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Hampshire County Council

NOTICE OF MEETING

Meeting	Hampshire Pension Fund Panel and Board
Date and Time	Friday, 13th December, 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 - 8)

To confirm the Minutes of the meeting held on 8 November 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 - INTERNAL AUDIT PROGRESS REPORT (Pages 9 - 20)

To consider a report from the Director of Corporate Resources-Corporate Services providing the Pension Fund Panel and Board with an overview of the internal audit work completed in accordance with the approved plan.

7. ACCESS MINUTES - 9 SEPTEMBER 2019 (Pages 21 - 26)

To receive and note the ACCESS Joint Committee minutes of the meeting held on 9 September 2019.

8. GOVERNANCE - PENSIONS ADMINISTRATION UPDATE (Pages 27 - 36)

To consider a report from the Director of Corporate Resources-Corporate Services updating the Pension Fund Panel and Board on pensions administration in the first six months of 2019/20.

9. PENSION FUND BUDGET (Pages 37 - 42)

To consider a report from the Director of Corporate Resources-Corporate Services seeking the Panel and Board's approval of a budget for the Pension Fund for 2020/21 and projections for 2021/22 and 2022/23.

10. GOVERNANCE - DRAFT FUNDING STRATEGY STATEMENT AND EMPLOYER POLICY (Pages 43 - 98)

To consider a report from the Director of Corporate Resources-Corporate Services providing the Panel and Board with an update on the 2019 valuation, and to seek approval for the amended Funding Strategy Statement and Employer Policy.

11. GOVERNANCE - REVIEW OF PENSION FUND'S STATUTORY STATEMENTS (Pages 99 - 170)

To consider a report from the Director of Corporate Resources-Corporate Services outlining progress on the Business Plan's actions and the latest statutory statements for the Pension Fund.

12. **COMPETITION AND MARKETS AUTHORITY (CMA) ORDER - INVESTMENT CONSULTANCY** (Pages 171 - 176)

To consider a report from the Director of Corporate Resources-Corporate Services providing the Pension Fund Panel and Board with a summary of the requirements of the CMA for the Pension Fund to establish aims and objectives for its investment consultant and recommended aims and objectives for the Fund's consultants, Hymans Robertson and MJ Hudson Allenbridge.

13. **SCHEME ADVISORY BOARD GUIDANCE ON RESPONSIBLE INVESTMENT** (Pages 177 - 180)

To consider a report from the Director of Corporate Resources-Corporate Services introducing draft guidance published for consultation by the Scheme Advisory Board (SAB) on Responsible Investment (RI) in the LGPS.

14. **INVESTMENTS: PENSION FUND CASH MONITORING REPORT AND ANNUAL CASH INVESTMENT STRATEGY 2020/21** (Pages 181 - 194)

To consider a report from the Director of Corporate Resources - Corporate Services outlining the investment performance of the cash balances held by the Pension Fund in 2019/20 to 30 November 2019 and recommending the Annual Cash Investment Strategy for 2020/21.

15. **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.

16. **CONFIRMATION OF THE EXEMPT MINUTES OF THE PREVIOUS MEETING** (Pages 195 - 196)

To confirm the exempt minutes of the meeting held on 8 November 2019.

17. **INVESTMENT - CASH STRATEGY (EXEMPT APPENDIX)** (Pages 197 - 198)

To consider an exempt appendix from the Director of Corporate Resources - Corporate Services providing an update on the management of the Pension Fund's cash balances.

18. INVESTMENTS: PENSION FUND'S CUSTODIAN PERFORMANCE REPORT (Pages 199 - 210)

To consider an exempt report of the Director for Corporate Resources-Corporate Services providing a review of custody services since the last report in March 2019 and an update on the Pension Fund's tax claims and class actions.

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.

AT A MEETING of the PENSION FUND PANEL AND BOARD of the County Council held at The Castle, Winchester on Friday 8 November 2019.

Chairman:
* Councillor M. Kemp-Gee

Vice-Chairman:
Councillor T. Thacker

Elected members of the Administering Authority (Councillors):

C. Carter
A. Dowden
A. Gibson
* J. Glen
* A. Joy
* P. Latham
* B. Tennent
* D. Mellor

Employer Representatives (Co-opted members):
* Councillor P. Taylor (District Councils - Rushmoor Borough Council)
* Councillor S. Barnes-Andrews (Southampton City Council)
* Mr D. Robbins (Churchers College)
Councillor C. Corkery (Portsmouth City Council - substitute employer representative)

Scheme Member Representatives (Co-opted members):
* Dr C. Allen (pensioners' representative)
Mr N. Wood (scheme members representative)
* Mrs V. Arrowsmith (deferred members' representative)
* Mrs S. Manchester (substitute scheme member representative)

Independent Adviser:
* C. Dobson

*present

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.

210. **APOLOGIES FOR ABSENCE**

Councillors Carter, Thacker, Dowden, Gibson, and Corkery and Mr Wood sent their apologies.

211. **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.

212. **CONFIRMATION OF MINUTES**

The minutes of the Pension Fund Panel and Board held on 27 September 2019 were confirmed with the correction that Councillor Mellor was present at the meeting and Ms Manchester was absent.

213. **DEPUTATIONS**

None.

214. **CHAIRMAN'S ANNOUNCEMENTS**

The Chairman welcomed Councillor Paul Taylor of Rushmoor Borough Council to his first meeting and announced that Councillor Cal Corkery of Portsmouth City Council has also been appointed to the committee.

The Chairman informed the committee that following its agreement at the last meeting the Pension Fund had officially made its commitment to the UN Principles of Responsible Investment and UK Stewardship Code, both of which will be reported on the Pension Fund's website.

The Chairman thanked the committee members that attended the first ACCESS investor day on 16 October 2019, which was well attended and received.

The Chairman reminded the committee that there is a Panel and Board internal training session on 12 November and a treasury management briefing for members from the advisors Arlingclose on 22 November.

The Chairman invited the members to report back on any recent events they had attended, and Councillor Tennent informed the committee he attended Baillie Gifford's recent conference, which was very positive. Dr Allen commented that he had attended a recent SPS conference which was useful but observed a lack of diversity amongst the investment managers presenting. Ms Manchester reported that having attended the second day of the 'LGPS Fundamentals' course, which was very helpful, she recommended it to any other new members of the committee.

215. **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.

216. **MINUTES OF PREVIOUS MEETING HELD ON 27 SEPTEMBER 2019**

The exempt minutes of the Pension Fund Panel and Board held on 27 September 2019 were confirmed.

217. **INVESTMENTS – INVESTMENT UPDATE**

The Panel and Board received an exempt report from the Director of Corporate Resources (Item 8 in the Minute Book) updating the Panel and Board on the Fund’s investments. [SUMMARY OF A MINUTE WHICH CONTAINS EXEMPT INFORMATION].

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HAMPSHIRE COUNTY COUNCIL

Decision Report

Decision Maker	Pension Fund Panel and Board
Date:	13 December 2019
Title:	Governance - Internal Audit Progress Report – November 2019
Report From:	Director of Corporate Resources – Corporate Services

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 an overview of the internal audit work completed in accordance with the approved plan.

Recommendation

2. That the Pension Fund Panel and Board note the progress of internal audit work for the period ending 30 November 2019.

Contextual Information

3. At the request of the Pension Fund Panel and Board, the Chief Internal Auditor has provided a progress report against internal activity on the pension fund summarising:
    - The status of 'live' internal audit reports;
    - An update on progress against the annual audit plan;
    - A summary of internal audit performance, planning and resourcing issues; and
    - A summary of significant issues that impact on the Chief Internal Auditor's annual opinion.

4. Appendix 1 summarises internal activity for the period ending 30 November 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
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

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

Document	Location
None	

EQUALITIES IMPACT ASSESSMENT:

1. **Equality Duty**

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

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

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

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

2. **Equalities Impact Assessment:**

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

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Appendix 1

Internal Audit Progress Report

November 2019

Pension Services

Hampshire Pension Services

Southern Internal Audit Partnership

Hampshire County Council

Assurance through excellence and innovation

Contents:

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 organisations' 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 County 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 County Council that these arrangements are in place and operating effectively.

The County Council's response to internal audit activity should lead to the strengthening of the control environment and, therefore, contribute to the achievement of the organisations' objectives.

2. Purpose of report

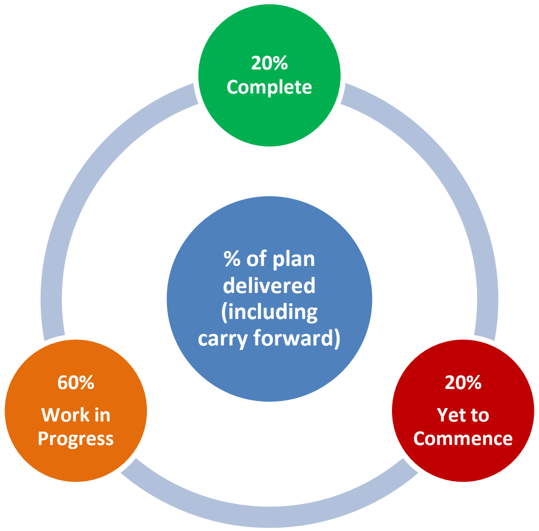
In accordance with proper internal audit practices (Public Sector Internal Audit Standards), and the Internal Audit Charter the Chief Internal Auditor is required to provide a written status report to 'Senior Management' and 'the Board', summarising:

- The status of 'live' internal audit reports;
- an update on progress against the annual audit plan;
- a summary of internal audit performance, planning and resourcing issues; and
- a summary of significant issues that impact on the Chief Internal Auditor's annual opinion.

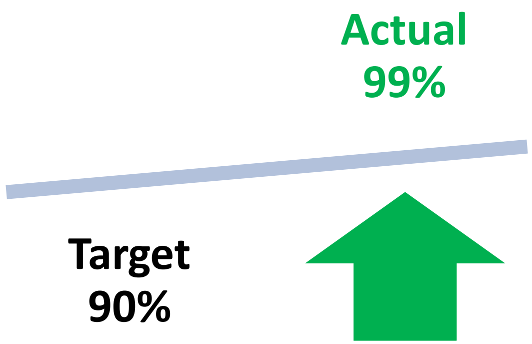
Internal audit reviews culminate in an opinion on the assurance that can be placed on the effectiveness of the framework of risk management, control and governance designed to support the achievement of management objectives of the service area under review. Assurance opinions are categorised as follows:

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 identified in the framework of internal control and / or compliance with the control framework which could place the achievement of system objectives at risk
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.

3. Performance dashboard



% Positive Customer Feedback



Compliance with Public Sector Internal Audit Standards / Local Government Application Note	
✓	An 'External Quality Assessment' of the Southern Internal Audit Partnership was undertaken by the Institute of Internal Auditors (IIA) in September 2015. The report concluded: *'It is our view that the Southern Internal Audit Partnership 'generally conforms' (top grading) to **<u>all</u>** of the principles contained within the International Professional Practice Framework (IPPF); Public Sector Internal Audit Standards (PSIAS); and the Local Government Application Note (LAGN).* In accordance with PSIAS, a further self assessment was completed in April 2018 concluding that the Southern Internal Audit Partnership continues to comply with all aspects of the IPPF, PSIAS and LGAN.

4. Status of 'Live' Reports

All actions arising from audit reviews have been completed/implemented. There are no pending or overdue actions to report.

5. Executive Summaries of new reports published concluding a 'Limited' or 'No' assurance opinion

There have been no reviews that have concluded with a 'limited' or 'no assurance' opinion since the last report.

Page 19

6. Fraud and Irregularities

In accordance with the Local Government Transparency Code 2015 there is a requirement on local authorities to publish the following information with regard counter fraud work:

Local Government Transparency Code 2015 **Part 2 Requirements - Fraud**	**01.04.19 – 30.11.19**
Number of occasions powers under the Prevention of Social Housing Fraud (Power to Require Information) (England) Regulations 2014, or similar powers have been used	Nil
Total number (absolute and full time equivalent) of employees undertaking investigations and prosecutions of fraud	3 fte*
Total number (absolute and full time equivalent) of professionally accredited counter fraud specialists	5 fte*
Total amount of time spent by the authority on the investigation and prosecution of fraud	1 day***
Total number of fraud cases investigated	0 **

*relates to internal audit staff across the wider SIAP only (does not include other areas of the Council that may affect reported figures i.e. legal, HR, Trading Standards, departmental investigating officers etc.)

**the definition of fraud is as set out by the Audit Commission in *Protecting the Public Purse - 'the intentional false representation, including failure to declare information or abuse of position that is carried out to make gain, cause loss or expose another to the risk of loss.'*

***relates to SIAP staff only and includes time spent on proactive fraud initiatives to identify or prevent potential fraud that may not result in a formal investigation or prosecution.

7. Planning & Resourcing

The internal audit plan for 2019-20 was discussed and agreed with Officers and the plan remains fluid to provide a responsive service that reacts to the changing needs of the County Council. Progress against the plan is detailed within section 8

8. Rolling Work Programme

Audit Review	Audit Sponsor	Scoping	Audit Outline Issued	Fieldwork	Draft Report Issued	Final Report Issued	Assurance Opinion	Tracker (✓ on schedule ⚐ Delay)	Comment
Pension Transfers	CR	✓						✓	
Member Deaths	CR	✓	✓	✓				✓	
Pensions Payroll and Benefit Calculations	CR	✓	✓	✓				✓	
Accounting for Pension Receipts	CR	✓	✓	✓	✓	✓	Substantial	✓	
Pension Fund Pooling	CR							✓	

ACCESS JOINT COMMITTEE

MINUTES of a meeting of the ACCESS Joint Committee held at Committee Room 1 - Islington Town Hall, Upper Street, London N1 2UD on Monday, 9th September, 2019.

PRESENT: Cllr Andrew Reid - Chairman (Suffolk CC), Cllr Paul Brading – substitute (Isle of Wight), Cllr Jonathan Ekins (Northamptonshire CC), Cllr Gerard Fox (East Sussex CC), Cllr Jeremy Hunt (West Sussex CC), Cllr Terry Rogers (Cambridgeshire CC), Cllr Judy Oliver (Norfolk), Cllr Mark Platt – substitute (Essex CC), Cllr Tom Thacker - substitute (Hampshire CC), Cllr Adam Mitchell - substitute (Hertfordshire CC) and Mr Charlie Simpkins – (Kent CC).

ALSO PRESENT: Nicole Wood, Executive Director for Finance and Technology (Essex County Council), representing Section 151 Officers, Clifford Sims (Squire Patton Boggs) and Cllr Ian Gardener (Cambridgeshire CC).

OFFICERS: Nicola Mark (Norfolk), Kevin McDonald (ASU), Jody Evans (Essex) Alison Mings (Kent), Ola Owolabi (East Sussex), Andrew Lowe (Hampshire), Paul Finbow (Suffolk), Mark Paget (ASU) Jo Thistlewood (Isle of Wight), Paul Tysoe (LGSS Pensions), Patrick Towey (Hertfordshire) and Denise Fitch (Kent - Clerk).

UNRESTRICTED ITEMS

147. Apologies/Substitutes.
(Item. 1)

Apologies and substitues were noted as follows:

Cllr Barker (Essex) – Cllr Platt substitute
Cllr Kemp-Gee (Hampshire) – Cllr Thacker substitute
Cllr Axford (Isle of Wight) – Cllr Brading substitute
Cllr Sangster (Hertfordshire) – Cllr Mitchell substitute

148. Declaration of interests in items on the agenda.
(Item. 2)

No declarations were made.

149. Election of Chairman.
(Item. 3)

(1) Cllr Simkins nominated Cllr Reid, seconded by Cllr Hunt. There were no further nominations.

(2) RESOLVED that Cllr Reid be elected Chairman of the Joint Committee.

150. Minutes of the meeting held on 11 June 2019.
(Item. 4)

(1) Cllr Rogers stated that he had not attended the previous meeting but had been listed as present in the minutes.

(2) RESOLVED that, subject to removing Cllr Rogers name from the list of Members present, the minutes from the meeting held on 11 June 2019 be signed as a true and accurate record.

151. ACCESS Support Unit update.
(Item. 5)

(1) Jo Thistlewood (Isle of Wight) introduced a report which provided an update on developments regarding recruitment to the ACCESS Support Unit (ASU).

(2) Kevin McDonald (ASU) undertook to look at how the reporting structure chart (para 4.1 of the report) could be clarified in line with the points raised by Members.

(3) RESOLVED that the appointment of Kevin McDonald as the interim Director of the ACCESS Support Unit be noted.

152. Scheme Member representation.
(Item. 6)

(1) Kevin McDonald introduced a report on Scheme Member representation which set out the relevant background, UNISON's correspondence, the current local governance and transparency arrangements for each ACCESS fund Section 101 Committee/Local Pension Board and various draft guidance. He commended the work carried out by Mark Whitby (LGSS) on this matter.

(2) The report contained the outcome of consideration by ACCESS Section 151 Officers of a report on Scheme Membership. It was confirmed that the Section 151 Officers were of the view that existing Authority representation on the Joint Committee (via Elected Members) was appropriate and that scheme member and employer involvement in Authorities' discharging their fiduciary duty (including asset pooling) was a matter for each Authority to determine locally. The Section 151 Officers recommended no change be made to the current Joint Committee Scheme arrangements.

(3) The Committee considered the advice from the Section 151 Officers and discussed whether it would be appropriate to make any changes to Scheme Membership in advance of any statutory guidance on this matter.

(4) RESOLVED that the report be noted and no change be made to the current Joint Committee Membership arrangements.

153. Governance update.
(Item. 7)

(1) In introducing the report Nicola Mark (Norfolk) highlighted the extension to the timetable and referred to the recent webinar between ACCESS Monitoring Officers. She stated that there were no significant amendments proposed.

(2) Clifford Sims (Squire Patton Boggs) emphasised the need for all 11 authority Monitoring Officers to be satisfied with the updated IAA prior to it being approved by each authority. The original Inter-Authority Agreement (IAA) did not deal with future procurement of other services, such as procured assets and illiquid assets, therefore the new IAA needed to address these issues. He expressed the view that the current timetable was achievable and it was hoped that the governance sub-group would be able to sign off the draft IAA in mid September, dependant upon the Kent and Essex Monitoring officers being satisfied with the draft.

(3) Nicola explained that the governance working group intended to hold a governance training session for the Joint Committee on 9 December 2019 following the Committee meeting. This training could then form the basis of training information for section 101 Committees and Pension Boards.

(4) RESOLVED that-

a) the updated IAA be shared with Joint Committee Members after it has been reviewed by all Monitoring Officers,

b) if Members have any issues with the shared IAA, they should raise these with their Local Authority's Monitoring Officer and make the Chairman aware.

c) If the Chairman considers any issues raised by Members to be substantial he will require the updated IAA to be submitted to the Joint Committee for approval prior to formal adoption.by the constituent authorities

d) if there are no unresolved substantial issues raised by Members, the updated IAA be formally adopted by each of the constituent authorities and reported to the Joint Committee for information.

154. 2019/2020 Business Plan and Budget update.
(Item. 8)

(1) Kevin McDonald introduced a report which updated the Committee on progress with the 2019/20 Business Plan along with the workstreams being undertaken by the ASU. He explained that the forecast spend was currently lower than the original budget which reflected the migration of third party work into the ASU.

(2) RESOLVED that the updated business plan, the ASU workstream progress report and the revised outturn 2019/20 be noted.

155. Motion to Exclude the Press and Public.
(Item. 9)

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

156. Risk Register.
(Item. 10)

(1) Kevin McDonald referred the Committee to the Risk Register and highlighted proposed changes to the risks set out in the report. Officers answered questions and gave an explanation of regulatory and contractual insurance requirements.

RESOLVED that the report be noted and the revisions to the Risk Register as set out in the report be approved.

157. MHCLG meeting update.
(Item. 11)

(1) Kevin McDonald introduced a report which highlighted the positive meeting between ACCESS and civil servants from the Ministry of Housing, Communities and Local Government (MHCLG) which had taken place on 4 July 2019. The report included feedback on ACCESS progress to date and the status of the pending government consultation on revised investment pooling guidance.

(2) RESOLVED that the report and the ongoing dialogue on the Ministry of Housing, Communities and Local Government's reporting template be noted.

158. ACS Implementation update.
(Item. 12)

(1) The Committee received an update report on the progress with launching the Authorised Contractual Scheme (ACS), the sub-funds that would be created within it and the options for pooling illiquid investments.

(2) RESOLVED that;

a) the progress in launching the ACS investment sub-funds and progress in identifying options for pooling illiquid investments be noted;

b) the appointment of investment managers be noted and the resultant additional sub-fund for global equities value strategies be approved.

159. Contract Management update.
(Item. 13)

(1) The Committee considered a report on the Operator contract which included details of current issues upon which the ASU and the Officer Working Group were

engaging with Link. The report also included details of contract and supplier relationship management arrangements and activity.

(2) RESOLVED that the report be noted.

160. LiNK presentation.
(Item. 14)

(1) Karl Midl, Duncan Lowman and James Zealander from Link Fund Solutions gave a presentation. The presentation highlighted progress on onboarding sub funds to date and plans for future launches along with the forthcoming inaugural investor day.

(2) The slides presented by LINK would be circulated to the Committee and a note provided to Members explaining insurance arrangements.

(3) RESOLVED that the presentation be noted.

161. Items for information or advice from the Committee.
(Item. 15)

(1) The Joint Committee discussed the need for ongoing support from Hymans. Members were of the view that Hymans continued support would be welcomed, particularly in light of future pooling guidance. The Committee were of the view that this should be on a "pay as you go" basis.

(2) The Chairman announced that this would be Ola Owolabi's (East Sussex) last meeting and thanked him for his support to the Joint Committee since its inception.

162. Date of next meeting - 9 December 2019.
(Item. 16)

It was noted that the next meeting of the Joint Committee would be held on 9 December 2019, at 11am in Islington Town Hall.

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HAMPSHIRE COUNTY COUNCIL

Decision Report

Decision Panel:	Pension Fund Panel and Board
Date:	13 December 2019
Title:	Governance: Pension administration update
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 an update on administration performance in the first six months of 2019/20.

Recommendation(s)

2. It is recommended that the Panel and Board note the good performance of Pension Services in the first six months of 2019/20.

Executive Summary

3. In the first six months of 2019/20 Pensions have continued to meet service standards for a majority of the casework, as well as produce annual benefit statements for almost 100% of active and deferred members. Membership data was supplied ahead of schedule to the Fund Actuary in order that the 2019 valuation calculations could be completed, and initial whole of Fund results shared with employers at the Annual Employer Meeting in October.

4. A plan to increase the take up of the Member Portal, and to provide all employers with access to the Employer Hub has been put in place and will be rolled out over the next eighteen months, to promote online access as a key way of communicating with members and employers.

Key performance indicators

5. Administration performance against key service standards is measured each month, with a target of 100% achievement within the agreed standards. All

casework is measured against a 15 day standard, with the exception of deferred benefits which have a 30 day standard.

6. As reported to the Panel and Board at their meeting on 12 July 2019, performance against the service standards dipped following the go-live of the new administration partnership with West Sussex in April 2019. Performance for the first two quarters of 2019/20 and for October and November 2019 is shown in the tables below. It can be seen that the team has recovered its position of 100% achievement against the service standards, and from December, it is expected that this will also be the case for West Sussex casework as well.

Quarter 1 2019/20

	Time to Complete							
Type of Case	0 – 5 days	6 – 10 days	11 -15 days	16 – 20 days	21 – 30 days	31 + days	Total	% completed on time
Active Retirement	148	53	20	0	1	0	222	99.55%
Deferred Retirement	178	111	82	4	1	0	376	98.67%
Estimates	69	52	477	38	5	6	647	92.43%
Deferred Benefits	61	21	21	22	894	107	1,126	90.50%
Transfers In & Out	28	5	14	4	10	5	66	71.21%
Divorce	11	10	41	15	17	1	95	65.26%
Refunds	27	68	158	0	0	0	253	100.00%
Rejoiners	18	13	40	89	13	1	174	91.95%
Interfunds	4	1	40	2	19	5	71	63.38%
Death Benefits	129	33	26	6	2	0	196	95.92%
Grand Total	**673**	**367**	**919**	**180**	**962**	**125**	**3,226**	**86.89%**

Quarter 2 2019/20

	Time to Complete							
Type of Case	**0 – 5 days**	**6 – 10 days**	**11 -15 days**	**16 – 20 days**	**21 – 30 days**	**31 + days**	**Total**	**% completed on time**
Active Retirement	95	113	100	0	0	0	308	100.00%
Deferred Retirement	191	161	150	0	0	0	502	100.00%
Estimates	76	82	561	2	0	0	721	99.72%
Deferred Benefits	41	7	19	102	1,413	8	1,590	99.50%
Transfers In & Out	16	15	44	1	1	2	79	94.94%
Divorce	7	8	78	1	1	0	95	97.89%
Refunds	189	122	75	0	0	0	386	100.00%
Rejoiners	14	32	40	54	0	0	140	100.00%
Interfunds	4	1	76	0	1	4	86	94.19%
Death Benefits	127	49	39	0	0	0	215	100.00%
Grand Total	**760**	**590**	**1,182**	**160**	**1,416**	**14**	**4,122**	**98.62%**

October/November 2019

	Time to Complete							
Type of Case	**0 – 5 days**	**6 – 10 days**	**11 -15 days**	**16 – 20 days**	**21 – 30 da**	**31 + days**	**Total**	**% completed on time**
Active Retirement	60	59	35	0	0	0	154	100.00%
Deferred Retirement	65	131	104	0	0	0	300	100.00%
Estimates	84	148	273	0	0	0	505	100.00%
Deferred Benefits	40	19	53	40	1,432	0	1,584	100.00%
Transfers In & Out	53	10	46	0	0	0	109	100.00%
Divorce	19	31	34	0	0	0	84	100.00%
Refunds	253	73	0	0	0	0	326	100.00%
Rejoiners	15	32	52	16	0	0	115	100.00%
Interfunds	15	12	61	0	0	0	88	100.00%
Death Benefits	138	17	29	0	0	0	184	100.00%
Grand Total	**742**	**532**	**687**	**56**	**1,432**	**0**	**3,449**	**100.00%**

End of year returns and employer performance

7. Employers have to complete an annual return and submit it to Pensions by 30 April. This data is used to update pension records with current pay

information and is subsequently used to produce annual benefit statements. In a valuation year, it is critical that the data is received on time and is of high quality because of the short time in which the data has to be processed and sent off to the Fund Actuary.

8. During the annual return process, employers are measured for timeliness, financial control and data quality. A breakdown is shown below but in summary:

- No employers were red across all three criteria
- 33% of employers were green across all criteria (29% in 2018)
- None of the five largest employers had any red ratings
- There were queries on 4% of the records, compared with 4.2% in 2018.
- 62 employers (18.6%) had major data quality issues and will therefore be asked to undertake a data validation exercise (19% in 2018).

Table of employer performance for 2018/19 year end

	Return received before deadline	**Return received between 1 May and 31 May**	**Return received more than 1 month late**
Timeliness	264 (79%)	68 (20%)	2 (1%)
	No reconciliation issues	**Minor reconciliation issues/quickly resolved**	**Major reconciliation issues and/or slow/failed to respond**
Financial control	227 (68%)	92 (28%)	15 (4%)
	Data quality good	**Minor data quality issues (less than 5% of membership)/quickly resolved**	**Major data quality issues (more than 5% of membership) and/or slow/failed to respond**
Data quality	187 (56%)	85 (25%)	62 (19%)

9. Following employer feedback, rather than only contacting those employers whose performance required them to complete a data validation exercise, Pensions have written to all employers regarding their end of year performance so that those employers who have made improvements could share this progress with their senior management team. Data validation exercises for those employers with major data quality issues are due to be completed by 13 December.

Annual benefit and pension saving statements

10. Annual benefit statements were produced for 99.43% of active members and for 100% of deferred members by the statutory deadline of 31 August 2019. Of the 321 members who did not have a statement by the deadline, only 77

are now still outstanding. 68 of these are waiting for information from employers before a statement can be produced.

11. Pension Savings Statements (PSS) were produced by the statutory deadline of 6 October for the 104 members who were identified as breaching the annual allowance limit in 2018/19. Unfortunately due to an issue with the way in which annual allowance breaches are identified in the pension system, a further two members were found to require a PSS after the deadline had passed. These statements were produced and sent by 1 November and the process has been updated for next year to ensure that this does not reoccur.

Annual Employer Meeting 2019

12. The Annual Employer Meeting (AEM) was held in Winchester on Friday 18 October. The AEM was attended by 114 people, representing 90 employers and survey feedback shows that it was well received. 30 responses were received and the results were largely positive.
    - 83% of people who responded to the survey agreed that the AEM provided them with the information they needed
    - Most agreed that the information was clearly delivered, although they would have liked it to be less technical
    - Updates on the performance of the Fund and its investments as well as the size of the scheme and administration were judged to be the most interesting sessions.

The Pension Regulator scheme return

13. The Pension Regulator (TPR) requires schemes to complete an annual return providing details of the contributing employers and governance arrangements. Since 2018, TPR has required schemes to report on the presence and accuracy of common data (information about the individual and basic retirement information) and conditional data (required to calculate specific scheme benefits) as part of the annual return.

14. The score is based on a pass/fail approach for each member against all data items. This means that if an individual has a single piece of data missing then the individual will count as a fail (even if all other data is present and accurate).

15. This year’s scores have been generated through the new data reporting module DART which was implemented in October 2019. The results of this provided a score for conditional data of 94% (87% in 2018/19). The score for common data was measured as 92% (94% in 2018/19). The main reason for the reduction in the common data score is the number of deferred members for whom we do not hold a current address (approximately 12,000). It is the

member's responsibility to keep the Fund updated with their current address and whilst address tracing exercises are carried out for people nearing retirement age, it is not particularly cost effective to have to do this for much younger deferred members. However, with the new Member Portal now in place, consideration will be given to a one-off exercise to trace younger deferred members to ask them to register so that they can easily keep the Fund informed when they change their details.

16. Pensions have established a data improvement plan and data cleansing programme to identify and correct other data issues throughout the year, as well as this being part of bulk data exercises such as running pension increase or annual benefit statement calculations.

Equitable Life

17. At the meeting on 27 September, the Panel and Board delegated authority to the Director for Corporate Resources to vote on the proposed transfer of Equitable Life to Utmost Life and Pensions. The vote was to be split in accordance with the preferences indicated by scheme members.

18. 34 responses were received from with profits AVC scheme members, indicating a strong preference for agreeing to the transfer and the vote was cast accordingly. At the Policyholder's Meeting and Extraordinary General Meeting held on 1 November, the proposals on the Scheme and Changes to Articles were passed by an overwhelming majority:

Scheme changes	By number	94% in favour
	By value	96% in favour
Change to the Articles	By number	94% in favour

19. The next step is a High Court hearing starting on 22 November 2019, where Equitable Life will ask for formal approval to implement the changes. Assuming High Court approval, the Proposal will take effect on 1 January 2020. If the Proposal goes ahead, With-Profits Policies, will be converted to Unit-Linked Policies, meaning policyholders will need to make an investment choice. A communication will be sent to all members informing them of the actions they need to take once the High Court approval has been given.

AVC fund review

20. Hymans have been commissioned to undertake a review of the AVC funds offered by the two providers, Prudential and Zurich, as part of the in-house AVC scheme. This review will assess the current investment options, including:

- the choice and competitiveness of the funds used;
- the design of any lifestyle options;
- the current status of the With Profits Fund.

An assessment of the Prudential AVC product will also consider any recent developments, use of optional policy features and charges and service standards. Hymans will use high level analysis of the Fund's membership statistics and the pattern of AVCs and fund usage to identify potential issues and the suitability of the investment options. A further report will be provided to the Panel and Board following this work.

McCloud

21. The Scheme Advisory Board (SAB) have issued further information about how the McCloud judgement will be applied in the LGPS. It is likely that the remedy will involve the extension of some form of underpin to members in scope who are not currently offered protection from the change to CARE in April 2014. However the SAB have confirmed that they do not expect to see any remedy in place before the end of the financial year 2020/21.

22. When the CARE scheme was introduced, employers no longer had to provide part time hour changes and service break information (as these are only relevant to final salary schemes which use membership in the pension calculation). The current underpin protection affects so few members that part time hours are supplied on a case by case basis rather than routinely put onto all member records. The likely remedy will mean that part time hours and service break information is going to be required for a significant number of members and therefore will create an additional administrative burden on both employers and Pension Services. Employers are being notified of this change so that they can consider their systems and records to ensure they will still be able to supply this information, once the remedy is known.

Pension projects 2020/21

23. Following the successful implementation of Member Portal in January 2019, work is now in progress to extend the take up of online access to pension information and also to upgrade the Employer Hub through which employers can access the pension administration system.

24. Although there are now 35,495 Hampshire LGPS members registered on the Portal, a drive to increase take up will produce efficiency savings for the Fund and a better service for members. The first project to increase take up is for new starters to be invited to register when they join the scheme; instead of a letter being sent to their home address, new members will receive an email asking them to register on the Member Portal to access their pension information. It is expected that this will be the method of contacting all new starters from April 2020.

25. A further improvement to the Member Portal will be the introduction of a facility to allow members to run their own early retirement estimates. Since the change in regulations to allow members to retire without their employer's consent from age 55, there has been an increase in estimate requests. Many of these requests are speculative and members are simply looking for a basic idea of how much they could receive early, rather than requiring accurate figures for an imminent retirement. Allowing members to run these straightforward estimates for themselves will increase member engagement and reduce the volume of requests coming into the administration team. This project requires IT support for implementation but the current plan is to have this option available to members by summer 2020.

26. Despite the expectation that Member Portal and electronic communications will become the main method of contact with members over time, there is no intention to require existing pensioners to register; the default will be for this cohort to receive paper communications unless they choose to go online. Traditional paper communication will also remain available for any new member who opts out of receiving electronic information.

27. Employers can currently access their employee pension records via Employer Web. A new version of this web facility is available and due to be implemented and rolled out during 2020/21. This will provide employers with greater reporting functionality and is the foundation for being able to load data files directly into the pension administration system.

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 approve an approach on behalf of the administering authority.	

Section 100 D - Local Government Act 1972 - background documents

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

Document	Location
None	

EQUALITIES IMPACT ASSESSMENT:

1. **Equality Duty**

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

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

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

- The need to remove or minimise disadvantages suffered by persons sharing a relevant protected characteristic that are connected to that characteristic;
- Take steps to meet the needs of persons sharing a relevant protected characteristic that are different from the needs of persons who do not share it;
- Encourage persons sharing a relevant protected characteristic to participate in public life or in any other activity in which participation by such persons is disproportionally 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:	13 December 2019
Title:	Pension Fund Budget
Report From:	*Director of Corporate Resources – Corporate Services*

Contact name: Andrew Boutflower

Tel: 01962 847407 **Email:** andrew.boutflower@hants.gov.uk

Purpose of this Report

1. For the Pension Fund Panel and Board to approve a budget for the Pension Fund for 2020/21 and projections for 2021/22 and 2022/23.

Recommendations

2. That the budget shown in Appendix 1 for the Pension Fund for 2020/21 is approved.

Background

3. The Pension Fund reports its actual expenditure for the management of the Fund against budget in its Annual Report. The 2018/19 Annual Report included the 2019/20 budget.

4. The Pension Fund categorises its expenditure for the management of the Pension Fund according to CIPFA's definitions; investment management, administration and governance, which include the following:
   - Investment management – 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 sub-funds managed by Link as part of the ACCESS pool and alternative investments like Infrastructure and Private Equity.
   - Administration – all activities the Administering Authority must perform to administer entitlements and provide members with scheme and benefit entitlement information.

- Governance – 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 2020/21 budget that has been prepared reflects the costs of delivering the Pension Fund's statutory responsibilities for the administration of the scheme and management of investments. The resources contained within the budget are sufficient to meet the Fund's regulatory requirements and deliver at the standards for administration that are reported to the Panel and Board. The new developments and initiatives that are included in the Fund's Business Plan are also included in the budget.

2020/21 Budget

Investment management

6. Investment management costs are derived from the percentage fees charged by the Fund's investment managers, applied to the market value of the portfolios that they manage. Future years market values have been calculated based on the expected annual increases that the Fund's Actuary has used in the 2019 Valuation applied to the investment management contracts that the Fund has in place. Actual investment management costs may be more or less than the budget depending on the market values each year.

7. The budget for investment management costs has increased to £44.8m in 2020/21, and £48.4m and £53.0m the following 2 years. This reflects both the assumed increase in the market value of the Fund and an increasing allocation to alternative investments (property, infrastructure, private equity and private debt), which incur higher fees than listed investments, as set out in the Fund's Investment Strategy.

Administration

8. The two key expenses for pension administration are staff and IT costs. Pension Services use the Civica UPM system which continues to drive efficiency savings allowing the service to be delivered in a cost effective way despite increasing pressures and growth in workloads.

9. The budget for administration remains well within the 0.3% of pensionable payroll for the Fund assumed by the Fund's Actuary, and results in a cost per member of around £13 which is one of the lowest across LGPS funds. No allowance has been made in the budget for the costs of GMP rectification work or for the implementation of the McCloud remedy which will be separately costed once the full scope of this work is known.

Governance

10. Governance costs fall into three main areas:

    - The internal costs of providing the administration and accounting function for the Pension Fund, managing its investment management contracts and providing the governance support to the Pension Fund Panel and Board.
    - The ongoing costs of setting up and running the ACCESS pool.
    - The external services required by the Pension Fund: internal and external audit, investment consultancy, actuarial services, independent advice to the Panel and Board, and internal and external legal support.

11. Governance costs are expected to be relatively static in 2020/21 and the following 2 years. There are minor variations with increased investment consultancy costs in 2020/21 and 2021/22 for retendering the Fund’s UK property portfolio and any changes resulting from the review of the Fund’s asset allocation following the 2019 Actuarial Valuation. There are additional costs projected in 2022/23 for the next Actuarial Valuation as at 31 March 2022.

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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Document	Location
None	

EQUALITIES IMPACT ASSESSMENT:

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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.

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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 disproportionally low.

2. Equalities Impact Assessment:

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

Pension Fund Budget

	Budget 2019/20 £000	Budget 2020/21 £000	Projection 2021/22 £000	Projection 2022/23 £000
Investment management fees	41,300	44,751	48,352	52,960
Staff	1,560	1,630	1,679	1,720
Premises	60	61	62	63
IT	280	285	290	296
Supplies & Services	230	234	239	243
Other	0	0	0	0
Administrative costs	2,130	2,210	2,270	2,322
Staff	330	375	385	395
Premises	5	5	5	5
IT	5	5	5	5
Supplies & Services	350	335	325	345
Other	5	5	5	5
Governance costs	695	725	725	755
Management Expenses	**44,380**	**47,653**	**51,303**	**55,991**

HAMPSHIRE COUNTY COUNCIL

Decision Report

Decision Panel:	Pension Fund Panel and Board
Date:	13 December 2019
Title:	Governance: Pension administration issues
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 an update on the 2019 valuation, and to seek approval for the amended Funding Strategy Statement and Employer Policy.

Recommendation(s)

2. It is recommended that the Panel and Board:

- note the progress on the 2019 valuation
- approve the amended Funding Strategy Statement for publication
- approve the amended Employer Policy Statement for publication.

Executive Summary

3. Work has continued for the 2019 valuation, with Pension Services providing data to the actuary ahead of schedule and draft individual employer contribution results being provided to a majority of employers by the end of November. The Funding Strategy Statement and Employer Policy have been amended to reflect the changes which have been made as part of the 2019 valuation.

2019 valuation update

4. Membership data (186,107 records) was provided to the Fund Actuary by 19 July 2019, a week in advance of the deadline of 26 July. The quality of the data provided to the Actuary was good, with an error rate of 4.8%. All the

queries were resolved before the deadline of 9 August, allowing the Actuary to complete the first stage of the valuation earlier than previously.

5. Initial whole of Fund results were shared with employers at the Annual Employer Meeting on 18 October. In the afternoon following the AEM, the Actuary held separate sessions with HE/FE employers to talk about covenant assessments and with Town and Parish Councils to provide further information and reassurance on the changes from the 2019 valuation. Individual draft results for these employer groups were provided to employers who attended these sessions, with the remainder being sent electronically the following week.

6. Individual draft results schedules have now been provided to all the district and unitary councils, town and parish councils, higher and further education employers, academies, housing associations and most of the other scheduled bodies. The remaining schedules will be sent out before Christmas. The rates and adjustments certificate will not be signed until 31 March 2020 to allow for any changes required to the draft rates (for example as a result of covenant assessments or employers choosing to pre-pay contributions in exchange for a discount).

Draft Funding Strategy Statement

7. The Funding Strategy Statement has been updated to reflect the changes made as part of the 2019 valuation to the way in which employers were grouped for funding purposes, as well as to update the assumptions used by the Actuary in this valuation. The draft FSS is attached as Appendix 1 to this report and the main changes are described in paragraphs 8 to 12 below.

8. As agreed by the Panel and Board at their meeting on 27 September 2019, the FSS has been updated to make reference to the approach that the Actuary will take to allow for the costs of McCloud prior to the final determination of the remedy. The changes have been made on pages 3, 4 and 21 of the draft FSS.

9. On pages 7 and 8 of the FSS, a paragraph has been inserted which describes the circumstances under which phasing in of contributions will be allowed. Although most of the employers from the Scheduled Body Group were around 100% funded at 31 March 2019, employers with a weaker financial covenant (and therefore who are on a different funding target, such as the 6th form colleges) have seen increases in their contribution rates because of the fall in gilt yields. Some of the increases are significant so a phased implementation is required to ensure stability of contributions. The draft FSS also gives the scope to allow a longer period of phasing, particularly where an employer is moving onto a lower discount rate as they approach an exit from the Fund.

10. The information on page 8 of the draft FSS has been updated to reflect the new discount rate agreed for the 2019 valuation. In addition, the three elements which make up the Fund Actuary' s risk based approach to the funding strategy (the Solvency Target, Trajectory Period and Probability of Funding Success) have been updated on pages 11 – 13 to reflect the agreed position for this valuation period.

11. Changes to the grouped structure of the Fund were approved by the Panel and Board at their meeting on 12 July 2019, following a period of consultation and communication with employers. Pages 13-16 of the draft FSS describe the way in which the new groups for Town and Parish Councils, Academies and Admitted bodies will operate.

12. Pages 17-18 of the draft FSS set out the policy allowing employers to pre-pay contributions in return for a discount. Following approval of the draft FSS, eligible employers will be contacted so that they can make an election to pre-pay either annually or triennially in advance. The pre-payment methodology and process which will be shared with employers is shown in Appendix 2 to this report.

Draft Employer Policy

13. The changes to the way in which employers are grouped for funding purposes at the 2019 valuation have also been reflected in the draft amended Employer Policy. The main changes are described in paragraphs 14 to 19 below.

14. On page 2 of the amended Employer Policy, paragraph 3.2 states that all employers will have their own contribution rate unless they participate in one of the three groups created as part of the 2019 valuation. The operation of the Town and Parish Group is described in more detail on page 7 of the policy, and the Academies Group on pages 7 – 9.

15. Paragraphs 6.28 and 6.29 contain a change in policy regarding outsourcing by academies. Currently if an academy outsources services to a private contractor, contributions for the contractor are calculated using the ongoing orphan funding target. This approach was taken because it is unclear as to whether the DfE guarantee extends to these companies, in the event of an academy failure. However, this is a very risk adverse position and can create additional costs for academies who wish to outsource work. It is also administratively complex to maintain this approach within the new Academies Group. The Actuary has therefore recommended relaxing the policy to allow academies to provide a subsumption commitment for outsourcings involving 10 or fewer employees. The ongoing orphan funding target would continue to be used for larger outsourcings where the greater risk to the Fund justifies the increased administration.

If the Panel and Board approve this change, it will be backdated to 1 April 2019 (the start of the valuation period) and the three academies who have outsourced services since that date will be allowed the choice of having the contribution rate for their contractor to be re-calculated.

16. The Employer Policy has been amended to include a section describing the Prioritised Share of Fund approach in paragraphs 11.4 and 11.5 on page 14. This is the method by which the asset transfer from the LEA to the Academy Group will be calculated when an LEA school converts to an academy. The Prioritised Share of Fund approach ensures that the LEA retains sufficient assets to pay for the deferred and pensioner liabilities associated with the school, with any deficiency assumed to be in relation to the active members who are transferring to the academy.

17. As with the FSS, a paragraph has been added to the Employer Policy to cover the approach that will be taken to allow for the estimated costs of the McCloud remedy in the calculation of asset transfers. This is detailed in paragraph 11.7 on page 15 of the policy.

18. Paragraph 12.7 on page 16 has been amended to confirm that all the employers in the Admitted Body Group have a commitment from a secure Scheduled employer as part of the 2019 valuation, materially reducing the risk to the Fund. The two admitted bodies for whom this commitment could not be obtained have been certified an individual rate at this valuation.

19. The final change in the Employer Policy is to paragraph 12.9 on page 16. This change allows any exit credit payments to be put on hold until the expected regulatory changes are made which will allow a surplus to be repaid to the letting authority instead of a contractor, if the agreement between the two bodies involved the letting authority in a risk share.

Consultation with Employers

20. The draft Funding Strategy Statement and Employer Policy were shared with employers following the Annual Employers Meeting on 18 October. Employers were given until 25 November to make comments on these draft policies, with a reminder email being sent on 20 November.

21. Five employers responded to the consultation, four to confirm that they had no comments to make and one asking for clarification on the way in which the asset transfer from the LEA to a new academy would work. No changes were made to the draft policies as a result.

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 approve an statutory statements on behalf of the administering authority.	

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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 disproportionally 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.

Funding Strategy Statement

Introduction

The Local Government Pension Scheme Regulations 2013 require the Fund to prepare and publish a Funding Strategy Statement (FSS). The Fund's Actuary must have regard to this statement when setting employers' contribution rates.

As required by 2013 Regulation 58, the Statement has been reviewed (and where appropriate revised) having regard to guidance published by CIPFA in September 2016.

This FSS should be read in the context of the Fund's Investment Strategy Statement (ISS) which sets out in detail the Fund's investment arrangements and strategy. The current version of this is attached for information. The administering authority has had regard to the ISS in preparing this FSS.

Consultation

In accordance with Regulation 58, all Fund employers have been consulted on the contents of this FSS and their views have been considered in formulating it. However, the FSS describes a single strategy for the Fund as a whole.

The Fund's Actuary, Aon Hewitt Limited, has also been consulted on the content of this FSS.

Purpose of the Funding Strategy Statement

The purpose of this FSS is to set out the processes by which the administering authority:

- Establishes a clear and transparent funding strategy, that will identify how employers' pension liabilities are best met going forward.
- Supports the desirability of maintaining as nearly constant a primary contribution rate as possible, as defined in Regulation 62(5) of the LGPS Regulations 2013.
- Ensures that the regulatory requirements to set contributions so as to ensure the solvency and long-term cost efficiency of the Fund are met.
- Takes a prudent longer-term view of funding those liabilities.

Aims of the Fund

The Fund has three main aims:

- To manage the employers' liabilities effectively and ensure that sufficient resources are available to meet all liabilities as they fall due
- To enable primary contribution rates to be kept nearly constant as possible (subject to the administering authority not taking undue risk) at reasonable cost to the taxpayers, scheduled, resolution and admitted bodies, while

achieving and maintaining fund solvency and long-term cost efficiency, which should be assessed in light of the risk profile of the Fund and employers, and the risk appetite of the administering authority and employers alike.

- Seek returns on investment within reasonable risk parameters.

The main aims of the Fund are explained in more detail below.

To manage the employers' liabilities effectively

Hampshire County Council as administering authority makes sure that the Fund's liabilities are managed effectively. This is achieved by commissioning actuarial valuations every three years as required by law. These determine the employers' contribution rates required to make sure liabilities can be managed effectively. The administering authority also commissions additional work in relation to the specific issues described below.

The Fund's primary aim is long-term solvency. Accordingly, employers' contributions will be set to ensure that 100% of the liabilities can be met over the long term.

The Fund is deemed to be solvent when the assets held are equal to 100% of the Solvency Target.

The administering authority will make sure that the Fund always has enough cash available to pay pensions, transfer values to other pension funds, and other costs and expenses. Such expenditure will normally be met from incoming contributions from employees and employers and investment income, to avoid the cost of selling any of the Fund's investments. The position is reviewed every three months to make sure enough cash is available to meet the Fund's obligations.

The Administering Authority publishes an Employer Policy which explains in more detail the funding policies for certain categories of employer on admission and exit.

Exiting the fund

Where an employer exits the fund, an exit valuation will be carried out in accordance with Regulation 64. The exit valuation will take account of

- any bulk transfer payments due or other activity as a consequence of exiting the Fund; and
- the future funding arrangements for any liabilities that will remain in the Fund.

In particular, the exit valuation will distinguish between residual liabilities which will become orphan liabilities, and liabilities which will be subsumed by other employers or otherwise continue to be funded to the satisfaction of the Administering Authority.

"orphan liabilities" arise where an employer is leaving the Fund, the Administering Authority will have no further access for funding from that employer once any exit valuation has been completed and any sums due have been paid to the Fund, and no particular employer or group of employers will be responsible for the future funding of those liabilities.

For orphan liabilities the funding target in the exit valuation will anticipate investment in low risk investments, currently assumed to be Government fixed-interest and index-linked bonds. This is to minimise the risk to other employers in the Fund of having to make good any deficiency arising on the orphan liabilities. The Administering Authority currently operates a single investment strategy and so the remaining employers in the Fund assume the risk of the Fund's assets delivering returns less than the assumed rate in the exit valuation in respect of orphan liabilities.

"subsumed liabilities" refer to the situation where another employer, or group of employers, in the Fund agrees to provide future funding in respect of any emerging deficiencies in relation to the liabilities of a former (exited) employer. The subsuming employer will also normally benefit from any emerging surplus on those liabilities.

On exit the non-active liabilities of admission bodies in paragraph 1(d)(i) of Schedule 2 Part 3 which commenced in the Fund on or after 1 April 2018 will be attributed to (i.e. assumed to be subsumed by) the relevant Scheme employer as defined in the regulations.

For subsumed liabilities the exit valuation will be calculated using a funding target (and hence assumptions) consistent with that used to set ongoing contributions for the exiting employer. This will be the ongoing orphan funding target for employers admitted under paragraph 1(d)(i) of Schedule 2 where the relevant Scheme Employer is an academy and, for transfers on or after 1 April 2019, more than 10 employees transferred to the admission body. For all other employers, and for transfers on or after 1 April 2019 where 10 or fewer employees transfer from an academy to an admission body, the administering authority will assume that the investments held in respect of those liabilities will be the same as those held for the rest of the liabilities of the accepting employer or group. Generally this will mean assuming continued investment in more risky investments than Government bonds.

For subsumed liabilities the exit valuation will take account of a number of other factors such as the funding target used to calculate the initial asset transfer where the exiting employer is a short term admission body under paragraph 1(d)(i) of Schedule 2; the funding target used to calculate the ongoing contributions for the employer; whether the exiting employer is a going concern or is ceasing to exist, and whether there is a Guarantor.

Regardless of whether the residual liabilities are orphan liabilities or subsumed liabilities, the departing employer (or Guarantor if the employer is unable to pay) will generally be expected to make good the funding obligation revealed in the exit valuation. In other words, the fact that liabilities may become subsumed liabilities does not necessarily remove the possibility of an exit payment being required nor of a surplus credit being repaid.

Until actual costs are known, an allowance for the costs of the McCloud remedy and GMP equalisation will be included for exit payments calculated on or after 27 September 2019. Exit payments will be calculated assuming that McCloud will lead to a 0.4% increase in the liabilities, and GMP indexation will be provided in full for all of the exiting employer's members whose State Pension Age is on or after 1 April 2016.

Exiting the fund – surpluses

Where an employer exits on or after 14 May 2018 and the exit valuation determines that the departing employer is in surplus, the exit credit will be paid to the departing employer within three months of the date of exit or such longer period as is agreed with the exiting employer.

An exit payment will usually be paid to the departing employer and employers who are letting contracts need to ensure these cover any arrangements regarding exit credits. However the Administering Authority may deem that in some circumstances it is not appropriate to make an exit payment to the exiting employer, for example if it is a stated condition of an employer subsuming the liabilities that no surplus will be repaid to the exiting employer as is the case for those organisations in the Admission Body Group which have a commitment from a secure scheduled employer to subsume the liabilities on exit.

Potential exits

Where the Administering Authority considers that it is possible that an employer may leave the Fund at some point in the future and the employer would leave orphan liabilities on its exit from the Fund, an ongoing funding target (the "ongoing orphan funding target") will, unless the circumstances dictate otherwise, be used to determine the employer's ongoing contributions at the triennial valuation. The ongoing orphan funding target anticipates the approach which will be taken to valuing the employer's liabilities on exit. It will generally be calculated using a discount rate or rates set by reference to the yield on long-dated government bonds on the valuation date. Allowance may be made, at the Administering Authority's discretion and on the advice of the Fund's Actuary, for some out-performance of the Fund's assets relative to gilts in determining the discount rate which applies to the period during which the employees are assumed to remain active members and for future expected increases in gilt yields in determining the discount rate which applies to pensioner and deferred liabilities and for active members in the period after they are assumed to have left service.

Interim reviews for employers

Regulation 64(4) provides the administering authority with the power to carry out valuations in respect of admission bodies and other employers which are expected to cease at some point in the future, and for the Fund's Actuary to certify revised contribution rates, between triennial valuation dates.

The Administering Authority's overriding objective at all times is that, where possible, the funding target for that body is clear, and that contribution rates payable are appropriate for that funding target. However, this is not always possible as any date of exit may be unknown (for example, participation may be assumed at present to be indefinite), and because market conditions change daily.

The Administering Authority's general approach in this area is as follows:

- Where the date of exit is known, and is more than three years away, or is unknown and assumed to be indefinite, interim valuations will generally not be required by the Administering Authority.

- For paragraph 1(d)(i) bodies (2013 Regulations – Schedule 2 Part 3) falling into the above category, the Administering Authority sees it as the responsibility of the relevant scheme employer to instruct it if an interim valuation is required. Such an exercise would be at the expense of the Relevant Scheme Employer unless otherwise agreed.
- A material change in circumstances, for example the date of exit becoming known, material membership movements or material financial information coming to light may cause the administering authority to review the situation informally and subsequently request a formal interim valuation.
- Where an employer is due to leave the Fund within the next three years, the administering authority will monitor developments and may see fit to request an interim valuation at any time in order to try to effect a smoother transition to exit.

In addition, the Administering Authority reserves the right to request an interim valuation of any employer's liabilities at any time in accordance with Regulation 64(4).

Inter-valuation funding valuations

In order to monitor developments, the Administering Authority may from time to time request informal valuations or other calculations. Generally, in such cases the calculations will be based on an approximate update of the asset and liability values, and liabilities calculated using assumptions consistent with the latest valuation. It is unlikely that the liabilities would be calculated using individual membership data, or that the demographic assumptions would be reviewed.

Guarantors

Some employers may have been admitted to the Fund by virtue of the existence of a Guarantor. The Administering Authority maintains a list of employers and their Guarantors. For any new admission body wishing to join the Fund, the Administering Authority will require a Guarantor. The Administering Authority, unless notified otherwise, sees the role of a Guarantor to include the following:

- If an employer leaves the Fund and defaults on any of its financial obligations to the Fund, the Guarantor is expected to provide the Fund with the amount certified by the Fund's Actuary as due, including any interest payable.
- If the Guarantor is also an employer in the Fund and is judged by the Administering Authority to have suitable financial security, the Guarantor may clear some of the financial liability by subsuming the residual liabilities into its own pool of Fund liabilities. In other words, it agrees to be a source of future funding in respect of those liabilities should future deficiencies emerge.

During the period of participation of the employer a Guarantor may at any time agree to the future subsumption of any residual liabilities of that employer. That action may reduce the funding target for the employer, which may, in turn, lead to reduced contribution requirements.

The Guarantor will be permitted to subsume all assets and liabilities of an employer including the inheritance of any deficiency or surplus. However, where the Guarantor is a grouped employer, the Administering Authority will insist upon the Guarantor meeting the contributions required to clear the deficiency inherited by the Guarantor (whether immediately or over an appropriate period), to protect the other employers in the Guarantor's group from this element of the group's deficiency. Conversely a Guarantor may receive a reduction to its contributions to ensure that the benefit of a surplus is provided to the Guarantor rather than spread across the Guarantor’s group.

Bonds and other securitisation

Paragraph 7 of Part 3 of Schedule 2 of the 2013 Regulations creates a requirement for a new admission body to carry out, to the satisfaction of the administering authority (and the Relevant Scheme Employer in the case of paragraph 1(d)(i) bodies admitted under Schedule 2 Part 3 of the 2013 Regulations), an assessment taking account of actuarial advice of the level of risk on premature termination by reason of insolvency, winding up or liquidation.

Where the level of risk identified by the assessment is such as to require it the admission body shall enter into an indemnity or bond with an appropriate party. Where it is not desirable for an admission body to enter into an indemnity or bond, the body is required to secure a guarantee in a form satisfactory to the administering authority from an organisation who either funds, owns or controls the functions of the admission body.

The Administering Authority's approach in this area is as follows:

- In the case of paragraph 1(d)(i) bodies admitted under Schedule 2 Part 3 of the 2013 Regulations, and other admission bodies with a Guarantor, so long as the administering authority judges the Relevant Scheme Employer or Guarantor to have suitable financial security, any bond exists purely to protect the Relevant Scheme Employer against default of the admission body. It is entirely the responsibility of the Relevant Scheme Employer or Guarantor to arrange any risk assessments and decide the level of required bond. The administering authority can supply some standard calculations provided by the Fund's actuary to aid the Relevant Scheme Employer or Guarantor, but this should in no way be taken as advice on this matter. Levels of required bond cover can fluctuate and the administering authority recommends that Relevant Scheme Employers review required cover regularly, at least once a year.
- In the case of paragraph 1(d)(i) bodies admitted under Schedule 2 Part 3 of the 2013 Regulations, where the administering authority does not judge the Relevant Scheme Employer to have suitable financial security, the administering authority must be involved in assessing the required level of bond to protect the Fund. Admission can only proceed once the administering authority has agreed the level of bond cover. Levels of required bond cover can fluctuate and the administering authority will require the Relevant Scheme Employer to review required cover jointly with it regularly, at least once a year.

- In the case of bodies other than paragraph 1(d)(i) bodies admitted under Schedule 2 Part 3 of the 2013 Regulations, the administering authority must be involved in assessing the required level of bond to protect the Fund. Admission can only proceed once the administering authority has agreed the level of bond cover. Levels of required bond cover can fluctuate and the administering authority will review required cover regularly, at least once a year.

To enable primary contribution rates to be kept as nearly constant as possible

Achieving nearly constant primary contribution rates requires stability of employers' active membership profile and use of assumptions which are relatively constant over time. The Administering Authority has no control over employers' active membership although the methodology used to calculate the future service rate does vary according to whether or not the employer admits new members to the Fund. In relation to the assumptions, the Administering Authority believes that the same assumptions should be used to determine the past service liabilities (and hence the funding target) as are used to determine employers' primary contribution rates.

The demographic assumptions are reviewed by the Actuary on a triennial basis and updated as required to allow for recent Fund experience and other national factors as required. It is not expected that material changes would be made to these assumptions from one valuation to the next.

In relation to the financial assumptions, these can vary quite materially from one valuation to the next as market conditions alter. A substantial proportion of the Fund's investments are held in asset classes such as shares and property, with the aim of increasing investment returns and keeping costs to employers reasonable. However, the expected returns on these asset classes can be quite volatile and so the real discount rate can change materially from one triennial valuation to the next, leading to a material change in employers' primary contribution rates.

In determining the extent to which stability measures are needed to keep primary contributions as nearly constant as possible, the Administering Authority will also consider how secondary contributions are changing, i.e. where possible, and consistent with other regulatory objectives, this objective will in practice relate to employers' total contributions (primary and secondary).

Where justified, and as long as it doesn't run counter to the main aims of ensuring solvency and long-term cost efficiency, the Administering Authority will permit phasing in of changes to employers' contribution rates over a period of up to three years. Care needs to be taken in relation to employers closed to new entrants and other bodies whose participation in the Fund could potentially be of limited duration through known constraints or reduced covenant (for example, non-local authority employers awarded contracts to provide local authority services, and less secure scheduled bodies), where use of phasing to smooth contribution rate changes is less appropriate.

The Administering Authority recognises that a balance needs to be struck regarding the financial demands made of scheme employers of reduced covenant. On the one hand, the Administering Authority requires all scheme employers to be fully self funding (either on a grouped or an individual basis), such that other employers in the Fund are not subject to expense as a consequence of the participation of those bodies. On the other hand, requiring contributions to target full funding at all times, without further smoothing (phasing), may cause failure of the body in question in periods of extreme economic conditions, leading to significant costs for other participating employers. The Administering Authority will therefore consider phasing periods longer than three years if unusual and difficult budgetary constraints make this necessary, or if other changes, such as changes to the funding target, justify this approach. Whenever contribution changes are being phased in, this can only be achieved if the regulatory requirements of setting employer contributions to ensure the solvency and long-term cost efficiency of the Fund would still be met.

Seek returns on investment within reasonable risk parameters

Returns should be higher over the long term than those from index-linked stocks by investing in other asset classes such as shares, property and alternative investments.

Risk parameters are controlled by restricting investment to asset classes generally recognised as appropriate for UK pension funds. From time to time the Administering Authority reviews the potential risks of investing in the various asset classes, with help from the Fund's investment advisors and its investment managers.

The Fund's funding strategy, based on the discount rate adopted for the majority of employers/liabilities at the 2019 actuarial valuation, requires the assets to deliver a long-term return above 4.4% p.a., (the discount rate) compared to the fund actuary's best estimate for the Fund's average return of 5.7% p.a. as at March 2019. An investment management structure has been developed and managers appointed to deliver a long-term return in excess of returns on cash and gilt investments within an acceptable level of risk. The Fund's investment strategy has been reviewed since the 2016 valuation and the Fund Actuary has also reviewed the derivation of the discount rate. Details of the updated structure and managers are in the Investment Strategy Statement.

Purpose of the Fund

The purpose of the Fund is to:

- receive monies in respect of contributions, transfer values and investment income.
- pay out monies in respect of scheme benefits, transfer values costs, charges and expenses, as defined in the Local Government Pension Scheme Regulations 2013 and as required in the Local Government Scheme (Management and Investment of Funds) Regulations 2016.

Responsibilities of the key parties

The three main parties with obligations to the Fund in relation to funding are the County Council as administering authority (and scheme employer), the other employers in the Fund, and the Fund's Actuary. The administering authority delegates responsibility for fulfilling its obligations to the Panel and Board.

The County Council as administering authority is required to:

- Operate a pension fund
- Collect employer and employee contributions, investment income and other amounts due to the Pension Fund as stipulated in LGPS Regulations.
- Pay from the Fund the relevant entitlements as stipulated in LGPS Regulations.
- Invest surplus monies in accordance with LGPS Regulations
- Ensure that cash is available to meet liabilities as and when they fall due.
- Take measures as set out in the regulations to safeguard the Fund against the consequences of employer default.
- Manage the valuation process in consultation with the Fund's Actuary.
- Prepare and maintain a Funding Strategy Statement (FSS) and an Investment Strategy Statement (ISS), both after proper consultation with interested parties.
- Monitor all aspects of the Fund's performance and funding, and amend the FSS/ISS accordingly.
- Effectively manage any potential conflicts of interest arising from its dual role as both administering authority and as a Scheme Employer.
- Enable the Pension Fund Panel and Board to review the valuation process.

The individual employer is required to:

- Deduct contributions from employees' pay correctly.
- Pay all ongoing contributions, including employer contributions determined by the actuary, promptly by the due date.
- Develop a policy on certain discretions and exercise discretions as permitted within the regulatory framework.
- Make additional contributions in accordance with agreed arrangements in respect of, for example, augmentation of scheme benefits and early retirement strain costs.
- Notify the administering authority promptly of all changes to active membership that affect future funding.
- Pay any exit payments on ceasing participation in the Fund.

The Fund actuary should:

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

Funding Strategy

Risk based approach

The Fund utilises a risk based approach to funding strategy.

A risk based approach entails carrying out the actuarial valuation on the basis of the assessed likelihood of meeting the funding objectives, rather than relying on a 'deterministic' approach which gives little idea of the associated risk. In practice, three key decisions are required for the risk based approach:

- what the Solvency Target should be (the funding objective - where the Administering Authority wants the Fund to get to),
- the Trajectory Period (how quickly the Administering Authority wants the Fund to get there), and
- the Probability of Funding Success (how likely the Administering Authority wants it to be now that the Fund will actually achieve the Solvency Target by the end of the Trajectory Period).

These three choices, supported by risk modelling carried out by the Fund's actuary, define the discount rate (investment return assumption) to be adopted and, by extension, the appropriate employer contributions payable. Together they measure the riskiness (and hence also the degree of prudence) of the funding strategy.

These three terms are considered in more detail below.

Solvency Target and Funding Target

Solvency and 'funding success'

The Administering Authority's primary aim is long-term solvency. Accordingly, employers' contributions will be set to ensure that 100% of the liabilities can be met over the long term. The Solvency Target is the amount of assets which the Fund wishes to hold at the end of the Trajectory Period (see later) to meet this aim, and is the value of the Fund's liabilities evaluated using appropriate actuarial methods and assumptions.

The Fund is deemed to be solvent when the assets held are equal to or greater than 100% of the Solvency Target. The Administering Authority believes that its funding strategy will ensure the solvency of the Fund because employers collectively have the financial capacity to increase employer contributions should future circumstances require, in order to continue to target a funding level of 100%.

For secure scheduled bodies, and certain other bodies deemed to be of similarly sound covenant whose participation is indefinite in nature (including where the employer's liabilities would be funded by a secure scheduled body employer post-exit), the Solvency Target is set:

- at a level advised by the Fund Actuary as a prudent long-term funding objective for the Fund to achieve at the end of the Trajectory Period,
- based on continued investment in a mix of growth and matching assets intended to deliver a return above the rate of increases in pensions and pensions accounts (CPI).

Thus the Solvency Target for secure Scheduled Body employers and certain other bodies generally assumes indefinite investment in a broad range of assets of higher risk than risk-free assets. At the 2019 valuation the Solvency Target was set at 2% above the long term assumed rate of CPI.

For certain admission bodies, bodies closed to new entrants and other bodies whose participation in the Fund could potentially be of limited duration through known constraints or reduced covenant, and for which no access to further funding would be available to the Fund after exit, the Solvency Target will be set at a more prudent level dependent on circumstances.

For such bodies the Administering Authority will normally adopt a funding target which:

- in the case of admission bodies where there is no commitment from a secure scheduled body to subsume the assets and liabilities on exit, particularly those which do not admit new members, anticipates the approach to valuing the liabilities on exit – the "ongoing orphan funding target" as defined earlier in this statement;
- in the case of scheduled bodies without a government guarantee which are deemed to be of weaker covenant than the local authorities, produces a higher chance of achieving solvency/funding success through adoption of a lower discount rate than adopted for the local authorities.

Probability of Funding Success

The Administering Authority deems funding success to have been achieved if the Fund, at the end of the Trajectory Period, has achieved the Solvency Target. The Probability of Funding Success is the assessed chance of this happening based on the level of contributions payable by members and employers.

Consistent with the aim of enabling employers' contribution rates to be kept as nearly constant as possible, the required chance of achieving the Solvency Target at the end of the relevant Trajectory Period for each employer or employer group can be altered at successive valuations within an overall envelope of acceptable risk.

The Administering Authority will not permit contributions to be set following a valuation that have an unacceptably low chance of achieving the Solvency Target at the end of the relevant Trajectory Period.

Funding Target

The Funding Target is the amount of assets which the Fund needs to hold at the valuation date to pay the liabilities at that date as indicated by the chosen valuation method and assumptions. The valuation calculations, including the future service contributions and any adjustment for surplus or deficiency, set the level of contributions payable and dictate the chance of achieving the Solvency Target at the end of the Trajectory Period (defined below).

Consistent with the aim of enabling employers' contribution rates to be kept as nearly constant as possible:

- Contribution rates are set by use of the Projected Unit valuation method for most employers. The Projected Unit method is used in the actuarial valuation to determine the cost of benefits accruing to the Fund as a whole and for employers who continue to admit new members. This means that the future service contribution rate is derived as the cost of benefits accruing to employee members over the year following the valuation date expressed as a percentage of members' pensionable pay over that period.
- For employers who no longer admit new members, the Attained Age valuation method is normally used. This means that the future service contribution rate is derived as the average cost of benefits accruing to members over the period until they die, leave the Fund or retire.
- For bodies closed to new entrants and other bodies whose participation in the Fund could potentially be of limited duration through known constraints or reduced covenant, the administering authority will take into account the potential for participation to cease, the potential timing of such exit, and any likely change in investment strategy regarding the assets held in respect of the admission body's liabilities at the date of exit.

Recovery and Trajectory periods

The Trajectory Period in relation to an employer is the period between the valuation date and the date which solvency is targeted to be achieved. A Trajectory Period of 25 years has been adopted at the 2019 valuation.

When an actuarial valuation shows that an employer is in deficiency, the employer's contribution rates will be adjusted to achieve a 100% funding ratio over a period of years (the Recovery Period), while ensuring that the probability of achieving solvency over the Trajectory Period remains acceptable. In consultation with the Fund's Actuary, the Administering Authority has set a common maximum recovery period of 16 years for all employers in the Fund from 1 April 2020. The actual recovery period within this maximum of 16 years is determined at each actuarial valuation by balancing the Fund's solvency requirements against the financial strength of the Fund's main scheduled employers.

The same principles apply when an employer is in surplus except for employers of reduced covenant whose position is in deficit on an exit basis, where the Administering Authority may not permit reduced contributions below the primary contribution rate.

The Fund's liabilities mostly take the form of benefit payments over long periods of time. The main scheduled employers in the Fund are financed through central and local taxation and can be viewed as very financially secure. As these employers ultimately underwrite the Fund's finances, the Administering Authority has agreed a recovery period of 16 years for the secure scheduled bodies in the 2019 actuarial valuation.

Grouping of Employers

In some circumstances it is desirable to group employers within the Fund together for funding purposes (i.e. to calculate employer contribution rates). Reasons might include reducing the volatility of contribution rates for employers, facilitating situations where employers have a common source of funding or accommodating employers who wish to share the risks related to their participation in the Fund.

Employers may be grouped entirely, such that all of the risks of participation are shared, or only partially grouped such that only specified risks are shared.

All employers in the Fund are grouped together regarding the risks associated with payment of ill health pensions and partner's pensions and lump sum benefits on death in service. The cost of such benefits is shared across the employers in the Fund. This is because the Administering Authority, in view of the size of the Fund, does not see it as cost effective or necessary to insure these benefits externally.

Group Funding Framework

Prior to 1 April 2019 all the secure scheduled bodies in the Fund participated in a grouped funding arrangement called the 'Scheduled Body Group'. With effect from 1 April 2019 the Scheduled Body Group was disbanded, with employers either entering new group funding arrangements (see below) or having their contributions assessed on an individual basis.

With effect from 1 April 2019 there are three groups of employers for funding purposes; the Town and Parish Councils Group (TPCG), the Academies Group (AG) and the Admission Body Group (ABG). Employers within a group share all risks of participation with other employers in the group, with the exception of liability for:

- ill health pensions, partner's pensions and lump sum benefits payable on death in service (which are shared across all employers in the Fund)
- secondary contributions (in relation to the ABG and TPCG only).

The Administering Authority will keep under review the funding arrangements of all employers and may remove additional employers from the grouping arrangements should their situations change.

New funding groups would be considered by the Administering Authority, but only through consultation with the employers involved.

Town and Parish Council Group

The Town and Parish Council Group was created on 1 April 2019. The Group was credited with a notional asset transfer from the Scheduled Body Group based on a share of Fund of the Scheduled Body Group at 31 March 2019.

The TPCG includes Town and Parish Council employers under Part 2 (paragraph 2) of Schedule 2 of the Regulations who, due to being relatively small employers, benefit from being able to share risks with a wider pool.

A Town or Parish Council was able to elect by 15 August 2019 opt out of the TPCG at the 2019 valuation and instead have an individual contribution rate. An option to leave the TPCG will be given as part of all subsequent valuations. An election to leave the TPCG is irrevocable.

Employers within the TPCG share all risks arising in the TPCG since the previous valuation in proportion to liabilities at the valuation date. The first such valuation date at which this risk sharing will be calculated will be 31 March 2022. There is an exception for secondary contributions paid by employers over the intervaluation period, which will not be shared, and will be credited to each employer's notional asset allocation of the TPCG.

Most employers within the TPCG will have a common recovery period for deficit contributions, which was set as 16 years at the 2019 valuation. Where an employer in the TPCG notifies the Administering Authority of a decision to stop designating posts as being eligible for membership of the LGPS a shorter recovery period may be used.

Employers of the TPCG will be credited with a notional asset allocation at each valuation for the purposes of setting contribution rates. The asset allocation will be determined based on the risk sharing framework set out above. This notional asset allocation will also be relevant for calculating an exit valuation or calculations under FRS102/IAS19.

Academies Group

The Academies Group (AG) was created on 1 April 2019. The Group was credited with a notional asset transfer from the Scheduled Body Group based on a share of Fund of the Scheduled Body Group at 31 March 2019.

The AG includes all Academies, Free Schools and Multi Academy Trusts under Part 1 (paragraph 20) of Schedule 2 of the Regulations, which are covered by the Department for Education guarantee.

For the avoidance of doubt, the AG includes any academy created from a former higher or further education body. However, the organisation can choose to make an irrevocable decision not to join the AG at the later of the date of conversion or the signing of the 2019 valuation rates and adjustments certificate.

Employers within the AG share all risks in proportion to liabilities. Employers will be responsible for paying a share of the deficit contributions to the AG in proportion to their liabilities in the AG at the relevant valuation.

Employers in the AG will have a common recovery period for deficit contributions which was set as 16 years at the 2019 valuation.

Employers of the AG are not credited with individual notional asset allocations at each valuation for the purposes of setting contribution rates, as deficit contributions are certified based on the funding level of the group. For the purpose of calculating an exit valuation or calculations under FRS102/IAS19, employers in the AG are assumed to have the same funding level as the group as a whole, based on the value of benefits accrued to date for the group as a whole and notional assets held in respect of the group. The funding level of the group is expressed as a percentage and calculated as:

> notional assets held in respect of the group divided by value of benefits accrued to date for the group as a whole.

Admission Body Group

The Admission Body Group (ABG) consists of a number of charitable and not for profit admission bodies. The Administering Authority views the purpose of the ABG to be primarily to smooth contributions for charities and other not-for-profit organisations which would otherwise be exposed to the potential of volatile contributions. With effect from 1 April 2019 all employers within the ABG have a commitment from a secure scheduled employer to subsume their liabilities on exit.

Employers participating in the ABG on 31 March 2019 without such commitment exited the grouped funding arrangement on that date and became stand-alone employers. Those employers were credited with a notional asset allocation equal to a share of Fund of the Admission Body Group at 31 March 2019.

From 1 April 2019 employers within the ABG will share all risks arising in the ABG since the previous valuation in proportion to liabilities at the valuation date. The first such valuation date at which this this risk sharing will be calculated will be 31 March 2022. There is an exception for secondary contributions paid by employers over the intervaluation period, which will not be shared, and will be credited to each employer's notional asset allocation of the ABG.

Employers in the ABG will have individual recovery periods for deficit contributions based on the average future working lifeime of their active members. This will be subject to the maximum 16 year recovery period set at the 2019 valuation for secure scheduled body employers.

Employers of the ABG will be credited with a notional asset allocation at each valuation for the purposes of setting contribution rates. The asset allocation will be determined based on the risk sharing framework set out above. This notional asset allocation will also be relevant for calculating an exit valuation or calculations under FRS102/IAS19.

Funding principles applying to grouped employers

Risk sharing exists within groups. The Administering Authority accepts that this can give rise to cross-subsidies between employers. However, employers in the Fund are required to make upfront contributions determined by the Fund's Actuary to cover the costs of unreduced early retirements, which is a major distinction between employers over time. The Administering Authority and the Fund's Actuary periodically review whether separate rates for individual employers or groups of employers are required.

Within each group, employers share risk according to a set of clearly defined principles which are as follows:

- The group exists to produce a common percentage of pay contribution rate for employers in the group
- Only the group funding target is relevant when producing a common primary contribution rate
- Funding targets used to assess ongoing contributions at the triennial valuation are set using an ongoing actuarial basis that assumes participation is indefinite (or, if participation is not indefinite, that a secure scheduled body has committed to subsume the assets and liabilities of the employer on exit)
- Employers are liable to fund deficiencies emerging at each valuation in proportion to their own liabilities at the time of the valuation
- When employers exit the Fund they will be assumed to leave the group. The funding target adopted at that time will depend on whether its liabilities will be subsumed (i.e. another employer or group will be responsible for the future funding of those liabilities) or will become orphan (where the Fund has no access to any future funding for those liabilities).

Further aspects of funding strategy that may be relevant from time to time are described below.

Notional sub-funds

In order to establish contribution rates for individual employers or groups of employers it is convenient to subdivide the Fund notionally between the employers, as if each employer had its own notional sub-fund.

This subdivision is for funding purposes only. It is purely notional and does not imply any formal subdivision of assets, nor ownership of any particular assets or groups of assets by any individual employer or group.

Roll forward of sub-funds

The notional sub-fund allocated to each employer or group will be updated allowing for all cashflows associated with that employer's or group's membership, including contribution income, benefits paid, transfers in and out and investment income allocated as set out below.

- *Attribution of investment income*

Where the Administering Authority has agreed with a scheme employer that the scheme employer will have a tailored asset portfolio notionally allocated to it, the assets notionally allocated to that employer will be credited with a rate of return appropriate to the agreed allocation.

Where the employer has not been allocated a tailored notional portfolio of assets, the assets notionally allocated to that employer will be credited with the rate of return earned by the Fund assets as a whole, adjusted for any return credited to those employers for whom a tailored notional asset portfolio exists.

The Fund is not formally unitised for the purpose of notionally allocating assets to employers. The Fund Actuary calculates a notional asset allocation for each employer (or group of employers) at each triennial valuation, or at interim dates as may be required, based on cashflows relating to the employer (or group of employers) and investment returns earned by the Fund. Unless the Fund Actuary is notified of specific and material one-off payments, including bulk transfers and prepayment of employer contributions, cashflows in each scheme year ending 31 March will be assumed to be accrued evenly over the scheme year and will attract half of the investment returns earned over that year. For specific and material one-off payments such as bulk transfers and advance payment of employer contributions (see below), investment returns on those payments for the relevant scheme year will be credited from the date of payment to the end of the relevant scheme year, unless otherwise notified by the Administering Authority. For additional employer contributions, investment returns on those payments will be credited from the first day of the next quarter following payment to the end of the relevant scheme year.

Fund maturity

To protect the Fund, and individual employers, from the risk of increasing maturity producing unacceptably volatile contribution adjustments as a percentage of pay the Administering Authority will normally require defined capital streams from employers in respect of any disclosed funding deficiency.

Advance payment of employer contributions

The Administering Authority will allow any employer apart from those in the Academies Group to pre-pay secondary contributions. In addition, any employer who is not part of a group can choose to pre-pay their primary contributions.

Pre-payments can be made annually or triennially in advance, and will attract a discount as agreed with the Administering Authority on the advice of the Fund's Actuary. Pre-payments of primary contributions will be subject to an annual true up once actual annual pensionable payroll is known.

To adhere to the LGPS Regulations all employers must contribute at least an amount in each scheme year equivalent to the administration charge of 0.3% of payroll each year. Employers who pay their primary contributions triennially in advance must make a payment equal to 0.3% of payroll on 1 April in years 2 and 3. This payment will also attract a discount and be subject to an annual true up once actual annual pensionable payroll is known.

Any employer wishing to enter into a pre-payment arrangement must engage with the Administering Authority prior to the scheme year in which the pre-payment is being made.

Full details of how the discount is calculated and the administrative process for the payment of the annual administration charge and the end of year true up procedure will be made available to employers who wish to consider taking this option.

Additional payments by employers

Employers must contribute the amounts certified by the Fund's Actuary in each valuation period. However, these are the minimum contributions required and employers (other than those in the Academies Group) can choose to make additional payments.

The additional payment will be credited to the employer and will be allocated investment returns from the start of the quarter following the receipt of the payment.

Identification of risks and counter measures

The Administering Authority recognises that future events and investment income cannot be predicted with certainty. Instead, there is a range of possible outcomes, and different assumed outcomes will lie at different places within that range.

The more optimistic the assumptions made, the more that outcome will sit towards the 'favourable' end of the range of possible outcomes, the lower will be the probability of events actually matching or being more favourable than the assumed events, and the lower will be the Funding Target calculated using those assumptions.

The Administering Authority's overall policy on risk is to identify all risks to the Fund and to consider the position both in aggregate and at individual risk level. Risks to the Fund will be monitored and action taken to limit them as soon as possible. The main risks are as follows:

Investment risk

The risk of investments not performing (income) or increasing in value (growth) as forecast. Examples of specific risks would be:

- assets not delivering the required return (for whatever reason, including manager underperformance)
- systemic risk with the possibility of interlinked and simultaneous financial market volatility
- insufficient funds to meet liabilities as they fall due
- inadequate, inappropriate or incomplete investment and actuarial advice is taken and acted upon
- counterparty failure

The specific risks associated with assets and asset classes are:

- equities – industry, country, size and stock risks
- fixed income - yield curve, credit risks, duration risks and market risks
- alternative assets – liquidity risks, property risk, alpha risk
- money market – credit risk and liquidity risk
- currency risk
- macroeconomic risks

The Administering Authority reviews each investment manager's performance quarterly taking advice from its Investment Advisors as appropriate. The Investment Strategy is considered annually and a formal review is also undertaken at least following each Actuarial Valuation, with advice taken from Investment Advisors and Fund Managers. The Administering Authority also reviews the effect of any significant market movements on the Fund's overall funding position between Actuarial Valuations.

Employer risk

Those risks that 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.

The Administering Authority will put in place a FSS which contains sufficient detail on how funding risks are managed in respect of the main categories of employer (e.g. scheduled and admission bodies) and other pension fund stakeholders.

The Administering Authority maintains a knowledge base on their 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 FSS. In addition, the Administering Authority commissions the Fund Actuary to carry out a high level risk assessment for employers, as appropriate to inform its funding strategy.

Liquidity and maturity risk

- The Fund's membership has matured in recent valuations and this, together with the improvement in the funding position and hence reduction in contributions from the long-term secure employers has potential cash flow implications. In addition, it is possible that proposed changes to cap exit payments may lead to employers brinigng forward redundancy programmes, cuts and their implications resulting in workforce reductions that would reduce membership, reduce contributions and prematurely increase retirements in the short-term.

The Administering Authority reviews the Pension Fund's cashflow position annually as part of setting the Fund's budget and may commission further work on cashflow projections from the Fund's Actuary or Investment Advisors as required. In addition the Fund will engage in regular communication between itself and employers to ensure it is informed of significant changes that would affect maturity at overall Fund and employer level where material issues are identified.

Liability risk

Inflation, life expectancy and other demographic changes, and interest rate and wage and salary inflation will all impact upon future liabilities.

The Administering Authority will make sure the Fund's Actuary investigates these matters at each valuation, or more often if necessary and expects that the demographic assumptions will be largely based on experience of the Fund's membership, on which the Fund's Actuary will report to the Administering Authority as appropriate. The Administering Authority will then agree with the Fund's Actuary any necessary changes to the assumptions used in assessing solvency.

If significant liability changes become apparent between valuations, the Administering Authority will notify all participating employers of the likely effect on their contributions after the next full valuation, and consider whether any bonds that are in place for admission bodies require review.

Regulatory and Compliance risk

Occupational pensions in the UK are heavily regulated. Both general and LGPS-specific legislation must be complied with.

The Administering Authority will keep abreast of all proposed changes and, whenever possible, comment on the Fund's behalf during consultation periods. The Administering Authority will ask the Fund's Actuary to assess the effect of any changes on employers' contribution rates as appropriate.

The Administering Authority will then notify employers of how these rule changes are likely to affect their contribution rates at the next valuation, if they are significant.

Governance risk

This covers the risk of unexpected structural changes in the Fund's membership (for example, if an employer closes their scheme to new entrants or if many members withdraw or groups of staff retire), and the related risk of an employer failing to notify the Administering Authority promptly.

To limit this risk, the Administering Authority requires the other participating employers to communicate regularly with it on such matters. The Administering Authority also undertakes to inform the Fund's Actuary promptly of any such matters. How the Administering Authority generally engages and communicates with its employers is set out in its Communications policy. In addition, the Panel and Board includes members which represent employers in the Fund other than the Administering Authority.

Recovery period

Allowing deficiencies to be eliminated over a recovery period of up to 16 years means there is a risk that too little will be done to restore solvency between successive actuarial valuations. The associated risk is reviewed with the Fund's Actuary as part of the three-yearly valuation process, to ensure as far as possible that enough is done to restore solvency and that deficit contributions are compared to the amount of interest accruing on the deficit.

Phasing

Increasing employers' contribution rates in annual steps rather than immediately introduces a risk that too little will be done to restore solvency in the early years of the process or, in relation to the primary rates of contributions, that employers are not paying enough to meet the cost of benefits being accrued in future. The Administering Authority's policy is to limit the number of permitted steps to three, but it may permit a longer period if the employer can demonstrate unusual and difficult budgetary constraints. In addition, it accepts that a slightly higher final rate may be necessary at the end of the stepping process to help make up the shortfall.

Cost Management, McCloud / Sargeant judgement and GMP indexation and equalisation

For the 2019 valuation there is currently significant uncertainty as to whether improvements to benefits and/or reductions to employee contributions will ultimately be required under the cost management mechanisms introduced as part of the 2014 Scheme, and the improvements that may be required to benefits consequent to the "McCloud" equal treatment judgement. There is also uncertainty regarding the nature of the steps that will need to be taken by the Scheme to compensate for the effects of Guaranteed Minimum Pensions being unequal for men and women and there being no mechanism for increases in GMP to be topped up to full CPI for those reaching State Pension Age after 5 April 2021.

The Administering Authority will consider any guidance emerging on these issues during the course of the valuation process and will consider the appropriate allowance to make in the valuation, taking account of the Fund Actuary's advice. At present the Administering Authority considers an appropriate course of action for the 2019 valuation is to include a fixed loading of 0.9% of Pay within the employer contribution rates certified by the Fund Actuary that reflects the possible overall extra costs to the Fund as advised by the Fund Actuary. It is possible that the allowance within contribution rates might be revisited by the administering authority and Fund Actuary at future valuations (or, if legislation permits, before future valuations) once the implications for Scheme benefits and employee contributions are clearer.

Links to investment policy set out in the Fund’s Investment Strategy Statement

The Administering Authority has produced this Funding Strategy Statement having taken an overall view of the level of risk in the investment policy set out in the Investment Strategy Statement (available from the Pension Fund’s website).

Both documents are subject to regular review.

Future monitoring

The Administering Authority plans to review this FSS as part of the three-yearly actuarial valuation process unless circumstances arise that require earlier action.

The Administering Authority and the Fund's Actuary will monitor the Fund’s solvency position at regular intervals between valuations. Discussions will be held with the Fund's Actuary to establish whether any changes are significant enough to require further action, such as informing employers of the need for different employers’ contribution rates after the next valuation.

Advanced payment of employer pension contributions

1. Introduction

Employer contributions are made up of two elements; primary contributions and secondary contributions. Primary contributions are certified by the Actuary as a percentage of pensionable pay and are the amount required to pay for benefits being built up by employees who are currently paying into the scheme. Secondary contributions are amounts certified in addition to the primary contributions and are usually related to the recovery of a pension deficit. Secondary contributions are usually certified as a monetary amount.

The Administering Authority will allow any employer apart from those in the Academies Group to pre-pay secondary contributions[1]. In addition, any employer who is not part of a group can choose to pre-pay their primary contributions.

2. Options for pre-payments

The following two pre-payment options are available:

- payment annually in advance each year, or
- payment triennially in advance (i.e. one payment on 1 April for all 3 years).

If an employer is electing to pre-pay annually, they can make the election each year (by 31 January), for the following year beginning 1 April.

Pre-payments will receive a discount if the employer meets the following conditions:

- notify the Administering Authority of their intention to pre-pay by 31 January
- pay the full amount of their advanced payment to the Pension Fund's bank account on 1 April
- if paying primary contributions in advance, include actual pensionable pay on each monthly remittance form.
- if paying primary contributions triennially in advance, make a payment on 1 April in years 2 and 3 to cover the administration charge as described below

3. Discounts applied

The Fund's Actuary has confirmed that the following discounts will apply (based on the discount rate for the secure scheduled bodies group) for employer contributions paid in advance for the triennial valuation period 2020/21 to 2022/23.

1-year advanced payment	3-year advanced payment

[1] Employers in the Academies Group pay a common primary contribution rate and a share of the Group's deficit based on their proportion of the Group's liabilities. No discount can therefore be attributed to an individual employer within the Academies Group.

Year 1 discount	Year 1 discount	Year 2 discount	Year 3 discount
2.1% (amount due x0.979)	2.1% (amount due x0.979)	6.3% (amount due x0.937)	10.2% (amount due x0.898)

4. Pre-payment of secondary contributions

The Fund's Actuary will certify annual amounts of secondary contributions due for each of the years covered by the Rates and Adjustments certificate. An employer can choose to pay the total amount certified for the three years as a one-off payment on 1 April 2020, or each annual amount on 1 April each year.

5. Pre-payment of primary contributions – estimated annual pensionable payroll

Primary contributions are certified as a percentage of pensionable pay. Therefore if an employer chooses to pay primary contributions in advance, an estimated payroll figure needs to be used to calculate the amount of the pre-payment. The estimated 2020/21 pensionable pay will be based on a roll forward of the 2018/19 actual pensionable payroll provided in the annual return. The roll forward will use the Fund Actuary's observed pay growth of 2.8% pa from the 2019 Valuation (applied twice, once for 2019/20 pay and again for 2020/21 pay).

If the employer believes that this approach will result in a materially different figure for 2020/21 pensionable pay to their own estimate, they should raise this with the Administering Authority before 31 January to agree a different figure. The Administering Authority reserves the right to specify the amount of estimated pensionable pay on which advanced contributions payments are made.

6. Pre-payment of primary contributions - 'True-up' arrangements

Following the end of each financial year the Administering Authority will 'true-up' the primary employer pension contributions due (less the discount applied) based on actual pensionable pay against the payment made in advance, to ensure that the employer has paid the correct amount of contributions. The Administering Authority will provide the calculation of the employer's 'true-up' within 10 working days of receipt of the employer's March remittance of pensionable pay.

If the amount of contributions paid in advance are greater than the actual contributions due (i.e. the employer has paid too much) they will not be issued a refund. The amount of overpayment will count towards the total assets the Pension Fund has accumulated for the employer that the Fund's Actuary will use to calculate the employer's funding level and future contributions for the next Actuarial Valuation.

If the amount of contributions paid in advance are less than the actual contributions due (i.e. the employer has paid too little) the employer will need to make an additional contribution. The amount of additional contribution will be subject to an interest charge at the 1 year discount rate (2.1%) to reflect that the Pension Fund has not received a return on the shortfall of contributions in that year. Any additional contribution necessary after the 'true-up' will be due within 14 days following the Administering Authority sending the employer their 'true-up' calculation.

7. Pre-payment of triennial primary contributions - year 2 and year 3 administration charge

To adhere to the LGPS Regulations all employers must contribute at least an amount in each scheme year equivalent to the administration charge. For employers choosing to pay triennially in advance their advanced payment will not include the Pension Fund's charge for administration (0.3% of payroll each year) in year 2 and 3. The administration charge will be due for payment on 1 April in year 2 and 3 and will receive a 1 year discount of 2.1% and will also be subject to the 'true-up' process described above.

Example 1 - Contributions paid annually in advance	
2018/19 pensionable payroll	£10,000,000
Up-lift to 2020/21 pensionable payroll (x2.8% x2.8%)	£10,567,840
Primary contribution rate (18.5%)	£1,955,050
Application of year 1 discount (x0.979)	**£1,913,409**
'True-up'	
Actual 2020/21 pensionable pay	£10,700,000
Primary contribution rate (18.5%)	£1,979,500
Less credit for undiscounted value of contribution paid	£1,955,050
Underpayment (+ve)/overpayment (-ve)	£24,450
Underpayment due from employer, plus interest (+2.1%)	**£24,970**

Example 2 - Contributions paid triennially in advance			
2018/19 pensionable payroll	£10,000,000		
Up-lift to 2019/20 pensionable payroll (x2.8%)	£10,280,000		
	Year 1	Year 2	Year 3
Uplift in pensionable payroll (x3.1% each year 2021/22 onwards - Actuary's assumption)	£10,567,840	£10,895,443	£11,233,202
Primary contribution rate (18.5% year 1, 18.2% years 2 and 3 less 0.3% administration charge)	£1,955,050	£1,982,971	£2,044,443
Discount	0.979	0.937	0.898
Discounted contribution	£1,913,409	£1,858,941	£1,835,793
	a	b	c
Triennial discounted contribution (a+b+c)	**£5,608,142**		
Administration charge (0.3%)	£0	£32,686	£33,700
Administration charge (0.3%) discounted at 0.979	-	**£32,033**	**£33,026**
'True-up'			
Actual pensionable pay	£10,700,000	£10,900,000	£11,200,000
Primary contribution rate (18.5%)	£1,979,500	£2,016,500	£2,072,000
Less credit for undiscount value of contribution paid (inc admin charge)	£1,955,050	£2,015,657	£2,078,142
Underpayment (+ve)/overpayment (-ve)	£24,450	£843	-£6,142
Underpayment due from employer, plus interest (+2.1%)	**£24,970**	**£861**	*

*not refunded to the employer, retained by the Pension Fund and credited to the employer's funding level and future contribution rate at the next Actuarial Valuation

8. Making your pre-payment election

Please email pensions.finance@hants.gov.uk by 31 January to let us know that you wish to take up the pre-payment option and confirm whether this is in relation to primary and/or secondary contributions and whether it is for a triennial payment for the period 2020/21 to 2022/23 or an annual payment for 2020/21.

Pension Services will issue a pre-payment calculation to you by 28 February which will show the employer contribution due on 1 April (and the year 2 and 3 administration charge if applicable).

You will be sent a standard remittance form by 31 March for completion of your monthly employee contribution payments, and notification of actual pensionable pay (if paying primary contributions in advance).

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Hampshire Pension Fund – Employer Policy

Contents

1. Background

1.1. This policy explains the Fund's policies and procedures in the treatment of employers including the admission and exit of employers in the Hampshire Pension Fund. Hampshire Pension Fund is administered by Hampshire County Council.

1.2. The purpose of this policy is to ensure that, as the Administering Authority of the Hampshire Pension Fund, we will minimise the risk that any employer places on the Fund before agreeing to admit any new employers to the Fund. It is also intended to provide clarity on the decisions made by the Fund and provide consistency in the way types of employers are dealt with.

1.3. This policy should be read in conjunction with the Fund's Funding Strategy Statement (FSS).

1.4. The policy will be reviewed from time to time and at least every three years in line with the FSS. It will also be reviewed following changes in the regulations relating to employers in the Fund.

1.5. It should be noted that this statement is not exhaustive and individual circumstances may be taken into consideration where appropriate.

1.6. Where the information relates to a particular type of employer, this will be explained. If no type of employer is indicated the information relates to all employers in the Fund.

2. Aims

2.1. Our aim is to minimise risk to the Fund by ensuring that the employers participating in the Fund are managed in a way that ensures they are able to adequately fund the liabilities attributable to them and, in particular to pay any deficit due when leaving the Fund. In managing this risk we will have regard to the aims of the FSS:

- to manage the employer's liabilities effectively and ensure that sufficient resources are available to meet all liabilities as they fall due,
- to enable primary contribution rates to be kept as nearly constant as possible (subject to the administering authority not taking undue risk) at reasonable cost to the taxpayers, scheduled, resolution and admitted bodies

2.2. The Administering Authority has an obligation to pursue all liabilities owed so that this deficit does not fall on other employers.

3. Principles

3.1. For funding purposes, the Administering Authority will treat employers in different ways depending on how they participate in the Fund and its views on their financial strength.

3.2. As set out in the FSS, employers will be set their own individual contribution rate, unless they participate in one of the three groups set out below:

- Town and Parish Councils under paragraph 2 of Part 2 of Schedule 2, will be part of the Town and Parish Council Group (TPCG), unless they have otherwise opted out of this group in accordance with terms set out in the FSS and as agreed by the Administering Authority
- Academies and free schools under Part 1 (paragraph 20) of Schedule 2 will be part of the Academies Group (AG)
- Some admission body employers may be part of the Admission Body Group (ABG), provided they participated in the ABG on 31 March 2019.

3.3. Employers in a group will pay the same future service rate and share the funding risks of the group as set out in the FSS.

3.4. Regardless of whether they are grouped or ungrouped individual employers will pay for any legal and actuarial costs incurred on their behalf.

4. Responsibilities of employers in the Fund

4.1. We will expect all employers in the Fund to consider the effect of their behaviours on their contribution rate, for example when considering;
- Discretions policies
- Outsourcing decisions
- Salary increases

Employers should have regard to the Fund's administration strategy at all times.

Changes/mergers

4.2. All employers, whether Admission or Scheduled bodies, need to inform the Fund of any changes to the organisation that will impact on their participation in the Fund. This includes change of name or constitution, mergers with other organisations, setting up a wholly owned subsidiary or other decisions which will or may materially affect the employer's Fund membership. This includes, for Town and Parish Councils under paragraph 2 of Part 2 of Schedule 2, a decision to stop designating posts as eligible for membership of the Fund.

Admission agreements

4.3. All employers must inform the Fund of any outsourcings and allow sufficient time for an admission agreement to be completed prior to the contract start date.

5. Managing risk

5.1. Our aim is to minimise employer related risk to the Fund across all the employers in the Fund.

5.2. There must be no significant additional risk to the Fund from any outsourcing by a scheme employer or admission of any other new body for which a scheme employer is guarantor. We would want to ensure that the decisions made by an employer when outsourcing services or providing a guarantee have no adverse impact on the Fund or on other employers in the Fund. We would look to protect both the Fund and other employers in these circumstances.

5.3. In particular, where Scheduled body employers under Part 1 of Schedule 2 outsource services, there will be a presumption that the Scheduled body has agreed to subsume any assets and liabilities attributable to the new admission on its exit from the Fund (excluding any assets and liabilities transferring to another employer in the Fund). An exception to this for Academies is described in paragraph 6.29.

5.4. Scheme employers must be prepared to manage any pension risk of an outsourcing.

6. New employers in the Hampshire Pension Fund

Admission bodies

6.1. Each admission body will be a stand alone body in the Fund with its own contribution rate, unless:

- the Administering Authority has agreed that the admission body can be pooled with the relevant Scheme employer, or
- the admission body participates in the Admission Body Group.

6.2. Employers considering outsourcing any services should have regard to and adhere to the requirements of the Fair Deal Policy/Best Value direction. They should also advise the Administering Authority at the earliest opportunity, and before any transfer of staff, so that the necessary paperwork and calculations can be completed in advance of the new body being admitted. More information on the process is available from Pension Services.

6.3. The Administering Authority will have discretion to amend the contribution the scheme employer pays where they make decisions to outsource services if it is considered that there will be significant or material number of employee members moving from the scheme employer to a new employer, relative to the size of the scheme employer. The aim will be to ensure the transfer does not increase the risk to the Fund (or to a Group if the employer who is outsourcing is a grouped employer).

6.4. The costs in terms of the contribution the new employer pays and the fees in relation to the solicitor and actuary costs will depend on the decisions made under this section. In particular, the funding target appropriate to the new employer will reflect the perceived strength of covenant of the scheme employer (including the existence or otherwise of a government guarantee) and whether or not the scheme employer has agreed to guarantee the new employer's participation and subsume its assets and liabilities in the Fund should that employer exit the Fund in future. The fees will depend on the legal and actuarial information required but an estimate will be provided prior to work being commissioned.

All outsourcings

6.5. The Administering Authority will have discretion to amend the contribution the scheme employer pays where they make decisions to outsource services if it is considered that there will be significant or material number of employee members moving from the scheme employer to a new employer, relative to the size of the scheme employer. The aim will be to ensure the transfer does not increase the risk to the Fund or to the Group if the transferring employer is a grouped employer. This applies equally to the situation where posts are moved to companies within the scheme employer's organisation which do not participate in the LGPS, even if existing members do not transfer, where the Administering Authority believes this may have a material effect on the scheme employer's active membership. Unless the circumstances dictate otherwise, the change in the scheme employer's contribution will generally be implemented as part of the next triennial valuation of the Fund when new contributions for all employers will be implemented.

Paragraphs 5 & 6, Part 2, Schedule 2 bodies

6.6. To be an employer under paragraph 5 of part 2 of Schedule 2, the new employer would be connected with scheme employer, where connected means:
a) it is an entity other than the local authority; and .
b) according to proper practices in force at that time, financial information about the entity must be included in the local authority's statement of accounts for the financial year in which that time falls.

6.7. To be an employer under paragraph 6 of part 2 of Schedule 2, the new employer would be "under the control of" the scheme employer, where under the control of has the same meaning as in section 68 or, as the case may be, 73 of the Local Government and Housing Act 1989.

6.8. For the purposes of this policy, paragraphs 5 and 6 Part 2 Schedule 2 bodies are referred to as ‘wholly owned companies’.

6.9. Unless any of the situations listed below apply, the default arrangement will be for the wholly owned company to be a stand alone employer subject to the ongoing orphan funding target. On exit, unless a subsumption commitment is in place, a low risk ("gilts") basis will be used to value the liabilities in accordance with the Funding Strategy Statement.

6.10. If a wholly owned company is set up by an ungrouped employer the Fund will accept the scheme employer being pooled with its wholly owned company, provided the bodies share the same financial covenant and attributes, and the arrangement does not materially increase the risk to the Fund. This will allow the company to have the same funding target as the scheme employer. A parent company guarantee and subsumption agreement will need to be put in place for pooling to be acceptable to the Fund and the Administering Authority will reserve the right to review the contributions for the pool on the establishment of the wholly owned company.

6.11. If a wholly owned company is set up by a tax raising authority, that employer can provide a subsumption commitment which will allow the company to be set up with the secure scheduled body funding target. The company will still be a stand alone employer with its own contribution rate, unless 6.10 applies.

6.12. If a scheme employer has a stronger financial covenant than the wholly owned company (i.e. a MAT/academy with a DfE guarantee that does not extend to the company) then the company will have to be a stand alone employer subject to the ongoing orphan funding target regardless of whether or not a subsumption commitment is in place.

6.13. Contribution rates for closed employers will be calculated using the attained age methodology (closed contribution rate) with a recovery period equal to future working life. This approach may also be taken for those employers where, in the opinion of the Administering Authority, access to the LGPS is being restricted. The Administering Authority will monitor the number of active members and in particular the number of new entrants in forming this opinion. If the scheme employer enters into a pooling arrangement with the wholly owned company under 6.10 above, but one of either the scheme employer or the wholly owned company is closed (or restricts access), the default position for the pool will be to use the attained age methodology with a recovery period equal to the future working lifetime. A period of transition or other easement may be agreed where the number of active members is expected to reduce only slowly over time and new entrants are still expected to be admitted to the group and where, in the Administering Authority's view, such period of transition or easement does not constitute a material risk to the Fund/other employers.

6.14. The Administering Authority will reserve the right to amend the contribution paid by the scheme employer if it is considered that there will be significant or material number of employee members moving to the wholly owned company, relative to the size of the scheme employer. This assessment will take place as part of the triennial valuation.

6.15. Employers considering outsourcing any services to a wholly owned company should also advise the Administering Authority at the earliest opportunity and before any transfer of staff so that the necessary paperwork and calculations can be completed in advance of the new body being admitted. More information on the process is available from the Fund.

6.16. The Fund actuary will determine the employer contribution payable for such a body as an ungrouped employer (or for the group where the employer is grouped with the relevant Part 1 Schedule 2 body) and if necessary revise the contributions payable by the scheme employer outsourcing or otherwise transferring staff to a Part 2 Schedule 2 body with the aim of ensuring the transfer does not increase the risk to the Fund or the group if the employer is a grouped employer. Unless the circumstances dictate otherwise, the change in the scheme employer's contribution will generally be implemented as part of the next triennial valuation of the Fund when new contributions for all employers will be implemented.

6.17. As with admission bodies, the costs in terms of the contribution the new employer pays and the legal and actuarial fees will depend on the decisions made under this section. In particular, the funding target appropriate to the new employer will reflect the perceived strength of covenant of the new employer and the scheme employer, and whether or not the scheme employer has agreed to guarantee the new employer's participation and subsume its assets and liabilities in the Fund should that employer exit the Fund in future and, where relevant, whether the new employer has a government guarantee. Should a guarantee and subsumption commitment not be given by the scheme employer, the Administering Authority may need to take a more prudent approach to setting contribution rates for the new employer to take account of any perceived increased risk to the Fund. The fees will depend on the legal and actuarial information required but an estimate will be provided prior to work being commissioned.

Town and Parish Councils

6.18. Town and Parish Councils joining the Fund will automatically join the Town and Parish Council group (TPCG). Employers in the TPCG will pay a common primary contribution rate based on prevailing future service rate of the TPCG. The FSS sets out details of how deficit (secondary) contributions are payable by employers in the TPCG which, for new employers, will not be applicable until 1 April following the first actuarial valuation date after their commencement in the Fund.

6.19. When a Town or Parish Council designates to join an employee to the Fund, they have no current active members and are not currently subject to a suspension notice (see section 12 below), a standard employer rate equal to the prevailing future service rate of TPCG will be payable until the contributions from the next triennial valuation come into force.

6.20. Town and Parish Councils can choose to leave the TPCG and instead have their contributions based solely on their own liabilities and notional asset share. This election must be made in accordance with a timetable issued by the Administering Authority as part of the triennial valuation. If a Town or Parish Council opts to have an individual contribution rate, they cannot opt to re-join the TPCG at a subsequent valuation.

Academies

6.21. Schools and colleges converting to academy status will automatically join the Academies Group (AG). This also applies to academies being created from a 6th form college, or where there is no former establishment, such as with the creation of a free school. However a 6th form college will be given a choice prior to conversion as to whether or not to join the AG. If the college chooses to remain outside of the AG, an individual employer contribution rate will be calculated using the same funding target as for the AG. Once this choice has been made there will not be a further opportunity for the new academy to join the AG.

6.22. Within the AG, all employers will pay a common future service rate. Deficit contributions will be set according to a common recovery period for the AG and based on each academy's proportion of the liabilities in the AG. If, when a new academy joins the AG, the employers in the AG are paying deficit contributions, the new academy will also be responsible for paying deficiency contributions to the AG from the date of commencement. The deficit contribution will be calculated by the Fund's Actuary based on a percentage of the employer's liabilities at date of commencement.

6.23. The DfE guarantee extends to all academies and free schools, including those created from 6th form colleges. While this guarantee is in force, contribution rates for all academies will be set using the same risk basis as for the secure scheduled body employers.

6.24. A MAT which participated in the AG as a single employer at the 2019 valuation will continue will be treated as a single employer in the AG and will be certified a single contribution rate and, if applicable, a fixed contribution amount towards eliminating any deficit in the AG identified at the valuation date. A single report will be provided for FRS 102 and will not be split between the academies which are part of the MAT.

6.25. Academies joining a MAT on or after 1 April 2019 will be treated as a single employer in the AG and will be certified a contribution rate and, if applicable, a fixed contribution amount towards eliminating any deficit in the AG. This will be in addition to contributions already certified to the MAT and/or their other individually certified academies. For FRS 102 accounting the MAT can instruct the Fund's Actuary to either produce a single report including all academies in the MAT, or to produce separate reports for each academy, noting that it would not be possible to obtain separate reports for academies within a MAT which participated in the AG as a single employer at the 2019 valuation.

6.26. When a LEA school converts to academy status and joins the AG, there will be a transfer of assets from the former LEA school to the AG. Where the LEA's funding position is in deficiency at the conversion date, the asset transfer will be calculated using a ‘prioritised share of Fund’ approach (see paragraph 11.4). This approach recognises that it is not possible to transfer the liabilities of the former staff of the school to the academy which means the LEA retains the risk on these liabilities.

6.27. If an academy transfers between two MATs within the AG, the new MAT will become responsible for the deficit contributions associated with the transferring academy in addition to its own.

6.28. Where academies outsource services on or after 1 April 2019 and 10 or fewer employees are transferred to the new admission body, the new employer will be treated as an ungrouped employer subject to the secure scheduled bodies funding target. At the end of the contract, the liabilities will be subsumed by the outsourcing academy.

6.29. Where academies outsource services on or after 1 April 2019 and more than 10 employees transfer, or where academies set up a wholly owned company and the new admission body or new Part 2 Schedule 2 body is not backed by a guarantee from the Department for Education or the Local Education Authority, the new employer will be treated as an ungrouped employer subject to the ongoing orphan funding target as set out in the Funding Strategy Statement. At the end of the contract, or winding up of the wholly owned company, the liabilities will be subsumed by the outsourcing academy. The exit valuation for the relevant employer will be calculated using the ongoing orphan funding target to be consistent with the original asset transfer.

7. Bonds and guarantors

Guarantor

7.1. A guarantor takes responsibility for the assets and liabilities of the Fund which are attributable to the admission body or wholly owned company. In the event that liabilities of the admission body or wholly owned company remain unpaid, the Fund will seek payment from the guarantor.

7.2. Under the LGPS Regulations 2013[1] every employer who outsources services becomes an ultimate guarantor for the pension liabilities of the new employer. It is the Administering Authority's preferred approach that all wholly owned companies which participate in the Fund as Part 2 Schedule 2 bodies are guaranteed by the Part 1 Schedule 2 employer to which they are related. Should a guarantee not be provided, the contribution rate of the Part 2 Schedule 2 bodies will be set at a level to take account of any perceived increased risk to the Fund (see section 6.17).

7.3. In some circumstances, where the letting authority is not a tax raising authority or an academy who is outsourcing 10 or fewer employees, the Fund

[1] Schedule 2, Part 3, 1(d)

will require a bond to be put in place to cover certain funding risks to the Fund on the advice of the Fund actuary.

7.4. The admission agreement ends if the new employer becomes an exiting employer. The Fund will arrange for a valuation of the assets and liabilities of the exiting employer and, where appropriate, a revised rates and adjustment certificate.

7.5. Payment of the outstanding liabilities must be made by the exiting scheme employer. If the exiting scheme employer fails to make this payment and if there is a bond in place this will be called on in the first instance.

7.6. If there is no bond in place and the scheme employer fails to pay the outstanding liability payment from the guarantor will be pursued. If there is no guarantor the liability will fall to the letting authority who arranged for admission body status for the exiting employer.

7.7. Charitable bodies seeking admission to the Fund will need a tax raising authority to act as guarantor.

7.8. Any employer acting as guarantor will need to complete a guarantor agreement. The Fund will provide a template document for completion.

Bond

7.9. A bond is a way of insuring against the potential cost of the admission body failing by reason of insolvency, winding up or liquidation and being unable to meet its obligations to the Fund.

7.10. The Local Government Pension Scheme regulations provide that the risk assessment for bond cover must be carried out by the admission body. However, we will ask the Fund actuary to calculate the minimum risk to the Fund for any outsourcing. This information will be shared with the scheme employer but not with the admission body. This will not constitute advice for either the scheme employer or admission body, who should take their own actuarial advice as required.

7.11. Where there is a guarantor, the bond will be largely for that scheme employer’s protection, in which case the scheme employer must decide if the admitted body will be required to provide a higher bond than that calculated by the Fund actuary.

7.12. The Administering Authority will require a bond or indemnity to be in place for any outsourcings that are arranged by scheme employers that do not have tax-raising powers, unless it is an academy where 10 or fewer employees are transferring. Where there is no bond the Fund will require the letting employer to sign a guarantee agreement.

7.13. The scheme employer needs to be aware of and manage the ongoing risks.

7.14. The scheme employer should review the bond cover annually.

7.15. In the event of an admitted body failing and there being insufficient bond cover, any outstanding liability will fall to the scheme employer.

8. Open or closed admission agreements

Open agreement

8.1. An open agreement allows any person employed in connection with the contract to join the LGPS.

8.2. The Fund will consider an open agreement for an outsourcing. It is for the scheme employer/admission body to ensure only those eligible are admitted to the Fund.

Closed agreement

8.3. A closed agreement relates to a fixed group of employees. Only the employees or roles that transfer to the admission body from the scheme employer can remain or be members of the Scheme.

8.4. Contribution rates for closed employers will be calculated using the attained age methodology (closed contribution rate) with a recovery period equal to future working life.

8.5. Unless advised otherwise, we will assume the admission agreement is closed.

8.6. A scheme employer arranging an outsourcing may agree to vary from this position but they must be aware of their obligations under Best Value or recommendations of Fair Deal.

Designating employers

8.7. Part 2 Schedule 2 employers are "designating" employers in that they can designate which staff or posts are eligible for membership of the LGPS. Where a Part 1 Schedule 2 employer establishes a wholly owned company which participates in the Fund as a Part 2 Schedule 2 employer, it must advise the Administering Authority of its intentions as regards the eligibility of the company's current and future employees. This will enable the Administering Authority to determine whether the wholly owned company should be treated as an open or closed employer.

9. Funding targets

9.1. The funding target relates to what happens to the liabilities for the members being outsourced at the end of the contract, on termination of the admission agreement or other exit of an employer, and may also take into account the Administering Authority's view on the strength of the scheme employer's covenant.

9.2. The presumption will be that the scheme employer will provide a "subsumption commitment" (i.e. be responsible for the future funding of the liabilities post-exit). This will automatically apply to the non-active liabilities of admission bodies in Part 3 paragraph 1(d)9i) of Schedule 2 which commenced in the Fund after 1 April 2018, i.e. these liabilities and any associated assets will be subsumed by the relevant Scheme employer. This should be confirmed in all other cases.

Orphan (gilts) funding target

9.3. Outstanding liabilities of employers from whom no further funding can be obtained are known as orphan liabilities.

9.4. The Fund will seek to minimise the risk to other employers in the Fund of having to make good any deficiency arising on the orphan liabilities.

9.5. To achieve this, as set out in the Funding Strategy Statement, when an exiting employer would leave orphaned liabilities, the Administering Authority will seek sufficient funding from the outgoing employer to match the liabilities with low risk investments, generally Government bonds.

9.6. Where an admission body is admitted and there is no subsumption commitment from a secure scheduled body or an academy or the Administering Authority determines that the scheme employer which would subsume the assets and liabilities on the admission body's exit is not of sufficiently strong covenant for the scheme employer's funding target to be adopted (see also paragraph 9.13 below), the new employer will be set ongoing contributions calculated to meet the 'ongoing' orphan funding target. This funding target takes account of the approach taken to value orphan liabilities on exit and will be reviewed at each triennial valuation on the advice of the actuary. Where the 'ongoing' orphan funding target applies, the value of the transferring liabilities, and hence notional asset transfer sufficient (where a fully funded transfer applies) will be higher than using a subsumption basis. Similarly, the contribution rate payable by the admission body will be higher than payable by the scheme employer, potentially materially so. Whilst this approach does not guarantee that there will be no exit payment due, it should materially reduce this risk.

9.7. The exit valuation for admission bodies under paragraph 1(d)(i) of Schedule 2 Part 3 which commenced in the Fund after 1 April 2018 and where the ongoing orphan funding target was used to determine the transferring assets on commencement, will be undertaken on the ongoing orphan funding target, notwithstanding the presumption that the scheme employer will subsume the non-active liabilities and associated assets on exit.

Secure scheduled body funding target

9.8. Where an employer is leaving the Fund another employer or group of employers may agree to provide future funding for any liability.

9.9. In that case, any funding deficit arising in future in relation to the exited employer's liabilities will be subsumed by the accepting employer or group.

9.10. Where the subsuming employer is a tax raising body or is deemed to be of similar covenant to a tax raising body the Administering Authority will assume that the investments held in respect of those liabilities will be the same as those held for the rest of the liabilities of the accepting employer or group. Generally this will mean assuming continued investment in more risky investments than Government bonds. In other cases a more prudent funding target will apply, for example in relation to admission bodies following an outsourcing by an academy where more than 10 employees are being transferred, or an outsourcing by other educational establishments where the admission body is not subject to a guarantee from the Department for Education or Local Education Authority, as set out in paragraphs 6.29 and 9.6 above.

Intermediate funding targets

9.11. The actuary also has the option to place an employer on an intermediate funding target if they deem it appropriate. In the case of scheduled bodies without a government guarantee which are deemed to be of weaker covenant than the local authorities, the administering authority will normally adopt a funding target which produces a higher chance of achieving solvency/funding success through adoption of a lower discount rate than adopted for the local authorities.

9.12. The Administering Authority will differentiate between higher, medium and lower risk employers on the intermediate funding targets by way of a light touch financial assessment based on a data submission which the employers will be asked to complete as part of the triennial valuation process. Employers can request a full covenant assessment at their own expense which will be carried out by the Fund Actuary's covenant team.

9.13. Where an employer subject to the intermediate funding targets outsources services under 1(d)(i) of Schedule 2 Part 3 or transfers employees to a wholly owned company with a commitment to subsume the liabilities of the company on exit, the funding target for the new employer will be the same as that applicable to the scheme employer, (i.e. will be the scheme employer's intermediate funding target) unless the ongoing orphan funding target is considered by the Administering Authority to be more appropriate to the circumstances.

10. Pass-through

10.1. A scheme employer may agree a pass-through arrangement with an admitted body. In this case the employer contribution is still calculated by the Fund actuary and the admitted body will be expected to pay this to the Fund. Any arrangement to share the cost of this rate will be between the scheme employer and the admitted body.

10.2. New admission bodies will be stand alone employers in the Fund, unless a pooling arrangement - which does not introduce risk into the Fund - is agreed with the Administering Authority.

11. Fully funded or share of fund

Fully funded

11.1. When a new employer starts in the Fund, they will usually start as fully funded. This means that any past deficit for the members who are transferring to the new employer remains with the scheme employer and does not transfer to the new employer.

11.2. This applies even where there is an onward outsourcing from an existing body. The new employer will start fully funded and the existing admission body will pay any deficit (unless specified otherwise in their contract with the scheme employer).

11.3. Where the funding target for the new employer is higher than that for the scheme employer, the Fund actuary will revise the contributions for the scheme employer to take this into account. Unless the circumstances dictate otherwise, the change in the scheme employer's contribution will generally be implemented as part of the next triennial valuation of the Fund when new contributions for all employers will be implemented.

Prioritised share of fund

11.4. When a LEA school converts to academy status and joins the AG, there will be a transfer of assets from the former LEA school to the AG. Where the LEA's funding position is in deficiency at the conversion date, the asset transfer will be calculated using a 'prioritised share of Fund' approach, This approach assumes the LEA's notional assets in the Fund are first allocated towards ensuring the LEA's deferred and pensioner liabilities are fully funded, so that any deficiency is allocated wholly to the LEA's active membership, of which a part is transferring to the Academy Pool.

11.5. If the LEA is in surplus at the conversion date, the asset transfer will be 100%.

Share of fund

11.6. In exceptional circumstances and only where agreed between the employers the Fund may consider starting a new employer with a share of fund. The Fund will only agree to this where it doesn't increase the risk to the Fund. The principal exception to this is in relation to academy conversions where the assets transferred will be on a prioritised share of fund basis as described in paragraph 11.4 above.

Allowance for McCloud / GMP equalisation

11.7. Until actual costs are known, an allowance for the costs of the McCloud remedy and GMP equalisation will be included for asset transfers calculated on or after 27 September 2019. Asset transfers will be calculated assuming that McCloud will lead to a 0.4% increase in the liabilities, and GMP indexation will be provided in full for all of the exiting employer's members whose State Pension Age is on or after 1 April 2016.

12. Exit from the Fund (terminations)

12.1. If an exit is triggered, the employer will be responsible for all costs (including any deficit).

12.2. An exit valuation will be carried out when an employer becomes an "exiting employer", i.e. it :
- ceases to be a Scheme employer (including ceasing to be an admission body participating in the Scheme), or

-no longer has an active member contributing towards the Fund

12.3. For admission bodies, this includes the following scenarios:

- an outsourcing contract ends or,
- for a closed agreement, when the last member leaves if it is before the contract end date, or
- the admission body becomes insolvent, is wound up or goes into liquidation.

12.4. For exits of a body admitted to the fund under Schedule 2 Part 3 paragraph 1(d) (or earlier regulations) or where a scheme employer is acting as guarantor, the scheme employer should notify the Administering Authority as soon as it knows the admission agreement is likely to be terminated.

12.5. The Administering Authority will instruct the actuary to carry out an exit valuation. The costs of this will be added to the final exit valuation.

12.6. The Administering Authority will pursue all liabilities owing to the Fund. We will support employers to develop a strategy to exit the Fund where required and it is in the interests of the Fund to do so.

12.7. The Administering Authority will pursue the body, any insurer providing a bond or any guarantor as appropriate but ultimately, if unsuccessful, the scheme employer will become liable for any outstanding costs. If there is no scheme employer (e.g. in relation to community admission bodies whose participation pre-dates the requirement for a guarantor), depending upon the circumstances a secure scheduled employer may subsume the assets and liabilities, failing which they will fall to be funded by all employers in accordance with Regulation 64 (3)(b). The Administering Authority has secured subsumption commitments in relation to all employers in the ABG as at 31 March 2019 so the risks to the Fund associated with the exit of community admission bodies are now materially reduced.

12.8. Regulation 64 (2ZA) states an exit credit must be paid within 3 months of the date the employer ceases to be a scheme employer or such longer period as is agreed. Where the circumstances mean that the 3 month period cannot be met, for example (but not limited to) to inaccuracies or delays in the provision of information by the Employer, the Fund will advise the Employer accordingly and seek to agree a later payment date (usually three months after receipt of all required information). If the Employer does not agree, the Fund will discuss with the Actuary how the exit valuation can be finalised and an exit credit paid without increasing the risk for the remaining employers in the Fund.

12.9. Exit credits will generally be paid to the exiting employer, regardless of any side agreement between the exiting employer and associated scheme employer (i.e. the letting authority for outsourced contracts). Scheme employers should note that it is their responsibility to ensure that contracts and side agreements provide for the possibility of either a deficit or a surplus at the end of the contract when the exit valuation takes place. As at the date of this policy regulatory changes are expected (backdated to 14 May 2018) which will enable administering authorities to take risk sharing into account when determining whether or not a surplus is repayable. No exit credits will be repaid in relation to exits from the date of this policy until the regulatory position has been resolved.

12.10. The primary exception to 12.9 above relates to those scheme employers in the Admission Body Group whose assets and liabilities will be subsumed by a secure scheduled employer, where the subsuming employer has made it a condition of subsumption that no surplus (when measured using assumptions for secure scheduled employers) will be repaid to the exiting employer. It is not expected that this exception will be applied more widely.

Town and Parish Councils

12.11. Under the Regulations an exit is triggered when the last active member leaves the Fund.

12.12. Given the unique nature of a Town or Parish Council, the Fund will not request an exit valuation immediately when the last member leaves if the Town or Parish Council indicates that it is continuing to designate posts as being eligible for membership. The Local Government Pension Scheme (Amendment) Regulations 2012 specifically introduced the power to suspend a demand for an exit payment for up to 3 years where the administering authority believes that the employer is likely to have one or more active members contributing to the fund within the period specified in the suspension notice. The Administering Authority considers that it would be appropriate to exercise that discretion in relation to Town and Parish Councils.

12.13. The Fund will issue written notice of the period of the suspension notice. The employer must continue to pay any deficit payments and the actuary will recalculate any deficit at the next valuation. If no new members have joined by the time the suspension notice expires, the Actuary will carry out an exit valuation as at the date of expiry.

[2] Provision 22

HAMPSHIRE COUNTY COUNCIL

Decision Report

Decision Maker:	Pension Fund Panel & Board
Date:	13 December 2019
Title:	Governance: Review of the Pension Fund's Statutory Statements
Report From:	Director of Corporate Resources – Corporate Services

Contact name: Mike Chilcott

Tel: 01962 847411 **Email:** Mike.chilcott@hants.gov.uk

Purpose of this Report

1. This report outlines progress on the Business Plan's actions and the latest statutory statements for the Pension Fund.

Recommendations

2. That progress on the Business Plan's actions be noted, and subject to any amendments the Panel and Board may wish to make, the updated Business Plan (Appendix 1) be approved.
3. That the updated Investment Strategy Statement (Appendix 2) be approved.
4. That the updated Governance Policy and Governance Compliance Statements (Appendix 3) be approved.
5. That the Administration Strategy Statement (Appendix 4) be approved.
6. That the Communication Policy Statement (Appendix 5) be approved.

Executive Summary

7. The purpose of this paper is to ask the Pension Fund Panel and Board to approve the Pension Fund's statutory statements on an annual basis, which are its Business Plan, Investment Strategy Statement, Funding Strategy Statement, Governance Policy and Governance Compliance Statement, Administration Strategy Statement and Communication Policy Statement. The Funding Strategy Statement and Employer Policy are reported on elsewhere on the agenda.

Background

8. The Pension Fund's statutory statements are reviewed annually to ensure that current versions comply with the latest Government and other relevant guidance. All the documents are published in the Pension Fund's Annual Report. The documents were last reviewed by the Panel and Board at their meeting in December 2018.

Business Plan

9. The Myners principles require pension funds to draw up a forward-looking business plan, including a training plan for both the trustees and officers involved in their management and administration.

10. The Hampshire Pension Fund's business plan includes a commitment to review and revise the plan annually, and to evaluate performance against the action plan.

11. A draft updated version of the business plan is attached as Appendix 1 for approval. A few changes are necessary this year, and these are highlighted.

12. The business plan approved by the Pension Fund Panel and Board in December 2019 included several actions for completion by March 2020. Progress against these action points is summarised below.

Planned Action	**Deadline**	**Progress**
Retender the contract for the independent property valuer	March 2020	A property valuer will be appointed in December 2019 or January 2020 following a procurement exercise
Review investment management arrangements for UK direct property	March 2020	Contract extended to December 2020.
Monitor the Fund's investment managers' performance.	Ongoing	Up-to-date performance information is reported to each meeting of the Panel and Board and is closely monitored by officers on a monthly basis. The Panel and Board have agreed changes to the Fund's investment management arrangements based on investment performance when appropriate.
Keep Panel and Board members' training needs under review and provide any extra training considered	Ongoing	In July 2019, the Panel and Board approved the training plan for 2019/20. Bespoke training events for Panel and

Planned Action	Deadline	Progress
necessary, for example to any new members of the Panel and Board.		Board members were arranged for November 2019 and January 2020, and Panel and Board members have attended a number of Pension industry events.
Review the Fund's Investment Strategy Statement.	December 2019	Included in this report.
Review the Fund's Funding Strategy Statement	December 2019	Included in this agenda.
Review the Governance Policy and Governance Compliance Statements	December 2019	Included in this report.
Review this business plan, including progress against the action plan	December 2019	Included in this report.
Review the Communication Policy Statement	December 2019	Included in this report.
Review the Administration Strategy Statement	December 2019	Included in this report.
Review the Fund's management fees and transaction costs.	December 2019	Reported at September 2019 Pension Fund Panel and Board meeting.
Review the Employer policy.	December 2019	Included in this agenda.
Review performance of the Fund's Custodian.	December 2019	Included in this agenda.
Respond to all consultations and requests for information from Central Government on the Pension Fund's investments.	Ongoing	Responded to requests for information from Central Government regarding good governance, investment pooling, the actuarial valuation cycle, exit payments and Fair Deal for 3rd party employee transfers.
Comply with any requests from the Scheme Advisory	Ongoing	No requests have been made this year to date.

Planned Action	Deadline	Progress
Board.		
Continue to work with the ACCESS pool to comply with the Government target to pool assets.	Ongoing	Hampshire is continuing to work as part of ACCESS to provide a suitable pooling solution. Hampshire has now pooled 58% of its investments via Link (Schroders, Dodge & Cox and Baillie Gifford) and UBS

Funding Strategy Statement

13. The Funding Strategy Statement is reported on in a separate report elsewhere on this agenda.

Investment Strategy Statement

14. The Pension Fund's strategy asset allocation was last amended by the Panel and Board at its meeting in November 2018, following the recommendation of Hymans Robertson. The Investment Strategy Statement is attached at Appendix 2 for approval; this version includes the latest changes to the Responsible Investment policy that were agreed by the Panel and Board in September 2019. There have also been minor changes added to this statement to keep contextual information up to date.

15. The Investment Strategy Statement will be reviewed in 2020 by the Pension Fund Panel and Board in line with the results of the 2019 Actuarial Valuation with investment consultancy advice from Hymans Robertson.

Governance Policy and Governance Compliance Statements

16. The Fund's Governance Policy has been rewritten to address the emerging areas of focus from the Scheme Advisory Board's (SAB) 'Good Governance' review, which was produced with consultancy advice from Hyman's Robertson. The output of the review is still being finalised and further changes may be required next year.

17. Until any new regulations from the 'Good Governance' review are produced the existing requirement to produce a Governance Compliance Statement remains in place. The Compliance Statement is appended to the Governance Policy. There are minor changes to the Statement to update it following the creation of the Panel and Board's Responsible Investment Sub-Committee.

Administration Strategy Statement

18. The Administration Strategy Statement is attached at Appendix 4 for approval. A minor change has been made to the policy on Voluntary Scheme

Pays (item 58 in Appendix C of the statement). Voluntary Scheme Pays (VSP) is the method by which the Administering Authority can pay an Annual Allowance tax charge on behalf of a member, where the tax charge is incurred against the standard Annual Allowance and is over £1,000 but less than £2,000 (which is the Mandatory Scheme Pays threshold). The change extends the VSP option to include employees who incur a tax charge of more than £1,000 in relation to a tapered Annual Allowance.

Communication Policy Statement

19. The Communication Policy Statement is attached at Appendix 5 for approval. A minor addition has been made to clarify that the long-term aim is for the majority of communications with scheme members and employers to be routed through the online portal, as outlined in the separate Administration update report.

Employer Policy

20. The Employer Policy is reported on in a separate report elsewhere on this agenda.

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 the Pension Fund Panel and Board are required to review the Pension Fund's Statutory Statements on an annual basis.	

Section 100 D - Local Government Act 1972 - background documents

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

Document	Location
None	

EQUALITIES IMPACT 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 disproportionally 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.

Business Plan

Mission and objectives

The County Council, as administering authority for the Hampshire Pension Fund, has delegated responsibility for managing the Fund's investments to the Joint Pension Fund Panel and Board. The Panel and Board consists of nine county councillors, three scheme member representatives, and three employer representatives. All Panel and Board members have voting rights. An independent adviser to the Panel and Board attends all Panel and Board meetings but does not have voting rights.

The Panel and Board's mission is to provide an efficient and effective pension scheme for all employees and pensioners of all eligible employers in Hampshire, in accordance with the requirements of the legislation for the Local Government Pension Scheme (LGPS).

The Panel and Board's objectives:

- To achieve a 100% funding level over the long term, which means that all current and future fund liabilities can be met.
- To maintain a stable employers' contribution rate in the long term.
- To respond promptly to legislative changes affecting the LGPS and pension provision generally.
- To comment fully on consultation papers dealing with pension matters in the interests of the Fund's participating employers and members within the deadlines set.
- To make sure that the Fund follows best practice as recommended by the Government, the Scheme Advisory Board, the Pensions Regulator, the Local Government Pensions Committee (LGPC), the Chartered Institute of Public Finance and Accountancy (CIPFA) and other organisations specialising in pensions.
- To keep abreast of all developments affecting the LGPS by undertaking training and/or taking advice from external fund managers, external consultants and County Council officers as appropriate.
- To make arrangements for keeping the Fund's participating employers and members fully informed about matters affecting them.

The funding level and employers' contribution rate

The Panel and Board seeks to achieve a 100% funding level and stable contribution rate by:

- drafting and maintaining a Funding Strategy Statement, in partnership with the Fund's actuary and participating employers. This sets out the background and parameters the actuary must use when carrying out actuarial valuations, and the duties of the County Council as administering authority and the Fund's other employers
- commissioning a full actuarial valuation of the Fund every three years as required by law to determine employers' contribution levels. The actuary completed the

latest actuarial valuation of the Fund at 31 March 2016 in March 2017, and the next actuarial valuation will be valued at 31 March 2019.
- arranging interim actuarial valuations if developments mean that the funding level can be expected to have changed
- commissioning an asset/liability study following valuations or as necessary to help determine the best asset allocation needed to meet the Fund's liabilities
- where an actuarial valuation reveals a past service deficit, agreeing employers' contributions with the actuary to recover the deficit.

Investment of the Fund

The Panel and Board seeks a return on the Fund's investments which will enable 100% funding to be achieved and its liabilities to be met with a stable employers' contribution rate. The Fund's Actuary advised that the Pension Fund should aim to achieve an overall investment return equal to the discount rate, which for the 2019 triennial valuation was an overall rate of 4.4%. The Panel and Board aims to achieve this by:

- using the advice of its investment consultant to set benchmark asset allocations and performance targets for external investment managers
- reviewing managers' performance against those targets over three-year and five-year rolling periods at Panel and Board meetings – performance will also be monitored over one-year periods at those meetings and ongoing consideration given to the size of and need for each manager's portfolio in the light of their performance in each financial year
- reviewing each year the levels of all costs incurred in the previous financial year by the external managers on the Fund's behalf
- delegating to the Director of Corporate Resources responsibility for monitoring the managers' performance between Panel and Board meetings.

Arrangements for investing additional voluntary contributions (AVCs)

The Panel and Board aims to make sure there is a wide and varied selection of high-performing investment options for fund contributors who wish to make additional voluntary contributions (AVCs).

The current AVC providers for contributors to the Fund are Prudential and Zurich. The Panel and Board will review the performance and options offered by these providers, as necessary. Hymans have been commissioned to review the fund choice available through these providers and a further report will be provided to the Panel & Board in 2020.

Legislative changes

The Panel and Board aims to respond promptly to legislative changes with implications for managing and administering the Fund by:

- closely monitoring new legislation affecting the LGPS or pension provision generally – this role is delegated to the Director of Corporate Resources
- considering reports on the implications for the Fund of relevant draft legislation

- agreeing any actions necessary to ensure full compliance when the final legislation is enacted, including meeting any deadlines.

Consultation papers

The Panel and Board aims to play an active role in responding to and commenting on consultation papers about pensions, on behalf of Fund employers and members. In doing so it seeks to ensure high standards of corporate governance and best practice, and to further the best interests of contributors and pensioners.

Best practice

The Panel and Board will ensure that the Fund follows best practice as recommended by the Government, the Scheme Advisory Board, the Pensions Regulator, the Local Government Pensions Committee (LGPC), the Chartered Institute of Public Finance and Accountancy (CIPFA) and other organisations specialising in pension matters. It has delegated responsibility for achieving this to the Director of Corporate Resources.

Decision-making

The Panel and Board will take advice as necessary to ensure that all decisions are in the best interests of the Fund and its members. Advice is provided as necessary by:

- the Director of Corporate Resources and her staff
- the actuary
- the Fund's external investment managers
- the Fund's independent adviser
- other consultants.

Developments and training plan

The Panel and Board aims to keep abreast of all developments affecting the LGPS by undertaking training and taking advice when necessary from external fund managers, external consultants and County Council officers.

A training plan was prepared in April 2019 for the Joint Pension Fund Panel and Board and training logs are maintained for individual Panel and Board members. As part of the Panel and Board's training plan a bespoke training session delivered by external speakers was arranged in November 2019 (with a further session booked for January 2020) giving an overview of stewardship for passive investments, private debt, the role of the global custodian and responsible investing. A new training plan will be prepared in April 2020 for the year ahead; this will be based on feedback from the training needs analysis that is completed annually by the Panel and Board members.

The Panel and Board also expects the Director of Corporate Resources and relevant members of the department (who are the Panel and Board's main advisers) to keep up to date with developments in pensions and investments and to undertake training as required.

Communications with participating employers and Fund members

The Panel and Board will arrange to keep the Fund's participating employers and members fully informed about anything affecting them by publishing:

- an annual report on the Fund for each financial year, to be available for an Annual Employers Meeting of the Fund's employers held in the following October
- an annually updated employees' guide to the Scheme
- an annual newsletter to pensioners.

Review and evaluation of business plan

The Panel and Board will review and revise the business plan annually in December and will evaluate performance against the action plan.

Actions to March 2021

New actions:

Commission the review of the Pension Fund's strategic asset allocation and take any subsequent action resulting from the review.

Retender the contract for UK direct property investment management.

Produce an RI Annual Report as part of the Pension Fund's Annual Report.

Retender the contract for the Pension Fund's Actuary.

Retender the contract(s) for investment consultancy advice.

Retender the contract for Pensions Administration software.

Consider the outcome of the SAB 'Good Governance' review.

Ongoing actions:

Monitor the Fund's investment managers' performance.

Respond to all consultations and requests for information from Central Government on the Pension Fund's investments.

Continue to work with the ACCESS pool to comply with the Government target to pool assets.

Comply with any requests from the Scheme Advisory Board.

Comply with the requirements of the UK Stewardship Code and UN Principles of Responsible Investment.

Complete the following annual reviews – deadline March 2021:

- the Statutory Statements:
    - the Fund's Investment Strategy Statement
    - the Fund's Funding Strategy Statement (if necessary)
    - the Governance Policy and Governance Compliance statements
    - this Business Plan, including reviewing progress against the action plan
    - the Communication Policy statement
    - the Administration Strategy statement
- the Fund's management fees and transaction costs
- the Employer policy
- the performance of the Fund's Custodian.

Keep Panel and Board members' training needs under review and provide any extra training considered necessary, for example to any new members of the Panel and Board.

Investment Strategy Statement

Introduction

Hampshire County Council is the administering authority for the Hampshire Pension Fund (the “Fund”), which covers employees of the County Council, two unitary councils, 11 district councils, and 319 other scheduled and admission bodies. The total number of contributors is 58,055 and there are 72,050 deferred members and 41,714 pensioners (all as at 31 March 2019).

The Local Government Pension Scheme (Management and Investment of Funds) Regulations 2016 require pension fund administering authorities to prepare and review, from time to time, an Investment Strategy Statement.

This Statement has been drafted to comply with these regulations in accordance with the Guidance on Preparing and Maintaining an Investment Strategy Statement.

Investment Strategy

The Fund has three main aims:

- To manage the employers’ liabilities to achieve long-term solvency. Accordingly, employers’ contributions will be set to ensure that 100% of the liabilities can be met over the long term.
- To enable primary contribution rates to be kept to nearly as constant as possible (subject to the administering authority not taking undue risk) at reasonable cost to the taxpayers, scheduled, resolution and admitted bodies, while achieving and maintaining fund solvency and long-term cost efficiency, which should be assessed in light of the risk profile of the Fund and employers, and the risk appetite of the administering authority and employers alike.
- Seek returns on investment within reasonable risk parameters.

In compiling the Fund’s 2019 Actuarial Valuation, the Fund’s Actuary, Aon Hewitt advised that the Pension Fund requires the assets to deliver a long-term return of above the discount rate of 4.4%, which is set out in the Fund’s Funding Strategy Statement.

The Pension Fund Panel and Board have prepared a set of investment beliefs based on their experience of the workings of the Fund and the nature of the underlying investments held, which are contained in Annex 1.

Variety of investments

In order to achieve the return in its Funding Strategy, the Investment Regulations require the Pension Fund to invest money in a wide variety of investments and state the maximum percentage that it will invest in particular investments or classes of investment.

The strength of the majority of the Fund’s employers’ covenants and the present positive annual cashflows allow the Fund to have set a long-term deficit recovery period and to take a corresponding long-term view of investment strategy. For the purpose of setting maximum limits the Pension Fund has done this at a strategic level. The total is deliberately greater than 100% to allow flexibility between the categories. The allocation below favours growth assets as the Fund believes that participation in economic growth is a major source of long-term equity returns, which will be required to meet its long-term investment return target and mean that employer contributions can be kept lower.

	Minimum	Maximum
Growth assets – To deliver sufficient return to meet the funding target and maintain the affordability of the target level of contributions (assets such as equities and hedge funds)	40%	70%
Income assets – Structuring the assets to meet the Fund's income requirements or increase the confidence of achieving required returns through a more stable and observable return stream (assets such as property, infrastructure, loans and alternative credit)	10%	45%
Protection assets - Employing investment strategies that provide some downside protection or diversification benefit to maintain stability in the level of contributions (assets such as traditional gilts and index-linked gilts)	10%	30%

Suitability of investments and receipt of investment advice

The Pension Fund has access to the necessary skills, expertise and resources to manage the whole Fund. When making investment decisions the Pension Fund Panel and Board will take advice from appropriate specialist investment professionals including officers, consultants and independent advisers. The Panel and Board have appointed a permanent independent adviser (currently Investment Trustee and Adviser Ltd) to provide advice on all investment decisions.

The Pension Fund recognises the importance of ensuring that all staff and members charged with the financial management and decision making with regard to the Fund are fully equipped with the knowledge and skills to discharge the duties and responsibilities allocated to them. The members of the Panel and Board annually complete CIPFA's training needs analysis for pension funds, which includes investments, and a training plan is prepared to meet the requirements identified. To fulfil the training needs of officers and members the Pension Fund will access training from a variety of investment professionals, including both companies that it does and does not currently contract with, in order to gain exposure to a wide variety of views.

Strategic Asset Allocation

To implement the Pension Fund's Investment Strategy the Pension Fund Panel and Board sets a Strategic Asset Allocation with the aim of achieving the Fund's overall long-term target return without exposing the Fund to excessive risk. In setting the Strategic Asset Allocation advice was commissioned from Hymans Robertson on the options for the Fund's asset allocation and the most effective allocation for achieving the Fund's target return with the degree of certainty specified in the Funding Strategy Statement.

Investment sector	Interim % of Fund	Long Term % of Fund
Growth	48.0%	43.0%
Income	30.0%	40.0%
Protection	22.0%	17.0%
Total Fund	**100.0%**	**100.0%**

In line with the Regulations, the authority's investment strategy does not permit more than 5% of the total value of all investments of fund money to be invested in entities which are connected with that authority within the meaning of section 212 of the Local Government and Public Involvement in Health Act 2007.

The Strategic Asset Allocation was agreed in 2017 following the Fund's last triennial actuarial valuation and the Panel and Board has agreed an implementation plan in order to move to the new allocation. The Fund's Asset Allocation will be reviewed from time to time by the Panel and Board and at least every 3 years following the actuarial valuation.

To manage the portfolios in the Fund's asset allocation the Pension Fund contracts with specialist external investment managers. No assets are managed internally, with the exception of the Fund's cash balance. Since the implementation of the Strategic Asset Allocation the Pension Fund has taken advice from MJ Hudson Allenbridge on the appointment of investment managers and transition management. The Fund's current investment managers are shown in Annex 2.

Approach to risk

The Pension Fund has identified a number of risks on its risk register that may impact its funding and investment strategies, contained in Annex 3, which is reviewed at least annually by the Panel and Board. The Pension Fund maintains a risk register to identity key risks, consider and assess their significance, likelihood of occurrence and potential impact of the risk.

The Panel and Board is aware that the Fund has a need to take risk (e.g. investing in growth assets) to help it achieve its funding objectives. The Fund's appetite for risk is to minimise the overall portfolio risk while delivering the target returns through a diversified portfolio.

Approach to pooling

Hampshire is a member of the ACCESS pool along with the following 10 other pension funds:

Cambridgeshire	Kent
East Sussex	Norfolk
Essex	Northamptonshire

Hertfordshire Suffolk
Isle of Wight West Sussex

All eleven funds are committed to collaboratively working together to meet the criteria for pooling and have signed an Inter-Authority Agreement to underpin their partnership. The first investments that have been pooled were passively managed investments, and Hampshire also now has three active equity mandates invested through the pool operator, Link Fund Solutions. The Operator is currently working to launch further sub-funds throughout 2020 and ACCESS has commissioned further work to facilitate the pooling of other asset classes.

The ACCESS Funds have set out how they meet the pooling criteria, the pool's structure, governance arrangements and services to be shared in the submission made to the Government in July 2016, which is available on ACCESS' website http://www.accesspool.org/

All 11 ACCESS funds are working in the expectation that all investments will be pooled apart from a minority of investments where there is no value for money benefit to pooling a specific investment as identified and agreed by an individual fund.

Hampshire will not be pooling its allocation to directly held UK property (10% of its Strategic Asset Allocation). As set out by the ACCESS funds in their July 2016 submission to the Government, there is a dis-economy in pooling direct property investments due to the cost (principally tax) of making changes to portfolios and the limited anticipated savings available from pooling.

In addition, Hampshire will not pool cash held for the efficient administration of the scheme, which is needed to manage cash flow to meet statutory liabilities including monthly pension payroll payments.

Responsible Investment Policy

The Pension Fund's investment principles include:

i) that it has a long term focus and must make investment returns to meet pensions liability (currently calculated by the Fund's actuary as 4.5%pa), 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.

The Pension Fund is a signatory of the UK Stewardship Code and the UN Principles of Responsible Investment.

Responsible Investment Sub-Committee

The Pension Fund Panel and Board (PFPB) take their responsibilities for Responsible Investing and the consideration of ESG issues very seriously, and have established a Responsible Investment sub-committee, which meets at least twice a year, to review ESG issues and support implementation of the Responsible Investment Policy.

The Terms of Reference of the sub-committee are as follows:

To make recommendations to the PFPB on ESG issues having completed the following activities:

a. to review regularly the Pension Fund's Responsible Investment Policy (contained in its Investment Strategy Statement), and practices relating to it, to ensure that ESG issues are adequately reflected

b. to provide a forum for considering representations to change this Policy and/or the Pension Fund's responsible investment practices relating to it;

c. to engage in responsible stewardship with its investment managers and to provide a forum for the review and monitoring of investments in the context of the Policy;

d. to receive any relevant training on ESG issues;

e. to review investment managers' company engagement and voting decisions and when necessary engage directly and indirectly with investment managers (and where possible directly with companies the Pension Fund is invested in) to make representations concerning ESG as appropriate;

f. to engage directly and indirectly with scheme members and employers to hear representations concerning ESG as appropriate;

g. to report annually on the Pension Fund's Responsible Investment activities to demonstrate progress to the Pension Fund's stakeholders

Consideration of ESG in Investment Decisions

The Pension Fund delegates its investment decisions to its current and future appointed investment managers, who are a combination of specialist external active investment managers and passive investment managers. The PFPB engages in responsible stewardship with its investment managers and will review and monitor investments in the context of this Policy as follows:

Passive investment managers

These managers are employed to mirror the stocks in various indices, and the PFPB accept that in making investments for the Pension Fund through an index, passive managers are unable to actively take ESG factors into account.

However, the PFPB does expect its passive investment managers to act in the best interests of the Pension Fund to enhance the long-term value of investments and support and encourage sound practices in the boardroom. As such the PFPB expects its passive investment managers to engage with companies within the index on areas of concern related to ESG issues and to also exercise voting rights particularly with regard to ESG factors, in a manner that will most favourably impact the economic value of the investments (see separate section below on Exercising Voting rights).

Quantitative investment managers

These investment managers employ particular automated techniques to select stocks as opposed to individual judgement (used by ‘traditional’ active investment managers), but unlike passive investments are not constrained by any index. The Pension Fund would only utilise a quantitative investment manager if having taken advice it was appropriate for implementing the Fund’s investment strategy and following a thorough assessment of the investment manager and their quantitative model, including the extent to which it can account for ESG factors.

Similarly, to passive investment management the Pension Fund accepts that a quantitative investment manager cannot make stock specific judgements on ESG issues and therefore may not be able to take all ESG factors into account in their investment decisions. However, the Fund still requires the same level of engagement and exercise of voting rights (as described above) as with all other investment managers.

Active investment managers

The PFPB delegates responsibility for making individual investment decisions (non passive) to its active investment managers.

In delivering their service to the Pension Fund, the PFPB requires its active investment managers to pro-actively consider how all relevant factors, including ESG factors, will influence the long-term value of each investment.

To ensure that ESG factors are considered in investment decisions, the PFPB uses the following framework of questions, which it requires its investment managers to be able to answer and uses these as a basis to scrutinise them.

For each investment has the investment manager assessed and concluded that the overall expected long-term financial return is mitigated from the risk of:

- Detrimental social impacts or increasing health inequalities from the company's products/services, such as armaments or tobacco.
- Negatively contributing to Climate Change or other environmental issues, such as pollution and the use of plastic.
- The impacts of Climate Change.
- Poor corporate governance, systems of control and a lack of transparency.
- A senior management pay structure that is biased towards managers making short-term decisions that aren't in the company's and investors long-term interests.
- The detrimental treatment of the company's workforce or workers in the company's supply chain on issues such as health and safety, gender equality and pay.
- Dangerous business strategies, such as the creation of monopolies, that may expose the company or wider economy to unacceptable risk.
- Any outcome damaging to human rights.
- Reputational damage to the company, the Pension Fund in relation to its beneficiaries, Hampshire residents, or the general principles of the UK Corporate Governance Code; as a result of its approach to any ESG issue.

If the PFPB do not receive satisfactory responses to these questions they may undertake further engagement with investment managers (and possibly directly with investments) and/or consider directing the investment manager to not invest in the company/sector in question.

Closed-ended limited partnerships

The Pension Fund invests in closed ended limited partnerships and has let a number of discretionary contracts to investment managers for investments in private equity and infrastructure in these types of investments. The Pension Fund requires that its investment managers to integrate ESG considerations into their selection of these investments, which it believes will improve the long-term risk adjusted returns. Whilst the Pension Fund expects its investment managers to be able to influence the investment decisions of these partnerships, it accepts that once it has committed its investment it cannot control the investments that are made.

Direct property

The Pension Fund has made a strategic allocation to invest in UK commercial property, and therefore recognises that as a landlord it has an opportunity to affect to quality of the buildings that it owns. As part of the investment management contract that the Pension Fund has let for the discretionary management of its property portfolio, the Pension Fund expects its investment manager to consider improving the environmental impact of each of the properties it owns as part of the investment case for owning each property.

Stock/Sector Exclusions and Social Impact investments

The PFPB may also consider disinvestment from a particular stock, the exclusion of a particular type of stock or investment in specific 'social' investments where, based on an evaluation of ESG factors, it believes that the decision would be supported by a significant majority of scheme members and employers; the PFPB may take this approach so long as it does not result in significant financial detriment to the Pension Fund.

Exercise of rights attaching to investments

Each of the Pension Fund's investment managers is asked to work in a consistent and transparent manner with companies they are invested in to ensure they achieve the best possible outcomes for the Pension Fund, including forward-looking ESG standards. This includes requiring investment managers to exercise the Fund's responsibility to vote on company resolutions wherever possible.

The Fund believes that if companies comply with the principles of the UK Corporate Governance Code published by the Financial Reporting Council, this can be an important factor in helping them succeed; but the Fund also accepts the need for a flexible approach that is in the common long-term interests of stakeholders including shareholders, company employees and consumers. The Fund's investment managers should cast their votes with this in mind.

In particular, the Fund's investment managers should cast their votes to ensure that:

- executive directors are subject to re-election at least annually
- executive directors' salaries are set by a remuneration committee consisting of a majority of independent non-executive directors, who should make independent reports to shareholders
- arrangements for external audit are under the control of an audit committee consisting of a majority of independent non-executive directors, with clear terms of reference – these should include a duty to ensure that investment managers closely control the level of non-audit work given to auditors, and should not significantly exceed their audit-related fee unless there are, in any investment manager's opinion, special circumstances to justify it
- in the investment managers' opinion, no embarrassment is caused to the Fund in relation to its beneficiaries, Hampshire residents, or the general principles of the UK Corporate Governance Code.

The Pension Fund's investment managers (both active and passive) are required to report to the Pension Fund on their engagement with company management and voting recording, highlighting any instances that they voted against company management or did not follow these guidelines. The reports of the investment managers on their consideration of ESG factors, company engagement and shareholder voting will be viewed by the Pension Fund's officers, the Responsible Investment Sub-Committee and Pension Fund Panel and Board.

Conflicts of interest

Conflicts of interest in relation to responsible investment and stewardship could arise when the ability to represent the interests of the Fund as a shareholder is hindered by other interests. These can arise within the Fund or within external service providers.

The Pension Fund expects the investment managers it employs to have effective policies addressing potential conflicts of interest, and that these are all publicly available on their respective websites. These are discussed prior to the appointment of a manager and reviewed as part of the standard manager monitoring process.

In respect of conflicts of interest within the Fund, Pension Fund Panel and Board members are required to make declarations of interest prior to meetings which are documented in the minutes of each meeting and available on the Council's website at www.hants.gov.uk. Hampshire County Council, as the Administering Authority of the Hampshire Pension Fund, requires all members of the Panel and Board and officers to declare any pecuniary or other registerable interests, including any that may affect the stewardship of the Fund’s investments. Details of the declared interests of Council members are maintained and monitored on a Register of Member Interests. These are published on the Council’s website under each member’s name and updated on a regular basis.

Annex 1 – Investment Beliefs

Belief: Clear and well-defined objectives are essential to achieve future success

The Pension Fund Panel and Board is aware that there is a need to generate a sufficient level of return from the Fund's assets, while at the same time having a clear understanding of the potential risks and ensuring there is sufficient liquidity available to pay members' benefits as they fall due. The Panel and Board have considered their own priorities and believe that setting clear objectives for the Fund is key in providing focus for the way the investment strategy is implemented.

Belief: Strategic asset allocation is a key determinant of risk and return

The Panel and Board understands that having the appropriate strategy in place is a key driver of the Fund's future success and thus is typically more important than manager or stock selection.

Belief: Funding and investment strategy are linked

The Panel and Board understands that a number of funding related aspects feed into investment strategy decisions, including maturity and level of required return. Given this, actuarial and investment matters, most notably setting investment strategy, are looked at in tandem by the Panel and Board.

Belief: The Panel and Board will take an appropriate level of investment risk

As a long term LGPS Fund the Panel and Board acknowledge the need to take investment risk to ensure the affordability and sustainability of the Fund. However, the level of risk will be set which is aligned to the long-term objectives, with a view to taking appropriate and not unnecessary levels of risk and managing funding level volatility.

Belief: Long term investing provides opportunities for enhancing returns

The Panel and Board believes that investors with long term time horizons are typically less constrained by liquidity requirements and able to better withstand periods of price volatility. As a long-term investor, the Fund may choose to gain additional compensation by investing in assets that are illiquid (e.g. property, infrastructure and private equity) or may be subject to higher levels of volatility (a premium return is required for any such investments). Having this long-term focus also helps the Fund tolerate periods of active manager underperformance when the manager's investment style is out of favour with the market.

Belief: Equities are expected to generate superior long-term returns

The Panel and Board believes that, over the longer term, equities are expected to outperform other liquid assets, in particular government bonds. The Panel and Board is therefore comfortable that the Fund maintains a significant allocation to equities in order to support the affordability of contributions.

Belief: Government bonds provide liquidity and a degree of liability matching

Government bonds have characteristics that are similar to the assumptions used in valuing pension liabilities e.g. sensitive to changes in interest rates and (for index-linked) to changes in market-implied inflation. This makes them a suitable asset for reducing the Fund's funding risks. In addition, this asset class has proven to be highly liquid at times of market stress, enabling it to be used for rebalancing and to help meet any outflows that may fall due. Given this, the Fund hold a proportion of its assets in this asset class.

Belief: Alternative investments provide diversification

The Panel and Board believes that diversification across asset classes can help reduce the volatility of the Fund's overall asset value and improve its risk-return characteristics. The Panel and Board believes that investing across a range of asset classes (including, but not restricted to, equities, bonds, infrastructure and property) will provide the Fund with diversification benefits.

Belief: Fees and costs matter

The Panel and Board recognises that fees and costs reduce the Fund's investment returns. The Panel and Board considers the fees and costs of its investment arrangements to ensure the Fund is getting value for money and to minimise, as far as possible, any cost leakages from its investment process. The Panel and Board will consider paying higher fees to access the strategic opportunity or where the Fund can achieve better or more consistent net of fees returns.

Beliefs: Market inefficiencies will provide opportunities to add value over time

The Panel and Board belief that at times relative market movements or dislocations will provide opportunities to generate additional returns for the Fund. However, the Panel and Board do not believe that they are best placed to capitalise on these opportunities. The Panel and Board will therefore set mandates with the flexibility for specialist external investment managers to add value through allocation decisions where deemed appropriate. Alongside this the Panel and Board will assess the position of the Fund against the long-term strategic benchmark and any requirements to rebalance back toward the long term target.

Belief: Active management can add value

The Panel and Board recognises that certain asset classes can only be accessed via active management. The Panel and Board also recognises that active managers may be able to generate higher returns for the Fund (net of fees), or similar returns but at lower volatility, than equivalent passive exposure. The Panel and Board will therefore use active management selectively and when doing so will aim to minimise excessive turnover in its active managers. By carefully selecting and monitoring active managers and recognising that periods of underperformance may arise, the Panel and Board seeks to minimise the additional risk from active management.

Belief: Passive management has a role to play in the Fund's structure

The Committee recognises that passive management allows the Fund to access certain asset classes (e.g. equities) on a low cost basis and when combined with active management can help reduce the relative volatility of the Fund's performance.

Belief: Responsible Investment is important to the Panel and Board and can have a material impact on the long-term performance of its investments

The Panel and Board recognises that Responsible Investment issues incorporating all forms of Environmental, Social and Governance (ESG) issues can impact the Fund's returns. Given this, the Panel and Board aims to be aware of, and monitor, financially material ESG-related risks and issues through the Fund's investment managers. The Pension Fund is a signatory of the Principles of Responsible Investment with a Responsible Investment policy and a Responsible Investment Sub-Committee.

Annex 2 – Current investment management arrangements

Portfolio	Investment Manager	Benchmark	Annual target performance gross/net of fees
Low-risk active UK equities	Link Fund Solutions (Schroders)	FTSE All Share	+1.25% gross
High-performance global equities	Acadian Asset Management	MSCI World Index	+1.5-2.5% net
	Baillie Gifford	MSCI ACWI	+1.5-2.5% net
	Link Fund Solutions (Dodge & Cox).	MSCI ACWI	+1.5-2.5% net
	Link Fund Solutions (Baillie Gifford)	MSCI ACWI	+1.5-2.5% net
Passive Global Equities	UBS Asset Management	FTSE All World Equity Index	
		FTSE RAFI All-World 3000	
		MSCI World Min Vol	
		MSCI World Quality	
Passive UK Equities	UBS Asset Management	FTSE All Share	
Private equity	Aberdeen Standard Investments		+9%-11.5% net
Hedge funds (legacy portfolio)	Morgan Stanley		+5.5%-8% net
Infrastructure	Grosvenor Capital Management		+7.5%-10% net
Private debt	JP Morgan Alternative Asset Management	LIBOR	+4% net
Multi-asset Credit	Alcentra	LIBOR	+3% net
	Barings	LIBOR	+3% net
Passive UK index-linked	UBS Asset	FT British Government Over Five Years Index-	

bonds	Management	Linked Gilts Index	
UK property	CBRE Global Investors	Retail Price Index (RPI)	+3.5% net
European property (legacy portfolio)	Aberdeen Standard Investments	Eurozone Harmonised Index of Consumer Prices (HICP)	+5% net
Asset Backed Securities*	Insight Investment	LIBOR	+2% gross
	TwentyFour Asset Management	LIBOR	+2% gross

* tactical allocations rather than part of the strategic allocation

Annex 3 – Investment Risk Register

Risk description	Approach	Mitigation
Investment management underperformance – from the Fund's investment managers failing to outperform their benchmark returns for prolonged periods of time	The Pension Fund believes that for certain asset classes active investment management can add value. It acknowledges that there will be periods where even the best active managers underperform the market but that any investment decisions must be made with a long-term perspective on previous and expected investment returns.	For asset classes where active management can add value the Pension Fund will consider a range of investment strategies from higher performance/risk, lower volatility and passive management. The Fund's investment managers' performance is reviewed regularly by the Fund's officers and reported regularly to the Panel and Board. The Fund's active investment managers report to the Fund on their actions in managing the Fund's investments at least four times a year, including at least once to the Panel and Board. 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.
Market risk – from fluctuations in market prices, which is particularly relevant for investments in equities	The Pension Fund is a long term investor, and as such can ride-out short term fluctuations in markets in order to participate in long term growth that will deliver returns for the Fund.	The Panel and Board have set a diversified asset allocation which limits exposure to one particular market, having taken expert external advice. The review of the Fund's Investment Strategy commissioned from Hymans Robertson optimised a strategy for the Fund that gave the best chance of achieving the Fund's funding outcome and minimising the impact of the worst short-term investment markets. 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.
Interest rate risk – which can affect the prices of investments that pay a fixed interest rate	The Pension Fund considers that investments paying a fixed rate of interest (generally bonds) offer an important	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

Risk description	Approach	Mitigation
	source of diversification from equities.	such as changes in interest rates.
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)	As a long-term investor, the Pension Fund accepts that currencies will rise and fall but movements are difficult to forecast, and therefore that products that can smooth the impact of currency fluctuations do not offer value for money.	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. 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.
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 Pension Fund recognises that all investment carries an element of risk, which underpins the importance that the Panel and Board place on their own knowledge and skills and seeking the appropriate professional advice.	The Panel and Board have set a diversified asset allocation which limits exposure to any particular investment. In addition to further reduce exposure to any particular investment the Fund has the following limits: • no more than 10% of each actively managed portfolio can be invested in any individual corporate holding • no more that 25% of the Fund can be invested in each managers' in-house investment vehicle, this limit does not apply to passively managed unitised life insurance policies • no more than 5% of the total value of all investments of fund money is to be invested in entities which are connected with that authority within the meaning of section 212 of the Local Government and Public Involvement in Health Act 2007. Stock lending is managed on the Fund's behalf by its custodian JP Morgan. The custodian manages a collateralised stock lending

Risk description	Approach	Mitigation
		programme, ensuring borrowers place collateral that exceeds the value of stock on loan that can make good any losses. Restrictions have been placed on the programme to ensure that the proportion of Fund assets that are available to be lent at any time will not exceed 25% of the total market value of Fund assets.
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 Pension Fund considers that investments that are time bound (such as bonds or closed-ended investment vehicles) have an important place in offering diversification from equities.	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 Fund has appointed a Global Custodian (currently JP Morgan) with a global custody network, to provide safe custody of its assets.	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.
Liability risk – that the Fund's liability are not accurately calculated resulting in the return target being too low and employer's contributions having to rise.	In calculating the Fund's liabilities its Actuary makes assumptions for the key factors, such as interest rates, pay and price inflation, life expectancy, changing retirement patterns and other demographic risks that will impact on the calculation of the Fund's liabilities.	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.
Environmental, social and governance (ESG) factors – that these factors reduce long-term returns.	The Fund recognises that companies can enhance their long-term performance and increase their financial returns by adopting positive social, environmental and ethical principles.	The Fund's external investment managers have been instructed 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

Risk description	Approach	Mitigation
		management directly.
Regulatory risk – that inhibits the Pension Fund Panel and Board's fiduciary duty.	The Panel and Board recognise the importance of its overriding fiduciary duty in law to invest Fund monies to achieve the best possible financial return for the Fund.	The Fund will be proactive in engaging with the Government, including responding to consultation, on any issues effecting the management and investment of Pension Fund monies.
Illiquidity – that the Fund is unable to meet its immediate liabilities	Although the Fund does not have a strategic allocation to cash, a cash balance is maintained to meet liabilities as they fall due.	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.

Hampshire Pension Fund - Governance Policy Statement

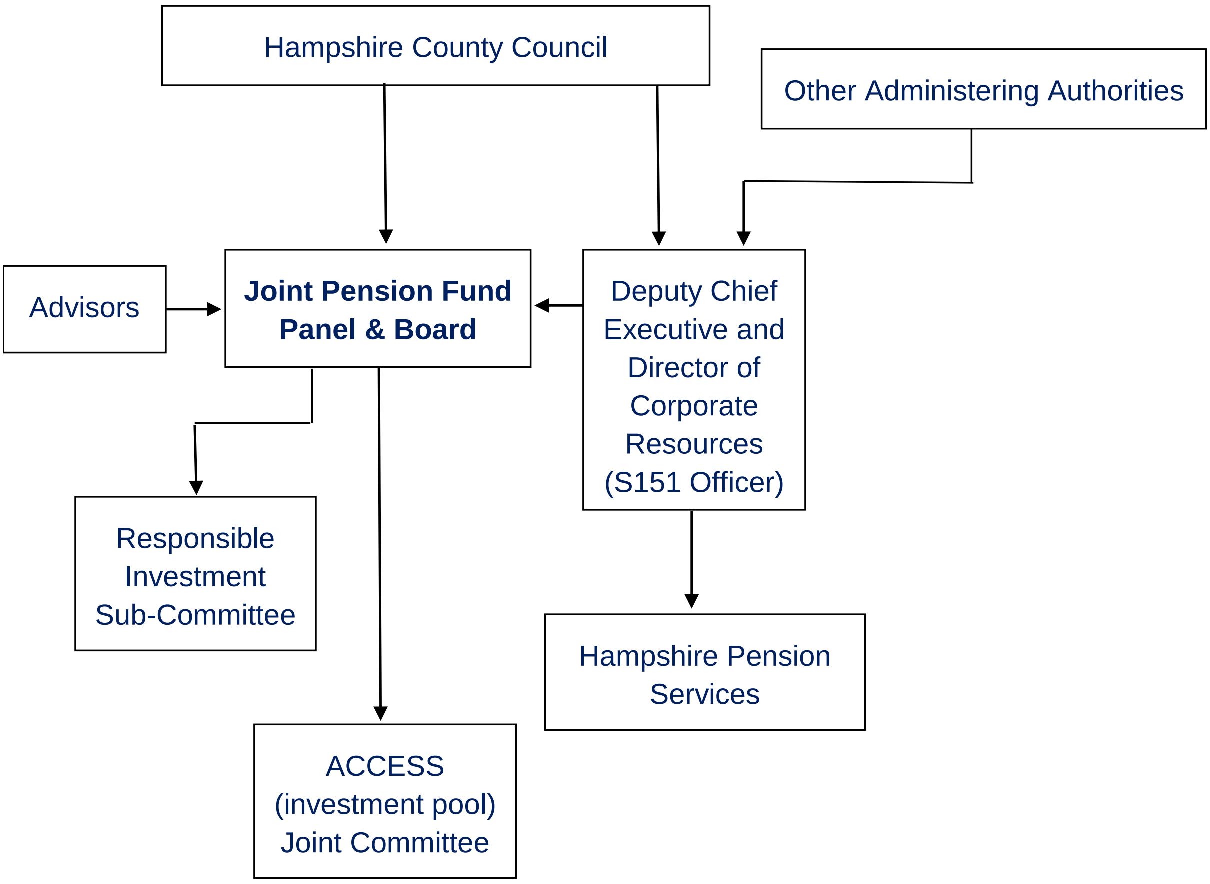
Introduction

This statement outlines the governance arrangements for the Hampshire Pension Fund (the Fund), maintained by Hampshire County Council. Section 55 of the Local Government Pension Scheme Regulations 2013 require the Fund to maintain this Governance Policy Statement. The Fund is also required to publish a compliance statement under Regulation 73A of the Local Government Pension Scheme Regulations 1997 (as amended) and review that statement on an ongoing basis under Regulation 31 of the 2008 Regulations. Under Regulation 31 (3) (c) there is a requirement to measure the Fund's governance arrangements against a number of standards set out within guidance issued by the Ministry for Housing, Communities and Local Government (MHCLG), which are shown in Appendix 1.

In accordance with this requirement, what follows is the Fund's assessment of its compliance with the standards as outlined.

Governance of the Fund

The following diagram shows the governance structure of the Fund with Hampshire County Council as the Administering Authority.



Pension Committee

The County Council, as Administering Authority for the Hampshire Pension Fund, has delegated responsibility for managing administration of benefits and investment strategy the Joint Pension Fund Panel and Board.

The Joint Pension Fund Panel and Board oversees the proper administration and management of the Pension Fund. It is responsible for:

- making suitable custody arrangements for the Fund's investments,
- considering and approving actuarial valuations every three years and determining the level of employers' contributions,
- considering changes in pension fund regulations and determining actions required,
- considering and approving strategic advice on investment policy,
- the selection of an investment pool and holding that pool to account,
- selecting the pool sub-funds to invest in,
- appointing external fund managers (for investments held outside of the pool) and advisers,
- monitoring the investment performance of each manager against their target and benchmark, based on statistics prepared by the custodian and Pension Fund officers, and
- the periodic review of the Investment Strategy Statement, the Fund's Business Plan, its Funding Strategy Statement, this Governance Policy Statement, its Governance Compliance Statement and the Fund's Communication Policy Statement.

In its role as the Pension Board for the Hampshire Pension Fund the Pension Fund Panel and Board is responsible for assisting Hampshire County Council as the Administering Authority of the Hampshire Pension fund to secure compliance with the regulations and any other legislation relating to the governance and administration of the LGPS, for securing compliance with requirements imposed in relation to the LGPS by the Pensions Regulator and for ensuring the effective and efficient governance and administration of the Fund.

The membership of the committee is as follows (all members have full voting rights):

- 9 county councillors,
- 3 employer representatives (representing unitary councils, district councils and other employers), and
- 3 scheme member representatives (representing active, deferred and pensioner members).

Officers and Advisors

Pension investment, funding and administration are complex areas and the Fund recognises the need for Joint Pension Fund Panel and Board members to receive appropriate and timely advice and training. The main areas of support from officers are as follows:

- High level advice on the management of the Pension Fund from the Deputy

Chief Executive and Head of Corporate Resources (also S151 Officer).
- Legal administrative advice from the Monitoring Officer and Hampshire Legal Services.
- Financial and technical advice from the Head of Pension Services who is the lead senior support officer and has direct responsibility for implementing funding, investment and administration strategy; budget and service delivery; risk management and compliance through a team of professionally qualified staff.
- Independent assurance on the Fund's risk management, governance and internal control processes from the Southern Internal Audit Partnership.

Clarity of roles and responsibilities is documented in role profiles for officers working for the Pension Fund and a scheme of delegation is in operation for decision making.

A range of external specialist advisors are appointed, covering areas such as:
- investment strategy and asset allocation,
- funding strategy and employer covenant review and other actuarial matters,
- specialist legal advice concerning investments and pension administration, and
- corporate governance and responsible investment issues.

Investment Pooling

In response to the 2015 revised LGPS Investment Regulations Hampshire is a member of the ACCESS (A Collaboration of Central Eastern and Southern Shires) pool. ACCESS is managed by a Joint Committee; whose members are the chairmen of the 11 Administering Authorities in the ACCESS pool. The ACCESS Joint Committee is responsible for appointing (via recommendation to the member authorities) and managing the Pool Operator and for recommending to the Administering Authorities the strategic plan for transition of assets that are to become Pool Assets.

Conflicts of interest

The Joint Panel and Board's Terms of Reference set out the process for managing conflicts interest for the committee members. All Panel and Board members must before becoming a member of the Panel and Board declare any potential conflict of Interest to the Monitoring Officer of the County Council and have an ongoing obligation to report any new potential conflicts. A Panel and Board member should disclose any Conflict of Interest in any business of the Panel and Board and may not participate in any discussion of, vote on or discharge any function in relation to the matter.

The Council recognises that its dual role as both an employer participating in the Fund and the body legally tasked with its management can produce the potential for Conflicts of Interest. It is important that these potential conflicts are managed in order to ensure that no actual or perceived Conflict of Interest arises and that all of the Fund's employers are treated fairly and equitably.

The Fund achieves this in the following ways:

- The Funding Strategy Statement sets out the Fund's approach to all funding related matters including the setting of contribution rates. This policy is set with regard to the advice of the Fund actuary and is opened to consultation with all Fund employers before being formally adopted by the Joint Pension Panel and Board.
- The Fund also has an Admissions Policy which details its approach to admitting new employers to the Fund. This includes its approach to the use of guarantors, bonds and the setting of a fixed contribution rate for some employers. This policy, in conjunction with the Funding Strategy Statement, ensures a consistent approach when new employers are admitted in to the Fund.
- The Fund's Administration Strategy sets out the way in which the Fund works with its employers and the mutual service standards that are expected. The policy details how the Fund will assist employers to ensure that they are best placed to meet their statutory LGPS obligations. On occasions where an employer's failure to comply with required processes and standards has led to the Fund incurring additional cost, the policy also provides for that cost to be recovered from the employer in question. This policy has been opened to consultation with all the Fund's employers and is operated in a consistent fashion across all of the employer base.

The administration of the scheme and investment management arrangements are delivered by Hampshire Pensions Services, which also delivers pension administration services to other pension schemes. The appropriate service standards and budget/charges are agreed with each scheme to ensure that sufficient resources are available to meet the requirements of all customers and that they receive transparent reports on the service levels that they have received.

Sufficiency of resource

The Joint Pension Fund Panel and Board agrees an annual business plan which sets out the actions required in order to deliver all aspects of the management of the Fund. Delivery of the business plan drives the Fund's budget setting process, with decisions around recruitment, procurement and specialist support being made with reference to the requirements of the business plan. The Joint Panel and Board reviews the Fund's operational performance and approves the annual budget. Where necessary additional spend can be authorised by the Joint Panel and Board. Actual spend is monitored by officers and reported to the Committee and published in the annual report and accounts.

The County Council follows best practice as set out in the LGPC circular *'Principles of Good Practice for the Management of Local Government Pension Schemes'*. The Fund recognises the importance of monitoring and reporting how it delivers its administration objectives. Performance against KPIs is reported to the Joint Panel and Board twice a year and in the Fund's annual report. This reporting includes the extent of any backlogs that may develop over time as well as remedial action that is being taken to address them.

Engagement

In addition to the representation of scheme members and employers (described above) on the Joint Pension Fund Panel and Board, The Fund carries out a range of activities that are designed to engage employers and scheme members that are set out within the Fund's Communication Strategy and include:

Employers:

- An Annual Employer Meeting which provides an opportunity for employers to receive updates from the Hampshire Pension Fund and the LGPS and related issues.
- A regular electronic newsletter to keep employing authorities up to date with the latest regulation changes and proposals, as well as any changes in administration. Ad hoc email communication are also sent to advise employers of any changes or information they should be aware of or would find useful.
- The Fund's audited accounts and accompanying annual report are published on the website every year.
- Regular employer training days, and offer targeted training on request from employers, in addition to dealing with queries via phone or email.
- The Employer Services team, within Pension Services is available to provide pension support on issues such as outsourcing services or workforce restricting.

Scheme members

- The website is the prime source of information on the pension scheme and ensures timely, up-to-date and easy-to-access information for all our stakeholders.
- Scheme members can register to access the Member Portal, which is a secure area of the website in which they can view their annual benefit statements and update their personal information.
- A general query call centre is available during office hours and a general email address for all queries.
- Each year an annual benefit statement are produced, showing scheme benefits at 31 March, and made available to all current and deferred members via the Member Portal.
- A newsletter is sent to pensioners each year in March and April.

Training

The Joint Pension Fund Panel and Board use 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 they meet the requirements set out in the guidance referenced in the regulations. Members individually complete a Learning Needs Analysis each year based on this framework. The results are analysed and any gaps identified are addressed as part of the Panel and Board's ongoing training plan. Details of the training session delivered to the Joint Pension Fund Panel and Board are reported in the Fund's annual report

Pension Fund officers will attain the knowledge and understanding they need to be effective and to challenge and act effectively within the decision making responsibility placed upon them. Officers involved in the management and administration of the Fund are set annual objectives which will include an element of personal development. These objectives are monitored as part of each individual's annual appraisal.

Hampshire Pension Fund - Governance Compliance Statement

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

Ref.	Principles	Compliance	Comments
A	**Structure**		
a.	That the management of the administration of benefits and strategic management of fund assets clearly rests with the main committee established by the appointing council.	Full compliance.	Hampshire County Council's constitution sets out the functions of the Joint Pension Fund Panel and Board.
b.	That representatives of participating LGPS employers, admission bodies and scheme members (including pensioner and deferred members) are members of either the main or secondary committee established to underpin the work of the main committee.	Full compliance.	The Joint Pension Fund Panel and Board includes representatives of the other local authorities in the Fund, and pensioner and contributor members.
c.	That where a secondary committee or panel has been established, the structure ensures effective communication across both levels.	Full compliance.	A Responsible Investment (RI) Sub-committee has been established that reports to the Joint Pension Fund Panel and Board
d.	That where a secondary committee or panel has been established, at least one seat on the main committee is allocated for a member from the secondary committee or panel.	Full compliance.	The RI sub-committee is made up of members of the Joint Pension Fund Panel and Board

Ref.	Principles	Compliance	Comments
B	**Representation**		
a.	That all key stakeholders have the opportunity to be represented within the main or secondary committee structure. These include: • employing authorities (including non-scheme employers, e.g. admission bodies) • scheme members (including deferred and pensioner scheme members) • where appropriate, independent professional observers, and • expert advisers (on an ad-hoc basis).	Full compliance.	The Joint Pension Fund Panel and Board includes representatives of the other local authorities in the Fund, and pensioner and contributor members. The Fund's independent adviser attends Joint Pension Fund Panel and Board meetings. Independent professional observers are not regarded as appropriate.
b.	That where lay members sit on a main or secondary committee, they are treated equally in terms of access to papers, meetings, and training and are given full opportunity to contribute to the decision-making process, with or without voting rights.	Full compliance.	Equal access is provided to all members of the Joint Pension Fund Panel and Board.
C	**Selection and role of lay members**		
a.	That committee or panel members are made fully aware of the status, role and function they are required to perform on either a main or secondary committee.	Full compliance.	
D	**Voting**		
a.	That the individual administering authorities on voting rights are clear and transparent, including the justification for not extending voting rights to each body or group represented on main LGPS committees.	Full compliance.	All representatives on the Joint Pension Fund Panel and Board have full voting rights, but the Panel and Board works by consensus without votes often being required.

Ref.	Principles	Compliance	Comments
E	**Training/facility time/expenses**		
a.	That in relation to the way in which the administering authority takes statutory and related decisions, there is a clear policy on training, facility time and reimbursement of expenses for members involved in the decision-making process.	Full compliance.	Full training and facilities are made available to all members of the Joint Pension Fund Panel and Board.
b.	That where such a policy exists, it applies equally to all members of committees, sub-committees, advisory panels or any other form of secondary forum.	Full compliance.	
c.	That the administering authority considers adopting annual training plans for committee members and maintains a log of all such training undertaken.	Full compliance.	A training plan has been prepared for the Joint Pension Fund Panel and Board, and training logs are maintained for individual Panel and Board members.
F	**Meetings (frequency/quorum)**		
a.	That an administering authority's main committee or committees meet at least quarterly.	Full compliance.	
b.	That an administering authority's secondary committee or panel meets at least twice a year and is synchronised with the dates when the main committee sits.	Full compliance.	The RI sub-committee meets twice a year.
c.	That an administering authority that does not include lay members in its formal governance arrangements must provide a forum outside of those arrangements to represent the interests of key stakeholders.	Full compliance.	The Joint Pension Fund Panel and Board includes lay members. An Annual Employers Meeting of the Pension Fund is held and road shows are arranged for employers.

Ref.	Principles	Compliance	Comments
G	**Access**		
a.	That, subject to any rules in the County Council's constitution, all members of main and secondary committees or panels have equal access to committee papers, documents and advice that are due to be considered at meetings of the main committee.	Full compliance.	Equal access is provided to all members of the Joint Pension Fund Panel and Board.
H	**Scope**		
a.	That administering authorities have taken steps to bring wider scheme issues within the scope of their governance arrangements.	Full compliance.	The Joint Pension Fund Panel and Board deals with fund administration issues as well as fund investment.
I	**Publicity**		
a.	That administering authorities have published details of their governance arrangements in such a way that stakeholders with an interest in how the scheme is governed can say they want to be part of those arrangements.	Full compliance.	The County Council's Governance Policy Statement is published in the Pension Fund's Annual Report and on its website.

Hampshire Pension Fund - Administration strategy

Hampshire Pension Fund
administered by

Hampshire County Council

Hampshire Pension Fund Administration Strategy

1 Introduction

1.1 Hampshire County Council is the administering authority for the Local Government Pension Scheme (LGPS) on behalf of the employers participating in the LGPS through the Hampshire Pension Fund (HPF). The LGPS is governed by statutory regulations.

1.2 HPF provides a high quality pension service to members and employers, to ensure members receive their correct pension benefits. This is best achieved where HPF and the employers are clear about their roles and responsibilities and work in partnership.

1.3 This strategy statement:

- sets out the roles and responsibilities of HPF and the employers
- specifies the level of services HPF and the employers will provide to each other
- explains the performance measures used to evaluate them
- is an agreement between HPF and the employers

2 Pension Administration Strategy

2.1 This strategy is an agreement between the Hampshire Pension Fund and all participating bodies. All parties commit to the following principles:

- provide a high quality and low cost pension service to members
- continually develop efficient working arrangements
- meet HPF's service standards
- an annual report of performance
- take responsibility to provide accurate and timely information
- keep the pension administration strategy under review and revise where appropriate.

2.2 This strategy statement was produced by HPF in consultation with the employers and is effective from 16 December 2017. It is hereby agreed that each of the parties as defined in this agreement and the scheme regulations, shall abide by the requirements of this agreement.

- HPF shall monitor the requirements of this agreement and report its findings to the Hampshire Pension Fund Panel and Board.
- Changes are subject to consultation with the employers. Variations must be agreed with HPF and confirmed in writing.

2.3 Please keep a copy of this strategy for your records. The original will be held at the offices of the Hampshire Pension Fund and will be made available to any scheme member, past or present, wishing to have sight of the document.

3 Roles and responsibilities

3.1 The quality of service to members depends on the supply of accurate and timely information.

3.2 Employer duties, responsibilities and discretions are listed in Appendix A to this agreement.

3.3 HPF’s duties and responsibilities are listed in Appendix B to this agreement.

4 The Regulations – effect on strategy

4.1 This strategy sets out certain duties and responsibilities.

- It does not override any provision or requirement in the Regulations or any overriding legislation.
- The intentions of the Regulations in their application to current members, potential members, deferred members and retired members must be complied with.

4.2 This agreement is based on:

- Current regulations:
  - the Local Government Pension Scheme Regulations 2013, and any amendments;
  - the Local Government Pension Scheme (Transitional Provisions, Savings and Amendment) Regulations 2014, and any amendments;
- Any earlier LGPS regulations as they continue to apply
- Overriding legislation including, but not limited to,
  - the Public Service Pension Act 2013
  - the Local Government (Early Termination of Employment) (Discretionary Compensation) (England & Wales) Regulations 2006
  - Occupation and Personal Pension Scheme (Disclosure of Information) Regulations 2013

5 Definitions

5.1 For the purpose of this Administration Agreement:

- “***Administering Authority***”, ‘Hampshire Pension Fund (HPF) and the Fund means Hampshire County Council;

- "***Employing authority***" or ***"employer"*** means an employer within the Hampshire Pension Fund; and
- ***"Scheme***" means the Local Government Pension Scheme, and
- ***"The Panel"*** means the Hampshire Pension Fund Panel and Board'

6 Communication

6.1 The HPF Communications Policy Statement outlines how the Fund communicates with all stakeholders, including employers.

6.2 HPF routinely provides information and resources for employers using

- its website, www.hants.gov.uk/pensions with an employers' section
- an electronic newsletter called Pension Matters
- an employer manual and other guides available on the HPF website.

6.3 HPF will make available to the employer an up to date list of LGPS publications which will be available from the HPF website or as otherwise indicated.

6.4 HPF will communicate to the employer on an ad hoc basis and as required in respect of matters relating to the LGPS.

6.5 HPF will ensure that sufficient information is issued in the form of newsletters, booklets and other materials to satisfy the requirements of The Occupational, Personal and Stakeholder Pension Schemes (Disclosure of Information) (Amendment) Regulations 2013.

6.6 HPF will notify the employer of changes to administrative procedures that may arise as a result of changes in pension scheme regulations and update standard documentation on the HPF website.

6.7 HPF will issue electronic forms, newsletters, booklets and such other materials as are necessary in the administration of the LGPS, for members and the employers.

6.8 Employers should provide contact details at least annually, and whenever a named contact changes, on the Employer Contacts and Authorisation form.

6.9 Employers may provide information about members to HPF in a variety of ways, including electronic and paper forms or directly updating electronic pension records. Forms used must be up to date, and are available on the HPF website. Employers who update electronic pension records directly are fully supported via initial and refresher training and day to day support.

7 Performance measurement and reporting

7.1 Pensions Services will monitor, measure and report compliance with the agreed service standards. This information will be reported to the Panel, and improvement plans put in place if necessary.

7.2 Where this information reveals problems in employers meeting the standards, HPF will consult and work with the relevant employers to improve compliance and performance levels by providing appropriate support, guidance, and training.

7.3 Where as part of the annual return process or any other monitoring activity, there are concerns about the accuracy of an employer's data, the employer will be required to undertake a data cleanse exercise and make a declaration that they have fulfilled all of their requirements to notify the fund of changes. Details of the data cleanse requirements will be provided as part of the annual returns process.

7.4 Where poor performance affects Pension Services meeting statutory deadlines, consideration will be given to the requirement to report this to the Pension Regulator.

8 Costs

8.1 The Fund Actuary determines employer contribution rates for the three years following each triennial valuation. The rates and adjustments certificate provides details of all payments which are due from employers in the fund.

8.2 The costs of the standard administration service, including actuarial fees for the triennial valuation, are charged directly to HPF. These administration costs are taken into account by the Fund Actuary when assessing the employers' contribution rates.

8.3 Where Pension Services incur additional administration costs due to the pension implications of an Employer restructuring (e.g. outsourcing, creation of a company, change of legal status etc) a separate additional administration charge will be made. The charge will be based on estimated staff time and will be notified to the employer before any work is carried out.

8.4 Where additional actuarial or legal services are required by, or result from the decisions and actions of, the employer, the employer will be required to reimburse HPF for the costs involved. Where appropriate, an estimate of these costs will be provided and the employer's agreement obtained before proceeding to instruct the service provider.

8.5 If HPF incurs interest charges as a result of a late notification of retirement from the employer, it may recharge to the employer the interest incurred on the late payment of the lump sum.

8.6 Employers may also be required to pay for additional work, including estimates which are in addition to the agreed allocation, or for requesting work to be completed faster than the normal service standards. The employer's agreement to the charge will be obtained prior to the work being carried out.

9 Penalties

9.1 Commitment to the principles of this statement (see 2.1) should mean that any non-compliance is addressed promptly, with no need to resort to a penalty. However, the following actions are possible:

- Where payment over of contributions is late more than once in any 12 month period, HPF will issue the employer with a written notice of unsatisfactory performance and may charge interest on the late payment at a daily rate equal to the Bank of England's base rate plus 1%.
- Persistent failure to comply with contributions payment requirements will result in HPF informing The Pensions Regulator as required of Scheme Administrators by the Pensions Act 2004.
- Where the employer fails to comply with their scheme duties, including failure to pay contributions due, HPF reserves the right to notify the member(s) involved and

to notify all members employed by the employer in the event of serious or persistent failure.

- If additional and disproportionate resources are deployed by HPF because of an employer's poor performance, the cost of the additional resources may be re-charged to the employer according to powers available under scheme regulations. Written notice will be given of the reasons for the re-charge, how the cost was calculated, and the part of this statement which, in HPF's opinion, was contravened.
- Where orders or instructions issued by The Pensions Regulator, the Pensions Ombudsman or other regulatory body require financial compensation or a fine to be paid by HPF, or by any officer responsible for it, and it is due to the default, omission or otherwise negligent act of the employer, the sum concerned will be recharged to the employer.
- Where, as a result of the employer's failure to notify HPF of the final retirement details in a timely manner, payment of any retirement lump sum is not made within 30 days from the date of the member's retirement, HPF may issue the employer with a written notice of unsatisfactory performance and may charge the employer for the interest payment made.
- Where it is proven that the employer is not responsible for any fine or penalty imposed by The Pensions Regulator or any other statutory body as a result of non-compliance of this Service Level Agreement, any such charge will automatically default to HPF.
- From time to time, HPF offer training and support to employers through 'Employer Days' and workshops. There is no charge made to an employer for attending this event, however HPF reserves the right to charge a late cancellation fee of £100 + VAT, where at least one week's notice has not been given of non attendance.

10 Hampshire Pension Fund contacts

Member and general employer queries
Pensions customer support team 01962 845588 pensions@hants.gov.uk Website www.hants.gov.uk/finance/pensions
Technical employer queries

Employer services team pensions.employer@hants.gov.uk
End of year and associated matters
Employer services team pensions.eoy@hants.gov.uk

Appendix A - Employer Responsibilities

The main duties of the employers as set out in the Regulations are set out in the table below, together with timescales for completion where appropriate.

Employer responsibility	**Timescale**
Decide who is eligible to become a member of the LGPS and the date from which membership of the LGPS starts). Notify HPF of the new member details and provide employee with details of the pension scheme.	Within 10 working days following the end of the month in which the employee joined the LGPS.
Determine the rate of employee contributions to be deducted from the employee's pensionable pay and, where the employee holds more than one post, the rate that should be applied to each post. This should be reviewed at least annually or more often where employer policy states	For the first pay period in which the employee joins the LGPS
Move employees into the 50:50 section Provide an amendment form to advise of change to/from 50:50 section	From the next pay period after receiving the employee's request Within 10 working days following the change
Collect and pay to the HPF the deduction of, the correct rate of pension contributions payable by the employee and the employer, including any additional employee contributions of any kind.	Payment over to HPF by 19th of the month following deduction (22nd if electronic)
Complete monthly remittance form containing detail of the contributions payment.	Send to Pensions Services with payment of contributions every month
Collect and pay over AVC contributions to the specified AVC provider in accordance with statutory timescales Notify HPF of a member's election to pay, vary or cease AVCs.	Payment over to AVC provider by 19th of the month following deduction (22nd if electronic)
Refund contributions through the payroll to any employee who	From the next pay period after receiving the

Employer responsibility	Timescale
opts out of the scheme with less than 3 months membership. Notify HPF of opt out and refund through payroll by providing a copy of the opt out form	employee's request to opt out Within 10 working days following the end of the month in which the employee left the scheme
Calculate assumed pensionable pay for any employees who met this requirement under the regulations.	As required
Leavers (excluding retirements/casuals) When an employee's LGPS membership ends, determine the reason for leaving and entitlement to benefit and notify the HPF, supplying timely and accurate information to HPF so that benefits payable from the LGPS are calculated correctly.	Within 10 working days following the end of the month in which the employee was last paid
Leavers (casuals) When an employee's LGPS membership ends, determine the reason for leaving and entitlement to benefit and notify the HPF, supplying timely and accurate information to HPF so that benefits payable from the LGPS are calculated correctly.	Within 10 working days following the end of the month the employer is aware they have left or were last paid
Retirements When an employee's LGPS membership ends on the grounds of retirement, determine the reason for retirement and entitlement to benefit and notify the HPF, supplying timely and accurate information to HPF so that benefits payable from the LGPS are calculated correctly.	Within 20 working days before an employee's retirement date
Use an independent registered medical practitioner qualified in occupational health medicine in determining requests for ill health retirement.	As required
Write, publish and maintain a policy on areas of the regulations in which employers can exercise their discretion.	In accordance with regulations and then regular review. Notify HPF and members of any changes to those policies within one month of setting a policy and the changes taking effect.

Employer responsibility	Timescale
Appoint a person to consider applications from members regarding decisions, acts or omissions and to decide on those applications.	On entry to the HPF and review as required
Provide annual information to HPF with full details of the contributions paid by members in the year. Respond to queries on the annual return raised by HPF.	By 30 April each year Respond to queries within 10 working days of receipt
The employer will maintain employment records for each member for the purposes of determining membership and entitlement to benefits. The employer must keep a full pay history for the 13 years, ending 31 March, before the member leaves the scheme.	As required
Notify HPF of a member's death and next of kin's details.	Within 5 working days of the member's death.
Supply details required for completion of an estimate.	Within 10 working days of the member's request
Distribute annual benefit statements and any other notifications to active members as requested by HPF.	Within 20 working days of receipt
Notify HPF of any TUPE transfer. Complete TUPE forms for each member transferring.	Notify HPF of the transfer as soon as possible in advance of the transfer date. Part A of the TUPE form completed within 10 working days following the end of the month in which the transfer took place.

Employer responsibility	Timescale
Notify HPF of any outsourcing arrangements which impact on employees eligible to the LGPS Where an admission agreement is required, the Scheme employer should complete an 'Outsourcing data capture' form, transferring 'staff data capture' form and 'Undertaking of costs' form Ensure admission agreement is finalised Provide individual TUPE forms for transferring staff to HPF	As soon as possible but no later than 20 working days before change As soon as possible but no later than 20 working days before change No later than date of transfer Part A of the TUPE form completed within 10 working days following the end of the month in which the transfer took place
Notify HPF of a change of payroll provider by completing a 'Employer Change of payroll provider' form Submit individual 'Change of payroll provider' forms to HPF for all transferring employees Provide notification of new payroll numbers (if applicable) to HPF Complete a mid year return if date of change is not 1 April	As soon as possible but no later than 20 working days before change Within 20 working days post transfer Within 20 working days post transfer Within 40 working days post transfer

Appendix B - HPF Responsibilities

The overriding responsibility of HPF is to maintain the Hampshire Pension Fund in accordance with the regulations.

HPF will provide the following within the timescales shown. A reduced timescale may be agreed in exceptional cases at an employer's request.

HPF responsibility	Timescales
Invest pension contributions and account for and manage the Pension Fund's assets.	Daily.
Allocate all contributions submitted by the employer to their respective income codes and reconcile the total contributions paid on a yearly basis.	Annually.
Appoint Additional Voluntary Contributions provider(s).	As required.
Appoint an actuary for the purposes of the triennial valuation of the Fund and to provide periodical actuarial advice when required.	As required, in line with procurement provisions.
Provide accurate, timely data to the Fund actuary.	As required.
Correspond with and commission any information required of the Fund Actuary on behalf of the employer.	As required.
Arrange for the triennial valuation of the Pension Fund and provide the employer with a copy of the valuation report and the annual report and statement of accounts.	Every three years.
Arrange for the annual accounting report to be provided to all employers requiring such a report.	Annually.
Publish and review the Pension Fund's Policies and Funding Strategy Statement, and prepare annual report and accounts.	Annual review and publication.
Notify the employers of any significant changes to: • Regulations that might affect members in their employ; • policies made by the administering authority under the Regulations; or • procedures adopted by it in accordance with this strategy. Advice will be given to the employers in respect of matters arising from the interpretation and implementation of the Regulations.	As required.

HPF responsibility	Timescales
Maintain a complaints procedure including the appointment of a specified person to act as a local referee at Stage 2 of the dispute process.	As required.
Write, publish and maintain a policy on areas of the regulations in which employers can exercise their discretion.	In accordance with regulations and then regular review. Notify employers and members of any changes to those policies within 30 working days of the changes taking effect.
Answer enquiries made by members	Within 5 working days or sooner where possible Where an enquiry will take longer than 5 days to resolve, HPF will notify the member and keep the member updated.
Set up a record for each new member and issue a statutory notification.	Within 20 working days from when notified of their membership.
Make payment of a refund of contributions to an eligible member who leaves with less than 2 years service.	Within 15 working days of receipt of the election form from the member
Issue annual benefit statements on member self service to active members or via their employer where written notification is received to opt out of member self service	By 31 August after relevant annual return information from the employer is received and uploaded
Provide an estimate of pension benefits on request from the employer, and details of any capital costs to be paid by them.	Within 15 working days of receipt of all relevant information
Amend a member’s record.	Within 15 working days from when the change was notified.

HPF responsibility	Timescales
Calculate benefits due when a member leaves employment and send details to the member.	Within 15 working days for retirements, or within 30 working days for deferred benefits, on receipt of all information needed to make the final calculation
Send a benefit statement to all deferred members showing the accrued benefits to the date of leaving and the other options available to them in accordance with the Regulations.	Annually by 31 August
Pay retirement lump sums.	Within 10 days of the retirement date or of receipt of all information from the employer and member if later.
Provide details of the final capital costs to be paid by the employer into the Pension Fund.	Within 10 working days of completing the calculation.
Calculate and process transfers of members' pension rights inwards and outwards.	Within 15 working days of receipt of all information
Acknowledge in writing the death of a member.	Within 5 working days of being notified of the death.
Supply survivor beneficiaries with notification of their entitlements including the method of calculation.	Within 15 working days of all the information being received.
Pay any death grant due and set up dependant on pensioner payroll.	Within 10 working days of completing the calculation of entitlement
Apply pensions increases annually to the relevant pensions in payment and deferred pensions retained in the Fund in accordance with the Pensions Increase (Review) Order issued by the Government.	Annually

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Appendix C – Administering Authority discretions and delegated authority for approval

The table below sets out how the Hampshire Pension Fund (HPF) choses to exercise its discretions under the LGPS regulations, together with the delegated authority for approval where a further decision exists.

	Discretion	Regulation	Policy	Delegated authority for approval
1.	Whether to agree to an admission agreement with a Care Trust, NHS Scheme employing authority, Care Quality Commission or any other body applying to be an admission body	**R**4(2)(b), **R**5(5) & **R**Sch 2, Part 3, para 1	HPF will enter into an admission agreement where the requirements that it has set down and issued to prospective bodies are met.	Team Manager –Employer Services
2.	Whether to terminate a transferee admission agreement in the event of: - Insolvency, winding up or liquidation of the body - Breach by that body of its obligations under the admission agreement - Failure by that body to pay over sums due to the Fund within a reasonable period of being requested to do so	**R**Sch 2, Part 3, para 9(d)	HPF will decide any case on its merits.	Director of Corporate Resources
3.	Define what is meant by 'employed in connection with'	**R**Sch 2, Part 3, para12(a)	HPF admission agreements specify this as the employee spending at least 50% of his time employed by the admission body carrying out duties relevant to the provision of the services.	N/A
4.	Whether to turn down a request to pay an APC/SCAPC over a period of time where it would be impractical to allow such a request (e.g. where the sum being paid is very small and could be paid as a single payment)	**R**16(1)	HPF has not set a minimum payment threshold.	N/A
5.	Whether to require a satisfactory medical before agreeing to an application to pay an APC / SCAPC	**R**16(10)	HPF does not require those applying to take out an APC to pass a medical.	N/A
6.	Whether to turn down an application to pay an APC / SCAPC if not satisfied that the member is in reasonably good health.	**R**16(10)	HPF will turn down an application if there are sound reasons to believe the applicant is not in good health	Head of Pensions

	Discretion	Regulation	Policy	Delegated authority for approval
7.	Whether to charge member for provision of an estimate of additional pension that would be provided by the Scheme in return for transfer in of in house AVC /SCAVC funds (where AVC / SCAVC arrangement was entered into before 1 / 4/ 14)	**TP**15(1)d & **A**28(2)	HPF charges for estimates in accordance with its estimates policy.	N/A
8.	Decide to whom any AVC/SCAVC monies (including life assurance monies) are to be paid on death of the member	**R**17(12)	HPF will decide each case on its merits, after assessing all potential beneficiaries, but will take into account the member's valid expression of wish form.	Team Manager – Member Services
9.	Pension account may be kept in such form as considered appropriate	**R**22(3)(c)	HPF will decide the form in which pension accounts are kept based on any published guidance, best practice and in an efficient manner.	N/A
10.	Decide, in the absence of an election from the member within 12 months of ceasing a concurrent employment, which ongoing employment benefits from the concurrent employment which has ceased should be aggregated (where there is more than one ongoing employment)	**TP**10(9)	HPF will aggregate with the earliest remaining employment.	N/A
11.	If an Employer has become defunct, the administering authority is required to make decisions on ill health and early payment of benefits. Including whether to waive, in whole or in part, actuarial reduction on benefits paid on flexible retirement or on benefits which a member voluntarily draws before normal pension age.	**R**30(8) **TP**12(6) **R**38(3) **R**38(6) **B**30(2) **B**30(5) **B**30A(3) **B**30A(5) **B**31(4) **B**31(7) TPSch 2, para 1(2) & 1(1)(c) TP3(1), TPSch 2 para 2(1)	HPF will exercise this discretion in accordance with, and to the extent of (if any) the policy and practice of the former employer. If no policy exists, HPF will not waive any reduction or otherwise agree to a retirement which would incur an employer strain charge. HPF will assess ill health retirement decisions, including the use of 2008 certificates, on a case by case basis.	Head of Pensions

	Discretion	Regulation	Policy	Delegated authority for approval
12.	Whether to require any strain on Fund costs to be paid ‘up front’ by employing authority following payment of benefits under: flexible retirement; redundancy / business efficiency; the waiver (in whole or in part) of any actuarial reduction that would have otherwise been applied to benefits which a member voluntarily draws before normal pension age; release of benefits before age 60.	**R**68(2) **TP**Sch 2, para 2(3) **L**80(5) **B**30 or **B**30A	HPF requires employers to make upfront payment of strain charges following any decision to allow early payment of benefits (other than ill health).	N/A
13.	Whether to extend the time limits within which a member must give notice of the wish to draw benefits before normal pension age or upon flexible retirement.	**R**32(7)	No extension will be granted, unless appropriate to the individual circumstances of a case.	Head of Pensions
14.	Decide whether to commute small pension	**R**34(1) **R**39 (1) (b) & (c) **B**39 **T**14(3) **L**49 & **L**156	HPF will allow commutation of eligible small pension pots.	N/A
15.	Approve medical advisors used by employers (for ill health benefits)	**R**36(3) **L**97(10)	HPF requires employers to provide details of medical advisors used for assessing entitlement to ill health benefits and will liaise with any employer who is using a medical advisor of which HPF does not approve.	Head of Pensions
16.	Decide to whom death grant is paid	**TP**17(5) to (8) **R**40(2) **R**43(2) **R**46(2) **B**23(2) & **B32**(2) **B**35(2) **T**Sch1 **L**155(4) **L**38(1) **L**155(4) E8	HPF will decide each case on its merits, after assessing all potential beneficiaries, but will take into account the member’s valid expression of wish form.	Head of Pensions

	Discretion	Regulation	Policy	Delegated authority for approval
17.	Decide, in the absence of an election from the member, which benefit is to be paid where the member would be entitled to a benefit under 2 or more regulations in respect of the same period of Scheme membership	**R**49(1)(c) **B**42(1)(c)	HPF will choose the benefit entitlement that yields the highest level of benefits for the member.	Team Manager - Member Services
18.	Whether to set up a separate admission agreement fund	**R**54(1)	HPF has decided not to set up a separate admission agreement fund.	Director of Corporate Resources
19.	Maintain a governance policy which contains the information set out in the regulations	**R**55	HPF has a written governance policy which contains the required information and is regularly reviewed.	Pension Fund Panel and Board
20.	Decide on Funding Strategy for inclusion in funding strategy statement	**R**58	HPF has a funding strategy which is included in the funding strategy statement.	Pension Fund Panel and Board
21.	Whether to have a written pensions administration strategy and if so, the matters it should include	**R**59(1) and (2)	HPF has a written pensions administration strategy.	Pension Fund Panel and Board
22.	Maintain a communication policy which contains the information set out in the regulations	**R**61	HPF has a written communication policy which contains the required information and is regularly reviewed.	Pension Fund Panel and Board
23.	Whether to obtain revision of employer's contribution rate if there are circumstances which make it likely a Scheme employer will become an exiting employer	**R**64(4)	HPF will decide each case on its merits, with advice from the Fund Actuary.	Director of Corporate Resources
24.	Decide whether to obtain a new rates and adjustments certificate if the Secretary of State amends the Benefits Regulations as part of the 'cost sharing' under **R**63	**R**65	HPF will make this decision as it arises, with advice from the Fund Actuary.	Director of Corporate Resources
25.	Decide the frequency of payments to be made over to the Fund by employers and whether to make an admin charge	**R**69(1) **L**81(1) **L**12(5)	Employer contribution payments are due monthly by 19th of the month (22nd if electronic) following deduction, unless the employer has entered into a pre-payment arrangement. Administration costs are taken into account by the actuary when setting employer contribution rates.	Head of Pensions

	Discretion	Regulation	Policy	Delegated authority for approval
26.	Decide the form and frequency of information to accompany payments to the Fund	**R**69(4) **L**81(5)	Employers are required to complete a monthly remittance form with their payment showing a breakdown of contributions.	Team Manager - Finance
27.	Whether to issue employer with notice to recover additional costs incurred as a result of the employer's level of performance	**R**70 and **TP**22(2)	HPF will work with employers to improve performance but if additional and disproportionate resources are deployed by HPF because of an employer's poor performance, the cost of the additional resources may be re-charged.	Head of Pensions
28.	Whether to charge interest on payments by employers which are overdue	**R**71(1) **L**82(1)	HPF will charge interest on payments which are more than one month overdue.	Head of Pensions
29.	Decide whether to extend six month period to lodge a stage one IDRP to be heard by the administering authority	**R**74(4)	HPF will not extend the 6 month period, unless the circumstances of the individual case warrant an extension.	Head of Pensions
30.	Decide procedure to be followed when exercising its IDRP functions and decide the manner in which those functions are to be exercised	**R**74(6) **R**76(4) **L**99	HPF has a documented and compliant IDRP process.	N/A
31.	Whether admin authority should appeal against employer decision (or lack of a decision)	**R**79(2) **L**105(1)	HPF would take the decision to appeal based on the merits of the individual case.	Head of Pensions
32.	Specify information to be supplied by employers to enable admin. authority to discharge its functions	**R**80(1)(b) & **TP**22(1)	HPF provides employers with full guidance as to the information they must supply.	N/A
33.	Whether to pay death grant due to personal representatives or anyone appearing to be beneficially entitled to the estate without need for grant of probate / letters of administration where payment is less than amount specified in the Administration of Estates (Small Payments) Act 1965.	**R**82(2) **A**52(2) **L**95	HPF will pay death grants that are under the amount specified in the Administration of Estates (Small Payments) Act 1965 without the need for grant of probate / letters of administration.	N/A

	Discretion	Regulation	Policy	Delegated authority for approval
34.	Whether, where a person (other than an eligible child) is incapable of managing their affairs, to pay the whole or part of that person's pension benefits to another person for their benefit.	**R**83 **A**52A	HPF will decide who should receive payment of benefits, based on the circumstances of the individual case.	Head of Pensions
35.	Date to which benefits shown on annual benefit statement are calculated.	**R**89(5) **L**106A(5)	HPF uses 31 March, but will revise this if regulatory requirements, administrative efficiency or best practice demand it.	N/A
36.	Extend normal time limit for acceptance of a transfer value beyond 12 months from joining the LGPS.	**R**100(6)	HPF will not extend the 12 month limit, except if warranted by the individual circumstances of the case.	Head of Pensions
37.	Allow transfer of pension rights into the Fund.	**R**100(7)	HPF will allow transfers into the Fund.	N/A
38.	Where member to whom **B**10 applies (use of average of 3 years pay for final pay purposes) dies before making an election, whether to make that election on behalf of the deceased member. Make election on behalf of deceased member with a certificate of protection of pension benefits i.e. determine best pay figure to use in the benefit calculations (pay cuts / restrictions occurring pre 1.4.08.).	**TP**3(6), **TP**4(6)(c), **TP**8(4), **TP**10(2)(a), **TP**17(2)(b) **T**Sch 1 **L**23(9) **B**10(2)	HPF will choose the pay figure that would yield the highest overall level of benefits for beneficiaries.	Team Manager – Member Services
39.	Decide to treat child as being in continuous education or vocational training despite a break.	**R**Sch 1 & **TP**17(9) **B**39 **T**14(3)	HPF will treat a child as being in continuous education or vocational training despite a break.	N/A
40.	Decide evidence required to determine financial dependence of cohabiting partner on scheme member or financial interdependence of cohabiting partner and scheme member.	**R**Sch 1 & **TP**17(9)(b) **B**25	HPF will decide the evidence required to determine financial dependence, based on guidance and best practice. For most cases, utility bills, bank statements or mortgage documentation in joint names will be accepted.	Team Manager - Member Services

	Discretion	Regulation	Policy	Delegated authority for approval
41.	Decide policy on abatement of pensions following re-employment, including the pre April 14 element for post 14 leavers.	**TP**3(13) & **A**70(1)* & **A**71(4)(c) **T**12 **L**109 **L**110(4)b	HPF will not abate pension for any re-employment starting after 1 April 2014. Pensions already abated at this date will continue to be abated until the re-employment ends.	N/A
42.	Extend time period for capitalisation of added years contract	**TP**15(1)(c) & **T**Sch1 & **L**83(5)	HPF will not extend the time limit for applications to pay off added years contracts.	N/A
43.	Outstanding employee contributions can be recovered as a simple debt or by deduction from benefits	**A**45(3) **L**89(3)	HPF will usually recover as a deduction from benefits.	Team Manager - Member Services
44.	Whether to pay the whole or part of a child's pension to another person for the benefit of that child.	**B**27(5) **L**47(2) G11(2)	All pensions due to children under 16 will be paid to another person for the benefit of the child. After age 16, HPF will normally pay to the child, unless the circumstances of the individual case mean that the payments should continue to be made to another person.	N/A
45.	Extend normal 12 month period following end of relevant reserve forces leave for "Cancelling notice" to be submitted by a councillor member requesting that the service should not be treated as relevant reserve forces service.	**L**17(4),(7),(8) , & **L**89(4) & Sch 1	HPF will not extend the 12 month period.	N/A
46.	Select appropriate final pay period for deceased non-councillor member (leavers post 31.3.98. / pre 1.4.08.).	**L**22(7)	HPF will choose the appropriate pay period that would yield the highest overall level of benefits for beneficiaries.	Team Manager - Member Services
47.	Apportionment of children's pension amongst eligible children (children of councillor members and children of post 31.3.98 / pre 1.4.08. leavers).	**L**47(1) G11(1)	HPF will apportion children's pension equally amongst eligible children.	N/A
48.	Commute benefits due to exceptional ill-health (councillor members, pre 1.4.08. leavers and pre 1.4.08. Pension Credit members).	**L**50 and **L**157	HPF will commute benefits due to exceptional ill health, provided regulatory conditions are met.	N/A

	Discretion	Regulation	Policy	Delegated authority for approval
49.	Whether acceptance of AVC election is subject to a minimum payment (councillors only).	**L**60(5)	HPF does not set a minimum payment threshold for AVCs	N/A
50.	Timing of pension increase payments by employers to fund (pre 1.4.08. leavers).	**L**91(6)	Employer payments are paid monthly on account, with an annual balancing charge after the year end.	N/A
51.	Retention of CEP where member transfers out (councillors and pre 1.4.08. leavers).	**L**118	CEP will be paid with transfers out rather than being retained in the Fund.	N/A
52.	Discharge Pension Credit liability (in respect of Pension Sharing Orders for councillors and pre 1.4.08. Pension Sharing Orders for non-councillor members).	**L**147	HPF will discharge its liability by conferring pension credit rights on the person entitled to the pension credit.	N/A
53.	Whether to pay spouse's pensions for life for pre 1.4.98 retirees / pre 1.4.98 deferreds who die on or after 1.4.98. (rather than ceasing during any period of remarriage or co-habitation).	F7	HPF will pay spouse's LGPS pensions for life.	N/A
54.	Agree to pay annual compensation on behalf of employer and recharge payments to employer.	**DC**31(2)	HPF will pay compensation on behalf of an employer, subject to acceptable recharge arrangements.	Head of Pensions
55.	Whether to agree to that an admission agreement may take effect on a date before the date on which it is executed.	**R**Sch2, Part 3, para 14	As set out in the Employer Policy, HPF requires employers to notify the Fund of any outsourcing as soon as possible and complete an admission agreement with sufficient time before the contract start date. However each case will be decided on its merits, with advice from the Fund Actuary.	Head of Pensions
56.	Whether to extend the period beyond 3 months from the date an Employer ceases to be a Scheme Employer, by which to pay an exit credit	**R**64 (2ZA)	As set out in the Employer Policy, HPF will agree a later date with an employer if circumstances mean that an exit credit cannot be paid within 3 months of the employer exiting the Fund.	Head of Employer Services

	Discretion	Regulation	Policy	Delegated authority for approval
57.	Whether to suspend (by way of issuing a suspension notice) for up to 3 years an employer's obligation to pay an exit payment where the employer is again likely to have active members within the specified period of suspension.	**R**64(2A)	As set out in the Employer Policy, HPF will exercise this discretion in relation to Town or Parish Councils. Any other circumstance will be considered on its merits with advice from the Fund Actuary.	Head of Employer Services
58.	To decide whether it is legally able to offer voluntary scheme pays and, if so, to decide the circumstances (if any) upon which it would do so.	**RPS** 2	HPF will allow a request for Voluntary Scheme Pays (VSP) where the tax charge is over £1,000 and under £2,000 in relation to an excess over the standard annual allowance. Any request for VSP below this minimum will be considered on a case by case basis with regard for the administration cost of administering a small pension debit. In addition, HPF will allow a request for VSP in relation to a tax charge of £1,000 or more which has arisen in relation to an excess over a tapered annual allowance (including any amount up to £2,000 over the standard annual allowance if the total tax charge is more than £1,000).	Head of Pensions

Key to regulations:

Prefix	Regulation
R	Local Government Pension Scheme Regulations 2013
TP	Local Government Pension Scheme (Transitional Provisions, Savings and Amendment) Regulations 2014
A	Local Government Pension Scheme (Administration) Regulations 2008
B	Local Government Pension Scheme (Benefits, Membership and Contributions) Regulations 2007
T	Local Government Pension Scheme (Transitional Provisions) Regulations 2008
L	Local Government Pension Scheme Regulations 1997 (as amended)
None	Local Government Pension Scheme Regulations 1995
DC	Local Government (Early Termination of Employment) (Discretionary Compensation) (England and Wales) Regulations 2000
RPS	The Registered Pension Schemes (Modification of Scheme Rules) Regulations 2011

Communication Policy Statement 2019

Introduction

This document outlines how we communicate with our stakeholders. To communicate effectively, we use different methods according to the need and the target audience.

We have five key stakeholder groups:

- Scheme members
- Prospective scheme members
- Employing authorities
- Pensions Services' staff
- Other bodies, for example Pensions Fund Panel and Board, Scheme Advisory Board, prospective employing authorities.

We are committed to communicating clearly and effectively and we aim to provide a high-quality service to all our stakeholders. Our statement of service standards for employers and scheme members can be found on our website.

Methods of communication

Our long-term aim is to promote electronic communication with all stakeholders. This will be achieved through the promotion of our online portal which should be the primary source of information for our members and employers.

Our communication with scheme members

Scheme members include current contributors, those with a deferred benefit and those receiving a pension. Scheme members must be given detailed information about the scheme and their own benefits.

Member portal

Scheme members can register to access the member portal, which is a secure area of the website in which they can view their annual benefit statements and update their personal information.

Website

Our website offers extensive information for scheme members. It contains links to other relevant organisations and is updated with all new legislation and relevant information. The website is the prime source of information on the pension scheme and ensures timely, up-to-date and easy-to-access information for all our stakeholders.

Scheme literature

The *Employee's Guide* is the main reference point for current scheme members. This and other scheme literature and forms are available on the Pensions Services website. We update this regularly, usually when regulations are changed, Members may also obtain scheme literature from their employers.

Member support

We have a general query call centre which operates during office hours. A voice mail service takes messages in the event of staff training within office hours. We aim to answer 95% of the incoming queries without the need to refer to our operational teams. We also have a general email address for all queries and at the bottom of each email we send there is a link to a feedback survey.

Correspondence

We use post and email for correspondence with scheme members. Annual Benefit Statements are available via the member self service. We also provide information to members via their employer.

We notify members of details of any scheme changes within three months of the change.

Benefit statements

Each year, we make an annual benefit statement, showing scheme benefits at 31 March, available to all current and deferred members via Member Portal. Members have the choice to opt out of this online service and instead receive paper statements. All statements are made available by the end of August each year.

Pay advice slips and P60s

We send pay advice slips to pensioners each April and send a P60 in April if the pensioner has had income tax deducted during the year. We also send a payslip to pensioners if there has been a change of more than £1 in their monthly payment.

Newsletters

A newsletter is sent to pensioners each year in March and April.

Declaration of Pension Entitlement

Every year, we send forms to pensioners that live overseas to verify the continuing entitlement to receive pension payments. They will also be sent when we have payments or mail returned.

Report and accounts

In the autumn, a summary of the accounts, investment management and administrative arrangements is made available to current, pensioner, and deferred members. The annual report and full accounts are available to members on request or from our website.

Our communication with prospective scheme members

To provide information about the scheme, we give employers relevant information to ensure that eligible staff are aware of their pension options.

Scheme literature

Employers give all new employees access to information on appointment including the starter information booklet and form. A death grant ‘expression of wish’ form and a pension transfer booklet is available on the Pension Services website. Other scheme literature is available direct from us or from our website.

Website

The website contains a dedicated ‘New Member’ section, which outlines the benefits of the scheme and answers some common questions for prospective members.

Our communication with employing authorities

We communicate with employing authorities in several ways to help them meet their responsibilities as scheme employers.

Scheme literature

An *Employer Manual* is available to all employing authorities. It contains details of procedures and their responsibilities. Copies of leaflets and forms are also available to employers from the website or on request from Pension Services.

Correspondence

We send a regular electronic newsletter to keep employing authorities up to date with the latest regulation changes and proposals, as well as any changes in administration.

We also send ad hoc email communication to advise employers of any changes or information they should be aware of or would find useful.

Website

The website has a dedicated section for employers, with some areas password protected. It gives the latest news and an electronic version of the *Employer Manual*.

Employer training

We hold regular employer training days, and offer targeted training on request from employers, in addition to dealing with queries via phone or email.

Administration strategy

We publish an administration strategy which sets out the roles and responsibilities of the Hampshire Pension Fund and the employers.

Employer liaison meetings

All employers may request a meeting with us, and we attend established employer forums such as the Payroll Officers’ Group. We also hold six-monthly meetings with an employer focus group.

Reports and accounts

We send an electronic copy of the annual report and accounts to each employer. We publish an updated Statement of Investment Principles and make it available to employers within three months of the Joint Pension Fund Panel and Board approving any significant amendment(s).

Valuation report

We send the provisional outcome and the full actuarial report on the triennial valuation to employers when they are available.

Pension Fund Annual Employers Meeting (AEM)

We invite all our employing authorities to attend the Pension Fund Annual Employers Meeting. As well as providing information on issues such as the annual report, scheme changes and investment managers' performance results, the Annual Employers Meeting provides formal and informal opportunities for employers to ask questions of the Joint Pension Fund Panel and Board or those presenting.

Our communication with Pensions Services staff

It is vital that our staff are kept up to date with all changes to the scheme so that they can continue to administer it effectively and offer a high-quality service to members and employers.

Email

Latest news and information is available on the staff webpages. In addition, we may send key information via the group distribution list.

Internet access

All staff have internet access, allowing access to a wide range of pension information.

Employer contact information

A database of contact information for all employing authorities is kept up to date and is available for use by our staff.

Meetings

Regular meetings are held, both informal and formal, within teams and across groups of staff.

Regular section briefings are held to share information across the whole of our section.

Staff training

We undertake regular staff training to ensure that our staff have the relevant knowledge and skills to undertake their role. This includes staff workshops and supporting staff taking any relevant professional qualifications. All new staff undertake a structured development programme.

Our communication with other bodies

Members' representatives

We provide information to members' representatives on request. Any issues that need consultation with members' representatives are referred to the regular meetings held with the Head of Human Resources, Operations.

Joint Pension Fund Panel and Board

The Joint Pension Fund Panel and Board receive reports from the Director of Corporate Resources. Although these usually concern investment issues, they will advise the Panel and Board on changes to administrative arrangements or scheme rules where relevant.

Prospective employing authorities

New employers receive information about the responsibilities and costs of joining the scheme and are invited to attend employer training sessions as well as having access to the employer website.

Complaints and appeals

We have a comprehensive process for dealing with complaints and appeals. Full details of the Internal Dispute Resolution Procedure is available on our website:

https://www.hants.gov.uk/hampshire-services/pensions/local-government/contact/customer-service/complaints-procedure/hampshire-county-council

Publications matrix

Document	*Format*		*Available to*					Published	Reviewed
	Paper	Website	Prospective members	Current members	Deferred members	Pensioners	Employers		
Employee's Guide	X	✓	✓	✓	✓	X	✓	Always available	As regulations change
Employer Manual	X	✓	X	X	X	X	✓	Always available	As regulations change
Reports and accounts	X	✓	✓	✓	✓	✓	✓	Annually	Annually
Benefit statements	✓	✓	X	✓	✓	X	X	Annually	Annually
Pensioners' newsletter	✓	✓	X	X	X	✓	X	Always available	Annually
Service standards	X	✓	✓	✓	✓	✓	✓	Always available	Annually
Complaints and appeals process	✓	✓	✓	✓	✓	✓	✓	Always available	Annually

HAMPSHIRE COUNTY COUNCIL

Decision Report

Decision Maker:	Pension Fund Panel and Board
Date:	13 December 2019
Title:	Competition and Markets Authority (CMA) Order – Investment Consultancy
Report From:	*Director of Corporate Resources – Corporate Services*

Contact name: Andrew Boutflower

Tel: 01962 847407 **Email:** andrew.boutflower@hants.gov.uk

Purpose of this Report

1. This paper provides the Pension Fund Panel and Board with a summary of the requirements of the CMA for the Pension Fund to establish aims and objectives for its investment consultant and recommended aims and objectives for the Fund's consultants, Hymans Robertson and MJ Hudson Allenbridge.

Recommendations

2. That the strategic objectives for investment consultants show in paragraph 7 are approved.

Background

3. The CMA investigated the investment consultancy and fiduciary management market following a referral made by the Financial Conduct Authority (FCA) in September 2017. The CMA published its final report in December 2018 and concluded that there was an adverse effect on competition in the investment consultancy and fiduciary management market. It found low levels of engagement by trustees when choosing and monitoring their investment consultant and low levels of tendering when first moving into fiduciary management.

4. The final report set out a number of remedies to improve the information that investment consultants and fiduciary managers provide trustees on fees and performance and to facilitate trustee engagement when tendering for

services and assessing the performance and quality of service of their providers. These remedies apply to trustees and providers of investment consultancy and fiduciary management services. The specific remedies that apply to trustees are as follows:

- Remedy 1: Requirement to tender for fiduciary management services when 20% or more of scheme assets are delegated.

- Remedy 7: Requirement to set strategic objectives for providers of investment consultancy services.

5. The CMA has introduced the remedies via the Order, which was published on 10 June 2019 and the duties that apply to trustees will take effect from December 2019. After clarification it has been confirmed that whilst the findings and order relating to fiduciary management do not apply to the LGPS, the requirement to set objectives for investment consultants does.

Strategic objectives for the Pension Fund’s investment consultants

6. The following strategic objectives are recommended for the Pension Fund’s investment consultants; Hymans Robertson and MJ Hudson Allenbridge, both of whom the Pension Fund has contracted with following tender processes compliant with the Public Procurement Regulations. The CMA’s requirements do not apply to the Pension Fund’s independent advisor, or Link as the Operator for the ACCESS pool, neither or which provide regulated fiduciary services or investment advice.

7. The following aims and objections have been shared and discussed with both Hymans Robertson and MJ Hudson Allenbridge who have confirmed that they are appropriate.

   Assistance in achieving the Fund’s objectives:

   a) Any proposed changes in investment strategy or investment managers has a clear rationale linked to the Fund’s objectives, beliefs, capacity and circumstances, such as funding level, with specific reference to improving the efficiency of the investment strategy in terms of risk adjusted returns and the ongoing pooling of investments through ACCESS.

   b) The investment consultant has an appropriate framework in place to recognise opportunities to reduce risk and will make recommendations where it has a high degree of confidence in achieving the objective after fees over a market cycle.

c) The investment consultant undertakes specific tasks such as advice on the selection/retention of new/existing investment managers/asset classes, review of the strategic asset allocation, setting investment objectives, use of transition management services and responsible investment as commissioned.

d) Recognition of the dynamism of investment markets, recognising opportunities to crystallise gains or emerging risks which require immediate attention.

Governance and Costs

a) Cost implications, both in terms of investment management expenses and implementation costs, are considered as part of investment strategy advice including assessing investment returns on a net of fees basis and where applicable the continued merits of active management are demonstrable.

b) The investment consultant has demonstrated an understanding and appreciation of governance requirements, in particular, the investment consultant has avoided complexity where simpler, more cost effective solutions may be available.

c) The advice provided by the consultant is objective and any conflicts of interest are highlighted in advance.

d) The investment consultant has ensured that their advice and the Pension Fund's investments are in accordance with the current regulatory and compliance requirements relevant for the LGPS, including the Pension Fund's own Investment Strategy Statement.

Delivery

a) The investment consultant has formed a strong working relationship throughout their work as appropriate with the Committee, Council Officers and other key stakeholders.

b) Reports and educational material are pitched at the right level, given the Committee's understanding.

c) Provides training/explanation which aids understanding and improves the Committee's governance.

d) Meeting papers are provided in a timely fashion, with all required detail and accuracy.

e) The investment consultant works within agreed budgets and is transparent with regard to advisory costs, itemising additional work with fees in advance.

f) The investment consultant works collaboratively with the scheme’s actuary and other advisors or third parties including the global custodian.

g) The investment consultant is generally available for consultation on fund investment matters.

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.)

Document	Location
None	

EQUALITIES IMPACT ASSESSMENT:

1. Equality Duty

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

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

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

- The need to remove or minimise disadvantages suffered by persons sharing a relevant protected characteristic that are connected to that characteristic;
- Take steps to meet the needs of persons sharing a relevant protected characteristic that are different from the needs of persons who do not share it;
- Encourage persons sharing a relevant protected characteristic to participate in public life or in any other activity in which participation by such persons is disproportionally 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:	13 December 2019
Title:	Scheme Advisory Board Guidance on Responsible Investment
Report From:	*Director of Corporate Resources – Corporate Services*

Contact name: Andrew Boutflower

Tel: 01962 847407 **Email:** andrew.boutflower@hants.gov.uk

Purpose of this Report

1. This paper introduces draft guidance published for consultation by the Scheme Advisory Board (SAB) on Responsible Investment (RI) in the LGPS.

Recommendations

2. That authority is delegated to the Director of Corporate Resources in consultation with the Chairman of the Panel and Board to respond to the SAB's consultation.

SAB's draft guide on RI

3. On 22 November 2019 the SAB published the first of two parts of guidance on RI. The aim of the first part is to 'to assist and help investment decision makers to identify the parameters of operation within scheme regulations, statutory guidance, fiduciary duty and the general public law'. As the SAB state the first part of the guidance draws together the complex set of requirements within which LGPS funds have to operate.

4. The SAB have promised a second part of the guidance will be a 'toolkit' for funds to further integrate RI policies into their investment strategies. The SAB has said that it aims to consider the second part of the guidance at its meeting on 3 February 2020.

5. The guidance has been published as draft for consultation (contained in Annex 1), which closes on 11 January 2020, although the SAB has not asked any consultation questions.

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.	

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- 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 disproportionally 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 Maker:	Hampshire Pension Fund Panel and Board
Date:	13 December 2019
Title:	Investments: Pension Fund cash monitoring report and Annual Cash Investment Strategy 2020/21
Report From:	Director of Corporate Resources

Contact name: Mike Chilcott

Tel: 01962 847411 **Email:** mike.chilcott@hants.gov.uk

Purpose of this Report

1. This report outlines the investment performance of the cash balances held by the Pension Fund in 2019/20 to 30 November 2019 and recommends the Annual Cash Investment Strategy for 2020/21.

Recommendations

2. That the Annual Cash Investment Strategy for 2020/21 be approved.
3. That, if the Annual Cash Investment Strategy referred to above is approved, that it be implemented from the date of this meeting for the remainder of 2019/20.
4. That the Director of Corporate Resources be authorised to manage the Fund's cash balance in accordance with the policy set out in this report.

Executive Summary

5. This report provides an update on the management of the Pension Fund's cash balances and the Annual Cash Investment Strategy for those cash balances for 2020/21, which is outlined in paragraphs 28 to 40 for approval.
6. In accordance with the Local Government Pension Scheme (Management and Investment of Funds) Regulations 2016, an investment policy must be formulated for the investment of the Fund's cash.

7. The production of an Annual Cash Investment Strategy is in line with the recommendations of the Chartered Institute of Public Finance and Accountancy's (CIPFA) Code of Practice 2017 Edition.

Background

8. The Pension Fund's Cash Investment Strategy Statement does not include a strategic allocation in cash as an asset class. However, the Pension Fund receives cash each month from contributions by employees and employers, and income from some of its investments, which needs to be managed.

9. Dividends from shares and interest receipts from bonds are held by the Pension Fund's custodian bank, JP Morgan, for segregated accounts and by the investment managers' custodian banks where the Pension Fund is investing in pooled funds. Cash in these accounts is retained by the Fund's external investment managers for reinvestment, but rental income from the Pension Fund's direct property portfolio, distributions from private equity investments, infrastructure investments and indirect property funds are credited to the Fund's cash balance.

10. The Pension Fund requires a cash balance to meet outgoings on pensions and benefits, existing commitments to invest in property and to fund drawdowns by the private equity, private debt and infrastructure funds, as well as covering day-to-day cashflow.

External Context

11. The following paragraphs explain the economic and financial background against which the Annual Cash Investment Strategy is being set.

Economic background

12. The UK's progress negotiating its exit from the European Union (EU), together with its future trading arrangements, will continue to be a major influence on the Pension Fund's cash management strategy for 2020/21.

13. UK Consumer Price Inflation (CPIH) fell to 1.5% year on year in September 2019 from 1.7% in August, weaker than the consensus forecast of 1.6% and below the Bank of England's target.

14. Labour market data for the three months to September 2019 showed the unemployment rate edged down to 3.8% while the employment rate reduced slightly to 76.0%. Once adjusted for inflation, real wages were up 1.7% on an annual basis as wages continue to rise steadily and provide some upward pressure on general inflation.

15. There was an increase of 0.3% in quarterly GDP growth in the third calendar quarter of 2019 following the 0.2% contraction in Q2. Services and construction provided a positive contribution, while agriculture contributed negatively. Output in the production sector was flat for Q3 2019. Business investment was flat in Q3 which follows negative growth in Q2 2019 alongside four negative consecutive quarters in 2018.

16. The Bank of England maintained Bank Rate at 0.75% and while the potential for divergent paths for UK monetary policy remain in the event of the General Election result, the weaker external environment severely limits potential upside movement in Bank Rate, while the slowing UK economy will place pressure on the MPC to loosen monetary policy. Indeed, two MPC members voted for an immediate cut in November 2019.

17. Globally, the European Central Bank cut its deposit rate by 10 basis points in September 2019 alongside announcing another round of stimulus, which was closely followed by a 25 basis points cut by the US Federal Reserve.

Credit outlook

18. Credit Default Swap (CDS) spreads rose and then fell again during the second quarter of the financial year and have continued to fall since, remaining low in historical terms. After rising to almost 120bps in May, the spread on non-ringfenced bank NatWest Markets plc fell back to around 62bps by November, while for the ringfenced entity, National Westminster Bank plc, the spread was around 33bps. The other main UK banks, as yet not separated into ringfenced and non-ringfenced from a CDS perspective, traded between 34 and 76bps at the end of September.

19. There were minimal credit rating changes during the period. Moody's upgraded The Co-operative Bank's long-term rating to B3 and Fitch upgraded Clydesdale Bank and Virgin Money to A-.

Interest rate forecast

20. Following the increase in Bank Rate to 0.75% in August 2018, the County Council's treasury management adviser, Arlingclose, is forecasting that rates stay at this level for the foreseeable future. The BoE's MPC predicts some modest tightening of policy, at a gradual pace and to a limited extent, may be needed to maintain inflation sustainably at the target. Arlingclose believes that MPC members consider both that ultra-low interest rates result in other economic problems, and that higher Bank Rate will be a more effective policy weapon should downside Brexit risks crystallise when rate cuts will be required.

21. The UK economic environment remains relatively soft, despite seemingly strong labour market data. Arlingclose's view is that the economy still faces a challenging outlook as it exits the EU and Eurozone growth softens. Whilst assumptions are that a Brexit deal is struck and some agreement reached on transition and future trading arrangements before the UK leaves the EU, the possibility of a "no deal" Brexit still hangs over economic activity. As such, the risks to the interest rate forecast are considered firmly to the downside.

Negative interest rates

22. If the UK enters into recession in 2020/21, there is a small chance that the BoE could cut its Bank Rate at or below zero, which is likely to feed through to negative interest rates on all low risk, short-term investment options. This situation already exists in many other European countries. In this event,

security will be measured as receiving the contractually agreed amount at maturity, even though this may be less than the amount originally invested.

Performance of cash investments

23. The Pension Fund's cash investment holding was £229.4m as at 30 November 2019 which represents around 3% of the Pension Fund's total value. The current cash balance is significantly higher than last year as, based on Pension Fund Panel and Board's approval of recommendations from Hymans Robertson to reduce the exposure to equities from funds that are intended to be invested in illiquid investments, amounts are currently being held as cash and asset-backed securities ahead of re-investment. To allow for this temporary increase of cash balances, higher cash limits were approved by the Pension Fund Panel and Board on 27 September 2019 along with the recommendation that £260m should be invested in cash on a one-off basis.

24. It is expected that during the next year the Pension Fund's cash balances will initially remain high, as it will take some time for the full re-allocation of cash to be invested. As agreed by the Panel and Board the Fund's cash holding will reduced back down once this has been completed, but be higher than previous levels as cash will include the next 3 months of commitments for illiquid investments plus funds to cover operational requirements.

25. The priority for cash investments is security and liquidity and the Pension Fund's aim is to achieve a yield commensurate with these principles. This has been maintained by following the Pension Fund's counterparty policy as set out in its Annual Cash Investment Strategy for 2019/20, which was approved by the Pension Fund Panel at its meeting in December 2018. A full breakdown of current investments is provided in the exempt appendix.

26. Whilst regulations provide an explicit power for pension funds to borrow for a period of up to 90 days for cash flow purposes, such as allowing scheme benefits to be paid and during a transition period when the investment of the Fund's assets is being changed, the Pension Fund's cash flow will be managed on the basis that the need for borrowing for the Fund is avoided and therefore all of the Pension Fund's cash investments are either overnight or for a very short duration.

27. As at 30 November 2019 the weighted average return on the Pension Fund's cash investments was 0.73%, which should be considered within the context of a UK Base Rate of 0.75%.

Annual Cash Investment Strategy

28. In the past 12 months, the Pension Fund's cash investment balance has ranged between £27.7m and £258.1m.

29. The following Annual Cash Investment Strategy, for the period to 31 March 2021 has been prepared with the advice of the County Council's treasury management advisers, Arlingclose.

30. The primary objective in relation to the investment of Pension Fund cash remains the security of capital. The liquidity or accessibility of the Fund's cash investments followed by the yields earned on these investments are important but secondary considerations.

Risk Assessment and Credit Ratings

31. Credit ratings are obtained and monitored by the County Council's treasury advisers, who will notify changes in ratings as they occur. Where an entity has its credit rating downgraded so that it fails to meet the approved investment criteria then:

- no new investments will be made,
- any existing investments that can be recalled or sold at no cost will be, and
- full consideration will be given to the recall or sale of all other existing investments with the affected counterparty.

32. Where a credit rating agency announces that a credit rating is on review for possible downgrade (also known as "rating watch negative" or "credit watch negative") so that it may fall below the approved rating criteria, then only investments that can be withdrawn on the next working day will be made with that organisation until the outcome of the review is announced. This policy will not apply to negative outlooks, which indicate a long-term direction of travel rather than an imminent change of rating.

Other information on the Security of Investments

33. The Pension Fund understands that credit ratings are good but not perfect predictors of investment default. Full regard will therefore be given to other available information on the credit quality of the organisations in which it invests, including credit default swap prices, financial statements, information on potential government support, reports in the quality financial press and analysis and advice from the County Council's treasury management adviser. No investments will be made with an organisation if there are substantial doubts about its credit quality, even though it may otherwise meet the credit rating criteria.

34. When deteriorating financial market conditions affect the creditworthiness of all organisations, as happened in 2008 and 2011, this is not generally reflected in credit ratings, but can be seen in other market measures. In these circumstances the Pension Fund will restrict its investments to those organisations of higher credit quality and reduce the maximum duration of its investments to maintain the required level of security. The extent of these restrictions will be in line with prevailing financial market conditions.

Investment Limits

35. Given the impact of bail-in legislation, which has increased the credit risk that unsecured bank/building society investments could be subject to a loss and/or converted to equities, the following investment limits are proposed to mitigate the risk whilst allowing sufficient flexibility to manage the Pension Fund's investment balances. As mentioned in paragraph 24, cash balances

are expected to remain high due to large Equity redemptions. As a result, changes have been made to the cash limits to allow this cash to be invested according to Arlingclose's advice. It is expected that lower cash limits will be reinstated in the Fund's annual cash investment strategy for 2021/22.

36. The limits below apply to the cash received into the Pension Fund's bank account that is managed internally by officers. Where cash is retained by the Fund's investment managers, a limit of 5% held in cash is specified in their investment management agreements to ensure they are fully invested in their particular investment class and to manage the risks from cash investment.

37. A group of banks under the same ownership will be treated as a single organisation for limit purposes. Maximum limits will also be placed on fund managers and industry sectors as below:

Table 1: Investment Limits

	Cash limit	**Maximum Term**
Any single organisation, except the UK Central Government	£30m each	2 years
UK Central Government	Unlimited	2 years
Any group of organisations under the same ownership	£30m per group	2 years
Any group of pooled funds under the same management	£25m per manager	2 years
Money Market Funds	50% in total	Overnight

38. From April 2020 employers have the option to pay their employers' pension contributions in advance for one or three years and a window will shortly be open for them to confirm whether they want to do this. The deadline when the Pension Fund will know the amounts to be received is 31 January 2019. Early estimates are that this could be up to £300m which could be held for a brief period before being invested in line with the Investment Strategy. In order to allow for this temporary increase in the Pension Fund cash balances, interim limits, as shown in Table 2, below will invoked. Pension Fund officers will confirm with the Director of Corporate Resources when these interim limits apply and when they return to the limits in Table 1 above:

Table 2: Investment Limits (special circumstances)

	Cash limit	**Maximum Term**
Any single organisation, except the UK	£100m each	2 years

Central Government		
UK Central Government	Unlimited	2 years
Any group of organisations under the same ownership	£100m per group	2 years
Any group of pooled funds under the same management	£80m per manager	2 years
Money Market Funds	50% in total	Overnight

Approved Investment Counterparties and Limits

39. Appendix 1 shows a table of counterparty types which the Pension Fund may invest its cash in, subject to the cash limits (per counterparty) and the time limits shown. The Pension Fund will continue to largely invest overnight with banks and money market funds, given that cash is only held to meet immediate liabilities. Other more secure options that might mitigate the risk of bank bail-ins are available should the Pension Fund be required to hold larger amounts of cash for longer periods. The list of currently authorised counterparties is available in Appendix 2 for information. Therefore, the Director of Corporate Resources and her staff will use the guidance of the County Council's treasury management advisers, Arlingclose, in order to place cash on deposit, within the limits shown in Appendix 1.

Liquidity Management

40. The Pension Fund has due regard for its future cash flows when determining the maximum period for which funds may prudently be committed. Historic cash flows are analysed in addition to significant future cash movements.

Other items

Investment Training

41. The needs of the Pension Fund's treasury management staff for training in investment management are assessed annually as part of the staff appraisal process, and additionally when the responsibilities of individual members of staff change.

42. Staff members regularly attend training courses, seminars and conferences provided by Arlingclose and CIPFA. Relevant staff are also encouraged to study professional qualifications from CIPFA, and other appropriate organisations.

43. The Pension Fund's training policy states that all Panel and Board members should receive appropriate training relevant to their needs and understand fully their roles and responsibilities, which includes treasury management responsibilities, and the scrutiny of the treasury management function. All Panel and Board members were invited to a workshop presented by

Arlingclose on 22 November 2019, which gave an update on treasury matters. Another workshop is planned for November 2020.

Investment Advisers

44. The Pension Fund has appointed Arlingclose Limited as treasury management advisers and receives specific advice on investment, debt and capital finance issues. The quality of this service is controlled through quarterly review meetings with the Director of Corporate Resources and her staff and Arlingclose.

Markets in Financial Instruments Directive

45. The Pension Fund has opted up to professional client status with its providers of financial services, including advisers, brokers and fund managers allowing it access to a greater range of services, but without the greater regulatory protections afforded to individuals and small companies. As a Local Government Pension Scheme, this is the most appropriate status.

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	
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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 disproportionally 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.

Approved Investment Counterparties and Limits

Credit Rating	Banks Unsecured	Banks Secured	Government	Corporates
UK Govt	n/a	n/a	£ Unlimited 2 years	n/a
AAA	£25m 2 years	£30m 2 years	£30m 2 years	£25m 2 years
AA+	£25m 2 years	£30m 2 years	£30m 2 years	£25m 2 years
AA	£25m 2 years	£30m 2 years	£30m 2 years	£25m 2 years
AA-	£25m 2 years	£30m 2 years	£30m 2 years	£25m 2 years
A+	£25m 2 years	£30m 2 years	£25m 2 years	£25m 2 years
A	£25m 13 months	£30m 2 years	£25m 2 years	£25m 2 years
A-	£25m 6 months	£30m 13 months	£25m 2 years	£25m 13 months
None	£1m 6 months	n/a	£25m 2 years	n/a
Pooled funds	£25m per fund			

The table must be read in conjunction with the notes below

Credit Rating

Investment limits are set by reference to the lowest published long-term credit rating from a selection of external rating agencies. Where available, the credit rating relevant to the specific investment or class of investment is used, otherwise the counterparty credit rating is used. However, investment decisions are never made solely based on credit ratings, and all other relevant factors including external advice will be taken into account.

Banks Unsecured

Accounts, deposits, certificates of deposit and senior unsecured bonds with banks and building societies, other than multilateral development banks. These investments are subject to the risk of credit loss via a bail-in should the regulator determine that the bank is failing or likely to fail. See below for arrangements relating to operational bank accounts

Banks Secured

Covered bonds, reverse repurchase agreements and other collateralised arrangements with banks and building societies. These investments are secured on the bank/building society's assets, which limits the potential losses in the unlikely event of insolvency, and means that they are exempt from bail-in. Where there is not investment specific credit rating, but the collateral upon which the investment is secured has a credit rating, the highest of the collateral credit rating and the counterparty credit rating will be used to determine cash and time limits. The combined secured and unsecured investments in any one bank will not exceed the cash limit for secured investments.

Government

Loans, bonds and bills issued or guaranteed by national governments, regional and local authorities and multilateral development banks. These investments are not subject to bail-in and there is generally a lower risk of insolvency, although they are not zero risk. Investments with the UK Central Government may be made in unlimited amounts for up to 2 years.

Corporates

Loans, bonds and commercial paper issued by companies other than banks and registered providers. These investments are not subject to bail-in, but are exposed to the risk of the company going insolvent. Loans to unrated companies will only be made as part of a diversified pool in order to spread the risk widely.

Pooled Funds

Shares or units in diversified investment vehicles consisting of any of the above investment types, plus equity shares and property. These funds have the advantage of providing wide diversification of investment risks, coupled with the services of a professional fund manager in return for a fee. Short-term Money Market Funds that offer same-day liquidity and very low or no volatility will be used as an alternative to instant access bank accounts, while pooled funds whose value changes with market prices and/or have a notice period will be used for longer investment periods.

Operational bank accounts

The Pension Fund may incur operational exposures, for example through current accounts, to any UK bank with credit ratings no lower than BBB- and with assets greater than £25 billion. These are not classed as investments but are still subject to the risk of a bank bail-in and balances will therefore be kept low. The Pension Fund's operational bank account is with National Westminster and aims to keep the overnight balances held in current accounts as close as possible to £0. The Bank of England has stated that in the event of failure, banks with assets greater than £25 billion are more likely to be bailed-in than made insolvent, increasing the chance of the Pension Fund maintaining operational continuity.

List of UK and non-UK banks and building societies

Country / Domicile	Counterparty	Maximum investment	Maximum duration
UK	Barclays Bank PLC / Barclays Bank UK PLC	£25m	100 days
UK	Close Brothers Limited	£25m	100 days
UK	Goldman Sachs International Bank	£25m	100 days
UK	HSBC Bank PLC / HSBC UK Bank PLC	£25m	6 months
UK	Leeds Building Society	£25m	100 days
UK	Lloyds Bank PLC / Bank of Scotland PLC	£25m	6 months
UK	National Westminster Bank PLC / Royal Bank of Scotland PLC / Ulster Bank Limited	£25m	100 days
UK	Nationwide Building Society	£25m	6 months
UK	Santander UK PLC	£25m	6 months
UK	Standard Chartered Bank	£25m	6 months
Australia	Australia & New Zealand Banking Group	£25m	6 months
Australia	Commonwealth Bank of Australia	£25m	6 months
Australia	National Australia Bank	£25m	100 days
Australia	Westpac Banking Group	£25m	6 months
Canada	Bank of Montreal	£25m	6 months
Canada	Bank of Nova Scotia	£25m	6 months
Canada	Canadian Imperial Bank of Commerce	£25m	6 months
Canada	Royal Bank of Canada	£25m	6 months
Canada	Toronto Dominion Bank	£25m	6 months
Denmark	Danske Bank	£25m	100 days
Finland	OP Corporate Bank	£25m	6 months
Germany	Bayerische Landesbank (BayernLB)	£25m	6 months
Germany	DZ Bank AG Deutsche Zentral	£25m	6 months
Germany	Landesbank Baden-Wuerttemberg (LBBW)	£25m	6 months
Germany	Landesbank Hessen-Thuringen (Helaba)	£25m	6 months
Netherlands	Cooperative Rabobank	£25m	6 months
Netherlands	ING Bank	£25m	100 days
Singapore	DBS Bank Ltd	£25m	6 months
Singapore	Oversea-Chinese Banking Corporation	£25m	6 months
Singapore	United Overseas Bank	£25m	6 months
Sweden	Nordea Bank ABP	£25m	6 months
Sweden	Svenska Handelsbanken	£25m	6 months
Switzerland	Credit Suisse	£25m	100 days

* Please note that the counterparties listed above meet the Fund’s minimum credit rating criteria as at 1 December 2019, additional counterparties could be added to this list if, for example, a counterparty/country is upgraded. Alternatively, if a counterparty is downgraded, this list may be shortened.

By virtue of paragraph(s) 3 of Part 1 of Schedule 12A
of the Local Government Act 1972.

Agenda Item 16

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of the Local Government Act 1972.

Agenda Item 17

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