London Borough of Hounslow

London Borough of Hounslow Pension Fund

Annual Report

2022

Contents

1. Introduction

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

On behalf of the Hounslow Pension Fund Panel, I am pleased to introduce the Scheme's annual report and financial statements for the financial year to 31st March 2022.

2022 headlines and highlights

In the introduction last year, our Section 151 officer was able to report on the positive recovery in the fund's value that had been achieved as financial markets recovered strongly from the COVID 19 pandemic. Any potential optimism that recovery might lead to a more stable UK and global environment in 2022 has been mistaken. The continued war in Ukraine, a global surge in inflation and a national focus on the cost-of-living crisis indicate uncertainty will continue for some time.

The Hounslow Pension Fund has been able to bear up against these events reasonably well throughout the year. However, during the year, the value of the Fund increased by a modest 5.43% when the comparison is made between the value on April 1st 2021 and March 31st 2022. The fund has however seen its value fall after this date.

We continue to focus on delivering value for money to our members. An increasing number of members have signed up to use the online 'MyPension' portal. Members are able to update their personal details as well as view and download pension fund documents like the annual benefit statement. In the last year uptake has increased by 127%.

The financial statements show the financial position of the fund on a particular day (31st March 2022) and the money which has gone in and out of the Scheme between the 1st of April 2021 and the 31st of March 2022. The financial accounts can be found in more detail in this report.

Hounslow has a long-standing commitment to being a responsible investor, as such we take a strong interest in how companies are run and exercise our voting rights at the AGMs of the companies we are shareholders of. Further Details of this can be found in our Corporate Governance report.

I would like to thank the officers and all our stakeholders involved in the management of the Pension Fund during the year during 2021/22.

Cllr Jagdish Sharma - Chair of the Pension Fund Panel

2. Management of the scheme

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

3. Pension Fund Panel

Cllr. Puneet Grewal (Lab) - Chair

Cllr. Jagdish Sharma (Lab)

Cllr. John Todd (Con)

Cllr. Sukhbir Dhaliwal (Lab)

Cllr. Shivraj Grewal (Lab)

Cllr. Sohan Sumra (Lab)

Pension Fund Panel (as at 31 March 2022)

Observer members

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

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

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

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

4. The Pension Board

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

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

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

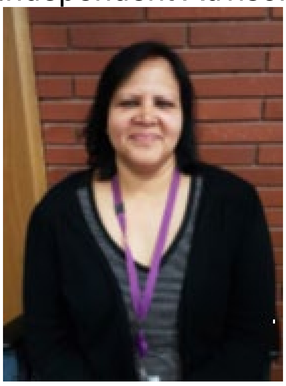
The Pension Board is an oversight body. It does not replace existing governance arrangements or the role of our Pension Fund Panel. The Board produces an annual report which is presented at the Pension Fund Panel and the Borough Cabinet meetings. This year's report of the Pension Board is included at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

Pension Board Members (as at 31 March 2022)

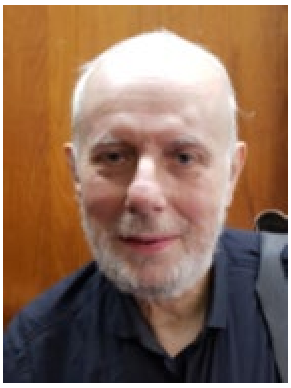
Cllr. Sam Hearn (Con) - Chair & employer representative

Neil Mason - Vice chair & Independent Advisor

Thomas Ribbits, Member representative



Harminder Persad Employer representative



William Cassell Member representative

5. Attendance at Pension Fund Panel Meetings in 2021/22

	Jun-21 *	Sept-21 **	Jan-22	Mar-22	Total	%
Councillor Puneet Grewal (Chair)					0	0
Councillor Sukhbir Singh Dhaliwal			x	x	2	100
Councillor Shivraj Grewal			x	x	2	100
Councillor Jagdish Sharma			x	x	2	100
Councillor Sohan Sumra			x	x	2	100
Councillor John Todd			x	x	2	100
Riaz Haq					0	0
Mohomed Ladha			x		1	50
John Wiffen					0	0

*** The June meeting of the Panel was cancelled.**

**** The September meeting was not quorate and classified as an informal meeting**

Attendance at Pension Board Meetings in 2021/22

	Sep-21	Feb-22	Apr-22	Total	%
Councillor Sam Hearn (Chair)		x		1	100
Neil Mason		x		1	100
William Cassell		x		1	100
Harminder Persad				0	0
Thomas Ribbits		x		1	100

*** The September 2021 and April 2022 meetings were not held**

6. Actuary’s Statement as at 31 March 2022

Barnett Waddingham LLP

Introduction

The last full triennial valuation of the London Borough of Hounslow Pension Fund was carried out as at 31 March 2019 as required under Regulation 62 of the Local Government Pension Scheme Regulations 2013 (the Regulations) and in accordance with the Funding Strategy Statement of the Fund. The results were published in the triennial valuation report dated 31 March 2020. We are currently carrying out the 2022 triennial valuation, which will be incorporated in next year’s actuary’s statement.

2019 valuation results

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

Contribution rates

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

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

Asset value and funding level

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

Assumptions

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

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

Updated position since the 2019 valuation

Assets

Returns over the period to 31 March 2022 have been strong. As at 31 March 2022, in market value terms, the Fund assets are higher than they were projected to be based on the previous valuation.

Liabilities

The key assumption which has the greatest impact on the valuation of liabilities is the real discount rate (the discount rate relative to CPI inflation) – the higher the real discount rate the lower the value of liabilities. As at 31 March 2022, the real discount rate is estimated to be lower than at the 2019 valuation due to a higher CPI inflation assumption and lower discount rate.

Please note that we have updated the derivation of the CPI inflation assumption to be 0.8% p.a. below the 20-year point on the Bank of England (BoE) implied inflation curve. The assumption adopted at the 2019 valuation was that CPI would be 1.0% p.a. below the 20-year point on the BoE implied inflation curve. This update was made following the Government's response (on 25 November 2020) to the consultation on the reform of RPI, and the expectation that the UK Statistics Authority will implement the proposed changes to bring RPI in line with CPIH from 2030. This updated approach leads to a small increase in the value of liabilities. This assumption will be reviewed as part of the 2022 valuation.

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

Overall position

On balance, we estimate that the funding position has improved when on a consistent basis to 31 March 2019 (but allowing for the update to the CPI assumption).

The change in the real discount rate since 31 March 2019 is likely to place a higher value of the cost of future accrual, which results in a higher primary contribution rate. However, assets are expected to have increased more than expected due to favourable investment returns. Therefore, deficit contributions are likely to have decreased.

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

Barry McKay

Barry McKay FFA
Partner, Barnett Waddingham LLP

7. Investment Strategy and Performance

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

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

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

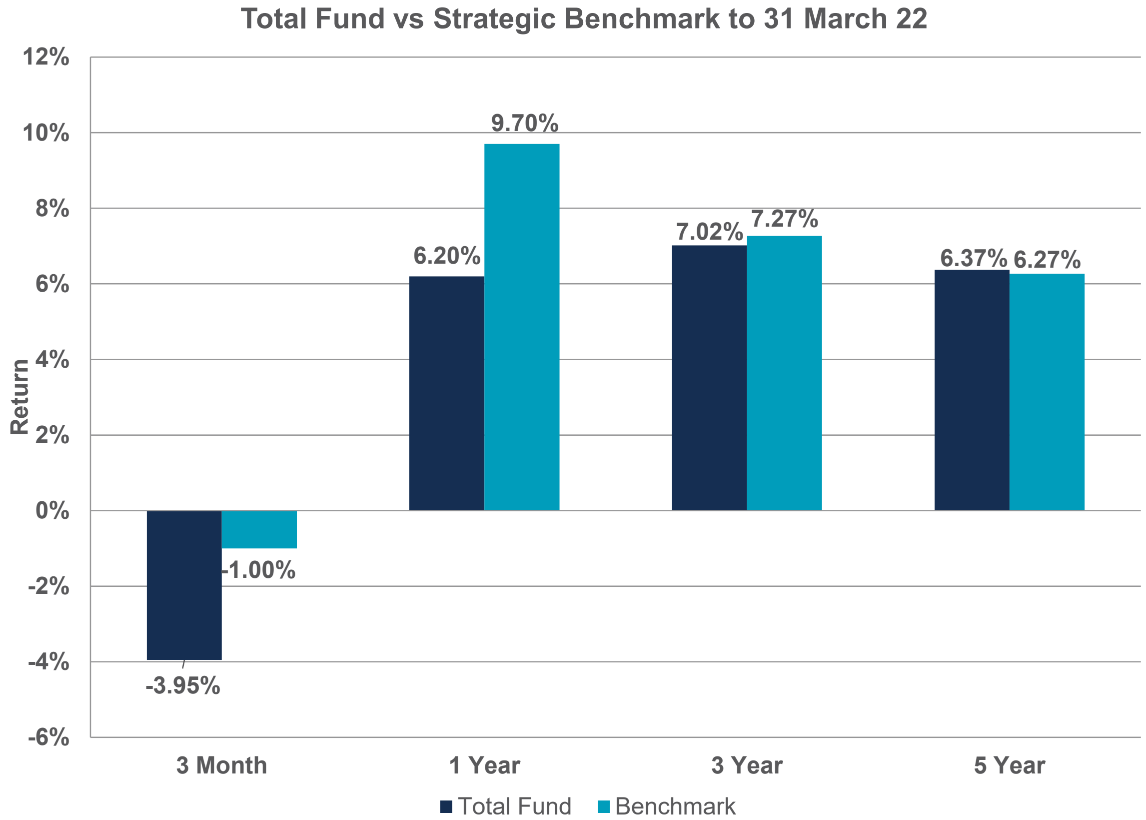
Asset Allocation of the Fund

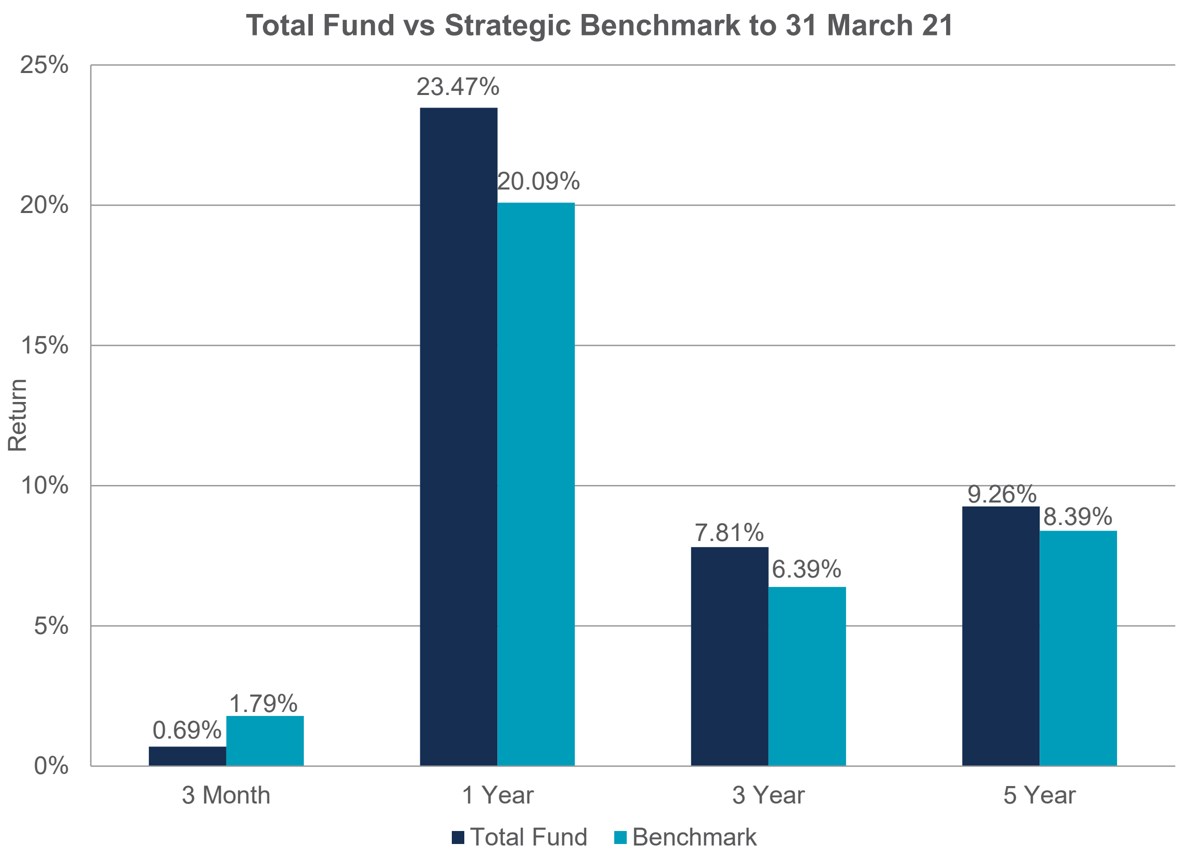
The asset allocation of the Fund, compared to the strategic benchmark, as at end March 2022 is shown in the table below. The Fund was slightly overweight in overseas equities and UK equities. Meanwhile, it was underweight in conventional bonds, index-linked bonds, property, income assets (Fidelity) and diversifying assets. The Fund has a tolerance of +/- 5% so this is within our tolerance limits.

Asset Class	Fund	Strategic Benchmark	Difference	Benchmark
UK equities	31.6%	31.0%	0.6%	FTSE All-Share
Overseas equities	33.1%	28.0%	5.1%	MSCI AC WI ex-UK
Conventional bonds	9.9%	10.0%	-0.1%	iBoxx Non-Gilt
Index-linked bonds	4.7%	5.0%	-0.3%	FTSE Index-Linked Gilts >5 Year
Property	4.9%	5.0%	-0.1%	IPD UK All Property
Income assets (Fidelity)	11.7%	15.0%	-3.3%	4% Absolute Return
Diversifying assets and cash	4.0%	6.0%	-2.0%	LIBOR

Performance of the Fund

The overall performance of the fund over the last 1, 3 and 5 years is in the charts below. Two charts are shown, performance as at March 2022 and performance as at March 2021. At March 2021, the Fund was ahead of the benchmark over the long run but lagged over the last quarter. However, as at March 2022 the Fund was ahead of the benchmark over the long run (5years) but behind the benchmark in short-run (3 months and 1 year) and medium term (3 years). During Q1 2022, funds delivered negative absolute return reflecting challenging markets triggered by the Russia/Ukraine crisis. Over the year, the funds had positive absolute returns but still behind the benchmark by -3.5% per annum.




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

Performance by Fund Manager, and Asset Class

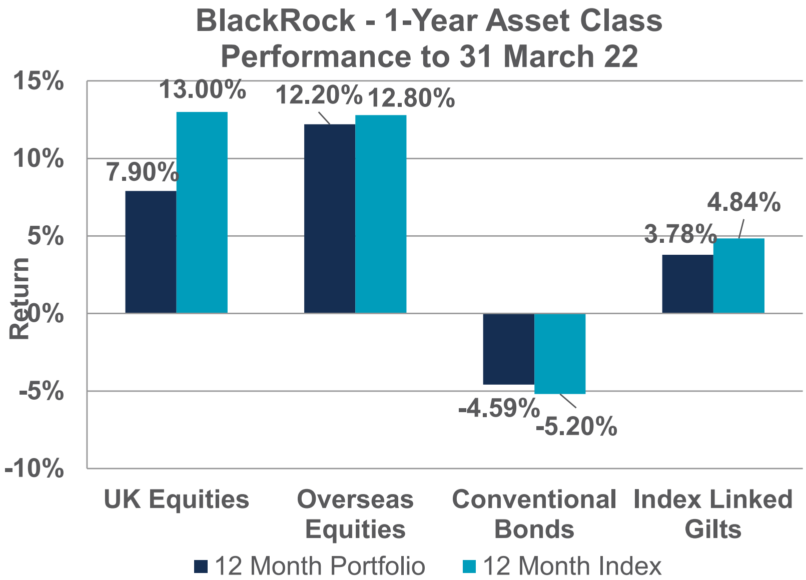
The breakdown of performance, by fund manager as at 31st March 2022 is shown below. During Q1 2022, six of the funds in the portfolio delivered negative absolute returns reflecting challenging markets triggered by the Russia/Ukraine crisis. The property funds have had a particularly good three and twelve months, whereas Fidelity Multi Asset Income has struggled on a relative basis.

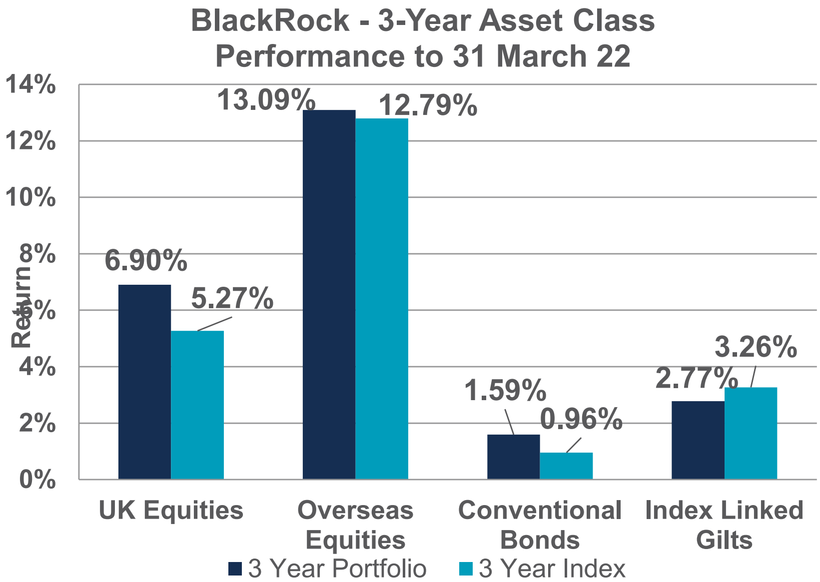
Manager	3-month return (%)	1-year return (%)	3-year return (% p.a.)	5-year return (% p.a.)
Total Fund	**-3.95%**	**6.20%**	**7.02%**	**6.37%**
Benchmark	-1.00%	9.70%	7.27%	6.27%
Difference	*-2.95%*	*-3.50%*	*-0.25%*	*0.10%*
BlackRock Multi-Asset	**-3.40%**	**7.03%**	**8.06%**	**7.02%**
Benchmark	-2.02%	9.53%	7.12%	6.07%
Difference	*-1.38%*	*-2.50%*	*0.94%*	*0.95%*
Aberdeen Multi-Asset	**-7.09%**	**1.04%**	**5.89%**	**5.59%**
Benchmark	-1.92%	8.00%	5.90%	5.24%
Difference	*-5.17%*	*-6.96%*	*-0.01%*	*0.35%*
RBC Sustainable Equity	**-8.48%**	**8.96%**	**N/a**	**N/a**
Benchmark	-2.43%	15.40%	N/a	N/a
Difference	*-6.05%*	*-6.44%*	*N/a*	*N/a*
Longview Global Equities	**0.66%**	**14.83%**	**10.88%**	**N/a**
Benchmark	-2.43%	15.39%	14.58%	N/a
Difference	*3.09%*	*-0.56%*	*-3.70%*	*N/a*
Fidelity Multi Asset Income	**-4.40%**	**-1.21%**	**2.60%**	**2.56%**
Benchmark	0.99%	4.02%	4.02%	4.00%
Difference	*-5.39%*	*-5.23%*	*-1.42%*	*-1.44%*
BlackRock ALMA	**-2.70%**	**2.36%**	**2.78%**	**3.40%**
Benchmark	1.03%	3.74%	3.89%	3.97%
Difference	*-3.73%*	*-1.38%*	*-1.11%*	*-0.57%*
Aberdeen DGF	**-2.60%**	**0.36%**	**5.28%**	**4.00%**
Benchmark	1.22%	2.36%	4.85%	4.92%
Difference	*-3.82%*	*-2.00%*	0.43%	*-0.92%*
Columbia Threadneedle	**4.10%**	**23.77%**	**7.82%**	**7.51%**
Benchmark	5.60%	23.10%	8.10%	7.80%
Difference	*-1.50%*	*0.67%*	*-0.28%*	*-0.29%*
CBRE UK Property Fund	**5.50%**	**25.10%**	**8.30%**	**7.90%**
Benchmark	5.60%	23.10%	8.10%	7.80%
Difference	*-0.10%*	*2.00%*	*0.20%*	*0.10%*

Performance by Asset Class of the Multi Asset Mandates

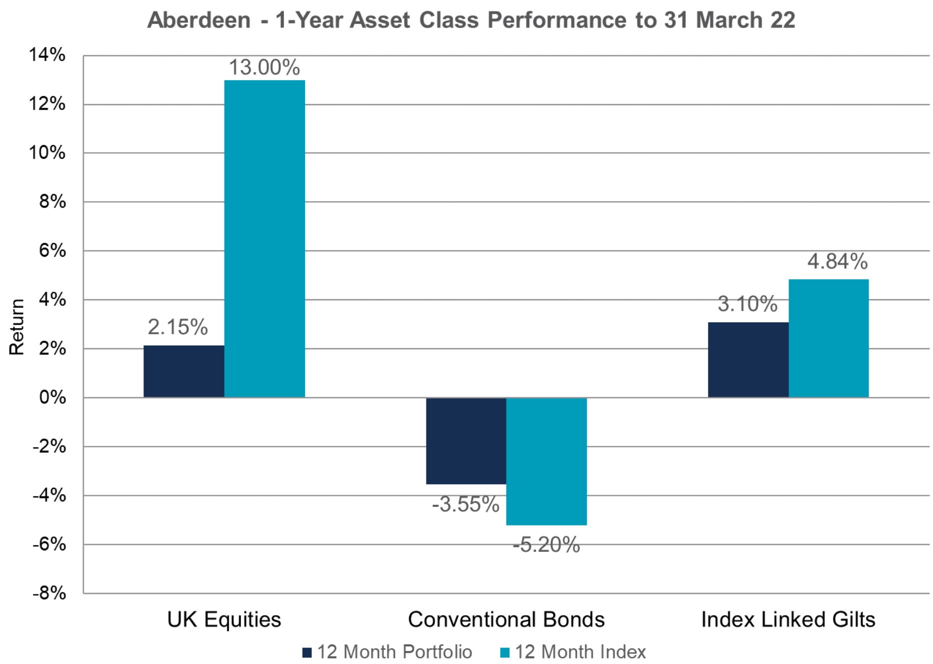
The performance of the individual asset classes of the BlackRock and Aberdeen multi-asset mandates, not referred to above, for 1-year and 3-year periods are shown in the tables below.

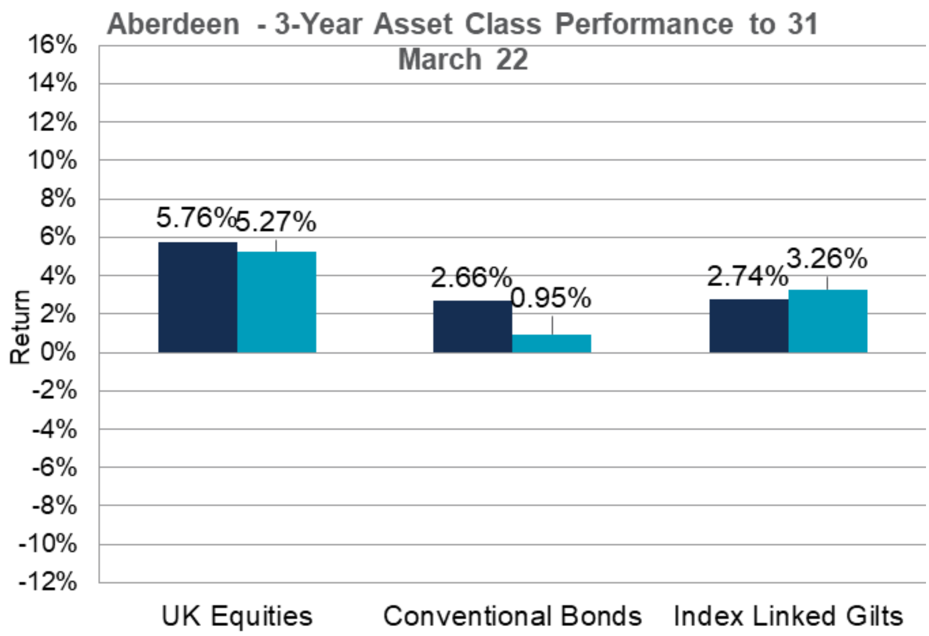
BlackRock Multi-Asset Mandate





Aberdeen Multi-Asset Mandate





Three-year returns are annualised.

8. Risk Management

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

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

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

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

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

As of 31 March 2022 there is one red rated risks, in respect of funding.

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

[1] The approach to risk has changed slightly in 2223 but was accurate for 2122

9. Pension Fund Accounts

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

Responsibility for the overall direction of the Fund's investment policy rests with the Authority's Pension Fund Panel and these accounts were approved at the Panel's meeting on 5 September 2022. The accounts summarise the transactions and net assets of the scheme. In implementing the Fund's investment policy, the Authority has appointed eight investment managers; Aberdeen Standard Investments, BlackRock Investment Management Ltd, CBRE Global Investments Ltd, CCLA Investment Management Ltd, Columbia Threadneedle Investments Ltd, Fidelity International Ltd, Longview Partners (held within London LGPS CIV) and RBC Investor & Treasury Services Ltd (held within London LGPS CIV) to deal at discretion within investment objectives laid down by the Authority.

FUND ACCOUNT FOR THE YEAR ENDED 31 MARCH 2022

2020/21 £m		2021/22 £m	Notes
	Dealings with members, employers and others directly involved in the Fund		
	Contributions		
33.5	From employers	33.2	6
9.6	From employees	10.0	6
6.2	Individual transfers in from other pension funds	6.0	
49.3		**49.2**	
	Benefits		
(34.7)	Pensions	(37.2)	7
(9.9)	Commutation, lump sum retirement and death benefits	(9.4)	7
	Payments to and on account of leavers		
(4.1)	Individual transfers out to other pension funds	(3.9)	
(0.2)	Refunds to members leaving service	(0.1)	
(48.9)		**(50.6)**	
0.4	**Net (withdrawals)/additions from dealings with members**	**(1.4)**	
(6.1)	Management expenses	(6.6)	8
(5.7)	**Net (withdrawals)/additions including fund management expenses**	**(8.0)**	
	Returns on investments		
24.3	Investment income	25.5	9
-	Taxes on income (irrecoverable withholding tax)	-	
24.3		**25.5**	
210.1	**Profit and loss on disposal of investments and change in the market value of investments**	**47.0**	14
234.4	**Net returns on investments**	**72.5**	
228.7	**Net increase/(decrease) in the net assets available for benefits during the year**	**64.5**	
958.1	Opening net assets of the Fund	1,186.8	
1,186.8	Closing net assets of the Fund	**1,251.3**	

NET ASSETS STATEMENT AS AT 31 MARCH 2022

2020/21 £m		2021/22 £m	Notes
	Investment assets		
378.5	Equities	392.8	11
790.4	Pooled investment vehicles	838.1	12
1.4	Private equity	0.8	13
0.2	Long term investment	0.2	
7.1	Cash (money market fund)	4.5	
	Other investment balances:		
2.8	Investment income due	3.2	
4.1	Amounts receivable for sale of Investments	0.4	14
2.5	Cash deposits	3.4	
1,187.0		**1,243.4**	

	Investment liabilities		
(8.2)	Amounts payable for purchase of investments	(3.0)	14
1,178.8	**Net value of investments assets**	**1,240.4**	
-	Long term debtors	0.1	20
10.2	Current assets	12.8	21
(2.2)	Current liabilities	(2.0)	22
1,186.8	**Net assets of the Fund available to fund benefits at the period end**	**1,251.3**	

NOTES TO THE FUND ACCOUNTS 2021/22

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

a) General

The Fund is part of the Local Government Pension Scheme (LGPS) and is administered by the London Borough of Hounslow. The Fund is a contributory defined benefit scheme established in accordance with statute, which provides for the payment of benefits to employees and former employees of the London Borough of Hounslow and the admitted and scheduled bodies in the Fund. The Fund is overseen by the Pension Fund Panel which also has responsibility for deciding on the most appropriate investment policy for the Fund. For more detail, reference should be made to the London Borough of Hounslow Pension Fund Annual Report 2021/22 and the underlying statutory powers underpinning the Scheme, namely, the Public Service Pensions Act 2013 and The Local Government Pensions Scheme (LGPS) Regulations 2013 (as amended), LGPS (Transitional Provisions, Savings and Amendment) Regulations 2014 (as amended), the LGPS (Management and Investment of Funds) Regulations 2016 (as amended) and the LGPS (Amendment) Regulations 2018.

b) Membership

Membership of the LGPS is voluntary and employees are free to choose whether to join the scheme, remain in the scheme or make their own personal arrangements outside the scheme. There are 66 employers within the Fund. Organisations participating in the Fund include:

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

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

The following table summarises the membership of the Fund as at 31 March 2022:

31 March 2021 No.		**31 March 2022 No.**
60	Number of employers	66
	Number of employees in scheme	
4,552	Council	4,688
1,998	Other employers	2,092
6,550	**Total**	**6,780**
	Pensioners	
6,222	Council	6,421
1,389	Other employers	1,459
7,611	**Total**	**7,880**
	Deferred pensioners	
6,296	Council	6,221
1,432	Other employers	1,523
7,728	**Total**	**7,744**
21,889	**Total number of members in scheme**	**22,404**

c) Benefits

Prior to 1 April 2014, pension benefits under the LGPS were based on final pensions pay and length of pensionable service. From 1 April 2014, benefits payable in respect of service are now based on career average revalued earnings and the number of years of eligible service. Pensions are increased annually in line with the Consumer Price Index.

d) Funding

Benefits are funded by contributions from employees, the Council, the admitted and scheduled bodies and the Fund's investment income. Contributions are made by active members of the Fund in accordance with the LGPS Regulations 2013 and range from 5.5% to 12.5% of pensionable pay for the financial year ending 31 March 2022. Employee contributions are matched by employer contributions which are set based on triennial actuarial funding valuations. Employer contributions paid in 2021-22 were based on the 2019 triennial actuarial valuation.

e) Investment Principles

The LGPS (Management and Investment of Funds) Regulations 2016 requires administering authorities to prepare and review from time to time, a written statement recording the investment policy of the Fund. The Pension Fund Panel approved an Investment Strategy Statement in September 2020 and this is available at the link below. The Statement shows the Fund's compliance with the Myners principles of investment management. https://www.wypf.org.uk/publications/policy-home/hpf-index/

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

NOTE 2 – BASIS OF PREPARATION OF FINANCIAL STATEMENTS

The Statement of Accounts summarise the Fund's transactions for the financial year 2021/22 and its position as at 31 March 2022. The accounts have been prepared in accordance with the Code of Practice on Local Authority Accounting in the United Kingdom 2021/22 (the Code) issued by the Chartered Institute of Public Finance and Accountancy (CIPFA) which is based upon International Financial Reporting Standards (IFRS) as amended for the UK public sector. The accounts have been prepared on a going concern basis and an accruals basis apart from individual transfer values which have been accounted for on a cash basis.

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

NOTE 3 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Fund Account – Revenue Recognition

a) Contribution Income

Normal contributions, both from the members and from the employer, are accounted for on an accruals basis for the period for which they are due.

Employer deficit funding contributions are accounted for on the due dates on which they are due under the schedule of contributions set by the actuary or on receipt if earlier than the due date.

Employer's augmentation and pension strain contributions are accounted for in the period in which the liability arises. Any amount due in year but unpaid is classed as a current financial asset.

b) Transfers to and from other schemes

Transfer values represent the amounts received and paid during the year for members who have either joined or left the Fund during the financial year and are calculated in accordance with the LGPS Regulations. Individual transfers in/out are accounted for when received/paid, which is normally when the member liability is accepted or discharged. Bulk transfers are accounted for on an accruals basis in accordance with the terms of the transfer agreement.

c) Investment Income

Interest income is recognised in the fund account as it accrues using the effective interest rate of the financial instrument as at the date of acquisition or origination.

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

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

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

Fund Account – Expense Items

d) Benefits Payable

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

e) Taxation

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

f) Management Expenses

In the interest of greater transparency, the Council discloses its Fund management expenses in accordance with the CIPFA guidance *Accounting for Local Government Pension Scheme Management Expenses (2016)*. The profit and loss on disposal of investments and changes in the market value of investments also takes account of the fees which have been deducted at source.

Administrative Expenses

All administrative expenses are accounted for on an accruals basis.

Oversight and Governance Costs

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

Investment Management Expenses

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

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

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

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

Net Assets Statement

g) Financial Assets

Financial assets are included in the net assets statement either on a fair value or amortised cost basis as at the reporting date. A financial asset is recognised in the net assets statement on the date the Fund becomes party to the contractual acquisition of the asset. From this date, any gains or losses arising from changes in the fair value of the asset are recognised in the fund account. The values of investments as shown in the net assets statement have been determined at fair value in accordance with the requirements of the Code and IFRS 13 (see Note 16). For the purposes of disclosing levels of fair value hierarchy, the Fund has adopted the classification guidelines recommended in Practical Guidance on Investment Disclosures (PRAG/Investment Association, 2016). Quoted securities and pooled investment vehicles have been valued at the bid price and fixed interest securities are recorded at net market value based on their current yields at the balance sheet date. Quoted securities are valued by the Fund's custodian and pooled investment vehicles at the published bid prices or those quoted by their managers. Investments in private equity funds are valued based on the Fund's share of the net assets in the private equity fund using the latest financial statements published by the respective fund managers in accordance with the International Private Equity and Venture Capital Valuation Guidelines (December 2018). All other assets are valued at amortised cost.

h) Foreign Currency Transactions

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

i) Derivatives

The Fund may use derivative financial instruments to manage its exposure to specific risks arising from its investment activities. The Fund does not hold derivatives for speculative purposes.

j) Cash and Cash Equivalents

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

k) Financial Liabilities

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

l) Actuarial Present Value of Promised Retirement Benefits

The actuarial present value of promised retirement benefits is assessed on a triennial basis by the scheme actuary in accordance with the requirements of IAS 19 (post-retirement benefits) and relevant actuarial standards. As permitted under the Code, the Fund has opted to disclose the actuarial present value of promised retirement benefits by way of a note to the net assets statement (note 19).

m) Additional Voluntary Contributions

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

AVCs are not included in the accounts in accordance with Regulation 4(1)(b) of the Local Government Pension Scheme (Management and Investment of Funds) Regulations 2016 but are disclosed as a note only (Note 23).

NOTE 4 – CRITICAL JUDGEMENTS IN APPLYING ACCOUNTING POLICIES

It has not been necessary to make any critical judgements in applying the accounting policies in 2021/22.

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

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

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

Item	Uncertainties	Effect if actual results differ from assumptions
Actuarial present value of promised retirement benefits (note 19)	Estimation of the net liability to pay pensions depends on a number of complex judgements relating to the discount rate used, the rate at which salaries are projected to increase, changes in retirement ages, mortality rates and expected returns on Fund assets. A firm of consulting actuaries is engaged to provide the Fund with expert advice about the assumptions to be applied.	The effects on the net pension liability of changes in individual assumptions can be measured. For instance, a 0.1% increase in the discount rate assumption would result in a decrease in the pension liability of £38.9m. An 0.1% increase in assumed earnings would increase the value of liabilities by £2.4m and an increase of one year in assumed life expectancy would increase the liability by £92.9m.

Pension Fund Liability

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

NOTE 6 – CONTRIBUTIONS

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

By type of employer

2020/21 £m		2021/22 £m
32.4	Administering Authority	31.1
7.0	Scheduled Bodies	8.4
3.7	Admitted Bodies	3.7
43.1	**Total**	**43.2**

By category

2020/21 £m		2021/22 £m
9.6	Employee Normal Contributions	10.0
	Employer Contributions:	
27.1	Normal	28.4
4.0	Deficit funding	4.4
2.4	Augmentation	0.4
43.1	**Total**	**43.2**

NOTE 7 – BENEFITS PAID OR PAYABLE

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

By type of employer

2020/21 £m		2021/22 £m
40.5	Administering Authority	42.3
2.4	Scheduled Bodies	2.7
1.7	Admitted Bodies	1.6
44.6	**Total**	**46.6**

By category

2020/21 £m		2021/22 £m
34.7	Pensions	37.2
8.9	Commutation of pensions and lump sum retirement benefits	8.3
1.0	Lump sum death benefits	1.1
44.6	**Total**	**46.6**

NOTE 8 – MANAGEMENT EXPENSES

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

2020/21 £m		2021/22 £m
0.9	Administration	1.1
0.1	Oversight and governance	0.1
5.1	Investment management	5.4
6.1	**Total**	**6.6**

The investment management expenses are grossed up to include fees netted against the investment value in line with CIPFA's Accounting for LGPS Management Expenses (2016). This adjustment has an equal impact on investment management expenses and the change in the market value of investments. There is no impact on the overall net assets of the Fund.

Included in the oversight and governance costs above are external audit fees for the Fund of £16k (£16k for 2020/21).

NOTE 8a – INVESTMENT MANAGEMENT EXPENSES

2020/21 £'000		2021/22 £'000
3,188	Management fees	3,441
1,316	Performance fees	961
539	Transaction costs	956
92	Custody fees	54
5,135	**Total**	**5,412**

Transaction costs are incremental costs that are directly attributable to the acquisition or disposal of an investment financial asset or liability. An incremental cost is one that would not have been incurred if the Fund had not acquired or disposed of the financial instrument. Transaction costs include fees and commissions paid to agents, advisers, brokers and dealers, anti-dilution levies, levies by regulatory agencies and securities exchanges and transfer taxes and duties

NOTE 9 – INVESTMENT INCOME

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

2020/21 £m		2021/22 £m
9.0	Dividends from equities	11.1
15.3	Pooled investments – unit trusts and other managed funds	14.4
24.3		**25.5**

NOTE 10 – INVESTMENT MANAGEMENT ARRANGEMENTS

As at 31 March 2022, the investment portfolio was mainly managed by eight external managers:

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

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

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

The market value and proportion of investments managed by each fund manager as at 31 March 2022 was as follows:

31 March 2021 Market Value		Fund Manager	Mandate	31 March 2022 Market Value	
£m	%			£m	%
		Managed by LCIV regional asset pool:			
138.6	11.8	Longview	Global Equities	123.9	10.0
66.3	5.6	RBC	Sustainable Equity Fund	105.2	8.5
204.9	17.4			229.1	18.5
		Managed outside LCIV regional asset pool:			
511.7	43.4	BlackRock	Global Balanced	546.5	44.1
252.9	21.5	Aberdeen	Global Balanced	256.4	20.7
152.9	13.0	Fidelity	Income Fund	145.3	11.7
31.0	2.6	Threadneedle	Property	38.5	3.1
17.6	1.5	CBRE	Property	21.4	1.7
0.5	0.0	LAMIT	Property	0.5	0.0
1.4	0.1	Various	Private Equity	0.8	0.1
5.9	0.5	Internal	Other	1.9	0.1
973.9	82.6			1,011.3	81.5
1,178.8	**100.0**			**1,240.4**	**100.0**

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

31 March 2021 Market Value		Asset Name	31 March 2022 Market Value	
£m	**%**		**£m**	**%**
142.6	12.1	Blackrock ACS World ex UK Equity Tracker	149.8	12.0
152.9	13.0	Fidelity Multi Asset Income Fund	145.3	11.6
138.6	11.8	Longview Partners (LCIV) Global Equity Fund	123.9	9.9
66.3	5.6	RBC (LCIV) Sustainable Equity Fund	105.2	8.4
77.0	6.5	Blackrock All Stocks Corporate Bond Fund	75.6	6.0
577.4	**49.0**		**599.8**	**47.9**

NOTE 11 – EQUITIES

31 March 2021 £m		31 March 2022 £m
370.5	**UK Investments (listed)**	391.1
	Overseas Investments (listed):	
5.8	North America	1.7
2.2	Europe	-
378.5		**392.8**

The top 10 equity holdings of the London Borough of Hounslow Pension Fund worldwide as at 31 March 2022 were:

	Bid value	% of Total Fund	% of Equities
	£m	%	%
Astra Zeneca Plc	37.9	3.0	9.6
Relx Plc	30.1	2.4	7.7
Rio Tinto Ltd	21.7	1.7	5.5
Compass Group Plc	19.4	1.5	4.9
Ferguson Plc	18.8	1.5	4.8
Next Plc	17.9	1.4	4.6
Reckitt Benckiser Group	14.8	1.2	3.8
Standard Chartered Plc	14.8	1.2	3.8
London Stock Exchange Group Plc	14.5	1.2	3.7
3i Group Plc	12.3	1.0	3.1
	202.2	**16.1**	**51.5**

NOTE 12 – POOLED INVESTMENTS

31 March 2021 £m		31 March 2022 £m
	Pooled Investments	
114.1	UK bond funds	111.4
11.1	Overseas bond funds	11.8
371.7	Overseas equity funds	409.7
152.9	Overseas income fund	145.3
51.1	UK index linked	58.4
1.0	UK mid cap & smaller companies	-
49.1	UK property	60.4
39.4	UK absolute return	41.1
790.4		**838.1**

The top 10 pooled investment holdings of the London Borough of Hounslow Pension Fund worldwide as at 31 March 2022 were:

	Market value £m	% of Total Fund %	% of Pooled Investments %
Blackrock ACS World Low Carbon Equity Tracker Fund	149.8	12.0	17.9
Fidelity Investments Multi Asset Income Fund	145.3	11.6	17.3
Longview Partners (LCIV) Global Equity Fund	123.9	9.9	14.8
RBC (LCIV) Global Sustainable Equities	105.2	8.4	12.5
Blackrock All Stocks Corporate Bond	75.6	6.0	9.0
Columbia Threadneedle Property Fund	38.5	3.1	4.6
Aberdeen Fund Managers Corporate Bond	35.8	2.9	4.3
Aberdeen Fund Managers Sterling Index Linked Bond	31.2	2.5	3.7
Blackrock iShares Emerging Markets Index Fund	30.8	2.5	3.7
BlackRock Aquila Life Market Advantage Fund	28.4	2.3	3.4
	764.5	**61.2**	**91.2**

NOTE 13 – PRIVATE EQUITY

31 March 2021 £m		31 March 2022 £m
1.4	Private equity (unlisted)	0.8
1.4		**0.8**

Private equity holdings of the Fund as at 31 March 2022 were:

	Valuation £m	% of Total Fund %	% of Private Equity %
Schroder Private Equity Fund of Funds IV	0.4	0.0	52.1
Schroder Private Equity Fund of Funds III	0.2	0.0	24.2
Environmental Technologies Fund	0.1	0.0	8.6

Schroder Private Equity Fund of Funds II	0.1	0.0	6.1
Barings English Growth Fund	0.0	0.0	4.9
Schroder Private Equity Fund of Funds	0.0	0.0	3.5
The Chandos Fund (YFM)	0.0	0.0	0.5
Hg Capital Fund	0.0	0.0	0.1
	0.8	**0.1**	**100.0**

All private equity holdings are held within the UK.

NOTE 14 – RECONCILIATION OF MOVEMENT IN INVESTMENTS

Market Value as at 31 March 2021 £m		Purchases during the year £m	Sales during the year £m	Change in Market Value during the year £m	Market Value as at 31 March 2022 £m
378.5	Equities	94.7	(85.8)	5.4	392.8
741.3	Pooled investment vehicles	88.7	(82.2)	29.9	777.7
0.2	Long term investment	-	-	-	0.2
49.1	Pooled property investments	-	-	11.3	60.4
1.4	Private equity	-	(1.0)	0.4	0.8
7.1	Cash funds	28.2	(30.8)	-	4.5
1,177.6		**211.6**	**(199.8)**	**47.0**	**1,236.4**

	Other investment balances:				
2.5	Cash deposits				3.4
4.1	Amounts receivable for sales of investments				0.4
2.8	Investment income due				3.2
(8.2)	Amounts payable for purchases				(3.0)
1,178.8	**Net investment assets**			**47.0**	**1,240.4**

Market Value as at 31 March 2020 £m		Purchases during the year £m	Sales during the year £m	Change in Market Value during the year £m	Market Value as at 31 March 2021 £m
327.7	Equities	143.4	(125.0)	32.4	378.5
564.0	Pooled investment vehicles	64.3	(63.9)	176.9	741.3
0.2	Long term investment	-	-	-	0.2
48.8	Pooled property investments	-	(0.8)	1.1	49.1
1.7	Private equity	-	(0.2)	(0.1)	1.4
2.1	Cash funds	24.8	(19.9)	0.1	7.1
944.5		**232.5**	**(209.8)**	**210.4**	**1,177.6**

	Other investment balances:		
3.2	Cash deposits	(0.3)	2.5
19.0	Amounts receivable for sales of investments		4.1
2.2	Investment income due		2.8
(15.1)	Amounts payable for purchases		(8.2)
953.8	**Net investment assets**	**210.1**	**1,178.8**

NOTE 15 – ANALYSIS OF DERIVATIVES

Objectives and policies for holding derivatives

There were no derivatives held at 31 March 2022 or 31 March 2021.

NOTE 16a – CLASSIFICATION OF FINANCIAL INSTRUMENTS

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

31 March 2021 Fair value through profit and loss	31 March 2021 Assets at amortised cost	31 March 2021 Financial liabilities at amortised cost		31 March 2022 Fair value through profit and loss	31 March 2022 Assets at amortised cost	31 March 2022 Financial liabilities at amortised cost
£m	£m	£m		£m	£m	£m
			Financial assets			
378.5			Equities	392.8		
790.4			Pooled investments	838.1		
1.4			Private equity	0.8		
0.2			Long term investment	0.2		
	7.1		Cash (money market fund)		4.5	
	2.5		Short term deposits		3.4	
	2.8		Investment income due		3.2	
	4.1		Outstanding settlements		0.4	
	0.8		Debtors		4.4	
	9.4		Cash at bank		8.5	
1,170.5	**26.7**	**-**	**Total Financial assets**	**1,231.9**	**24.4**	**-**
			Financial liabilities			
		(8.2)	Outstanding settlements			(3.0)
		(2.2)	Creditors			(2.0)
-	**-**	**(10.4)**	**Total Financial liabilities**	**-**	**-**	**(5.0)**
1,170.5	**26.7**	**(10.4)**	**Net Assets**	**1,231.9**	**24.4**	**(5.0)**

NOTE 16b – NET GAINS AND LOSSES ON FINANCIAL INSTRUMENTS

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

2020/21		2021/22
£m		£m
	Financial assets	
210.3	Fair value through profit and loss	47.0
(0.2)	Assets at amortised cost	-
210.1	**Total Financial assets**	**47.0**

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

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

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

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

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

The valuation basis for each category of investment is set out below:

Description of asset	Valuation hierarchy	Basis of valuation	Observable and unobservable inputs	Key sensitivities affecting the valuations provided
Market quoted investments - equities	Level 1	The published bid market price on the final day of the accounting period	Not required	Not required
Cash and cash equivalents	Level 1	Carrying value is deemed to be fair value because of the short term nature of these financial instruments	Not required	Not required
Investment debtors and creditors	Level 1	Carrying value is deemed to be fair value because of the short term nature of these financial instruments	Not required	Not required

Pooled investments – equities and bonds	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. Evaluated price feeds	Not required
Pooled investments – property	Level 3	Closing bid price where bid and offer prices are published. Closing single price where single price is published	NAV based pricing. Net assets are based on the fair value of underlying investment properties valued in accordance with Royal Institute of Chartered Surveyors valuation standards	Significant changes in rental growth, vacancy levels or the discount rate could affect valuations as could more general changes to market prices
Private equity funds	Level 3	The Fund's ownership share in private equity funds is applied to the partnership net assets.	The fair value of the partnership net assets is calculated in accordance with International Private Equity and Venture Capital Valuation Guidelines 2018	Valuations of underlying assets could be affected by changes to expected cashflows or by differences between audited and unaudited accounts

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

31 March 2021					31 March 2022			
Quoted Market Price	Using observable inputs	With significant unobservable inputs	Total		Quoted Market price	Using observable inputs	With significant unobservable inputs	Total
Level 1	Level 2	Level 3			Level 1	Level 2	Level 3	
£m	£m	£m	£m		£m	£m	£m	£m
				Financial assets at fair value through profit and loss				
378.5	-	-	378.5	Equities	392.8	-	-	392.8
-	741.3	-	741.3	Pooled investment vehicles	-	777.7	-	777.7
-	-	49.1	49.1	Pooled property investments	-	-	60.4	60.4
-	-	1.4	1.4	Private equity	-	-	0.8	0.8
-	-	0.2	0.2	Long term investment	-	-	0.2	0.2
				Financial sssets at amortised cost				
7.1	-	-	7.1	Cash funds	4.5	-	-	4.5
9.4	-	-	9.4	Other investment balances	7.0	-	-	7.0
395.0	**741.3**	**50.7**	**1,187.0**	**Total Financial assets**	**404.3**	**777.7**	**61.4**	**1,243.4**
				Financial liabilities at amortised cost				
(8.2)	-	-	(8.2)	Outstanding settlements	(3.0)	-	-	(3.0)
(8.2)	**-**	**-**	**(8.2)**	**Total Financial liabilities**	**(3.0)**	**-**	**-**	**(3.0)**
386.8	**741.3**	**50.7**	**1,178.8**	**Net investment assets**	**401.3**	**777.7**	**61.4**	**1,240.4**

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

Risk and Risk Management

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

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

Market Risk

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

Price Risk

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

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

Following analysis of historical data and expected movement of return on investment during the financial year, the Fund, in consultation with the Fund's performance measurement provider, the PIRC Limited, has determined that the following movements in market price risk are reasonably possible for the 2021/22 reporting period:

Asset type	Value as at 31 March 2022 £m	Percentage Change %	Value on increase £m	Value on decrease £m
UK equities	391.1	14.6	448.2	334.0
Overseas equities	411.4	14.6	471.5	351.3
Total bonds	181.6	7.5	195.2	168.0
Long term investment	0.2	0.0	0.2	0.2
Diversified growth	41.1	7.2	44.1	38.1
Income fund	145.3	7.2	155.8	134.8
Cash and other investment balances	8.5	1.3	8.6	8.4
Property units	60.4	4.3	63.0	57.8
Alternatives	0.8	6.3	0.9	0.7
Total Investment Assets	**1,240.4**	**11.4**	**1,387.5**	**1,093.3**

Asset type	Value as at 31 March 2021 £m	Percentage Change %	Value on increase £m	Value on decrease £m
UK equities	370.5	15.3	427.2	313.8
Overseas equities	379.7	15.3	437.8	321.6
UK equity fund	1.0	6.5	1.1	0.9
Total bonds	176.3	6.8	188.3	164.3
Long term investment	0.2	0.0	0.2	0.2
Diversified growth	39.4	7.1	42.2	36.6
Income fund	152.9	7.1	163.8	142.0
Cash and other investment balances	8.3	0.9	8.4	8.2
Property units	49.1	2.4	50.3	47.9
Alternatives	1.4	6.5	1.5	1.3
Total Investment Assets	**1,178.8**	**11.5**	**1,320.8**	**1,036.8**

Interest Rate Risk

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

Long term average rates are expected to move less than 100 basis points (1%) from one year to the next. The total value of fixed interest securities and cash and cash equivalent investments is £66.3m as at the end of 2021/22 (2020/21: £60.7m). Assuming that all other variables, in particular exchange rates, remain stable a 1% increase in valuation of these assets would increase the value by £0.6m (2020/21: £0.6m) and equally a 1% decrease would reduce the value by £0.6m (2020/21: £0.6m).

Currency Risk

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

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

Currency exposure - asset type	**Value as at 31 March 2022 £m**	**Percentage Change %**	**Value on increase £m**	**Value on decrease £m**
Overseas equities	411.4	6.4	437.7	385.1
Multi asset income	145.3	6.1	154.2	136.4
Alternatives	0.7	5.6	0.7	0.7
Total Investment Assets	**557.4**		**592.6**	**522.2**

Currency exposure - asset type	**Value as at 31 March 2021 £m**	**Percentage Change %**	**Value on increase £m**	**Value on decrease £m**
Overseas equities	379.8	8.4	411.7	347.9
Multi asset income	152.9	8.4	165.7	140.1
Alternatives	0.8	8.4	0.9	0.7
Total Investment Assets	**533.5**		**578.3**	**488.7**

Liquidity Risk

Liquidity risk represents the risk that the Fund will not be able to meet it's financial obligations as they fall due. The Fund therefore takes steps to ensure it always has adequate cash resources to meet it's commitments. The purpose of the Fidelity multi asset income fund mandate is to insure a monthly income into the current account. As at 31 March 2022, the Fund had £8.5m (2020/21: £9.4m) in it's on demand deposit account at NatWest Bank plc. The Fund also has access to an overdraft facility for short term cash needs.

The Fund defines liquid assets as assets that can be converted to cash within three months. Illiquid assets are those which will take longer to convert into cash. As at 31 March 2022 the value of the liquid assets represented 99.9% of the total fund value (99.9% of total fund value in 2020/21).

Credit Risk

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

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

The table below shows the credit rating of the Fund's money market and bank deposit holdings at 31 March 2022:

Fund/Account	Rating *	31 March 2021 £m	31 March 2022 £m
Money market funds			
BlackRock ICS Sterling Liquidity Fund	AAAmmf	7.1	3.5
BlackRock ICS Sterling Liquidity Environmentally Aware Fund	AAAmmf	-	1.0
Custody and deposit accounts			
Northern Trust Global Services (custody)	AA-	2.0	3.3
Standard Chartered Bank plc	A+	0.5	0.1
NatWest Bank plc	A+	9.4	8.5
Total		**19.0**	**16.4**

*Long term Fitch rating.

Credit risk may also occur if an employing body not supported by central government does not pay contributions promptly, or defaults on its obligations. The Pension Fund has not experienced any actual defaults in recent years and the current practice is to obtain a guarantee before admitting new employers so that all pension obligations are covered in the event of that employer facing financial difficulties.

NOTE 18 – FUNDING ARRANGEMENTS

The LGPS Regulations require that a full actuarial valuation of the Fund is carried out every three years. The purpose of this is to establish that the London Borough of Hounslow Pension Fund is able to meet its liabilities to past and present contributors and to review employer contribution rates. The last triennial valuation was carried out by Barnett Waddingham, the Fund's Actuary as at 31 March 2019 in accordance with the Funding Strategy statement of the Fund and Regulation 62 of the Local Government Pension Scheme (Administration) Regulations 2013. This is effective from 1 April 2020. The next triennial valuation will be performed as at 31 March 2022. The initial results will be drafted in September 2022 with employers agreeing contributions in October 2022. A revised Funding Strategy Statement will be agreed within the statutory timescale by 31 March 2023. The report and Funding Strategy Statement are both available at https://www.wypf.org.uk/publications/policy-home/hpf-index/. The common rate of contribution for the Fund for the 3 year period from 1 April 2020 to 31 March 2023 is 21.8% of payroll. The common rate of contributions is the rate that, in addition to contributions paid by members, is sufficient to meet 100% of the liabilities arising in respect of service after the valuation.

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

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

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

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

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

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

NOTE 19 – ACTUARIAL PRESENT VALUE OF PROMISED RETIREMENT BENEFITS

The table below shows the total net liability of the Fund as at 31 March 2022. The figures have been prepared by Barnett Waddingham, the Fund's Actuary, only for the purposes of providing the information required by IAS26 and are provided in addition to the triennial valuation. In particular, they are not relevant for calculations undertaken for funding purposes or for other statutory purposes under UK pensions legislation.

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

31 March 2021		31 March 2022
£m		£m
(1,974.8)	Present Value of Promised Retirement Benefits	(1,940.1)
1,181.5	Fair Value of Scheme Assets (bid value)	1,248.9
(793.3)	**Net Liability**	**(691.2)**

Assumptions

To assess the value of the Fund's liabilities at 31 March 2022, the value of the Fund's liabilities calculated for the funding valuation as at 31 March 2019 have been rolled forward using financial assumptions that comply with IAS 19.

Demographic Assumptions

The demographic assumptions used are consistent with those used for the most recent Fund valuation which was carried out as at 31 March 2019. The post retirement mortality tables adopted are the S3PA tables with a multiplier of 110% for males and 110% for females. These base tables are then projected using the CMI 2021 Model,allowing for a long-term rate of improvement of 1.25% p.a.

The assumed life expectations from age 65 are:

31 March 2021	Life Expectancy from Age 65		31 March 2022
21.0	Retiring today	Males	21.0
23.8		Females	23.5
22.4	Retiring in 20 years	Males	22.5
25.3		Females	24.9

Financial Assumptions

The main financial assumptions are:

31 March 2021		31 March 2022
3.20	RPI increases	3.55
2.85	CPI increases	3.25
3.85	Salary increases	4.25
2.85	Pension increases	3.25
2.00	Discount rate	2.60

NOTE 20 – LONG TERM DEBTORS

31 March 2021 £m		31 March 2022 £m
-	Reimbursement of lifetime tax allowances	0.1
-	**Total**	**0.1**

NOTE 21 – CURRENT ASSETS

31 March 2021 £m		31 March 2022 £m
	Debtors:	
-	West Yorkshire Pension Fund	0.2
0.6	Contributions due - employers	3.1
0.2	Contributions due - employees	1.0
9.4	Cash balances	8.5
10.2	**Total**	**12.8**

NOTE 22 – CURRENT LIABILITIES

31 March 2021 £m		31 March 2022 £m
	Creditors:	
1.7	Investment management fees	1.3
0.4	PAYE tax due to HMRC	0.4
-	Benefits payable	0.3
0.1	West Yorkshire Pension Fund	-
2.2	**Total**	**2.0**

Investment management fees include accruals for performance related fees of £0.9m (2020/21: £1.3m).

NOTE 23 – ADDITIONAL VOLUNTARY CONTRIBUTIONS

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

Additional voluntary contributions of £26k were paid directly to Standard Life during the year (2020/21: £30.9k). Employees can contribute and the Fund acts only as an agent, the contract being between the employee and Standard Life. The value of these separately invested additional voluntary contributions at 31 March 2022 was £290k (2020/21: £342k). A further £133.3k is held within Utmost Life and Pensions (formerly Equitable Life), the former provider of AVCs to Fund members. The value of these in 20/21 was £135.3k.

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

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

NOTE 24 – RELATED PARTY TRANSACTIONS

The Fund is administered by the London Borough of Hounslow and the Council is a related party to the Fund. During 2021/22, some Fund payments and receipts were made through the Council's General Account as a result of the day-to-day administration of the Fund. At the year end, £3.2m was outstanding from the Council in respect of employer and employee contributions for the month of March 2022 (31 March 2021: £0.0m). These contributions were subsequently received by the Fund on 11 April 2022 in accordance with regulations.

The Fund incurred administrative expenses of £0.7m in 2021/22 (2020/21: £0.6m) for Council officers' time spent in administering the Fund.

No other material transactions with related parties of the Fund during 2021/22 were identified.

NOTE 25 – CONTINGENT LIABILITIES AND CONTRACTUAL COMMITMENTS

Outstanding capital commitments (investments) at 31 March 2022 were £40m (31 March 2021: nil). These commitments relate to outstanding capital call payments due on a new unquoted renewable infrastructure fund investment with London CIV. The Fund paid the first capital calls in April 2022.

There are no contingent liabilities to report.

NOTE 26 – EVENTS AFTER THE REPORTING DATE

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

10. Governance Of The Pension Fund

The Governance Compliance Statement is attached at Appendix 3. This details how the Fund is governed. The Fund is overseen by a Pension Fund Panel whose remit is to overview the investments and the administration of the Fund. In addition the Authority has a Pension Board. Its remit is to ensure that the Council and Pension Fund Panel comply with the LGPS Regulations and any other legislation relating to the governance and administration of the Scheme, and any requirements imposed in relation to the LGPS by the Pensions Regulator.

The Business Plan including training provided is in the table below.

3.0 Business Plan 2021/22

30 June 2021 5pm - CANCELLED	*Reports only to be circulated* Overview/General Matters Draft Annual Business Plan Pension Fund Administration Monitoring Adviser's Report
15 September 5pm 2021	Part 1 Overview/General Matters Monitoring of Risk Register Annual Business Plan Update of the Funding Strategy Statement Pension Fund Accounts Part 2 Pension Fund Administration Investment Adviser's Report *Fund Manager(s):* Columbia Threadneedle CBRE
19 January 5pm 2022 Training Session MJ Hudson - Infrastructure refresher	Part 1 Overview/General Matters Annual Report on Corporate Governance Annual Report of Pension Board

	Part 2 Pension Fund Administration Investment Adviser’s Report Annual Review of Private Equity LCIV Infrastructure Fund decision
30 March 2022 5pm	Part 1 Ethical Divestment considerations Overview/General Matters Monitoring of Risk Register Part 2 FarFetch Divestment Decision Investment Adviser’s Report Pension Fund Administration

11. Pensions Administration

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

The decision to appoint WYPF followed a thorough selection process and was on a shared service arrangement with WYPF who have been administering the Lincolnshire Pension Fund under the same arrangement since 2015. The London Borough of Barnet joined the shared service in 2020.

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

LBH Report & Accounts insert for year ended 31/03/2022

Pension overpayments from 1st April 2021 to 31st March 2022

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

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

Analysis of overpayments	2021/22 No. of payments
Number of cases overpaid	70
Number of cases written off	0
Number of cases recovered	70

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

Fraud Prevention – National Fraud Initiative

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

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

Pensioners, beneficiaries and deferred members	No of records sent	No of mismatches		Overpayments identified		Possible Frauds	Mismatches carried forward at 31 March
2021/22	288,636	1685	0.58%	15	0.01%	0	22
2020/21	286,429	963	0.34%	4	0.00%	0	1
2019/20	277,293	3,845	1.39%	17	0.01%	2	10
2018/19	260,387	3,339	1.28%	3	0.00%	2	2
2017/18	229,994	518	0.23%	35	0.02%	2	0
2016/17	224,122	1,425	0.64%	5	0.00%	4	5
2015/16	219,313	868	0.40%	61	0.03%	3	10
2014/15	159,928	656	0.41%	25	0.02%	0	5
2013/14	154,616	1,456	0.94%	82	0.05%	3	8

A statement on the value for money achieved by the administration function

Cost per member

The latest published data (2020/21) for all LGPS funds administration costs shows that London Borough of Hounslow (LBH) pensions administration cost per member is £38.16, the 62nd cost amongst 86 LGPS funds, the national average is £24.16.

LBH has a below average total cost per member (administration, investment and oversight & governance) at £211.54, the national average for LGPS in 2020/21 is £274.34.

Cost per member 2020/21	Position	Hounslow Pension Fund	LGPS Lowest	LGPS Highest	LGPS Average
Admin cost per member	62nd	£38.16	£1.08	£158.29	£24.16
Investment cost per member	20th	£168.31	£17.25	£1,029.58	£238.43
Oversight & Governance	10th	£5.07	£0.00	£53.00	£11.74
Total cost per member	29th	£211.54	£33.63	£1,088.82	£274.33

Key activities during the year

Covid-19

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

Employer Training

This year the workshops were delivered virtually in bite size webcasts by the shared service WYPF staff and are designed to give employers a good understanding of the pension scheme. Feedback from participants on these events has been very positive.

The webcasts this year have covered:

- Processing pension statement blocks and quarantines
- Understanding final pay
- Final pay – 'the deep dive'
- Overview of the LGPS
- The ill health process
- What is a leaver?
- How to get the most out of the employer portal
- Walk through the online leaver form
- Valuation and the importance of your data
- Understanding CPP (CARE pay)
- Completing your March return: 'steps to success'
- Blocks & Quarantines P1 (Theory)
- Blocks & Quarantines P2 (How to clear)
- Assumed Pensionable Pay

Member engagement

We've continued to work with our pre-retirement partner Affinity Connect to offer courses to members covering the financial and emotional aspects of retiring. Like our employer training, this has continued to be delivered online this year.

Pension Increase

Each year, HPF pensioners receive an annual increase in accordance with pension increase legislation. The increase is linked to movements in the Consumer Price Index (CPI). Deferred member benefits are also increased by CPI. For the 2021/22 year an increase of 0.50% was applied on 12 April 2021.

Pension administration

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

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

Shared Service

Our shared service partnership continues to flourish with the addition of four new Fire and Rescue Service clients. This brings the total number of Fire Authorities we provide administration for to twenty-one.

Data Quality

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

Data Type	%
Forename	100.00%
Surname	100.00%
Membership status	99.99%
Date of birth	100.00%
NI number	99.06%
Postcode	100.00%
Address	95.17%

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

Communications

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

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

Regular newsletters continue to be produced for members to keep them informed of important pensions news.

The shared service has Facebook and Twitter accounts to encourage members of all ages to engage more with the Fund through social media.

MyPension

With the shared services 'MyPension' service (accessible on the shared website) members can view their pension record and statements & update personal details. Members are being encouraged to sign up as the service moves to more online communications.

Pension Age Awards

WYPF was shortlisted by **Pensions Age** under the following categories:

- DB Scheme of the Year
- Pension Scheme Communication Award
- Pension Administration Award

Winners were announced at a ceremony in London on 15 July 2021. Whilst we did not win any of the awards, which all went to big private sector funds, it's a great achievement to be shortlisted with such strong competition both from the public & private sector and we are proud of our efforts to gain the recognition.

Disaster recovery and risk management monitoring

Our shared service partnership systems are hosted by WYPF and uses Bradford Council's pair of geographically separated data centres, which are 3.2km apart. Both purpose-built data centres are protected by redundant power (UPS), a backup generator and cooling. The data centres are connected by point-to-point council-owned fibre runs. Data centres have secure access systems and are monitored 24/7 by Bradford's CCTV Unit. Both sites are permanently live and accessible by our internal end-users who are networked to the sites via diverse fibre cable routes. Where possible, servers are virtualised, using Microsoft Hyper-V. The servers and data are replicated between the Hyper-V hosts at both sites to ensure a short recovery time.

Data is backed up to disk medium in a 24-hour cycle and written to tape archive on robotic tape libraries at both sites. An encrypted archive copy is sent to a dedicated offsite storage facility every week. WYPF's server, disk and core network infrastructure is monitored for errors and warnings, and these generate a ticket on the WYPF IT ITIL system for investigation and resolution. Critical data stores are also replicated at disk level between sites. In the event of serious system failures, WYPF would re-provision testing hardware and the infrastructure environment for live running.

In the event of WYPF office accommodation becoming unavailable, staff will be relocated to other council offices or work remotely, including the remote office in Lincoln. WYPF is covered by Bradford Council's comprehensive disaster recovery plan for all services they deliver for the shared service.

Management and Customer Service Key Performance Indicators

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

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

1 April 2021 to 31 March 2022					
WORK TYPE	**TOTAL CASES**	**TARGET DAYS FOR EACH CASE**	**TARGET MET CASES**	**MINIUM TARGET PERCENT**	**TARGET MET PERCENT**
AVC In-house (General)	73	20	73	85	100
Change of Address	433	10	415	85	95.84
DWP request for Information	6	20	6	85	100

Death Grant Nomination Form Received	528	20	402	85	76.14
Death Grant to Set Up	50	5	35	85	70
Death In Retirement	233	5	184	85	78.97
Death In Service	6	5	5	85	83.33
Death on Deferred	22	5	21	85	95.45
Deferred Benefits Into Payment Actual	226	5	215	90	95.13
Deferred Benefits Into Payment Quote	311	35	284	85	91.32
Deferred Benefits Set Up on Leaving	478	20	366	85	76.57
Divorce Quote	24	20	21	85	87.5
Divorce Settlement Pension Sharing order Implemented	2	80	2	100	100
Enquiry	10	5	9	85	90
Estimates for Deferred Benefits into Payment	8	10	6	90	75
Initial Letter Death in Service	6	5	6	85	100
Initial letter Death in Retirement	233	5	200	85	85.84
Initial letter Death on Deferred	22	5	21	85	95.46
Interfund Linking In Actual	146	35	132	85	90.41
Interfund Linking In Quote	144	35	75	85	52.08
Interfund Out Actual	226	35	67	85	29.65
Interfund Out Quote	226	35	188	85	83.19
Life Certificate Received	7	10	7	85	100
Monthly Posting	859	10	798	95	92.9
NI adjustment to Pension at State Pension Age	8	20	8	85	100
Pension Estimate	183	10	157	90	85.79
Pension Saving Statement	4	20	4	100	100
Phone Call Received	2094	3	2008	95	95.89
Refund Actual	124	10	123	95	99.19
Refund Quote	225	35	223	85	99.11
Retirement Actual	198	3	194	90	97.98
Spouse Potential	12	20	11	85	91.67
Transfer In Actual	17	35	16	85	94.12
Transfer In Quote	31	35	31	85	100
Transfer Out Payment	17	35	17	85	100
Transfer Out Quote	128	20	112	85	87.5
Update Member Details	414	20	414	100	100

Industry standard performance indicators

The service is also monitored against industry standards. These are not directly comparable to the figures above as they are measured at different points, but do provide a useful indicator of the overall level of service for comparison to other Funds

Industry Standard Performance Indicators	Target days	Achieved %
Letter detailing transfer in quote	10	99.7
Letter detailing transfer out quote	10	57.5
Process and pay refund	5	95.4
Letter notifying estimate of retirement benefits	10	95.9
Letter notifying actual retirement benefits	3	92.9
Process and pay lump sum retirement grant	5	89.9
Letter acknowledging death of a member	5	96.9
Letter notifying amount of dependants benefit	5	91.4
Calculate and notify deferred benefits	10	96.2

Customer satisfaction levels

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

1 April 2021 to 31 March 2022
94.88%

Membership numbers as at 31st March 2022 for each category are:

Membership category	Number
Active Members	6,780
Pensioners	6,971
Beneficiaries	909
Deferred pensioners	7,744
Undecided leavers	140
Frozen refunds	1,381
Total	**23,925**

Participating Employers, Contribution Rates & Payment

Schedule Bodies

Employer name	Contribution Rate
Local Authority	
London Borough of Hounslow	21.54%
Academies and Free Schools	**Contribution Rate**
Berkeley Academy	23.30%
Bolder Academy	23.30%
Brentford School for Girls	23.30%
Chiswick School	23.30%
Cranford Community College	23.30%
Edison Primary School	23.30%
Gumley House Catholic School	23.30%
Heston Community School	23.30%
Isleworth & Syon School for Boys	23.30%
Kingsley Academy	23.30%
Lampton School	23.30%
Logic Studios	23.30%
Nishkam School West London	23.30%
Norwood Green Junior School	23.30%
Oakhill Academy	23.30%
Oriel Primary School	23.30%
Reach Academy	23.30%
Rivers Academy West London	23.30%
Space Studio	23.30%
Springwest Academy	23.30%
St Mark's Catholic School	23.30%
St Richard's Church of England Primary School	23.30%
The Green School Trust	23.30%

The Rise School	23.30%
Westbrook Primary School	23.30%

Higher Education Bodies	**Contribution Rate**
West Thames College	18.8% plus £292,000

Admitted Bodies

Other Employers	**Contribution Rate**
Alliance in Partnership	17.10%
Caterlink Ltd.	21.80%
Chartwells	26.10%
City West - Heston School	24.50%
City West - WIM Market Orderlies	21.50%
City West - WIM Security	18.9% plus £8,060
Coalo Limited	21.80%
Colwyn Technologies	17.10%
Cucina	27.8% plus £1,165
David Henry Waring	31.50%
Edwards & Ward - Oak Hill	22.90%
Edwards & Ward - Oriel	26.10%
Grafton	26.20%
Hounslow Action for Youth	19.60%
Hounslow Highways - VINCI Ringway	22.90%
Hounslow Music Service	23.50%
Lampton (Recycle) 360	23.8% plus £15,615
Lampton Greenspace 360	24.50%
Lampton Leisure	28.20%
Liberata	22.30%
May Harris Ltd (Marjory Kinnon School)	22.30%
Olive Dining	23.00%
Reach Foundation	23.30%
Serco	14.20%

Spectra C I C	21.40%
Wilson Jones Catering Ltd Alexandra School	25.80%
Wilson Jones Catering Ltd - Hounslow Heath School	27.10%
Wilson Jones Catering Ltd Norwood Green School	23.30%
Wilson Jones Catering Ltd - Marlborough School	24.30%
Wilson Jones Catering Ltd - Springwell School	26.00%
Wilson Jones Catering Ltd - Wellington School	27.70%
Wilson Jones Catering Ltd - Westbrook School	26.9% plus £839

All employers are required submit monthly data returns to our pension scheme administrator, WYPF, and make payment of the monthly contributions directly to the London Borough of Hounslow Pension Fund by 19th day of the month following the payroll deduction. During 2021/22 the following employers made payments after this date and have been recorded on the fund's breach register:

Employer	Number of late payments in 2021/22
Lampton Leisure	3
Wilson Jones Catering Ltd.	3
Edison Primary School	1
David Henry Waring	1

12. Pooling Report

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

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

The London CIV is now established and had £26.6bn of LGPS assets under management as at 31 March 2022. It continues to develop its fund range to meet the investment needs of London's LGPS pension funds.

Pooled Investment Assets

Hounslow's policy in relation to pooling is to look to transition assets on to the CIV as and when appropriate to do so once the relevant investment strategies are available to meet the Fund's asset allocation and investment strategy needs. More information on the Fund's approach to pooling can be found in the Investment Strategy Statement. At the end of March 2022, Hounslow had the passive BlackRock passive global equities, RBC Global Equity and the Longview active global equities on the CIV platform. In future years more of our assets will be transitioned into the London CIV to fit with our investment strategy needs.

Pool management costs and savings

The below table summarises Hounslow's pooling costs incurred during 2020/21 and 2021/22*

London CIV pooling costs

		2020/21 £000	2021/22 £000
Annual fees			
Annual service charge		(25)	(25)
Development fees		(85)	(85)
CIV management fee		(46)	(55)
Total costs		**(156)**	**(165)**
Savings/(Dissaving)			
Active dissaving		(654)	(748)
Net savings/(Dissaving)		**(810)**	**(913)**

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

LONDON BOROUGH OF HOUNSLOW PENSION FUND

INVESTMENT STRATEGY STATEMENT, SEPTEMBER 2020

1.0 BACKGROUND

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

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

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

a) A requirement to invest money in a wide variety of investments;

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

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

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

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

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

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

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

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

2.0 INTRODUCTION

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

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

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

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

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

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

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

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

2.9 Aim of the Fund

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

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

3.0 DIVERSIFICATION

3.1 The Regulations require that the Statement demonstrates the requirement to invest money in a wide variety of investments. The Fund will hold a range of asset classes as set out in the table below. These will be reviewed continually, in the light of market conditions. The Fund has moved from having a peer group benchmark to having a tailored asset allocation benchmark. The benchmark sets out the mix of assets to be held in the Fund's portfolio of investments. This benchmark is consistent with the Pension Fund Panel's views on the appropriate balance between generating a satisfactory long-term return on investments whilst taking account of market volatility and risk and the nature of the Fund's liabilities. The detailed specific benchmarks for the Fund's individual managers are shown in Appendix 2.

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

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

4.0 SUITABILITY OF INVESTMENTS

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

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

Asset Class	Role Within Strategy
Listed Equities	Generate returns in excess of inflation, through exposure to the shares of domestic and overseas companies.
Bonds	Debt instruments issued by Governments and other borrowers. Expected to provide relatively low risk income stream and capital appreciation of underlying bonds. Prices tend to fluctuate less than equities.
Index Linked Gilts	Debt instruments mainly issued by Governments. Low risk income stream with an explicit linkage to inflation
Property	Investments in land or buildings such as offices, warehouses, or retail units. Generate returns in excess of inflation through exposure to UK property through income and capital appreciation, whilst providing some diversification away from equities and bonds.

Diversifying assets	Pooled funds that invest in a variety of investment classes and use active asset allocation between asset classes to drive performance. Some private equity which is now maturing. Deliver returns in excess of inflation, with a reasonably low correlation to traditional equity markets and providing a degree of downside protection in periods of equity market stress.
Dedicated Income sleeve	Provide significant income stream and also capital growth by matching investments to economic cycle, and matching our liability profile.

5.0 RISK MANAGEMENT

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

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

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

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

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

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

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

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

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

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

6.0 ASSET POOLING

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

a. Benefits of scale - a minimum asset size per pool of £25bn.
b. Strong governance and decision making
c. Reduced costs and value for money
d. Improved capacity to invest in infrastructure

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

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

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

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

7 ENVIRONMENTAL, SOCIAL AND CORPORATE GOVERNANCE (ESG) POLICY

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

7.2 The Fund is an active shareholder in the exercising of its company share voting rights to promote and support good corporate governance principles. Share voting is undertaken internally, with a specialist corporate governance advisor. An Annual Report on voting is presented to the PFP, and forms part of the Annual Report and Accounts.

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

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

7.5. **Climate Change**

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

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

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

The initial steps to implement this statement cover:-

1. measuring the carbon footprint of the equity holdings of the fund
2. transferring the passive global equity portfolio to a low carbon portfolio
3. transferring the residual active segregated global equity portfolio to the London CIV sustainable equity fund.

8 VOTING RIGHTS AND POLICY

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

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

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

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

APPENDIX 1 : GOVERNANCE OF FUND

1.0 **LBH is the Administering Authority**.

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

The Terms of Reference of the Pension Fund Panel are: -

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

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

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

4. To exercise the Council's voting rights at AGM's and EGM's of companies in which the Fund has holdings, after considering the advice of the S151 Officer and appropriate Manager (s); and

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

2.0 **The Fund Managers are responsible for:-**

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

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

c) security selection within asset classes; and

d) active management of their cash balances.

3.0 The Custodian, Northern Trust, is responsible for:-

a) its own compliance with prevailing legislation;

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

c) providing the administering authority with monthly valuations of the Scheme's assets and details of all transactions during the month; and

d) processing income and corporate actions arising from the Fund's relevant investment holdings.

4.0 The Independent Advisor, MJHudson-Allenbridge, is responsible for:-

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

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

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

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

5.0 The Actuary, Barnett- Waddingham, is responsible for:-

a) undertaking a triennial valuation of the Fund;

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

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

6.0 The Director of Finance and Corporate Services (S151 Officer) is responsible for:-

a) acting as professional advisor to the Fund;

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

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

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

7.0 LBH has an established Pension Board.

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

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

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

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

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

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

8**.0 Administration of benefits is undertaken by West Yorkshire Pension Fund. They are responsible for:-**

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

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

c) correspondence and communications.

9.0 **The London CIV** (Collective Investment Vehicle) will be responsible for administering the management the Fund's investments that are on the CIV platform. Hounslow Pension Fund will maintain control of its Investment Strategy and asset allocation, with the CIV aiming to open sub-funds to enable London Borough Pension Funds to implement their investment strategies in a cost effective manner.
Over time, the proportion of our investments managed by the CIV will increase, as long as those sub-funds managed by the CIV meet our Investment Strategy objectives.

APPENDIX 2 : FUND MANAGER MANDATES AND BENCHMARKS

1.0 BlackRock

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

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

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

2.0 Aberdeen

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

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

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

3.0 Aberdeen Diversified Growth Fund

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

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

4.0 BlackRock Aquila Life Market Advantage Fund

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

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

5.0 Longview Active Global Equity Mandate on the London CIV

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

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

6.0 Columbia Threadneedle Pensions Property Fund

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

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

7.0 CBRE Lionbrook Property Fund

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

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

8.0 Fidelity Multi Asset Income Fund

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

APPENDIX 3 : STATEMENT OF COMPLIANCE WITH THE UK STEWARDSHIP CODE

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

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

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

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

Principle 3: Institutional investors should monitor their investee companies.

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

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

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

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

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

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

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

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

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

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

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

London Borough of Hounslow Funding Strategy Statement

Contents

Introduction

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

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

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

Purpose of the Funding Strategy Statement

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

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

Aims and purpose of the Fund

The aims of the Fund are to:

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

The purpose of the Fund is to:

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

Funding objectives

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

The funding objectives are to:

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

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

Key parties

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

The administering authority

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

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

Scheme employers

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

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

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

Scheme members

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

Fund Actuary

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

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

Funding strategy

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

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

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

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

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

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

Funding method

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

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

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

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

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

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

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

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

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

Valuation assumptions and funding model

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

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

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

Future price inflation

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

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

Future pension increases

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

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

Future pay increases

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

Future investment returns/discount rate

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

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

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

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

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

Asset valuation

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

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

Demographic assumptions

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

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

McCloud/Sargeant judgements

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

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

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

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

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

Guaranteed Minimum Pension (GMP) indexation and equalisation

As part of the restructuring of the state pension provision, the government needs to consider how public service pension payments should be increased in future for members who accrued a Guaranteed Minimum Pension (GMP) from their public service pension scheme and expect to reach State Pension Age (SPA) post-December

2018. In addition, a resulting potential inequality in the payment of public service pensions between men and women needs to be addressed. Information on the current method of indexation and equalisation of public service pension schemes can be found here.

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

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

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

Deficit recovery/surplus amortisation periods

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

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

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

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

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

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

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

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

Pooling of individual employers

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

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

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

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

Forming/disbanding a funding pool

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

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

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

Risk-sharing

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

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

New employers joining the Fund

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

Admission bodies

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

Funding at start of contract

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

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

Contribution rate

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

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

Security

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

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

Risk-sharing

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

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

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

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

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

New academies

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

Funding at start

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

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

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

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

Contribution rate

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

Contribution reviews between actuarial valuations

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

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

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

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

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

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

Cessation valuations

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

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

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

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

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

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

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

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

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

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

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

Exit Credit policy

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

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

Regulatory factors

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

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

Bulk transfers

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

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

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

Links with the Investment Strategy Statement (ISS)

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

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

Risks and counter measures

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

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

Financial risks

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

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

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

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

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

Demographic risks

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

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

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

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

Maturity risk

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

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

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

Regulatory risks

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

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

However, the administering authority participates in any consultation process of any proposed changes in Regulations and seeks advice from the Fund Actuary on the financial implications of any proposed changes.

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

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

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

McCloud/Sargeant judgements and cost cap

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

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

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

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

On 16 July 2020, the Government published a consultation on the proposed remedy to be applied to LGPS benefits and at the same time announced the unpausing of the 2016 cost cap process which will take into account the remedy for the McCloud and Sargeant judgement. The consultation closed on 8 October 2020 and the final remedy will only be known after the consultation responses have been reviewed and a final set of remedial Regulations are published. At the time of drafting this FSS, it is not yet known what the effect on the current and future LGPS benefits will be.

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

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

- amendments to the local fund valuations from the current three year (triennial) to a four year (quadrennial) cycle;

- a number of measures aimed at mitigating the risks of moving from a triennial to a quadrennial cycle;
- proposals for flexibility on exit payments;
- proposals for further policy changes to exit credits; and
- proposals for changes to the employers required to offer LGPS membership.

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

Timing of future actuarial valuations

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

Managing employer exits from the Fund

The consultation covers:

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

Changes to employers required to offer LGPS membership

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

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

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

Employer risks

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

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

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

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

Governance risks

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

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

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

Monitoring and review

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

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

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

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

2019 valuation results summary

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

Whole Fund results

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

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

London Borough of Hounslow results

Past service funding position	2016 valuation £m	2019 valuation £m
Smoothed asset value	**657**	**861**
Past service liabilities:		
Active members	254	212
Deferred pensioners	156	259
Pensioners	357	447
Value of scheme liabilities	**767**	**917**
Surplus (deficit)	(124)	(57)
Funding level	**86%**	**94%**
Employer contribution rates	% of payroll	% of payroll
Primary contribution rate	13.7%	18.7%
Secondary contribution rate (17 years)	7.6%	2.84%
Monetary deficit contribution (17 years)	£7.8m	n/a

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

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

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

Introduction

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

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

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

Primary and secondary rate summary

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

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

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

General and specific notes

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

Employer Code	Employer name	Primary rate	Secondary rate (% pay plus monetary adjustment)			Total contributions (primary rate plus secondary rate)		
		(% pay)	2020/21	2021/22	2022/23	2020/21	2021/22	2022/23
Tax-raising Bodies								
HOUNSLBC	London Borough of Hounslow	18.7%	2.84%	2.84%	2.84%	21.54%	21.54%	21.54%
	Council maintained Schools	18.7%	3.5%	3.5%	3.5%	22.2%	22.2%	22.2%
Academies and Free Schools								
BRENACAD	Brentford School for Girls	19.1%	4.2%	4.2%	4.2%	23.3%	23.3%	23.3%
CHISWICK	Chiswick School	19.1%	4.2%	4.2%	4.2%	23.3%	23.3%	23.3%
FELTHAM	Springwest Academy	19.1%	4.2%	4.2%	4.2%	23.3%	23.3%	23.3%
GUMACAD	Gumley House Catholic School	19.1%	4.2%	4.2%	4.2%	23.3%	23.3%	23.3%
HESTON	Heston Community School	19.1%	4.2%	4.2%	4.2%	23.3%	23.3%	23.3%
ISLEWOR	Isleworth & Syon School for Boys	19.1%	4.2%	4.2%	4.2%	23.3%	23.3%	23.3%
RIVERS	Rivers Academy West London	19.1%	4.2%	4.2%	4.2%	23.3%	23.3%	23.3%
STMARK	St Mark's Catholic School	19.1%	4.2%	4.2%	4.2%	23.3%	23.3%	23.3%
LAMPSCHL	Lampton School	19.1%	4.2%	4.2%	4.2%	23.3%	23.3%	23.3%
CRANFORD	Cranford Community College	19.1%	4.2%	4.2%	4.2%	23.3%	23.3%	23.3%
REACH	Reach Academy	19.1%	4.2%	4.2%	4.2%	23.3%	23.3%	23.3%

Employer Code	Employer name	Primary rate	Secondary rate (% pay plus monetary adjustment)			Total contributions (primary rate plus secondary rate)		
		(% pay)	2020/21	2021/22	2022/23	2020/21	2021/22	2022/23
HOUNSMAN	Kingsley Academy	19.1%	4.2%	4.2%	4.2%	23.3%	23.3%	23.3%
ORIEL	Oriel Primary School	19.1%	4.2%	4.2%	4.2%	23.3%	23.3%	23.3%
OAKSCH	Oakhill Academy	19.1%	4.2%	4.2%	4.2%	23.3%	23.3%	23.3%
NORWOOD	Norwood Green Junior School	19.1%	4.2%	4.2%	4.2%	23.3%	23.3%	23.3%
WESTBRPS	Westbrook Primary School	19.1%	4.2%	4.2%	4.2%	23.3%	23.3%	23.3%
GREENGIR	The Green School for Girls	19.1%	4.2%	4.2%	4.2%	23.3%	23.3%	23.3%
RISE	The Rise School	19.1%	4.2%	4.2%	4.2%	23.3%	23.3%	23.3%
NISHKAM	Nishkam School West London	19.1%	4.2%	4.2%	4.2%	23.3%	23.3%	23.3%
SPACESWL	Space Studio	19.1%	4.2%	4.2%	4.2%	23.3%	23.3%	23.3%
LOGIC	Logic Studios	19.1%	4.2%	4.2%	4.2%	23.3%	23.3%	23.3%
BERKELEY	Berkeley Academy	19.1%	4.2%	4.2%	4.2%	23.3%	23.3%	23.3%
STRICHSC	St Richard's Church of England Primary	19.1%	4.2%	4.2%	4.2%	23.3%	23.3%	23.3%
BOLDERAC	Bolder Academy	19.1%	4.2%	4.2%	4.2%	23.3%	23.3%	23.3%
Higher Education Bodies								
WTHMSCOL	West Thames College	18.8%	18.8%	18.8%	18.8%	18.8% plus £282,000	18.8% plus £292,000	18.8% plus £303,000

Employer Code	Employer name	Primary rate	Secondary rate (% pay plus monetary adjustment)			Total contributions (primary rate plus secondary rate)		
		(% pay)	2020/21	2021/22	2022/23	2020/21	2021/22	2022/23
Other Employers								
FUSION	Fusion	22.2%	-	-	-	22.2%	22.2%	22.2%
RINGWAY	Highways PFI Contract - VINCI Ringway	22.9%	-	-	-	22.9%	22.9%	22.9%
NVIRO	NVIRO	31.5%	-3.0%	-3.0%	-3.0%	28.5%	28.5%	28.5%
HOUNSHAY	Hounslow Action for Youth	19.6%	-	-	-	19.6%	19.6%	19.6%
SERCO	Serco	23.4%	-9.2%	-9.2%	-9.2%	14.2%	14.2%	14.2%
WLGMP	WLGMP	21.4%	-	-	-	21.4%	21.4%	21.4%
CUCINA	Cucina	27.8%	£1,124	£1,165	£1,207	27.8% plus £1,124	27.8% plus £1,165	27.8% plus £1,207
CHARTWEL	Chartwells	26.1%	-	-	-	26.1%	26.1%	26.1%
EDWAOAK	Edwards & Ward - Oak Hill	20.9%	1.9%	1.9%	1.9%	22.9%	22.9%	22.9%
EDWAORL	Edwards & Ward - Oriel	25.8%	0.3%	0.3%	0.3%	26.1%	26.1%	26.1%
WILSWEST	Wilson Jones Catering Ltd - Westbrook	26.9%	£810	£839	£870	26.9% plus £810	26.9% plus £839	26.9% plus £870
WILSWELL	Wilson Jones Catering Ltd - Wellington	27.7%	-	-	-	27.7%	27.7%	27.7%
MUSICSER	Hounslow Music Service	23.5%	-	-	-	23.5%	23.5%	23.5%
LAMPTON	Lampton 360	23.8%	£15,065	£15,615	£16,184	23.8% plus £15,065	23.8% plus £15,615	23.8% plus £16,184
FM360	Coalo Limited	21.8%	-	-	-	21.8%	21.8%	21.8%
LIBERATA	Liberata	21.3%	1.0%	1.0%	1.0%	22.3%	22.3%	22.3%

Employer Code	Employer name	Primary rate	Secondary rate (% pay plus monetary adjustment)			Total contributions (primary rate plus secondary rate)		
		(% pay)	2020/21	2021/22	2022/23	2020/21	2021/22	2022/23
OLIVEDBS	Olive Dining	23.0%	-	-	-	23.0%	23.0%	23.0%
ALLIAPART	Alliance in Partnership	16.5%	0.6%	0.6%	0.6%	17.1%	17.1%	17.1%
LAMPGS360	Lampton Greenspace 360	24.3%	0.2%	0.2%	0.2%	24.5%	24.5%	24.5%
CITYWEST	City West - WIM Market Orderlies	21.5%	-	-	-	21.5%	21.5%	21.5%
CITYWESTSECURITY	City West - WIM Security	18.9%	£7,777	£8,060	£8,354	18.9% plus £7,777	18.9% plus £8,060	18.9% plus £8,354
WILSHOUNHEATH	Wilson Jones - Hounslow Heath	27.1%	-	-	-	27.1%	27.1%	27.1%
WILSMARLBOROUGH	Wilson Jones - Marlborough	24.3%	-	-	-	24.3%	24.3%	24.3%
WILSSPRINGWELL	Wilson Jones - Springwell	26.0%	-	-	-	26.0%	26.0%	26.0%
WILSCRANFORD	Wilson Jones - Cranford	18.6%	-	-	-	18.6%	18.6%	18.6%

LONDON BOROUGH OF HOUNSLOW

ADMINISTERING AUTHORITY

GOVERNANCE COMPLIANCE STATEMENT

PENSION FUND PANEL – 19TH JULY 2017

1. Background

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

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

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

2. Structure

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

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

Part 1 (for decision by the Panel)
1. To consider, on the advice of the Director of Finance and Corporate Services and the Council's Fund Managers, the Council's general policy with regard to Pension Fund Investments.
2. To make arrangements for the management of the Fund in line with the Investment Strategy Statement.

3. To monitor the performance of the Fund and its Managers.
4. To exercise the Council's voting rights at AGM's and EGM's of companies in which the Fund has holdings, after considering the advice of the Director of Finance and Corporate Services and appropriate Manager(s).
5. To overview and agree pension fund administration matters e.g. approval of Administration Strategy and delivery of the benefits service.

Part 2 (for recommendation to the Borough Council)
None.
Other Requirements

1. Size of Committee – 5 elected members; one retired member; one staff representative; one employing body representative.
2. Quorum – 3 of the elected members.
3. All members and representatives are required to undertake introductory mandatory 3 day training with LGE (Local Government Employers). This is over 3 separate days in the autumn in London – September, October, and November.

The Council decides the composition and makes appointments to the Pension Fund Panel. Currently the membership of the Panel is five elected Members from Hounslow Council on a politically proportionate basis. All Hounslow Council elected Members have voting rights on the Committee and three voting Members of the Panel are required to deem the meeting quorate.
In addition there are three co-opted non-voting members representing employer and Scheme member interests. Although the co-opted representatives do not have voting rights they are treated as equal members of the Panel. They have access to all Panel Advisers, officers, meetings and training as if they were Council Members and have the opportunity to contribute to the decision making process. Voting rights are restricted to elected Members as they are deemed to be fulfilling the role of Trustees of the Pension Fund with all the legal responsibilities that this entails. It was not felt appropriate to apply the same legal definition to the lay members of the Panel and hence their role as non-voting members.
Members of the Pension Fund Panel, including co-opted members, are required to declare any interests that they have in relation to the Pension Fund or items on the agenda at the commencement of the meeting.

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

2.2 Other Delegations of Powers

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

2.3 Terms of Reference for Hounslow Pension Board

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

1. **Introduction**

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

2. Powers of the Pension Board

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

3. **Role of the Pension Board**

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

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

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

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

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

Quorum

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

Voting

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

Meetings

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

Appendix 2

Compliance Statement with Statutory Principles

1. Introduction

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

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

2. Structure

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

Compliant

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

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

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

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

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

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

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

Compliant

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

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

Compliant

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

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

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

Compliant

Not applicable as there is no secondary committee.

3. Representation

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

i) employing authorities (including non-scheme employers, e.g., admitted bodies);
ii) scheme members (including deferred and pensioner scheme members);
iii) independent professional observers; and
iv) expert advisors (on an ad-hoc basis).'

Compliant

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

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

Compliant

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

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

Compliant

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

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

Compliant

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

4. Voting

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

Compliant

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

5. Training/Facility time/Expenses

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

Compliant

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

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

Compliant.

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

Partially compliant

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

6. Meetings (frequency/quorum)

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

Compliant

PFP meets at least once a quarter.

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

Compliant

Not applicable as there is no secondary committee.

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

Compliant

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

7. Access

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

Compliant

8. Scope

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

Compliant

PFP covers investment, liability, administration and governance matters.

9. Publicity

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

Compliant

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

Communications policy statement

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

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

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

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

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

Members, representatives of members and prospective members

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

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

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

Method	Communication message
Electronic	Electronic: all members have access to the Administering Authority website delivered in partnership with our pension administrators West Yorkshire Pension Fund, www.wypf.org.uk. The website provides scheme information and access to individual member details
Newsletters	The Administering Authority issues an annual newsletter to all members in the scheme providing the latest information on the LGPS
Annual Benefit Statements	Active and deferred members are issued with an annual benefit statement which provides the current value of the benefits with the Hounslow LGPS

Annual General Meeting	The Administering Authority AGM includes presentations regarding the fund performance and administration matters. The Fund will decide on the format and media of the AGM annually.
Annual report and accounts	Available on the Hounslow pension website. Provides information on the annual management of the Administering Authority
Pension Fund Panel Reports	Public reports available on the Hounslow website, www.hounslow.gov.uk. This provides information on decisions made by the Pension Fund Panel
Pension increase note	Provided annually to pensioners, this provides information on any pension increase due to their benefits
Face to face pension surgeries	Allows members to meet with the administrator representatives to discuss their specific queries
Dedicated information sessions	Dedicated information sessions will be presented on an ad hoc basis to provide information on relevant pension issues
Hounslow pensions website	www.wypf.org.uk
Dedicated email	pensions@wypf.org.uk
Dedicated telephone helpline	01274 434 999
Member guides	Printed guides to LGPS membership

Scheme Employers

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

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

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

Method	Communication message
The Administering Authority Pension Administration Strategy (and appendices)	Information regarding the policies of the Administering Authority and Scheme Employer responsibilities in the LGPS
Electronic	Electronic: Scheme Employers have access to an employer section of Administering Authority website delivered in partnership with administrators, www.wypf.org.uk. The website provides scheme information specific to scheme employers

Newsletters	The Administering Authority issues an annual newsletter to scheme employers providing the latest information on the LGPS
Employer meetings	Held annually to provide Scheme Employers with a forum to address queries regarding the Administering Authority
Dedicated contact	Scheme Employers are provided with a dedicated contact in the Administering Authority who will provide a phone and email advisory service for up to 2 hours per annum (additional advice will be charged at the prevailing Pension Fund officer rates). Employer visits may be available on request and will be charged at the prevailing Pension Fund officer rates : The Strategic Pensions Manager: 020 8583 5635 hitesh.sharma1@hounslow.gov.uk
Dedicated information sessions	Dedicated information sessions will be presented on an ad hoc basis to provide information to scheme employers on relevant pension issues

Public Statements made about the Pension Fund

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

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

London Borough of Hounslow

Report for:
INFORMATION

Contains Confidential or Exempt Information	No
Title	Voting Annual Report
Member Reporting	Councillor J Sharma, Chair Pension Fund Panel
Contact Details	Joan Coelho, Strategic Pensions and Treasury Accountant Telephone: 020 8583 3637 Email: joan.coelho@hounslow.gov.uk
For Consideration By	Pension Fund Panel
Date to be Considered	xx.xx.2022
Implementation Date if Not Called In	Not applicable
Affected Wards	All
Keywords/Index	Pension Fund

1.0 Details of Recommendations

Members are asked:

1.1. To note the overall voting outcome for all votes cast for the period April 2021 to March 2022.

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

2.0 Report Summary

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

This report summarises the votes cast for the period April 2021 to March 2022 and highlights the key corporate governance issues considered when casting a vote.

3.0 Reason for the Report

This report is a summary of a current service provision to the London Borough of Hounslow Pension Fund (Fund).

4.0 Introduction

4.1 The Fund is committed to carrying out its duty as a shareholder by actively engaging with those companies in which we invest by way of exercising our voting rights. This is considered good practice and is in accordance with the Myners Principles to which we adhere.

4.2 PIRC Ltd are the Fund's appointed proxy voting service provider who, along with being responsible for submitting all votes, provide advice on corporate governance issues.

4.3 Votes are cast in accordance with a bespoke template which has been prepared by PIRC Ltd in association with Officers to ensure that best practice in corporate governance is encouraged in all companies in which we invest. The template has been designed to reflect the latest guidance available as covered by the UK Corporate Governance Code which provides guidance for companies and includes matters relating to Board governance and remuneration as well as social, economic and environmental policies. For overseas companies the relevant local best practice guidance is used to determine our voting policy.

4.4 This report covers the period April 2021 to March 2022.

4.5 The table below shows the current portfolios for which we hold direct voting rights.

Table 1: Portfolios with direct voting rights		
Investment Portfolio	**Market Value £m**	**% of Total Fund as at March 22**
Aberdeen global equities (incl. UK)	160.6	12.8
Blackrock UK equities	230.4	18.4
Total	**391.0**	**31.2**

5.0 Overview of votes cast

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

5.2 In total, 1,156 resolutions across 73 meetings were considered (in the previous year there were 1,786 resolutions across 111 meetings) which equates to approximately 15 resolutions per meeting. In recent years, changes to the Fund's portfolio have decreased the number of direct holdings for which we hold voting rights and increased the number of pooled holdings in which we do not have voting rights. Pooled holdings are held as units within a particular investment fund which may hold shares in a number of companies as part of its portfolio. However, as the pooled fund is the direct holder (and the Fund is only an indirect holder) of these shares it consequently owns the voting rights attributed to these holdings.

Table 2 highlights that for the period under consideration, almost two-thirds of all resolutions proposed were supported whilst just over 23% were voted against or abstained. Abstain or withheld votes are essentially votes against the resolution and most usually concern the appointment of directors in the United States which allow for either a 'for' or 'withhold' vote option as opposed to voting against any particular nominee.

Table 3 below shows that over half of all meetings, at which we exercised our voted rights, are held by UK listed companies. This is due to the vast majority of our global holdings being held within pooled funds for which we do not hold direct voting rights.

Table 2: Analysis of votes cast				
Period	**No. of meetings**	**No. of resolutions**	**% of resolutions supported**	**% of resolutions voted against**
Apr 21 – Jun 21	8	87	74.7	25.3
Jul 21 – Sep 21	33	617	77.3	22.7
Oct 21 – Dec 21	18	264	76.1	23.9
Jan 22 – Mar 22	14	188	75.5	24.5
Total	**73**	**1156**	**76.6**	**23.4**

5.3 Table 3 below splits the number of meetings and resolutions across the different geographical regions within which we vote.

Table 3: Geographic Voting Overview		
Geographic Region	**No. of Meetings**	**Resolutions**
UK	67	1,065
EU	6	91
Total	**73**	**1,156**

Voting rights apply to direct UK equity holdings.

5.4 Table 4 further analyses the votes cast against each of the main resolution types.

Table 4: Analysis of Voting Recommendations				
Resolution Type	**For**	**(%)**	**Oppose**	**(%)**
Annual Reports	53	**41.4**	75	**58.6**
Executive/All Employer Pay Scheme	10	**37.0**	17	**63.0**
Articles of Association	19	**100.0**	0	**0.0**
Auditors Appointment	94	**86.2**	15	**13.8**
Directors	459	**90.2**	50	**9.8**
Dividend	43	**100.0**	0	**0.0**
Share Issue/ Re-Purchase	114	**51.1**	109	**48.9**
Corporate Donations	28	**90.3**	3	**9.7**
Other	65	**97.0**	2	**3.0**

6 Key Corporate Governance Issues Considered

6.1 The first version of the UK Corporate Governance Code was produced in 1992 by the Cadbury Committee. The current version in practice was last issued in early 2019. Based on this our voting template is updated to ensure that our voting policy is always in line with best practice in corporate governance.

6.2 PIRC Ltd provide a comprehensive analysis of the corporate governance issues raised for each meeting and below listed are the key areas considered.

6.3 Board Structure

Best practice dictates that at least half of the Board should be made up of independent Non-Executive Directors (NEDs) to ensure that there is sufficient scrutiny of decisions made by the executive directors who effectively represent the management of the company. This ensures that no one individual has unfettered powers of decision and that the Board collectively is responsible for the long-term success of the company.

In addition, the Chairman who is ultimately responsible for the Board should not be a former executive of the company and that this role should operate as a distinct role independent to that of the Chief Executive.

One of the more recent updates to the UK Corporate Governance Code was a requirement for a NED to be designated as a Senior Independent Director (SID) to provide additional oversight to support the Chairman.

Our voting template is designed to vote against the appointment or re-election of Directors in the following instances:

- If the role of the Chairman and Chief Executive is combined,
- If the Chairman was not independent upon appointment or has been in post for over 9 years,
- if a NED has been in post for over 9 years,
- if there is an insufficient number of independent members on the Board. At least 50% of the Board should consist of independent members.

Almost 24% of Director appointments were opposed as shown in Table 4.

6.4 Remuneration

Currently the areas which receives the most ‘oppose’ votes are those relating to the approval of pay schemes. Proposals within this category vary between all staff share schemes (which are generally well received by shareholders due to the inclusive nature of schemes as they are open to all staff and improve staff engagement), remuneration of non-executive directors and finally executive director remuneration policies. Table 4 shows that over 72% of resolutions relating to pay schemes were voted against. The vast majority of these oppose votes fall into the last category.

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

Good corporate governance requires that the remuneration of executives is linked to clear performance targets with caps in place to avoid excessive pay outs.

When considering whether to vote for the remuneration policy for any particular company or not the following includes some of the factors considered;

- sufficient disclosure of all payments made including salary, pension contributions annual bonuses and LTIPs (Long Term Incentive Plans),
- salary paid in relation to peer companies and internal pay ratios,
- varied metrics to measure performance including non-financial measures,
- contract terms including rights upon termination or takeover,
- vesting periods of LTIPs.

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

PIRC provide a ranking system which covers all of the above areas when determining whether to vote ‘for’ or ‘against’ the remuneration report for any particular company and will provide a two letter rating from A to E which looks at both transparency of disclosure and ‘pay for performance’. The Fund template is set to approve only those reports which rate either an A or B status.

PIRC’s reports also include sector comparisons as well as analysis of supplementary payments which are a growing area of concern as attempts to curb bonuses are introduced.

6.5 **Audit appointment, fees and rotation**

The introduction of the EU Audit Regulation in April 2016 means that certain non-audit fees will now not be permissible. Our policy has therefore been updated to oppose the re-election of auditors in instances where the non-audit fee is over 25% of audit fees.

Other key governance issues considered include the following:

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

Our template will vote against the appointment of auditors if all of the above criteria is not met and Table 4 shows that just over 13% of proposed audit appointments are voted against.

6.6 **Annual reports**

All UK listed companies are required to report on how they have applied the main principles of the Code and where not applied, provide an explanation for non-compliance. In addition, shareholders must have an opportunity to approve the dividend. If this is not the case, then the annual reports will be voted against.

Over 58% of annual reports were voted against as shown in Table 4, but the shareholders approved the dividend.

6.7 **Share Issuance/ re-purchase**

Requests to issue additional shares or to re-purchase shares already in issue is considered a normal resolution if up to a set limit of 5% for new share issues and 10% for share buy-backs. Most of the proposals in this category relate to new share issuances and our policy is to vote against this proposal if the limit is over 5% and not accompanied by a reason for breaching the normal limit, for e.g., to raise cash for a viable takeover bid. Companies should clearly provide a justification for all share related changes and state how these benefits the existing shareholders to prevent dilution of share value.

Table 4 shows that just half of all proposals in this category were opposed.

7.0 Comments of the Executive Director of Finance and Corporate Resources

The Executive Director of Finance and Resources has approved this report.

8.0 Legal

There are no immediate legal implications arising from this report.

9.0 Sustainability Impact Appraisal

There are no direct sustainability issues and as such no appraisal is necessary.

10.0 Risk Management

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

11.0 Links to Council Priorities

Indirectly links to Spending Wisely – Every Penny Counts

12.0 Equalities, Human Rights and Community Cohesion

The Council is not being asked to make any decisions on actions related to equalities, human rights and community cohesion.

13.0 Staffing/Workforce and Accommodation implications

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

14.0 Property and Assets

There are no direct implications.

15.0 Any Other Implications

There are no further implications.

16.0 Consultation

The appointment of a proxy voting service provider has previously been approved by the Pension Fund Panel.

17.0 Timetable for Implementation

This report is for information only.

18.0 Appendices

None.

London Borough of Hounslow

The London Borough of Hounslow (The Administering Authority)
Pension Administration Strategy (PAS)

1. Introduction

The Local Government Pension Scheme (LGPS) is one of the largest public sector pension schemes in the UK. The London Borough of Hounslow is part of the LGPS and is the Administering Authority for a growing number of employers in the scheme.

The LGPS is a valuable element of the total remuneration package of employees working with employers in the scheme. Good quality administration and communication of the overall benefits of the LGPS aids in the confidence of membership towards the scheme and in their value of this employee benefit.

The LGPS Regulations 2013 enables the Administering Authority to prepare a written statement of its policies in relation to communication and the establishment of levels of performance for both the Administering Authority and employers within the scheme. The Administering Authority PAS is made up of this document and its accompanying appendices.

Any enquiries in relation to the Administering Authority PAS should be addressed to:

The Strategic Pensions Manager
The London Borough of Hounslow Pension Fund,
Civic Centre,
Lampton Rd,
Hounslow
TW3 4DN

Tel: 020 8583 5635 Email: pensions@hounslow.gov.uk

2. The Aims of the Administering Authority PAS

In making the PAS the Administering Authority seeks to foster good and effective relations between the Administering Authority and all Scheme Employers. It does this through:

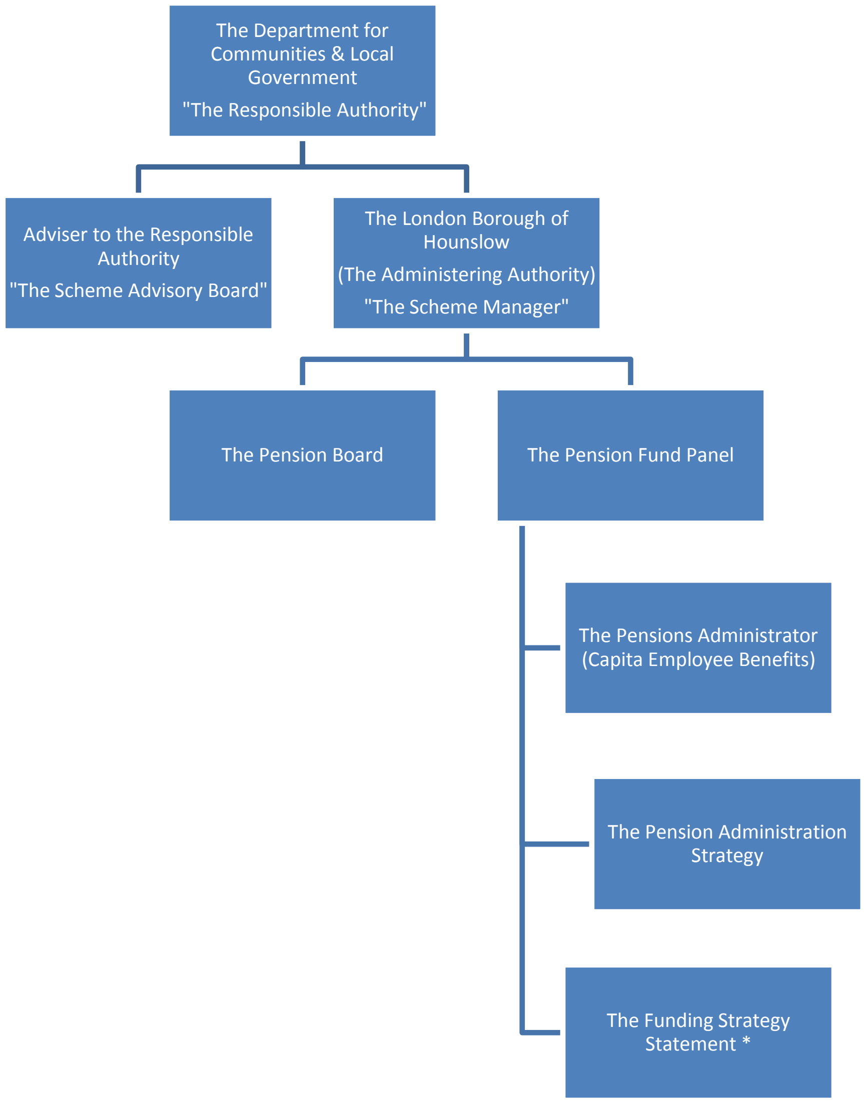
- Clearly defining the roles and responsibilities of the Administering Authority and Scheme Employers under the LGPS Regulations;
- Ensuring that the Administering Authority and Scheme Employers comply with their statutory requirements;
- Setting clear service standards and service level agreements to enable the efficient administration of functions under the LGPS Regulations;
- Clarifying procedures for the effective communications between the Administering Authority and Scheme Employers;

- Recognising that best value and best service is better achieved by close cooperation between the Administering Authority and Scheme Employers.

3. Governance Structures

3.1 The Governance Structure of the Administering Authority

The structure diagram below details the governance structure of the Administering Authority and the relationship with its associated policies.



The Funding Strategy Statement sets out how pension benefits will be funded over the long term through an accountable, transparent process with full disclosure of relevant details and assumptions.

4. Responsibilities of the Administering Authority (the Administering Authority) and Scheme Employers

LGPS Regulations 2013

The Adminstering Authority PAS

The Adminstering Authority

- Pensions administration (Capita Employee Benenfits)
- Valuations (& FRS102 /IAS19 if applicable)
- Regulatory updates
- Notification of Service Level Agreements
- Policy statements
- Notification of additional fees
- Adminstering Authority discretions policy
- Communication with Scheme Employers
- Provision of scheme website

Scheme Employer

- Calculation and payment of redundancy and/or severance payments*
- Calculation and payment of injury payments*
- Provision of data required for End of Year returns
- Provision of data required for FRS102 calculations*
- Provision of data required for interim and/or cessation valuations*
- Any advice or work which falls outside the remit of the Administering Authority as defined by the LGPS Regulations*
- Setting up and amendment of admission agreements*
- Recharges for any 3rd party work or advice (e.g. legal or actuarial)*
- Monthly return shedules
- Remittance of pension contributions and relevant lump-sum payments
- Employer discretions policy
- Communications with scheme members

**These functions are outside of the responsibility of the Administering Authority; however, the Administering Authority can provide these services in line with the PAS Statement of charges*

5. Appendices which form the Administering Authority PAS

Provides the regulatory framework that applies to the Administering Authority PAS under the Local Government Pension Scheme Regulations 2013.

The PAS Admissions Policy sets out the treatment of Scheme Employers in the London Borough of Hounslow Pension Fund. It gives details of the admissions criteria, responsibilities and risk controls.

This guide provides Scheme Employers with a summary of their administrative responsibilities as a member of the Administering Authority

As part of the LGPS, employers and the Administering Authority make decisions which can affect the benefits of current, past and pensioner members in the Hounslow pension scheme. The right of a member to challenge these decisions is derived from the Pensions Act 1995.

Details of the discretions of Scheme Employers under the LGPS Regulations 2013.

In order to comply with Local Government Pension Scheme Regulations 2013 the Administering Authority has agreed a level of performance between the Administering Authority and Scheme Employers. These are set out in the Service Level Agreement (SLA) between the Administering Authority and Scheme Employers.

This policy sets out the conditions and guidance on the costs applicable to Scheme Employers for work carried out by the Administering Authority. These charges are exclusive to the charging schedule in the PAS Service Level Agreement.

The written statement setting out the Administering Authority policy concerning communications with, members, representative members, prospective members and Scheme Employers.

The Administering Authority Indemnity Policy lays out a policy to assure the protection of the Administering Authority against financial pension risk and to mitigate the risk of the liabilities of one Scheme Employer impacting on other Scheme Employers in the Administering Authority.

5.10 PAS Academies Policy Page 54

The PAS Academies Policy sets out the treatment of academies and free schools by the Administering Authority. It provides details of the approach to funding arrangements for this group of Scheme Employers.

5.1 PAS Regulatory framework

Regulation 59 (1) of the Local Government Pension Scheme Regulations 2013 enables a Local Government Pension Scheme Administering Authority to prepare a written statement of the Administering Authority's policies in relation to such matters mentioned in Regulation 59 (2) that it considers appropriate. This written statement shall be known as the "Pension Administration Strategy" and shall include the following:

- Procedures for liaison and communications between the Administering Authority and Scheme Employers ("its Scheme Employers);
- The establishment of levels of performance which the Administering Authority and its Scheme Employers are expected to achieve in carrying out their Scheme functions ("Service Level Agreements (SLA)"). These functions are:
  (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 considers appropriate
- Procedures which aim to secure that the Administering Authority and its Scheme Employers comply with statutory requirements in respect of those functions and with any agreement about levels of performance;
- Procedures for improving the communications by the Administering Authority and its Scheme Employers to each other of information relating to those functions;
- The circumstances in which the Administering Authority may consider giving written notice to any of its Scheme Employers under these regulations (additional costs arising from the Scheme Employer's level of performance) on account of that employer's unsatisfactory performance in carrying out its Scheme functions when measured against levels of performance established under the SLA;
- The publication by the Administering Authority of annual reports dealing with:
  (i) the extent to which the Administering Authority and its Scheme Employers have achieved the level of performance established under the SLA;
  (ii) such other matters arising from The Pension Administration Strategy as the Administering Authority considers appropriate.
- Such other matters as appear to the Administering Authority after consulting its Scheme Employers and such other persons as it considers appropriate, to be suitable for inclusion in The Pension Administration Strategy.

In addition Regulations 59 (3 -7) requires that:

- Where the Administering Authority produces a Pension Administration Strategy, it is kept under review and revised where appropriate;
- When reviewing or revising the Pension Administration Strategy the Administering Authority must consult with its Scheme Employers and such other persons it considers appropriate;
- Where the Administering Authority produces a Pension Administration Strategy or revises that strategy it must send a copy of it to each Scheme Employer and to the Secretary of State;
- The Administering Authority and Scheme employers must have regard to the Pension Administration Strategy when carrying out functions under the LGPS regulations.

Regulation 70 of the Local Government Pension Scheme Regulations 2013 enables the Administering Authority to recover additional costs from a Scheme Employer when, in the opinion of the Administering Authority, it has incurred additional costs because of the poor performance of the Scheme Employer in relation to the Pension Administration Strategy SLA.

The Administering Authority may give written notice to the Scheme Employer stating:

- the Administering Authority's reasons for forming the opinion;
- the amount the Administering Authority has determined the Scheme Employer should pay under regulation 69 (1) (d) in respect of those costs and the basis on which the specified amount is calculated;
- the provisions of the Pension Administration Strategy which are relevant to the decision to give the notice.

5.2 PAS Admissions Policy for Admission Bodies

1. The Objectives of the Admissions Policy for Admission Bodies

This is the policy of the London Borough of Hounslow (the Administering Authority) as regards the treatment of Admission Bodies in the London Borough of Hounslow Pension Fund and bulk transfers of pension rights to and from the Fund. This policy is effective from 1 April 2014 and revised periodically.

This policy should be read in conjunction with the London Borough of Hounslow Funding Strategy Statement, the London Borough of Hounslow Pension Administration Strategy and relevant legislation, such as the Local Government Pension Scheme Regulations 2013.

The objectives of the admissions policy for Admissions Bodies are:

- To minimise the risk to the Admission Body of meeting its obligations to meet the pension rights of transferring employees;
- To ensure that sufficient protections are in place to minimise the funding risk to the Admission Body and the Administering Authority;
- To ensure that the Admission Body is aware of and follows the LGPS Regulations, Statutory legislation and Fair Deal guidance;
- To main the affordability of the fund to Admission Bodies over the long term.

The officers of the Administering Authority will be responsible for ensuring accordance with this policy. Any deviation from this policy is permitted only with the prior agreement of the Director of Finance & Corporate Services/S151 Officer.

The Administering Authority may review this policy at its discretion.

2. Admission Bodies

Admission Bodies are defined in the LGPS Regulations 2013 Schedule 2, Part 3, (1).

- A body which provides a public service in the United Kingdom which operates otherwise than for the purposes of gain and has sufficient links with a Scheme employer for the body and the Scheme employer to be regarded as having a community of interest (whether because the operations of the body are dependent on the operations of the Scheme Employer or otherwise);
- A body, to the funds of which a Scheme employer contributes;
- A body representative of:
  - Any Scheme employers, or
  - Local authorities or officers of local authorities;
- A body that is providing or will provide a service or assets in connection with the exercise of a function of a Scheme employer as a result of:
  - The transfer of the service or assets by means of a contract or other arrangement,
  - The direction made under section 15 of the Local Government Act 1999(a) (Secretary of State's powers),
  - Directions made under section 497A of the Education Act 1996(b);

- A body which provides a public service in the United Kingdom and is approved in writing by the Secretary of State for the purpose of admission to the Scheme.

3. Process for gaining Admission Body status

Pension costs form a major part of the bidding process and the following process should be followed as part of the tender exercise:

Step 1
- The awarding employer notifies the Adminstering Authority (Strategic Pensions Manager) of the outsoucing tender as soon as possible and at least 3 months prior to the contract notice.

Step 2
- The Administering Authority provides the awarding employer with an indicative employer contribution rate

Step 3
- The Administering Authority requests employee information from theawarding employer in the specified format

Step 4
- The Administering Authority actuary carries out a valuation of the prospective employer contributions for the Admission Body (on both an 'open' and 'closed' basis) and a termination risk assessment.

Step 5
- The prospective new Admission Body carries out, to the satisfaction of the Administering Authority , the level of risk arising from the premature terminiation of the Admission Body by reasons of insolvency, winding up, or liquidation.

Step 6
- The Administering Authority passes this information to the outsourcing employer.

Step 7
- The awarding employer notified the Administering Authority of the contract award, including details of the final transferring employees (a further actuarial valaution can be obtained, at the awarding employer's request).

Step 8
- The draft admissions agreement and draft bond/guarantee agreement is issued by the Administering Authority to the prospective new Admission Body and the awarding employer. These should be agreed and signed prior to the commencement of the contract.

Step 9
- The prospective new Admission Body is admitted in to the London Borough of Hounslow Pension Fund as an Admission Body.

Step 10
- The new Admission Body is issued with and signs compliance to the Administering Authority Administration Strategy and appendices.

4. Entry Conditions & Indemnity Requirements of Admission Bodies

- The Admissions Body should meet the requirements as laid out in the LGPS Regulations
- The London Borough of Hounslow reserves the right to prohibit the admission of a contractor as an Admission Body should it refuse to meet the requirements of the LGPS Regulations
- The London Borough of Hounslow shall only enter in to an admission agreement with a body that provides services linked to a scheme employer as prescribed by the LGPS regulations
- Admission agreements may be 'open' or 'closed' to new employees at the ultimate discretion of the Administering Authority.
- The terms in the Administering Authority admissions agreement will be non-negotiable.
- The Admission Body shall carry out, to the satisfaction of the Administering Authority, an assessment, taking in to account actuarial advice, of the level of risk arising on the premature termination of the provision of services or assets by reasons of insolvency, winding up or liquidation, of the Admission Body. If the Administering Authority should determine that the a level of risk identified by the assessment require it, the Admission Body shall enter in to an indemnity or bond or, if not desirable, secure a guarantee in a form satisfactory to the administering authority in the form of:
  - a person who funds the Admission Body in whole or in part;
  - a person who—owns, or controls the exercise of the functions of, the Admission Body;
  - the Secretary of State in the case of an Admission Body which is established by or under any enactment, and where that enactment enables the Secretary of State to make financial provision for that Admission Body.

Under the terms of the LGPS Regulations, a termination valuation is carried out at the point of cessation of the Admission Body in order to ascertain the final payment due relating to any deficit.

The Administering Authority assumes that on termination the Admission Body will have a 'clean break' and that all liabilities of the terminating Admissions Body will be extinguished on payment of a cessation deficit, calculated by the Pension Fund actuary of the day

Where the Admission Body is unable to meet the outstanding termination payment, the payment must be collected from:

- any insurer or person providing an indemnity or bond on behalf of that body (this might include a guarantor, such as a sponsoring employer or central government department)

Where this is not possible:

- from each other Scheme Employer within the fund.

The Administering Authority has a preference for a bond or indemnity to be provided by the Admission Body, but, this is not a mandatory requirement as the awarding employer is in effect a guarantor already under the terms of the LGPS Regulations. The awarding employer will be required to confirm in writing the approach it wishes to take. In all circumstances where a bond or indemnity is provided, the bond or indemnity will be reviewed at the discretion of the Administering Authority and at least in line with the formal triennial valuation.

5. Approval Process

The Administering Authority will be responsible for ensuring that any bodies meet the Entry Conditions & Indemnity Requirements of Admission Bodies, having regard to the appropriate legal and actuarial advice. All applications will be acceptable if these conditions are met.

The London Borough of Hounslow admission agreements will be drawn up on the advice of the Administering Authority actuary and legal advisors.

All applications will be subject to approval by the Director of Finance& Corporate Services /S151 officer on an individual basis.

6. Back dating of an Admission Agreement

The Administering Authority will only consider backdating admission agreements in exceptional circumstances, for a limited period and if all parties to transfer are at an advanced stage of processing the admissions agreement.

Back dating of admissions agreements will be subject to approval by the Director of Finance & Corporate Services/S151 officer on an individual basis.

7. Risk Sharing

In order to avoid the Administering Authority becoming involved in any disputes relating to risk sharing and to protect the other participating Scheme Employers, the Administering Authority will not be party to any risk sharing agreement between any awarding employer and contractor. Accordingly, any such arrangements will not be detailed in the admission agreement and the Admission Body will be required to follow the principles of agreement as if no such risk sharing was in place.

The only exception to this is if the Administering Authority is willing to accept payment of any deficit on termination from the awarding employer, rather than the Admission Body. The Administering Authority may permit this in acknowledgment that the awarding employer is ultimately the guarantor under the terms of the LGPS Regulations.

8. Funding Basis/contributions of and Additional Costs for Admitted Bodies

- On initial admission, Admission Bodies will be notionally allocated 100% of the value of past service liability assets (any deficit in relation to the past service will be retained by the awarding authority at the point of initial admission);
- Thereafter the Admission Body's assets and liabilities will be tracked and if necessary employer contributions adjusted at each formal triennial valuation with a view to achieving solvency at the end of the contract period;
- Assets attributable to Admission Bodies will form a part of the overall investment strategy for the Administering Authority;

- Employer contributions for Admission Bodies will be set in accordance with the Administering Authority Funding Strategy Statement and reviewable at the discretion of the Administering Authority and at least in line with the formal triennial valuation;
- Admissions bodies will be required to pay additional costs, including, but not limited to:
  - lump sums due if an eligible employee is made redundant, or leaves on the grounds of efficiency, and is aged 55 or over, the LGPS regulations provide the member with immediate payments of their benefits;
  - lump sums due if an eligible employee retires from age 55 on flexible retirement and the employer chooses to waive early retirement reductions;
  - lump sums due in respect of any early retirement and the employer chooses to waive early retirement reductions;
  - lump sums due in respect of the award of additional pension;
  - lump sum payments due in respect of the early payment for early retirements on the grounds of ill-health;
  - any actuarial, legal or administrative costs of establishing the Admission Body (although it may be agreed that these costs are paid by the awarding authority);
  - any actuarial, legal or administrative costs relating to the production of FRS102 (or IAS19) returns;
  - any actuarial, legal or administrative costs relating to the production of the triennial fund valuation (there will be no direct charge for the triennial valuation, but, individual fund assets will be reduced proportionate to the size of their assets in the Hounslow Fund to meet this cost);
  - any charges incurred by the use of an Independent Medical Practitioner;
  - reimbursement of additional costs arising with the Admitted Body's level of performance (LGPS Regulations 2013 (70)) and in line with The London Borough of Hounslow Administration Strategy.

9. Termination Requirements

- The Administering Authority will include in the admissions agreement the right to terminate the Admission Body as defined in the LGPS Regulations 2013 Schedule 2, Part 3, (9);
- The Administering Authority will also include in the Admissions Agreements the right for the Administering Authority to terminate the Admissions Agreement if:
  - the Admissions Body fails to pay due contributions,
  - if no further active members exist,
  - if at any time the Admission Body refuses to meet the requirements as laid out by the LGPS Regulations;
- On the termination of the Admissions Body a 'cessation' valuation shall be carried out by the Administering Authority to ensure that the assets of the terminating Admissions Body are equal to its liabilities;
- The 'cessation' valuation will on the basis of the one of the following, dependent on the nature of the termination:
  - Full cessation – minimum risk calculation for all members: the Admission Body no longer participates in the Administering Authority and no other body is to underwrite any residual liabilities,
  - Partial cessation – minimum risk calculation for deferred and pensioner members / ongoing risk calculation for active members: the Admission Body no longer participates in the Administering Authority and no other body is to underwrite the residual liabilities for deferred or pensioner members, however, active members are transferred to another employer in the fund,

- Ongoing cessation – ongoing risk calculation for all members: the Admission Body no longer participates in the Administering Authority, but, another body underwrites the residual liabilities for all class of members;

- The 'cessation' payment will be collected from the terminating Admission Body as a lump-sum payment within 60 days of the termination;
- If it is impossible to collect the 'cessation' payment directly from the terminating Admission Body the payment the Administering Authority will seek payment from the following (by order of preference):
  - Bond or indemnity,
  - Guarantor,
  - The awarding employer (by way of an immediate increase in the awarding employer's ongoing contribution rate).

10. Bulk Transfers

Bulk transfers occur when a number of members transfer their benefits from one pension scheme to another. The bulk transfer payment is negotiated between the Administering Authority actuary and the actuary of the receiving/transferring scheme and reflects the LGPS (Administration) Regulations (98, 99,100,101 and 102) and supplementary guidance; in particular HM Treasury Guidance (Fair Deal), the Code of Practise On Workforce Matters issued by the Office of the Deputy Prime Minister and the Best Value Authorities Staff Transfers (Pensions) Directions 2007.

Bulk transfers commonly occur in the following circumstances:

- Bulk transfers from the Administering Authority to non-LGPS funds;
- Bulk transfers between LGPS funds;
- Bulk transfers between employers in the Administering Authority.

Bulk transfers from the Administering Authority will follow the following policy:

- In a bulk transfer to a broadly comparable scheme (generally in the case of a public sector outsource), the transfer payment will represent the full value of the transferring liabilities on an ongoing funding basis, irrespective of the funding level of the transferring authority;
- In other circumstances, including intra public sector transfers, the bulk transfer will be considered on a case by case basis. Although, the overriding principle will be that the bulk transfer paid by the Administering Authority will be the equivalent to the employer's share of assets in the Administering Authority, less any amount withheld to ensure non-transferring liabilities are fully funded;
- The share of the Administering Authority assets transferring will be in reference to the funding position of the transferring employer and not the Administering Authority as a whole;
- Should the employer's notional ongoing position be in surplus, such surplus will not be transferred as part of the bulk transfer;
- Any shortfall between the bulk transfer payable by the Administering Authority and that which the receiving scheme receives is to be dealt with outside of the Administering Authority, for example by a top up from the employer to the receiving scheme or through higher ongoing contributions to that scheme;
- The type if payment of the bulk transfer will be at the discretion of the Administering Authority (Section 151 Officer) and will include any deductions for administrative and legal costs;
- If a bulk transfer leads to an increased deficit the transferring body's share of the Administering Authority this deficit will normally be made up through an adjustment in the

employer contribution rate or through a lump sum payment, at the ultimate discretion of the Administering Authority.

Bulk transfers in to the Administering Authority will follow the following policy:

- All bulk transfers will be sufficient to meet the value of the accrued benefits being transferred on an ongoing valuation basis applicable on the transfer date, in regards to Government Actuarial Department (GAD) guidance on calculation service credits under the LGPS;
- Any shortfall in the transfer value in relation to the GAD calculation will be made up by the receiving employer, either through an adjustment to the employer contribution rate or a lump sum payment.

5.3 PAS Employers Guide to the Local Government Pension Scheme

1. About this guide

This guide is designed to provide Scheme Employers with a summary of the administrative responsibilities as a member of the London Borough of Hounslow Pension Fund.

The guide forms part of and should be read alongside the Pension Administration Strategy and appendices.

The Employer Guide to the Local Government Pension Scheme (LGPS) is broken in to the following sections:

- Administration of the scheme
- What is the LGPS?
- Who is eligible for membership of the LGPS?
- Scheme Employer responsibilities
- The Administering Authority responsibilities
- The process for Scheme Employers to follow when admitting an employee in to the LGPS
- Calculation of pensionable pay
- Calculating employee pension contributions
- A 50/50 election
- Calculation of the employer pension contributions
- Additional pension payments
- Monthly payment and reporting requirements to the Administering Authority
- End of year / leaver information
- Notifying the Administering Authority of changes in Member details
- Leavers in the LGPS
- The responsibilities of Scheme Employers to members after they have left employment
- Outsourcing
- Internal dispute resolution procedure

This guide is not exhaustive and should be read in conjunction with the detailed guide to administrative process provided in the Capita Employee Benefits, London Borough of Hounslow Administering Authority and Scheme Employers Procedure Manual.

2. Administration of the scheme

The London Borough of Hounslow Pension Fund is administered by London Borough of Hounslow (the Administering Authority). The administering agents for the Administering Authority are Capita Employee Benefits.

The Capita Employee Benefits team contact details are as follows:

Enquiry telephone line: 01325 746 026

Enquiry email: hounslow.pensions@Capita.co.uk

All paper based correspondence should be sent to:

London Borough of Hounslow Pension Fund, Capita Employee Benefits, PO Box 195, Mowden Hall, Darlington DL1 9FS

3. What is the LGPS?

The LGPS is a career average re-valued earnings (CARE) occupational pension scheme. The LGPS is a statutory scheme, with its Regulations formed and amended by Acts of Parliament.

A copy of the current Regulations can be found at www.lgpsregs.org

The administration of the LGPS must comply with other relevant legislation and the guidance from the Pensions Ombudsman and the Pensions Regulator.

4. Who is eligible for membership of the LGPS?

The Administering Authority LGPS is made up of Scheme Employers. These are defined under Schedule 2, Parts 1, 2 and 3 of the LGPS Regulations 2013 and are made up of:

Scheduled bodies: On their first day of eligibility employees must be brought in to the LGPS automatically.
Scheduled bodies are contained in Schedule 2, Part 1 of the LGPS Regulations 2013 and include: **1. In England, a county council, a district council, a London borough council, the Greater London Authority, the Common Council of the City of London and the Council of the Isles of Scilly** **2. In Wales, a county council or a county borough council** **3. A joint board, body or committee appointed under any Act or statutory order or statutory scheme, of which all the constituent authorities are councils of a description in paragraph 1 or 2 or a combination of such councils** **4. A Mayoral development corporation within the meaning of section 198 of the Localism Act 2011 (a)** **5. A fire and rescue authority within the meaning of the Fire and Rescue Services Act 2004 (b)** **6. A police and crime commissioner** **7. A chief constable within the meaning of section 2 of the Police Reform and Social Responsibility Act 2011 (c)** **8. The Commission for Local Administration in England** **9. A probation trust established under section 5 of the Offender Management Act 2007 (d) or a National Probation Service local board** **10. The Chichester Harbour Conservancy** **11. The Lee Valley Regional Park Authority** **12. An integrated transport authority within the meaning of Part 5 of the Local Transport Act 2008 (e)** **13. The Broads Authority** **14. A further education corporation, a sixth form college corporation or a higher education corporation within the meaning of section 90 of the Further and Higher Education Act 1992 (f)** **15. The London Pension Fund Authority**

16. The South Yorkshire Pensions Authority
17. The Environment Agency
18. A National Park Authority established under Part 3 of the Environment Act 1995 (g)
19. An Education Action Forum within the meaning of section 11 of the School Standards and Framework Act 1998 (h)
20. A proprietor of an Academy within the meaning of section 579 (general interpretation) of the Education Act 1996 (i) who has entered into Academy arrangements within the meaning of the section 1 (academy arrangements) of the Academies Act 2010 (j)
21. A body set up by the local housing authority as a housing management company to exercise management functions of the authority under an agreement approved by the appropriate minister under section 27 of the Housing Act 1985 (k)
22. The Valuation Tribunal Service established under section 105 of the Local Government Act 2003 (i) and the Valuation Tribunal for Wales established under regulation 4 of the Valuation Tribunal for Wales Regulations 2010 (m)
23. A conservation board established under section 86 of the Countryside and Rights of Way Act 2000 (a).

Designating bodies: An employee or class of employee can be 'designated' as being eligible to join the LGPS. On their first day of designation employees must be brought in to the LGPS automatically.

Designated bodies are contained in Schedule 2, Part 2 of the LGPS Regulations 2013 and include:

1. The Board of Governors of the Museum of London
2. A body (other than a body listed in Part 1 of Schedule 2, Part 2 of the LGPS Regulations 2013) which is –
   (a) a precepting authority within the meaning of section 69 of the Local Government Finance Act 1992 (b) (interpretation)
   (b) a levying body within the meaning of section 74 of the Local Government Finance Act 1988 (c) (levies) or
   (c) a body to which section 75 of that Act (special levies) applies
3. A passenger transport executive
4. An institution designated by an order under section 129 of the Education Reform Act 1988 (d)
5. An entity connected with a local authority listed in paragraphs 1 to 5 of Part 1 of Schedule 2, Part 2 of the LGPS Regulations 2013 where "connected with" has the same meaning as in section 212 (6) of the Local Government Public Involvement in Health Act 2007 (e)
6. A company under the control of a body listed in paragraphs 6 to 23 of Schedule 2, Part 2 of the LGPS Regulations 2013 where "under control" has the same meaning as in section 68 or, as the case may be, 73 of the Local Government and Housing Act 1989 (f) (except that any direction given by the Secretary of State must be disregarded, and any references to a local authority treated as references to such a body)
7. The Public Services Ombudsman for Wales
8. The Serious Organised Crime Agency
9. Transport for London
10. The London Transport Users' Committee
11. The Cultural Strategy Group for London
12. The Children and Family Court Advisory and Support Service

13. An urban development corporation

Admission bodies: Staff who eligible for membership of the LGPS will be included in admissions agreement. The admission body may be open or closed to new members, according to the admissions agreement. On their first day of eligibility under the admissions agreement, employees must be brought in to the LGPS automatically.

Bodies with whom the Administering Authority may make an admission agreement are contained in Schedule 2, Part 3 of the LGPS Regulations 2013 and include:

1. **A body which provides a public service in the United Kingdom which operates otherwise than for the purpose of gain and has sufficient links with a Scheme Employer for the body and the Scheme Employer to be regarded as having a community of interest (whether because of the operations of the body are dependent on the operations of the Scheme Employer or otherwise)**
2. **A body, to the funds of which a Scheme Employer contributes**
3. **A body representative of –**
   - **(a) any Scheme Employers, or**
   - **(b) local authorities or officers of local authorities**
4. **A body that is providing or will provide a service or assets in connection with the exercise of a function of a Scheme Employer as a result of –**
   - **(a) the transfer of the service or assets by means of a contract or other arrangements,**
   - **(b) a direction made under section 15 of the Local Government Act 1999 (a) (Secretary of State's powers).**
   - **(c) Directions made under the section 497A of the Education Act 1996 (b)**
5. **A body which provides a public service in the United Kingdom and is approved in writing by the Secretary of State for the purpose of admissions to the Scheme**

Membership rights of these employing bodies are as follows:

	Whole Time	Part Time	Casual (with Mutuality of obligation)
Scheduled body	Employee right *Automatic entry*	Employee right *Automatic entry*	Employee right *Automatic entry*
Designating body	Employer choice Automatic entry	Employer choice Automatic entry	Employer choice Automatic entry
Admission body	Employer choice *Automatic entry*	Employer choice *Automatic entry*	Employer choice *Automatic entry*

In all cases the following employees are not eligible for membership of the LGPS:

- Employees aged 75 or over
- Those who are eligible for membership of another public sector scheme
- Those employed by an Admission Body who are already a member of the company's occupational pension scheme

If an employee has a contract of less than 3 months their treatment is reliant of their category in respect to Auto-enrolment (please see the LGE Auto-enrolment guide at www.local.gov.uk/web/workforcelibrary/technical-guides). **If their contract is extended for 3 months or more they should be contractually enrolled from the first day of the pay period following the extension of their contract.**

5. Scheme Employers responsibilities

The Scheme Employer is responsible for:

- Making decisions regarding their employee's entitlement to the LGPS membership and benefits;
- Paying employee and employer contributions to the Administering Authority;
- Paying employee and employer additional pension contributions (APCs) in to the Administering Authority;
- Paying employee and employer additional voluntary contributions (AVCs) in to the Administering Authority;
- Providing the Administering Authority administrators, Capita Employee Benefits with the information they require to administer the Hounslow Pension Scheme in line with the Administering Authority and Scheme Employers Procedure Manual
- Publish a formal policy in regard to discretions under the LGPS Regulations and contained in the Administering Authority PAS Scheme Employer Discretions document and exercise these discretions when appropriate
- Adhering to the Administering Authority PAS and appendices (including SLAs)
- Adhere to an Internal Disputes Resolution Procedure (IDRP), (further information is contained in the Administering Authority PAS IDRP document).

6. The Administering Authority responsibilities

The Administering Authority is responsible for:

- Calculating benefit entitlement for all LGPS members, based on the information provided by the Scheme Employer
- Investing employee and Scheme Employer pension contributions in line with its Funding Strategy Statement
- Adhering to the Administering Authority PAS and attached documents (including SLAs)

7. The process for Scheme Employers to follow when admitting an employee in to the LGPS

Stage 1
- Determine the employee's eligibility for the LGPS

Stage 2
- Establish the member's contribution rate and band

Stage 3
- Send a New Starters form to Capita Employee Benefits (the service standard requirements can be in the Hounslow Pension Fund SLA).

Stage 4
- Capita Employee Benenfits will send a Statutory Notification of membership to new members within 3 months of their membership

Stage 6
- Pay over contributions to the Hounslow Pension Fund and include new member contributions in the next monthly schedule to be sent to the Hounslow Pension Fund

8. Calculation of pensionable pay

The LGPS Regulations 2013 set out what elements of pay count as pensionable pay. Pensionable pay is the total of:

- All salary, wages, fees and other payments paid to the employee and;
- Any benefit specified in the employee’s contract of employment as being a pensionable emolument

Pensionable pay **does not** include:

- Any sum which has not had income tax liability determined on it;
- Any travelling, subsistence or other allowance paid in respect of expenses incurred in relation to employment;
- Any payment in consideration of loss of holidays;
- Any payment in lieu of notice to terminate a contract of employment;
- Any payment as an inducement not to terminate a contract of employment;

- Any amount treated as the money value to the employee of the provision of a motor vehicle or any amount paid in lieu of such provision;
- Any payment in consideration of loss of future pensionable payments or benefits;
- Any award of compensation (excluding any sum representing arrears of pay) for the purpose of achieving equal pay in relation to other employees;
- Any payment made to a Scheme Employer to a member on reserve forces leave;
- Returning officer, or acting returning officer fees other than fees paid in respect of:
  - Local government elections
  - Elections for the National Assembly for Wales
  - Parliamentary elections or
  - European Parliamentary elections

If the Member has more than one job then each job should be treated separately when calculating pensionable pay.

Cumulative pensionable pay (CPP): CPP must be provided for separately for each section of the scheme (50/50 or main) and should contain all the pensionable pay and assumed pensionable pay for each section during the year (01/04 – 31/03).

Assumed pensionable pay: This replaces the notional pay in cases of reduced contractual pay or nil pay as a result of sickness or injury, or reduced or nil pensionable pay during relevant child related leave. APP is calculated as an annual rate then applied to the relevant period as a proportion of that rate. For monthly paid employees three complete pay periods should be used. For weekly paid employees 12 complete weekly pay periods should be used.

Further information and examples regarding the calculation of pensionable pay, CPP and APP can be found in the LGPS Regulations and Guidance – Payroll Guide to the 2014 Scheme.

9. Calculating employee pension contributions

Once the pensionable pay has been established the contribution rate charge is based on the annual pensionable pay received by the employee, recalculated every subsequent 1st April.

If the Member has more than one job then each job should be treated separately when calculating the rate and band of member contributions. This could mean that the member is paying a different contribution rate for different jobs.

If a Member's pay changes "materially" it is for the Scheme Employer to decide if their contribution band is changed immediately or if it re-bands the member's contribution on the subsequent 1st April. It is advisable for the Scheme Employer to have a policy which reflects this.

10. A 50/50 Election

- A member may elect to pay 50% contribution with the equivalent 50% of benefit accrual.
- If such an election is made then the contribution rate is reduced to 50% at the next payment period;
- The Scheme Employer must give the employee information about the effects of making a 50/50 election.

- The 50/50 election is cancelled and the member returned to 100% contributions and benefit accrual if:
  - The member is assessed for automatic re-enrolment
  - The member goes on to nil pay as a result of injury or sickness
- A member may elect to move between the 50/50 and the standard option, with affect of different pay periods.

11. Calculation of the employer pension contributions

The employer contribution of the Scheme Employer will be determined by the Administering Authority actuary and is re-assessed as part of the Administering Authority triennial valuation.

12. Additional pension payments

12.1 Additional pensions contributions (APCs)

- Active members may elect to pay APCs;
- The minimum period over which a member can elect to pay APCs is 1 year

The procedure to be followed for APCs can be found in the Administering Authority and Scheme Employers Procedure Manual.

The service standard requirements can be in the Administering Authority SLA.

12.2 Additional voluntary contributions (AVCs)

- Active members may elect to pay AVCs;
- Scheme Employers may also contribute in to member AVCs, these are called shared costs additional voluntary contributions (SCAVCs);
- AVSs and SCAVCs are invested with the Administering Authority AVC provider, currently Standard Life

The procedure to be followed for AVCs can be found in the Administering Authority and Scheme Employers Procedure Manual.

The service standard requirements can be in the Administering Authority SLA.

13. Monthly payment and reporting requirements to the Administering Authority

Pension legislation specifies that payment of contributions is due by the 19th of the month following the deduction (or the 22nd of the month if paid electronically) e.g. contributions deducted from staff from their July salary are due to the Pension Fund no later than the 19th of August (or the 22nd of the month if paid electronically). However, the Pension Scheme Regulations allow the Administering Authority to specify when the Pension Fund should receive contributions and requests that contributions are paid by the **5th of the month following deduction**.

In certain circumstances, the Administering Authority may have a responsibility to notify the Pension Regulator if there are late payments of pension contributions, this may lead to a fine from Pension Regulator for failure to comply with the 1995 Pensions Act.

Interest on late payments becomes due with effect from one month following the required payment date e.g. interest we be charged on contributions due in relation to July deductions if payment has not been received by the 5th September. Interest is calculated at 1% above the Bank of England base rate on a daily basis, from the due date to the date that the payment is received and is compounded three monthly.

A monthly schedule is also required that breaks down the contributions between employee, employers and additional contributions from each employee.

The monthly schedule includes the following information:

Scheme data	Description	Format
Surname		Alphabetical
Forename (or initials)		Alphabetical
National insurance number		Alphabetical
Unique employment number		Alphabetical
Monthly section: Main or 50/50	Whether the member is part of the main section or 50/50 section in the month	Main / 50/50
Monthly cumulative pensionable pay received	The total pensionable pay and/or assumed pensionable pay in the main section for the month	Number to 2 decimal places
Monthly employer contribution rate	Monthly employer contribution rate	Percentage
Monthly lump sum deficit recovery amount	The amount of deficit recovery payment to be paid as monthly/annual lump sum amount	Number to 2 decimal places
Employee contribution rate	Monthly employer contribution rate, whether in main or 50/50 section	Percentage
Monthly added years contributions		Number to 2 decimal places
Monthly ARC contributions		Number to 2 decimal places
Monthly APC contributions		Number to 2 decimal places

A data entry form for the monthly schedule will be supplied and all schedules are to be sent monthly, via e-mail to:

Romi.kahlon@hounslow.gov.uk ,

Pensions@hounslow.gov.uk and

Hounslow.pensions@capita.co.uk

For security reasons the document should be zipped and password protected.

Pension contributions should be paid directly into the Administering Authority bank account as detailed below:

Reference: *Scheme Employer's name*

Account name: The Administering Authority

Bank: NatWest Bank plc

Sort Code: 601118 Account number: 20364733

14. End of year / leaver information

In line with the PAS Scheme Employer SLA, the Scheme Employer must provide End of Year membership data to the Administering Authority within 2 months from the end of the scheme year (1 April - 31 March). The exact date will be confirmed each year.

The administrator will confirm the data required, which at a minimum will be:

Scheme data	Description	Format
Scheme year ending		Date format 01/01/01
Surname		Alphabetical
Forename (or initials)		Alphabetical
Gender		M or F
Date of birth		Date format 01/01/01
National insurance number		Alphabetical
Unique employment number		Alphabetical
Date joined the scheme (if during this scheme year)		Date format 01/01/01
Date ceased active membership of the		Date format 01/01/01

scheme (if during this scheme year)		
Section of scheme membership at end of scheme year	The section of the scheme the employee was a member of in the employment at the end of the scheme year (or at the date of cessation if in the scheme year)	Alphabetical
Main section cumulative pensionable pay received	The total pensionable pay and/or assumed pensionable pay in the main section for the scheme year	Number to 2 decimal places
50/50 cumulative pensionable pay received	The total pensionable pay and/or assumed pensionable pay in the 50/50 for the scheme year	Number to 2 decimal places
Main section cumulative employee contributions	To total employee contributions in the main section for the scheme year	Number to 2 decimal places
50/50 section cumulative employee contributions	To total employee contributions in the 50/50 section for the scheme year	Number to 2 decimal places
Cumulative additional employee contributions	The total additional employee's contributions (per type) for the scheme year: - Additional pension contribution (APC) – where the whole cost is to the employee and also the employee element of a shared cost APC - Additional voluntary contribution (AVC) – inclusive of non-insurance, life assurance and employee element of a shared cost AVC for life assurance, pension salary sacrifice, or other cost to the employee	Number to 2 decimal places
Cumulative employer's contributions	The total employer's contributions in both main and 50/50 sections in the scheme year	Number to 2 decimal places
Cumulative additional employee contributions	The total additional employee contributions (per type) for the scheme year: - Additional pension contribution (APC) – where the whole cost is to the employer and also the	Number to 2 decimal places

	employer element of a shared cost APC - Additional voluntary contribution (AVC) – inclusive of non-insurance, life assurance and employer element of a shared cost AVC for life assurance, pension salary sacrifice, or other cost to the employer	
Date joined the scheme	The date the member joined the scheme in each employment	Number to 2 decimal places
Date ceased active membership of the scheme	The date the member ceased active membership of the scheme in each employment	Number to 2 decimal places
Section of the scheme	The section of the scheme the employee was a member of in the employment at the end of the scheme year or at the date of cessation of active membership in the employment	Number to 2 decimal places
Full time equivalent final pay	The full time equivalent pensionable pay in respect of the employment for the scheme year	Number to 2 decimal places

This return should be send to Capita Employee Benefits at the following address:

Hounslow.pensions@capita.co.uk

A data template will be provided. For security reasons the document should be in Excel format, zipped and password protected.

15. Notifying the Administering Authority of changes in Member details

The Scheme Employer will need to contact Capita Employee Benefits in the event of any changes to member details. This includes:

- Changes in name or address
- Changes in hours
- Changes in date of birth
- Changes in NI number
- Changes in contribution rate
- Report periods of unpaid leave
- Report periods of maternity, paternity or adoption leave
- Report periods of leave due to industrial action

The procedure to be followed for notifying the Administering Authority of changes in Member details can be found in the Administering Authority and Scheme Employers Procedure Manual.

The service standard requirements can be in the Administering Authority SLA.

16. Leavers in the LGPS

16.1 Opt outs

If a Member elects to opt out of the LGPS, they will have the right to a return of contributions paid if their qualifying pensionable service has been less than 2 years.

Scheme Employers must retain a copy of all elections to Opt Out of the LGPS for an indefinite period.

Scheme Employers should not provide members with Opt Out forms and should refer Members who wish to Opt Out to Capita Employee Benefits.

Capita Employee Benefits will instruct Scheme Employers when a refund is due.

The procedure to be followed for opt outs can be found in the Administering Authority and Scheme Employers Procedure Manual.

The service standard requirements can be in the Administering Authority SLA.

16.2 Deferred members

If a Member leaves pensionable employment or elects to opt out of the LGPS, with more than 2 years of qualifying pensionable service they will awarded deferred membership of the Administering Authority.

The procedure to be followed for deferred members can be found in the Administering Authority and Scheme Employers Procedure Manual.

The service standard requirements can be in the Administering Authority SLA.

16.3 Retiring members

Members are entitled to retire from age 55.

- Members who retire due to redundancy or efficiency will be paid unreduced pension benefits. There will be a charge from the Pension Fund to the Scheme Employer in cases of retirement due to redundancy. This is known as a “Pension strain” charge. See the Administering Authority PAS Statement of charges document.
- An active member who has not attained normal pension age but who has attained the age of 55 may elect to receive immediate payment of a pension in relation to their service with the Scheme Employer. The payment of this pension may be reduced by an amount taking actuarial advice of the Secretary of State. At its discretion, the Scheme Employer can choose to waive this reduction on part or full of members who retire before their scheme retirement date. There will be a charge to the Scheme Employer for waiving this reduction from the Pension Fund. This is known as a “Pension strain” charge. See the Administering Authority PAS Employer discretion document and Administering Authority PAS Statement of charges documents.

The procedure to be followed for retiring members (either compulsory or by election) can be found in the Administering Authority and Scheme Employers Procedure Manual.

The service standard requirements can be in the Administering Authority SLA.

16.4 Ill health retirements

If a Member, who has more than 2 years of qualifying pensionable service, has their employment terminated by the Scheme Employer on the grounds of ill-health or infirmity of mind or body, before the member reaches normal pension age, they are entitled to an ill-health retirement.

There will be a charge to the Scheme Employer for ill health retirements. See the Administering Authority PAS Statement of charges documents.

The 3 Tiers of Ill Health Retirement

	Eligibility	Pension provided	Should the employer review the benefit?
Tier 1	The member is adjudged to be incapable of discharging the duties they are currently engaged in or undertaking any gainful employment **before normal pension age**	Pension is payable from the member's leaving date. The pension is enhanced by adding an amount to the member's pension account equivalent to 100% of that which would have accrued to the member's normal pension age.	No
Tier 2	The member is adjudged to be incapable of discharging the duties they are currently engaged in or undertaking any gainful employment **within 3 years of leaving employment, but, are likely to be able to undertake gainful employment before reaching normal pension age**	Pension is payable from the member's leaving date. The pension is enhanced by adding an amount to the member's pension account equivalent to 25% of that which would have accrued to the member's normal pension age.	No
Tier 3	The member is adjudged to be incapable of discharging the duties they are currently engaged in or undertaking any gainful employment, but, **are likely to be capable of undertaking gainful employment within 3 years of leaving employment, or before normal pension age if earlier.**	Pension is payable from the member's leaving date. There is no pension enhancement.	Yes – at 18 months

A decision as to whether a member is entitled to early payment of pension on grounds of ill health and to which Tier the member qualifies is made by the Scheme Employer after a certificate has been received by an Independent Registered Medical Practitioner (IRMP) who has not otherwise been involved or given an opinion on the case.

The Scheme Employer should obtain the Administering Authority approval for its choice of IRMP.

The Scheme Employer must request that the recipient of a Tier 3 pension should inform the Scheme Employer if they find employment. They Scheme Employer must also review payment of Tier 3 benefits when they have been in payment for 18 months, after obtaining a further certificate from an IRMP.

The Scheme Employer must recover any overpayments that have been made to a recipient of a Tier 3 pension and pay them over to the Administering Authority. If the Scheme Employer fails to recover any overpayments that have been made to a recipient of a Tier 3 pension, the overpayment (and any additional costs incurred by the Administering Authority) will be reclaimed from the Scheme Employer by the Administering Authority.

The procedure to be followed for ill health retirements can be found in the Administering Authority and Scheme Employers Procedure Manual.

The service standard requirements can be in the Administering Authority SLA.

16.5 Death in service

If a member of the pension scheme dies in active service with the Scheme Employer and is aged under 75 they will receive a death grant equal to three times the member's annual assumed pensionable pay.

The procedure to be followed for death in service can be found in the Administering Authority and Scheme Employers Procedure Manual.

The service standard requirements can be in the Administering Authority SLA.

17. The responsibilities of Scheme Employers to members after they have left employment

The Scheme Employer has continued responsibility to three main classes of members after they have left employment.

17.1 Recipients of a Tier 3 Ill health pension

See 15.4 Ill health retirements

17.2 A deferred Ill health retirement applicant

A deferred member may make an application to the former Scheme Employer for an Ill-health retirement.

A decision as to whether the deferred member is entitled to early payment of pension on grounds of ill health is made by the Scheme Employer after a certificate has been received by an Independent Registered Medical Practitioner (IRMP) who has not otherwise been involved or given an opinion on the case.

The Scheme Employer should obtain the Administering Authority approval for its choice of IRMP.

The procedure to be followed for deferred ill-health retirements can be found in the Administering Authority and Scheme Employers Procedure Manual.

The service standard requirements can be in the Administering Authority SLA.

17.3 Deferred member pensions

A deferred member who has not attained normal pension age but who has attained the age of 55 may elect to receive immediate payment of a pension in relation to their service with the Scheme Employer.

The payment of this pension may be reduced by an amount taking actuarial advice of the Secretary of State.

At its discretion, the Scheme Employer can choose to waive this reduction on part or full. There will be a charge to the Scheme Employer for waiving this reduction from the Pension Fund. This is known as a “Pension strain” charge.

See the Administering Authority PAS Employer discretion document and Administering Authority PAS Statement of charges documents.

The procedure to be followed for waiving reductions on early retirement can be found in the Administering Authority and Scheme Employers Procedure Manual.

The service standard requirements can be in the Administering Authority SLA.

18. Internal dispute resolution procedure

As part of the LGPS, employers and the Administering Authority make decisions which can affect the benefits of current, past and pensioner members in the Hounslow pension scheme. The right of an applicant to challenge these decisions is derived from the Pensions Act 1995. This right is executed through the IDRP process. Please see the PAS Internal Dispute Resolution Procedure.

19. Outsourcing

Outsourcing LGPS Members is a complex legal process and Scheme Employers should consult their legal advisers when considering this staff transfers.

The correct legal process for undertaking the transfer of LGPS members is contained in the Transfer of Undertakings (Protection of Employment) Regulations 2006, the LGPS Regulations 2013 and Government directions and guidance, including The Best Value Authorities Staff Transfers (Pensions) Direction 2007 and A Fair Deal for Staff Pensions.

The Best Value Authorities Staff Transfers (Pensions) Direction 2007 states that a ‘Best Value Authority’ is legally required to ensure that transferring employees are offered either continuing membership of the LGPS or access to a pension scheme which is ‘broadly comparable to the LGPS if they are transferred to another employer.

The Government expects other Public Sector employers which are not 'Best Value Authorities' to adopt the HM Treasury's 'A Fair Deal for Staff Pensions'.

Further information on the admissions process is contained in the Administering Authority Admissions Policy.

Scheme Employers are urged to consult their legal advisers at the earliest stage of this process.

5.4 PAS Internal Dispute Resolution Procedure guidance

Introduction

This document is intended to give practical guidance to Scheme Employers in the LGPS regarding their responsibilities under the Internal Dispute Resolution Procedure (IDRP) in the LGPS Regulations.

As part of the LGPS, Scheme Employers and the Administering Authority make decisions which can affect the benefits of current, past and pensioner members in the Hounslow pension scheme. The right of a member to challenge these decisions is derived from the Pensions Act 1995. This right is executed through the IDRP process and contained in the following LGPS 2013 Regulations:

72. First instance decisions;
73. Notification of first instance decisions;
74. Application for adjudication of disagreements;
75. Decisions of the adjudicator;
76. Reference of adjudications to Administering Authority;
77. Decisions of the Administering Authority on reconsideration;
78. Rights of representation;
79. Appeals of the Administering Authority;
80. Exchange of information.

Members have a right to challenge decisions made by Scheme Employers and should not be discouraged from doing do.

The four steps of IDRP

The IDRP is a process to resolve disagreements between Scheme Employers/administering Administering Authority and members in the LGPS and falls in to 4 steps:

Step 1:	An informal attempt is made to resolve a disagreement with a 1st instance decision made by the Scheme Employer which affects benefits;
Step 2:	If there is a failure to reach an agreement at Step 1, a formal IDRP process is instigated. The employer will nominate a stage 1 IDRP representative to review the 1st instance decision;
Step 3:	If there is a failure to reach an agreement at Step 2 the case will move to a stage 2 IDRP in which the administering authority will review the 1st instance decision;
Step 4:	If there is a failure to reach an agreement at Step 3 the member will be referred to the Pensions Advisory Service (TPAS) and an application may be made to the Pensions Ombudsman.

Step 1: Employer 1st instance decisions

Under the LGPS regulations Scheme Employers have decisions that affect benefits.

When making 1st instance decisions the Scheme Employer is exercising discretions within the LGPS regulations. These regulations require the Scheme Employer to publish a statement of policy in respect of some of these discretions. For more on these discretions see PAS Scheme Employer Discretions.

When making 1st instance decisions employers should ensure that the reasons for their decision is clear and in writing. Failure to do so may ultimately result in a Pension Ombudsman maladministration ruling. Scheme Employers should work with the Hounslow pension administrators to ensure the following information is provided as a minimum:

- The grounds for the decision;
- The address where further information about the decision can be obtained;
- Provide reference to the right to appeal the decision and time limits within which this appeal may be lodged.

It is clearly desirable to resolve any challenges to an employer 1st instance decision without the need to instigate a formal IDRP appeal.

Step 2: Stage 1 IDRP

When making a 1st instance decision information must be provided as to how an applicant may appeal this decision through a Stage 1 IDRP.

Applicants include the following:

- A member of prospective member of the Hounslow LGPS;
- The surviving spouse, civil partner or nominated co-habiting partner of a member;
- A deceased member's dependents;
- A member's representatives.

An applicant can nominate a representative to make Stage 1 IDRP application on their behalf. If a representative is nominated any correspondence should also be sent to the representative.

Stage 1 IDRP applications must be made to a "Specified Stage 1 IDRP Person" within 6 months of the 1st instance decision. The "Specified Stage 1 IDRP Person" must be nominated by the scheme employer. The LGPS Regulations do not stipulate who this person should be, however, as the person will be required to review the 1st instance decision, they will require a level of expertise.

An option for the Scheme Employer is to nominate the Pensions Operations Manager of the external administrators of the Administering Authority, Capita Employee Benefits.

Scheme employers should inform the Administering Authority of their nomination in writing/email to:

Strategic Pensions Manager,
London Borough of Hounslow,
Civic Centre,
Lampton Rd,
Hounslow TW3 4DN
pensions@hounslow.gov.uk

The "Specified Stage 1 IDRP Person" should:

- Reconsider the 1st instance decision taking into account the evidence available within 2 months of receiving the appeal;
- Check that the regulations were applied correctly;
- Check that a reasonable and impartial process was followed in reaching the 1st instance decision;

- Inform that applicant that they may appeal the decision of the "Specified Stage 1 IDRP Person" in writing to the Administering Authority as part of the Stage 2 IDRP within 6 months of the Stage 1 IDRP adjudication;
- Inform the applicant that The Pensions Advisory Service is available to assist the member with challenges that remain unresolved and provide contact details;
- Inform that applicant that the decision may be overturned by the Pension Ombudsman and provide contact details.

Step 3: Stage 2 IDRP

When informing the applicant of their decision the "Specified Stage 1 IDRP Person" must provide information as to how an applicant may appeal the decision through a Stage 2 IDRP.

An applicant can nominate a representative to make Stage 2 IDRP application on their behalf. If a representative is nominated any correspondence should also be sent to the representative.

Stage 2 IDRP applications must be made to the Administering Authority within 6 months of the Stage 1 IDRP decision. The Administering Authority should:

- Reconsider the 1st instance decision taking into account the evidence available to the within 2 months of receiving the appeal
- Check that the regulations were applied correctly
- Check that a reasonable and impartial process was followed in reaching the 1st instance decision
- Inform the applicant that The Pensions Advisory Service is available to assist the member with challenges that remain unresolved and provide contact details
- Inform that applicant that the decision may be overturned by the Pension Ombudsman and provide contact details

Step 4: The Pensions Advisory Service & the Pensions Ombudsman

If the applicant remains dissatisfied after the Stage 2 IDRP they may seek a further review of the decision, through first The Pensions Advisory Service (TPAS) and ultimately the Pensions Ombudsman.

TPAS provides information and advice and will attempt to resolve conflicts through negotiation. However, TPAS has no statutory powers.

The contact details for TPAS are:

The Pensions Advisory Service
11 Belgrave Road
London SW1V 1RB

If TPAS is unable to resolve the dispute a final appeal may be lodged by the applicant with the Pensions Ombudsman.

The Pensions Ombudsman may choose to review the appeal and has statutory powers to award compensation. The determination of the Pension Ombudsman is final and binding on all parties, subject only to an appeal to the High Court on a point of law, made within 28 days of the Pension Ombudsman's decision.

The contact details for the Pensions Ombudsman are:

The Office of the Pensions Ombudsman
11 Belgrave Road
London SW1V 1RB
enquiries@pensions-ombudsman.org.uk

5.5 Scheme Employer LGPS discretionary policies

Under the Local Government Pension Scheme Regulations, there are a large number of discretions that can be exercised by each Scheme Employer. It is a requirement for Scheme Employers to formulate, publish and keep under review a policy statement in relation to the exercise of some of these discretions under the LGPS.

All Scheme Employers must have a policy on the following discretions:

Discretions from 01/04/14 in relation to post 31/03/14 active members and post 31/03/14 leavers

(1) Whether, how much, and in what circumstances to contribute to a shared cost additional pension contribution scheme;
(2) Whether all or some benefits can be paid if an employee reduces their hours or grade (flexible retirement);
(3) Whether to waive, in whole or in part, actuarial reduction on benefits paid on flexible retirement;
(4) Whether to waive, in whole or in part, actuarial reduction on benefits which a member voluntarily draws before normal pension age;
(5) Whether to "switch on" the 85 year rule for a member voluntarily drawing benefits on or after age 55 and before 60;
(6) Whether to waive any actuarial reduction on pre and/or post April 2014 benefits;
(7) Whether to grant additional pension to an active member or within 6 months of ceasing to be an active member by reason of redundancy or business efficiency (by up to £6,500 per annum).

Discretions in relation to scheme members who ceased active membership on or after 01/04/07 and before 01/04/14[1]

(8) Whether, for a member leaving on the grounds of redundancy or business efficiency on or before 31 March 2014, to augment membership (by up to 10 years). This discretion is spent entirely after 30 September 2014;
(9) Whether to grant application for early payment of deferred benefits on or after age 55 and before age 60 and whether to waive, on compassionate grounds, the actuarial reduction applied to these benefits;
(10) Whether to grant an application for early payment of a suspended tier 3 ill health pension on or after age 55 and before age 60 and whether to waive, on compassionate grounds, the actuarial reduction applied to these benefits;

Discretions in relation to scheme members who ceased active membership on or after 01/04/98 and before 01/04/08[2]

[1] Scheme Employers should, prior to 1 April 2014, already have prepared and published a policy regarding these discretions.
[2] Scheme Employers should, prior to 1 April 2014, already have prepared and published a policy regarding these discretions.

(11) Whether to grant application from a post 31/03/98 / pre 01/04/08 leaver for early payment of benefits on or after age 50/55 and before age 60 and whether to waive, on compassionate grounds, the actuarial reduction applied to these benefits;

(12) Whether, for pre 01/04/08 employee optant outs to get benefits paid from NRD if employer agrees;

What Scheme Employers should consider when setting a policy on discretions

The Administering Authority may have provided you with an example discretions policy, however, this policy will be specific to the Administering Authority and another Scheme Employer will have a range of considerations unique to its organisation. It may not therefore be appropriate for individual Scheme Employers to adopt the discretions policy of the Administering Authority completely.

Pension strain

It is important to appreciate that the early payment of pension benefits places a 'strain' on the pension funds. This strain must either be met by a voluntary actuarial reduction in pension benefits accepted by the member concerned or by a lump sum payment made by the Scheme Employer to the Hounslow Pension Fund.

Pension strain created by early retirement in the case of redundancy or efficiency must be paid by the Scheme Employer.

Waiving actuarial reductions by the Scheme Employer

If the payment of benefits occurs before the members normal pension age the benefits will be reduced in accordance with factors issued the Government Actuarial Department (GAD). The Scheme Employer has the power to waive this actuarial reduction. If the Scheme Employer opts to waive the actuarial reduction it will be required to pay a pension strain cost to the Hounslow Pension Fund.

Guidance on the discretions

(1) Whether, how much, and in what circumstances to contribute to a shared cost additional pension contribution (SCAPC) scheme

Please note that this discretion does not relate to cases where a member has a period of authorised unpaid leave of absence and elects within 30 days of return to work to pay a SCAPC to cover the amount of pension 'lost' during that period of absence. That is because, in those cases, the employer must contribute 2/3rds of the cost of a SCAPC.

(2) Whether all or some benefits can be paid if an employee reduces their hours or grade (flexible retirement)

Scheme Employers will, prior to 1 April 2014, already have prepared and published a policy on flexible retirement and whether to waive actuarial reductions on benefits paid under the 2008 Scheme. Scheme Employers may therefore, wish to simply carry forward their basic existing policy, but, amend it for post 31 March 2014 flexible retirements.

If flexible retirements is agreed for a Scheme member aged 55 or over, but, under age 60 who, at the date of flexible retirement has either met the 85 year rule or would have met the rule before age 60, there will be a strain on fund cost to be met by the Scheme Employer in respect of the pension benefits following flexible retirement.

Where flexible retirement is agreed for an employee aged 55 or over, but, under normal pension age the cost of waving any actuarial reduction, in whole or in part, would have to be met by the Scheme Employer.

If a Scheme Employer formulates their discretion policy entirely based on costs it should be careful not be guilty of indirect age discrimination.

(5) Whether to 'switch on' the 85 year rule for a member voluntarily drawing benefits on or after age 55 and before age 60

If the Scheme Employer agrees to 'switch on' the 85 year rule, the employer will have to meet the cost of any pension strain.

Switching the 85 year rule on might be an option for Scheme Employers who wish to encourage members to retire early. Exercising their discretion to switch on the 85 year rule and meet the costs of the pension strain could be less expensive that a redundancy exercise.

(7) Whether to grant additional pension to an active member or within 6 months of ceasing to be an active member by reason of redundancy or business efficiency (by up to £6,500 per annum).

Scheme Employers will, prior to 1 April 2014, already have prepared and published a policy on whether to grant additional pension to an active scheme member of up to £5,000 per annum. Scheme Employers may therefore, wish to simply carry forward their basic existing policy, but, amend it to reflect the increase to £6,500 per annum maximum additional pension permitted.

It should be noted that any grant of additional pension will be at the cost of the Scheme Employer.

The provision of a discretions policy is a statutory requirement. All Scheme Employers must provide a copy of their discretions policy to the London Borough of Hounslow. Failure to do is a materially breach of the Pension Administration Strategy, Scheme Employer Service Level Agreement. Scheme Employers are advised to review their discretionary policy at least every three and should include a review date in the discretionary policy.

Discretionary policies should be sent electronically to the Strategic Pensions Manager:
pensions@hounslow.gov.uk

5.7 PAS Service level agreement and performance failure charging schedule*

Performance standards

The Local Government Pension Scheme Regulations 2013 stipulates activities and decisions that should be undertaken by either the Administering Authority or the Scheme Employer in relation to the entitlements of individual scheme members.

In order to comply with these stipulations the Administering Authority has agreed a level of performance between the Administering Authority and Scheme Employers. These are set out in the Service Level Agreement (SLA) between the Administering Authority and Scheme Employers.

In accordance with LGPS Regulation 70, the Administering Authority will seek to recover additional costs incurred because of the poor performance of Scheme Employers in relation to the SLA.

The Scheme Employer Service Level Agreement

Activity	Performance measurement	Schedule of charge
Dedicated employer contact	The Scheme Employer should notify the administering authority of a dedicated pension liaison contact within 1 month of the adoption of the Pension Administration Strategy.	The Administering Authority will regularly check that contacts are up to date. The failure to appoint a dedicated employer contact will make failure of performance SLAs more likely.
Discretions policy	The Scheme Employer should provide the Administering Authority with a copy of their Discretions Policy by 1st July 2014, or within 1 month of the date of the Scheme Employer's entry in the Administering Authority.	The provision of a discretions policy is a legal requirement. The Administering Authority will chase receipt of this policy and charge at the prevailing Administering Authority officer rates.
Payment of monthly contributions	Correct payments should be made to the Administering Authority by the 5th of the month following payroll deduction.	Late payments will incur a charge of £50 plus interest. Interest on late payments becomes due with effect from 1 month following the required payment date. Interest is calculated at 1% above the Bank of England base rate on a daily basis.
Payment of capital sums	Correct capital sums should be made to the administering authority within 30 days of being invoiced. These may	Late payments will incur a charge of £50 plus interest. Interest on late payments becomes due with effect from 1 month following the required payment date. Interest is

	relate to pension strain costs or charges for work in relation to the charges due to the Administering Authority.	calculated at 1% above the Bank of England base rate on a daily basis.
Monthly contribution schedule	A monthly contribution schedule should be sent to the Administering Authority by the 5th of the month following payroll deduction. The schedule should be in the format requested by the Administering Authority.	The provision of a monthly contribution schedule is essential to the correct calculation of member benefits. The Administering Authority will chase receipt of the monthly contribution schedule and charge at the prevailing Administering Authority officer rates.
End of year processing	An end of data return should be sent to the Administering Authority within two months of the end of the scheme year (31 March). The schedule should be in the format requested by the Administering Authority and meet a 5% error tolerance.	The provision of an annual statement is essential to the correct calculation of member benefits. The Administering Authority will chase receipt of the end of year returns and charge at the prevailing Administering Authority officer rates.
End of year error rates	The Scheme Employer should respond to end of year errors within one month of notification by the administering authority.	Errors in excess of the 5% error tolerance will be charged at £20 per error. The Administering Authority will chase receipt of responses and charge at the prevailing Administering Authority officer rates.
Notification of new starters	The Scheme Employer should notify the Administering Authority of a new starter within 30 days of their joining the pension scheme.	The provision of new starter information is essential to the correct calculation of member benefits. The Administering Authority will chase receipt of the notifications and charge at the prevailing Administering Authority officer rates.
Notification of leavers	The scheme Employer should notify the Administering Authority of a new leaver within 30 days of their leaving the pension scheme.	The provision of leaver information is essential to the correct calculation of member benefits. The Administering Authority will chase receipt of the notifications and charge at the prevailing Administering Authority officer rates.
Notification of opt outs	The Scheme Employer should notify the Administering Authority of a new opt out within 30 days of their leaving the pension scheme.	The provision of opt out information is essential to the correct calculation of member benefits. The Administering Authority will chase receipt of the notifications and charge at the prevailing Administering Authority officer rates.

Notification of retirements	The Scheme Employer should notify the Administering Authority of a retirement within 20 days of their last day of service.	The provision of retirement information is essential to the correct calculation of member benefits. The Administering Authority will chase receipt of the notifications and charge at the prevailing Administering Authority officer rates.
Notification of relevant changes	The Scheme Employer should notify Administering Authority of any relevant changes within 30 days of the change.	The provision of employment change information is essential to the correct calculation of member benefits. The administrative authority will chase receipt of the notifications and charge at the Administering Authority officer rates.
Appoint an Independent Registered Medical Practitioner (IRMP) in order to consider all ill-health retirement applications	The Scheme Employer should appoint an IRMP within 1 month of the date of the Scheme Employer's entry in the Administering Authority. The appointment must be agreed with the Administering Authority	The nomination of an IRMP of a Discretions policy is a legal requirement. The Administering Authority will chase confirmation of this appointment and charge at the prevailing Administering Authority officer rates.
Appoint a "specified person" as part of the stage 1 internal dispute resolution procedure (IDRP)	The scheme Employer should appoint a "specified person" as part of the stage 1 IDRP within 1 month of the date of the Scheme employer's entry in the Administering Authority. Or within 1 month of the resignation of an existing "specified person".	The nomination of a "specified person" as part of the stage 1 IDRP is a legal requirement. The Administering Authority will chase confirmation of this appointment and charge at the prevailing Administering Authority officer rates.
Comply with auto-enrolment legislation as required by the Pensions Regulator	From the Scheme Employer's auto-enrolment staging date	Compliance with auto-enrolment legislation is a legal requirement, with non compliance punishable by the Pensions Regulator

The Administering Authority Service Level Agreement

Activity	Description	SLA (working days)	Target (% within SLA)	Limits
New starter	New scheme member to be set up on the pensions database, payroll checked and statutory notice to be issued	10	100%	No
Inter fund adjustment in estimate	Check previous service details and offer member the option to transfer and advise of timescales.	10	100%	No
Inter fund adjustment in actual	Check correct payment has been received, update database and issue statutory notice.	10	100%	No
Transfer in estimate	Check previous service details and offer member the option to transfer and advise of timescales.	10	100%	No
Transfer in estimate	Check correct payment has been received, update database and issue statutory notice.	10	100%	No
Additional Pension Contributions Estimate	Provide estimate for commencing additional pension contributions.	10	100%	No
Additional Pension Contributions Actual	Update database and inform payroll of the additional pension contribution deduction to be made	10	100%	No
Maternity Leave	Provide member with information on scheme membership whilst on maternity leave	10	100%	No
Maternity Return	Provide member with information on scheme membership whilst on maternity leave and where necessary the option to re-pay contributions	10	100%	No
Unpaid Leave	Provide member with information on scheme membership whilst on unpaid leave	10	100%	No
Unpaid Leave Return	Provide member with information on scheme membership whilst on unpaid leave and where necessary the option to re-pay contributions	10	100%	No
Strike	Provide member with information on scheme membership concerning a period of industrial action and where necessary the option to re-pay contributions	10	100%	No

Additional Voluntary Contributions	Provide information on the Fund's AVC schemes	10	100%	No
Nomination Forms	Update database and send acknowledgement	10	100%	No
Member correspondence	Reply to member query	10	100%	No
Employer correspondence	Reply to employer query	10	100%	No
Change of hours	Update database, check payroll and issue statutory notification	10	100%	No
Employee Estimates	Estimate of deferred benefits and/or voluntary retirement for age 60 and over	10	100%	No
Employer estimate	Provide employer with estimate as requested	5	100%	No
Refunds (Frozen Refunds)	Calculate refund due and issue payment	10	100%	No
Opt outs	Provide a memo to payroll to cease contributions and inform the member accordingly	2	100%	No
Deferred	Calculate final pay, deferred benefits and issue deferred statutory notice	10	100%	No
Inter Fund Adjustment Out Estimate	Provide service and pay details to new employer	10	100%	No
Inter Fund Adjustment Out Actual	Issue payment	10	100%	No
Provide estimate of transfer value	Provide transfer details	10	100%	No
Make payment of transfer value	Issue payment	10	100%	No
Death in service	Send condolence letter	1	100%	No
Death in service final letter	Provide details of deceased salary, monies due to/from the estate, calculation of spouse's and/or dependants benefits, send letter and make payment of any death grant	5	100%	No
Death of deferred member	Send condolence letter	1	100%	No
Death of deferred member	Provide details of any benefits due and make payment of death grant	5	100%	No
Deferred in to payment	Send initial letter and forms to member	2 months prior to entitlement	100%	No

Retirement	Calculate final pay, retirement benefits and send initial letter and forms to member	10	100%	No
Payment of retirement grant and initiate pension.	Issue payment of retirement grant and provide payroll with pension commencement form	5	100%	No
Revised Payments including Guaranteed Minimum Pensions/Modifications	Inform the member of any adjustments to the pension in payment and provide payroll with an amendment form	10	100%	No
Abatement Checks	Provide details of earnings limit and where necessary abatement of pension and provide payroll with a pension amendment form	10	100%	No
Death on pension	Send condolence letter and inform payroll to cease payments	1	100%	No
Death on pension final letter	Provide details of deceased's pension, monies due to/from the estate and spouse's/dependants benefits	5	100%	No
Benefit Statements		To be sent to all active and deferred members by 31st August annually	100%	No
DSS & HMRC Correspondence	Provide necessary information and reply to correspondence as required	10	100%	No
DSS forms	Produce and send as required		100%	No
DSS trace	Conduct trace for missing deferred at the point of entitlement		100%	No
Child review	As required by the information provided at point of entitlement	Annually	100%	No
Life certificates	Issue life certificates to overseas pensioners	Annually	100%	No
National fraud initiative (NFI)	Respond fully to NFI enquiries	20	100%	No
Complaints		All complaints to be dealt with in line with the additional criteria	100%	No

Employer forums seminars	Employer forum hosted by the Administering Authority.	Annually	100%	Yes – limited to one per year. Further seminars will be chargeable.
Requests for legislative or regulatory advice	Employer email bulletins where appropriate	10	100%	Advice outside of regular bulletins will be chargeable.
Contribution reconciliation	Reconciliation of employer schedules and payments to the Administering Authority	Within 60 days of period 12 schedule and payment	100%	No

5.7 PAS Statement of Scheme Employer costs

The general administration costs of the Administering Authority are shared by all Scheme Employers according to their size and reflected in their employer contribution rate.

Additional administration costs are recharged to the Scheme Employer by the Administering Authority. This document formalises the conditions under which Scheme employers are recharged for these additional administration costs.

Where a Scheme Employer is outsourcing services, the ceding employer must determine who is responsible for payment of additional administration costs.

Scheme Employers will be recharged costs on completion of the work and will be invoiced by the Administering Authority. Non-payment of invoices will be pursued through the London Borough of Hounslow's debt management process.

The PAS Statement of charges does not include costs incurred by the Scheme Employer for failing performance measures as laid out in the PAS Service level agreement.

Outline of additional administration charges

Activity	Description	Indicative charge	Comments
Assessment of contribution rate of the new scheme employer	The Administering Authority will assess the contribution rate a new scheme employer in the Administering Authority.	According to the prevailing rates of the Administering Authority actuary	Costs will increase if there are delays in providing data or date requires recalculation
Assessment of the bond value of the new scheme employer	The Administering Authority will assess the bond value in respect of the termination risk of a scheme employer in the Administering Authority.	According to the prevailing rates of the Administering Authority actuary	Costs will increase if there are delays in providing data or date requires recalculation
Re-assessment of the bond value of the new scheme employer	The Administering Authority will re-assess bond values in line with the conditions laid out in the admissions agreement	According to the prevailing rates of the Administering Authority actuary	
Reports for scheme employer FRS17/IAS19 returns	The Administering Authority will complete a pension data report required for scheme employer FRS17/IAS19 accounting returns.	According to the prevailing rates of the Administering Authority actuary	

General actuarial queries	Additional actuarial queries in relation to the scheme employer	According to the prevailing rates of the Administering Authority actuary	
Drafting and executing of admission agreements	It is a requirement for admission bodies to have the terms and conditions of their membership in the Administering Authority to be executed through an admission agreement	According the prevailing rates of the Administering Authority legal advisers	Costs will increase according to the complexity of the negotiated drafting of the admissions agreement
General legal queries	Additional legal queries in relation to the scheme employer	According to the prevailing rates of the Administering Authority legal advisers	
Pension strain costs	A pension strain cost may be incurred by the scheme employer where a member retires early on the grounds of redundancy or business efficiency or where an active member or deferred member chooses to retire early and the scheme employer elects to waive the actuarial reduction to their pension.	The Administering Authority will calculate the strain cost. Payment will be due as a lump-sum payment within 30 days of being invoiced in line with the PAS Service Level Agreement.	Costs are based on age, gender, service and pay of the member.
Costs of awarding additional pension	The scheme employer may elect to award additional pension to a member. This will incur a charge.	The Administering Authority will calculate the cost. Payment will be due as a lump-sum payment within 30 days of being invoiced in line with the PAS Service Level Agreement.	
Ill-health retirement costs (1)	The Administering Authority will allocate a budget to fund ill-health retirements as part of valuing the scheme employer's contribution rate. If the scheme employer exceeds this budget they will incur a charge.	The Administering Authority will calculate the cost. Payment will be due as a lump-sum payment within 30 days of being invoiced in line with the PAS Service Level Agreement.	
Ill-health retirement costs (2)	As part of the assessment for ill-health retirement or reassessment of Tier 3 ill health retirement the scheme employer is required to obtain the certification of an Independent Registered Medical Practitioner. This service will incur a cost.	Reliant on local agreements, or agreements with the London Borough of Hounslow Occupational Health department where appropriate.	Please contact the London Borough of Hounslow Occupational Health department on 020 8583 2168 for indicative costs.

Cessation costs	The Scheme Employer will incur a cost if they cease membership of the Administering Authority.	The Administering Authority approach to Scheme Employer cessation is laid out in the PAS Admissions Policy.

5.8 PAS Communications policy statement

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

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

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

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

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

Members, representatives of members and prospective members

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

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

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

Method	Communication message
Electronic	Electronic: all members have access to the Administering Authority website delivered in partnership with our external pension administrators Capita Employee Benefits www.hounslowpensions.co.uk. The website provides scheme information and access to individual member details
Newsletters	The Administering Authority issues an annual newsletter to all members in the scheme providing the latest information on the LGPS

Annual Benefit Statements	Active and deferred members are issued with an annual benefit statement which provides the current value of the benefits with the Hounslow LGPS
Annual General Meeting	The Administering Authority AGM includes presentations regarding the fund performance and administration matters. The Fund will decide on the format and media of the AGM annually.
Annual report and accounts	Available on the Hounslow pension website. Provides information on the annual management of the Administering Authority
Pension Fund Panel Reports	Public reports available on the Hounslow website, www.hounslowpensions.co.uk. Provides information on decisions made by the Pension Fund Panel
Pension increase note	Provided annually to pensioners, this provides information on any pension increase due to their benefits
Face to face pension surgeries	Allows members to meet with Capita Employee Benefits representatives to discuss their specific queries
Dedicated information sessions	Dedicated information sessions will be presented on an ad hoc basis to provide information on relevant pension issues
Hounslow pensions website	www.hounslowpensions.co.uk
Dedicated email	Hounslow.pensions@capita.co.uk
Dedicated telephone helpline	01325 746 026
Member guides	Printed guides to LGPS membership

Scheme Employers

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

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

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

Method	Communication message
The Administering Authority Pension Administration Strategy (and appendices)	Information regarding the policies of the Administering Authority and Scheme Employer responsibilities in the LGPS
Electronic	Electronic: Scheme Employers have access to an employer section of Administering Authority website delivered in partnership with our external pension administrators Capita

	Employee Benefits www.hounslowpensions.co.uk. The website provides scheme information specific to scheme employers
Newsletters	The Administering Authority issues an annual newsletter to scheme employers providing the latest information on the LGPS
Employer meetings	Held annually to provide Scheme Employers with a forum to address queries regarding the Administering Authority
Dedicated contact	Scheme Employers are provided with a dedicated contact in the Administering Authority who will provide a phone and email advisory service for up to 2 hours per annum (additional advice will be charged at the prevailing Pension Fund officer rates). Employer visits may be available on request and will be charged at the prevailing Pension Fund officer rates : The Strategic Pensions Manager: 020 8583 5635 hitesh.sharma1@hounslow.gov.uk
Dedicated information sessions	Dedicated information sessions will be presented on an ad hoc basis to provide information to scheme employers on relevant pension issues
Scheme Employers Procedure Manual	Produced by the Administering Authority external pension administrators, Capita Employee Benefits, the procedure manual provides a step by step process guide to their functions in the Administering Authority

Public Statements made about the Pension Fund

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

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

Data protection

The Administering Authority complies with the Data Protection Act 1998. Members have the right to check the details held by them by the Administering Authority.

5.9 PAS Hounslow Pension Fund indemnity policy

The Local Government Pension Scheme 2013 Regulations require an Admission Body to carry out, to the satisfaction of the Administering Authority, an assessment of the level of risk arising on the premature termination of the provision of service or assets by reason of insolvency, winding up, or liquidation of the Admission Body. This assessment must be carried out prior to the signing of the Admissions Agreement.

The Admission Body is required to cover the level of risk identified either by the provision of a guarantee or financial bond.

The level of risk will be assessed to the satisfaction of the Administering Authority, based on the advice of the Administering Authority actuary, and set from the commencement date of the outsourced contract and will be reviewed at least in line with the triennial actuarial valuation. The risk premium is reached by reference to three factors:

- An assumed funding strain arising from the early payment of pension benefits
- An assumed funding shortfall relating to future movements of assets and liabilities
- An assumed funding shortfall through the non-payment of pension contributions

This indemnity is to protect the London Borough of Hounslow Pension Fund and to mitigate the risk of the liabilities of one Scheme Employer impacting on other Scheme Employers in the fund.

Where admission to the London Borough of Hounslow Pension Fund is proposed the outsourcing Scheme Employer is ultimately responsible for any pension liabilities accrued by the Admission Body.

The Administering Authority will seek payment of any liabilities from the Admission Body in the first instance. If it is not possible to recover these debts the Administering Authority will seek payment from the outsourcing Scheme Employer.

5.10. PAS Administering Authority Academy pooling policy

1. Background

The London Borough of Hounslow Pension Scheme is part of the Local Government Pension Scheme (LGPS) and is a funded, defined benefit public service pension scheme. The London Borough of Hounslow Pension Scheme is administered by the London Borough of Hounslow (the Administering Authority).

As a funded scheme the London Borough of Hounslow Pension Scheme receives contributions from employers and active members to match the pension promises for current and past members of the scheme.

Any fluctuation in the cost of providing pension promises are funded by the employer, as employee contributions are fixed in statute. As a consequence, employer contributions can be volatile.

Academy schools who have converted from the Council and new academies or free schools are classified as scheduled bodies under Schedule 2, part 1 of the LGPS Regulations 2013.

The designation of scheduled body means that all non-teaching staff of the academy, that are eligible for membership of the LGPS, should be automatically, contractually enrolled in to the London Borough of Hounslow Pension Scheme from their start date with or the conversion date of the academy.

2. Academies/free schools in the London Borough of Hounslow Pension Scheme

Academies and free schools in the London Borough of Hounslow Pension Scheme are currently removed from the Council pool and paying an employer contribution rate specific to their non-teaching staff profile.

These pension arrangements create the following risks of academies/free schools:

- Fluctuations in academy/free school contribution rates due to the age and gender profile of their non-teaching staff;
- Fluctuations in academy/free school contribution rates due to unique events; e.g. ill-health retirements;

As a consequence of these risk factors the Administering Authority has revised its pooling policy with effect from 1 April 2014 and in line with the 2013 triennial actuarial valuation. The revised pooling arrangement will involve the creation of an Academy pool to include academies and free schools.

The objectives of creating an academy pool are to spread pension risks across employers with a common staff profile and also reduce the impact on an individual employer of unique events, such as ill-health retirement or death in service, which can have a destabilising effect on contribution rates.

3. Participation in the London Borough of Hounslow Pension fund academy pool

London Borough of Hounslow academies, free schools and university technical colleges will be members of the Administering Authority 'Academy Pool'.

4. Aims of the Academy Pool

The main aims of the London Borough of Hounslow Pension Fund Academy Pool are to:

- Create a pension pool with membership restricted to academies and free schools who have a non-teaching staff profile with common characteristics;
- To better manage volatility of pension contributions for academies and free schools;
- To smooth out the costs of unique events such as ill-health retirements and death in service
- To provide a pooling arrangement that matches the different liability exposure of existing and new academies and free schools

5. The makeup of pension contributions for academies and free schools in the London Borough of Hounslow Pension Scheme

Employer contributions in to the Administering Authority are split in to two areas:

- Deficit of active members: deficit relating to the accrued benefits of active members
- Deficit of past members and deferred members: deficit relating to the liabilities of past employees

On conversion to an academy the London Borough of Hounslow Pension Scheme will only transfer liabilities to the academy in relation to the deficit attributable to active members.

The academy will be granted a share of assets in the Administering Authority equivalent to the Council's funding level proportionate to those liabilities. All of the deferred and pensioner liabilities remain with the Council Pool. This approach balances the interests of the Administering Authority, the Council and the academy.

6. Apportionment of the Academy Pool

The Academy Pool will be made up from the following employers in the fund:

- Converting academies
- New academies
- New free schools

The Academy Pool will have the following sub-pools to reflect the alterative historical deficit experience of differing education establishments:

- **A pool for future service costs across all education establishments, including event risk costs (ill-health/death in service) to produce a common future service contribution rate for the Academy Pool;**

- **A pool for past service costs broken in to two sub pools:**
  i) A pool for converted academies with liabilities inherited from the Council
  ii) A pool for new academies or free schools who do not have liabilities inherited from the Council.

This approach fairly reflects the inherited liabilities of each academy or free school.

7. Deficit recovery period

Deficits in the Administering Authority are recovered over a period as determined by the Administering Authority.

The deficit recovery period for the Academy Pool will be aligned to the deficit recovery period of the Council Pool.

In aligning the deficit recovery period of the Academy Pool with that of the Council Pool the Administering Authority recognises the following:

- The stable basis of education funding, the funding following the child
- The Written Ministerial Statement from the Secretary of State for Education of July 2013 in which the Department for Education provides a guarantee to meet pension liabilities should an academy close
- The aims of the Sectary of State for Education and the Secretary of State for Communities and Local Government to reduce the disparity in contribution rates between maintained schools and academy/free schools.

8. The calculation and review of the Academy Pool Contribution Rate

The Academy Pool contribution rate will be effective from 1 April 2014 and will be calculated by the Administering Authority actuary on the basis of the 2013 Administering Authority triennial valuation. It will then be reviewed at each subsequent triennial valuation.

It is assumed that all existing academies and free schools will have their employer contribution rates adjusted to match the Academy Pool rate.

In the case of a new converting academy or the establishment of a free school, there may be the need to establish the opening funding position. In such cases the Administering Authority will recharge the academy/free school for any actuarial fees applicable.

9. School outsourcing of services involving the TUPE transfer of staff

As scheme employers if the LGPS, schools have a responsibility to protect the pension rights of staff that are TUPE transferred as part of outsourcing services.

The responsibility of schools to protect the pensions of transferring staff is dependent the definition of the education establishment. For academies, free schools and maintained schools (where the staff are not employed by the Council) continued access to a public sector pension scheme is protected by reference to guidance in Fair Deal for staff pensions 2013

If the contractor elects to provide continued access to the LGPS for transferred staff, they must seek admission to the London Borough of Hounslow Pension Fund. The terms of this admission to the London Borough of Hounslow Pension Fund will be contained in the Admissions Agreement.

The terms of entry for Admissions Bodies in to the London Borough of Hounslow Pension Fund are contained in the Administering Authority Administration Strategy: The PAS Admissions Policy.

10. The London Borough of Hounslow Academy Pool terms and conditions

Academy Pool members must:

1) **Comply with and abide by the Administering Authority Administration Strategy, including:**
   i. **PAS Admissions policy**
   ii. **PAS Scheme employer discretions**
   iii. **PAS Service level agreement and performance failure charging schedule**
   iv. **PAS Statement of scheme employer costs**
   v. **PAS Indemnity policy**
2) **Notify the Administering Authority immediately of any change in status (legal, financial, etc);**
3) **Pay the employer contribution rate and any lump-sum required as certified by the Administering Authority actuary;**
4) **Make additional lump-sum contributions to the Administering Authority in the event of pension strain events**
5) **Pay any outstanding liabilities for an admission body for outsourced services in the event of the cessation of that admissions body**
6) **Remain in the Academy Pool until the end of the valuation cycle. The first opportunity to leave the Academy Pool will be on 31 March 2017 and then not before each subsequent three year anniversary.**

11. Information

Any enquiries in relation to the London Borough of Administering Authority PAS should be addressed to:

Strategic Pensions Manager
The London Borough of Administering Authority, Civic Centre, Lampton Rd, Hounslow TW3 4DN
Tel: 020 8583 5635
Email: pensions@hounslow.gov.uk

The Administering Authority may amend the Academy Pooling Policy as and when it is required to remain relevant to LGPS Regulations, other statutory legislation or to the overall benefit of the Administering Authority Pension Fund.

Appendix 7

INDEPENDENT AUDITOR'S STATEMENT TO THE MEMBERS OF LONDON BOROUGH OF HOUNSLOW ON THE PENSION FUND FINANCIAL STATEMENTS INCLDUED WITHIN THE LONDON BOROUGH OF HOUNSLOW PENSION FUND ANNUAL REPORT

We have examined the Pension Fund financial statements for the year ended 31 March 2022 included within the London Borough of Hounslow Pension Fund annual report, which comprise the Fund Account, the Net Assets Statement and the notes to the financial statements, including the summary of significant accounting policies.

Opinion

In our opinion, the Pension Fund financial statements are consistent with the audited financial statements of London Borough of Hounslow for the year ended 31 March 2022 and comply with applicable law and the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2021/22.

I have not considered the effects of any events between the date I signed my report on the full financial statements 13 February 2024 and the date of this statement.

Respective responsibilities of the Interim Chief Financial Officer and the auditor

As explained more fully in the Statement of Responsibilities, the interim Chief Financial Officer 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 the Members of London Borough of Hounslow as a body, whether the Pension Fund financial statements within the Pension Fund annual report are consistent with the financial statements of London Borough of Hounslow.

We conducted our work in accordance with Auditor Guidance Note 07 – Auditor Reporting, issued by the National Audit Office. Our report on the Pension Fund financial statements contained within the audited financial statements of London Borough of Hounslow describes the basis of our opinions on the financial statements.

Use of this auditor's statement

This report is made solely to the members of London Borough of Hounslow, as a body, in accordance with Part 5 paragraph 20(5) of the Local Audit and Accountability Act 2014 and as set out in paragraph 43 of the Statement of Responsibilities of Auditors and Audited Bodies published by Public Sector Audit Appointments Limited. Our work has been undertaken so that we might state to the members of London Borough of Hounslow those matters we are required to state to them and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than London Borough of Hounslow and London Borough of Hounslow's members as a body, for our audit work, for this statement, or for the opinions we have formed.

Suresh Patel

Suresh Patel

Key Audit Partner

for and on behalf of Mazars LLP
30 Old Bailey,
London, EC4M 7AU

13 February 2024