

**London Borough of Hounslow Pension Fund**

# **Report and Accounts**

**for the year ended 31 March 2019**



**London Borough  
of Hounslow**

# Contents

<b>Section 1</b>	
Introduction	44
<b>Section 2</b>	
Management of the Scheme	6
<b>Section 3</b>	
Pension Fund Panel	8
<b>Section 4</b>	
The Pension Board	10
<b>Section 5</b>	
Actuary's Statement	12
<b>Section 6</b>	
Investment Overview	15
<b>Section 7</b>	
Risk Management	20
<b>Section 8</b>	
Pension Fund Accounts	22
<b>Section 9</b>	
Governance	47
<b>Section 10</b>	
Pensions Administration Review	50
<b>Appendix 1</b>	
Investment Strategy Statement	60
<b>Appendix 2</b>	
Governance Compliance Statement	70
<b>Appendix 3</b>	
Funding Strategy Statement	77
<b>Appendix 4</b>	
Pensions Administration Strategy	89
<b>Appendix 5</b>	
Pension Board Chair Annual Report	102
<b>Appendix 6</b>	
Pension Fund Risk Register	107
<b>Appendix 7</b>	
Corporate Governance Report	118
<b>Appendix 8</b>	
Communications Policy	125





# Section 1

## Introduction

## Introduction by Clive Palfreyman, Executive Director of Finance and Resources, London Borough of Hounslow

Welcome to our Annual Report for 2019. This Introduction is normally written by the chairman, but very sadly Cllr Rajinder Bath passed away in early June 2019, so I am writing it for this year.

I am pleased to report that our Pension Fund has continued to thrive. At the end of March 2019 our net assets were over £1bn at £1,039m, a significant 8.5% increase over the previous year. The fund performed well last year and was the eighth highest performer out of 100 local government funds. This is particularly encouraging given the turbulent financial period we are going through, with continuing volatility on the world markets.

The good performance also reflects the restructuring of our investments that we have carried out in the last few years, notably with our equities, that we have referred to in our previous reports. This year sees our 2019 triennial actuarial valuation. This valuation is carried out by a professional firm of actuaries who assess all of our liabilities and compare these to our assets. Once we get the results of this valuation we will then consider whether the current asset allocation is fit for purpose, or whether to remain resilient going forward we need to undertake some further restructuring.

We also told you last year that we were moving our administration service from Capita to West Yorkshire Pension Fund on the 1st August 2018. I am pleased to report that this transfer has been very successful, and our administration performance is greatly improved, for your benefit.

The Pension Fund Panel met five times last year, to review investment performance and administrative issues. The Pension Board continues to oversee that the Fund is complying with relevant laws and regulations, and in ensuring that the Fund's governance arrangements are effective and efficient.

I would like to take this opportunity to thank colleagues on the Panel, and the Pension Board, and officers of the Council for ensuring that the Fund has been so high performing.

As usual we are holding our Annual General Meeting in November. This time the venue will be our new Civic Centre. We will be communicating the date to you in your Autumn Newsletters so please do look out for it. I look forward to seeing some of you there.

### Clive Palfreyman





# Section 2

## Management of the Scheme

## Management of the scheme

<b>Administering Authority</b>	London Borough of Hounslow
<b>Trustees</b>	Pension Fund Panel of the London Borough of Hounslow
<b>Pension Fund Officers</b>	
Executive Director of Finance & Resources	Clive Palfreyman
Head of Strategic Finance: Treasury, Pensions, Audit	Lorelei Watson
Strategic Pensions & Treasury Accountant	Rapinder Sangha
Strategic Pensions Manager	Hitesh Sharma
<b>Professional Advisors</b>	
Indendpent 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
<b>Assest Pool &amp; Fund Managers</b>	
Assest Pool and Operator	London LGPS CIV
Fund Managers	Aberdeen Asset Management (UK) Ltd BlackRock Investment Management (UK) Ltd CBRE Global Investors Fidelity Columbia Threadneedle Investments Longview Partners (London LGPS CIV)
<b>Administration</b>	
Pension admininstration services	West Yorkshire Pension Fund
<b>Additional Voluntary Contributions (AVC) providers</b>	Standard Life Equitable Life



# Section 3 Pension Fund Panel



## Pension Fund Panel from May 2018



Cllr. Rajinder Bath (Lab) - Chair



Cllr. Jagdish Sharma (Lab)



Cllr. John Todd (Con)



Cllr. Sukhbir Dhaliwal (Lab)



Cllr. Shivraj Grewal (Lab)



Cllr. Sohan Sumra (Lab)

### Observer members

- Riaz Haq (Staff representative)
- John Wiffen (employer representative)
- Vacant (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 AGMs and EGMs of companies in which the Fund has holdings, after considering the advice of the Executive Director of Finance & Corporate Services and appropriate Manager(s).
- To overview and agree pension administration matters

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



# Section 4

## The Pension Board

## The Pension Board

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

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

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

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

### Pension Board Members to May 2018



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



**Neil Mason – Vice Chair and Independent Adviser**



**Thomas Ribbits – Member Representative**



**Harminder Persad – Employer Representative**



**William Cassell – Member Representative**



# Section 5 Actuary's Statement

# Actuary's Statement as at 31 March 2019

## Barnett Waddingham LLP

### Introduction

The last full triennial valuation of the London Borough of Hounslow Pension Fund was carried out as at 31 March 2016 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 2017.

### 2016 valuation results

The 2016 valuation certified an average primary contribution rate of 13.9% 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 2016 for valuation purposes was £772m which represented 84% 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 2016 are summarised below.

Assumption	31 March 2016
Discount rate	5.4% p.a.
Pension increases (CPI)	2.4% p.a.
Salary increases	In line with CPI until 31 March 2020 and 3.9% p.a. thereafter
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 S2PA tables with a multiplier of 115% for males and 95% for females, making allowance for CMI 2015 projected improvements and a long term rate of improvement of 1.5% p.a.

<b>Assumption</b>	<b>31 March 2016</b>
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 2016 valuation

Since 31 March 2016, investment returns have been higher than assumed at the 2016 triennial valuation. The value placed on the liabilities will, however, have also increased due to the accrual of new benefits as well as a decrease in the real discount rate underlying the valuation funding model.

Overall, we estimate that the funding position as at 31 March 2019 has improved compared with the position as at 31 March 2016 although the primary rate has also increased due to the expectation of incorporating more prudence into the valuation funding assumptions.

The next formal valuation will be carried out as at 31 March 2019 with new contribution rates set from 1 April 2020.

### **Barry McKay FFA**

Partner, Barnett Waddingham LLP



# Section 6

## Investment Overview

## Investment strategy and performance

The Investment Strategy of the Fund is attached at Appendix 1. 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.

The Annual Report on our approach to voting and corporate governance is attached at Appendix 7.

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 2019 is shown in the table below. The Fund was slightly overweight in overseas equities, and underweight in diversifying assets. The Fund has a tolerance of +/- 5% so this is within our tolerance limits.

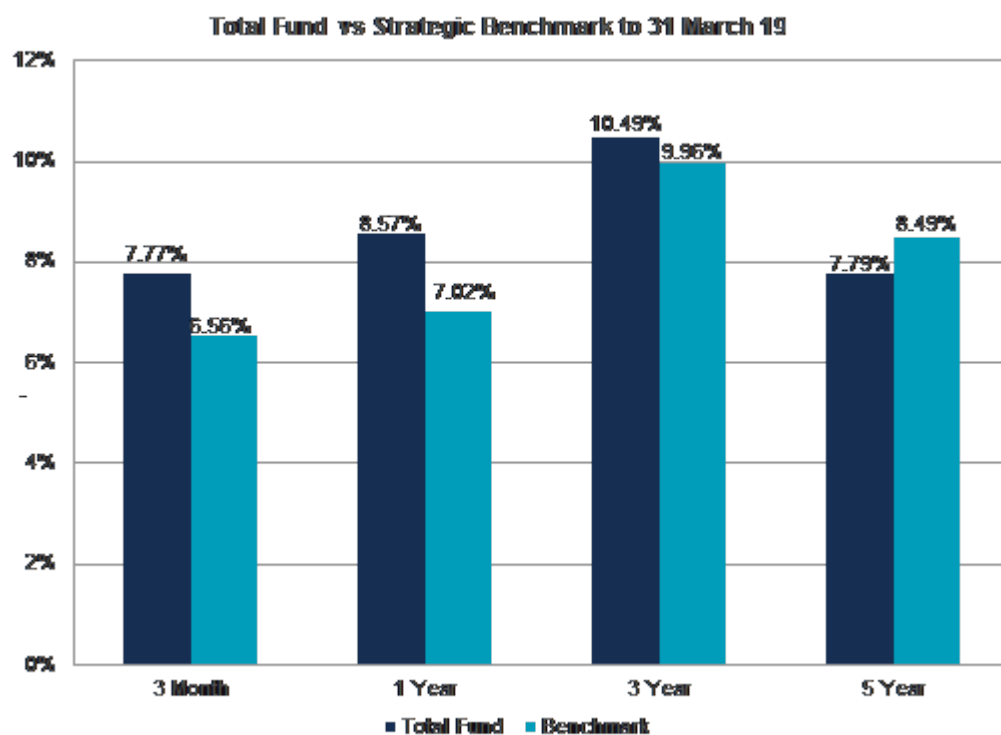
Asset Class	Fund	Strategic Benchmark	Difference	Benchmark
UK equities	31.1%	31.0%	+0.1%	FTSE All-Share
Overseas equities	29.8%	28.0%	+1.8%	MSCI ACWI ex-UK
Conventional bonds	9.8%	10.0%	-0.2%	iBoxx Non Gilt
Index-linked bonds	5.0%	5.0%	0.0%	FTSE Index-Linked Gilts >5 Year
Property	5.0%	5.0%	0.0%	IPD UK All Property
Income assets (Fidelity)	14.7%	15.0%	-0.3%	4% Absolute Return
Diversifying assets and cash	4.6%	6.0%	-1.4%	LIBOR



### Performance of the Fund

The overall performance of the fund over the last 1, 3 and 5 years is in the chart below. The Fund has significantly outperformed its benchmark in the last 3 years.

In the last year it was the 8th best performing local government pension fund in the country, out of 100 funds.



## Performance by Fund Manager, and Asset Class

The breakdown of performance, by fund manager, as at 31st March 2019 is shown below.

Manager	1-year return (%)	3-year return (% p.a.)	5-year return (% p.a.)
<b>Total Fund</b>	<b>+8.57</b>	<b>+10.49</b>	<b>+7.79</b>
Benchmark	+7.02	+9.96	+8.49
Difference	+1.55	+0.52	-0.69
<b>BlackRock Multi-Asset</b>	<b>+8.47</b>	<b>+11.08</b>	<b>+8.48</b>
Benchmark	+7.21	+10.72	+8.86
Difference	+1.26	+0.36	-0.38
<b>Aberdeen Multi-Asset</b>	<b>+8.62</b>	<b>+11.04</b>	<b>+7.23</b>
Benchmark	+6.79	+10.57	+8.79
Difference	+1.83	+0.47	-1.55
<b>Longview Global Equity Equities</b>	<b>+16.53</b>	<b>N/a</b>	<b>N/a</b>
Benchmark	+11.98	N/a	N/a
Difference	+4.56	N/a	N/a
<b>Fidelity Multi Asset Income IncomeIncome</b>	<b>+6.10</b>	<b>N/a</b>	<b>N/a</b>
Benchmark	+4.00	N/a	N/a
Difference	+2.10	N/a	N/a
<b>BlackRock ALMA</b>	<b>+4.02</b>	<b>+5.39</b>	<b>+4.76</b>
Benchmark	+4.29	+4.04	+4.05
Difference	-0.27	+1.35	+0.71
<b>Aberdeen DGF</b>	<b>+1.40</b>	<b>+5.30</b>	<b>+5.40</b>
Benchmark	+5.19	+4.98	+4.95
Difference	-3.79	+0.32	+0.50
<b>Columbia Property PThreadneedle</b>	<b>+4.60</b>	<b>+5.90</b>	<b>+9.30</b>
Benchmark	+4.80	+6.10	+9.10
Difference	-0.20	-0.20	+0.20
<b>CBRE UK Property Fund</b>	<b>+5.20</b>	<b>+6.30</b>	<b>+9.60</b>
Benchmark	+4.80	+6.10	+9.10
Difference	+0.40	+0.20	+0.50

## 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, is shown in the tables below.

### BlackRock Multi-Asset Mandate

Asset Class	1-year return (%)	3-year return (% p.a.)	5-year return (% p.a.)
UK Equities	7.87	9.99	7.09
Benchmark	6.31	9.47	6.07
Difference	+1.56	+0.52	+1.02
Global Equities	11.98	15.74	11.10
Benchmark	9.87	14.47	11.92
Difference	+2.11	+1.27	-0.82
UK Corporate Bonds	3.17	4.74	5.64
Benchmark	3.68	4.67	5.43
Difference	-0.51	+0.07	+0.21
UK Index-Linked	5.75	9.29	10.18
Benchmark	5.68	9.09	9.87
Difference	+0.07	+0.20	+0.31
TOTAL	+8.47	+11.08	+8.48
Benchmark	+7.21	+10.72	+8.86
Difference	+1.26	+0.36	-0.38

### Aberdeen Multi-Asset Mandate

Asset Class	1-year return (%)	3-year return (% p.a.)	5-year return (% p.a.)
UK Equities	11.60	11.53	5.75
Benchmark	6.31	9.47	6.07
Difference	+5.29	+2.07	-0.32
Global Equities *	9.04	13.81	9.49
Benchmark	10.62	14.64	12.27
Difference	-1.58	-0.82	-2.78
UK Corporate Bonds	2.90	5.51	5.79
Benchmark	3.68	4.67	5.43
Difference	-0.78	+0.85	+0.36
UK Index-Linked	6.14	9.60	10.06
Benchmark	5.68	9.09	9.87
Difference	+0.46	+0.51	+0.19
TOTAL	+8.62	+11.04	+7.23
Benchmark	+6.79	+10.57	+8.79
Difference	+1.83	+0.47	-1.55

\*This is a residual portfolio, pending transferral.



# Section 7 Risk Management

## Risk Management

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

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

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

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

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

There is only one red risk, Risk 7, the risk of manager underperformance.

The highest scoring risks are all funding risks:

- Manager underperformance (red)
- Fund assets are insufficient to meet liabilities
- Systemic risk
- Asset pooling

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



# Section 8 Pension Fund Accounts

The Pension 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 the website to all Pension Fund pensioners, people with deferred benefits and employees of the Authority who are members of the pension scheme. The annual report sets out the Fund's Statement of Investment Principles. A separate Annual General Meeting for the fund is also held.

Responsibility for the overall direction of the Fund's investment policy rests with the Authority's Pension Fund Panel and draft accounts will be submitted to the Panel on 11 June 2019. These accounts summarise the transactions and net assets of the scheme. In implementing the Fund's investment policy, the Authority has appointed six investment managers; Aberdeen Standard Investments, Black Rock Investment Management Ltd, Fidelity International Ltd, Columbia Threadneedle Investments Ltd, CBRE Global Investments Ltd and Longview Partners which is held within the London LGPS (CIV) to deal at discretion within investment objectives laid down by the Authority.

## Fund Account for the Year Ended 31 March 2019

2017/18		2018/19	
£m		£m	Notes
	Dealings with members, employers and others directly involved in the fund		
	<b>Contributions</b>		6
27.8	From Employers	28.3	
8.4	From Employees	8.6	
1.4	Individual Transfers in from Other Pension Funds	2.0	
37.6		38.9	
	<b>Benefits</b>		7
(29.8)	Pensions	(31.1)	
(6.3)	Commutation, Lump Sum Retirement and Death Benefits	(8.1)	
	<b>Payments to and on Account of Leavers</b>		
(4.8)	Individual Transfers out to Other Pension Funds	(3.6)	
(0.1)	Refunds to Members Leaving Service	(0.1)	
(41.0)		(42.9)	
(3.4)	<b>Net Additions/(Withdrawals) from Dealings with Members</b>	(4.0)	
(2.8)	<b>Management Expenses</b>	(4.3)	8
	<b>Returns on Investments</b>		9
22.5	Investment Income	26.3	
(0.3)	Taxes on Income (Irrecoverable Withholding Tax)	(0.2)	
22.2		26.1	
(3.2)	<b>Profit and Loss on Disposal of Investments and Change in the Market Value of Investments</b>	63.4	14
<b>19.0</b>	<b>Net Returns on Investments</b>	<b>88.3</b>	
<b>12.8</b>	<b>Net Increase/(Decrease) in the Net Assets available for Benefits During the Year</b>	<b>81.2</b>	
<b>945.0</b>	<b>Opening Net Assets of the Scheme</b>	<b>957.8</b>	
<b>957.8</b>	<b>Closing Net Assets of the scheme</b>	<b>1,039.0</b>	

## Net Assets Statement as at 31 March 2019

31 Mar 18		31 Mar 19	
£m		£m	Note
	<b>Investment Assets</b>		16
372.0	Equities	359.6	
567.1	Pooled investment Vehicles	657.7	
0.0	Property	0.0	
5.0	Private Equity	4.1	
0.0	Long term investment	0.2	
	Derivative Contracts:		
0.0	Forward Currency Contracts	0.0	
3.1	Cash (Money Market Fund)	1.5	
	Other Investment Balances:		
2.6	Income Due	3.5	
5.6	Amounts Receivable for Sale of Investments	1.4	
4.8	Cash Deposits	8.1	
<b>960.2</b>		<b>1,036.1</b>	
	<b>Investment Liabilities</b>		
	Derivative Contracts:		
0.0	Forward Currency Contracts	0.0	16
(5.9)	Amounts Payable for Purchase of Investments	(2.7)	14
<b>954.3</b>	<b>Net Value of Investments Assets</b>	<b>1,033.4</b>	
4.1	Current Assets	6.5	20
(0.6)	Current Liabilities	(0.9)	21
<b>957.8</b>	<b>Net Assets of the Fund Available to Fund Benefits at the Period End</b>	<b>1,039.0</b>	

## Notes To The Pension Fund Accounts 2018/19

### Note 1 – Description of The London Borough of Hounslow Pension Fund

#### a) General

The Pension Fund (the Fund) is part of the Local Government Pension Scheme (LGPS) and is administered by the London Borough of Hounslow. The following description of the Fund is a summary only. The Fund is a contributory defined benefits scheme established in accordance with statute, which provides for the payment of benefits to employees and former employees of the London Borough of Hounslow and the admitted and scheduled bodies in the Fund. The Fund is overseen by the Pension Fund Panel, with the responsibility for deciding on the most appropriate investment policy for the Fund.

For more detail, reference should be made to the London Borough of Hounslow Annual Report 2018/19 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) and the LGPS (Management and Investment of Funds) Regulations 2016 (as amended).





**b) Membership**

Membership of the LGPS is voluntary and employees are free to choose whether to join the scheme, remain in the scheme or make their own personal arrangements outside the scheme. There are 53 employers within the London Borough of Hounslow Pension Fund. Organisations participating in the London Borough of Hounslow Pension 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.

The following table summarises the membership of the Fund as at 31 March 2019.

31 Mar 18		31 Mar 19	
No.		No.	
7,115	Contributors	6,041	
6,426	Pensioners	6,625	
8,234	Deferred Pensioners	8,852	
<b>21,775</b>	<b>Total</b>	<b>21,518</b>	

**c) Benefits**

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

**d) Funding**

Benefits are funded by contributions from employees, the Council, the admitted and scheduled bodies, and the Fund’s investment income. Contributions are made by active members of the Fund in accordance with the LGPS Regulations 2013 and range from 5.5% to 12.5% of pensionable pay for the financial year ending 31 March 2019. Employee contributions are matched by Employers’ contributions which are set based on triennial actuarial funding valuations. The last such valuation was as at 31 March 2016 and the next will be as at 31 March 2019. Currently, employer contribution rates range from 12.0% to 28.5% of pensionable pay.

**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 Pension Fund. The Pension Fund Panel approved an Investment Strategy Statement in October 2018 and this is available at the link below. The Statement shows the Authority’s compliance with the Myners principles of investment management.

[www.wyjf.org.uk/Member/Publications/PolicyStatements/Hounslow/PolicyStatements\\_Hounslow\\_Index.aspx](http://www.wyjf.org.uk/Member/Publications/PolicyStatements/Hounslow/PolicyStatements_Hounslow_Index.aspx)

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 2018/19 and its position at 31 March 2019. The accounts have been prepared in accordance with the Code of Practice on Local Authority Accounting in the United Kingdom 2017/18 (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 an accruals basis, apart from 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 at the percentage rate recommended by the actuary in the payroll period to which they relate.

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. Income includes the amortisation of any discount or premium, transaction costs (where material) or other differences between the initial carrying amount of the instrument and its amount at maturity calculated on an effective interest rate basis.

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

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

Changes in the net market value of investments are recognised as income 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 pension fund management expenses in accordance with the CIPFA guidance Accounting for Local Government Pension Scheme Management Costs. The profit and loss on disposal of investments and changes in the market value of investments reflect the fees which had been deducted at source.

## Administrative Expenses

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

## Oversight and Governance Costs

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

## Investment Management Expenses

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

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

Where an investment manager's fee note has not been received by the balance sheet date, an estimate based upon the market value of the mandate as at the end of the year is used for inclusion in the fund account. In 2018/19, £0.3m of fees is based on such estimates (2017/18: £0.3m).

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

### h) Foreign Currency Transactions

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

### i) Derivatives

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

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

### j) Cash and Cash Equivalent

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

### k) Financial Liabilities

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

### l) Actuarial Present Value of Promised Retirement Benefits

The actuarial present value of promised retirement benefits is assessed on a triennial basis by the scheme actuary in accordance with the requirements of IAS 19 (post-retirement benefits) and relevant actuarial standards. From this date, any gains or losses arising from changes in the fair value of the liability are recognised by the Fund.

### 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 pension 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(2)(b) of the Local Government Pension Scheme (Management and Investment of Funds) Regulations 2016, but are disclosed as a note only (Note 20).

## Note 4 – critical judgements in applying accounting policies

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

### Pension Fund Liability

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

## Note 5 – assumptions made about the future and other major sources of uncertainty

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

Items in the net assets statement at 31 March 2019 for which there is a significant risk of material adjustment in the forthcoming financial year are as follows:

Item	Uncertainties	Effect if actual results differ from assumptions
Actuarial present value of promised retirement benefits	Estimation of the net liability to pay pensions depends on a number of complex judgements relating to the discount rate used, the rate at which salaries are projected to increase, changes in retirement ages, mortality rates and expected returns on pension fund assets. A firm of consulting actuaries is engaged to provide the fund with expert advice about the assumptions to be applied.	The effects on the net pension liability of changes in individual assumptions can be measured. For instance, an increase in the discount rate assumption would result in a decrease in the pension liability. An increase in assumed earnings would increase the value of liabilities and an increase in assumed life expectancy would increase the liability
Private equity	Private equity investments are valued at fair value in accordance with British Venture Capital Association guidelines. These investments are not publicly listed and as such, there is a degree of estimation involved in the valuation.	The total private equity investments in the financial statements are £4.1m. There is a risk that this investment may be understated or overstated in the accounts.

## 19/20 Pension Fund budget

	2018/19 Actual £m	2019/20 Budgeted £m
Dealings with members, employers and others directly involved in the fund:		
<b>Contributions</b>		
From Employers	28.3	29.4
From Employees	8.6	8.9
Individual Transfers in from Other Pension Funds	2.0	2.0
	38.9	40.3
<b>Benefits</b>		
Pensions	(31.1)	(33.1)
Commutation, Lump Sum Retirement and Death Benefits	(8.1)	(8.1)
Payments to and on Account of Leavers		
Individual Transfers out to Other Pension Funds	(3.6)	(3.6)
Refunds to Members Leaving Service	(0.1)	(0.1)
	(42.9)	(44.9)
<b>Net Withdrawals from Dealings with Members</b>	<b>(4.0)</b>	<b>(4.6)</b>
<b>Management Expenses</b>	<b>(4.3)</b>	<b>(4.6)</b>
<b>Net Outflow before Investment Income</b>	<b>(8.3)</b>	<b>(9.2)</b>

## Income and Expenditure

	2018/19	2017/18	Notes
	£m	£m	
Dealings with members, employers and others directly involved in the fund			
<b>Contributions</b>			<b>6</b>
From Employers	28.3	27.8	
From Employees	8.6	8.4	
Individual Transfers in from Other Pension Funds	2.0	1.4	
	38.9	37.6	
<b>Benefits</b>			<b>7</b>
Pensions	(31.1)	(29.8)	
Commutation, Lump Sum Retirement and Death Benefits	(8.1)	(6.3)	
Payments to and on Account of Leavers			
Individual Transfers out to Other Pension Funds	(3.6)	(4.8)	
Refunds to Members Leaving Service	(0.1)	(0.1)	
	(42.9)	(41.0)	
<b>Net Additions/(Withdrawals) from Dealings with Members</b>	<b>(4.0)</b>	<b>(3.4)</b>	
<b>Management Expenses</b>	<b>(4.3)</b>	<b>(2.8)</b>	<b>8</b>
<b>Returns on Investments</b>			<b>9</b>
Investment Income	26.3	22.5	
Taxes on Income (Irrecoverable Withholding Tax)	(0.2)	(0.3)	
	26.1	22.2	
<b>Profit and Loss on Disposal of Investments and Change in the Market Value of Investments</b>	<b>63.4</b>	<b>(3.2)</b>	<b>14</b>
<b>Net Returns on Investments</b>	<b>89.5</b>	<b>19.0</b>	
<b>Net Increase/(Decrease) in the Net Assets available for Benefits During the Year</b>	<b>81.2</b>	<b>12.8</b>	
<b>Opening Net Assets of the Scheme</b>	<b>957.8</b>	<b>945.0</b>	
<b>Closing Net Assets of the scheme</b>	<b>1,039.0</b>	<b>957.8</b>	

## Net assets

	31 Mar 19	31 Mar 18	Note
	£m	£m	
<b>Investment Assets</b>			16
Equities	359.6	372.0	
Pooled investment Vehicles	657.7	567.1	
Property	0.0	0.0	
Private Equity	4.1	5.0	
Long term Investment	0.2	0.0	
Derivative Contracts:			
Forward Currency Contracts			
Cash (Money Market Fund)	1.5	3.1	
Other Investment Balances:			
Income Due	3.5	2.6	
Amounts Receivable for Sale of Investments	1.4	5.6	
Cash Deposits	8.1	4.8	
	1,036.1	960.2	
<b>Investment Liabilities</b>			
Derivative Contracts:			
Forward Currency Contracts	0.0	0.0	16
Amounts Payable for Purchase of Investments	(2.7)	(5.9)	14
<b>Net Value of Investments Assets</b>	<b>1,033.4</b>	<b>954.3</b>	
<b>Current Assets</b>	<b>6.5</b>	<b>4.1</b>	<b>18</b>
<b>Current Liabilities</b>	<b>(0.9)</b>	<b>(0.6)</b>	<b>19</b>
<b>Net Assets of the Fund Available to Fund Benefits at the Period End</b>	<b>1,039.0</b>	<b>957.8</b>	

## 1. Membership

	31 Mar 19	31 Mar 18
	No.	No.
Contributors	6,041	7,115
Pensioners	6,625	6,426
Deferred Pensioners	8,852	8,234
<b>Total</b>	<b>21,518</b>	<b>21,775</b>



## Note 6 – Contributions Receivable

<b>By Authority</b>		
	<b>31 Mar 19</b>	<b>31 Mar 18</b>
Administering Authority	27.2	27.6
Scheduled Bodies	6.0	5.3
Admitted Bodies	3.7	3.3
<b>Total</b>	<b>36.9</b>	<b>36.2</b>

<b>By Type</b>		
	<b>31 Mar 19</b>	<b>31 Mar 18</b>
Employees' Normal Contributions	8.6	8.4
Employer's Contributions:		
Normal Contributions	18.6	17.3
Deficit Recovery Contributions	9.6	9.4
Augmentation Contributions	0.1	1.1
<b>Total</b>	<b>36.9</b>	<b>36.2</b>

## Note 7 – Benefits payable

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

<b>By Authority</b>		
	<b>31 Mar 19</b>	<b>31 Mar 18</b>
Administering Authority	36.8	33.1
Scheduled Bodies	1.5	1.1
Admitted Bodies	0.9	1.9
<b>Total</b>	<b>39.2</b>	<b>36.1</b>

<b>By Type</b>		
	<b>31 Mar 19</b>	<b>31 Mar 18</b>
Pensions	31.1	29.8
Commutation and lump sum retirement benefits	6.8	5.6
Lump sum death benefits	1.3	0.7
<b>Total</b>	<b>39.2</b>	<b>36.1</b>

## Note 8 – Management expenses

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

	31 Mar 19	31 Mar 18
Administration Expenses	0.9	0.7
Oversight and Governance	0.2	0.2
Investment Management Expenses	3.2	1.9
<b>Total</b>	<b>4.3</b>	<b>2.8</b>

Investment management expenses include £0.1m relating to custodian fees of custodian fees (£0.1m for 2017/18) and £0.9m in respect of transaction costs (£0.7m in 2017/18) whilst the remainder relates to management fees. Since the performance related fee arrangement started, no performance related fees have been paid to the Fund's investment managers.

Included in the administration expenses above are audit fees for the pension fund of £16k (£21k for 2017/18).

## Note 9 – Investment income

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

	2018/19	2017/18
	£m	£m
Equity Dividends	11.2	13.6
Pooled Investments – unit trusts and other managed funds	15.0	8.9
Interest on cash deposits	0.1	0.0
	<b>26.3</b>	<b>22.5</b>

## Note 10 – Investments management arrangements

As at 31 March 2019, the investment portfolio was mainly managed by six external managers:

- Aberdeen Standard Investments
- BlackRock Investment Ltd
- Fidelity International Ltd
- Columbia Threadneedle Investments Ltd
- CBRE Global Investors Ltd
- Longview Partners Ltd (London LGPS CIV)

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. They are

responsible for the safe custody and settlement of all investment transactions and collection of income. The bank account for the Fund is held with Natwest Bank.

The market value and proportion of investments managed by each fund manager at 31 March 2019 was as follows.

31 Mar 18			31 Mar 19		
Market Value		Fund Manager	Mandate	Market Value	
£m	%			£m	%
300.0	31.4	Aberdeen	Global Balanced	275.9	26.7
399.9	41.9	BlackRock	Global Balanced	432.9	41.9
148.9	15.6	Fidelity	Income Fund	151.9	14.7
50.2	5.3	Longview	Global Equities	116.7	11.3
31.3	3.3	Threadneedle	Property	32.7	3.2
18.3	1.9	CBRE	Property	18.5	1.8
0.5	0.1	LAMIT	Property	0.5	0.0
5.0	0.5	Private Equity	Various	4.1	0.4
0.2	0.0	Other	Internal	0.2	0.0
<b>954.3</b>	<b>100.0</b>			<b>1033.4</b>	<b>100.0</b>

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

Investment Name	31 Mar 19		31 Mar 18	
	Market Value		Market Value	
	£m	%	£m	%
Fidelity Multi Asset Income Fund	151.4	14.7	149.0	15.6
Blackrock ACS World ex UK Equity Tracker	126.0	12.2	120.8	12.7
Longview Partners (LCIV) Global Equity Fund	116.7	11.3	50.2	5.3
Blackrock All Stocks Corporate Bond Fund	60.4	5.8	50.0	5.2
	<b>454.5</b>	<b>44.0</b>	<b>370.0</b>	<b>38.8</b>

## Note 11 – Equities

	31 Mar 19	31 Mar 18
	£m	£m
<b>UK Investments (listed)</b>	<b>308.7</b>	<b>270.1</b>
<b>Overseas Investments (listed):</b>		
North America	21.9	37.0
Japan	4.9	11.0
Europe	9.0	27.6
Other	15.1	26.3
	<b>359.6</b>	<b>372.0</b>

The top 10 equity holdings of the London Borough of Hounslow Pension Fund worldwide as at 31 March 2019 were:

	Bid value	% of Total Fund	% of Equities
	£m	%	%
Relx Plc	20.8	2.0	5.8
Compass Group Plc	17.9	1.7	5.0
British American Tobacco Plc	15.7	1.5	4.4
London Stock Exchange Group	15.4	1.5	4.3
Ferguson Plc	13.7	1.3	3.8
Next Plc	13.5	1.3	3.8
Rio Tinto Ltd	12.5	1.2	3.5
Royal Dutch Shell Plc 'B' Shares	12.3	1.2	3.4
Standard Chartered Plc	11.5	1.1	3.2
Astra Zeneca Plc	11.0	1.1	3.1
	<b>144.3</b>	<b>14.0</b>	<b>40.1</b>

## Note 12 – Pooled investments

	31 Mar 19	31 Mar 18
	£m	£m
Pooled Investments		
Bond Fund	101.0	86.9
Overseas Equity Fund	255.7	186.2
Income Fund	151.4	149.0
Index Linked	51.4	47.0
Mid Cap & Smaller Companies	9.5	11.8
Property	51.7	50.1
Absolute Return	37.0	35.9
Other	0.0	0.2
	<b>657.7</b>	<b>567.1</b>

The top 10 pooled investment holdings of the London Borough of Hounslow Pension Fund worldwide as at 31 March 2019 were:

	Market value	% of Total Fund	% of Pooled Investments
	£m	%	%
Fidelity Investments Multi Asset Income Fund	151.4	14.7	23.0
Blackrock Pensions Aquila Life World (ex UK) Fund	126.0	12.2	19.2
Longview Partners (LCIV)	116.7	11.3	17.7
Blackrock All Stocks Corporate Bond	60.4	5.8	9.2
Columbia Threadneedle Property Fund	32.7	3.2	5.0
Aberdeen Fund Managers Corporate Bond	29.5	2.9	4.5
Aberdeen Fund Managers Sterling Index Linked Bond	27.7	2.7	4.2
BlackRock Aquila Life Market Advantage Fund	26.2	2.5	4.0
BlackRock Index Linked A Bond Fund	23.7	2.3	3.6
CBRE UK Property Fund	18.6	1.8	2.8
	<b>612.9</b>	<b>59.3</b>	<b>93.2</b>

## Note 13 – Private Equity

	31 Mar 19	31 Mar 18
	£m	£m
Private equity	4.1	5.0
	<b>4.1</b>	<b>5.0</b>

The top 10 private equity holdings of the London Borough of Hounslow Pension Fund as at 31 March 2019 were:

	Valuation	% of Total Fund	% of Private Equity
	£m	%	%
Advent IV	2.0	0.2	48.8
Environmental Technologies Fund	0.6	0.1	14.6
Schroder Private Equity Fund of Funds IV	0.5	0.0	12.2
The Chandos Fund (YFM)	0.4	0.0	9.8
Schroder Private Equity Fund of Funds III	0.3	0.0	7.3
Schroder Private Equity Fund of Funds II	0.1	0.0	2.4
HG Capital Fund	0.1	0.0	2.4
Schroder Private Equity Fund of Funds	0.1	0.0	2.4
Barings English Growth Fund	0.0	0.0	0.0
The Capital Fund (YFM)	0.0	0.0	0.0
	<b>4.1</b>	<b>0.4</b>	<b>100.0</b>

## Note 14 – Reconciliation of movement in investments

	Market Value as at 31 March 2019	Purchases during the year and derivative payments	Sales during the year and derivative receipts	Change in Market Value during the year	Market Value as at 31 March 2018
	£m	£m	£m	£m	£m
Fixed Interest Securities	0.0				
Equities	359.6	260.3	(293.8)	21.1	372.0
Pooled Investments	606.0	306.4	(255.5)	40.1	515.0
Long term investment	0.2				0.2
Pooled Property Investments	51.7			1.6	50.1
Private Equity	4.1	0.0	(1.5)	0.6	5.0
Cash Funds	1.5	0.0	0.0		4.9
	1,023.1	566.7	(550.8)	63.4	947.2
Derivative Contracts:					
Forward currency contracts	0.0				0.0
<b>Total</b>	<b>1,023.1</b>	<b>566.7</b>	<b>(550.8)</b>	<b>63.4</b>	<b>947.2</b>
Other Investment Balances:					
Cash deposits	8.1				4.8
Amount receivable for sales of investments	1.4				5.6
Investment income due	3.5				2.6
Spot FX contracts					0.0
Amounts payable for purchases of investments	(2.7)				(5.9)
<b>Net Investment Assets</b>	<b>1,033.4</b>	<b>566.7</b>	<b>(550.8)</b>	<b>63.4</b>	<b>954.3</b>

## Note 15 – Analysis of Derivatives

### Objectives and policies for holding derivatives

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

### Forward foreign currency

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

## Note 16a – Classification of Financial instruments

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

	31 Mar 19			31 Mar 18		
	Fair value through profit and loss	Loans and receivables	Financial liabilities at amortised cost	Fair value through profit and loss	Loans and receivables	Financial liabilities at amortised cost
	£m	£m	£m	£m	£m	£m
<b>Financial assets</b>						
Equities	359.6			372.0		
Pooled investments	657.7			567.1		
Private equity	4.1			5.0		
Long term investment	0.2					
Cash (Money Market Fund)	1.5	8.1		3.1	4.8	
Derivative contracts						
Short term deposits						
Other investment balances		3.5		2.6		
Debtors		2.1		6.3		
Cash at bank		5.8		3.4		
<b>Total Financial assets</b>	<b>1,023.1</b>	<b>19.5</b>	<b>0.0</b>	<b>959.5</b>	<b>4.8</b>	<b>0.0</b>
<b>Financial liabilities</b>						
Derivative contracts						
Other investment balances						
Outstanding settlements						
Creditors			(3.6)			(6.5)
<b>Total Financial liabilities</b>	<b>0.0</b>	<b>0.0</b>	<b>(3.6)</b>	<b>0.0</b>	<b>0.0</b>	<b>(6.5)</b>
<b>Net Assets</b>	<b>1,023.1</b>	<b>19.5</b>	<b>(3.6)</b>	<b>959.5</b>	<b>4.8</b>	<b>(6.5)</b>
<b>Grand Total</b>		<b>1,039.0</b>			<b>957.8</b>	

## Note 16b – Net Gains and Losses on financial instruments

	31 March 2018	31 March 2019
	£m	£m
Financial assets		
Fair value through profit and loss	(3.2)	63.4
Loans and receivables		0.0
Total Financial assets	(3.2)	63.4
Financial liabilities		
Fair value through profit and loss	0.0	0.0
Financial liabilities measured at amortised cost	0.0	0.0
Total Financial liabilities	0.0	0.0
<b>Total</b>	<b>(3.2)</b>	<b>63.4</b>

## Note 16c – Valuation of financial instruments carried at fair value

The valuation of financial instruments has been classified into three levels, according to the quality and reliability of information used to determine fair values.

**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.

**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.

**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. Such instruments would include unquoted equity investments and hedge fund of funds, neither of which the Fund currently invests in.

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 Mar 19				31 Mar 18			
	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
<b>Financial assets</b>								
At fair value through profit and loss	617.2	398.9	7.1	1,023.2	556.9	377.5	9.7	
Loans and receivables	17.0	2.4	0.0	19.4	9.0	11.2	0.0	
<b>Total Financial assets</b>	<b>634.2</b>	<b>401.3</b>	<b>7.1</b>	<b>1,042.6</b>	<b>565.9</b>	<b>388.7</b>	<b>9.7</b>	<b>964.3</b>
<b>Total</b>	<b>633.3</b>	<b>398.6</b>	<b>7.1</b>	<b>1,039.0</b>	<b>565.3</b>	<b>382.8</b>	<b>9.7</b>	<b>957.8</b>



	31 Mar 19				31 Mar 18			
	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
<b>Financial liabilities</b>								
At fair value through profit and loss	0.0	(2.7)	0.0	(2.7)	0.0	(5.9)	0.0	(10.6)
At amortised cost	(0.9)	0.0	0.0	(0.9)	(0.6)	0.0	0.0	(1.8)
<b>Total Financial liabilities</b>	<b>(0.9)</b>	<b>(2.7)</b>	<b>0.0</b>	<b>(3.6)</b>	<b>(0.6)</b>	<b>(5.9)</b>	<b>0.0</b>	<b>(6.5)</b>
<b>Total</b>	<b>633.3</b>	<b>398.6</b>	<b>7.1</b>	<b>1,039.0</b>	<b>565.3</b>	<b>382.8</b>	<b>9.7</b>	<b>957.8</b>

## 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 Council manages these investment risks as part of its overall pension 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.

### b) 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 Council 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 Council, 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 2018/19 reporting period.

Asset type	Value as at 31 March 2019 £m	Percentage Change %	Value on increase £m	Value on decrease £m
UK Equities	369.1	9.6	404.5	333.7
Overseas Equities	255.7	9.6	280.2	231.2
Total Bonds	152.3	6.7	162.5	142.1
Long term Investment	0.2	0.0	0.2	0.2
Diversified Growth	37.0	3.4	38.3	35.7
Multi Asset Income	151.4	8.5	164.3	138.5
Cash	11.9	0.0	11.9	11.9
Property Units	51.7	5.2	54.4	49.0
Alternatives	4.1	3.7	4.3	3.9
<b>Total Investment Assets</b>	<b>1,033.4</b>		<b>1,120.7</b>	<b>946.1</b>

## 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 Council considers the following likely volatility associated with foreign exchange rate movements.

Currency exposure – asset type	Value as at 31 March 2019 £m	Percentage Change %	Value on increase £m	Value on decrease £m
Overseas Equities	255.7	8.4	277.2	234.2
Multi Asset Income Fund	151.4	7.9	163.4	139.4
Alternatives	1.0	8.2	1.1	0.9
<b>Total Investment Assets</b>	<b>408.1</b>		<b>441.6</b>	<b>374.6</b>

## a) Credit Risk

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

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

transaction in a timely manner.

BlackRock Investment Management Ltd use their Money Market Fund to manage invested cash and held £1.5m in this fund at 31 March 2019. Money market funds have AAA ratings from leading ratings agencies. This fund is the £1.5m Cash Fund figure in the Net Assets Statement.

The remainder of invested cash is held in short term bank deposits. Aberdeen Standard Investments held £5.6m in a call account with Standard Chartered at 31 March 2019. A further £2.5m invested cash is held with the Fund’s Custodian, Northern Trust. As at 31 March 2019 both Standard Chartered and Northern Trust had a credit rating of AA-. These funds account for the £8.1m cash deposits of the Net Assets Statement.

## Note 18 – Funding Arrangements

The LGPS Regulations require that a full actuarial valuation of the Fund is carried out every three years. The purpose of this is to establish that the London Borough of Hounslow is able to meet its liabilities to past and present contributors and to review employer contribution rates. The last triennial valuation was carried out by Barnett Waddingham, the Fund’s Actuary as at 31 March 2016 in accordance with the Funding Strategy statement of the Fund and Regulation 36 of the Local Government Pension Scheme (Administration) Regulations 2008. This was effective from 1 April 2017. The report and Funding Strategy Statement are both available at

[www.wyph.org.uk/Member/Publications/PolicyStatements/Hounslow/PolicyStatements\\_Hounslow\\_Index.aspx](http://www.wyph.org.uk/Member/Publications/PolicyStatements/Hounslow/PolicyStatements_Hounslow_Index.aspx)

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

Adjustments to contributions by individual employers are required to make good the deficiency resulting from the change in funding requirement, i.e. £145.5 million as at the date of the actuarial valuation. The Authority has agreed to keep the employer’s contribution stable to meet the 100% funding requirement over a period of 17 years.

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

<b>Future Assumed Returns at 2016</b>	<b>% per annum</b>	<b>Real (relative to CPI) % per annum</b>
Equities	7.4	5.0
Gilts	2.4	0.0
Cash	1.8	(0.6)
Property	5.9	3.5
Corporate Bonds	3.3	0.9
Absolute Return Fund	5.3	2.9
Expense Allowance	(0.2)	0.0
Estimated discount rate based on long-term investment strategy	6.1	3.7
Prudence allowance	(0.7)	(0.7)
<b>Final discount rate assumption</b>	<b>5.4</b>	<b>3.0</b>

Financial Assumptions	2016	2013
Discount rate	5.4% per annum	6.0% per annum
Retail Price Inflation (RPI)	3.3% per annum	3.5% per annum
Consumer Price Inflation (CPI)	2.4% per annum	2.7% per annum
Pension and Deferred Pension Increases	2.4% per annum	2.7% per annum
Short-term Pay Increases	In line with the CPI assumption for the 4 years to 31 March 2020	3% for period 1 April 2013 to 31 March 2015
Long-term Pay Increases	3.9% per annum	4.5% per annum

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

	2016	2013
Actuarial value of liabilities	£916m	£805.5m
Actuarial value of assets	£772m	£684.2m
Deficit	£144m	£124.3m
Funding Level	84%	85%

The next actuarial revaluation of the Fund will be as at 31 March 2019 and will be published in 2020.

## Note 19 – Actuarial Present Value of Promised Retirement Benefits

The table below shows the total net liability of the Fund as at 31 March 2019. The figures have been prepared by Barnett Waddingham, the Fund's Actuary, only for the purposes of providing the information required by IAS26. In particular, they are not relevant for calculations undertaken for funding purposes or for other statutory purposes under UK pension's legislation.

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

	2018/19	2017/18
	£m	£m
Present Value of Promised Retirement Benefits	(1,610.7)	(1,572.9)
Fair Value of Scheme Assets (bid value)	1,033.7	960.9
<b>Net Liability</b>	<b>(577.0)</b>	<b>(612.0)</b>

### Assumptions

To assess the value of the Fund's liabilities at 31 March 2019, the value of the Fund's liabilities calculated for the funding valuation as at 31 March 2017 have been rolled forward, using financial assumptions that comply with IAS 19.

### Demographic Assumptions

The demographic assumptions used are consistent with those used for the most recent Fund valuation, which was carried out as at 31 March 2019. The post retirement mortality tables adopted are the SIPA tables with a multiplier of 115%, for males and 95% for females. These base tables are then projected using the CMI 2018 Model, allowing for a long-term rate of improvement of 1.5% p.a.

The assumed life expectations from age 65 are:

31 Mar 18	Life Expectancy from Age 65		31 Mar 19
21.5	Retiring today	Males	20.6
25.2		Females	24.0
23.7	Retiring in 20 years	Males	22.2
27.5		Females	25.8

## Financial Assumptions

The main financial assumptions are:

31 Mar 18		31 Mar 19
3.3	RPI increases	3.4
2.3	CPI increases	2.4
3.8	Salary increases	3.9
2.3	Pension increases	2.4
2.5	Discount rate	2.4

## Note 20 – Current Assets

	2018/19	2017/18
	£m	£m
<b>Debtors:</b>		
Amount due from the London Borough of Hounslow	0.0	0.2
Contributions due – employers	0.5	0.3
Contributions due – employees	0.2	0.2
<b>Cash balances</b>	<b>5.8</b>	<b>3.4</b>
<b>Total</b>	<b>6.5</b>	<b>4.1</b>

## Debtors

Debtors represent those sums of money owed to the Pension Fund for contributions due from scheduled and admitted bodies for 2018/19, for which payment had not been received as at 31 March 2019..

## Note 21 – Current Liabilities

	2018/19	2017/18
	£m	£m
<b>Creditors:</b>		
London Borough of Hounslow	0.2	0.0
Management Fees	0.4	0.3
PAYE tax due to HMRC	0.3	0.3
<b>Total</b>	<b>0.9</b>	<b>0.6</b>

### Creditors

Creditors represent those sums of money owed by the Pension Fund for fund management services received during 2018/19, for which payment had not been made as at 31 March 2019, amounts due to HMRC, in respect of tax and NI contributions for March 2019 as well as an amount due to the Council's General Account as at 31 March 2019.

### Investment Commitments

The Fund is winding down its investments in private equity funds and as at 31 March 2019 there were no further commitments outstanding (£0.2m at 31 March 2018).

## Note 22 – Additional Voluntary Contributions

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

Additional voluntary contributions of £12k were paid directly to Standard Life during the year (2017/18: £43k). Employees can contribute to the fund and Hounslow 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 2019 was £357k (2017/18: £504k). A further £114k is held within Equitable Life, the former provider of AVCs to fund members. The value of these in 17/18 was £111k.

In accordance with Regulation 4(2)(b) of the Pension Scheme (Management and Investment of Funds) Regulations 2009, the contributions paid and the assets of these investments are not included in the Fund's accounts.

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

## Note 23 – Related Party Transactions

The Fund is administered by the London Borough of Hounslow and the Council is a related party to the Fund. During 2018/19, some Pension Fund payments and receipts were made through the Council's General Account as a result of the day-to-day administration of the Fund. At 31 March 2019 £0.2m was owed to by the General Account by the Pension Fund (At 31 March 2018 £0.2m was owed to the Pension Fund by the General Account).

The Pension Fund incurred administrative expenses of £0.5m in 2018/19 (£0.5m 2017/18) for Council officers' time spent in administering the Fund.

No other material transactions with related parties of the Fund during 2018/19 were identified.



# Section 9 Governance

## Governance Of The Pension Fund

The Governance Compliance Statement is attached at Appendix 2. This details how the Fund is governed. The Fund is overseen by a Pension Fund Panel whose remit is to overview the investments and the administration of the Fund. In addition the Authority has a Pension Board. Its remit is to ensure that the Council and Pension Fund Panel comply with the LGPS Regulations and any other legislation relating to the governance and administration of the Scheme, and any requirements imposed in relation to the LGPS by the Pensions Regulator. The Annual Report of the Pension Board is attached at Appendix 3.

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

In addition, detailed training was provided by officers on the 10th July on how the Pension Fund is managed and governed, and the structure of its investments.

Members also attended the Three-day LGA (Local Government Association) Trustee Training in the autumn, and also attended sessions organised by our fund managers and third parties throughout the year.

### Work programme of Pension Fund Panel 2018/19

<p>18 July 2018 at 7pm Training Session</p>	<p><b>Part 1</b></p> <ul style="list-style-type: none"> <li>• Overview/General Matters</li> <li>• Accounts and Annual Report</li> <li>• Annual Business Plan</li> <li>• Training Programme</li> </ul> <p><b>Part 2</b></p> <ul style="list-style-type: none"> <li>• Adviser's Report</li> <li>• BlackRock</li> <li>• Annual Review of Private Equity</li> <li>• Pension Fund Administration Monitoring and Transition</li> </ul>
<p><b>Equities</b></p> <p>BlackRock Karen Shackleton</p>	
<p>17 October 2018 at 7pm Training Session</p>	<p><b>Part 1</b></p> <ul style="list-style-type: none"> <li>• Overview/General Matters</li> <li>• Breaches Policy</li> <li>• Monitoring of Risk Register</li> <li>• Update of Investment Strategy Statement</li> <li>• Annual Report of Pension Board</li> </ul> <p><b>Part 2</b></p> <ul style="list-style-type: none"> <li>• Adviser's Report</li> <li>• Columbia Threadneedle</li> <li>• CBRE</li> <li>• Pension Fund Administration</li> </ul>
<p><b>Property</b></p> <p>Threadneedle</p>	
<p>The 2018 Pension Fund AGM is scheduled for 14th November. Civic Centre Blue Zone.</p>	



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16 January 2019 at 7pm

Training Session

**Actuarial valuations**

Barnett Waddingham

**Part 1**

- Overview/General Matters
- Cashflow monitoring update
- Annual Report on Corporate Governance
- Review of Governance Compliance Statement

**Part 2**

- Adviser's Report
- Aberdeen
- Longview
- Pension Fund Administration

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20 March 2019 7pm

Training Session

**Fixed income**

Karen Shackleton

Income sleeve Fidelity

**Part 1**

- Overview/General Matters
- Monitoring of Risk Register
- Revised Pension Administration Strategy

**Part 2**

- Adviser's Report
  - Fidelity
  - Pension Fund Administration
-



# Section 10

## Pensions Administration

## **Pensions Administration**

From 1 August 2018 the administration of the Hounslow Pension Scheme was transferred to a new provider, West Yorkshire Pension Fund (WYPF) following nine years with the previous administrator, Capita Employee Benefits.

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

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

## Management and Customer Service Key Performance Indicators

LBH 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.

Work Type	Total Cases	Target Days For Each Case	Target Met Cases	Minium Target Percent	Target Met Percent
AVC In-house (General)	28	10	28	85	100
Change of Address	699	5	688	85	98.43
Death Grant Nomination Form Received	1394	20	1394	85	100
Death Grant to Set Up	47	5	46	85	97.87
Death In Retirement	217	5	141	85	64.98
Death In Service	9	5	9	85	100
Death on Deferred	19	5	12	85	63.16
Deferred Benefits Into Payment Actual	261	5	255	90	97.7
Deferred Benefits Into Payment Quote	278	35	278	85	100
Deferred Benefits Set Up on Leaving	421	10	417	85	99.05
Divorce Quote	19	20	19	85	100
Divorce Settlement Pension Sharing order Implemented	2	80	2	100	100
Estimates for Deferred Benefits into Payment	138	10	136	90	98.55
Initial Letter Death in Service	9	5	9	85	100
Initial letter Death in Retirement	217	5	125	85	57.6
Initial letter Death on Deferred	19	5	16	85	84.21
Monthly Posting	49	10	46	95	93.88
Pension Estimate	269	10	266	75	98.88
Refund Payment	51	10	51	95	100
Refund Quote	124	35	124	85	100
Retirement Actual	127	3	125	90	98.43
Transfer In Actual	16	35	15	85	93.75
Transfer In Quote	11	35	11	85	100
Transfer Out Payment	12	35	11	85	91.67
Transfer Out Quote	95	20	94	85	98.95

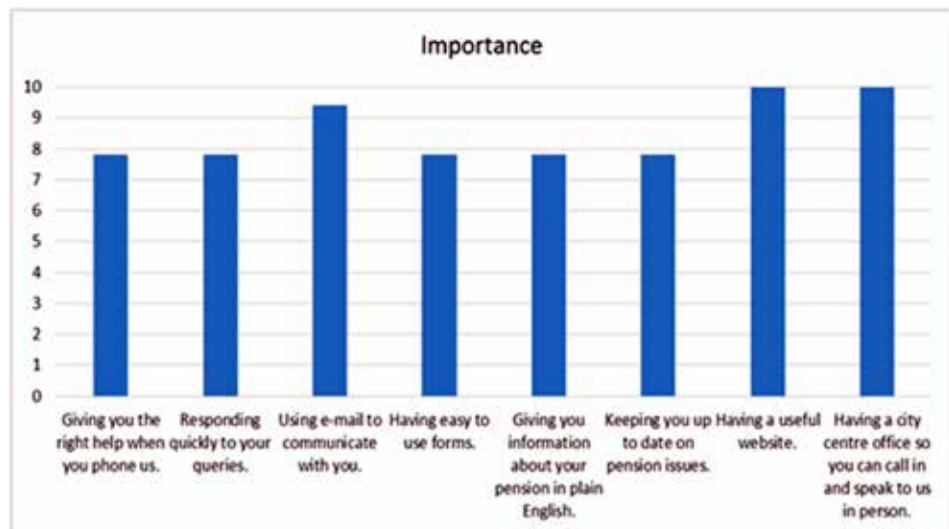
the level of resources and comparability of key performance indicators over time and to national averages

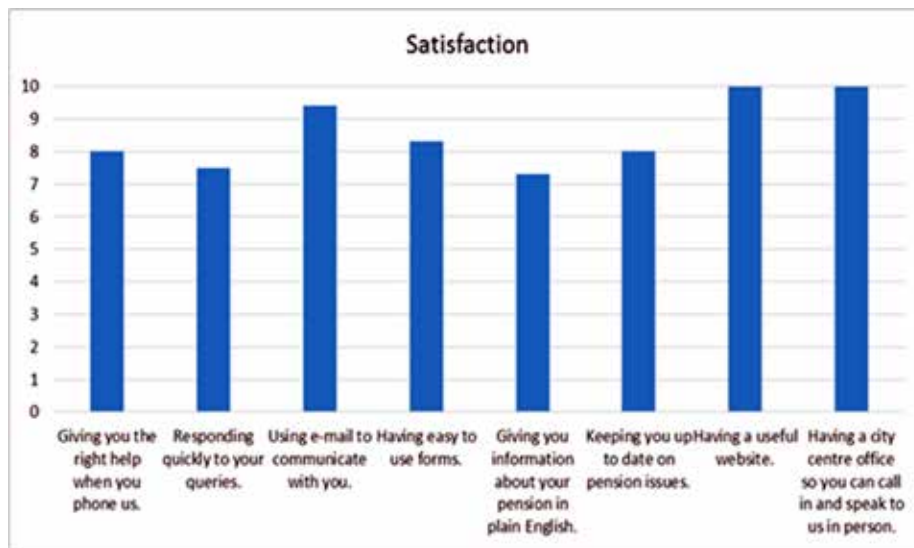
Industry Standard PIs	Target	Achieved	Average
1 Letter detailing transfer in quote	10 days	98.43%	84.9%
2 Letter detailing transfer out quote	10 days	91.77%	85.9%
3 Process and pay refund	5 days	97.39%	89.3%
4 Letter notifying estimate of retirement benefit	10 days	92.10%	91.0%
5 Letter notifying actual retirement benefit	5 days	91.39%	92.4%
6 Process and pay lump sum retirement grant	5 days	100%	94.2%
7 Letter acknowledging death of member	5 days	95.46%	90.4%
8 Letter notifying amount of dependant's benefits	5 days	92.59%	90.4%
9 Calculate and notify deferred benefits	10 days	93.75%	79.1%

## Customer satisfaction levels



The charts below give a picture of the customers' overall views about our services.





### Pension overpayment from 1st Aug 2018 to 31st Mar 2019

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.

Overpayments	2018/19
Overpayments	31
Overpayments written off	0
Overpayments recovered	14

### Fraud Prevention – National Fraud Initiative

Lincolnshire Pension Fund, West Yorkshire Pension Fund and Hounslow Pension Fund with 13 Fire authorities are in shared service arrangement hosted by West Yorkshire Pension Fund. We take part 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:

### Combined Figures For All Shared Partner Funds

Pensioners, beneficiaries and deferred members	No of record sent	No of mismatches		Overpayments identified		Possible Frauds	mismatches carried forward at 31 March
2018/19	260,387	3,339	1.28%	3	0.00%	2	2
2017/18	229,994	518	0.23%	35	0.02%	2	10
2016/17	224,122	1,425	0.64%	5	0.00%	4	5
2015/16	219,313	868	0.40%	61	0.03%	3	10
2014/15	159,928	656	0.41%	25	0.02%	0	5



Pensioners, beneficiaries and deferred members	No of record sent	No of mismatches		Overpayments identified		Possible Frauds	mismatches carried forward at 31 March
2013/14	154,616	1,456	0.94%	82	0.05%	3	8

### Combined Figures For All Shared Partner Funds

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

### Cost per member

The latest published data (2017/18) for all LGPS funds administration costs shows that Hounslow pensions administration cost per member is £34.37, 34th amongst 88 LGPS funds the national average of £20.85. Being a London based fund there is a general high cost factor in London, contributing to this higher cost factor.

Hounslow Pension Fund has a below average total cost per members (administration, investment and oversight & governance) at £130.23, the national average for LGPS in 2017/18 is £205.24.

The 2018/19 annual cost of administering the Hounslow Pension Fund per member is £43.09, investment management cost per member is £147.54, oversight and governance cost per member £8.50 and the total management cost per member is £199.13. These figures compare favourably with the average cost for authorities in the MHCLG –SF3 results for 2017/18 as shown in the table below.

Cost per member 2017/18	West Yorkshire Pension Fund		Lincolnshire Pension Fund		Hounslow Pension Fund		LGPS Lowest	LGPS Highest
	Position	Cost pmbr	Position	Cost pmbr	Position	Cost pmbr		
Admin cost per member	7th	£14.05	5th	£13.50	66	£34.37	£10.92	£86.43
Investment cost per member	1st	£20.48	27th	£135.11	14	£88.04	£20.58	£476.36
Oversight & Governance	5th	£1.92	25th	£5.87	36	£7.82	£0.00	£78.62
<b>Total cost per member</b>	<b>1st</b>	<b>£36.45</b>	<b>22nd</b>	<b>£154.48</b>	<b>15</b>	<b>£130.23</b>	<b>£38.03</b>	<b>£531.84</b>



## Key activities during the year

### Annual Meeting

The 2019 Annual General Meeting (AGM) of the Hounslow Pension Fund will be held on Thursday 21 November.

This year will be the first time the AGM will take place in our new building, Hounslow House. The AGM will be introduced by the Executive Director of Finance & Corporate Services, Clive Palfreyman. Our pension scheme administrators, West Yorkshire Pension Fund, will be attending to talk about the services they offer along with our Investment Advisor who will provide an update on the financial position of the fund.

### Employer workshops

The free one-day and half-day workshop sessions for employers are a regular part of the training and support we offer to our Employers. Four different types of workshops were provided for employers:

- Complete guide to administration (half day)
- Secure administration (half day)
- Employer Responsibilities (half day)
- Ill Health Retirement
- Pensionable Pay

The workshops were delivered by our shared service WYPF staff and are designed to give employers a good understanding of the pension scheme. Feedback from participants from these events has been very positive again.

### Engagement with the Pensions Regulator (TPR)

In November 2018 Officers were contacted by TPR who advised the London Borough of Hounslow Pension Fund was chosen as one of ten funds who have been selected for an in-depth review. This consisted of a series of meetings examining the process, policies and procedures the fund has in place and whether they meet the requirements as set out by TPR. In their final letter TPR confirmed they were satisfied with the Fund's performance with only a small number of minor recommendations.

### Workshop on 'Planning for a positive retirement'

The workshops run by Affinity connect, to support and guide members who are considering what retirement might mean to them continue to be well attended by members.

The workshops raise awareness of key issues to consider and the decisions that members need to make as they approach this new stage in their life. It is especially useful for members thinking of retiring in the next couple of years, but valuable even if they're not yet sure when they want to retire.

### Pension Increase

Each year, Hounslow Pension Fund pensioners receive an annual increase in accordance with pension increase legislation. The increase is linked to movements in the Consumer Price Index (CPI). Deferred members benefits are also increased by CPI. For the 2018/19 year an increase of 3.0% was applied on 9 April 2018.

### Pension administration and cost

As in previous years, the workload for pension administrators continued to increase, member numbers continue to rise, particularly with our shared service with WYPF, HPF and 14 Fire Authorities and new clients planned to join in 2019/20.



Our shared service delivery continues to be underpinned by our accreditation to the International Organisation for Standardisation - ISO 9001:2000. Our quality management systems ensures 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. The latest published data for all LGPS funds administration costs shows that Hounslow Pension Fund pensions administration cost per member is £34.37, this is the 34th ranked cost amongst 88 LGPS funds.

## Shared Service

Hounslow Pension Fund joined the West Yorkshire Pension Fund and Lincolnshire Pension Fund shared service partnership in 2018/19 and this partnership continue to grow and flourish with increasing number of fire service joining. At the end of 2018/19 financial year there are 17 funds in the partnership (3 LGPS and 14 Fire Services).

## Data Quality

This year LGPS Funds were required to report on their 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.

Forename	100
Surname	100
Membership Status	99.79
Date of birth	99.97
NI Number	99.67
Address	95.55
Postcode	99.97

We are working to improve address data and this work will continue over the next twelve months and beyond.

## Communications

The contact centre hosted in Bradford continues to be a popular way for members to communicate with us about their pensions.

85.60% of annual pension benefit statements for active members and 99.90% for deferred members were produced on time giving members information on their benefits accrued to date and what their potential benefits will be at retirement age, as well as other useful information.

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

## MyPension

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

## Awards

It has proved to be another successful year for WYPF, gaining national recognition from:

## Local Authority Pensions Forum (LAPF) Investment Awards

Our shared service hosted by WYPF were winners of the LGPS Fund of the Year (over £2.5 billion) and the Scheme Administration Award hosted by the LAPF on 20th September at the Savoy in London. This is an award for the whole shares service partnership.

## Pension Age Awards

Our shared service hosted by WYPF won the 'Pensions Administration Award' hosted by Pensions Age held on 28th February in London. We were also shortlisted for DB Pension Scheme of the Year and Pension Scheme Innovation Award. This is another award for the whole shares service partnership.

## Disaster recovery and risk management monitoring

Our shared service partnership systems are hosted by WYPF administered by Bradford Council, Bradford Council use a 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. Datacentres have secure access systems and are monitored 24/7 by Bradford's CCTV Unit. Both sites are permanently live and accessible to 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 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, one of these remote office is in Lincoln. WYPF is covered by Bradford Council's comprehensive disaster recovery plan for the email, web, phone, network and SAP services they deliver for our shared services.

## Social Media

Members are encouraged to engage with the Fund for administration issues through Facebook and Twitter:

**[www.facebook.com/westyorkshirepensionfund](http://www.facebook.com/westyorkshirepensionfund)**

## General Data Protection Regulation (GDPR)

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

## Membership numbers

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

<b>Membership category</b>	<b>Number</b>
Active Members	6,041
Pensioners	5,750
Beneficiaries	875
Deferred pensioners	7,929
Undecided leavers	923
Frozen refunds	1,185
<b>Total</b>	<b>22,703</b>

### Participating employers

As of 31 March 2019 there were 42 different employers in the pension fund

<b>Scheme Employers</b>	
<b>Scheduled Bodies</b>	<b>Admitted Bodies</b>
Berkeley Academy	Alliance in Partnership
Bolder Academy	Caterservice
Brentford School for Girls	Chartwells
Chiswick School	City West
Cranford Community College	Cucina
Gumley House Catholic School	Edwards & Ward
Heston Community School	Fusion
Isleworth & Syon School for Boys	Hounslow Action for Youth
Kingsley Academy	Hounslow Highways - Ringway
Lampton School	Hounslow Music Service
Logic Studio	FM360
Nishkam School West London	Lampton Greenspace 360
Norwood Green Junior School	Lampton Recycle 360
Oakhill Academy	NVIRO
Oriel Academy	Olive Dining Ltd.
Reach Academy	Serco
Rivers Academy	Wilson Jones Catering
Space Studio	Spectra
Springwast Academy	
St Mark's Catholic School	
St. Richards CE Primary School	
The Green School Trust	
West Thames College	
Westbrook Primary School	



# Appendix 1

# Investment Strategy Statement

# Investment Strategy Statement, October 2018

## 1. Background

- 1.1 The London Borough of Hounslow (LBH) operates the Local Government Pension Scheme which was established in accordance with statute to provide death and retirement benefits to all eligible employees of the Council and its admitted bodies.
- 1.2 The revised Local Government Pension Scheme (Management and Investment of Funds) (Amendment) Regulations 2016 require administering authorities to prepare and review from time to time a written statement recording the investment policy of their Pension Fund. The new Regulations require Funds to formulate an Investment Strategy Statement (ISS). This replaces the previous Statement of Investment Principles. 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) Regulations 2016 Funds are required to publish their ISS by 1 April 2017. 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 Department for Communities and Local Government (DCLG) has issued guidance on preparing and maintaining Investment Strategy Statements. This Statement complies with this guidance.
- 1.6 The Secretary of State has the power under these regulations to issue a Direction if he is satisfied that an administering authority is failing to act in accordance with the guidance. These powers are a last resort and before exercising them the Secretary of State will consult with Funds if he believes they are acting unreasonably.

## 2. Introduction

- 2.1 The London Borough of Hounslow Pension Fund, (the Fund) is a Career Average Revalued Earnings (CARE) defined benefit pension scheme established by statute, operating under the Public Sector Pensions Act 2013. It provides retirement and death benefits for eligible members and their dependants. The benefits are defined in law and increased each year in-line with movements in inflation (Consumer price inflation).
- 2.2 The Council has delegated the investment management of the scheme to its Pension Fund Panel (the Panel). The ultimate responsibility for the investment strategy lies with the Panel.
- 2.3 The previous Statement of Investment Principles (SIP) was updated in 2013. This current 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. It was transferred from Capita to West Yorkshire Pension Fund on 1st August 2018. 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 triennial actuarial valuation last undertaken in 2016, 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 2017. This target will be reviewed following each triennial actuarial valuation and consultation with Fund employers.

### 3. Diversification

- 3.1 The Regulations require that the Statement demonstrates the requirement to invest money in a wide variety of investments. The Fund will hold a range of asset classes as set out in the table below. These will be reviewed continually, in the light of market conditions. The Fund has moved from having a peer group benchmark to having a tailored asset allocation benchmark. The benchmark sets out the mix of assets to be held in the Fund’s portfolio of investments. This benchmark is consistent with the Pension Fund Panel’s views on the appropriate balance between generating a satisfactory long-term return on investments whilst taking account of market volatility and risk and the nature of the Fund’s liabilities. The detailed specific benchmarks for the Fund’s individual managers are shown in Appendix 2.
- 3.2 Advisory ranges for the liquid 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
<b>Equities</b>			
UK	31	+/-5	FTSE All Share Index
Overseas Equities	28	+/-5	MSCI AC World excl UK
<b>Bonds</b>			
Conventional Bonds	10	+/-2	iBoxx Non Gilt All Maturities
Index-Linked Gilts	5	+/-2	FTSE Over 5 Years ILG All Stocks
<b>Property</b>	5	N/A	IPD UK All Properties Monthly
<b>Diversifying assets</b>	6	+/-2	LIBOR
<b>Income sleeve</b>	15	N/A	4% Absolute return
<b>Total</b>	<b>100</b>		

## 4. Suitability Of Investments

- 4.1 The Funding Strategy Statement (FSS) compares the Fund’s liabilities with its assets. It is based on each triennial actuarial valuation. The current FSS based on the 2016 actuarial valuation is elsewhere on this Agenda. 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 recently 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 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 4.0 Suitability Of Investments
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 all maturing. Deliver returns in excess of inflation, with a reasonably low correlation to traditional equity markets and providing a degree of downside protection in periods of equity market stress.
Dedicated Income sleeve	Provide significant income stream and also capital growth by matching investments to economic cycle, and matching our liability profile

## 5. Risk Management

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

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

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

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

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

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

**Concentration risk:** the Panel takes into consideration concentration risk which arises, for example, when a high proportion of the Fund’s assets are invested in securities, whether debt or equity, of the same or related issuers or in

the same or similar industry sectors. The overall investment arrangements are intended to provide an appropriate spread of assets by type and spread of individual securities within each asset class.

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

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

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

## 6. Asset Pooling

- 6.1 The Government has mandated (LGPS (Management and Investment of Funds) Regulations 2016) that the 89 separate LGPS Funds should combine their assets into a small number of investment pools. The basis of the pooling must be in line with guidance issued by the Secretary of State and meeting 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. This Fund will transition to the London CIV in due course.
- 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.
- 7.3 The Fund is a member of the Local Authority Pension Fund Forum (LAPFF), a membership group of 79 LGPS (Local Government Pension Scheme) funds 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.

## 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. 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. The Fund Managers are responsible for:

- a) attending meetings with the Pension Fund Panel and with officers, as requested;
- b) the investment of the Pension Fund assets in compliance with prevailing legislation, the constraints imposed by this document and their detailed Investment Management Agreements;
- c) security selection within asset classes; and

d) active management of their cash balances.

### **3. The Custodian, Northern Trust, is 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. 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. 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. 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. LBH has an established Pension Board.**

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

- a) secure compliance with the LGPS regulations and any other legislation relating to the governance and administration of the LGPS;
- b) secure compliance with requirements imposed in relation to the LGPS by the Pensions Regulator;
- c) carry out such other matters as the LGPS regulations may specify; and
- d) secure the effective and efficient governance and administration of the LGPS for the Hounslow Pension Fund.

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

**8. Administration of benefits is undertaken by West Yorkshire Pension Fund. They are 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. The London CIV (Collective Investment Vehicle) will be responsible for administering the management the Fund’s investments. Hounslow Pension Fund will maintain control of its Investment Strategy and asset allocation, with the CIV aiming to open sub-funds to enable London Borough Pension Funds to implement their investment strategies in a cost effective manner.**

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

**Appendix 2: Fund Manager Mandates and Benchmarks**

**1. BlackRock**

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

<b>Asset Class</b>	<b>Benchmark</b>	<b>Allocation %</b>	<b>Range %</b>
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
<b>Total</b>		<b>100</b>	

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

## 2. Aberdeen

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

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

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

## 3. 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. 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. 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. Columbia Threadneedle Pensions Property Fund

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

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

## 7. CBRE Lionbrook Property Fund

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

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

## 8. Fidelity Multi Asset Income Fund

The Fund is structured to delivering our twin requirements of yield and capital growth. It invests in a mixture of growth,

hybrid and income assets, targeting market inefficiencies through flexible asset allocation. The aim is to deliver 4% income absolute return (gross of fees). In addition, it is expected to deliver 2-3% capital growth p.a.

## Appendix 3: Statement Of Compliance With The UK Stewardship Code

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

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

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

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

**Principle 3:** Institutional investors should monitor their investee companies.

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

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

**Principle 4:** Institutional investors should establish clear guidelines on when 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.



# Appendix 2

# Governance Compliance Statement

# Governance Compliance Statement

## 1. Background

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

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

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

## 2. Structure

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

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

#### Part 1 (for decision by the Panel)

1. To consider, on the advice of the Director of Finance and Corporate Services and the Council's Fund Managers, the Council's general policy with regard to Pension Fund Investments.
2. To make arrangements for the management of the Fund in line with the Investment Strategy Statement.
3. To monitor the performance of the Fund and its Managers.
4. To exercise the Council's voting rights at AGM's and EGM's of companies in which the Fund has holdings, after considering the advice of the Director of Finance and Corporate Services and appropriate Manager(s).
5. To overview and agree pension fund administration matters e.g. approval of Administration Strategy and delivery of the benefits service.

#### Part 2 (for recommendation to the Borough Council)

None.

#### Other Requirements

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

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

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

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

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

### 2.2 Other Delegations of Powers

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

### 2.3 Terms of Reference for Hounslow Pension Board

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

#### 1. Introduction

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

#### 2. Powers of the Pension Board

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

#### 3. Role of the Pension Board

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

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

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

3.2 The Council considers para 3.1 to mean that the Pension Board is providing oversight of pension matters and,



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

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

### Quorum

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

### Voting

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

### Meetings

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

## Appendix 2

### Compliance Statement with Statutory Principles

#### 1. Introduction

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

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

#### 2. Structure

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

##### Compliant

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

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

3. To monitor the performance of the Fund and its Managers.
  4. To exercise the Council's voting rights at AGM's and EGM's of companies in which the Fund has holdings, after considering the advice of the Director of Finance and Corporate Services and appropriate Manager (s).
  5. To overview and agree pensions fund administration matters e.g. approval of the Administration Strategy and delivery of the pension fund benefits service.
- 2.2 DCLG principle: 'That representatives of participating LGPS employers, admitted bodies and scheme members (including pensioner and deferred members) are members of either the main or secondary committee established to underpin the work of the main committee.'

### **Compliant**

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

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

### **Compliant**

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

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

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

### **Compliant**

Not applicable as there is no secondary committee.

## **3. Representation**

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

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

### **Compliant**

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

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

**Compliant**

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

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

**Compliant**

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

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

**Compliant**

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

## 4. Voting

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

**Compliant**

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

## 5. Training/Facility time/Expenses

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

**Compliant**

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

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

**Compliant.**

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

**Partially compliant**

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

A Training Log is maintained.

## 6. Meetings (frequency/quorum)

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

**Compliant**

PFP meets at least once a quarter.

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

**Compliant**

Not applicable as there is no secondary committee.

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

**Compliant**

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

## 7. Access

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

**Compliant**

## 8. Scope

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

**Compliant**

PFP covers investment, liability, administration and governance matters.

## 9. Publicity

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

**Compliant**

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



# Appendix 3

# Funding Strategy Statement

# Funding Strategy Statement for The London Borough of Hounslow

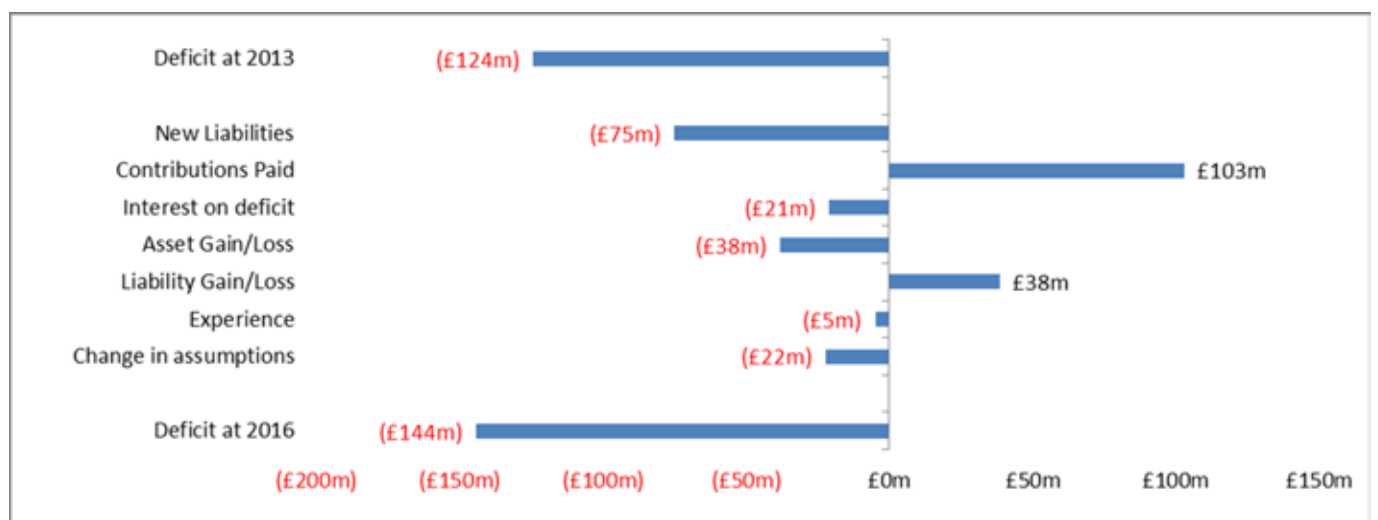
## 1. Executive summary

1.1 The last full triennial valuation of the London Borough of Hounslow Pension Fund was carried out by Barnett Waddingham LLP as at 31 March 2016. The tables below summarise the results of both the valuation and the previous full valuation which was carried out as at 31 March 2013 for both the Whole Fund and for the London Borough of Hounslow as an independent Scheme Employer.

### Whole Fund results

Past service funding position	2013 valuation £	2016 valuation £
Smoothed asset value	684m	772m
<b>Past service liabilities</b>		
Active members	261m	344m
Deferred pensioners	166m	179m
Pensioners	382m	396m
<b>Value of scheme liabilities</b>	809m	916m
<b>Surplus (deficit)</b>	(124m)	(144m)
<b>Funding level</b>	<b>85%</b>	<b>84%</b>

1.2 It can be seen from the above that the deficit has increased from £124m to £144m between the 2013 and 2016 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 decreased slightly to 84% from 85% between the two valuation dates for the Whole Fund.



1.3 The table above sets out the principle reasons for the change in the funding position since the last valuation for the Whole Fund. It can be seen that the main reason for the increase in the deficit is the lower than anticipated investment returns and market conditions underpinning the financial assumptions for future investment yields.

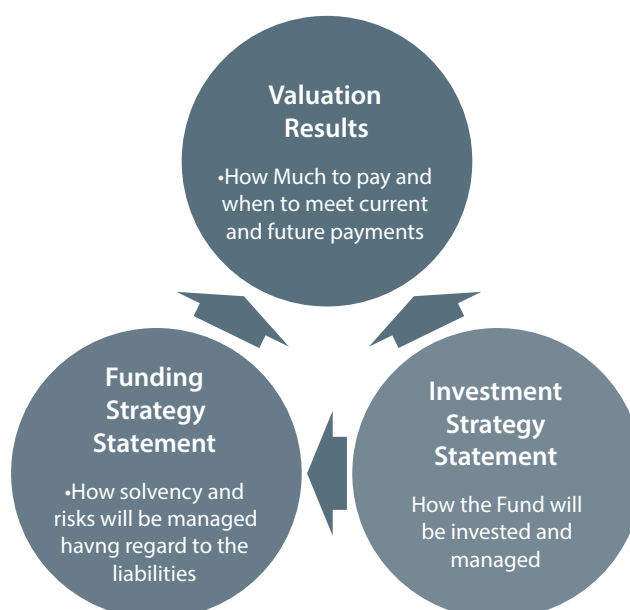
## London Borough of Hounslow results

Past service funding position	2013 valuation £	2016 valuation £
<b>Smoothed asset value</b>	529m	657m
<b>Past service liabilities</b>		
Active members	171m	254m
Deferred pensioners	139m	156m
Pensioners	328m	357m
<b>Value of scheme liabilities</b>	639m	767m
<b>Surplus (deficit)</b>	(111m)	(124m)
<b>Funding level</b>	83%	86%
<b>Employer contribution rates</b>	<b>% of payroll</b>	<b>% of payroll</b>
Future service	12.7%	13.7%
Deficit recovery (17 years)	8.2%	7.6%
<b>Monetary deficit contribution</b>	<b>£(m)</b>	<b>£(m)</b>
17 years	7.3	7.8

- 1.4 Consistent with the whole fund the deficit for the London Borough of Hounslow as a scheme employer increased from £111m to £124m over the intervaluation period. The funding level has increased from 83% to 86% for the London Borough of Hounslow as a scheme employer.
- 1.5 The results of the valuation mean that the deficit recovery period remains at 17 years. This is equal to the period adopted at the 2013 valuation.

## 2. Introduction

- 2.1 The Local Government Pension Scheme (LGPS) Regulations require funds to produce a Funding Strategy Statement (FSS) having regard to the guidance produced by CIPFA. This statement has been drawn up by the London Borough of Hounslow Pension Fund in accordance with the regulations and discussion at its Pension Fund Panel.
- 2.2 The FSS complements and adds to the Investment Strategy Statement (ISS). It is primarily based on the 2013 Actuarial Valuation, but, may also refer to post valuation events.
- 2.3 The statements relate as follows:



- 2.4 The FSS reflects the statutory nature of the LGPS, particularly the defined benefit nature and the benefit payable guarantee. The FSS sets out how benefits will be funded over the long term through an accountable, transparent process with full disclosure of relevant details and assumptions.
- 2.5 The Fund, like most public and private funded schemes, has a gap between its pension assets and liabilities which this strategy addresses.
- 2.6 A number of factors can contribute to the funding gap. These include:
- Investment returns relative to movement in liabilities;
  - Increases in longevity for pensioners;
  - Falling long term interest rates.

There are a number of steps that the Fund Administrator can take to help address a funding gap. These include:

- Ensure that Scheme Employer contributions are monitored and continue to be at an appropriate rate;
- Ensure that the long term nature of local government is recognised and deficit recovery periods match this, so that deficits are recovered over time. At the 2013 valuation this period was 17 years;
- Phase increases in contributions for Scheme Employers;
- Give weight to a balanced investment strategy.

### **3. Purpose of the Funding Strategy Statement in policy terms**

- 3.1 The purpose of the FSS is:
- To establish a clear and transparent fund-specific strategy which will identify how employers' liabilities are best met going forward;
  - To support the regulatory requirement to maintain employer contribution rates as near to constant as possible;
  - To take a prudent longer-term view of funding those liabilities.
- 3.2 The Fund is currently in a positive cash-flow position and this is expected to remain the case for the foreseeable future. The FSS supports the process of ensuring that there is adequate provision to meet increases in future benefit liabilities. The LGPS regulations specify this approach and requirements. The implementation of the funding strategy is the responsibility of the Fund, acting on expert advice and following consultation.
- 3.3 The FSS is a comprehensive strategy for the whole Fund. It balances and reconciles the many direct interests that arise from the nature of the Scheme and funding the benefits now and in the future.
- 3.4 The solvency of the Fund is a long term management issue. Currently, the net cash inflow is over £17m per annum, but, it is essential that funds are made available to ensure all future benefits can be met when they become due.

### **4. Aims and purposes of the fund**

- 4.1 The aims of the Fund are to:
- Maximise the returns from investments within reasonable risk parameters;
  - Ensure that sufficient resources are available to meet all liabilities as they fall due;
  - Enable employer contribution rates to be kept as nearly constant as possible and at a reasonable cost to the taxpayers, scheduled and admitted bodies, having regard to the liabilities;
  - Manage employers' liabilities effectively through regular review of contributions and additional contributions for early retirements which lead to a strain on funding.
- 4.2 The purpose of the Fund is to:
- Receive and invest monies in respect of contributions, transfer values and investment income;
  - Pay out monies in respect of scheme benefits, transfer values, costs, charges and expenses.

The LGPS Regulations and in particular the LGPS (Management and Investment of Funds) Regulations define these purposes.



## 5. Responsibilities of the key parties

5.1 The LGPS Regulations set out the responsibilities of the key parties which are summarised below:

5.2 The administering authority (London Borough of Hounslow)

- Collects employer and employee contributions;
- Invests surplus monies in accordance with the regulations and agreed strategy;
- Ensures that cash is available to meet liabilities as and when they fall due;
- Manages the valuation process in consultation with the Fund's actuary;
- Prepares and maintains a Funding Strategy Statement (FSS), Investment strategy statement (ISS) and Administration Strategy (AS);
- Monitors all aspects of the Fund's performance and funding;
- Amends the FSS, ISS and AS as appropriate.

The administering authority discharges its responsibilities with the active involvement from the major employers and staff representatives combined with consultation with interested parties.

5.3 The individual employers:

- Adhere to the Administering Authority Pension Administration Strategy;
- Deduct contributions from employees' pay correctly;
- Pay all contributions, including their own as determined by the actuary, promptly by the due date;
- Exercise discretions within the regulatory framework;
- Make additional contributions in accordance with agreed arrangements in respect of, for example, payment of additional pension contributions and early retirement strain;
- Notify the administering authority promptly of all changes to membership, or as may be proposed, which affect future funding;
- Discharge their responsibility for compensatory added years which the administering authority pays on their behalf and is subsequently recharged to them.

5.4 5.4 The Fund's actuary:

- Prepares valuations including the setting of employers' contribution rates after agreeing assumptions with the administering authority and having regard to the FSS;
- Sets employers' contribution rates in order to secure the Fund's solvency having regard to the aims of maintaining contribution rates that are as constant as possible;
- Prepares advice and calculations in connection with bulk transfers and individual benefit-related matters.

## 6. Solvency issues and target funding levels

6.1 The Fund currently has a net cash inflow and can, therefore, take a medium-long term view on determining employing body contribution rates to meet future liabilities through operating a fund with an investment strategy that reflects this medium-long term view. It allows short-term investment market volatility to be managed so as not to cause volatility in employing body contribution rates.

6.2 The LGPS regulations require the long-term funding objectives to achieve and maintain assets sufficient to cover 100% of the projected accrued liabilities. The level of assets necessary to meet this 100% funding objective is known as the funding target. The role of the actuary, in performing the necessary calculations and determining the key assumptions used, is an important feature in determining the funding requirements. The approach to the actuarial valuation process and key assumptions used at each three yearly valuation are consulted upon and the valuation forms part of the remit of the FSS.

### **Determination of the Funding Target and Recovery Period**

6.3 The principal method and assumptions to be used in the calculation of the funding target are set out in the Appendix.

6.4 Underlying these assumptions are the following two tenets:

- That the Scheme is expected to continue for the foreseeable future; and

- Favourable investment returns can play a valuable role in achieving adequate funding over the longer term.
- 6.5 As part of each valuation, separate employer contribution rates are assessed by the actuary for each participating employer or group of employers. These rates are assessed taking into account the experience and circumstances of each employer (or employer grouping), following a principle of no cross-subsidy between the various employers in the Scheme. In attributing the overall investment performance obtained on the assets of the Scheme to each employer, a pro-rata principle is adopted. The general approach is effectively one of applying a notional individual employer investment strategy identical to that adopted for the Scheme as a whole.
- 6.6 The administering authority has adopted the following objectives for setting the individual employer contribution rates:
- The 2016 actuarial valuation identified a deficit recovery period of 17 years;
  - Where increases in employer contribution rates are required from 1 April 2017, following completion of the 2016 actuarial valuation, the increase from the rates of contribution payable in the year 2017/18 may be implemented in steps, over a maximum period of three years;
  - On the cessation of an employer's participation in the Scheme, the actuary will be asked to make a termination assessment. Any deficit in the Scheme in respect of the employer will be due to the Scheme as a termination contribution, unless it is agreed by the administering authority and the other parties involved that the assets and liabilities relating to the employer will transfer within the Scheme to another participating employer. Details of the approach to be adopted for such an assessment on termination are set out in the Pension Administration Strategy and stipulated in the relevant admission agreement.
- 6.7 In determining the above objectives the administering authority has had regard to:
- Relevant guidance issued by the CIPFA Pensions Panel;
  - The need to balance a desire to attain the target as soon as possible against the short-term cash requirements which a shorter period would impose, and
  - The administering authority's views on the strength of the participating employers' covenants in achieving the objectives.

### **Deficit Recovery Plan**

- 6.8 Where the assets of the scheme relating to an employer are less than the funding target at the effective date of any actuarial valuation, a recovery plan will be put in place, which requires additional contributions from the employer to meet the shortfall. The 2016 actuarial valuation identified a deficit recovery period of 17 years.
- 6.9 Additional contributions will be expressed in cash term

### **The Normal Cost of the Scheme (Future Service Contribution Rate)**

- 6.10 In addition to any contributions required to rectify a shortfall of assets below the funding target, contributions will be required to meet the cost of future accrual of benefits for members after the valuation date (the 'normal cost'). The method and assumptions for assessing these contributions are also set out in the Appendix.

## **7. Links to investment policy set out in Investment Strategy Statement (ISS)**

- 7.1 In calculating the deficit recovery period, and affordable employer contribution rates, the actuary has taken into consideration the Fund's strategic asset allocation policy. This is detailed in the Investment Strategy Statement (ISS).

## **8. The Identification of risks and countermeasures**

- 8.1 Evaluating risks that may impact on the funding strategy and expectations of future solvency is crucial to determining the appropriate measures to mitigate those risks. The FSS identifies those key risks specific to the Fund and the measures being taken or assumptions made to counter those risks.
- 8.2 Some of the key risks taken into account are:

### **Financial:**

- Unexpected market-driven events;
- Investment markets fail to perform in line with expectations;

- Market yields move at variance with assumptions;
- Investment fund managers fail to achieve performance targets over the longer term;
- Asset allocations in volatile markets may lock in past losses;
- Pay and price inflation significantly more or less than anticipated;
- The effect of a possible increase in employer's contribution rate on service delivery and employers in general.

The Fund regularly reviews its investment strategy taking into account investment risk and future benefit payments to determine a bespoke investment strategy that for a variety of future economic outcomes gives a high degree of certainty that the investment objectives will be achieved. Short-term investment management decisions to reflect anticipated market changes are strictly controlled against the investment strategy or benchmark. Further information is available in the ISS and on the Fund's website.

### **Demographic:**

- The longevity horizon;
- Cost of early retirements.

The Fund has in place policies and procedures to identify for employing bodies the impact of these factors and agrees how they will be managed in terms of annual contribution rates and/or as special additional contributions.

### **Regulatory:**

- Changes to regulations, e.g. more favourable benefits package, potential new entrants to scheme;
- Changes to national pension requirements and/or Inland Revenue rules.

These changes agreed and proposed are evaluated and taken into account in the actuarial valuation and closely monitored between valuations in case any action is required.

Employing bodies are required to make contributions to the Fund as cases are approved for early retirement and other employing body discretions that when exercised alter future liabilities.

### **Governance:**

- Administering authority unaware of structural changes in an employer's membership (e.g. large fall in employee members, large number of retirements);
- Administering authority not advised of an employer closing to new entrants;
- An employer ceasing to exist, with insufficient funding or adequacy of a bond.

The Fund has established inter-valuation monitoring and performance methodologies. It has working relations with its employers to ensure membership changes are detected, discussed, evaluated and appropriate action agreed. This includes regular reviews of funding levels, and bond arrangements where appropriate, and the assessment of the financial standing of employers that are not tax-raising bodies.

### **Employers:**

- Sustainability of an employer or their ability to meet their liabilities within the agreed funding strategy.

The Fund's approach to the outcome of the 2016 valuation has had regard to balancing the needs of funding the liabilities and the cost to employers. This is reflected in the approach to the phasing of increase, the recovery period for meeting any funding gap, together with the risks associated with the investment strategy. It is considered the approach adopted represents an 'affordable' solution taking all factors into account.

A risk assessment of the sustainability of all employers has been undertaken seeking to establish the risk of an employer failing to meet their pension liabilities. The analysis identified the following levels of risk:

#### **Low risk**

Scheduled and resolution bodies as statutory entities that are either required, or can choose to offer membership of the LGPS. This category would cover:

- A local authority, or equivalent;
- A body for which the Fund has a guarantee of liabilities from a local authority (or its equivalent);
- A body which receives funding from local or central government (e.g. academies, colleges and universities);
- A body which has a funding deficiency guarantee from local or central government;
- A best value type body for which a local authority within the Fund effectively stands as the ultimate guarantor on the termination of the admission agreement.

**Medium risk**

Scheduled bodies and admitted bodies with no statutory underpin but:

- Can provide satisfactory evidence of financial security (e.g. parent company guarantee, bond, indemnity, insurance);
- Is part of a group of related or pooled bodies which share funding on default;
- Can demonstrate a high value market capitalisation and a strong revenue stream.

**High risk**

An admitted body:

- With no external funding guarantee or reserves;
- With a known limited lifespan or fixed contract term of admission to the Fund;
- Which has no active contributors and/or is closed to new joiners;
- Which relies on voluntary or charitable sources of income.

Our analysis of all of our scheduled and admitted bodies indicates the risk to the Fund’s solvency and ability to meet prior liabilities to be low. The situation will, however, continue to be monitored.

## 9. Contributions required from employers

9.1 Each employing authority has a basic contribution rate in relation to future service accrual, which is expressed as a percentage of payroll, as identified by the actuary. On top of this, individual adjustments are made for each employing authority reflecting the individual circumstances of fund membership and the deficit recovery position. The table below shows the minimum contribution rates as a percentage of payroll and annual deficit recovery as monetary amounts that are required over the next three years by each employer in order to bring the fund to a nil deficit position in 17 years time.

Employer name	Salary element	Monetary element 2017/18	Monetary element 2018/19	Monetary element 2019/20
London Borough of Hounslow	13.7%	£7,777,000	£7,963,000	£8,153,000
Brentford School for Girls	14.4%	£66,000	£67,000	£69,000
Chiswick School	14.4%	£92,000	£94,000	£97,000
Feltham Community College	14.4%	£124,000	£127,000	£130,000
Gumley House Catholic School £	14.4%	£75,000	£77,000	79,000
Heston Community School	14.4%	£103,000	£105,000	£108,000
Isleworth & Syon School for Boys	14.4%	£81,000	£83,000	£85,000
Rivers Academy West London	14.4%	£88,000	£90,000	£92,000
St Mark’s Catholic School	14.4%	£59,000	£60,000	£62,000
Lampton School	14.4%	£104,000	£107,000	£109,000
Cranford Community College	14.4%	£116,000	£119,000	£121,000
Reach Academy	14.4%	£17,000	£18,000	£18,000
Kingsley Academy	14.4%	£95,000	£97,000	£99,000
Oriel Primary School	14.4%	£30,000	£30,000	£31,000

Employer name	Salary element	Monetary element 2017/18	Monetary element 2018/19	Monetary element 2019/20
Oakhill Academy	14.4%	£10,000	£10,000	£11,000
Norwood Green Junior School	14.4%	£19,000	£20,000	£20,000
Westbrook Primary School	14.4%	£63,000	£64,000	£66,000
The Green School for Girls	14.4%	£65,000	£66,000	£68,000
The Rise School	14.4%	£44,000	£45,000	£46,000
Nishkam School West London	14.4%	£14,000	£14,000	£15,000
Space Studio	14.4%	£4,000	£4,000	£4,000
West Thames College	13.2%	£272,000	£278,000	£285,000
Fusion	15.3%	£2,000	£2,000	£2,000
John Laing	16.5%	£12,000	£12,000	£13,000
EVO	26.8%	£1,000	£1,000	£1,000
Caterservice	19.7%	£3,000	£3,000	£3,000
Highways PFI Contract - VINCI Ringway	18.2%	£77,000	£80,000	£84,000
NVIRO	28.5%	£0	£0	£0
Hounslow Action for Youth	13.1%	£0	£0	£0
Serco	14.2%	£0	£0	£0
WLGMP	17.0%	£3,000	£3,000	£3,000
Cucina	17.5%	£3,000	£3,000	£3,000
Chartwells	21.8%	£13,000	£14,000	£14,000
Edwards & Ward - Oak Hill	12.0%	£0	£0	£0
Edwards & Ward - Oriel	17.2%	£0	£0	£0
Wilson Jones Catering Ltd - Westbrook	21.1%	£1,000	£1,000	£1,000
Wilson Jones Catering Ltd - Wellington	27.7%	£0	£0	£0
Hounslow Community Services	15.6%	£0	£0	£0

\*closed to new members

9.2 Further sums will need to be paid to the Fund to meet the costs of any early retirements using methods and assumptions issued by the actuary from time to time. The assumptions underlying the number of members who will become entitled to pensions under the provisions of the scheme and the liabilities arising in respect of such members are set out in the Appendix.

## Appendix

### Method and Assumptions Used in Calculating the Funding Target

The valuation process is essentially a projection of future cashflows into and out of the Fund. The amount of future cashflows out of the Fund i.e. benefits provided will depend on rates of future pay increases and price inflation. The timing of the cashflows will depend upon future rates of retirement, mortality etc. As money is being set aside now to provide for benefits payable in the future then part of the cost of providing the benefits can be met from investment returns achieved by the Fund's assets which then build up. The higher the rate of return achieved by the assets the lower the contribution requirement that has to be paid in future to meet the cost of the benefits.

### Financial assumptions

The following table shows the principal financial assumptions adopted in the valuation compared to those projected in the 2013 valuation.

Financial assumption	2016	2013
Discount rate	5.4% per annum	6% per annum
Retail price inflation (RPI)	3.3% per annum (20 year point on the BoE Inflation Curve)	3.5% per annum (20 year point on the BoE Inflation Curve)
Consumer price inflation (CPI)	2.4% per annum (RPI less 0.9%)	2.7% per annum (RPI less 0.8%)
Pension and deferred pension increases In line with CPI	2.4% per annum (RPI less 0.9%)	2.7% per annum (RPI less 0.8%)
Short term pay increases	In line with the CPI assumption for the 4 years to 31 March 2020	In line with the CPI assumption for the 2 years to 31 March 2015
Long term pay increases	3.9% per annum (RPI plus 0.5% per annum)	4.5% per annum (RPI plus 1% per annum)

### Discount rate

- The discount rate is used to discount future payments to and from the Fund. It reflects the risk adjusted expected return that will be earned by the actual investment strategy adopted by the fund.

### Inflation (Retail Prices Index, Consumer Prices Index and Pension increases)

- Assumed future levels of retail price inflation (RPI) are derived by considering the difference between index-linked gilts and fixed interest gilt yields at the valuation date, as published by the Bank of England. Consumer price inflation (CPI) is assumed to be 0.9% less than the RPI, consistent with the historical average.

### Pay and pension increases

- Pension increases are in line with the CPI. Pay increases are assumed to exceed future retail price inflation, based on past experience and expectations of future experience. As in the chart above short term pay increases are assumed to be in line with CPI. Long term pay increases are assumed to exceed future price inflation. As benefits are linked to pay levels at retirement, an assumption has to be made about future levels of pay inflation. Historically there has been a close link between price and pay inflation with pay increases in excess of price inflation averaging out at between 1% and 3% per annum depending on economic conditions. The current valuation assumes pay increases of 0.5% above price inflation. This is based on a more detailed method of calculation taking into account the difference between full and part time staff and the reduced scope for promotion open to part time staff. Overall the change to the salary increase assumptions is broadly cost neutral.

### Investment returns

- In a market related valuation it is necessary to assess future average levels of return in current market conditions. Redemption yields from gilts give an indication of the market’s expectations of long-term interest rates and so some indication about future risk free rates of return. There is however no comparable market indicator to derive the market’s expected future return from investing in equities at any particular point in time. It is generally accepted however that the expected future return from investing in equities should exceed that available from investing in gilts. This extra expected return is known as the equity risk premium. By comparing yields from gilts and equities it is possible to derive the equity risk premium. The real return to be earned in future from equities from current market levels will be the current net dividend yield plus future real growth in share values. The table below summarises the actuary’s assumptions regarding future returns across the asset classes in the pension fund portfolio.

Asset class	Future assumed returns at 2016
Equities	7.4% per annum
Gilts	2.4% per annum
Property	5.9% per annum
Corporate bonds	3.3% per annum

### Statistical assumptions

The statistical assumptions that have been adopted are below:

Statistical assumptions	2016	2013
Post retirement mortality		
Current mortality	S2PA tables with a multiplier of 115% for males and 95% for females. S2PA tables with a multiplier of 95% for female dependants and 115% for male dependants	S2PA tables with a multiplier of 115% for males and 95% for females. S2PA tables with a multiplier of 95% for female dependants and 115% for male dependants
Mortality projection	2015 CMI Model with a long-term rate of improvement of 1.5% p.a.	2012 CMI model with a long term rate of improvement of 1.5% per annum
	Each member retires at their weighted average “tranche retirement age”, i.e. for each tranche of benefit, the Each member retires at their weighted average “tranche retirement age”, i.e. for each tranche of benefit, the earliest age they could retire with unreduced benefits.	Each member retires at their weighted average “tranche retirement age”, i.e. for each tranche of benefit, the earliest age they could retire with unreduced benefits.
	2015 CMI Model with a long-term rate of improvement of 1.5% p.a.	
Retirement ages	If the member is over this retirement age, then it is assumed they will retire at their oldest tranche retirement age. If over the oldest tranche retirement age, the member is assumed to have a 1/3 chance of retiring in each of the next 3 years, and it is assumed all members will be retired by age 75.	If the member is over this retirement age, then it is assumed they will retire at their oldest tranche retirement age. If over the oldest tranche retirement age, the member is assumed to have a 1/3 chance of retiring in each of the next 3 years, and it is assumed all members will be retired by age 75.
Proportion married	There is a 75%/70% chance that male/female members will, at retirement or earlier death, have a dependant who is eligible for death benefits	There is an 80%/70% chance that male/female members will, at retirement or earlier death, have a dependant who is eligible for death benefits
Partner age difference	Males are 3 years older than their spouse and females are 3 years younger than their spouse	Males are 3 years older than their spouse and females are 3 years younger than their spouse

Statistical assumptions	2016	2013
Commutation	It is assumed that members at retirement will commute pension to provide a lump sum of 50% of the maximum allowed under HMRC rules and this will be at a rate of £12 lump sum for £1 of pension	It is assumed that members at retirement will commute pension to provide a lump sum of 50% of the maximum allowed under HMRC rules and this will be at a rate of £12 lump sum for £1 of pension
50/50 scheme allowance	It is assumed that opted-in active members will continue to pay 50% of contributions for 50% of benefits under the new scheme	It is assumed that 10% of active members will opt to pay 50% of contributions for 50% of benefits under the new scheme





# Appendix 4

## Pensions Administration Strategy

## Contents

1. Regulatory framework and purpose
2. Review of the strategy
3. Liaison and communication
4. Employer duties and responsibilities
5. Payments and charges
6. Administering authority duties and responsibilities
7. Unsatisfactory performance
8. Appendices
  - c. Authorised contacts form
  - d. Schedule of charges
  - e. Charging levels

## Regulatory framework and purpose

### 1. The regulations

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

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

#### 1.1 Purpose

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

### 2. Review of the strategy

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

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

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

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

### 3. Liaison and communication

#### 3.1 Authorised contacts for employers

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

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

If they wish, employers may also nominate additional contacts.

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

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

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

#### 3.2 Liaison and communication with employers

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

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

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

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

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

## 4. Employer duties and responsibilities

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

### 4.1 Events for notification

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

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

## 4.2 Responsibilities

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

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

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

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

### 4.3 Discretionary powers

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

### 4.4 Member contribution bands

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

### 4.5 Internal dispute resolution procedure (IDRP)

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

## 5. Payments and charges

### 5.1 Payments by employing authorities

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

### 5.2 Paying contributions

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

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

### 5.3 AVC deductions

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

### 5.4 Late payment

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

### 5.5 Payment method

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

### 5.6 Early retirement and augmentation costs

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

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

## 5.7 Interest on late payment

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

## 5.8 Employer contributions

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

## 5.9 Actuarial valuation

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

## 5.10 Administration charges

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

# 6. Administering authority duties and responsibilities

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

## 6.1 Scheme administration

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

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

## 6.2 Responsibilities

WYPF will ensure the following functions are carried out.

- 6.2.1 Provide a helpdesk facility for enquiries, available during normal office hours, providing a single point of access for information relating to the LGPS
- 6.2.2 Create a member record for all new starters admitted to the LGPS
- 6.2.3 Collect and reconcile employer and employee contributions
- 6.2.4 Maintain and update members' records for any changes received by WYPF
- 6.2.5 At each actuarial valuation WYPF will forward the required data in respect of each member and provide statistical information over the valuation period to the fund actuary so that they can determine the assets and liabilities for each employer
- 6.2.6 Communicate the results of the actuarial valuation of the fund to each employer

- 3.2.7 Provide every active, deferred and pension credit member with a benefit statement each year
- 6.2.8 Provide estimate of retirement benefits on request by the Employer
- 6.2.9 Calculate and pay retirement benefits, deferred benefits and death in service benefits in accordance with LGPS rules, members' options and statutory limits.
- 6.2.10 Comply with HMRC legislation

## 6.3 Decisions

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

## 6.4 Discretionary powers

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

## 6.5 Internal dispute resolution procedure (IDRP)

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

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

## 6.6 Fund performance levels

The minimum performance targets are shown below.

Service	Days	Minimum target
1. New member records created	10	85%
2. Update personal records	10	85%
3. Posting monthly contributions to member records	10	90%
4. Calculate and action incoming transfer values	2 months	100%
5. Deferred benefits – payment of lump sums	3	85%
6. Provide details of deferred benefit entitlement	10	85%
7. Refund of contributions – notification of entitlement	5	85%
8. Refund of contributions – payment	5	85%
9. Action agreed transfers out on receipt of acceptance	10	85%
10. Provide estimate of retirement benefits	10	85%
11. Retirement benefits – payment of lump sum	3	85%
12. Retirement benefits – recalculation of pension/lump sum	10	85%
13. Calculation and payment death benefits on receipt of all necessary information	5	85%
14. Make death grant payment to the member's nomination (provided all relevant information is received)	1 month	100%
15. Percentage of telephone calls answered within 20 seconds		90%
16. Annual benefit statements issued to deferred members by		31 May
17. Annual benefit statements issued to active members by		31 August
18. Make payment of pensions on the due date		100%
19. Issue P60s to pensioners within statutory deadlines		100%



Service	Days	Minimum target
20. Provide information on request in respect of pension share on divorce within legislative timescales		100%
21. Implement Pension Share Orders within legislative timescales		100%
22. Undertake annual reviews to establish continuing entitlements to pensions for children over the age of 17		100%
23. Implement changes in pensioner circumstances for the next available pensioner payroll		100%

## 7. Unsatisfactory performance

### 7.1 Measuring performance

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

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



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

### 7.2 Unsatisfactory performance

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

## Appendix A – Main contact registration and authorised user list

### Main contact registration form

	West Yorkshire Pension Fund		main contact registration oct 2016
<h3>Main contact registration form</h3>			
<b>Employer name and location code</b>			
<b>Employer address</b>			
<b>Important:</b> please read the guidance note on <b>Managing your WYPF contacts</b> before you complete this form.			
<b>Strategic contact</b>			
Name	Address if different from above		
Job title			
Phone	Specimen signature		
Email			
<b>Administration contact</b>			
Name	Address if different from above		
Job title			
Phone	Specimen signature		
Email			
<b>Finance contact</b>			
Name	Address if different from above		
Job title			
Phone	Specimen signature		
Email			
<b>Contact at third-party payroll provider (if applicable and not listed above)</b>			
Name	Company name and address		
Job title			
Phone	Specimen signature		
Email			
<b>Date signatures valid from</b>	<b>Signed (by current authorised signatory)</b>		



## Appendix B – Schedule of charges

Performance areas	Reason for charge	Basis of charge
1. Any overpayment made to a member due to inaccurate information provided by an employer will be recovered from employer, if the total overpaid is more than £50.	If the overpaid amount is the result of the employer's error, and the amount is over £50, then as such it will be recharged to the employer, plus costs of resolving and recovering the overpayment. If the overpayment is recovered from the member, then the amount recovered will be passed back to the employer, less any cost of overpayment recovery actions.	Actual amount overpaid + admin charge (admin charge will be based on managerial input at level III), minimum half day charge of £110 + VAT + cost of recovery actions (court and legal fees). Any part or all of this charge may be waived at head of service discretion.
2. Contributions to be paid anytime but latest date by 19th of month (weekends and bank holidays on the last working day before 19th)	Due by 19th month – late receipt of funds, plus cost of additional time spent chasing payment.	Number of days late interest charged at base rate plus 1%.
3. Monthly return due anytime but latest by 19th month, errors on return, i.e. employer/employee rate deducted incorrectly, exception reporting errors to be resolved within two months.	Due by 19th month, any additional work caused by late receipt of information incorrect information, incorrect contributions.	Failure to provide appropriate information, resulting in significant work will result in admin charge (at Senior Pensions Officers level II) at £136 + VAT a day. This may be waived at head of service discretion.
4. Change in member detail	If submitted via monthly data, WYPF will process data within 2 weeks following monthly data submission. For exception reports output from monthly returns, change data response must be provided to WYPF within 2 weeks of receipt of the exception report.	Failure to provide appropriate information, resulting in significant work will result in admin charge (at Pensions Officer level I) at £96 + VAT a day. This may be waived at head of service discretion.
5. Early leavers information	If submitted via monthly data, WYPF will process data within 2 weeks following monthly data submission, else within 6 weeks of date of leaving. For exception reports leaver forms provided to WYPF within two months of receipt of the exception report.	Failure to provide appropriate information, resulting in significant work will result in admin charge (at pension officers level I) at £96 + VAT a day. This may be waived at head of service discretion.
6. Retirement notifications	Due 10 working days before last day of employment unless the reason for retirement is ill health or redundancy – additional work caused by late receipt of information.	Failure to provide appropriate information, resulting in significant work will result in admin charge (at senior pension officers level II) at £136 + VAT a day. This may be waived at head of service discretion.
7. Death in membership	Due within 3 working days of the notification – additional work caused by late receipt of information.	Failure to provide appropriate information, resulting in significant work will result in admin charge (at pension manager level III) at £220 + VAT a day. This may be waived at head of service discretion.
8. AVC deducted from pay to be paid anytime but latest date by 19th month. (weekends and bank holidays on the last working day before 19th)	Additional investigative work caused through lack of compliance by employer.	Failure to comply by employer, causing additional work for WYPF will result in admin charge (at pension officers level I) at £96 + VAT a day. This may be waived at head of service discretion.
9. Re-issue of invoices	Charge based on number of request.	Additional work caused by reproducing invoices will result in admin charge (at pension officer level I) at £96 + VAT a day. This may be waived at head of service discretion.

Performance areas	Reason for charge	Basis of charge
10. Authorised officers list not updated – Pension Liaison Officers, monthly contributions responsible officers	Costs of additional work resulting from employer’s failure to notify WYPF of change in authorised officers list.	Failure to comply by employer, causing additional work for WYPF will result in admin charge (at Pensions Officer level I) at £96 + VAT a day. This may be waived at head of service discretion.
11. Security breach on system re data protection	Recharge employers any fines imposed on us in this event	Actual amount fine imposed + admin charge (admin charge will be based on managerial input at level III) at £220 + VAT a day. This charge may be waived at head of service discretion.
12. Member requests estimate	The first estimate provided in each financial year is free, then subsequent estimates are chargeable.	1st request in each financial year is free. Additional request is charged at a notional charge of £50 + VAT is made. This charge is for each member’s record folder reference.
13. Pension sharing order	For pension sharing order work, each party will be charged according to the instruction in the court order.	The charge is £250 + VAT for this work.
Miscellaneous items: <ul style="list-style-type: none"> <li>• Benefit recalculation</li> <li>• Member file search and record prints</li> <li>• Supplementary information requests</li> </ul>	Where information is requested by members that is in addition to routine information.	A notional charge of £50 + VAT will be levied. This charge is for each members record folder reference.

## Appendix C – Charging Levels

Charges will be made on half a day basis, but for less than a quarter day no charge will be made and for more than half a day a full-day charge will be made.

Charge levels	I	II	III
Daily charge	£96	£136	£220
Half day charge	£48	£68	£110

- Level I – work at Pensions Officer level
- Level II – work at Senior Pensions Officer level
- Level III – work at Pensions Manager level



# Appendix 5

## Pension Board Chair Annual Report

# Pension Board Chair Annual Report

Report for:	INFORMATION
Contains Confidential or Exempt Information	NO
Title	CEX346 Pension Board Annual Report 2018
Member Reporting	CLlr Sam Hearn, Chair Hounslow Pension Board
Contact Details	<ul style="list-style-type: none"> <li>• Cllr Sam Hearn, Chair Hounslow Pension Board</li> <li>• Lorelei Watson, Head of Treasury, Pensions and Capital Lorelei.Watson@hounslow.gov.uk</li> </ul>
For Consideration By	<ul style="list-style-type: none"> <li>• Pension Board 12 November 2018</li> <li>• Pension Fund Panel 16 January 2019</li> <li>• Cabinet 12 February 2019</li> </ul>
Date to be Considered	12 November 2018
Implementation Date if Not Called In	N/A
Affected Wards	All
Keywords/Index	Pension Board Annual Report

## 1. Details of Recommendations

- 1.1 To note the work of the Pension Board in 2018.
- 1.2 To note the assurance given by the Chair in respect of providing independent advice over the governance and risk management for the Hounslow Pension Fund (para 6).

If the recommendations are adopted, how will residents benefit?

Benefits to residents and reasons why they will benefit, link to Values expect to notice a difference

Dates by which they can

The Pension Board provides independent assurance to the Chief Executive, Members and Senior Officers on the adequacy of the internal control management environment for the Pension Fund. Ongoing Assurance

## 2. Summary

The Public Service Pensions Act 2013 introduced the requirement for all Local Government Pension Funds to have a Local Pension Board to assist in the good governance of the scheme. The Hounslow Pension Board was set up by Borough Council at its meeting on 24 March 2015. This report gives details of the work programme in the Pension Board's third year of operation, how it has contributed to the objectives set by Borough Council, and its assurance on the work of the Hounslow Pension Fund Panel.

The overall assurance of the Chair of the Pension Board is given in para 6 and is reproduced here:

"In the light of the Board's work in 2018 I and the other members of the Pension Board are satisfied that the Hounslow Pension Fund's risk management processes and its governance and internal control arrangements are both appropriate and effective. We note the breaches referred to The Pension Regulator in 2017 and 2018 regarding the late delivery of Annual Benefit Statements to our active members by our provider of administrative services. We have confidence in the action taken with respect to the administration of the Fund and the appointment of the new provider, West Yorkshire Pension Fund."

## 3. Background

### 3.1 Hounslow Pension Fund

Hounslow Pension Fund is the authority's largest single financial asset. At the end of September 2018 its value was over



£1bn. It is invested in a diversified range of asset classes, including global and UK equities, bonds, multi asset income, property unit trusts, diversified growth funds and private equity. It exists to ensure the employees of Hounslow, and its employing bodies, will have their pensions paid. Both employers and employees contribute to the Pension Fund. In recent years the Pension Fund has become increasingly complex, in terms of its assets, and the nature of the pension promise. The number of members and employing bodies also continues to increase. As at the end of March 2018 the Fund had 52 employing bodies, an increase from the 45 a year previously. The membership was as below, showing an increase of 3% over the last year.

	March 2017	March 2018
Contributors	7,132	7,115
Pensioners	6,025	6,426
Deferred	8,018	8,234
<b>Total</b>	<b>21,175</b>	<b>21,775</b>

### 3.2 Terms of Reference of Pension Fund Panel

The Terms of Reference of the Pension Fund Panel, as agreed by Borough Council, are:

- to consider on the advice of the S151 Officer and Council’s Fund Managers, the Council’s general policy with regard to the Pension Fund Investments;
- to make arrangements for the management of the Fund in line with the Investment Strategy Statement;
- 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 S151 Officer and appropriate Manager (s); and
- to overview and agree pension fund administration matters e.g. approval of Administration Strategy and delivery of the benefits service.

### 3.3 Role of the Pension Board

The requirement to establish a local Pension Board represented a major change to the governance arrangements locally for Pension Fund management and administration. The role of the Pension Board is to assist the Administering Authority. The relevant regulations (Regulation 106) specify 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 (Local Government Pension Scheme) 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.

Assisting the Administering Authority should be interpreted as helping the Administering Authority, including doing work as requested by the Administering Authority. The Pension Board does not replace the Administering Authority, nor make decisions which are the responsibility of the Administering Authority. The Board is not a decision-making body, but assists the Council in ensuring compliance with relevant legislation. Its role is that of compliance.

Hounslow Pension Board is formally responsible to Cabinet.

## 4. Pension Board Work Programme in 2018

- 4.1 The Board meets bi-annually and consists of 2 Employer and 2 Member representatives. This report refers to its work in 2018. On each occasion it has been quorate. The Pension Board has fulfilled the task of providing assurance by undertaking the activities referred to in this report. Most of the work this year has concentrated on administrative matters, due to a number of significant issues covered below. Due to the increasing complexity of both the pension fund investments and administration the Pension Board amended its terms of reference to include an independent adviser in its membership in May 2018.



4.2 The Chair of the Pension Fund Panel, Councillor Rajinder Bath, attends for a specified session at each Board meeting, to address any concerns that members of the Board may have. Members of the Pension Board also attend Pension Fund Panel meetings, and have full access to all the reports, and attend for the full agenda.

4.3 The Pension Fund holds an Annual General Meeting, and the Chairman of the Pension Board updates our members at this meeting on the work of the Pension Board

#### 4.4 Training Requirements

Pension Board members have a statutory duty to undertake training pertinent to their role. This statutory duty does not apply to members of the Pension Fund Panel.

Members of the Pension Board are required to attend the 3-day Local Government Employers' (LGE) Organisation course. Pension Board members are also required to undertake the on-line Pension Regulator (TPR) Public Sector Toolkit.

All members have attended the 3-day LGE training. Only one member has so far completed the TPR training.

Pension Fund Panel members are only required to attend the 3-day LGE training.

Pension Board members also have access to training provided by the fund managers.

#### 4.5 Transfer of third party administrator from Capita to West Yorkshire Pension Fund

The third party administration of the fund was transferred from Capita to West Yorkshire Pension Fund (WYPF) on 1st August 2018. This followed a procurement exercise. Regular reports were submitted to the Pension Fund Panel, and its specially constituted sub-group, on the management of this transfer. The Pension Board has had full sight of these developments. This was a significant piece of work, which will significantly improve the service delivered to our members. Concern had previously been expressed regarding the poor performance of the previous provider.

In both 2018 and 2017 the Fund has reported a breach to The Pension Regulator (TPR), regarding Annual Benefit Statements (ABS) for active employees not being produced by the statutory deadline of August. In 2018 our new provider has produced these statements. They are all expected to be delivered by the end of the year following a detailed transition of data records. The TPR has been informed of this. Going forward it is anticipated that all ABS will be issued by the August statutory deadline.

#### 4.6 Breaches Policy

The Pension Board has continued to review the process for monitoring the administration of the fund during the year. This has included reviewing the new Breaches Policy which has been developed.

#### 4.7 Employers' Risk assessment

Due to the increasing number and complexity of employers within the Pension Fund the actuary, Barnett Waddingham, undertook a review of the risk exposure of the Pension Fund in the summer of 2018. The Pension Board has reviewed this.

#### 4.8 Risk Management

The Pension Fund Panel has its own risk register which it reviews every six months. The Pension Board has monitored the effectiveness of the Pension Fund's risk management policy during the year, particularly in relation to the current global instability, and in relation to the change in the third party administrator from Capita to West Yorkshire Pension Fund.

## 5. Work Programme for 2019

The Pension Board has a substantial work programme in 2019. In addition to the regular items the Board intends to review the revised Administration Strategy, the embedding of the new third party administrator, and the new reporting requirements being developed by The Pension Regulator. The processes for ensuring a timely triennial actuarial valuation in 2019 will also be reviewed.



## 6. Opinion of the Chair of the Pension Board

"In the light of the Board's work in 2018 I and the other members of the Pension Board are satisfied that the Hounslow Pension Fund's risk management processes and its governance and internal control arrangements are both appropriate and effective. We note the breaches referred to The Pension Regulator in 2017 and 2018 regarding the late delivery of Annual Benefit Statements to our active members by our provider of administrative services. We have confidence in the action taken with respect to the administration of the Fund and the appointment of the new provider, West Yorkshire Pension Fund."

## 7. Financial Details

The Pension Fund is required to facilitate the operation of the new board. The costs are met from the Fund's own resources and it is not proposed at this time to increase the staffing of the Fund but for the work to be absorbed within available resources.

## 8. Legal Details

The Fund is required to have a Local Pensions Board as set out in the Public Service Pensions Act 2013 which also requires the Fund produce an annual report on the work of the Board.

Comments of the Head of Governance

The Head of Governance notes the recommendation.



# Appendix 6

# Pension Fund Risk Register

<b>Risk 1</b>	<b>Administration (client side)</b> <b>Risk of employer default</b>
Description	An employing member of the Pension Fund defaults on the payments they owe to the Pension Fund.
Consequences	Deficit is spread amongst remaining employers in the fund, leading to financial loss
Current controls in place	Triennial valuation assesses on-going liabilities. Deficit recovery periods are set according to the strength of the employer covenant and linked to contract periods for outsourced employers. The Administration Strategy lays out the responsibility for admitted scheme employers to provide guarantees or bonds, if required. Any employer with 10+ members must have an indemnity bond or parent company guarantee. All academies and free schools are pooled and pay common rates. In the event of any defaults the pool would bear the cost.
Effectiveness of current controls	The current controls protect the Pension Fund at the point of entry of an employing body and bonds are reviewed annually. Risk matrix for all employers been established – identifies risk, and whether bond required. Will be monitored annually.
<b>Score</b>	<b>Likelihood Very Low 2</b> <b>Impact Critical 3</b> <b>Total score 6</b>
Further action to manage residual risk	The actuary conducted a risk assessment of all the employers in summer 2018 to identify those employers that may pose the biggest financial risk to the Fund, by considering both the probability of business failure and the deficit that would fall to other employers in the Fund should they actually fail. Only one employer was shown to be at material risk. Mitigating actions will be considered during the 2019 triennial valuation. Self-insurance for ill health retirements (IHR) is being considered as part of the 2019 Actuarial Valuation, through the pooling of IHR contributions of all employers. The impact of the McCloud judgement on employer contributors will be dependent on how the Employment Tribunal implements the judgement. This will probably not be known until 2020, when it is possible an interim actuarial valuation will be required.
<b>Risk 2</b>	<b>Administration (client side)</b> <b>Employing bodies not understanding/implementing their obligations as employers</b>
Description	An increase in employers in the fund ( e.g. Academies/admitted bodies) without adequate knowledge of the Regulations
Consequences	Employers need knowledge of the LGPS to support decision making. A lack of knowledge can mean a failure to adhere to the Regulations and require additional reliance on the advice of the administering authority.
Current controls in place	The Administration Strategy lays out the responsibilities of scheme employers to the pension fund. LBH staff undertake monthly monitoring of employer contributions. An Employer’s Open day was held in July 2018 to introduce employers to our new administrator WYPF, and to identify their obligations as employing bodies. WYPF have taken on more responsibility with the employers. They have a separate team with dedicated employer contacts to assist employers with general queries as well as setting up new employers in the fund, employer training and cessations. WYPF have introduced a monthly employer’s return to capture leavers and starters each month, and negate the need for a complex end of year reconciliation exercise. Their website, www.wypf.org.uk has a dedicated section for employers of the fund. The Pension Administration Strategy has been revised following the transfer of the administration service to West Yorkshire Pension Fund.
Effectiveness of current controls	All employers are issued with a copy of the Pension Administration Strategy (PAS), the New Employer’s Guide and monitoring is undertaken.
<b>Score</b>	<b>Likelihood Low 3</b> <b>Impact Critical 3</b> <b>Total score 9</b>

Further action to manage residual risk	An Employers' Forum will be held to go through the impact of the 2019 Actuarial Valuation, in early 2020.
<b>Risk 3</b>	<b>Administration (Outsourced pension administration) Failure of systems within WYPF (West Yorkshire Pension Fund)</b>
Description	WYPF processing systems fail
Consequences	Failure to administer the scheme, including the timely payment of benefits
Current controls in place	Ensure that sufficient disaster recovery processes in place and regularly audited. WYPF hosts its servers in Bradford Council's datacentres. Two datacentres are in use: a primary site which is used for production applications and a disaster recovery site which is used to host WYPF's test / development / standby infrastructure. If a major incident affected the primary datacentre WYPF would immediately transfer its service to the disaster recovery datacentre. The same principle applies to Bradford Council's corporate services which WYPF uses: these are spread across both datacentres and will continue to operate if one datacentre is lost.
Effectiveness of current controls	WYPF review their Disaster Recovery Policy annually
<b>Score</b>	<b>Likelihood Very low 2 Impact Critical 3 Total score 6</b>
Further action to manage residual risk	The pensions administration service transferred to West Yorkshire Pension Fund on 1 August 2018. A Disaster Recovery Plan is embedded within the contract.
<b>Risk 4</b>	<b>Administration (Outsourced pension administration) Failure in data security, General Data Protection Regulations (GDPR)</b>
Description	Failure to comply with General Data Protection Regulations (GDPR)
Consequences	Risk of breach of data by inadequate data handling. Unlawful sharing of data. Reputational damage. Significant financial penalties levied by the Information Commissioner's Office. Failure of WYPF to process and protect council-controlled client information.
Current controls in place	Mandatory online awareness training for all London Borough of Hounslow staff. The Pension Fund has a detailed contract with WYPF listing WYPF's responsibilities, which details how WYPF will comply with the Regulations. Under the contract WYPF is obliged to immediately notify LBH in writing about any Data Breach, and to indemnify LBH against all liabilities, claims, costs, expenses, damages and losses. A copy of the Privacy Statement is on the WYPF website.
Effectiveness of current controls	Contractual agreement with WYPF.
<b>Score</b>	<b>Likelihood Very low 2 Impact Critical 3 Total score 6</b>
Further action to manage residual risk	
<b>Risk 5</b>	<b>Administration (WYPF Outsourced pension administration) Failure to process contributions, benefit payments and/or overpayments</b>
Description	Failure to process pension payments, lump sums, death grants. Overpayments of pensions Could be caused by WYPF or by late notification by employing bodies.
Consequences	Loss in services to members Financial loss Reputational

Current controls in place	<p>Monthly monitoring of service level agreement and contract by client side.</p> <p>LBH client side undertake sampling of lump sums</p> <p>Retirements are now being processed under the standard WYPF procedure where retirement lump sums are being paid directly by WYPF to avoid delays.</p> <p>There is a monthly mortality screening exercise run against the full the pensioner membership to mitigate the chances of making overpayments.</p> <p>WYPF have introduced a monthly employer's return to capture leavers and starters each month, and negate the need for a complex end of year reconciliation exercise. There is a need to ensure all of our employing bodies implement this.</p>
Effectiveness of current controls	Part of contract monitoring. Quarterly monitoring reports now come to Pension Fund Panel.
<b>Score</b>	<p><b>Likelihood Very low 2</b></p> <p><b>Impact Critical 3</b></p> <p><b>Total score 6</b></p>
Further action to manage residual risk	<p>Liberata are working with their IT consultants to complete monthly upload extraction issues</p> <p>Monitor effectiveness of monthly returns.</p>
<b>Risk 6</b>	<p><b>Funding</b></p> <p><b>Fund assets are insufficient to meet liabilities</b></p>
Description	The risk that the relative movement in the value of the Fund's assets (+/-) does not match the relative movement (+/-) on the fund's liabilities
Consequences	The deficit increases. Increase in the level of employer contributions required in the future if the movement is adverse.
Current controls in place	<p>Formal valuation carried out triennially by actuary. Officers and investment adviser undertake regular review of the asset-liability position.</p> <p>Assets regularly reviewed against the strategic benchmark and rebalanced if required.</p> <p>The Investment Strategy Statement is regularly reviewed to reflect investment strategy.</p> <p>The actuary has modelled cashflows over the next 30 years, demonstrating that the Fund becomes increasingly cashflow negative over next 30 years. A detailed analysis and tendering exercise has been evaluated, resulting in £150m being moved into a multi asset income fund with Fidelity, with aim of being bespoke to our liability profile. This fund will generate income in a structured manner, whilst maintaining growth of our assets, thus contributing to our deficit recovery target.</p> <p>2017/18 £100m transferred from the Aberdeen portfolio to Longview global equities on the London CIV (Collective Investment Vehicle).</p>
Effectiveness of current controls	The current approach will enable pension payments to be met, and our deficit recovery target of 17 years still to be met.
<b>Score</b>	<p><b>Likelihood Low 3</b></p> <p><b>Impact Catastrophic 4</b></p> <p><b>Total score 12</b></p>
Further action to manage residual risk	<p>Investment strategy and performance of fund managers is continually reviewed.</p> <p>The 2019 triennial actuarial valuation will update the financial position of the fund. An updated cashflow exercise will also be undertaken. Consultants are being appointed to undertake a review of the Investment Strategy with Members. First meeting planned for September PFP.</p>
<b>Risk 7</b>	<p><b>Funding</b></p> <p><b>Manager Underperformance</b></p>
Description	The risk of a fund manager significantly under-achieving benchmark returns for their given mandates over a prolonged period.
Consequences	Shortfall in investment return must ultimately be met by increased employer contributions

Current controls in place	<p>Diversification of managers and asset classes helps mitigate the impact of a single manager under-performing.</p> <p>Manager performance is reviewed by the Pension Fund Panel at each meeting against benchmark and performance objectives. Regular dialogue is maintained with the fund managers. Officers and the investment adviser meet all fund managers at least annually, and the London Collective Investment Vehicle quarterly. Recommendations are made to Panel where there is sustained under-performance. To reduce manager risk, and increase diversification, a number of actions have recently been implemented:</p> <p>1 A new manager, Fidelity, has been appointed to run a multi asset income mandate, covering both income and growth. It was financed from £150m equity and bond asset transfers from BlackRock and Aberdeen in 2017/18.</p> <p>2) Due to significant underperformance BlackRock active global equity mandate has been transferred to BlackRock passive mandate.</p> <p>3) BlackRock UK Equity Mandate moved to UK Focus +4%</p> <p>4) 2017/18 £100m transferred from the Aberdeen global equity portfolio to the Longview global equity portfolio on the London CIV.</p> <p>The impact of this diversification is that the impact of poor performance by a particular asset class/fund manager is significantly reduced.</p>
Effectiveness of current controls	Is timely identification of under performance
<b>Score</b>	<b>Likelihood Significant 4 Impact Catastrophic 4 Total score 16</b>
Further action to manage residual risk	<p>Fund managers and asset classes continue to be diversified.</p> <p>Further diversification of asset classes and fund managers will primarily be limited to the offer available from the London Collective Investment Vehicle (CIV).</p>
<b>Risk 8</b>	<b>Funding Systemic Risk</b>
Description	The possibility of interlinked and simultaneous financial market volatility affecting several assets
classes and/or investment managers.	
Consequences	Inability of Pension Fund to meet liabilities
Current controls in place	<p>The Pension Board has previously raised concerns on global systemic risk. The Board considered whether systemic risk had been underestimated, given the implications of a 'hard' Brexit' and international risks via a possible combination of crises in Europe, the US and the Middle East and Asia. Diversification of managers and asset classes mitigates systemic risk.</p> <p>Detailed quarterly monitoring to Pension Fund Panel.</p>
Effectiveness of current controls	<p>Systemic market collapse will be driven by external market and geo political factors. Brexit and global trade wars are threats. The Fund mitigates such impact through fund manager, asset class, and geographical diversification.</p> <p>Increased volatility is inevitable until the eventual Brexit terms become known. It is currently difficult to predict what markets will do. However, there is a danger that because of that uncertainty bigger risks outside of the UK may not get the attention that they deserve. The change in stance of the Fed towards rate rises and QE has eased some of the worries of recession but there are many political factors that could come into play such that Brexit is just one issue. Concentration of investments, currency exposure, liquidity and counterparty risk all need to be considered alongside the Brexit effect.</p> <p>The Pension Fund is a long-term, globally diversified, investment vehicle, and should not be driven by short term decisions.</p>
<b>Score</b>	<b>Likelihood Low 3 Catastrophic 4 Total score 12</b>

Further action to manage residual risk	<p>As Risk 7 explains further diversification of managers, and uncorrelated asset classes will reduce this risk.</p> <p>2019 triennial actuarial valuation will update the financial position of the fund. A review of the Investment Strategy is being undertaken. As part of this review the impact of climate change will be considered.</p> <p>Further diversification of asset classes and fund managers will primarily be limited to the offer available from the London Collective Investment Vehicle (CIV).</p>
<b>Risk 9</b>	<b>Demographic</b>
	<b>Longevity increases</b>
Description	The risk that longevity increases, increasing the cost of Fund benefits and the Fund does not make appropriate allowance.
Consequences	Additional costs for employers as payments are required for longer than has been funded.
Current controls in place	Regular monitoring through the triennial valuation. Prudent assumptions in accordance with Actuarial profession.
Effectiveness of current controls	Triennial monitoring will identify systemic sustained increases. Currently not assessed as worth the cost of having interim valuations to increase monitoring.
<b>Score</b>	<b>Likelihood Very Low 2</b> <b>Impact Critical 3</b> <b>Total score 6</b>
Further action to manage residual risk	<p>2016 triennial actuarial valuation showed that life expectancy had fallen between the 2013 and 2016 actuarial valuations. The impact of this is to decrease liabilities by approximately 4%.</p> <p>A further review will be undertaken in the 2019 triennial actuarial valuation. It is expected that improvement in life expectancy projections will be reduced, as the improvements in expectancy are not as great as originally projected. A specific longevity review of the Hounslow membership is being undertaken.</p>
<b>Risk 10</b>	<b>Demographic</b>
	<b>Increased number of early retirements.</b>
Description	Increased number of early retirements.
Consequences	Pensions are funded for longer than the Actuary has assumed in setting employer contribution rates, resulting in increased costs for the employer.
Current controls in place	LGPS regulations require employers to make capital contributions in respect of pensions strain arising from early retirements as a result of redundancy or efficiency. Explicit controls included in Admission Agreements for Admitted Bodies in the fund.
Effectiveness of current controls	Non ill-health retirements prior to Normal Retirement Date (NRD) are ultimately controlled by participating employers who bear the cost. Experience monitored through the triennial valuation process and incorporated, if required, in Employers' ongoing contribution rates.
<b>Score</b>	<b>Likelihood Almost impossible 1</b> <b>Impact Marginal 2</b> <b>Total score 2</b>
Further action to manage residual risk	<p>No further action required – costs will be picked up in monitoring and borne by employing body.</p> <p>Government is considering introducing a £95k cap for combined cost of redundancy and pension fund strain. Details of how to implement, and implementation date, are still awaited. Cap will reduce costs for employers of expensive early retirement cases. On 10 April 2019, HM Treasury opened a consultation on new draft regulations, directions and guidance to implement the exit cap. Outcome of consultation still awaited.</p>
<b>Risk 11</b>	<b>Demographic</b>
	<b>Ill-health retirements (IHR)</b>
Description	Ill-health retirements exceed the 'budget' assumed by the Fund Actuary in setting the employer contribution rate.
Consequences	A higher proportion of the 'budget' is required to provide for ill health retirements potentially resulting in increased contribution rates.



Current controls in place	Fund monitors ill health experience in inter-valuation period. Experience is captured (both plus & minus) and reflected in the employer contribution rate. LGPS regulations allow the Administering Authority to invoice excess amounts if required. This is considered as part of the monitoring process.
Effectiveness of current controls	Existing control measures in operation. Ill health monitoring results shared with those employers who had exceeded their ill health estimated provisions. An expensive ill health retirement for a smaller employer could be difficult to finance, and even cause default.
<b>Score</b>	<b>Likelihood Very Low 2</b> <b>Impact Marginal 2</b> <b>Total score 6</b>
Further action to manage residual risk	Whole Fund self-insurance for ill health retirements (IHR) is being considered as part of the 2019 Actuarial Valuation, through the pooling of IHR contributions of all employers, thus spreading the risk of costly Tier 1 IHR.
<b>Risk 12</b>	<b>Governance</b> <b>Failure to convene Pension Board. Risk of Pension Board being ineffective.</b>
Description	London Borough of Hounslow fails to operate statutory Pension Board. Pension Board fails to establish credibility
Consequences	Reputational risk Possible fine /criticism by auditors
Current controls in place	Constitution agreed at Borough Council 24 March 2015 All members required to undertake 3 day LGE training, and to complete the on-line TPR training modules. Members are asked to fill a Training Log when they attend external events. Annual Report of Chair of Pension Board goes to Pension Fund Panel and to Cabinet A new Pension Board has been appointed May 2018 to April 2022 to match the new administration. January 2018 Pension Board agreed to amend constitution to recruit an independent member with voting rights. Following the November 2018 meeting the Chairman has spoken to the Head of Committee Services. The Pension Board is a statutory body and a full minuted service is now being provided.
Effectiveness of current controls	Pension Board meets twice a year. Its minutes are reported to the following Pension Fund Panel.
<b>Score</b>	<b>Likelihood Very low 2</b> <b>Impact Marginal 2</b> <b>Total score 4</b>
Further action to manage residual risk	Members to complete the on-line TPR training modules.
<b>Risk 13</b>	<b>Governance</b> <b>Lack of knowledge of Pension Fund Panel members</b>
Description	Lack of knowledge and expertise of Pension Fund Panel members
Consequences	Inappropriate decision making, resulting in loss of reputation or assets of Pension Fund
Current controls in place	3 day externally run mandatory training programme Additional training provided by officers, advisers, and fund managers External advice provided by investment consultant, Allenbridge. Fund now has capacity to procure external legal advice from specialist LGPS national framework. A detailed training programme has been established for the new administration. This covers training on asset classes and relevant issues before each Panel meeting, invitations to seminars by external providers, on-line training packages, the 3-day LGE tutored sessions and an initial joint training session held in July 2018 for both PFP and Pension Board members. Members are asked to fill a Training Log when they attend external events.
Effectiveness of current controls	Robust. Sufficient safeguards.

<b>Score</b>	<b>Likelihood Almost impossible 1 Impact Marginal 2 Total score 2</b>
Further action to manage residual risk	No further action required.
<b>Risk 14</b>	<b>Funding</b>
	Introduction of 'freedom and choice' from 6 April 2015
Description	<p>These reforms offer greater flexibility ('Freedom and Choice') in the way individuals aged 55 and over can access any Defined Contribution pension savings they may have. These new flexibilities do not apply to pension benefits individuals have in Defined Benefit pension schemes, including the LGPS, and therefore they have no direct impact on employees' Defined Benefits from the LGPS.</p> <p>However, if LGPS beneficiaries choose to use the right to transfer the value of their LGPS Defined Benefits to a Defined Contribution pension scheme which offers flexible benefits they will then be able use the 'Freedom and Choice' flexibilities under that scheme.</p>
Consequences	LGPS will need to pay up front transfer values for those individuals transferring to a Defined Contribution scheme. This will have cash flow implications for Funds. Current actuarial modelling appears to demonstrate in the long term is likely to be beneficial as liabilities will also transfer.
Current controls in place	<p>If a person ceases membership of the LGPS and wishes to use the right to transfer the value of their LGPS Defined Benefits to a Defined Contribution pension scheme which offers flexible benefits they are obliged to obtain appropriate independent advice, at their own cost, from an authorised independent adviser who is registered with the Financial Conduct Authority (FCA), if their transfer value is above £30k.</p> <p>Procedure notes and new standard letters with the required disclosures implemented.</p>
Effectiveness of current controls	<p>Sufficient safeguards. Is possibility an ex LGPS member transfers their funds out, and then attempts to blame the LGPS for not preventing them by giving them inappropriate advice.</p> <p>Statutory need for member to prove that financial advice has been taken should prevent LGPS bearing any additional hardship claims.</p> <p>Press coverage of increase in number of 'scams'. Article in October 2018 newsletter to our members on risks of scams, with details of who to contact if concerned.</p>
<b>Score</b>	<b>Likelihood Very low 2 Impact Critical 3 Total score 6</b>
Further action to manage residual risk	Since April 2015 the Hounslow PF has had an average of 6 transfers p.a. The average value per annum has been £280k.
This is not significant in terms of cashflow, or reduction in liabilities.	
<b>Risk 15</b>	<b>Funding</b>
	<b>Central Government requirement for all local government pension funds to pool their assets</b>
Description	<p>Chancellor's Autumn statement 2015 required individual pension funds to demonstrate how will they transfer assets in to Asset Pool(s), with fund values to be at least £25bn, and to describe how savings will be achieved</p> <p>LBH has joined the London Collective Investment Vehicle (CIV).</p>
Consequences	Risk of transferring assets, incurring transitions costs, and possibility of increased fees, and reduced rates of return will increase deficit position of Fund.
Current controls in place	<p>BR global equity mandate has been moved to a passive mandate. Lower fees have been negotiated through the CIV, although these assets will not be on the CIV platform.</p> <p>£100m has been transferred to the active global equity manager, Longview.</p> <p>Transition managers are used for fund transfers.</p>
Effectiveness of current controls	<p>Assets transferred to the CIV are monitored quarterly and reported to PFP at each meeting.</p> <p>Further funds will be transferred to the CIV as appropriate for our Investment Strategy.</p>

<b>Score</b>	<b>Likelihood Low 3 Impact Catastrophic 4 Total score 12</b>
Further action to manage residual risk	The Investment Strategy and strategic asset allocation of the fund will be reviewed following the 2019 tri-ennial actuarial valuation. Officer/adviser quarterly meetings now held with CIV, addressing potential matches of our assets to the CIV offer.  Draft 2019 MHCLG statutory guidance on LGPS pooling states ‘from 2020 when new investment strategies are in place, pool members should make new investments outside the pool only in very limited circumstances’.
<b>Risk 16</b>	<b>BREXIT – cross cutting risk</b>
Description	Manner, and timescales, by which UK will leave the European Union
Consequences	Despite Mr Johnson being elected Leader of the Conservative Party, and therefore appointed Prime Minister of the UK, on a ticket of leaving the EU by Halloween, there is still uncertainty over the manner, and timescales, by which the UK will leave the EU.  The Pensions Regulator (TPR) issued an updated Brexit statement on 24th January 2019, identifying that any impact from Brexit is likely to be scheme and employer specific. TPR identified that there are 2 general areas that need to be considered – covenant and market risk.  <b>Covenant</b> – which employing bodies may be at risk from the different scenarios that might arise according to their exposure to the EU, possible interest rate and currency movement, and the impact worst possible outcomes might have.  <b>Market risk</b> – See Risk 8, Systemic Risk  Systemic market collapse will be driven by external market and geo political factors. Brexit and global trade wars are threats. The Fund mitigates such impact through fund manager, asset class, and geographical diversification. Increased volatility is inevitable until the eventual Brexit terms become known.
Current controls in place	<b>Covenant Risk</b>  There are only two employers where this may be a risk, and this risk is considered to be manageable, as both companies trade primarily within the UK, with minor direct exposure to the EU.  <b>Market risk</b>  The Pension Fund is a long-term, globally diversified, investment vehicle, and should not be driven by short term decisions.
Effectiveness of current controls	This will become apparent as the form of BREXIT becomes firmer.
<b>Score</b>	<b>Likelihood Significant 4 Impact Critical 3 Total score 12</b>
Further action to manage residual risk	To be identified.
<b>Risk 17</b>	<b>Cyber Risk Failure of information technology systems</b>
Description	‘Cyber risk means any risk of financial loss, disruption or damage to the reputation of an organisation from some sort of failure of its information technology systems.’ Institute of Risk Management
Consequences	Loss of confidentiality; Service delivery failure  Reputational; Financial loss

Current controls in place	<p>Pension schemes are likely to be attractive targets to cyber criminals, as they hold a lot of personal employment and financial data.</p> <p>Unlawful access or attacks could be serious for a scheme and its members, and could result in identity theft, loss of data, or loss of financial assets.</p> <p>The Hounslow Pension Fund has outsourced the management of its pension fund administration to West Yorkshire Pension Fund, its payroll functions to Liberata, and its investment functions to its fund managers, the London Collective Investment Vehicle (CIV) and custodian (Northern Trust).</p> <p>The contract with West Yorkshire Pension Fund (WYPF) details protections in place re cyber risk, and their Disaster Recovery Plan. WYPF as part of its Information Governance Toolkit, has adopted a Cyber Security policy which outlines how the Fund protects members' data from incidents of Cyber Crime together with outlining the Fund's control mechanisms for its pension administration software system.</p> <p>Liberata has a certified, management supported ISMS (Information Security Management System) which ensures compliance with legal, regulatory and contractual obligations and details incident management and response. Hosting locations are accredited to ISO27001. They maintain PSN (Public Services Network) accreditation, annually audited by external accreditation assessors.</p> <p>The fund managers, CIV, and the custodian are asked to provide annual ISAE (International Standard on Assurance Engagements) 3402 service organisation control reports (or internal controls assurance reports as they are often referred to).</p> <p>These are detailed reports covering internal controls, including I.T. resilience, business continuity, and recovery procedures.</p> <p>They also provide an assurance opinion from their auditors.</p>
Effectiveness of current controls	Regular external assurances are sought from our third parties re the effectiveness of their controls.
<b>Score</b>	<p><b>Likelihood Low 3</b></p> <p><b>Impact Critical 3</b></p> <p><b>Total score 9</b></p>
Further action to manage residual risk	Cyber risk is a regular standing item on the agenda of meeting with the fund managers, CIV, and the custodian.
<b>Risk 18</b>	<b>Administration</b>
	<b>Incomplete or inaccurate data</b>
Description	Incomplete or inaccurate data resulting in delays in processing, incorrect payment of benefits and breaching disclosure requirements
Consequences	<p>Increase in the number of complaints from pension scheme members.</p> <p>Underpayments and overpayments of pension.</p> <p>Breaching disclosure requirements including the failure to issue annual benefit statements by 31 August of each year resulting in action from the Pensions Regulator.</p> <p>Reputational damage.</p>
Current controls in place	<p>A Data Improvement Plan has been introduced and WYPF are undertaking a data cleansing exercise to identify and correct historical data.</p> <p>All employers are required to use the monthly return thereby eliminating the need for a complex end of year reconciliation.</p>
Effectiveness of current controls	<p>The Data Improvement Plan is monitored and updated at least quarterly. Data scores are produced and reported to each Pension Fund Panel meeting.</p> <p>Employers are required to check the exception reports for each monthly return to ensure records are complete, accurate and reconcile on a monthly basis</p>
<b>Score</b>	<p><b>Likelihood Low 3</b></p> <p><b>Impact Critical 3</b></p> <p><b>Total score 9</b></p>

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Further action to manage residual risk

WYPF have been working with employers including the Council to ensure all records are complete and accurate.

During this exercise it was discovered that in addition to correcting records there was a need to create new records.

This delayed the scheduled timetable for issuing the 2019 annual benefit statements however by the 31 August 2019 over 83% of benefit statements had been issued.

The underlying reasons why the data issues have arisen have all been addressed. The correct use of the monthly return and the exception reports will ensure these do not occur going forward. Training has been provided on the use of the monthly return to employers and further follow ups will be arranged including at the Employer's Forum.

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# Appendix 7

# Corporate Governance Report

## Corporate Governance Report

Report for:	INFORMATION
Contains Confidential or Exempt Information	No
Title	Corporate Governance Voting Annual Report
Member Reporting	Councillor Rajinder Bath, Chair Pension Fund Panel
Contact Details	Rapinder Sangha, Strategic Pensions and Treasury Accountant Telephone: 020 8583 2335 Email: rapinder.sangha@hounslow.gov.uk
For Consideration By	Pension Fund Panel
Date to be Considered	16th January 2019
Implementation Date if Not Called In	Not applicable
Affected Wards	All
Keywords/Index	Pension Fund

### 1. Details of Recommendations

Members are asked:

- 1.1 To note the overall voting outcome for all votes cast for the period October 2017 to September 2018.

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#### 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. Report Summary

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

This report summarises the votes cast for the period October 2017 to September 2018 and highlights the key corporate governance issues considered when casting a vote.

### 3. Reason for the Report

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

### 4. Introduction

- 4.1 The Pension 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 October 2017 to September 2018.

## 5. Overview of votes cast

5.1 Table 1 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, 1914 resolutions across 119 meetings were considered (in the previous year there were 2018 resolutions across 125 meetings) which equates to approximately 16 resolutions per meeting. Over the past two years changes to the Fund’s portfolio has 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 Pension Fund is only an indirect holder) of these shares it consequently owns the voting rights attributed to these holdings.

Table 1 highlights that for the period under consideration, 67% of all resolutions proposed were supported whilst 33% 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 2 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 1: Analysis of votes cast**

Period	No. of meetings	No. of resolutions	% of resolutions supported	% of resolutions voted against
Oct 17 - Dec 17	9	179	67.0	33.0
Jan 18 - Mar 18	16	191	63.4	36.6
Apr 18 - Jun 18	80	1353	68.0	32.0
Jul 18 - Sep 18	14	191	63.4	36.6
<b>Total</b>	<b>119</b>	<b>1914</b>	<b>67.0</b>	<b>33.0</b>

5.3 Table 2 below splits the number of meetings and resolutions across the different geographical regions within which we vote.

**Table 2: Geographic Voting Overview**

Geographic Region	No. of Meetings	Resolutions
UK	66	1171
EU	17	277
North America	17	246
Other	19	220
<b>Total</b>	<b>119</b>	<b>1914</b>





5.4 Table 3 further analyses the votes cast against each of the main resolution types.

<b>Resolution Type</b>	<b>For</b>	<b>(%)</b>	<b>Oppose</b>	<b>(%)</b>
Annual Reports	70	40.7	102	59.3
Executive/All Employer Pay Scheme	29	36.3	51	63.8
Articles of Association	24	92.3	2	7.7
Auditors Appointment	98	62.4	59	37.6
Directors	713	72.9	265	27.1
Dividend	71	95.9	3	4.1
Share Issue/ Re-Purchase	167	57.8	122	42.2
Corporate Donations	27	84.4	5	15.6
Other	83	78.3	23	21.7

## 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 April 2016 however an updated version issued in 2018 will be in effect as of the beginning of 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 whom 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.

Overall over 27% of Director appointments were opposed as shown in Table 3.

### 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 3 shows that almost 64% 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 payouts.

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 Pension 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 comprise 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 3 shows that almost 38% 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.

Just under 60% of annual reports were voted against as shown in Table 3, the majority of which did not allow for shareholders to approve 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 3 shows that just over 42% of proposals in this category were opposed.

## **7. Comments of the Strategic Director of Finance and Corporate Services**

The Strategic Director of Finance and Corporate Services has written this report.

## **8. Legal**

### **8.1 Legal Details**

There are no immediate legal implications arising from this report.

### **8.2 Comments of the Head of Governance**

The Head of Governance supports the recommendations.

## **9. Sustainability Impact Appraisal**

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

## **10. 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. Links to Council Priorities**

Indirectly links to Spending Wisely – Every Penny Counts

## **12. 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. Staffing/Workforce and Accommodation implications**

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

## **14. Property and Assets**

There are no direct implications.

## **15. Any Other Implications**

There are no further implications.

## **16. Consultation**

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

## **17. Timetable for Implementation**

This report is for information only. The current contract is in place until July 2019.

## **18. Appendices**

None.





# Appendix 8 Communications Policy

# Communications policy statement

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

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

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

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

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

## Members, representatives of members and prospective members

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

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

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

Method	Communication message
Electronic	Electronic: all members have access to the Administering Authority website delivered in partnership with our pension administrators West Yorkshire Pension Fund, <a href="http://www.wypf.org.uk">www.wypf.org.uk</a> . 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, <a href="http://www.hounslow.gov.uk">www.hounslow.gov.uk</a> .
This provides information on decisions made by the Pension Fund Panel	
Pension increase note	Provided annually to pensioners, this provides information on any pension increase due to their benefits
Face to face pension surgeries	Allows members to meet with the administrator representatives to discuss their specific queries

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

## Scheme Employers

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

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

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

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

## Public Statements made about the Pension Fund

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

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

