

## **NOTICE OF MEETING**

<b>Meeting</b>	Hampshire Pension Fund Panel and Board
<b>Date and Time</b>	Friday, 28th July, 2023 at 10.00 am
<b>Place</b>	Chute Room, Ell Court South, Winchester
<b>Enquiries to</b>	members.services@hants.gov.uk

Carolyn Williamson FCPFA  
Chief Executive  
The Castle, Winchester SO23 8UJ

## **FILMING AND BROADCAST NOTIFICATION**

This meeting may be recorded and broadcast live on the County Council's website and available for repeat viewing, it may also be recorded and filmed by the press and public. Filming or recording is only permitted in the meeting room whilst the meeting is taking place so must stop when the meeting is either adjourned or closed. Filming is not permitted elsewhere in the building at any time. Please see the Filming Protocol available on the County Council's website.

## **AGENDA**

### **1. APOLOGIES FOR ABSENCE**

To receive any apologies for absence.

### **2. DECLARATIONS OF INTEREST**

All Members who believe they have a Disclosable Pecuniary Interest in any matter to be considered at the meeting must declare that interest and, having regard to Part 3 Paragraph 1.5 of the County Council's Members' Code of Conduct, leave the meeting while the matter is discussed, save for exercising any right to speak in accordance with Paragraph 1.6 of the Code. Furthermore all Members with a Personal Interest in a matter being considered at the meeting should consider, having regard to Part 5, Paragraph 4 of the Code, whether such interest should be declared, and having regard to Part 5, Paragraph 5 of the Code, consider whether it is appropriate to leave the meeting while the matter is discussed, save for exercising any right to speak in accordance with the Code.

**3. CONFIRMATION OF MINUTES OF PREVIOUS MEETING (PUBLIC)**  
(Pages 5 - 8)

To confirm the public minutes of the previous meeting.

**4. DEPUTATIONS**

To receive any deputations notified under Standing Order 12.

**5. CHAIRMAN'S ANNOUNCEMENTS**

To receive any announcements the Chairman may wish to make

**6. GOVERNANCE: RESPONSIBLE INVESTMENT SUB-COMMITTEE APPOINTMENTS** (Pages 9 - 12)

To consider a report from the Director of Corporate Operations asking the Panel and Board to agree appointments of members and deputies to the Responsible Investment sub-committee.

**7. ACCESS JOINT COMMITTEE MINUTES - 6 MARCH 2023 (PUBLIC)**  
(Pages 13 - 22)

To receive the public minutes of the ACCESS Joint Committee held on 6 March 2023.

**8. GOVERNANCE: INTERNAL AUDIT OPINION 2022/23** (Pages 23 - 36)

To consider a report from the Director of Corporate Operations providing Pension Fund Panel and Board with the Chief Internal Auditor's opinion on the adequacy and effectiveness of Hampshire Pension Services'/Hampshire Pension Fund's frameworks of governance, risk management and control for the year ending 31 March 2023.

**9. GOVERNANCE: PENSION ADMINISTRATION AND FUND ACTUARY INTRODUCTION** (Pages 37 - 52)

To receive a report of the Director of Corporate Operations updating the Panel and Board on administration performance for 2022/23 and developments affecting the pension scheme in the first part of 2023/24. An introductory briefing from Hymans Robertson will also be heard.

**10. INVESTMENT: CASH OUTTURN REPORT** (Pages 53 - 60)

To receive a report from the Director of Corporate Operations updating the Pension Fund Panel and Board on the policy for managing the Hampshire Pension Fund's cash balance.

**11. GOVERNANCE: RISK MANAGEMENT (Pages 61 - 70)**

To receive a report of the Director of Corporate Operations introducing the Pension Fund's Risk Register, which forms part of the Fund's Business Plan and Annual Report.

**12. GOVERNANCE: ANNUAL REPORT (Pages 71 - 212)**

To consider a report from the Director of Corporate Operations introducing the 2022/23 draft Pension Fund Annual Report to the Panel and Board and providing an analysis of costs incurred in managing the Pension Fund during 2022/23.

**13. EXCLUSION OF THE PRESS AND PUBLIC**

That in relation to the following items the press and public be excluded from the meeting, as it is likely, in view of the nature of the business to be transacted or the nature of proceedings, that if a member of the public were present during the items there would be disclosure to them of exempt information within Paragraph 3 of Part 1 of Schedule 12A of the Local Government Act 1972, and further that in all circumstances of the case, the public interest in maintaining the exempt information outweighs the public interest in disclosing the information, for the reasons set out in the report.

**14. CONFIRMATION OF THE MINUTES OF THE PREVIOUS MEETING (EXEMPT) (Pages 213 - 220)**

To confirm the exempt minutes of the previous meeting.

**15. ACCESS JOINT COMMITTEE MINUTES (EXEMPT) 6 MARCH 2023 (Pages 221 - 228)**

To receive the exempt minutes of the ACCESS Joint Committee held on 6 March 2023.

**16. GOVERNANCE: ANNUAL REPORT - EXEMPT APPENDIX (Pages 229 - 230)**

To consider an exempt appendix in relation to the Annual Report.

**17. GOVERNANCE: CYBERSECURITY UPDATE (Pages 231 - 278)**

To consider an exempt report from the Director of Corporate Operations providing an update on the cyber controls in place for the pension systems.

**18. INVESTMENTS: CUSTODIAN UPDATE (Pages 279 - 286)**

To receive the report of the Director of Corporate Operations providing a review of custody services since the last report in March 2023, as well as an update on the Pension Fund's tax claims and class actions.

**19. INVESTMENTS: INVESTMENT UPDATE (Pages 287 - 358)**

To consider a report of the Director of Corporate Operations providing an update on the progress of the Pension Fund's investments.

**ABOUT THIS AGENDA:**

**On request, this agenda can be provided in alternative versions (such as large print, Braille or audio) and in alternative languages.**

**ABOUT THIS MEETING:**

**The press and public are welcome to attend the public sessions of the meeting. If you have any particular requirements, for example if you require wheelchair access, please contact [members.services@hants.gov.uk](mailto:members.services@hants.gov.uk) for assistance.**

County Councillors attending as appointed members of this Committee or by virtue of Standing Order 18.5; or with the concurrence of the Chairman in connection with their duties as members of the Council or as a local County Councillor qualify for travelling expenses.

# Agenda Item 3

AT A MEETING of the Hampshire Pension Fund Panel and Board of  
HAMPSHIRE COUNTY COUNCIL held at the castle, Winchester on Friday, 24th  
March, 2023

Chairman:

- \* Councillor M. Kemp-Gee

Vice-Chairman:

- \* Councillor T. Thacker

Elected members of the Administering Authority (Councillors):

- \* M. Cooper
- \* T. Davies
- D. Hiscock
- \* R. Mocatta
- \* A. Crawford
- \* J. Glen
- \* A. Joy

Employer Representatives (Co-opted members):

- \* Councillor J. Smyth (Portsmouth City Council)
- \* Councillor P. Taylor (District Councils - Rushmoor Borough Council)
- \* Ms F. Hnatow (University of Portsmouth)

Scheme Member Representatives (Co-opted members):

- \* Dr C. Allen (pensioners' representative)
- \* Mr N. Wood (scheme members representative)
- \* Ms L. Gowland (deferred members' representative)

Independent Adviser:

- \* C. Dobson

\*present

Also present as an observer with the agreement of the Chairman: Mr P Reynolds

## 113. APOLOGIES FOR ABSENCE

Apologies were received from Councillor Hiscock.

## 114. DECLARATIONS OF INTEREST

Members were mindful that where they believed they had a Disclosable Pecuniary Interest in any matter considered at the meeting they must declare that interest at the time of the relevant debate and, having regard to the circumstances described in Part 3 Paragraph 1.5 of the County Council's Members' Code of Conduct, leave the meeting while the matter was discussed, save for exercising any right to speak in accordance with Paragraph 1.6 of the Code. Furthermore Members were mindful that where they believed they had a Personal interest in a matter being considered at the meeting they considered whether such interest should be declared, and having regard to Part 5, Paragraph 4 of the Code, considered whether it was appropriate to leave the meeting whilst the matter was discussed, save for exercising any right to speak in accordance with the Code.

**115. CONFIRMATION OF MINUTES OF THE PREVIOUS MEETING (PUBLIC)**

The minutes of the Pension Fund Panel and Board held on 16 December 2022 were confirmed.

**116. DEPUTATIONS**

No deputations were received.

**117. CHAIRMAN'S ANNOUNCEMENTS**

The Chairman welcomed Cllr Cooper and Fiona Hnatow their first meeting and thanked Cllr Dowden who had recently stepped down from the Panel and Board for his long service on the Pension Fund Panel and Board.

Cllr Kemp-Gee asked officers to bring back a report assessing whether the Pension Fund should become an associate member of the Association of European Regions.

The Chairman asked officers to recirculate the details of the Hymans Robertson training for any Members so that any outstanding modules could be completed. Cllr Kemp-Gee asked Members to provide any updates from recent training events they had attended and Cllr Glen said he had attended a Hymans Robertson seminar on the impact of the Budget for pensions.

**118. RESPONSIBLE INVESTMENT SUB-COMMITTEE MINUTES - 2 MARCH 2023**

The minutes of the Responsible Investment Sub-Committee meeting held on 2 March 2023 were received.

**119. ACCESS JOINT COMMITTEE MINUTES - 5 DECEMBER 2022 (PUBLIC)**

The minutes of the ACCESS Joint Committee (JC) meeting held on 5 December 2022 were received.

**120. GOVERNANCE: INTERNAL AUDIT PROGRESS UPDATE**

The Panel and Board received and noted a report of the Director of Corporate Operations (item 8 in the Minute Book) providing the Pension Fund Panel and Board with the progress update on the delivery of the 2022/23 Internal Audit plan for the Pension Fund. The fieldwork for all five audits was complete. Three draft reports have been issued concluding there was substantial assurance of the area in question.

**121. GOVERNANCE: INTERNAL AUDIT 2023/24 PLAN**

The Panel and Board received and noted a report of the Director of Corporate Operations (item 9 in the Minute Book) providing the Pension Fund Panel and Board with the Internal Audit Plan for 2023/24 for the Pension Fund. Members

heard the aim of internal audit's work was to provide independent and objective assurance to management, that the frameworks of governance, risk management and management control were appropriate and operating effectively, and risks to the achievement of the Pension Fund's objectives were identified, assessed and managed. Four audits were planned for 2023/24.

**122. GOVERNANCE: ACCESS 2023/24 BUSINESS PLAN & BUDGET**

The Panel and Board considered the report from the Director of Corporate Operations (Item 10 in the Minute Book) including the ACCESS Business Plan for 2023/24, which had been agreed and recommended for approval to the member authorities by the ACCESS Joint Committee.

The budget for ACCESS for 2023/24 was £1.56m of which Hampshire's equal share would be £141,000.

**RESOLVED:**

That the ACCESS Business Plan for 2022/23 was approved.

**123. EXCLUSION OF THE PRESS AND PUBLIC**

**RESOLVED:**

That the public be excluded from the meeting during the following items of business, as it is likely, in view of the nature of the business to be transacted or the nature of the proceedings, that if members of the public were present during these items there would be disclosure to them of exempt information within Paragraphs 3 and 4 of Part 1 of Schedule 12A to the Local Government Act 1972, and further that in all the circumstances of the case, the public interest in maintaining the exemption outweighs the public interest in disclosing the information, for the reasons set out in the reports.

**124. CONFIRMATION OF THE MINUTES OF THE PREVIOUS MEETING (EXEMPT)**

The exempt minutes of the Pension Fund Panel and Board held on 16 December 2022 were confirmed.

**125. ACCESS JOINT COMMITTEE MINUTES - 5 DECEMBER 2022 (EXEMPT)**

The exempt minutes of the ACCESS Joint Committee (JC) meeting held on 5 December 2022 were received.

**126. INVESTMENTS: INVESTMENT STRATEGY REVIEW**

The Chairman called for items 16 and 17 to be heard before item 14 of the published agenda.

The Panel and Board received a report from the Director of Corporate Operations (Item 14 in the Minute Book) proposing changes to the Pension Fund's investment strategy. [SUMMARY OF A MINUTE WHICH CONTAINS EXEMPT INFORMATION]

**127. INVESTMENTS: CUSTODIAN UPDATE**

This item was deferred.

**128. INVESTMENTS: INVESTMENT UPDATE**

The Panel and Board received a report from the Director of Corporate Operations (Item 16 in the Minute Book) updating the Panel and Board on the Fund's investments. [SUMMARY OF A MINUTE WHICH CONTAINS EXEMPT INFORMATION]

**129. INVESTMENTS: ALTERNATIVE INVESTMENTS PORTFOLIO UPDATE**

The Panel and Board received a report from the Director of Corporate Operations (Item 17 in the Minute Book) updating the Panel and Board on the Fund's alternative investments. [SUMMARY OF A MINUTE WHICH CONTAINS EXEMPT INFORMATION]

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Chairman, 28 July 2023



## HAMPSHIRE COUNTY COUNCIL

### Decision Report

<b>Decision Maker:</b>	Pension Fund Panel and Board
<b>Date:</b>	28 July 2023
<b>Title:</b>	Governance: Responsible Investment Sub-Committee Appointments
<b>Report From:</b>	<i>Director of Corporate Operations</i>

**Contact name:** Andrew Bouflower

**Tel:** 0370 779 6896

**Email:** andrew.bouflower@hants.gov.uk

### Purpose of this Report

1. To ask the Panel and Board to agree appointments of members and deputies to the Responsible Investment sub-committee.

### Recommendation

2. That the committee appoints members and deputies to the Responsible Investment sub-committee, noting that for the four politically proportionate Hampshire County Council members this should currently be on the basis of three Conservatives and one Liberal Democrat.

### Responsible Investment sub-committee

3. The terms of reference for a Responsible Investment (RI) sub-committee specify that the sub-committee's membership will be reviewed annually by the Panel and Board 'following the principle that appointments will rotate annually where practical and taking proportionality requirements into account'. In agreeing that deputies are appointed to the RI sub-committee the Panel and Board hoped that they would be drawn where possible from previous members of the RI sub-committee. Furthermore the terms of reference specify that the committee is to be made up as follows:
  - four County Council members,
  - one scheme member representatives,
  - one employer representative.

4. In its fourth year of operation the membership of the sub-committee has been as follows:

Members

- Cllr Kemp-Gee
- Cllr Thacker
- Cllr Mocatta
- Cllr Hiscock
- Cllr Smyth
- Dr Allen

Deputies

- Cllr Dowden
- Cllr Mellor
- Dr Bartle
- Ms Gowland

5. For 2023/24 the County Council's proportionality requires that the County Councillors appointed should be three Conservative members and one Liberal Democrat member.

### **Climate Change impact assessments**

6. Hampshire County Council utilises two decision-making tools to assess the carbon emissions and resilience of its projects and decisions. These tools provide a clear, robust, and transparent way of assessing how projects, policies and initiatives contribute towards the County Council's climate change targets of being carbon neutral and resilient to the impacts of a 2°C temperature rise by 2050. This process ensures that climate change considerations are built into everything the Authority does.
7. The Pension Fund itself has a negligible carbon footprint, but it recognises that the companies and other organisations that it invests in will have their own carbon footprint and a significant role to play in the transition to a lower carbon economy. Therefore the Pension Fund recognises the risk that environmental, social and governance (ESG) factors including the impact of climate change can materially reduce long-term returns.
8. The Pension Fund has a role to play as an investor, in ensuring that its investment managers are suitably considering the impact and contribution to climate change in their investment decisions and acting as a good steward to encourage these companies to play their part in reducing climate change. This is explained further in the Pension Fund's RI policy [InvestmentStrategyStatementincludingRIpolicy.pdf \(hants.gov.uk\)](#). The policy established the RI sub-committee, which is considered in this report. The sub-committee gives the Panel and Board greater capacity to consider the ESG factors associated with the Fund's investments, including climate change.

**REQUIRED CORPORATE AND LEGAL INFORMATION:****Links to the Strategic Plan**

<b>Hampshire maintains strong and sustainable economic growth and prosperity:</b>	no
<b>People in Hampshire live safe, healthy and independent lives:</b>	no
<b>People in Hampshire enjoy a rich and diverse environment:</b>	no
<b>People in Hampshire enjoy being part of strong, inclusive communities:</b>	no
<b>OR</b>	
<b>This proposal does not link to the Strategic Plan but, nevertheless, requires a decision because:</b> For the ongoing management of the Hampshire Pension Fund.	

**Section 100 D - Local Government Act 1972 - background documents**

**The following documents discuss facts or matters on which this report, or an important part of it, is based and have been relied upon to a material extent in the preparation of this report. (NB: the list excludes published works and any documents which disclose exempt or confidential information as defined in the Act.)**

DocumentLocation

None

## **EQUALITIES IMPACT ASSESSMENT:**

### **1. Equality Duty**

The County Council has a duty under Section 149 of the Equality Act 2010 ('the Act') to have due regard in the exercise of its functions to the need to:

- Eliminate discrimination, harassment and victimisation and any other conduct prohibited by or under the Act with regard to the protected characteristics as set out in section 4 of the Act (age, disability, gender reassignment, marriage and civil partnership, pregnancy and maternity, race, religion or belief, sex and sexual orientation);
- Advance equality of opportunity between persons who share a relevant protected characteristic within section 149(7) of the Act (age, disability, gender reassignment, pregnancy and maternity, race, religion or belief, sex and sexual orientation) and those who do not share it;
- Foster good relations between persons who share a relevant protected characteristic within section 149(7) of the Act (see above) and persons who do not share it.

Due regard in this context involves having due regard in particular to:

- The need to remove or minimise disadvantages suffered by persons sharing a relevant protected characteristic that are connected to that characteristic;
- Take steps to meet the needs of persons sharing a relevant protected characteristic that are different from the needs of persons who do not share it;
- Encourage persons sharing a relevant protected characteristic to participate in public life or in any other activity in which participation by such persons is disproportionately low.

### **2. Equalities Impact Assessment:**

Equality objectives are not considered to be adversely affected by the proposals in this report as the proposals do not directly affect scheme members.

## HAMPSHIRE COUNTY COUNCIL

### Report

<b>Committee/Panel:</b>	Hampshire Pension Fund Panel and Board
<b>Date:</b>	28 July 2023
<b>Title:</b>	Minutes of the ACCESS Joint Committee (Public) – 6 March 2023
<b>Report From:</b>	Director of Corporate Operations

**Contact name:** Andrew Boutflower

**Tel:** 0370 779 6896

**Tel:** 0370 779 6896

#### **Purpose of this Report**

1. The purpose of this report is to present the public minutes from the meeting of the ACCESS Joint Committee which took place on 6 March 2023.

#### **Recommendation**

2. That the Pension Fund Panel and Board receives and notes the minutes as attached to this report.

**REQUIRED CORPORATE AND LEGAL INFORMATION:**

**Links to the Strategic Plan**

<b>Hampshire maintains strong and sustainable economic growth and prosperity:</b>	yes
<b>People in Hampshire live safe, healthy and independent lives:</b>	no
<b>People in Hampshire enjoy a rich and diverse environment:</b>	no
<b>People in Hampshire enjoy being part of strong, inclusive communities:</b>	no

**Section 100 D - Local Government Act 1972 - background documents**

**The following documents discuss facts or matters on which this report, or an important part of it, is based and have been relied upon to a material extent in the preparation of this report. (NB: the list excludes published works and any documents which disclose exempt or confidential information as defined in the Act.)**

Document

Location

None

## **EQUALITIES IMPACT ASSESSMENT:**

### **1. Equality Duty**

The County Council has a duty under Section 149 of the Equality Act 2010 ('the Act') to have due regard in the exercise of its functions to the need to:

- Eliminate discrimination, harassment and victimisation and any other conduct prohibited by or under the Act with regard to the protected characteristics as set out in section 4 of the Act (age, disability, gender reassignment, marriage and civil partnership, pregnancy and maternity, race, religion or belief, sex and sexual orientation);
- Advance equality of opportunity between persons who share a relevant protected characteristic within section 149(7) of the Act (age, disability, gender reassignment, pregnancy and maternity, race, religion or belief, sex and sexual orientation) and those who do not share it;
- Foster good relations between persons who share a relevant protected characteristic within section 149(7) of the Act (see above) and persons who do not share it.

Due regard in this context involves having due regard in particular to:

- The need to remove or minimise disadvantages suffered by persons sharing a relevant protected characteristic that are connected to that characteristic;
- Take steps to meet the needs of persons sharing a relevant protected characteristic that are different from the needs of persons who do not share it;
- Encourage persons sharing a relevant protected characteristic to participate in public life or in any other activity in which participation by such persons is disproportionately low.

### **2. Equalities Impact Assessment:**

This report requests that the Audit Committee receive and note the minutes of the Hampshire Pension Fund Panel and therefore the recommended action will not impact on groups with protected characteristics in any way.

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## **ACCESS JOINT COMMITTEE**

MINUTES of a meeting of the ACCESS Joint Committee held at Bevin Hall, LGA Building, 18 Smith Square, London, SW1P 3HZ on Monday 6 March 2023.

PRESENT: Chair: Cllr Mark Kemp-Gee (Hampshire CC), Vice-Chair: Cllr Susan Barker (Essex CC), Cllr Charlie Simkins (Kent CC), Mr Jeremy Hunt (West Sussex CC), Cllr Judy Oliver (Norfolk CC), Cllr Andrew Williams (Hertfordshire CC), Cllr Paul Redstone (East Sussex CC), Cllr Vanessa Churchman (Isle of Wight Council), Cllr Colin Kreidewolf (Suffolk CC), Cllr Catherine Rae (Cambridgeshire CC), Cllr Charles Morton (Northamptonshire Council)

### **Apologies and Substitutes.**

1. Apologies were received from Cllr Whelan (Cllr Rae substituting), Cllr Soons (Cllr Kreidewolf substituting), Cllr Fox (Cllr Redstone substituting) and Cllr Longley (Cllr Morton substituting).

RESOLVED that the apologies be noted.

### **Declaration of interests**

None.

### **Chair's remarks**

1. The Chair formally welcomed Local Pension Board observers from Kent, Suffolk and Norfolk Authorities.
2. He highlighted that the Business Plan, Budget & Risk Summary item had moved to the end of the agenda. Cllr Kemp-Gee welcomed Members views on the approach following the meeting.

RESOLVED that the Chair's remarks be noted.

### **Minutes**

RESOLVED that the minutes from the meeting held on 5 December 2022 be signed as a true and accurate record.

### **Motion to Exclude the press and public**

RESOLVED that under Section 100A of the Local Government Act 1972 the press and public be excluded from the meeting for the following business on the grounds that it involves the likely disclosure of exempt information as defined in paragraphs 3 & 5 of part 1 of Schedule 12A of the Act.

### **Independent Third Party Review**

1. Mr McDonald provided an update on the third-party review of the effectiveness of the pool. The framework procurement had concluded and Barnett Waddingham were identified as the preferred bidder to undertake the independent review.

RESOLVED that the Committee note the matters highlighted within the report and the result of the procurement for a consultant.

### **Exempt Minutes of the meeting held on 5 December 2022**

RESOLVED that the exempt minutes from the meeting held on 5 December 2022 be signed as a true and accurate record.

### **BAU Evaluation**

1. Mr McDonald and John Wright (Hymans Robertson) provided an update from the Business As Usual Evaluation, including consideration of relevant Operator Procurement considerations.

RESOLVED that the Committee:

- 1) note the report.
- 2) approve the key features of the draft specification outlined in the table within paragraph 8.2 of the report.
- 3) Approve the governance arrangements for any required procurement preparations and activity, in accordance with the details set out in the Exempt Report.

### **Link Presentation**

*Nigel Boyling and Alistair Coyle from Link Fund Solutions were present for this item.*

1. Mr Boyle and Mr Coyle provided an update on Link's corporate activity and future changes, as well as current progress on key workstreams.

RESOLVED that the presentation be noted.

### **Alternative Investments**

1. Mr Tysoe provided an update on alternative investments.

2. He confirmed that the procurement process for UK Core and Global real estate mandates had completed with CBRE identified as the winning bidder for both mandates. Each ACCESS council would need to contract individually with the company.

RESOLVED that the Committee: -

- 1) Agree to recommend to the ACCESS Councils that they may contract with CBRE for UK core property and Global property following the conclusion of the two respective procurement exercises.
- 2) Note the issues that had occurred with MJ Hudson's financial accounts and their current position.
- 3) Decide to pause all MJ Hudson activity as ACCESS's Implementation Advisor for 3 months (and prepare for a potential re-procurement if required).
- 4) Note current progress against the agreed plan for pooling non-listed investments.

## **Responsible Investment Phase II**

1. Mr Whitby provided an update on the work of the ESG/RI sub-group.
2. Hampshire County Council were leading the procurement of advice around implementation of the RI guidelines and delivery of reporting requirements. They were hoping to confirm the preferred supplier at the June 2023 Joint Committee meeting.
3. Since the previous meeting, there had been considerable exploration of LAPFF membership and signing up to the stewardship code.
4. If ACCESS were minded to become a signatory of the Stewardship Code, a Phase 2 Advisor would be required and that submissions to the FRC may be possible in October 2024.
5. 9 out of 11 ACCESS authorities were already members of LAPFF, with a tenth soon to follow. There was discussion around the benefits of ACCESS joining or whether this was duplication. Membership could begin at any time.
6. Cllr Williams proposed, and Mr Simkins seconded that recommendations 4 and 5 in the paper (LAPFF and Stewardship Code respectively) be taken via a separate vote. That process was adopted with voting details set out below.

RESOLVED that the Committee: -

- 1) Noted the report;
- 2) Requested each Authority approves the Responsible Investment (RI) Guidelines for formal adoption by ACCESS;
- 3) Noted the update on Phase II of the RI procurement;
- 4) Approved ACCESS becoming a Pool member of the Local Authority Pension Fund Forum (LAPFF)\*; and
- 5) Agreed the preparation of a UK Stewardship Code submission targeting an October 2024 submission deadline (subject to the RI advisor gap analysis outcome) \*.

\*Isle of Wight Council and West Sussex requested their vote against the recommendations for ACCESS to join LAPFF and become a signatory of the UK Stewardship Code be noted.

Recommendations 1,2 and 3 agreed without vote.

### **Investment Performance Report**

1. Ms Tan (Suffolk) provided an overview of current ACCESS performance, including reference to the Investment Performance Report, which showed that pooled assets of all ACCESS Authorities amounted to £32.742bn at the end of December 2022 (down from £34.993bn in December 2021). Pool aligned assets represented 57% of total assets.

RESOLVED that the report be noted.

### **Sub-fund Implementation**

1. Mr Tysoe provided an update on the progress with sub-funds.

RESOLVED that the Committee notes the matters highlighted within the report.

### **Contract and Supplier Relationship Management**

1. Mr Paget provided an update on Contract and Supplier Relationship Management activity.

RESOLVED that the Committee noted the matters highlighted within the report, the activity that had taken place and forthcoming plans.

### **Business Plan, Budget and Risk summary**

1. Mr McDonald provided an update on the Business Plan and Budget. Key points included:
  - i. All 11 ACCESS authorities had signed the revised Inter Authority Agreement (IAA).
  - ii. The government's pooling consultation had still not been launched.
  - iii. The re-procurement of a communications partner had not proceeded as intended therefore the contract with MHP Mischief was to be extended until 30 June 2023 with a re-procurement being undertaken during that time.
  - iv. Overspends on "legal and governance" in the current year budget reflected additional contract related work.
2. Mr Paget provided an update on the risk register summary, highlighting those risks which had changed, been added, or removed.

RESOLVED that:-

- 1) the 2022/23 Business Plan update be noted.

- 2) the 2022/23 budget update be noted.
- 3) the risk register be noted.
- 4) the existing arrangements with MHP Mischief as Communication Partner be extended until 30 June 2023.

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## HAMPSHIRE COUNTY COUNCIL

### Decision Report

<b>Decision Maker</b>	Pension Fund Panel and Board
<b>Date:</b>	28 July 2023
<b>Title:</b>	Governance - Annual Internal Audit Report & Opinion 2022-23
<b>Report From:</b>	Director of Corporate Operations

**Contact name:** Neil Pitman; Chief Internal Auditor

**Tel:** 07719 417233

**Email:** Neil.pitman@hants.gov.uk

### Purpose of this Report

1. The purpose of this report is to provide the Pension Fund Panel and Board with the Chief Internal Auditor's opinion on the adequacy and effectiveness of Hampshire Pension Services' / Hampshire Pension Fund's frameworks of governance, risk management and control for the year ending 31 March 2023.

### Recommendation

2. That the Pension Fund Panel and Board note the Chief Internal Auditor's Annual Internal Audit Report and Opinion for 2022-23.

### Contextual Information

3. In accordance with 'proper practices' as defined in the Public Sector Internal Audit Standards (updated 2017), the Chief Internal Auditor is required to provide a written report reviewing the overall adequacy and effectiveness of the internal control environment.
4. The Annual Report for 2022-23 (attached as Appendix 1) provides the Chief Internal Auditor's opinion on the frameworks of governance, risk management and control for the year ending 31 March 2023.

5. The Pension Fund Panel and Board's attention is drawn to the following points:
- I am satisfied that sufficient assurance work has been carried out to allow me to form a reasonable conclusion on the adequacy and effectiveness of the internal control environment.
  - In my opinion frameworks of governance, risk management and management control are substantial and audit testing has demonstrated controls to be working in practice.
  - Where weaknesses have been identified through internal audit review, we have worked with management to agree appropriate corrective actions and a timescale for improvement.

### **Climate Change Impact Assessments**

6. Hampshire County Council utilises two decision-making tools to assess the carbon emissions and resilience of its projects and decisions. These tools provide a clear, robust, and transparent way of assessing how projects, policies and initiatives contribute towards the County Council's climate change targets of being carbon neutral and resilient to the impacts of a 2°C temperature rise by 2050. This process ensures that climate change considerations are built into everything the Authority does.
7. The climate change and carbon control mitigation tools were not applicable as the report relates to the in-house management of the administration of the pension scheme and therefore have a neutral impact on climate change.



**REQUIRED CORPORATE AND LEGAL INFORMATION:**

**Links to the Strategic Plan**

<b>Hampshire maintains strong and sustainable economic growth and prosperity:</b>	No
<b>People in Hampshire live safe, healthy and independent lives:</b>	No
<b>People in Hampshire enjoy a rich and diverse environment:</b>	No
<b>People in Hampshire enjoy being part of strong, inclusive communities:</b>	No
<b>OR</b>	
<b>This proposal does not link to the Strategic Plan but, nevertheless, requires a decision because:</b>	
Accounts and Audit (England) Regulations 2015.	

**Section 100 D - Local Government Act 1972 - background documents**

**The following documents discuss facts or matters on which this report, or an important part of it, is based and have been relied upon to a material extent in the preparation of this report. (NB: the list excludes published works and any documents which disclose exempt or confidential information as defined in the Act.)**

Document

Location

None

## **EQUALITIES IMPACT ASSESSMENT:**

### **1. Equality Duty**

The County Council has a duty under Section 149 of the Equality Act 2010 ('the Act') to have due regard in the exercise of its functions to the need to:

- Eliminate discrimination, harassment and victimisation and any other conduct prohibited by or under the Act with regard to the protected characteristics as set out in section 4 of the Act (age, disability, gender reassignment, marriage and civil partnership, pregnancy and maternity, race, religion or belief, sex and sexual orientation);
- Advance equality of opportunity between persons who share a relevant protected characteristic within section 149(7) of the Act (age, disability, gender reassignment, pregnancy and maternity, race, religion or belief, sex and sexual orientation) and those who do not share it;
- Foster good relations between persons who share a relevant protected characteristic within section 149(7) of the Act (see above) and persons who do not share it.

Due regard in this context involves having due regard in particular to:

- The need to remove or minimise disadvantages suffered by persons sharing a relevant protected characteristic that are connected to that characteristic;
- Take steps to meet the needs of persons sharing a relevant protected characteristic that are different from the needs of persons who do not share it;
- Encourage persons sharing a relevant protected characteristic to participate in public life or in any other activity in which participation by such persons is disproportionately low.

### **2. Equalities Impact Assessment:**

Equality objectives are not considered to be adversely affected by this report.

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# Southern Internal Audit Partnership

Assurance through excellence  
and innovation

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## HAMPSHIRE PENSION FUND PANEL AND BOARD

### Annual Internal Audit Report and Opinion 2022-23

Prepared by: **Antony Harvey, Deputy Head of Partnership**

**July 2023**

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## 1. Role of Internal Audit

Hampshire County Council ('the Council') is required by the Accounts and Audit (England) Regulations 2015, to

*'undertake an effective internal audit to evaluate the effectiveness of their risk management, control and governance processes, taking into account public sector internal auditing standards or guidance.'*

In fulfilling this requirement, the Council should have regard to the Public Sector Internal Audit Standards (PSIAS), as the internal audit standards set for local government. In addition, the Statement on the Role of the Head of Internal Audit in Public Service Organisations issued by CIPFA sets out best practice and should be used to assess arrangements to drive up audit quality and governance arrangements.

The role of internal audit is best summarised through its definition within the Standards, as an:

***'Independent, objective assurance and consulting activity designed to add value and improve an organisation's operations. It helps an organisation accomplish its objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, control and governance processes'***.

The Council is responsible for establishing and maintaining appropriate risk management processes, control systems, accounting records and governance arrangements. The Council is the local authority responsible for administering the Hampshire Pension Fund, known as the Administering Authority. In this capacity, the Council has delegated responsibility for the governance and management of the Pension Fund to Hampshire Pension Fund Panel and Board. Internal audit plays a vital role in advising the Pension Fund Panel and Board that these arrangements are in place and operating effectively.

The Pension Fund Panel and Board's response to internal audit activity should lead to the strengthening of the control environment and, therefore, contribute to the achievement of the organisation's objectives.



## 2. Internal Audit Approach

To enable effective outcomes, internal audit provides a combination of assurance and consulting activities. Assurance work involves assessing how well the systems and processes are designed and working, with consulting activities available to help to improve those systems and processes where necessary. A full range of internal audit services is provided in forming the annual opinion.

The approach to each review is determined by the Chief Internal Auditor and will depend on the:

- Level of assurance required.
- Significance of the objectives under review to the organisation's success.
- Risks inherent in the achievement of objectives.
- Level of confidence required that controls are well designed and operating as intended.

All formal internal audit assignments will result in a published report. The primary purpose of the audit report is to provide an independent and objective opinion to the Pension Fund Panel and Board on the framework of internal control, risk management and governance in operation and to stimulate improvement.



The Southern Internal Audit Partnership (SIAP) maintain an agile approach to audit, seeking to maximise efficiencies and effectiveness in balancing the time and resource commitments of our clients, with the necessity to provide comprehensive, compliant and value adding assurance.

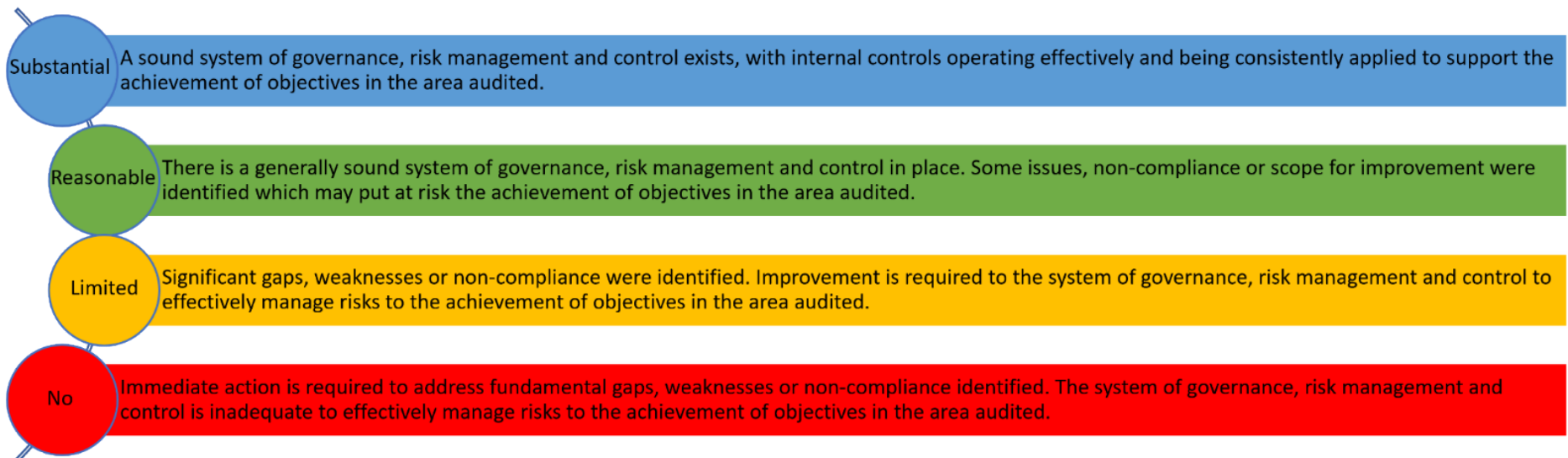
Working practices have been reviewed, modified and agreed with all partners following the impact and lessons learned from the COVID-19 pandemic and as a result we have sought to optimise the use of virtual technologies to communicate with key contacts and in completion of our fieldwork. However, the need for site visits to complete elements of testing continues to be assessed and agreed on a case-by-case basis.

### 3. Internal Audit Coverage

The annual internal audit plan was prepared to take account of the characteristics and relative risks of Hampshire Pension Services' / Hampshire Pension Fund's activities and to support the preparation of the Council's Annual Governance Statement. Work has been planned and performed to obtain sufficient evidence to provide reasonable assurance that the internal control system is operating effectively.

The 2022-23 internal audit plan was considered by Hampshire Pension Fund Panel and Board in July 2022. It was informed by internal audit's own assessment of risk and materiality in addition to consultation with management to ensure it aligned to key risks facing the organisation.

Internal audit reviews culminate in an opinion on the assurance that can be placed on the effectiveness of the framework of risk management, control and governance designed to support the achievement of management objectives of the service area under review. The assurance opinions are categorised as follows:



## 4. Internal Audit Opinion

The Chief Internal Auditor is responsible for the delivery of an annual audit opinion and report which concludes on the overall adequacy and effectiveness of Hampshire Pension Services' / Hampshire Pension Fund's frameworks of governance, risk management and control.

In giving this opinion, assurance can never be absolute and therefore, only reasonable assurance can be provided that there are no major weaknesses in the processes reviewed. In assessing the level of assurance to be given, I have based my opinion on:

- written reports on all internal audit work completed during the course of the year (assurance & consultancy);
- results of any follow up exercises undertaken in respect of previous years' internal audit work;
- the results of work of other review bodies where appropriate;
- the extent of resources available to deliver the internal audit work;
- the quality and performance of the internal audit service and the extent of compliance with the Standards; and
- the proportion of the Pension Fund Panel and Board's audit need that has been covered within the period.

We enjoy an open and honest working relationship with Hampshire Pension Services / Hampshire Pension Fund. Our planning discussions and risk-based approach to internal audit ensure that the internal audit plan includes areas of significance raised by management to ensure that ongoing organisational improvements can be achieved. I feel that the maturity of this relationship and the effective use of internal audit has assisted in identifying and putting in place action to mitigate weaknesses impacting on organisational governance, risk and control over the 2022-23 financial year.

### Annual Internal Audit Opinion 2022-23

I am satisfied that sufficient assurance work has been carried out to allow me to form a reasonable conclusion on the adequacy and effectiveness of the internal control environment.

In my opinion frameworks of governance, risk management and management control are **substantial** and audit testing has demonstrated controls to be working in practice.

Where weaknesses have been identified through internal audit review, we have worked with management to agree appropriate corrective actions and a timescale for improvement.



## 5. Overview

Internal Audit work found there to be sound control environments in place across all review areas which were found to be working effectively. We are pleased to report that no significant issues were identified arising from the work completed during 2022-23. The internal audit opinion assigned to each review completed is:-

**Pension Transfers (including Notional) – Substantial Assurance**

**Member Deaths – Substantial Assurance**

**Accounting for Pension Contributions - Substantial Assurance**

**Pensions Payroll and Benefit Calculations - Substantial Assurance**

**UPM Cyber Security Improvement Plan and Compliance Statement – Reasonable Assurance**

## 6. Quality Assurance and Improvement

The Standards require the Head of the Southern Internal Audit Partnership to develop and maintain a Quality Assurance and Improvement Programme (QAIP) to enable the internal audit service to be assessed against the Standards and the Local Government Application Note (LGAN) for conformance.

The QAIP must include provision for both internal and external assessments: internal assessments are both on-going and periodical and external assessment must be undertaken at least once every five years. In addition to evaluating compliance with the Standards, the QAIP also assesses the efficiency and effectiveness of the internal audit activity, identifying areas for improvement.

An 'External Quality Assessment' of the Southern Internal Audit Partnership was undertaken by the Institute of Internal Auditors (IIA) in September 2020.

In considering all sources of evidence the external assessment team concluded:

*'The mandatory elements of the IPPF include the Definition of Internal Auditing, Code of Ethics, Core Principles and International Standards. There are 64 fundamental principles to achieve with 118 points of recommended practice. We assess against the principles. It is our view that the Southern Internal Audit Partnership conforms to all 64 of these principles. We have also reviewed SIAP conformance with the Public Sector Internal Audit Standards (PSIAS) and Local Government Application Note (LGAN). We are pleased to report that SIAP conform with all relevant, associated elements.'*

## 7. Disclosure of Non-Conformance

In accordance with Public Sector Internal Audit Standard 1312 [External Assessments], I can confirm through endorsement from the Institute of Internal Auditors that:

**'the Southern Internal Audit Partnership conforms to the Definition of Internal Auditing; the Code of Ethics; and the Standards'.**

There are no disclosures of Non-Conformance to report.

## 8. Quality Control

Our aim is to provide a service that remains responsive to the needs of the Pension Fund Panel and Board and maintains consistently high standards. Complementing the QAIP this was achieved in 2022-23 through the following internal processes:

- On-going liaison with management to ascertain the risk management, control and governance arrangements, key to corporate success.
- On-going development of a constructive working relationship with the External Auditors to maintain a cooperative assurance approach.
- A tailored audit approach using a defined methodology and assignment control documentation.
- Review and quality control of all internal audit work by professional qualified senior staff members.
- An internal quality assessment against the IPPF, PSIAS & LGAN.

## 9. Internal Audit Performance

The following performance indicators are maintained to monitor effective service delivery:

Performance Indicator	Target	Actual
Percentage of internal audit plan delivered (to draft report)	95%	100%
Positive customer survey response		
● Hampshire County Council	90%	99%
● SIAP – all Partners	90%	99%
Public Sector Internal Audit Standards	Compliant	Compliant

*Customer satisfaction is an assessment of responses to questionnaires issued to a wide range of stakeholders including members, senior officers and key contacts involved in the audit process (survey date April 2023).*

## 10. Acknowledgement

I would like to take this opportunity to thank all those staff with whom we have made contact in the year. Our relationship has been positive, and management were responsive to the comments we made both informally and through our formal reporting.

Antony Harvey  
Deputy Head of Southern Internal Audit Partnership

July 2023

## HAMPSHIRE COUNTY COUNCIL

### Decision Report

<b>Decision Panel:</b>	Pension Fund Panel and Board
<b>Date:</b>	28 July 2023
<b>Title:</b>	Governance: Administration performance update
<b>Report From:</b>	Director of Corporate Operations

**Contact name:** Lois Downer, Head of Pension Administration

**Tel:** 0370 779 4396

**Email:** lois.downer@hants.gov.uk

#### **Purpose of this Report**

1. The purpose of this report is to update the Panel and Board on administration performance for 2022/23 and developments affecting the pension scheme in the first part of 2023/24.

#### **Recommendation(s)**

2. It is recommended that the Panel and Board note the continuing good performance of the administration team and the information contained in this report.

#### **Executive Summary**

3. Pension Services have performed well against the four key measures of good administration in 2022/23:
  - Cost per member
  - Internal and external audit
  - Customer Service Excellence
  - Performance against service standards.
4. The team has continued to deliver its business as usual work and planned projects:

**Annual returns** - Employers have provided their annual returns to Pensions which provides information on active members and is used to produce annual

benefit statements and valuation data. All these returns have been uploaded onto the pension administration system, although there has continued to be a decline in timeliness and quality this year due in part to employers experiencing resourcing pressures.

**Member Portal** - over 87,500 members have now registered for the Member Portal, and usage corresponds with the key annual events for each status; the publication of annual statements for active and deferred members and the end of year payment for pensioners.

**McCloud** - the Government has recently closed its consultation on draft regulations for McCloud. Legislation is expected before the effective date of 1 October 2023 but there remains a number of issues to be resolved. Civica is developing the calculations required for the application of the new regulations and work has continued with collection of data from employers so that salary and service information can be uploaded for the remedy period.

**Pension Dashboards** - work to prepare data for the Pension Dashboards programme has continued despite the Government announcing a delay to the overall project.

**GMP Rectification** - the rectification stage of the GMP reconciliation project has started with the aim of correcting any under or over paid pension payments over the next six months.

**Overseas Pensioners** - the arrangement to pay overseas pensioners into their local bank account is being transferred from Citibank to Convera with the first payments to be made at the end of August.

**Fund Actuary** – Hymans Robertson were awarded the Fund's actuarial contract following a call off and mini competition from the National LGPS Framework for Actuarial and Consultancy services.

### **Administration performance**

5. As at 31 March 2023, there were 349 active employers paying into the Hampshire Pension Fund (HPF), and a total of 201,764 members. The table below provides a detailed breakdown of the membership by employer type:

Employer Type	Employers	Member type		
		Active members	Deferred members	Pensioner members
Scheduled	191	59,916	84,613	49,980
Resolution	56	320	243	254
Admitted	75	1,391	1,373	1,282
Community admitted	10	41	291	404
Transferee admitted	17	65	268	267
<b>Active employers total</b>	<b>349</b>	<b>61,733</b>	<b>86,788</b>	<b>52,187</b>
Councillors (no active members)	10	0	80	136
Ceased (no active members)	52	0	216	624
<b>Grand total</b>	<b>411</b>	<b>61,733</b>	<b>87,084</b>	<b>52,947</b>

Hampshire Pensions Services (HPS) administer the Hampshire LGPS and have performed well against the four key measures of good administration in 2022/23:

- Cost per member
- Internal and external audit
- Customer Service Excellence
- Performance against service standards

These are covered in more detail in the following sections of this report.

### Cost per member

6. One of the key external measures of administration performance is cost per member. The 2022/23 administration cost per member was £13.83 (£12.82 in 2020/21). Part of the increase in cost from the previous year was due to the further work on the McCloud remedy for which the Fund's share was £104,000 (51p per member). The remainder of the increase relates to the increased staffing costs following the 2022/23 pay award. There will be administration costs relating to the McCloud remedy as well as GMP rectification and Pension Dashboards over the next two years. Further details are contained in paragraphs 37 to 41 of this report.

7. Comparative costs for all LGPS Funds are reported annually in the Sf3 return, and Hampshire is always reasonable for the size of the Fund. The latest available Sf3 data is for 2021/22 on which Hampshire was the 4<sup>th</sup> largest Fund by membership and, at £16.89, had the 3<sup>rd</sup> lowest combined administration and governance cost per member out of the 85 English and Welsh Funds on the return. The average cost per member across all Funds was £37.89.

### **Audit reports**

8. The annual internal audit opinion for Pensions has been presented to the Panel and Board in a separate report and states that the framework of controls are substantial and testing has shown those controls to be working in practice. Pensions have received good reports for the reviews completed during the year with substantial assurance given for the annual pensions payroll review and the triennial review of pension transfers, member deaths and accounting for pension contributions. Reasonable assurance was given for the new UPM Cyber Security audit, reflecting the ongoing work in this area.
9. The pension refund and UPM application review audits planned for 2023/24 are part of the ongoing risk based programme to cover all key processes over a three year cycle, along with the annual assurance on retirements through to pension payments.

### **Customer Service Excellence**

10. HPS comply with the requirements for the national standard for excellence in customer service (CSE), which considers how the service delivers against over 50 criteria in five key areas:
  - Customer insight
  - Culture of the organisation
  - Information and access
  - Delivery
  - Timeliness and quality of service
11. HPS have held the Customer Service Excellence (CSE) standard since 2009, and following a full assessment in April 2021, underwent an annual interim assessment in January 2023, with compliance plus passes in six areas:
  - There is corporate commitment to putting the customer at the heart of service delivery and leaders in our organisation actively support this and advocate for customers.
  - We can demonstrate how customer facing staff insights and experiences and incorporated into internal processes, policy development and service planning.



- We make our services easily accessible to all our customers through a provision of a range of alternative channels.
- We monitor and meet our standards, meet departmental and performance targets and we tell our customers about our performance.
- We have developed and learned from best practice identified within and outside our organisation, and we publish our examples externally where appropriate
- We empower and encourage all employees to actively promote and participate in the customer focussed culture of our organisation.

### Performance against service standards (KPIs)

12. The KPIs for HPS evidence the good performance in 2022/23 with 100% achievement against service standards for all key processes.
13. The tables below show the performance for the second two quarters of 2022/23. All casework was measured against a 15 day standard, apart from re-joiners which have a 20 day standard, and deferred benefits which have a 30 day standard.

#### Q3 2022/23

Type of Case	Time to Complete						Total	% completed on time
	0 – 5 days	6 – 10 days	11 - 15 days	16 – 20 days	21 – 30 days	31+ days		
Active Retirement	130	62	53	0	0	0	245	100.00%
Deferred Retirement	126	177	225	0	0	0	528	100.00%
Estimates	104	307	1,083	0	0	0	1,494	100.00%
Deferred Benefits	37	21	98	107	2,786	0	3,049	100.00%
Transfers In & Out	53	27	22	0	0	0	102	100.00%
Divorce	12	54	46	0	0	0	112	100.00%
Refunds	75	317	116	0	0	0	508	100.00%
Rejoiners	29	22	50	224	0	0	325	100.00%
Interfunds	15	69	121	0	0	0	205	100.00%
Death Benefits	177	46	38	0	0	0	261	100.00%
<b>Grand Total</b>	<b>758</b>	<b>1,102</b>	<b>1,852</b>	<b>331</b>	<b>2,786</b>	<b>0</b>	<b>6,829</b>	<b>100.00%</b>

## Q4 2022/23

Type of Case	0 – 5 days	6 – 10 days	11 -15 days	16 – 20 days	21 – 30 days	31+ days	Total	% completed on time
Active Retirement	139	57	18	0	0	0	214	100.00%
Deferred Retirement	223	155	124	0	0	0	502	100.00%
Estimates	131	316	973	0	0	0	1,420	100.00%
Deferred Benefits	35	16	55	56	1,906	0	2,068	100.00%
Transfers In & Out	47	34	23	0	0	0	104	100.00%
Divorce	13	67	23	0	0	0	103	100.00%
Refunds	103	175	143	0	0	0	421	100.00%
Rejoiners	23	5	64	295	0	0	387	100.00%
Interfunds	83	116	75	0	0	0	274	100.00%
Death Benefits	223	48	58	0	0	0	329	100.00%
<b>Grand Total</b>	<b>1,020</b>	<b>989</b>	<b>1,556</b>	<b>351</b>	<b>1,906</b>	<b>0</b>	<b>5,822</b>	<b>100.00%</b>

14. The performance for 2022/23 is summarised in the table below, which also shows the average days to complete each type of casework.

### Hampshire LG summary 2022/23

Area of work	Service Standard	Number of cases	% cases completed against service standard				Average days to complete
			Q1 - 22/23	Q2 - 22/23	Q3 - 22/23	Q4 - 22/23	
Active Retirement	15 days	1,004	100	100	100	100	7
Deferred Retirement	15 days	2,136	100	100	100	100	10
Estimates	15 days	5,348	100	100	100	100	11
Deferred Benefits	30 days	8,958	100	100	100	100	24
Transfers In & Out	15 days	363	100	100	100	100	6
Divorce	15 days	417	100	100	100	100	8
Refunds	15 days	1,511	100	100	100	100	8
Rejoiners	20 days	1,163	100	100	100	100	15
Interfunds	15 days	878	100	100	100	100	9
Death Benefits	15 days	1,171	100	100	100	100	5
<b>Total cases processed</b>		<b>22,949</b>					

15. A total of 2,973 Scheme members retired during 2022/23, with an average retirement age of 63 years. Of this number, 1,400 (47.1%) took some form of early retirement including 144 ill health retirements and 1,164 members choosing to take a reduced pension. The remainder of the early retirements were redundancies or business efficiency retirements where the employer pays an additional amount to the Fund because the member is entitled to unreduced benefits.

The number of retirements in the year differs from the number of retirements processed in the year, because of timing differences i.e. a retirement processed in March 2023 with a retirement date of June 2023 would show as processed in 2022/23 but as a retirement in 2023/24).

16. The average annual pension paid in 2022/23 was £4,978 (£4,927 in 2021/22). A table showing the banded value of pensions currently in payment is shown below.

<b>Value of annual pension</b>	<b>Members</b>	<b>Total annual amount</b>	<b>Average age</b>
Less than £500	7,056	£1,595,063	68.46
£500 - £1,000	5,468	£4,053,503	71.11
£1,001 - £1,500	4,525	£5,651,347	71.76
£1,501 - £3,000	9,524	£20,849,969	72.03
£3,001 - £6,000	10,215	£44,195,892	72.50
£6,001 - £12,000	8,019	£67,622,571	72.56
£12,001 - £24,000	4,357	£72,118,576	72.11
£24,001 - £36,000	1,342	£39,048,449	72.25
£36,001 - £48,000	440	£17,968,397	71.88
More than £48,000	223	£13,602,113	72.91
<b>Total</b>	<b>51,169</b>	<b>£286,705,880</b>	<b>71.61</b>

17. The annual exercise to apply the statutory pensions increase to pensions in payment and deferred payments was completed as planned. The increase is set by a Treasury Order based on CPI in September 2022. This year the full increase was 10.1%.
18. Deferred annual benefit statements showing the value of deferred benefits at 31 March were produced for all except 97 members by the end of June, ahead of the statutory deadline of 31 August. The remaining statements will be produced over the next two months ahead of the statutory deadline.

#### **Timeliness of contributions**

19. All employer contributions due for 2022/23 have been received. The last contribution payment was received on 17 May 2023, due to a change in the staffing at an employer leading to a delayed payment.
20. A total of £0.724m was paid late (£0.366m in 2021/22) which was 0.33% of the total contributions received. The average delay on all late payments received during 2022/23 was 16 days (15 days in 2021/22). A significant

amount of the delayed contributions were attributable to staff sickness at one large employer. Receipt of contributions is reviewed monthly to determine if any action is required. No late payment interest was charged for 2022/23.

### **Mortality screening and National Fraud Initiative**

21. Pension Services run a monthly mortality screen to ensure that all deaths are reported promptly to the Fund and to minimise overpayments of pension. Overpayments are recovered by the Fund by invoice to the estate, or, with permission from the beneficiary, from a death grant or dependant pension. The table below shows the breakdown of how overpayments were recovered by the Fund.

<b>Recovered From</b>	<b>Number</b>	<b>Total value</b>
Death Grant	98	£12,247.05
Dependant Pension	209	£109,762.35
Invoice	501	£181,871.09
Write Off	90	£4,417.34
<b>Total</b>	<b>898</b>	<b>£308,297.83</b>

22. The Fund also participates in the bi-annual National Fraud Initiative (NFI). The most recent NFI exercise in 2023 identified four deaths with a total potential recovery of £2,222 and three further members for further investigation with a total potential recovery of £12,089. All records have been suspended and letters sent to the last known address. Applications have also been made to the General Register Office for copies of death certificates and next of kin details.

### **Pension scams**

23. Pension scams continue to be a high risk for Funds and HPS are continually reviewing processes to ensure that all required steps are in place to limit the risk of members falling for a scam.
24. Since November 2021, HPS have had to follow additional precautions with requests to transfer out. All requests for a transfer (other than to a public service scheme or to a limited number of schemes approved by the Pensions Regulator) have to meet a new set of conditions. If any conditions are not met, the case will be reviewed by a senior manager and if, after taking further steps such as requiring the member to seek independent advice from the MoneyHelper service, the issues cannot be resolved, the transfer may be refused. In 2022/23, 18 transfers were reviewed with additional steps being taken in some cases to establish the legitimacy of the transfer. No transfers have required refusal.

25. Updated guidance was received from the Pension Industry Scams Group (PISG) in March 2023 which has been incorporated into the transfer approval process. This will increase the number of referrals to the MoneyHelper service to ensure that members are aware of the risks associated with transferring benefits out of the LGPS.

### **Annual returns**

26. Employers are required to provide an annual return by 30 April containing details of all employees who contributed during the year. The full detail of employer performance against the annual return process is reported to the Panel and Board as part of the December administration update, after the exercise has been completed.
27. 300/347 returns were received by the deadline, with 42 of the remaining 47 returns received by the end of May 2021. The final 5 outstanding returns were received by 14 June. All returns have been uploaded and 2,044 queries have been raised with employers. Whilst this is a 13% decrease in the number of queries compared with 2021/22, the team have found that the quality and timeliness of the data has continued to decline. This is in large part due to data provided by third party payroll providers who are being impacted by the same resourcing issues as other employers, impacting on their ability to prioritise pension work.
28. Once the end of year data has been uploaded and as many queries as possible cleared by 30 June, CARE revaluation is applied and active annual benefit statements are produced ready for publication in August ahead of the statutory deadline of 31 August.

### **Member Portal**

29. Scheme information for members is provided on the HPS website. Members can view their own record including their annual benefit statement via the secure member self-service portal, as well as update personal details and run estimates. 87,578 members (43.4%) had registered for the Member Portal by 30 April 2023 (73,275 by 30 April 2022).

The table below shows the number of members who are registered for the Portal, together with those who have made an active decision to opt out. The 'no contact' members are those who have neither registered nor opted out. Consideration will be given to an exercise to contact deferred members who are yet to register or opt out and encourage them to make an active decision on their method of communication.

Status	Registered		Opted out		No contact	
	Members	%	Members	%	Members	%
Active	31,466	51.0%	397	0.6%	29,870	48.4%
Deferred	31,437	36.1%	626	0.7%	55,021	63.2%
Pensioner	24,675	46.6%	14,137	26.7%	14,135	26.7%
<b>TOTAL</b>	<b>87,578</b>	<b>43.4%</b>	<b>15,160</b>	<b>7.5%</b>	<b>99,026</b>	<b>49.1%</b>

30. The table below shows the usage of the Portal in each quarter, which corresponds to an increase by status when annual statements are published for actives (August) and deferreds (June) and the annual increase is applied for pensioners (April).

### 2022/23 summary of Portal activity

Membership status	Q1	Q2	Q3	Q4	Total
Active	5,775	8,180	10,688	6,934	31,577
Deferred	7,464	5,050	5,401	5,527	23,442
Pensioner	8,534	4,754	4,021	5,108	22,417
<b>Total records accessed</b>	<b>21,773</b>	<b>17,984</b>	<b>20,110</b>	<b>17,569</b>	<b>77,436</b>
<b>Total Portal activity</b>	<b>31,633</b>	<b>26,698</b>	<b>27,280</b>	<b>25,850</b>	<b>111,461</b>

The breakdown by membership status shows the number of unique records in each status accessed by users in the period. This means the first time a member logs on in the period, their record (or records if they have more than one) will show as having been accessed. Any subsequent log ins by the same user in the same period will not increase the number of records accessed.

Total Portal activity shows the total number of logins (including multiple logins by the same user in the period).

31. Members logging into the Portal now will receive their one-time security code by SMS if a mobile number has been provided. This is a quicker and more secure method for providing the code and has already received positive feedback. Members who do not provide a mobile number will continue to receive their code by email.

## McCloud

32. At the end of May 2023, the government issued a consultation on the draft regulations for the implementation of the McCloud remedy in the LGPS. The consultation also sought views on specific areas of the remedy including aggregation, club transfers and flexible retirement. The consultation closed on 30 June and final regulations are expected in September, ahead of the effective date of 1 October 2023.
33. Civica is developing the necessary software changes to allow HPS to implement the remedy for the Fund and the first release of these changes was delivered to the test environment in July. This will allow all members affected by the remedy to be flagged in the system so that reports and calculations can be run. The first updated calculations have been delivered into the UPM test environment.
34. The team has continued to collect and cleanse data required for McCloud from employers. The table below shows the progress to date with the data collection and uploads for both the data requests for April 2014 to March 2021 and April 2021 to March 2022.

	2014 - 2021		2021 - 2022	
Number of employers requested to provide data	336			357
Number of completed Data Collection templates received		329		324
Initial checks completed on templates received	329			310
Employers ready for upload (all queries resolved)	303			218
Number of Data Collection templates outstanding		7		33

35. The costs of the software, and of the project team, are being shared as a proportion of membership by the four LGPS Funds administered by HPS. HPF has 60% of the total membership and therefore will pick up the largest share of the costs. The combined software and team costs are anticipated to be £110,000 in 2023/24.
36. Although work is progressing well, there is still a large amount of data to process and there are still many unknowns for the remedy project in terms of how it will be implemented. HPS are attending relevant sessions such as those held by Civica and the LGA in order to remain fully engaged with the process.

## **Pension Dashboard Programme**

37. The Pensions Dashboard Program (PDP) is a national government initiative in which all UK pension schemes are required to participate. The aim of the PDP is to create a single website for people to be able to access all their pensions information from all their pension schemes, including the state pension in one place. A document setting out the approach to Dashboard connection is attached as Appendix 2 to this report.
38. Civica have been appointed as the ISP provider for Hampshire Pension Services. However following the government announcement in March 2023 of an overall delay to the PDP, Civica are currently waiting for the revised detail of when they will be asked to connect to the dashboard.
39. The Parliamentary Under Secretary of State for Department for Work and Pensions issued an updated statement on 8 June setting out further details of the delay:
  - legislation will be updated to set an overall connection deadline for all schemes, which will be 31 October 2026.
  - the individual connection deadlines for schemes will be set out in guidance, and will be before the final deadline of 31 October 2026. DWP is planning to collaborate with the industry this year before publishing this guidance.

The date that dashboards will go live to the public (Dashboards Available Point) has not been announced yet, but the minister has said that this could be earlier than 31 October 2026. This indicates that Public Sector Schemes will have an earlier staging date than 31 October 2026. HPS is still working on the basis that public sector schemes will be required to connect in September 2024.

## **GMP rectification**

40. Intellica have continued to work on the calculations required for GMP rectification; correcting pension over and under payments which have arisen as a result of discrepancies in GMP values held by HMRC compared to those held by the Fund. Intellica are due to upload the data into UPM from the end of July with the aim of then correcting pensions in payment over the following five months. As agreed by the Panel and Board at their July 2022 meeting, the Director of Corporate Operations will consider any exceptional cases where adjusting the pension may cause hardship.
41. The costs of the rectification stage of the project are being charged on a time and materials basis. Intellica have estimated that this implementation stage of



rectification, to be £172,000 depending on the volume of cases which need to be assessed manually rather than through the bulk calculation. However this estimate will be reviewed at the end of the first phase of rectification once more information is available. Based on an extrapolation of the initial data pass it is anticipated that the overall impact of the exercise for HPF taking into account the under and over payments will be an annual saving of between £124,000 and £220,000 per annum.

### **Overseas payments**

42. The Panel and Board were informed at the December meeting that consideration was being given to changing the overseas payments supplier from Citibank to Convera (formerly Western Union) and this decision has now been taken. The rationale for this change was to use the same supplier for all the schemes administered by HPS and Convera provides a more efficient service with no impact on the transaction charge paid by the pensioner.
43. The project to transition to Convera started in May 2023 and all affected pensioners have been contacted, with the option to opt out of using this service and making their own arrangements. No pensioners have decided to opt out and the first payments will be made by Convera instead of Citibank for the pension payment made at the end of August.

### **Actuarial contract**

44. At the March meeting, the Panel and Board were informed that the actuarial contract for the Fund had been awarded to Hymans Robertson following a mini competition under the National LGPS Actuarial and Consultancy Services Framework.
45. The lead actuary for the new contract is Catherine McFadyen, who will be supported by Steven Law and a wider team within Hymans. Catherine and Steven will introduce themselves to the Panel and Board at this meeting.
46. The transitional work to move from Aon to Hymans is nearing completion with the July accounting exercise underway for employers.

### **Climate Change Impact Assessments**

47. Hampshire County Council utilises two decision-making tools to assess the carbon emissions and resilience of its projects and decisions. These tools provide a clear, robust, and transparent way of assessing how projects, policies and initiatives contribute towards the County Council's climate change targets of being carbon neutral and resilient to the impacts of a 2°C

temperature rise by 2050. This process ensures that climate change considerations are built into everything the Authority does.

48. The climate change and carbon control mitigation tools were not applicable for this report because the decisions in this report relate to the in-house management of the administration of the pension scheme and therefore have a neutral impact on climate change.

**REQUIRED CORPORATE AND LEGAL INFORMATION:**

**Links to the Strategic Plan**

<b>Hampshire maintains strong and sustainable economic growth and prosperity:</b>	yes/no
<b>People in Hampshire live safe, healthy and independent lives:</b>	yes/no
<b>People in Hampshire enjoy a rich and diverse environment:</b>	yes/no
<b>People in Hampshire enjoy being part of strong, inclusive communities:</b>	yes/no
<b>OR</b>	
<b>This proposal does not link to the Strategic Plan but, nevertheless, requires a decision because the Pension Fund Panel and Board need to approve the principles for the GMP project and delegate authority to the Director of Corporate Operations to consider any special cases as they arise.</b>	

<b>Section 100 D - Local Government Act 1972 - background documents</b>	
<b>The following documents discuss facts or matters on which this report, or an important part of it, is based and have been relied upon to a material extent in the preparation of this report. (NB: the list excludes published works and any documents which disclose exempt or confidential information as defined in the Act.)</b>	
<u>Document</u>	<u>Location</u>
None	

## **EQUALITIES IMPACT ASSESSMENT:**

### **Equality Duty**

The County Council has a duty under Section 149 of the Equality Act 2010 ('the Act') to have due regard in the exercise of its functions to the need to:

- Eliminate discrimination, harassment and victimisation and any other conduct prohibited by or under the Act with regard to the protected characteristics as set out in section 4 of the Act (age, disability, gender reassignment, marriage and civil partnership, pregnancy and maternity, race, religion or belief, sex and sexual orientation);
- Advance equality of opportunity between persons who share a relevant protected characteristic within section 149(7) of the Act (age, disability, gender reassignment, pregnancy and maternity, race, religion or belief, sex and sexual orientation) and those who do not share it;
- Foster good relations between persons who share a relevant protected characteristic within section 149(7) of the Act (see above) and persons who do not share it.

Due regard in this context involves having due regard in particular to:

- The need to remove or minimise disadvantages suffered by persons sharing a relevant protected characteristic that are connected to that characteristic;
- Take steps to meet the needs of persons sharing a relevant protected characteristic that are different from the needs of persons who do not share it;
- Encourage persons sharing a relevant protected characteristic to participate in public life or in any other activity in which participation by such persons is disproportionately low.

## **2. Equalities Impact Assessment:**

Equality objectives are not considered to be adversely affected by the information in this report as it affects all scheme members.

## HAMPSHIRE COUNTY COUNCIL

### Decision Report

<b>Decision Maker:</b>	Pension Fund Panel and Board
<b>Date:</b>	28 July 2023
<b>Title:</b>	Investments: Pension Fund Cash – Annual Report 2022/23
<b>Report From:</b>	<i>Director of Corporate Operations</i>

**Contact name:** Daniel O'Rourke

**Tel:** 0370 779 1728

**Email:** Daniel.O'Rourke@hants.gov.uk

#### Purpose of this Report

1. The purpose of this report is to update the Pension Fund Panel and Board on the policy for managing the Hampshire Pension Fund's cash balance.

#### Recommendation

2. That the outturn report on the Pension Fund's cash management in 2022/23 be approved.

#### Executive Summary

3. This report provides an annual review of the policy for managing the Hampshire Pension Fund's cash balance. The Pension Fund adopts the key recommendations of the Chartered Institute of Public Finance and Accountancy (CIPFA) Treasury Management in the Public Services: Code of Practice, which includes producing an annual report on the treasury management strategy after the end of each financial year.

#### Background

4. The Pension Fund receives cash each month from contributions made by employees and employers, and from investment income. The Pension Fund requires a cash balance to be able to pay pensions and other costs. Cash is also required for the following investment reasons:
  - if the UK property manager CBRE Investment Management purchases additional properties;
  - to finance drawdowns of private equity and private debt limited partnerships and co-investments; and

- to finance drawdowns of infrastructure investments.
5. Dividends from shares and interest receipts from bonds are retained by the external investment managers for reinvestment in the pooled vehicles that they manage, but rental income from the Pension Fund's direct property portfolio is credited to the Fund's cash balance. Distributions from the Fund's private equity, private debt and infrastructure investments are also paid out into the Fund's cash balance.
  6. The Pension Fund's investment managers aim to be fully invested, and generally do not plan to hold cash as a matter of investment policy. All of the Fund's investment managers will have some cash balances as a result of trading between stocks and from dividend and interest income pending investment, and these balances are held within the pooled funds that they manage.
  7. There are rigorous procedures in place to ensure the security of all cash deposits which are managed by the County Council in separate investment accounts for the Pension Fund. These include criteria for the quality of counterparties and limits on the amount that can be placed with any one counterparty as set out each year in the Pension Fund's Annual Investment Strategy for cash. The latest strategy for 2023/24, was approved for immediate implementation by the Pension Fund Panel and Board on 16 December 2022. In addition, the County Council's treasury advisers, Arlingclose, provide advice to the Director of Corporate Operations in undertaking treasury management activities.

### **Investment activity**

8. Security of capital remains the Fund's main investment objective for the management of the cash balance. This was maintained during 2022/23 by following the Fund's counterparty policy as set out in its Annual Investment Strategy, which was approved by the Pension Fund Panel and Board on 10 December 2021 and updated on 16 December 2022. Investments during the year included:
  - Investments in AAA-rated Money Market Funds
  - Investments in UK Government Treasury Bills
  - Call accounts, notice accounts and certificates of deposit with banks and building societies with a minimum credit rating of A-, or equivalent
9. In addition to credit ratings counterparty credit quality was assessed and monitored with reference to:
  - credit default swap prices
  - any potential support mechanisms
  - share prices

- other economic or financial data.

10. Based on these factors and advice from the Treasury Management advisers, Arlingclose, the Director of Corporate Operations on behalf of the Pension Fund has varied investment duration limits for new investments according to the assessment of credit risk and has suspended investing with individual counterparties when it is felt to be necessary to protect the Pension Fund's capital. The placement of actual investments is likely to be below these limits and will depend on both the Fund's requirements, such as the need to maintain a high degree of liquidity, and the availability of counterparties in the market.

11. As detailed in paragraph 4, the Pension Fund holds invested cash, representing income received in advance of expenditure plus investment income. The year-end cash position and the year-on year change are shown in Table 1.

<b>Table 1 – Cash investment position</b>	<b>31/03/22 Balance</b>	<b>Net movement</b>	<b>31/03/23 Balance</b>	<b>31/03/22 Income return</b>
	<b>£m</b>	<b>£m</b>	<b>£m</b>	<b>%</b>
Banks and building societies:				
- Unsecured	17.31	(12.42)	4.89	3.47
Money market funds	56.64	(21.32)	35.32	4.07
<b>Total</b>	<b>73.95</b>	<b>(33.74)</b>	<b>40.21</b>	<b>3.99</b>

12. As at 31 March 2023 the Pension Fund's cash balance was £40.2m compared to £74.0m as at 31 March 2022 and during the year, the Pension Fund's cash balances ranged between £40.2m and £116.8m due to timing differences between income and expenditure. The balance was particularly low on 31 March 2023 in anticipation of the receipt of £321m of employer's pension contributions that were received on 1 April 2023.

13. The Fund's average cash investment balance was £72.9m during 2022/23 (0.81% of the total Pension Fund investments based on the average value during the financial year), and interest earned was £1.6m, leading to an average yield of 2.2%.

14. In delivering cash investment returns, the Fund has operated against a backdrop in which the Bank Rate has increased from 0.75% at the beginning of the year to 4.25% at the end of March 2023. Short-dated cash rates, which had ranged

between 0.7% - 1.5% at the beginning of April 2022, rose by around 3.5% for overnight/7-day maturities and 3.3% for 6-12 month maturities.

## Pension Fund cashflow

15. The Pension Fund monitors its surplus or deficit from dealings with members; the extent to which income from employer and employee contributions are greater or less than the outgoings on pensions and other costs. It has been reported that a number of LGPS funds are experiencing annual cash deficits from their dealings with members, which will result in them having to liquidate some of their investments to continue to meet their obligations for payments to scheme members.
16. In recent years the Fund has generated a surplus from dealing with members. However, for 2022/23 the Fund had a deficit of £82.9m, compared to a deficit of £88.8m in 2021/22. This was due to the impact of employers choosing to pay three years' worth of pension contributions in advance on 1 April 2020. Despite the uneven impact of employers making 3-year prepayments, the Pension Fund now has a clearer picture of its net position from dealing with members at the end of 2022/23, the end of the three-year triennial valuation period which shows net additions of £53.9m. This position is shown below in Table 2 with the previous three year triennial period shown for comparison.

<b>Table 2 – Dealings with members, employers and others directly involved in the Fund</b>	<b>2020/21</b>	<b>2021/22</b>	<b>2022/23</b>	<b>Three year period (Total)</b>	<b>2017/18 to 2019/20</b>
	<b>£'000</b>	<b>£'000</b>	<b>£'000</b>	<b>£'000</b>	<b>£'000</b>
Contributions	497,238	199,267	222,220	918,726	929,022
Transfers in from other pension funds	13,748	16,178	22,195	52,121	56,109
	<b>510,986</b>	<b>215,445</b>	<b>244,415</b>	<b>970,846</b>	<b>985,131</b>
Benefits	(270,665)	(285,525)	(305,223)	(861,414)	(755,722)
Payments to and on account of leavers	(14,630)	(18,758)	(22,154)	(55,542)	(62,271)
	<b>(285,295)</b>	<b>(304,283)</b>	<b>(327,378)</b>	<b>(916,956)</b>	<b>(818,042)</b>
<b>Net additions from dealings with members</b>	<b>225,691</b>	<b>(88,838)</b>	<b>(82,963)</b>	<b>53,890</b>	<b>167,089</b>



17. The figures in Table 2 show that for the latest triennial period to 2022/23 the Pension Fund has maintained a cash surplus from its dealings with members, although this has reduced in comparison to the previous three-year period. As reported to the Panel and Board in March 2023 as part of the consideration of the revised investment strategy, the Fund is forecast to move into a cashflow deficit in the new triennial period as the inflationary increase to benefits paid outstrips contributions. The forecast shortfall from dealing with members is £28m p.a. The revised investment strategy agreed in March 2023 included changes to take income from more of the Fund's portfolios to help mitigate this shortfall.

## **Climate Change Impact Assessments**

18. Hampshire County Council utilises two decision-making tools to assess the carbon emissions and resilience of its projects and decisions. These tools provide a clear, robust, and transparent way of assessing how projects, policies and initiatives contribute towards the County Council's climate change targets of being carbon neutral and resilient to the impacts of a 2°C temperature rise by 2050. This process ensures that climate change considerations are built into everything the Authority does.
19. The Pension Fund itself has a negligible carbon footprint, but it recognises that the companies and other organisations that it invests in will have their own carbon footprint and a significant role to play in the transition to a lower carbon economy. Therefore, the Pension Fund recognises the risk that environmental, social and governance (ESG) factors including the impact of climate change can materially reduce long-term returns. The Pension Fund has a role to play as an investor, in ensuring that its investment managers are suitably considering the impact and contribution to climate change in their investment decisions and acting as a good steward to encourage these companies to play their part in reducing climate change. This is explained further in the Pension Fund's RI policy: [Investment Strategy Statement | Hampshire County Council \(hants.gov.uk\)](https://www.hants.gov.uk/investment-strategy-statement).
20. This report deals with the outturn position for the Pension Fund's internally managed cash portfolio. In line with the CIPFA code, the Pension Fund's cash balances are invested prioritising security, liquidity and then yield. The cash portfolio is only required to pay pensions, other costs and new investments. There are no further climate change impacts as part of this report which are concerned with financial reporting.

**REQUIRED CORPORATE OR LEGAL INFORMATION:**

**Links to the Strategic Plan**

<b>Hampshire maintains strong and sustainable economic growth and prosperity:</b>	no
<b>People in Hampshire live safe, healthy and independent lives:</b>	no
<b>People in Hampshire enjoy a rich and diverse environment:</b>	no
<b>People in Hampshire enjoy being part of strong, inclusive communities:</b>	no
<b>OR</b>	
<b>This proposal does not link to the Strategic Plan but, nevertheless, requires a decision because of the ongoing management of the Hampshire Pension Fund.</b>	

<b>Section 100 D - Local Government Act 1972 - background documents</b>	
<p><b>The following documents discuss facts or matters on which this report, or an important part of it, is based and have been relied upon to a material extent in the preparation of this report. (NB: the list excludes published works and any documents which disclose exempt or confidential information as defined in the Act.)</b></p>	
<u>Document</u>	<u>Location</u>
None	

## **EQUALITIES IMPACT ASSESSMENTS:**

### **1. Equality Duty**

The County Council has a duty under Section 149 of the Equality Act 2010 ('the Act') to have due regard in the exercise of its functions to the need to:

- Eliminate discrimination, harassment and victimisation and any other conduct prohibited by or under the Act with regard to the protected characteristics as set out in section 4 of the Act (age, disability, gender reassignment, marriage and civil partnership, pregnancy and maternity, race, religion or belief, sex and sexual orientation);
- Advance equality of opportunity between persons who share a relevant protected characteristic within section 149(7) of the Act (age, disability, gender reassignment, pregnancy and maternity, race, religion or belief, sex and sexual orientation) and those who do not share it;
- Foster good relations between persons who share a relevant protected characteristic within section 149(7) of the Act (see above) and persons who do not share it.

Due regard in this context involves having due regard in particular to:

- The need to remove or minimise disadvantages suffered by persons sharing a relevant protected characteristic that are connected to that characteristic;
- Take steps to meet the needs of persons sharing a relevant protected characteristic that are different from the needs of persons who do not share it;
- Encourage persons sharing a relevant protected characteristic to participate in public life or in any other activity in which participation by such persons is disproportionately low.

### **2. Equalities Impact Assessment:**

Equality objectives are not considered to be adversely affected by the proposals in this report as the proposals do not directly affect scheme members.

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## HAMPSHIRE COUNTY COUNCIL

### Decision Report

<b>Decision Maker:</b>	Pension Fund Panel and Board
<b>Date:</b>	28 July 2023
<b>Title:</b>	Governance – Risk Register
<b>Report From:</b>	<i>Director of Corporate Operations</i>

**Contact name:** Andrew Boutflower

**Tel:** 0370 779 6896

**Email:** andrew.boutflower@hants.gov.uk

### Purpose of this Report

1. The purpose of this paper is to introduce the Pension Fund's Risk Register, which forms part of the Fund's Business Plan and Annual Report.

### Recommendations

2. That the Panel and Board approves the updates to the Risk Register.

### Executive Summary

3. The Risk Register is a key document for the management of the Pension Fund. It is important that all of the risks that the Fund is exposed to are considered, evaluated and that the appropriate response is put in place.

### Risk Register

4. The Pension Fund's Risk Register is part of the Fund's Business Plan which was last reviewed by the Panel and Board in December 2022, and the Annual Report which is included on this agenda, and as such is reviewed biannually. Risks are identified and considered by officers with the assistance of the Fund Actuary.
5. The revised risk register uses Hampshire County Council's risk scoring methodology, with the exception that the financial values have been revised to reflect the size of the Pension Fund. Further consideration will be given to how the respective categories are mapped to the Pension Fund. The impact of each risk is considered and scored in three areas; finance, business and

reputation, and the highest of the three scores is multiplied by the likelihood to give an overall score for each risk as follows.

	1	2	3	4	5
	Negligible	Minor	Moderate	Major	Catastrophic
Finance	<£1m	£1m-£10m	£10m-£50m	£50m-£100m	>£100m
Business/ Service	Barely noticeable reduction in scope or quality. Very little or no impact on service delivery. All business objectives achieved. No impact on pension fund members.	Minor reduction in service delivery, minimal disruption. Business objectives are minimally affected. Low level impact on pension fund members.	Moderate disruption to service delivery. Obvious reduction in scope of quality. Business objectives adversely affected. Moderate level impact on pension fund members.	Major disruption to service delivery. Failure to meet secondary business objectives. Elements of non-compliance with statutory requirements. Major impact on pension fund members.	Major service disruption. Inability to achieve primary business objectives and/or comply with statutory requirements. Adverse long-term or lasting impact on pension fund members with significant serious consequences.
Reputation	Very low level of public concern (e.g. few complaints, negative media activity). Overall trust/confidence remains high.	Some elements of service expectations not being met. Local negative media coverage and complaints. Short-term reduction in trust/confidence but expected to return to normal.	Increasing numbers of service expectations not being met. Local negative media coverage. Increasing complaints. Reduction in trust/confidence pension fund members. Partner/supplier relationships are likely to be affected but not significantly.	Service expectation well below reasonable expectation. High level of complaints. National negative media coverage. Significant loss of trust/confidence of pension fund members. Ability to maintain partner/supplier relationships is of serious concern and may have long-term impact.	Service expectation is significantly below expectation. National negative media coverage and significant number of complaints. Total loss of trust/confidence. Complete inability to maintain key partnerships and deliver services.

Occurrence	Likelihood score	Occurrence	Likelihood score
Rare 0-5%	1	Likely 51-80%	4
Unlikely 6-20%	2	Almost certain 81-100%	5
Possible 21-50%	3		

## Risk updates

6. The following amendments to the assessment of risks have been made since the last version of the Risk Register was presented to members:
  - 14. Investment Pooling – the scope of the risk has been widened to include the risk of an unfavourable outcome as a result of further investment pooling regulation. The likelihood of the risk has been increased as a result of the consultation published following the Chancellors Mansion House speech this month.
7. The Pension Fund’s full Risk Register is shown in Appendix 1. A summary heat map of the scoring of each risk is shown below.

Likelihood	Impact				
	Negligible	Minor	Moderate	Major	Catastrophic
Almost Certain		1			
Likely			1		
Possible			2		4
Uncertain		2	11	2	
Rare		3	3	1	

## Climate Change Impact Assessments

8. Hampshire County Council utilises two decision-making tools to assess the carbon emissions and resilience of its projects and decisions. These tools provide a clear, robust, and transparent way of assessing how projects, policies and initiatives contribute towards the County Council’s climate change targets of being carbon neutral and resilient to the impacts of a 2°C temperature rise by 2050. This process ensures that climate change considerations are built into everything the Authority does.

The Pension Fund itself has a negligible carbon footprint, but it recognises that the companies and other organisations that it invests in will have their own carbon footprint and a significant role to play in the transition to a lower carbon economy. Therefore the Pension Fund recognises the risk that environmental, social and governance (ESG) factors including the impact of climate change can materially reduce long-term returns. The Pension Fund has a role to play as an investor, in ensuring that its investment managers are suitably considering the impact and contribution to climate change in their investment decisions and acting as a good steward to encourage these companies to play their part in reducing climate change. This is explained further in the Pension Fund’s RI policy [InvestmentStrategyStatementincludingRipolicy.pdf \(hants.gov.uk\)](https://www.hants.gov.uk/investmentstrategystatementincludingRipolicy.pdf).

**REQUIRED CORPORATE AND LEGAL INFORMATION:****Links to the Strategic Plan**

<b>Hampshire maintains strong and sustainable economic growth and prosperity:</b>	No
<b>People in Hampshire live safe, healthy and independent lives:</b>	No
<b>People in Hampshire enjoy a rich and diverse environment:</b>	No
<b>People in Hampshire enjoy being part of strong, inclusive communities:</b>	No
<b>OR</b>	
<b>This proposal does not link to the Strategic Plan but, nevertheless, requires a decision because:</b> For the ongoing management of the Hampshire Pension Fund.	

**Section 100 D - Local Government Act 1972 - background documents**

**The following documents discuss facts or matters on which this report, or an important part of it, is based and have been relied upon to a material extent in the preparation of this report. (NB: the list excludes published works and any documents which disclose exempt or confidential information as defined in the Act.)**

DocumentLocation

None



## **EQUALITIES IMPACT ASSESSMENT:**

### **1. Equality Duty**

The County Council has a duty under Section 149 of the Equality Act 2010 ('the Act') to have due regard in the exercise of its functions to the need to:

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- Encourage persons sharing a relevant protected characteristic to participate in public life or in any other activity in which participation by such persons is disproportionately low.

### **2. Equalities Impact Assessment:**

Equality objectives are not considered to be adversely affected by the proposals in this report as the proposals do not directly affect scheme members.

### Pension Fund Risk Register

Ref No.	Name of risk	Description	Score
1	Quality of governance and control	Turnover in Pension Fund Panel and Board Members and/or senior officers; or lack of training and development could lead to decision making and control of the Pension Fund lacking or being inappropriate or undertaken by persons without suitable knowledge or experience. Could result in a failure of governance arrangements to meet statutory requirements and recommended best practice leading to ineffective working relationships, financial loss and reputational damage.	3
2	Reporting	Failure of accounting and reporting processes and systems cause a failure to disclose material facts, or the disclosure of incorrect or incomplete information in the Annual Report and Accounts or during the audit, leading to reputational damage and financial loss	4
3	Staffing	The failure of officers to maintain sufficient levels of competence and/or resource to discharge their duties could lead to retention of inefficient staff, therefore, relying on key officers impacting on the wellbeing of staff and a reduced work rate for the Pension Fund.	2
4	Conflicts of interest	Failure to recognise, disclose, monitor and prevent conflicts would lead to conflicts of interest resulting in ineffective governance processes, reputational damage and financial loss	3
5	Contract management	Due to insufficient knowledge, there could be a failure of effectively letting or managing contracts for the supply of services to the Pension Fund, leading to reputational damage, potential legal challenge, disruption of services and financial loss	2
6	Risk Management	Failure to implement a policy to identify risks and arranged for these to be managed or mitigated and have sufficient internal controls results in issues impacting the function of the Pension Fund	2
7	Regulatory change	Non-compliance with regulations caused by lack of knowledge by staff, changes in government policy/Local Government Pension Scheme (LGPS) reforms and systems not kept up-to-date, leading to reputational damage and financial loss.	6
8	External incident	The impact of external events cause a failure to undertake business as usual service resulting in loss of service provision	6
9	Cybercrime	Due to cybercrime activities impacting on internal systems is a risk of inability to carry out	15

Ref No.	Name of risk	Description	Score
		day-to-day business functions, which would result in reputational damage and financial loss	
10	IT failure	A failure of Hampshire or partners IT systems that results in the Pension Fund unable to carry out day-to-day work including processing and payment of pensions and other financial transactions	6
11	Investment underperformance	Investment management underperformance – from the Fund’s investment managers failing to outperform their benchmark returns for prolonged periods of time resulting in a decrease in the Pension Fund's funding level	15
12	Investment service providers	Ineffective monitoring of 3rd party service providers could lead to their failure to maintain their obligations in respect of investments which could result in potential loss of return or liquidity or ability to access or control investment	6
13	Investment market performance	Assets do not grow sufficiently to meet pensions liabilities as a result of: <ul style="list-style-type: none"> <li>- fluctuations in market prices (which is particularly relevant for investments in equities)</li> <li>- Interest rates (which can affect the prices of investments that pay a fixed interest rate)</li> <li>- fluctuations in prices of financial instruments that are denominated in any currency other than the functional currency of the Fund (GB pounds)</li> <li>- as a result of the counterparty to a transaction or a financial instrument will fail to discharge an obligation and cause the Fund to incur a financial loss. This includes the risk of loss in the Stock Lending programme.</li> </ul>	15
14	Investment pooling	Due to failure of external providers appointed by the ACCESS pool or delays in the implementation of decisions and the availability of suitable solutions within the ACCESS Pool, there is a risk of reduction in the effectiveness of the decision, which would result in loss of potential return or access to investments. Or a change in pooling regulation mandates a solution that limits Hampshire in implementing and managing its Investment strategy.	12
15	Environmental, Social and Governance (ESG) risk	Due to insufficient knowledge and/or resources could lead to a lack of consideration of all financial and non-financial risks relating to Environmental, Social and Governance (ESG) issues, including the risk of Climate Change, resulting in poor investment returns,	15

Ref No.	Name of risk	Description	Score
16	ESG Data	increased employer contribution rates and reputational damage. There is insufficient or unreliable ESG data in order for the Pension Fund to basis decisions on or met reporting requirements, resulting in a reduced quality of the Fund's stewardship, investment decisions and potential that the Fund's reporting is incomplete	10
17	Funding Strategy	Due to a failure to set and collect contributions, there is a risk of there not be sufficient to achieve a fully funded ongoing position in the timescales determined by the Funding Strategy Statement, which could cause financial loss or reputational damage	6
18	Demographics	Failure to monitor the demographic experience of Fund's population is not in line with actuarial assumptions as in the Funding Strategy Statement and could result in increases required in Employer contributions which could cause complaints and damage to reputation	6
19	Employer covenant	Due to failure to apply or lack of accurate information, and demonstrate fairness in the differentiated treatment of different fund employers by reference to their own circumstances and covenant could lead to underpayments or employers unable to meet their obligations and, therefore, financial loss and under-investment	9
20	Inflation	Due to the nature of actuarial assumptions, there is a risk that pay and price inflation are significantly different, which would result in increases due from employers' contributions	9
21	Investment Strategy	There is a risk that failure to monitor and align the Funding strategy with the Investment strategy could lead to over or underfunding, resulting in reputational damage or financial loss	8
22	Cashflow	Due to ineffective monitoring of the Fund's cashflow, resulting in the failure to set aside sufficient funds each month to pay pensioners or meet other obligations, which could lead to extreme hardship for pensioners and reputational damage to the Fund	4
23	GAD assessment	As a result of failing to adopt or implement a funding strategy, there is a risk that this results in the Fund failing any of the Government Actuary's Department (GAD) s13 tests or be named in the GAD s13 report would cause reputational damage	6
24	Administration service	Due to failure to administer scheme correctly in line with all relevant Regulations and	8

Ref No.	Name of risk	Description	Score
		<p>policies owing to circumstances such as, but not limited to:</p> <ul style="list-style-type: none"> <li>- lack of regulatory clarity;</li> <li>- system issues;</li> <li>- insufficient resources</li> </ul> <p>would result in reputational damage and the possible risk that pensions are not paid at the right time to the right people and/or contributions not collected</p>	
25	Complaints	<p>Due to lack of training and/or experience, there is a risk of failing to deal with concerns, complaints and Internal Dispute Resolution Procedures (IDRPs) appropriately, resulting in poor customer satisfaction, further time spent resolving issues, potential compensation payments and reputational impact, particularly if escalated to the Pensions Ombudsman</p>	3
26	Communications	<p>Failure to administer the scheme correctly due to circumstances such as, but not limited to:</p> <ul style="list-style-type: none"> <li>- Poor employer data;</li> <li>- Unable to clearly articulate what is required from employers; and</li> <li>- Unable to clearly articulate what is required from the Fund itself in order to deliver the Fund's administrative functions could cause the fund reputational damage and financial loss</li> </ul> <p>Poor data could result in pensions being incorrectly calculated or the data available to the Fund's Actuary being inaccurate</p>	6
27	Employer	<p>Due to the ever-changing mix of employers, from short-term and ceasing employers, and the potential for a shortfall in payments and/or orphaned liabilities.</p> <p>These events could cause the risk of unexpected structural changes in the Fund's membership and the related risk of an employer failing to notify the administering authority promptly.</p>	6
28	Pensions Dashboards	<p>Failure to meet the statutory deadlines for connectivity to the Pensions Dashboard and unable to provide required information to members.</p>	6
29	McCloud remedy	<p>Engagement with DLUC/ LGA through attendance at technical meetings and keeping up to date with published information.</p> <p>Engagement with system provider to ensure system is developed in line with legislation and delivered to time/budget.</p>	6
30	GMP rectification	<p>Inability to complete the GMP reconciliation and rectification project leading to reputational</p>	4

Ref No.	Name of risk	Description damage and potential ongoing under and over payment of pension amounts.	Score

## HAMPSHIRE COUNTY COUNCIL

### Decision Report

<b>Decision Maker:</b>	Pension Fund Panel and Board
<b>Date:</b>	28 July 2023
<b>Title:</b>	Governance – Annual Report and Pension Fund Costs 2022/23
<b>Report From:</b>	<i>Director of Corporate Operations</i>

**Contact name:** Andrew Boutflower

**Tel:** 0370 779 4704

**Email:** [andrew.boutflower@hants.gov.uk](mailto:andrew.boutflower@hants.gov.uk)

#### Purpose of this Report

1. The purpose of this paper is to introduce the 2022/23 draft Pension Fund Annual Report to the Panel and Board.
2. The report also provides an analysis of costs incurred in managing the Pension Fund during 2022/23.

#### Recommendations

3. That the Panel and Board notes the contents of the draft Annual Report for 2022/23 and approves its publication.
4. That the Director of Corporate Operations is authorised to make any necessary minor amendments to the Annual Report prior to publication as detailed in paragraph 13.
5. That the Panel and Board notes the total cost of managing the Fund.

#### Executive Summary

6. The requirement to publish an annual report was introduced into the Local Government Pension Scheme (LGPS) Regulations in 2013, with the aim of promoting awareness of the scheme and providing members and stakeholders with relevant information in an accessible and consistent manner.

7. The draft Annual Report for 2022/23 has been prepared and is presented as an Annex to this paper to the Panel and Board for review and approval for publication, with further information provided in paragraphs 10 to 14.
8. There are a variety of costs that are incurred in the management of the Pension Fund, which are disclosed in the Pension Fund's annual report and accounts under the following three categories:
  - Investment management costs – the cost of managing the Fund's assets, which includes fees paid to the Fund's investment managers and its custodian. This includes fees that are incurred by the Pension Fund directly but also indirect fees that are not paid directly but that reduce investment returns, such as those for investments held through ACCESS and other pooled funds.
  - Administration expenses – all activities the Administering Authority must perform to administer entitlements and provide members with scheme and benefit entitlement information.
  - Oversight and governance – the costs of accounting for and monitoring the Pension Fund, plus the additional professional advice and support that is required by the Fund.
9. The Fund is required to report on the costs and savings achieved through pooling; paragraphs 15 to 25 provide further detail on this as well as the three elements of the Pension Fund's management costs described above.

## **Annual Report**

10. The Pension Fund publishes an annual report each year to promote awareness of the scheme and provide members and stakeholders with relevant information in an accessible and consistent manner.
11. The Annual Report includes details of the Fund's governance, administration, and investments, as well as the Fund's accounts. The annual report also includes additional information on pooling, including:
  - details of the ACCESS pool's annual report
  - an update on progress with investment pooling
  - updates to sections of the report including investment performance and the risk register to reflect the impact of pooling.
12. The Annual Report contains the Pension Fund's Risk Register. An assessment of each risk is conducted by officers with the assistance of the Fund Actuary. An update on the Fund's approach to measuring and capturing risks and the current version of the risk register is included in a report elsewhere on this agenda.



13. The Pension Fund's accounts are included in the Annual Report. The accounts are subject to audit and it may therefore be necessary to make minor changes to the Annual Report at the conclusion of the audit, which is scheduled to be by the end of September. It is recommended that the Panel and Board authorise the Director of Corporate Operations to make any necessary minor amendments to the final Annual Report prior to publication on the Pension Fund's website. Any significant changes will be reported back to the Panel and Board at a future meeting.
14. The Pension Fund's Annual Report cannot be finalised until the accounts are signed by the auditors. As the Pension Fund accounts are part of the County Council's accounts, the Pension Fund's accounts cannot be signed off until the audit of the County Council's accounts is complete. As the 2021/22 audit of the Council's accounts has not yet been completed the Pension Fund Annual Report and Accounts 2021/22 remain in draft.

### **Pension Fund costs 2022/23**

15. The total cost of managing the Pension Fund is shown in Table 1 and also as a percentage of the average value of the Pension Fund in 2022/23 (2021/22 and 2020/21 costs are shown as a comparison):

**Table 1 – Pension Fund management costs**

	2022/23		2021/22		2020/21	
	£'000	%	£'000	%	£'000	%
Investment management	71,581	0.77	60,722	0.63	50,799	0.60
Administration	2,791	0.03	2,455	0.03	2,306	0.03
Oversight and governance	884	0.01	779	0.01	766	0.01
<b>Total</b>	<b>75,256</b>	<b>0.81</b>	<b>63,956</b>	<b>0.66</b>	<b>53,871</b>	<b>0.63</b>

### **Investment management costs**

16. As part of the statutory CIPFA guidance on preparing the Pension Fund Annual Report additional data is provided, most notably about investment pooling. Investment management costs are separated between costs incurred from investments held through the pool and those that continue to be held directly.

17. Table 2 shows the actual cost of investment management for 2022/23, as well as providing a meaningful comparison by presenting the costs as a percentage of the relevant investments.

18. The data in Table 2 is based on data provided by the Pension Fund's investment managers who have all completed the Cost Transparency Initiative template produced by the LGPS Scheme Advisory Board (SAB). The Fund's investment management costs shown in Table 2 are broken down into the following categories:

- Management fees – this includes direct fees that are invoiced to the Pension Fund by its investment managers, as well as indirect fees charged by investment managers which are charged directly against the Fund's investments within investment vehicles such as pooled funds within the ACCESS pool.
- Transaction and alternative investment costs – such as broker commission paid in the purchase and sale of investments, costs within the alternative investment funds, as well as the costs of maintaining the Fund's directly held property.
- Custody and other costs – the fees paid to the Fund's custodian for the safe custody and administration of the Fund's investments, and consultancy costs on tax and legal where they specifically relate to investments.

**Table 2 – Investment management costs 2022/23**

	Pooled		Non-pooled		Total	
	£'000	%	£'000	%	£'000	%
Management fees	10,821	0.19%	16,270	0.33%	27,090	0.29%
Transaction and alternative investment costs	1,385	0.02%	42,735	0.87%	44,120	0.48%
Custody and other costs	0	0.00%	371	0.01%	371	0.00%
<b>Total</b>	<b>12,206</b>	<b>0.22%</b>	<b>59,375</b>	<b>1.20%</b>	<b>71,581</b>	<b>0.77%</b>

19. The investment management costs of pooled investments are disproportionately lower than the non-pooled investments because the assets that have not been pooled, specifically property and alternative assets, attract significantly higher costs, but these assets are held to ensure the Pension Fund's investment strategy is suitably diversified. The costs of the Pension Fund's investments are considered by the Panel and Board in considering investment returns on a net of costs basis when evaluating investment performance and options.

20. Investment management fees in 2022/23 increased in comparison to the previous year, from £60.7m to £71.6m which as a proportion of the total asset value is a move from 0.63% to 0.77%. This reflects the changing mix of the Pension Fund's asset allocation. The Pension Fund's passive investments (equities and index linked gilts), which attract very low fees fell from 35% to 32%; whereas alternative investments (private equity, private debt and infrastructure), which attract the highest level of fees increased from 13% to 18%. A significant cause of the asset mix is the strong performance of the Pension Fund's alternative investments, which were the Pension Fund's best performing assets in 2022/23.
21. Table 1 in the exempt appendix provides a breakdown of the investment management costs for 2022/23 by investment manager. Total fees include management fees and transactions fees.
22. The Annual Report also includes analysis of the pool's ongoing costs and savings achieved to date both at the pool level and for Hampshire specifically. Hampshire's costs and savings as a result of being invested in the ACCESS pool are shown in Table 3.

**Table 3 – Pool costs and savings**

	Hampshire	
	2022/23	Cumulative
	£'000	£'000
Pool setup and on-going costs	(124)	(677)
Transition costs	0	(539)
Investment management fee savings	2,334	6,015
Total net savings / (costs)	2,210	4,799

23. During 2022/23, Hampshire's continued to save costs through its membership of ACCESS. This saving was achieved through the following activity in the year:

- The pool setup and on-going cost during 2022/23 is Hampshire's proportion of the total ACCESS budget which is split 11 equal ways. This includes the cost of the ACCESS Support Unit including technical support provided by lead officers, any procurement carried out in year, the cost of any advice received from consultants or lawyers, as well as the Member Support service provided by Kent County Council;
- Hampshire has benefited from a full year of savings on investment management fees on its ACCESS investments during 2022/23 as no

investment portfolios transitioned into the pool part-way through the year.

### **Administration costs**

24. Administration costs during 2022/23 were in line in percentage terms at 0.03% in comparison to 2021/22 (0.03%). Staff costs make up the majority of the administrative costs though investment in technology has produced more efficient processes and a reduction in budgeted printing and postage costs.

### **Oversight and governance costs**

25. Oversight and governance costs during 2022/23 were in line with both 2021/22 and 2020/21 in percentage terms at 0.01%.

### **Climate Change Impact Assessments**

26. Hampshire County Council utilises two decision-making tools to assess the carbon emissions and resilience of its projects and decisions. These tools provide a clear, robust, and transparent way of assessing how projects, policies and initiatives contribute towards the County Council's climate change targets of being carbon neutral and resilient to the impacts of a 2°C temperature rise by 2050. This process ensures that climate change considerations are built into everything the Authority does.
27. The Pension Fund itself has a negligible carbon footprint, but it recognises that the companies and other organisations that it invests in will have their own carbon footprint and a significant role to play in the transition to a lower carbon economy. Therefore the Pension Fund recognises the risk that environmental, social and governance (ESG) factors including the impact of climate change can materially reduce long-term returns. The Pension Fund has a role to play as an investor, in ensuring that its investment managers are suitably considering the impact and contribution to climate change in their investment decisions and acting as a good steward to encourage these companies to play their part in reducing climate change. This is explained further in the Pension Fund's RI policy [InvestmentStrategyStatementincludingRIpolicy.pdf \(hants.gov.uk\)](https://documents.hants.gov.uk/pensions/InvestmentStrategyStatementincludingRIpolicy.pdf).
28. For the investment portfolios that can report carbon footprint data, the Pension Fund collates and reports this to the RI sub-committee, an reports at the Fund level in the Fund's RI annual update and Task Force on Climate Change Financial Disclosure (TCFD) report <https://documents.hants.gov.uk/pensions/TCFD-report.pdf>. As summary of

the Pension Fund's TCFD report and its RI activities are included in the Pension Fund's Annual Report, which is the subject of this report.

**REQUIRED CORPORATE AND LEGAL INFORMATION:****Links to the Strategic Plan**

<b>Hampshire maintains strong and sustainable economic growth and prosperity:</b>	no
<b>People in Hampshire live safe, healthy and independent lives:</b>	no
<b>People in Hampshire enjoy a rich and diverse environment:</b>	no
<b>People in Hampshire enjoy being part of strong, inclusive communities:</b>	no
<b>OR</b>	
<b>This proposal does not link to the Strategic Plan but, nevertheless, requires a decision because:</b> For the ongoing management of the Hampshire Pension Fund.	

**Section 100 D - Local Government Act 1972 - background documents**

The following documents discuss facts or matters on which this report, or an important part of it, is based and have been relied upon to a material extent in the preparation of this report. (NB: the list excludes published works and any documents which disclose exempt or confidential information as defined in the Act.)

DocumentLocation

None

## **EQUALITIES IMPACT ASSESSMENT:**

### **1. Equality Duty**

The County Council has a duty under Section 149 of the Equality Act 2010 ('the Act') to have due regard in the exercise of its functions to the need to:

- Eliminate discrimination, harassment and victimisation and any other conduct prohibited by or under the Act with regard to the protected characteristics as set out in section 4 of the Act (age, disability, gender reassignment, marriage and civil partnership, pregnancy and maternity, race, religion or belief, sex and sexual orientation);
- Advance equality of opportunity between persons who share a relevant protected characteristic within section 149(7) of the Act (age, disability, gender reassignment, pregnancy and maternity, race, religion or belief, sex and sexual orientation) and those who do not share it;
- Foster good relations between persons who share a relevant protected characteristic within section 149(7) of the Act (see above) and persons who do not share it.

Due regard in this context involves having due regard in particular to:

- The need to remove or minimise disadvantages suffered by persons sharing a relevant protected characteristic that are connected to that characteristic;
- Take steps to meet the needs of persons sharing a relevant protected characteristic that are different from the needs of persons who do not share it;
- Encourage persons sharing a relevant protected characteristic to participate in public life or in any other activity in which participation by such persons is disproportionately low.

### **2. Equalities Impact Assessment:**

Equality objectives are not considered to be adversely affected by the proposals in this report as the proposals do not directly affect scheme members.

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**HAMPSHIRE**  
PENSION FUND

Annual report  
and accounts

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**2022/23**



**Hampshire**  
County Council

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We hope you find this annual report informative and useful. There is a glossary of terms at **page 125**.

If you have any comments on the annual report, please call **01962 845588**, email **budget@hants.gov.uk** or write to:

**Pension Fund Annual Report**  
Pensions, Investments & Borrowing  
Corporate Operations  
Hampshire County Council  
The Castle, Winchester  
SO23 8UB

**A larger-print version of this annual report is available from the above address.**

Section 1

# Introduction

Page 83



# Foreword

## Welcome to the Hampshire Pension Fund annual report for 2022/23.

Page 84



**Councillor**  
Mark Kemp-Gee

The past year has been the most difficult that we've seen for the Pension Fund's investments since the Great Financial Crisis of 2008. Whilst the world is moving on from the Coronavirus pandemic, especially since

the World Health Organisation has declared that the pandemic is no longer a global health emergency, there are still many concerns globally. The war in Ukraine resulting from Russia's invasion is unfortunately now well into its second year with a huge number of fatalities on both sides and ongoing concerns surrounding the condition of nuclear power stations within Ukraine.

The global economy has experienced very choppy waters this year and there have been some high-profile bank failures which have contributed to this such as Silicon Valley bank, Credit Suisse and First Republic. Whilst globally rising inflation rates and interest rates have created economic headwinds, which have been particularly strong in the UK, investment managers have had the challenge of dealing with unusual economic conditions that they will not have seen for some considerable time, along with recovering from the economic effects of the pandemic. Whilst we do not welcome this, we continue to work with our investment managers to get the best outcomes for the Pension Fund, and our investment managers often inform us that there are also positives to be found as some good opportunities surface during these difficult times that can be used beneficially for the Fund. I firmly believe that the Pension Fund's diversified investment strategy remains the best approach for whatever economic conditions we face in the future.

Whilst the global economic problems have been bad news for the value of the Pension Fund's investments in the last year there has also been good news resulting from the Fund's triennial valuation by its Actuaries AON, which took place in March 2022. The purpose of the valuation is to value the assets and liabilities of the Fund as required by the Regulations and to set out the contributions payable by each employer in the Fund. I am proud to be able to tell you that the fund has reached its highest ever funding level and is in surplus at 107%.

The Pension Fund continues to make good progress in its approach to Responsible Investment (RI). Along with focusing on the returns of our investments we engage with our fund managers on a regular basis to continue to improve the management of ESG (Environmental, Social and Governance) factors in our portfolio. We engaged the consultants MJ Hudson in 2022 to review the Fund's ESG risks, which will be the focus of our future reporting. Our investment managers continue to try to improve their reporting on carbon emissions.



## Foreword continued

This is more difficult in some sectors than others and it continues to evolve. Again, this year we have voluntarily completed the Taskforce for Climate Related Financial Disclosure (TCFD) reporting. The Pension Fund is also a signatory to the UK Stewardship Code, UN Principles for Responsible Investment (PRI), the Institutional Investors group on Climate Change (IIGCC), Just Transition and the Transition Pathway. These organisations give us an insight into ideas that other investors have around RI reporting and targets. This has been aided by the additional capacity afforded to us by our RI Sub-Committee and details of our RI activity can be found on **page 60** of this report including the confirmation that the Pension Fund is committed to have net-zero greenhouse gas emissions by 2050 at the latest. I hope you find this of interest and as in previous years we would welcome your thoughts and views.

The Pension Fund's 201,764 scheme members continue to be served exceptionally well by our Pension Services team, who have continued to work incredibly hard to deliver the excellent

level of service our members deserve. I continue to be very proud of their achievements, consistently hitting targets for key performance indicators and once again receiving a very positive report from their Customer Service Excellence review. I know that the team have had a lot of work to do in recent years around important pension developments such as the McCloud remedy, cyber security and working towards the new Pensions Dashboard project being brought in by the Government. Similar praise is also due to the Investments and Borrowing team, who continue to manage relationships with the Fund's investment managers and who strive to search out good returns and improvements in ESG for the Fund and who ensure the Pension Fund is represented in the ongoing development of the ACCESS (A Collaboration of Central, Eastern and Southern Shires) investment pool alongside our colleagues from the 10 other partner Local Government Pension Scheme (LGPS) funds.

Investment pooling has continued to be a focus for the Fund and all of our listed equity investments and our index linked

bonds portfolio are managed through pooled arrangements, which equates to 59% of our investments. Going forward, the focus is now on pooling the non-listed asset classes. Additionally, I'm proud to continue to serve as the Chairman of the ACCESS pool's Joint Committee, having been elected to that position by the representatives of the 11 constituent LGPS funds. A full update on investment pooling is provided on **page 38**.

The members of the Pension Fund Panel and Board continue to add to our knowledge and skills by taking part in training sessions throughout the year. As in previous years we have continued to receive some in-house training sessions, all members have access to an online training program and members can attend external training sessions and conferences in person. Training is considered of high importance and more details of this can be found on **page 23**. Our investment managers also report to the committee on a regular basis to keep us informed on the progress of their portfolios, to tell us about any new developments and what the thinking is behind the selection of



## Foreword continued

investments that they make. They also update us on the move towards reducing our carbon footprint and any other ESG matters. I can assure our scheme members that the Panel and Board take full advantage of these opportunities to ask extensive questions and to put forward any thoughts that we have, to hold our investment managers to account.

Finally, I would like to thank the members of the Pension Fund Panel and Board for their valuable input and dedication during 2022/23 and the role they play in the robust governance of the Fund. Full details of the membership of the Panel and Board during the year covered by our annual report can be found on **page 13**.

I hope you find the following report helpful.

**Councillor Mark Kemp-Gee**

Chairman, Pension Fund Panel and Board  
July 2023



# Summary report

**The Hampshire Pension Fund is part of the Local Government Pension Scheme (LGPS) and has 201,764 members at 31 March 2023. It makes investments so that it can pay pensions to these members when they reach retirement age. Some members will already be retired and receiving their pensions, whereas others will just be starting out in their careers.**

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## Governance

Hampshire County Council is the local authority responsible for administering the Hampshire Pension Fund, known as the Administering Authority. In this capacity, the County Council has delegated responsibility for the governance and management of the Pension Fund to the Pension Fund Panel and Board.

The Panel and Board meets quarterly and has 15 members, made up of 9 County Councillors, 3 scheme member representatives and 3 employer representatives.

These membership arrangements have been designed to allow all key stakeholders to have the opportunity to be represented on the committee. During 2022/23 there were some changes to the membership of the Panel and Board. Liz Bartle and Sarah Manchester stood down as employer and scheme member representatives respectively. They were replaced by Fiona Hnadow and Phillip Reynolds. Councillors Mellor and Dowden stood down from the Panel and Board and were replaced by Councillors Davies and Cooper.

The unitary employer representative position alternates on an annual basis between representatives from Southampton City Council and Portsmouth City Council. As a result, Cllr Judith Smyth from Portsmouth City Council took over as the unitary council representative, with Councillor Steve Leggett of Southampton City Council fulfilling the role of substitute employer representative.

The Panel and Board's mission is to provide an efficient and effective pension scheme for all of the employees and pensioners of all eligible employers in Hampshire, in

accordance with the requirements of the legislation for the LGPS.

During 2022/23 the Panel and Board oversaw its normal schedule of business. This included agenda items related to the governance of the Fund, updates on administration and investment performance, and presentations from the Fund's investment managers in separate briefings. There continues to be a focus on the Fund's approach to RI during the year, which was further developed through the RI Sub-Committee.



# Summary report continued

## Investment pooling

In 2015 the Department of Communities and Local Government issued guidance which set out how the government expected LGPS funds to pool their investment assets, delivering:

- benefits of scale,
- strong governance and decision making,
- reduced costs and excellent value for money,
- an improved capacity and capability to invest in infrastructure.

The Hampshire Pension Fund is a member of the ACCESS pool with 10 other LGPS Administering Authorities.

Over recent years the Pension Fund has worked with its ACCESS colleagues to transfer its investment assets to the pool, and as of 31 March 2023 has pooled £5.3bn (59%) of its investments. This is a slight decrease in comparison to the position reported on 31 March 2022, due to

the relative changes in the market value of investments. The number of portfolios that the Pension Fund invests through ACCESS has not changed in 2022/23.

During 2022/23 the Pension Fund’s investment management has cost the Fund £71.6m, which as a proportion of the value of the total investment assets is 0.77%. The investments in the ACCESS pool cost 0.22% as a proportion of the total value of investments, and by comparison, the non-pooled investments cost 1.64% as a proportion of the total value. The investment management costs for investments in the ACCESS pool are disproportionately lower because the assets that have not been pooled attract significantly higher costs, but these assets are held to ensure the Pension Fund’s investment strategy is suitably diversified.

The action of pooling has saved the Pension Fund £4m since pooling began, as the savings achieved on investment management fees have outweighed the costs of setting up and maintaining the pool, as well as the transition of moving investment assets into the pool.

More details can be found on **page 38** of this annual report.

An annual report is also produced by the ACCESS pool, which can be found on [its website](#).

## Investments

The Pension Fund employs a specialist (known as an actuary) to work out how much money will be needed to pay the pensions of all active, deferred and pensioner members of the scheme. This indicates what investment returns are likely to be needed and how much employers need to contribute to the Fund each year. The actuary’s report can be found on **page 80** that reflects the latest actuarial valuation as of 31 March 2022, which was finalised in 2022/23.

The Pension Fund sets an Investment Strategy with the aim of achieving the required investment returns set by the actuary. This was updated in 2022/23 following the latest actuarial valuation with the Panel and Board taking advice from an investment consultant.





# Summary report continued

The Pension Fund also maintains a Funding Strategy Statement, which sets out how employers' pension liabilities can be best met and the approach to employers' contributions. These two strategies can be found on [the Pension Fund's website](#).

Under the Investment Strategy, money is invested across different types of investments (known as asset classes) so that the Fund's investments are diversified, limiting exposure to any single asset or risk. The Panel and Board has appointed external specialists in each asset class to manage these investments. These specialists are called investment managers. By using a number of different investment managers the Pension Fund achieves further diversification.

In 2022/23 the value of the Pension Fund fell by over £0.6bn (nearly 7%). It is now valued at just under £9bn. Each of the Pension Fund's investments is measured against a benchmark. The average benchmark returns in 2022/23 (weighted to reflect the relative sizes of the Pension Fund's different investments) was -1.5%. The Pension Fund's investment

return in 2022/23 was -6.0% which was below the targets that the Fund had set, reflecting the challenges that the last year's economic conditions caused for the Fund's investment managers. More details can be found in the Investment Performance Report on **page 45**.

## Responsible Investment

The Pension Fund believes that investing responsibly is an important part of achieving its objectives, as ESG factors can have a positive or negative impact on the Pension Fund and its investments. Following consultation with scheme members and employers the Pension Fund Panel and Board agreed to confirm the Pension Fund's support for the objectives of the Paris Agreement – keeping a global temperature rise this century to well below 2°C (which we take to be 1.5°C) and commitment to the aim for its investments to have net-zero greenhouse gas emissions (which includes Scope 1, 2 and 3 emissions) by 2050 at the latest. To monitor this objective the Pension Fund reports on its carbon emissions in line with the recommendations of the

Taskforce on Climate Related Financial Disclosures (TCFD).

The Pension Fund continues to support and participate in a number of important standards that underpin its approach to RI, including the UK Stewardship Code 2020, Principles for Responsible Investment (PRI) and the Institutional Investors Group on climate change. The Panel and Board's RI Sub-Committee met twice during 2022/23. More details on the Pension Fund's approach to RI and its activity during 2022/23 can be found in the section starting on **page 60**.

## Administration

The Hampshire Pension Fund provides pensions for employees of Hampshire County Council, the unitary authorities of Southampton and Portsmouth and the 11 district / borough councils in the county area. These are 'scheduled bodies', which means their employees have a statutory right to be in the Scheme.



# Summary report continued

Other scheduled bodies include the Office of the Police and Crime Commissioner and the Chief Constable for Hampshire, Hampshire and Isle of Wight Fire and Rescue Authority, the University of Portsmouth, Southampton Solent University and other colleges that were part of the County Council. Town and parish councils that have opted to join the Fund are known as resolution bodies.

and providing employer training and support. HPS performs these aspects to an extremely high standard, complying with the requirements for the national standard for excellence in customer service (CSE) which has been held and retained since 2009.

## Financial performance and Pension Fund accounts

The Pension Fund's costs are managed in line with a budget which is agreed each year by the Pension Fund Panel and Board for investment management fees, administrative costs, and oversight and governance costs. Further information can be found on **page 78** of this annual report.

Pension Services monitor their administration performance against service standards for key case work and achieved 100% against service standards for all key processes during 2022/23. In addition to this, annual benefit statements were produced for over 99% of active members and for 100% of deferred members by the statutory deadline, and Pensions Savings Statements were all produced in line with that statutory deadline. The annual internal audit opinion concluded that Pension Services have a sound framework of internal control in place, which is operating effectively. No risks to the achievement of system objectives were identified.

The Pension Fund is required to produce its financial statements each year, showing the Fund's assets and liabilities as measured on 31 March, and accounting for the income and expenditure activity during the financial year from 1 April to 31 March. The Pension Fund's financial statements can be found starting on **page 84** of this annual report.

Responsibility for the administration of the Pension Fund is delegated to Hampshire Pension Services (HPS), part of the Corporate Operations directorate of the County Council. Administration of the scheme includes administering all casework, handling all member queries, paying pensioners, working with employers (including new and exiting employers)

Further information on the administration of the Hampshire Pension Fund can be found starting on **page 68** of this annual report.

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# Who's who

## Administering authority and scheme manager

Hampshire County Council

## Treasurer

Rob Carr, Director of Corporate Operations

## Independent adviser

Carolán Dobson

## Asset Pool

ACCESS

## Pool Operator

Link Fund Solutions

## Custodian

JP Morgan

## Actuary

Aon

## Bankers

The National Westminster Bank plc

## External auditor

EY

## AVC providers

Zurich, Prudential, Utmost

## County Council contacts

Head of Pensions, Investments & Borrowing: Andy Lowe 01962 845588

Legal adviser: Paul Hodgson

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## Investment managers



Section 2

# Governance of the Hampshire Pension Fund

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# Pension Fund Panel and Board

Membership at 31 March 2023

## County Council members



**Cllr Mark Kemp-Gee**  
(Chairman)  
18 years membership



**Cllr Tom Thacker**  
(Vice-Chairman)  
14 years membership



**Cllr Alex Crawford**  
2 years membership



**Cllr Tim Davies**  
Under 1 year  
membership



**Cllr Jonathan Glen**  
6 years membership



**Cllr Dominic Hiscock**  
2 years membership



**Cllr Andrew Joy**  
10 years membership



**Cllr Mark Cooper**  
1 year membership



**Cllr Rob Mocatta**  
2 years membership

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# Pension Fund Panel and Board continued

## Employer representatives



**Cllr Judith Smyth**  
Unitary Council  
representative  
1 year membership



**Cllr Paul Taylor**  
District Council  
representative  
3 years membership



**Cllr Steve Leggett**  
Employer representative  
1 year membership



**Fiona Hnatow**  
Other employer  
representative  
1 year membership

## County Council deputies

Cllr Keith House  
Cllr David Drew  
Cllr Kim Taylor  
Cllr Jacky Tustain

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## Member representatives



**Neil Wood**  
Active scheme member  
representative  
6 years membership



**Lindsay Gowland**  
Deferred scheme  
member representative  
3 years membership



**Cliff Allen**  
Pensioner scheme  
member representative  
9 years membership



**Phillip Reynolds**  
Substitute scheme  
member representative  
1 year membership



# Pension Fund Panel and Board continued

The Pension Fund Panel and Board is responsible for the governance and management of the Pension Fund. Its mission is to provide an efficient and effective pension scheme for all employees and pensioners of all eligible employers in Hampshire, in accordance with the requirements of the legislation for the LGPS.

interests of the Fund’s participating employers and members within the deadlines set

- To make sure that the Fund follows best practice as recommended by the Government, the Scheme Advisory Board, the Pensions Regulator, the Local Government Pensions Committee (LGPC), the Chartered Institute of Public Finance and Accountancy (CIPFA) and other organisations specialising in pensions
- To keep abreast of all developments affecting the LGPS by undertaking training and/or taking advice from external investment managers, external consultants, and County Council officers as appropriate
- To make arrangements for keeping the Fund’s participating employers and members fully informed about matters affecting them

More detail can be found in the [Business Plan](#).

## Membership of the Panel and Board

The Pension Fund Panel and Board has 15 full members and 6 substitute or deputy members and is supported by an independent adviser and officers of the Pension Fund.

The Panel and Board’s membership arrangements have been designed to allow all key stakeholders to have the opportunity to be represented on the committee. The arrangements have the endorsement of the Department for Levelling Up, Housing and Communities (previously known as the Ministry of Housing, Communities and Local Government).

The Panel and Board’s full members include 9 County Council elected members, 3 employer representatives and 3 scheme member representatives. The employer representatives represent the Southampton and Portsmouth unitary authorities, Hampshire’s district authorities, and other scheme employers respectively.

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The Panel and Board’s objectives are:

- To achieve a 100% funding level over the long term, which means that all current and future fund liabilities can be met
- To maintain a stable employers’ contribution rate in the long term
- To respond promptly to legislative changes affecting the LGPS and pension provision generally
- To comment fully on consultation papers dealing with pension matters in the



# Pension Fund Panel and Board continued

The 3 scheme member representatives cover active contributors to the scheme, members with deferred pension rights, and members currently in receipt of their pension.

All full members of the Panel and Board have voting rights. Substitute or deputy members may attend all meetings and will have voting rights when other members for whom they are substitutes are not present.

An independent adviser to the Panel and Board attends all Panel and Board meetings but does not have voting rights.

During 2022/23 Cllr Tim Davies and Cllr Mark Cooper replaced Cllr Alan Dowden and Cllr Derek Mellor on the Pension Fund Panel and Board. Fiona Hnатов replaced Liz Bartle as the Other employer representative and Phillip Reynolds replaced Sarah Manchester as the substitute scheme member representative.

The unitary employer representative position alternates on an annual basis between representatives from Southampton City Council and Portsmouth City Council. As a result, Cllr Judith Smyth

took over from Cllr Rob Harwood as a full member of the Panel and Board, with Cllr Steve Leggett fulfilling the substitute role. There were no other changes to the composition of the Panel and Board during 2022/23.

The Panel and Board also operates a dedicated sub-committee focused on RI. The membership of this sub-committee is drawn from the full members of the Panel and Board and is reviewed annually. Membership comprises 4 County Councillors, 1 scheme member representative and 1 employer representative.

During 2022/23 Cllr Mocatta, Cllr Hiscock, Judith Smyth and Cliff Allen replaced Cllr Dowden, Cllr Mellor, Lindsay Gowland and Liz Bartle on the Responsible Investment (RI) Sub-Committee as part of the annual review and rotation of membership.

There were 4 meetings of the Panel and Board during 2022/23 and 2 of the RI sub-committee. In 2022/23 the Panel and Board held four quarterly meetings, with separate investment manager briefings

and training sessions The Panel and Board continued to receive all of the necessary governance and investment papers required for the management of the Pension Fund.

Six virtual investment manager briefings covering 11 investment portfolios were held in 2022/23, allowing Members to hear from all of the Pension Fund's investment managers. These briefings have been attended with an average of 54% attendance, including the Panel and Board substitute members and its independent advisor, and the feedback from Members has been positive.

All Panel and Board members take part in a full training programme covering the range of knowledge and skills required for their membership of the Panel and Board. The Training and Development Report provides more details on **page 23**.

Attendance at Panel and Board meetings, RI Sub-Committee meetings, internally organised training events, and other external training opportunities in 2022/23 is shown in the table below.



# Pension Fund Panel and Board continued

It should be noted that internal training sessions, including sessions provided by ACCESS, have greater weight as they cover topics on which the most Panel and Board members have identified a training need.

For Pension Fund Panel and Board and Responsible Investment Sub-Committee meetings, the number of meetings attended is shown against the number of possible meetings for that member.

Conflicts of interest have been managed in accordance with [the County Council's standing orders](#).

Details of the Pension Fund's approach to conflicts of interest in relation to responsible investment and stewardship are set out in the Responsible Investment Policy, which can be found in the [Investment Strategy Statement](#).

Panel and Board member	Pension Fund Panel and Board (meetings)	Responsible Investment Sub-Committee (meetings)	Training sessions	
			Internal (hours)	External (hours)
Cllr Kemp-Gee	3/4	2/2	14	19
Cllr Thacker	4/4	1/2	5	10
Cllr Crawford	3/4		14	46
Cllr Davies	2/2		13	0
Cllr Glen	4/4		15	9
Cllr Cooper	1/1		3	0
Cllr Hiscock	3/4	2/2	15	8
Cllr Joy	3/4		14	3
Cllr Smyth	4/4	2/2	5	28
Cllr Mellor	3/3		13	2
Cllr Mocatta	4/4		5	12
Cllr P Taylor	3/4		3	0
Dr Liz Bartle	2/2		1	0
Dr Cliff Allen	4/4	2/2	11	18
Lindsay Gowland	4/4		6	9
Neil Wood	4/4		14	7
Fiona Hnatow	1/1		0	0
Sarah Manchester (Substitute)	0/2		0	0
Phillip Reynolds (Substitute)	2/2		6	12
Cllr Steve Leggett (Substitute)	1/4		5	12
Cllr Keith House (Substitute)	0/1		0	0
Cllr Drew (Substitute)	0/4		9	7
Cllr K Taylor (Substitute)	0/4		1	6
Cllr Tustain (Substitute)	0/4		1	4



# Panel and Board report

Hampshire Pension Fund has the endorsement of the Department for Levelling Up, Housing and Communities (previously known as the Ministry of Housing, Communities and Local Government) for the arrangement of managing the Fund with a joint Panel and Board.

This efficient governance model was developed to ensure effective oversight whilst avoiding unnecessary duplication across two committees.

Board issues are dealt with under separate governance agenda items. Items that have been considered in 2022/23 are as follows:

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Meeting	Agenda
<b>28 July 2022</b>	<ul style="list-style-type: none"> <li>• Appointments to the Responsible Investment Sub-Committee</li> <li>• Annual internal audit opinion</li> <li>• Internal Audit Plan 2022/2023</li> <li>• Administration performance update</li> <li>• Triennial Valuation discussion</li> <li>• Deputations to Panel and Board proposed changes discussed.</li> <li>• Responsible Investment consultation and Policy</li> <li>• Risk Register review</li> <li>• Cash management</li> <li>• Pension Fund Annual Report</li> <li>• Pension Fund investment management costs</li> <li>• Investment update</li> </ul>
<b>30 September 2022</b>	<ul style="list-style-type: none"> <li>• Training in 2022/23</li> <li>• Actuarial valuation – Report on progress of 2022 valuation</li> <li>• Alternative investment portfolio</li> <li>• Investment update</li> </ul>

Meeting	Agenda
<b>16 December 2022</b>	<ul style="list-style-type: none"> <li>• Pension and Administration update</li> <li>• Good Governance review update</li> <li>• Business Plan including Budget, Risk Register and Training Plan</li> <li>• Governance Policy and compliance statement</li> <li>• Conflicts of Interest Policy</li> <li>• Communications Policy statement</li> <li>• Representation Policy</li> <li>• Funding Strategy Statement</li> <li>• Employer Policy</li> <li>• Administration Strategy Statement including Decision Matrix</li> <li>• Investment Strategy Statement</li> <li>• Investments: Update on Link Fund Solutions the ACCESS pools operator</li> <li>• Cash management and Annual Cash Investment Strategy 2022/23</li> <li>• Cyber security and business continuity</li> <li>• Investment update</li> </ul>

Meeting	Agenda
<b>24 March 2023</b>	<ul style="list-style-type: none"> <li>• ACCESS Business Plan and Budget 2023/2024</li> <li>• Governance Internal Audit progress update</li> <li>• Governance Internal Audit plan 2023/24</li> <li>• Investment strategy review</li> <li>• Pension Fund’s Custodian performance report</li> <li>• Investment update</li> <li>• Alternative Investments portfolio update</li> </ul>



# Panel and Board report continued

This year the Panel and Board did not receive any deputations from scheme members.

The Pension Fund's dedicated RI Sub-Committee of the Panel and Board met twice during 2022/23 and considered the following items:

- Scheme member communication
- Stewardship highlight reports
- Consultation on climate change risk reporting
- RI consultancy review from MJ Hudson
- Task Force on Climate Related Financial Disclosures (TCFD)

The RI Sub-Committee did not receive any deputations from scheme members during the year.

The Panel and Board receives regular updates on investment pooling and the performance of assets managed within the pool, providing oversight as part of the effective governance of pooling arrangements. These arrangements have been set up to ensure each administering local authority may exercise proper democratic accountability and continue to meet fiduciary responsibilities. The Chairman of the Panel and Board is a member of the ACCESS pool's Joint Committee and was elected as Chairman of the Joint Committee during 2019/20. Officers represent the administering authority in various officer groups.

More detail on the governance of the Pension Fund is provided in the [Governance Policy Statement](#) and the Governance Compliance Statement on **page 33** of this annual report.

Further information on the governance arrangements for the ACCESS pool can be found on the [pool's website](#).



# Scheme member reports

**The Panel and Board’s membership includes three scheme member representatives, representing active, deferred and pensioner members respectively.**

The scheme member representatives play an important role in the governance of the Pension Fund, representing the views of scheme members. This involves two-way communication with scheme members to understand their views and pass on relevant information about the Pension Fund whilst also participating in decision making on behalf of all scheme members and for the benefit of the Pension Fund overall. They are appointed for a four-year term and are supported by a substitute representative, with further details set out in the [Pension Fund’s Representation Policy](#).

## Neil Wood

**Active scheme member representative**  
nwood@fareham.gov.uk

*As we see the close of another busy year of work for the Pension Fund Panel and Board we are left to reflect on a year of*

*uncertainty. A year ago, we had seen the start of the situation in Ukraine and the beginning of the cost-of-living crisis in the UK and 12 months on it would appear that we are no closer to a resolution for either of them. The impact of both situations has seen the value of the fund reduce in what has been an important valuation year.*

*Generally, the UK economy has taken a big hit where we have seen interest and inflation rates at levels we have not witnessed for many years, but it is hoped that things are starting to level off and we should be seeing some stability towards the latter part of this year which should see an increase to the fund’s valuation.*

*The work of the Panel and Board will carry on regardless and the reduction to four face-to-face meetings a year has seen some lively debates particularly around the issues of climate change and other ESG challenges. Climate change continues to be a focus for the Panel and Board as it is a big interest for members of the Fund who are keen to understand where their money is invested but also to understand why some money continues to be invested*

*in fossil fuels. The Fund is always willing to engage with fund members and listen to their views, but it is important to understand that there is always a fine balance with investments and sometimes it is better to be on the inside with an opportunity to influence policy decisions rather than be on the outside without a voice or a chance to challenge those in charge of these companies.*

*The Responsible Investment Subcommittee continue to meet twice a year to strengthen debates on ESG issues and to feed into the challenges that are made to the investment managers when they make their presentations to the Panel and Board during the year. It is vital to the work of the Panel and Board that investment managers understand the importance of the ESG issues and how they bring that into their investment decisions.*

*Once again the Fund must be very grateful for the wonderful support that it receives from the Council officers. The Investment and Administration teams put in a lot of hard work during the year, which is always good to see, but it is always reassuring*



## Scheme member reports continued

*for the Panel and Board to know that the service provided is also one of the cheapest amongst all LGPS providers.*

*It is hoped that going forward, and certainly for the next year, that we will see some stability in the UK and global economies.*

*If you have any queries about the work of the Pension Fund Panel and Board please do not hesitate to contact me.*

**Lindsay Gowland**

**Deferred scheme member representative**  
**clerklindsay@yahoo.co.uk**

*The Pension Fund Panel and Board has again had another busy year. As well as regular meetings and briefings from investment managers we take the time to make sure that we are properly prepared for our roles and attend training on such diverse subjects as cyber security and climate investment. This ensures that we have the right tools to robustly challenge*

*the officers and fund managers. We now have some 349 employers in the Pension Fund, and the number of deferred pensioners has grown from 82,436 to 87,084, an increase of 5.6%*

*ESG issues remain at the forefront of our investment decisions, and we ensure that our investment managers continue to meet the standards we have set. The Fund's RI policy has now been amended and includes the pledge that our investments should have net-zero greenhouse gasses by 2050.*

*As well as maximizing returns and ensuring the good governance of the Fund, part of the Pension Fund Panel and Board's remit is oversight of administration and I am pleased to say that this continues to run smoothly, scoring 100% against all success targets. This smooth administration of pensions is important for all members, be they retired, active or deferred. Regardless of how small your pension pot is with Hampshire; you can be assured that its stewardship is secure. I would encourage*

*all members of the Hampshire Pension Scheme to log onto the portal and to check their details are correct and make sure that they understand what their pension benefits are. Retirement creeps up sooner than you think! Within the next few years Local Government Pensions should be linked to the government's pensions dashboard, which will make it easier for everyone to keep track of their various pension pots.*



# Scheme member reports continued

## Dr Cliff Allen

Pensioner scheme member representative  
cliffallen203@aim.com

*My time as Pensioner Representative draws to a close and I now look back on 10yrs of service. New regulations and a new scheme came into force on the 1st April 2014 and this involved a great deal of work for the administration resulting in the introduction of increased IT facilities. In recent times the introduction of the Hampshire Pension Portal and cyber security policies is transforming the way pensioners can receive documents and communicate with the administration. New regulations for Pension Fund Governance were published on 28th January 2015. The regulations provided for a separate board to be established to support the work of Pension Panels. Hampshire County Council gained approval to establish a joint Pension Panel and Board as a more effective and efficient way to administer and manage the pension fund. The eight years following this change have indeed achieved the efficiencies and effectiveness anticipated. The new way of combining the functions of Governance and Scrutiny is*

*today working very well.*

*In relation to the role of Governance, over the years I have received more correspondence and comment about ESG issues than any other category relating to the running of the pension scheme. The Panel and Board responded to ESG issues by introducing training, ESG policy improvements, a sub-committee to deal specifically with ESG, and conducting consultation exercises. We have also joined a number of organisations requiring that we meet ESG standards. The Pension Fund Panel and Board are now receiving positive comments from the membership on the progress made on ESG issues. This demonstrates how effective we have been on ESG and in responding to the views of pensioners.*

*In relation to our scrutiny of financial and investment performance our valuation of the fund in 2015 was slightly above £5 billion. In just eight years we doubled that to just over £10 billion. Valuations have fallen back a little since then due to the effects of economic and cost of living crises. However, our progress with policy*

*development, financial strategy, monitoring performance, and working with eleven County Councils in the ACCESS pool has enabled the fund to reduce investment costs and benefits from working with other Local Government Pension Schemes.*

*Our investment managers operate according to a mandate agreed by the Panel and Board and governed by leading policy and practice. The Panel and Board have balanced risk and reward by investing in a diversified portfolio. There are investment managers with different investment strategies invested in diverse investment sectors, selecting a diversified range of stocks across a global geography.*

*In this my final report I'm satisfied that the pension fund is performing to expectations and providing the benefits needed to meet the long-term liabilities of the Fund. There is still much to be done and I wish the Panel and Board in their continued work and all members of the Hampshire Pension Scheme, the very best for the future.*



# Training and Development Report

## Training Policy

As an administering authority of the LGPS, Hampshire County Council recognises the importance of ensuring that all officers and members charged with financial management and decision making for the pension scheme are fully equipped with the knowledge and skills to discharge the duties and responsibilities allocated to them.

It therefore seeks to appoint individuals who are both capable and experienced and will provide and arrange training for relevant officers and members. This training is designed to enable officers and members to acquire and maintain an appropriate level of expertise, knowledge, and skills. A formal training plan is prepared each year to identify and meet the training needs of the Pension Fund Panel and Board, both as a group and as individuals, and is based upon the recommendations of the CIPFA Pensions Finance Knowledge and Skills Framework.

The Director of Corporate Operations at the County Council is responsible for ensuring that policies and strategies are implemented.

Further details of the [Panel and Board's Training Policy and Plan](#) are available on the Pension Fund's website.

## Training received in 2022/23

During the year five internal training sessions were arranged by the Hampshire Pension Fund for Panel and Board members and officers. The topics covered in these sessions were focused on delivering training to increase knowledge based on the Panel and Board members' self-assessment of their training requirements. Training sessions included a presentation from Aon explaining the triennial actuarial valuation. The Pension Fund's officers also gave training around explaining Task Force on Climate Related Disclosure (TCFD), pensions administration and the steps being taken to ensure cyber security. The Pension Fund Panel and Board and officers have

also continued to make use of the Hymans Robertson online training resource which is a valuable introduction to LGPS pensions schemes. The modules have been designed to cover the requirements of the Scheme Advisory Board's Good Governance review.

Date	Topic	Provider
2022/2023	LGPS Online Learning Academy	Hymans Robertson
September 2022	Triennial Valuation	Aon
November 2022	Carbon Strategy	MJ Hudson
November 2022	Task Force on Climate Related Disclosure (TCFD)	Andrew Boutflower
March 2023	Pensions Administration	Andrew Lowe and Lois Downer
March 2023	Cyber Security	Andrew Lowe and Lois Downer



# Training and Development Report continued

As previously, the training sessions were supplemented by a training session on treasury management, which was open to all County Councillors as well as the Pension Fund Panel and Board members and officers, and was provided by Arlingclose, the County Council’s advisers on treasury management.

During 2022/23 the Panel and Board continued to receive virtual briefings from the Fund’s investment managers, the schedule of these briefings is provided **to the right**.

The internal training sessions followed a similar programme of in-house training in previous years, which has been designed to cover the full range of knowledge and skills required by Panel and Board members and staff. Training sessions continue to be held online, with some in person sessions. This has proved to be successful and gives more flexibility for members to attend.

Date	Topic	Provider
June 2022	Global equities portfolios	Baillie Gifford
October 2022	Multi Asset Credit portfolio	Barings
October 2022	Asset backed securities portfolio	TwentyFour Asset Management
November 2022	Global equities portfolios	Arcadian
November 2022	Multi Asset Credit portfolio	Alcentra
December 2022	Direct Property Portfolio	CBRE
December 2022	Infrastructure Portfolio	GCM
February 2023	Asset backed securities portfolio	Insight
February 2023	Global equities portfolio	Dodge & Cox
March 2023	Private equity portfolio	abrdrn
March 2023	Private debt	JP Morgan Alternatives Asset Management





# Training and Development Report continued

In addition, Panel and Board members and officers attended an ACCESS Investor Day provided by LINK Asset Services.

Individual Panel and Board members and officers attended a range of training events in 2022/23 provided by the Pension Fund's investment managers and other external organisations, as follows:

Training Provider	Events
Local Government Association	Fundamentals Course Part 1, 2 and 3
Local Government Chronicle	LGC Investment Seminar
Local Government Pension Scheme (LGPS) Webinar	Climate Change and related Responsible Investment matters.
Baillie Gifford	Local Government Conference
Local Government Chronicle	Delivering pensions in an unstable environment. Pension delivery, inflationary effects and the effects of instability on the economy.
Insight	Funding Seminar – How pension funds can meet the challenge of funding their liabilities.
Hymans Robertson	Budget effects on pensions
Hymans Robertson	LGPS



# Training and Development Report continued

## Evaluation of training

Training logs for each member of the Panel and Board are completed on an on-going basis and are used to record the training undertaken during the year. The training logs include details of all relevant training courses, seminars and events attended, along with an assessment of whether each training event has fulfilled the need it was intended to meet. This information is used to help design the training plan for the following year.

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Each individual officer's training needs are assessed annually, and training plans prepared for each section and department within the County Council. The actual training provided is evaluated each year to assess its effectiveness against the aims and objectives identified prior to the training event. In addition, professional finance staff in the Corporate Operations Directorate are required by the accountancy bodies to maintain their levels of Continuing Professional Development.

## Training in 2022/23

During 2022/23, individual members of the Panel and Board reviewed their knowledge and skills against a Training Needs Analysis. The purpose of this exercise was to allow Panel and Board members to consider their existing level of knowledge and areas where additional training would be beneficial.

The Training Needs Analysis is designed around the CIPFA Pensions Finance Knowledge and Skills Framework for Elected Representatives and Non-Executives in the Public Sector, and the CIPFA Technical Knowledge and Skills Framework for Local Pension Boards and helps to ensure the Panel and Board meet the requirements set out in the guidance referenced in the regulations. The Training Needs Analysis is also completed by all new Panel and Board members to enable them to identify any training requirements.

The training plan for 2022/23 was approved by the Pension Fund Panel and Board in September 2022 based on the Training Needs Analysis. Proposed training includes further in-house training sessions, external training events, use of online learning tools, briefing information in reports to the Panel and Board from officers, and background reading as appropriate.

Relevant internal training sessions will be arranged for 2023/24 and 2024/25 based on the Training Needs Analysis. Topics identified for 2023/2024 are Financial Services procurement, Investment Strategy and Advisor performance.



# Risk Management Report

The management of risk is part of the control framework managed by the Director of Corporate Operations’ officers, with assurance provided through the work of Hampshire County Council’s internal audit function.

The aims of the Pension Fund are published in the Funding Strategy Statement, which is reported to the Pension Fund Panel & Board annually. Risks are identified by analysing what may interfere with the

achievement of these aims, including risks associated with investment pooling arrangements.

An assessment of each risk is conducted by the staff of Director of Corporate Operations with assistance from the Fund Actuary. This involves assessing the likelihood and impact of each risk, then identifying appropriate mitigation to manage these risks.

Risks are categorised as follows:

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Ref. No.	Name of risk	Description	Score
1	Quality of governance and control	Turnover in Pension Fund Panel and Board Members and/or senior officers; or lack of training and development could lead to decision making and control of the Pension Fund lacking or being inappropriate or undertaken by persons without suitable knowledge or experience.  Could result in a failure of governance arrangements to meet statutory requirements and recommended best practice leading to ineffective working relationships, financial loss and reputational damage.	3
2	Reporting	Failure of accounting and reporting processes and systems cause a failure to disclose material facts, or the disclosure of incorrect or incomplete information in the Annual Report and Accounts or during the audit, leading to reputational damage and financial loss.	4
3	Staffing	The failure of officers to maintain sufficient levels of competence and/or resource to discharge their duties could lead to retention of inefficient staff, therefore, relying on key officers impacting on the wellbeing of staff and a reduced work rate for the Pension Fund.	2
4	Conflicts of interest	Failure to recognise, disclose, monitor and prevent conflicts would lead to conflicts of interest resulting in ineffective governance processes, reputational damage and financial loss.	3



# Risk Management Report continued

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Ref. No.	Name of risk	Description	Score
5	Contract management	Due to insufficient knowledge, there could be a failure of effectively letting or managing contracts for the supply of services to the Pension Fund, leading to reputational damage, potential legal challenge, disruption of services and financial loss.	2
6	Risk Management	Failure to implement a policy to identify risks and arranged for these to be managed or mitigated and have sufficient internal controls results in issues impacting the function of the Pension Fund.	2
7	Regulatory change	Non-compliance with regulations caused by lack of knowledge by staff, changes in government policy/Local Government Pension Scheme (LGPS) reforms and systems not kept up to date, leading to reputational damage and financial loss.	6
8	External incident	The impact of external events causes a failure to undertake business as usual service resulting in loss of service provision.	6
9	Cybercrime	Due to cybercrime activities impacting on integrity, there is a risk of inability to carry out day-to-day business functions, which would result in reputational damage and financial loss.	15
10	IT failure	A failure of Hampshire or partners IT systems that results in the Pension Fund unable to carry out day-to-day work including processing and payment of pensions and other financial transactions.	6
11	Investment underperformance	Investment management underperformance – from the Fund's investment managers failing to outperform their benchmark returns for prolonged periods of time resulting in a decrease in the Pension Fund's funding level.	15
12	Investment service providers	Ineffective monitoring of 3rd party service providers could lead to their failure to maintain their obligations in respect of investments which could result in potential loss of return or liquidity or ability to access or control investment.	6



# Risk Management Report continued

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Ref. No.	Name of risk	Description	Score
13	Investment market performance	<p>Assets do not grow sufficiently to meet pensions liabilities as a result of:</p> <ul style="list-style-type: none"> <li>• fluctuations in market prices (which is particularly relevant for investments in equities)</li> <li>• Interest rates (which can affect the prices of investments that pay a fixed interest rate)</li> <li>• fluctuations in prices of financial instruments that are denominated in any currency other than the functional currency of the Fund (GB pounds)</li> <li>• as a result of the counterparty to a transaction or a financial instrument will fail to discharge an obligation and cause the Fund to incur a financial loss. This includes the risk of loss in the Stock Lending programme.</li> </ul>	15
14	Investment pooling	Due to failure of external providers appointed by the ACCESS pool or delays in the implementation of decisions and the availability of suitable solutions within the ACCESS Pool, there is a risk of reduction in the effectiveness of the decision, which would result in loss of potential return or access to investments.	9
15	Environmental, Social and Governance (ESG) risk	Due to insufficient knowledge and/or resources could lead to a lack of consideration of all financial and non-financial risks relating to Environmental, Social and Governance (ESG) issues, including the risk of Climate Change, resulting in poor investment returns, increased employer contribution rates and reputational damage.	15
16	ESG Data	There is insufficient or unreliable ESG data in order for the Pension Fund to base decisions on or meet reporting requirements, resulting in a reduced quality of the Fund's stewardship, investment decisions and potential that the Fund's reporting is incomplete.	10
17	Funding Strategy	Due to a failure to set and collect contributions, there is a risk of there not being sufficient funds to achieve a fully funded ongoing position in the timescales determined by the Funding Strategy Statement, which could cause financial loss or reputational damage	6



# Risk Management Report continued

Ref. No.	Name of risk	Description	Score
18	Demographics	Failure to monitor the demographic experience of Fund's population is not in line with actuarial assumptions as in the Funding Strategy Statement and could result in increases required in Employer contributions which could cause complaints and damage to reputation.	6
19	Employer covenant	Due to failure to apply or lack of accurate information, and demonstrate fairness in the differentiated treatment of different fund employers by reference to their own circumstances and covenant could lead to underpayments or employers unable to meet their obligations and, therefore, financial loss and under-investment.	9
20	Inflation	Due to the nature of actuarial assumptions, there is a risk that pay and price inflation are significantly different, which would result in increases due to employers' contributions.	9
21	Investment Strategy	There is a risk that failure to monitor and align the Funding strategy with the Investment strategy could lead to over or underfunding, resulting in reputational damage or financial loss.	8
22	Cashflow	Due to ineffective monitoring of the Fund's cashflow, resulting in the failure to set aside sufficient funds each month to pay pensioners or meet other obligations, which could lead to extreme hardship for pensioners and reputational damage to the Fund.	4
23	GAD assessment	As a result of failing to adopt or implement a funding strategy, there is a risk that this results in the Fund failing any of the Government Actuary's Department (GAD) s13 tests or be named in the GAD s13 report would cause reputational damage.	6



# Risk Management Report continued

Ref. No.	Name of risk	Description	Score
24	Administration service	<p>Due to failure to administer scheme correctly in line with all relevant Regulations and policies owing to circumstances such as, but not limited to:</p> <ul style="list-style-type: none"><li>• lack of regulatory clarity;</li><li>• system issues;</li><li>• insufficient resources</li></ul> <p>would result in reputational damage and the possible risk that pensions are not paid at the right time to the right people and/or contributions not collected.</p>	8
25	Complaints	<p>Due to lack of training and/or experience, there is a risk of failing to deal with concerns, complaints and Internal Dispute Resolution Procedures (IDRPs) appropriately, resulting in poor customer satisfaction, further time spent resolving issues, potential compensation payments and reputational impact, particularly if escalated to the Pensions Ombudsman.</p>	3
26	Communications	<p>Failure to administer the scheme correctly due to circumstances such as, but not limited to:</p> <ul style="list-style-type: none"><li>• Poor employer data;</li><li>• Unable to clearly articulate what is required from employers; and</li><li>• Unable to clearly articulate what is required from the Fund itself in order to deliver the Fund's administrative functions could cause the fund reputational damage and financial loss</li></ul> <p>Poor data could result in pensions being incorrectly calculated or the data available to the Fund's Actuary being inaccurate</p>	6



## Risk Management Report continued

Ref. No.	Name of risk	Description	Score
27	Employer	Due to the ever-changing mix of employers, from short-term and ceasing employers, and the potential for a shortfall in payments and/or orphaned liabilities.  These events could cause the risk of unexpected structural changes in the Fund's membership and the related risk of an employer failing to notify the administering authority promptly.	6
28	Pensions Dashboards	Failure to meet the statutory deadlines for connectivity to the Pensions Dashboard and unable to provide required information to members.	6
29	McCloud remedy	Engagement with DLUC/ LGA through attendance at technical meetings and keeping up to date with published information. Engagement with system provider to ensure system is developed in line with legislation and delivered to time/budget.	6
30	GMP rectification	Inability to complete the GMP reconciliation and rectification project leading to reputational damage and potential ongoing under and over payment of pension amounts.	4

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Control assurance reports from investment managers and the custodian (JP Morgan) are received by the Pension Fund and are also used to provide assurance over third party operations.





# Governance Compliance Statement

This statement shows how Hampshire County Council as the administering authority of the Hampshire Pension Fund complies with guidance on the governance of the Local Government Pension Scheme (LGPS) issued by the Secretary of State for Communities and Local Government in accordance with the Local Government Pension Scheme (Administration) Regulations 2008.

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Ref.	Principles	Compliance	Comments
<b>A. Structure</b>			
a.	That the management of the administration of benefits and strategic management of fund assets clearly rests with the main committee established by the appointing council.	Full compliance	Hampshire County Council's constitution sets out the functions of the Joint Pension Fund Panel and Board.
b.	That representatives of participating LGPS employers, admission 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.	Full compliance	The Joint Pension Fund Panel and Board includes representatives of the other local authorities in the Fund, and pensioner and contributor members.

Ref.	Principles	Compliance	Comments
<b>A. Structure</b>			
c.	That where a secondary committee or panel has been established, the structure ensures effective communication across both levels.	Full compliance	A Responsible Investment (RI) Sub-committee has been established that reports to the Joint Pension Fund Panel and Board
d.	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.	Full compliance	The RI sub-committee is made up of members of the Joint Pension Fund Panel and Board
<b>B. Representation</b>			
a.	That all key stakeholders have the opportunity to be represented within the main or secondary committee structure. These include: <ul style="list-style-type: none"> <li>• employing authorities (including non-scheme employers, e.g., admission bodies)</li> <li>• scheme members (including deferred and pensioner scheme members)</li> <li>• where appropriate, independent professional observers, and</li> <li>• expert advisers (on an ad-hoc basis)</li> </ul>	Full compliance.	The Joint Pension Fund Panel and Board includes representatives of the other local authorities in the Fund, and pensioner and contributor members. The Fund's independent adviser attends Joint Pension Fund Panel and Board meetings. Independent professional observers are not regarded as appropriate.



# Governance Compliance Statement continued

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Ref.	Principles	Compliance	Comments
<b>B. Representation</b>			
b.	That where lay members sit on a main or secondary committee, they are treated equally in terms of access to papers, meetings, and training and are given full opportunity to contribute to the decision-making process, with or without voting rights.	Full compliance	Equal access is provided to all members of the Joint Pension Fund Panel and Board.
<b>C. Selection and role of lay members</b>			
a.	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.	Full compliance	
<b>D. Voting</b>			
a.	That the individual administering authorities on voting rights are clear and transparent, including the justification for not extending voting rights to each body or group represented on main LGPS committees.	Full compliance	All representatives on the Joint Pension Fund Panel and Board have full voting rights, but the Panel and Board works by consensus without votes often being required.

Ref.	Principles	Compliance	Comments
<b>E. Training / facility time / expenses</b>			
a.	That in relation to the way in which the administering authority takes statutory and related decisions, there is a clear policy on training, facility time and reimbursement of expenses for members involved in the decision-making process.	Full compliance	Full training and facilities are made available to all members of the Joint Pension Fund Panel and Board.
b.	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.	Full compliance	
c.	That the administering authority considers adopting annual training plans for committee members and maintains a log of all such training undertaken.	Full compliance	A training plan has been prepared for the Joint Pension Fund Panel and Board, and training logs are maintained for individual Panel and Board members.



# Governance Compliance Statement continued

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Ref.	Principles	Compliance	Comments
<b>F. Meetings (frequency / quorum)</b>			
a.	That an administering authority's main committee or committees meet at least quarterly.	Full compliance	
b.	That an administering authority's secondary committee or panel meets at least twice a year and is synchronised with the dates when the main committee sits.	Full compliance	The RI sub-committee meets twice a year.
c.	That an administering authority that does not include lay members in its formal governance arrangements must provide a forum outside of those arrangements to represent the interests of key stakeholders.	Full compliance	The Joint Pension Fund Panel and Board includes lay members. An Annual Employers Meeting of the Pension Fund is held, and road shows are arranged for employers.
<b>G. Access</b>			
a.	That, subject to any rules in the County Council's constitution, all members of main and secondary committees or panels have equal access to committee papers, documents and advice that are due to be considered at meetings of the main committee.	Full compliance	Equal access is provided to all members of the Joint Pension Fund Panel and Board.

Ref.	Principles	Compliance	Comments
<b>H. Scope</b>			
a.	That administering authorities have taken steps to bring wider scheme issues within the scope of their governance arrangements.	Full compliance	The Joint Pension Fund Panel and Board deals with Fund administration issues as well as Fund investment.
<b>I. Publicity</b>			
a.	That administering authorities have published details of their governance arrangements in such a way that stakeholders with an interest in how the scheme is governed can say they want to be part of those arrangements.	Full compliance	The County Council's Governance Policy Statement is published in the Pension Fund's Annual Report and on its website.



# The Pension Fund's statutory statements

## Hampshire Pension Fund maintains a number of statutory statements, as follows:

- Business Plan, including the Fund's Budget, Risk Register and Training Plan
- Funding Strategy Statement
- Investment Strategy Statement 2022 including Responsible Investment Policy
- Governance Policy Statement and Compliance Statement
- Communication Policy Statement
- Administration Strategy – including Decision Matrix
- Employer Policy

These statements were last reviewed and approved at meetings of the [Pension Fund Panel and Board during 2022](#).

All of the statutory statements are available on the Pension Fund website at the following link and form part of the [Annual Report](#).

The Pension Fund also publishes the following documents on this webpage:

- Representation Policy
- Conflicts of Interest Policy

The Terms of Reference for the Panel and Board and the RI Sub-Committee are available as part of the [County Council's constitution](#).

Section 3

# Investment pooling

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# Progress on investment pooling



In 2015 the Department of Communities and Local Government (DCLG as it then was) issued LGPS: Investment Reform Criteria and Guidance which set out how the government expected funds to establish asset pooling arrangements. The objective was to deliver:

- Benefits of scale
- Strong governance and decision making
- Reduced costs and excellent value for money
- An improved capacity and capability to invest in infrastructure

The Hampshire Pension Fund is a member of the ACCESS pool (A Collaboration of Central, Eastern and Southern Shires) with 10 other Local Government Pension Schemes (LGPS) Administering Authorities: Cambridgeshire, East Sussex, Essex, Hertfordshire, Isle of Wight, Kent, Norfolk, West Northamptonshire, Suffolk, and West

Sussex. The following paragraphs describe Hampshire’s individual pooling progress. ACCESS’ annual report, highlighting the progress of the pool overall is contained in the following section.

The proportion of the Pension Fund’s investments held under the ACCESS pool has reduced due to the relative changes in the market value of investments. The number of portfolios that the Pension Fund

invests through ACCESS has not changed in 2022/23.

ACCESS’s business plan for 2023/24 includes the creation of sub-funds to enable Hampshire to transfer its Multi-asset Credit portfolios, as well as continuing to develop options for pooling Alternative assets that will ultimately provide options for Hampshire for pooling new Alternative assets.

## Value of pooled and non-pooled investments

	2021/22		2022/23	
	£000	%	£000	%
Equities	2,802,238	29.1	2,642,332	29.5
Passive investments	3,228,343	33.5	2,646,755	29.5
<b>Pooled sub-total</b>	<b>6,030,581</b>	<b>62.6</b>	<b>5,289,087</b>	<b>59.0</b>
Bonds	1,404,139	14.6	1,130,839	12.6
Property	665,297	6.9	595,008	6.6
Alternative assets	1,419,000	14.8	1,856,392	20.8
Cash and other assets	107,857	1.1	93,242	1.0
<b>Non-pooled subtotal</b>	<b>3,596,293</b>	<b>37.4</b>	<b>3,675,481</b>	<b>41.0</b>
<b>Total</b>	<b>9,626,874</b>	<b>100.0</b>	<b>8,964,568</b>	<b>100.0</b>



# Progress on investment pooling continued

## Pooled costs and savings

Hampshire Pension Fund’s investment management costs of £71.6m are also reported in the Fund’s accounts and are broken down into the following criteria based on the guidance published by CIPFA for pension fund annual reports. The data is based on data provided by the Pension Fund’s investment managers who have completed the Cost Transparency Initiative template. The Fund’s investment management costs shown in the table on this page are broken down into the following categories:

- Direct fees – that are invoiced to the Pension Fund by its investment managers
- Indirect fees – are charged directly against the Fund’s investments within investment vehicles such as pooled funds within the ACCESS pool and held outside, as well as the alternative investment funds that the Pension Fund invests in directly
- Transaction costs – such as broker commission paid in the purchase and sale of investments, costs within the alternative investment funds, as well as the costs of maintaining the Fund’s directly held property
- Custody and other costs – the fees paid to the Fund’s custodian for the safe custody and administration of the Fund’s investments and consultancy costs where they specifically relate to investments

	Pooled		Non-pooled		Total	
	£000	%	£000	%	£000	%
Direct fees	939	0.02	10,506	0.21	11,445	0.12
Indirect fees	9,881	0.17	5,764	0.12	15,645	0.17
Transaction costs	1,385	0.02	42,735	0.87	44,120	0.48
Custody and other costs	0	0.00	371	0.01	371	0.00
<b>Total</b>	<b>12,206</b>	<b>0.22</b>	<b>59,375</b>	<b>1.20</b>	<b>71,581</b>	<b>0.77</b>



# Progress on investment pooling continued

The investment management costs of pooled investments are disproportionately lower because the assets that have not been pooled, specifically property and alternative assets, attract significantly higher costs, but these assets are held to ensure the Pension Fund’s investment strategy is suitably diversified. The costs of the Pension Fund’s investments are considered by the Pension Fund Panel and Board in considering investment returns on a net of costs basis when evaluating investment performance and options.

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The investment performance of both the Pension Fund’s pooled and non-pooled investments are shown in the Investment Performance section of the Annual Report.

Cumulative pooling costs and savings	£000
Pool setup and on-going costs*	677
Transition costs	539
Investment management fee savings	-6,015
<b>Net saving of pooling to date</b>	<b>-4,799</b>

\*The breakdown of pool costs is detailed in the ACCESS Annual Report

## ACCESS Annual Report

The ACCESS Annual Report is published on the ACCESS pool’s website.

The report provides more details on ACCESS and the progress that has been made in pooling in 2021/22

The report can be found [here](#).



Section 4

# Hampshire Pension Fund investments

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# Investment Policy including Responsible Investment

**The Pension Fund Panel and Board is responsible for determining at a strategic level how investments will be made by the Pension Fund, with the objective of achieving the investment return required to meet the target calculated by the Fund's Actuary without exposing the Fund to excessive risk.**

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The Investment Strategy Statement sets out the Pension Fund's strategic asset allocation and has been designed to achieve this objective by ensuring the Pension Fund can meet 100% of pension liabilities over the long term by investing within reasonable risk parameters whilst also ensuring primary contribution rates are kept affordable and steady.

## **Investment Strategy: Understanding cost, risk and return**

The Pension Fund's investments are grouped into three categories in the Investment Strategy Statement: growth, income, and protection. Holding different types of investments helps the Fund to

achieve diversification, which means the required investment returns are not heavily dependent on the performance of one economy, sector, or asset class. The Pension Fund uses different investment managers so that returns are not reliant on how well a single fund manager performs. These investment managers all manage diversified portfolios, the most concentrated of which holds around 30 stocks, whilst the most diverse will hold many hundreds of securities.

Different asset classes bring different levels of risk and uncertainty. The Pension Fund therefore invests in assets across multiple classes, aiming to ensure the profile of returns will not be completely correlated, for example by investing in assets that deliver an income stream as well as those held to deliver capital growth. Where investments are in riskier asset classes, such as equities, the aim is to ensure that the return achieved more than compensates for the risk taken.

In line with its investment beliefs, the Pension Fund holds passive investments, which are low cost and are designed simply to track a given market, and actively

managed investments, where a premium is paid to an investment manager to select the right investments to outperform the comparative market. The Pension Fund's investment managers have all completed the Cost Transparency Initiative templates which allow the Pension Fund to better understand the costs associated with its investment portfolio and the relationship between investment management costs and investment returns.





# Investment Policy including Responsible Investment continued

## Responsible Investment Policy and ESG considerations

The Hampshire Pension Fund believes in the importance of RI and is a signatory to both the UK Stewardship Code and the UN Principles for Responsible Investment (PRI). It also supports the recommendations of the Financial Stability Board’s Task Force on Climate-related Financial Disclosures (TCFD).

The Pension Fund’s investment principles include:

- i) that it has a long-term focus, and
- ii) a belief in the importance of Responsible Investment, including consideration of social, environmental, and corporate governance (ESG), which can both positively and negatively influence investment returns

The UN PRI provides the following examples of ESG factors:

- Environmental – climate change – including physical risk and transition risk, resource depletion, including water, waste and pollution, deforestation
- Social – working conditions, including slavery and child labour, local communities, including indigenous communities, conflict, health and safety, employee relations and diversity
- Governance – executive pay, bribery and corruption, political lobbying and donations, board diversity and structure, tax strategy

These factors are not exhaustive but provide a baseline when considering ESG issues as part of the Pension Fund’s overall investment strategy.

The Hampshire Pension Fund Panel and Board has created a dedicated RI Sub-Committee that meets at least twice a year to consider emerging ESG issues

and support the implementation of the Responsible Investment Policy.

The Pension Fund delegates its investment decisions to appointed investment managers, then engages in responsible stewardship with these investment managers by reviewing and monitoring the investments being made. The Pension Fund will act to challenge its investment managers where it is difficult to see how an underlying investment can avoid a net negative contribution to a sustainable society, while engaging in dialogue about investments that will deliver a positive contribution to understand what the Fund can learn from these investments.

In all situations the Pension Fund expects its investment managers to engage with the companies they have invested in to exercise the Fund’s responsibility to vote on company resolutions wherever possible. The Responsible Investment Policy sets out expectations for different types of investment manager (by asset class), which can be found in full on the [Responsible Investment webpage](#).



# Investment Policy including Responsible Investment continued

In July 2022 following consultation with scheme members and employers the Pension Fund Panel and Board agreed revisions to the RI policy including that:

- the Pension Fund supports the objectives of the Paris Agreement and believes that keeping a global temperature rise this century to well below 2°C (which we take to be 1.5°C) relative to pre-industrial levels is entirely consistent with securing strong financial returns, which is its most prominent area of focus for responsible investment
- to address Climate Change there needs to be a transition to a low carbon economy, but that must be an orderly transition that is inclusive and does not leave anyone behind – this is referred to as a Just Transition
- the Pension Fund commits to the aim for its investments to have net-zero greenhouse gas emissions (which includes Scope 1, 2 and 3 emissions) by 2050 at the latest, and

- working with the Fund’s investment managers to remove thermal coal from the Fund’s portfolios due to its very high carbon emissions and lack of possible transition to lower carbon alternatives.

- reporting on the value of the Pension Fund’s assets and the investment performance of the Fund’s investment managers

## Custody of assets

The Pension Fund’s global custodian, JP Morgan, provides a wide variety of services that underpin the work of the officers of the Pension Fund and its investment managers in managing the Pension Fund’s assets. The performance of the global custodian is reported to the Panel and Board on an annual basis.

The custody services provided by JP Morgan to the Fund include:

- historic tax reclamation services
- historic filing of US-based class action lawsuits
- foreign exchange settlement to enable the Pension Fund to buy and sell assets in foreign currencies

Pooled investments are managed by the pool operator (Link Asset Services) and are held in custody by Northern Trust, the custodian appointed by Link. All other assets are held in pooled funds by the Pension Fund. JP Morgan reports on the performance of the entire portfolio.

## Matters relating to implementation of the Funding Strategy Statement

Employers paid the rates certified for the third and final year from the 2019 triennial valuation in 2021/22. No bonds or other secured funding arrangements were entered into during the year.

All admission bodies were managed in accordance with the Funding Strategy Statement and Employer Policy, which can be found on the [Pension Fund’s website](#).



# Investment Performance Report

## Economic context

The global economic climate in the last year has presented some of the most challenging conditions since the financial crisis of 2008.

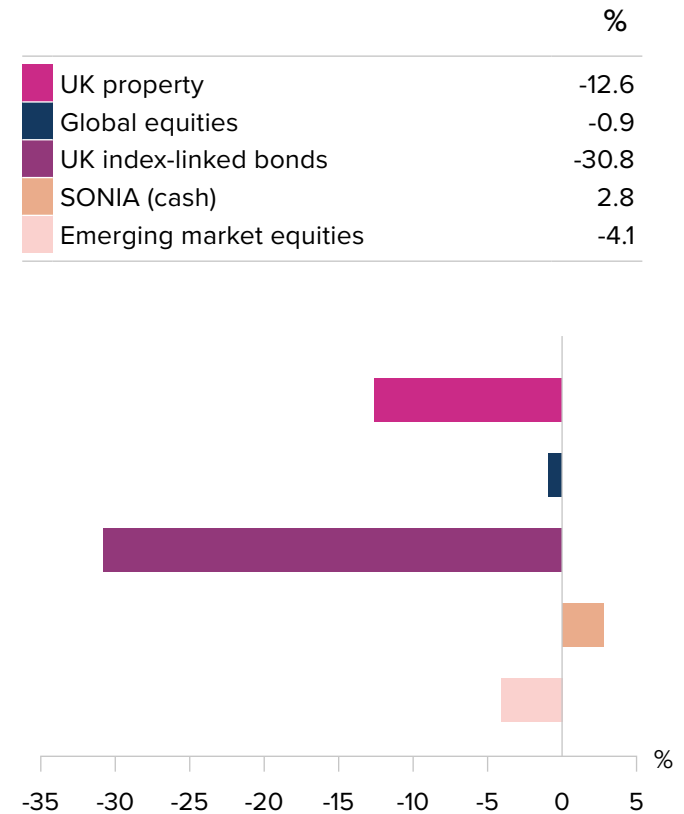
The world was recovering from the coronavirus pandemic, and uncertainty remained due to the war in Ukraine entering its second year. Investment managers have been quick to refer to 'strong economic headwinds' that have had an impact on global businesses. There have been particular problems in the UK in the second half of 2022 due to political uncertainty, the reaction by the markets to the Truss-Kwartang mini budget and, the Bank of England's slow reaction to inflation. Global markets have also had higher inflation and an increase in interest rates.

Worries over the health of the banking system on both sides of the Atlantic have concerned investors in March 2023. Market confidence was undermined by the collapse of two mid-sized banks in the US; Silicon Valley Bank and Signature Bank

and a week later in Europe the acquisition by UBS of credit Suisse, prompted by the Swiss regulator. The concerns contributed to a sharp fall in government bond yields with investors assuming the economic headwinds would lead to an early end to central bank rate rises. This has not turned out to be the case and further interest rate rises are still expected to combat inflation.

UK index-linked bonds have been particularly hard hit with a reduction in returns of -30.8% as the increase in short-term interest rates has led the market to reduce the expectations for longer term interest rates, which have affected these long-dated assets. The strong return of the UK property market in 2021/22 of +19.6% after the pandemic has been largely wiped-out and the Fund's property returns for 2022/23 have dropped by -12.6%. There has been little good news. Global equities which have had good returns in the last few years have made a small negative return of -0.93%. A small positive effect has been an increase in interest rates on the Fund's small cash balances which have increased to 2.8% up from 0.3% last year.

## Market returns in 2022/23





# Investment Performance Report continued

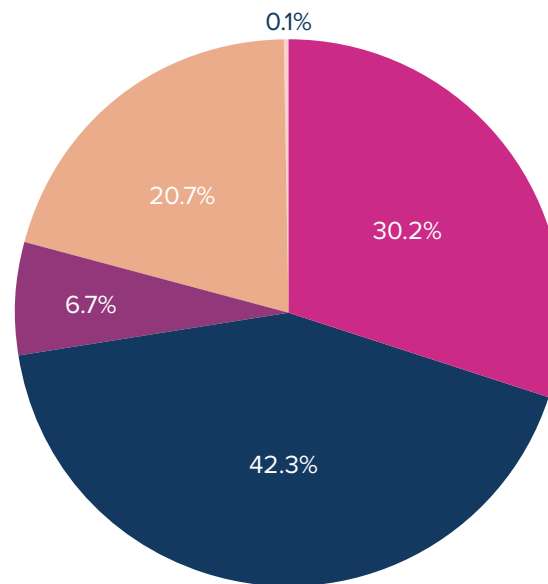
## The Hampshire Pension Fund's investment portfolio

The Pension Fund holds a portfolio of investments that has been constructed in line with its Investment Strategy. This strategy includes the belief that investing across a range of asset classes will provide diversification benefits by reducing volatility and improving the Fund's risk-return characteristics.

The majority of the Fund's investments are through pooled investment vehicles, both inside and outside of the ACCESS investment pool. The Fund also owns directly held property assets as well as investments in private equity, infrastructure, and private debt through its portfolios of alternative investments.

### Breakdown of the Hampshire Pension Fund's investments on 31 March 2023\*

	%
Pooled funds – Equities	30.2
Pooled funds – Fixed income	42.3
Property	6.7
Alternatives	20.7
Other	0.1
<b>Total</b>	<b>100</b>

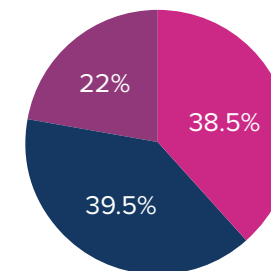


\* Based on Note 11 of the Pension Fund's accounts showing total investment assets.

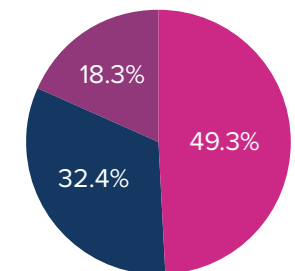
The Fund's Investment Strategy has been set to ensure that the Fund invests in assets with different characteristics. The maximum and minimum amounts allowed within the strategy and the current target and actual allocations on 31 March 2023 are shown in the table. More details can be found in the Investment Strategy Statement.

	Min.	Max.	Target	Actual
Growth	30%	70%	38.5%	49.3%
Income	10%	45%	39.5%	32.4%
Protection	10%	30%	22%	18.3%

#### Target



#### Actual





# Investment Performance Report continued

The Fund has appointed investment managers responsible for specialist portfolios with the aim of delivering the objectives set out in the Investment Strategy. The target portfolio size for each investment manager is shown alongside the actual size of each portfolio at the start and end of the year. The relevant performance benchmark for each manager is shown as well as

the outperformance target where applicable. Just under two thirds of the Fund's assets are now invested through the ACCESS pool. There are two new asset classes that were added to the Investment Strategy in March 2023: Timberland, and Investment Grade Credit. The investment management arrangements for these new asset classes are still to be confirmed.

## Pension Fund investment management structure

	Target portfolio size (%)	Actual allocation at 31 March 2022* (%)	Actual allocation at 31 March 2023* (%)	Benchmark	Annual target performance gross/net of fees	ACCESS pool?
<b>Growth</b>						
<b>High-performance global equities (pooled)</b>						
LF ACCESS Managed Volatility (Acadian)	5.5	6.4	7.1	MSCI World	+1.5% to 2.5% net	Y
LF ACCESS Global Alpha (Baillie Gifford)	4.0	6.6	6.4	MSCI All Countries World	+1.5% to 2.5% net	Y
LF ACCESS Long Term Global Growth Fund (Baillie Gifford)	6.0	8.2	7.7	MSCI All Countries World	+1.5% to 2.5% net	Y
LF ACCESS Global Stock Fund (Dodge & Cox)	5.5	7.9	8.3	MSCI All Countries World	+1.5% to 2.5% net	Y
<b>Passive equities (pooled)</b>						
UBS (global equities)	3.0	7.4	3.4	FTSE All World Equity Index	-	Y
UBS (alternative beta)	7.0	9.0	8.9	MSCI All Countries World	-	Y
<b>Private equity and other alternatives</b>						
abrdn	7.5	6.3	7.5	-	+9.0% to 11.5% net	N



# Investment Performance Report continued

	Target portfolio size (%)	Actual allocation at 31 March 2022* (%)	Actual allocation at 31 March 2023* (%)	Benchmark	Annual target performance gross/net of fees	ACCESS pool?
<b>Income</b>						
<b>Multi-asset Credit</b>						
Alcentra	5.5	4.9	5.2	3-month GBP SONIA	+3.0%	N
Barings	4.5	4.0	4.1	3-month GBP SONIA	+3.0%	N
<b>Asset Backed Securities</b>						
Insight	1.0	2.8	1.6	3-month GBP SONIA	+2.0%	N
TwentyFour	1.0	2.8	1.7	3-month GBP SONIA	+2.0%	N
<b>Private debt</b>						
JP Morgan	5.0	3.6	5.1	3-month GBP SONIA	+4.0%	N
<b>Timberland</b>						
To be confirmed	2.5					
<b>Infrastructure</b>						
GCM Grosvenor	10.0	4.9	8.1	-	+7.5% to 10.0% net	N
<b>UK property</b>						
CBRE Investment Management	10.0	6.9	6.6	Retail Prices Index (RPI)	+3.5% net	N





# Investment Performance Report continued

	Target portfolio size (%)	Actual allocation at 31 March 2022* (%)	Actual allocation at 31 March 2023* (%)	Benchmark	Annual target performance gross/net of fees	ACCESS pool?
<b>Protection</b>						
<b>Passive index-linked bonds</b>						
UBS	17.0	17.2	17.3	FT British Government Over Five Years Index-Linked Gilts Index	-	Y
Investment grade credit (To be confirmed)	5.0					
<b>Other</b>						
Cash and other net assets	0.0	1.1	1.0	-	-	N
<b>Total</b>	<b>100</b>	<b>100</b>	<b>100</b>			

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\* as per Note 11b in the Pension Fund's accounts

The most significant changes in actual allocations over the course of the year are due to the relative performance of different asset classes. The Pension Fund's alternative and property investment managers are continuing to build out their portfolios in these more illiquid asset classes, and whilst it takes time for funds to be fully deployed in line with the strategic allocations that have been set,

there has been a considerable move forward this year, particularly in infrastructure. There has been some liquidation of assets during 2022/23, mainly passive equities and asset backed securities. This has been to fund the increases to the illiquid asset classes in-line with the investment strategy.



# Investment Performance Report continued

The value of the investments held by each of the Fund’s managers on 31 March 2023 is shown in the following table:

Manager	Value of investments on 31 March 2023** (£ million)
<b>Growth</b>	
LF ACCESS Managed Volatility (Acadian)	639
LF ACCESS Global Alpha (Baillie Gifford)	570
LF ACCESS Long Term Global Growth Fund (Baillie Gifford)	693
LF ACCESS Global Stock Fund (Dodge & Cox)	740
UBS (passive global equities portfolio)	302
UBS (passive alternative beta portfolio)	801
abrnd (private equity and other alternatives)	675
<b>Income</b>	
Alcentra (Multi-asset Credit)	467
Barings (Multi-asset Credit)	368
Insight (ABS)	146
TwentyFour (ABS)	150
JP Morgan Alternative Asset Management (private debt)	459
GCM Grosvenor (infrastructure)	723
CBRE Investment Management (UK property)	595
<b>Protection</b>	
UBS (index-linked bond portfolio)	1,544
Cash and other net assets	93
<b>Total</b>	<b>8,965</b>

\*\* as per Note 11b in the Pension Fund’s accounts

## Monitoring the performance of the investment managers

All the Pension Fund’s investment managers have been set performance targets, with the expectation that these targets will be achieved over any three to five-year period. The performance of managers investing in listed equities is benchmarked against the relevant global, local or specialist index. Active managers are set targets to outperform a benchmark index, whereas passive managers should track the index. Managers in asset classes other than listed equities are given targets relevant to both their asset class and the level of risk the Pension Fund considers appropriate to achieve its investment objectives.

The Pension Fund Panel and Board will continue to monitor the investment managers’ performance against their targets on a rolling three and five-year basis.

## Investment performance of the overall Pension Fund

The Hampshire Pension Fund’s assets delivered a total return of -6.0% against a weighted benchmark of -1.5% in 2022/23. The weighted benchmark return is the average return for the relevant benchmarks of the Pension Fund’s investments, weighted to reflect the relative size of each portfolio. The infrastructure and Private equity alternative portfolios have continued to perform well even in this difficult economic climate. This has shown how diversification of the Hampshire portfolio balances out the returns of public markets in a volatile climate.

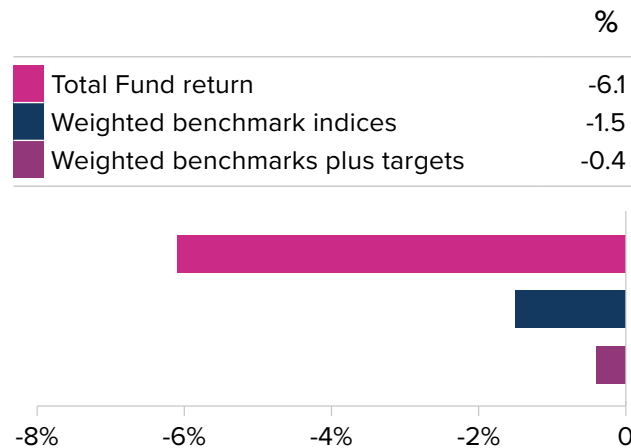


# Investment Performance Report continued

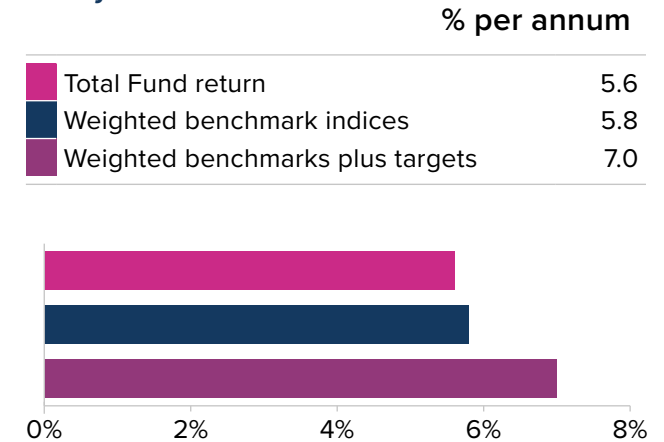
The Fund's investment return was 8.0% per annum over the three years to March 2023, and 5.6% per annum over the five years to March 2023. The 3-year return is greater than the 5-year return due to the continuation of the positive impacts experienced by some companies during and coming out of the pandemic. Over the 3-year period global equities have mainly performed below the benchmarks they are measured against with the exception of the Access Global Stock fund managed by Dodge and Cox. This reflects the markets rotation to favour value strategies, such as the one employed by Dodge & Cox, in comparison to the Pension Fund's other investment manager's strategies. Alternative Investments have fared better in the current climate. Over the five-year period to 31 March 2023 the Fund has achieved total returns slightly lower than the weighted benchmark but below the weighted targets set for its investment managers.

## Total investment returns for the Fund

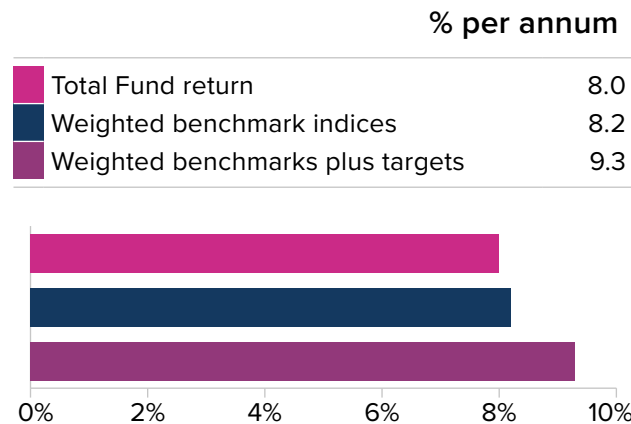
### 12 months to 31 March 2023



### Five years to 31 March 2023



### Three years to 31 March 2023





# Investment Performance Report continued

## Global equities

The Pension Fund invests in global equities through a combination of passive and actively managed mandates. The four actively managed mandates are all invested through the ACCESS pool managed by Link Fund Solutions. The passive mandates are managed by UBS, the ACCESS pool's passive manager.

Page 132 Full details of the investment management arrangements are on **page 42** and performance data is only shown where meaningful data is available.

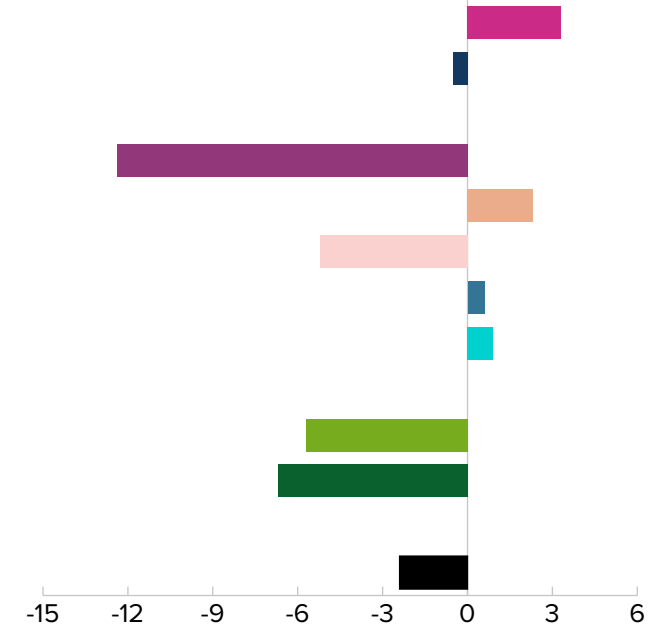
Global stock markets declined -0.9% in 2022/23, as measured by the MSCI All Countries World Index (ACWI), and -0.5% when emerging market stocks were excluded (MSCI World).

The ACCESS Global Stock Fund managed by Dodge & Cox and ACCESS Managed Volatility fund managed by Acadian have produced positive returns in comparison to the index that was slightly negative. In contrast the ACCESS Long Term Global Growth and the ACCESS Global Alpha

## Global equities (12 months to 31 March 2023)

	%
ACCESS Managed Volatility (Acadian)	3.3
MSCI World	-0.5
ACCESS Long Term Global Growth (Baillie Gifford)	-12.4
ACCESS Global Stock Fund (Dodge & Cox)	2.3
ACCESS Global Alpha (Baillie Gifford)	-5.2
UBS Alternative Beta	0.6
MSCI All Countries World Index	0.9
UBS Global Equities	-5.7
FTSE All World Equity Index	-6.7
All active global investment managers	-2.4

portfolios, both managed by Baillie Gifford, had an extremely difficult year both underperforming the benchmark as well as providing negative absolute returns. This has reversed trends that had occurred up to the current period of higher inflation, where the Baillie Gifford portfolios had been the Pension Fund's best performing



portfolios, driven in part by the strong performance of technology companies.

In aggregate, the Fund's active global equity managers underperformed the MSCI ACWI benchmark, returning a loss of -2.4% compared with the -0.9% loss for the index.



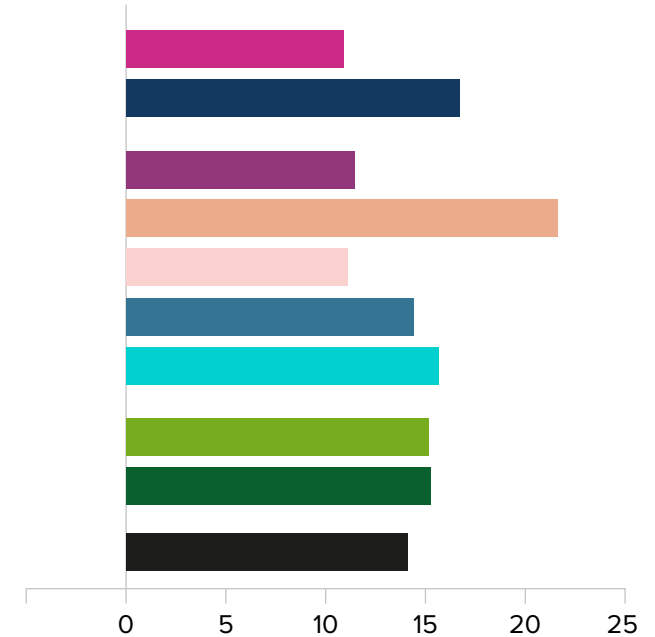
# Investment Performance Report continued

All six of the Pension Fund’s current global equity portfolios have a track record of at least three years and their performance is shown in the table below against their respective benchmarks. The table also shows the aggregate performance of all the Pension Fund’s active equity managers over three years. The Fund’s active equity managers have underperformed against their indices, with the exception of the Access Global Stock Fund.

## Global equities (Three years to 31 March 2023)

% per annum

ACCESS Managed Volatility (Acadian)	11.1
MSCI World	17.1
ACCESS Long Term Global Growth (Baillie Gifford)	11.8
ACCESS Global Stock Fund (Dodge & Cox)	22.2
ACCESS Global Alpha (Baillie Gifford)	11.3
UBS Alternative Beta	14.8
MSCI All Countries World Index	16.0
UBS Global Equities	15.5
FTSE All World Equity Index	15.6
All active global investment managers	14.4



The Baillie Gifford funds have been hit hard by the current economic climate. A number of the stocks they held, which had previously traded at high valuations fell in value as investors became less optimistic about the future due to growing concerns about inflation and interest rates.

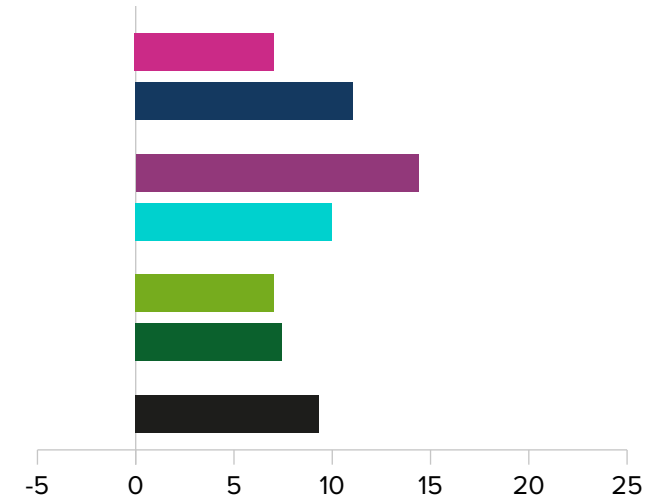


# Investment Performance Report continued

Three of the Pension Fund’s current active global equity portfolios have a track record of five years, and their performance is shown in the table below against their respective benchmarks. The table below also shows the aggregate performance of the Fund’s active global equity managers over the last 5 years including the Fund’s previous managers.

## Global equities (Five years to 31 March 2023)

	% per annum
ACCESS Managed Volatility (Acadian)	7.2
MSCI World	11.3
ACCESS Long Term Global Growth (Baillie Gifford)	14.9
MSCI All Countries World Index	10.2
UBS Global Equities	7.4
FTSE All World Equity Index	7.6
All active global investment managers	9.5



As shown over the five-year period, the Long-Term Global Growth portfolio, managed by Baillie Gifford, has significantly outperformed the benchmark. This illustrates the success that Baillie Gifford’s Long-term Global Growth strategy had, prior to the economic downturn of the last two years, which is still evident in their 5-year performance.

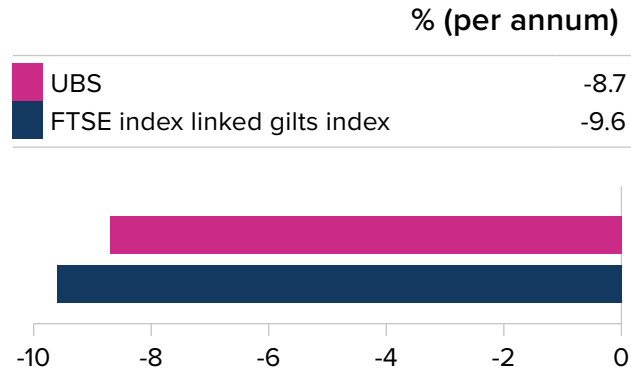


# Investment Performance Report continued

## Fixed income

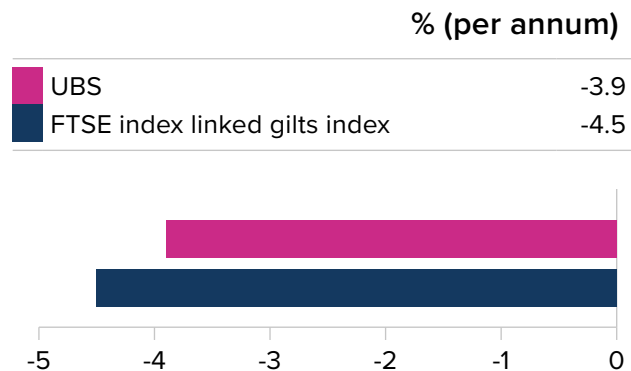
The FTSE British Government Over Five Years Index-Linked Gilts Index was particularly volatile in 2022/23 particularly in the period of the Truss-Kwarteng mini budget when the market reacted to sudden changes in interest rates expectations causing a significant sell-off in long-term UK Government bonds. UBS invest passively to match their index and their performance has slightly bettered the index as would be expected.

### Index linked gilts (three years to 31 March 2023)



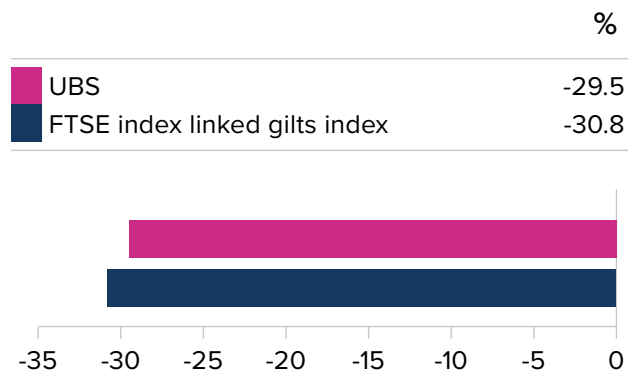
Alcentra and Barings are the Pension Funds two Multi-Asset Credit (MAC) investment managers. Both investment managers invest directly in bonds and loans and have been given a target to deliver returns of 3% per annum above the 3-month average SONIA rate. The combination of increases in interest rates having an adverse impact on fixed rate bonds and greater concerns about the risk to credit investments resulted in negative performance.

### Index linked gilts (five years to 31 March 2023)



Insight and TwentyFour are the Pension Fund's two Asset Backed Securities (ABS) investment managers with targets to deliver returns of 2% per annum above the 3-month average SONIA rate. These portfolios have also suffered as a result of the same trend of rising interest rates and greater concerns about credit assets.

### Index linked gilts (12 months to 31 March 2023)

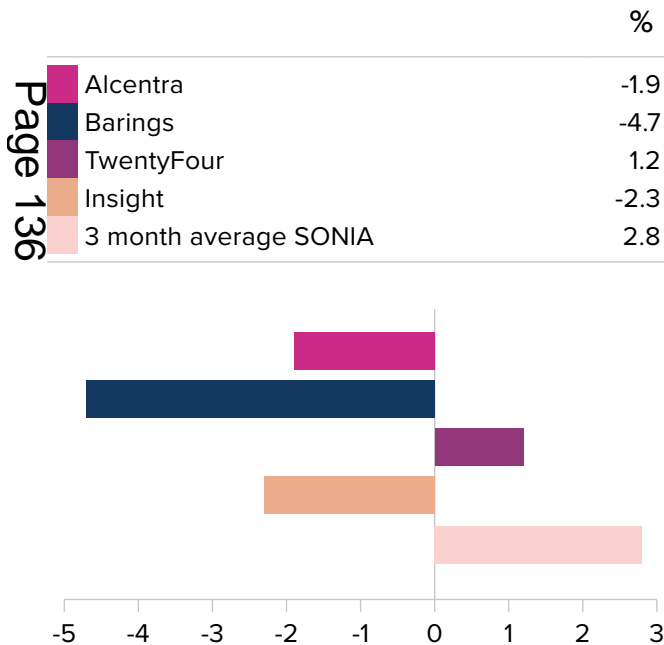




# Investment Performance Report continued

The Fund's investments in private debt through JP Morgan Alternative Asset Management are covered under the section on alternative investments on page 58.

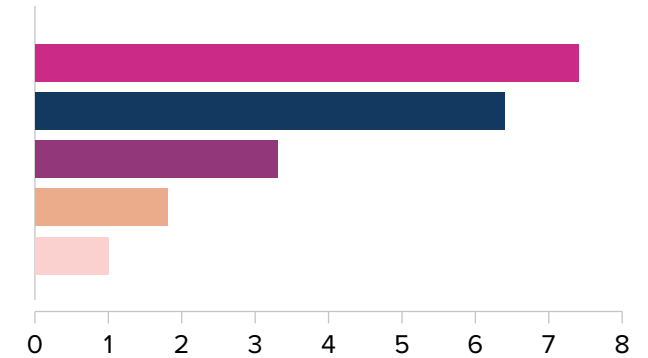
## Actively managed fixed income (12 months to 31 March 2023)



All four of the Fund's current actively managed fixed income portfolios have a track record of three years or more and their performance is shown in the table below against SONIA. Over the three-year period to 31 March 2023 all investment managers have provided portfolio returns above SONIA, and with the exception of Insight have exceeded their 3-year targets. This reflects the investment managers success in capturing the effect of the economic recovery from the pandemic.

## Actively managed fixed income (3 years to 31 March 2023)

	% (per annum)
Alcentra	7.4
Barings	6.4
TwentyFour	3.3
Insight	1.8
3 month average SONIA	1.0







# Investment Performance Report continued

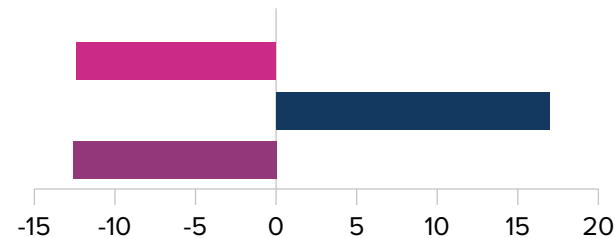
## Property

CBRE Investment Management manage a portfolio of UK properties, with a performance target of the Retail Price Index (RPI) plus 3.5% over 7 to 10 years. CBRE Global Investors' performance return of -12.4% in 2022/23 was below their target of 17%, but in line with the average UK commercial property market (depicted by the MSCI Quarterly Universe benchmark of -12.6%). There has been a combination of negative factors that have resulted in the negative performance. The fears of economic slowdown in the UK, falling demand from institutional investors for property investments and the significant rise in inflation which has increased the portfolio's target.

CBRE have not achieved their RPI plus 3% target for the last 5 years, but they have exceeded the MSCI Quarterly Universe benchmark. CBRE have highlighted that although the property market is currently challenged it may present opportunities to buy properties at attractive prices, which could be added to the portfolio after careful consideration.

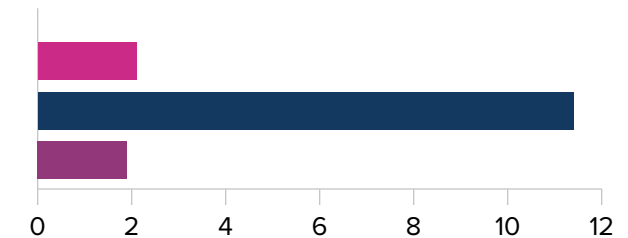
### Property (12 months to 31 March 2023)

	%
CBRE Investment Management – UK property	-12.4
RPI plus 3.5%	17.0
MSCI Quarterly Universe benchmark	-12.6



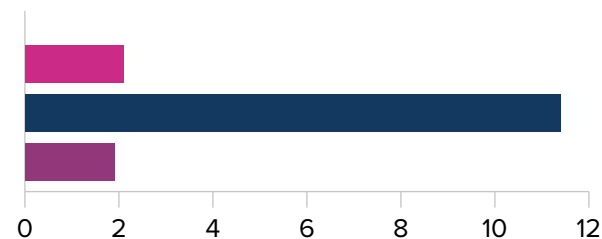
### Property (Five years to 31 March 2023)

	% per annum
CBRE Investment Management – UK property	2.4
RPI plus 3.5%	9.2
MSCI Quarterly Universe benchmark	1.9



### Property (Three years to 31 March 2023)

	% per annum
CBRE Investment Management – UK property	2.1
RPI plus 3.5%	11.4
MSCI Quarterly Universe benchmark	1.9





# Investment Performance Report continued

## Alternative investments

The Pension Fund's private equity, infrastructure and private debt portfolios are managed by abrdn, GCM Grosvenor and JP Morgan Alternative Asset Management respectively. These investments are relatively illiquid and investments in the infrastructure portfolio in particular should be considered long-term investments. By being able to take a long-term view and being prepared to hold illiquid investments, the Pension Fund believes it can benefit from greater returns.

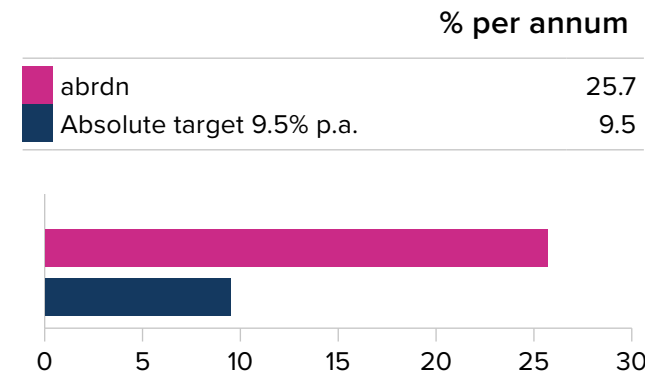
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The performance of these portfolios is measured using the Internal Rate of Return (IRR), which gives an annualised effective interest rate for the investment, taking account of the timing of the cashflows.

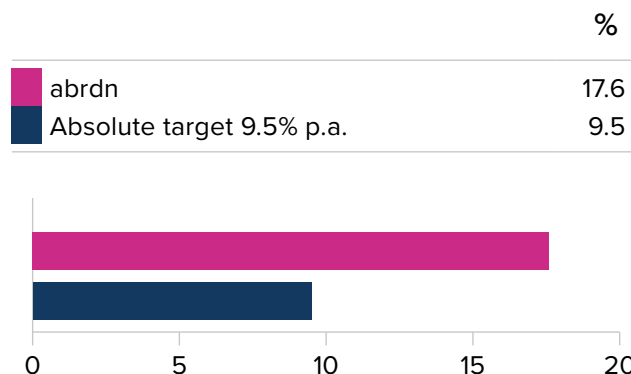
All of the alternative investment portfolios performed either well above their performance target in the time periods of data available, or in the case of JP Morgan private debt very close to it. The individual asset selection by the Fund's investment managers has been positive and provided some protection in the

challenging economic market. But the investment managers have cautioned that there is a lag in the valuation of alternative investments which may suppress future returns in comparison to the recent very positive experience.

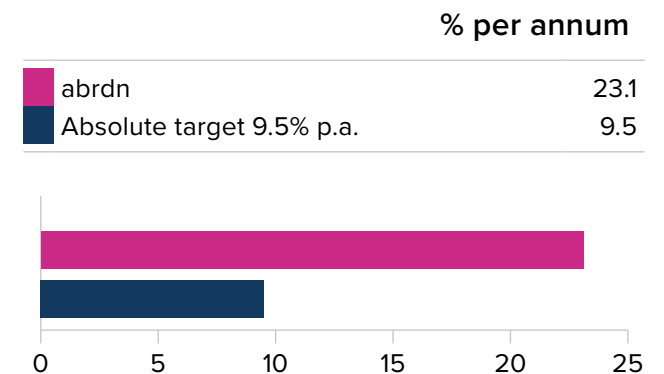
### Private equity and other (Three years to 31 March 2023)



### Private equity and other (12 months to 31 March 2023)



### Private equity and other (Five years to 31 March 2023)

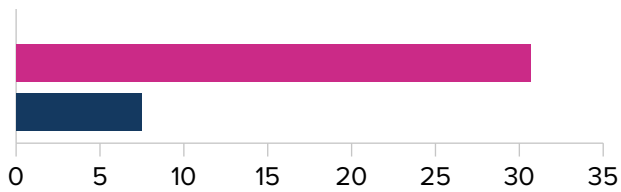




# Investment Performance Report continued

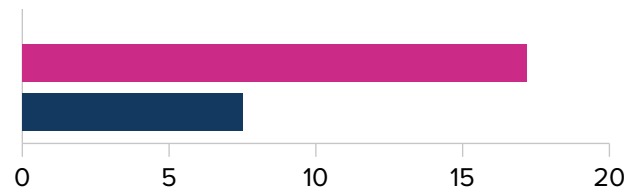
## Infrastructure (12 months to 31 March 2023)

	%
GCM Grosvenor	30.7
Absolute target 7.5% p.a.	7.5



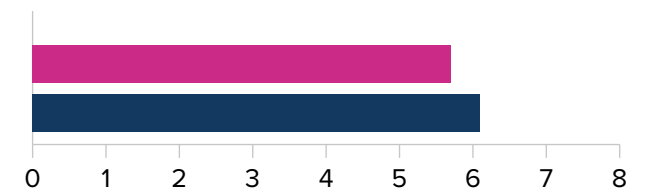
## Infrastructure (Five years to 31 March 2023)

	% per annum
GCM Grosvenor	17.2
Absolute target 7.5% p.a.	7.5



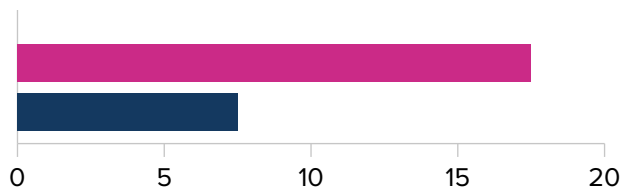
## Private debt (12 months to 31 March 2023)

	%
JP Morgan Alternative Asset Management	5.7
LIBOR +4% p.a. target	6.1



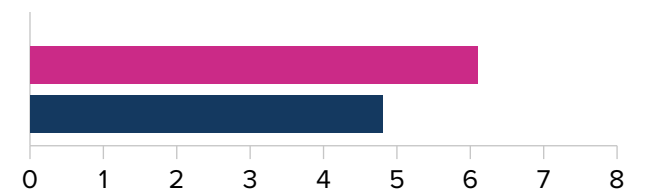
## Infrastructure (Three years to 31 March 2023)

	% per annum
GCM Grosvenor	17.5
Absolute target 7.5% p.a.	7.5



## Private debt (three years to 31 March 2023)

	% per annum
JP Morgan Alternative Asset Management	6.1
LIBOR +4% p.a. target	4.8





# Responsible Investment Activity 2022/23

The Pension Fund believes that an important part of Responsible Investment is being transparent about its RI Policy and the RI activity of the Fund. This report provides an update on the Pension Fund's RI activity.

## Introduction

The Pension Fund:

- has an RI policy, which is part of its investment strategy. This explains how Economic, Social and Governance (ESG) factors will be considered when making investment decisions for different asset classes and how the Pension Fund expects its investment managers to talk to companies about ESG issues and take part in shareholder voting
- has set up a group to focus on RI. The RI Sub-Committee was formed in September 2019 and is made up of members of the Pension Fund Panel and Board and makes recommendations to the Panel and Board

- is a signatory to the UN PRI which sets out six principles for responsible investors to follow
- was one of only six LGPS funds accepted as an original signatory to the revised UK Stewardship Code 2020 which is about how investors should act when making and owning investments
- provides training for the Panel and Board on RI to ensure members have relevant and up-to-date knowledge and understanding of this topic
- has produced a fourth annual update to report to scheme members specifically on RI activity

## Responsible Investment Sub-Committee

The following items were considered by the RI Sub-Committee during 2022/23:

- Scheme member communication
- Stewardship (voting and engagement)
- Climate change scenario analysis
- Government consultation on Climate Change Risk Reporting
- Consultant's report on the Pension Fund's ESG risks
- Annual Task Force on Climate-related Financial Disclosure (TCFD) and UK Stewardship Code reports

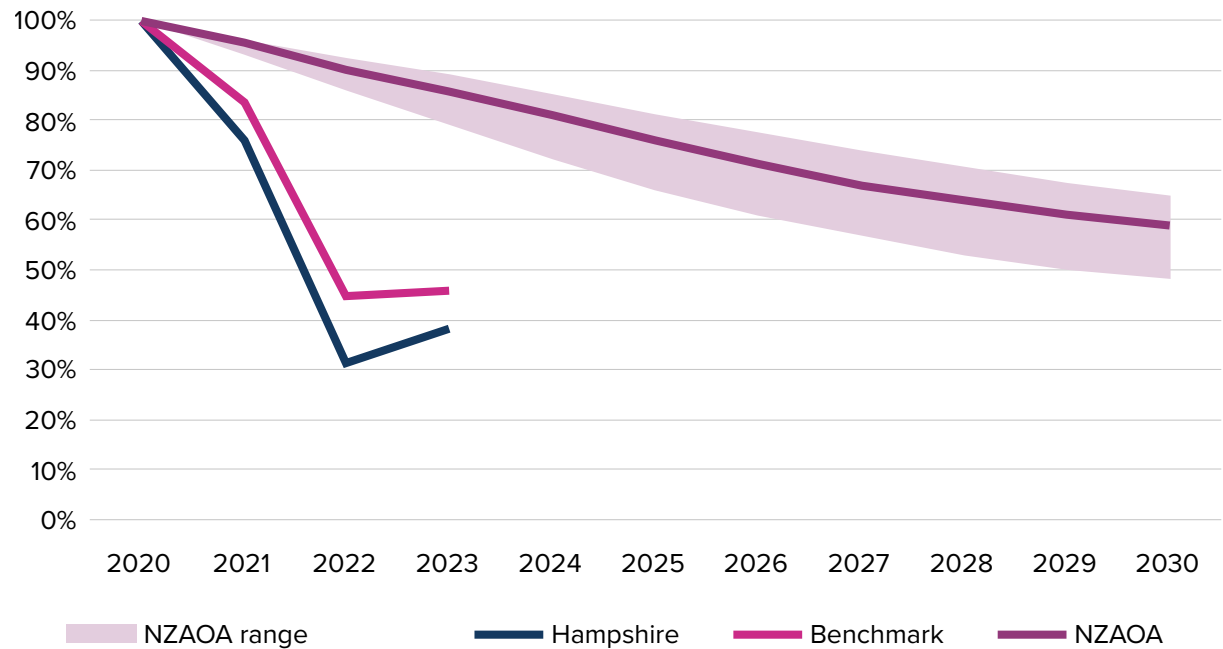


# Responsible Investment Activity 2022/23 continued

## Addressing climate change concerns

The Pension Fund supports the objectives of the Paris Agreement and believes that keeping a global temperature rise this century to well below 2°C (which we take to be 1.5°C). To address the Pension Fund supports the needs for a 'Just Transition' to a low carbon economy, that is orderly transition and inclusive.

Decarbonisation – Hampshire Equities (Scope 1&2) NZAOA decarbonisation guidelines (indicative) – % reduction vs. baseline



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The Pension Fund has committed to the aim for its investments to have net-zero greenhouse gas emissions by 2050 at the latest. The Fund monitors the carbon footprint (currently at Scope 1 and 2) against the Net-Zero Asset Owner Alliance trajectory. This is shown, to the right, for the Pension Fund’s equity investments, which were the investments that it was first able to capture data for, starting from 2020.



# Responsible Investment Activity 2022/23 continued

There has been a small increase in emissions from last year, for both Hampshire’s equities and the benchmark as result of:

- The majority of the world emerging from lockdowns in response to the COVID-19 pandemic, which has increased economic activity and the resulting emissions.
- Challenging market conditions in 2022 reduced the value of low emissions companies, particularly technology companies, and increased the value of higher emitting companies, especially energy companies – this is illustrated in the graph below in the holdings of fossil fuel and renewable investments.

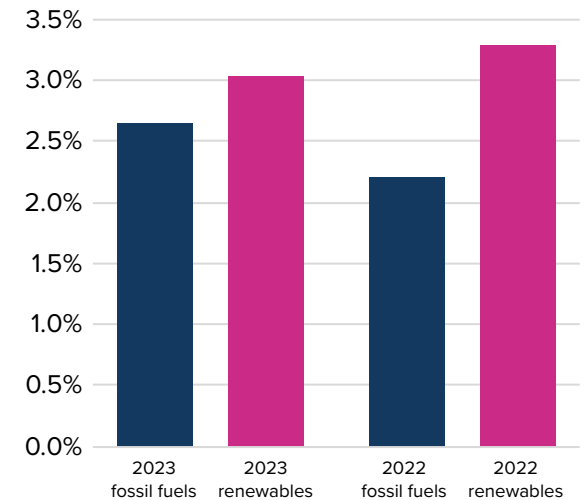
Through its RI policy the Pension Fund is managing the carbon output of its investments through the following targets or portfolio changes with its investment managers:

- Acadian Managed Volatility – carbon emissions limited to 50% of the benchmark

- Baillie Gifford Longterm Global Growth – carbon emissions are only 6% of the benchmark
- Baillie Gifford Global Alpha – moved to a Paris Agreement aligned strategy
- UBS passive global equities – moved to a climate aware strategy
- UBS passive factor equities – moved to a carbon aware strategy
- Barings multi-asset credit – carbon emissions limited to 70% of the benchmark

The following charts show the Pension Fund’s investments in companies engaged in the production or distribution of fossil fuels and renewable energy as of 31 December 2022.

Holdings in Fossil Fuel and Renewable investments





# Responsible Investment Activity 2022/23 continued

The narrowing of the gap between fossil fuel and renewable energy investments is disappointing, and as described above is the result of the relative market movements in the valuations of these investments in 2022, not as a result of the Fund's investment managers change in strategies. The Pension Fund continues to believe that there are significant climate change mitigation benefits that come from the Pension Fund's continued engagement as a shareholder with the fossil fuel companies it is invested in. Simply disinvesting from all fossil fuel companies is not a straightforward solution to tackling climate change. This is because:

- The necessary transition to a lower carbon economy needs to be managed carefully to ensure that it is a Just Transition – that the benefits of a low carbon economy transition are shared widely, ensuring that those who lose economically from the transition are supported. Simply disinvesting from fossil fuels will not achieve this.

- Some fossil fuel companies are playing an important role in the transition to a lower carbon economy, for example developing and investing in renewable energy. These companies need support from investors as they develop these new carbon efficient alternative fuel sources.
- If the Pension Fund sells its shares in fossil fuel companies, we will lose our ability as a Responsible Investor to engage with those companies, to hold them to account and to influence and support them in their move towards a lower-carbon economy. The investors that would buy these shares from us may not do this.
- In the short to medium term, there remains a reliance on fossil fuels to support our daily lives and the transition to a low carbon economy, such as producing the steel to build wind turbines. However, by investing in and engaging with these companies we can support and quicken their transition to lower carbon alternatives to enable the required transition to a lower carbon economy.

## Stewardship activities

The Pension Fund's investment managers' engagement and shareholder voting continues to be a key feature of the Fund's RI policy and is regularly reviewed. The Fund's investment managers have reported that key themes they have covered are:

- Good governance, including board composition and executive pay
- Diversity, inclusion, and the quality of company workforces, including reporting on the gender pay gap, and
- Sustainability and climate change including reporting on efforts to eliminate deforestation and integrating ESG metrics into executive compensation programmes



# Responsible Investment Activity 2022/23 continued

Analysis of votes cast by the Pension Fund's investment managers during 2022/23 show that the majority of votes cast against company management were for the following reasons:

- Nominees for company directors being not sufficiently independent
- Remuneration policies where the level of pay was felt to be excessive
- To improve the empowerment of investors, and
- The appointment of auditors where the incumbent audit firm has been in place too long or the disclosure of non-audit fees to the company was not clear

It is the Panel and Board's aim to ensure that all voting rights are exercised in accordance with the Pension Fund's voting policy, which allows for investment managers to explain if they have felt it appropriate not to follow the policy as an exception.

Exceptions are reported to the Pension Fund Responsible Investment Sub-Committee with an explanation from the investment manager.

Detailed reports on votes cast at shareholder meetings by the Pension Fund's investment managers can be found [on the Fund's RI website](#).

## Feedback

We would love to hear your thoughts on how we are doing as a responsible investor and how we are acting on your behalf as scheme members. Please email us at [responsible.investment@hants.gov.uk](mailto:responsible.investment@hants.gov.uk) or write to **Responsible Investment, Hampshire Pension Services, The Castle, Winchester, Hampshire, SO23 8UB**.

More information can be found via the [Pension Fund's Responsible Investment website](#).

## Summary Task Force on Climate-related Financial Disclosures Report 2022

The Hampshire Pension Fund supports the recommendations of the Financial Stability Board's Task Force on Climate-related Financial Disclosures (TCFD). TCFD provides a global framework to enable stakeholders to understand the financial system's exposure to climate-related risks particularly affecting organisations most likely to experience climate-related financial impacts from transition and physical risks. The TCFD has support from over 3,800 organisations. The Fund has committed to reporting on its approach to climate risk using the TCFD framework for asset owners which is published here [TCFD-report.pdf](#) ([hants.gov.uk](http://hants.gov.uk)). The following paragraphs summarise [Hampshire's TCFD report](#).





# Responsible Investment Activity 2022/23 continued

The Hampshire Pension Fund Panel and Board is responsible for agreeing investment objectives, strategy and structure, and for developing and agreeing the Responsible Investment (RI) Policy. All of the Hampshire Pension Fund's investments are managed by specialist external investment managers, all of which are signatories to the signatories to the Principles of Responsible Investment (PRI). The Panel and Board receive regular reports from the Fund's investments managers, which includes their management of responsible investment.

As part of the Pension Fund's 2022 Actuarial Valuation, the Fund's Actuary (Aon) produced scenario analysis of the Fund's funding position. The Actuary considered three scenarios:

- No transition – implied temperature rise (by 2100) +4<sup>o</sup>C
- Disorderly transition – implied temperature rise +3-4<sup>o</sup>C
- Orderly transition – implied temperature rise +1.3-2<sup>o</sup>C

- Another key risk is volatility of the funding level. Under the orderly transition, the Fund experiences large falls in the funding level of around 20% before recovering. Deterioration of the funding level will place strain on the participation of employers as they may have to make up bigger shortfall through deficit contributions.

The largest allocation in the Pension Fund's investment strategy is to equities, therefore the Fund's primary concern is that its investment managers and the management of the companies in which they invest have fully assessed climate-related risks and the potential impact on asset valuations, in particular from:

In summary Aon's analysis is that:

- The Fund's investment portfolio exhibits reasonable resilience under most of the climate scenarios. This is due to the diversification of assets.
- The worst-case scenario for the Fund is disorderly transition.

- Obsolescence, impairment or stranding of assets
- Changing consumer demand patterns; and
- Changing cost structures including increased emissions pricing, insurance, and investment in new technologies

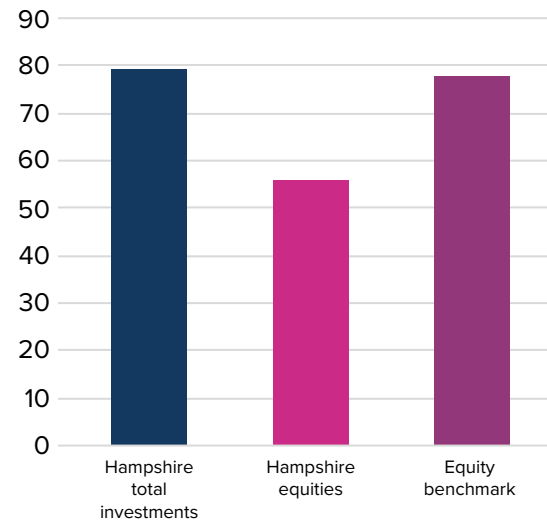
The Hampshire Pension Fund has a global investment strategy widely diversified by geography, asset class, sector, and investment manager. The Hampshire Pension Fund believes that Climate Change is a systemic risk and thus, a material long-term financial risk for any investor that must meet long-term obligations. The Fund continues to encourage greater levels of climate-related disclosures through its discussions with its investment managers and their engagement and voting with the companies they invest in to address this issue.



# Responsible Investment Activity 2022/23 continued

To monitor its progress within its investments towards net-zero green-house gas emissions by 2050 at the latest, the Pension Fund monitors the current carbon footprint of its investments. The Fund's investment managers are currently able to report the Scope 1 and 2 for 65% of the Pension Funds' investments, which are shown in the chart below. The Fund's equity investments are separated for comparison against an equity benchmark. Of the investments in the Fund's reporting equity investments over 39% of companies that Pension Fund invests in have their own targets aligned to the goals of the Paris Agreement.

2023 Carbon footprint (Scope 1 & 2)  
tCO<sub>2</sub>e/£m invested)



Section 5

# Administration of the Hampshire Pension Fund

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# Scheme Administration Report

## Who belongs to the Hampshire Pension Fund?

The Hampshire Pension Fund provides pensions for employees of Hampshire County Council, the unitary authorities of Southampton and Portsmouth and the 11 district / borough councils in the Hampshire County area. These are 'scheduled bodies', which means their employees have a statutory right to be in the Scheme. Other scheduled bodies include the Office of the Police and Crime Commissioner and the Chief Constable for Hampshire, Hampshire Fire and Rescue Authority, the University of Portsmouth, Southampton Solent University and other colleges that were part of the County Council. Town and parish councils that have opted to join the Fund are known as resolution bodies.

There are also admission bodies which include voluntary organisations that the County Council has admitted to the Scheme under its discretionary powers. Other admission bodies include employees of contractors for jobs transferred from scheduled bodies.

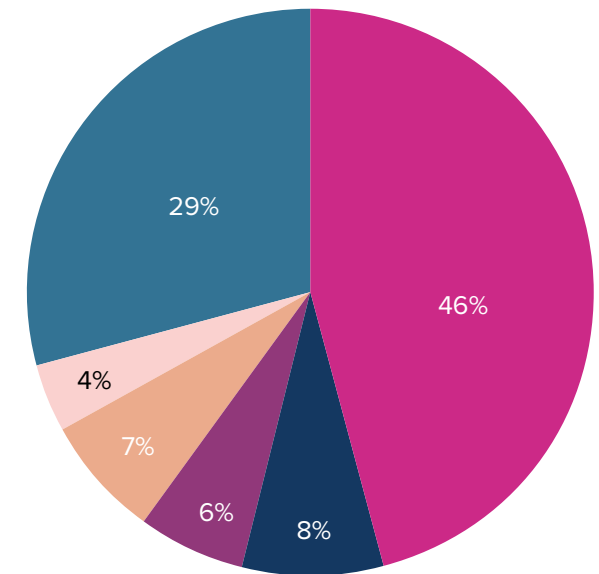
Teachers, police officers and firefighters have separate non-funded pension arrangements. Under the Pensions Act 2011, all employers are obliged to automatically enrol eligible employees into a qualifying pension scheme and re-enrol anyone who opts out of the scheme every three years.

The LGPS is a qualifying scheme under the automatic enrolment regulations and can be used as such by Fund employers.

Further information on automatic enrolment can be found on the [Pensions Regulator website](#).

On 31 March 2023 there were 52,947 pensioners, 87,084 deferred members, and 61,733 contributors, a total of 201,764 Scheme members.

	Number of contributors	%
Hampshire County Council	28,601	46
Portsmouth City Council	4,677	8
Southampton City Council	3,654	6
District and Borough councils	4,487	7
Office of Police and Crime Commissioner and Chief Constable	2,641	4
Other organisations	17,673	29
<b>Total</b>	<b>61,733</b>	<b>100</b>





# Scheme Administration Report continued

The following table shows a summary of employers in the fund analysed by type:

Employer Type	Employers	Active members	Deferred members	Pensioner members
Scheduled	191	59,916	84,613	49,980
Resolution	56	320	243	254
Admitted	75	1,391	1,373	1,282
Community admitted	10	41	291	404
Transferee admitted	17	65	268	267
Councillors (no active members)	10	0	80	136
Ceased (no active members)	52	0	216	624
<b>Total</b>	<b>411</b>	<b>61,733</b>	<b>87,084</b>	<b>52,947</b>

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## How the service is delivered

Responsibility for the administration of the Hampshire Pension Fund is delegated to Hampshire Pension Services (HPS), part of the Corporate Operations department of the County Council. HPS use UPM, a Civica system, to provide all aspects of pensions administration including pensioner payroll and employer web access. Members can access their pension information online via the Member Portal.

There are 59.5 full time equivalent members of staff involved in the administration of the scheme for Hampshire, split into two main teams, supported by finance, projects and systems staff:

- A single Member Services team responsible for administering all casework, handling all member queries, and paying pensioners

- An Employer Services team, responsible for all employer work including new and exiting employers, training, and employer support

Assurance over the effective and efficient operation of the administration is provided by internal audit, who carry out assurance and consultancy in accordance with an annual, risk based, programme. An annual opinion concludes on the overall adequacy and effectiveness of the HPS framework of governance, risk management and control.

In addition, HPS comply with the requirements for the national standard for excellence in customer service (CSE).



# Scheme Administration Report continued

The CSE assessment considers how HPS deliver against over 50 criteria in five key areas:

- Customer insight
- Culture of the organisation
- Information and access
- Delivery
- Timeliness and quality of service

The assessment is carried out by a qualified external assessor, with a full on-site review every third year and annual interim reviews. As well as viewing documentation, and observing working practices, the assessor speaks to customers, staff and partners to review HPS approach, along with details of their customer focussed initiatives and performance.

HPS have held the Customer Service Excellence (CSE) standard since 2009, and following a full assessment in April 2021, underwent a second-year interim

assessment in January 2023, with compliance plus passes in six areas:

- There is corporate commitment to putting the customer at the heart of service delivery and leaders in our organisation actively support this and advocate for customers
- We can demonstrate how customer facing staff insights and experiences and incorporated into internal processes, policy development and service planning
- We make our services easily accessible to all our customers through a provision of a range of alternative channels
- We monitor and meet our standards; meet departmental and performance targets and we tell our customers about our performance
- We have developed and learned from best practice identified within and outside our organisation, and we publish our examples externally where appropriate

- We empower and encourage all employees to actively promote and participate in the customer focussed culture of our organisation

HPS ran 23 remote training events in the year which were attended by 138 people representing 81 employers, and an Employer Focus Group meeting. The Annual Employers Meeting was held as a face-to-face meeting in October 2022 and was attended by representatives from 79 employers. The team ran 3 annual returns sessions with 72 attendees representing 68 employers. In addition, HPS staff attended various employer liaison meetings throughout the year, as well as the regional payroll officer's group.

Scheme information for members is provided on the HPS website. Members can view their own record including their annual benefit statement via the secure member self-service portal, as well as update personal details and run estimates. 87,578 members (43.3%) had registered for the Member Portal by 30 April 2023 (73,275 by 30 April 2022).



# Scheme Administration Report continued

The table to the right shows the usage of the Portal in each quarter, which corresponds to an increase by status when annual statements are published for actives (August) and deferred (June) and the annual increase is applied for pensioners (April).

## Key performance data

HPS' administration performance against service standards for key casework is measured each month and is used internally to improve processes.

Achievement against service standards was at 100% for all key processes during the year.

Hampshire LGPS 2022/23 summary					
	Q1	Q2	Q3	Q4	Total
Active	5,775	8,180	10,688	6,934	31,577
Deferred	7,464	5,050	5,401	5,527	23,442
Pensioner	8,534	4,754	4,021	5,108	22,417
<b>Total folders viewed</b>	<b>21,773</b>	<b>17,984</b>	<b>20,110</b>	<b>17,569</b>	<b>77,436</b>
Number of unique persons	16,784	14,075	15,360	13,488	59,707
<b>Total number of logins</b>	<b>31,633</b>	<b>26,698</b>	<b>27,280</b>	<b>25,850</b>	<b>111,461</b>

## Hampshire LG summary 2022/23

Area of work	Service standard	Number of cases	% cases completed against service standard				Average days to complete
			Q1 – 22/23	Q2 – 22/23	Q3 –22/23	Q4 – 22/23	
Active retirement	15 days	1,004	100	100	100	100	7
Deferred retirement	15 days	2,136	100	100	100	100	10
Estimates	15 days	5,348	100	100	100	100	11
Deferred benefits	30 days	8,958	100	100	100	100	24
Transfers in and out	15 days	363	100	100	100	100	6
Divorce	15 days	417	100	100	100	100	8
Refunds	15 days	1,511	100	100	100	100	8
Rejoiners	20 days	1,163	100	100	100	100	15
Interfunds	15 days	878	100	100	100	100	9
Death benefits	15 days	1,171	100	100	100	100	5
<b>Total cases processed</b>		<b>22,949</b>					



# Scheme Administration Report continued

Annual benefit statements were produced for 99.69% of active members (99.87% in 2021/22) and for 100% of deferred members by the statutory deadline of 31 August 2022. Of the 189 active members who did not have a statement by the deadline, 167 were produced by December 2022 once employers had provided the outstanding information. Of the remaining 22 statements, 15 could not be produced because the employer had not been able to provide earnings details.

Pension Savings Statements (PSS) were produced by the statutory deadline of 6 October for the 229 members who were identified as breaching the annual allowance limit in 2021/22. Of these 68 had a tax charge.

The annual internal audit opinion concluded that HPS have a sound framework of internal control in place, which is operating effectively. No risks to the achievement of system objectives were identified.

## Timeliness of contributions

All employer contributions due for 2022/23 have been received. The last contribution payment was received on 17 May 2023, due to a change in the staffing at an employer leading to a delayed payment.

A total of £0.724m was paid late (£0.366m in 2021/22) which was 0.33% of the total contributions received. The average delay on all late payments received during 2022/23 was 16 days (15 days in 2021/22). A significant amount of the delayed contributions was attributable to staff sickness at one large employer. Receipt of contributions is reviewed monthly to determine if any action is required. No late payment interest was charged for 2022/23.

## Mortality screening and National Fraud Initiative

HPS run a monthly mortality screen to ensure that all deaths are reported promptly to the Fund and to minimise overpayments of pension. Overpayments are recovered by the Fund by invoice to the estate, or, with permission from

the beneficiary, from a death grant or dependant pension. The table below shows the breakdown of how overpayments were recovered by the Fund.

Recovered From	Number	Total value
Death Grant	98	£12,247.05
Dependant Pension	209	£109,762.35
Invoice	501	£181,871.09
Write Off	90	£4,417.34
<b>Total</b>	<b>898</b>	<b>£308,297.83</b>

The Fund also participates in the bi-annual National Fraud Initiative (NFI). The most recent NFI exercise in 2023 identified four deaths with a total potential recovery of £2,222 and three further members for further investigation with a total potential recovery of £12,089.





# Scheme Administration Report continued

## Cost benchmarking

The Fund benchmarks its administrative costs against the SF3 data collected annually by the Department for Levelling Up, Housing and Communities for 85 LGPS Funds in England and Wales. The most recent data is that for the financial year 2021/22 and is summarised in the table on this page.

	2021/22		2020/21	
	Hampshire	All Funds	Hampshire	All Funds
Administration cost per member	£12.82	£26.68	£12.57	£23.91
Governance cost per member	£4.07	£11.21	£4.18	£11.71
Investment cost per member	£317.21	£282.32	£276.97	£237.11

## Value for money statement

HPS deliver an efficient and effective administration service as demonstrated by:

- Delivery against service levels
- Internal audit assurance on sound control framework
- Retention of Customer Service Excellence award
- Low administration cost per member

Work has continued in the year to improve data quality, with a focus on working with employers to improve the timeliness and quality of the information they provide.

## Summary of activity in 2022/23

As well as the focus on processing casework, HPS also continued to work on a number of projects.

- Submitted timely and accurate data for the triennial valuation
- Piloted Online Identification and Verification with overseas pensioners
- Continued to develop the Member Portal and encourage take up, including mailing all pensioners ahead of the annual pension increase in April and increasing the number of documents members can view online

- Initiated the work required for Pension Dashboards from both a data and software perspective
- Started the rectification phase of the GMP reconciliation project
- Continued to gather data and implement the necessary software changes required for the McCloud remedy



# Scheme Administration Report continued

HPS continue to review the data which is held in the pension system. Common and conditional data scores were reported to the Pensions Regulator in November 2022. The results of this provided a score for conditional data of 96% (96% in 2021/22). The score for common data was measured as 97% (96% in 2021/22). This improvement is largely the result of the continuation of the address tracing exercise for deferred members.

Band	Actual salary	Contribution rate per year	
		Main section	50:50 section
1	Up to £16,500	5.50%	2.75%
2	£16,501 to £25,900	5.80%	2.9%
3	£25,901 to £42,100	6.50%	3.25%
4	£42,101 to £53,300	6.80%	3.4%
5	£53,301 to £74,700	8.50%	4.25%
6	£74,701 to £105,900	9.90%	4.95%
7	£105,901 to £124,800	10.50%	5.25%
8	£124,801 to £187,200	11.40%	5.7%
9	£187,201 and more	12.50%	6.25%

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## What does membership cost and what are the benefits?

The Scheme operates tiered employee contribution rates set by Government. Employees pay a rising percentage depending on their pay band. The rates that apply from 1 April 2023 are set out in the table in the top right of this page.

Every three years the Fund's actuary, Aon, completes an actuarial valuation. This involves looking at the Fund's investments, future contributions from employees and commitments to decide the future level of employers' contributions. The most recent actuarial valuation of the Fund

was undertaken on 31 March 2022. The actuarial position of the Fund is explained in more detail on **page 80**.

At the 2022 valuation for the Fund as a whole, the total contribution rate was 17.7% of pay. Each employer or Group's total rate will differ depending on their circumstances including membership profile, funding level and recovery period.

Following the 2022 Fund Valuation, the Funding Strategy Statement allowed for scheme employers to elect to prepay employer and employee contributions for the full three-year period covered by the

valuation (April 2023 – March 2026), or for one year. In total, 5 employers took up this offer, resulting in a total prepayment of £321.2m during 2023/2024.

Prepayment election 2023/24	Number of employers	Contributions paid (£m)
Primary only: 1 year	5	321.1
Primary and Secondary: 1 year	1	0.1
<b>Total</b>	<b>6</b>	<b>321.2</b>



# Scheme Administration Report continued

## Benefits

The normal retirement age for all members is the later of age 65 or their state pension age. At retirement, members will receive:

- a pension of 1/80th of their final year's pay for each year of membership before 1 April 2008, and
- a lump sum of 3/80ths of their final year's pay for each year of membership before 1 April 2008, and
- a pension of 1/60th of their final year's pay for each year of membership after 31 March 2008 until 31 March 2014, and
- a pension of 1/49th of their actual pay for each year of membership after 1 April 2014.

In addition to the lump sum for membership before 1 April 2008, each member can exchange part of their pension pot for a lump sum and will receive £12 for every £1 of pension given up. However, the total lump sum is limited to 25% of their pension pot's value.

HM Revenue and Customs (HMRC) values retirement benefits in defined benefit schemes like the Hampshire Scheme at £20 for each £1 of pension, whatever the person's age. For all pensions already in payment, the value will be £25 for each £1 of pension.

The average annual pension paid in 2022/23 was £4,978 (£4,927 in 2021/22).

## Retirement age

The normal retirement age for members under the Scheme is the later of age 65 or their state pension age, but members can choose to retire from age 55 and receive their benefits immediately, although these may be reduced for early payment.

A total of 2,973 Scheme members retired during 2022/23, with an average retirement age of 63 years. Of this number, 1,400 (47.1%) took some form of early retirement including 144 ill health retirements and 1,164 members choosing to take a reduced pension.

## Additional voluntary contributions

Scheme members can pay additional voluntary contributions (AVCs) if they wish to supplement their pension or get an extra tax-free retirement lump sum. The AVCs are invested separately from the Fund's main assets and are used to buy extra pension benefits on retirement.

The Fund has one active AVC provider, Prudential. There are 2,253 active members paying into Prudential AVCs.



# Scheme Administration Report continued

## Membership information

A full listing of contributing employers to the Hampshire Pension Fund is available [here](#).

The number of contributors has increased slightly in the year. The number of pensioners and deferred members in the Fund have increased in line with the general trend.

Year ending 31 March	No. of contributors	No. of deferred	No. of pensioners
2013	46,319	48,970	33,449
2014	50,551	52,417	33,286
2015	54,679	55,787	34,364
2016	57,815	59,857	36,519
2017	57,781	64,060	38,216
2018	57,877	69,503	39,796
2019	58,055	72,050	41,714
2020	58,913	75,920	43,706
2021	59,000	78,834	45,576
2022	61,044	82,346	48,036
2023	61,733	87,084	52,947

## Complaints

If you have a complaint about the service, Pension Services staff will do their best to put things right. If you are still dissatisfied, you can write to the Complaints Officer at:

**The Complaints Officer  
Corporate Operations  
Hampshire County Council  
The Castle  
Winchester  
SO23 8UB**

There were 17 formal complaints received in 2022/23. All the complaints were investigated and changes were made to processes where appropriate. Nine of the complaints related to issues beyond the control of Pension Services.

## Appeals

The LGPS regulations provide a two-stage formal appeal process for members. For stage one it will either be heard by the employer, if the appeal is against a decision made by the employer, or by the Hampshire County Council Assistant Director of Finance if it is against Pension Services.

In either case, if the member is still dissatisfied, they can make a second stage appeal, which will be considered by the Hampshire County Council

Monitoring Officer. After this second stage, if the member wishes, the matter can be investigated by the Pensions Ombudsman.

The Fund considered two stage one Internal Dispute Resolution Procedure (IDRP) appeals against the Pension Fund during 2022/23 and these were not upheld. One progressed to stage two during the year and the appeal was partially upheld.

There was also one stage two appeal against an employer decision on ill health retirement. This was not upheld.

Section 6

# Financial performance and Pension Fund accounts

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# Financial Performance Report – Budget Commentary

Shown below is the Pension Fund’s budget for 2022/23 compared to actual expenditure, and the budget for the years 2023/24 to 2025/26. The budget for 2022/23 was

agreed by the Pension Fund Panel and Board at its meeting of 10 December 2021 and revised on 16 December 2022.

	Budget 2022/23 £000	Actual 2022/23 £000	Budget 2023/24 £000	Budget 2024/25 £000	Budget 2025/26 £000
Investment management fees	63,340	71,581	66,043	68,863	71,807
Staff	2,037	2,049	2,223	2,328	2,383
Premises	64	64	65	66	68
IT	352	400	324	327	338
Supplies & Services	282	278	288	297	299
Administrative Costs	2,735	2,791	2,900	3,018	3,088
Staff	442	446	507	524	530
Premises	5	5	5	5	5
IT	5	5	5	5	5
Supplies & Services	375	428	385	395	395
Oversight & Governance Costs	827	884	902	929	935
<b>Management Expenses</b>	<b>66,902</b>	<b>75,256</b>	<b>69,845</b>	<b>72,810</b>	<b>75,830</b>



# Financial Performance Report – Budget Commentary continued

## Management expenses

The Pension Fund pays its investment managers a percentage fee based on the value of investments. Investment management fees were higher than forecast predominantly because of the increase value of the Fund's alternative investments and the higher costs associated with these types of investments.

The 2022/23 expenditure on the administration and governance of the Pension Fund reflect the costs of delivering the Fund's statutory responsibilities for the administration of the scheme and management of investments. The level of resource has ensured that the Fund has met its regulatory requirements and delivered at the standards for administration that are expected, which have been reported to the Pension Fund Panel and Board.

Staff costs make up the majority of the administrative, oversight and governance costs. These functions were delivered to budget in the year, except for supplies and services governance costs, which increased as a result of additional costs of the 2022/23 Actuarial Valuation, including climate risk scenario analysis of the valuation results; and IT administration costs which included the first part of the Guaranteed Minimum Pension (GMP) rectification project not included in the budget.



# Statement of the Actuary for the year ended 31 March 2023

## Introduction

This statement has been prepared in accordance with Regulation 57(1)(d) of the Local Government Pension Scheme Regulations 2013 (the 'LGPS Regulations').

The LGPS Regulations require that a full actuarial valuation is carried out every third year. The purpose of this is to establish that the Hampshire Pension Fund (the 'Fund') is able to meet its liabilities to past and present contributors and to review employer contribution rates. The last full actuarial investigation into the financial position of the Fund was completed as of 31 March 2022 by Aon, in accordance with Regulation 62 of the LGPS Regulations.

## Actuarial Position

1. The valuation as of 31 March 2022 showed that the funding level of the Fund had increased since the previous valuation with the value of the Fund's assets as of 31 March 2022 (of £9,628.5M) covering 107.1% of the liabilities.

2. The valuation also assessed each individual employer's (or group of employers') position separately. Contribution requirements were determined based on the principles in the Fund's Funding Strategy Statement and are set out in Aon's report dated 31 March 2023 (the "actuarial valuation report"). In addition to the contributions certified, payments to cover additional liabilities arising from early retirements (other than ill-health retirements) will be made to the Fund by the employers.

Total contributions payable by all employers over the three years to 31 March 2026 are estimated to be:

Year from 1 April	% of pensionable pay	Plus total contribution amount (£M)
2023	18.1%	2.7
2024	18.1%	2.8
2025	18.1%	2.9*

\*increasing at 3.3% p.a.

Some employers are permitted by the Administering Authority to bring forward the payment of employer contributions in exchange for a discount for early payment. The terms of this option were outlined in the Rates and Adjustments Certificate attaching to the actuarial valuation report.

3. The funding plan adopted in assessing the contributions for each employer is in accordance with the Funding Strategy Statement. Different approaches were adopted in relation to the calculation of the primary contribution rate, stepping of contribution changes and individual employers' recovery periods as agreed with the Administering Authority and reflected in the Funding Strategy Statement, reflecting the employers' circumstances.





# Statement of the Actuary continued

4. The valuation was carried out using the projected unit actuarial method for most employers, allowing for future increases in pensionable pay. The main financial actuarial assumptions used for assessing the funding target and the contribution rates were as follows.

## Discount rate for periods in service

Secure scheduled body employers <sup>1</sup>	4.40% p.a.
<b>Intermediate funding targets<sup>1</sup></b>	
Low risk	3.85% p.a.
Medium risk	3.55% p.a.
High risk	3.25% p.a.
Ongoing Orphan employers	3.95% p.a.

## Discount rate for periods after leaving service

Secure scheduled body employers <sup>1</sup>	4.40% p.a.
<b>Intermediate funding targets<sup>1</sup></b>	
Low risk	3.85% p.a.
Medium risk	3.55% p.a.
High risk	3.25% p.a.
Ongoing Orphan employers	1.90% p.a.
Rate of pay increases	3.30% p.a.

## Rate of increase to pension accounts and pensions in payment (in excess of Guaranteed Minimum Pension)

Secure scheduled body and Intermediate funding targets <sup>1</sup>	2.30% p.a. <sup>2</sup>
Ongoing orphan funding target	3.40% p.a.

<sup>1</sup> The appropriate secure scheduled body or intermediate discount rate was also used for employers whose liabilities will be subsumed after exit by an employer subject to that funding target.

<sup>2</sup> In addition, an 8% uplift has been applied to the past service liabilities on the scheduled body and intermediate funding targets to make allowance for short-term inflation above the long-term assumption.

In addition, the discount rate and rate of increases to pensions for already orphaned liabilities (i.e., where there is no scheme employer responsible for funding those liabilities and the employer has exited the Fund) were assumed to be 1.7% p.a. and 3.4% p.a. respectively.

The assets were valued at market value and included an estimated payment of £1.6M relating to the bulk transfer of a small number of active members from the Isle of Wight Pension Fund.

5. The key demographic assumption was the allowance made for longevity. The post-retirement mortality assumption adopted for the actuarial valuation was in line with standard self-administered pension scheme (SAPS) S3 mortality tables with appropriate scaling factors applied based on an analysis of the Fund's pensioner mortality experience and a Fund membership postcode analysis using Aon's Demographic Horizons™ longevity model, and included an allowance for future improvements based on the 2021 Continuous Mortality Investigation Projections Model, with a long term annual rate of improvement in mortality rates of 1.5% p.a. The resulting average future life expectancies at age 65 (for normal health retirements) were:

	Men	Women
Current pensioners aged 65 at the valuation date	23.2	25.6
Current active members aged 45 at the valuation date	23.7	26.6



# Statement of the Actuary continued

6. The valuation results summarised in paragraph 1 above are based on the financial position and market levels at the valuation date, 31 March 2022. As such the results do not make allowance for changes which have occurred subsequent to the valuation date.

7. The formal actuarial valuation report and the Rates and Adjustments Certificate setting out the employer contribution rates for the period from 1 April 2023 to 31 March 2026 were signed on 31 March 2023. Other than as agreed or otherwise permitted or required by the Regulations, employer contribution rates will be reviewed at the next actuarial valuation of the Fund as of 31 March 2025 in accordance with Regulation 62 of the Local Government Pension Scheme Regulations 2013.

- This Statement has been prepared by the Actuary who undertook the most recent triennial actuarial valuation, Aon, for inclusion in the accounts of the Fund. It provides a summary of the results of their actuarial valuation which was carried out as of 31 March 2022.

The valuation provides a snapshot of the funding position at the valuation date and is used to assess the future level of contributions required.

This Statement must not be considered without reference to the formal actuarial valuation report which details fully the context and limitations of the actuarial valuation.

Aon does not accept any responsibility or liability to any party other than Hampshire County Council, the Administering Authority of the Fund, in respect of this Statement.

The report on the actuarial valuation as of 31 March 2022 is available on the Fund's website at the following address

[hants.gov.uk/hampshire-services/pensions/local-government/employers/technical-information/finance/actuarial-valuation](https://hants.gov.uk/hampshire-services/pensions/local-government/employers/technical-information/finance/actuarial-valuation)

Aon Solutions UK Limited  
**May 2023**

Section 8

# Financial statements

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# Pension Fund Accounts

Fund account	See note	2021/22 £000	2022/23 £000
<b>Dealings with members, employers and others directly involved in the fund</b>			
Contributions	7	199,267	222,220
Transfers in from other pension funds		16,178	22,195
		<b>215,445</b>	<b>244,415</b>
Benefits	8	(285,525)	(305,226)
Payments to and on account of leavers		(18,758)	(22,154)
		<b>(304,283)</b>	<b>(327,380)</b>
<b>Net additions from dealings with members</b>		<b>(88,838)</b>	<b>(82,965)</b>
Management expenses	9	(63,956)	(38,237)
Net additions inc. fund management expenses		(152,794)	(121,202)
<b>Returns on investments</b>			
Investment income	10	106,521	138,845
Taxes on income		176	(2,512)
Profits and losses on disposal of investments and changes in the market value of investments	11a	600,156	(677,439)
<b>Net return on investments</b>		<b>706,853</b>	<b>(541,106)</b>
<b>Net increase in the net assets available for benefits during the year</b>		<b>554,059</b>	<b>662,308</b>
Opening net assets of the scheme		9,072,815	9,626,874
Closing net assets of the scheme		9,626,874	8,964,566



# Pension Fund Accounts

Net assets statement for the year ending 31 March 2023	See note	31 March 2022 £000	31 March 2023 £000
Investment assets		9,508,612	8,861,571
Cash deposits		27	207
Investment liabilities		(40)	(77)
<b>Total net investments</b>	11	<b>9,508,599</b>	<b>8,861,701</b>
Current assets	18	125,033	109,753
Current liabilities	19	(6,758)	(6,887)
<b>Net assets of the Fund available to fund benefits at the period end</b>		<b>9,626,874</b>	<b>8,964,566</b>

Note: The Fund's financial statements do not take account of liabilities to pay pensions and other benefits after the end of the period end. The actuarial present value of promised retirement benefits is disclosed at Note 17.



# Notes to Pension Fund Accounts

## 1. Description of Fund

The Hampshire Pension Fund (the ‘Fund’) is part of the Local Government Pension Scheme and is administered by Hampshire County Council. The County Council is the reporting entity for this Pension Fund.

The following description of the Fund is a summary only. For more detail, reference should be made to the Hampshire Pension Fund Annual Report 2022/23 and the underlying statutory powers underpinning the Scheme.

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### a) General

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

- The Local Government Pension Scheme Regulations 2013 (as amended)
- The Local Government Pension Scheme (Transitional Provisions, Savings and Amendment) Regulations 2014 (as amended)

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

It is a contributory defined benefit pension scheme administered by Hampshire County Council to provide pensions and other benefits for pensionable employees of Hampshire County Council, Portsmouth and Southampton City Councils, the 11 district councils in Hampshire, and a range of other scheduled and admitted bodies within the county area. Teachers, police officers and firefighters are not included as they come within other national pension schemes.

The Fund is overseen by the Hampshire Pension Fund Panel and Board, which is a committee of Hampshire County Council.

### 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.

Organisations participating in the Hampshire 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.

There are 349 employer organisations within the Hampshire Pension Fund including the County Council itself, as detailed on the following page.



# Notes to Pension Fund Accounts continued

Hampshire Pension Fund	31 March 2022	31 March 2023
Number of employers with active members	350	349
<b>Number of employees in Scheme</b>		
County Council	28,049	28,601
Other employers	32,995	33,132
<b>Total</b>	<b>61,044</b>	<b>61,733</b>
<b>Number of pensioners</b>		
County Council	20,949	24,579
Other employers	27,087	28,368
<b>Total</b>	<b>48,036</b>	<b>52,947</b>
<b>Deferred pensioners</b>		
County Council	40,914	43,315
Other employers	41,432	43,769
<b>Total</b>	<b>82,346</b>	<b>87,084</b>
<b>Total members in the Pension Fund</b>	<b>191,426</b>	<b>201,764</b>

## c) Funding

Benefits are funded by contributions and investment earnings. 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 in the Main Section, and 2.75% to 6.25% of pensionable pay in the 50/50 Section, for the financial year ending 31 March 2023. Employee contributions are matched by employers' contributions which are set based on triennial actuarial funding valuations. The last valuation was at 31 March 2022. Employer contribution rates for most employers were a range from 16.7% to 25.2% of pensionable pay. A small number of employers also pay a past service deficit contribution.

## d) Benefits

Prior to 1 April 2014, pension benefits under the LGPS were based on final pensionable pay and length of pensionable service.

From 1 April 2014, the scheme became a career average scheme, whereby members

accrue benefits based on their pensionable pay in that year at an accrual rate of 1/49th. Accrued pension is updated annually in line with the Consumer Price Index.

There are a range of other benefits provided under the Scheme including early retirement, disability pensions and death benefits. For more details, please refer to the [Hampshire Pension Fund's website](#).

## 2. Basis of preparation

The Statement of Accounts summarises the Fund's transactions for the 2022/23 financial year and its position at year end at 31 March 2023. The accounts have been prepared in accordance with the *Code of Practice on Local Authority Accounting in the United Kingdom 2022/23* which is based upon International Financial Reporting Standards (IFRS), as amended for the UK public sector. The accounts have been prepared on a going concern basis.



# Notes to Pension Fund Accounts continued

Paragraph 3.3.1.2 of the Code requires disclosure of any accounting standards issued but not yet adopted. The Code only requires items to be mentioned here which will be adopted in 2022/23. However, it is also useful to note that the adoption of IFRS 16 (which is about accounting for leases) has been delayed again and adoption is planned in 2024/25. This new accounting standard largely removes the distinction between operating and finance leases by introducing an accounting model that requires lessees to recognise assets and liabilities for all leases with a term of more than 12 months unless the underlying asset is of low value. This will bring assets formerly off-Balance Sheet onto the Balance Sheet of lessees. Implementation of IFRS 16 is not expected to have a material impact on the pension fund because it does not hold any assets as a lessee.

The accounts report on the net assets available to pay pension benefits. They do not take account of obligations to pay pensions and benefits that 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 assets statement, in the notes to the accounts or by appending an actuarial report prepared for this purpose. The Pension Fund has opted to disclose this information in Note 17.

The vast majority of employers in the pension scheme (88% of the Fund by active membership, are scheduled bodies excluding Further and Higher Education employers) have secure public sector funding, and therefore there should be no doubt in their ability to continue to make their pension contributions. Following the latest actuarial valuation and schedule of employer contribution prepayments, the Pension Fund has reviewed its cashflow forecast and is confident in its ability to meet its ongoing obligations to pay pensions from its cash balance for at least 12 months from the date of signing the accounts. In the event that investments need to be sold 72.5% of the Fund's investments can be converted into cash within 3 months.

## 3. Summary of significant accounting policies

### Fund Account – revenue recognition

#### a) Contribution income

Normal contributions are accounted for on an accruals basis as follows:

- Employee contribution rates are set in accordance with LGPS regulations, using common percentage rates for all schemes which rise according to pensionable pay.
- Employer contributions are set at the percentage rate recommended by the fund actuary for the period to which they relate. As set out in the Fund Actuary's Rates and Adjustment certificate, certain employers can pay the primary and/or secondary contributions for the 3 years of the valuation period.

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





# Notes to Pension Fund Accounts continued

Employers' augmentation contributions and pensions strain contributions are accounted for in the period in which the liability arises. Any amount due in year but unpaid will be classed as a current financial asset. Amounts not due until future years are classed as long-term financial assets.

## b) Transfers to and from other schemes

Transfers in and out relate to members who have either joined or left the Fund.

Individual transfers in/out are accounted for when received/paid. Transfers in from members wishing to use the proceeds of their additional voluntary contributions (see section n below) to purchase Scheme benefits are accounted for on a receipts basis and are included in Transfers In.

Bulk (group) transfers are accounted for in accordance with the terms of the transfer agreement.

## c) Investment income

i) 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.

ii) 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.

iii) 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.

iv) Rental income from operating leases on properties owned by the Fund is recognised in the fund account when it is paid by the tenant according to the terms of the lease.

Contingent rents based on the future amount of a factor that changes other than with the passage of time, such as turnover rents, are only recognised when contractually due.

v) Changes in the value of investments (including investment properties) 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, providing that the payment has been approved.

### e) Management expenses

The Fund discloses its management expenses in line with the CIPFA guidance *Accounting for Local Government Pension Scheme Management Costs (2016)*, as shown below. All items of expenditure are charged to the Fund on an accruals basis as follows.

### Administrative expenses

All staff costs of the pensions administration team are charged direct to the Fund. Council recharges for management, accommodation and other overhead costs are also accounted for as administrative expenses to the Fund.



# Notes to Pension Fund Accounts continued

## Oversight and governance costs

All costs associated with governance and oversight are separately identified, apportioned to this activity and charged as expenses to the Fund.

## Investment management expenses

Page 170 Investment fees are charged directly to the fund as part of management expenses and are not included in, or netted off from, the reported return on investments. Where fees are netted off returns by investment managers, these expenses are grossed up to increase the income receivable.

Investment fees of the external investment managers and custodian are set out in the respective mandates governing their appointments. Broadly, these are based on the market value of the investments under management and therefore increase or reduce as the value of these investments change.

Where an investment manager's fee note has not been received by the balance sheet date, an estimate based upon the

market value of their mandate at the end of the year is used for inclusion in the Fund account. In 2022/23 £2.8 million of fees is based on such estimates (2021/22 £2.3 million).

### f) Taxation

The Fund is a registered public service scheme under section 1(1) of Schedule 36 of the Finance Act 2004 and as such is exempt from UK income tax on interest received and from capital gains tax on the proceeds of investments sold. 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.

Income and expenditure exclude VAT, as all VAT collected is payable to HM Revenue and Customs (HMRC), and all VAT paid is recoverable from HMRC.

## Net Assets Statement

### g) Financial assets

All investment assets are included in the Net Assets Statement on a fair value basis

as at the reporting date. A financial asset is recognised in the Net Assets Statement on the date the Fund becomes party to the contractual acquisition of the asset. Any amounts due or payable in respect of trades entered into but not yet complete at 31 March each year are accounted for as financial instruments held at amortised cost and reflected in the reconciliation of movements in investments and derivatives in Note 11a. Any gains or losses on investment sales arising from changes in the fair value of the asset are recognised in the fund account.

The values of investments as shown in the Net Assets Statement have been determined in accordance with the requirements of the Code and IFRS13 (see Note 13). For the purposes of disclosing levels of fair value hierarchy, the Fund has adopted the classification guidelines recommended in *Practical Guidance on Investment Disclosures* (PRAG/Investment Association, 2016).



# Notes to Pension Fund Accounts continued

## h) Freehold and leasehold properties

Properties are valued annually as at the year-end date by an independent external valuer, Mark White, BSc MRICS of Colliers International, on a fair value basis in accordance with the *Royal Institute of Chartered Surveyors' Valuation – Current Global Standards*; see Note 13 for more details.

## i) 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. End-of-year spot market exchange rates are used to value cash balances held in foreign currency bank accounts, overseas investments and purchases and sales outstanding at the end of the reporting period.

## j) 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 (see Note 12).

## k) Cash and cash equivalents

Cash comprises cash in hand and demand deposits and includes amounts held by the Fund's external managers. All cash balances 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.

## l) Financial liabilities

A financial liability is recognised in the net asset statement on the date the fund becomes legally responsible for that liability. The fund recognises financial liabilities relating to investment trading at fair value and any gains or losses arising from changes in the fair value of the liability between contract date, the year-end date and the eventual settlement date are recognised in the fund account as part of the change in value of investments.

Other financial liabilities classed as amortised cost are carried in the net asset statement at the value of the outstanding principal at 31 March each year.

## m) 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 and relevant actuarial standards. As permitted under the Code, the Fund has opted to disclose the actuarial present value of promised retirement benefits by way of a note to the Net Assets Statement (Note 17).

## n) Additional voluntary contributions

The fund provides an additional voluntary contribution (AVC) scheme for its members, the assets of which are invested separately from those of the pension fund. The Fund has appointed Prudential and Zurich as its AVC providers. AVCs can also be paid to Utmost, but only by legacy contributors (closed to new members).



# Notes to Pension Fund Accounts continued

AVCs are not included in the accounts in accordance with Regulation 4(1)(b) of the Local Government Pension Scheme (Management and Investment of Funds) Regulations 2016 but are disclosed as a note only (see Note 20).

## **o) Contingent assets and contingent liabilities**

**Page 172** A contingent asset arises where an event has taken place giving rise to a possible asset whose existence will only be confirmed or otherwise by future events.

A contingent liability arises where an event has taken place prior to the year end giving rise to a possible financial obligation whose existence will only be confirmed or otherwise by the occurrence of future events. Contingent liabilities can also arise in circumstances where a provision would be made, except that it is not possible at the balance sheet date to measure the value of the financial obligation reliably.

Contingent assets and liabilities are not recognised in the Net Assets Statement but are disclosed by way of narrative in the notes.

## **4. Critical judgements in applying accounting policies**

### **Unquoted alternative investments**

It is important to recognise the subjective nature of determining the fair value of alternative investments: private equity, infrastructure and private debt. They are inherently based on forward-looking estimates and judgements involving many factors. Unquoted private equity and infrastructure investments are valued by the investment managers using guidelines set out by the International Private Equity and Venture Capital Valuation Guidelines. The value of unquoted private equity investments was £666 million and infrastructure investments was £723 million at 31 March 2023 (£598 million and £470 million respectively at 31 March 2022). There is no standard for the valuation of private debt, but most general partners of private debt funds will base their valuations on a 3rd party valuer, such as Duff & Phelps. The value of unquoted private debt investments at 31 March 2023 was £449 million (£340 million at 31 March 2022).

## **Pension fund liability**

The pension fund liability is recalculated every three years by the appointed actuary, with updates in the intervening years. The methodology used is in line with accepted guidelines. This estimate is subject to significant variances based on changes to the underlying assumptions, which are agreed with the actuary and are summarised in Note 16.

These actuarial revaluations are used to set future employer contribution rates and underpin the Fund's most significant investment management policies, for example in terms of the balance struck between longer term investment growth and short-term yield/return.



# Notes to Pension Fund Accounts continued

## Directly held property

The Fund's property portfolio includes a number of directly owned properties, which are leased commercially to various tenants with rental periods from less than a month to 115 years (based on current leases). The Fund has determined that these contracts all constitute operating lease arrangements under the classification permitted by IAS7 and the Code, therefore the properties are retained on the net asset statement at fair value. Rental income is recognised in the fund account when it is paid by the tenant according to the terms of the lease.

## Wholly owned companies

The Pension Fund's investments include two companies that it owns that have been specifically created to hold the Pension Fund's investments. These companies have no other purpose and therefore the value of the companies is equal to value of the investments.

The Pension Fund accounts for these investments according to the types of

investments held by the companies, in line with the rest of the Pension Fund's accounting and reporting.

## 5. Assumptions made about the future and other major sources of estimation 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 year end 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.



# Notes to Pension Fund Accounts continued

The items in the Net Assets Statement and Notes to the Accounts at 31 March 2023 for which there is a significant risk of adjustment in the forthcoming financial year are as follows:

Item	Uncertainties	Effect if actual results differ from assumptions
<b>Actuarial present value of promised retirement benefits (Note 17)</b>	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, a 0.5% increase in the discount rate assumption would result in a decrease in the pension liability of approximately £1,358 million. A 0.25% increase in assumed earnings inflation would increase the value of liabilities by approximately £19 million, and a one-year increase in assumed life expectancy would increase the liability by approximately £554 million.
<b>Alternative investments – Private equity (Note 13)</b>	Private equity investments are valued at fair value in accordance with the <i>International Private Equity Venture Capital Valuation Guidelines</i> . 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 £666 million. The investment manager recommends a tolerance of 10% around the net asset value (+/-£66m).
<b>Alternative investments – Infrastructure (Note 13)</b>	Infrastructure investments are valued at fair value in accordance with the <i>International Private Equity Venture Capital Valuation Guidelines</i> . These investments are not publicly listed and as such there is a degree of estimation involved in the valuation.	The total infrastructure investments in the financial statements are £723 million. The investment managers recommends a tolerance of 10% around the net asset value (+/-£72m).
<b>Alternative investments – Private debt (Note 13)</b>	There is no standard for the valuation of private debt, but most general partners of private debt funds will base their valuations on a 3rd party valuer, such as <i>Duff &amp; Phelps</i> . These investments are not publicly listed and as such there is a degree of estimation involved in the valuation.	The total private debt investments in the financial statements are £449 million. The investment managers recommends a tolerance of 5% around the net asset value (+/-£22m).



# Notes to Pension Fund Accounts continued

## 6. Events after the reporting date

There have been no events after the reporting date to report.

## 7. Contributions receivable

By category	2021/22 £000	2022/23 £000
Employees' contributions	77,554	84,742
<b>Employers' contributions</b>		
Normal contributions	116,347	132,515
Deficit recovery contributions	5,366	4,963
Total employers' contributions	121,713	137,478
<b>Total contributions receivable</b>	<b>199,267</b>	<b>222,220</b>

By type of employer	2021/22 £000	2022/23 £000
Administering authority	38,812	48,822
Scheduled bodies	146,326	160,335
Admitted bodies	14,129	13,063
<b>Total</b>	<b>199,267</b>	<b>222,220</b>

## 8. Benefits payable

By category	2021/22 £000	2022/23 £000
Pensions	236,663	251,005
Commutation and lump sum retirement benefits	42,862	45,732
Lump sum death benefits	6,000	8,489
<b>Total</b>	<b>285,525</b>	<b>305,226</b>

By type of employer	2021/22 £000	2022/23 £000
Administering authority	107,681	113,011
Scheduled bodies	162,994	177,314
Admitted bodies	14,850	14,901
<b>Total</b>	<b>285,525</b>	<b>305,226</b>

## 9. Management expenses

	2021/22 £000	2022/23 £000
Administrative costs	2,455	2,791
Investment management expenses	60,722	71,581
Oversight and governance costs	779	884
<b>Total</b>	<b>63,956</b>	<b>75,256</b>

This analysis of the costs of managing the Hampshire Pension Fund during the period has been prepared in accordance with CIPFA guidance.

In addition to these costs, implicit costs are incurred through the bid-offer spread on investment sales and purchases. These are reflected in the cost of investment acquisitions and in the proceeds from the sales of investments (see Note 11a).



# Notes to Pension Fund Accounts continued

## 9a) Investment Management Expenses

2022/23	Management fees £000	Transaction costs £000	Total £000
Bonds	0	0	0
Equities	0	0	0
Pooled investments*	16,233	3,453	19,686
Pooled property investments	109	0	109
Property	1,660	3,593	5,253
Alternatives	45,033	1,128	46,161
Cash	0	10	10
	<b>63,035</b>	<b>8,184</b>	<b>71,219</b>
Custody and other investment costs			362
<b>Total</b>			<b>71,581</b>

\*includes the following amounts paid as part of the ACCESS pool:  
Link: £9,845,000 | UBS: £2,361,000

2021/22	Management fees £000	Transaction costs £000	Total £000
Bonds	0	0	0
Equities	0	0	0
Pooled investments*	17,796	1,744	19,540
Pooled property investments	0	0	0
Property	1,263	4,251	5,514
Alternatives	26,927	8,522	35,449
Cash	0	9	9
	<b>45,986</b>	<b>14,526</b>	<b>60,512</b>
Custody and other investment costs			210
<b>Total</b>			<b>60,722</b>

\*includes the following amounts paid as part of the ACCESS pool:  
Link: £11,622,000 | UBS: £1,525,000





# Notes to Pension Fund Accounts continued

## 10) Investment income

	2021/22 £000	2022/23 £000
Income from bonds	0	0
Income from equities	0	0
Pooled property investments	2,496	2,757
Pooled investments – unit trusts and other managed funds	39,382	35,191
Rents from property	27,092	27,519
Interest on cash deposits	42	1,612
Alternative investment income	37,379	69,282
Stock lending	0	0
Other	130	2,483
<b>Total before taxes</b>	<b>106,521</b>	<b>138,845</b>

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## 11) Investments

	Market value 31 Mar 2022 £000	Market value 31 Mar 2023 £000
<b>Investment assets</b>		
<b>Bonds</b>	0	0
<b>Equities</b>	0	0
<b>Pooled funds</b>		
- Fixed income unit trusts	3,051,668	2,674,605
- Unit trusts	4,383,052	3,745,322
	<b>7,434,720</b>	<b>6,419,927</b>
<b>Other investments</b>		
Pooled property investments	87,697	102,008
Alternative investments	1,408,541	1,837,864
Property	577,600	493,000
Derivative contracts:		
- Forward currency contracts	14	8,695
	<b>2,073,852</b>	<b>2,441,567</b>
Cash deposits	27	207
<b>Total investment assets</b>	<b>9,508,599</b>	<b>8,861,701</b>



# Notes to Pension Fund Accounts continued

## 11a) Reconciliation of movements in investments and derivatives

Period 2022/23	Market value 1 April 2022 £000	Purchases and derivative payments £000	Sales and derivative receipts £000	Change in value during the year £000	Market value 31 Mar 2023 £000
Equities	0	0	0	0	0
Pooled investments	7,434,720	448,750	(723,456)	(740,087)	6,419,927
Pooled property investments	87,697	18,226	(131)	(3,783)	102,009
Alternative investments	1,408,541	382,648	(147,072)	193,746	1,837,863
Property	577,600	35,771	(14,172)	(106,199)	493,000
	<b>9,508,558</b>	<b>885,395</b>	<b>(884,830)</b>	<b>(656,323)</b>	<b>8,852,799</b>
Derivative contracts:					
- Forward foreign exchange	14	69,108	(47,818)	(12,609)	8,695
	<b>14</b>	<b>69,108</b>	<b>(47,818)</b>	<b>(12,609)</b>	<b>8,695</b>
Other investment balances:					
- Cash deposits	27			(8,506)	207
<b>Net investment assets</b>	<b>9,508,599</b>			<b>(677,438)</b>	<b>8,861,701</b>



# Notes to Pension Fund Accounts continued

## 11a) Reconciliation of movements in investments and derivatives

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Period 2021/22	Market value 1 April 2021 £000	Purchases and derivative payments £000	Sales and derivative receipts £000	Change in value during the year £000	Market value 31 Mar 2022 £000
Bonds	0	0	0	0	0
Equities	0	0	0	0	0
Pooled investments	7,463,982	884,759	(1,186,157)	272,136	7,434,720
Pooled property investments	72,435	12,841	(94)	2,515	87,697
Alternative investments	932,407	381,802	(161,548)	255,880	1,408,541
Property	471,250	54,705	(31,657)	83,302	577,600
	<b>8,940,074</b>	<b>1,334,107</b>	<b>(1,379,456)</b>	<b>613,833</b>	<b>9,508,558</b>
Derivative contracts:					
- Forward foreign exchange	(1,513)	23,500	(6,546)	(15,427)	14
	<b>(1,513)</b>	<b>23,500</b>	<b>(6,546)</b>	<b>(15,427)</b>	<b>14</b>
Other investment balances:					
- Cash deposits	26			1,751	27
<b>Net investment assets</b>	<b>8,938,587</b>			<b>600,157</b>	<b>9,508,599</b>

Purchases and sales of derivatives are recognised in Note 11a. Forward currency contracts – forward foreign exchange contracts settled during the period are reported on a gross basis as gross receipts and payments.



# Notes to Pension Fund Accounts continued

## 11b) Investments analysed by fund manager

	31 March 2022 Market Value		31 March 2023 Market Value	
	£000	%	£000	%
<b>Investments part of the ACCESS pool</b>				
ACCESS Pooled investments managed by Link				
Acadian	618,750	6.4	639,158	7.1
Baillie Gifford	1,423,598	14.8	1,263,515	14.1
Dodge & Cox	759,890	7.9	739,659	8.3
ACCESS Pooled investments managed by UBS	3,228,343	33.5	2,646,756	29.5
	<b>6,030,581</b>	<b>62.6</b>	<b>5,289,088</b>	<b>59.0</b>
<b>Investments held outside of the ACCESS pool</b>				
abrdn	602,678	6.3	674,494	7.5
Alcentra	476,204	4.9	467,191	5.2
Barings	386,687	4.0	368,455	4.1
CBRE Global Investors	665,297	6.9	595,008	6.6
GCM Grosvenor	474,273	4.9	723,132	8.1
Insight	272,305	2.8	145,643	1.6
JP Morgan Alternative Asset Management	342,050	3.6	458,766	5.1
Twenty-four Asset Management	268,942	2.8	149,550	1.7
	<b>3,488,436</b>	<b>36.2</b>	<b>3,582,239</b>	<b>39.9</b>
Other investments	24	0.0	0	0
Other net assets	107,833	1.2	93,241	1.1
<b>Total</b>	<b>9,626,874</b>	<b>100.0</b>	<b>8,964,568</b>	<b>100.0</b>

All the companies named above are registered in the United Kingdom. The Pension Fund has no investment in a single company/asset that exceeds 5% of the net assets available for benefits.



# Notes to Pension Fund Accounts continued

## 11c) Property holdings

There are no restrictions on the realisability of the property or the remittance of income or proceeds on disposal and the Fund is not under any contractual obligations to purchase or sell any of these properties. The Pension Fund is required to meet the cost of repairs, maintenance or enhancements necessary to maintain the investment income of its property assets.

The above disclosures have been reduced by a credit loss allowance of 4.5% per annum, reflecting the Fund’s expected loss from late or non-recovery of rents from tenants. This has been based on the Fund’s own historic experience but also information on similar properties received from the Fund’s property investment manager. In accordance with paragraphs 7.2.9.1 and 7.2.9.2 of the Code the loss allowance has been calculated based on the estimated lifetime loss allowance for all current tenancies.

The future minimum lease payments receivable by the Fund are as follows.

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	Year ending 31 Mar 2022 £000	Year ending 31 Mar 2023 £000
Within one year	22,525	24,010
Between one and five years	62,749	75,562
Later than five years	183,942	194,254
<b>Total future lease payments due under existing contacts</b>	<b>269,216</b>	<b>293,826</b>

## 12. Analysis of derivatives

### Objectives and policies for holding derivatives

Investments in forward currency contracts were to hedge exposures to reduce risk in the Fund by removing the exposure to foreign (non-Sterling) currency. The forward foreign currency contracts are all OTC (over the counter) contracts whereby two parties agree to exchange two currencies on a specified future date at an agreed rate of exchange.



# Pension Fund Accounts continued

## Open forward currency contracts

At 31 March 2023, the Fund had open forward currency contracts in place with a net unrealised gain of £8.695 million.

Settlements	Currency bought	Local value £000	Currency sold*	Local value £000	Asset value £000	Liability value £000
1 to 6 months	GBP	365,377	USD	(441,703)	8,675	0
1 to 6 months	USD	3,611	GBP	(2,992)	0	(76)
1 to 6 months	GBP	13,793	EUR	(15,545)	97	(0)
1 to 6 months	EUR	182,362	GBP	(161,845)	0	(1)
<b>Open forward currency contracts at 31 March 2023</b>					<b>8,772</b>	<b>(77)</b>
<b>Net forward currency contracts at 31 March 2023</b>						<b>8,695</b>

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## Prior year comparative

Settlements	Currency bought	Local value £000	Currency sold*	Local value £000	Asset value £000	Liability value £000
1 to 6 months	GBP	305,095	USD	(401,518)	54	0
1 to 6 months	USD	4,354	GBP	(3,334)	0	(25)
1 to 6 months	GBP	3,340	EUR	(3,958)	0	(15)
<b>Open forward currency contracts at 31 March 2022</b>					<b>54</b>	<b>(40)</b>
<b>Net forward currency contracts at 31 March 2022</b>						<b>14</b>

\* List of currencies

EUR = Euro | GBP = British Pound | USD = United States Dollar



# Notes to Pension Fund Accounts continued

## 13. Fair value – basis of valuation

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

Description of asset	Valuation hierarchy – level	Basis of valuation	Observable and unobservable inputs	Key sensitivity affecting the valuation provided
Market quoted investments	1	Published bid market price ruling on the final day of the accounting period	Not required	Not required
Spot foreign exchange contracts	1	Market exchange rates at the year end	Not required	Not required
Exchange traded pooled investments	1	Closing bid value on published exchanges	Not required	Not required
Unquoted bonds	2	Average of broker prices	Evaluated price feeds	Not required
Forward foreign exchange derivatives	2	Market forward exchange rates at the year end	Exchange rate risk	Not required
Pooled investments – fixed income	2	Closing price on the final day of the accounting period	NAV-based pricing set on forward pricing basis	Not required
Pooled investments – property funds	2	Closing price on the final day of the accounting period	NAV-based pricing set on forward pricing basis	Not required
Freehold and leasehold properties	2	Valued at fair value at the year end using the investment method of Mark White, BSc MRICS of Colliers International in accordance with the <i>RICS Valuation – Current Global Standards</i>	Comparable recent market transactions on arm's-length terms	Not required



# Notes to Pension Fund Accounts continued

## 13. Fair value – basis of valuation continued

Description of asset	Valuation hierarchy – level	Basis of valuation	Observable and unobservable inputs	Key sensitivity affecting the valuation provided
Alternative Investments – Hedge funds	3	Closing price on the final day of the accounting period	NAV-based pricing set on forward pricing basis	Valuations could be affected by material events occurring between the date of the financial statement provided and the Pension Fund's own reporting date, by changes to expected cashflows, and by any differences between audited and unaudited accounts
Alternative Investments – Private equity, infrastructure and private debt	3	Comparable valuation of similar companies in accordance with <i>International Private Equity Venture Capital Valuation Guidelines</i> where appropriate or use of third-party valuers such as <i>Duff &amp; Phelps</i> .	EBITDA multiple Revenue multiple Discount for lack of marketability Control premium Loan to value multiple	Valuations could be affected by material events occurring between the date of the financial statement provided and the Pension Fund's own reporting date, by changes to expected cashflows, and by any differences between audited and unaudited accounts





# Notes to Pension Fund Accounts continued

## Sensitivity of assets valued at level 3

Having analysed historical data and current market trends, and consulted with the Fund’s investment managers, the Fund has determined that the valuation methods described above are likely to be accurate within the following ranges and has set below the consequent potential impact on the closing value of investments held at 31 March 2023.

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	Assessed valuation range (+/-)	Value at 31 March 2023 £000	Value on increase £000	Value on decrease £000
Alternative investments – Hedge funds	5%	0	0	0
Alternative investments – Private debt	5%	449,013	471,463	426,562
Alternative investments – Infrastructure	10%	723,036	795,340	650,732
Alternative investments – Private equity	10%	665,815	732,397	599,234

## 13a) Fair value hierarchy

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

### Level 1

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

### Level 2

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

### Level 3

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



# Notes to Pension Fund Accounts continued

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

Values at 31 March 2023	Quoted market price	Using observable inputs	With significant unobservable inputs	
Financial assets	Level 1 £000	Level 2 £000	Level 3 £000	Total £000
Financial assets at fair value through profit and loss	5,584,282	946,425	1,837,864	8,368,571
Non-financial assets at fair value through profit and loss	0	493,000	0	493,000
Financial liabilities at fair value through profit and loss	0	(77)	0	(77)
<b>Net investment assets</b>	<b>5,584,282</b>	<b>1,439,348</b>	<b>1,837,864</b>	<b>8,861,494</b>

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Values at 31 March 2022	Quoted market price	Using observable inputs	With significant unobservable inputs	
Financial assets	Level 1 £000	Level 2 £000	Level 3 £000	Total £000
Financial assets at fair value through profit and loss	6,571,829	950,642	1,408,541	8,931,012
Non-financial assets at fair value through profit and loss	0	577,600	0	577,600
Financial liabilities at fair value through profit and loss	0	(40)	0	(40)
<b>Net investment assets</b>	<b>6,571,829</b>	<b>1,528,202</b>	<b>1,408,541</b>	<b>9,508,572</b>

The table includes only assets measured at fair value. Other assets included in the net assets statement valued at amortised cost are not included.



# Notes to Pension Fund Accounts continued

## 13b) Reconciliations of fair value measurements within level 3

Period 2022/23	Market value 31 March 2022 £000	Purchases during the year and derivative payments £000	Sales during the year and derivative receipts £000	Change in market value during the year £000	Market value 31 March 2023 £000
Alternative investments	1,408,542	382,649	(147,072)	193,746	1,837,865

Period 2021/22	Market value 31 March 2021 £000	Purchases during the year and derivative payments £000	Sales during the year and derivative receipts £000	Change in market value during the year £000	Market value 31 March 2022 £000
Alternative investments	932,407	381,802	(161,548)	255,881	1,408,542



# Notes to Pension Fund Accounts continued

## 14. Financial instruments

### 14a) Classification of financial instruments

The following table analyses the carrying amounts of financial instruments by category and Net Assets Statement heading. No financial instruments were reclassified during the accounting period.

31 March 2022			31 March 2023		
Fair value through profit and loss £000	Assets at amortised cost £000	Liabilities at amortised cost £000	Fair value through profit and loss £000	Assets at amortised cost £000	Liabilities at amortised cost £000
			<b>Financial assets</b>		
0			Fixed interest securities	0	
0			Equities	0	
7,434,720			Pooled investments	6,419,927	
87,697			Pooled property investments	102,008	
1,408,541			Alternatives	1,837,864	
54			Derivative contracts	8,772	
56,640	28,536		Cash	35,320	15,577
	11,039		Debtors		9,196
<b>8,987,652</b>	<b>39,575</b>	<b>0</b>		<b>8,403,891</b>	<b>24,773</b>
			<b>Financial liabilities</b>		
(40)			Derivative contracts	(77)	
		(5,353)	Creditors		(4,260)
(40)	0	(5,353)		(77)	0
<b>8,987,612</b>	<b>39,575</b>	<b>(5,353)</b>		<b>8,403,814</b>	<b>(4,260)</b>



# Notes to Pension Fund Accounts continued

## 14b) Net gains and losses on financial instruments

31 March 2022 £000		31 March 2023 £000
	<b>Financial assets</b>	
532,283	Fair value through profit and loss	(558,630)
	<b>Financial liabilities</b>	
(15,428)	Fair value through profit and loss	(12,609)
<b>516,855</b>	<b>Total</b>	<b>(571,240)</b>

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The Administering Authority has not entered into any financial guarantees that are required to be accounted for as financial instruments.

## 15) Nature and extent of risks arising from financial instruments

### Risk and risk management

The Fund's primary long-term risk is that the Fund's assets will fall short of its liabilities (i.e. promised benefits payable to members).

Therefore, the aim of investment risk management is to minimise the risk of an overall reduction in the value of the Fund and to maximise the opportunity for gains across the whole Fund portfolio. The Fund achieves this through asset diversification to reduce exposure to market risk (price risk, currency risk and interest rate risk) 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 Pension Fund 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 and Board. Risk management policies are established to identify and analyse the risks faced by the Pension Fund's operations. Policies are reviewed regularly to reflect changes in activity and in market conditions.

## 15a) 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 the asset mix.

The objective of the Fund's risk management strategy is to identify, manage and control market risk exposure within acceptable parameters, whilst optimising the return on risk.

In general, excessive volatility in market risk is managed through the diversification of the portfolio in terms of geographical and industry sectors and individual securities. To mitigate market risk, the Pension Fund and its investment advisers undertake appropriate monitoring of market conditions and benchmark analysis.



# Notes to Pension Fund Accounts continued

The Fund manages these risks in two ways:

- the exposure of the Fund to market risk is monitored through a factor risk analysis, to ensure that risk remains within tolerable levels
- specific risk exposure is limited by applying risk-weighted maximum exposures to individual investments.

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 this price risk through diversification and the selection of securities and other financial instruments is monitored by the Pension Fund to ensure it is within limits specified in the Fund investment strategy.

reporting period based on a one standard deviation movement in the value of the Fund's investments. This analysis assumes that all other variables, in particular foreign currency exchange rates and interest rates, remain the same.

Asset type	Potential market movements (+/-)
Overseas equities	15.38%
UK bonds	15.84%
Overseas bonds	6.18%
Property	9.59%
Alternative investments	5.81%
Cash	0.35%

The potential price changes disclosed above are broadly consistent with a one standard deviation movement in the value of the assets. This analysis assumes that all other variables, in particular foreign currency exchange rates and interest rates, remain the same.

Equity futures contracts and exchange traded option contracts on individual securities may also be used to manage market risk on equity investments. It is possible for over-the-counter equity derivative contracts to be used in exceptional circumstances to manage specific aspects of market risk.

## Other price risk

Other price risk represents the risk that the value of a financial instrument will fluctuate as a result of changes in market prices (other than those arising from interest rate risk or foreign exchange risk), whether those changes are caused by factors specific to the individual instrument

## Other price risk – sensitivity analysis

Following analysis of historical data and expected investment return movement during the financial year, the Pension Fund has determined the following movements in market price risk for the 2022/23



# Notes to Pension Fund Accounts continued

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

Asset type	Value at 31 March £000	Potential market movement £000	Value on increase £000	Value on decrease £000
<b>Total assets 2023</b>	<b>8,861,701</b>	<b>1,054,975</b>	<b>9,916,676</b>	<b>7,806,726</b>
Total assets 2022	9,508,599	1,143,058	10,651,657	8,365,541

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Asset type	Value at 31 March 2023 £000	Potential market movement £000	Value on increase £000	Value on decrease £000
Global equities	4,383,052	674,277	5,057,329	3,708,775
Uk bonds	1,647,529	261,025	1,908,554	1,386,504
Overseas bonds	1,404,139	86,751	1,490,890	1,317,388
Property	665,297	63,776	729,073	601,521
Alternatives	1,408,555	81,861	1,490,416	1,326,694
Cash	27	0	27	27
<b>Total assets</b>	<b>9,508,599</b>	<b>1,167,690</b>	<b>10,676,289</b>	<b>8,340,909</b>

Asset type	Value at 31 March 2022 £000	Potential market movement £000	Value on increase £000	Value on decrease £000
Global equities	4,383,052	681,959	5,065,011	3,701,093
Uk bonds	1,647,529	216,191	1,863,719	1,431,338
Overseas bonds	1,404,139	123,756	1,527,895	1,280,384
Property	665,297	33,871	699,168	631,425
Alternatives	1,408,555	87,282	1,495,837	1,321,274
Cash	27	0	27	27
<b>Total assets</b>	<b>9,508,599</b>	<b>1,143,058</b>	<b>10,651,657</b>	<b>8,365,541</b>



## Interest rate risk

The Fund invests in financial assets for the primary purpose of obtaining a return on investments. These investments are subject to interest rate risks, which represent the risk that the fair value of future cash flows of a financial instrument will fluctuate because of changes in market interest rates.

The Fund's interest rate risk is routinely monitored by the Pension Fund in accordance with the Fund's risk management strategy, including monitoring the exposure to interest rates and assessment of actual interest rates against the relevant benchmarks.

The Fund's direct exposure to interest rate movements as at 31 March 2023 and 31 March 2022 is set out below. These disclosures present interest rate risk based on the underlying financial assets at fair value.

## Interest rate risk sensitivity analysis

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

The analysis that follows assumes that all other variables, in particular exchange rates, remain constant, and shows the effect in the year on the net assets available to pay benefits of a 1% change in interest rates. The figures below for Fixed Interest Securities do not include the Fund's pooled investment in Index Linked Gilts. This better reflects the Fund's approach to the management of investment risk and how this analysis is applied to the Fund's different investments.





# Notes to Pension Fund Accounts continued

Assets exposed to interest rate risk	Value as at 31 March 2023 £000	Potential movement on 1% change in interest rates £000	Value on increase £000	Value on decrease £000
Cash & cash equivalents	50,690	0	50,690	50,690
Cash deposits	207	0	207	207
<b>Total</b>	<b>50,897</b>	<b>0</b>	<b>50,897</b>	<b>50,897</b>

Income exposed to interest rate risk	Amount receivable as at 31 March 2023 £000	Potential movement on 1% change in interest rates £000	Value on increase £000	Value on decrease £000
Cash deposits/ cash & cash equivalents	1,612	680	2,292	932
<b>Total</b>	<b>1,612</b>	<b>680</b>	<b>2,292</b>	<b>932</b>

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Assets exposed to interest rate risk	Value as at 31 March 2022 £000	Potential movement on 1% change in interest rates £000	Value on increase £000	Value on decrease £000
Cash & cash equivalents	85,149	0	85,149	85,149
Cash deposits	27	0	27	27
<b>Total</b>	<b>85,176</b>	<b>0</b>	<b>85,176</b>	<b>85,176</b>

Income exposed to interest rate risk	Amount receivable as at 31 March 2022 £000	Potential movement on 1% change in interest rates £000	Value on increase £000	Value on decrease £000
Cash deposits/ cash & cash equivalents	42	941	983	(899)
<b>Total</b>	<b>42</b>	<b>941</b>	<b>983</b>	<b>(899)</b>

Changes in interest rates do not impact on the value of cash/ cash equivalent balances but they will affect the interest income received on those balances. Changes to both the fair value of assets and the income received from investments impact the net assets available to pay benefits.



# Notes to Pension Fund Accounts continued

## Currency risk

Currency risk represents the risk that the fair value of future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates. The Fund is exposed to currency risk on financial instruments that are denominated in any currency other than the functional currency of the Fund (GB pounds). The Fund holds both monetary and non-monetary assets denominated in currencies other than GB pounds.

The Fund's currency rate risk is routinely monitored by the Pension Fund in accordance with the Fund's risk management strategy, including monitoring the range of exposure to currency fluctuations.

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## Currency risk – sensitivity analysis

Following analysis of historical data, the Pension Fund considers the likely volatility associated with foreign exchange rate movements to be 7.1% (as measured by one standard deviation).

A 7.1% fluctuation in the currency is considered reasonable based on the Pension Fund's analysis of long-term historical movements in the month-end exchange rates over a rolling 36-month period. This analysis assumes that all other variables, in particular interest rates, remain constant.

A 7.1% strengthening/weakening of the pound against the various currencies in which the Fund holds investments would increase/decrease the net assets available to pay benefits as follows:

Asset type	Value at 31 March £000	Potential market movement £000	Value on increase £000	Value on decrease £000
Total assets 2023	4,862,708	382,968	5,245,676	4,479,740
Total assets 2022	4,807,023	341,288	5,148,311	4,465,735

## 15b) 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, with the exception of the derivatives positions, where the risk equates to the net market value of a positive derivative position. 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.

Contractual credit risk is represented by the net payment or receipt that remains outstanding, and the cost of replacing the derivative position in the event of a counterparty default. The residual risk is minimal due to the various insurance policies held by the exchanges to cover defaulting counterparties.



# Notes to Pension Fund Accounts continued

Credit risk on OTC derivative contracts is minimised as counterparties are recognised financial intermediaries with acceptable credit ratings determined by a recognised ratings agency.

Deposits are not made with banks and financial institutions unless they are rated independently and meet the Pension Fund's credit criteria. The Pension Fund has also set limits as to the maximum percentage of the deposits placed with any one class of financial institution. In addition, the Pension Fund invests an agreed percentage of its funds in the money markets to provide diversification. The money market funds chosen all have AAA rating from a leading ratings agency.

The Pension Fund has managed its exposure to credit risk and has had no experience of default or uncollectable deposits over the past five years. The Fund's cash holding under its treasury management arrangements at 31 March 2023 was £40.21 million (31 March 2022: £73.95 million). This was held with the following institutions:

	Rating as at 31 March 2023	Balance as at 31 March 2022 £000	Balance as at 31 March 2023 £000
<b>Money market funds</b>			
abrdn (formerly Aberdeen Standard)	AAAm	9,920	7,250
Blackrock	AAAm	8,840	5,100
DWS	AAAm	7,960	0
Federated Investors UK	AAAm	8,680	480
Goldman Sachs	AAAm	0	6,250
Insight	AAAm	9,610	6,960
Northern Trust	AAAm	0	5,670
JP Morgan	AAAm	11,630	3,610
<b>Bank Deposits</b>			
Lloyds	A+	2,810	10
NatWest	A	6,410	10
Handelsbanken	AA-	8,090	4,869
<b>Total</b>		<b>73,950</b>	<b>40,209</b>



# Notes to Pension Fund Accounts continued

## 15c) Liquidity risk

Liquidity risk represents the risk that the Fund will not be able to meet its financial obligations as they fall due. The Pension Fund therefore takes steps to ensure that it has adequate cash resources to meet its commitments.

The Fund defines liquid assets as assets that can be converted to cash within three months. Illiquid assets are those assets which will take longer than three months to convert into cash. As at 31 March 2023 the value of illiquid assets was £2,433 million, which represented 27.5% of the total fund assets (31 March 2022: £2,037 million, which represented 21.8% of the total fund assets).

Periodic cash flow forecasts are prepared to understand and manage the timing of the Fund's cash flows. All financial liabilities at 31 March 2023 are due within one year.

## Refinancing risk

The key risk is that the Pension Fund will be bound to replace on maturity

a significant proportion of its financial instruments at a time of unfavourable interest rates. However, the Pension Fund does not have any financial instruments that have a refinancing risk as part of its treasury management and investment strategy.

## 16. Funding arrangements

In line with The Local Government Pension Scheme Regulations 2013, the Fund's actuary undertakes a funding valuation every three years for the purpose of setting employer contribution rates for the forthcoming triennial period. The last such valuation took place at 31 March 2022 and the results are published on the [Pension Fund's website](#). The next valuation will take place at 31 March 2025.

The key elements of the funding policy are:

- to ensure that the regulatory requirements to set contributions so as to ensure the solvency and long-term cost efficiency of the Fund are met and that sufficient funds are available to meet all pension liabilities as they fall due for payment;

- to ensure that employer contribution rates are as stable as possible;
- to minimise the long-term cost of the Scheme by recognising the link between assets and liabilities and adopting an investment strategy that balances risk and return;
- to reflect the different characteristics of employing bodies in determining contribution rates where the administering authority considers it reasonable to do so; and
- to use reasonable measures to reduce the risk to other employers and ultimately to the council tax payer from an employer defaulting on its pension obligations.

The aim is to achieve 100% solvency over a period of 25 years from 1 April 2022 and to provide stability in employer contribution rates by spreading any increases in rates over a period of time. Solvency is achieved when the value of assets held are equal to 100% of the Solvency Target as defined in the Funding Strategy Statement.



# Notes to Pension Fund Accounts continued

At the 2022 actuarial valuation, the Fund was assessed as 107% funded (99% at the March 2019 valuation). This corresponded to a surplus of £637 million (2019 valuation: £78 million deficit) at that time.

The aggregate employer contributions were certified as 18.1% of Pensionable Pay, plus an additional total contribution amount of £2.7 million over 2023/24, £2.8 million over 2024/25 and £2.9 million over 2025/26. Some employers were also given the option to pay their employer contributions earlier than the dates assumed in the actuary's calculations, for a discount, based on terms set out in the Rates and Adjustments Certificate.

The Fund operates three funding groups (or pools) in which participating employers share risks and pay a common primary contribution rate. All academies participate in the Academy Pool; all Town and Parish Councils participate in the Town and Parish Council Pool, and many of the charitable community admission bodies continue to participate in the Admission Body Group. Further information on these funding arrangements is contained within the Funding Strategy

Statement. All other employers' liabilities and contribution rates are assessed individually.

Contribution schedules for the period to 31 March 2026 have been agreed for all employers. The contributions for employers reflect the profiles of their membership (or profile of the group in which they participate); the approach taken to value the liabilities on exit; the covenant of the employer and take into account the recovery of any surplus or deficiency relating to their participation over an appropriate period. Where annual contribution amounts have been certified to an employer to remove a deficit these are expected to increase by approximately 3.3% p.a. until 31 March 2039 (or an earlier date in some cases depending on the employer's circumstances).

The valuation of the Fund has been undertaken using the projected unit method for most employers, under which the salary for each member is assumed to increase until they leave active service by death, retirement or withdrawal from service.

## Financial assumptions

Full details of the assumptions used by the Fund's actuary are set out in the 2022 actuarial valuation report and summarised in the Statement of the Actuary.

Generally, a common set of assumptions is adopted for all employers in the Fund with the exception of the discount rate (assumption for future investment returns) which is dependent on the circumstances of the employer. In setting the discount rate the actuary takes into account the financial risk of the employer and, if the employer is expected to exit the Fund in the future, will have regard to the funding target that will be used in an exit valuation under Regulation 64.



# Notes to Pension Fund Accounts continued

The main actuarial assumptions that were used for the secure scheduled bodies in the March 2022 actuarial valuation were as follows:

## Financial assumptions

Discount rate	4.4% a year
Rate of general pay increases	3.3% a year
Rate of increase to pension accounts and deferred pension increases and pensions in payment (in excess of Guaranteed Minimum Pension)	2.3% a year

In addition, in 2022 an 8% uplift was applied to the past service liabilities to make allowance for short-term inflation above the long-term assumption.

The assets were valued at market value.

## Demographic assumptions

A 65 year old pensioner retiring in normal health in 2022 was assumed on average to live to 88.2 (males) and 90.6 (females), rather than 87.9 (males) and 90.4 (females) under the assumptions adopted at the previous valuation.

Allowance is made for mortality improvements such that an active member

currently aged 45 is expected to live to age 88.7 (males) and 91.6 (females).

## Commutation assumption

Each member was assumed to surrender pension on retirement, such that the total cash received (including any accrued lump sum from pre 2008 service) is 70% of the permitted maximum.

## 50:50 option

All active members were assumed to remain in the Scheme they were in at the valuation date.

## 17. Actuarial present value of promised retirement benefits

In addition to the triennial funding valuation, the Fund's Actuary also undertakes a valuation of the Pension Fund's liabilities, on an IAS 19 basis, using the same base data as the funding valuation. This valuation is not carried out on the same basis as that used for setting the Fund's contribution rates and the Fund Accounts do not take account of liabilities to pay pensions and other benefits in the future.

In order to assess the value of the benefits on this basis, the actuary has updated the actuarial assumptions (set out below) from those used for funding purposes (see Note 16). The actuary has also valued ill health and death benefits in line with IAS 19.

The actuarial present value of promised retirement benefits at 31 March 2022 was £13,000 million (31 March 2019: £10,141 million). The Fund Accounts do not take account of liabilities to pay pensions and other benefits earned after the valuation date.

As noted above the liabilities above are calculated on an IAS 19 basis and therefore differ from the results of the 2022 triennial funding valuation (see Note 16) because IAS 19 stipulates a discount rate rather than a rate which reflects market rates and the circumstances of employers.

The principal financial assumptions used by the Fund's actuary for the March 2022 IAS 19 calculation were:

Discount rate	2.7%
CPI inflation / pension increase rate assumption	3.0%
Salary increase rate	4.0%



# Notes to Pension Fund Accounts continued

## 18. Current assets

	31 March 2022 £000	31 March 2023 £000
<b>Debtors:</b>		
- Contributions due – employees	317	1,172
- Contributions due – employers	24,848	35,242
- Transfer values receivable (joiners)	0	0
- Tax	3,680	2,956
- Sundry debtors	11,039	9,196
Cash balances	85,149	50,690
<b>Total</b>	<b>125,033</b>	<b>99,256</b>

Analysis of debtors	31 March 2022 £000	31 March 2023 £000
Central government bodies	12,885	11,292
Other local authorities	19,358	39,587
Other entities and individuals	7,641	8,185
<b>Total</b>	<b>39,884</b>	<b>59,064</b>

## 19. Current liabilities

	31 March 2022 £000	31 March 2023 £000
Sundry creditors	5,353	4,260
Transfer values payable (leavers)	0	0
Benefits payable	465	1,366
Tax	940	1,261
<b>Total</b>	<b>6,758</b>	<b>6,887</b>

Analysis of creditors	31 March 2022 £000	31 March 2023 £000
Central government bodies	940	(0)
Other local authorities	2,049	1,543
Other entities and individuals	3,769	5,344
<b>Total</b>	<b>6,758</b>	<b>6,887</b>

## 20. Additional voluntary contributions

	Market value 31 March 2022 £000	Market value 31 March 2023 £000
Prudential	17,648	24,859
Zurich	5,525	3,134
Utmost	812	667
<b>Total</b>	<b>23,985</b>	<b>28,660</b>

During the year, AVCs of £7,687 million were paid directly to Prudential (2021/22: £4.253 million) and £0.002 million to Utmost (2021/22: £0.003 million). No contributions were paid to Zurich which closed to new contributions in 2021/22.

Following the completion of the 2021/22 financial statements final figures were received from Zurich and Prudential. The 2021/22 figures in the table above have been amended from the original published figures (Prudential £18.527 million and Zurich £5.800 million) and contribution amounts (Prudential £2.300 million and Zurich £0.194 million).



# Notes to Pension Fund Accounts continued

## 21. Related party transactions

The Hampshire Pension Fund is administered by Hampshire County Council. Consequently, there is a strong relationship between the County Council and the Pension Fund. The County Council is also the single largest employer of members of the Pension Fund and contributed £15.187 million to the Fund in 2022/23 (2021/22 £8.475 million).

During the reporting period, the County Council incurred costs of £3.485 million (2021/22: £3.081 million) in relation to the administration of the Fund and was subsequently reimbursed by the Fund for these expenses.

The key management personnel of the Fund are the Director of Corporate Operations of Hampshire County Council, acting as Chief Finance Officer (CFO) to the Fund, and the Head of Pensions, Investments and Borrowing. Both of these officers charge a proportion of their time to the Hampshire Pension Fund as part of the County Council's charge for the administration of the Fund above.

Details of the salary of the Director of Corporate Operations can be found in the main accounts of Hampshire County Council.

Part of the Pension Fund's cash holdings are invested on the money markets by the treasury management operations of Hampshire County Council. During the year to 31 March 2023, the Fund had an average cash balance of £72.855 million (year to 31 March 2022: £79,187 million), earning interest of £1.612 million (2021/22 £0.042 million) on these funds.

## 22. Contingent liabilities and contractual commitments

Outstanding capital commitments (investments) at 31 March 2023 totalled £639.699 million (31 March 2022: £745.049 million). These commitments relate to outstanding call payments due on unquoted alternative investment and property limited partnership funds held in the alternative investments and property parts of the Fund. The amounts 'called' by these funds are irregular in both size and timing over a period of between

four and six years from the date of each original commitment.

In December 2018 the Court of Appeal ruled against the Government in the McCloud and Sargeant cases, that the underpin protections for those within 10 years of retirement is age discrimination. The underpin was a protection that was put in place when the scheme changed on 1 April 2014 and applied to members who were an active member on 31 March 2012 and were within 10 years of their normal retirement age (usually 65). The Public Service Pensions and Judicial Offices Act 2022, the main purpose of which is to support implementation of the McCloud remedy, gained Royal Assent in March 2022. Draft regulations to implement the underpin element of the remedy are expected in 2023/24. The financial impact of the remedy remains difficult to determine, but it is a future liability for the Fund.



## Section 9

# Statement of responsibilities

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# Statement of Responsibilities for the Hampshire Pension Fund Accounts

## Fund’s responsibilities

The Fund is required to:

- Make arrangements for the proper administration of its financial affairs and to ensure that one of its officers has the responsibility for the administration of those affairs. The Chief Financial Officer of the County Council fulfils that responsibility
- Manage its affairs so as to use resources economically, efficiently and effectively and safeguard its assets
- Approve the Hampshire Pension Fund’s statement of accounts

## Deputy Chief Executive and Director of Corporate Operations responsibilities

The Chief Financial Officer is responsible for preparing the Hampshire Pension Fund’s statement of accounts in accordance with proper practices as set out in the CIPFA/LASAAC Code of Practice on Local Authority Accounting in Great Britain.

In preparing this Statement of Accounts, the Chief Financial Officer has:

- Selected suitable accounting policies and applied them consistently
- Made judgements and estimates that were reasonable and prudent
- Complied with the Code of Practice

The Chief Financial Officer has also:

- Kept proper accounting records which are up to date
- Taken reasonable steps to prevent fraud and other irregularities

## The Chief Financial Officer’s Statement

I certify that the statement of accounts as set out on pages 83 to 120 presents a true and fair view of the financial position of the Hampshire Pension Fund as at 31 March 2023 and the income and expenditure for the year ended 31 March 2023.

**Signature to go here**

**Rob Carr CPFA**

Director of Corporate Operations and  
Section 151 Officer

Section 9

# Other useful resources

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# Useful websites and document links

## ACCESS pool website:

[accesspool.org](https://accesspool.org)

## Hampshire County Council

### Constitution:

[democracy.hants.gov.uk/ieListDocuments.aspx?CId=620&MId=3642&Ver=4&Info=1](https://democracy.hants.gov.uk/ieListDocuments.aspx?CId=620&MId=3642&Ver=4&Info=1)

## Hampshire Pension Fund useful information:

- Business Plan: [hants.gov.uk/hampshire-services/pensions/joint-pension-fund-panel/policies](https://hants.gov.uk/hampshire-services/pensions/joint-pension-fund-panel/policies)
- Responsible Investment Policy: [hants.gov.uk/hampshire-services/pensions/responsible-investment](https://hants.gov.uk/hampshire-services/pensions/responsible-investment)
- Task Force on Climate-related Financial Disclosures Report: [documents.hants.gov.uk/pensions/TCFD-report.pdf?\\_gl=1\\*1e35uhj\\*\\_ga\\*MT-cyOTUwNzE0LjE1OTc2NjgzMjQ.\\*\\_ga\\_8Z-VSPZWL5T\\*MTY1NjQ0MzA1OS4xLjAuM-TY1NjQ0MzA1OS4w](https://documents.hants.gov.uk/pensions/TCFD-report.pdf?_gl=1*1e35uhj*_ga*MT-cyOTUwNzE0LjE1OTc2NjgzMjQ.*_ga_8Z-VSPZWL5T*MTY1NjQ0MzA1OS4xLjAuM-TY1NjQ0MzA1OS4w)

- All policies: [hants.gov.uk/hampshire-services/pensions/joint-pension-fund-panel/policies](https://hants.gov.uk/hampshire-services/pensions/joint-pension-fund-panel/policies)
- Contributing employers to the Hampshire Pension Fund: [hants.gov.uk/hampshire-services/pensions/joint-pension-fund-panel/annual-report](https://hants.gov.uk/hampshire-services/pensions/joint-pension-fund-panel/annual-report)
- The report on the actuarial valuation at 31 March 2019: [hants.gov.uk/hampshire-services/pensions/local-government/employers/technical-information/finance/actuarial-valuation](https://hants.gov.uk/hampshire-services/pensions/local-government/employers/technical-information/finance/actuarial-valuation)
- Meetings of the Pension Fund Panel and Board: [democracy.hants.gov.uk/ieListMeetings.aspx?CId=189&Year=0](https://democracy.hants.gov.uk/ieListMeetings.aspx?CId=189&Year=0)

## LGPS Scheme Advisory Board website:

LGPS Scheme Advisory Board – Home [lgpsboard.org](https://lgpsboard.org)

## Principles for Responsible Investment (PRI) website:

PRI | Home [unpri.org](https://unpri.org)

## Task Force on Climate-related Disclosures website:

Task Force on Climate-Related Financial Disclosures [fsb-tcfd.org](https://fsb-tcfd.org)

## UK Stewardship Code (FRC) website:

Investors | UK Stewardship Code | Financial Reporting Council [frc.org.uk](https://frc.org.uk)

## The Institutional Investors Group on Climate Change (IIGCC) website:

IIGCC – The Institutional Investors Group on Climate Change [www.iigcc.org](https://www.iigcc.org)



# Glossary

## ACCESS pool

The Pension Fund is one of 11 LGPS members of ACCESS (A Collaboration of Central, Eastern and Southern Shires). The pool was established in response to the 2015 DCLG (now MHCLG) guidance on LGPS investment reform criteria. The aim was to deliver benefits of scale; strong governance and decision making; reduced costs and excellent value for money; and an improved capacity and capability to invest in infrastructure.

## Actuary

A person or firm that analyses the assets and future liabilities of a pension fund and calculates the level of employers' contributions needed to keep the Fund solvent.

## Added-years

An additional period of membership purchased within the LGPS by an employee or employer. The facility for employees to purchase added years was withdrawn on 1 April 2008, although existing contracts remain valid.

## Administering Authority

A body required to maintain a pension fund under the LGPS regulations. For Hampshire Pension Fund this is Hampshire County Council.

## Admission bodies

Employers who have been allowed into the Fund at the County Council's discretion. These can be Community or Transferee admission bodies.

## Alternative investments

Less traditional investments where risks can be greater but potential returns higher over the long term, for example investments in private equity partnerships, hedge funds, commodities, foreign currency and futures.

## Asset Backed Securities

An investment such as a bond that is backed by another financial asset that provides security in the event of default.

## AVCs

Additional voluntary contributions – paid by a contributor who decides to supplement his or her pension by paying extra contributions to the scheme's AVC providers (Prudential, Zurich and Utmost).

## Benchmark asset allocation

The allocation of the Fund's investments to the different investment sectors; this is expected to enable the Fund to meet its long-term liabilities with the minimum of disruption to employers' contributions.

## Bonds

A debt investment in which an investor loans money to an entity (corporate or governmental) that borrows the funds for a defined period of time at a fixed interest rate.

## Bulk transfer

A transfer of a group of members agreed by and taking place between two pension schemes.



# Glossary continued

## Cessation valuation

A calculation carried out by the actuary when an employer leaves the Fund, which may result in a final deficit payment becoming due to the Fund.

## Community admission bodies

Organisations that provide a public service other than for the purpose of gain and have sufficient links with a scheme employer to be regarded as having community interest.

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## Commutation

The conversion of an annual pension entitlement into a lump sum on retirement.

## Contingent liability

A possible loss, subject to confirmation by an event after the balance sheet date, where the outcome is uncertain in terms of cost.

## DCLG

Department for Communities and Local Government which was succeeded

by MHCLG, the Ministry for Housing, Communities and Local Government, and later by DLUHC, the Department for Levelling Up, Housing and Communities.

## Deferred member

A Pension Fund member who no longer contributes to the Fund but has not yet retired.

## Derivatives

Financial instruments that are based on the movements of underlying assets. They allow exposures to markets and individual assets to be adjusted, thereby altering the risk characteristics of a fund. Common types of derivatives include forward contracts, futures, options, and swaps. Derivatives may be traded on an exchange, or over the counter.

## Discretionary

Allowable but not compulsory under law.

## Dividends

Income to the Fund on its holdings of UK and overseas shares.

## DLUHC

The Department for Levelling Up, Housing and Communities.

## Economic exposure

This term relates specifically to a derivative futures contract. It represents the value of the equivalent amount of physical securities that would need to be bought or sold to get the same market exposure as that provided by the derivative futures contract.

## Emerging markets

The financial markets of developing economies.

## Equities

Shares in UK and overseas companies.



# Glossary continued

## ESG

Environmental, Social and Governance factors.

## Full Funding

100% of the Funding Target chosen.

## Funding Principle

The basis on which the Fund is financed. It ensures there are funds available to pay all benefits promised.

## Funding Success

Reaching the Aspirational Funding Target by the end of the recovery period.

## Funding Target

The amount of assets which the Fund needs to hold at any point in time to meet the Funding Principle.

## FT

Financial Times – publishers of the FTSE-100 index and other indices. The FTSE-100 covers the 100 largest stocks in the UK stock market.

## Gilt-edged securities (or Gilts)

Fixed-interest stocks issued by the UK Government.

## Global custodian

A bank that looks after the Fund's investments, implements investment transactions as instructed by the Fund's managers and provides reporting, performance and administrative services to the Fund.

## GMP

The Guaranteed Minimum Pension (GMP) is the minimum pension which a United Kingdom occupational pension scheme has to provide for those employees who were contracted out of the State Earnings-Related Pension Scheme between 6 April 1978 and 5 April 1997.

## Gross of fees

The percentage investment return delivered by an investment manager before the deduction of fees and expenses.

## Guarantors

A body which guarantees to pay for an Admission Body's liabilities in case of default. For any new admission body wishing to join the Fund, the administering authority will require a Guarantor.

## Hedge fund

A specialist fund that seeks to generate consistent returns in all market conditions by exploiting opportunities resulting from inefficient markets.

## Income yield

Annual income on an investment divided by its price and expressed as a percentage.



# Glossary continued

## Index

A measure of the value of a stock market based on a representative sample of stocks.

## Index linked

Investments which generate returns in line with an index.

## Index return

A measure of the gain or loss achieved in a year based on a representative sample of stocks and expressed as a percentage. It includes both income received and gains and losses in value.

## Informal valuations

Valuations where the calculations are based on an approximate update of the asset and liability values, and liabilities calculated using assumptions consistent with the latest formal valuation updated for changes in market conditions.

## Interim valuations

Actuarial valuations carried out in between the triennial valuations.

## LIBOR

The benchmark London Interbank Offered Rate interest rate at which large banks lend to one another. This has now been replaced by SONIA.

## LGPS

Local Government Pension Scheme – a nationwide scheme for employees working in local government or working for other employers participating in the scheme and for some councillors.

## MSCI ACWI

The Morgan Stanley Capital International (MSCI) All Countries World Index (ACWI) is used by the Hampshire Pension Fund to measure global stock markets.

## MHCLG

The Ministry for Housing, Communities and Local Government, which has been superseded by DLUHC, the Department for Levelling Up, Housing and Communities.

## Myners

Paul Myners, author of the Myners Report into institutional investment in the UK, published in March 2001.

## Multi-Asset Credit

A flexible and diversified approach to investing in credit (debt) across different asset classes such as loans and bonds. The diversification allows the targeting of higher returns than a traditional fixed income strategy focused on government debt and investment grade credit.

## Net of Fees

The percentage investment return delivered by an investment manager after the deduction of fees and expenses.





# Glossary continued

## Notional sub-funds

A subdivision of assets for funding purposes only. It does not imply any formal subdivision of assets, nor ownership of any particular assets of groups of assets.

## Orphan liabilities

Residual liabilities of employers from whom no further funding can be obtained.

## Pooled investment vehicle

A collective investment scheme that works by pooling money from different individual investors.

## Private equity

Mainly specialist pooled partnerships that invest in private companies not normally traded on public stock markets – these are often illiquid (i.e., not easily turned into cash) and higher-risk investments that should provide high returns over the long term.

## Private debt

Specialist pooled partnerships that invest in debt (also referred to as credit) of companies that is not publicly traded. These investments are often described as illiquid as it is more difficult to sell the debt instruments and turn the investment back into cash. Expected returns are therefore often higher than for the equivalent publicly traded debt instruments due to this illiquidity risk.

## Projected unit actuarial method

A method of calculation of an actuarial valuation, where an allowance is made of projected earnings on accrued benefits. The contribution rate required is that necessary to cover the cost of all benefits accrued up to the date used in the valuation, but based on earning projected to the date of retirement.

## Quartile

Three points that divide data into four equal groups, each representing a quarter. The lower quartile consists of the bottom quarter of all data, whilst the upper quartile consists of the top quarter of all data.

## Recovery period

Timescale allowed (up to a maximum of 40 years) over which surpluses or deficiencies to the Fund can be eliminated.

## Relaxation period

Temporarily relaxing the contribution pattern required to target funding for community admission bodies under economic circumstances which the administering authority judges to be extreme.

## Relevant Scheme Employer

The local authority which has outsourced the service to a Transferee Admission Body.

## Responsible Investment

The PRI (Principles for Responsible Investment) defines responsible investment as a strategy and practice to incorporate environmental, social and governance (ESG) factors in investment decisions and active ownership.



# Glossary continued

## Resolution bodies

Employees have the right to be members of the LGPS, as long as their employing Council has resolved to allow membership.

## Roll forward

The process of updating an employer's notional sub-fund and/or value of liabilities to account for all cashflows associated with that employer's membership, accrual of new benefits, and changes in economic conditions.

## Rolling three-year periods

Successive periods of three years, such as years one to three, followed by years two to four. Performance is often measured over longer periods than a single year to eliminate the short-term effects of volatile changes in stock markets.

## Scheduled bodies

Organisations that have a right to be in the Fund. These bodies are listed in Schedule 2 of the Local Government Pension Scheme (Administration) Regulations 2008.

## Scheme Advisory Board (SAB)

The Local Government Pension Scheme Advisory Board is a body set up under Section 7 of the Public Service Pensions Act 2013 and The Local Government Pension Scheme Regulations 110-113. It seeks to encourage best practice, increase transparency and coordinate technical and standards issues

## Smoothing adjustment

An adjustment to the Fund's market value of assets to level out market fluctuations over a certain period of time up to the valuation date.

## Soft commission

A soft commission arrangement is when an investment manager agrees to do a minimum amount of business with a broker in exchange for free research and information services. The Fund has no soft commission arrangements with any of its managers.

## Solvency

When the Fund's assets are greater than or equal to 100% of the Funding Target.

## SONIA

Sterling Overnight Index Average is an interest rate benchmark that replaces LIBOR.

## Standard lifetime allowance

The limit on the value of retirement benefits that an individual can accumulate over their lifetime before tax penalties apply.

## Statutory

Controlled by the law.

## Subsumption

A process by which a Scheduled Body or the Scheduled Bodies funding group provide future funding for any resulting deficiency where an admission body leaves the Fund.



# Glossary continued

## TCFD

Task Force on Climate-related Disclosures (TCFD). The Financial Stability Board created the TCFD to improve and increase reporting of climate-related financial information:

Task Force on Climate-Related Financial Disclosures ([fsb-tcfd.org](https://www.fsb-tcfd.org))

## Transfer value

A cash sum representing the value of a member's pension rights which can be paid to another pension scheme only.

## Transferee admission body

Typically private sector companies or charities, which have taken on staff from a local authority as a result of an outsourcing of services and the transferring employees had a right to remain in the LGPS or a "broadly equivalent" scheme.

## Triennial valuation

The valuation carried out by the Actuary every three years.

## UN Principles for Responsible Investment

The PRI is an organisation that works to understand the investment implications of environmental, social and governance (ESG) factors and to support its international network of investor signatories in incorporating these factors into their investment and ownership decisions. Six principles for responsible investment have been developed: [unpri.org/pri/about-the-pri](https://unpri.org/pri/about-the-pri)

## UK Stewardship Code

The UK Stewardship Code sets expectations of those investing money on behalf of UK savers and pensioners and establishes a benchmark for stewardship as the responsible allocation, management and oversight of capital to create long-term value for clients and beneficiaries leading to sustainable benefits for the economy, the environment and society: [frc.org.uk/investors/uk-stewardship-code](https://frc.org.uk/investors/uk-stewardship-code)

## Weighted benchmark

A combination of the benchmarks of the individual investment managers, weighted according to the value of assets held by each manager as a percentage of the total Fund assets.



**HAMPSHIRE**  
PENSION FUND

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**Hampshire**  
County Council

[hants.gov.uk](http://hants.gov.uk)

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