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NOTICE OF MEETING

Meeting	Hampshire Pension Fund Panel and Board
Date and Time	Friday, 26th July, 2019 at 10.00 am
Place	Mitchell Room, EII Podium, Winchester
Enquiries to	members.services@hants.gov.uk

John Coughlan CBE
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. The meeting may also be recorded and broadcast by the press and members of the public – 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 (NON-EXEMPT) (Pages 5 - 12)

To confirm the Minutes of the meeting held on 12 July 2019.

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: ANNUAL INTERNAL AUDIT REPORT AND OPINION 2018/19 (Pages 13 - 28)

To consider the report of the Director of Corporate Resources-Corporate Services providing the Pension Fund Panel and Board with the Chief Internal Auditor's opinion on the adequacy and effectiveness of Pension Services' framework of risk management, internal control and governance for the year ending 31 March 2019.

7. GOVERNANCE: RESPONSIBLE INVESTMENT SUB-COMMITTEE APPOINTMENTS (Pages 29 - 32)

To consider a report of the Director of Corporate Resources – Corporate Services asking the Panel and Board to agree appointments to the Responsible Investment Sub-committee.

8. GOVERNANCE: 2019 TRIENNIAL VALUATION (Pages 33 - 40)

To consider the report of the Director of Corporate Resources-Corporate Services providing the Panel and Board with information about the valuation process in the LGPS, and to give an update on progress for the 2019 valuation.

9. GOVERNANCE: ACCESS BUSINESS PLAN (Pages 41 - 48)

To consider a report from the Director of Corporate Resources – Corporate Services presenting the 2019/20 ACCESS business plan for approval by the Panel and Board.

10. GOVERNANCE: ANNUAL REPORT 2018/19 (Pages 49 - 140)

To consider a report from the Director of Corporate Resources-Corporate Services seeking approval from the Panel and Board for the publication of the Annual Report for 2018/19.

11. GOVERNANCE: PENSION FUND PANEL AND BOARD TRAINING IN 2019/20 (Pages 141 - 178)

To consider a report from the Director of Corporate Resources-Corporate Services setting out proposals for the training arrangements for members of the Pension Fund Panel and Board in 2019/20.

12. GOVERNANCE: PENSION FUND COSTS 2018/19 (Pages 179 - 186)

To receive a report from the Director of Corporate Resources – Corporate Services providing an overview of the costs of managing the Pension Fund in 2018/19.

13. INVESTMENTS: PENSION FUND CASH - ANNUAL REPORT 2018/19
(Pages 187 - 194)

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

14. 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.

15. CONFIRMATION OF THE MINUTES OF THE PREVIOUS MEETING
(Pages 195 - 196)

To confirm the exempt minutes of the meeting held on 12 July 2019.

16. GOVERNANCE: PENSION FUND COSTS 2018/19 - EXEMPT APPENDIX (Pages 197 - 200)

To consider the exempt appendix relating to Pension Fund Costs 2018/19.

17. GOVERNANCE - PENSION FUND CASH ANNUAL REPORT 2018/19
(Pages 201 - 202)

To consider the exempt appendix of the Pension Fund Cash Annual Report 2018/19.

18. GOVERNANCE: GOOD GOVERNANCE CONSULTATION (Pages 203 - 208)

To consider an exempt report from the Director of Corporate Resources – Corporate Services updating the Panel and Board on the ‘Good Governance’ project commissioned by the LGPS Scheme Advisory Board and Hampshire’s response to the consultation that was part of the project.

19. INVESTMENTS: PROPERTY PORTFOLIO UPDATE (Pages 209 - 272)

To consider a report from the Director of Corporate Resources-Corporate Services updating the Pension fund Panel and Board on the progress of the property investments portfolio.

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 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 PENSION FUND PANEL AND BOARD of the County Council held at The Castle, Winchester on Friday 12 July 2019.

Chairman:
p Councillor M. Kemp-Gee

Elected members of the Administering Authority (Councillors):

p C. Carter	p A. Joy
p A. Dowden	a P. Latham
p A. Gibson	p J. Glen
p B. Tennent	p T. Thacker (vice-chairman)
p D. Mellor	

Employer Representatives (Co-opted members):

a Councillor J. Smith (Portsmouth City Council)
a Councillor T. Cartwright (Fareham Borough Council)
p Councillor S. Barnes-Andrews (Southampton City Council)
p Mr D. Robbins (Churchers College)

Scheme Member Representatives (Co-opted members):

p Dr C. Allen (pensioners' representative)
p Mr N. Wood (scheme members representative)
a Mrs V. Arrowsmith (deferred members' representative)
p Mrs S. Manchester (substitute scheme member representative)

Independent Adviser:

a C. Dobson

BROADCASTING ANNOUNCEMENT

The Chairman announced that the press and members of the public were permitted to film and broadcast the meeting. Those remaining at the meeting were consenting to being filmed and recorded, and to the possible use of those images and recording for broadcasting purposes.

160. **APOLOGIES FOR ABSENCE**

Cllrs Latham, Cartwright, Smith, Mrs Arrowsmith and Mrs Dobson sent their apologies.

161. **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 Non-Pecuniary interest in a matter being considered at the meeting they considered whether such interest should be declared, and having regard to Part 5, Paragraph 2 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.

162. **CONFIRMATION OF MINUTES**

The minutes of the Pension Fund Panel and Board held on 29 March 2019 were confirmed.

163. **CHAIRMAN'S ANNOUNCEMENTS**

The Chairman congratulated Carolyn Williamson, Deputy Chief Executive and Director of Corporate Resources on being appointed as President of CIPFA.

The Chairman welcomed Cllr Barnes-Andrews back to the Panel and Board representing Southampton City Council and congratulated Dr Allen on being reappointed as the Pensioner Representative.

The Chairman informed members he had been elected Vice-Chairman of the ACCESS Joint Committee.

The Chairman invited members to provide feedback on any recent training courses. Cllr Glen updated the committee on a conference provided by Mallor Street and Cllr Gibson on an SPS conference on Cash Management and Liability Matching both had a significant focus on Environmental, Social and Governance (ESG) factors in investment decisions.

The Chairman asked Andy Lowe, Head of Pensions Investments and Borrowing to provide an update for the committee on the recent McCloud case.

164. **DEPUTATIONS**

In accordance with Standing Order 12, the Panel and Board received a deputation from Chris Holloway, a member of Winchester Action on Climate Change, who spoke about the risk of investment in fossil fuels, including:

- that taking money out of fossil fuels is not only a moral issue but just as much a financial issue;
- asking the Panel and Board to agree to explore what Pension Fund members actually think; and
- asking that the Responsible Investment sub-committee consider and report back on the points raised by Winchester Action on Climate Change in their response made to the Pension Fund's

consultation on the draft Responsible Investment policy.

The Chairman thanked Chris Holloway for her deputation.

165. **GOVERNANCE: RESPONSIBLE INVESTMENT POLICY**

With the committee's approval this item was moved up the agenda to follow the deputation.

The Panel and Board received a report of the Director of Corporate Resources (Item 10 in the Minute Book) on proposed changes to the Pension Fund's Responsible Investment Policy. The Director reported that following the Panel and Board's approval a significant programme of consultation was undertaken with the Pension Fund's scheme members and employers over seven weeks.

The Director reported that only 29 responses were received, which was disappointing in the context that the Pension Fund has over 170,000 scheme members. Following the responses amendments were made to the draft policy to further clarify the ESG factors the Pension Fund requires its investment managers to consider and the different requirements for various asset class. There remains no requirement in the policy that the Pension Fund dis-invests from any particular company or sector, as the number of responses received did not constitute sufficient evidence that scheme members would support this.

The updated policy still proposes the formation of a Responsible Investment sub-committee, with four seats for County Councillors, one for scheme member representatives and one for employer representatives; mirroring the representation of the Panel and Board. It was proposed that appointments to the sub-committee be made at the next meeting of the Panel and Board.

RESOLVED:

- a) That the contents of the report including the consultation responses were noted.
- b) That the revised Responsible Investment Policy was approved.
- c) That the Terms of Reference for the Responsible Investment Sub-Committee were approved.
- d) That appointments to the Responsible Investment sub-committee be made at the Panel and Board's next meeting.

166. **GOVERNANCE: PROPOSED CHANGES TO THE CURRENT GROUPING ARRANGEMENTS IN THE FUND**

Mr Wood informed the committee that he had responded to the Pension Fund's consultation referred to in this item on behalf of his employer (Fareham Borough Council), which was noted, and in light of this, Mr Wood did not participate in the decision.

The Panel and Board received a report of the Director of Corporate Resources (Item 5 in the Minute Book) and presentation from the Pension Fund's actuary proposing changes to the Pension Fund's grouping mechanism for funding purposes. Changes have been proposed because the grouping arrangements have been under strain for over a decade as employers have sought to make efficiencies through outsourcing, restructuring and creating trading companies. Whilst the Fund Actuary was able to accommodate these different approaches, it is increasingly difficult to sustain, and to justify, the grouped approach.

The Fund Actuary reported that the following changes to the Pension Fund's grouping mechanism were proposed to:

- disband the Scheduled Body Group at the 2019 valuation and,
- establish an academies pool for all academies and free schools covered by the Department for Education guarantee;
- establish a Town and Parish Council pool;
- allow any Town and Parish Council who elects to do so, to not be part of the Town and Parish Council pool, and to instead have an individual contribution rate;
- calculate an individual contribution rate for all the remaining scheduled body employers who are currently part of the Scheduled Bodies group;
- change the operation of the Admitted Body Group so that employers are allocated assets at an individual level to enable different deficit recovery periods to be used;
- remove the two employers currently in the Admitted Body Group who do not have a subsumption commitment from a local authority and instead calculate an individual rate for them;
- allow any employer with an individual rate to pre-pay contributions in return for a discount, under a methodology agreed with the fund actuary;
- allow any employer with an individual rate or an employer in the Town and Parish Council pool or the Admitted Body Group to pay additional contributions towards their deficit if desired.

These proposals were finalised following consultation with employers, the results of which were reported by the Director. An updated summary

of the consultation responses was provided to the committee as in error the original excluded the response of Fareham Borough Council. The Fund Actuary reported that the 2019 triennial valuation provides an opportunity to make these structural changes because there has been a material improvement in the funding level since the last valuation.

RESOLVED:

- a) That having noted and considered the responses set out in Appendix 3 of the report, the proposed changes to the way in which employers are grouped for funding purposes, as set out in paragraph 7 of the report was approved.
- b) That authority was delegated to the Director of Corporate Resources to agree with the Fund Actuary the methodology for calculating the discount given to employers who pre-pay contributions.

167. **GOVERNANCE: MINUTES OF THE ACCESS JOINT COMMITTEE**

The Panel and Board received and noted the minutes of the ACCESS Joint Committee (Item 6 in the Minute Book) on 12 March 2019.

168. **GOVERNANCE: ACCESS BUSINESS PLAN**

This item was deferred to the next meeting.

169. **GOVERNANCE: ADMINISTRATION PERFORMANCE UPDATE**

The Panel and Board considered the report from the Director of Corporate Resources (Item 8 in the Minute Book). The Director reported that Pension Services have performed well against the four key measures of good administration in 2018/19. There has been a dip in performance in the first part of 2019/20 due to much higher than anticipated number of member queries relating to the new partnership with West Sussex County Council, which was successfully launched in March 2019. However, performance was back on track by the second week in June and Pension Services are now delivering to the agreed service standards.

The Director also reported that the Ministry for Housing, Communities and Local Government has published a policy consultation setting out proposals to transition the local valuation cycle for the LGPS from triennial to quadrennial. The case for this change has not been made in the consultation document and therefore the Pension Fund's proposed response sets out the view that no change should be made to the timing of local LGPS valuations.

RESOLVED:

- a) That the strong performance of Pension Services in 2018/19 was noted and Pension Services were thanked for their hard work.
- b) That the proposed response to the valuation cycle and employer risk consultation was approved.

170. **GOVERNANCE: PANEL AND BOARD TRAINING PLAN 2019/20**

This item was deferred to the next meeting.

171. **GOVERNANCE: PENSION FUND RISK MANAGEMENT**

The Panel and Board noted the report from the Director of Corporate Resources (Item 11 in the Minute Book) providing an update on the Pension Fund's risk management activity and the Fund's risk register, which forms part of its Annual Report. The Risk Register had been updated by improving the mitigation for employer risk to better take account of the Fund's Funding Strategy, and to add risks for investment pooling and contractual arrangements.

172. **EXCLUSION OF 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 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.

173. **MINUTES OF PREVIOUS MEETINGS (EXEMPT)**

The exempt minutes of the Pension Fund Panel and Board held on 29 March 2019 were confirmed.

174. **GOVERNANCE – GOOD GOVERNANCE CONSULTATION**

This item was deferred to the next meeting.

175. **INVESTMENTS – INVESTMENT PERFORMANCE UPDATE**

The Panel and Board received an exempt report from the Director of Corporate Resources (Item 15 in the Minute Book) updating the Panel

and Board on the performance of the Pension Fund's investments.
[SUMMARY OF AN EXEMPT MINUTE]

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HAMPSHIRE COUNTY COUNCIL

Decision Report

Decision Maker	Pension Fund Panel and Board
Date:	26 July 2019
Title:	Governance: Annual Internal Audit Report & Opinion 2018/19
Report From:	<i>Director of Corporate Resources – Corporate Services</i>

Contact name: Neil Pitman; Chief Internal Auditor

Tel: 01962 845139

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 Pension Services' framework of risk management, internal control and governance for the year ending 31 March 2019.

Recommendation(s)

2. That the Pension Fund Panel and Board approve the Chief Internal Auditor's Annual Internal Audit Report and Opinion for 2018/19.

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 effectiveness of the system of internal control.
4. The Annual Report for 2018/19 (attached at Appendix 1) provides the Chief Internal Auditor's opinion on the system of risk management, internal control and governance for the year ending 31 March 2019.

5. The Pension Fund Panel and Board's attention is drawn to the following points:
- Internal audit was compliant with the Public Sector Internal Audit Standards during 2018/19;
 - The internal audit plan for 2018/19 has been delivered in full;
 - 'Substantial Assurance' can be placed on Pension Services' (Hampshire County Council) framework of governance, risk management and management control and audit testing has demonstrated controls to be working in practice; and
 - Where internal audit work identified areas where management controls could be improved or where systems and laid down procedures were not fully followed, appropriate corrective action and a timescale for improvement were agreed with the responsible managers.

REQUIRED CORPORATE AND LEGAL INFORMATION:

Links to the Strategic Plan

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

Section 100 D - Local Government Act 1972 - background documents	
<p>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.)</p>	
<u>Document</u>	<u>Location</u>
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.

Annual Internal Audit Report & Opinion

2018 - 19

Pension Services

Hampshire Pension Services

Southern Internal Audit Partnership

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Assurance through excellence
and innovation

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1. Role of Internal Audit

The requirement for an internal audit function in local government is detailed within the Accounts and Audit (England) Regulations 2015, which states that a relevant body must:

‘Undertake an effective internal audit to evaluate the effectiveness of its risk management, control and governance processes, taking into account public sector internal auditing standards or guidance.’

The standards for ‘proper practices’ are laid down in the Public Sector Internal Audit Standards [the Standards – updated 2017].

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. Internal audit plays a vital role in advising the Council that these arrangements are in place and operating effectively.

The Council’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 Head of the Southern Internal Audit Partnership 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; and
- 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 County Council on the framework of internal control, risk management and governance in operation and to stimulate improvement.



3. Internal Audit Opinion

The Head of the Southern Internal Audit Partnership is responsible for the delivery of an annual audit opinion and report that can be used by the County Council to inform its governance statement. The annual opinion concludes on the overall adequacy and effectiveness of the organisation’s framework 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 Pension Services audit need that has been covered within the period.

Annual Internal Audit Opinion 2018-19

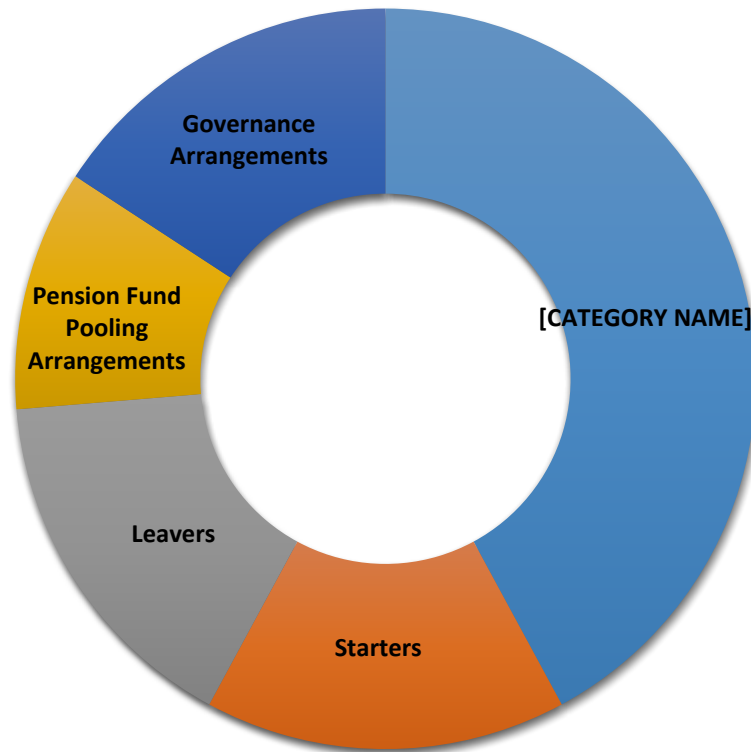
“I am satisfied that sufficient assurance work has been carried out to allow me to form a reasonable conclusion on the adequacy and effectiveness of Pension Services’ (Hampshire County Council’s) internal control environment.

In my opinion, Pension Services’ framework of governance, risk management and control is ‘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.”

4. Internal Audit Coverage and Output

The annual internal audit plan was prepared to take account of the characteristics and relative risks of Pension Services’ activities and to support the preparation of Hampshire County Council’s Annual Governance Statement.



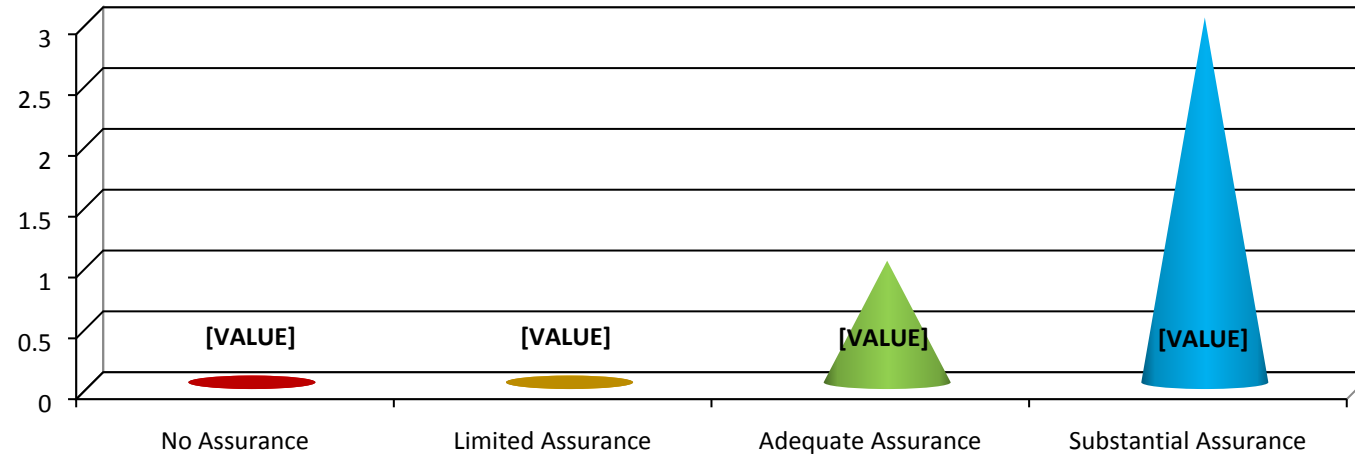
Work has been planned and performed so as to obtain sufficient information and explanation considered necessary in order to provide evidence to give reasonable assurance that the internal control system is operating effectively.

The 2018-19 Internal audit plan, approved by the Pension Fund Panel and Board in April 2018, was informed by internal audits own assessment of risk and materiality in addition to consultation with management to ensure it aligned to key risks facing the organisation.

The plan has remained fluid throughout the year to maintain an effective focus.

In delivering the internal audit opinion the Southern Internal Audit Partnership have undertaken five reviews during the year ending 31 March 2019.

The 2018-19 internal audit plan has been delivered in full. The opinion assigned to each internal audit review on issue is defined as follows:



*1 review did not culminate in an audit opinion as it concluded with a position statement (see section 5 below).

Substantial - A sound framework of internal control is in place and operating effectively. No risks to the achievement of system objectives have been identified;

Adequate - Basically a sound framework of internal control with opportunities to improve controls and / or compliance with the control framework. No significant risks to the achievement of system objectives have been identified;

Limited - Significant weakness (es) identified in the framework of internal control and / or compliance with the control framework which could place the achievement of system objectives at risk; or

No - Fundamental weaknesses identified in the framework of internal control or the framework is ineffective or absent with significant risk to the achievement of system objectives

5. Key Observations

Internal Audit work found there to be sound control environments in place across all review areas which were found to be working effectively to support the delivery of corporate objectives. There were no significant issues identified arising from the work completed during 2018-19.

Only one audit observation was made during 2018-19 (Pensions Leavers Audit (Adequate Assurance)) which was addressed prior to the conclusion of the audit.

A 'position statement' was issued for the 'Pension Fund Pooling Arrangements' review. Given the potential value of the pooling, we assessed the intended governance framework (which appeared robust) prior to any significant activity in this area. An audit is planned by the end of 2019 to assess, and provide an assurance opinion on, the control framework operating in practice.

6. Anti Fraud and Corruption

The County Council is committed to the highest possible standards of openness, probity and accountability and recognises that the electorate need to have confidence in those that are responsible for the delivery of services. A fraudulent or corrupt act can impact on public confidence in the County Council and damage both its reputation and image.

Policies and strategies are in place setting out the County Council's approach and commitment to the prevention and detection of fraud or corruption. There were no significant frauds detected or investigated by internal audit during 2018/19.

National Fraud Initiative (NFI) - The NFI is a statutory exercise facilitated by the Cabinet Office that matches electronic data within and between public and private sector bodies to prevent and detect fraud. Public sector bodies are required to submit data to the National Fraud Initiative on a regular basis (every two years). The latest NFI data upload was carried out in October 2018.

Matches will be reviewed throughout 2019/20 and progress reported through progress report(s) to the Pension Fund Panel & Board.

7. Quality Assurance and Improvement

The Quality Assurance and Improvement Programme (QAIP) is a requirement within ‘the Standards’.

The Standards require the Head of the Southern Internal Audit Partnership to develop and maintain a 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 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 2015. In considering all sources of evidence the external assessment team concluded:

“It is our view that the Southern Internal Audit Partnership (SIAP) service generally conforms to all of the principles contained within the International Professional Practice Framework (IPPF); the Public Sector Internal Audit Standards (PSIAS); and the Local Government Application Note (LAGN).

There are no instances across these standards where we determined a standard below “generally conforms”, and 4 instances where the standard is assessed as “not applicable” due to the nature of SIAP’s remit.”

In accordance with PSIAS, annual self assessment have been completed since the external inspection concluding that the Southern Internal Audit Partnership continues to comply with all aspects of the IPPF, PSIAS and LGAN.

8. Disclosure of Non-Conformance

In accordance with Public Sector Internal Audit Standard 1312 [External Assessments] which requires ‘an external quality assessment to be conducted at least once every five years by a qualified, independent assessor or assessment team from outside of the organisation’ I can confirm 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.

9. Quality control

Our aim is to provide a service that remains responsive to the needs of Pension Services and maintains consistently high standards. In complementing the QAIP this was achieved in 2018-19 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; and
- A self-assessment against the Public Sector Internal Audit Standards.

10. Internal Audit Performance

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

Annual performance indicators			
Aspect of service	2017-18		2018-19
	%		%
Revised plan delivered	100	↔	100
Positive customer responses to quality appraisal questionnaire *	96	↑	99
Compliant with the Public Sector Internal Audit Standards	Yes	↔	Yes

*Customer satisfaction has been assessed through response to questionnaire issued to a wide range of stakeholders including Members, senior officers and key contacts.

11. Acknowledgement

I would like to take this opportunity to thank all those staff throughout Pension Services 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.

Neil Pitman
 Head of Southern Internal Audit Partnership
 July 2019

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HAMPSHIRE COUNTY COUNCIL

Decision Report

Decision Maker:	Pension Fund Panel and Board
Date:	26 July 2019
Title:	Governance: Responsible Investment Sub-Committee Appointments
Report From:	<i>Director of Corporate Resources – Corporate Services</i>

Contact name: Andrew Bouflower

Tel: 01962 847407

Email: andrew.bouflower@hants.gov.uk

Purpose of this Report

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

Recommendation

2. That the committee appoints members 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.
3. That for the scheme member and employer representatives an order of rotation is agreed for the three representative roles in each group.

Responsible Investment sub-committee

4. At its last meeting the Panel and Board agreed the terms of reference for a Responsible Investment sub-committee. 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.
5. For 2019/20 the County Council's proportionality requires that the County Councillors appointed should be three Conservative members and one Liberal Democrat member.

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

Hampshire maintains strong and sustainable economic growth and prosperity:	no
People in Hampshire live safe, healthy and independent lives:	no
People in Hampshire enjoy a rich and diverse environment:	no
People in Hampshire enjoy being part of strong, inclusive communities:	no
OR	
This proposal does not link to the Strategic Plan but, nevertheless, requires a decision because: 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 COUNTY COUNCIL

Decision Report

Decision Panel:	Pension Fund Panel and Board
Date:	26 July 2019
Title:	Governance: 2019 triennial valuation
Report From:	Director of Corporate Resources

Contact name: Lois Downer, Deputy Head of Pension Services

Tel: 01962 847600

Email: lois.downer@hants.gov.uk

Purpose of this Report

1. The purpose of this report is to provide the Panel and Board with information about the valuation process in the LGPS, and to give an update on progress for the 2019 valuation.

Recommendation(s)

2. It is recommended that the Panel and Board note the information contained in this report.

Executive Summary

3. LGPS funds have to obtain an actuarial valuation every three years. The main output from the valuation is a rates and adjustments certificate which certifies the contributions each employer must pay into the Fund over the following three years.
4. Work is underway for the current valuation which is as at 31 March 2019. Membership data will be supplied to the Fund Actuary by 26 July and initial whole of Fund results will be presented to the Panel and Board at their meeting on 27 September before being shared with employers at the Annual Employer meeting in October. Initial individual employer results will be provided to all employers by the end of December 2019, with the rates and adjustments certificate being finalised by 31 March 2020. New contribution rates are payable from 1 April 2020.

5. Following the Panel and Board's approval of proposals to change the way in which employers are grouped for funding purposes, the 2019 valuation will see individual rates calculated for the main scheduled bodies in the Fund. A new academies pool and Town and Parish Council pool will be created.
6. Initial financial and demographic assumptions have been agreed with the Fund Actuary to feed into the 2019 valuation calculations.

Purpose of the triennial valuation

7. Each administering authority needs to ensure that the cost of pension promises in its fund can be met over the long term and is required by the LGPS regulations to obtain an actuarial valuation of the assets and liabilities of its fund as at 31 March every three years. The main output from the valuation is a rates and adjustments certificate, which certifies the contributions payable by each employer in the fund for the following three years. The valuation also provides an opportunity to review the Funding Strategy Statement and is a formal measure of the health of the fund.
8. In order to compare the assets and liabilities of the fund and calculate required employer contribution rates, the Fund Actuary must place a value on them. Assets are usually taken at market value, but to place a value on liabilities, the Actuary needs to:
 - make use of Fund specific data
 - make some assumptions about the future
 - carry out some calculations.
9. Consequently, the Pensions team has to provide full membership data to the Actuary in order that she can analyse fund experience over the past 3 years and to estimate benefits that will be payable. The Actuary can then set appropriate financial and demographic assumptions which are a best fit for the fund and build these into the valuation calculations.

Valuation timetable

10. Although the formal valuation is only carried out every 3 years, work is undertaken throughout the interim period to ensure that there are no surprises and that the fund continues to be able to pay its obligations. The current triennial valuation date is 31 March 2019 with new contribution rates applying from 1 April 2020.
11. Initial decisions about financial and demographic assumptions to be used in the valuation are made shortly after the valuation date so that the Actuary has

time to build them into the valuation model. These are discussed in more detail in paragraphs 24 to 32.

12. Details about all members for the three year period is provided to the Actuary by mid July following the valuation date. This data is extracted from the pension administration system, following the upload and validation of the annual returns submitted by scheme employers and the application of annual increases to benefits in payment and deferment and to CARE amounts held for members with membership after 1 April 2014.
13. Any data queries are resolved by the end of July so that the Actuary can then carry out the necessary calculations to produce whole of fund results by early September. These initial results are then discussed with officers and will be brought to the Panel and Board for discussion and agreement on the 27th September before being shared with employers at the AEM in October.
14. The Actuary will then calculate individual employer results and these will be sent to employers by the end of December 2019. There may be some discussion with employers about these rates but in the main, these initial results will be formalised in the rates and adjustments certificate which has to be signed by the Actuary by 31 March 2020.

Structure of the Fund for the valuation

15. Following approval by the PFPB at their meeting on 12 July, there will be changes to how contribution rates are calculated for employers at the 2019 valuation, compared with 2016.

Scheduled Body Group

16. The Scheduled Body Group will be dismantled and instead the Actuary will calculate an individual contribution rate for each employer based on their own liabilities and notional share of the assets. The exceptions to this are academies and Town and Parish Councils. Academies who will be put into an academy pool and pay a common contribution rate based on the group's future service and share of the group's deficit. Town and Parish Councils who will be grouped together and pay a common future service contribution and an individual deficit contribution based on their own liabilities and likely future participation in the fund. Any TPC who elects by 15 August to do so, may choose not to participate in the pool but instead have an individual contribution rate calculated.

Admitted Body Group

17. The Admitted Body Group will continue with a refinement to its operation to allow different recovery periods more reflective of each employer's likely future participation in the Fund. The two employers without a commitment from an associated local council to subsume liabilities on exit will be removed from the ABG and placed on the ongoing orphan funding target.

HE and FE sector

18. Employers in the HE and FE sector will continue to have an individual contribution rate calculated based on their own liabilities in the fund. The funding target for these employers will be the intermediate one on either a high, medium or low risk basis. This rating has been determined through AON's financial analysis assessment that was carried out earlier in the year.
19. Broadly speaking this analysis tests the employer's:
 - ability to meet ongoing pension contributions out of operating income,
 - ability to meet interest payments on loans out of cashflow, and
 - capacity to meet an exit debt out of net assets.
20. To make this assessment Aon generates accounting ratios using the information provided by the employers, together with any relevant external information, for example financial notices of concern. In determining the appropriate risk category for the 2019 valuation Aon took into account trend information, including forecasts, and compared metrics across employers operating within the same sector to obtain a relative view of their strength as well as an absolute one.
21. Aon does consider wider geographical comparisons where they have similar information for LGPS employers in the sector which are operating in different geographical locations.
22. In order to assess the risk in relation to an employer's LGPS pension liabilities in advance of the 2019 valuation date Aon has to base this on the employer's liabilities at the 2016 valuation. Employers can ask for an updated assessment of their assets and liabilities to be used in the risk assessment but are required to pay for the additional actuarial work involved.
23. Employers who are on the intermediate funding target but disagree with their financial risk assessment can choose to pay for a full covenant assessment at around £10,000. It is anticipated that a session on the detail of these assessments will be held for affected employers on the afternoon of the Annual Employers Meeting in October. This will still leave employers with

sufficient time to request a full assessment in advance of their contribution rate being certified by the end of March 2020.

Initial financial and demographic assumptions

24. Prior to the membership data being available, the Actuary does some initial work on the assumptions that will be used at the valuation. This includes:

- agreeing the best fit market data for demographic assumptions
- determining the likely funding target for different groups of employers
- agreeing the CPI and pay growth assumptions
- discussing any other likely factors that will need to be allowed for in the calculations

A starting point for each of these assumptions has been agreed in discussions with officers so that the Actuary can run the calculations through when the membership data is available and produce initial results for the fund. The assumptions will then be reviewed, and where necessary refined, to ensure that they are appropriate, and in line with expectations from the bodies which oversee the LGPS such as the Government Actuary's Department and the Scheme Advisory Board.

25. The Fund Actuary has determined that the latest version of the CMI mortality tables which was published in March 2019 is the best fit for use in the current valuation. This has been agreed by officers.

26. There are different funding targets for different groups of employers, based on the likely future participation in the fund:

- one for secure scheduled bodies
- an intermediate funding target for non tax payer backed scheduled bodies (differentiated for high medium and low risk employers within this sector)
- An ongoing orphan funding target for employers who still have active members but are likely to exit the scheme in the short term.

27. The secure scheduled body target is derived from three elements; solvency target, trajectory period and Probability of Funding Success (PoFS). It is proposed that this methodology remains unchanged from the 2016 valuation, but that the solvency target methodology is simplified and the PoFS is strengthened to reflect the improved funding levels. (The PoFS was pushed out to 71% following the market crash in 2008, so it is right to bring it back to its pre 2008 level of 75% now markets have recovered; increasing the POFS to 75% remains the aspiration for this valuation subject to affordability within the overall valuation results.

28. The intermediate funding target is set with the objective of maintaining affordability whilst targeting a gilts based exit position for these employers. The Actuary therefore used a 'gilts plus' figure at the 2016 valuation. As gilts yields have continued to fall since 2016, it is proposed that a greater allowance is made for asset outperformance in the investment strategy such that the impact of falling gilt yields on the discount rate is reduced. The impact of this proposed measure is to increase the difference between the discount rate for secure employers and those on the intermediate target but by less than would be required based purely on the change in gilt yields.
29. The Actuary has recommended a CPI assumption of 2.1% which represents no change in approach from 2016 and is based on the long-term RPI from Aon's Capital Market Assumptions (CMAs) of 3.2% less an allowance for an assumed RPI-CPI gap of 1.1%.
30. The pay growth assumption has become less important since the removal of the final pay link to future service. However the assumption will have an effect on the impact of the McCloud judgement, as any remedy could potentially increase the number of people for whom benefits are based on final pay instead of CARE. After discussions with officers, it was agreed that this should be reduced from the 2016 level of 3.6% to better reflect actual experience and likely future expectations now that the impact of the introduction of the living wage has worked through.
31. The Actuary will need to allow for the impact of the McCloud judgement. The Scheme Advisory Board has issued guidance to funds that if no further information is available by 31 August funds should value known benefits. However AON will provide advice on McCloud with a recommendation for the approach by 26 July (which ideally will be consistent across Aon-advised funds and more widely across the LGPS). Aon will show the impact of McCloud on contribution rate calculations for the Panel at the meeting in September, and at the AEM so that the implication of McCloud can be clearly seen.
32. From the work already carried out by the Actuary, it is anticipated that there will be a material improvement in the funding level at a whole of fund position. This results in a material reduction in the level of deficit contribution that will be required from each employer which should translate into stable contribution rates, and possibly reductions for employers who were part of the scheduled body group at the 2016 valuation. However, given the significant falls, employers with a funding target linked to gilts may see increases in their contributions at this valuation. The Actuary will work with the Administering Authority to ensure that any increases are stepped to allow continued affordability of the scheme to employers.

REQUIRED CORPORATE AND LEGAL INFORMATION:

Links to the Strategic Plan

Hampshire maintains strong and sustainable economic growth and prosperity:	yes/no
People in Hampshire live safe, healthy and independent lives:	yes/no
People in Hampshire enjoy a rich and diverse environment:	yes/no
People in Hampshire enjoy being part of strong, inclusive communities:	yes/no
OR	
This proposal does not link to the Strategic Plan but, nevertheless, requires the Pension Fund Panel and Board to note the information contained within it.	

Section 100 D - Local Government Act 1972 - background documents	
<p>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.)</p>	
<u>Document</u>	<u>Location</u>
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.

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- 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

Decision Maker:	Pension Fund Panel and Board
Date:	26 July 2019
Title:	Governance: ACCESS business plan
Report From:	<i>Director of Corporate Resources – Corporate Services</i>

Contact name: Andrew Bouflower

Tel: 01962 847407

Email: andrew.bouflower@hants.gov.uk

Purpose of this Report

1. To present the 2019/20 ACCESS business plan for approval by the Panel and Board.

Recommendations

2. That the Panel and Board approves the ACCESS business plan for 2018/19 and the share of costs that the Hampshire Pension Fund will pay.

Executive Summary

3. The Pension Fund Panel and Board has received a number of reports on the progress of forming the ACCESS pool and in addition receives the minutes of the ACCESS Joint Committee meetings.
4. Hampshire is a member of the ACCESS pool alongside the following ten other LGPS funds:

Cambridgeshire	Kent
East Sussex	Norfolk
Essex	Northamptonshire
Hertfordshire	Suffolk
Isle of Wight	West Sussex
5. According to the terms of the ACCESS Inter-Authority Agreement (IAA) the ACCESS Joint Committee is required to agree a business plan for the forthcoming year which it recommends to the individual ACCESS authorities for their agreement.

6. The 2019/20 business plan was agreed by the ACCESS Joint Committee for recommendation to the member authorities at its meeting in March 2019 and is contained in Appendix 1. The business plan sets out ACCESS' workplan of activities for the current year and the estimated budget to complete the work which is a total of £1.2m, of which Hampshire's one eleventh share would be £109,000.

2018/19 activities

7. ACCESS has continued to establish itself and move into a business as usual phase. The key activities completed in 2018/19 were:
 - Access Support Unit (ASU) – contract manager and support officer recruited.
 - ASU functions were mainly undertaken by third parties with contract management transferred to permanent staff in Q1 2019
 - Tranche 1 and 2 sub funds launched by Link (8 sub-funds with over £8bn of assets, of which Hampshire is invested in 3)
8. Actual costs in 2018/19 were £1.25m, £0.18m lower than the approved revised budget. The charge to each ACCESS authority for 2018/19 was £113,409.

2019/20 business plan

9. The main activities for ACCESS in 2019/20 will be:
 - Completion of the ASU recruitment, including the appointment to the Director role.
 - ASU functions mainly undertaken by ASU officers and technical leads following transfer from commissioned third parties.
 - Review the IAA and any required changes are approved by member authorities.
 - Continuation of the launch of sub-funds by Link, with tranches 3, 4 and 5 planned
 - Consideration of the best means of pooling illiquid (alternative) assets.
10. Work is also planned to bring forward the business planning and budget setting cycle within ACCESS to enable the member authorities to approve the business plan prior to the start of the financial year.

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

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

Section 100 D - Local Government Act 1972 - background documents

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DocumentLocation

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Due regard in this context involves having due regard in particular 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.

ACCESS Strategic Business Plan		
Key Milestone	2018/19	Anticipated 2019/20
Consider Legal Entity Consider the benefits and drawback of legal entity model for ACCESS pool.	Completed	N/A
Complete Governance Manual Work with external advisers to reflect decision making principles, communication strategy, policies and procedures, code of conduct etc in the Governance Manual	Substantially Completed	Will have residual cost relating to training.
Complete Review of Inter Authority Agreement Work with external advisers to reflect any changes resulting from the completion of the Governance Manual and review	Initial redrafting undertaken	Further redrafting required to reflect changes; mainly to the current operational elements of the Pool
Agree and establish ACCESS Support Unit Identify ASU resource requirements, roles and responsibilities for activities, scope and run recruitment activity and appoint	Third party providers appointed as interim ASU	ASU functions will be mainly undertaken by ASU Officers and Technical Leads
ASU Operation and BAU ASU Operation plus professional advice and support	Third party providers of interim ASU Contract manager recruited	ASU functions will be mainly undertaken by ASU Officers and Technical Leads ASU support officer recruited ASU Director to be appointed
Determination of Reporting Framework Reflecting investments within the sub-funds work with Link to ensure that reporting meets Authority, Pool, CIPFA and Government requirements		Work to be undertaken by the ASU officers and Technical Leads
Development of Reporting for the Joint Committee in respect of funds in the ACS - Quarterly investment performance - Information on investment and operational costs including the annual review of investment manager costs		Work to be undertaken by the ASU officers and Technical Leads
Agreement to joint policies Including communication, environmental social and governance and responsible investment.	N/A	Work to be undertaken by the ASU Officers and technical Leads
Approval and launch of Tranche 1 Sub-Fund	Completed with overspend on Page 45 Intelligence and	N/A

Ensure sub-fund meets Link's due diligence requirements and ACCESS Authorities' value for money criteria (including transition activity). Work with Link to submit application to the FCA for approval of the ACCESS ACS and sub-fund set-up. Launch.	consultancy advice	
Approval and launch of Tranche 2 Sub-Funds As above	Completed	N/A
Approval and launch of Tranche 3 Sub-Funds As above	Substantially completed	2 sub-funds - transition activity Q1.
		Other sub-funds - some further due diligence required.
Establish Stock Lending Programme for ACCESS ACS Commission work from third party experts on the appropriate balance between risk and income for Link to implement for the ACCESS ACS sub-funds	Completed following appointment of Mercer. Programme in place.	N/A
Determine, approve and launch tranche 4 Sub-Funds As above and to include WSPF Baillie Gifford balanced mandate		Further due diligence required
Determine, approve and launch tranche 5 Sub-Funds As above but to also include manager search and selection activity by Russell.	Work commissioned from Russell	Further due diligence required
Consideration of approach to illiquid investments Consideration of requirements and implementation options for ACCESS Authorities' current and proposed investments in illiquid asset classes, including infrastructure.	Joint Committee agreed initial scope of work to be undertaken by Officers	Work to be undertaken by the ASU and Technical Leads using third party suppliers as required
Communication with MCHLG Providing updates to Government and responding to consultations	Completed	Work to be undertaken by the ASU using third party suppliers as required
Pool Wide Activities Professional support in relation to ACCESS Governance Structure includes JC, S151 and OWG and workstream meetings	Work commissioned from Hymans	Work to be undertaken by the ASU using third party suppliers as required

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HAMPSHIRE COUNTY COUNCIL

Decision Report

Decision Maker:	Pension Fund Panel and Board
Date:	26 July 2019
Title:	Governance – Annual Report 2018/19
Report From:	<i>Deputy Chief Executive and Director of Corporate Resources</i>

Contact name: Rob Sarfas

Tel: 01962 847054

Email: rob.sarfas@hants.gov.uk

Purpose of this Report

1. The purpose of this paper is to introduce the 2018/19 draft Pension Fund Annual Report to the Panel and Board.

Recommendations

2. That the Panel and Board note the contents of the Annual Report for 2018/19 and approve its publication.
3. That the Deputy Chief Executive and Director of Corporate Resources is authorised to make any necessary minor amendments to the report prior to publication.

Executive Summary

4. The requirement to publish an annual report was introduced into the Local Government Pension Scheme (LGPS) Regulations in 2013, with the aim of the report being to promote awareness of the scheme and provide members and stakeholders with relevant information in an accessible and consistent manner.
5. The annual report now includes additional information on pooling, including:
 - 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

6. The current draft is attached and has been reviewed by officers and the Deputy Chief Executive and Director of Corporate Resources.
7. Amendments to the Annual Report following this review will be made prior to the report being finalised, however it was not possible to make these amendments ahead of the publication of papers for the Panel and Board meeting.
8. Amendments due to be made include:
 - Updates to the attendance log to include substitute members when deputising for full members
 - Changes to reflect the final version of the ACCESS pool's annual report
 - Additional breakdown of leavers in the scheme administration report to show the number of ill-health leavers
 - Minor corrections of grammatical and formatting errors
9. The Pension Fund accounts are included in the Annual Report and are subject to audit. It may therefore be necessary to make minor changes to the Annual Report at the conclusion of the audit.
10. The final version of the Annual Report will therefore be available for publication at the end of July 2019.

REQUIRED CORPORATE AND LEGAL INFORMATION:

Links to the Strategic Plan

Hampshire maintains strong and sustainable economic growth and prosperity:	no
People in Hampshire live safe, healthy and independent lives:	no
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OR	
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None	

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1. Equality Duty

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- 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:

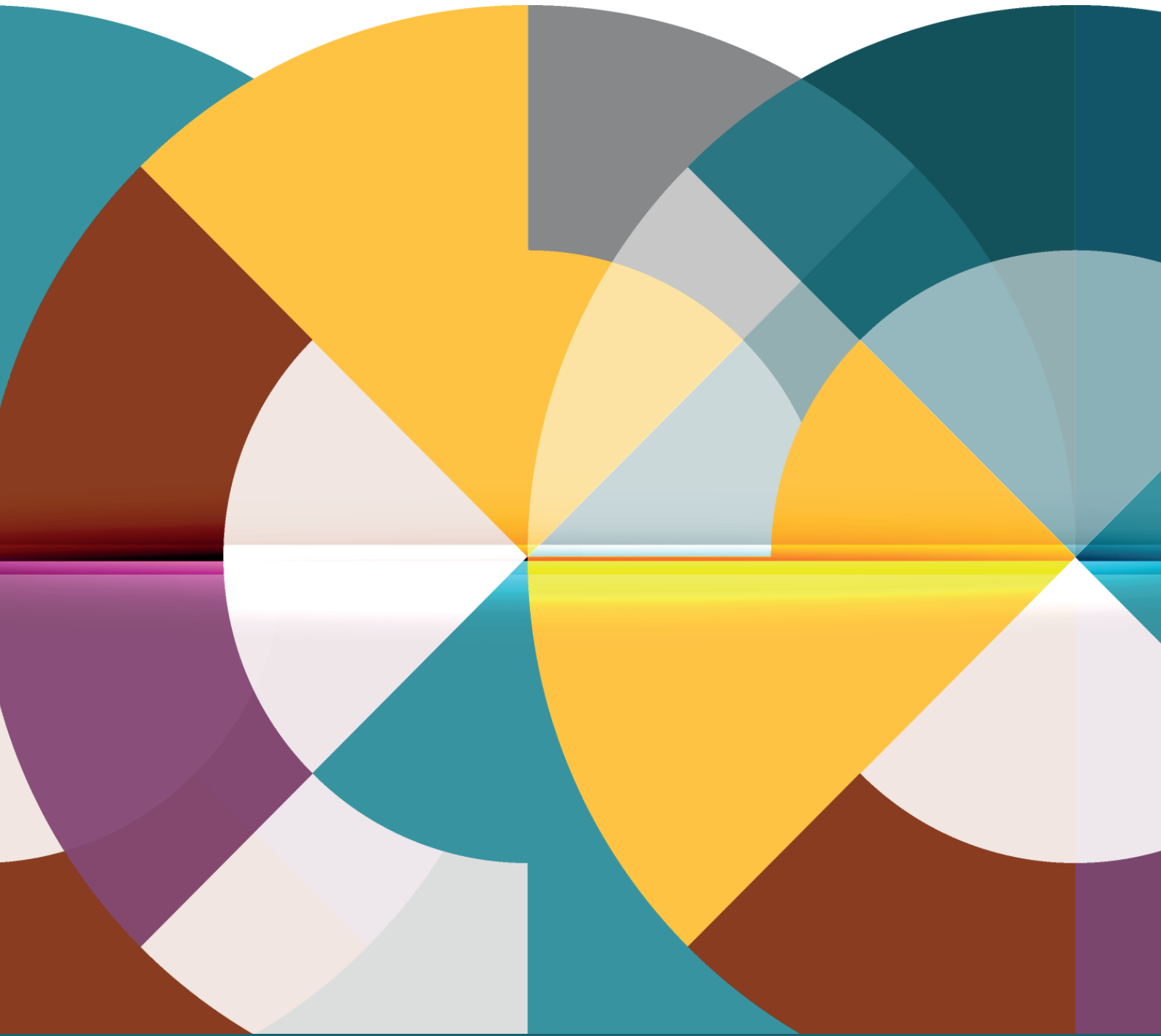
- The need to remove or minimise disadvantages suffered by persons sharing a relevant protected characteristic that are connected to that characteristic;
- Take steps to meet the needs of persons sharing a relevant protected characteristic that are different from the needs of persons who do not share 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 PENSION FUND
ANNUAL REPORT AND ACCOUNTS

2018/2019



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85	Glossary

We hope you find this annual report informative and useful.
There is a glossary of terms at page 85.

If you have any comments on the annual report, please call
01962 847054, email budget@hants.gov.uk or write to:

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

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



Foreword

Welcome to the Hampshire Pension Fund annual report for 2018/19.

I am writing to you at the end of an eventful year for markets, with more volatility evident than we have perhaps become accustomed to over recent years. Global equity markets fell in the run up to Christmas but have performed better since, with the Pension Fund's investments delivering returns of 7.68% this year, taking the value of the Fund to over £7 billion.

When writing last year, I reported that the Panel and Board had agreed new strategic asset allocations in November 2017. These allocations were set with the aim of putting the Fund in the best position possible to meet future liabilities and we have made good progress in implementing the changes over the course of the year. I am pleased to be able to report that two Multi-asset Credit investment managers (Alcentra and Barings) and a private debt manager (JP Morgan) have been appointed as planned and all three have now begun making investments on behalf of the Fund. In addition, as the latest update from the Fund's actuaries showed an improved funding position, we commissioned Hymans Robertson to investigate options to reduce investment risk. As a result of this piece of work, the Panel and Board agreed to increase the strategic allocation to index linked gilts in November, with a corresponding reduction in our hedge fund and global equities allocations.

I am also pleased to be able to let you know that good progress has been made with investment pooling. We have continued to work with 10 other LGPS funds as part of ACCESS (A Collaboration of Central, Eastern and Southern Shires) and I reported last year that we had successfully appointed both UBS, as a passive investment manager, and Link Asset Services, as the Operator for our Collective Investment Vehicle (CIV). About 39% of the Fund is now invested with UBS, delivering significant fee savings for the Pension Fund, with a further 24% invested in three sub-funds managed by Link. This has been a significant achievement and means the hard work in setting up these new arrangements is starting to pay off and I will look forward to providing you with a further update next year.

Of course, whatever the investment and however arrangements are structured, the responsibility for the Pension Fund's investments remains with the Panel and Board, including the consideration of responsible investment. During the year, we reviewed our existing Responsible Investment (RI) policy and published a significantly revised draft, including the proposed creation of a Responsible Investment Sub-Committee of the Panel and Board. The draft policy was published for

consultation with scheme members and employers and the Panel and Board will consider the feedback received in agreeing a new policy in July 2019. We have a belief in the importance of responsible investment as part of our fiduciary duties to the Fund and I look forward to coalescing with the new Sub-Committee later in the year.

All of the things I've written about above demonstrate why developing and maintaining relevant skills and knowledge has once again been a key point of focus for the Panel and Board. Several excellent bespoke in-house training sessions covering a wide range of topics have been delivered to the group as a whole, while individual members have also attended a number of external seminars and conferences, sharing their learning with the rest of the Panel and Board. Training will continue to be given high priority and plans are in place for the year ahead. Further information can be found in the training report on page xx.

In April 2018, Pension Services once again retained their Customer Service Excellence (CSE) accreditation, collecting 5 compliance plus scores in the process. These scores highlight areas where the service is performing to a very high standard against the CSE requirements and I'm delighted to say that a further 2 compliance plus scores were awarded as part of an excellent assessment report following a recent interim review. This would be a great achievement in any year but is even more impressive this year given that Pensio Services have successfully taken on the administration of the West Sussex Pension Fund. This has been a significant piece of work for staff across the service and I am impressed by the hard work and commitment of the Pension Service team and would like to take this opportunity to thank them, and their colleagues in the investments and borrowing team, for their efforts over the course of the year.

I would also like to thank the members of the Pension Fund Panel and Board for their valuable input and dedication during 2018/19, and I am looking forward to working with all the members over the coming year. Full details of the membership of the Panel and Board can be found on page xx.

Councillor Mark Kemp-Gee

Chairman, Pension Fund Panel and Board, July 2019

Who's Who

Administering authority and Scheme Manager

Hampshire County Council

Treasurer

Carolyn Williamson, Director of Corporate Resources

Independent adviser

Carolan Dobson

Investment managers

Aberdeen Standard
Investments

ACADIAN

Alcentra

BAILLIE GIFFORD

BARINGS

CBRE
GLOBAL
INVESTORS

DODGE & COX®

GCM GROSVENOR

Morgan Stanley

NEWTON
The Power of Ideas

Schroders

UBS

WESTERN ASSET

Asset Pool

ACCESS

Pool Operator

Link Asset Services

Custodian

JP Morgan

Actuary

Aon

Bankers

The National Westminster Bank plc

External auditor

Ernst & Young

AVC providers

Zurich

Prudential

Equitable Life

County Council contacts

Head of Pensions,
Investments & Borrowing

Andy Lowe
01962 876370

Legal adviser

Paul Hodgson

Pension Fund Panel and Board

as at 31 March 2019

County Council members



Cllr Mark Kemp-Gee
(Chairman)
14 years' membership



Cllr Tom Thacker
(Vice-Chairman)
10 years' membership



Cllr Christopher Carter
10 years' membership



Cllr Alan Dowden
2 years' membership



Cllr Jonathan Glen
2 years' membership



Cllr Andrew Gibson
7 years' membership



Cllr Andrew Joy
6 years' membership



Cllr Peter Latham
5 years' membership

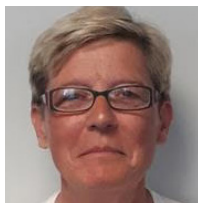


Cllr Bruce Tennent
10 years' membership

County Council deputies

Cllr Derek Mellor
Cllr Keith House
Cllr Michael White
Cllr Roger Price

Employer representatives



Cllr Jeanette Smith
Unitary Council representative
1 years' membership



Cllr Trevor Cartwright
District Council representative
1 years' membership



David Robbins
Other employer representative
3 years' membership



Cllr Mark Chaloner
Substitute employer representative
4 years' membership

Member representatives



Neil Wood
Employee representative
3 years' membership



Valerie Arrowsmith
Deferred member representative
3 years' membership



Cliff Allen
Pensioner representative
6 years' membership



Sarah Manchester
Substitute Scheme representative
1 years' membership

Pension Fund Panel and Board continued

Cllr Jeanette Smith and Cllr Trevor Cartwright were appointed as Unitary and District Council employer representatives respectively, replacing Cllr Mark Chaloner and Cllr Peter Giddings in these roles. Cllr Chaloner is now the substitute employer representative. Sarah Manchester was appointed as the substitute scheme representative.

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. Attendance of the members at Panel and Board meetings, internally organised training events, and other external training opportunities is shown in the table below. It should be noted that internal training sessions 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 meetings, the number of meetings attended is shown against the number of possible meetings for that member.

Panel and Board member	Pension Fund Panel and Board meetings attended	Internal training sessions attended	External training sessions attended
Cllr Kemp-Gee	6/8	5	3
Cllr Thacker	6/8	4	0
Cllr Carter	7/8	5	1
Cllr Dowden	8/8	5	2
Cllr Gibson	8/8	5	2
Cllr Glen	7/8	5	5
Cllr Joy	7/8	1	2
Cllr Latham	8/8	5	1
Cllr Tennent	5/8	3	2
Cllr Smith	0/5*	0	0
Cllr Cartwright	2/5*	0	0
David Robbins	6/8	4	0
Valerie Arrowsmith	8/8	5	3
Cliff Allen	7/8	4	0
Neil Wood	8/8	2	2

Cllr Smith, Cllr Cartwright and Sarah Manchester were appointed to the Panel and Board in September 2018

Conflicts of interest have been managed in accordance with the County Council's standing orders.

Board report

Hampshire Pension Fund has the endorsement of MHCLG 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 2018/19 are as follows:

Governance

- Panel and Board training
- Investment pooling updates
- Pension administration updates
- Risk management
- Pension Fund Annual Report
- Pension Fund costs
- Draft Responsible Investment Policy
- Fair Deal consultation response
- Internal audit plan and progress reports
- Internal audit report and opinion
- Review of the Business Plan
- Investment Strategy Statement
- Funding Strategy Statement
- Employer Policy
- Administration Strategy
- Communication Policy Statement
- Governance Compliance Statement
- Governance Policy Statement
- Provision of advice to the Panel and Board

Investment

- Custodian performance updates
- Investment updates
- Alternative investments portfolio updates
- Property portfolio update
- Pension fund cash reports
- ACCESS pool business plan and investment updates
- MHCLG draft pooling guidance

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, as summarised on page XX.

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 that the administering local authority may exercise proper democratic accountability and continue to meet fiduciary responsibilities. The Chairman of the Panel and Board is the vice-chairman of the ACCESS pool's Joint Committee and 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:

<http://documents.hants.gov.uk/pensions/2018-2019-GovernancePolicyStatement.pdf>

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, 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.

Value of pooled and non-pooled investments

	2017/18		2018/19	
	£'000	%	£'000	%
Equities	0	0.0	1,737,878	24.2
Passive investments	2,505,806	37.9	2,813,476	39.2
Pooled sub-total	2,505,806	37.9	4,551,355	63.4
Equities	2,738,835	41.4	771,358	10.7
Fixed income	272,154	4.1	657,421	9.2
Property	482,340	7.3	538,317	7.5
Alternative assets	501,196	7.6	588,358	8.2
Cash and other assets	112,909	1.7	75,071	1.0
Non-pooled subtotal	4,107,433	62.1	2,630,526	36.6
Total	6,613,239	100.0	7,181,881	100.0

In 2018/19 Hampshire Pension Fund transitioned over £1.7bn of its investments to the ACCESS pool, in addition to its passive investments that became part of the pool in 2017/18. The assets that were transitioned are invested in sub-funds managed by ACCESS' operator Link.

It is planned that Hampshire's remaining Global Equity and Fixed Income investments will transfer to the pool in 2019/20, with its Alternative Investments transferring in subsequent years when pooled opportunities are available and funds are naturally released from current investments.

ACCESS' business case for pooling that was accepted by DCLG stated that there was no economic case to pool LGPS property and cash investments.

Pooled costs and savings

	Non-Pooled £'000	Pooled £'000
Equities	8,957	684
Fixed income	805	0
Passive investments	0	635
Property	4,146	0
Alternative investments	21,786	0
Custody and other costs	563	0
Total costs	36,257	1,319



Hampshire Pension Fund's investment management costs of £37.576m, reported in its annual accounts include £1.319m of investment management costs from within the pool (the cost of fees paid to the operator and to the investment managers that the operator has appointed).

The investment management costs of pooled investments are disproportionately lower as a significant proportion of assets were transferred to the pool part way through the year and 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.

Cumulative costs and savings:	£'000
Pool setup and on-going costs*	279
Transition costs	403
Investment management fee savings	(652)
Net cost of pooling to date	30

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

It is expected that a net saving from investment pooling will be delivered over future years as the savings from investment manager fees accrue.

The investment performance of both the Pension Fund's pooled and non-pooled investments is shown in the Investment Policy and Performance Section of the Annual Report.

ACCESS Annual Report



ACCESS

As Chairman of the ACCESS Joint Committee I am pleased to be introducing the first Annual Report for the ACCESS Pool. The Pool has made excellent progress during the year with just under £20 billion of assets pooled. £8.176 billion is invested directly in the Pool through Link Fund Solutions and the passive investments of £11.431 billion are invested on a pool governance basis.



I am grateful for the dedication and support from the fellow Chairmen on the Joint Committee, the officers from the Pension Funds and the staff of the Support Unit whose hard work and collaborative spirit has made such progress possible.

The pace of development for the Pool will continue during 2019-20, with further sub-fund launches planned throughout the year.

Background

ACCESS (A Collaboration of Central, Eastern and Southern Shires) is made up of 11 Local Government Pension Schemes (LGPS) Administering Authorities: Cambridgeshire County Council; East Sussex County Council; Essex County Council; Hampshire County Council; Hertfordshire County Council; Isle of Wight Council; Kent County Council; Norfolk County Council; Northamptonshire County Council; Suffolk County Council and West Sussex County Council in response to the Governments pooling agenda across the LGPS.

The ACCESS Administering Authorities are committed to working together to optimise benefits and efficiencies on behalf of their individual and collective stakeholders, operating with a clear set of objectives and principles that drives the decision making process.

Collectively the pool has assets of £46.324 billion serving 3,000 employers with over 1 million members including 290,000 pensioners.

Governance

The ACCESS Pool is not a legal entity in itself but is governed by an Inter Authority Agreement signed by each Administering Authority. The Inter Authority Agreement sets out the terms of reference and constitution of ACCESS.

The formal decision-making body within the ACCESS Pool is the Joint Committee. The Joint Committee has been appointed by the 11 Administering Authorities under s102 of the Local Government Act 1972, with delegated authority from the Full Council of each Administering Authority to exercise specific functions in relation to the Pooling of Pension Fund assets.

The Joint Committee is responsible for ongoing contract management and budget management for the Pool and is supported by the Officer Working Group and the ACCESS Support Unit (ASU).

The Officer Working Group are officers identified by the Administering Authorities whose role is to provide a central resource for advice, assistance, guidance and support for the Joint Committee.

The ACCESS Support Unit (ASU) provides the day-to-day support for running the ACCESS Pool and has responsibility for programme management, contract management, administration and technical support services. The permanent staff roles within the ASU are employed by the Host Authority (Essex) with additional technical support from Officers within the ACCESS Pension Funds.

The Section 151 Officer of each Pension Fund provide advice to the Joint Committee and in response to decisions made by the Joint Committee ensure appropriate resourcing and support is available to implement the decisions and to run the ACCESS Pool.

Strategic oversight and scrutiny responsibilities remain with the Administering Authorities as does all decision making on their individual Funds asset allocation and the timing of transfers of assets from each Fund into the arrangements developed by the ACCESS Pool.



The Operator

Link Fund Solutions Ltd are appointed to provide a pooled operator service. Link are responsible for establishing and operating an authorised contractual scheme along with the creation of a range of investment sub-funds to meet the needs of the investing authorities enabling them to execute their asset allocation strategies and the appointment of the investment managers to those sub-funds.

Progress

ACCESS submitted its pooling proposal to Government in July 2016 with detailed plans for establishing and moving assets into the pool and has regularly submitted progress reports to Government. These are all published on the Pool's website (www.accesspool.org).

Included in the proposal is an indicative timeline of when assets will be pooled and ACCESS has made excellent progress against the principal milestone of having £27.2 billion assets pooled and estimated savings of £13.6 million by March 2021.

Pooled Assets

As at 31 March 2019 ACCESS has pooled the following assets:

Pooled Investments	£ billion
Passive investments	11.431
UK Equity Funds	2.323
Global Equity Funds	5.853
Total Pooled Investments	19.607

The passive investment funds are held on a pool governance basis under one investment manager as these assets are held in life fund policies, which cannot be held within an authorised contractual scheme.

Key milestones achieved in 2018/19

- Establishment of the ACCESS Support Unit and recruitment of a contract manager and support officer to provide day to day support for the Pool. The unit was further strengthened by the appointment of technical leads from existing officers to lead and progress specific areas of work.
- Development of a Governance Manual to reflect decision making principles, communications strategy, policies and procedures.
- Approval and launch of the first two tranches of sub-funds.
- Establishment and implementation of the stock lending programme.
- Providing updates of progress to Government and responding to consultations.

Objectives for 2019-20

Following the launch of a number of sub-funds, progress will continue a pace with significant rationalisation of the existing range of mandates. The Operator will be developing and launching a further series of sub-funds which will collectively reflect the strategic asset allocation needs of the Funds and facilitate a significant move of the assets to be pooled.

Whilst establishing and developing the ACCESS Pool, the initial focus has been on pooling the most liquid assets, mainly equities and fixed income bonds. The next step is to formulate an approach to pooling and managing illiquid assets such as private equity and infrastructure. This will involve reviewing various structures and platforms and assessing these to identify the best fit to meet with the Funds current and future requirements.

ACCESS Annual Report continued – Financial Management

Pool Set-Up Costs

The set-up costs incurred by the pool includes professional and legal advice received in relation to establishing the pool and procuring the operator, and advice and support in the development of good governance. A breakdown of the total costs from inception are as below. The costs are split equally amongst the 11 Funds.

	2015/ 16	2016/ 17	2017/18
	£'000	£'000	£'000
Strategic & Technical Advice	38	295	281
Legal	1	95	313
Project Management	20	379	189
ACCESS Support Unit	–	–	3
Other	1	108	101
Total	60	877	887

Fee Savings

The ACCESS pool has sought out fee savings based on economies of scale with investment mandates in common and by consolidating its passive investments with one investment manager. The management fee savings received by the pool are as below:

	2015 to 2016	2016 to 2017	2017 to 2018	2018 to 2019	Total
	£'000	£'000	£'000	£'000	£'000
Set Up Costs	60	877	887	–	1,824
Ongoing Operational Costs	–	–	149	1,248	1,397
Transition Costs	–	–	–	674	674
Total Costs	60	877	1,036	1,922	3,895
Fee Savings	–	–	681	6,378	7,059
Net Savings Realised/(Costs)	(60)	(877)	(355)	4,456	3,164

Expected v Actual Costs and Savings

The table below compares the actual costs and savings for 2017–18 and 2018–19 compared to the Business case submission to MHCLG.

	2017–18		2017–18	
	Actual In Year	Budget In Year	Actual Cumulative to date	Budget Cumulative to date
	£'000	£'000	£'000	£'000
Set Up Costs	887	800	1,824	1,400
Ongoing Operational Costs	149	–	149	–
Transition Costs	–	–	–	–
Total Costs	1,306	800	1,973	1,400
Pool Fee Savings	(681)	(950)	(681)	(950)
Net Savings Realised/(Costs)	(355)	(150)	(1,292)	(450)

	2018–19		2018–19	
	Actual In Year	Budget In Year	Actual Cumulative to date	Budget Cumulative to date
	£'000	£'000	£'000	£'000
Set Up Costs	–	–	1,824	1,400
Ongoing Operational Costs	1,248	1,266	1,397	1,266
Transition Costs	674	2,499	674	2,499
Total Costs	1,922	3,765	3,895	5,165
Pool Fee Savings	6,378	3,800	7,059	4,750
Net Savings Realised/(Costs)	4,456	35	3,164	(415)

The original budget for setting up the ACCESS Pool was £1 million which was 0.3 bps based on the value of the Funds, £33.5 billion as at 31 March 2015. The Fund value has risen in the intervening years and 0.3 bps on the current value is £1.4 million. The additional expense has been incurred in securing technical and legal advice in setting up the Pool and procuring the Operator.

Ongoing operational costs were included in the submission at 1.5 bps of pooled assets excluding the passive investments. These are the costs for running the ACCESS Pool and includes the costs of the support unit and professional and legal advice.

Significant additional savings have also been achieved through negotiating a reduction in investment management fees in pooled aligned investments. These savings have not been included in the table overleaf.

The ACCESS Pool has worked hard to minimise the costs of transition for pooled holdings wherever possible. Transition costs for the passive investment mandate were met by the appointed investment manager.

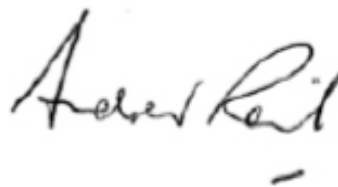
Environmental, Social and Governance

The Pension Funds in ACCESS believe in making long term sustainable investments whilst integrating environment and social risk considerations, promoting good governance and stewardship.

Whilst the participating authorities have an overriding fiduciary and public law duty to act in the best long term interests of their LGPS stakeholders to achieve the best possible financial returns, with an appropriate level of risk they also recognise the importance of committing to responsible investment alongside financial factors in the investment decision making process.

ACCESS acknowledges its responsibilities as an investor and has considered how environmental, social and governance issues can be taken into account when managing investment portfolios. It believes that the pursuit of standards of best practice aligns the interest of Fund members with those of fellow shareholders and with society as a whole.

The ACCESS pool has a single voting policy for pooled assets and seeks to protect and enhance the value of its shareholdings by promoting good practice in the corporate governance and management of those companies. The voting policy sets out the principles of good corporate governance and the means by which ACCESS will seek to exercise its influence on companies.



Andrew Reid

Cllr Andrew Reid –
Chairman, ACCESS Joint Committee

Training and Development Report

Knowledge and Skills Framework Policy

As an administering authority of the Local Government Pension Scheme, Hampshire County Council recognises the importance of ensuring that all staff 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 staff and members. This training is designed to enable staff 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 Panel and Board, both as a group and as individuals, and is based upon the recommendations of the CIPFA Pensions Finance Knowledge and Skills Frameworks.

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

Training received in 2018/19

Five internal training half-days were arranged for Panel and Board members in Winchester during August, September and November 2018. The topics covered by these sessions were as follows:

Date	Topic	Provider
August 2018	Pooling and Investment Regulations	Pension Fund Officer
August 2018	Factor-based Investing	Acadian
September 2018	Alternative Beta Indexation	UBS
November 2018	Multi-asset Credit	Alcentra
November 2018	Constitutional and Regulatory Matters	Hampshire Legal Services

These training half-days 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, and was provided by Arlingclose, the County Council's advisers on treasury management.

These training half-days 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.

During the early part of 2019, 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 was likely to be beneficial. The Training Needs Analysis was 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.

Relevant internal training sessions will be arranged for 2019/20 and 2020/21 based on the Training Needs Analysis, which is also provided to all new Panel and Board members to enable them to identify any training requirements.



Individual Panel and Board members attended a range of training events in 2018/19 provided by the Pension Fund's investment managers and other external organisations, as follows:

Infrastructure and Real Assets	SPS
Investment and Pensions Summit	LGC
Investment Strategies and Cashflow Management	SPS
Autumn Investment Conference	Schroders
Data Roadshow	Government Actuaries Department
Investment Strategies	SPS
Global Alpha Investment Forum	Baillie Gifford
LA Pension Fund Investment Issues	SPS
Trustee Forum	JP Morgan
Training Event	Western

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 design the training plan for the following year.

Training in 2019/20

The training plan for 2019/20 was approved by the Pension Fund Panel and Board in July 2019. 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.

Investment Policy and Performance Report

Custody of assets

The Pension Fund's global custodian, JP Morgan, provides a range 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:

- safekeeping of the Pension Fund's assets in the various different investment markets that the Pension Fund owns assets
- settlement of trades placed by the Pension Fund's active investment managers
- collection of income from dividends and interest
- tax reclamation services
- corporate action processing and proxy voting based on the instructions received by the Pension Fund's investment managers
- filing of US-based class action lawsuits
- foreign exchange settlement to enable the Pension Fund to buy and sell assets in foreign currencies
- stock lending
- reporting on the value of the Pension Fund's assets and the investment performance of the Fund's investment managers

Pooled investments are managed by the passive investment provider UBS and by the pool operator (Link Asset Services) and are held in custody by Northern Trust, the custodian appointed by Link. JP Morgan have custody of all of the Pension Fund's non-pooled active equity, global bonds and hedge fund portfolios. All other assets are held directly by the Pension Fund. JP Morgan report on the performance of the entire portfolio.

Social, environmental and ethical considerations

During 2018/19 the Pension Fund consulted on a new Responsible Investment policy. The updated policy was approved by the Panel and Board on 12 July 2019 and is set out in the Investment Strategy Statement, available via the following link:

<https://www.hants.gov.uk/hampshire-services/pensions/local-government/joint-pension-fund-panel/annual-report>

An extract and a summary of responsibilities are shown below:

The Pension Fund's investment principles include:

- i) that it has a long-term focus, and must make investment returns to meet the pensions liability (currently calculated by the Fund's actuary as 4.5% p.a.) 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 Pension Fund's approach to Responsible Investment, includes consideration of the Principles for Responsible Investment (PRI), a set of six principles that provide a global standard for responsible investing as it relates to ESG. The 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 (including health inequalities), employee relations and diversity
- **Governance** – executive pay, bribery and corruption, political or religious lobbying and donations, board diversity and structure, unjustifiable tax strategy

These factors, whilst not exhaustive, provide a baseline of ESG factors to be taken into account as part of the Pension Funds overall investment strategy.



As detailed in the Investment Strategy Statement, the Pension Fund has established a Responsible Investment Sub-Committee which meets at least twice a year to review ESG issues and support implementation of the RI policy.

The passive investment manager is expected to engage on ESG issues with companies within their index and to exercise voting rights. Active investment managers are required to pro-actively consider how all relevant factors, including those relating to ESG, will influence the long-term value of each investment.

Where investments are made in closed-ended limited partnerships, investment managers are required to integrate ESG considerations into their selection of these funds. The Pension Fund also holds directly owned UK property and the investment manager is required to consider improving the environmental impact of these properties as part of the investment case.

The Panel and Board will consider disinvestment from particular stocks or sectors, or the investment in specific 'social' investments, where it believes the decision would be supported by a significant majority of scheme members and employers, so long as it does not result in significant financial detriment to the Pension Fund.

Investment managers are expected to work in a consistent and transparent manner with companies they are invested with to ensure they achieve the best possible outcomes for the Pension Fund and are instructed to exercise the Fund's responsibility to vote on company resolutions wherever possible. The Responsible Investment Policy provides guidelines for investment managers when casting their votes and the requirements for reporting on their actions to the Pension Fund.

All voting rights have been exercised in accordance with the Investment Strategy Statement.

Matters relating to implementation of the Funding Strategy Statement

All grouped employers' contribution rates stepped up by 1% in 2018/19. 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.

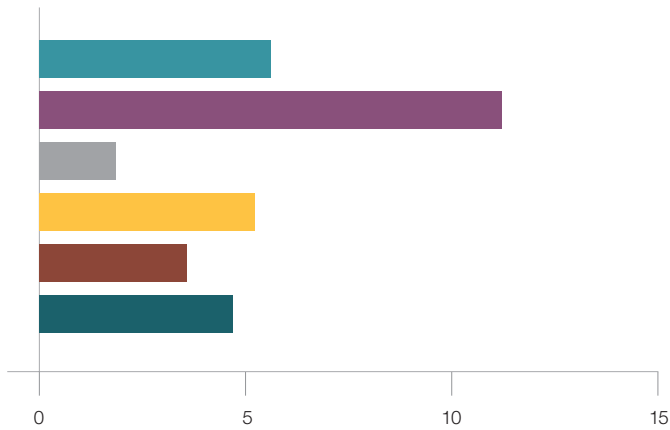
Investment overview

During 2018/19, stock markets delivered stronger returns than in the previous 12 months, as the UK stock market returned 6.36% and world stock markets (including emerging markets) returned 11.06% overall. UK index-linked bonds have delivered returns of 5.19% for the year, and global bonds delivered modest positive returns of 3.10% in 2018/19.

The UK commercial property market has delivered positive returns of 4.60% in 2018/19, continuing the trend of recent years.

Market returns in 2018/19

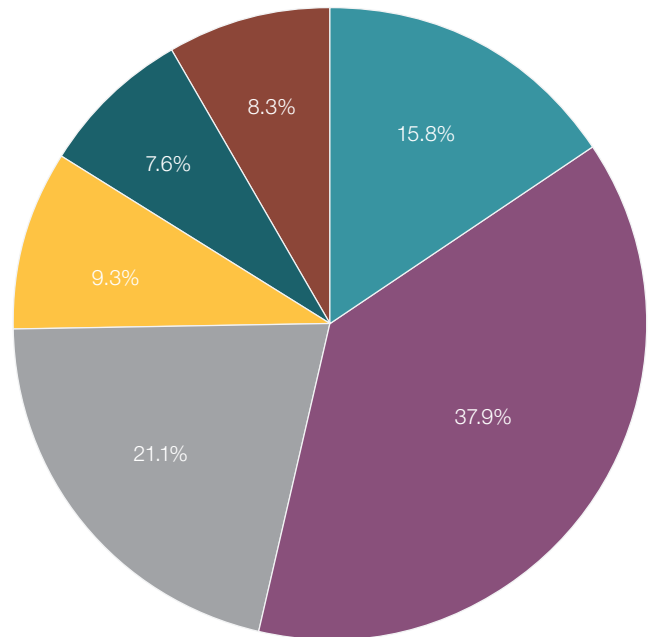
	%
UK equities	6.36
Global equities	11.06
Emerging market equities	1.70
UK index-linked bonds	5.19
Global bonds	3.10
UK property	4.60



Breakdown of the Hampshire Pension Fund's investments on 31 March 2019

	%
UK equities	15.8
Overseas equities	37.9
UK fixed interest bonds	21.1
Overseas fixed interest bonds	9.3
UK and European property	7.6
Alternative investments	8.3
Cash held pending investment	0.0

Total	100.0
--------------	--------------



The Fund has appointed investment managers responsible for several specialist portfolios, as follows.

Pension Fund investment management structure

	Target portfolio size %	Actual allocation at 31 March 2019 %	Benchmark	Annual target performance gross/ net of fees
Growth				
UK equities				
LF ACCESS UK Equity Fund (Schroders)	10.1	10.3	FTSE All Share	+1.25% gross
High-performance global equities				
Acadian Asset Management	6.5	6.6	MSCI World	+1.5% to 2.5% net
Baillie Gifford & Co	3.7	4.0	MSCI All Countries World	+1.5% to 2.5% net
LF ACCESS Long Term Global Growth Fund (Baillie Gifford)	8.1	7.6	MSCI All Countries World	+1.5% to 2.5% net
LF ACCESS Global Stock Fund (Dodge & Cox)	6.7	6.4	MSCI All Countries World	+1.5% to 2.5% net
Passive equities				
UBS (UK equities)	1.9	4.9	FTSE All Share Index	–
UBS (global equities)	0.6	8.0	FTSE All World Equity Index	–
UBS (alternative beta)	5.4	5.5	MSCI All Countries World	–
Private equity and other alternatives				
Aberdeen Standard Investments	5.0	3.9	–	+9% to 11.5% net
Hedge funds				
Morgan Stanley	0.0	1.7*	–	+5.5% to 8.0% net
Income				
Multi-asset Credit				
Alcentra	5.5	5.0	3 month GBP LIBOR	+3.0%
Barings	4.5	4.1	3 month GBP LIBOR	+3.0%
Private debt				
JP Morgan	5.0	0.0 [†]	3 month GBP LIBOR	+4.0%
Infrastructure				
GCM Grosvenor	5.0	2.6	–	+7.5% to 10.0% net
European property				
Aberdeen Standard Investments	0.0	0.0*	Eurozone Harmonised Index of Consumer Prices (HICP)	+5% gross
UK property				
CBRE Global Investors	10.0	7.5	Retail Prices Index (RPI)	+4.5% net

Investment Overview continued

Pension Fund investment management structure (continued)

	Target portfolio size %	Actual allocation at 31 March 2019 %	Benchmark	Annual target performance gross/ net of fees
Income (continued)				
Protection				
Passive index-linked bonds				
UBS	22.0	20.8	FT British Government Over Five Years Index-Linked Gilts Index	–
Cash				
Managed in house	0.0	1.1	–	–
Total	100.0	100.0		

* portfolio no longer forms part of the Investment Strategy and positions are being exited

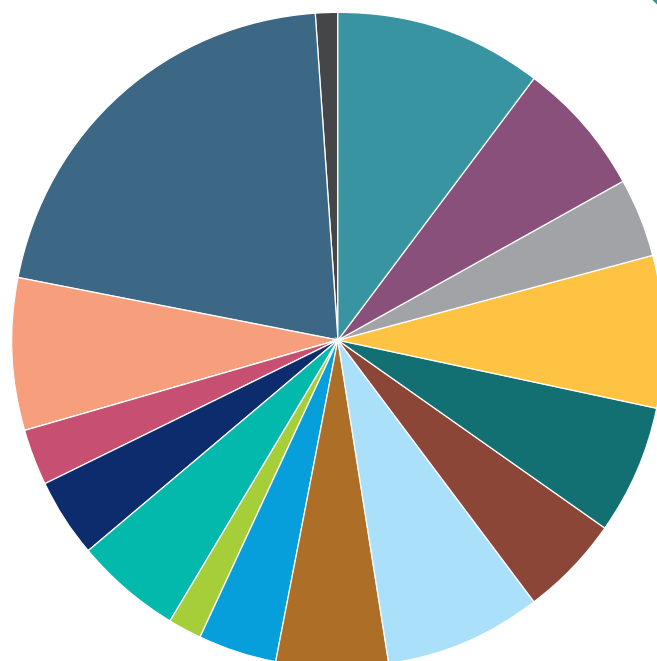
† new allocation where investments will begin to be made during 2019/20

The value of the investments held by each of the Fund's managers on 31 March 2019 is shown in the following table.

Value of investments on 31 March 2019

Manager	£million
Growth	
LF ACCESS UK Equity Fund (Schroders)	742
Acadian (global equity portfolio)	476
Baillie Gifford (global equity portfolio)	290
LF ACCESS Long Term Global Growth Fund (Baillie Gifford)	543
LF ACCESS Global Stock Fund (Dodge & Cox)	455
UBS (passive UK equities portfolio)	349
UBS (passive global equities portfolio)	575
UBS (passive alternative beta portfolio)	393
Aberdeen Standard (private equity and other alternatives)	284
Morgan Stanley (hedge funds)	120
Income	
Alcentra (Multi-asset Credit)	362
Barings (Multi-asset Credit)	295
GCM Grosvenor (infrastructure)	184
Aberdeen Standard (European property)	1*
CBRE (UK property)	537
Protection	
UBS (index-linked bond portfolio)	1,497
Protection	
Held centrally (for pension payments, investment, etc.)	79
Total	7,182

* portfolio no longer forms part of the Investment Strategy and positions are being exited



Performance of the managers

All of the managers have been set targets to achieve over three to five-year periods.

Global and UK equity markets, UK index linked bonds, and global bond markets all delivered positive returns for the year, and the Pension Fund's investment managers have similarly all delivered positive returns for 2018/19, with the exception of Western, whose mandate ceased during 2018/19 and who delivered a small negative return. The strongest performing fund was the pooled Long Term Global Growth fund (Baillie Gifford), returning 17.5%. 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.

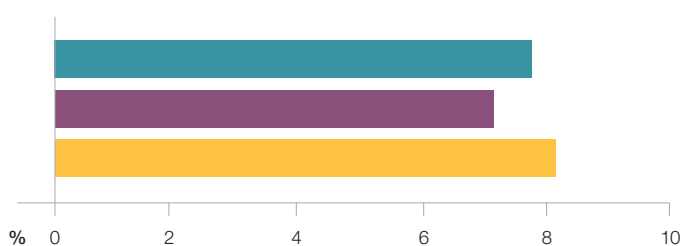
The Fund in total

The total investment return for the Hampshire Pension Fund in 2018/19 was 7.7%. This compares with a weighted benchmark return of 7.0%. The investment managers are set targets to outperform their benchmark indices. The weighted return of these benchmark indices plus targets for 2018/19 was 8.1%. The Fund's investment return was 10.7% per annum over the three years to March 2019, and 9.7% per annum over the five years to March 2019. All performance figures are shown net of fees for the periods covering one and three years to 31 March 2019 but are shown gross of fees over the five year period due to the performance data available.

Investment Overview continued

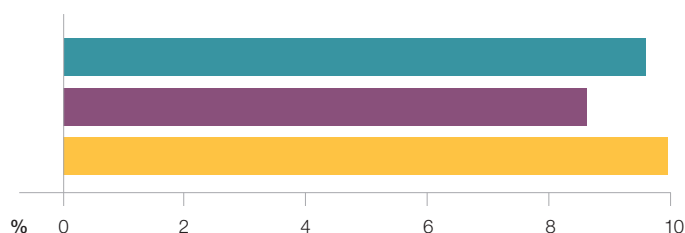
Total investment returns for the Fund 12 months to 31 March 2019

Total Fund return	7.7
Weighted benchmark indices	7.0
Weighted benchmarks plus targets	8.1



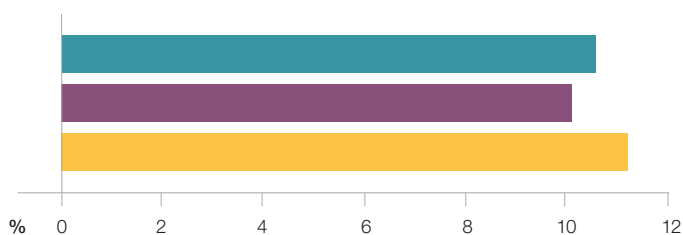
Total investment returns for the Fund Five years to 31 March 2019

	%	% per annum
Total Fund return	9.7	9.7
Weighted benchmark indices	8.7	8.7
Weighted benchmarks plus targets	10.0	10.0



Total investment returns for the Fund Three years to 31 March 2019

	% per annum
Total Fund return	10.7
Weighted benchmark indices	10.1
Weighted benchmarks plus targets	11.3



Global equities

The Pension Fund's existing mandate with Baillie Gifford transitioned to the ACCESS pool during 2018/19 and is now invested in the ACCESS Long Term Global Growth fund. Following the cessation of investment management arrangements with Aberdeen Standard and Newton and updates to the Investment Strategy, the Pension Fund invested in two new actively managed mandates, one within ACCESS (Global Stock fund) and a second Baillie Gifford portfolio to complement the existing strategy, as well as a third passive mandate with UBS (alternative beta).

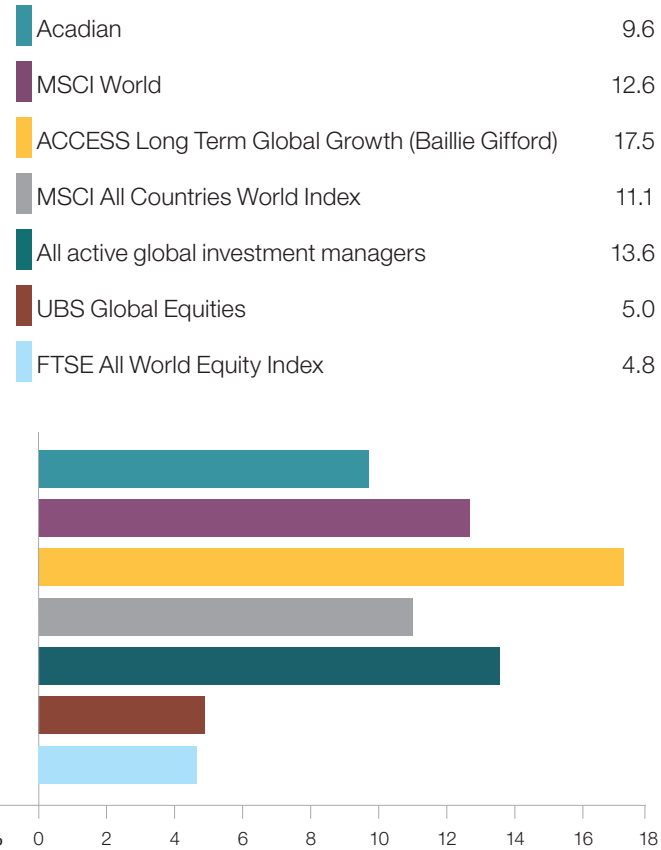
Full details of the investment management arrangements are on page xx and performance data is only shown where 12 months of data is available.

Global stock markets returned 11.1% in 2018/19, as measured by the MSCI All Countries World Index and 12.6% when emerging market stocks were excluded (MSCI World).

The Baillie Gifford Long Term Global Growth fund greatly outperformed the MSCI ACWI due to a concentrated holding of technology related growth stocks which have performed well in recent years. Acadian produced strong positive returns but underperformed the MSCI World benchmark because the aim of the portfolio is to invest in low volatility stocks.

Global equities

12 months to 31 March 2019



The table above only shows portfolios where a full year's data is available, excluding portfolios that have ended or begun in the year. None of the Fund's current global equity managers have a track record of three years or more. The graphs below show the Fund's previous global equity managers' performance in aggregate against the MSCI ACWI benchmark over the previous 3 and 5 year periods where available.

Global equities

Three years to 31 March 2019



Global equities

Five years to 31 March 2019



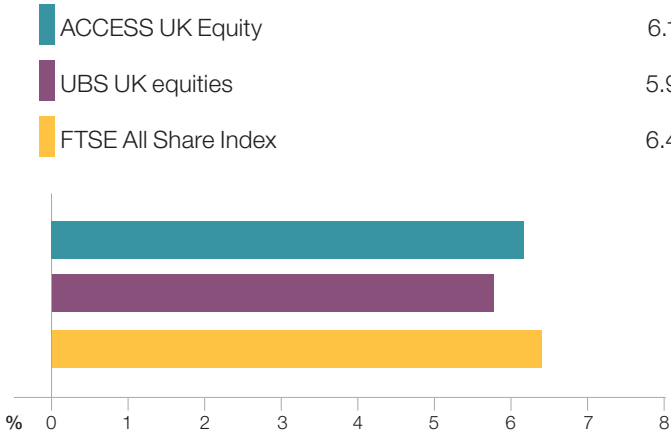
UK equities

The Pension Fund's existing mandate with Schroders transitioned to the ACCESS pool during 2018/19 and is now invested in the ACCESS UK Equity Fund.

The UK stock market returned 6.4% during 2018/19 as measured by the FTSE All Share Index. The ACCESS UK Equity Fund and the Fund's active UK equity manager, Schroders, underperformed the FTSE All Share index over the last one year and three year periods, but has outperformed over the last five years. Underperformance in 2018/19 was partly due to some unsuccessful individual stock picks, but also due to Schroders' preference for undervalued stocks not being favoured by the market over this time period. The passive mandate with UBS slightly underperformed the index in 2018/19 but has slightly overperformed over the last three years.

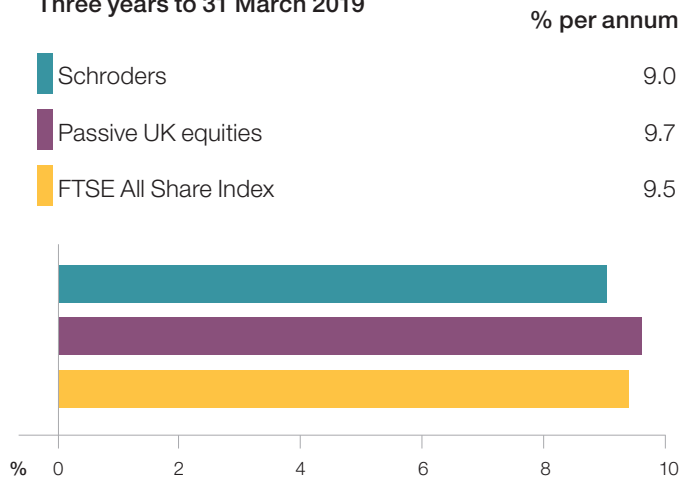
Investment Overview continued

UK equities 12 months to 31 March 2019

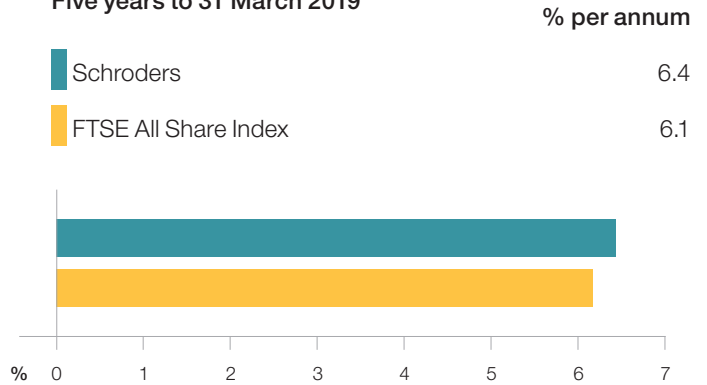


The Fund's active and passive UK equity managers' performance results against the FTSE All Share Index benchmark over the last three years and since January 2007 are shown below.

UK equities Three years to 31 March 2019



UK equities Five years to 31 March 2019

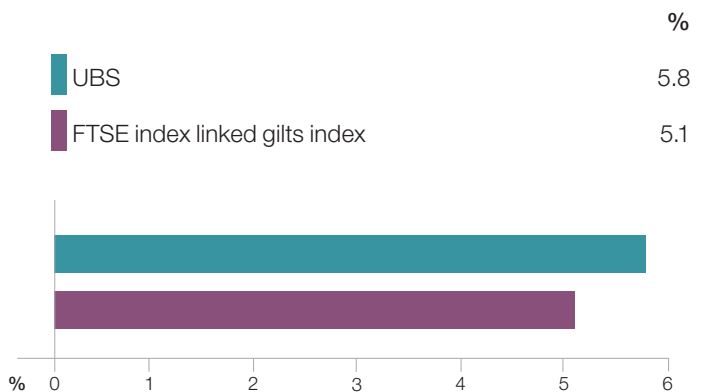


Bonds

During January 2018, the UK index-linked bonds mandate was transferred to UBS and this is therefore the first year with meaningful performance data. The Fund had disinvested from the active mandate managed by Western by the end of March 2019.

The FTSE British Government Over Five Years Index-Linked Gilts Index returned 5.19% during 2018/19 and UBS has outperformed this benchmark, with performance shown below against the benchmark.

Bonds 12 months to 31 March 2019





Property

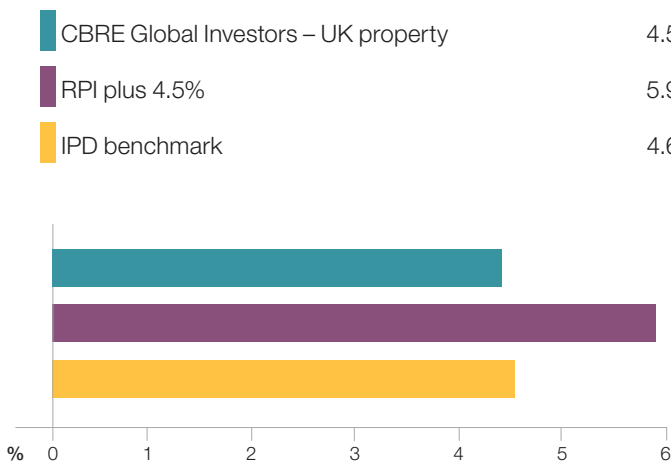
CBRE Global Investors manage a portfolio of UK properties, with a performance target of the Retail Price Index (RPI) plus 3.5%, over seven to 10 years. CBRE Global Investors performance return of 4.5% in 2018/19 was below their target. Over the longer term CBRE Global Investors have slightly underperformed their RPI plus 3.5% target over the last three year period but have outperformed over the last 5 years.

CBRE Global Investors underperformed the Investment Property Databank (IPD) benchmark return of 4.6% during 2018/19 and over the previous 3 and 5 year periods, however the portfolio has outperformed the IPD benchmark over the longer term. The IPD benchmark reflects the returns achieved by similarly sized property portfolios but is not the performance target for this portfolio.

Shown below are the performance results of the Fund's UK property manager against the IPD benchmark and their benchmark of RPI plus 3.5%.

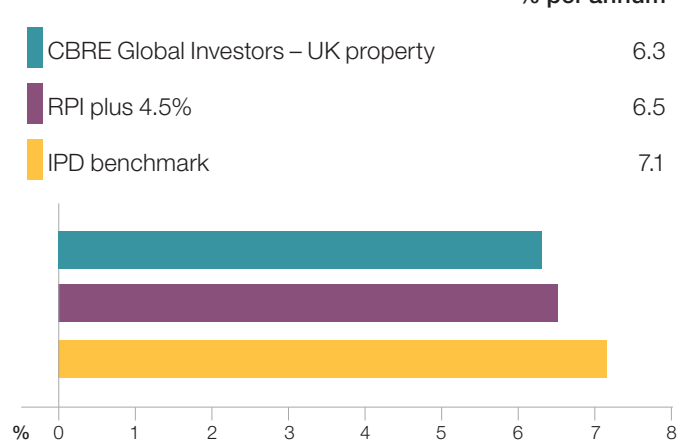
Property

12 months to 31 March 2019



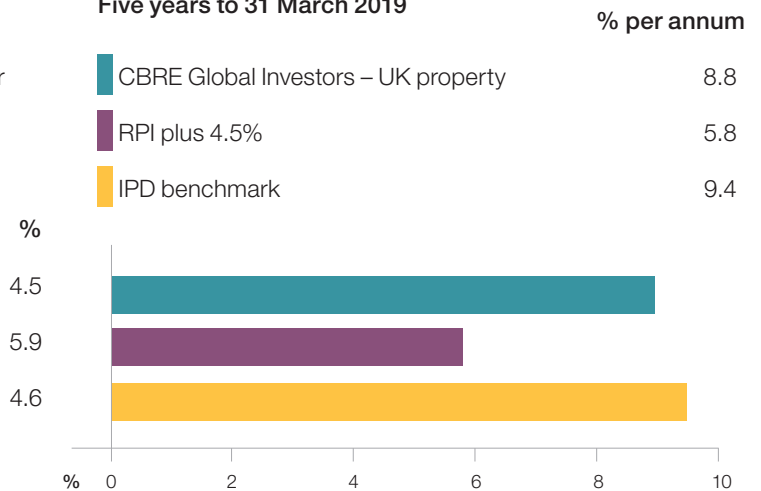
Property

Three years to 31 March 2019



Property

Five years to 31 March 2019



Alternative investments

The Pension Fund's private equity and infrastructure portfolios are managed by Aberdeen Standard Investments and GCM Grosvenor respectively. Following changes to the Investment Strategy, the Pension Fund is in the process of disinvesting from the hedge funds portfolio (Morgan Stanley) and has established a new private debt mandate with JP Morgan.

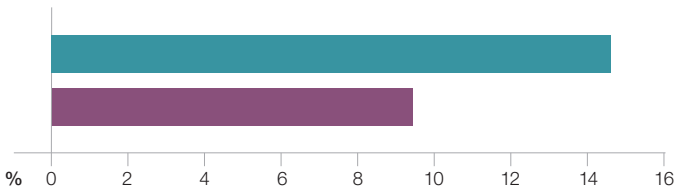
The performance of the private equity and infrastructure portfolios is measured using the Internal Rate of Return (IRR), which gives an annualised effective interest rate for the investment, taking account of the timing of the cashflows. The infrastructure portfolio in particular should be considered a long-term investment.

Investment Overview continued

Private equity and other 12 months to 31 March 2019

Aberdeen Standard Investments
Absolute target 9.5% p.a

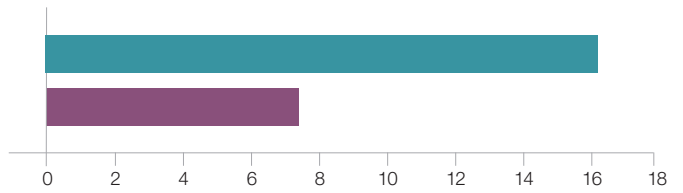
%
14.7
9.5



Infrastructure 12 months to 31 March 2019

GCM Grosvenor
Absolute target 7.5% p.a

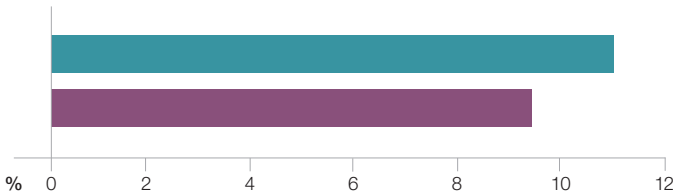
%
16.1
7.5



Private equity and other Three years to 31 March 2019

Aberdeen Standard Investments
Absolute target 9.5% p.a

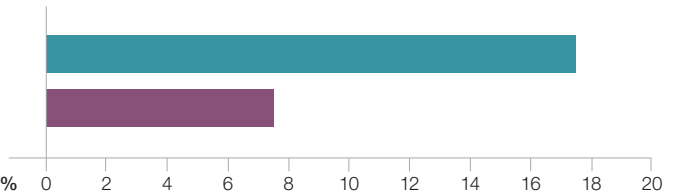
%
11.2
9.5



Infrastructure Three years to 31 March 2019

GCM Grosvenor
Absolute target 7.5% p.a

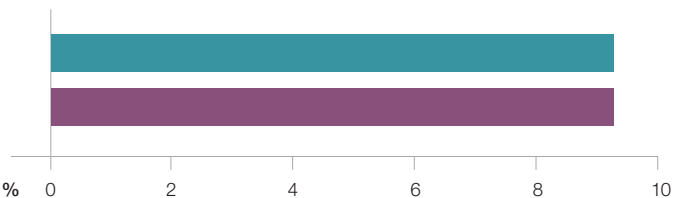
%
17.7
7.5



Private equity and other Five years to 31 March 2019

Aberdeen Standard Investments
Absolute target 9.5% p.a

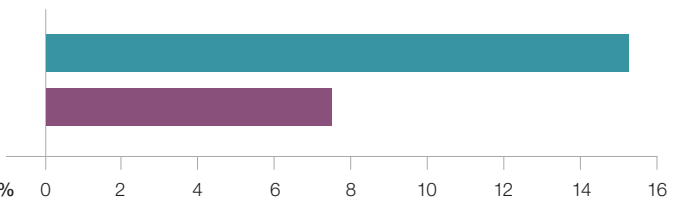
%
9.5
9.5



Infrastructure Five years to 31 March 2019

GCM Grosvenor
Absolute target 7.5% p.a

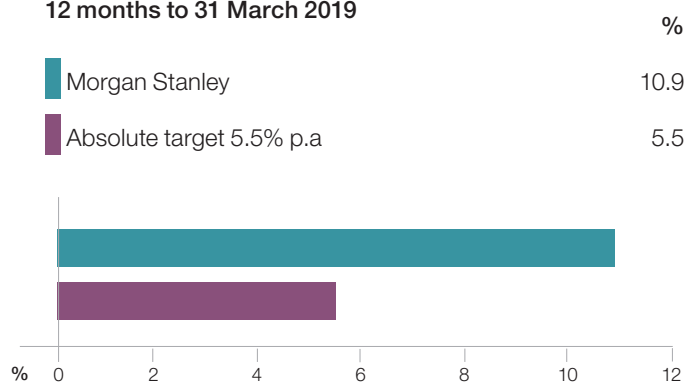
%
15.3
7.5



The performance of the hedge funds portfolio is shown below.

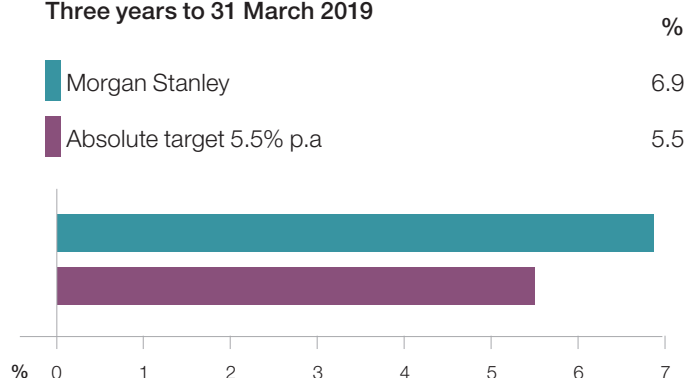
Hedge Funds

12 months to 31 March 2019



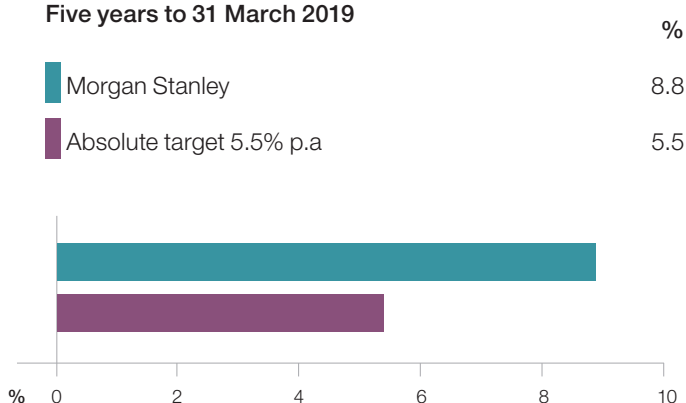
Hedge Funds

Three years to 31 March 2019



Hedge Funds

Five years to 31 March 2019



Analysis of Fund Assets and Investment Income

The following tables show an analysis of the fund assets and investment income as at 31 March 2019, split between UK, non-UK and global portfolios. Not all of the Fund's investments distribute income and in such cases any gains contribute to the overall value of the asset.

Fund Assets at 31 March 2019

	UK £m	Non-UK £m	Global £m	Total £m
Equities	1,151.5	–	2,658.0	3,809.5
Bonds	2,154.1	–	0.2	2,154.3
Property	537.4	1.0	–	538.4
Alternatives	27.0	–	558.6	585.6
Cash and cash equivalents	0.0	–	–	0.0
Total	3,870.0	1.0	3,216.8	7,087.8

Investment income received in 2018/19

	UK £m	Non-UK £m	Global £m	Total £m
Equities	31.9	–	23.1	55.0
Bonds	0.3	–	7.5	7.8
Property	27.3	0.1	–	27.4
Alternatives	1.3	–	16.9	18.2
Cash and cash equivalents	–	–	0.5	0.5
Other (including stock lending)	–	–	6.6	6.6
Total	60.8	0.1	54.6	115.5

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.

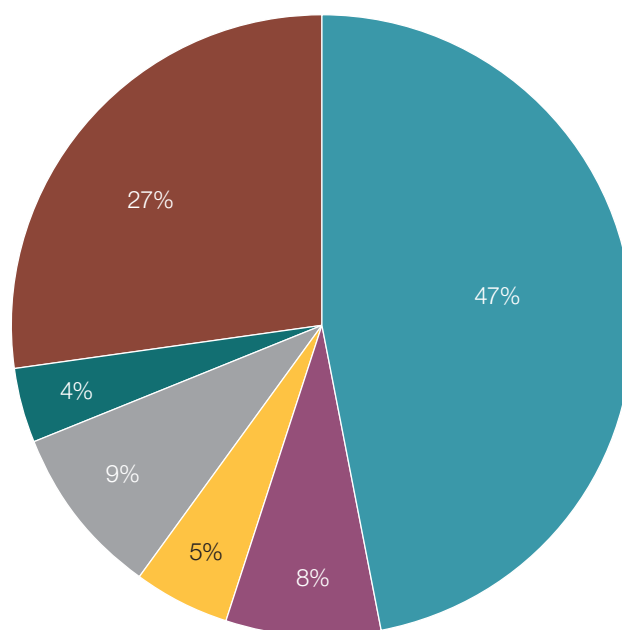
Teachers, police officers and firefighters have separate non-funded pension arrangements. Under the Pensions Act 2011, all employers are obliged to automatically enrol eligible employees into a qualifying pension scheme, and re-enrol anyone who opts out of the scheme every three years.

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 www.thepensionsregulator.gov.uk

On 31 March 2019 there were 41,714 pensioners, 72,050 deferred members, and 58,055 contributors, a total of 171,819 Scheme members.

	Number of contributors	%
Hampshire County Council	27,191	47
Portsmouth City Council	4,535	8
Southampton City Council	2,800	5
District and Borough Councils	4,958	9
Office of Police and Crime Commissioner and Chief Constable	2,494	4
Other organisations	16,077	27
Totals	58,055	100





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

Employer Type	Employers	Active members	Deferred members	Pensioner members
Scheduled	180	56,210	69,927	39,178
Resolution	58	290	183	190
Admitted	62	1,382	959	1,021
Community admitted	17	79	337	340
Transferee admitted	21	94	278	220
Councillors (no active members)	10	0	96	126
Ceased (no active members)	52	0	270	639
Total	400	58,055	72,050	41,714

How the service is delivered

Responsibility for the administration of the Hampshire Pension Fund is delegated to Pensions Services, part of the Corporate Resources department of the County Council. Pensions Services 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 50 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 Pensions Services framework of governance, risk management and control.

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

The CSE assessment considers how Pensions Services 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 Pensions Services' approach, along with details of their customer focussed initiatives and performance.

Pensions Services have held the Customer Service Excellence (CSE) standard since 2009, and retained the award following an interim assessment in April 2019, with compliance plus passes in seven 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 empower and encourage all employees to actively promote and participate in the customer focused culture of our organisation.

Scheme Administration Report continued

- We can demonstrate how the insight and experience of customer-facing staff is incorporated into internal processes, policy development and service planning.
- We use reliable and accurate methods to measure customer satisfaction on a regular basis.
- We have challenging standards for our main services, which take account of our responsibility for delivery of national and statutory standards and targets.
- We make our services easily accessible to all customers, through the provision of a range of alternative channels.
- We monitor and meet our standards, key departmental and performance targets, and we tell our customers about our performance.

Pensions Services ran 12 training events in the year which were attended by 142 people representing 82 employers and

two Employer Focus Group meetings. In addition Pensions Services staff attended various employer liaison meetings throughout the year.

Scheme information for members is provided on the Pensions Services website. Members can view their own record including their annual benefit statement via member self-service, as well as update personal details. Approximately 26,886 members have registered so far.

Key performance data

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

100% of targets were met during 2018/19 for all key processes other than the production of divorce quotes. Six cases missed the target of 15 days and were instead produced within 20 working days of request.

Area of work	Service Standard	Number of Cases	% cases completed against service standard			
			Q1 %	Q2 %	Q3 %	Q4 %
Retirement	15 days	950	100	100	100	100
Deferred Retirement	15 days	1,153	100	100	100	100
Estimate	15 days	1,884	100	100	100	100
Deferred	15 days	6,776	100	100	100	100
Transfer Out	15 days	78	100	100	100	100
Transfer In	15 days	166	100	100	100	100
Divorce	15 days	394	96.43	97.37	100	100
Refund	15 days	1,614	100	100	100	100
Death	20 days	911	100	100	100	100



Benefit statements were produced by 31 August for 99.27% of active members. Of the 424 members who did not receive a statement, over half did not have CARE pay provided for the year and are likely to be leavers that have not been notified by employers. Statements were produced for 99.24% of deferred members, with 38 statements requiring follow up due to data issues on the record.

Pension savings statements were produced for the 188 members who exceeded the HMRC annual allowance in 2018/19. Of these, 39 had a tax charge. The number of statements required has doubled from the previous year, as more members start to exceed the reduced annual limit.

The annual internal audit opinion concluded that Pensions Services 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 2018/19 have been received. The latest were credited on 1 May 2019, which was 9 days after the deadline.

A total of £3.203m was paid late (£1.298m in 2017/18) which was 1.06% of the total contributions received. The average delay on all late payments received during 2018/19 was 11 days (25 days in 2017/18). Receipt of contributions is reviewed monthly to determine if any action is required. No late payment interest was charged for 2018/19.

Cost benchmarking

The Fund benchmarks its administrative costs against the SF3 data collected annually by the Department for Communities and Local Government. The most recent data is that for the financial year 2017/18 and is summarised in the following table:

	2017/18		2016/17	
	Hampshire	All Funds	Hampshire	All Funds
Administration cost per member	£11.96	£20.85	£12.00	£20.73
Governance cost per member	£3.27	£8.96	£3.92	£9.50
Investment cost per member	£228.42	£175.44	£178.04	£155.06

Value for money statement

Hampshire Pension Services 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.

Scheme Administration Report continued

Value for money statement

As well as the focus on processing casework, Pension Services also completed a number of projects.

- The GMP reconciliation exercise has been carried out by Intellica, (partnering with Civica) and was completed in the year. The work required to rectify benefits and update pension records will be done in 2019/20.
- During the year, West Sussex County Council chose to partner with Hampshire County Council to provide an LGPS and Fire pension administration service through Pension Services. Work to migrate the data from the previous provider was successfully completed and the service went live in March 2019.
- Pension Services implemented a new online service for Members, which went live in January 2019. The Member Portal increases the available functionality for members as well as offering an improved look and feel.

Common and conditional data scores were reported to the Pensions Regulator for the first time in November 2018.

The Fund Actuary was commissioned to report on the data supplied as part of the valuation exercise. The score for common data was measured as 94% and for conditional data it was 87%. A data cleansing programme has been established to identify and correct data issues throughout the year, as well as this work being a key part of bulk data exercises such as running pension increase or annual benefit statement calculations. In addition, Pension Services are going to implement a data reporting module which will provide daily management information on data quality.

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 2019 are set out in the following table:

Band	Actual salary	Contribution rate per year	
		Main Section	50:50 Section
1	Up to £14,100	5.50%	2.75%
2	£14,101 to £22,500	5.80%	2.9%
3	£22,501 to £36,500	6.50%	3.25%
4	£36,501 to £46,200	6.80%	3.4%
5	£46,201 to £64,600	8.50%	4.25%
6	£64,601 to £91,500	9.90%	4.95%
7	£91,501 to £107,700	10.50%	5.25%
8	£107,701 to £161,500	11.40%	5.7%
9	£161,501 and more	12.50%	6.25%

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 at 31 March 2016. The actuarial position of the Fund is explained in more detail on page XX.

Following the 2010 valuation, the employer contribution rate was split into two elements. This approach has continued with the subsequent valuations:

- a fixed cash amount based on a percentage of employer payroll for past service
- a percentage of contributor's pay for future service.

The percentage of contributor's pay for 2019/20 is 16.1% for employers in the Scheduled Body group and 18.6% for employers in the Admission Body group.

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 2018/19 was £5,023 (£4,987 in 2017/18).

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 2,413 Scheme members retired during 2018/19, with an average retirement age of 62 years. Of this number, 1,124 (or 46.6%) took some form of early retirement, of which 830 were individuals 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 Fund has two AVC providers, Prudential and Zurich. Members with existing AVCs with Equitable Life can continue to make payments to these contracts, but only if they are invested in its building society

fund or for an additional death-in-service grant. The AVCs are invested separately from the Fund's main assets and are used to buy extra pension benefits on retirement.

Membership information

A full listing of contributing employers to the Hampshire Pension Fund is available at:

<http://www3.hants.gov.uk/pensions/pensions-reportsandaccounts.htm>

Year ending 31 March	No. of contributors	No. of deferreds	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

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.

Complaints

If you have a complaint about the service, Pensions 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 Services
Hampshire County Council
The Castle
Winchester
SO23 8UB

There were six formal complaints made in 2018/19. These were all investigated and changes were made to processes where appropriate.



Scheme Administration Report continued

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 Director of Corporate Resources if it is against Pensions 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 three stage one Internal Dispute Resolution Procedure (IDRP) appeals against the Pension Fund during 2018/19. One was upheld, two were partially upheld. All three went on to stage two of the IDRP process, the outcome agreeing with the stage one decision.

There were four stage two appeals against employer decisions on ill health.



The Fund's statutory statements

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

- Business Plan**
- Funding Strategy Statement**
- Investment Strategy Statement**
- Governance Policy Statement**
- Governance Compliance Statement**
- Communication Policy Statement**
- Hampshire Pension Fund Administration Strategy**
- Employer Policy**

These statements were last reviewed and approved by the Pension Fund Panel and Board during 2018/19:

<http://democracy.hants.gov.uk/ieListMeetings.aspx?CId=189&Year=0>

All reports are available on the Pension Fund website at the following link:

<https://www.hants.gov.uk/hampshire-services/pensions/local-government/joint-pension-fund-panel/annual-report>

Risk Management Report

The management of risk is part of the control framework managed by the staff of the Director of Corporate Resources 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 the Director of Corporate Resources with assistance from the Fund

Actuary. The risk register is reported to the Pension Fund Panel & Board annually. In addition, investment risks are published in the Investment Strategy Statement.

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

The Pension Fund has identified the following risks and has put in place the following mitigating action:

Risk	Description	Likelihood	Impact	Mitigation
Employer risk	<p>These risks arise from 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>	M	H	<p>The Administering Authority requires the other participating employers to communicate regularly with it on such matters.</p> <p>The Pension Fund Panel and Board have approved a Funding Strategy Statement that details how funding risk is mitigated for different employer types. The Administering Authority maintains a knowledge base on scheme employers, their basis of participation and their legal status (e.g. charities, companies limited by guarantee, group/subsidiary arrangements) and uses this information to inform the Funding Strategy Statement. Authority monitors the status of the employers in the Fund and discusses any changes, including any necessary changes to the Funding Strategy Statement, with the Fund's Actuary.</p>

L = Low likelihood / impact M = Medium likelihood / impact H = High likelihood / impact



Risk	Description	Likelihood	Impact	Mitigation
Employer risk (continued)	That an employer becomes insolvent and is no longer able to meet their obligations to the Fund.			The Pension Fund's Funding Strategy Statement reflects that most of the employers in the Fund have a degree of Central Government support. Where this is not the case the Funding Strategy Statement sets out how this will be taken into account to manage the risk. The Employer Policy requires new employers to have a guarantor who would be called on in the event of an insolvency, and all charitable admission bodies now have a subsumption commitment from their associated local authority which helps to reduce any exit debt.
Operational risk	That the activities of the Pension Fund are disrupted due to the loss of premises, staff or IT (for example as a result of a cyber attack), either effecting the Pension Fund directly or one of its key suppliers.	L	M	Pension Services follow the Administering Authority's Disaster Recovery policy that ensures that processes are in place to manage in the event of the loss of key resources. Part of the selection process for the Pension Fund's key suppliers includes an assessment of their own disaster recovery capabilities.
Administration risk	The Pensions Regulator identifies the risks being around:	M	M	
	<ul style="list-style-type: none"> Employer contribution monitoring: are employers paying the right amount of contributions on time? 			<p>Employer contributions are set out in the triennial valuation and the deadline for payment is set by Regulation as 22nd of the month.</p> <p>Contributions are monitored and any late payments are reported to the Pension Fund Panel and Board. Any issues of 'material significance' will be reported to the Regulator</p>

Risk Management Report continued

Risk	Description	Likelihood	Impact	Mitigation
Administration risk (continued)	<ul style="list-style-type: none"> Record-keeping: how comfortable are you that your records are complete and accurate? 			<p>The Administration Strategy is the agreement between the Hampshire Pension Fund and all participating Bodies, in which all parties commit to certain principles, including:</p> <ul style="list-style-type: none"> to provide a high quality pension service to members to take responsibility to provide accurate and timely information that the results are reported to the Panel & Board twice a year. <p>The annual returns exercise is completed each year and employer performance is monitored with processes in place to help improve this where necessary.</p> <p>The Compliance and Delivery Manager is responsible for ensuring that data is complete and accurate in line with TPR requirements and that any actions on the data improvement plan are implemented. The Administering Authority has implemented a data analysis tool which provides daily management information on potential data issues.</p>
	<ul style="list-style-type: none"> Internal controls: has the Fund put in practice a policy to identify risks and arranged for these to be managed or mitigated? 			Both Internal Audit and External Audit carry out work to assess the internal controls and this is reported to the Panel & Board.
	<ul style="list-style-type: none"> Member communication: are these always accurate, timely and clear? 			There is a Communications Policy and Customer Charter on the Pension Services website, which details the service our scheme members can expect.
	<ul style="list-style-type: none"> Internal disputes: do these indicate wider problems in the Fund? 			<p>The full complaint process, going all the way through to the Pensions Ombudsman, is detailed on the Pension Services website.</p> <p>All complaints are fully investigated and the outcome at each stage of the process reported in the Accounts.</p>

L = Low likelihood / impact M = Medium likelihood / impact H = High likelihood / impact



Risk	Description	Likelihood	Impact	Mitigation
	<ul style="list-style-type: none"> Resourcing: conflicting priorities with servicing other partners. 			Resourcing plans are in place to ensure services can be delivered to each partner. Project plans are in place that identify the requirements of each partner, including the on-boarding of new partners.
Investment risk	Investment management underperformance – from the Fund’s investment managers failing to outperform their benchmark returns for prolonged periods of time	M	H	<p>The Fund’s investment managers’ performance is reviewed regularly by the Fund’s officers and reported regularly to the Panel and Board.</p> <p>All of the Fund’s contracts for investment management contain the provision that the Fund can cancel the contract with 1 month’s notice in the event of poor investment performance.</p>
	Market risk – from fluctuations in market prices, which is particularly relevant for investments in equities			<p>The Panel and Board have set a diversified asset allocation which limits exposure to any one particular market.</p> <p>The Fund contracts with specialist external investment managers and as a general principle aims to invest globally and set mandates for investment managers that give them as much freedom as possible, in order to manage market conditions as they see fit.</p>
	Interest rate risk – which can affect the prices of investments that pay a fixed interest rate			The Fund contracts with specialist external investment managers and as a general principle aims to set mandates for investment managers that give them as much freedom as possible, in order to manage risks such as changes in interest rates.

Risk Management Report continued

Risk	Description	Likelihood	Impact	Mitigation
Investment risk (continued)	Currency risk – the risk of fluctuations in prices of financial instruments that are denominated in any currency other than the functional currency of the Fund (GB pounds)			<p>As a UK Pension Fund the Panel and Board consider that the Pension Fund should have a significant proportion of its assets denominated in Sterling, thereby removing the currency risk.</p> <p>The Panel and Board keep their view of the long term nature of currency movements under review and will seek specialist advice if they believe that this might change or there is likely to be an event that might crystallise the effect of particular currency movements. Where investment returns in particular asset classes are at risk of disproportionate currency effects (such as Multi-asset Credit and Private Debt) the investments are hedged back to Sterling. In addition having taken advice to mitigate the overall currency impact on the Pension Fund, the passive global equity investments is hedged back to Sterling.</p>
	Credit risk – 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. This includes the risk of loss in the Stock Lending programme.			The Panel and Board have set a diversified asset allocation which limits exposure to any particular investment, with further limits set in the Investment Strategy Statement to limit the Fund's exposure to particular vehicles or assets. The Pension Fund's stock lending programme is protected by collateral managed by the Fund's custodian.
	Refinancing risk – that the Pension Fund could be bound to replace on maturity a significant proportion of its financial instruments at a time of unfavourable interest rates.			The Fund contracts with specialist external investment managers and as a general principle aims to make their portfolios 'ever-green' so that income and maturing investments can be reinvested, allowing investment managers to build portfolios that do not have a concentration of investments with a particular maturity date.
	Custody risk – losing economic rights to Fund assets, when held in custody or being traded.			The Panel and Board and the Fund's officers regularly monitor the performance of the Fund's custodian and have the power to replace the provider should serious concerns exist.

L = Low likelihood / impact M = Medium likelihood / impact H = High likelihood / impact



Risk	Description	Likelihood	Impact	Mitigation
Investment risk (continued)	Liability risk – that the Fund's liabilities are not accurately calculated resulting in the return target being too low and employer's contributions having to rise.			The County Council as the Fund's Administering Authority will ensure that the Fund's Actuary investigates the main factors that determine the Fund's liabilities, such as interest rates, inflation, life expectancy and other demographics. The Fund's Actuary will report and agree with the Administering Authority any necessary changes to their assumptions.
	Environmental, social and governance (ESG) factors – that these factors materially reduce long-term returns.			As set out in the Fund's Responsible Investment Policy, the Fund's external investment managers are required consider ESG factors in their investment decisions and to exercise the Fund's responsibility to vote on company resolutions wherever possible. They have also been instructed to intervene in companies that are failing, thus jeopardising the Fund's interests, by voting or by contacting company management directly.
	Regulatory risk – that inhibits the Pension Fund Panel and Board's fiduciary duty.			The Fund will be proactive in engaging with the Government, including responding to consultation, on any issues affecting the management and investment of Pension Fund monies.
	Illiquidity – that the Fund is unable to meet its immediate liabilities			The Fund maintains a cashflow forecast to ensure that it can plan suitably in advance to ensure that it has sufficient cash available. The Fund's asset allocation is set to achieve a balance between liquid and illiquid investments.
Liability risk	The main risks include interest rates, pay and price inflation, life expectancy, changing retirement patterns and other demographic risks that will impact on the Actuary's calculation of the Fund's liabilities and reduce the Fund's funding ratio.	M	M	The County Council as the Fund's Administering Authority will ensure that the Fund's Actuary investigates the main factors that determine the Fund's liabilities, such as interest rates, inflation, life expectancy and other demographics. The Fund's Actuary will report and agree with the Administering Authority any necessary changes to their assumptions and the resulting impact on the Fund's employers' contributions.

Risk Management Report continued

Risk	Description	Likelihood	Impact	Mitigation
Funding risk	<p>The Government Actuary's Department (GAD) has been appointed by the Ministry of Housing, Communities and Local Government (MHCLG) to provide a report under Section 13 of the Public Service Pensions Act 2013 when an actuarial valuation of the LGPS has been carried out. Their report must cover:</p> <ul style="list-style-type: none"> • whether the fund's valuation is in accordance with the scheme regulations • whether the fund's valuation has been carried out in a way which is not inconsistent with the other fund valuations within the LGPS • whether the rate of employer contributions is set at an appropriate level to ensure the solvency of the pension fund and the long-term cost-efficiency of the scheme, so far as relating to the pension fund. 	M	H	Any relevant measures and scores will be regularly reported to the Pension Fund Panel and Board. Appropriate financial assumptions were agreed with the Fund Actuary for the 2016 valuation. The Section 13 report will be reviewed and amber or red flags will be reviewed with the Fund's actuary and reported to the Pension Fund Panel and Board with proposed mitigations.
	<p>These requirements will have statutory force with effect from the 2016 valuations in England and Wales.</p> <p>Funds will be assessed against a number of measures and scored as:</p> <p>Red – potentially a material issue that might contribute to a recommendation for remedial action to ensure solvency</p> <p>Amber – highlights a possible risk</p> <p>Green – no material issue that might contribute to a recommendation for remedial action to ensure solvency</p> <p>GAD will then engage with Funds with any amber or red flags.</p>			



Risk	Description	Likelihood	Impact	Mitigation
Regulatory and Compliance risk	Regulatory risks relate to changes in LGPS regulations, including national pensions legislation and HM Revenue and Customs rules.	L	M	The Administering Authority will keep abreast of proposed changes to the LGPS, taking the necessary legal, actuarial or investment advice to interpret the changes. Any resulting changes in policy will be reported to the Pension Fund Panel and Board for approval.
Governance risk	That decision making and control of the Pension Fund is lacking or inappropriate or undertaken by persons without suitable knowledge or experience.	L	M	The Pension Fund Panel and Board has documented Terms of Reference and Operating Procedures. The Panel and Board will consider all items that are material to the management of Hampshire Pension Fund and are supported by suitably qualified officers. Members of the Pension Fund Panel and Board complete a Training Needs Analysis based on CIPFA's Knowledge and Skills Framework and undertake identified training activities as necessary.
Pooling risk	That the investment pool which Hampshire has joined does not function effectively and provide the investments that Hampshire requires in order to implement its Investment Strategy	L	M	The Chairman of the Panel and Board supported by the Pension Fund's officers take an active part in the operation of the ACCESS pool to ensure its continued effectiveness. The Panel and Board and officers will continue to monitor the suitability of the Pension Fund's investments and where necessary consider appropriate alternatives available via ACCESS.
Contractual risk	The contractual arrangements between the County Council (on behalf of the Pension Fund) and its suppliers are challenged as unlawful	L	H	The Pension Fund receives advice from the County Council's Legal and Procurement staff about the most appropriate contractual arrangements to put in place to meet its legal obligations.

L = Low likelihood / impact M = Medium likelihood / impact H = High likelihood / impact

Financial Performance Report

Shown below is the Pension Fund's budget for 2018/19 compared to actual expenditure, and the budget for 2019/20.

	Budget	Actual	Budget
	2018/19	2018/19	2019/20
	£'000	£'000	£'000
Contributions received – Employers – normal	146,700	160,065	176,600
Contributions received – Employers – deficit	80,600	81,736	86,900
Contributions received – Employers – total	227,300	241,801	263,500
Contributions received – Members	64,800	66,161	68,500
Transfer values	0	-1,313	0
Benefits paid	-247,200	-251,664	-258,800
Net additions from dealings with members	44,900	54,985	73,200
Investment management fees	40,900	37,576	41,300
Staff	1,510	1,475	1,560
Premises	60	60	60
IT	260	339	280
Supplies & Services	220	543	230
Other	0	0	0
Administrative Costs	2,050	2,417	2,130
Staff	305	319	330
Premises	5	5	5
IT	5	5	5
Supplies & Services	265	302	350
Other	5	1	5
Oversight & Governance Costs	585	632	695
Management Expenses	43,535	40,625	44,125



Dealings with members

Normal employer contributions received were greater than the budgeted figure which did not completely account for the annual stepped percentage increase in contributions. Member contributions and benefits paid were also both slightly greater than forecast, but the variance in normal contributions was the principle reason in the overall increase in the in the net additions from dealings with members.

Management expenses

The Pension Fund pays its investment managers a percentage fee based on the value of investments. Investment management fees were lower than forecast, primarily due to the cost of the Pension Fund's alternative investments (Private Equity and Infrastructure) being lower than estimated.

Administration costs were higher than budgeted with an additional £150,000 of IT costs to upgrade the Members Portal with improved online functionality and an additional £335,000 of supplies and services costs for the Guaranteed Minimum Pension (GMP) reconciliation which all LGPS funds have been required to undertake following Central Government's decision not to maintain their systems after December 2018.

Governance costs were higher than forecast due to the cost of Hampshire's contribution to the ACCESS pool being higher than the original year's budget. The subsequent budget increases were agreed by the ACCESS Joint Committee and reported to the Hampshire Pension Fund Panel and Board.

Statement of the Actuary

for the year ended 31 March 2019

Introduction

The Scheme 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 at 31 March 2016 by Aon, in accordance with Regulation 62 of the Local Government Pension Scheme Regulations 2013.

Actuarial Position

- The valuation as at 31 March 2016 showed that the funding ratio of the Fund had increased since the previous valuation with the market value of the Fund's assets as at 31 March 2016 (of £5,213.4M) covering 81% of the liabilities allowing, in the case of pre- 1 April 2014 membership for current contributors to the Fund, for future increases in pensionable pay.
- The valuation also showed that the aggregate level of contributions required to be paid by participating employers with effect from 1 April 2017 is:
 - 17.1% of pensionable pay. This is the rate calculated as being sufficient, together with contributions paid by members, to meet the liabilities arising in respect of service after the valuation date, (the primary rate)

Plus

 - Monetary amounts to restore the assets to 100% of the liabilities in respect of service prior to the valuation date over a recovery period of 19 years from 1 April 2017 (the secondary rate), equivalent to 7.5% of pensionable pay (or £73.6M in 2017/18, and increasing by 3.5% p.a. thereafter).
- In practice, each individual employer's or Group of Employers' position is assessed separately and contributions are set out in Aon's report dated 31 March 2017 (the "actuarial valuation report"). In addition to the contributions shown above, payments to cover additional liabilities arising from early retirements (other than ill-health retirements) will be made to the Fund by the employers.
- The funding plan adopted in assessing the contributions for each individual employer or Group is in accordance with the Funding Strategy Statement. Different approaches

adopted in implementing contribution increases and individual employers' recovery periods were agreed with the Administering Authority reflecting the employers' circumstances.

- The valuation was carried out using the projected unit actuarial method for most employers and the main actuarial assumptions used for assessing the funding target and the contribution rates were as follows.

Discount rate for periods in service

Scheduled body group employers *	4.5% p.a.
Intermediate employers (low and medium risk)	4.3% p.a.
Intermediate employers (higher risk)	4.1% p.a.
Ongoing Orphan employers	4.1% p.a.

Discount rate for periods after leaving service

Scheduled body group employers *	4.5% p.a.
Intermediate employers (low and medium risk)	4.3% p.a.
Intermediate employers (higher risk)	4.1% p.a.
Ongoing Orphan employers	2.5% p.a.
Rate of pay increases	3.5% p.a.
Rate of increase to pension accounts	2.0% p.a.
Rate of increases in pensions in payment (in excess of Guaranteed Minimum Pension)	2.0% p.a.

* The scheduled body group discount rate was also used for employers whose liabilities will be subsumed after exit by an employer in the scheduled body group. It was also used for employers in the admission body group at the 2016 valuation.

In addition the discount rate for orphan liabilities (i.e. where there is no scheme employer responsible for funding those liabilities) was 2.1% p.a. in service and left service.

The assets were valued at market value.

Further details of the assumptions adopted for the valuation are set out in the actuarial valuation report.

6. The valuation results summarised above are based on the financial position and market levels at the valuation date, 31 March 2016. 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 2017 to 31 March 2020 were signed on 31 March 2017. Other than as agreed or otherwise permitted or required by the Regulations, contribution rates will be reviewed at the next actuarial valuation of the Fund as at 31 March 2019 in accordance with Regulation 62 of the Local Government Pension Scheme Regulations 2013.
8. Since the date the valuation report was signed, there have been a number of developments in respect of the Local Government Pension Scheme (LGPS):

- **Increases to GMPs:**

HM Treasury, in its response to the consultation on indexation and equalisation of GMPs in public sector schemes, announced an extension of the indexation of GMPs to those reaching State Pension Age on or before 5 April 2021 (previously 5 December 2018). This extension period was not allowed for in the valuation results as the actuarial valuation report was signed off in advance of this announcement, but the increase in liability is not expected to be material. In addition, on 26 October 2018 the High Court ruled in the Lloyds Banking Group case that schemes are required to equalise male and female members' benefit for the effect of unequal GMPs. Our understanding is that this will not alter HM Treasury's approach to GMP equalisation in the LGPS.

- **Cost Management Process and McCloud judgement:**

Legislation requires HM Treasury and the LGPS Advisory Board to undertake periodic valuations to monitor the cost of the LGPS to ensure it remains sustainable and affordable. Initial results from the Scheme Advisory Board process indicated that benefit improvements / member contribution reductions would be required. However, the cost

management process has been paused following the Court of Appeal ruling that the transitional arrangements in both the Judges' Pension Scheme (McCloud) and Firefighters' Pension Scheme (Sargeant) were age discriminatory; these cases could have knock on implications for the LGPS (potentially increasing the liabilities) which also had transitional arrangements when the new scheme was introduced with effect from April 2014.

9. The actuarial valuation of the Fund as at 31 March 2019 is currently underway and the Regulations require the formal report on the valuation and the Rates and Adjustments Certificate setting out employer contributions commencing from 1 April 2020 to be signed off by 31 March 2020. Asset values have increased in value since 2016, on its own leading to an improvement in the funding level due to higher than assumed investment returns. Liability values and employer contributions, as well as being affected by the items listed in paragraph 8 above, will depend upon membership factors, changes to expectations of future returns and other assumptions (including allowance for the slow-down in longevity improvements) and any changes to funding strategy made as part of the 2019 valuation.
10. This Statement has been prepared by the current Actuary to the Fund, 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 at 31 March 2016. 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 our client, Hampshire County Council, the Administering Authority of the Fund, in respect of this Statement.

11. The report on the actuarial valuation as at 31 March 2016 is available from the Pension Services team at Hampshire County Council, at pensions@hants.gov.uk

Aon Hewitt Limited

May 2019

Pension Fund Accounts

Fund Account

	See note	2017/18 £'000	2018/19 £'000
Dealings with members, employers and others directly involved in the Fund			
Contributions	7	280,919	307,962
Transfers in from other pension funds		12,285	12,744
		293,204	320,706
Benefits	8	-239,202	-251,664
Payments to and on account of leavers		-13,992	-14,057
		-253,194	265,721
<hr/>			
Net additions from dealings with members		40,010	54,985
Management expenses	9	-40,732	-40,625
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Net additions/withdrawals inc. fund management expenses		-722	14,360
Returns on investments			
Investment income	10	112,321	115,530
Taxes on income		-826	-1,043
Profits and losses on disposal of investments and changes in the market value of investments	11a	165,252	439,795
Net return on investments		276,747	554,282
<hr/>			
Net increase in the net assets available for benefits during the year		276,025	568,642
<hr/>			
Opening net assets of the scheme		6,337,214	6,613,239
<hr/>			
Closing net assets of the scheme		6,613,239	7,181,881

Net Assets Statement for the year ending 31 March 2019

		31 March 2018 £'000	31 March 2019 £'000
	See note		
Investment assets		6,432,182	7,087,835
Cash deposits		15,954	86
Investment liabilities		-5,320	-43
Total net investments	11	6,442,816	7,087,878
Long term debtors	20	4,564	3,043
Current assets	18	172,001	99,940
Current liabilities	19	-6,142	-8,980
Net assets of the Fund available to fund benefits at the period end		6,613,239	7,181,881

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

Notes to the 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 2018/19 and the underlying statutory powers underpinning the Scheme.

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 338 employer organisations within the Hampshire Pension Fund including the County Council itself, as detailed below:

Hampshire Pension Fund	31 March 2018	31 March 2019
Number of employers with active members	333	338
Number of employees in Scheme		
County Council	26,719	27,191
Other employers	31,158	30,864
Total	57,877	58,055
Number of pensioners		
County Council	17,344	18,171
Other employers	22,452	23,543
Total	39,796	41,714
Deferred pensioners		
County Council	34,334	35,557
Other employers	35,169	36,493
Total	69,503	72,050
Total members in the Pension Fund	167,176	171,819

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 for the financial year ending 31 March 2019. Employee contributions are matched by employers' contributions which are set based on triennial actuarial funding valuations. The last valuation was at 31 March 2016. Currently employer contribution rates for most employers range from 15.1% to 17.6% of pensionable pay plus 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, as summarised below.

	Service pre 1 April 2008	Service post 31 March 2008
Pension	Each year worked is worth 1/80 x final pensionable salary.	Each year worked is worth 1/60 x final pensionable salary.
Lump sum	Automatic lump sum of 3 x salary. In addition, part of the annual pension can be exchanged for a one-off tax-free cash payment. A lump sum of £12 is paid for each £1 of pension given up.	No automatic lump sum. Part of the annual pension can be exchanged for a one-off tax-free cash payment. A lump sum of £12 is paid for each £1 of pension given up.

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 uprated 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:

<https://www.hants.gov.uk/hampshire-services/pensions>

2. Basis of preparation

The Statement of Accounts summarises the Fund's transactions for the 2018/19 financial year and its position at year end at 31 March 2019. The accounts have been prepared in accordance with the *Code of Practice on Local Authority Accounting in the United Kingdom 2018/19* which is based upon International Financial Reporting Standards (IFRS), as amended for the UK public sector.

The accounts summarise the transactions of the Fund and report on the net assets available to pay pension benefits. The accounts do not take account of obligations to pay pensions and benefits which fall due after the end of the financial year.

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.

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.

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.

Notes to the Pension Fund Accounts continued

b) Transfers to and from other schemes

Transfer values represent the amounts received and paid during the year for members who have either joined or left the Fund during the financial year and are calculated in accordance with the Local Government Pension Scheme Regulations.

Individual transfers in/out are accounted for when received/paid, which is normally when the member liability is accepted or discharged.

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 on an accruals basis in accordance with the terms of the transfer agreement.

c) Investment income

i) Interest income

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

ii) Dividend income

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

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) Property-related income

Property-related income consists primarily of rental income.

Rental income from operating leases on properties owned by the Fund is recognised on a straight-line basis over the term of the lease. Any lease incentives granted are recognised as an integral part of the total rental income, over the term 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) Movement in the net market value of investments

Changes in the net market 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.

e) 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.

f) Management expenses

The Code does not require any breakdown of pension fund administrative expenses. However in the interest of greater transparency, the Council discloses its Pension Fund management expenses in accordance with the CIPFA guidance *Accounting for Local Government Pension Scheme Management Costs*.

Administrative expenses

All administrative expenses are accounted for on an accruals basis. All staff costs of the pensions administration team are charged direct to the Fund. Associated management, accommodation and other overheads are apportioned to this activity and charged as expenses to the Fund.

Oversight and governance costs

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

Investment management expenses

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

Fees of the external investment managers and custodian are agreed 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 market value of their mandate at the end of the year is used for inclusion in the Fund account. In 2018/19 £4.8 million of fees is based on such estimates (2017/18 £3.5 million).

Net Assets Statement

g) Financial assets

Financial assets are included in the Net Assets Statement on a fair value basis as at the reporting date. A financial asset is recognised in the Net Assets Statement on the date the Fund becomes party to the contractual acquisition of the asset. From this date, any gains or losses arising from changes in the fair value of the asset are recognised in the Fund Account.

The values of investments as shown in the Net Assets Statement have been determined 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)*.

h) Freehold and leasehold properties

The properties were valued on 31 March 2019 by an external valuer, Mark White, BSc MRICS of Colliers International, in accordance with the Royal Institute of Chartered Surveyors' Valuation - Global Standards 2017; 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, market values of 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.

Cash equivalents are short-term, highly liquid investments that are readily convertible to known amounts of cash and that are subject to minimal risk of changes in value.

l) Financial liabilities

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

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.

Notes to the Pension Fund Accounts continued

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

Hampshire Pension Fund provides an additional voluntary contributions (AVC) scheme for its members, the assets of which are invested separately from those of the Pension Fund. The Fund has appointed Prudential and Zurich as its AVC providers. AVCs can also be paid to Equitable Life, but only by legacy Equitable Life AVC contributors (closed to new members) who are invested in its building society fund or for an additional death-in-service grant. AVCs are paid to the AVC provider by employers and are specifically for providing additional benefits for individual contributors. Each AVC contributor receives an annual statement showing the amount held in their account and the movements in the year.

AVCs are not included in the accounts in accordance with Regulation 4(1)(b) of the Local Government Pension Scheme (Management and Investment of Funds) Regulations 2016 but are disclosed as a note only (see Note 21).

o) Contingent assets and contingent liabilities

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.

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 the occurrence of future events.

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 private equity investments

It is important to recognise the subjective nature of determining the fair value of private equity investments. They are inherently

based on forward-looking estimates and judgements involving many factors. Unquoted private equities 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 at 31 March 2019 was £465 million (£291 million at 31 March 2018).

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.

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 119 years (based on current leases). The Fund has determined that these contracts all constitute operating leases 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.

The items in the Net Assets Statement at 31 March 2019 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
Actuarial present value of promised retirement benefits (Note 17)	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 £760 million. A 0.25% increase in assumed earnings inflation would increase the value of liabilities by approximately £60 million, and a one-year increase in assumed life expectancy would increase the liability by approximately £230 million.
Private equity investments (Note 13)	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 £465 million. The investment manager recommends a tolerance of +/- 10% around the net asset values on which the private equity valuation is based. This equates to a tolerance of +/- £46.5 million.
Hedge funds (Note 13)	Hedge funds are valued at the sum of the fair values provided by the administrators of the funds plus adjustments that the funds' directors or independent administrators judge necessary. These investments are not publicly listed and as such there is a degree of estimation involved in the valuation.	The total hedge fund value in the financial statements is £121 million. There is a risk that this investment may be under or overstated in the accounts. The investment manager recommends a tolerance of +/- 5% around the net asset values on which the hedge fund valuation is based. This equates to a tolerance of +/- £6.0 million.

Notes to the Pension Fund Accounts continued

6. Events after the reporting date

There have been no events since 31 March 2019, and up to the date when these accounts were authorised, that require any adjustments to these accounts.

7. Contributions receivable

By category

	2017/18	2018/19
	£'000	£'000
Employees' contributions	63,029	66,161
Employers' contributions		
Normal contributions	141,749	160,065
Deficit recovery contributions	76,141	81,736
Total Employers' contributions	217,890	241,801
Total	280,919	307,962

By authority

	2017/18	2018/19
	£'000	£'000
Administering authority	104,587	117,275
Scheduled bodies	161,667	175,155
Admitted bodies	14,305	15,532
Total	280,919	307,962

8. Benefits payable

By category

	2017/18	2018/19
	£'000	£'000
Pensions	198,454	209,547
Commutation and lump sum retirement benefits	36,008	36,335
Lump sum death benefits	4,740	5,782
Total	239,202	251,664

By authority

	2017/18	2018/19
	£'000	£'000
Administering authority	88,476	93,791
Scheduled bodies	138,686	144,837
Admitted bodies	12,040	13,036
Total	239,202	251,664



9. Management expenses

	2017/18	2018/19
	£'000	£'000
Administrative costs	2,000	2,417
Investment management expenses	38,186	37,576
Oversight and governance costs	546	632
Total	40,732	40,625

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, indirect 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).

9a) Investment Management Expenses

	2017/18	2018/19
	£'000	£'000
Management fees	28,161	27,915
Custody fees	238	255
Transaction costs	9,787	9,406
Total	38,186	37,576

10. Investment income

	2017/18	2018/19
	£'000	£'000
Income from bonds	7,048	7,526
Income from equities	58,698	55,021
Pooled property investments	1,479	1,651
Pooled investments – unit trusts and other managed funds	808	259
Rents from property	26,351	25,765
Interest on cash deposits	245	557
Alternative investment income	16,305	18,145
Stock lending	939	935
Other	448	5,671
Total	112,321	115,530

Notes to the Pension Fund Accounts continued

11. Investments

	31 March 2018	31 March 2019
	£'000	£'000
Bonds		
UK		
Public sector quoted	1,530	0
Corporate quoted	9,949	0
Overseas		
Public sector quoted	184,525	0
Public sector unquoted	12,167	159
Corporate quoted	48,525	0
	256,696	159
Equities		
UK – Quoted	860,122	30,378
Overseas – Quoted	1,792,145	724,736
	2,652,257	755,114
Pooled funds – additional analysis		
UK		
Fixed income unit trusts	1,438,587	1,496,970
Unit trusts	365,028	1,089,532
Overseas		
Fixed income unit trusts	13,517	657,184
Unit trusts	724,328	1,964,853
	2,541,460	5,208,539
Pooled property investments	49,270	51,160
Alternative investments	497,470	585,565
Property	433,070	487,255
Derivative contracts:		
– Futures	950	0
– Forward currency contracts	945	43
– Purchased/written options	0	0
– Spot foreign exchange contracts	64	0
	981,769	1,124,023
Cash deposits	15,954	86
Total investment assets	6,448,136	7,087,921
Investment liabilities		
– Futures	-1,187	0
– Forward currency contracts	-4,045	-43
– Purchased/written options	0	0
– Spot foreign exchange contracts	-88	0
Derivatives	-5,320	-43
Total investment liabilities	-5,320	-43
Net investment assets	6,442,816	7,087,878

11a) Reconciliation of movements in investments and derivatives

Period 2018/19

	Market value 1 April 2018	Purchases during the year and derivative payments	Sales during the year and derivative receipts	Change in market value during the year	Market value 31 March 2019
	£'000	£'000	£'000	£'000	£'000
Bonds	256,696	245,831	-507,138	4,770	159
Equities	2,652,257	2,663,799	-4,699,916	138,974	755,114
Pooled investments	2,541,460	3,105,681	-664,588	225,986	5,208,539
Pooled property investments	49,270	1,250	-1,490	2,130	51,160
Alternative investments	497,470	247,316	-239,379	80,158	585,565
Property	433,070	56,362	-4,105	1,928	487,255
	6,430,223	6,320,239	-6,116,616	453,946	7,087,792
Derivative contracts:					
– Futures	-237	8,865	-6,443	-2,185	0
– Forward foreign exchange	-3,100	53,490	-42,867	-7,523	0
– Purchased/written options	0	-150	-37	187	0
	-3,337	62,205	-49,347	-9,521	0
Other investment balances:					
– Cash deposits	15,954			-4,630	86
– Spot foreign exchange contracts	-24				0
Net investment assets	6,442,816			439,795	7,087,878

Notes to the Pension Fund Accounts continued

Period 2018/19

	Market value 1 April 2017 £'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 2018 £'000
Bonds	244,402	395,308	-366,883	-16,131	256,696
Equities	2,468,116	1,104,887	-1,023,775	103,029	2,652,257
Pooled investments	2,546,862	2,569,913	-2,614,201	38,886	2,541,460
Pooled property investments	30,726	20,825	-4,777	2,496	49,270
Alternative investments	445,974	291,930	-248,284	7,850	497,470
Property	377,915	43,277	-3,648	15,526	433,070
	6,113,995	4,426,140	-4,261,568	151,656	6,430,223
Derivative contracts:					
– Futures	-125	7,889	-6,391	-1,610	-237
– Forward foreign exchange	-326	20,036	-39,445	16,635	-3,100
– Purchased/written options	-4	58	-40	-14	0
	-455	27,983	-45,876	15,011	-3,337
Other investment balances:					
– Cash deposits	19,806			-1,415	15,954
– Spot foreign exchange contracts	0				-24
Net investment assets	6,133,346			165,252	6,442,816

Purchases and sales of derivatives are recognised in note 11a above as follows:

- Futures – on close out or expiry of the futures contract the variation margin balances held in respect of unrealised gains or losses are recognised as cash receipts or payments, depending on whether there is a gain or loss.
- Options – premiums paid and received are reported as payments or receipts together with any close out costs or proceeds arising from early termination.
- Forward currency contracts – forward foreign exchange contracts settled during the period are reported on a gross basis as gross receipts and payments.

11b) Net assets analysed by fund manager

	Market value 31 March 2018		Market value 31 March 2019	
	£'000	%	£'000	%
Pooled investments (Link)	0	0.0	1,737,878	24.2
Pooled investments (UBS)	2,505,806	37.9	2,813,476	39.2
Pooled investments Subtotal	2,505,806	37.9	4,551,354	63.4
Aberdeen-Standard	367,850	5.6	0	0.0
Acadian	433,309	6.5	476,052	6.6
Alcentra	0	0.0	362,273	5.1
Baillie Gifford	709,181	10.7	289,850	4.0
Barings	0	0.0	294,912	4.1
CBRE Global Investors	479,656	7.3	537,270	7.5
Newton	416,024	6.3	0	0.0
Schroders	812,062	12.3	0	0.0
Western	272,154	4.1	0	0.0
	3,490,236	90.7	1,960,357	27.3
Other investments	503,879	7.6	595,098	8.3
Other net assets	113,318	1.7	75,072	1.0
Total	6,613,239	100.0	7,181,881	100.0

All the companies named above are registered in the United Kingdom.

Notes to the Pension Fund Accounts continued

11c) Stock lending

The Fund's Investment Strategy Statement sets the parameters for the Fund's stock lending programme for its directly held equities and bonds. At the year end, the value of quoted stock on loan was £103.9 million (£76.5 million 2017/18). These stocks continue to be recognised in the Fund's financial statements.

Counterparty risk is managed through holding collateral at the Fund's custodian bank, JP Morgan. As at 31 March 2019, the custodian bank held collateral at fair value of £119.8 million (£84.6 million 2017/18). Collateral consists of acceptable securities and government debt.

Stock lending commissions are remitted to the Fund via the custodian bank. During the period the stock is on loan the voting rights of the loaned stock pass to the borrower.

There are no liabilities associated with the loaned assets.

11d) 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 future minimum lease payments receivable by the Fund are as follows.

	Year ending 31 March 2018	Year ending 31 March 2019
	£'000	£'000
Within one year	23,892	24,200
Between one and five years	71,386	72,356
Later than five years	59,971	176,353
Total future lease payments due under existing contracts	155,249	272,909

The above disclosures have been reduced by a credit loss allowance of 3% 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.

12) Analysis of derivatives

Objectives and policies for holding derivatives

The Fund's investments in derivatives were part of its global bonds portfolio, which was disinvested in March 2019. The use of derivatives in this portfolio was managed in line with the investment management agreement agreed between the Fund and the investment manager. Investments in derivatives were to hedge liabilities, or to hedge exposures to reduce risk in the Fund and/or where it was more efficient to gain exposure to an asset than holding the underlying asset.

All the derivative future and option contracts are exchange traded; in other words, none are 'over the counter' (OTC).

The forward foreign currency contracts are all OTC contracts whereby two parties agree to exchange two currencies on a specified future date at an agreed rate of exchange.

i) Futures

The economic exposure represents the notional value of stock purchased under futures contracts and is therefore subject to market movements.

ii) Forward foreign currency

In order to maintain appropriate diversification and to take advantage of overseas investment returns, a significant proportion of the Fund's portfolio is in foreign currency. To reduce the volatility associated with fluctuating currency rates, derivative contracts are used in some instances.

iii) Options

The Fund wants to benefit from the returns available from investing in fixed interest securities but wishes to minimise the risk of loss of value through adverse price movements. No options were held at 31 March 2019.



Futures

Outstanding exchange traded futures contracts are as follows:

Type	Expires	Economic exposure £'000	Market value 31 March 2018 £'000	Economic exposure £'000	Market value 31 March 2019 £'000
Assets					
UK fixed income futures	Less than one year	1,808	35	0	0
Overseas fixed income futures	Less than one year	137,025	915	0	0
Total assets			950	0	0
Liabilities					
UK fixed income futures	Less than one year	0	0	0	0
Overseas fixed income futures	Less than one year	-76,858	-1,187	0	0
Total liabilities			-1,187	0	0
Net futures			-237	0	0

Notes to the Pension Fund Accounts continued

Open forward currency contracts

At 31 March 2019, the Fund had open forward currency contracts in place with a net unrealised loss of £0 million.

Settlement	Currency bought	Local value '000	Currency sold*	Local value '000	Asset value £'000	Liability value £'000
Up to 1 month	GBP	65	JPY	-9,502	0	0
1 to 6 months	CAD	40	USD	-30	0	0
1 to 6 months	EUR	280	USD	-319	2	-5
1 to 6 months	SEK	12,580	USD	-1,367	16	-21
1 to 6 months	USD	30	CAD	-40	0	0
1 to 6 months	USD	319	EUR	-280	5	-2
1 to 6 months	USD	1,367	SEK	-12,580	20	-15
Open forward currency contracts at 31 March 2019					43	-43
Net forward currency contracts at 31 March 2019						0
Prior year comparative:						
Open forward currency contracts at 31 March 2018					945	-4,045
Net forward currency contracts at 31 March 2018						-3,100

* List of currencies

CAD = Canadian Dollar

EUR = Euro

GBP = British Pound

JPY = Japanese Yen

SEK = Swedish Krona

USD = United States Dollar

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 RICS Valuation - Global Standards 2017	Comparable recent market transactions on arm's-length terms	Not required

Notes to the Pension Fund Accounts 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	3	Comparable valuation of similar companies in accordance with <i>International Private Equity Venture Capital Valuation Guidelines</i> .	EBITDA multiple Revenue multiple Discount for lack of marketability Control premium	Valuations could be affected by material events occurring between the date of the financial statement provided and the Pension Fund's own reporting date, by changes to expected cashflows, and by any differences between audited and unaudited accounts

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 2019.

	Assessed valuation range (+/-)	Value at 31 March 2019 £'000	Value on increase £'000	Value on decrease £'000
Alternative Investments – Hedge funds	5%	120,927	126,974	114,881
Alternative Investments – Private equity	10%	464,638	511,102	418,174

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.

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

Notes to the Pension Fund Accounts continued

	Quoted market price	Using observable inputs	With significant unobservable inputs	Total
Values at 31 March 2019	Level 1 £'000	Level 2 £'000	Level 3 £'000	£'000
Financial assets				
Financial assets at fair value through profit and loss	5,306,469	708,546	585,565	6,600,580
Non-financial assets at fair value through profit and loss		487,255		487,255
Financial liabilities at fair value through profit and loss	0	-43	0	-43
Net investment assets	5,306,469	1,195,758	585,565	7,087,791

	Quoted market price	Using observable inputs	With significant unobservable inputs	Total
Values at 31 March 2018	Level 1 £'000	Level 2 £'000	Level 3 £'000	£'000
Financial assets				
Financial assets at fair value through profit and loss	5,439,261	62,381	497,470	5,999,112
Non-financial assets at fair value through profit and loss		433,070		433,070
Financial liabilities at fair value through profit and loss	-1,275	-4,045	0	-5,320
Net investment assets	5,437,986	491,406	497,470	6,426,862

The table includes only assets measured at fair value. Other assets included in the net assets statement valued at amortised cost are not included. There were no transfers in classifications in 2018/19.



13b) Reconciliations of fair value measurements within level 3

Period 2018/19	Market value	Purchases during the year and derivative payments 1 April 2018	Sales during the year and derivative receipts	Change in market value during the year	Market value 31 March 2019
	£'000	£'000	£'000	£'000	£'000
Alternative investments	497,470	247,316	-239,379	80,158	585,565

Notes to the 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 2018			31 March 2019		
Fair value through profit and loss £'000	Loans and receivables £'000	Financial liabilities at amortised cost £'000	Fair value through profit and loss £'000	Loans and receivables £'000	Financial liabilities at amortised cost £'000
Financial assets					
256,696			Fixed interest securities	159	
2,652,257			Equities	755,114	
2,541,460			Pooled investments	5,208,539	
			Pooled property investments	51,160	
49,270			Alternatives	585,565	
497,470			Derivative contracts	43	
1,959			Cash	17,820	40,601
	134,081		Debtors		10,182
	12,168				
5,999,112	146,249	0	6,618,400	50,783	0
Financial Liabilities					
-5,320			Derivative contracts	-43	
		-5,058	Creditors		-8,146
-5,320	0	-5,058	-43	0	-8,146
5,993,792	146,249	(5,058)	6,618,357	50,783	-8,146



14b) Net gains and losses on financial instruments

31 March 2018 £'000		31 March 2019 £'000
	Financial assets	
166,667	Fair value through profit and loss	447,575
	Financial liabilities	
-1,415	Fair value through profit and loss	-9,708
165,252	Total	437,867

The Administering Authority has not entered into any financial guarantees that are required to be accounted for as financial instruments.

Notes to the Pension Fund Accounts continued

14c) Transition to IFRS 9

The Pension Fund adopted the IFRS 9 Financial Instruments accounting standard with effect from 1 April 2018. The main change is the earlier recognition of the impairment of financial assets. The Pension Fund has made use of the transitional provisions in IFRS 9 to not restate the prior year's financial statements, and the effect of the impairment is instead shown as additional management expenses (investment management expenses). The changes made on transition to the balance sheet are summarised below:

	IAS 39 31 March 2018 £'000	Reclassification £'000	Reclassification £'000	Impairment £'000	IFRS 9 1 April 2018 £'000
Financial assets					
Investments					
L&R/Amortised cost	0				0
FVPL	5,999,112				5,999,112
Total investments	5,999,112	0	0	0	5,999,112
Debtors					
L&R/Amortised cost	12,168				12,168
FVPL	0				0
Total debtors	12,168	0	0	0	12,168
Cash and cash equivalents					
L&R/Amortised cost	134,081	-29		-46	134,006
FVPL	0	29		0	29
Total cash and cash equivalents	134,081	0	0	(46)	134,035
Total financial assets	6,145,361	0	0	(46)	6,145,315
Financial liabilities					
FVPL (derivative contracts)	-5,320				-5,320
Amortised cost (creditors)	-5,058				-5,058
Total financial liabilities	-10,378	0	0	0	-10,378
Management expenses					
Investment management expenses	38,186			46	38,232

L&R: Loans and receivables; FVPL: fair value through profit and loss

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.

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.

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 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.

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 2018/19 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.

Notes to the Pension Fund Accounts continued

Asset type	Potential market movements (+/-)	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.
UK equities	9.14%	
Overseas equities	10.48%	
UK bonds	12.46%	Had the market price of the Fund investments increased/
Overseas bonds	5.48%	decreased in line with the above, the change in the net assets
Property	2.78%	available to pay benefits in the market price would have been
Alternative investments	7.57%	as follows (the prior year comparator is shown below):
Cash	0.11%	

Asset type	Value at 31 March £'000	Potential market movement £'000	Value on increase £'000	Value on decrease £'000
Total assets 2019	7,087,878	665,565	7,753,443	6,422,313
Total assets 2018	6,442,816	621,994	7,064,810	5,820,822

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 2019 and 31 March 2018 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 Pension Fund's fixed interest investment manager has applied their market experience to the Fund's portfolio of investments to calculate the effect of a 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.



Assets exposed to interest rate risk	Value as at 31 March 2019 £'000	Potential movement on 1% change in interest rates £'000	Value on increase £'000	Value on decrease £'000
Cash & cash equivalents	58,335	0	58,335	58,335
Cash deposits	86	0	86	86
Bonds	657,184	7,154	650,030	664,338
Total	715,605	7,154	708,451	722,759

Assets exposed to interest rate risk	Value as at 31 March 2018 £'000	Potential movement on 1% change in interest rates £'000	Value on increase £'000	Value on decrease £'000
Cash & cash equivalents	118,127	0	118,127	118,127
Cash deposits	15,954	0	15,954	15,954
Bonds	256,697	20,800	235,897	277,497
Total	390,778	20,800	369,978	411,578

Income exposed to interest rate risk	Amount receivable as at 31 March 2019 £'000	Potential movement on 1% change in interest rates £'000	Value on increase £'000	Value on decrease £'000
Cash deposits / cash & cash equivalents	556	963	1,519	-407
Bonds	7,526	0	7,526	7,526
Total	8,082	963	9,045	7,119

Income exposed to interest rate risk	Amount receivable as at 31 March 2018 £'000	Potential movement on 1% change in interest rates £'000	Value on increase £'000	Value on decrease £'000
Cash deposits / cash & cash equivalents	245	1,585	1,830	-1,340
Bonds	7,048	0	7,048	7,048
Total	7,293	1,585	8,878	5,708

Notes to the Pension Fund Accounts continued

This analysis demonstrates that a 1% increase in interest rates will not affect the interest received on fixed assets but will reduce their fair value, and vice versa. 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.

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.

Currency risk – sensitivity analysis

Following analysis of historical data the Pension Fund considers the likely volatility associated with foreign exchange rate movements to be 10.0% (as measured by one standard deviation).

A 10.0% 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 10.0% 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 2019	2,701,298	256,808	2,928,106	2444,490
Total assets 2018	2,659,756	265,450	2,925,206	2,394,306

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.

Credit risk on over-the-counter 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 2019 was £46.820 million (31 March 2018: £74.591 million). This was held with the following institutions:

	Rating as at 31 March 2019	Balances as at 31 March 2018 £'000	Balances as at 31 March 2019 £'000
Money market funds			
Aberdeen Standard	AAAm	7,390	4,350
Blackrock	AAAm	0	2,200
Deutsche	AAAm	6,560	2,010
Federated Investors UK	AAAm	7,390	4,550
Insight	AAAm	7,390	940
JP Morgan	AAAm	0	3,770
Bank deposits			
Barclays	A	5,580	0
Lloyd	AA-	7,400	1,000
Nationwide Building Society	A	5,000	0
Nordea Bank AB	AA-	5,000	0
Rabobank	AA-	5,000	5,000
Santander UK	A	5,000	5,000
Standard Chartered	A	0	5,000
Svenska Handelsbanken	AA-	4,060	1,000
Toronto-Dominion Bank	AA-	5,000	0
Treasury bills			
UK Government	AA-	3,821	12,000
Total		74,591	46,820

Notes to the 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 2019 the value of illiquid assets was £1,098 million, which represented 15.5% of the total fund assets (31 March 2018: £955 million, which represented 14.8% 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 2019 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 2016. The next valuation will take place as at 31 March 2019.

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
- 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 19 years from 1 April 2017 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.

At the 2016 actuarial valuation, the Fund was assessed as 81% funded (80% at the March 2013 valuation). This corresponded to a deficit of £1,240 million (2013 valuation: £1,087 million) at that time.

Contribution schedules have been agreed for the two groups of employers. Generally, employers in the Scheduled Body Group are required to pay 14.1% of Pensionable Pay over 2017/18, increasing by 1% of Pensionable Pay per annum for 2 years followed by 16.9% of Pensionable Pay from 1 April 2020. In addition, most Scheduled Body employers will continue to pay shortfall contributions based on the amounts being paid over in 2016/17 but increasing at 8.8% p.a. with effect from 1 April 2017 for 3 years and increasing by 3.9% p.a. thereafter until 31 March 2036. Employers in the Admission Body Group are required to pay 16.6% of Pensionable Pay over 2017/18, increasing by 1% of Pensionable Pay per annum for two years followed by 19.1% of Pensionable Pay from 1 April 2020. In addition, most Admission Body employers will continue to pay shortfall contributions based on the amounts being paid over in 2016/17 but increasing at 20.0% p.a. on 1 April 2017 and increasing by 3.9% p.a. thereafter until 31 March 2036.

Contribution schedules have also been agreed for the remaining employers who are not grouped. The contributions for those employers reflect the profiles of their membership, 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.

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 2016 actuarial valuation report and summarised in the Statement of the Actuary.

Generally a common set of assumptions are 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, the funding target that will be used in an exit valuation under Regulation 64.

The main actuarial assumptions that were used for the secure scheduled bodies in the Scheduled Body Group in the March 2016 actuarial valuation were as follows:

Financial assumptions – discount rate for periods

Discount rate	4.5% a year
Rate of general pay increases	3.5% a year
Rate of increase to pension accounts and deferred pension increases	2.0% a year
Rate of increases in pensions in payment (in excess of Guaranteed Minimum Pension)	2.0% a year

The assets were valued at market value.

Demographic assumptions:

A 65 year old male pensioner retiring in normal health in 2016 was assumed on average to live to 88.9 (rather than 89.6 under the assumptions adopted at the previous valuation). A 65 year old female pensioner retiring in normal health in 2016 was assumed on average to live to 91.9 (rather than 91.4).

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 are 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 2016 was £7,595 million (31 March 2013: £6,565 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 2016 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 2016 IAS 19 calculation were:

Discount rate	3.4%
RPI inflation	2.9%
CPI inflation / pension increase rate assumption	1.8%
Salary increase rate	3.3%

Notes to the Pension Fund Accounts continued

18. Current assets

	31 March 2018	31 March 2019
	£'000	£'000
Debtors:		
– Contributions due - employees	575	173
– Contributions due - employers	34,443	25,508
– Transfer values receivable (joiners)	1,521	1,521
– Tax	5,167	4,221
– Sundry debtors	12,168	10,182
Cash balances	118,127	58,335
Total	172,001	99,940

Analysis of debtors

	31 March 2018	31 March 2019
	£'000	£'000
Central government bodies	6,789	7,309
Other local authorities	17,697	18,006
Other entities and individuals	29,388	16,290
Total	53,874	41,605

19. Current liabilities

	31 March 2018	31 March 2019
	£'000	£'000
Sundry creditors	5,058	8,146
Transfer values payable (leavers)	0	0
Benefits payable	537	184
Tax	547	650
Total	6,142	8,980

Analysis of creditors

	31 March 2018	31 March 2019
	£'000	£'000
Central government bodies	582	650
Other local authorities	773	2,452
Other entities and individuals	4,787	5,878
Total	6,142	8,980

20. Long term debtors

With effect from 1 April 2005, the Magistrates Courts Service (a body participating in the Hampshire Pension Fund) became part of the Civil Service. Terms have been agreed for the transfer of liabilities from all Local Government Pension Schemes (LGPS) to the Principal Civil Service Pension Scheme (PCSPS). Each affected LGPS fund's actuary has determined the value of the pensioner and deferred liabilities remaining with the LGPS and calculated the requirement for sufficient retained assets to match these liabilities.

The actuary determined that as insufficient assets remain to cover the remaining liabilities, a balancing payment of £15.213 million was required to the Fund by the Civil Service (Her Majesty's Courts Service) to be spread over 10 instalments commencing April 2012. The total amount of the remaining debt is £4.564 million; of this the following year's instalment (£1.521 million) is classified as a debt repayable in one year, and the remaining balance £3.043 million is a long term debtor.

	31 March 2018	31 March 2019
	£'000	£'000
Magistrates Courts – agreed liability settlement due from central government body	4,564	3,043
Total	4,564	3,043

21. Additional voluntary contributions

	Market value 31 March 2018	Market value 31 March 2019
	£'000	£'000
Prudential	10,250	13,323
Zurich	7,503	6,930
Equitable Life	1,073	932
Total	18,826	21,185

During the year, AVCs of £4.194 million were paid directly to Prudential (2017/18: £3.051 million), £0.455 million to Zurich (2017/18: £0.680 million), and £0.007 million to Equitable Life (2017/18: £0.006 million).

22. 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 £117.275 million to the Fund in 2018/19 (2017/18 £104.587 million).

During the reporting period, the County Council incurred costs of £2.935 million (2017/18: £2.458 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 Resources of Hampshire County Council, acting as Treasurer 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 Resources can be found in the main accounts of Hampshire County Council.

Part of the Pension Fund cash holdings are invested on the money markets by the treasury management operations of Hampshire County Council. During the year to 31 March 2019, the Fund had an average cash balance of £64.024 million (year to 31 March 2018: £74.300 million), earning interest of £0.515 million (2017/18 £0.241 million) on these funds.



Notes to the Pension Fund Accounts continued

23. Contingent liabilities and contractual commitments

Outstanding capital commitments (investments) at 31 March 2019 totalled £326.591 million (31 March 2018: £227.584 million). These commitments relate to outstanding call payments due on unquoted private equity limited partnership funds held in the alternative investments part of the Fund. The amounts 'called' by private equity funds are irregular in both size and timing over a period of between four and six years from the date of each original commitment.

The Government is currently seeking leave to appeal in the McCloud and Sargeant cases, which are looking to show that the protections for those within ten years of retirement is age discriminatory. If the judgement stands then there is a possibility that it will be necessary to extend the underpin to all members that were in service on 1 April 2014. 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). At present the financial impact is difficult to determine, but it is a potential future liability for the fund.

24. Contingent assets

The Fund had no contingent assets on 31 March 2019.

25. Impairment losses

During 2018/19, the Fund has recognised an impairment loss for bad and doubtful debt of £0.003 million (2017/18: £0.033 million) for possible non-recovery of pensioner death overpayments, and there were no potential non-payment of cessation values where the employer is not backed up by a guarantee on 31 March 2019.

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 make one of its officers responsible for the administration of those affairs. The Director of Corporate Resources 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.

Director of Corporate Resources' responsibilities

The Director of Corporate Resources 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 the UK 2015/16 ('the Code of Practice').

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

- kept proper accounting records, which are up to date
- taken reasonable steps to prevent fraud and other irregularities.

Director of Corporate Resources' statement

I certify that the statement of accounts as set out on pages XX to XX presents a true and fair view of the financial position of the Hampshire Pension Fund as at 31 March 2019 and its income and expenditure for the year ended 31 March 2019.



Carolyn Williamson FCPFA

Director of Corporate Resources



Independent Auditors' Statement

to the Members of Hampshire Pension Fund on the Pension Fund Financial Statements

To come ...

Glossary

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.

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 Equitable Life).

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.

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.

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.

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.



Glossary continued

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.

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

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.

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.

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

The Morgan Stanley Capital International (MSCI) All Countries World Index is the index used by the Hampshire Pension Fund to measure global stock markets.

Myners

Paul Myners, author of the Myners Report into institutional investment in the UK, published in March 2001.

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 (ie, not easily turned into cash) and higher-risk investments that should provide high returns over the long term.

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.

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.



Glossary continued

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.

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.

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.

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 COUNTY COUNCIL

Decision Report

Decision Maker:	Pension Fund Panel and Board
Date:	26 July 2019
Title:	Governance: Pension Fund Panel and Board Training in 2019/20
Report From:	Director of Corporate Resources

Contact name: Mike Chilcott

Tel: 01962 847411

Email: Mike.chilcott@hants.gov.uk

Purpose of this Report

1. The purpose of this report is to set out proposals for the training arrangements for members of the Pension Fund Panel and Board in 2019/20.

Recommendations

2. That the proposed training arrangements are noted, and Panel and Board members consider any other topics for training that would be beneficial.
3. That the Training Plan for 2019/20 be approved.
4. That the remainder of the report be noted.

Executive Summary

5. This report sets out proposals for the training arrangements for members of the Pension Fund Panel and Board in 2019/20.
6. The report takes into account the Training Needs Analyses completed by Panel and Board members in 2019. The report also includes proposals for the Panel and Board's training half days in 2019/20 and 2020/21.
7. This report includes the proposed Training Plan for 2019/20 for approval which is based on the Public Service Pension Act 2013 requirement for board members to have the knowledge and understanding that is appropriate for the

purposes of enabling the individual properly to exercise the functions of a member of the pension board.

Background

8. Members of the Pension Fund Panel and Board are asked to complete a Training Needs Analysis, which was 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, in order to ensure the Panel and Board meet the requirements set out in the guidance referenced in the regulations.
9. The aim of completing the Training Needs Analysis is to identify members' individual training needs and enable the Training Plan for 2019/20 to be prepared, setting out how these training needs would be met and to give priority to any needs that are shared by a number of the Panel and Board Members.
10. It is a legal requirement, as set out under section 248A of the Pensions Act 2004, that every individual who is a member of a Local Pension Board must:
be conversant with:
 - the rules of the scheme, in other words the Regulations and other regulations governing the LGPS (including the Transitional Regulations, earlier regulations and the Investment Regulations); and
 - any document recording policy about the administration of the scheme which is for the time being adopted in relation to the scheme; andhave knowledge and understanding of:
 - the law relating to pensions; and
 - such other matters as may be prescribed.

Training Needs Analysis

11. The Training Needs Analysis forms have been provided to members for their completion, and a number of responses have been received to date. It is important that all members return a completed form in due course, and the template form is attached as Appendix 2. This report is based on analysis of forms received to date, and if on receipt of the remaining forms the analysis changes significantly then an update report will be tabled at the next Panel and Board meeting.

12. The following summary is based on the completed Training Needs Analyses. The training areas for which the largest numbers of Panel and Board members requested training are listed in Table 1 below.

Table 1 – Categories of training identified by the Training Need Analyses

	Number of Panel and Board members
Investment strategies and investment markets	11
Public Procurement (UK and EU)	10
Pensions administration strategy and taxation	8
Actuarial valuations	8
Performance and advisors	7

13. As well as assessing themselves against the topics included in CIPFA’s Knowledge and Skills Framework, Panel and Board members were also invited to propose additional ideas for training which they think could benefit the Panel and Board. So far, a suggestion has been received to cover Brexit, volatility and EU/UK rules and an ACCESS Governance update.

Proposals

14. The following paragraphs include suggestions for ways in which training can be provided to meet the needs identified in Table 1.

Investment strategies and investment markets

15. These areas include risk and return characteristics of the main asset classes (equities, bonds, property), and the role of these asset classes in long-term pension fund investing. Also, within investment markets is a requirement for a broad understanding of the workings of the financial markets and of the investment vehicles available to the pension fund and the nature of the associated risks.
16. An understanding of the different asset classes is something that newer members will gain over time from reading reports to the Panel and Board on investment matters, from investment manager presentations, and from asking questions of the investment managers. In addition, members who wish to improve their knowledge in this area could use the Pension Regulator Trustee Toolkit website, particularly in the module on “Introduction to Investment”.

This module covers investing in a pension scheme, types of assets, risk, reward, economic cycles, active and passive management, diversification and managing investments. The Trustee Toolkit website can be found at:

<https://trusteetoolkit.thepensionsregulator.gov.uk/>

Public procurement

17. The requirements of the Public Procurement regulations, which apply to all Local Government procurement, including that associated with pension funds. The requirement for procurement for the pension fund will significantly diminish now that investments are pooled, and Hampshire's investments will be available via ACCESS.

Actuarial valuations

18. The Pension Fund is required to carry out an actuarial valuation of the Fund's liabilities to pay future pension commitments, which will calculate the extent to which these liabilities are matched by the Fund's assets. The current requirement is for a formal valuation every 3 years (with the current valuation being undertaken as at 31 March 2019) although this timing is now being consulted on. Training was provided by the Pension Fund's actuary (Aon) at the time of the last valuation 2016/17 but it is proposed that this is refreshed to provide context for the 2019 valuation.

Pensions administration strategy and taxation

19. The administration of the payment of pensions and the receipt of contributions is governed by the 2014 LGPS Regulations in addition to general Revenue and Customs requirements for personal tax associated with pensions. The administration of LGPS pensions is covered in the *Fundamentals* training course and the summary session delivered by Tim Hazelwood in 2017. In addition Pensions Services report twice a year to the Panel and Board on the performance of the administration of the Pension Fund.

Performance and advisors

20. A key role of the Panel and Board is the evaluation of the Pension Fund's investments, including the setting of appropriate return targets and the use of benchmarks. The requirements of the 2016 LGPS Investment Regulations include seeking appropriate investment advice. The Pension Fund received training from its advisors and investment managers in 2017 when setting the revised investment strategy and considering investments in new asset

classes. It is proposed that further training will be provided in conjunction with the Panel and Board's next review of the investment strategy due in 2020/21.

Training sessions in 2019/20 and 2020/21

21. The Panel and Board has agreed that the equivalent of two in-house training half-days should be arranged for Panel and Board members each year, split between sessions held prior to Panel and Board meetings, where this is relevant to a decision to be made at the meeting, or stand-alone sessions, as appropriate.
22. The proposals in Table 2 below set out a suggested programme for 2019 and 2020 for the Panel and Board's comments.

Table 2 – Proposals for the Panel and Board's training sessions in 2019/20 and 2020/21

	Topics
2019/20	ESG/Low Carbon Private Debt (JP Morgan) Cyber security and the impact on the Pension Fund and Role of the global custodian (JP Morgan) Actuarial valuation (Aon Hewitt)
2020/21	Internal audit update (Neil Pitman) Governance/ACCESS Investment Strategies and financial markets Growth investing (Baillie Gifford)

23. In addition to the proposals above any suggestions for training would be welcomed.

Training plan for 2019/20

24. The Panel and Board has fully supported the principle that Panel and Board members and officers should have access to training on Pension Fund matters to be able to fulfil their duties to the appropriate standard. To that end, a Training Plan is prepared each year and agreed by the Panel and Board. The proposed Plan for 2019/20 is attached as Appendix 1.
25. The Training Plan is an important part of demonstrating from a governance perspective that proper training in Pension Fund matters is made available to, and undertaken by, Panel and Board members.
26. Changes from last year's Plan have been highlighted in Appendix 1. No major changes have been made, although the Plan has been updated for the training sessions in 2019/20 and 2020/21, and the budget for 2019/20.

Training budget

Table 3 below provides a summary of the training budget and actual expenditure for 2018/19, as well as a proposed budget for 2019/20.

27. The budget for 2019/20 includes three places at the LGC investment summit, and provision for four members of the Panel and Board to attend the Fundamentals course. The budget also includes two places at the LGC investment seminar at Chester (with the possibility of an additional free place), in line with attendance in previous years.
28. Training costs are met from the governance costs of the Pension Fund. Re-allocation of planned places at courses within the budget is possible, should the Panel and Board feel it would meet training needs better to give priority to different events.

Table 3 – Training budget

	2018/19 Budget £	2018/19 Actuals £	2019/20 Budget £
Attendance at Conferences / Seminars etc.			
LGC Investment Summit (Celtic Manor, September)	2,850	3,000	2,850
LGC Investment Seminar (Chester, March)	1,200	0	1,200
LG Employers Fundamentals Course	2,760	0	2,760
Other conferences	0	0	0
	6,810	3,000	6,810

In-house training sessions

Fees paid to trainers	0	0	0
Other costs	160	360	160
	<hr/>	<hr/>	<hr/>
	160	360	160
Total training budget	6,970	3,360	6,970

Expenses

29. The training request form, a template of which can be found in Annex 1 to Appendix 1 of this report, has been updated to clarify the Pension Fund's position on expenses for training. Panel and Board members are asked to provide an estimate of any expenses that a training event may incur. Estimated expenses should include all costs of attendance, i.e. travel, hotel, and any admission fee. Please note that hotel costs cannot be expensed if the event is held in normal office hours and is within reasonable reach of Winchester, which includes London.
30. It will not be possible to claim expenses for an event where there is a fee, or where travel costs are in excess of standard travel costs to London, if there is an equivalent event which is more local and/or complimentary. If Panel and Board members feel that such an event would be beneficial to their training needs, they should contact officers to allow them to help find the best solution to meet those training needs.

Online Training Library

31. While the internally arranged training days are intended to provide training on topics which will benefit the majority of Panel and Board members, individual members may find that they have additional areas on which they may require training or perhaps on which they wish to refresh their knowledge.
32. With this in mind, officers have developed an online training library, so that members can log in and access training materials at their own convenience, and can select the materials on topics they feel would most benefit their own training needs. The training library is currently in the process of being transferred to Sharepoint and more details of how to access it will be provided to members once the project is completed.
33. The library contains slides (and supplementary materials, where appropriate) for all the internal training sessions carried out since 2009, which cover a wide range of topics. There are also other useful documents available to download which can help fill any knowledge gaps, as well as template forms and links to the Pension Fund's annual report, statutory statements, and

latest actuarial valuation. There is also information on and a link to the Pensions Regulators Trustee Toolkit – a valuable online learning resource.

Other training resources and information

External training courses

34. If members would like to attend an external training course or conference, please complete the first half of the training request and evaluation form available at Annex 1 to Appendix 1, and return to investments@hants.gov.uk.

Training logs for 2018/19

35. Training logs are maintained by Director of Corporate Resources' staff for each member of the Panel and Board based upon members' input, in order to record the training undertaken during the year. Training logs for 2018/19 to date have been circulated to Panel and Board members for review, and include details of all relevant training courses, seminars and events attended by each member.
36. The training logs also include an assessment of whether each training event has fulfilled the need it was intended to meet.
37. Panel and Board members are also encouraged to complete a short evaluation form after each training event in order to share feedback about events, and report on whether an event was useful and well delivered. These comments will be used to inform members' decisions regarding attendance at future events.

Annual Employers Meeting 2019

38. The Annual Employers Meeting will be held in Ashburton Hall in Winchester on 18 October 2019 starting at 10:00 am, and Panel and Board members are encouraged to attend the Annual Employers Meeting if they are available.

REQUIRED CORPORATE OR LEGAL INFORMATION:

Links to the Strategic Plan

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

See guidance at <http://intranet.hants.gov.uk/equality/equality-assessments.htm>

Insert in full your **Equality Statement** which will either state:

- (a) why you consider that the project/proposal will have a low or no impact on groups with protected characteristics or
- (b) will give details of the identified impacts and potential mitigating actions

Hampshire Pension Fund
Pension Fund Panel and Board
Training Plan 2019/20

Background

1. Hampshire County Council as the administering authority for the Hampshire Pension Fund has delegated responsibility for the management of the Pension Fund to the Pension Fund Panel and Board.
2. The Pension Fund Panel and Board fully supports the principle that Panel and Board members and officers have a duty to undertake all training on pension fund matters that is necessary to be able to fulfil their duties to the appropriate standard. Opportunities are made available to members and officers to attend training courses and seminars when necessary and appropriate.
3. This training plan has been prepared for the Pension Fund Panel and Board for 2019/20. As the Panel and Board's responsibilities include both investment management of the Pension Fund and pensions administration, the training plan also covers both areas.
4. This training plan has been updated to reflect training requirements identified by the completion of the detailed Training Needs Analyses carried out by members of the Pension Fund Panel and Board in early 2019.

The regulatory and governance context for the training plan

5. It is a legal requirement, as set out under section 248A of the Pensions Act 2004, that every individual who is a member of a Local Pension Board must:

be conversant with:

 - the rules of the scheme, in other words the Regulations and other regulations governing the LGPS (including the Transitional Regulations, earlier regulations and the Investment Regulations); and
 - any document recording policy about the administration of the scheme which is for the time being adopted in relation to the scheme; and

have knowledge and understanding of:

 - the law relating to pensions; and
 - such other matters as may be prescribed.
6. The Myners principles codify the best practice in investment decision-making for pension fund management. The principles require pension fund trustees to consider how the principles apply to their own fund and report

on a 'comply or explain' basis. Training is a key factor within Principle 1 which covers effective decision-making:

- trustees should ensure that decisions are taken by persons or organisations with the skills, knowledge, advice and resources necessary to take them effectively and monitor their implementation
 - trustees should have sufficient expertise to be able to evaluate and challenge the advice they receive, and manage conflicts of interest.
7. The Government also requires Local Government Pension Scheme (LGPS) funds to publish a Governance Policy Statement which includes a section on Training. A Governance Compliance Statement is also required which sets out the Pension Fund's compliance with the following principle on Training, Facility Time and Expenses:
- 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
 - 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
 - that the administering authority considers adopting annual training plans for committee members and maintains a log of all such training undertaken.
8. The Chartered Institute of Public Finance and Accountancy (CIPFA) published a guide to the requirements for the Governance Compliance Statements in the context of the CIPFA/SOLACE publication 'Delivering Good Governance in Local Government: Framework (2007)'. The CIPFA guide links the principle in paragraph 2.2 above to the Framework's principles of:
- performing effectively in clearly defined functions and roles, and
 - developing the capacity and capability of the governing body to be effective.
9. The CIPFA guide includes the further comment that the principle in paragraph 2.2 is aimed at making sure that all those serving on committees, sub-committees and panels receive levels of training that are appropriate to their needs and that suitable arrangements are made to ensure that this is properly resourced in terms of both time and finance.
10. The Pension Fund Panel and Board fully endorse the importance placed on training in these principles. With this training plan and the training logs maintained by all Panel and Board members, the Hampshire Pension Fund is in full compliance with this principle.
11. CIPFA have also published a Code of Practice on Public Sector Pensions Finance Knowledge and Skills, which Hampshire Pension Fund has adopted. This requires policies and procedures to be in place for the

effective acquisition and retention of the relevant knowledge and skills for those in the organisation responsible for financial administration and decision making.

12. The policies and procedures will be guided by reference to the CIPFA Pensions Finance Knowledge and Skills Framework, which gives technical guidance for elected representatives and officers on the knowledge required.
13. The Code of Practice also requires an annual statement on how these policies and procedures have been put into practice, from 2012/13 onwards. A disclosure was included in the Annual Report and Accounts 2012/13 and will continue going forward.

Pension Fund Panel and Board

14. There are 21 members of the Pension Fund Panel and Board, as listed in Table 1. The table shows the experience of Panel and Board members in terms of their length of service on the Pension Fund Panel and Board.

Table 1	Membership of the Pension Fund Panel and Board
County councillors:	
Mark Kemp-Gee (Chairman)	14 years
Tom Thacker (Vice Chairman)	10 years
Christopher Carter	10 years
Alan Dowden	2 year with previous membership on the Pension Fund Panel
Jonathan Glen	2 year
Andrew Gibson	7 years
Andrew Joy	6 years
Peter Latham	3 years
Bruce Tennent	10 years
County council deputies:	
Keith House	5 years
Derek Mellor	2 year
Michael White	1 year
Roger price	1 year
City councils' representative:	
Stephen Barnes-Andrews	New member
Jeanette Smith	New member
District councils' representative:	
Trevor Cartwright MBE	New member
Other employers' representative:	
David Robbins	3 years
Pensioners' representative	
Cliff Allen	5 years
Deferred members' representative:	

Table 1	Membership of the Pension Fund Panel and Board
Valerie Arrowsmith	3 years
Employees' representative:	
Neil Wood	3 years
Sarah Manchester	New member

15. The Panel and Board has a mixture of experienced members, who have served at least one full four-year term as members of the Panel and Board, and more recently appointed members. Panel and Board members also have a range of relevant experience from their working lives which includes, in some cases, the financial services industry and the City of London.

Access to training

16. Training opportunities are made available equally to all members of the Pension Fund Panel and Board, including the co-opted representatives of the city councils, district councils, pensioners and contributors as well as the county councillors. The full cost of attending training is met by the Pension Fund, including course fees, reasonable travel and accommodation costs.
17. The Panel and Board have considered making attendance at training courses compulsory for Pension Fund Panel and Board members. This suggestion reflected the increasing complexity and profile of pension matters and the need for Panel and Board members to keep up to date with current developments at a time of heightened scrutiny. However, whilst it is important that Panel and Board members prepare themselves properly to fulfil their responsibilities, it would not be practical to make attendance at training events a condition of Panel and Board membership. The suitability and fitness of members for their role is best left to the Panel and Board itself to monitor.
18. Each year, in order to ensure compliance with the CIPFA Code of Practice, Panel and Board members complete a detailed individual Training Needs Analysis. The purpose of this exercise is to allow Panel and Board members to consider their current level of knowledge and identify the topics on which they would like to have additional training. The Training Needs Analysis was 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, in order to ensure the Panel and Board meet the requirements set out in the guidance referenced in the regulations. The outcome of the Training Needs Analysis for 2019/20 will be discussed by the Panel and Board at this meeting. As a result, eight training sessions have been planned for 2019 and 2020 which directly relate to the training needs identified.

19. The Director of Corporate Resources' staff have developed an online library of training resources, which Panel and Board members will be able to refer to in order to obtain more information about areas where they have a specific training need, in addition to the Panel and Board-wide training proposals outlined above. The library contains slides (and supplementary materials, where appropriate) for all the internal training sessions carried out since 2009, which cover a wide range of topics. There are also other useful documents available to download which can help fill any knowledge gaps, as well as template forms and links to the Pension Fund's annual report, statutory statements, and latest actuarial valuation. There is also information on and a link to the Pensions Regulators Trustee Toolkit – a valuable online learning resource. The library will be updated whenever new material is available. Panel and Board members have been provided with a link to the library and login details.

Online learning opportunities

20. A number of online training facilities on pension fund matters have been developed by various organisations in recent years. Examples include the Trustee Toolkit which is available for free from the Pension Regulator at the following website: <http://www.trusteetoolkit.thepensionsregulator.gov.uk>. This toolkit provides an introduction to pension scheme investing, running a pension scheme, the role of the trustee, pension law etc. It was designed to meet the requirements of trustee knowledge and understanding required under the Pensions Act 2004. In early 2015, the Pensions Regulator released an on-line training resource to assist those involved in Public Sector Schemes. This is accessed via the Trustee Toolkit, and comprises an additional seven modules covering the key themes in the Code of Practice on governance and administration of public service schemes.

Officer Training

21. 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 Resources Directorate are required by the accountancy bodies to maintain their levels of Continuing Professional Development.

Proposed training in 2019/20

22. This training plan for 2019/20 has been designed to cater for the needs of the recently elected Panel and Board members as well as providing an opportunity to update and refresh the knowledge of the more experienced members of the Panel and Board.
23. The Panel and Board has agreed that the equivalent of two in-house training half-days should be arranged for Panel and Board members each year, split between sessions held prior to Panel and Board meetings, where this is relevant to a decision to be made at the meeting, or stand-

alone sessions, as appropriate. Table 2 below sets out the programme for 2019 and 2020, which has been formulated based upon key learning points from the Training Needs Analysis, and recommendations from Panel and Board members.

Table 2 – Proposals for the Panel and Board’s training sessions in 2019/20 and 2020/21

	Topics
2019/20	<p>ESG/Low Carbon</p> <p>Private Debt (JP Morgan)</p> <p>Cyber security and the impact on the Pension Fund and Role of the global custodian (JP Morgan)</p> <p>Actuarial valuation (Aon Hewitt)</p>
2020/21	<p>Internal audit update (Neil Pitman)</p> <p>Governance/ACCESS</p> <p>Investment Strategies and financial markets</p> <p>Growth investing (Baillie Gifford)</p>

24. These training sessions will also be useful for the Audit Committee in carrying out their role to receive and consider audit reports relating to the Pension Fund Panel and Board, as stated in the Hampshire County Council Constitution.
25. These bespoke training sessions will be complimented by a range of other training opportunities which will be made available to Panel and Board members during the year. These include many seminars and courses on pension fund matters provided each year by various organisations. Some are specifically tailored for LGPS funds, such as the Local Government Chronicle’s annual investment summit held in September each year. The Pension Fund’s investment managers hold annual client conferences and the Fund’s actuary Aon Hewitt also provides training events. The Director of Corporate Resources will continue to circulate details of these training opportunities to members.
26. If new members are appointed to the Panel and Board, the training proposed is as follows:
 - Attending the “Fundamentals” course held by the Local Government Employers, which specifically covers the basics for the LGPS.

- Attending the training sessions to be held during 2019.
 - Completing the Training Needs Analysis for Panel and Board members, to help identify any additional training requirements.
 - Informing new members of any external conferences and training opportunities in the future, along with the rest of the Panel and Board.
27. Reports to the Panel and Board by the officers on new developments in pension fund matters will continue to include background briefing information and this will provide another means by which Panel and Board members can keep up-to-date and develop their knowledge.
28. Panel and Board members will also be able to undertake background reading on pension fund matters and this too can contribute to meeting their training needs.

Training budget

29. Table 3 below shows the training budget for 2018/19, with the actuals for comparison, together with the proposed budget for 2019/20.
30. The budget for 2019/20 includes three places at the LGC investment summit, and provision for four members of the Panel and Board to attend the Fundamentals course. The budget also includes two places at the LGC Investment Seminar (with the possibility of an additional free place).

Training costs are met from the administration costs of the Pension Fund. "Virement" between courses within the budget is possible, should the Panel and Board feel it would meet training needs better to prioritise different events.

Table 3 – Training budget

	2018/19 Budget £	2018/19 Actuals £	2019/20 Budget £
Attendance at Conferences / Seminars etc.			
LGC Investment Summit (Celtic Manor, September)	2,850	2,850	2,850
LGC Investment Seminar (Chester, March)	1,200	0	1,200
LG Employers Fundamentals Course	2,760	260	2,760
Other conferences	0	0	0
	6,810	3,110	6,810
In-house training sessions			
Fees paid to trainers	0	4,525	0
Other costs	160	340	160
	160	4,865	160
Total training budget	6,970	7,975	6,970

Training logs

31. Training logs are maintained by each member of the Panel and Board to provide evidence of the Panel and Board's commitment to training. They record the actual training undertaken during the year, including details of all relevant training courses, seminars and events attended by each member. The training logs include an assessment of whether each training event has fulfilled the need it was intended to meet.

Evaluation

32. The actual training undertaken by Panel and Board members in 2018/19 will be evaluated using the training logs to assess whether it has fulfilled the training need identified at the outset. In addition, Panel and Board members complete a short evaluation form after each training event in order to share feedback about events, and report on whether an event was useful and well delivered. A template evaluation form is attached as Annex 2 to this Training Plan. This information will be used to design the training plan for the following year.

Training Request Form

To be completed before the Training Activity

Please return this form electronically for approval prior to booking the training activity to investments@hants.gov.uk

Panel member's name	
Training event / activity (including provider)	
Date	
Location	
Estimated expense of attendance*	
Summary of topics	
Training needs which this event is expected to meet (where relevant, refer to needs identified in your Training Needs Analysis)	
Other comments	

*Estimated expenses should include all costs of attendance, i.e. travel, hotel, and any admission fee. Please note that hotel costs cannot be expensed if the event is held in normal office hours and is within reasonable reach of Winchester, which includes London.

It will not be possible to claim expenses for an event where there is a fee, or where travel costs are in excess of standard travel costs to London, if there is an equivalent event which is more local and/or complimentary. If you feel that such an event would be beneficial to your training needs, please contact officers to allow them to help you find the best solution to meet your training needs.

Training Evaluation – to be completed after the Training Activity

Panel member's name	
Training event / activity (including provider)	
Date	
Were the training needs identified in the Training Request Form met?	
Aspects of the training needs that were not met	
Is further training required to meet the training needs identified in the Training Request Form?	
Comments	
Would you recommend attendance next time/year? Why?	

Please return the completed form electronically, after the Training activity, to investments@hants.gov.uk

Training Needs Analysis - Pensions Knowledge and Skills Framework (2019)

Name:

Date:

Key to rating of whether knowledge is Essential or Desirable

	General awareness of the topic required
	Good understanding but not at the level of Pensions or Investment practitioners
	Full detailed knowledge required

Key	Training need	Training required? Yes/no	Possible sources of information, including training provided previously
Page 161	Pensions legislative and governance context		
	<p>General pensions framework A general awareness of the pensions legislative framework in the UK.</p> <ul style="list-style-type: none"> - brief history of the development of pensions provision in the UK - defined benefit and defined contribution schemes - final salary and career average revalued earnings (CARE) schemes - State pensions and occupational pensions 		Training session provided by Tim Hazelwood on 20 September 2013 and 24 November 2017, and Schroders Trustee Training 2014
1.2	<p>Scheme-specific legislation An overall understanding of the legislation specific to the LGPS scheme and the main features relating to benefits, administration and investment.</p> <ul style="list-style-type: none"> - the role of central Government, including the Department for Communities and Local Government - how the LGPS has developed, from 1922 - the scheme before April 2008 - the 'New Look' scheme from April 2008 - the LGPS 2014 scheme from April 2014 		Training session provided by Tim Hazelwood on 20 September 2013 and 24 November 2017 plus training session on Duties and Responsibilities by Paul Hodgson in September 2018.

Key	Training need	Training required? Yes/no	Possible sources of information, including training provided previously
Page 162	<ul style="list-style-type: none"> - Local Government Pension Scheme (Benefits, Membership and Contributions) Regulations 2007 - Local Government Pension Scheme (Administration) Regulations 2008 - councillors' pension scheme - auto enrolment - the Hutton Review of Public Sector Pensions - proposals for cost sharing between employers and employees, under LGPS 2014 - scheme guides for employees, employers, councillors 		<p>Covered in more detail under section 1.3 below</p> <p>Covered in more detail under section 1.4 below</p> <p>Presentation by Andrew Fleming of The Pensions Regulator at the Annual Employers Meeting 31 October 2011</p> <p>Reports to the Panel in 2010 and 2011</p> <p>Available from Pension Services section and website</p>
	<p>An awareness of the Local Government Pension Scheme (Benefits, Membership and Contributions) Regulations 2007 and their main features.</p> <ul style="list-style-type: none"> - the 'New Look' scheme from April 2008 - employee contribution rates - employer contribution rates - accrual rates - age at which pensions are payable - lump sums - widows and widowers' pensions, dependants' pensions, civil partners, co-habiting partners - ill health retirement - early retirement - death in service and in retirement - part-time staff - early retirement - rule of 85 - opting in to membership, or not - vesting period, during which employee contributions are repayable if 		<p>Training session provided by Tim Hazelwood on 20 September 2013 and 24 November 2017</p>

Key	Training need	Training required? Yes/no	Possible sources of information, including training provided previously
	<p>the employee ceases to be a member of the Pension Fund</p> <ul style="list-style-type: none"> - deferred pensioners - additional voluntary contributions (AVCs) - pensions increases for inflation each April, including the use of CPI instead of RPI - discretionary benefits - other non-LGPS legislation affecting pensions and HR policies 		
1.3 cont Page 163	<p>An awareness of the Local Government Pension Scheme (Administration) Regulations 2008 and their main features.</p> <ul style="list-style-type: none"> - the New Look scheme from April 2008 (as above) - who can be a member, eg, not teachers, police officers, firefighters who have separate pension schemes - employees contributions including additional voluntary contributions (AVCs) - Accounts and audit - Annual Report - Funding Strategy Statement - actuarial valuations and certificates - Pension Administration Strategy - Communication Policy Statement - annual benefit statements - transfers to and from other pension funds - other non-LGPS legislation affecting pensions and HR policies 		Training session provided by Tim Hazelwood on 20 September 2013 and 24 November 2017
1.3 cont	<p>An awareness of the changes introduced by the LGPS 2014 scheme from April 2014</p> <ul style="list-style-type: none"> - change from a Final Salary scheme to a Career Average Revalued Earnings (CARE) scheme - accrual rate of 1/49th - 50/50 option for employees 		Training session provided by Tim Hazelwood on 20 September 2013 and 24 November 2017
1.4	An appreciation of LGPS discretions and how the formulation of the		Training session provided by Tim Hazelwood on

Key	Training need	Training required? Yes/no	Possible sources of information, including training provided previously
	<p>discretionary policies impacts on the pension fund, employers and local taxpayers. A regularly updated appreciation of the latest changes to the scheme rules.</p> <ul style="list-style-type: none"> - discretions which the Pension Fund can apply - discretions which employers can apply 		20 September 2013 and 24 November 2017
1.5 Page 164	<p>Knowledge of the role of the administering authority in relation to the LGPS.</p> <ul style="list-style-type: none"> - 89 LGPS funds in England and Wales - each with an “administering authority”, such as Hampshire County Council - size of the LGPS nationally - statistics - size of the Hampshire Pension Fund – fund value, number of employers, contributors, pensioners, deferred pensioners - administering authority’s responsibility to maintain, administer and invest the Pension Fund - role of the administering authority in respect of all the employers in the Pension Fund (including the County Council) - administering authority’s powers in the LGPS regulations, and under general ‘vires’ powers of local authorities 		<p>Training session provided by Tim Hazelwood on 20 September 2013 and 24 November 2017</p> <p>Training session provided by Paul Hodgson on 11 December 2015</p>
1.6	<p>Pensions regulators and advisors</p> <p>An understanding of how the roles and powers of the Pensions Regulator, the Pensions Advisory Service and the Pensions Ombudsman relate to the workings of the scheme.</p> <ul style="list-style-type: none"> - the Pensions Regulator - the Pensions Advisory Service - the Pensions Ombudsman - any other relevant bodies - dispute resolution procedures 		Training session provided by Paul Hodgson on 11 December 2015

Key	Training need	Training required? Yes/no	Possible sources of information, including training provided previously
1.7 Page 165	<p>General constitutional framework Broad understanding of the role of the Pension Fund Panel and Board in relation to the fund, administering authority, employing authorities, scheme members and taxpayers.</p> <ul style="list-style-type: none"> - Hampshire County Council's constitution in relation to the Pension Fund, and the powers delegated to the Pension Fund Panel and Board - terms of reference of the Pension Fund Panel and Board - membership of the Pension Fund Panel and Board - co-opted representatives of other employers, pensioners and contributors - voting rights of Pension Fund Panel and Board members - the 'informal' sub-group of Panel and Board members - Pension Fund's Business Plan - Pension Board, to be introduced following the Public Service Pensions Act 2013 - role of the Scheme Advisory Board nationally 		Through membership of the Pension Fund Panel and Board, reports to the Panel and Board and the Training session provided by Tim Hazelwood on 20 September 2013 and 24 November 2017, Legal Services session November 2014, and training session provided by Paul Hodgson on 11 December 2015
1.8	<p>Awareness of the role and statutory responsibilities of the treasurer and monitoring officer.</p> <ul style="list-style-type: none"> - treasurer to the Pension Fund - monitoring officer 		Training session provided by Tim Hazelwood on 20 September 2013 and 24 November 2017
1.9	<p>Pension scheme governance An awareness of the LGPS main features.</p> <ul style="list-style-type: none"> - the Governance Policy Statement - the Governance Compliance Statement 		Reviewed each autumn by the Panel and Board and Published in the Pension Fund's Annual Report

Key	Training need	Training required? Yes/no	Possible sources of information, including training provided previously
1.10	<p>Knowledge of the Myners principles and associated CIPFA and SOLACE guidance.</p> <ul style="list-style-type: none"> - the Myners principles - CIPFA's guide to the Application of the Myners Principles, published in 2009, including the six principles of: <ul style="list-style-type: none"> - Effective decision making - Clear objectives - Risk and liabilities - Performance assessment - Responsible ownership - Transparency and reporting - CIPFA/SOLACE Code of Corporate Governance in Local Authorities, published in 2007 - CIPFA's Guide to Delivering Good Governance in Local Government Pension Funds, published in 2009 		<p>Reflected in the Pension Fund's statutory documents reviewed by the Panel and Board each autumn and published in the Annual Report</p>
1.11	<p>A detailed knowledge of the duties and responsibilities of Pension Fund Panel and Board members.</p> <ul style="list-style-type: none"> - Pension Fund Panel and Board - representatives on the Panel and Board of other employers - representatives on the Panel and Board of pensioners and contributors - Hampshire County Council's Members Code of Conduct - declarations of interest - conflicts of interest in the roles of Panel and Board members - role of the Independent Adviser 		<p>Through membership of the Pension Fund Panel and Board, and from training session provided by Paul Hodgson on 11 December 2015</p> <p>Considered during the appointment of the Independent Adviser in 2011</p>
1.12	<p>Knowledge of the stakeholders of the pension fund and the nature of their interests.</p> <ul style="list-style-type: none"> - the employers, including scheduled bodies, admitted bodies, 		<p>Training session provided by Tim Hazelwood on 20 September 2013 and 24 November 2017</p>

Key	Training need	Training required? Yes/no	Possible sources of information, including training provided previously
	resolution bodies, community admission bodies, transferee admission bodies - Hampshire County Council as the administrative authority - employees - pensioners - deferred pensioners - council tax payers		
1.13	Knowledge of consultation, communication and involvement options relevant to the stakeholders. - the Pension Fund's Communication Policy Statement - Annual Employers Meeting - Annual Report - Annual leaflet for pensioners and contributors - Employee's guides - Employer manuals - Training for employers - Pension Services website - Annual benefit statements - Pensioners' newsletters		Reviewed by the Panel and Board annually in the autumn and published in the Annual Report Available on Pension Services' website
1.14	Knowledge of how pension fund management risk is monitored and managed - Risk Management Report		The Risk Management Report is published in the Pension Fund's annual report
1.15	Understanding how conflicts of interest are identified and monitored		Training session provided by Paul Hodgson on 11 December 2015
1.16	Understanding how breaches in law are reported		Training session provided by Paul Hodgson on 11 December 2015

Key	Training need	Training required? Yes/no	Possible sources of information, including training provided previously
			Module on breaches in the Trustee Toolkit online learning resource
2.	Pensions accounting and auditing standards		
2.1	<p>Awareness of the Accounts and Audit Regulations and legislative requirements relating to the role of the committee (ie, the Pension Fund Panel and Board) and individual members in considering and signing off the accounts and annual report.</p> <ul style="list-style-type: none"> - Accounts and Audit Regulations - CIPFA/LASAAC Code of Practice on Local authority Accounting in the UK - CIPFA's Example Accounts and Disclosure Checklist for LGPS Fund Accounts 2011/12 - role of the Audit Committee - role of the Pension Fund Panel and Board - role of the Director of Corporate Resources 		<p>Reflected in the Pension Fund's Statement of Accounts published each year</p> <p>Neil Pitman session 28 February 2014</p>
2.2	<p>Awareness of the role of both internal and external audit in the governance and assurance process.</p> <ul style="list-style-type: none"> - Internal Audit - external Independent Audit, currently provided by Ernst & Young 		<p>Neil Pitman session 28 February 2014</p> <p>Reports to the Panel and Board by the Chief Internal Auditor. Independent Auditor's report included in the Statement of Accounts.</p>
2.3	An understanding of the role played by third party assurance providers		Training session for the Panel and Board provided by Nick Weaver in November 2016
3.	Financial services procurement and relationship management		

Key	Training need	Training required? Yes/no	Possible sources of information, including training provided previously
3.1	<p>Understanding public procurement Understanding of the background to current public procurement policy and procedures, and of the values and scope of public procurement and the roles of key decision makers and organisations.</p> <ul style="list-style-type: none"> - CIPFA guide to procuring efficiency in public sector pensions administration, published in 2011 		As incorporated in the procurement processes over the years for investment managers and other service providers, and Procurement training session July 2014.
3.2	<p>A general understanding of the main public procurement requirements of UK and EU legislation.</p> <ul style="list-style-type: none"> - EU procurement procedures and thresholds - the County Council's procurement policies and procedures - the roles of officers and Panel and Board members in procurement decisions - applying those procurement procedures to the Pension Fund's contracts - use of framework contracts and other techniques to reduce the cost of externally-sourced services - the terms of appointment of the Pension Fund's investment managers and other external providers 		As above
3.3	<p>Supplier risk management Understanding of the nature and scope of risks for the pension fund and of the importance of considering risk factors when selecting third parties.</p> <ul style="list-style-type: none"> - procurement procedures - risk assessments in connection with using consultants and external fund managers - investment performance cannot be guaranteed - what to look for when selecting an investment manager 		Procurement training session July 2014
3.4	An understanding of how the pension fund monitors and manages the performance of their outsourced providers.		Training session for the Panel and Board provided by Nick Weaver in November 2016

Key	Training need	Training required? Yes/no	Possible sources of information, including training provided previously
	<ul style="list-style-type: none"> - external printing - tracing agency - external legal advisers - software providers 		Reports to the Panel and Board on pension administration
4.	Investment performance and risk management		
4.1 Page 170	Total fund Understanding of the importance of monitoring asset returns relative to the liabilities and a broad understanding of ways of assessing long-term risks. <ul style="list-style-type: none"> - the LGPS Management and Investment of Funds Regulations - triennial actuarial valuations of the Pension Fund's liabilities - regular reviews of the Pension Fund's investment strategy taking account of liabilities, in conjunction with the Fund actuary, eg following the triennial actuarial valuations - reviewing the Pension Fund's asset allocation on a tactical or medium-term basis - monitoring investment returns of individual managers and the Pension Fund as a whole 		Reflected in the regular reports considered by the Panel and Board on investment matters. Training session provided by Steve Lee on 20 September 2013
4.2	Performance of advisors Awareness of the Myners principles of performance management and the approach adopted by the committee (ie, the Pension Fund Panel and Board). <ul style="list-style-type: none"> - the Myners principle - performance of investment managers - how to assess the performance of fund managers, including what questions to ask - performance benchmarks, including market indices such as FTSE 		Reflected in the regular reports considered by the Panel and Board on investment matters Schroders training session July 2014

Key	Training need	Training required? Yes/no	Possible sources of information, including training provided previously
	<p>and MSCI, and 'absolute' measures such as RPI or LIBOR</p> <ul style="list-style-type: none"> - outperformance targets - basis for fees, including ad valorem fees and performance fees - transaction costs 		
4.3	<p>Performance of the Pension Fund Panel and Board Awareness of the Myners principles and the need to set targets for the Pension Fund Panel and Board and to report against them.</p>		The Statement of Investment Principles is reviewed annually (at the Panel and Board meeting in December) and published in the Pension Fund's Annual Report
	<ul style="list-style-type: none"> - compliance with the Myners Principles is set out in the Pension Fund's Statement of Investment Principles 		
Page 177	<ul style="list-style-type: none"> - Panel and Board members' self-assessment of their performance, in accordance with Good Practice Guidance on Trustees' Self-assessment published by the National Association of Pension Funds in 2006 		
4.4	<p>Performance of support services Awareness of the range of support services, who supplies them and the nature of the performance monitoring regime. Support services</p> <ul style="list-style-type: none"> - in-house staff - Director of Corporate Resources - Finance staff – Investments - Finance staff – Pensions Services - Chief Internal Auditor - Legal Services - Monitoring officer - Business Advice and Members Support - Human Resources <p>External providers</p> <ul style="list-style-type: none"> - investment managers and advisers - custodian - investment performance measurement services 		Regular reports to the Pension Fund Panel and Board on investment performance, administration and on internal audit

Key	Training need	Training required? Yes/no	Possible sources of information, including training provided previously
Page 172	<ul style="list-style-type: none"> - transition manager, if appointed to implement changes of investment managers - banker - actuary - independent adviser - investment consultants, such as Inalytics - specialist lawyers - Axise - Pensions Services' software provider - independent property valuer <p>Assessment of Third Party Providers</p> <ul style="list-style-type: none"> - Good Practice Guidance on Assessment of Third Party Providers published by the National Association of Pension Funds in 2006 		
	Financial markets and products knowledge		
5.1	<p>Investment strategy Awareness of the risk and return characteristics of the main asset classes (equities, bonds, property). Understanding of the role of these asset classes in long-term pension fund investing.</p> <ul style="list-style-type: none"> - asset allocation - shorter term or tactical asset allocation - risks and returns - diversification - correlations - asset classes, including: <ul style="list-style-type: none"> - equities, both UK and overseas - bonds, both Government and corporate - index linked bonds 		<p>Training sessions for the Panel and Board on investment strategies etc provided by Aon Hewitt in November 2009 and July 2014, and regular reports to the Panel and Board by investment managers. Training sessions on Alternative Beta/Factoring investments from UBS and Acadian in September and December 2018</p> <p>Training session for the Panel and Board on multi asset credit provided by Western in October 2017</p>

Key	Training need	Training required? Yes/no	Possible sources of information, including training provided previously
	<ul style="list-style-type: none"> - property, direct and indirect funds - alternative investments, including private equity, hedge funds and other categories - exchange traded funds (ETFs) - cash - currencies, and whether or not to hedge currency exposure back to Sterling 		<p>Training session for the Panel and Board on UK property investing provided by Aberdeen in July 2015</p> <p>Training session for the Panel and Board on infrastructure investing provided by GCM in November 2016 and private debt provided by Aberdeen in October 2017</p>
Page 173	<p>Financial markets Understanding of the primary importance of the investment strategy decision.</p> <ul style="list-style-type: none"> - formulating the investment strategy, in conjunction with the Fund actuary - asset/liability studies - reviewing the Pension Fund's investment strategy, as in 2011 - tactical asset allocation - liability driven investment (LDI) 		<p>Training session for the Panel on investment strategies by Aon Hewitt in July 2014.</p> <p>Training sessions for the Panel on LDI by Schroders in June and November 2011</p>
5.3	<p>A broad understanding of the workings of the financial markets and of the investment vehicles available to the pension fund and the nature of the associated risks.</p> <ul style="list-style-type: none"> - the asset classes listed in section 5.1 above - segregated or pooled investments - active or passive (index tracking) management - shareholdings, partnerships, direct investments - tax and Pension Fund investments - investment styles, including "growth" and "value" managers etc 		

Key	Training need	Training required? Yes/no	Possible sources of information, including training provided previously
6.1	An understanding of the role of the fund actuary		<p>Reports to the Panel and Board on the actuarial valuation</p> <p>Training sessions for the Panel provided by Aon Hewitt in November 2009, and in July 2014</p> <p>Presentation from Aon Hewitt at the 2015 AEM</p>
6.2	<p>Valuations Knowledge of the valuation process, including developing the funding strategy in conjunction with the fund actuary, and intervaluation monitoring.</p> <ul style="list-style-type: none"> - actuarial valuation process - arrangements for the grouping of employers in the Hampshire Pension Fund for valuation and other purposes – the Group Funding Framework - Funding Strategy Statement - how employer contribution rates are calculated for future service – as a percentage of pensionable pay - how employer contribution rates are calculated for the past service deficit – as a cash lump sum - arrangements for employers’ contribution rates for past service and for future service - recovery of the deficit over an appropriate period, eg 25 years - monitoring the position between the triennial valuations - impact of increasing longevity - FRS17 / IAS19 information for employers’ statements of accounts (Financial Reporting Standard 17 and International Accounting Standard 19) 		See 6.1
6.3	Awareness of the importance of monitoring early and ill health		Training session for the Panel and Board

Key	Training need	Training required? Yes/no	Possible sources of information, including training provided previously
	retirement strain costs. - the Pension Fund's policy for the relevant employers to meet the cost to the Fund of strain costs		provided by Nick Weaver in July 2015
6.4	A broad understanding of the implications of including new employers into the fund and of the cessation of existing employers. - new admission bodies, including transferee admission bodies - cessation of employers, including the recovery of any deficits - Hampshire Pension Fund's Group Funding Framework - Hampshire Pension Fund's Policy on Cessation Contributions		Training session for the Panel and Board provided by Nick Weaver in July 2015
Page 176	Outsourcing A general awareness of the relevant considerations in relation to outsourcings and bulk transfers. - Hampshire Pension Fund's policy on Outsourcing and Pass-Through Arrangements for small admission bodies		Training session for the Panel and Board provided by Nick Weaver in July 2015
6.6	A general understanding of the importance of the employer covenant and the relative strengths of the covenant across the fund employers		Report to the Panel and Board on the draft employer policy in December 2015
7.	Pensions Administration		
7.1	An understanding of best practice in pensions administration - Performance - Cost measures		Training session for the Panel and Board provided by Nick Weaver in November 2016
7.2	Understanding of the required and adopted scheme policies and procedures relating to:		Training session for the Panel and Board provided by Nick Weaver in November 2016

Key	Training need	Training required? Yes/no	Possible sources of information, including training provided previously
	<ul style="list-style-type: none"> - Member data maintenance and record-keeping processes - Internal dispute resolution - Contributions collection - Scheme communications and materials 		The communication policy statement is published each year in the Pension Fund annual report
7.3	Knowledge of how discretionary powers operate		Training session for the Panel and Board provided by Nick Weaver in November 2016
7.4	Knowledge of the pensions administration strategy and delivery <ul style="list-style-type: none"> - Use of third party supplies - Selection of third party suppliers - Performance management and assurance processes 		Training session for the Panel and Board provided by Nick Weaver in November 2016 The administration strategy is published each year in the Pension Fund annual report
7.5	An understanding of how the Pension Fund interacts with the taxation system in the UK and overseas in relation to benefits administration		
7.6	An understanding of what additional voluntary contribution arrangements exist and the principles relating to the operation of those arrangements <ul style="list-style-type: none"> - Choice of investments to be offered to members - The provider's investment and fund performance report - The payment schedule for such arrangements 		

Please add list below any additional topics on which training would be helpful

Even if it is not possible to attend a training session it would be helpful for copies of slides / materials to be made available to all.

HAMPSHIRE COUNTY COUNCIL

Decision Report

Decision Maker:	Pension Fund Panel and Board
Date:	26 July 2019
Title:	Governance: Pension Fund costs 2018-19
Report From:	<i>Director of Corporate Resources – Corporate Services</i>

Contact name: Andrew Bouflower

Tel: 01962 847407

Email: andrew.bouflower@hants.gov.uk

Purpose of this Report

1. This report provides an overview of the costs of managing the Pension Fund in 2018/19.
2. The Fund's business plan states that, as part of the Panel and Board's role of making sure that its investment managers are providing value for money, it should review each year:
 - the level of management fees paid to its investment managers in the previous financial year
 - the level of transaction costs, in particular brokerage and stamp duty, incurred in the previous financial year.

Recommendations

3. That the Panel and Board notes the total cost of managing the fund and the new reporting requirements for 2018/19.

Executive Summary

4. 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 the fees that are not paid directly for pooled and other investments, such as alternative investments like Hedge Funds and Private Equity that are netted off against investment income.

- Administration expenses – all activities the Administering Authority must perform to administer entitlements and provide members with scheme and benefit entitlement information.
- Oversight and governance – a new category which includes the costs of accounting for and monitoring the Pension Fund, plus the additional professional advice and support that is required by the Fund.

5. The total costs of managing the Pension Fund are shown in the table below and also as a percentage of the average value of the Pension Fund in 2018/19 (2017/18 and 2016/17 costs are shown as a comparison):

Table 1 – Pension Fund management costs

	2018/19		2017/18		2016/17	
	£000	%	£000	%	£000	%
Investment management	37,576	0.54	38,186	0.59	28,496	0.49
Administration	2,417	0.04	2,000	0.03	1,920	0.03
Oversight and governance	632	0.01	546	0.01	628	0.01
Total	40,625	0.59%	40,732	0.63%	31,044	0.53

6. The remainder of this report provides further detail on the three elements of the Pension Fund’s management costs.

Investment management expenses

7. Fees paid to the investment managers in 2018/19 are summarised in the confidential appendix. Fees are split into three categories:
- Direct – fees paid to investment managers as a percentage of the portfolio they manage according to their investment management agreement. Higher fees are payable to the ‘active’ managers who are aiming for high performance returns, with portfolios run on a passive basis attracting the lowest fees.
 - Indirect – the cost of broker commissions and any stamp duty (taxes) incurred in the purchase and sale of equities and bonds by the Fund’s active managers, plus the costs incurred in the management of the Fund’s direct property portfolio, such as legal and professional fees for managing tenants’ leases, surveyors’ costs and the cost of any property repairs and

maintenance that fall on the Fund. The general partner fees of private equity and infrastructure costs are also paid indirectly as part of the cash payments that the Pension Fund makes.

- Pooled funds – fees applied to investment products such as pooled funds and hedge funds. These fees will be the funds recovering their own management and transaction costs, plus performance fees in some instances, including for private equity and infrastructure funds. These costs are netted off against the investment income that these investments return to the Fund, so no costs are directly paid by the Fund. In the case of hedge funds these costs are typically quite high but are considered as part of the overall investment decision for every investment.
8. There has been a small reduction in investment manager fees as a result of the change in the mix of investment managers used, through disinvesting from relatively expensive hedge funds, greater levels of passive investments and changes to the Pension Fund’s active global equity investment managers.

Investment management expenses

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

Table 2 – Investment management costs pooled/non-pooled 2018/19

	Non-pooled £000	Pooled £000
Equities	8,957	684
Fixed income	805	0
Passive investments	0	635
Property	4,146	0
Alternative investments	21,786	0
Custody and other costs	563	0
Total costs	36,257	1,319

10. In this presentation the Pension Fund’s investment management costs are disproportionately split between pooled and non-pooled investments. Currently pooled investments only account for the relatively cheap passive investments, and some of the Fund’s active global equity managers that transferred to the pool in the second half of 2018/19, therefore only a part year cost shows in the pooled column. Conversely the ACCESS pool has not yet developed its plan for pooling illiquid alternative investments. These investments account for the vast majority of the Pension Fund’s costs and remain outside the pool.

11. The Annual Report also includes analysis of the pool’s ongoing costs and savings achieved to date both at the pool level, which is reported in the ACCESS annual report section of the Annual Report, and for Hampshire specifically. These figures are combined in the table below.

Table 3 – Pool costs and savings

	ACCESS		Hampshire	
	2018/19 £000	Cumulative £000	2018/19 £000	Cumulative £000
Setup and ongoing costs	-1,248	-3,221	-123	-279
Transition costs	-674	-674	-403	-403
Savings (active)	1,190	1,190	29	29
Savings (passive)	5,188	5,869	541	623
Total net savings/(costs)	4,456	3,164	44	-30

12. ACCESS’ financial position is better than expected in its original business case from July 2016, predominantly due to the greater than anticipated savings from pooling passive investments.
13. As set out in previous reports to the Panel and Board, expectations were that the financial benefits of pooling would be shared unevenly amongst the 11 members of ACCESS, with Hampshire benefiting to a below average extent. This expectation has so far proved to be correct and Hampshire is still showing a net cost from pooling, however this should change next year when the benefits of a full year of savings from active equity investment management are felt for the investments that transferred to the pool in the second half of 2018/19, and as more investments transfer overall and the relative cost of the Operator (Link) reduces.

Administration

14. The cost of administration represents the cost of the staff and systems required to record the pension benefits accrued by active and deferred scheme members and to pay pensioners once they retire. The cost of pension administration is often described as a cost per member. For Hampshire’s 171,800 scheme members this figure is £14.07. This figure is expected to remain one of the lowest for an LGPS fund, which is in line with Hampshire being in the top ten largest funds. Benchmarking data will be available later in the year that will enable the comparison of administration costs with other LGPS funds.
15. Administration costs were higher than in previous years as they include an additional £150,000 of IT costs to upgrade the Members Portal with improved online functionality. Furthermore, there were additional costs of £335,000 for the Guaranteed Minimum Pension (GMP) reconciliation, which

all LGPS funds have been required to undertake following Central Governments' decision not to maintain their systems after December 2018.

Governance and oversight

16. Governance costs include the costs of staff that produce the Fund's accounts, monitor the Fund's investment managers and support the Panel and Board. In addition, it includes the various professional services, such as actuaries, lawyers, consultants and advisors that are required to support the Fund's activities and the Pension Fund's share of the external costs of establishing the ACCESS pool (shown in Table 3 above).
17. Year-on-year governance costs have increased as the cost of pooling has increased in comparison to 2017/18, as ACCESS moves towards its fully operational state. In addition, a small amount of additional consultancy costs were incurred in reviewing options for reducing investment risk in the Fund's investment strategy.

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

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

Decision Report

Decision Maker:	Pension Fund Panel and Board
Date:	26 July 2019
Title:	Investments: Pension Fund Cash – Annual Report 2018/19
Report From:	<i>Director of Corporate Resources</i>

Contact name: Mike Chilcott

Tel: 01962 847411

Email: Mike.chilcott@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 2018/19 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 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 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 Global Investors purchases additional properties;
 - to finance drawdowns of private equity limited partnerships; 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 but rent income from the Pension Fund's direct property portfolio is credited to the Fund's cash balance. Distributions from the Fund's private equity, infrastructure investments and indirect property funds are also paid to the Fund's balance.
 6. The Pension Fund's investment managers aim to be fully invested in equities, bonds and hedge funds, and generally do not plan to hold cash as a matter of investment policy. All of the Fund's active investment managers will have some cash balances as a result of trading between stocks and from dividend and interest income pending investment. With the increasing use by the Pension Fund of pooled funds from ACCESS or for multi-asset credit, most of this cash will be held within the fund rather than directly by the Pension Fund's Custodian bank, JP Morgan, which is only the case for the minority of directly held equity portfolios.
 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 in the Pension Fund's Annual Investment Strategy for 2019/20 for cash, which was approved by the Pension Fund Panel and Board on 14 December 2018. In addition, the County Council's treasury advisers, Arlingclose, provide advice to the Director of Corporate Resources 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 2018/19 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 15 December 2017. Investments during the year included:
 - Investments in AAA-rated Money Market Funds
 - Investments in UK Government Treasury Bills and Gilts
 - 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 Resources 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.
 11. The Pension Fund's current counterparty limits are shown in Appendix 1. The limits are the agreed maximum values and duration of investments per counterparty, which shows the full range of counterparties the Fund could potentially invest with. 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; most of the foreign banks listed do not offer instant accounts that the Pension Fund can access.
 12. The UK base rate increased by 0.25% to 0.75% in August 2018 and short term money market rates have remained at relatively low levels which continued to have a significant impact on cash investment income. The Fund's average cash investment balance was £64.0m (0.9% of the total Pension Fund) during 2018/19, and interest earned was £424,000, leading to an average yield of 0.66%. The Fund's cash investments at 31 March 2019 and 31 May 2019 are shown in the exempt appendix.
 13. As at 31 March 2019 the Pension Fund's cash balance was higher than normal as the Fund was holding proceeds from the redemption of hedge fund investments following the decision to disinvest from these investments. Following the year end and with the opening of the Fund's new private debt portfolio, this excess cash has now been invested in new investments and the cash balance has returned to within its normal range.

Cash inflows and outflows from dealings with members

14. 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. Up until 2011/12 the Fund's historic average was a surplus of around £50m. However due to austerity in the Public Sector and the reductions in scheme employers' workforces that took place beginning in 2012/13, the surplus reduced at that time. The Hampshire Pension Fund's draft statement of accounts for 2018/19 show that it made a surplus of £55.0m from its dealings with members, which is an increase from a £40.0m surplus in 2017/18.

15. A more accurate view of the Fund’s cash flow can be achieved by removing the effect of the transfer of scheme members, which can vary significantly from year to year, and the Fund has no control over. Removing the impact of transfers brings the net figure to £56.3m in comparison to 2017/18’s net figure of £41.7m.

Table 1: Net additions from dealing with members

	2017/18	2018/19
	£’000	£’000
Net additions from dealing with members	40,010	54,985
Net total transfers	1,707	1,303
	<u>41,717</u>	<u>56,298</u>

16. The overall increase of £14.6m in net additions from dealing with members is for the main part due to the stepped increase in employer pension contributions in 2018/19 from 14.1% to 15.1%. Overall employers’ contributions increased by 10.9% (£23.9m) in 2018/19 in comparison to 2017/18, whilst the number of active contributors to the Fund increased only very slightly to 58,055 (57,877 in 2017/18).
17. 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.
18. Projecting the Pension Fund’s annual surplus or deficit from dealings with members in the future is very difficult given the number of variables involved, such as membership numbers, investment returns and inflation. The Fund’s cash position will continue to be monitored by officers, with the assistance of the Fund’s actuary, Aon Hewitt, where necessary, and reported to the Panel and Board.

REQUIRED CORPORATE OR LEGAL INFORMATION:

Links to the Strategic Plan

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

Section 100 D - Local Government Act 1972 - background documents	
<p>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.)</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;
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- 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.

Current Bank and Building Society investment limits

Country / Domicile	Counterparty	Maximum investment	Maximum duration
UK	Barclays Bank PLC / Barclays Bank UK PLC	£22m	100 days
UK	Close Brothers Limited	£22m	6 months
UK	Goldman Sachs International Bank	£22m	100 days
UK	HSBC Bank PLC / HSBC UK Bank PLC	£22m	6 months
UK	Leeds Building Society	£22m	100 days
UK	Lloyds Bank PLC / Bank of Scotland PLC	£22m	6 months
UK	National Westminster Bank PLC / Royal Bank of Scotland PLC / Ulster Bank Limited	£22m	100 days
UK	Nationwide Building Society	£22m	6 months
UK	Santander UK PLC	£22m	6 months
UK	Standard Chartered Bank	£22m	6 months
Australia	Australia & New Zealand Banking Group	£22m	6 months
Australia	Commonwealth Bank of Australia	£22m	6 months
Australia	National Australia Bank	£22m	6 months
Australia	Westpac Banking Group	£22m	6 months
Canada	Bank of Montreal	£22m	6 months
Canada	Bank of Nova Scotia	£22m	6 months
Canada	Canadian Imperial Bank of Commerce	£22m	6 months
Canada	Royal Bank of Canada	£22m	6 months
Canada	Toronto Dominion Bank	£22m	6 months
Denmark	Danske Bank	£22m	100 days
Finland	OP Corporate Bank	£22m	6 months
Germany	Bayerische Landesbank (BayernLB)	£22m	6 months
Germany	DZ Bank AG Deutsche Zentral	£22m	6 months
Germany	Landesbank Baden-Wuerttemberg (LBBW)	£22m	6 months
Germany	Landesbank Hessen-Thuringen (Helaba)	£22m	6 months
Netherlands	Cooperative Rabobank	£22m	6 months
Netherlands	ING Bank	£22m	100 days
Singapore	DBS Bank Ltd	£22m	13 months
Singapore	Oversea-Chinese Banking Corporation	£22m	13 months
Singapore	United Overseas Bank	£22m	13 months
Sweden	Nordea Bank ABP	£22m	6 months
Sweden	Svenska Handelsbanken	£22m	6 months
Switzerland	Credit Suisse	£22m	100 days

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