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NOTICE OF MEETING

Meeting	Hampshire Pension Fund Panel and Board
Date and Time	Friday, 4th December, 2020 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 is being held remotely and will be recorded and broadcast live via 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) OF THE MEETING HELD ON 20 NOVEMBER 2020 (Pages 5 - 10)

To confirm the Minutes of the meeting held on 20 November 2020.

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. ACCESS MINUTES - 7 SEPTEMBER 2020 (Pages 11 - 16)

To receive the minutes of the ACCESS Joint Committee meeting held on 7 September 2020.

7. GOVERNANCE: ADMINISTRATION PERFORMANCE UPDATE (Pages 17 - 36)

To consider a report of the Director of Corporate Resources-Corporate Services updating the Panel and Board on administration performance in the first six months of 2020/21, providing information about other administrative issues and seeking approval for the updated Communication Policy Statement.

8. GOVERNANCE: 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 2021/22 and projections for 2022/23.

9. GOVERNANCE: GOOD GOVERNANCE IN THE LGPS UPDATE REPORT (Pages 43 - 74)

To consider a report from the Director of Corporate Resources-Corporate Services updating the Panel and Board on the review of governance structures in the LGPS and providing the Governance Policy Statement, Governance Compliance Statement, Training Policy and Representation Policy for review and approval.

10. GOVERNANCE: REVIEW OF THE PENSION FUND'S STATUTORY STATEMENTS (Pages 75 - 184)

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.

11. INVESTMENT: PENSION FUND CASH MONITORING REPORT AND ANNUAL CASH INVESTMENT STRATEGY 2021/22 (Pages 185 - 198)

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 2020/21 to 31 October 2020 and recommending the Annual Cash Investment Strategy for 2021/22.

12. 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.

13. CONFIRMATION OF THE EXEMPT MINUTES OF THE MEETING HELD ON 20 NOVEMBER 2020 (Pages 199 - 202)

To confirm the exempt minutes of the meeting held on 20 November 2020.

14. INVESTMENT: CASH MONITORING AND ANNUAL CASH INVESTMENT STRATEGY 2021/22- EXEMPT APPENDIX (Pages 203 - 204)

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

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 observe the public sessions of the meeting via the webcast.

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AT A MEETING of the PENSION FUND PANEL AND BOARD of the County Council held at The Castle, Winchester on Friday 20 November 2020.

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
* D. Mellor
* B. Tennent

Employer Representatives (Co-opted members):
* Councillor C. Corkery (Portsmouth City Council)
Councillor P. Taylor (District Councils - Rushmoor Borough Council)
* Dr L Bartle (University of Portsmouth)
Councillor S. Barnes-Andrews (Southampton City Council, substitute employer representative)

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

Independent Adviser:
* C. Dobson

*present

BROADCASTING ANNOUNCEMENT

The Chairman asked for the broadcast of the meeting to begin. Those remaining at the meeting were consenting to being filmed and recorded.

274. **APOLOGIES FOR ABSENCE**

Cllrs Barnes-Andrews, Dowden, Joy and Taylor sent their apologies.

275. **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.

276. **CONFIRMATION OF MINUTES**

The minutes of the Pension Fund Panel and Board held on 25 September 2020 were confirmed.

277. **DEPUTATIONS**

The Panel and Board received a deputation from Mr James Miller the group co-ordinator of Winchester Extinction Rebellion and representing the Dirty Money Campaign Group, which includes Hampshire pension scheme members. Mr Miller said he expected the Hampshire Pension Fund to use the power of pension assets to cut the global carbon footprint and secure against stranded assets.

Mr Miller noted that the Pension Fund Annual Report shows that the Hampshire Pension Fund has begun to make progress in moving its global passive equities to a Climate Aware fund, and the subsequent use of a consultant to report on the Fund’s investment managers’ management of Environmental Social and Governance issues; but it is unacceptable that this report has not been made available to pension scheme members or the public. The Pension Fund’s Annual Report should include a clear climate position statement and should develop its reporting in line with the Taskforce for Climate Related Financial Disclosures.

Mr Miller stated that there is no reason to believe that excluding fossil fuel investments damages financial performance. There are numerous examples of pension funds transitioning towards sustainable investments, such as the Net Zero Asset Owners Alliance.

Mr Miller highlighted that in 2019 Mark Carney warned that the global financial system is financing industries that could generate a 4 degree climate increase. This would leave vast reserves of fossil fuels unburnable, therefore disinvestment is not only financially prudent but a moral imperative.

Mr Miller stated that Hampshire Pension has a duty to play its role in the Climate Change crisis. The Dirty Money Campaign calls on the Hampshire Pension Fund to;

1. Produce a position statement on managing its portfolios in line with the Paris Agreement and a maximum 1.5 degree climate increase.
2. Create a strategy and timeline to achieve this.
3. Report in plain English with scheme members, and consult with and be advised by scheme members on the Pension Fund's Statement of Investment Principles.
4. Call on all members of the ACCESS pool to become members of the Net Zero Asset Owners Alliance.

Finally Mr Miller warned that in Australia, a pension scheme member had brought a lawsuit against their pension fund for failing to act on climate related financial risks. Hampshire Pension Fund and the wider ACCESS pool would do well to anticipate a similar case.

Cllr Kemp-Gee thanked Mr Miller for his deputation.

278. **CHAIRMAN'S ANNOUNCEMENTS**

The Chairman congratulated the Deputy Chief Executive on the smooth running of the Pension Fund's first virtual annual employers meeting and reminded the members that they have been sent a link to watch the recording if they wish.

The Chairman reminded members that the Panel and Board's first virtual internal training session will be held on 9 December 2020. The Chairmen invited the committee members to highlight any virtual training sessions that they had attended.

- Cllr Gibson commented on the quality of SPS's virtual conferences.
- Cllr Tennent had attended the monthly LGPS Live events.
- Cllr Glen had attended a number of virtual events, of which he was particularly impressed with those provided by JP Morgan.

279. **MINUTES OF THE RESPONSIBLE INVESTMENT SUB-COMMITTEE**

The minutes of the Responsible Investment Sub-Committee held on 20 October 2020 were noted.

280. **GOVERNANCE – EXIT PAYMENTS REFORMS**

The Panel and Board noted a report of the Deputy Chief Executive and Director of Corporate Resources (item 7 in the Minute Book) updating the Pension Fund Panel and Board on the impact of the new Restriction of Public Sector Exit Payments Regulations 2020 on administrative processes for Pension Services and Scheme Employers. The new regulations came into force on 4 November 2020 and limit the total amount payable by the employer for the exit of an employee on redundancy or business efficiency grounds to £95,000. Until such time as the amended LGPS regulations are in force, there is a potential conflict between the exit payment regulations which limit the total amount an employer can pay for an exit and the LGPS regulations which entitle members to an unreduced pension for which the employer must pay a strain charge.

There has been different advice received from the government minister, Luke Hall, and the Scheme Advisory Board (SAB) about how LGPS funds should administer redundancy and efficiency retirements in this interim period. Therefore Hampshire has joined the other administering authorities in the Access Pool to directly commission advice from Squire Patton Boggs (SPG) as to how to proceed in this interim period. On receipt of the legal advice from SPG, the Director of Corporate Resources will implement the least risk approach for the interim period for the Fund. A further update will be provided to the Panel and Board at their meeting in December 2020.

281. **<u>EXCLUSION OF PRESS AND PUBLIC</u>**

RESOLVED:

That the public be excluded from the meeting during the following items of business, as it is likely, in view of the nature of the business to be transacted or the nature of the proceedings, that if members of the public were present during these items there would be disclosure to them of exempt information within Paragraphs 3 and 5 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.

Following the resolution the Chairman asked for the broadcasting of the meeting to end.

282. **<u>MINUTES OF PREVIOUS MEETINGS (EXEMPT)</u>**

The exempt minutes of the Pension Fund Panel and Board held on 25 September 2020 were confirmed.

283. **<u>EXEMPT MINUTES OF THE RESPONSIBLE INVESTMENT SUB-COMMITTEE</u>**

The exempt minutes of the Responsible Investment Sub-Committee held on 20 October 2020 were noted.

284. **<u>INVESTMENTS – BAILLE GIFFORD GLOBAL ALPHA PORTFOLIO</u>**

The Panel and Board received an exempt report from the report of the Deputy Chief Executive and Director of Corporate Resources (Item 11 in the Minute Book) on Baillie Gifford's Global Alpha portfolio. [SUMMARY OF A MINUTE WHICH CONTAINS EXEMPT

INFORMATION]

285. **INVESTMENTS – INVESTMENTS UPDATE**

The Panel and Board received an exempt report from the report of the Deputy Chief Executive and Director of Corporate Resources (Item 12 in the Minute Book) updating the Panel and Board on the performance of the Pension Fund's investments. [SUMMARY OF A MINUTE WHICH CONTAINS EXEMPT INFORMATION]

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ACCESS JOINT COMMITTEE

MINUTES of a meeting of the ACCESS Joint Committee held at Virtual Meeting on Monday, 7th September, 2020.

PRESENT: Cllr Mark Kemp-Gee - Chair (Hampshire CC), Cllr Susan Barker - Vice-Chair (Essex CC), Cllr Gerrard Fox (East Sussex CC), Cllr Adrian Axford (Isle of Wight), Cllr Terry Rogers (Cambridgeshire CC), Cllr Judy Oliver (Norfolk CC), Cllr Bill Parker (Northamptonshire CC), Cllr Ralph Sangster (Hertfordshire CC), Cllr Charlie Simkins (Kent CC) and Cllr Karen Soons (Suffolk CC).

ALSO PRESENT: Kevin McDonald (ASU Director), Mark Paget (ASU Contract Manager) and Dawn Butler (ASU Support Officer), John Wright (Hymans Robertson) and Clifford Sims (Squire Patton Boggs, Solicitor).

OFFICERS: Andrew Boutflower (Hampshire), Glenn Cossey (Norfolk), Jody Evans (Essex), Paul Finbow (Suffolk), Michelle King (East Sussex), Alison Mings (Kent), Sharon Tan (Suffolk), Jo Thistlewood (Isle of Wight), Patrick Towey (Hertfordshire), Paul Tysoe (Cambridgeshire), Mark Whitby (Northamptonshire), Rachel Wood (West Sussex), Carolyn Williamson (Hampshire S151 Officer), and Joel Cook (Kent - Clerk).

UNRESTRICTED ITEMS

205. Apologies/Substitutes.
(Item. 1)

1. Apologies and substitutes were as follows:
   Cllr Jonathan Ekins (Northamptonshire CC) – Cllr Bill Parker substitute (Northamptonshire CC).

RESOLVED that the apologies and substitutes be noted.

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

1. No declarations of interest were made.

207. Chair's introduction.
(Item. 3)

1. The Chair advised the Committee that the Chair's Introduction would be a standing item to serve as a conduit for the Chair and other Members to update the Joint Committee on matters related to pool developments and Member training between formal meetings.

RESOLVED the at the Chair's introduction be noted.

208. Minutes of the meeting held on 17 July 2020.
(Item. 4)

RESOLVED that the minutes of the meeting on 17 July 2020, subject to the correction of a minor error regarding the Annual Report being cited as the Annual Plan in paragraph 200, were a correct record and that they be signed by the Chairman.

209. Business Plan and Budget update.
(Item. 5)

1. Kevin McDonald (ASU Director) provided an update on the Business Plan, Budget and Risk Register. He recommended a restructure of the meeting schedule for the 2020/21 municipal year, with future meetings held in early November, January and March. Mr McDonald confirmed that Monitoring Officers from all ACCESS authorities had approved the Joint Committee's revised Inter Authority Agreement (IAA), which would now progress through formal governance at each authority prior to adoption.

2. Mr McDonald confirmed that due to several budgetary variances ACCESS's actual expenditure for 2020/21, including forecasts, stood at £1,011,258, a predicted underspend of £68,505 (£6,228 per authority). He added that a delay in the procurement of alternative assets had contributed significantly to the underspend. He explained that this meant that much of the planned expenditure would still be incurred but likely not within the 2020/21 financial year.

RESOLVED that the proposed amendment of the meeting schedule for 2020/21, the Business Plan update, the current forecast variances against the 2020/21 budget and summary Risk Register be noted.

210. Communications.
(Item. 6)

1. Mr Wright (Hymans Robertson) provided an update on the work undertaken at the Joint Committee's 17 July workshop on Communications, which focused on responsible investment, raising the profile of spokespeople and the benefits associated with pooling services. He recommended that the Joint Committee procure the services of a Public Relations specialist with expertise in public sector finance and government relations. Mr Wright suggested that the ASU Director act as spokesperson for ACCESS initially.

2. Mr McDonald clarified the proposal that Essex County Council be made the lead procurement authority in relation to the acquisition of Public Relations services for the Joint Committee, explaining that the intention was to work in partnership with procurement specialists Bloom. He explained the use of a Lead Procurement Authority was permitted under the existing Inter-authority Agreement (IAA). Mr McDonald confirmed that a draft of the Member

involvement arrangements in the PR provider selection process would be circulated to the members of the Joint Committee.

3. Members discussed the merits of individual Cllrs taking on lead roles on communications in areas in which they had expertise, with some potential areas such as ESG / RI and fiduciary duty / legal matters already identified. It was noted that this approach would be explored further with the Chair and Vice-Chair prior to updates at a future meeting.

RESOLVED that the report from Hymans Robertson and recommendations in the attached paper from Hymans Robertson be noted and that Essex County Council be permitted to act as the lead authority in the procurement of Public Relations professional advice.

211. ESG / RI Position Statement.
(Item. 7)

1. Mr McDonald provided an update related to ACCESS's development of updated Environment, Social & Governance (ESG) and Responsible Investment (RI) guidelines, and confirmed that:
    - All ACCESS authorities remained individually responsible for determining their own ESG/RI policy.
    - All ACCESS authorities endorsed the UK Financial Reporting Council's (FRC) Stewardship Code.
    - Five member authorities referenced the United Nations Principles on Responsible Investment (UNPRI) in their ESG/RI policy and all respective fund managers were signatories.
    - Requirements had been drafted for the provision of specialist ESG/RI guideline advice.

2. Mr McDonald outlined the proposal that the Joint Committee agree that Essex County Council act as the lead authority in the procurement of ESG and RI professional advice. He added that a detailed timeline and progress report on this procurement will be drawn up prior to the Joint Committee's November meeting.

3. Members commented that future communication strategies should promote ACCESS's positive stance on ESG but highlighted the need to focus on the key role played by the individual authorities which would inform any ACCESS activity.

RESOLVED that the content of the report be noted, and that Essex County Council be permitted to act as the lead authority in the procurement of Environment, Social & Governance and Responsible Investment professional advice.

212. Motion to Exclude the Press and Public.
(Item. 8)

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.

213. Investment Performance.
(Item. 9)

1. Mrs Tan (Suffolk) updated the Joint Committee on ACCESS's Quarter 1 Investment Performance and highlighted that figures corroborated the national trend.

2. Members discussed the disparity in Carbon Intensity (CI) between Sub-Funds and noted the difficulty of balancing Carbon Intensity and return, as well as the probability Carbon Intensive companies may reduce their CI.

RESOLVED that the report be noted.

214. MHCLG - Pooling Submission (to follow).
(Item. 10)

1. Mr McDonald provided an update and confirmed that advice had been sought from OWG prior to the drafting of the pooling submission and that an emphasis had been placed on highlighting assets under management, costs and key messages.

2. Members agreed that role of administering authorities should be highlighted by including the logos of all ACCESS member authorities in the MHCLG submission.

3. Mr McDonald reassured the committee that ACCESS's current progress performance compared favourably with that of other pools nationally.

RESOLVED that the content of the report be noted.

215. Contract Management - Insurance Review.
(Item. 11)

At the direction of the Chair, the Committee considered items 11 and 12 together in view of the related recommendations – resolutions for each item are still detailed separately.

1. Mr Paget (ASU) Provided a Contract Management update. He outlined the proposal to relax the Standard & Poor's credit rating requirement of the Operator's Professional Indemnity and Crime insurance cover and the linked intention to update the Operator Agreement to include additional KPIs which better reflected Business As Usual (BAU) operations. He confirmed that as ACCESS's Contracts Manager he would be responsible for negotiating the additional KPIs.

2. Mr Paget confirmed that the pool had AUM cover which totalled £20bn, as of August 2020 the pool's AUM topped £14bn.

3. Mr Sims (Squire Patton Boggs) and the Clerk clarified that the Operator Agreement was a combination of contracts held with all 11 participating Authorities and therefore amendments would have be managed

accordingly, with formal decision-making happening at local level, subject to the proposed recommendation from the Joint Committee.

4. It was confirmed that Mr Paget would consult and update the Chair and Vice-Chair on the progress of contract negotiations and that the outcome of the negotiations and operator agreement amendments would be reported at the next meeting.

RESOLVED that;

- The report be noted;
- Progression of the amendment to the Operator Agreement relaxing the Standard & Poor's credit rating requirement of Link's Professional Indemnity and Crime Insurance Cover to A-, subject to their agreement to the incorporation of additional KPIs, be approved; and
- authority be delegated to the ASU Contracts Manager, in consultation with the ASU Director and the Chair and Vice Chair of the Joint Committee, to finalise the arrangements and make the relevant recommendations to the administering authorities in relation the Operator Agreement amendment.

216. Contract Management update - General.
(Item. 12)

RESOLVED that;

- the matters highlighted within the report, the activity that has taken place and forthcoming plans be noted.
- progression of the amendment to Schedule 4 of the Operator Agreement to incorporate specified additional KPIs, as negotiated by the Contracts Manager, be approved; and

- authority be delegated to the ASU Contract Manager, in consultation with the ASU Director and the Chair and Vice Chair of the Joint Committee, to undertake and finalise the negotiations and make the relevant recommendations to the administering authorities in relation the Operator Agreement amendment.

217. Scheduled Business As Usual (BAU) evaluation.
(Item. 13)

1. Mr Wright gave a presentation to the Joint Committee to introduce the work undertaken as part of the review. It was highlighted that the Committee would receive further reports at future meetings as the review progressed.

RESOLVED that;

- the report be noted;
- the progression of further scoping work and options analysis to support the review be approved.

218. Risk Register.
(Item. 14)

1. Mr McDonald provided an overview of the Risk Register.

RESOLVED that the report be noted.

219. Link Presentation (to follow).
(Item. 15)

Karl Midl, James Zealander and Richard Thornton from Link Fund Solutions were present for this item.

1. Mr Midl provided a verbal update on the Woodford matter. He advised that no timeline was available on the conclusion of the FCA investigation.

2. Mr Midl and Mr Zealander delivered a presentation and focused on Operator Services, divided into: appointing and overseeing Investment Managers, Monitoring Investments, Overseeing Administrators and the benefits of the Authorised Contractual Scheme (ACS) structure over other structures.

RESOLVED that the presentation be noted.

HAMPSHIRE COUNTY COUNCIL

Decision Report

Decision Panel:	Pension Fund Panel and Board
Date:	4 December 2020
Title:	Governance: Administration performance update
Report From:	Director of Corporate Resources

Contact name: Lois Downer, Deputy Head of Pension Services

Tel: 0370 779 4396 **Email:** lois.downer@hants.gov.uk

Purpose of this Report

1. The purpose of this report is to update the Panel and Board on administration performance in the first six months of 2020/21, and to provide information about other administrative issues.

2. The report also seeks approval for the updated Communication Policy Statement, which is attached in Appendix 1.

Recommendation(s)

3. It is recommended that the Panel and Board:
   - note the strong performance of Pension Services and Scheme Employers so far in 2020/21
   - note the update on other administrative issues
   - approve the draft Communication Policy Statement

Executive Summary

4. In the first six months of 2020/21 Pensions have:
   - continued to meet service standards for all casework, as well as produce annual benefit statements for almost 100% of active and deferred members. Employers have also continued to improve the quality and timeliness of the data they provide to Pension Services.

- re-procured the pension administration system UPM for a further five year term.

- demonstrated an improvement in both the common and conditional data scores which are reported annually to the Pension Regulator. Work has also started on tracing the addresses of approximately 8,000 members with whom the Fund has lost contact.

- commenced development of a high level plan to implement the McCloud remedy, although most actions are dependent on MHCLG publishing the final details of how this will be administered in the LGPS. The project will place an administrative burden on both the Fund and Scheme Employers.

- continued to develop the online tools available to members and employers and the draft Communication Policy Statement has been updated to reflect this new focus.

5. The LGPS regulations have been amended to allow greater employer flexibilities on exit but these cannot be acted on until statutory guidance has been published, which is expected to be in early 2021. This paper sets out further details.

6. The report also seeks approval for the updated Communication Policy Statement, which is attached in Appendix 1.

Administration performance

7. 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.

   Pension Services have continued to deliver 100% achievement against all standards. Performance for the first two quarters of 2020/21 is shown in the tables below.

Quarter 1: April – June 2020

Type of Case	Time to Complete 0 – 5 days	6 – 10 days	11 -15 days	16 – 20 days	21 – 30 days	31 + days	Total	% completed on time
Active Retirement	103	61	42	0	0	0	206	100.00%
Deferred Retirement	100	79	226	0	0	0	405	100.00%
Estimates	76	180	76	0	0	0	332	100.00%
Deferred Benefits	61	26	170	492	755	0	1,504	100.00%
Transfers In & Out	0	7	20	0	0	0	27	100.00%
Divorce	7	28	35	0	0	0	70	100.00%
Refunds	251	3	5	0	0	0	259	100.00%
Rejoiners	50	53	63	11	0	0	177	100.00%
Interfunds	17	25	44	0	0	0	86	100.00%
Death Benefits	189	33	44	0	0	0	266	100.00%
Grand Total	**854**	**495**	**725**	**503**	**755**	**0**	**3,332**	**100.00%**

Quarter 2: July – September 2020

Type of Case	Time to Complete 0 – 5 days	6 – 10 days	11 -15 days	16 – 20 days	21 – 30 days	31 + days	Total	% completed on time
Active Retirement	89	61	96	0	0	0	246	100.00%
Deferred Retirement	63	68	286	0	0	0	417	100.00%
Estimates	49	176	340	0	0	0	565	100.00%
Deferred Benefits	82	155	223	405	613	0	1,478	100.00%
Transfers In & Out	15	17	46	0	0	0	78	100.00%
Divorce	3	34	37	0	0	0	74	100.00%
Refunds	232	3	1	0	0	0	236	100.00%
Rejoiners	31	38	43	11	0	0	123	100.00%
Interfunds	44	27	46	0	0	0	117	100.00%
Death Benefits	134	55	46	0	0	0	235	100.00%
Grand Total	**742**	**634**	**1,164**	**416**	**613**	**0**	**3,569**	**100.00%**

End of year returns and employer performance

8. 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.

   During the annual return process, employers are measured for timeliness, financial control and data quality. Any Scheme Employer who is highlighted as a concern, or who has a red rating for data quality, is required to complete a data validation exercise to confirm that the membership data we hold for the current year is up to date and correct.

9. A breakdown of employer performance is shown below but in summary:

- 153/332 employers were assessed as meeting all 3 areas of requirement in our benchmarking. This has improved from 114/334 in 2019.
- There were no employers who were marked as a major fail in all 3 areas (also none in 2019)
- For those employers assessed as failing on 'Data Quality' the main area of failure was due to outstanding starter and leaver notifications.
- Despite the increase in membership, the level of queries remained at 4%.
- 66 employers (20%) had major data quality issues and will therefore be asked to undertake a data validation exercise (18.6% in 2019).

Table of employer performance for 2019/20 year end

	Return received before deadline	**Return received between 1 May and 31 May**	**Return received more than 1 month late**
Timeliness	285 (86%)	35 (10%)	12 (4%)
	No reconciliation issues	**Minor reconciliation issues/quickly resolved**	**Major reconciliation issues and/or slow/failed to respond**
Financial control	284 (85%)	37 (11%)	11 (4%)
	Data quality good (less than 2% of membership)	**Minor data quality issues (Between 2 and 5% of membership)/quickly resolved**	**Major data quality issues (more than 5% of membership) and/or slow/failed to respond**
Data quality	199 (60%)	67 (20%)	66 (20%)

10. In the report to the Panel and Board in July 2020, concerns were raised about Southampton City Council who had failed to provide an end of year return for

the main council or its school employees by the deadline. Pension Services have been working closely with SCC and are pleased to be able to report that:

- SCC provided an acceptable annual return which was uploaded in time for annual benefit statements to be sent to their members, and for annual allowance letters to be produced, before the statutory deadlines
- all annual return queries have been resolved for both SCC and SCC schools
- there are now monthly meetings in place with both SCC and Capita with positive employer engagement
- representatives from SCC have attended all Employer training events held since the summer as well as the AEM in November
- SCC have provided unique reference numbers to resolve a long standing issue with multiple employments (i.e. if a person holds more than one post with SCC, Pension Services need to be able to allocate earnings to the correct record and so need a unique reference)
- SCC have provided a mid-year annual return which has been uploaded with the queries now back with SCC to resolve. Although there is still some work to do, the level of queries and issues from the mid year return were at a much improved level.

Annual benefit and pension saving statements

11. Annual benefit statements were produced for 99.73% of active members and for 100% of deferred members by the statutory deadline of 31 August 2020. Of the 161 members who did not have a statement by the deadline, only 80 are now still outstanding. 72 of these are waiting for information from employers before a statement can be produced.

12. Pension Savings Statements (PSS) were produced by the statutory deadline of 6 October for the 99 members who were identified as breaching the annual allowance limit in 2019/20. Of these 99 members, 34 have a tax charge which they will either pay directly or via the scheme pays facility.

Annual Employer Meeting 2020

13. Due to Covid-19, the Annual Employer Meeting (AEM) was held virtually via Teams Live on Monday 9 November. The event was attended by 121 people, representing over 100 employers and survey feedback shows that it was well received. 12 responses were received and the results were largely positive.

    - 92% of people who responded to the survey agreed that the AEM provided them with the information they needed

- No-one had any issues with the technology and everyone surveyed said they were clear on how to ask a question
- Updates on market trends as well as the actuarial update were judged to be the most interesting sessions
- Everyone felt the virtual event worked well for them and would be happy to attend future virtual events.

Pension administration software contract

14. The pension administration system, UPM, provided by Civica, was purchased in 2013 and the contract was due to expire in November 2020. UPM has now been re-procured for an initial five year term, with the option to extend for a further two years to 2027.

15. The new software licence allows access to all system enhancements which are currently available, as well as any which Civica develop over the five year contract, representing significant savings on purchasing these modules separately. The Hampshire share of the new licence represents a £4k reduction on the original contract.

16. As well as the licence cost, there is an annual charge which includes the costs of keeping the system updated in line with legislation. Hampshire's share of the new annual service charge is £18k more than the Fund has been paying (representing an additional 10p per member) but is fixed for the contract term (i.e. will not increase as further modules are implemented over the 5 year period). A number of pre-paid consultancy days were included with the new contract which allows Hampshire to benefit from a reduced day rate when new modules are implemented.

The Pension Regulator scheme return

17. 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.

18. 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).

19. The conditional data score has been calculated as 95% (94% in 2019). A total of 8,039 records failed one or more of the 22 conditional data validations, with a significant majority failing in one of two areas; a deferred record missing a final pensionable pay element or a pensioner record missing crystalised benefit data. Neither of these elements affect the payment of benefits to members and are a result of historic data transfers between systems. Both of these elements are on the data improvement plan for resolution and discussions with Civica about bulk fixes are in progress.

20. The common data score for 2020 has been calculated as 93% (92% in 2019). The majority of fails are lost contact records and in July 2020, the Panel and Board approved the spend of up to £60,000 to trace the addresses of around 8,000 members who hold a deferred benefit or frozen refund. Work on this project started in September 2020 and the initial report shows that:

- 148 members were living at the address already held, so no further action is needed
- 29 members have been found to be deceased so have been passed to Pension Services to process the death benefits
- 2,463 have a high match at a new address, so will be contacted to be told that their new address will be given to Pension Services
- 1,860 have a medium match to a new address, so further contact will be made to verify this before the address is confirmed to Pension Services
- 1,773 require a manual trace, at a cost of £20 per successful trace.

Based on these initial results, the maximum cost of the exercise will be £48,500. It is anticipated that this project will be completed in early 2021 and will further improve the common data score for 2021/22.

McCloud

21. A response to the MHCLG consultation on implementing the McCloud remedy in the LGPS was submitted in October 2020. The response focussed on the huge administrative burden that the proposed approach will place on both Pension Services and Scheme Employers. However it is not anticipated that MHCLG will make any major changes to their proposals as a result of this input and planning has commenced on the basis of the likely work outlined in the consultation paper.

22. This means that over the next two years, there will be two significant exercises which will need to be carried out as well as the actual changes to calculations required for members affected by the remedy. The first of these is to collect historic service data for members so that an ‘underpin’ calculation can be carried out at various points comparing the benefits in the CARE scheme with what the member would have received had they stayed in the final salary scheme. The second is an exercise to contact all members with

separate periods of LGPS service to see if they want to aggregate them into a single record, so as to benefit from the underpin.

23. Although neither piece of work can start in earnest until MHCLG publishes the final regulations, employers have already been contacted with the draft data collection template which they will need to use and a further communication is planned for mid December to formally request the first part of the data by 31 March 2021.

24. Civica have provided the first part of the new software that will be required which allows Pension Services to identify affected members and provides the facility to upload the service data once it has been collected from employers.

25. Although it is not anticipated that the McCloud remedy will materially increase liabilities for the Fund, it is likely to require an increase in administrative resource and investment in additional software functionality. This cost will be shared between the Fund and the other partners for whom Pension Services provide pension administration services.

LGPS regulation changes

26. Amendments to the LGPS regulations came into effect on 23 September which provide for greater flexibility for Scheme Employers who leave the Fund. The new regulations introduce:

- the ability to amend employer contributions between valuations if the liabilities or the employer covenant have changed significantly, or if the employer requests a review
- the ability to enter into formal agreements to spread the payment of an exit payment
- the concept of deferred employers and deferred debt agreements - allowing an exiting employer to pay secondary contributions over an agreed period rather than requiring an immediate exit payment

27. Before any of these new flexibilities can be used, the administering authority must have set out its policy on them in the Funding Strategy Statement. In forming that policy, the administering authority must have regard to the MHCLG statutory guidance and the SAB guidance on these flexibilities. However neither set of guidance has yet been published and therefore no further action can be taken at the moment.

28. It is anticipated that the guidance will be available in the new year following which a draft policy can be formulated for consultation and approval.

Online offer and draft Communication Policy Statement

29. Work on improving the online offer for members and employers has continued during 2020/21. It was reported to the Panel and Board in July that an estimate facility had been implemented, allowing members to run their own calculations via the Member Portal. This facility has now been used thousands of times in the last few months, and deferred members are now encouraged to use the Portal for an estimate when they claim their benefits instead of requesting one from the team.

30. Members can now also complete their retirement declaration form online rather than having to do this on paper and send it in with their certificates prior to receiving their pension.

31. The new Employer Hub has been installed into UPM and a plan is in place to roll this out to current employer users prior to the end of December 2020. New employers will then be added during 2021 with the aim of having the majority of employers using the Hub by the end of 2021/22.

32. The Communication Policy Statement has been updated to reflect the focus on the Member Portal and Employer Hub as key methods of communication. The main changes have been highlighted on pages 1,2,3, and 4 of the draft statement which is attached as Appendix 1 to this report. The Panel and Board are asked to approve the draft statement.

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 a decision because the Pension Fund Panel and Board need to approve an statutory statement.	

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.

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Communication Policy Statement 2020

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 the 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, and to remove paper wherever we can do so (the intention is to become paperless where this is possible). This will be achieved through the promotion of our online Member Portal which in association with our website 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 pension and those receiving a pension. All scheme members must be given clear but detailed information about the scheme and their own benefits.

Member Portal

We are continually working to add more facilities to our Member Portal and to promote its use by members. On joining the scheme, members are encouraged to register for the Portal to view their new starter information. Once in the scheme they can use the Portal to view their annual benefit statements, obtain estimates, complete a retirement declaration, send a secure message to Pension Services and update their personal information. Pensioner members can use the Portal to view payslips and P60s, update their bank details and view tax code changes.

Website

Our website offers extensive information for scheme members. It contains links to other relevant organisations and is updated with details of new legislation and relevant information. It offers a news feed for members, which is regularly updated.

The website provides timely, up-to-date and easy-to-access information for all our stakeholders as well as forms and guides for members and employers.

Scheme literature

The *Employee's Scheme Guide* is the main reference point for current scheme members. This and other scheme literature and forms are available on the Pension Services website. The website is updated regularly to reflect changes in regulations and relevant scheme news. Members may also obtain scheme literature from their employers.

Member support

We have a query call centre which operates during 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. All feedback is analysed and used to make improvements to communications where appropriate.

Correspondence

We use email and post for correspondence with scheme members. Annual Benefit Statements and letters to members can be viewed through the Member Portal. We also provide information to members via their employer.

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

Benefit statements

Each year, we produce an annual benefit statement for every current and deferred member, showing scheme benefits at 31 March, which is available via the Member Portal. If we hold an email address for a member, they will receive an email to advise when their statement is available on the 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.

Pension saving statement

Each year, by 6 October, we send a pension saving statement to any member who may be affected by the annual allowance tax limit.

Pay advice slips and P60s

We send pay advice slips to pensioners for their April and May payments. We 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 £5 in their monthly payment.

Newsletters

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

Declaration of Pension Entitlement

Every year, we send forms to pensioners that live overseas to verify their continuing entitlement to receive pension payments. These forms are also be sent when we have pensioner payments or mail returned.

Report and accounts

In the autumn, a summary of the accounts, investment management and administrative arrangements is made available to all members via our website. The annual report and full accounts are also available to members on our website or by request.

Our communication with prospective scheme members

We provide relevant information about the scheme to employers so they can ensure that eligible staff are aware of their pension options.

Scheme literature

We ask employers to signpost all new employees to our Member Portal where they will find pension information and a membership option form to make choices regarding previous LGPS membership. The Portal also allows members to make a death grant ‘expression of wish’. If they have previous pension benefits, they are directed to the pension transfer booklet on the Pension Services website. Further scheme literature is available directly from us or from our website.

Website

Our website contains extensive information about the scheme in a dedicated ‘About the Scheme’ section. This explains the scheme benefits and regulations and also provides information about scheme governance..

Our communication with employing authorities

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

Scheme literature

On our website employing authorities can access an Employer Manual, along with technical information and scheme news. The Employer Manual contains details of procedures and employer 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, “Pensions Matters”, to employing authorities to keep them up to date with the latest regulation changes and proposals, as well as any changes in administration.

We also send ad hoc email communications 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. It provides access to an employer hub where employers who have registered for this service can access some details of their own employee’s records. The employer section of the website also contains technical information, the latest news, details of training courses 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 email or phone.

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 other information is available on the staff webpages. In addition, we may send key information via the group email distribution list.

"Pensworld"

We send a weekly email to all staff called Pensworld, which provides updates on regulation changes, internal processes, pensions software updates and other news.

Suggestion box

We have a staff suggestion box, accessible online, for staff to submit suggestions which may improve our processing and customer service.

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 also 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-and-resources/customer-service/complaints-procedure

Publications matrix

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

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HAMPSHIRE COUNTY COUNCIL

Decision Report

Decision Maker:	Pension Fund Panel and Board
Date:	4 December 2020
Title:	Pension Fund Budget
Report From:	Deputy Chief Executive and Director of Corporate Resources

Contact name: Andrew Boutflower

Tel: 0370 779 6896 **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 2021/22 and receive projections for 2022/23.

Recommendations

2. That the budget shown in Appendix 1 for the Pension Fund for 2021/22 is approved.

3. That the Panel and Board consider if they wish to add an additional amount to the Pension Fund's Governance budget to fund additional communication activity in 2021/22.

Background

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 Pension Fund reports its actual expenditure for the management of the Fund against budget in its Annual Report. In line with the requirements of the Annal Report the budget should be set in line with the triennial actuarial cycle. Therefore the budget has been prepared up to 2022/23, following which the next actuarial cycle will begin.

6. The 2021/22 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.

2021/22 Budget

Investment management

7. 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.

8. The budget for investment management costs has been revised to £52.1m in 2020/21 and increased to £58.3m the following year. This reflects both the current 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

9. 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.

10. 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

11. 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.

12. Governance costs are expected to be relatively static for the next 2 years. There are additional costs projected in 2022/23 for the next Actuarial Valuation as at 31 March 2022.

13. The Panel and Board have previously discussed the challenges for the Pension Fund in effectively communicating with pension scheme members, particularly on issues such as Responsible Investment. Given the lack of flexibility and cost of adding an additional post to Pension Services for communication, the Panel and Board may wish to consider adding an additional amount to the Pension Fund’s Governance budget, say £20,000, to fund commissioning specialist resources for any additional communication activity in 2021/22.

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.)

<u>Document</u>	<u>Location</u>
None	

EQUALITIES IMPACT ASSESSMENT:

1. Equality Duty

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

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

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

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

	Org Budget 2020/21 £000	Rev Budget 2020/21 £000	Budget 2021/22 £000	Projection 2022/23 £000
Investment management fees	44,751	52,090	58,323	61,545
Staff	1,630	1,762	1,804	1,847
Premises	61	61	62	63
IT	285	285	300	306
Supplies & Services	234	223	214	217
Other	0	0	0	0
Administrative costs	2,210	2,331	2,380	2,433
Staff	375	385	395	405
Premises	5	5	5	5
IT	5	5	5	5
Supplies & Services	335	335	325	345
Other	5	5	5	5
Governance costs	725	735	735	765
Management Expenses	**47,653**	**55,002**	**61,284**	**64,586**

HAMPSHIRE COUNTY COUNCIL

Decision Report

Decision Maker:	Pension Fund Panel & Board
Date:	4 December 2020
Title:	Governance: Good Governance in the LGPS update report
Report From:	Deputy Chief Executive and Director of Corporate Resources

Contact name: Rob Sarfas

Tel: 0370 779 1556 **Email:** Rob.sarfas@hants.gov.uk

Purpose of this Report

1. The purpose of this report is to provide an update on the review of governance structures in the LGPS being conducted by Hymans Robertson on behalf of the Scheme Advisory Board.

2. The report also appends the Governance Policy Statement, Governance Compliance Statement, Training Policy and Representation Policy for review and approval by the Panel and Board.

Recommendations

3. It is recommended that the Pension Fund Panel and Board:

4. Notes the update on the review of governance structures in the LGPS being conducted by Hymans Robertson.

5. Notes how the Pension Fund's existing governance arrangements compare to the recommendations from the Phase II report issued by Hymans Robertson.

6. Reviews and approves the Governance Policy Statement, Governance Compliance Statement, Training Policy, and Representation Policy.

Executive Summary

7. In 2019 the consultancy firm Hymans Robertson was appointed by the Scheme Advisory Board (SAB) to facilitate a review of governance structures for the LGPS. To date there have been two phases of the review, leading to

the production of a series of recommendations. The third phase was delayed due to the impact of Covid-19 but is currently underway.

8. The recommendations to date have not yet been translated into statutory guidance, however the Pension Fund has taken the opportunity to review its current governance arrangements against the recommendations from the Phase II report, as set out in Appendix 1.

9. Where the recommendations relate directly to the actions of the Pension Fund, the existing governance arrangements largely meet the proposed requirements however there are opportunities for further enhancements that could be considered by the Pension Fund prior to the implementation of any new guidance.

10. One such enhancement relates to the way the Pension Fund documents its policies on representation and training and specific policy documents have therefore been created for publication on the Pension Fund's website to ensure this information is clearly identified and easily accessible.

11. Other potential enhancements will continue to be developed by officers and will be presented to the Panel and Board at future meetings for consideration.

12. Some of the recommendations relate to external bodies or Phase III of the project and the Pension Fund will therefore need to continue to monitor the review's progress and assess the impact should any new statutory guidance be issued.

The Good Governance Review

13. In 2019 the consultancy firm Hymans Robertson was appointed by the Scheme Advisory Board (SAB) to facilitate a review of governance structures for the LGPS. Phase I[1] of the review involved a comprehensive consultation exercise to collect the views of stakeholders, culminating in a report in July 2019. This report was accepted by the SAB and identified that no single governance model was suitable for all funds and that the focus should instead be on outcomes assessed against a governance framework.

14. Phase II[2] of the review then involved further development of the ideas from Phase I, which was done through two working groups representing all areas

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[1] https://www.hymans.co.uk/insights/research-and-publications/publication/good-governance-in-the-lgps-report/
[2] https://www.hymans.co.uk/insights/research-and-publications/publication/good-governance-in-the-lgps-phase-2-report/

of the LGPS, as well as The Pensions Regulator and MHCLG. The Phase II report was accepted by the SAB in November 2019 and detailed a series of recommendations under the following headings:

- General (A)
- Conflicts of interest (B)
- Representation (C)
- Knowledge and understanding (D)
- Service delivery for the LGPS function (E)
- Compliance and improvement (F)

15. Phase III will continue this work by looking at how statutory guidance can be used to put the governance framework in place and what KPIs can be used to measure effectiveness. This phase of the review has been delayed due to the impact of Covid-19 on resources and priorities, but the Scheme Advisory Board met in November 2020[3] and set out a timeline for preparing and agreeing the final recommendations under Phase III of the project.

16. Through all the phases of Hymans' work, officers from the Hampshire Pension Fund have engaged with Hymans, both directly and as part of wider groups to provide their feedback on Hymans' draft proposals, which has been well received.

17. The SAB report in November noted that it is not expected that MHCLG will be devoting time to the good governance project over the next six months or so due to competing priorities, however the Pension Fund has taken the opportunity to review its existing governance arrangements against the recommendations from the Phase II report to identify potential opportunities to enhance its governance framework.

Review of the Pension Fund's existing governance arrangements

18. The Pension Fund maintains a Governance Policy Statement to meet the requirements of Section 55 of the Local Government Pension Scheme Regulations 2013.

19. The Pension Fund also publishes a Governance Compliance Statement in line with the requirements of Regulation 73A of the Local Government Pension Scheme Regulations 1997 (as amended). This is reviewed on an ongoing basis under Regulation 31 of the 2008 Regulations and is presented

[3] https://lgpsboard.org/images/PDF/BoardNov2020/Item6PaperD_GoodGovernanceProject.pdf

to the Panel and Board for review as part of the Statutory Statements report elsewhere on the agenda for this meeting.

20. Regulation 31(3)(c) requires the Fund to measure its governance arrangements against standards set out within guidance issued by MHCLG. This is covered in the Governance Compliance Statement and demonstrates that the Pension Fund meets existing governance requirements.

21. The Pension Fund's governance arrangements have now also been reviewed against the recommendations put forward by Hymans Robertson in Phase II of their review of governance arrangements in the LGPS and the current governance arrangements largely address the points raised in the report.

22. Statutory guidance has not yet been issued to reflect these recommendations and the Pension Fund is not therefore compelled to make changes to its arrangements where it has to date taken a different approach to what has been proposed by Hymans Robertson. There are however potential steps that the Pension Fund could take to further enhance its governance in preparation for the future issuance of new statutory guidance. These steps are set out in Appendix 1, alongside a summary of the existing arrangements.

23. One enhancement that the Pension Fund can take immediately relates to scheme representation. The Phase II report recommends that each fund produce and publish a policy on the representation of scheme members and non-administering authority employers on its committees, explaining its approach to representation and voting rights for each party.

24. The Hampshire Pension Fund is in a strong position with regard to representation given the establishment of the Joint Hampshire Pension Fund Panel and Board, which fully embeds scheme member and employer representatives in the full governance of the Pension Fund. These points are covered within the Pension Fund's existing governance compliance statement, the County Council's constitution (Part 1: Chapter 8 Pension Fund Panel and Board)[4] and the Scheme Member and Employer Representatives Appointments Policy, as well as the Pension Fund's Annual Report. For clarity and ease of reference a separate Representation Policy has however been created containing this information to be published on the Pension Fund's website. The Representation Policy is included at Appendix 2 for review and approval.

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[4] https://democracy.hants.gov.uk/documents/s10543/Part%201%20-%20Chapter%208%20-%20Pension%20Fund%20Panel%20and%20Board%20-%20November%202017_HF000015105486.pdf

25. The Phase II report also makes a similar recommendation on training, suggesting that there should be a requirement in the Guidance for key individuals within the LGPS, including LGPS officers and pensions committee members, to have the appropriate level of knowledge and understanding to carry out their duties effectively and for administering authorities to publish a policy setting out their approach to the delivery, assessment, and recoding of training plans to meet these requirements.

26. The Pension Fund Panel and Board currently receives a training report each year explaining how the Pension Fund ensures members of the Panel and Board and officers have appropriate knowledge and skills. Members complete an annual training needs analysis document which is used to inform the training plan that forms part of the training report. Training is also summarised looking backwards and forwards in the Annual Report.

27. The training report presented to the Panel and Board in September 2020 included details of the Pension Fund's policy on training and it is now proposed that this is extracted from the report to form a separate policy document for publication on the Pension Fund's website, to enhance transparency and for ease of reference. The Training Policy is included at Appendix 3 for review and approval and has not changed since being presented to the Panel and Board in September 2020.

28. The Pension Fund's Governance Policy Statement is included at Appendix 4 for review and approval along with the Governance Compliance Statement.

29. Further updates on the Good Governance review and any impact on the Pension Fund's governance arrangements will be brought to the Panel and Board as the need arises.

REQUIRED CORPORATE OR LEGAL INFORMATION:

Links to the Strategic Plan

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

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

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

(a) why you consider that the project/proposal will have a low or no impact on groups with protected characteristics or

(b) will give details of the identified impacts and potential mitigating actions

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

Hampshire Pension Fund governance arrangements

The table below sets out the recommendations from the Phase II report produced by Hymans Robertson as part of the Good Governance in the LGPS review, setting out the Pension Fund's current approach to governance and possible further steps that could be taken depending on the final outcome of the review.

Ref	Recommendation	Current position	Potential further steps
	General		
A1	MHCLG produce statutory guidance	n/a	To be reviewed once guidance is issued
A2	Each administering authority must have a single named officer who is responsible for the delivery of all LGPS related activity for that fund ("the LGPS senior officer")	Carolyn Williamson is the S151 officer and Treasurer for the Pension Fund Andy Lowe is the Head of Pensions	To be reviewed once guidance is issued. Agreement will be needed on who will be designated "the LGPS senior officer" (the single named officer responsible for delivery of LGPS activity) Governance Compliance Statement to be updated accordingly.
A3	Each administering authority must publish an annual governance compliance statement that sets out how they comply with the governance requirements for LGPS funds as set out in the Guidance. This statement must be signed by the LGPS senior officer and, where different, co-signed by the S151 officer	Section 55 of the Local Government Pension Scheme Regulations 2013 requires the Fund to maintain a Governance Policy Statement. The Pension Fund also currently publishes a Governance Compliance Statement in line with the requirements of Regulation 73A of the Local Government Pension Scheme Regulations 1997 (as amended). This is reviewed on an ongoing basis under Regulation 31 of the 2008 Regulations.	The Governance Compliance Statement will be updated to reflect the new Guidance when issued. This will be produced annually and will be signed by the relevant officer (depending on the resolution to recommendation A2).

Ref	Recommendation	Current position	Potential further steps
		Regulation 31(3)(c) requires the Fund to measure its governance arrangements against standards set out within guidance issued by MHCLG and this is covered by the statement.	
	Conflicts of interest		
B1	Each fund must produce and publish a conflicts of interest policy which includes details of how actual, potential, and perceived conflicts are addressed within the governance of the fund, including reference to key conflicts identified in this guidance	The County Council's constitution (Part 1: Chapter 8 Pension Fund Panel and Board) sets out specific obligations for members of the Panel and Board in addition to those described in the County Council's Members Code of Conduct. In addition, the Governance Policy Statement (last revised December 2019) sets out how the Council manages potential conflicts of interest arising from its dual role as an employer participating in the Fund and the body legally tasked with its management. The Investment Strategy Statement sets out in the RI Policy how all members of the Panel and Board and officers must declare any pecuniary or other registerable interests, including any that may affect the stewardship of	Consider creating a standalone Conflicts of Interest Policy to aggregate documentation that currently spans multiple sources. This document can be reviewed to determine if there are any further LGPS specific potential conflicts of interest highlighted in the Hymans Robertson report that could be covered by the Pension Fund's policy or if additional detail could be provided to cover how potential conflicts of interest are identified, managed and understood by all relevant parties and how a culture which supports transparency and the management and mitigation of conflicts is embedded. Consider how the Pension Fund reviews and reports on the effectiveness of the policy and the systems, controls, processes and record keeping in place Publish on the Pension Fund's website and review annually as part of the Statutory

Ref	Recommendation	Current position	Potential further steps
		the Fund's investments. It also sets out how these are recorded and monitored, and how they can be viewed by the public.	Statements report in December each year.
B2	The Guidance should refer all those involved in the management of the LGPS, and in particular those on decision making committees, to the guide on statutory and fiduciary duty which will be produced by the SAB	n/a	To be reviewed once guidance is issued
	Representation		
C1	Each fund must produce and publish a policy on the representation of scheme members and non-administering authority employers on its committees, explaining its approach to representation and voting rights for each party.	Representation is described in the governance compliance statement. Details of the composition of the Panel and Board and voting rights are included in The County Council's constitution (Part 1: Chapter 8 Pension Fund Panel and Board). The role of non-County Council members of the Panel and Board is also described in the Scheme Member and Employer Representatives Appointments Policy. More detail on representation is also included as part of the Annual Report.	Create a separate representation policy to compile existing sources of information covering the Pension Fund's agreed approach to representation and publish this on the Pension Fund's website. Review the policy on an annual basis.

Ref	Recommendation	Current position	Potential further steps
	Skills and training		
D1	Introduce a requirement in the Guidance for key individuals within the LGPS, including LGPS officers and pensions committee members, to have the appropriate level of knowledge and understanding to carry out their duties effectively.	Training is covered in the annual Training Report to the Panel and Board and in the section of the Annual Report on training. This explains how the Pension Fund ensures members of the Panel and Board and officers have appropriate knowledge and skills.	Review the Pension Fund's approach when the requirements are finalised at the end of the Good Governance project and update anything as necessary.
D2	Introduce a requirement for S151 officers to carry out LGPS relevant training as part of their CPD requirements to ensure good levels of knowledge and understanding[5]	The S151 officer carries out CPD training each year including relevant LGPS training.	Review CPD plans if a specified set of requirements is established
D3	Administering authorities must publish a policy setting out their approach to the delivery, assessment, and recoding of training plans to meet these requirements.	The Pension Fund's Training Policy forms part of the annual training report as reported to the Panel and Board in September 2020. Members complete an annual training needs analysis document which is used to inform the training plan. The training plan is covered in the Training Report to the Panel and Board. Training is	Separate the Training Policy from the training report and publish this on the Pension Fund's website. Consider whether to review the Training Policy annually when preparing the training report or alongside the review of the Fund's statutory statements.

[5] This applies to the S151 officer of the administering authority and also S151 officers of employer bodies.

Ref	Recommendation	Current position	Potential further steps
		summarised looking backwards and forwards in the Annual Report.	
D4	CIPFA and other relevant professional bodies should be asked to produce appropriate guidance and training modules for S151 officers and to consider including LGPS training within their training qualification syllabus	n/a	To be reviewed once guidance is issued
	Service delivery for the LGPS function		
E1	Each administering authority must document key roles and responsibilities relating to its LGPS fund and publish a roles and responsibilities matrix setting out how key decisions a reached. The matrix should reflect the host authority's scheme of delegation and constitution and be consistent with role descriptions and business processes.	The Pension Fund has a scheme of delegation. The Governance Policy Statement sets out the roles of the Pension Committee, officers and advisors. Officer role profiles document roles and responsibilities	Consider combining extracts from existing documentation to create a roles and responsibilities matrix. Publish the roles and responsibilities matrix on the Pension Fund's website. Include the annual review of this matrix as part of the Statutory Statements report in December each year.
E2	Each administering authority must publish an administration strategy	The Pension Fund publishes an annual administration strategy.	Continue to publish an annual administration strategy.
E3	Each administering authority must report the fund's performance against an agreed	The Annual Report currently includes performance statistics against various administration metrics.	Update the reporting to reflect the set of indicators when agreed.

Ref	Recommendation	Current position	Potential further steps
	set of indicators designed to measure standards of service		
E4	Each administering authority must ensure their committee is included in the business planning process. Both the committee and LGPS senior officer must be satisfied with the resource and budget allocated to deliver the LGPS service over the next financial year.[6]	The forward budget is presented to the Panel and Board for consideration and sign off having first been reviewed by senior officers, having given consideration to activity identified in the business plan. The forward budget is accompanied by a narrative report explaining the key assumptions being made in setting the budget. The Panel and Board sign off includes confirmation that the resources and budget are sufficient to deliver the service.	Consider whether any further narrative or indicators could usefully be provided as part of the budget setting process. The Governance Compliance Statement may need to be amended to include confirmation that the administering authority has approved the budget required to deliver the pensions function to the required standard, to be signed off by the LGPS senior officer (dependent on the outcome of recommendation A2).
E5	Each administering authority must give proper consideration to the utilisation of pay and recruitment policies, including as appropriate market	Where appropriate Pensions Services staff structure includes specific role profiles to reflect the specialist nature of pensions to best aid the recruitment and retention of staff. Pensions	Current pay and recruitment policies are felt to be appropriate but are kept under review.

[6] Required expenditure should be based on the business plan and deliverables for the forthcoming year not a simple update of the prior year’s budget to cover inflation.

Ref	Recommendation	Current position	Potential further steps
	supplements, relevant to the needs of their pension function. Administering authorities should not simply apply general council staffing policies such as recruitment freezes to the pensions function.	Services can utilise market supplements when appropriate within existing Council policies.	
	Compliance and improvement		
F1	Each administering authority must undergo a biennial independent Governance Review and, if applicable, produce the required improvement plan to address any issues identified. IGR reports to be assessed by a SAB panel of experts.[7]	n/a	To be reviewed once guidance is issued
F2	LGA to consider establishing a peer review process for LGPS Funds	n/a	To be reviewed once guidance is issued

[7] Guidance to be created by MHCLG before this can happen therefore no proposed action at this stage for the Pension Fund

Hampshire Pension Fund – Representation Policy

The Pension Fund Panel and Board[8]

The County Council has appointed a combined Pension Fund Panel and Board for Hampshire and delegated to it responsibility for its statutory functions as the administering authority for the Hampshire Pension Fund and its responsibilities in respect of operating a Pension Fund Board for Hampshire.

Composition

The Pension Fund Panel and Board includes within its membership:

- Nine elected members from the Administering Authority.
- Three employer representatives appointed in accordance with the Hampshire Pension Panel and Board Appointment Policy approved by the Pension Fund Panel and Board from time to time.
- Three scheme Member representatives appointed in accordance with the Hampshire Pension Panel and Board Appointment Policy approved by the Pension Fund Panel and Board from time to time.

The Administering Authority members will be appointed by Hampshire County Council. The nomination process for the employer and scheme member representatives is contained in the Appointments Policy and they will be appointed by the County Council in accordance with that Policy.

Employer representatives and scheme member representatives should remain as members of the Pension Fund Panel and Board during their appointed term of office unless in the opinion of the County Council they are not adequately performing their role, they become incapable of acting, they cease to represent their constituency, they resign by giving written notice to the Proper Officer of the County Council, a replacement member is nominated by their relevant nominating body or they are removed from the Panel and Board pursuant to Paragraph 6.8[9].

Each employer and scheme member representative should endeavour to attend all Panel and Board meetings during the year and are required to attend at least 4 meetings each year.

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[8] See https://democracy.hants.gov.uk/documents/s10543/Part%201%20-%20Chapter%208%20-%20Pension%20Fund%20Panel%20and%20Board%20-%20November%202017_HF000015105486.pdf
[9] of Part 1: Chapter 8 of Hampshire County Council's constitution – conflicts of interest

Appointment of Substitute Members

Allocation

As well as allocating seats on the Pension Fund Panel and Board, the County Council will at the Annual General Meeting of the County Council in each year appoint a designated Substitute Member for each Scheme and Employer member of the Pension Fund Panel and Board.

Powers and duties

Substitute Members will have all the powers and duties of the designated Scheme and employer Members of the Board.

Substitution

Substitute members may attend meetings in that capacity only:

- to take place of the designated Scheme and Employer Member for whom they are the designated substitute;
- where the member for whom they are the designated substitute will be absent for the whole of the meeting;
- after notifying the Chief Executive 5 working days before the meeting of the intended substitution.

Voting rights

All members of the Panel and Board, including all the Employer and Scheme Member representatives shall have full voting rights.

Any independent advisers appointed by the Panel and Board are invited to attend all meetings of the Pension Fund Panel and Board but independent advisers will not be a member of the Pension Fund Panel and Board and have no voting rights.

Scheme Member and Employer Representatives

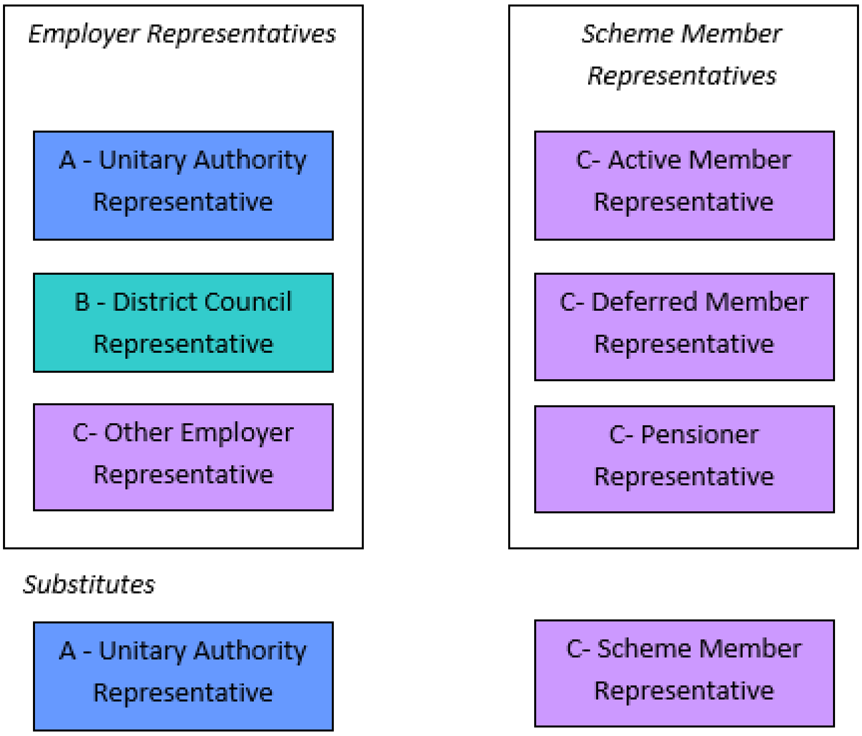
The objective of the Scheme Member and Employer Representatives Appointments Policy is that the Hampshire Pension Fund has Scheme Member and Employer Representatives who are most able to contribute to the governance of the Pension Fund and represent the broadest range of the Pension Fund's scheme members and employers.

Role of the Employer and Scheme Member Representatives

As members of the Hampshire Pension Fund Panel and Board, Employer and Scheme Member Representatives will be part of the committee responsible for the administration of the Local Government Pension Scheme (LGPS) in Hampshire and securing compliance with the Local Government Pension Scheme Regulations. The Employer and Scheme Member Representatives will be charged with ensuring that the views of the employers/scheme members that they represent are considered in the decisions made in discharging the Panel and Board's responsibilities.

Application and Nomination Routes

In order to achieve the aim of having a broad representation of the Pension Fund's scheme members and employers the representative roles will be categorised as follows, with different appointment processes (A to C) for each, which are set out below.



A – Unitary Authority Representative

Each Unitary Authority of Southampton City Council and Portsmouth City Council will nominate an elected member to serve as their representative on the Panel and Board. The representative seat will rotate between the two cities each year (from September to August), with the city with the non-serving representative fulfilling the role of substitute Employer Representative.

Unitary Authority Representatives shall serve on the Panel and Board for as long as they continue to be an elected member of the city they are representing and they continue to receive the Unitary Authority's nomination.

B – District Council Representative

The Hampshire and Isle of Wight Local Government Association (HIOWLGA) will nominate an elected member from one of the 11 District Council's in Hampshire to serve as their representative on the Panel and Board.

The District Council Representative can serve for a maximum of 8 years as long as they remain an elected member of a District Council in Hampshire and continue to receive the nomination of HIOWLGA.

C – Other Employer Representative and Scheme Member Representatives

Applications will be sought by the Hampshire Pension Fund for the other representative roles on the Panel and Board. Prospective applicants will be asked to completed a written application which will be assessed by officers of the Pension Fund and shortlisted applicants will be invited to interview as a final stage of the application process.

To meet the aim of ensuring broad representation from employers and scheme members priorities will be assigned in appointing to the following roles:

- An Employer Representative from one of the large constituent groups amongst the Fund's employers, such as the education sector or community admission group.

- A Scheme Member Representative from each of the three groups of members:

Representing	**Representative will be**
Active members	Working for an employer in the Pension Fund and contributing to the Fund
Deferred members	Not yet retired and in receipt of a pension but who has previously contributed to the Fund
Pensioners	In receipt of a pension from the Fund

A representative selected through an application process can serve for a 4 year term as long as they can continue to represent the employer/ scheme member group from which they originally came. At the end of their 4 year term an Employer or Scheme Member Representative can apply again, and if successful serve a maximum one further 4 year term.

Criteria for the selection of Employer or Scheme Member Representatives

Within the priorities for representation from Employer and Scheme Member Representatives the following criteria will be used in the application process to select representatives:

- Able to represent either all employers or all scheme members.
- Has the capacity to be a member of the Pension Fund Panel and Board.
- Excellent communication and listening skills and the ability to work as part of a group.
- Good analytical skills, an aptitude for taking on new information and a commitment to continuous personal development.
- Highly numerate, ideally with a background in the Financial Sector.
- An awareness of pension fund and investment issues.
- Has no conflict of interest in holding or having held a senior management post at the Administering Authority, or a role in administering the Pension Fund; either currently or in the last 5 years.

Approval of appointments

As a committee of Hampshire County Council all appointments to the Pension Fund Panel and Board via all three of the routes above (A, B and C) will be approved by the County Council according to its constitution.

Hampshire Pension Fund – Training Policy

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

2. It therefore seeks to appoint individuals who are both capable and experienced and will provide and arrange training for relevant officers and members. The training is designed to enable officers and members to acquire and maintain an appropriate level of expertise, knowledge, and skills.

3. A formal training plan is prepared each year to identify and meet the training needs of the Panel and Board, both as a group and as individuals, and is based upon the recommendations of the CIPFA Pensions Finance Knowledge and Skills Framework.

4. The Deputy Chief Executive and Director of Corporate Resources of the County Council is responsible for ensuring that policies and strategies are implemented. Pension Fund Panel and Board members training is evaluated, recorded and reported as part of the Fund's Annual Report each year.

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

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

   be conversant with:

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

have knowledge and understanding of:

- the law relating to pensions; and
- such other matters as may be prescribed.

7. The Myners principles codify the best practice in investment decision-making for pension fund management. The principles require pension fund trustees to consider how the principles apply to their own fund and report on a ‘comply or explain’ basis. Training is a key factor within Principle 1 which covers effective decision-making:

    - trustees should ensure that decisions are taken by persons or organisations with the skills, knowledge, advice and resources necessary to take them effectively and monitor their implementation
    - trustees should have sufficient expertise to be able to evaluate and challenge the advice they receive and manage conflicts of interest.

8. The Government also requires LGPS funds to publish a Governance Policy Statement which includes a section on Training. A Governance Compliance Statement is also required which sets out the Pension Fund’s compliance with the following principle on Training, Facility, Time, and Expenses:

    - that in relation to the way in which the administering authority takes statutory and related decisions, there is a clear policy on training, facility time and reimbursement of expenses for members involved in the decision-making process
    - that where such a policy exists, it applies equally to all members of committees, sub-committees, advisory panels or any other form of secondary forum
    - that the administering authority considers adopting annual training plans for committee members and maintains a log of all such training undertaken.

9. The Chartered Institute of Public Finance and Accountancy (CIPFA) published a guide to the requirements for the Governance Compliance Statements in the context of the CIPFA/SOLACE publication ‘Delivering Good Governance in Local Government: Framework (2007)’. The CIPFA guide links the principle in paragraph 11 above to the Framework’s principles of:

    - performing effectively in clearly defined functions and roles, and
    - developing the capacity and capability of the governing body to be effective.

10. The CIPFA guide includes the further comment that the principle in paragraph 11 is aimed at making sure that all those serving on committees,

sub-committees and panels receive levels of training that are appropriate to their needs and that suitable arrangements are made to ensure that this is properly resourced in terms of both time and finance.

11. The Panel and Board fully endorse the importance placed on training in these principles. With this training plan and the training logs maintained by all Panel and Board members, the Hampshire Pension Fund is in full compliance with this principle.

12. CIFPA have also published a Code of Practice on Public Sector Pensions Finance Knowledge and Skills, which Hampshire Pension Fund has adopted. This requires policies and procedures to be in place for the effective acquisition and retention of the relevant knowledge and skills for those in the organisation responsible for financial administration and decision making.

13. The policies and procedures will be guided by reference to the CIPFA Pensions Finance Knowledge and Skills Framework, which gives technical guidance for elected representatives and officers on the knowledge required.

14. The Code of Practice also requires an annual statement on how these policies and procedures have been put into practice, from 2012/13 onwards. A disclosure was included in the Annual Report and Accounts 2012/13 and will continue going forward.

Hampshire Pension Fund - Governance Policy Statement

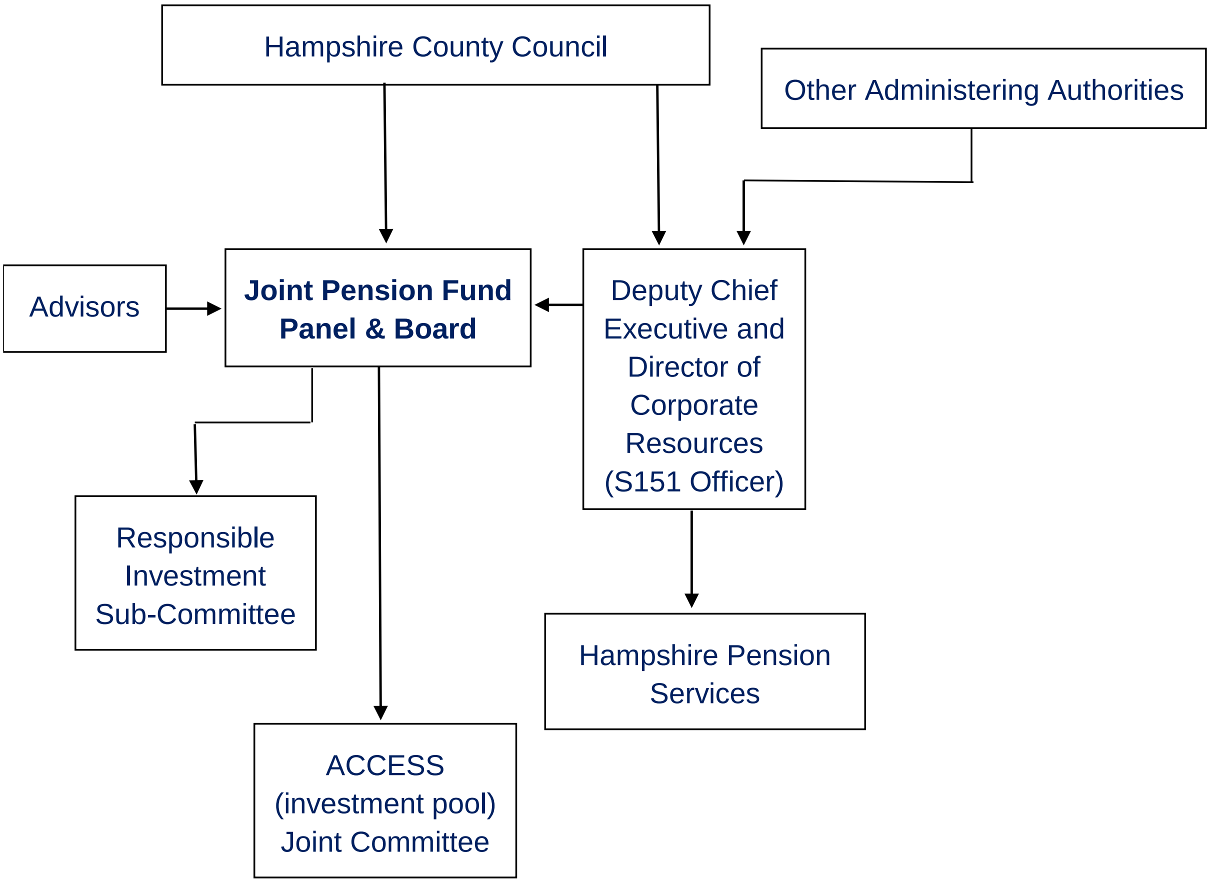
Introduction

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	Full compliance.	The RI sub-committee is made up of members of the Joint Pension Fund Panel and Board

Ref.	Principles	Compliance	Comments
	secondary committee or panel.		
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.

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HAMPSHIRE COUNTY COUNCIL

Decision Report

Decision Maker:	Pension Fund Panel & Board
Date:	4 December 2020
Title:	Governance: Review of the Pension Fund's Statutory Statements
Report From:	Deputy Chief Executive and Director of Corporate Resources

Contact name: Gemma Farley

Tel: 0370 779 4704 **Email:** Gemma.farley@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 Pension Fund 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 Administration Strategy Statement (Appendix 3) be approved.
5. That the Funding Strategy Statement (Appendix 4) be approved.
6. That the Employer Policy (Appendix 5) be approved.
7. That the Risk Register (Appendix 6) be approved.

Executive Summary

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

Background

9. The Pension Fund's statutory statements and important policies are reviewed annually to ensure that current versions comply with the latest Government and other relevant guidance. These 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 2019.

Business Plan

10. 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.

11. 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.

12. 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.

13. The business plan approved by the Pension Fund Panel and Board in December 2019 included several actions for completion by March 2021. Progress against these action points is summarised below.

Planned Action	Deadline	Progress
Commission the review of the Pension Fund's strategic asset allocation and take any subsequent action resulting from the review.	March 2021	This review was completed in two parts over the February and July 2020 Panel and Board meetings.
Retender the contract for UK direct property investment management.	March 2021	The Panel and Board is currently in the process of tendering the contract, and the contract will be awarded in December 2020.
Produce an RI Annual Report as part of the Pension Fund's Annual Report.	March 2021	An RI Annual Report was included in the Pension Fund's Annual Report for 2019/20.
Retender the contract for the Pension Fund's Actuary.	March 2021	The Panel and Board approved a one-year extension to the actuary's contract due to impact of the coronavirus pandemic on the National LGPS Framework.

Planned Action	Deadline	Progress
Retender the contract(s) for investment consultancy advice.	March 2021	The Panel and Board will call off from the National LGPS Framework on an individual basis as future requirements occur.
Retender the contract for Pensions Administration software.	March 2021	Included in this agenda.
Consider the outcome of the Scheme Advisory Board's 'Good Governance' review.	March 2021	Included in this agenda.
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 necessary, for example to any new members of the Panel and Board.	Ongoing	In September 2020, the Panel and Board approved the training plan for 2020/21. Bespoke training events for Panel and Board members are arranged for December 2020, and later in 2020/21. In addition Panel and Board members have attended a number of pension industry events.
Review the Fund's Investment Strategy Statement.	March 2021	Included in this report.
Review the Fund's Funding Strategy Statement	March 2021	Included in this report.
Review the Governance Policy and Governance Compliance Statements	March 2021	Included in this agenda.

Planned Action	Deadline	Progress
Review this business plan, including progress against the action plan	March 2021	Included in this report.
Review the Communication Policy Statement	March 2021	Included in this agenda.
Review the Administration Strategy Statement	March 2021	Included in this report.
Review the Fund's management fees and transaction costs.	March 2021	Reported at July 2020 Pension Fund Panel and Board meeting.
Review the Employer policy.	March 2021	Included in this report.
Review performance of the Fund's Custodian.	March 2021	Scheduled to be reviewed at the February 2021 Panel and Board meeting.
Respond to all consultations and requests for information from Central Government on the Pension Fund's investments.	Ongoing	The Panel and Board has responded to requests for information from Central Government regarding RPI, and the Scheme Advisory Board's Part 1 Responsible Investments Guidance consultation
Comply with any requests from the Scheme Advisory Board.	Ongoing	No requests have been made this year to date.
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 62% of its investments via Link (Acadian, Dodge & Cox and Baillie Gifford) and UBS
Comply with the requirements of the UK Stewardship Code and UN Principles of Responsible Investment (UNPRI).	Ongoing	Officers of the Pension Fund are in the process of reviewing the requirements to ensure that the Pension Fund complies with the UK Stewardship Code and UNPRI.

Investment Strategy Statement

14. The Panel and Board approved changes to the Investment Strategy Statement in March 2020, a copy of which is attached at Appendix 2 for reference. This version has been updated to reflect the Fund's current investment manager arrangements as well as other minor changes in pink.

Administration Strategy Statement

15. The Panel and Board approved changes to the Administration Strategy Statement in July 2020, a copy of which is attached at Appendix 3 for reference.

Funding Strategy Statement

16. The Panel and Board approved changes to the Funding Strategy Statement in July 2020, a copy of which is attached at Appendix 4 for reference.

Employer Policy

17. The Panel and Board approved changes to the Employer Policy in July 2020, a copy of which is attached at Appendix 5 for reference.

Risk Register

18. The Investment Risk Register had previously been included as an appendix to the Investment Strategy Statement and was approved in December 2019. The Pension Fund's Risk Register (including the Investment Risk Register) is normally approved each summer; therefore the Risk Register at Appendix 6 has been updated to ensure that the mitigation for each risk includes the wording that the Panel and Board had approved in December 2019 on the Pension Fund's approach to each investment risk.

Governance Policy and Governance Compliance Statements

19. The Governance Compliance and Governance Policy Statements are reported on in a separate report elsewhere on this agenda.

Communication Policy Statement

20. The Communication Policy Statement 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 2019 in March 2020, and the next actuarial valuation will be valued at 31 March 2022.
- 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 September 2020 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 bespoke training sessions delivered by are to be arranged in December 2020, and the early part of 2021. A new training plan will be prepared in July 2021 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:

Continue to monitor the review of Good Governance in the LGPS and implement any necessary changes if statutory guidance is issued.

Retender the contract for the Pension Fund's Actuary calling off from the National LGPS framework contract.

Further develop the Pension Funds Responsible Investment reporting to scheme members and employers.

Ongoing actions:

Monitor the Fund's investment managers' performance.

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

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 Risk Register
- the Representation Policy
- the Training Policy
- 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 390 other scheduled and admission bodies. The total number of contributors is 58,913 and there are 75,920 deferred members and 43,706 pensioners (all as at 31 March 2020).

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

1. Rationale and definition

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 4.4%pa), and

ii. a belief in the importance of Responsible Investment (RI), including consideration of social, environmental and corporate governance (ESG), which can both positively and negatively influence investment returns.

Therefore, RI is important to the Pension Fund in fulfilling its role to pay scheme members benefits and for its reputation with scheme members, employers and the wider Hampshire community.

The Pension Fund's approach to RI, 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

2. Investment Strategy

These factors, whilst not exhaustive, provide a baseline of ESG factors that are actively taken into account as part of the Pension Fund's overall investment strategy; as part of the Fund's selection of its investment managers, how the Fund will scrutinise its investments and how it will transparently report on its investments based on these factors. This approach has been communicated to the Fund's investment managers who have confirmed they conform to this policy.

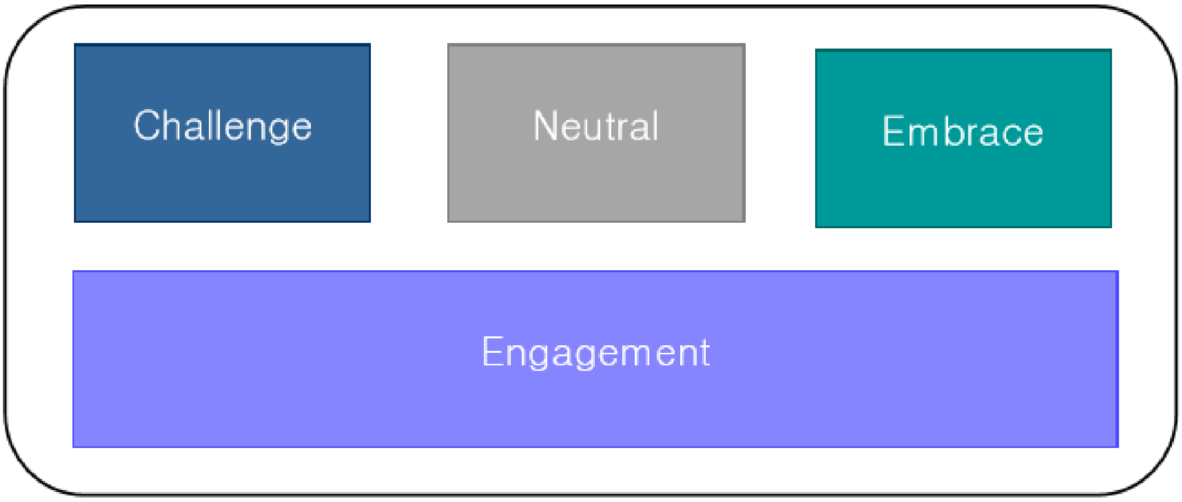
<u>Stock/Sector Exclusions and Social Impact investments</u>

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.

3. Framework and Approach

<u>Consideration of ESG in Investment Decisions</u>

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 based on the following model:



- **Challenge** – where the underlying investment/company delivers less than a net neutral contribution to a sustainable society with a high barrier to transformation, the Fund will challenge its investment manager (where appropriate) on their decision to hold the investment.

- **Neutral** – underlying investments/companies that have potential to transform their operations and/or business model to fit in a sustainable future.
- **Embrace** – where underlying investments/companies are delivering a positive contribution with an undebatable fit in a sustainable future, the Fund will be in dialogue with its investment managers to understand what it can learn from these investments and its investment managers' decisions to invest.
- **Engagement** – in all situations the Fund expects its investment managers to engage with companies that they have invested in, as described in more detail below.

The Fund recognises that there are different expectations for its investment managers 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.

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.

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.

4. 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.

5. Monitoring and Reporting

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.

<u>RI Standards</u>

The Pension Fund is a signatory of the UK Stewardship Code and the UN Principles of Responsible Investment (PRI) and will consider signing up to other investor standards and initiatives where the Pension Fund Panel and Board believes it will enhance Hampshire’s RI policy.

In line with the principles of the Stewardship Code and PRI the Pension Fund is committed to transparent reporting on the implementation of this policy and its investments and ESG exposure.

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
High-performance global equities	Link Fund Solutions (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 bonds	UBS Asset Management	FT British Government Over Five Years Index-Linked Gilts Index	

Portfolio	Investment Manager	Benchmark	Annual target performance gross/net of fees
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

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.

8.7 If in exceptional circumstances HPF agrees to an employer deferring payment of their employer contributions, interest will be charged on the deferred contributions at a rate equal to the underlying discount rate used to calculate the employer contribution.

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 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	From the next pay period after receiving the employee's request to opt out Within 10 working days following the end of the month in which the employee left the scheme

Employer responsibility	Timescale
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.
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.	As required

Employer responsibility	**Timescale**
The employer must keep a full pay history for the 13 years, ending 31 March, before the member leaves the scheme.	
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.
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

Employer responsibility	Timescale
Notify HPF of a change of payroll provider by completing a ‘Employer Change of payroll provider’ form	As soon as possible but no later than 20 working days before change
Submit individual ‘Change of payroll provider’ forms to HPF for all transferring employees	Within 20 working days post transfer
Provide notification of new payroll numbers (if applicable) to HPF	Within 20 working days post transfer
Complete a mid year return if date of change is not 1 April	Within 40 working days post transfer

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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.
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.

HPF responsibility	Timescales
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.
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	Annually by 31 August

HPF responsibility	Timescales
available to them in accordance with the Regulations.	
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

	Discretion	Regulation	Policy	Delegated authority for approval
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)	HPF has determined the interval for payment of employer contributions to be monthly (other than for employers who make advance payment of their contributions on 1 April). Payments are due monthly by 19th of the month (22nd if electronic) following deduction. However if in exceptional circumstances an employer makes a request to defer payment of employer contributions, consideration to this will be given on a case by case basis. Factors which will be considered include, but are not limited to; the overall financial security of the organisation making the request, the likelihood that deferring may lead to contributions not being paid within the year, the support of any guarantor or related local authority to the deferment. If a request is agreed, then deferred payments will be subject to interest at the underlying discount rate for the employer. HPF reserves the right to ask the Fund Actuary to take into account the timing of deferred payments when determining the allocation of assets. This is so that any material increase in markets is not unfairly attributed to employers during a period of non payment. Administration costs are taken into account by the actuary when setting employer contribution rates.	Head of Pensions
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

	Discretion	Regulation	Policy	Delegated authority for approval
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
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

	Discretion	Regulation	Policy	Delegated authority for approval
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
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

	Discretion	Regulation	Policy	Delegated authority for approval
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
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

	Discretion	Regulation	Policy	Delegated authority for approval
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~~ 6 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~~ 6 months of the employer exiting the Fund.	Head of Employer Services
57.	To determine the amount of an exit credit, which may be zero	**R**64 (2ZAB)	HPF will determine the amount of any exit credit to be paid with regard to the factors set out in the regulations, in accordance with the policy in the Funding Strategy Statement and Employer Policy.	Head of Pensions
58.	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

	Discretion	Regulation	Policy	Delegated authority for approval
59.	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

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 Solutions UK 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 payment of an exit credit will be made at the discretion of the Administering Authority, after taking into account the factors set out in the LGPS 2013 regulations namely;

(a) the extent to which there is an excess of assets in the fund relating to that employer over the liabilities
(b) the proportion of this excess of assets which has arisen because of the value of the employer's contributions;
(c) any representations to the administering authority made by the exiting employer or letting authority
(d)any other relevant factors.

Other relevant factors include but are not limited to, the basis of the exit valuation, the extent to which the exiting employer was responsible for the funding risk during their participation in the Fund and the existence or otherwise of a commitment from another ongoing employer in the Fund to subsume liabilities on exit.

This may mean that no exit credit is due 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.

Employers who are letting contracts need to ensure their contractual arrangements cover the treatment of exit credits and that they notify the Fund if these arrangements mean that a surplus should be retained by the letting authority. Representations from employers will be considered on a case by case basis although if a contract pre dates 14 May 2018 and is silent on the treatment of an exit credit, payment will usually only be made to the departing employer if they would have also paid for an exit deficit.

Where an exit valuation is carried out on a low risk basis, the exit credit will usually be equal to the excess of assets over the liabilities, less any costs.

The exit credit will be paid to the departing employer within six months of the date of exit or such longer period as is agreed with the exiting employer. It will be deemed that an employer agrees to a longer period where all relevant information is not provided within one month of the exit date.

Any actuarial or legal costs of the exit will be deducted from the exit credit before payment, unless there is a good reason to accept separate payment for these.

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.

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.

13. Exit credits

13.1. Where an employer exits on or after 14 May 2018 and the exit valuation determines that the departing employer is in surplus, the payment of an exit credit will be made at the discretion of the Administering Authority, after taking into account the factors set out in the LGPS 2013 regulations:

- the extent of any surplus
- the proportion of a surplus that has arisen because of the value of the employer contributions
- any representations made by the exiting employer or letting authority
- any other relevant factors.

13.2. The value of the employer contributions will be estimated by multiplying the contributions paid by the employer during their participation, by the change in Fund’s value over the same period (estimated where necessary).

13.3. For exits carried out on a low risk basis, the exit credit will usually be the excess of assets over the liabilities. For exits carried out on a subsumption basis, the exit credit will usually be the lower of the surplus or the value of the contributions. Actuarial and legal costs of the exit will be deducted from the exit credit before payment, unless there is a good reason to accept a separate payment.

13.4. Exit credits will usually be paid to the exiting employer. 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.

13.5. A known exception to 13.4 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.

13.6. Representations from the exiting employer and letting authority will be considered before any decision is made. Letting authorities need to be able to show clearly why the surplus (or value of employer contributions if lower) should be retained in the Fund rather than an exit credit being paid to a contractor if they believe this to be the right course of action. Similarly, contractors will need to be able to demonstrate why an exit credit should be paid, particularly where the contract was entered into before 14 May 2018 when the regulations did not envisage surpluses being paid out.

13.7. Other relevant factors may also be taken into account, and employers should include as much detail as possible in their representations. Employers will be notified if the administering authority is taking something else into consideration prior to a final decision being taken so that they can ensure their representations cover these additional points.

13.8. Once a final decision has been taken, the relevant employers as set out in Regulation 64 (2ZAB (a)) will be notified of the decision.

13.9. Regulation 64 (2ZAB (b)) states an exit credit must be paid within 6 months of the exit date or such longer period as is agreed. Where the circumstances mean that the 6 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.

13.10. If a surplus is retained in the Fund because an ongoing employer has provided a commitment to subsume the liabilities, the assets will be attributed to the subsuming employer unless it is in the Academy Pool where deficits and surpluses are shared within the Pool and not attributed to a specific Academy.

14. Exit of Town and Parish Councils

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

14.2. 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.

14.3. 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

Risk Register

Risk	Description	Likelihood	Impact	Mitigation
Employer risk	These risks arise from the ever-changing mix of employers, from short-term and ceasing employers, and the potential for a shortfall in payments and/or orphaned liabilities. These events could cause the risk of unexpected structural changes in the Fund's membership and the related risk of an employer failing to notify the administering authority promptly.	M	H	The Administering Authority requires the other participating employers to communicate regularly with it on such matters. The Pension Fund Panel and Board have approved a Funding Strategy Statement that details how funding risk is mitigated for different employer types. The Administering Authority maintains a knowledge base on scheme employers, their basis of participation and their legal status (e.g. charities, companies limited by guarantee, group/subsidiary arrangements) and uses this information to inform the Funding Strategy Statement. The Fund's Employer Policy outlines how the Administering Authority will deal with any situation resulting from a change in any Fund employer's circumstances or new employers entering the Fund. The Administering Authority monitors the status of the employers in the Fund and discusses any changes, including any necessary changes to the Funding Strategy Statement, with the Fund's Actuary.

Risk	Description	Likelihood	Impact	Mitigation
Employer risk (continued)	That an employer becomes insolvent and is no longer able to meet their obligations to the Fund.			The Pension Fund's Funding Strategy Statement reflects that most of the employers in the Fund have a degree of Central Government support. Where this is not the case the Funding Strategy Statement sets out how this will be taken into account to manage the risk. The Employer Policy requires new employers to have a guarantor who would be called on in the event of an insolvency, and all charitable admission bodies now have a subsumption commitment from their associated local authority which helps to reduce any exit debt. The Administering Authority has a written policy on how it would exercise its discretion to defer pension contributions in exceptional circumstances.
Operational risk	That the activities of the Pension Fund are disrupted due to the loss of premises, staff or IT (for example as a result of a cyberattack or pandemic disease), either affecting the Pension Fund directly or one of its key suppliers.	H	M	Pension Services follow the Administering Authority's Disaster Recovery policy that ensures that processes are in place to manage in the event of the loss of key resources. This includes the ability continue to deliver key services remotely, should this be necessary. Part of the selection process for the Pension Fund's key suppliers includes an assessment of their own disaster recovery capabilities.
Administration risk	The Pensions Regulator identifies the risks being around:	M	M	
	- Employer contribution monitoring: are employers paying the right amount of contributions on time?			Employer contributions are set out in the triennial valuation and the deadline for payment is set by Regulation as 22nd of the month. Contributions are monitored and any late payments are reported to the Pension Fund Panel and Board. Any issues of 'material significance' will be reported to the Regulator.

Risk	Description	Likelihood	Impact	Mitigation
Administration risk (continued)	- Record-keeping: how comfortable are you that your records are complete and accurate?			The Administration Strategy is the agreement between the Hampshire Pension Fund and all participating Bodies, in which all parties commit to certain principles, including: - to provide a high quality pension service to members - to take responsibility to provide accurate and timely information - that the results are reported to the Panel & Board twice a year. The annual returns exercise is completed each year and employer performance is monitored with processes in place to help improve this where necessary. The Compliance and Delivery Manager is responsible for ensuring that data is complete and accurate in line with TPR requirements and that any actions on the data improvement plan are implemented. The Administering Authority has implemented a data analysis tool which provides daily management information on potential data issues.
	- Internal controls: has the Fund put in practice a policy to identify risks and arranged for these to be managed or mitigated?			Both Internal Audit and External Audit carry out work to assess the internal controls and this is reported to the Panel & Board.
	- Member communication: are these always accurate, timely and clear?			There is a Communications Policy and Customer Charter on the Pensions Services website, which details the service our scheme members can expect.

Risk	Description	Likelihood	Impact	Mitigation
Administration risk (continued)	- Internal disputes: do these indicate wider problems in the Fund?			The full complaint process, going all the way though to the Pensions Ombudsman, is detailed on the Pension Services website. All complaints are fully investigated and the outcome at each stage of the process reported in the Accounts.
	- Resourcing: conflicting priorities with servicing other partners.			Resourcing plans are in place to ensure services can be delivered to each partner. Project plans are in place that identify the requirements of each partner, including the on-boarding of new partners.
Investment risk	Investment management underperformance – from the Fund's investment managers failing to outperform their benchmark returns for prolonged periods of time	M	H	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. The Fund's investment managers' performance is reviewed regularly by the Fund's officers and reported regularly 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.

Risk	Description	Likelihood	Impact	Mitigation
Investment risk (continued)	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 any one particular market. 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 source of diversification from equities. The Fund contracts with specialist external investment managers and as a general principle aims to set mandates for investment managers that give them as much freedom as possible, in order to manage risks such as changes in interest rates.

Risk	Description	Likelihood	Impact	Mitigation
Investment risk (continued)	Currency risk – the risk of fluctuations in prices of financial instruments that are denominated in any currency other than the functional currency of the Fund (GB pounds)			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. Where investment returns in particular asset classes are at risk of disproportionate currency effects (such as Multi-asset Credit and Private Debt) the investments are hedged back to Sterling. In addition having taken advice to mitigate the overall currency impact on the Pension Fund, the passive global equity investments is hedged back to Sterling.

Risk	Description	Likelihood	Impact	Mitigation
Investment risk (continued)	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, with further limits set in the Investment Strategy Statement to limit the Fund's exposure to particular vehicles or assets. The Pension Fund's stock lending programme is protected by collateral managed by the Fund's custodian.
	Refinancing risk – that the Pension Fund could be bound to replace on maturity a significant proportion of its financial instruments at a time of unfavourable interest rates.			The 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.

Risk	Description	Likelihood	Impact	Mitigation
Investment risk (continued)	Liability risk – that the Fund's liabilities are not accurately calculated resulting in the return target being too low and employers' 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.
	Environmental, social and governance (ESG) factors, including the impact of climate change – that these factors materially 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. As set out in the Fund's Responsible Investment Policy, the Fund's external investment managers are required to consider ESG factors in their investment decisions, including any negative contribution to climate change and the overall risk from the impact of climate change, and to exercise the Fund's responsibility to vote on company resolutions wherever possible. They have also been instructed to intervene in companies that are failing, thus jeopardising the Fund's interests, by voting or by contacting company management directly.

Risk	Description	Likelihood	Impact	Mitigation
Investment risk (continued)	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 affecting 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.
Liability risk	The main risks include interest rates, pay and price inflation, life expectancy, changing retirement patterns and other demographic risks that will impact on the Actuary's calculation of the Fund's liabilities and reduce the Fund's funding ratio.	M	M	The County Council as the Fund's Administering Authority will ensure that the Fund's Actuary investigates the main factors that determine the Fund's liabilities, such as interest rates, inflation, life expectancy and other demographics. The Fund's Actuary will report and agree with the Administering Authority any necessary changes to their assumptions and the resulting impact on the Fund's employers' contributions.

Risk	Description	Likelihood	Impact	Mitigation
Funding risk	The Government Actuary's Department (GAD) has been appointed by the Ministry of Housing, Communities and Local Government (MHCLG) to provide a report under Section 13 of the Public Service Pensions Act 2013 when an actuarial valuation of the LGPS has been carried out. Their report must cover: - whether the fund's valuation is in accordance with the scheme regulations - whether the fund's valuation has been carried out in a way which is not inconsistent with the other fund valuations within the LGPS - whether the rate of employer contributions is set at an appropriate level to ensure the solvency of the pension fund and the long-term cost-efficiency of the scheme, so far as relating to the pension fund. These requirements will have statutory force with effect from the 2016 valuations in England and Wales.	M	H	Any relevant measures and scores will be regularly reported to the Pension Fund Panel and Board. Appropriate financial assumptions were agreed with the Fund Actuary for the 2016 valuation. The Section 13 report will be reviewed and amber or red flags will be reviewed with the Fund's actuary and reported to the Pension Fund Panel and Board with proposed mitigations.

Risk	Description	Likelihood	Impact	Mitigation
Funding risk (continued)	Funds will be assessed against a number of measures and scored as: Red – potentially a material issue that might contribute to a recommendation for remedial action to ensure solvency Amber – highlights a possible risk Green – no material issue that might contribute to a recommendation for remedial action to ensure solvency. GAD will then engage with Funds with any amber or red flags.			
Regulatory and compliance risk	Regulatory risks relate to changes in LGPS regulations, including national pensions legislation and HM Revenue and Customs rules.	L	M	The Administering Authority will keep abreast of proposed changes to the LGPS, taking the necessary legal, actuarial or investment advice necessary to interpret the changes. Any resulting changes in policy will be reported to the Pension Fund Panel and Board for approval.

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

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HAMPSHIRE COUNTY COUNCIL

Decision Report

Decision Maker:	Hampshire Pension Fund Panel and Board
Date:	4 December 2020
Title:	Investments: Pension Fund Cash Monitoring Report and Annual Cash Investment Strategy 2021/22
Report From:	Deputy Chief Executive and Director of Corporate Resources

Contact name: Gemma Farley

Tel: 0370 779 4704 **Email:** gemma.farley@hants.gov.uk

Purpose of this Report

1. This report outlines the investment performance of the cash balances held by the Pension Fund in 2020/21 to 31 October 2020 and recommends the Annual Cash Investment Strategy for 2021/22.

Recommendations

2. That the Annual Cash Investment Strategy for 2021/22 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 2020/21.
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 2021/22, which is outlined in paragraphs 28 to 48 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, income from some of its investments as well as the potential inflows of cash from monthly rebalancing, all of which need to be managed.

9. Where the Pension Fund is invested 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, private debt 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 impact on the UK from the coronavirus pandemic, together with its exit from the European Union, will remain a major influence on the Pension Fund's cash investment strategy for 2021/22.

13. The Bank of England (BoE) maintained Bank Rate at 0.10% in November 2020 and also extended its Quantitative Easing programme by £150bn to £895bn. Within the latest forecasts, the BoE expects the UK economy to shrink -2% in Quarter 4 2020 before growing by 7.25% in 2021, lower than the previous forecast of 9%. The BoE also forecasts the economy will now take until Quarter 1 2022 to reach its pre-pandemic level rather than the end of 2021 as previously forecast.

14. UK Consumer Price Inflation (CPI) for September 2020 registered 0.5% year on year, up from 0.2% in the previous month, and core inflation rose to 1.3% from 0.9%. The most recent labour market data for the three months to August 2020 showed the unemployment rate rose to 4.5% while the employment rate fell to 75.6%. Both measures are expected to deteriorate further due to the ongoing impact of coronavirus on the jobs market, particularly when the various government job retention schemes start to be unwound in 2021, with the BoE forecasting unemployment will peak at 7.75% in Quarter 2 2021. In August 2020, the headline 3-month average annual growth rate for wages was 0.0% for total pay and 0.8% for regular pay. In real terms, after adjusting for inflation, total pay growth fell by -0.8% while regular pay was up 0.1%.

15. Gross Domestic Product (GDP) growth fell by -19.8% in the second quarter of 2020, a much sharper contraction from -2.0% in the previous three months,

with the annual rate falling -21.5% from -1.6%. Monthly GDP estimates have shown the economy is recovering but remains well below its pre-pandemic peak. Looking ahead, the BoE's November Monetary Policy Report forecasts economic growth will rise in 2021 with GDP reaching 11% in Quarter 4 2021.

Credit outlook

16. After spiking in late March as coronavirus became a global pandemic, credit default swap (CDS) prices for the larger UK banks have steadily fallen back to almost pre-pandemic levels. Although uncertainly around COVID-19 related loan defaults lead to banks provisioning billions for potential losses in the first half of 2020, drastically reducing profits, reported impairments for Quarter 3 were much reduced in some institutions. However, general bank profitability in 2020 is likely to be significantly lower than in previous years.

17. The credit ratings for many UK institutions were downgraded on the back of downgrades to the sovereign rating. However more generally credit conditions in banks and building societies have tended to be relatively benign, despite the impact of the pandemic.

18. Looking forward, the potential for bank losses is to be greater than expected when government and central bank support starts to be removed remains a risk, suggesting a cautious approach to bank deposits in 2021/22 remains advisable.

Interest rate forecast

19. The County Council's treasury management adviser Arlingclose is forecasting that BoE Bank Rate will remain at 0.1% until at least the end of 2023. The risks to this forecast are judged to be to the downside as the BoE and UK government continue to react to the coronavirus pandemic and the Brexit transition period ends. The BoE extended its asset purchase programme to £895 billion in November while keeping Bank Rate on hold. However, further interest rate cuts to zero, or possibly negative, cannot yet be ruled out but this is not part of the Arlingclose central forecast.

20. Gilt yields are expected to remain very low in the medium-term while short-term yields are likely remain below or at zero until such time as the BoE expressly rules out the chance of negative interest rates or growth and inflation prospects improve. The central case is for 10-year and 20-year to rise to around 0.5% and 0.75% respectively over the time horizon. The risks around the gilt yield forecasts are judged to be broadly balanced between upside and downside risks, but there will almost certainly be short-term volatility due to economic and political uncertainty and events.

Negative interest rates

21. The COVID-19 pandemic has increased the risk that the BoE will set 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. Since investments cannot pay negative income, negative rates will be applied by reducing the value of

investments. 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

22. The Pension Fund’s cash investment holding was £179.9m as at 31 October 2020 which represents around 2% of the Pension Fund’s total value. The current cash balance is lower than last year’s cash balance as that included allocations held as cash ahead of re-investment, following the Panel and Board’s decision to reduce the Fund’s exposure to equities that were due to be invested in illiquid investments.

23. During 2020/21 the Panel and Board agreed to tactically use its cash balance to ensure that the Protection element, made up of cash and index linked gilts, was at least 22% of the Pension Fund’s total value to protect the Fund from the increased risk of an over-exposure to equities. This entails rebalancing the Fund on a monthly basis by selling UK passive equities (which are no longer part of the Pension Fund’s strategic asset allocation) for cash to top up the Protection element to 22%.

24. This has resulted in one redemption of £99.3m of passive equities to cash, which at the time increased cash balances by 89%. In all other months there has not been a requirement to rebalance as the total of cash and gilts equalled at least 22% of the Pension Fund.

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 2020/21, which was approved by the Pension Fund Panel at its meeting in December 2019. 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 31 October 2020 the weighted average return on the Pension Fund’s cash investments was 0.06%, which should be considered within the context of a UK Base Rate of 0.10%.

Annual cash investment strategy

28. In the past 12 months, the Pension Fund’s cash investment balance has ranged between £95.3m and £379.8m.

29. Balances may increase for a short period at the beginning of April 2021 as prepayments of one year’s employer contributions will be received as cash and then invested by the investment managers. At this stage the total value of

prepayments has not been confirmed, however on 1 April 2020 the Fund received £347m of prepaid employers contributions, of which £40m were for one year's contributions, with the remainder 3 years worth of contributions paid in advance.

30. It is expected that during 2021/22 balances will generally vary in accordance with the normal cashflow expectations as a result of contributions from employers and payments of pension, and the investment and returns of the property and alternative portfolios. As previously reported to the Panel and Board as a result of the significant amount of contributions received in advance, the Pension Fund expected an average monthly deficit from dealing with members of nearly £12m, before funding additional property and alternative investments. In the 7 months to the end of October 2020, the Pension Fund's running cash deficit was £23m greater than forecast. As expected this shows the Pension Fund has made net additions to property and alternative investments, which is in line with the Fund's investment strategy to build up to the allocations to these asset classes.

31. Cash balances may also increase as a result of the decision by the Panel and Board to maintain the Protection element of the Investment Strategy at a minimum of 22%. It is unclear how economic markets will fair over 2021/22, and how gilts will perform in comparison to equities, and therefore there could potentially be very large redemptions from passive equities to cash to rebalance the Protection element of the Fund, but there may also be no requirement to rebalance.

32. The following Annual Cash Investment Strategy, for the period to 31 March 2022, has been prepared with the advice of the County Council's treasury management advisers, Arlingclose.

33. 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

34. 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.

35. 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

36. 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.

37. When deteriorating financial market conditions affect the creditworthiness of all organisations, as happened in 2008 and 2020, 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

38. The limits below apply to the cash received into the Pension Fund's bank account that is managed internally by officers.

39. Cash limits have been increased in comparison to the 2020/21 cash investment strategy to allow for the suitable investment of increased cash balances as a result of maintaining the Protection element of the Investment Strategy at 22%. It will depend on the relative value of index-linked gilts if this policy would result in cash balances significantly rising, however if it does and total cash balances reach 5% of the total value of the Pension Fund, further advice will be taken on this strategy.

40. On 1 April 2021 it is expected that some employers will choose to prepay one year's employer contributions; currently it is not clear what the total impact of this income will be on the cash balances, and so the limits in this cash investment strategy will be reviewed once there is further information available. It may be required that a set of temporary increased cash limits be agreed for a few days to allow the appropriate management of the higher balances as a result of the prepayment of employer contributions.

41. The County Council's treasury adviser, Arlingclose, has recently amended their advice to remove the portfolio upper limit of 50% on all Money Market Fund (MMF) investments.

42. Arlingclose originally introduced a sector limit on MMFs recognising that they all make similar underlying investments and therefore moving from 50% to 100% in MMFs may not increase underlying diversification.

43. However, MMFs are a key tool to manage credit and liquidity risks and in the current economic climate diversification into other sectors may increase risk, and Arlingclose therefore no longer advises a 50% limit.

44. As a result the Cash Investment Strategy for 2021/22 excludes the upper limit on all Money Market Fund investments in line with Arlingclose's advice. Investment balances will continue to be invested with as much diversification as possible within appropriate sectors to ensure that risk to principal balances is not increased as a result of this change.

45. A group of entities 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	£40m each	2 years
UK Central Government	Unlimited	2 years
Any group of organisations under the same ownership	£40m per group	2 years
Any group of pooled funds under the same management	£40m per manager	2 years

Approved investment counterparties and limits

46. 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 largely 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

47. 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.

48. The Pension Fund will spread its liquid cash over at least four providers (e.g. bank accounts and money market funds) to ensure that access to cash is maintained in the event of operational difficulties at any one provider.

Other items

Investment training

49. 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.

50. 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.

51. 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 are invited to a workshop presented by Arlingclose on 8 December 2020, which will give an update on treasury matters. Another workshop is planned for November 2021.

Investment advisers

52. 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' staff and Arlingclose.

Markets in Financial Instruments Directive

53. 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	
This proposal does not link to the Strategic Plan but, nevertheless, requires a decision because of the ongoing need to manage the Hampshire Pension Fund's cash.	

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.

Treasury Investment Counterparties and Limits

Sector	**Duration limit**	**Counterparty limit**	**Sector limit**
The UK Government	2 years	Unlimited	N/A
Local authorities and other government entities	2 years	£40m	Unlimited
Secured investments*	2 years	£40m	Unlimited
Banks (unsecured)*	13 months	£25m	Unlimited
Building societies (unsecured)*	13 months	£25m	£40m
Registered providers (unsecured)*	2 years	£25m	£40m
Money market funds*	N/A	£40m	Unlimited
Strategic pooled funds	N/A	£40m	£100m
Real estate investment trusts	N/A	£40m	£40m
Other investments*	2 years	£25m	£40m

The table must be read in conjunction with the notes below

Minimum credit rating

Treasury investments in the sectors marked with an asterisk will only be made with entities whose lowest published long-term credit rating is no lower than A-. 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.

For entities without published credit ratings, investments may be made where external advice indicates the entity to be of similar credit quality.

Government

Loans to, and 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 Government are deemed to be zero credit risk due to its ability to create additional currency and therefore may be made in unlimited amounts for up to 2 years.

Secured investments

These investments are secured on the borrower’s assets, which limits the potential losses in the event of insolvency. The amount and quality of the security will be a key factor in the investment decision. Covered bonds and reverse repurchase agreements with banks and building societies are exempt from bail-in. Where there is no investment specific credit rating, but the collateral upon which the investment is secured has a credit rating, the higher of the collateral credit rating and the counterparty credit rating will be used. The combined secured and unsecured investments with any one counterparty will not exceed the cash limit for secured investments.

Banks and building societies (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

Registered providers (unsecured)

Loans to, and bonds issued or guaranteed by, registered providers of social housing or registered social landlords, formerly known as housing associations. These bodies are regulated by the Regulator of Social Housing (in England), the Scottish Housing Regulator, the Welsh Government and the Department for Communities (in Northern Ireland). As providers of public services, they retain the likelihood of receiving government support if needed.

Money market funds

Pooled funds that offer same-day or short notice liquidity and very low or no price volatility by investing in short-term money markets. They have the advantage over bank accounts of providing wide diversification of investment risks, coupled with the services of a professional fund manager in return for a small fee. Although no sector limit applies to money market funds, the Pension Fund will take care to diversify its liquid investments over a variety of providers to ensure access to cash at all times.

Strategic pooled funds

Shares or units in diversified investment vehicles consisting of bond, equity and property investments. These funds offer enhanced returns over the longer term but are more volatile in the short term and allow the Pension Fund to diversify into asset classes other than cash without the need to own and manage the underlying investments. This sector also includes cash plus funds which are also a type of pooled fund, but are used for short-term funds, with a lower risk appetite. Because strategic pooled funds have no defined maturity date, but are available for withdrawal after a notice period; their performance and continued suitability in meeting the Pension Fund’s investment objectives will be monitored regularly.

Real estate investment trusts (REITs)

Shares in companies that invest mainly in real estate and pay the majority of their rental income to investors in a similar manner to pooled property funds. As with property funds, REITs offer enhanced returns over the longer term, but are more volatile especially as the share price reflects changing demand for the shares as well as changes in the value of the underlying properties.

Other investments

This category covers treasury investments not listed above, for example unsecured corporate bonds and company loans. Non-bank companies cannot be bailed-in but can become insolvent placing the Pension Fund’s investment at risk.

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	35 days
UK	HSBC Bank PLC / HSBC UK Bank PLC	£25m	35 days
UK	Lloyds Bank PLC / Bank of Scotland PLC	£25m	35 days
UK	National Westminster Bank PLC / Royal Bank of Scotland PLC / Ulster Bank Limited	£25m	35 days
UK	Nationwide Building Society	£25m	35 days
UK	Santander UK PLC	£25m	35 days
UK	Standard Chartered Bank	£25m	35 days
Australia	Australia & New Zealand Banking Group	£25m	35 days
Australia	National Australia Bank	£25m	35 days
Finland	Nordea Bank	£25m	35 days
Germany	DZ Bank	£25m	35 days
Germany	Landesbank Baden-Wuerttemberg	£25m	35 days
Netherlands	Cooperative Rabobank	£25m	35 days
Singapore	DBS Bank Ltd	£25m	35 days

* Please note that the counterparties listed above meet the Fund's minimum credit rating criteria as at 23 November 2020, 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.

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