the meeting minutes, are available on the Democratic Service pages of the Council's website. The Pension Board members and reports to the Board can be found at this website address:

<https://archive.hillingdon.gov.uk/article/29807/Local-Pensions-Board>

d) With Fund Staff:

Effective communication ensures that both Hillingdon and Surrey staff are confident and prepared to undertake their role, as follows:

Pension Manager

The London Borough of Hillingdon and Surrey County Council Pension Managers maintain open-door policies and are available to staff both within and outside the Pensions Teams. In addition, staff have unrestricted access to their supervisors and senior colleagues to discuss and resolve work related issues.

Team Meetings

Office and/or Team meetings are held on a monthly basis to discuss operational issues, ensuring there is a shared understanding of any issues and developing a consistent approach towards addressing them. Any items arising from such meetings are escalated to the relevant Pension Manager and raised at Senior Management Team Meetings if required.

Intranet

Each member of staff has access to the relevant Fund's intranet so that it can be used as an information resource.

E-mail

All staff have access to the e-mail facility.

Internet

All staff have authority to access the internet to assist them in their role within Pension Services.

Induction and training

All new members of staff undergo an induction procedure to acquaint them with the operational running of the Pension Fund. Subsequently, all pension staff also receive both in-house and external training to enable them to administer the scheme effectively, answer member queries, and offer a good customer service and also to assist in their personal development.

Appraisal and Assessment

Staff at all levels in the Pension Team have annual assessments, with a mid-year review, during which there are open discussions of work issues and areas for development. This dialogue is supplemented by regular one-to-one meetings within team structures.

e) Communicating with other bodies:

There are a number of other interested parties with whom we communicate as required, including:

The Ministry of Housing Communities and Local Government (MHCLG)

We have regular contact with MHCLG as Responsible Authority of the LGPS, participating and responding to consultations as required.

Scheme Advisory Board

The national Scheme Advisory Board was established following the Public Services Pensions Act 2013 to provide advice to administering authorities and local pension boards in relation to the effective and efficient administration and management of the Scheme and their funds. We therefore liaise with the Scheme Advisory Board as appropriate.

The Pensions Regulator

The Pensions Regulator's remit has been extended to the Public Sector as a result of the Public Services Pensions Act 2013. We therefore liaise with the Regulator as required, and ensure that the London Borough of Hillingdon Fund is compliant with the Pensions Regulator's Code of Practice.

Trade Unions

We work with relevant trade unions to ensure the Scheme is understood by all interested parties. Efforts are made to ensure all pension related issues are communicated effectively with the trade unions.

Employer Representatives

We work with relevant employer representative bodies to ensure that the Fund's views are represented to employer groups. Employers are represented on the Pension Board.

Pension Fund Investment Managers, Advisers and Actuaries

We have regular meetings with;

- the Fund Managers who invest funds on behalf of the Fund
- Investment Advisers who provide help and advice on the asset allocation and investments of the Fund
- the Fund Actuary to discuss funding levels, employer contributions and valuation of the assets and liabilities of the Fund

Pension Fund Custodian

The Fund's Custodian ensures the safekeeping of the Funds investment transactions and all related share certificates.

AVC Provider

Additional Voluntary Contributions (AVC) are a way for members to top up their pension benefits, and in some instances provide tax free lump sum depending on the policy, and are held and invested separately from the LGPS. The Fund's preferred AVC provider is Prudential.

Pensions and Lifetime Savings Association (PLSA)

The Fund is a member of PLSA, which provides an opportunity for administering authorities to discuss issues of common interest and share best practice.

Regional Forums

The London Pension Officers Group takes place quarterly. It is an opportunity for the Pensions Managers and other Pension Officers from administering authorities in the region to share information and ensure uniform interpretation of the Local Government Pension Scheme, and other prevailing regulations.

Requests for Information (FOI)

Requests for information either under the Freedom of Information Act or otherwise, will be dealt with as openly and swiftly as allowed providing that such information does not breach confidentiality.

Consultations

There are occasions when the administering authority will consult with interested parties either as a result of potential changes to the regulations governing the LGPS or specific policy changes relating to the London Borough of Hillingdon Fund. In these instances, the most effective way of communicating with interested parties is to hold a period of consultation, during which, they are given the opportunity to respond to specific changes. Interested parties and representative groups will be approached to provide feedback to the policy changes before amendments are enacted.

Key Risks

The key risks to the delivery of this Strategy are outlined below. The London Borough of Hillingdon Corporate Pension Manager will work together with the Lead Pensions Manager at Surrey and with the Pension Committee and Pension Board in monitoring these and other key risks and considering how to respond to them.

- Lack or reduction of skilled resources due to difficulty retaining and recruiting staff members and also staff absence due to sickness
- Significant increase in the number of employing bodies causes strain on day to day delivery
- Significant external factors, such as national change, impacting on workload
- Issues in production of annual benefits statements, e.g. wrong address and printing errors due to external supplier
- Issuing incorrect or inaccurate communications
- Failure to maintain employer database leading to information not being sent to correct person
- Lack of clear communication to employers, scheme members and pensioners

Preparation and Review

This Strategy Statement was approved on 28 July 2020 by the London Borough of Hillingdon Pensions Committee. It is effective from 1 August 2020

It will be formally reviewed and updated at least every three years or sooner if the communication management arrangements or other matters included within it merit reconsideration, including if there are any changes to the LGPS or other relevant Regulations or Guidance which need to be taken into account.

In preparing this Strategy we have consulted with the scheme member and employer representatives on the London Borough of Hillingdon Pension Board and other persons considered appropriate.

This Strategy Statement will be included within the Fund's Annual Report and Accounts and available on our website at: <http://www.hillingdon.gov.uk/pensions>.

Further Information

Any enquiries in relation to the Fund's communications or the principles or content of this Strategy should be sent to:

James Lake, Chief Accountant
London Borough of Hillingdon
Civic Centre
High Street
Uxbridge
UB8 1UW

E-mail - jlake@hillingdon.gov.uk
Telephone - 01895 277562

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

Opinion

We have examined the pension fund financial statements for the year ended 31 March 2020, which comprise the Fund Account, the Net Assets Statement and the related notes.

In our opinion, the pension fund financial statements are consistent with the full annual statement of accounts of London Borough of Hillingdon Pension Fund for the year ended 31 March 2020 and comply with applicable law and the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2019/20.

Respective responsibilities of the Corporate Director of Finance and the auditor

As explained more fully in the Statement of Responsibilities for the Pension Fund Statement of Accounts set out on page 50, the Corporate Director of Finance is responsible for the preparation of the pension fund's financial statements in accordance with applicable United Kingdom law.

Our responsibility is to report to you our opinion on the consistency of the pension fund financial statements within the pension fund annual report with the pension fund financial statements in the statement of accounts of London Borough of Hillingdon Pension Fund, and its compliance with applicable law and the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2019/20.

We also read the other information contained in the pension fund annual report and consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the pension fund financial statements. The other information consists of:

- Pension Fund Committee Chairman's Report;
- Fund Governance and Statutory Information;
- Performance Reviews and Report of the Fund Actuary;
- Policy Statements

We conducted our work in accordance with Auditor Guidance Note 07 – Auditor Reporting, issued by the National Audit Office. Our report on the administering authority's full annual statement of accounts describes the basis of our opinion on those financial statements.

Suresh Patel (Key Audit Partner)
Ernst & Young LLP (Local Auditor)
London

26th November 2020

GLOSSARY

Active Management

A style of management where the fund manager aims to outperform a **benchmark** by superior **asset allocation**, market timing or **stock selection** (or a combination of these).

Actuary

An independent consultant who advises the Council on the financial position of the Fund. See **actuarial valuation**.

Actuarial Valuation

This is an assessment done by an **actuary**, usually every three years. The actuary will work out how much money needs to be put into a pension fund to make sure pensions can be paid in the future.

Additional Voluntary Contribution (AVC)

An option available to individuals to secure additional pensions benefits by making regular payments in addition to the 5.5%-12.5% of basic earnings payable.

Administering Authority

In this instance, the 'Administering Authority' is London Borough Hillingdon. An administering authority is responsible, amongst other things, for maintaining member records, dealing with member queries/requests, investment of the fund and paying your LGPS pension.

Admitted Bodies

Employers whose staff can become members of the Fund by virtue of an admission agreement made between the administering authority and the employer.

Asset Allocation

The apportionment of a fund's assets between asset classes and/or world markets. The long-term strategic asset allocation of a fund will reflect the fund's investment objectives. In the short term, the fund manager can aim to add value through **tactical asset allocation** decisions.

Asset Liability Modelling

Models the interaction and the allocation of assets to meet to meet present and future financial liabilities over time

Benchmark

A yardstick against which the investment policy or performance of a fund manager can be compared. Each Fund's benchmark is customised, meaning that it is tailored to the Fund's **liability profile**.

Bond

A debt investment with which the investor loans money to an entity (company or government) that borrows the funds for a defined period of time at a specified interest rate.

Book cost

The value of an asset as it appears on a balance sheet, equivalent to how much was paid for the asset (less liabilities due). Book cost often differs substantially from **market value**.

Broker

An individual or firm that charges a fee or commission for executing buy and sell orders submitted by an investor.

CARE

'Career Average Revalued Earnings'. LGPS 2014 is a career average scheme, and is a method used for calculating pensions earned from April 2014.

Commission

A service charge assessed by an agent in return for arranging the purchase or sale of a security or real estate. The commission must be fair and reasonable, considering all the relevant factors of the transaction. (Underwriting commission)

Corporate Bond

A debt security issued by a corporation, as opposed to those issued by the government.

Corporate Governance

The system by which organisations are run, and the means by which they are responsible to their shareholders, employees and other stakeholders.

Coupon

The return earned on an investment. E.g. £5 received from a £100 debenture is the coupon.

Creditors

Amounts owed by the pension fund.

Custody

Safekeeping of securities by a financial institution. The custodian keeps a record of the client's investments and may also collect income; process tax reclaims and provide other services such as performance measurement.

Debtors

Amounts owed to the pension fund.

Defined Benefit

A type of pension plan in which an employer/sponsor promises a specified monthly benefit on retirement that is predetermined by a formula based on the

employee's earnings history, tenure of service and age, rather than depending directly on individual investment returns.

Derivative

Used to describe a specialist financial instrument such as **options** or **futures contracts**. Financial instruments are agreements to buy or sell something, under terms laid out in a contract.

Diversification

A risk management technique that mixes a wide variety of investments within a portfolio. It is designed to minimize the impact of any one security on overall portfolio performance.

Dividend

Distribution of a portion of a company's earnings, decided by the board of directors, to a class of its shareholders. The amount of a dividend is quoted in the amount each share receives or in other words dividends per share.

Dividend Yield

An indication of the income generated by a share, calculated as Annual Dividend per Share/Price per Share

Emerging Markets

There are about 80 stock markets around the world of which 22 markets are generally considered to be mature. The rest are classified as emerging markets.

Equity

Stock or any other security representing an ownership interest.

Ex-dividend

Purchase of shares without entitlement to current dividends. This entitlement remains with the seller of the shares.

Final Salary Scheme

An employer pension scheme, the benefits of which are linked to length of service and the final salary of the member (also known as defined benefit).

Fixed interest

A loan with an interest rate that will remain at a predetermined rate for the entire term of the loan. See bond.

FTSE All-Share

An arithmetically weighted index of leading UK shares (by market capitalisation) listed on the London Stock Exchange (LSE). The FTSE 100 Index covers only the largest 100 companies.

Funding Level

A comparison of a scheme's assets and liabilities.

Futures Contract

A contract to buy goods at a fixed price and on a particular date in the future. Both the buyer and seller must follow the contract by law.

Gilts

The familiar name given to sterling, marketable securities (or bonds) issued by the British Government.

Hedge

Making an investment to reduce the risk of adverse price movements in an asset. Normally, a hedge consists of taking an offsetting position in a related security, such as a **futures contract**.

Index Linked

A **bond** that pays a coupon that varies according to some underlying index, usually the Consumer Price Index.

Liability Profile

The future cash outflows for Scheme Member benefits as they mature.

LGPS

Local Government Pension Scheme

LSE

London Stock Exchange

Mandate

The agreement between a client and investment manager laying down how the portfolio is to be managed, including performance targets.

Market Value

A security's last reported sale price (if on an exchange) i.e. the price as determined dynamically by buyers and sellers in an open market. Also called market price.

Option

The name for a contract where somebody pays a sum of money for the right to buy or sell goods at a fixed price by a particular date in the future. However, the goods do not have to be bought or sold.

Passive Management

A style of fund management that aims to construct a portfolio to provide the same return as that of a chosen index.

Pension Fund

A fund established by an employer to facilitate and organise the investment of employees' retirement funds contributed by the employer and employees. The **pension fund** is meant to generate stable growth over the long term, and provide pensions for employees when they reach the end of their working years and commence retirement.

Private Equity

When equity capital is made available to companies or investors, but not quoted on a stock market. The funds raised through private equity can be used to develop new products and technologies, to expand working capital, to make acquisitions, or to strengthen a company's balance sheet. Also known as **development capital**.

Property Unit Trusts

Pooled investment vehicles that enable investors to hold a stake in a diversified portfolio of properties

Quantitative Easing (QE)

QE is monetary policy in which a central bank purchases government securities or other securities from the market in order to lower interest rates and increase the money supply

Resolution Bodies

Scheme employers with the power to decide if an employee or group of employees can join the scheme

Return

Synonymous with profit, be it income received, capital gain or income and capital gain in combination. Usually expressed as a percentage of the nominal value of the asset.

Risk

The likelihood of performance deviating significantly from the average. The wider the spread of investment in an investment sector or across investment sectors, i.e. the greater the diversification, the lower the risk.

Scheme Employers

Local authorities and other similar bodies whose staff automatically qualify to become members of the pension fund

Security

An investment instrument, other than an insurance policy or fixed annuity, issued by a corporation, government, or other organisation, which offers evidence of debt or equity

Socially Responsible Investment (SRI)

Investments or funds containing stock in companies whose activities are considered ethical.

Specialist Manager

A fund management arrangement whereby a number of different managers each concentrate on a different asset class. A specialist fund manager is concerned primarily with **stock selection** within the specialist asset class. **Asset allocation** decisions are made by the investment committee, their consultant or by a specialist tactical asset allocation manager (or combination of the three).

Stock

A type of security that signifies ownership in a corporation and represents a claim on part of the corporation's assets and earnings. Also known as shares or **equity**.

Stock Selection

The process of deciding which stocks to buy within an asset class.

The Fund

'The Fund' explicitly refers to London Borough of Hillingdon Pension Fund

Tracking Error

An unplanned divergence between the price behaviour of an underlying stock or portfolio and the price behaviour of a benchmark. Reflects how closely the make-up of a portfolio matches the make-up of the index that it is tracking.

Transaction Costs

Those costs associated with managing a portfolio, notably brokerage costs and taxes.

Transfer Value

The amount transferred to/from another pension fund should a member change employment. The amount transferred relates to the current value of past contributions.

Transition

To move from one set of investment managers to another

Underwriting

The process by which investment bankers raise investment capital from investors on behalf of corporations and governments that are issuing securities (both equity and debt)

Unit Trust

A pooled fund in which investors can buy and sell units on an ongoing basis

Unlisted Security

A security that is not traded on an **exchange**

Unrealised Gains/ (losses)

The increase/ (decrease) at year-end in the market value of investments held by the fund since the date of their purchase.

Yield

The rate of income generated from a stock in the form of dividends, or the effective rate of interest paid on a bond, calculated by the coupon rate divided by the bond's market price. Furthermore, for any investment, yield is the annual rate of return expressed as a percentage.

London Borough of Hillingdon Pension Fund

Governance Policy and Compliance Statement

September 2020

Governance Policy and Compliance Statement– Administering Authority

London Borough of Hillingdon is the Administering Authority of the London Borough of Hillingdon Pension Fund and administers the Local Government Pension Scheme on behalf of participating employers.

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 those 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 and where such revisions are made to publish a revised statement.

Aims and Objectives

The London Borough of Hillingdon recognises the significance of its role as Administering Authority to the London Borough of Hillingdon Pension Fund on behalf of its stakeholders which include (at time of drafting):

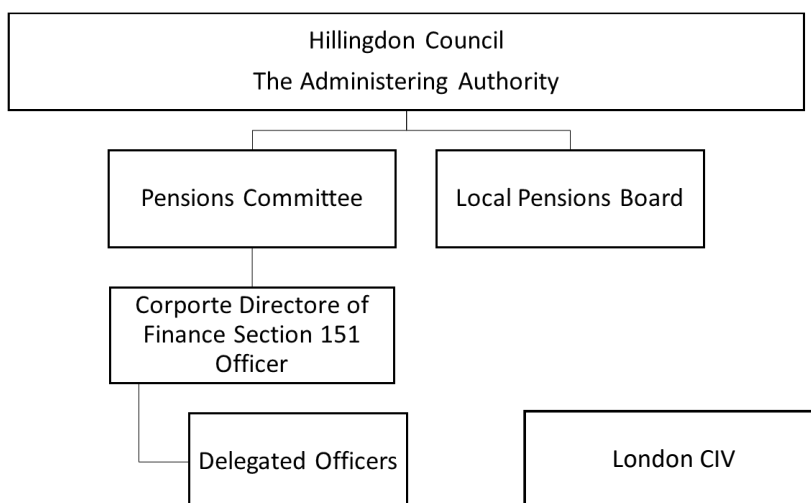
- around 23,407 current and former members of the Fund, and their dependants
- over 66 employers within the London Borough of Hillingdon Fund
- local taxpayers within the council areas participating in the London Borough of Hillingdon Pension Fund.

In relation to the governance of the Fund, our objectives are to ensure that:

- all staff and Pensions Committee Members charged with the financial administration and decision-making with regard to the Fund are fully equipped with the knowledge and skills to discharge the duties and responsibilities allocated to them
- the Fund is aware that good governance means an organisation is open in its dealings and readily provides information to interested parties
- all relevant legislation is understood and complied with
- the Fund aims to be at the forefront of best practice for LGPS funds
- the Fund manages Conflicts of Interest appropriately

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 that those who made the decisions are accountable to local people. The Constitution sets out the framework under which the Pension Fund is to be administered as shown in the diagram below.



Terms of Reference for the Pensions Committee

The Pensions Committee's principal aim is to carry out the functions of the London Borough of Hillingdon as the Scheme Manager and Administering Authority for the London Borough of Hillingdon Pension Fund in accordance with Local Government Pension Scheme regulations and any other relevant legislation.

In its role as the administering authority, the London Borough of Hillingdon owes fiduciary duties to the employers and members of the London Borough of Hillingdon Pension Fund and must not compromise this with its own particular interests. Consequently this fiduciary duty is a responsibility of the Pensions Committee and its members must not compromise this with their own individual interests.

The Pensions Committee operates under the following terms of reference:

Terms of Reference

1. To review and approve all aspects of investment policy relating to the Pensions Fund, including agreeing the strategic asset allocation and authorisation or prohibition of particular investment activities.
2. To review the Investment Strategy Statement and amend it when necessary.
3. To agree benchmarks and performance targets for the investment of the Fund's assets and review periodically.
4. To agree to transfer funds into mandates managed by the London Collective Investment Vehicle (CIV) as soon as appropriate opportunities become available.
5. To receive regular reports from the London CIV and to agree and resultant actions from a review of the investments held with the London CIV.
6. To keep the performance of the investment managers under regular review and extend or terminate their contracts as required. To appoint new managers when necessary.
7. To agree policy guidelines for the exercise of voting rights attached to the Fund's shares.
8. To review the appointment of specialist advisors and service providers and make

new appointments as necessary.

9. To consider the overall implications of the Council's policies for employment and benefits issues and their impact on the Pension Fund and agree any strategic changes.
10. To approve the appointment of persons to hear appeals under the Internal Dispute Resolution Procedure.
11. To consider issues concerning the administration of the Fund, including approving responses to consultation papers.
12. To consider and decide whether to approve proposals for discretionary enhanced early retirement packages for officers.
13. The Corporate Director of Finance be authorised to take urgent decisions in relation to the pensions fund and investment strategy on behalf of the Committee, reporting back to the Pensions Committee any exercise of these powers for ratification.

Membership of the Pensions Committee

Councillor membership of the Committee will be 5, will be politically balanced and have voting rights. In addition, the Independent Adviser and Investment Consultant would normally attend meetings along with relevant officers in an advisory, non-voting capacity.

Meetings

The Council shall fix the day of meetings of the Pensions Committee and the ordinary meetings for the Pensions Committee shall be at Hillingdon Civic Centre, but they may arrange to meet elsewhere when they see fit. In April 2020 the Government issued temporary legislation allowing Local Authorities to conduct virtual meetings. This is to enable decisions to continue to be made during the current COVID-19 pandemic where social distancing is required.

Pensions Committee meetings are currently being conducted virtually with the public section being streamed live on the Council's youtube channel <https://www.youtube.com/user/HillingdonLondon>

The Chair may cancel meetings. The Pensions Committee meets every quarter and the dates are arranged annually in advance. The Chairman of the Committee may call a special meeting if required.

Access to Agenda, Reports and Minutes of Meetings

The Council will give at least seven clear working days notice of any meeting by posting details of the meeting at the Hillingdon Civic Centre and on the Council's website. The Council will make copies of the agenda and reports open to the public available for inspection at least five clear working days before the meeting. If an item is added to the agenda later, the revised agenda will be open to inspection from the time the item was added to the agenda. The reason for lateness will be specified in the report. There may on occasions be items, which may be exempt from the agenda, reports and minutes of the meetings when it is likely in view of the nature of the business to be transacted or the nature of the proceedings that confidential

information would be disclosed. Items which are most likely to be excluded are issues where to disclose information would contravene an individual's privacy or where there are financial interests which may be compromised as a result of disclosure for example discussions surrounding contracts. The Council will make available copies of the minutes of the meeting and records of decisions taken. Minutes of meetings and records of decisions are available for inspection on the Council's website: <http://www.hillingdon.gov.uk>

The Committee's full terms of reference can also be found on the Council's website.

Scheme of Delegation

Where Council functions are not specifically reserved to the Pensions Committee in relation to the Pension Fund, the functions are deemed to be delegated to the relevant Chief Officers, or the Corporate Director of Finance in the case of the Pension Fund. The Corporate Director of Finance is responsible for the establishment of a scheme of delegation for their department which includes the Pension Fund function. The scheme of delegation specifies the function, names the post which may carry out that delegated decision and the limits if any on the delegation. The limits on delegation may include the obligation to consult record and/or refer back to the Chief Executive or Corporate Director of Finance in certain circumstances. The Finance Directorate has a scheme of delegation which sets out the delegated powers to individual officers within the directorate. In relation to the Pension Fund the management is delegated to the Corporate Director of Finance and responsible officer for the pension Fund. The scheme of delegation is reviewed regularly by the Council.

London CIV

The London CIV was formed as by the 33 London Boroughs in 2014 to pool their LGPS investments. It received regulatory authorisation from the Financial Conduct Authority in November 2015. The London CIV has been established as a collective investment vehicle for LGPS Funds. The current regulatory permissions allow for operation as an Authorised Contractual Scheme (ACS) Fund.

The governance arrangement of LCIV has been enhanced since the last governance policy review, to improve Client Fund engagement in 2019 following a consultation. The changes were particular in respect of arrangements for Client Fund engagement in fund decision-making and Client Fund oversight.

The governance structure of the LCIV has been designed to ensure that there are both formal and informal routes to engage with the investing Funds both as shareholders and investors, making the LCIV accountable at both levels.

Major decisions, including approval of the budget, strategic objectives and business plan are reserved to shareholders in General Meeting as set out in a Shareholder Agreement.

London CIV Company Board

The Board, (subject to matters reserved to shareholders) include:, Strategy and oversight of management of the company, budget and forward plan, reviews of performance, Major contracts and significant decisions including in relation to funds, financial reporting and controls, compliance, risk and internal controls, Key policies - Governance

London CIV - Shareholder Committee

The Shareholder Committee is made up of 8 Councilors, 4 London Treasurers and a trade union observer. The shareholder committee is consulted on London CIV's strategy, budget and business plan (MTFS); financial and corporate performance; all matters reserved to shareholders; emerging issues and shareholder priorities; Responsible Investment, and Reporting & Transparency. This role means that the Shareholder Committee plays an important role in identifying emerging issues and realistic solutions which will ensure that London CIV can deliver pooling to meet the needs of London. It has a key role in reviewing the budget and other matters reserved to shareholders before the Board makes a recommendation to all shareholders. There are 2 meetings each year of all shareholders and quarterly meetings of a Shareholder Committee representative of shareholders.

London CIV - Investment Oversight Committee (IOC)

The IOC is responsible for: overseeing the investment activity of London CIV in line with the Company's strategy and business plan. This includes the appointment of investment managers as part of the fund launch process (subject to approval by the Board), and fund performance including the performance of investment managers.

London CIV - Compliance Audit and Risk Committee (CARCO)

The committee is responsible for: overseeing compliance obligations; for the integrity of financial statements and reporting, auditor engagement; and for the risk and control framework.

London CIV - Remuneration and Nomination Committee

This committee is responsible for: remuneration policy; remuneration of key staff; nomination matters (appointments) and succession planning for key staff and the Board.

Pension Board

In keeping with the Public Service Pensions Act 2013, Hillingdon Council has established a Local Pension Board (LPB). Local Pension Boards are not local authority committees; as such the Constitution of London Borough of Hillingdon, does not apply to the Pension Board unless it is expressly referred to in the Board's terms of reference. The London Borough of Hillingdon Pension Board was established by London Borough of Hillingdon on 1st April 2015. The terms of reference of the Board can be found on the Fund's website hillingdon.gov.uk/pensions.

Role of the Pension Board

The role of the Board as outlined in the legislation is to assist the administering authority in ensuring the effective and efficient governance and administration of the scheme including:

- securing compliance with the LGPS Regulations and any other legislation relating to the governance and administration of the Scheme, and requirements imposed in relation to the LGPS by the Pensions Regulator and:
- any other matters the LGPS regulation may specify

The Pensions Board is not a decision making body, rather it has a compliance and scrutiny role to ensure the Pensions Committee effectively and efficiently complies with the code of practice on the governance and administration of public service pension schemes issued by the Pension Regulator. Additionally the Pension Board will help ensure that the London Borough of Hillingdon Pension Fund is managed and administered effectively and efficiently and complies with the code of practice on the governance and administration of public service pension schemes issued by the Pension Regulator.

Membership of the Pension Board

The membership of the Board must be equally split between employer and scheme member representatives with relevant experience and the capacity to represent. Council has determined that membership shall be:

- 2 employer representatives - elected Members, appointed on the basis of political balance and appointed annually by Council. No elected Member may sit on both the Pensions Committee and the Pensions Board.
- 2 employee/scheme member representatives - selected at interview by the Chairman and one other Member of the Pensions Committee and a Senior Officer, on the basis of capacity and/or experience. Term of Office to be indefinite

Meetings

The Pension Board meets quarterly in the ordinary course of business and additional meetings may be arranged as required to facilitate its work.

The Pension Board is treated in the same way as a Committee of the London Borough of Hillingdon and, as such, members of the public may attend and papers will be made public in the same way as described above for the Pensions Committee.

Terms of reference of the Pension Board

1. The Pensions Board will meet at a frequency determined by the Board.
2. Reports to the Board will either reflect decisions taken by Pensions Committee or be reports for noting already seen by Pensions Committee.
3. The role of the Board will be to assist London Borough of Hillingdon Administering Authority as Scheme Manager: to secure compliance with the LGPS regulations and any other legislation relating to the governance and administration of the LGPS;
4. To secure compliance with requirements imposed in relation to the LGPS by the Pensions Regulator; and in such other matters as the LGPS regulations may specify.
5. To secure the effective and efficient governance and administration of the LGPS

for the London Borough of Hillingdon Pension Fund.

6. To provide the Scheme Manager with such information as it requires to ensure that any member of the Pension Board or person to be appointed to the Pension Board does not have a conflict of interest. NB: Being a member of the LGPS is not seen as a conflict of interest.

Policy Documents

In addition to the foregoing, there are a number of other documents which are relevant to the Governance and management of the Pension Fund. Brief details of these are listed below and the full copies of all documents can be found on the Pension Fund Website: hillingdon.gov.uk/pensions.

Funding Strategy Statement

The Funding Strategy Statement forms part of the framework for the funding and management of the Pension Fund. It sets out how the Fund will approach its liabilities and contains a schedule of the minimum contribution rates that are required of individual employers within the Fund. The Funding Strategy Statement (FSS) is drawn up by the Administering Authority in collaboration with the Fund's actuary and after consultation with the Fund's employers. The FSS forms part of a broader framework which covers the Pension Fund and applies to all employers participating in the Fund. The FSS represents a summary of the Fund's approach to funding the liabilities of the Pension Fund.

Investment Strategy Statement

The Local Government Pension Scheme (Management and Investment of Funds) (Amendment) Regulations 2016 require pension fund administering authorities to prepare, maintain and publish a statement of the principles governing their decisions on the investment of the pension fund.

The areas covered in the Investment Strategy Statement are as follows:

- Investment objectives.
- Asset allocation
- Pooling of assets
- Investment implementation
- Investment governance
- Performance management
- Risk Management
- Environment, Social and Governance (ESG) policy

Governance Compliance Statement

This sets out the Pension Fund's compliance with the Secretary of State's Statutory Guidance on Governance in the LGPS. This is attached as Appendix A and shows where the Fund is compliant or not compliant with best practice and the reasons why it may not be compliant.

Training Policy

London Borough of Hillingdon has a Training Policy which has been put in place to

assist the Fund in achieving its governance objectives and all Pensions Committee members, Pension Board members and senior officers are expected to continually demonstrate their own personal commitment to training and to ensuring that the governance objectives are met.

To assist in achieving these objectives, the London Borough of Hillingdon Pension Fund aims to comply with:

- the CIPFA Knowledge and Skills Frameworks and
- the knowledge and skills elements of the Public Service Pensions Act 2013 and the Pensions Regulator's (TPR) Code of Practice for Public Service Schemes

as well as any other LGPS specific guidance relating to the knowledge and skills of Pensions Committee members, Pension Board members or pension fund officers which may be issued from time to time.

Members of the Pensions Committee, Pension Board and officers involved in the management of the Fund will receive training to ensure that they meet the aims of the Training Policy with training schedules drawn up and reviewed on at least an annual basis.

Conflicts of Interest

The Hillingdon Pension Fund has a Conflicts of Interest Policy that outlines how to identify, monitor and manage conflicts of interest that may occur. A register of interest is also maintained for the Pension Board and declaration of interest in relation to members of the Pensions Committee are available on the Council's website. Fund managers and advisors are also required to submit their organisations conflict of interest policy. Declaration of interests is a standing item on both the Local Pension Board and Pensions Committee agenda.

Conflicts of interest have always existed for those with LGPS administering authority responsibilities as well as for advisers to LGPS funds. This simply reflects the fact that many of those managing or advising LGPS funds will have a variety of other roles and responsibilities, for example as a member of the scheme, as an elected Member of an employer participating in the LGPS or as an adviser to more than one LGPS administering authority. Further any of those persons may have an individual personal, business or other interest which might conflict, or be perceived to conflict, with their role managing or advising LGPS funds.

It is generally accepted that LGPS administering authorities have both fiduciary and public law duties to act in the best interest of both the scheme beneficiaries and participating employers. This, however, does not preclude those involved in the management of the Fund from having other roles or responsibilities which may result in an actual or potential conflict of interest.

Annual Report and Accounts

As part of the financial standing orders it is the duty of the Corporate Director of Finance to ensure that record keeping and accounts are maintained by the Pension Fund. The Pension Fund accounts are produced in accordance with the accounting recommendations of the Financial Reports of Pension Schemes - Statement of Recommended Practice. The financial statements summarise the transactions of the Scheme and deal with the net assets of the Scheme. The statement of accounts is

reviewed by both the Pensions Committee and the Audit Committee and incorporated in the Statement of Accounts for the Council. Full copies of the Report and Accounts are distributed to employers in the Fund and other interested parties and a copy placed on the website: hillingdon.gov.uk/pensions.

Communication Policy

This document sets out the communications policy of the administering authority and sets out the strategy for ensuring that all interested parties are kept informed of developments in the Pension Fund. This helps to ensure transparency and an effective communication process for all interested parties. A copy of the policy can be found on the Pensions website: hillingdon.gov.uk/pensions.

Discretions Policies

Under the LGPS regulations, the Administering Authority has a level of discretion in relation to a number of areas, and maintains a policy document detailing how it will exercise these discretions. The Administering Authority reviews these policies as appropriate and will notify interested parties of any significant changes. Employing Authorities are also required to set out their discretions policies in respect of areas under the Regulations where they have a discretionary power. Copies of both the Administering Authority and London Borough of Hillingdon's Employing Authority Discretions can be found on the website: <http://www.hillingdon.gov.uk>

Pension Administration Strategy

In order to assist with the management and efficient running of the Pension Fund, the Pension Administration Strategy encompassing administrative procedures and responsibilities for the Pension Fund for both the Administering Authority and Employing Authorities has been distributed to employers within the Fund following consultation and can be found on the website: hillingdon.gov.uk/pensions. This represents part of the process for ensuring the ongoing efficient management of the Fund and maintenance of accurate data and forms part of the overall governance procedures for the Fund.

Monitoring Governance of the London Borough of Hillingdon Pension fund

The Fund's governance objectives will be monitored as follows: Objective	Monitoring Arrangements
Have robust governance arrangements in place, to facilitate informed decision making, supported by appropriate advice, policies and strategies.	• The Pensions Committee and the section 151 officer make decisions on behalf of the fund. • The Committee and Officers are also supported by various fund experts and advisors. • The Pensions Board has oversight of the decisions made to ensure compliance with relevant legislation and regulations • Policy and strategy documents are regularly reviewed and published to ensure they are up to date.
Ensure the Pension Fund is managed and its services delivered by people who have the appropriate knowledge and expertise	• A Training Policy is in place together with monitoring of all training by Pensions Committee members and key officers.

Act with integrity and be accountable to our stakeholders for our decisions, ensuring they are robust and well based	• Pension Committee meetings are open to all stakeholders to attend and papers and minutes are published. • The Pension Board includes representatives from scheme members and employers in the Fund. • The Pension Board prepares and publishes an annual report which may include comment on decision making.
Understand and monitor risk	• A Risk Policy and register is in place. • Ongoing consideration of key risks at Pensions Committee meetings.
Strive to ensure compliance with the appropriate legislation and statutory guidance and to act in the spirit of other relevant guidelines and best practice guidance	• The Governance of the Fund is considered by both the External and Internal Auditors. All External and Internal Audit Reports are reported to Committee. • The Fund maintains a log of all breaches of the law in accordance with the Fund's breaches procedure.

Key Risks

The key risks to the delivery of this Strategy are outlined below. Pensions Committee members will monitor these and other key risks and consider how to respond to them.

- Changes in Pensions Committee membership, Pension Board membership and/or key officers resulting in loss of continuity and potentially diminishing knowledge and understanding
- Changes in government / legislative requirements meaning insufficient time allocated to ongoing management, either at Pensions Committee meetings or as part of key officers' duties
- Ineffective delegation of duties and/or presentation of Pensions Committee items resulting in insufficient time spent on key matters
- Poor attendance and/or a lack of engagement at training and/or formal meetings by Committee members, Board members and/or other key officers resulting in a poor standard of decision making and/or monitoring
- Conflicts of interest not being appropriately managed by Committee members, Board members and/or key officers.

Approval, Review and Consultation

This Governance Policy and Statement was approved at the London Borough of Hillingdon Pensions Committee meeting on 28 October 2020 following consultation with the Hillingdon Local Pension Board. It will be formally reviewed and updated at least every three years or sooner if the governance arrangements or other matters included within it merit reconsideration.

Contact Information

Any enquiries in relation to the Fund's governance or the principles or content of this Strategy, or for further information on the Fund, contact:

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Telephone - 01895 277 562

Website: hillingdon.gov.uk/pensions

Governance Best Practice – Compliance Statement

Appendix A – London Borough of Hillingdon Pension Fund Governance Compliance Statement

Best Practice	Compliant or not?	Explanatory Note
A. STRUCTURE & REPRESENTATION		
a. The management of the administration of benefits and strategic management of fund assets clearly rests with the main committee established by the appointing council.	Fully compliant	
b. 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.	Non-compliant	Prior to establishment of the local Pensions Board, both employees and Unions were represented on Pensions Committee. However, membership of the Pensions Board now includes pensioner, employer representative, and employee representative. Pensions Board.
B. REPRESENTATION		
a. 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) where appropriate, independent professional observers, and iv) expert advisors (on an ad-hoc basis).	Non-compliant	Council took the decision to only have Council Members as voting members on Committee. Meetings are open to all to attend, but main representation comes through Pensions Board. The Pension Board also reviews all decisions taken by the Committee.

Best Practice	Compliant or not?	Explanatory Note
<i>b.</i> 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.	N/A	
C. SELECTION AND ROLE OF LAY MEMBERS		
<i>a.</i> 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.	Fully compliant	
<i>b.</i> 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.	Fully compliant	
D. VOTING		
<i>a.</i> 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.	Fully Compliant	
E. TRAINING / FACILITY TIME / EXPENSES		
<i>a.</i> 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.	Fully compliant	
<i>b.</i> 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.	Fully Compliant	

c. That the administering authority considers the adoption of annual training plans for committee members and maintains a log of all such training undertaken.	Partially compliant	No annual training plan as training is developed according to need and workplan. A training log is maintained.
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Best Practice	Compliant or not?	Explanatory Note
F. MEETINGS (FREQUENCY/QUORUM)		
a. That an administering authority's main committee or committees meet at least quarterly.	Fully compliant	
b. 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.	N/A	
c. That an administering authority who do not include lay members in their formal governance arrangements, must provide a forum outside of those arrangements by which the interests of key stakeholders can be represented	Fully compliant	Pensions Board
G. ACCESS		
a. 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.	Fully compliant	
H. SCOPE		
a. That administering authorities have taken steps to bring wider scheme issues within the scope of their governance arrangements.	Fully compliant	Through Pensions Board
I. PUBLICITY		
a. 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.	Fully compliant	

Delegation of Functions to Officers by Pensions Committee

Key:

PC – Pensions Committee

CDF – Corporate Director of Finance

FA – Fund Actuary

Advisers – Investment, actuarial and/or benefits consultants as appropriate

Function delegated to PC	Further Delegation to Officer(s)	Delegated Officer(s)	Communication and Monitoring of Use of Delegation
Investment strategy - approving the Fund's Investment Strategy Statement including specific liability profile and risk appetite. Monitoring the implementation of these policies and strategies on an ongoing basis.	Rebalancing and cash management Implementation of strategic allocation	CDF (having regard to ongoing advice of advisers)	High level monitoring at PC with more detailed monitoring by CDF
Selection, appointment and dismissal of the Fund's advisers, including actuary, benefits consultants, investment consultants, global custodian, fund managers, lawyers, pension funds administrator, and independent professional advisers.	Ongoing monitoring of Fund Managers	CDF (having regard to ongoing advice of advisers and subject to ratification by PC)	High level monitoring at PC with more detailed monitoring by advisers

Function delegated to PC	Further Delegation to Officer(s)	Delegated Officer(s)	Communication and Monitoring of Use of Delegation
Agreeing the terms and payment of bulk transfers into and out of the Fund.	Agreeing the terms and payment of bulk transfers into and out of the Fund where there is a bulk transfer of staff from the Fund. Exceptions to this would be where there is a dispute over the transfer amount or it relates to significant assets transfers relating to one employer or the Fund as a whole	CDF after taking appropriate advice from the FA.	Ongoing reporting to PC for noting
Making decisions relating to employers joining and leaving the Fund. This includes which employers are entitled to join the Fund, any requirements relating to their entry, ongoing monitoring and the basis for leaving the Fund.	Making decisions relating to employers joining and leaving the Fund and compliance with the Regulations and policies. This includes which employers are entitled to join the Fund, any requirements relating to their entry, ongoing monitoring and the basis for leaving the Fund where the employer.	CDF after taking appropriate advice from the FA.	Ongoing reporting to PC for noting
To review the Pension Fund's policy and strategy documents on a regular cycle and review performance against the Fund's objectives within the business plan	Changes to Administering Authority discretionary policies necessitated by changes to regulations - authority to amend the policies to reflect the requirements of such new regulations, subject to those decisions having no significant financial implications.	CDF and the Head of HR	Copy of policy to be circulated to PC members once approved.

Function delegated to PC	Further Delegation to Officer(s)	Delegated Officer(s)	Communication and Monitoring of Use of Delegation
Agreeing the Administering Authority responses to consultations on LGPS matters and other matters where they may impact on the Fund or its stakeholders.	Agreeing the Administering Authority responses where the consultation timescale does not provide sufficient time for a draft response to be approved by PC.	CDF, subject to agreement with Chairman	PC advised of consultation via e-mail (if not already raised previously at PC) to provide opportunity for other views to be fed in. Copy of consultation response provided at following PC for noting.
Overall responsibility the Fund's Knowledge and Skills Policy for all Pensions Committee members and for all officers of the Fund, including determining the Fund's knowledge and skills framework, identifying training requirements, developing training plans and monitoring compliance with the policy.	Implementation of the requirements of the CIPFA Code of Practice ¹	CDF	Regular reports provided to PC
The Committee may delegate a limited range of its functions to one or more officers of the Authority. The Pensions Committee will be responsible for outlining expectations in relation to reporting progress of delegated functions back to the Pensions Committee.	Other urgent matters as they arise	CDF, subject to agreement with Chairman	PC advised of need for delegation via e-mail as soon as the delegation is necessary. Result of delegation to be reported for noting to following PC.
	Other non-urgent matters as they arise	Decided on a case by case basis	As agreed at PC and subject to monitoring agreed at that time.

¹ CIPFA Code of Practice recommends each administering authority delegates responsibility for implementation to a senior officer.

Stewardship Code

Principle	Response
Principle 1 – Institutional investors should publicly disclose their policy on how they will discharge their stewardship responsibilities.	The London Borough of Hillingdon Pension Fund takes its responsibilities as a shareholder seriously. It seeks to adhere to the Stewardship Code, and expects appointed asset managers to be signatories to code and publicly disclosed their policy via their Statements on how they will discharge their stewardship responsibilities. Stewardship is part of the responsibilities of share ownership, and therefore an integral part of the investment strategy. In practice, the fund's policy is to apply the Code through its arrangements with its asset managers. To this end, a quarterly summary of fund managers' ESG activities detailing the meetings engagement meetings undertaken and issues raised at such meetings, AGM and EGMs attended and their voting statistics are provided to members as part of the Pensions Committee meeting reports. Due to the diversity of investments made on behalf of our fund by the managers engaged. Their role is quite pivotal in ESG issues as they have vast resources at their disposal to raise issues of concern to clients such as us with respective companies and feedback information from such engagements via quarterly performance reports, detailing their activities for the period. Most managers combine these meetings with their investment due diligence as part of a holistic approach to management of funds entrusted into their care. The process described above ensures invested companies are aware of the opinion of shareholders such as our fund regarding their stewardship of the companies and consider such opinion in their decision-making processes. Failure to heed such opinion has often been followed by the fund manager in question raising the issues at company AGMs and subsequently employing their vote at such meetings to reinforce their position or sometimes in extreme cases, divest from such companies.
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 encourages the asset managers it employs to have effective policies addressing potential conflicts of interest. In respect of conflicts of interest within the fund, pension committee members are required to make declarations of interest prior to committee meetings. These declarations are reported in agenda items readily available to the general public in the minutes of the quarterly meetings Further to the declarations of interest at pension committee meetings, members are duty bound to make written related party declarations annually, which form part of the disclosure notes to the fund accounts and notes. These declarations are in addition to member declarations for the main Council's accounts. Subsequently, any perceived conflict of interest is transparent to

	members of the public. Where conflict of interests arises during decision making process, involving member(s) of the Pension Committee or officers of the fund, such individuals may be recused from the particular decision making process to protect the integrity of the outcome.
Principle 3 - Institutional investors should monitor their investee companies	Day-to-day responsibility for managing our investments is delegated to our appointed asset managers, and the fund expects them to monitor companies, intervene where necessary, and report regularly on activities undertaken. Reports from our fund managers on voting are received and engagement activities reported to committee quarterly. Effectiveness of Fund managers' engagement activities is appraised through responses gleamed from their detailed quarterly reports and the engagement volumes monitored with a view to ascertain their commitment to stewardship of investments under their management. Voting patterns and volume of attended meetings are also good indications of their commitment and effectiveness. When contentious issues of national interests relating to any of the fund's investments is prominent in the press or widely debated. The fund will generally contact the relevant manager(s) to ensure they are aware of our interest and opinions on the issue and provide us with their views and steps being taken to ensure the invested company take on board such views.
Principle 4 - Institutional investors should establish clear guidelines on when and how they will escalate their activities as a method of protecting and enhancing shareholder value.	As highlighted above, responsibility for day-to-day interaction with companies is delegated to the fund's asset managers, including the escalation of engagement when necessary. Their guidelines for such activities are expected to be disclosed in their own statement of adherence to the Stewardship Code. On occasions, the fund may participate in escalation of poignant issues, principally through fund managers' engagements with parties of concern. Furthermore, fund managers engaged by the fund as part of their investment process have regular meetings with individual company boards and feedback such engagement results to us through their quarterly ESG reports. Our fund have in the past directed fund managers to divest from companies in a particular sector (Tobacco) based on our concern of the effect of their product on general population's health at a time when the Council was entrusted with Public health responsibilities locally. One of such managers, UBS now hold UK equities on our behalf excluding Tobacco stocks.
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. The fund seeks to achieve this through membership of London CIV, which takes direction from Local Authority Pension Fund Forum (LAPFF) over environmental, social

	and governance issues on behalf of its members, through voting alerts on such issues as recommended by LAPFF. These alerts are then referred to engaged fund managers in pursuance of important ESG engagement issues for implementation or opinion.
Principle 6 - Institutional investors should have a clear policy on voting and disclosure of voting activity.	In respect of shareholder voting, the fund seeks to exercise votes attached to its UK equity holdings, and to vote where practical in overseas markets. Responsibility for the exercise of voting rights is delegated to the fund's appointed asset managers and this includes consideration of company explanations of compliance with the Corporate Governance Code. Regular reports are received from the asset managers on how votes have been cast, and controversial issues can be discussed at panel meetings. The fund does currently publish available summary voting data by manager as part of the quarterly report to Pension Committee. The fund has a stock lending arrangement with Northern Trust as part of its investment strategy. Up to 25% of value of shares/bonds held in segregated portfolios are permitted to be loaned out as part of the arrangement and secured on collateral value of minimum 109% of the assets out on loan. Stock-lending commissions are remitted to the fund via the custodian. During the period, the stock is on loan, the voting rights of the loaned stock pass to the borrower. There are no liabilities associated with the loaned assets. The arrangement also allows the fund to recall any asset out on loan if required for shareholder engagement purposes without any punitive measures.
Principle 7 - Institutional investors should report periodically on their stewardship and voting activities	The fund reports annually on stewardship activity through a specific section on "Responsible Investing" in its annual report. A table detailing the statistical analysis of the fund's managers voting patterns is published as part of the annual report.

All queries and further information on this document may be directed to James Lake – Head of Pensions & Statutory Accounts by email: Jlake@hillingdon.gov.uk