London Borough of Hounslow Pension Fund

# REPORT AND ACCOUNTS

for the year ended 31 March 2023

London Borough of Hounslow

# Contents

# Section 1
# Introduction

# Introduction by Councillor Jagdish Sharma – Chair of the Pension Fund Panel

**Welcome to the Annual Report of the London Borough of Hounslow Pension Fund.**

On behalf of the Hounslow Pension Fund Panel, I am pleased to introduce the Scheme's annual report and financial statements for the financial year to 31st March 2023.

**2022/23 headlines and highlights**

In the introduction last year, I had the unenviable task of highlighting to you how the fund was facing headwinds from global and domestic events that are likely to negatively affect the fund and the latter part of 2022 and early 2023 has been no different. Inflation and higher interest rates have affected the value of the fund and can be seen in the funds invest performance. Diversification has allowed the fund to moderate the impact with some investments achieving a positive return. Inflation is a worry for us all but perhaps none more than those on fixed incomes. I would like to take this opportunity to remind readers that LGPS benefits are inflation protected meaning all pensioners received an increase of 10.1% in April 2023.

During the year, the value of the Fund decreased by 3% when the comparison is made between the value on April 1st 2022 and March 31st 2023. The fund has however seen its value increase modestly after this date.

We continue to focus on delivering value for money to our members. An increasing number of members have signed up to use the online 'MyPension' portal. Members are able to update their personal details as well as view and download pension fund documents like the annual benefit statement. In the last year it is pleasing to note uptake has increased by.51%. We are working with the administrators of our fund (West Yorkshire Pension Fund) to ensure that the required technology and systems are in place to make the pensions dashboard project a success. Updates will follow in due course.

The financial statements show the financial position of the fund on a particular day (31st March 2023) and the money which has gone in and out of the scheme between the 1st of April 2022 and the 31st of March 2023. The financial accounts can be found in more detail in this report.

Hounslow has a long-standing commitment to being a responsible investor, as such we take a strong interest in how companies are run and exercise our voting rights at the AGMs of the companies, we are shareholders of. Further Details of this can be found in our Corporate Governance report.

I would like to thank the officers, consultants and all our stakeholders involved in the management of the Pension Fund for their work during the year during 2022/23.

**Cllr Jagdish Sharma**

Chair of the Pension Fund Panel

# Section 2
# Management of the Scheme

## MANAGEMENT OF THE SCHEME

| | |
|---|---|
| **Administering Authority** | London Borough of Hounslow |
| **Trustees** | Pension Fund Panel of the London Borough of Hounslow |
| **Pension Fund Officers** | |
| Acting Chief Financial Officer | Rupa Raghwani |
| Director of Finance - Finance Services | Robert Meldrum |
| Head of Pensions & Investments | Patrick Kilgallen |
| Strategic Pensions Manager | Hitesh Sharma |
| Strategic Pensions & Treasury Accountant | Joan Coelho |
| **Professional Advisors** | |
| Independent Investment Advisor | MJ Hudson Investment Advisers Limited (to be updated) |
| Pension Fund Actuary | Barnett Waddingham |
| Fund Banker | National Westminster Bank Plc |
| Custodian of Assets | The Northern Trust Company |
| External Auditors | Forvis Mazars LLP |
| Legal Advisors | HB Public Law |
| **Assest Pool & Fund Managers** | |
| Assest Pool and Operator | London LGPS CIV |
| Fund Managers | Aberdeen Asset Management (UK) Ltd |
| | BlackRock Investment Management (UK) Ltd |
| | CBRE Global Investors |
| | Fidelity |
| | Columbia Threadneedle Investments |
| | Longview Partners (London LGPS CIV) |
| **Administration** | |
| Pension admininstration services | West Yorkshire Pension Fund |
| **Additional Voluntary Contributions (AVC) providers** | Standard Life |
| | Utmost Life & Pensions |

# Section 3
# Pension Fund Panel

# Pension Fund Panel


**Cllr. Jagdish Sharma (Lab)**


**Cllr. John Todd (Con)**


**Cllr. Shantanu Rajawat (Lab)**


**Cllr. Sukhbir Dhaliwal (Lab)**


**Cllr. Shivraj Grewal (Lab)**


**Cllr. Aqsa Ahmed (Lab)**


**Cllr. Junue Meah (Lab)**


**Cllr. Aftab Siddiqui (Lab)**

## Observer members

- Riaz Haq (Staff representative)
- John Wiffen (employer representative)
- *Vacant* (Pensioner representative)

The Pension Fund Panel have responsibility for the management of the investments of the pension fund. They are appointed by the Borough Council and their responsibilities include:

- To consider, on the advice of the Executive Director of Finance & Corporate Services and Council's Fund Managers, the Council's general policy with regard to Pension Fund Investments.
- To make arrangements for the management of the Fund in line with the Investment Strategy.
- To monitor the performance of the Fund and its Managers.
- To exercise the Council's voting rights at AGMs and EGMs of companies in which the Fund has holdings, after considering the advice of the Executive Director of Finance & Corporate Services and appropriate Manager(s).
- To overview and agree pension administration matters

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

## Attendance at Pension Fund Panel Meetings in 2022/23

| | Jun-22 | Sep-22 | Dec-22 ** | Mar-23 | Total | % |
|---|---|---|---|---|---|---|
| Councillor Jagdish Sharma (Chair) | x | x | x | x | 4 | 100 |
| Councillor Sukhbir Singh Dhaliwal | x | x | x | x | 4 | 100 |
| Councillor John Todd | | x | x | x | 3 | 75 |
| Councillor Aftab Siddiqui * | | x | | | 1 | 25 |
| Councillor Junue Meah * | x | x | x | x | 4 | 100 |
| Councillor Aqsa Ahmed | x | | | | 1 | 25 |

| | Jun-22 | Sep-22 | Dec-22 ** | Mar-23 | Total | % |
|---|---|---|---|---|---|---|
| Councillor Shantanu Rajawat (Leader of Hounslow Council) | n/a*** | n/a*** | n/a*** | | 0 | 0 |
| Councillor Shivraj Grewal | n/a*** | n/a*** | n/a*** | x | 1 | 25 |
| Riaz Haq | x | | | | 1 | 25 |
| John Wiffen | x | x | x | x | 4 | 100 |

* Non-voting member

** The December meeting was not quorate and classified as an informal meeting

*** Councillors Rajawat and Grewal joined the Panel in February 2023

# Section 4
# The Pension Board

# The Pension Board

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

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

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

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

## Pension Board Members

**Interim Chair, Independent**

Neil Mason

**Member Representatives**

William Cassell
Benjamin Tomlinson

**Employer Representatives**

David Carlin
Daniel Austin

## Attendance at Pension Board Meetings in 2022/23

| | Oct-22 | Jan-23 | Apr 23 * | Total | % |
|---|---|---|---|---|---|
| Neil Mason (Acting Chair) | x | x | x | 3 | 100 |
| Ben Tomlinson | x | x | x | 3 | 100 |
| William Cassell | x | x | | 2 | 67 |
| David Carlin | x | x | | 2 | 67 |

* The April 2023 meeting was not quorate

## Pension Fund Panel/ Pension Board Training Log as of March 2023

Last updated March 2023

| Date | Description of Training | Attended by | Member/Officer |
|---|---|---|---|
| 5/5/2022 | LGPS Valuation Seminar 5 May 22 | Patrick Kilgallen | PFP Officer |
| 09/06/22 | PFF Introductory Training by Officers | Cllr Sukhbir Dhaliwal | PFP Member |
| 09/06/22 | PFF Introductory Training by Officers | Cllr Aqsa Ahmed | PFP Member |
| 08/09/22 | PFF Introductory Training by Officers | Cllr Junue Meah | PFP Member |
| 09/06/22 | PFF Introductory Training by Officers | Cllr Junue Meah | PFP Member |
| 09/06/22 | PFF Introductory Training by Officers | Cllr Aftab Siddiqui | PFP Member |
| 09/06/22 | PFF Introductory Training by Officers | Cllr Jagdish Sharma | PFP Member |
| 09/06/22 | PFF Introductory Training by Officers | Ben Tomlinson | PB Member |
| 05/09/22 | LCIV Annual Conference day 1 | Cllr John Todd | PFP Member |
| 05/09/22 | LCIV Annual Conference day 2 | Cllr Jagdish Sharma | PFP Member |
| 05/09/22 | LCIV Annual Conference day 2 | Patrick Kilgallen | PFP Officer |
| 05/09/22 | PIRC stewardship training | Patrick Kilgallen | PFP Officer |
| 05/09/22 | PIRC stewardship training | Cllr Sukhbir Dhaliwal | PFP Member |
| 05/09/22 | PIRC stewardship training | Cllr Jagdish Sharma | PFP Member |
| 18/10/22 | LGA Fundamentals day 2 | Cllr Ahmed | PFP Member |
| 18/10/22 | LGA Fundamentals day 2 | Benjamin Tomlinson | PB Member |
| 18/10/22 | LGA Fundamentals day 2 | David Carlin | PB Member |
| 22/11/22 | LGA Fundamentals day 2 | Cllr Ahmed | PFP Member |
| 22/11/22 | LGA Fundamentals day 2 | Benjamin Tomlinson | PB Member |
| 22/11/22 | LGA Fundamentals day 2 | David Carlin | PB Member |
| 20/12/22 | LGA Fundamentals day 3 | David Carlin | PB Member |
| 06/12/22 | LGA Fundamentals day 3 | Cllr Ahmed | PFP Member |
| 06/12/22 | LGA Fundamentals day 3 | Benjamin Tomlinson | PB Member |
| 15/3/23 | Reddington SAR presentation | Cllr John Todd | PFP Member |
| 15/3/23 | Reddington SAR presentation | Cllr Jagdish Sharma | PFP Member |
| 15/3/23 | Reddington SAR presentation | Cllr Sukhbir Dhaliwal | PFP Member |
| 15/3/23 | Reddington SAR presentation | Cllr Junue Meah | PFP Member |
| 15/3/23 | Reddington SAR presentation | Cllr Shivraj Grewal | PFP Member |
| 15/3/23 | Reddington SAR presentation | William Cassell | PB Member |

# Section 5
# Actuary's Statement

# Actuary's Statement as at 31 March 2023

## BARNETT WADDINGHAM LLP

## 4 JULY 2023

## INTRODUCTION

The last full triennial valuation of the London Borough of Hounslow Pension Fund was carried out as at 31 March 2022 as required under Regulation 62 of the Local Government Pension Scheme Regulations 2013 (the Regulations) and in accordance with the Funding Strategy Statement of the Fund. The results were published in the triennial valuation report dated 28 March 2023.

## 2022 VALUATION RESULTS

The 2022 valuation certified an average primary contribution rate of 19.3% of pensionable pay to be paid by each employing body participating in the London Boroughof Hounslow Pension Fund. In addition to this, each employing body has to pay an individual adjustment to reflect its own particular circumstances and funding position within the Fund. Details of each employer's contribution rate are contained in the Rates and Adjustment Certificate in the triennial valuation report.

### Contribution rates

The contributions rates, in addition to those paid by the members of the Fund, are set to be sufficient to meet:

The annual accrual of benefits allowing for future pay increases and increases to pensions in payment when these fall due; plus

An amount to reflect each participating employer's notional share of the Fund' sassets compared with 100% of their liabilities in the Fund, in respect of service to the valuation date.

### Asset value and funding level

The smoothed market value of the Fund's assets as at 31 March 2022 for valuation purposes was £1,226m which represented 104% of theFund's accrued liabilities at that date, allowing for future increases in pay and pensions in payment.

## ASSUMPTIONS

The key assumptions used to value the benefits at 31 March 2022 are summarised below:

| Assumption | 31 March 2019 |
|---|---|
| Discountrate | 4.7%p.a. |
| Pension increases (CPI) | 2.9%p.a. |
| Salary increases | 3.9%p.a. |
| Pension increases on GMP | Funds will pay limited increases for members that have reached SPA by 6 April 2016,with the Government providing the remainder of the inflationary increase. For members that reach SPA after this date, we have assumed that Funds will be required to pay the entire inflationary increases. |
| Mortality | The post retirement mortality assumptions adopted are the S3PA tables with a multiplier of 110% for males and females, making allowance for CMI 2021 projected improvements and a long term rate of improvement of 1.25% p.a. with an initial rate ofimprovement of0%p.a.and smoothingparameterof 7.0.A2020/21 weighting parameter of 5% was used. |
| Retirement | Each member retires at a single age, weighted based on when each part of their pension is payable unreduced |
| Commutation | Members will convert 50% of the maximum possible amount of pension into cash |

## UPDATED POSITION SINCE THE 2022 VALUATION

### Assets

Returns over the period to 31 March 2023 have been lower than projected. The valuation of the Fund's assets as at 31 March 2023, in terms of market value, are slightly lower than they were at the previous valuation date 31 March 2022.

### Liabilities

The key assumption which has the greatest impact on the valuation of liabilities is the real discount rate (the discount rate relative to CPI inflation) – the higher the real discount rate the lower the value of liabilities. The real discount rate at 31 March 2023 has increased compared with the previous valuation date due to a significant increase in yield on bonds and other fixed income assets, and a reduction to the implied long-term rate of inflation.

Please notethat we have updated the derivation of the discount rate assumption to phase out an adjustment to the dividend yield assumption adopted at the valuation of 0.5%. This was applied to reflect lower actual dividend payments and so lower yields than normal at 31 March 2022 as a result of the pandemic. Our view is that dividend yields arereturning to pre-pandemic levels and therefore this adjustment to the dividend yield has been phased out by 31 March 2023 in our model.

Actual inflation experience since the previous valuation date has placed a higher value on the liabilities. The 2023 pension increase award was 10.1% and was higher than the long-term average assumed at the 2022 valuation.The increase associated with this, however, has been offset by a reduction in the long-term inflation assumption.This short-term high inflation and longer term lower inflation is broadly consistent with what was assumed at the 2022 formal valuation.

The value of liabilities will also have increased due to the accrual of new benefits net of benefitspaid.

### Overall position

We estimate that the funding position has declined since 31 March 2022 allowing for the above factors.

Allowance for recent inflation experience and poor asset performance in the year to 31 March 2023 will have placed a higher value on the liabilities and a lower value on the assets, therefore reducing the value of the Fund's surplus at the previous actuarial valuation. This has been partially offset by an improvement in the net discount rate which has placed a lower value on the Fund's pension liabilities and reduced the cost of future benefit accrual.

The next formal valuation will be carried out as at 31 March 2025 with new contribution rates set from 1 April 2026.

Barry McKay

Barry McKay FFA Partner

Barnett Waddingham LLP

# Section 6
# Investment Overview

# Investment strategy and performance

The Investment Strategy of the Fund is attached at Appendix 2. This details the Fund's governance structure and the assets and fund managers it is invested in.

The Investment Strategy also explains our approach to responsible investment policies, including our approach to the UK Stewardship Code, and our approach to voting arrangements and other initiatives such as engagement with companies.

This Section of the Annual Report refers to the performance of the Fund over the last 1 to 5 years.

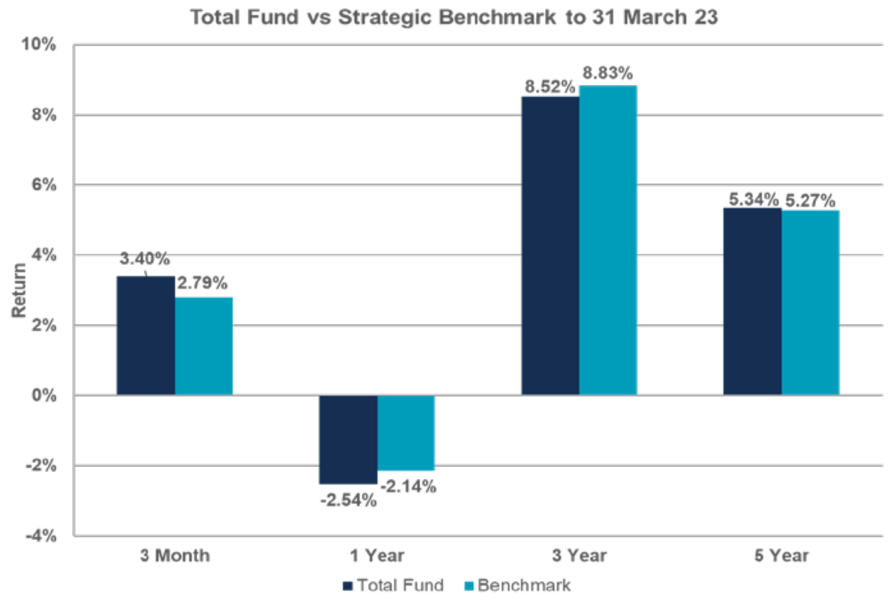
## ASSET ALLOCATION OF THE FUND

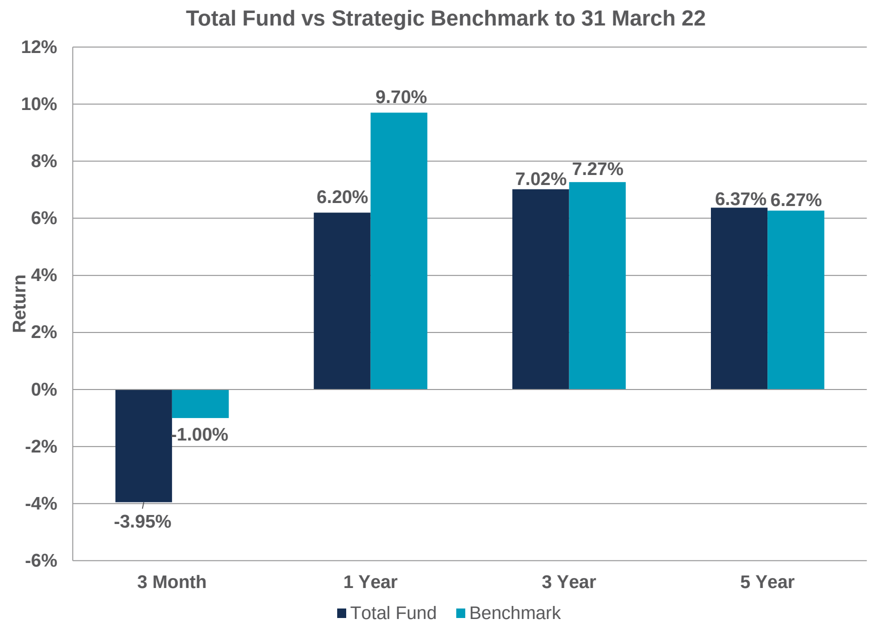
The asset allocation of the Fund, compared to the strategic benchmark, as at 31 March 2023 is shown in the table below. The Fund was overweight in UK Equities, Overseas Equities, Conventional Bonds and neutral in Index-linked bonds. Meanwhile, it was underweight in property, income assets (Fidelity) and diversifying assets. The Fund has a tolerance of +/ – 5% so this is within our tolerance limits.

| Asset Class | Fund | Strategic Benchmark | Difference | Benchmark |
|---|---|---|---|---|
| UK Equities | 32.0% | 31.0% | 1.0% | FTSE All-Share |
| Overseas Equities | 32.5% | 28.0% | 4.5% | MSCI AC WI ex-UK |
| Conventional Bonds | 12.8% | 10.0% | 2.8% | iBoxx Non-Gilt |
| Index-linked Bonds | 5.2% | 5.0% | 0.2% | FTSE Index-Linked Gilts >5 Year |
| Property | 4.3% | 5.0% | -0.7% | IPD UK All Property |
| Income Assets (Fidelity) | 10.6% | 15.0% | -4.4% | 4% Absolute Return |
| Diversifying Assets and Cash | 2.6% | 6.0% | -3.4% | LIBOR |

## PERFORMANCE OF THE FUND

The overall performance of the fund over the last 3 months, 1 year, 3 years and 5 years is shown in the charts below. Two charts are shown, performance as at 31 March 2023 and performance as at 31 March 2022. As at March 2022, the Fund was ahead of the benchmark over the long run (5 years) but behind the benchmark in short-run (3 months and 1 year) and medium term (3 years). However, as at 31 March 2023 the Fund is behind the benchmark over 1 year and 3 years but is ahead over 3 months and 5 years. During Q1 2023, the fund delivered a positive return but over the year, the fund had a negative return and is behind the benchmark by – 0.4% per annum.


Total Fund vs Strategic Benchmark to 31 March 23
Return
10%
8%
6%
4%
2%
0%
-2%
-4%
3.40%
2.79%
-2.54%
-2.14%
8.52%
8.83%
5.34%
5.27%
3 Month
1 Year
3 Year
5 Year
Total Fund
Benchmark


Total Fund vs Strategic Benchmark to 31 March 22
Return
12%
10%
8%
6%
4%
2%
0%
-2%
-4%
-6%
-3.95%
-1.00%
6.20%
9.70%
7.02%
7.27%
6.37%
6.27%
3 Month
1 Year
3 Year
5 Year
Total Fund
Benchmark

## PERFORMANCE BY FUND MANAGER, AND ASSET CLASS

The breakdown of performance, by fund manager as at 31 March 2023 is shown below. During Q1 2023, all of the funds in the portfolio delivered positive absolute returns except for CBRE, reflecting the general rebound experienced by most markets in Q1. On a relative basis, four of the funds underperformed, whilst the other six outperformed their respective benchmarks.

Over 12 months we see positive absolute returns across only one fund, the Longview global equity fund. The Longview fund is now the best performer in absolute and relative terms across most timeframes, whereas all other funds have seen poor performance over the year, with Fidelity Multi Asset Income and BlackRock ALMA still being stand out underperformers which is showing through in their longer-term performance.

Over three years, the total fund is behind the benchmark by – 0.31% per annum. Over five years, the fund is marginally ahead of the benchmark by +0.07% per annum.

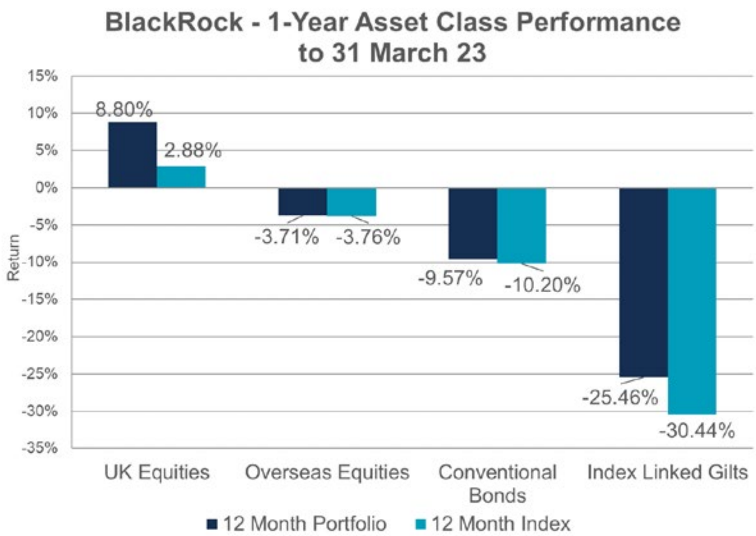
| Manager | 3-month return (%) | 1-year return (%) | 3-year return (% p.a.) | |
|---|---|---|---|---|
| Total Fund | 3.40% | -2.54% | 8.52% | 5.34% |
| Benchmark | 2.79% | -2.14% | 8.83% | 5.27% |
| Difference | 0.61% | -0.40% | -0.31% | 0.07% |
| BlackRock Multi-Asset | 4.61% | -0.35% | 10.08% | 6.40% |
| Benchmark | 3.15% | -3.52% | 9.65% | 4.92% |
| Difference | 1.46% | 3.17% | 0.43% | 1.48% |
| Aberdeen Multi-Asset | 4.23% | -3.61% | 6.74% | 4.47% |
| Benchmark | 3.28% | -5.05% | 7.96% | 3.79% |
| Difference | 0.95% | 1.44% | -1.22% | 0.68% |
| RBC Sustainable Equity | 0.21% | -7.65% | N/A | N/A |
| Benchmark | 4.81% | -0.99% | N/A | N/A |
| Difference | -4.60% | -6.66% | N/A | N/A |
| Longview Global Equities | 4.12% | 5.69% | 18.17% | 10.92% |
| Benchmark | 4.81% | -0.99% | 16.51% | 10.77% |
| Difference | -0.69% | 6.68% | 1.66% | 0.15% |
| Fidelity Multi Asset Income | 0.21% | -8.81% | 1.30% | 0.88% |
| Benchmark | 0.99% | 4.00% | 4.00% | 4.00% |
| Difference | -0.78% | -12.81% | -2.70% | -3.12% |
| BlackRock ALMA | 2.02% | -9.16% | 2.08% | 0.51% |
| Benchmark | 1.86% | 6.24% | 4.54% | 4.43% |
| Difference | 0.16% | -15.40% | -2.46% | -3.92% |
| Aberdeen DGF | 2.23% | -3.75% | 7.62% | 2.50% |
| Benchmark | 2.06% | 6.93% | 5.40% | 5.33% |
| Difference | 0.17% | -10.68% | 2.22% | -2.83% |
| Columbia Threadneedle | 0.50% | -13.80% | 2.70% | 2.50% |
| Benchmark | -0.20% | -14.50% | 2.60% | 2.50% |
| Difference | 0.70% | 0.70% | 0.10% | 0.00% |
| CBRE UK Property Fund | -0.40% | -14.60% | 2.80% | 2.70% |
| Benchmark | -0.20% | -14.50% | 2.60% | 2.50% |
| Difference | -0.20% | -0.10% | 0.20% | 0.20% |
| LCIV Renewable Infrastructure | 5.73% | N/A | N/A | N/A |
| Benchmark | 2.06% | N/A | N/A | N/A |

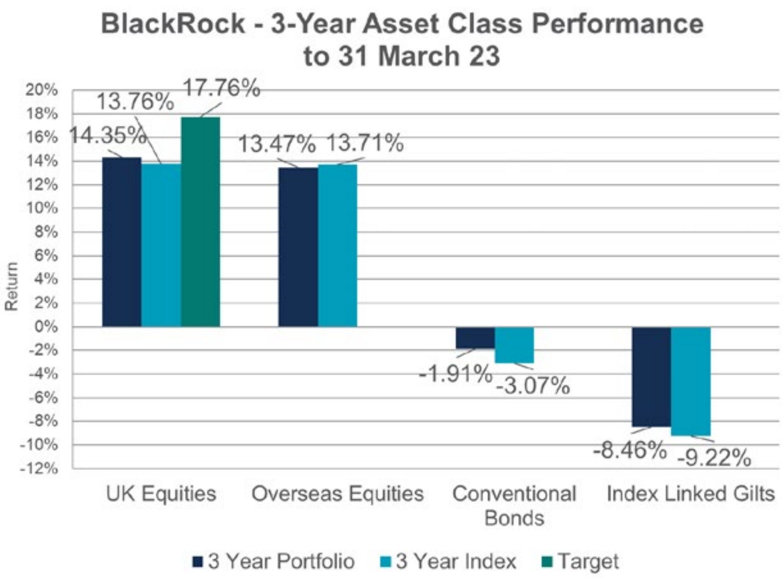
| Manager | 3-month return (%) | 1-year return (%) | 3-year return (% p.a.) | |
|---|---|---|---|---|
| Difference | 3.67% | N/A | N/A | N/A |

## PERFORMANCE BY ASSET CLASS OF THE MULTI ASSET MANDATES

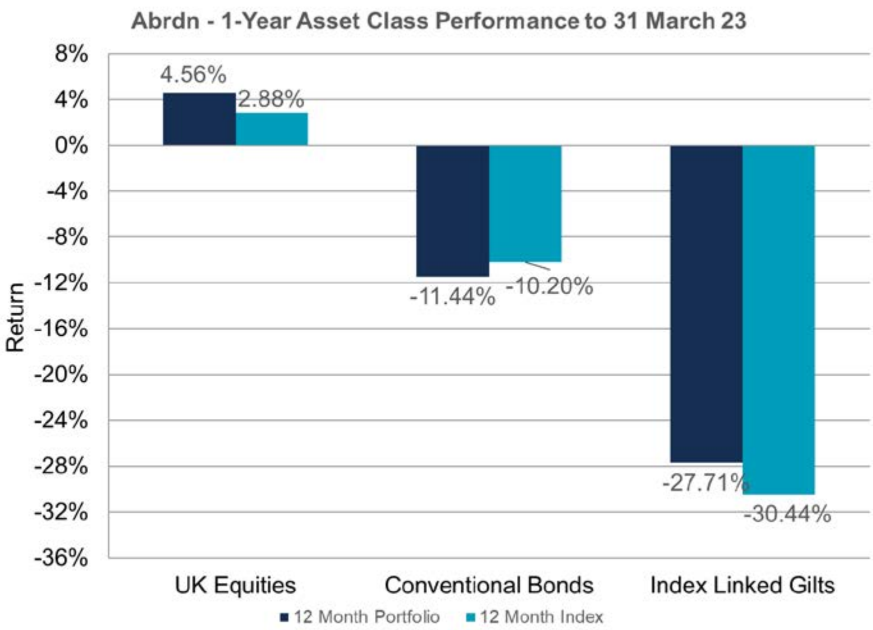
The performance of the individual asset classes of the BlackRock and Aberdeen multi-asset mandates, not referred to above, for 1 year and 3-year periods are shown in the tables below.

### BlackRock Multi-Asset Mandate



## Aberdeen Multi-Asset Mandate



# Section 7
# Risk Management

# Risk Management

## INTRODUCTION

The Fund must identify and manage the strategic and operational risks to which it is exposed. Therefore, risk management is part of all our actions. Ensuring that risk is addressed as an inherent part of the management of the Fund.

## FUND LEVEL APPROACH AND THE RISK REGISTER

This approach is supported by a Fund level assessment of the major risks to which the Fund is exposed. This identifies and assesses risks over the areas of:

- Governance
- Administration
- Liabilities / Funding
- Approach

Not all risks can be managed away. Some risk is unavoidable. The LB Hounslow Pension Fund, like all organisations, accepts that there are risks arising from factors – such as, for example, severe weather; global pandemics; or climate change – which will always remain outside of our direct control. Where it cannot manage a risk to a tolerable level, the Council would (and does) make contingency plans.

For those risks where the Council can exert control, our approach focuses on mitigating risks in various ways. These internal controls can be considered as one, or more, of five categories of addressing risk.

The impact of each risk is assessed as either:

- Negligible
- Minor
- Moderate
- Significant
- Severe

The likelihood of each risk arising is then assessed as either:

- Very likely
- Likely
- Possible
- Unlikely
- Very Unlikely

The strategy for the management of each risk is set as either:

- Treat
- Tolerate
- Transfer
- Terminate the Activity
- Take opportunity

This process is undertaken at least quarterly by the Fund's officers.

## THE ROLE OF THE COMMITTEE AND THE LOCAL PENSION BOARD

The Local Pension Board receives the Risk Register when it has been on the Pension Fund Panel's agenda, identifying any changes during the quarter, alongside a commentary on the changing risk environment. The Committee receives an annual report. The most recent review of the Risk Register took place at the September 2023 Pension Fund Panel meeting.

## THE ROLE OF INTERNAL AUDIT

The Council's Internal Audit Service carries out a range of audits each year, based on a three-year rolling programme that ensures appropriate coverage. The Risk Register is considered in the preparation of the audit programme. Every audit report is made available to the Committee and the Board.

## INVESTMENT RISK

There are several risks involved in the investment of the Fund. The approach is to monitor and control these risks as far as possible, consistent with earning a satisfactory return on investments. Further details are contained in the Risk section of the Investment Strategy Statement, which may be viewed on the Fund's website (hosted on the West Yorkshire Pension Fund site). The Notes to the Accounts set out the nature and extent of the risks arising from the investments, alongside a sensitivity analysis on returns. Investment risk is also addressed within the Risk Register, within the Funding section. Assurance over third party operations, such as those of the investment managers and the custodian, is obtained through a review of each organisation's Report on Internal Controls, e.g. the AAF 01/06 and SSAE 16 reports. The Fund has appointed an external investment advisor to provide appropriate advice. This role is currently undertaken by Apex Group. The Fund undertakes an asset liability modelling exercise every three years to ensure that the strategic benchmark is appropriate to the liabilities. This exercise examines the funding position and the nature of the liabilities and analyses the expected ranges of outcomes from differing investment policies. It is undertaken in valuation years, based upon the liability data for the valuation. This triennial exercise is backed up by desk-top exercises in non-valuation years. The strategy and structure is designed to ensure that the Fund's investments are adequately diversified. The performance of the Fund and each manager and programme is assessed and reported quarterly to the Committee. Action is taken where performance is unsatisfactory.

## FUNDING STRATEGY

The approach to managing the risks inherent in the funding strategy is set out in the Funding Strategy Statement, in particular in the Identification of Risks and Counter Measures section. The document may be viewed on the Fund's website. These risks are also addressed within the Risk Register, principally within the Liabilities / Funding section.

## PENSIONS ADMINISTRATION

The risks associated with the administration of pensions are addressed within the Risk Register, principally within the administration section.

# Section 8
# Pension Fund Accounts

The London Borough of Hounslow Pension Fund (the Fund) provides for the payment of pensions and other benefits to former employees of the Authority and certain admitted and scheduled bodies. A separate annual report is published and is available via https://www.wypf.org.uk/publications/report-accounts/hounslow-pension-fund-report-and-accounts/ to all including pensioners, members with deferred benefits and employees of the Authority who are members of the pension scheme. The annual report sets out the Fund's Statement of Investment Principles.

Responsibility for the overall direction of the Fund's investment policy rests with the Authority's Pension Fund Panel and these accounts were noted at the Panel's meeting in June 2023. The accounts summarise the transactions and net assets of the scheme.

In implementing the Fund's investment policy, the Authority has appointed the following external investment managers; Aberdeen Standard Investments, BlackRock Investment Management Ltd, CBRE Global Investments Ltd, CCLA Investment Management Ltd, Columbia Threadneedle Investments Ltd and Fidelity International Ltd.

Additionally, the Authority has placed assets under management with the London Collective Investment Vehicle (LCIV), the organisation set up to run pooled LGPS investments in London. The Fund holds investments in the LCIV Global Equity Focus Fund (underlying manager is Longview Partners), the LCIV Sustainable Equity Fund (underlying manager is RBC Investor & Treasury Services Ltd) and the LCIV Renewable Infrastructure Fund (underlying managers are Blackrock, Foresight Group, Macquarie Asset Management, Quinbrook Infrastructure Partners and Stonepeak Partners LP).

## FUND ACCOUNT FOR THE YEAR ENDED 31 MARCH 2023

| | 2021/22 | 2022/23 | Notes |
|---|---|---|---|
| | £m | £m | |
| Dealings with members, employers and others directly involved in the Fund | | | |
| **Contributions** | | | |
| From employers | 33.2 | 36.4 | 6 |
| From employees | 10.0 | 10.8 | 6 |
| Individual transfers in from other pension funds | 6.0 | 5.0 | |
| | **49.2** | **52.2** | |
| **Benefits** | | | |
| Pensions | (37.2) | (38.8) | 7 |
| Commutation, lump sum retirement and death benefits | (9.4) | (10.5) | 7 |
| Payments to and on account of leavers | | | |
| Individual transfers out to other pension funds | (3.9) | (6.3) | |
| Refunds to members leaving service | (0.1) | (0.3) | |
| | **(50.6)** | **(55.9)** | |
| **Net withdrawals from dealings with members** | **(1.4)** | **(3.7)** | |
| Management expenses | (6.6) | (6.0) | 8 |
| Net withdrawals including fund management expenses | (8.0) | (9.7) | |
| **Returns on investments** | | | |
| Investment income | 25.5 | 28.4 | 9 |
| | | | |
| | 25.5 | 28.4 | |
| Profit and loss on disposal of investments and change in the market value of investments | 47.0 | (57.2) | 14 |
| **Net returns on investments** | **72.5** | **(28.8)** | |
| **Net increase/(decrease) in the net assets available for benefits during the year** | **64.5** | **(38.5)** | |
| **Opening net assets of the Fund** | **1,186.8** | **1,251.3** | |

| | 2021/22 | 2022/23 | Notes |
|---|---|---|---|
| | £m | £m | |
| **Closing net assets of the Fund** | **1,251.3** | **1,212.8** | |

## NET ASSETS STATEMENT AS AT 31 MARCH 2023

| 31 March 2022 | | 31 March 2023 | Notes |
|---|---|---|---|
| £m | | £m | |
| | Investment assets | | |
| 392.8 | Equities | 380.3 | 11 |
| 838.1 | Pooled investment vehicles | 782.2 | 12 |
| 0.8 | Private equity | 0.7 | 13 |
| 0.2 | Long term investment | 0.2 | |
| 4.5 | Cash (money market fund) | 8.0 | |
| | Other investment balances: | | |
| 3.2 | Investment income due | 3.4 | |
| 0.4 | Amounts receivable for sale of investments | - | 14 |
| 3.4 | Cash deposits | 28.6 | |
| 1,243.4 | | 1,203.4 | |
| | Investment liabilities | | |
| (3.0) | Amounts payable for purchase of investments | (0.1) | 14 |
| 1,240.4 | Net value of investments assets | 1,203.3 | |
| 0.1 | Long term debtors | 0.2 | 20 |
| 12.8 | Current assets | 10.9 | 21 |
| (2.0) | Current liabilities | (1.6) | 22 |
| **1,251.3** | **Net assets of the Fund available to fund benefits at the period end** | **1,212.8** | |

# Notes To The Pension Fund Accounts 2022/23

## NOTE 1 – DESCRIPTION OF THE LONDON BOROUGH OF HOUNSLOW PENSION FUND

### a) General

The Fund is part of the Local Government Pension Scheme (LGPS) and is administered by the London Borough of Hounslow. The Fund is a contributory defined benefit scheme established in accordance with statute, which provides for the payment of benefits to employees and former employees of the London Borough of Hounslow and the admitted and scheduled bodies in the Fund. The Fund is overseen by the Pension Fund Panel which also has responsibility for deciding on the most appropriate investment policy for the Fund. For more detail, reference should be made to the latest version of the London Borough of Hounslow Pension Fund Annual Report (which is due for publication by 1 December in each year) and the underlying statutory powers underpinning the scheme, namely, the Public Service Pensions Act 2013 and The Local Government Pension Scheme (LGPS) Regulations 2013 (as amended), LGPS (Transitional Provisions, Savings and Amendment) Regulations 2014 (as amended), the LGPS (Management and Investment of Funds) Regulations 2016 (as amended) and the LGPS (Amendment) Regulations 2018.

## b) Membership

Although Scheme employers are required to auto enrol employees into the LGPS, membership of the LGPS is voluntary and employees are free to choose whether to remain in the scheme or to "opt out" and make their own personal arrangements outside the scheme. There are 69 employers within the Fund. Organisations participating in the Fund include:

- Scheduled bodies, which are local authorities and similar bodies whose staff are automatically entitled to be members of the Fund,
- Admitted bodies, which are other organisations that participate in the Fund under an admission agreement between the Fund and the relevant organisation. Admitted bodies include voluntary, charitable and similar bodies or private contractors undertaking a local authority function following outsourcing to the private sector.

More information is available on the LGPS scheme on https://www.wypf.org.uk. This site is managed by West Yorkshire Pension Fund who are the Fund's pension benefits administrator.

The following table summarises the membership of the Fund as at 31 March 2023.

| 31 March 2022 | | 31 March 2023 |
|---|---|---|
| No. | | No. |
| 66 | Number of employers | 69 |
| | Number of employees in scheme | |
| 4,688 | Council | 4,797 |
| 2,092 | Other employers | 2,200 |
| 6,780 | Total | 6,997 |
| | Pensioners | |
| 6,421 | Council | 6,718 |
| 1,459 | Other employers | 1,538 |
| 7,880 | Total | 8,256 |
| | Deferred pensioners | |
| 6,221 | Council | 6,049 |
| 1,523 | Other employers | 1,564 |
| 7,744 | Total | 7,613 |
| **22,404** | **Total number of members in scheme** | **22,866** |

## c) Benefits

Prior to 1 April 2014, pension benefits under the LGPS were based on final pensions pay and length of pensionable service. From 1 April 2014, benefits payable in respect of service are now based on career average revalued earnings and the number of years of eligible service. Pensions are increased annually in line with the Consumer Price Index.

## d) Funding

Benefits are funded by contributions from employees, the Council, the admitted and scheduled bodies and the Fund's investment income. Contributions are made by active members of the Fund in accordance with the LGPS Regulations 2013 and range from 5.5% to 12.5% of pensionable pay for the financial year ending 31 March 2023. Employee contributions are matched by employer contributions which are set based on triennial actuarial funding valuations. Employer contributions paid in 2022/23 were based on the triennial actuarial valuation carried out as at 31 March 2019.

### e) Investment Principles

The LGPS (Management and Investment of Funds) Regulations 2016 require administering authorities to prepare and review, from time to time, a written statement recording the investment policy of the Fund. The Pension Fund Panel approved an Investment Strategy Statement in September 2020 and this is available at the link below. The Statement shows the Fund's compliance with the Myners principles of investment management. https://www.wypf.org.uk/publications/policy-home/hpf-index/

The Pension Fund Panel has delegated the management of the Fund's investments to external investment managers (see Note 10), appointed in accordance with regulations, whose activities are specified in detailed investment management agreements and monitored on a quarterly basis.

## NOTE 2 – BASIS OF PREPARATION OF FINANCIAL STATEMENTS

The Statement of Accounts summarise the Fund's transactions for the financial year 2022/23 and its position as at 31 March 2023. The accounts have been prepared in accordance with the Code of Practice on Local Authority Accounting in the United Kingdom 2022/23 (the Code) issued by the Chartered Institute of Public Finance and Accountancy (CIPFA) which is based upon International Financial Reporting Standards (IFRS) as amended for the UK public sector. The accounts have been prepared on a going concern basis and an accruals basis apart from individual transfer values which have been accounted for on a cash basis.

The accounts summarise the transactions of the Fund and report on the net assets available to pay pension fund benefits. The accounts do not take account of obligations to pay pensions and benefits which fall due after the end of the financial year, nor do they take into account the actuarial present value of promised retirement benefits. The Code gives administering authorities the option to disclose this information in the Net Asset Statement, in the notes to the accounts or by appending an actuarial report prepared for this purpose. The Authority has opted to disclose this information in Note 19.

## NOTE 3 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

### Fund Account – Revenue Recognition

### a) Contribution Income

Normal contributions, both from members and from employers, are accounted for on an accruals basis for the period for which they are due.

Employer deficit funding contributions are accounted for on the due dates on which they are payable under the schedule of contributions set by the actuary or on receipt if earlier than the due date.

Employer's augmentation and pension strain contributions are accounted for in the period in which the liability arises. Any amount due in year but unpaid is classed as a current financial asset.

### b) Transfers to and from other schemes

Transfer values represent the amounts received and paid during the year for members who have either joined or left the Fund and are calculated in accordance with the LGPS Regulations. Individual transfers in/out are accounted for when received/paid which is normally when the member liability is accepted or discharged. Bulk transfers are accounted for on an accruals basis in accordance with the terms of the transfer agreement.

### c) Investment Income

Interest income is recognised in the fund account as it accrues using the effective interest rate of the financial instrument as at the date of acquisition or origination.

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

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

Changes in the net market value of investments are recognised as income or loss and comprise all realised and unrealised profits/losses during the year.

## Fund Account – Expense Items

### d) Benefits Payable

Pensions and lump-sum benefits payable include all amounts known to be due as at the end of the financial year. Any amounts due but unpaid are disclosed in the net assets statement as current liabilities.

### e) Taxation

The Fund is exempt from UK income tax on interest received and from capital gains tax on the proceeds of investments sold. This is as a result of being a registered public service scheme under section 1(1) of Schedule 36 of the Finance Act 2004. Income from overseas investments suffers withholding tax in the country of origin, unless exemption is permitted. Irrecoverable tax is accounted for as a fund expense as it arises. As the Council is the administering authority for the Fund, VAT input tax is recoverable on all Fund activities including expenditure on investment expenses.

### f) Management Expenses

In the interests of greater transparency, the Council discloses its Fund management expenses in accordance with the CIPFA guidance Accounting for Local Government Pension Scheme Management Expenses (2016). The profit and loss on disposal of investments and changes in the market value of investments also takes account of the fees which have been deducted at source.

### Administrative Expenses

All administrative expenses are accounted for on an accruals basis.

#### Oversight and Governance Costs

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

### Investment Management Expenses

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

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

Where an investment manager's fee note has not been received by the balance sheet date, an estimate of the likely fees based upon the market value of the mandate as at the end of the year is used for inclusion in the Fund account.

The costs of the Council's in-house management team are charged directly to the Fund and a proportion of the Council's costs representing management time spent by officers on investment management is also charged to the Fund.

## Net Assets Statement

### g) Financial Assets

Financial assets are included in the net assets statement either on a fair value or amortised cost basis as at the reporting date. A financial asset is recognised in the net assets statement on the date the Fund becomes party to the contractual acquisition of the asset. From this date, any gains or losses arising from changes in the fair value of the asset are recognised in the fund account. The values of investments as shown in the net assets statement have been determined at fair value in accordance with the requirements of the Code and IFRS 13 (see Note 16). For the purposes of disclosing levels of fair value hierarchy, the Fund has adopted the classification guidelines recommended in Practical Guidance on Investment Disclosures (PRAG/Investment Association, 2016). Quoted securities and pooled investment vehicles have been valued at the bid price and fixed interest securities are recorded at net market value based on their current yields at the balance sheet date. Quoted securities are valued by the Fund's custodian and pooled investment vehicles at the published bid prices or those quoted by their managers. Investments in private equity funds are valued based on the Fund's share of the net assets in the private equity fund using the latest financial statements published by the respective fund managers in accordance with the International Private Equity and Venture Capital Valuation Guidelines (December 2018). All other assets are valued at amortised cost.

### h) Foreign Currency Transactions

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

### i) Cash and Cash Equivalents

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

### j) Financial Liabilities

Financial liabilities are included in the net assets statement either on a fair value or amortised cost basis as at the reporting date. A financial liability is recognised in the net assets statement on the date the Fund becomes party to the liability. From this date, any gains or losses arising from changes in the fair value of the liability are recognised by the Fund.

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

The actuarial present value of promised retirement benefits is assessed on a triennial basis by the Fund's actuary in accordance with the requirements of IAS 19 (post-retirement benefits) and relevant actuarial standards. As permitted under the Code, the Fund has opted to disclose the actuarial present value of promised retirement benefits by way of a note to the net assets statement (note 19).

### l) Additional Voluntary Contributions

The London Borough of Hounslow provides an additional voluntary contributions (AVC) scheme for its members, the assets of which are invested separately from those of the Fund. The Fund has appointed Standard Life as its AVC provider. AVCs are paid across to the AVC provider by employers and are specifically for providing additional benefits for individual contributors. Each AVC contributor receives an annual statement showing the amount held in their account and the movements in the year.

AVCs are not included in the accounts in accordance with Regulation 4(1)(b) of the Local Government Pension Scheme (Management and Investment of Funds) Regulations 2016 but are disclosed as a note only (Note 22).

### m) Contingent Liabilities and Contractual Commitments

A contingent liability arises where an event has taken place prior to the year-end giving rise to a possible financial obligation whose existence will only be confirmed or otherwise by the occurrence of future events. Contingent liabilities can also arise in circumstances where a provision would be made, except that it is not possible at the balance sheet date to measure the value of the financial obligation reliably.

A contractual commitment arises where an event has taken place prior to the year end giving rise to a possible asset whose existence will only be confirmed or otherwise by future events.

Contractual Commitments and Contingent liabilities are not recognised in the net assets statement but are disclosed by way of narrative in the notes (Note 24).

## NOTE 4 – CRITICAL JUDGEMENTS IN APPLYING ACCOUNTING POLICIES

It has not been necessary to make any critical judgements in applying the accounting policies in 2022/23.

## NOTE 5 – ASSUMPTIONS MADE ABOUT THE FUTURE AND OTHER MAJOR SOURCES OF UNCERTAINTY

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

Items for which there is a significant risk of material adjustment in the forthcoming financial year are as follows.

| Item | Uncertainties | Effect if actual results differ from assumptions |
|---|---|---|
| Pooled property, infrastructure and private equity funds | The assets held by the Pension Fund include properties and assets managed by Fund Managers on a pooled basis. As the assets are unquoted, values are estimated by Fund Manager using comparable market data, indices and data from third parties, as well as projected revenue streams associated with the assets. The property funds, infrastructure and private equity funds do not have published prices, are not regularly traded and have many unobservable inputs feeding into their valuations and so will be treated as level 3. | The potential impact of this uncertainty cannot be measure accurately. For example, total property funds, infrastructure and private equity funds held by the Pension Fund are valued at £70.1m |

### Pension Fund Liability

The Pension Fund liability is calculated every three years by the appointed actuary, with annual updates in the intervening years. The methodology used is in line with accepted guidelines and in accordance with IAS 19. Assumptions underpinning the valuations are agreed with the actuary and are summarised in note 18 below. These estimates are sensitive to changes in the underlying assumptions underpinning the valuations.

## NOTE 6 – CONTRIBUTIONS

Employee contributions are calculated on a sliding scale based on a percentage of their pensionable pay. The Council, scheduled and admitted bodies are required to make contributions determined by the Fund's actuary to maintain the solvency of the Fund. The following table shows a breakdown of the total amount of employer and employee contributions.

| | **By type of employer** | |
|---|---|---|
| **2021/22 £m** | | **2022/23 £m** |
| 31.1 | Administering Authority | 35.5 |
| 8.4 | Scheduled Bodies | 8.1 |
| 3.7 | Admitted Bodies | 3.6 |
| 43.2 | Total | 47.2 |
| | | |
| | | |
| | By category | |
| 2021/22 £m | | 2022/23 £m |
| 10.0 | Employee Normal Contributions | 10.8 |
| | Employer Contributions: | |
| 28.4 | Normal | 30.8 |
| 4.4 | Deficit funding | 4.8 |
| 0.4 | Augmentation | 0.8 |
| **43.2** | **Total** | **47.2** |

## NOTE 7 – BENEFITS PAID OR PAYABLE

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

| **2021/22 £m** | **By type of employer** | **2022/23 £m** |
|---|---|---|
| 42.3 | Administering Authority | 44.5 |
| 2.7 | Scheduled Bodies | 2.5 |
| 1.6 | Admitted Bodies | 2.3 |
| 46.6 | Total | 49.3 |
| | | |
| | By category | |
| 2021/22 £m | | 2022/23 £m |
| 37.2 | Pensions | 38.8 |
| 8.3 | Commutation of pensions and lump sum retirement benefits | 9.3 |
| 1.1 | Lump sum death benefits | 1.2 |
| **46.6** | **Total** | **49.3** |

## NOTE 8 – MANAGEMENT EXPENSES

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

| 2021/22 £m | | 2022/23 £m |
|---|---|---|
| 1.1 | Administration | 1.3 |
| 0.1 | Oversight and governance | 0.1 |
| 5.4 | Investment management | 4.6 |
| **6.6** | **Total** | **6.0** |

The investment management expenses are grossed up to include fees netted against the investment value in line with CIPFA's Accounting for LGPS Management Expenses (2016). This adjustment has an equal impact on investment management expenses and the change in the market value of investments. There is no impact on the overall net assets of the Fund.

Included in the oversight and governance costs above are external audit fees for the Fund of £16k (£16k for 2021/22).

## NOTE 8A – INVESTMENT MANAGEMENT EXPENSES

| 2021/22 £'000 | | 2022/23 £'000 |
|---|---|---|
| 3,441 | Management fees | 3,883 |
| 961 | Performance fees | - |
| 956 | Transaction costs | 705 |
| 54 | Custody fees | 60 |
| **5,412** | **Total** | **4,648** |

Transaction costs are incremental costs that are directly attributable to the acquisition or disposal of an investment financial asset or liability. An incremental cost is one that would not have been incurred if the Fund had not acquired or disposed of the financial instrument. Transaction costs include fees and commissions paid to agents, advisers, brokers and dealers, anti-dilution levies, levies by regulatory agencies and securities exchanges and transfer taxes and duties.

## NOTE 9 – INVESTMENT INCOME

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

| 2021/22 | | 2022/23 |
|---|---|---|
| £m | | £m |
| 11.1 | Dividends from equities | 10.7 |
| 14.4 | Pooled investments – unit trusts and other managed funds | 17.6 |
| - | Interest on cash deposits | 0.1 |
| **25.5** | | **28.4** |

## NOTE 10 – INVESTMENT MANAGEMENT ARRANGEMENTS

As at 31 March 2023, the investment portfolio was managed by:

- Aberdeen Standard Investments
- BlackRock Investment Ltd
- CBRE Global Investors Ltd
- CCLA Investment Management Ltd
- Columbia Threadneedle Investments Ltd
- Fidelity International Ltd
- London LGPS CIV Limited

All managers have discretion to buy and sell investments within the constraints set by the Pension Fund Panel and their respective Investment Management Agreements. Each manager has been appointed with clear strategic benchmarks which place maximum accountability for performance against that benchmark on the investment manager.

The Pension Fund Panel appointed Northern Trust as its global custodian with effect from February 2007. The custodian is responsible for the safe custody and settlement of all investment transactions and collection of income. The bank account for the Fund is held with NatWest Bank plc.

The market value and proportion of investments managed by each fund manager as at 31 March 2023 was as follows.

| 31 March 2022 | | | | 31 March 2023 | |
|---|---|---|---|---|---|
| Market Value | | Fund Manager | Mandate | Market Value | |
| £m | % | | | £m | % |
| | | Managed by LCIV regional asset pool: | | | |
| 123.9 | 10.0 | Longview | Global Equities | 131.0 | 10.9 |
| 105.2 | 8.5 | RBC | Sustainable Equities | 97.1 | 8.1 |
| - | - | Various | Renewable Infrastructure | 17.7 | 1.5 |
| **229.1** | **18.5** | | | **245.8** | **20.5** |
| | | Managed outside LCIV regional asset pool: | | | |
| 546.5 | 44.1 | BlackRock | Global Balanced | 516.8 | 43.0 |
| 256.4 | 20.7 | Aberdeen | Global Balanced | 234.9 | 19.4 |
| 145.3 | 11.7 | Fidelity | Income Fund | 126.6 | 10.5 |
| 38.5 | 3.1 | Threadneedle | Property | 33.3 | 2.8 |
| 21.4 | 1.7 | CBRE | Property | 17.8 | 1.5 |
| 0.5 | 0.0 | LAMIT | Property | 0.4 | 0.0 |
| 0.8 | 0.1 | Various | Private Equity | 0.7 | 0.1 |
| - | - | Internal | Cash deposits* | 26.8 | 2.2 |
| 1.9 | 0.1 | Internal | Other | 0.2 | 0.0 |
| **1,011.3** | **81.5** | | | **957.5** | **79.5** |
| **1,240.4** | **100.0** | | | **1,203.3** | **100.0** |

*In March 2022, the Fund made a commitment of £40m to the LCIV Renewable Infrastructure Fund. To finance the commitment, diversified growth fund investments with Aberdeen and Blackrock were realised in 2022/23 and the proceeds placed on deposit. As at 31 March 2023, capital call payments amounting to £26.4m of the commitment remained outstanding.

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

| 31 March 2022 | | | 31 March 2023 | |
|---|---|---|---|---|
| Market Value | | Asset Name | Market Value | |
| £m | % | | £m | % |
| 149.8 | 12.0 | Blackrock ACS World ex UK Equity Tracker | 137.4 | 11.3 |
| 123.9 | 9.9 | LCIV – Longview Partners Global Equity Fund | 131.0 | 10.8 |
| 145.3 | 11.6 | Fidelity Multi Asset Income Fund | 126.6 | 10.4 |
| 105.2 | 8.4 | LCIV – RBC Sustainable Equity Fund | 97.1 | 8.0 |
| 75.6 | 6.0 | Blackrock All Stocks Corporate Bond Fund | 82.5 | 6.8 |
| **599.8** | **47.9** | | **574.6** | **47.3** |

## NOTE 11 – EQUITIES

| 31 March 2022 | | 31 March 2023 |
|---|---|---|
| £m | | £m |
| 392.8 | UK & Overseas Investments (listed) | 380.3 |
| **392.8** | | **380.3** |

The top 10 equity holdings of the London Borough of Hounslow Pension Fund as at 31 March 2023 were:

| | Bid value | % of Total Fund | % of Equities |
|---|---|---|---|
| | £m | % | % |
| Astra Zeneca Plc | 35.2 | 2.9 | 9.3 |
| Relx Plc | 31.1 | 2.6 | 8.2 |
| Compass Group Plc | 22.7 | 1.9 | 6.0 |
| Next Plc | 19.2 | 1.6 | 5.0 |
| Rio Tinto Ltd | 16.7 | 1.4 | 4.4 |
| London Stock Exchange Group Plc | 16.5 | 1.4 | 4.3 |
| Shell Plc | 14.9 | 1.2 | 3.9 |
| Reckitt Benckiser Group | 14.7 | 1.2 | 3.9 |
| 3i Group Plc | 14.5 | 1.2 | 3.8 |
| Standard Chartered Plc | 13.6 | 1.1 | 3.6 |
| | **199.1** | **16.4** | **52.4** |

## NOTE 12 – POOLED INVESTMENTS

| 31 March 2022 | | 31 March 2023 |
|---|---|---|
| £m | | £m |
| | **Pooled Investments** | |
| 409.7 | Equities | 386.6 |
| 181.6 | Bonds | 199.8 |
| 60.4 | Property | 51.5 |
| 41.1 | Diversified Growth Fund | - |
| - | Infrastructure fund | 17.7 |
| 145.3 | Other | 126.6 |
| **838.1** | | **782.2** |

## NOTE 13 – PRIVATE EQUITY

| 31 March 2022 | | 31 March 2023 |
|---|---|---|
| £m | | £m |
| 0.8 | Private equity (unlisted) | 0.7 |
| **0.8** | | **0.7** |

Private equity holdings of the Fund as at 31 March 2023 were:

| | Valuation | % of Total Fund | % of Private Equity |
|---|---|---|---|
| | £m | % | % |
| Schroder Private Equity Fund of Funds IV | 0.4 | 0.0 | 54.5 |
| Schroder Private Equity Fund of Funds III | 0.2 | 0.0 | 23.5 |
| Environmental Technologies Fund | 0.1 | 0.0 | 10.1 |
| Schroder Private Equity Fund of Funds II | 0.0 | 0.0 | 7.2 |
| Schroder Private Equity Fund of Funds | 0.0 | 0.0 | 4.2 |
| The Chandos Fund (YFM) | 0.0 | 0.0 | 0.5 |
| | **0.7** | **0.1** | **100.0** |

All private equity holdings are held within the UK.

## NOTE 14 – RECONCILIATION OF MOVEMENT IN INVESTMENTS

| Market value as at 31 March 2022 | | Purchases during the year | Sales during the year | Change in Market value during the year | Market value as at 31 March 2023 |
|---|---|---|---|---|---|
| £m | | £m | £m | £m | £m |
| 392.8 | Equities | 51.3 | (77.6) | 13.8 | 380.3 |
| 777.7 | Pooled investment vehicles | 122.9 | (107.7) | (62.2) | 730.7 |
| 60.4 | Pooled property investments | - | - | (8.9) | 51.5 |
| 0.8 | Private equity | - | (0.2) | 0.1 | 0.7 |
| 0.2 | Long term investment | - | - | - | 0.2 |
| 4.5 | Cash funds | 24.7 | (21.2) | - | 8.0 |
| **1,236.4** | | **198.9** | **(206.7)** | **(57.2)** | **1,171.4** |
| | Other investment balances: | | | | |
| 3.4 | Cash deposits | | | | 28.6 |
| 0.4 | Amounts receivable for sales of investments | | | | - |
| 3.2 | Investment income due | | | | 3.4 |
| (3.0) | Amounts payable for purchases | | | | (0.1) |
| **1,240.4** | **Net investment assets** | | | **(57.2)** | **1,203.3** |

| Market value as at 31 March 2021 | | Purchases during the year | Sales during the year | Change in Market value during the year | Market value as at 31 March 2022 |
|---|---|---|---|---|---|
| £m | | £m | £m | £m | £m |
| 378.5 | Equities | 94.7 | (85.8) | 5.4 | 392.8 |
| 741.3 | Pooled investment vehicles | 88.7 | (82.2) | 29.9 | 777.7 |
| 49.1 | Pooled property investments | - | - | 11.3 | 60.4 |

| Market value as at 31 March 2021 | | Purchases during the year | Sales during the year | Change in Market value during the year | Market value as at 31 March 2022 |
|---|---|---|---|---|---|
| £m | | £m | £m | £m | £m |
| 1.4 | Private equity | - | (1.0) | 0.4 | 0.8 |
| 0.2 | Long term investment | - | - | - | 0.2 |
| 7.1 | Cash funds | 28.2 | (30.8) | - | 4.5 |
| **1,177.6** | | **211.6** | **(199.8)** | **47.0** | **1,236.4** |
| | Other investment balances: | | | | |
| 2.5 | Cash deposits | | | | 3.4 |
| 4.1 | Amounts receivable for sales of investments | | | | 0.4 |
| 2.8 | Investment income due | | | | 3.2 |
| (8.2) | Amounts payable for purchases | | | | (3.0) |
| **1,178.8** | **Net investment assets** | | | **47.0** | **1,240.4** |

## NOTE 15A – CLASSIFICATION OF FINANCIAL INSTRUMENTS

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

| 31 March 2022 | | | | 31 March 2023 | | |
|---|---|---|---|---|---|---|
| Fair value through profit and loss | Assets at amortised cost | Financial liabilities at amortised cost | | Fair value through profit and loss | Assets at amortised cost | Financial liabilities at amortised cost |
| £m | £m | £m | | £m | £m | £m |
| | | | Financial assets | | | |
| 392.8 | | | Equities | 380.3 | | |
| 838.1 | | | Pooled investments | 782.2 | | |
| 0.8 | | | Private equity | 0.7 | | |
| 0.2 | | | Long term investment | 0.2 | | |
| | 4.5 | | Cash (money market fund) | | 8.0 | |
| | 3.4 | | Short term deposits | | 28.6 | |
| | 3.2 | | Investment income due | | 3.4 | |
| | 0.4 | | Outstanding settlements | | - | |
| | 4.4 | | Debtors | | 4.2 | |
| | 8.5 | | Cash at bank | | 6.9 | |
| 1,231.9 | 24.4 | - | Total Financial assets | 1,163.4 | 51.1 | - |

| 31 March 2022 | | | | 31 March 2023 | | |
|---|---|---|---|---|---|---|
| Fair value through profit and loss | Assets at amortised cost | Financial liabilities at amortised cost | | Fair value through profit and loss | Assets at amortised cost | Financial liabilities at amortised cost |
| £m | £m | £m | | £m | £m | £m |
| | | | Financial liabilities | | | |
| | | (3.0) | Outstanding settlements | | | (0.1) |
| | | (2.0) | Creditors | | | (1.6) |
| - | - | (5.0) | Total Financial liabilities | - | - | (1.7) |
| **1,231.9** | **24.4** | **(5.0)** | **Net Assets** | **1,163.4** | **51.1** | **(1.7)** |

## NOTE 15B – NET GAINS AND LOSSES ON FINANCIAL INSTRUMENTS

The following table summarises the net gains and losses on financial instruments classified by type of instrument.

| 2021/22 | | 2022/23 |
|---|---|---|
| £m | | £m |
| | Financial assets | |
| 47.0 | Fair value through profit and loss | (57.2) |
| - | Assets at amortised cost | - |
| **47.0** | **Total Financial assets** | **(57.2)** |

## NOTE 15C –VALUATION OF FINANCIAL INSTRUMENTS CARRIED AT FAIR VALUE

All investments are held at fair value in accordance with the requirements of the Code and IFRS 13. The valuation basis of financial instruments has been classified into three levels according to the quality and reliability of information used to determine fair values of each instrument with the overall objective of maximising the use of market based information. There has been no change in the valuation techniques used during the year.

**Level 1** – these are financial instruments where fair values are derived from unadjusted quoted prices in active markets for identical assets or liabilities (quoted equities, quoted fixed securities, quoted index linked securities and unit trusts). Listed investments are shown at bid prices based on the market quotation of the relevant stock exchange.

**Level 2** – these are financial instruments where market prices are not available, for example, where an instrument is traded in a market that is not considered to be active or where valuation techniques are used to determine fair value and where these techniques use inputs that are significantly based on observable market data. This includes NAV based pricing for units held in unquoted pooled funds.

**Level 3** – these are financial instruments where at least one input that could have a significant impact on the instrument's valuation is not based on observable market data. Examples of the basis of valuation can include comparable valuations of similar companies or as a multiple of revenue. This would include unquoted private equity investments which are based on partners' share of net assets.

The valuation basis for each category of investment is set out below.

| Description of asset | Valuation hierarchy | Basis of valuation | Observable and unobservable inputs | Key sensitivities affecting the valuations provided |
|---|---|---|---|---|
| **Market quoted investments – equities** | Level 1 | The published bid market price on the final day of the accounting period | Not required | Not required |
| **Cash and cash equivalents** | Level 1 | Carrying value is deemed to be fair value because of the short term nature of these financial instruments | Not required | Not required |
| **Investment debtors and creditors** | Level 1 | Carrying value is deemed to be fair value because of the short term nature of these financial instruments | Not required | Not required |
| **Pooled investments – equities and bonds** | Level 2 | Closing bid price where bid and offer prices are published. Closing single price where single price is published | NAV based pricing set on a forward pricing basis. Evaluated price feeds | Not required |
| **Pooled investments – property** | Level 3 | Closing bid price where bid and offer prices are published. Closing single price where single price is published | NAV based pricing. Net assets are based on the fair value of underlying investment properties valued in accordance with Royal Institute of Chartered Surveyors valuation standards | Significant changes in rental growth, vacancy levels or the discount rate could affect valuations as could more general changes to market prices |
| **Pooled investments – infrastructure funds** | Level 3 | Closing bid price where bid and offer prices are published. Closing single price where single price is published | NAV based pricing set on a forward pricing basis | Estimated acquisition and disposal costs |
| **Private equity funds** | Level 3 | The Fund's ownership share in private equity funds is applied to the partnership net assets. | The fair value of the partnership net assets is calculated in accordance with International Private Equity and Venture Capital Valuation Guidelines 2018 | Valuations of underlying assets could be affected by changes to expected cashflows or by differences between audited and unaudited accounts |

The following table provides an analysis of the financial assets and liabilities of the Fund grouped into the level at which fair value is observable.

| 31 March 2022 | | | | | 31 March 2023 | | | |
|---|---|---|---|---|---|---|---|---|
| Quoted Market price | Using observable inputs | With significant unobservable inputs | Total | | Quoted Market price | Using observable inputs | With significant unobservable inputs | Total |
| Level 1 | Level 2 | Level 3 | | | Level 1 | Level 2 | Level 3 | |
| £m | £m | £m | £m | | £m | £m | £m | £m |
| | | | | Financial assets at fair value through profit and loss | | | | |
| 392.8 | - | - | 392.8 | Equities | 380.3 | - | - | 380.3 |
| - | 777.7 | - | 777.7 | Pooled investment vehicles | - | 713.0 | 17.7 | 730.7 |
| - | - | 60.4 | 60.4 | Pooled property investments | - | - | 51.5 | 51.5 |
| - | - | 0.8 | 0.8 | Private equity | - | - | 0.7 | 0.7 |
| - | - | 0.2 | 0.2 | Long term investment | - | - | 0.2 | 0.2 |
| | | | | Financial assets at amortised cost | | | | |
| 4.5 | - | - | 4.5 | Cash funds | 8.0 | - | - | 8.0 |
| 7.0 | - | - | 7.0 | Other investment balances | 32.0 | - | - | 32.0 |
| 404.3 | 777.7 | 61.4 | 1,243.4 | Total Financial assets | 420.3 | 713.0 | 70.1 | 1,203.4 |
| | | | | Financial liabilities at amortised cost | | | | |
| (3.0) | - | - | (3.0) | Outstanding settlements | (0.1) | - | - | (0.1) |
| (3.0) | - | - | (3.0) | Total Financial liabilities | (0.1) | - | - | (0.1) |
| **401.3** | **777.7** | **61.4** | **1,240.4** | **Net investment assets** | **420.2** | **713.0** | **70.1** | **1,203.3** |

## NOTE 15D –RECONCILIATION OF FAIR VALUE MEASUREMENTS WITHIN LEVEL 3

| Market value as at 31 March 2022 | | Purchases during the year | Sales during the year | Unrealised gains and (losses) during the year | Market value as at 31 March 2023 |
|---|---|---|---|---|---|
| £m | | £m | £m | £m | £m |
| 60.4 | Pooled property investments | - | - | (8.9) | 51.5 |
| - | Pooled infrastructure investments | 13.6 | - | 4.1 | 17.7 |
| 0.8 | Private equity | - | (0.2) | 0.1 | 0.7 |
| 0.2 | Long term investment | - | - | - | 0.2 |
| **61.4** | | **13.6** | **(0.2)** | **(4.7)** | **70.1** |

| Market value as at 31 March 2021 | | Purchases during the year | Sales during the year | Unrealised gains and (losses) during the year | Market value as at 31 March 2022 |
|---|---|---|---|---|---|
| £m | | £m | £m | £m | £m |
| 49.1 | Pooled property investments | - | - | 11.3 | 60.4 |
| 1.4 | Private equity | - | (1.0) | 0.4 | 0.8 |
| 0.2 | Long term investment | - | - | - | 0.2 |
| **50.7** | | **-** | **(1.0)** | **11.7** | **61.4** |

## NOTE 16 – NATURE AND EXTENT OF RISKS ARISING FROM FINANCIAL INSTRUMENTS

### Risk and Risk Management

The Fund's primary long-term risk is that its assets will fall short of its liabilities (i.e. promised benefits payable to members). The aim therefore, of investment risk management is to minimise the risk of an overall reduction in the value of the Fund and to maximise the opportunity for gains across the whole Fund portfolio. The Fund achieves this through asset diversification to reduce exposure to market risk (price, currency and interest rate risks) and credit risk to an acceptable level. In addition, the Fund manages its liquidity risk to ensure there is sufficient liquidity to meet the Fund's forecast cash flows. The Fund manages these investment risks as part of its overall Fund risk management programme.

Responsibility for the Fund's risk management strategy rests with the Pension Fund Panel. Risk management policies are established to identify and analyse the risks faced by the Fund and these are regularly reviewed to reflect changes in Fund activities and market conditions. The objective of the Fund's risk management strategy is to identify, manage and control its risk exposure within acceptable parameters, whilst optimising the return on risk.

#### Market Risk

Market risk is the risk of loss from fluctuations in equity and commodity prices, interest and foreign exchange rates and credit spreads. The Fund is exposed to market risk from its investment activities, particularly through its equity holdings. The level of risk exposure depends on market conditions, expectations of future price and yield movements and asset mix. Generally, excessive volatility in market risk is managed through diversification of the portfolio in terms of asset class, geographical and industry sectors and individual securities. Regular monitoring of market conditions and benchmark analysis is undertaken by the Pension Fund Panel to mitigate market risk.

#### Price Risk

Price risk represents the risk that the value of a financial instrument will fluctuate as a result of changes in market prices (other than those arising from interest rate risk or foreign exchange risk), whether those changes are caused by factors specific to the individual instrument or its issuer or factors affecting all such instruments in the market.

The Fund's investment managers mitigate price risk through diversification and the selection of securities and other financial instruments. This is regularly monitored by the Fund to ensure it is within the limits specified in the Fund investment strategy.

Following analysis of historical data and expected movement of return on investment during the financial year, the Fund, in consultation with the Fund's performance measurement provider, the PIRC Limited, has determined that the following movements in market price risk are reasonably possible for the 2022/23 reporting period:

| | Value as at 31 March 2023 | Percentage Change | Value on increase | Value on decrease |
|---|---|---|---|---|
| **Asset type** | **£m** | **%** | **£m** | **£m** |
| UK equities | 380.3 | 12.0 | 425.9 | 334.7 |
| Overseas equities | 386.6 | 12.0 | 433.0 | 340.2 |
| Total bonds | 199.8 | 10.4 | 220.6 | 179.0 |
| Long term investment | 0.2 | 0.0 | 0.2 | 0.2 |
| Infrastructure | 17.7 | 3.8 | 18.4 | 17.0 |
| Income fund | 126.6 | 8.0 | 136.7 | 116.5 |
| Cash and other investment balances | 39.9 | 0.7 | 40.2 | 39.6 |
| Property units | 51.5 | 7.2 | 55.2 | 47.8 |
| Alternatives | 0.7 | 6.4 | 0.7 | 0.7 |
| **Total Investment Assets** | **1,203.3** | **10.1** | **1,324.8** | **1,081.8** |

| | Value as at 31 March 2022 | Percentage Change | Value on increase | Value on decrease |
|---|---|---|---|---|
| **Asset type** | **£m** | **%** | **£m** | **£m** |
| UK equities | 391.1 | 14.6 | 448.2 | 334.0 |
| Overseas equities | 411.4 | 14.6 | 471.5 | 351.3 |
| Total bonds | 181.6 | 7.5 | 195.2 | 168.0 |
| Long term investment | 0.2 | 0.0 | 0.2 | 0.2 |
| Diversified growth | 41.1 | 7.2 | 44.1 | 38.1 |
| Income fund | 145.3 | 7.2 | 155.8 | 134.8 |
| Cash and other investment balances | 8.5 | 1.3 | 8.6 | 8.4 |
| Property units | 60.4 | 4.3 | 63.0 | 57.8 |
| Alternatives | 0.8 | 6.3 | 0.9 | 0.7 |
| **Total Investment Assets** | **1,240.4** | **11.4** | **1,387.5** | **1,093.3** |

### Interest Rate Risk

The Fund invests in financial assets for the primary purpose of obtaining a return on investments. These investments are subject to interest rate risks which represent the risk that the fair value or future cash flows of a financial instrument will fluctuate with changes in market interest rates. The Fund and its investment advisors routinely monitor the Fund's interest rate risk in accordance with the Fund's risk management strategy, including monitoring the exposure to interest rates and assessment of actual interest rates against relevant benchmarks. Fixed interest securities, cash and cash equivalents are exposed to interest rate risk.

Long term average rates are expected to move less than 100 basis points (1%) from one year to the next. The total value of fixed interest securities and cash investments is £98.5m as at the end of 2022/23 (2021/22: £66.3m). Assuming that all other variables, in particular exchange rates, remain stable a 1% increase in valuation of these assets would increase the value by £0.9m (2021/22: £0.6m) and equally a 1% decrease would reduce the value by £0.9m (2021/22: £0.6m).

### Currency Risk

Currency risk represents the risk that the fair value or future cash flows of a financial instrument will fluctuate as a result of changes in foreign exchange rates. The Fund is exposed to currency risk on financial instruments that are denominated in any currency other than sterling (the functional currency). The Fund aims to mitigate this risk through the use of derivatives (See Note 15). A strengthening/weakening of the pound sterling against the various currencies in which the Fund holds investments would increase/decrease the net assets available to pay benefits.

Following analysis of historical data in consultation with the PIRC Limited, the Fund considers the following as likely volatility associated with foreign exchange rate movements.

| Currency exposure – asset type | Value as at 31 March 2023 | Percentage Change | Value on increase | Value on decrease |
|---|---|---|---|---|
| | £m | % | £m | £m |
| Overseas equities | 386.6 | 7.2 | 414.4 | 358.8 |
| Multi asset income | 126.6 | 6.9 | 135.3 | 117.9 |
| Alternatives | 0.7 | 5.3 | 0.7 | 0.7 |
| **Total** | **513.9** | | **550.4** | **477.4** |

| Currency exposure – asset type | Value as at 31 March 2022 | Percentage Change | Value on increase | Value on decrease |
|---|---|---|---|---|
| | £m | % | £m | £m |
| Overseas equities | 411.4 | 6.4 | 437.7 | 385.1 |
| Multi asset income | 145.3 | 6.1 | 154.2 | 136.4 |
| Alternatives | 0.7 | 5.6 | 0.7 | 0.7 |
| **Total** | **557.4** | | **592.6** | **522.2** |

### Liquidity Risk

Liquidity risk represents the risk that the Fund will not be able to meet it's financial obligations as they fall due. The Fund therefore takes steps to ensure it always has adequate cash resources to meet it's commitments. The purpose of the Fidelity multi asset income fund mandate is to ensure a monthly income into the current account. As at 31 March 2023, the Fund had £6.9m (2021/22: £8.5m) in it's on demand deposit account at NatWest Bank plc. The Fund also has access to an overdraft facility for short term cash needs.

The Fund defines liquid assets as assets that can be converted to cash within three months. Illiquid assets are those which will take longer to convert into cash. As at 31 March 2023 the value of the liquid assets represented 99.9% of the total fund value (99.9% of total fund value in 2021/22).

### Credit Risk

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

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

The table below shows the credit rating of the Fund's money market and bank deposit holdings at 31 March 2023.

| | Rating * | 31 March 2022 | 31 March 2023 |
|---|---|---|---|
| **Fund/Account** | | £m | £m |
| Money market funds | | | |
| BlackRock ICS Sterling Liquidity Fund | AAA | 3.5 | 8.0 |

| | Rating * | 31 March 2022 | 31 March 2023 |
|---|---|---|---|
| **Fund/Account** | | **£m** | **£m** |
| BlackRock ICS Sterling Liquidity Environmentally Aware Fund | AAA | 1.0 | – |
| | | | |
| Custody and deposit accounts | | | |
| Northern Trust Global Services (custody) | AA – | 3.3 | 28.5 |
| Standard Chartered Bank plc | A+ | 0.1 | 0.1 |
| NatWest Bank plc | A+ | 8.5 | 6.9 |
| **Total** | | **16.4** | **43.5** |

*Long term Fitch rating.

Credit risk may also occur if an employing body not supported by central government does not pay contributions promptly, or defaults on its obligations. The Pension Fund has not experienced any actual defaults in recent years and the current practice is to obtain a guarantee before admitting new employers so that all pension obligations are covered in the event of that employer facing financial difficulties.

## NOTE 17 – FUNDING ARRANGEMENTS

The LGPS Regulations require that a full actuarial valuation of the Fund is carried out every three years. The purpose of this is to establish that the London Borough of Hounslow Pension Fund is able to meet its liabilities to past and present contributors and to review employer contribution rates.

The latest triennial valuation was carried out by Barnett Waddingham, the Fund's Actuary as at 31 March 2022 in accordance with the Funding Strategy statement of the Fund and Regulation 62 of the Local Government Pension Scheme (Administration) Regulations 2013. Any resulting changes to employer contribution rates will be effective from 1 April 2023. The actuarial valuation report is available at https://www.wypf.org.uk/publications/valuations/hounslow-pension-fund-valuation/ and the Funding Strategy Statement is available at https://www.wypf.org.uk/publications/policy-home/hpf-index/.

Where adjustments to contributions by individual employers are required to make good any deficiency resulting from the change in funding requirement. The Authority has agreed to keep the employers' contribution stable to meet the 100% funding requirement over a period of 10 years from 1 April 2023.

In accordance with the 2019 actuarial valuation, the common rate of contributions for the Fund for the 3 year period from 1 April 2020 to 31 March 2023 is 21.8% of payroll. The common rate of contributions is the rate which, in addition to contributions paid by members, is sufficient to meet 100% of the liabilities arising in respect of service after the valuation.

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

| Future assumed returns at 2022 | 2022 allocation | Neutral assumption (p.a.) |
|---|---|---|
| Gilts | 5% | 2.0% |
| Corporate bonds | 10% | 2.8% |
| Equities | 59% | 6.9% |
| Property | 5% | 6.4% |
| Infrastructure | 6% | 6.4% |
| Cash plus | 15% | 5.1% |
| Less expenses | | -0.2% |

| Future assumed returns at 2022 | 2022 allocation | Neutral assumption (p.a.) |
|---|---|---|
| Neutral return | | 5.7% |
| Less prudence adjustment | | -1.0% |
| Prudent discount rate assumption | | 4.7% |

| Financial assumptions | 2019 | 2022 |
|---|---|---|
| Discount rate | 4.7% per annum | 4.7% per annum |
| Consumer Price Inflation (CPI) | 2.6% per annum | 2.9% per annum |
| Pension and Deferred Pension increases | 2.6% per annum | 2.9% per annum |
| Long – term pay increases | 3.6% per annum | 3.9% per annum |

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

| | 2019 | 2022 |
|---|---|---|
| Actuarial value of liabilities | £(1,034)m | £(1,173)m |
| Actuarial value of assets | £1,101m | £1,226m |
| (Deficit)/surplus | £(67)m | £53m |
| Funding Level | 94% | 104% |

## NOTE 18 – ACTUARIAL PRESENT VALUE OF PROMISED RETIREMENT BENEFITS

The table below shows the total net liability of the Fund as at 31 March 2023. The figures have been prepared by Barnett Waddingham, the Fund's Actuary, only for the purposes of providing the information required by IAS26 and are provided in addition to the triennial valuation. In particular, they are not relevant for calculations undertaken for funding purposes or for other statutory purposes under UK pensions legislation.

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

| 31 March 2022 | | 31 March 2023 |
|---|---|---|
| £m | | £m |
| (1,940.1) | Present Value of Promised Retirement Benefits | (1,292.3) |
| 1,248.9 | Fair Value of Fund Assets (bid value) | 1,214.2 |
| (691.2) | Net Liability | (78.1) |

### Assumptions

To assess the value of the Fund's liabilities as at 31 March 2023, the value of the Fund's liabilities calculated for the funding valuation as at 31 March 2022 have been rolled forward using financial assumptions that comply with IAS 19.

### Demographic assumptions

The demographic assumptions used are consistent with those used for the most recent Fund valuation which was carried out as at 31 March 2022. The post retirement mortality tables adopted are the S3PA tables with a multiplier of 110% for males and 110% for females. These base tables are then projected using the CMI 2021 Model,allowing for a long-term rate of improvement of 1.25% p.a.

The assumed life expectations from age 65 are:

| 31 March 2022 | Life expectancy from age 65 | | 31 March 2023 |
|---|---|---|---|
| 21.0 | **Retiring today** | Males | 21.1 |
| 23.5 | | Females | 23.5 |
| 22.3 | **Retiring in 20 years** | Males | 22.3 |
| 24.9 | | Females | 25.0 |

**Financial Assumptions**

The main financial assumptions are:

| 31 March 2022 | | 31 March 2023 |
|---|---|---|
| 3.25 | CPI increases | 2.90 |
| 4.25 | Salary increases | 3.90 |
| 3.25 | Pension increases | 2.90 |
| 2.60 | Discount rate | 4.80 |

# NOTE 19– LONG TERM DEBTORS

| 31 March 2022 | | 31 March 2023 |
|---|---|---|
| £m | | £m |
| 0.1 | Reimbursement of lifetime tax allowances | 0.2 |
| **0.1** | **Total** | **0.2** |

# NOTE 20 – CURRENT ASSETS

| 31 March 2022 | | 31 March 2023 |
|---|---|---|
| **£m** | | **£m** |
| | Debtors: | |
| 0.2 | West Yorkshire Pension Fund | 0.2 |
| 3.1 | Contributions due – employers | 2.9 |
| 1.0 | Contributions due – employees | 0.9 |
| 8.5 | Cash balances | 6.9 |
| **12.8** | **Total** | **10.9** |

## NOTE 21– CURRENT LIABILITIES

| 31 March 2022 | | 31 March 2023 |
|---|---|---|
| £m | | £m |
| | Creditors: | |
| 1.3 | Investment management fees | 0.3 |
| 0.4 | PAYE tax due to HMRC | 0.5 |
| 0.3 | Benefits payable | 0.8 |
| **2.0** | **Total** | **1.6** |

In 2021/22, investment management fees included accruals for performance related fees of £0.9m. No performance related fees are due for 2022/23.

## NOTE 22 – ADDITIONAL VOLUNTARY CONTRIBUTIONS

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

Additional voluntary contributions of £29k were paid directly to Standard Life during the year (2021/22: £26k). Employees can contribute and the Fund acts only as an agent, the contract being between the employee and Standard Life. The value of these separately invested additional voluntary contributions at 31 March 2023 was £300k (31 March 2022: £290k). A further £86.4k is held in policies with Utmost Life and Pensions (formerly Equitable Life), the former provider of AVCs to Fund members. The value of the AVCs with Utmost Life at 31 March 2022 was £133.3k.

In accordance with Regulation 4(1)(b) of the Pension Scheme (Management and Investment of Funds) Regulations 2016, the contributions paid and the assets of these investments are not included in the Fund's accounts.

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

## NOTE 23 – RELATED PARTY TRANSACTIONS

The Fund is administered by the London Borough of Hounslow and the Council is therefore a related party to the Fund. During 2022/23, some Fund payments and receipts were made through the Council's General Account as a result of the day-to-day administration of the Fund. At the year end, £3.0m was outstanding from the Council in respect of employer and employee contributions for the month of March 2023 (31 March 2022: £3.2m). These contributions were subsequently received by the Fund on 14 April 2023 (2021/22: 11 April 2022) in accordance with regulations.

The Fund incurred administrative expenses of £0.8m in 2022/23 (2021/22: £0.7m) for Council officers' time spent in administering the Fund.

The Pension Fund is a minority shareholder in London LGPS CIV Limited (the organisation set up to run pooled LGPS investments in London) and, included as long term investments in the net assets statement are shares at cost £150k (31 March 2022: £150k). Fees invoiced to the Fund by LCIV during the year were £157k (2021/22: £129k).

No other material transactions with related parties of the Fund during 2022/23 were identified.

**Governance**

The Pension Board Members Benjamin Tomlinson (active), Daniel Austin (active), David Carlin (active) and William Cassell (pensioner) were members of the Local Government Pension Scheme (LGPS) during the year.

The Pension Fund Panel member John Wiffen was an active member of the Local Government Pension Scheme (LGPS) during the year.

The S151 Officer Clive Palfreyman (until 12 May 2023) and Robert Meldrum were active members of the Local Government Pension Scheme (LGPS) during the year.

## NOTE 24 – CONTINGENT LIABILITIES AND CONTRACTUAL COMMITMENTS

Outstanding capital commitments (investments) at 31 March 2023 were £26.4m (31 March 2022: £40m). These commitments relate to outstanding capital call payments due on the renewable infrastructure fund investment with the London CIV.

There are no contingent liabilities to report.

## NOTE 25– EVENTS AFTER THE REPORTING DATE

The Fund has carried out a review and can confirm that there were no significant events occurring after the reporting date.

# Section 9
# Governance

# Governance of The Pension Fund

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

The Business Plan including training provided in 2022/23 is in the table below.

## BUSINESS PLAN 2022/23

| | |
|---|---|
| **5 September 5pm 2022**<br><br>Training<br>PIRC Voting Policy Presentation | **Part 1**<br><br>**Annual Business Plan**<br>**Overview/General Matters**<br>**Monitoring of Risk Register (Funding/Admin risk)**<br>Voting Policy<br>Accounting Policies of the Pension Fund<br>Part 2<br>**Pension Fund Administration**<br>**Adviser's Report** |
| **7 December 5pm 2022**<br><br>Training Session<br>Strategic Asset Allocation Presentation<br>Actuarial valuation – Barnett Waddingham (draft results) | **Part 1**<br><br>**Annual Business Plan**<br>**Overview/General Matters**<br>Annual Report on Corporate<br>Governance<br>**Monitoring of Risk Register (Governance)**[1]<br>Part 2<br>**Pension Fund Administration**<br>**Adviser's Report**<br>2022 Valuation results<br>Strategic Asset Allocation outline plan |
| **15 March 2pm 2023**<br><br>Training Session<br>Strategic Asset Allocation | **Part 1**<br><br>**Annual Business Plan**<br>**Overview/General Matters**<br>**Monitoring of Risk Register (Investments)**<br>Funding Strategy Statement<br>Pension Board Terms of Reference decision<br>Part 2<br>**Adviser's Report**<br>**Pension Fund Administration** |

# Section 10
# Pensions Administration

# Pensions Administration

From 1 August 2018 the administration of the London Borough of Hounslow (LBH) pension scheme was transferred to the West Yorkshire Pension Fund (WYPF).

The decision to appoint WYPF followed a thorough selection process and was on a shared service arrangement with WYPF who have been administering the Lincolnshire Pension Fund under the same arrangement since 2015. The London Borough of Barnet joined the shared service in 2020.

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

## LBH REPORT & ACCOUNTS INSERT FOR YEAR ENDED 31/03/2023

### Pension overpayments from 1st April 2022 to 31st March 2023

Occasionally pensions are paid in error. When this happens, we have processes in place to recover the overpayments. Every effort is made to recover these, whilst managing the financial impact on overpaid pensioners.

The table below shows a summary of transactions processed during the year:

| **Analysis of overpayments** | |
|---|---|
| Number of cases overpaid | 93 |
| Number of cases written off | 1 |
| Number of cases recovered | 92 |

1) Results of participation in National Fraud Initiative (NFI) exercises (data matches, overpayments identified, actions taken, etc.)

### Fraud Prevention – National Fraud Initiative

Hounslow Pension Fund, West Yorkshire Pension Fund, Lincolnshire Pension Fund, Barnet Pension Fund and a number of Fire authorities are in a shared service arrangement hosted by West Yorkshire Pension Fund (WYPF). The Funds participate twice a year in the National Fraud Initiative (NFI). The data that is submitted includes pensioners, beneficiaries and deferred member information for Local Government Pension Scheme and Fire Services Pension members managed by the Fund.

A summary of the latest NFI results for the whole shared service is shown below:

| Pensioners, beneficiaries and deferred members | No of records sent | No of mismatches | | Overpayments identified | | Possible Frauds | Mismatches carried forward at 31 March |
|---|---|---|---|---|---|---|---|
| 2022/23 | 329,082 | 2,379 | 0.72% | 24 | 0.01% | 0 | 10 |
| 2021/22 | 288,636 | 1,685 | 0.58% | 15 | 0.01% | 0 | 22 |
| 2020/21 | 286,429 | 963 | 0.34% | 4 | 0.00% | 0 | 1 |
| 2019/20 | 277,293 | 3,845 | 1.39% | 17 | 0.01% | 2 | 10 |
| 2018/19 | 260,387 | 3,339 | 1.28% | 3 | 0.00% | 2 | 2 |
| 2017/18 | 229,994 | 518 | 0.23% | 35 | 0.02% | 2 | 0 |
| 2016/17 | 224,122 | 1,425 | 0.64% | 5 | 0.00% | 4 | 5 |
| 2015/16 | 219,313 | 868 | 0.40% | 61 | 0.03% | 3 | 10 |
| 2014/15 | 159,928 | 656 | 0.41% | 25 | 0.02% | 0 | 5 |
| 2013/14 | 154,616 | 1,456 | 0.94% | 82 | 0.05% | 3 | 8 |

2) A statement on the value for money achieved by the administration function

### Cost per member

The latest published data (2021/22) for all LGPS funds administration costs shows that Hounslow Pension Fund (HPF) pensions administration cost per member is £42.66, the 61st cost amongst 86 LGPS funds, the national average is £26.68.

HPF has a below average total cost per member (administration, investment and oversight & governance) at £277.03, the national average for LGPS in 2021/22 is £320.21.

| Cost per member 2021/22 | Position | Hounslow Pension Fund | LGPS Lowest | LGPS Highest | LGPS Average |
|---|---|---|---|---|---|
| Admin cost per member | 61st | £42.66 | £0.00 | £121.01 | £26.68 |
| Investment cost per member | 33rd | £227.72 | £18.02 | £1023.22 | £282.32 |
| Oversight & Governance | 16th | £6.65 | £0.00 | £58.94 | £11.21 |
| **Total cost per member** | **34th** | **£277.03** | **£34.06** | **£1064.53** | **£320.21** |

## KEY ACTIVITIES DURING THE YEAR

### Employer Training

This year the workshops were delivered virtually in bite size webcasts by the Employer Relations Team and are designed to give employers a good understanding of the pension scheme. Feedback from participants on these events has been very positive.

The webcasts this year have covered:

- Final Pay – The Deep dive
- Understanding CPP
- Ill Health
- Annual Allowance
- Introduction to the LGPS
- Roles and responsibilities
- Employer Discretions
- Internal Dispute Resolution Procedure
- Authorised contacts and outsourcing your payroll
- March return – steps to success
- Understanding final pay
- Understanding assumed pensionable pay
- Authorised contacts and your year-end responsibilities

### Member engagement

We've continued to work with our pre-retirement partner Affinity Connect to offer courses to members covering the financial and emotional aspects of retiring. Like our employer training, this has continued to be delivered online this year.

### Pension Increase

Each year, HPF pensioners receive an annual increase in accordance with pension increase legislation. The increase is linked to movements in the Consumer Price Index (CPI). Deferred member benefits are also increased by CPI. For the 2022/23 year an increase of 3.1% was applied on 11 April 2022.

### Pension administration

As in previous years, the workload of the pension administration section continued to increase, member numbers continue to rise, particularly with the addition of new clients. WYPF's service delivery continues to be underpinned by our accreditation to the International Organisation for Standardisation – ISO 9001:2000. Our quality management systems ensure that we are committed to providing the best possible service to customers, and will continue to ensure that we deliver best value to all our stakeholders.

WYPF achieved accreditation for ISO27001 Information Security Management System Certification (ISMS). This accreditation is particularly important to us and highlights our continued commitment to information security and provides assurance to our customers that we have the ability to protect their data and reputation at all times.

## Shared Service

Hounslow Pension Fund, West Yorkshire Pension Fund, Lincolnshire Pension Fund, Barnet Pension Fund and a number of Fire authorities are in a shared service arrangement hosted by West Yorkshire Pension Fund (WYPF). The shared service partnership continues to flourish with the addition of two new Fire and Rescue Service clients. This brings the total number of Fire Authorities we provide administration for to twenty-three.

## Data Quality

LGPS Funds are required to report on their data quality to the Pensions Regulator as part of the annual scheme returns. The Pensions Regulator has set a target of 100% accuracy for new common data received after June 2010.

Current data quality figures for HPF are shown below:

| Data Type | % |
|---|---|
| Forename | 100% |
| Surname | 100% |
| Membership status | 99.99% |
| Date of birth | 100% |
| NI number | 99.99% |
| Postcode | 100% |
| Address | 94.71% |

Work continues to be undertaken to improve address data which is lower due to deferred members moving house and not informing the Fund.

## Communications

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

Regular newsletters continue to be produced for members to keep them informed of important pensions news.

The shared service has Facebook and Twitter accounts to encourage members of all ages to engage more with the Fund through social media.

## MyPension

With the shared services 'MyPension' service (accessible on the shared website) members can view their pension record and statements & update personal details. There is now the facility for members to do their own age estimates. Members are being encouraged to sign up as the service moves to more online communications.

### Awards

WYPF won the Good Governance Award at the 2022 LAPF Investment Awards. The Good Governance Award recognises the importance of Governance and how we have implemented Governance in our processes to ensure all parties involved in the management of the Fund are aligned with our long-term objectives. This includes governance of shared and external services, transparency, and the management and mitigation of risks.

### Disaster recovery and risk management monitoring

The shared service partnership systems are hosted by WYPF and uses Bradford Council's pair of geographically separated data centres. Both purpose-built data centres are protected by redundant power (UPS), a backup generator and cooling.

In the event of WYPF office accommodation becoming unavailable, staff will be relocated to other council offices or work remotely, including the remote office in Lincoln. WYPF is covered by Bradford Council's comprehensive disaster recovery plan for all services they deliver for the shared service.

### Management and Customer Service Key Performance Indicators

The service is monitored through a number of performance indicators. These are detailed in the table below, showing performance achieved over the last year against the expected performance. Performance is reported quarterly to the Pensions Panel and Pensions Board, and regular meetings are held with WYPF to understand and manage any performance issues. The critical business areas impacting on pensioners and their family take priority, these being members requiring immediate payment for retirements, redundancies, dependants' pensions and death grants.

**1 April 2022 to 31 March 2023**

| WORK TYPE | TOTAL CASES | TARGET DAYS FOR EACH CASE | TARGET MET CASES | MINIUM TARGET PERCENT | |
|---|---|---|---|---|---|
| Age 55 Increase to Pension | 1 | 20 | 1 | 85 | 100.00 |
| AVC In-house (General) | 41 | 20 | 41 | 85 | 100.00 |
| Change of Address | 330 | 20 | 310 | 85 | 93.94 |
| Death Grant to Set Up | 44 | 10 | 42 | 85 | 95.45 |
| Death In Retirement | 260 | 10 | 217 | 85 | 83.46 |
| Death In Service | 4 | 10 | 3 | 85 | 75.00 |
| Death on Deferred | 12 | 10 | 7 | 85 | 58.33 |
| Deferred Benefits Into Payment Actual | 380 | 5 | 359 | 90 | 94.47 |
| Deferred Benefits Into Payment Quote | 388 | 35 | 289 | 85 | 74.48 |
| Deferred Benefits Set Up on Leaving | 491 | 20 | 302 | 85 | 61.51 |
| Divorce Quote | 13 | 40 | 12 | 85 | 92.31 |
| Divorce Settlement Pension Sharing order Implemented | 2 | 80 | 2 | 100 | 100.00 |
| DWP request for Information | 4 | 20 | 4 | 85 | 100.00 |
| Estimates for Deferred Benefits into Pay-ment | 2 | 10 | 2 | 90 | 100.00 |
| Initial letter Death in Retirement | 260 | 10 | 249 | 85 | 95.77 |
| Initial Letter Death in Service | 4 | 10 | 4 | 85 | 100.00 |
| Initial letter Death on Deferred | 12 | 10 | 12 | 85 | 100.00 |
| Interfund Linking In Actual | 76 | 35 | 49 | 85 | 64.47 |
| Interfund Linking In Quote | 97 | 35 | 52 | 85 | 53.61 |
| Interfund Out Actual | 298 | 35 | 216 | 85 | 72.48 |

**1 April 2022 to 31 March 2023**

| WORK TYPE | TOTAL CASES | TARGET DAYS FOR EACH CASE | TARGET MET CASES | MINIUM TARGET PERCENT | |
|---|---|---|---|---|---|
| Interfund Out Quote | 298 | 35 | 258 | 85 | 86.58 |
| Life Certificate | 51 | 10 | 49 | 85 | 96.08 |
| Monthly Posting | 794 | 10 | 745 | 95 | 93.83 |
| NI adjustment to Pension at State Pension Age | 4 | 20 | 4 | 85 | 100.00 |
| Pension Estimate | 108 | 10 | 96 | 90 | 88.89 |
| Pension Saving Statement | 1 | 20 | 1 | 100 | 100.00 |
| Phone Call Received | 1615 | 3 | 1560 | 95 | 96.59 |
| Refund Actual | 156 | 10 | 155 | 90 | 99.36 |
| Refund Quote | 196 | 35 | 185 | 85 | 94.39 |
| Retirement Actual | 167 | 10 | 164 | 90 | 98.20 |
| Transfer In Actual | 17 | 35 | 17 | 85 | 100.00 |
| Transfer In Quote | 37 | 35 | 37 | 85 | 100.00 |
| Transfer Out Payment | 11 | 35 | 11 | 85 | 100.00 |
| Transfer Out Quote | 142 | 35 | 126 | 85 | 88.73 |
| Update Member Details | 364 | 20 | 324 | 100 | 89.01 |

## Industry standard performance indicators

The service is also monitored against industry standards. These are not directly comparable to the figures above as they are measured at different points, but do provide a useful indicator of the overall level of service for comparison to other Funds

| Industry Standard Performance Indicators | Target days | Achieved % |
|---|---|---|
| Letter detailing transfer in quote | 10 | 99.3 |
| Letter detailing transfer out quote | 10 | 86.0 |
| Process and pay refund | 5 | 98.6 |
| Letter notifying estimate of retirement benefits | 10 | 90.1 |
| Letter notifying actual retirement benefits | 3 | 97.1 |
| Process and pay lump sum retirement grant | 5 | 96.0 |
| Letter acknowledging death of a member | 5 | 96.0 |
| Letter notifying amount of dependants benefit | 5 | 75.5 |
| Calculate and notify deferred benefits | 10 | 55.9 |

## Customer satisfaction levels

Surveys were sent out to a random sample of two hundred and forty-four members. Forty-three surveys were returned.

| | |
|---|---|
| **1 April 2022 to 31 March 2023** | **91.44%** |

Membership numbers as at 31st March 2023 for each category are:

| Membership category | Number |
|---|---|
| Active Members | 6,997 |
| Pensioners | 7,312 |
| Beneficiaries | 944 |
| Deferred pensioners | 7,613 |
| Undecided leavers | 184 |
| Frozen refunds | 1,395 |
| **Total** | **24,445** |

## Participating employers

As of 31 March 2023 there were 66 different employers in the pension fund

| Scheme Employers – Schedule Bodies | Scheme Employers – Admitted Bodies |
|---|---|
| Bedfont School | Caterlink Ltd |
| Berkeley Academy | Chartwells Hounslow (Feeding Futures) Ltd |
| Bolder Academy | City West (WIM Market Orderlies 2) |
| Brentford School For Girls Academy | City West Support Service (Heston Community School) |
| Chiswick Community School | Coalo Limited |
| Cranford Community College | Coalo Limited (ADP) |
| Cranford Primary School (LEA) | Cucina |
| Edison Primary School | David Henry Waring Home |
| Gumley Academy | Edwards And Ward Oak Hill |
| Gunnersbury Catholic School | Edwards And Ward Oriel |
| Heston School | Energy Kidz Ltd |
| Isleworth Academy | Hounslow Action For Youth (HAY) |
| Kingsley Academy | Lampton Greenspace 360 |
| Lampton School | Lampton Leisure |
| Lionel Road Primary School (LEA) | Lampton360 |
| Logic Studio School | Liberata |
| London Borough of Hounslow | Octaga Security Services Ltd |
| Nishkam School | PS Catering Management Ltd (Sparrow Farm Primary School) |
| Norwood Green Junior School | Ringway |
| Oakhill Academy West London | Schools Plus Limited (Bolder Academy) |
| Oriel Primary School | Serco (Parking) |
| Reach Academy | Spectra C I C |
| Reach Foundation | Stir Food Ltd (The Blue School) |
| Rivers Academy West London | Taylor Shaw Ltd |
| Space Studio West London | The Music Service |
| Spring Grove Primary School | The Pantry (Bedfont School) |
| Springwest Academy | Wilson Jones – Wellington |
| St Marks Academy | Wilson Jones – Westbrook |

| Scheme Employers – Schedule Bodies | Scheme Employers – Admitted Bodies |
|---|---|
| St Marys Primary | Wilson Jones (Hounslow Heath) |
| St Richard's School | Wilson Jones (Marlborough School) |
| The Green School Trust | Wilson Jones (Springwell Junior) |
| The Rise School | Wilson Jones Catering Ltd (Berkeley Academy) |
| West Thames College | |
| Westbrook Primary School | |

All employers are required submit monthly data returns to our pension scheme administrator, WYPF, and make payment of the monthly contributions directly to the London Borough of Hounslow Pension Fund by 19th day of the month following the payroll deduction. During 2022/23 the following employers made payments after this date and have been recorded on the fund's breach register:

| Employer | Number of late payments in 2022/23 |
|---|---|
| Wilson Jones Catering Ltd. | 3 |
| May Harris | 3 |
| Coalo | 3 |
| Lampton Leisure | 2 |
| Cucina | 2 |
| David Henry Waring | 1 |
| London Borough of Hounslow | 1 |
| Norwood Green Junior School | 1 |
| West Thames College | 1 |
| The Green School Trust | 1 |
| City West | 1 |
| Lampton Recycle | 1 |

# Section 11
# Pooling Report

In 2015, the UK Government initiated a major reform of the Local Government Pension Scheme (LGPS) when it invited administering authorities in England and Wales to develop regional asset pools for investment. The London Borough of Hounslow joined other London Boroughs in creating the London Collective Investment Vehicle (CIV), a regional pool operator for London.

The London CIV is now established and had £26.8bn of LGPS assets under management as at 31 March 2023. It continues to develop its fund range to meet the investment needs of London's LGPS pension funds.

## Pooled Investment Assets

Hounslow's policy in relation to pooling is to look to transition assets on to the CIV as and when appropriate to do so once the relevant investment strategies are available to meet the Fund's asset allocation and investment strategy needs. More information on the Fund's approach to pooling can be found in the Investment Strategy Statement. At the end of March 2023, Hounslow had the passive BlackRock passive global equities, RBC Global Equity, Longview active global equities and Renewable Infrastructure on the CIV platform. In future years more of our assets will be transitioned into the London CIV to fit with our investment strategy needs.

## Pool management costs and savings

The below table summarises Hounslow's pooling costs incurred during 2021/22 and 2022/23. As the table below describes, Hounslow's pooling decisions resulted in higher investment management fees and the cumulative figure is disclosed below. The decision to pool assets is taken based on several factors with fees being one of those.

## London CIV pooling costs

| | 2021/22<br>£000 | 2022/23<br>£000 |
|---|---|---|
| **Annual fees** | | |
| Annual service charge | (25) | (25) |
| Development fees | (85) | (85) |
| CIV management fee | (55) | (55) |
| **Total costs** | **(165)** | **(165)** |
| **Savings/(Dissaving)** | | |
| Active investment management fee dissaving | (482) | (618) |
| **Net savings/(Dissaving)** | **(647)** | **(811)** |

In addition to the annual costs Hounslow Pension Fund also has a shareholding in the London CIV valued at £150k at cost.

# Annual Report Overview

## OVERVIEW

| | 2018/19 £m | 2019/20 £m | 2020/21 £m | 2021/22 £m | 2022/23 £m |
|---|---|---|---|---|---|
| Contributions and transfers | 38.9 | 46.8 | 49.3 | 49.2 | 52.2 |
| Less benefits and expenses | (42.9) | (52.4) | (48.9) | (50.6) | (55.9) |
| **Net additions** | **(4.0)** | **(5.6)** | **0.4** | **(1.4)** | **(3.7)** |
| Net investment income | 21.8 | 20.4 | 18.2 | 18.9 | 22.8 |
| Change in market value | 63.4 | (95.7) | 210.1 | 47.0 | (57.6) |
| **Net return on investments** | **85.2** | **(75.3)** | **228.3** | **65.9** | **(34.8)** |
| **Net increase in funds** | **81.2** | **(80.9)** | **228.7** | **64.5** | **(38.5)** |
| **Fund value at 31 March** | **1,039.0** | **958.1** | **1,186.8** | **1,251.3** | **1,212.8** |

## LGPS SCHEME DETAILS

### Overview

On 1 April 2014, the new Local Government Pension Scheme (LGPS) came into effect, replacing the final salary scheme with a career average revalued earnings (CARE) scheme for future benefit accrual.

The new scheme:

- has a normal pension age equal to state pension age (minimum age 65)
- gives a pension for each year at a rate of 1/49th of pensionable pay received in that year (1/98th for the 50/50 section of the scheme)
- provides increased flexibility for members wishing to retire early
- allows members to pay reduced contributions as an alternative to opting out (though benefits build up at a slower rate)
- provides for previous years' CARE benefits to be inflation proofed in line with the Consumer Price Index
- requires members to have at least 2 years' membership to qualify for pension benefits

### Key LGPS Facts England and Wales

- Made up of 86 regional funds and 8 LGPS Pension Pools
- Around 6.1 million members
- Total fund assets over £330 billion

### Key LGPS Facts about the Hounslow Pension Fund

- Made up of more than 60 employers
- More than 22,000 members
- Total fund assets over £1 billion

The following pay ranges and employee contribution rates were applied for 2022/23:

### Contribution table 2022/23

| Band | Actual pensionable pay for an employment | Contribution rate for that employment | |
|---|---|---|---|
| | | Main section | 50/50 section |
| 1 | Up to £15,000 | 5.5% | 2.75% |

### Contribution table 2022/23

| Band | Actual pensionable pay for an employment | Contribution rate for that employment | |
|---|---|---|---|
| | | Main section | 50/50 section |
| 2 | £15,001 to £23,600 | 5.8% | 2.9% |
| 3 | £23,601 to £38,300 | 6.5% | 3.25% |
| 4 | £38,301 to £48,500 | 6.8% | 3.4% |
| 5 | £48,501 to £67,900 | 8.5% | 4.25% |
| 6 | £67,901 to £96,200 | 9.9% | 4.95% |
| 7 | £96,201 to £113,400 | 10.5% | 5.25% |
| 8 | £113,401 to £170,100 | 11.4% | 5.7% |
| 9 | £170,101 or more | 12.5% | 6.25% |

The regulations for the pre-April 2014 and post-April 2014 scheme are shown below:

- Pre-2014: **https://lgpsregs.org/timelineregs/Default.html**
- Post-2014: **https://lgpsregs.org/schemeregs/lgpsregs2013/timeline.php**

The Fund is financed by contributions from employees and employers, together with income earned from investments. The surplus of contributions and investment income over benefits currently being paid is invested.

The pay bands above increase each April in line with increases in the Consumer Prices Index (CPI).

Employers' contribution rates are set following each Actuarial Valuation. A valuation of the Fund's financial position must be made every three years when the Actuary certifies the employers' rates payable until the results of the next valuation are known.

Under the Regulations, employer contributions are determined in two parts:

- A common rate based on the existing and prospective liabilities of the Fund having regard to the circumstances common to all participating employers and to the desirability of maintaining as nearly constant rate as possible
- Individual adjustments arising from circumstances peculiar to an individual employer

Pensions paid to retired employees, and benefits with a deferred payment date, are subject to mandatory increases under pensions increase legislation. The cost of inflation proofing benefits is funded through employers' contribution rate.

# Governance Summary

## PENSION FUND COMMITTEE

Responsibility and governance for the Pension Fund, including investment strategy, fund administration, liability management corporate governance is delegated to the Pension Fund Panel, which is made up of:

- Eight London Borough of Hounslow Councillors
- One representative from the external employers
- One representative of the members of the Fund
- One representative of the trade union.

The Pension Fund Panel is advised by a representative of the Fund's professional investment consultant, an independent advisor, the Director of Finance and the Head of Pensions. The Pension Fund Panel meets on a quarterly basis.

## LOCAL PENSION BOARD

The governance arrangements of the Local Government Pension Scheme are changing. From 1 April 2015 the Pension Fund Panel had been assisted in its management of the Pension Fund by a Local Pension Board made up from representatives of members and employers of the scheme.

The role of the local Pension Board, as defined by Regulation 106 of the Local Government Pension Scheme Regulations 2013 is to assist the County Council as Administering Authority:

a. to secure compliance with:
   i.the scheme regulations
   ii. any other legislation relating to the governance and administration of the LGPS Scheme and any connected scheme
   iii. any requirements imposed by the Pensions Regulator in relation to the LGPS Scheme.
b. to ensure the effective and efficient governance and administration of the LGPS Scheme.

The Local Pension Board will ensure it effectively and efficiently complies with the Code of Practice on the governance and administration of public service pension schemes issued by the Pension Regulator

The Local Pension Board will also help ensure that the Pension Fund is managed and administered effectively and efficiently and complies with the Code of Practice on the governance and administration of public service pension schemes issued by the Pension Regulator.

The Local Pension Board has power to do anything that is calculated to facilitate or is conducive or incidental to the discharge of any of its functions but should always act within its terms of reference.

The Local Board has an Independent Chairman and is made up of representatives of the employers and members within the Fund and that the representation between employees and employers should be equal. The terms of reference of the board outlines the constitution of members as follows:

- Independent Chair
- 4 × scheme member representatives
- 4 × employer representatives

The Board papers and minutes of meetings, as well as those for the Pension Fund Committee, are available on the Council website.

The annual report of the Local Pension Board is overleaf.

# Pension Board Report

| Report for: INFORMATION | |
|---|---|
| Contains Confidential or Exempt Information | No |
| Cabinet Key Decision | No |

| | |
|---|---|
| **Report Title** | Report of the Chair of the Pension Board 2022/23 |
| **Person Reporting** | Neil Mason, Chair, Pension Board |
| **Contact Details** | Patrick Kilgallen, Head of Pensions and Investments<br>Telephone: 020 8583 5768<br>Email: **Patrick.Kilgallen@Hounslow.gov.uk** |
| **For Consideration By** | Pension Fund Panel & Cabinet |
| **Date to be Considered** | 4th September 2023 and tbc |
| **Implementation Date if Not Called In** | N/A |
| **Affected Wards** | All |
| **Keywords/Index** | Pension Board Annual Report |

## 1. Details of Recommendations

Cabinet is asked to note the following:

1.1 The work of the Pension Board in 2022/23.

1.2 To note the assurance given by the Chair in respect of providing independent advice over the governance and risk management for the Hounslow Pension Fund (section 6).

## 2. Report Summary

The Public Service Pensions Act 2013 introduced the requirement for all Local Government Pension Funds to have a Local Pension Board to assist in the good governance of the scheme. The Hounslow Pension Board was set up by Borough

Council at its meeting on 24 March 2015. This report gives details of the work and its assurance on the work of the Hounslow Pension Fund Panel.

Opinion of the Chair of the Pension Board for 2022/23 Annual Report:

"In the light of the Board's work in 2022/23 I and the other members of the Pension Board are satisfied that the Hounslow Pension Fund's risk management processes and its governance and internal control arrangements are both appropriate and effective. We have confidence in the action taken with respect to the administration of the Fund and are satisfied with the service provided by the West Yorkshire Pension Fund."

## 3. Reason for Decision and Options Considered

3.1 Background

Hounslow Pension Fund is the authority's largest single financial asset. At the end of March 2023 its value was slightly over £1.2 bn. It is invested in a diversified range of asset classes, including global and UK equities, bonds, multi asset income, property unit trusts, diversified growth funds and private equity. It exists to ensure the employees of Hounslow, and its employing bodies, will have their pensions paid. Both employers and employees contribute to the Pension Fund. In recent years the Pension Fund has become increasingly complex, in terms of its assets, and the nature of the pension promise. As at the end of March 2023 the Fund had over 69 employing bodies, an increase from 66 a year previously. The membership was as below, showing a decrease of 1.6% over last year.

| | 2021/22 | 2022/23 |
|---|---|---|
| | No. | No. |
| Number of employers | 66 | 69 |
| Number of active members in scheme | 6,780 | 6,997 |
| Pensioners | 7,880 | 8,256 |
| Deferred members | 7,744 | 7,613 |
| **Total number of members in scheme** | **22,404** | **22,866** |

3.2 Terms of Reference of Pension Fund Panel

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

- • to consider on the advice of the S151 Officer and Council's Fund Managers, the Council's general policy with regard to the Pension Fund Investments;
- • to make arrangements for the management of the Fund in line with the Investment Strategy Statement;
- • to monitor the performance of the Fund and its Managers;
- • to exercise the Council's voting rights at AGM's and EGM's of companies in which the Fund has holdings, after considering the advice of the S151 Officer and appropriate Manager (s); and
- • to overview and agree pension fund administration matters e.g. approval of Administration Strategy and delivery of the benefits service.

3.3 Role of the Pension Board

The requirement to establish a local Pension Board represented a major change to the governance arrangements locally for Pension Fund management and administration. The role of the Pension Board is to assist the Administering Authority.

The relevant regulations (Regulation 106) specify that the Pension Boards will assist the Administering Authority to secure compliance with:-

- the Regulations; and
- with other legislation relating to the governance and administration of the (Local Government Pension Scheme) LGPS;

and

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

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

Hounslow Pension Board is formally responsible to Cabinet.

**4. Pension Board work programme in 2022/23**

4.1 Overview

The Board meets four times per year approximately one month after each Pension Fund Panel meeting and before the start of 22/23 consisted of 2 Employer representatives, 2 Member representatives and an independent adviser. This changed and the board consisted of 2 Employer representatives, 2 Member representatives and an independent adviser as acting Chair. From 23 May 2023, the Board will consist of 4 Employer representatives, 4 Member (pensioners, current or deferred contributors) representatives and an independent adviser as Chair for 23/24. This report refers to its work in 2022/23. The Board met 4 times to review activities carried out during 2022/23 and all bar one meeting was quorate.

The Pension Board has fulfilled the task of providing assurance by undertaking the activities referred to in this report. The work this year has concentrated on administrative matters, the 2022 valuation and implications, reviewing the policy and strategy refresh programme and the risks to the Pension Fund.

Due to the increasing complexity of both the pension fund investments and administration the Pension Board amended its terms of reference to change the independent adviser to chair in May 2023.

4.2 Board and Panel Collaboration

Members of the Pension Fund Panel may attend at each Board meeting, to address any concerns that members of the Board may have. Members of the Pension Board also attend Pension Fund Panel meetings, and have full access to all the reports, and attend for the full agenda.

4.3 Training Requirements

Pension Board members have a statutory duty to undertake training pertinent to their role.

Members of the Pension Board are required to attend the 3-day Local Government Association (LGA) course. New members appointed to the Pension Board at the outset of 2022/23 attended the 3-day session over Autumn/Winter 2022.

Pension Board members are also have the option of undertaking the on-line Pension Regulator (TPR) Public Sector Toolkit. All members have also completed a knowledge and skills self-assessment questionnaire during the year.

4.4 Provision of third-party administration by West Yorkshire Pension Fund

The third-party administration of the fund was transferred from Capita to West Yorkshire Pension Fund (WYPF) on 1st August 2018. This followed a procurement exercise. Regular reports were submitted to the Pension Fund Panel, and its specially constituted sub-group, on the management of this transfer. The Pension Board has had full sight of these developments.

The transfer has now been embedded and both the Pension Fund Panel and Pension Board received regular monitoring reports from West Yorkshire Pension Fund.

The Pension Board receives regular monitoring updates on the delivery of the service and has no concerns.

4.5 Risk Management

The Pension Fund Panel has its own risk register which it reviews every six months. The Pension Board has monitored the effectiveness of the Pension Fund's risk management policy during the year, particularly in relation to:

- the impact of global instability on investments;
- The impact of the climate change statement on the Investment Strategy Statement;
- Systems risk of the administration unit at the West Yorkshire Pension Fund;
- enhancing the training requirement of the members;
- The impact of the Good Governance project on the training and skills requirement of members;

**5. Work Programme for 2023/24**

The Pension Board has a substantial work programme in 2023/24. In addition to the regularly reviewing the Pension Fund Panel meetings the Board intends to review the performance of the third-party administrator, the refresh of the fund's policies and strategies, the fund's response to the government's 2023 Investment consultation. Details of the agenda for each meeting in 2023/24 can be found in appendix 2 to this report.

Opinion of the Chair of the Pension Board for the 2022/23 Annual Report:

"In the light of the Board's work in 2022/23 I and the other members of the Pension Board are satisfied that the Hounslow Pension Fund's risk management processes and its governance and internal control arrangements are both appropriate and effective. We have confidence in the action taken with respect to the administration of the Fund and are satisfied with the service provided by the West Yorkshire Pension Fund."

**6. Financial Details**

a. Financial Background

6.1 The costs are met from the Fund's own resources.

b. Comments of the Interim Chief Financial Officer

6.2 This report details how the Pension Board continues to review and scrutinise the effectiveness of the internal controls, governance arrangements and administration function of the Hounslow Pension Fund.

**7. Legal**

a. Legal Details

7.1 There are no legal matters arising from this report

b. Comments of the Assistant Director of Governance and Monitoring Officer

7.2 This report constitutes the views of the chair of the pension board in the effectiveness of the pension board in carrying out its duties.

**8. Equalities, Human Rights and Community Cohesion**

8.1 Considered but no impact

**9. Value For Money**

9.1 The Chair is remunerated in line with LGPS remuneration, and this is assessed annually by Pension Fund Panel.

**10. Sustainability Impact Appraisal**

10.1 NA

**11. Links to Council Priorities**

11.1 NA

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

12.1 NA

**13. Property and Assets**

13.1 NA

**14. Any Other Implications**

14.1 NA

**15. Consultation**

15.1 NA

**16. Timetable for Implementation**

16.1 NA

**17. Appendices**

17.1 NA

**18. Background Information**

18.1 Pension Board meeting details for 2022/23

**19. Appendices**

19.1 Pension Board compliance checklist

19.2 Pension Board Forward Plan 2023/24

# Pension Board Forward Plan

| **Report for: INFORMATION** | |
|---|---|
| Contains Confidential or Exempt Information | No |
| Cabinet Key Decision | No |

| **Report Title** | **Pension Board Forward Plan 2023/24** |
|---|---|
| **Member Reporting** | NA |
| **Contact Details** | Neil Mason, Chair, Pension Board<br>Patrick Kilgallen, Head of Pensions and Investments<br>Telephone: 020 8583 5768<br>Email: Patrick.Kilgallen@Hounslow.gov.uk |
| **For Consideration By** | Pension Board, Pension Fund Panel |
| **Date to be Considered** | 19th April |
| **Implementation Date if Not Called In** | Not applicable |
| **Affected Wards** | All |
| **Keywords/Index** | Forward Plan 2324 |

## 1. Details of Recommendations

1.1. To note the report

1.2 To identify any other areas to be considered

## 2. Report Summary

This report presents the proposed Forward Plan for the future municipal year.

Pension Board members are asked to identify whether there are any additional areas they would like to be considered.

## 3. Forward Plan 23/24

| **20th July 5pm 2023** | **Policy and Strategy review** |
|---|---|
| Recurring items<br>PFP minutes<br>Review Breach/Late payment register<br>Receive Latest LGPS bulletin<br>Training log<br>WYPF performance review (including ombudsman complaints and IDRP process) | Investment Strategy Statement<br>**Other** |

| | |
|---|---|
| **2nd October 5pm 2023**<br>Recurring items<br>PFP minutes<br>Review Breach/Late payment register<br>Receive Latest LGPS bulletin<br>Training log<br>WYPF performance review (including ombudsman complaints and IDRP process) | **Policy and Strategy review**<br>Review draft Pensions Administration Strategy<br>Pension Fund Annual Report<br>Report of the Chair of the Pension Board<br>**Other** |
| **2nd January 5pm 2024**<br>Recurring items<br>PFP minutes<br>Review Breach/Late payment register<br>Receive Latest LGPS bulletin<br>Training log<br>WYPF performance review (including ombudsman complaints and IDRP process) | **Policy and Strategy review**<br>Review draft policies:<br>Breach<br>Conflict of Interest<br>Scheme Pays<br>Discretions<br>**Other** |
| **16th April 5pm 2024**<br>Recurring items<br>PFP minutes<br>Review Breach/Late payment register<br>Receive Latest LGPS bulletin<br>Training log<br>WYPF performance review (including ombudsman complaints and IDRP process) | **Policy and Strategy review**<br>**Other** |

**4. Key Implications**

4.1 See report content.

**5. Financial Details**

a. Financial Background

5.1 There are no direct financial implications arising from this report. The activities and reports detailed in this plan will allow the Pension Fund to execute all its obligations.

b. Comments of the Executive Director of Finance and Resources

This report asks the Pension Board to note the Forward Plan for the Board and identify any other areas for the Board to consider in the coming year. There are no financial issues arising from this report and the Forward Plan has been noted by the Executive Director of Finance and Resources.

**6. Legal**

a. Legal Details

6.1 There are no immediate legal implications arising from this report.

b. Comments of the Director of Law and Governance, and Monitoring Officer

6.2 There are no governance issues raised within this report.

**7. Equalities, Human Rights and Community Cohesion**

7.1 The Council is not being asked to make any decisions with implications in relation to equalities, human rights and community cohesion.

**8. Value For Money**

8.1 Not applicable for this report.

**9. Sustainability Impact Appraisal**

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

**10. Risk Management**

10.1 There are no risk management issues arising from this report.

**11. Links to Council Priorities**

11.1 Indirectly links to Spending Wisely – Every Penny Counts.

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

12.1 12.1 There are no direct implications in relation to staffing or accommodation.

**13. Property and Assets**

13.1 There are no direct implications.

**14. Any Other Implications**

14.1 There are no further implications.

**15. Consultation**

15.1 No consultation is required for this report.

**16. Timetable for Implementation**

16.1 Not applicable

**17. Appendices**

17.1 NA

# Pension Board Compliance Checklist

| | To secure compliance with the Regulations, any other legislation relating to the governance and administration of the Scheme, and requirements imposed by the Pensions Regulator in relation to the Scheme. | How the Board does this |
|---|---|---|
| a | Review regular compliance monitoring reports which shall include reports to, and decisions made under the Regulations by the Committee. | The Board receive regular updates regarding Panel activities. This includes the agenda, details of decisions made and minutes of each Panel meeting. |
| b | Review management, administrative and governance processes and procedures in order to ensure they remain compliant with the Regulations, relevant legislation and in particular the Code of Practice. | The Board has oversight of Pension Fund Panel policies and processes.<br>The Board reviews Key Performance Indicators (KPIs) for pension administration on a quarterly basis. |
| c | Review the compliance of scheme employers with their duties under the Regulations and relevant legislation. | At each meeting the board are provided with a register of employer breaches and corrective actions taken |
| d | Assist with the development of and continually review such documentation as is required by the Regulations including Governance Compliance Statement, Funding Strategy Statement and Statement of Investment Principles. | This is being reviewed as part of the fund's refresh of policies and strategies which has taken place through 2022/23 and will continue into 23/24. See meeting agendas for details. |
| e | Assist with the development of and continually review scheme member and employer communications as required by the Regulations and relevant legislation. | The Board was presented with the draft Communications policy in 2022/23 before it was adopted by the fund through a Panel meeting |
| f | Monitor complaints and performance on the administration and governance of the scheme. | The Board reviews complaints on a quarterly basis through its review of West Yorkshire's administrative performance. |
| g | Assist with the application of the Internal Dispute Resolution Process. | The Board receives a quarterly update on the number of Internal Dispute Resolution Process through its review of West Yorkshire's administrative performance. |
| h | Review the complete and proper exercise of Pensions Ombudsman cases. | Reviewed at each meeting as part of the review of the administration function by West Yorkshire. |
| i | Review the implementation of revised policies and procedures following changes to the Scheme. | The Board is informed of current proposed changes to the LGPS regulations through regular bulletins within the standing item on monthly GPS bulletins. |
| j | Review the arrangements for the training of Board members and those elected members and officers with delegated responsibilities for the management and administration of the Scheme. | The Board will review its own training needs on an annual basis. All members completed the self-assessment questionnaire.<br>All Board members are required to complete the LGA LGPS fundamentals course and have the option of taking the Pension Regulator Public Sector toolkit online course |
| k | Review the complete and proper exercise of employer and administering authority discretions. | Board review policy as part of the cycle of policy and strategy refresh. |
| l | Review the outcome of internal and external audit reports. | The Board complies is made aware each year of the Hounslow internal audit workplan and is informed of the results of pension fund audit investigations. See 2022/23 agenda. |
| m | Review draft accounts and scheme annual report. | The Board received the draft Statement of Accounts for 21/22 in September 2022 and will receive the draft Annual Report 2022/23 later in October this year. The board will receive the draft annual report in October 2023. |
| n | Any other area within the core function (i.e., assisting the Administering Authority) the Board deems appropriate. | Ad-hoc |

# Appendix 2
# Investment Strategy Statement

# Investment Strategy Statement, September 2020

## 1. Background

**1.1 The London Borough of Hounslow (LBH) operates the Local Government Pension Scheme which was established in accordance with statute to provide death and retirement benefits to all eligible employees of the Council and its admitted bodies.**

**1.2 The revised Local Government Pension Scheme (Management and Investment of Funds) (Amendment) Regulations 2016 require administering authorities to prepare and review from time to time a written statement recording the investment policy of their Pension Fund. The purpose of this Strategy is to satisfy the requirements of these Regulations, and to explain to Fund members, employees and other interested parties how the Fund is managed, and the factors considered in doing so.**

**1.3 Under the Local Government Pension Scheme (Management and Investment of Funds the ISS must include the following**

a. A requirement to invest money in a wide variety of investments

b. The authority's assessment of the suitability of particular investments and types of investments

c. The authority's approach to risk, including the ways in which risks are to be measured and managed

d. The authority's approach to pooling investments, including the use of collective investment vehicles and shared services

e. The authority's policy on how social, environmental or corporate governance considerations are taken into account in the selection, non-selection, retention and realisation of investments;and

f.The authority's policy on the exercise of rights (including voting rights) attaching to investments.

**1.4 The Investment Strategy Statement must also set out the maximum percentage of the total value of all investments of fund money that it will invest in particular investments or classes of investment. This is known as the prudential framework and means funds now have control over limits placed on specific types of investment. This replaces Schedule 1 to the Local Government Pension Scheme (management and investment of funds) regulations 2009 which placed restrictions on specific types of investment such as partnerships, unlisted securities, single holdings, sub-underwriting contracts (Life funds), unit trust, open ended investment companies, insurance contracts and stock lending.**

**1.5 The Ministry for Housing, Communities and Local Government (MHCLG) has issued guidance on preparing and maintaining Investment Strategy Statements. This Statement complies with this guidance.**

**1.6 The Secretary of State has the power under these regulations to issue a Direction if he is satisfied that an administering authority is failing to act in accordance with the guidance. These powers are a last resort and before exercising them the Secretary of State will consult with Funds if he believes they are acting unreasonably.**

## 2. Introduction

**2.1 The London Borough of Hounslow Pension Fund, (the Fund) is a Career Average Revalued Earnings (CARE) defined benefit pension scheme established by statute, operating under the Public Sector Pensions Act 2013. It provides retirement and death benefits for eligible members and their dependants. The benefits are defined in law and increased each year in-line with movements in inflation (Consumer price inflation.**

**2.2 The Council has delegated the investment management of the scheme to its Pension Fund Panel (the Panel, PFP). The ultimate responsibility for the investment strategy lies with the Panel.**

**2.3 The Investment Strategy Statement (ISS) reflects the current structure of the fund's investments. Hence it reflects the structure of Black Rock's and Aberdeen's investment mandates, Aberdeen's Diversified Growth Fund and Black Rock's Aquila Life Market Advantage Fund invested in 2013, investments in the CBRE Lionbrook Property Fund and the Columbia Threadneedle Pension Property Fund undertaken in 2014, the investment in the Fidelity Multi Asset**

**Income initially undertaken in November 2016, and the investment in the active equity manager on the London CIV (Collective Investment Vehicle) initiated in September 2017.**

**2.4 The Pension Fund Panel has appointed an independent advisor, MJHudson – Allenbridge, to advise on investment strategy, oversee the activities of the investment managers, and be generally available for consultation on fund investment matters.**

**2.5 Barnett Waddingham has been appointed as actuaries to the Fund.**

**2.6 Northern Trust has been appointed as the custodian to theFund.**

**2.7 Administration of the fund is undertaken by a third party, West Yorkshire Pension Fund. Pensioner payroll is also undertaken by a third party, Liberata.**

**2.8 The main responsibilities of the key stakeholders are laid out in Appendix 1 to this Strategy.**

**2.9 Aim of the Fund**

**2.9.1 The LBH Pension Fund is a long-term Fund, and the investment strategy must reflect this. Ultimate responsibility is to present and future pensioners. The aim of the Fund is to provide a pool of assets sufficient to meet the long-term pensions and benefits liabilities (as prescribed by the Local Government Pension Scheme Regulations) for the members of the Fund.**

**2.9.2 As referenced in the Funding Strategy Statement, based on the trie-ennial actuarial valuation last undertaken in 2019, the long-term objective is for the Fund to achieve a funding level of 100% over a maximum fund recovery period of seventeen years from April 2020. This target will be reviewed following each actuarial valuation and consultation with Fund employers.**

## 3. Diversification

**3.1 The Regulations require that the Statement demonstrates the requirement to invest money in a wide variety of investments. The Fund will hold a range of asset classes as set out in the table below. These will be reviewed continually, in the light of market conditions. The Fund has moved from having a peer group benchmark to having a tailored asset allocation benchmark. The benchmark sets out the mix of assets to be held in the Fund's portfolio of investments. This benchmark is consistent with the Pension Fund Panel's views on the appropriate balance between generating a satisfactory long-term return on investments whilst taking account of market volatility and risk and the nature of the Fund's liabilities. The detailed specific benchmarks for the Fund's individual managers are shown in Appendix2.**

**3.2 Advisory ranges for the assets are detailed in Column 3 of the table below. This gives more flexibility to ensure the Fund's allocation does not deviate substantially from its benchmark and mean that the fund does not need to be rebalanced if assets have short term moves within these ranges. Any rebalancing will only take place after discussion with Pension Fund Panel.**

| Asset Class | Proportion % | Advisory range % | Benchmark Index |
|---|---|---|---|
| **Equities** | | | |
| UK | 31 | +/-5 | FTSE All Share Index |
| Overseas Equities | 28 | +/-5 | MSCI AC World excl UK |
| **Bonds** | | | |
| Conventional Bonds | 10 | +/-2 | iBoxx Non Gilt All Maturities |
| Index-Linked Gilts | 5 | +/-2 | FTSE Over 5 Years ILG All Stocks |
| **Property** | 5 | N/A | IPD UK All Properties Monthly |
| **Diversifying assets** | 6 | +/-2 | LIBOR |
| **Income sleeve** | 15 | N/A | 4% Absolute return |
| **TOTAL** | **100** | | |

## 4. Suitability Of Investments

**4.1 The Funding Strategy Statement (FSS) compares the Fund's liabilities with its assets. It is based on each triennial actuarial valuation. The current FSS based on the 2019 actuarial valuation. Based on the Investment Strategy of the fund it estimates that the Fund will be 100% financed in 17 years' time. However, fund maturity is also now an important element of our Investment Strategy. The Fund has become cashflow negative i.e. its employer and employee contributions no longer cover its pension payments. Hence the Fund has invested in a Multi Asset Income mandate to generate both cashflow to pay pensions, and to contribute capital growth. This balancing of cashflow requirements and capital growth will be an important element of reviewing the Investment Strategy going forward.**

**4.2 The types of investment held each have separate roles to play within our strategy, as explained in the table below.**

| Asset Class | Role Within Strategy |
|---|---|
| Listed Equities | Generate returns in excess of inflation, through exposure to the shares of domestic and overseas companies. |
| Bonds | Debt instruments issued by Governments and other borrowers. Expected to provide relatively low risk income stream and capital appreciation of underlying bonds. Prices tend to fluctuate less than equities. |
| Index Linked Gilts | Debt instruments mainly issued by Governments. Low risk income stream with an explicit linkage to inflation |
| Property | Investments in land or buildings such as offices, warehouses, or retail units. Generate returns in excess of inflation through exposure to UK property through income and capital appreciation, whilst providing some diversification away from equities and bonds. |
| Diversifying assets | Pooled funds that invest in a variety of investment classes and use active asset allocation between asset classes to drive performance. Some private equity which is now maturing. Deliver returns in excess of inflation, with a reasonably low correlation to traditional equity markets and providing a degree of downside protection in periods of equity market stress. |
| Dedicated Income sleeve | Provide significant income stream and also capital growth by matching investments to economic cycle, and matching our liability profile. |

## 5. Risk Management

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

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

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

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

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

**Diversification risk**: the Panel recognises the risks that may arise from the lack of diversification of investments.

Subject to managing the risk from a mismatch of assets and liabilities, the Panel aims to ensure that the asset allocation policy results in an adequately diversified portfolio.

**Concentration risk**: the Panel takes into consideration concentration risk which arises, for example, when a high proportion of the Fund's assets are invested in securities, whether debt or equity, of the same or related issuers or in the same or similar industry sectors. The overall investment arrangements are intended to provide an appropriate spread of assets by type and spread of individual securities within each asset class.

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

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

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

## 6. Asset Pooling

**6.1 The Government has mandated (LGPS (Management and Investment of Funds) Regulations 2016) that the 89 separate LGPS Funds should combine their assets into a small number of investment pools. The basis of the pooling must be in line with guidance issued by the Secretary of State and meet the four criteria set out below:**

a. Benefits of scale – a minimum asset size per pool of£25bn.

b. Strong governance and decision making

c. Reduced costs and value for money

d. Improved capacity to invest in infrastructure

**6.2 Eight pools nationally have been set up. This Fund is part of the London Collective Investment Vehicle (CIV) which has been set up for all the London Borough Pension Funds. The London CIV is fully authorised by the Financial Conduct Authority (FCA) as an Alternative Investment Fund Manager (AIFM) with permission to operate a UK based Authorised Contractual Scheme (ACS) fund.**

**6.3 Hounslow Pension Fund will maintain control of its Investment Strategy and asset allocation, with the CIV aiming to open sub-funds to enable London Borough Pension Funds to implement their investment strategies in a cost-effective manner.**

**6.4 The Fund holds assets in the BlackRock passive global equity ACS Fund. The Fund has benefited from lower fees from this facilitated relationship between BlackRock and the CIV.**

**6.5 The Fund has also invested in the active equity manager Longview, which is on the CIV platform. We will look to transition further assets as and when there are suitable investment strategies available on the platform that meet the needs of the Fund.**

## 7. Environmental, Social and Corporate Governance (ESG) Policy

**7.1 External fund managers are expected to consider ESG issues when assessing potential investment opportunities. It is the belief of the Fund that well governed companies that manage their business in a responsible manner will produce superior returns over the long term, and the Fund expects these considerations to form part of the investment selection criteria for external fund managers in carry out stock selection. The Fund also holds expectations of its fund managers to hold companies to account with reference to the highest standards of behaviour and reputational risk management which may affect long term performance, and for those issues to be part of their stock selection criteria. The Fund believes that 'robust' engagement with companies is a better approach than placing restrictions on particular types of investment.**

**7.2 The Fund is an active shareholder in the exercising of its company share voting rights to promote and support**

**good corporate governance principles. Share voting is undertaken internally, with a specialist corporate governance advisor. An Annual Report on voting is presented to the PFP, and forms part of the Annual Report and Accounts.**

**7.3 The Fund is a member of the Local Authority Pension Fund Forum (LAPFF), a membership group of 80 individual LGPS (Local Government Pension Scheme) funds, and also the pooling organisations, that campaigns on corporate governance issues, thus demonstrating a commitment to sustainable investment and the promotion of high standards of corporate governance and responsibility.**

**7.4 The Fund is a regular co-filer on shareholder resolutions on matters relating to climate change. It has been a co-filer on resolutions at the BP, Shell and Rio – Tinto AGMs (Annual General Meetings). All of these resolutions were passed by shareholders with votes of over 98% at all the meetings, and hence are legally binding on the companies.**

**7.5 Climate Change**

In March 2020 the PFP agreed this specific statement on climate change:

"Climate change has the potential to have a serious impact on financial markets and this risk will be measured, monitored and managed by the Fund. Equally, climate change presents the Fund with investment opportunities in areas such as energy efficiency and renewable energy sources.

The United Nations Sustainable Development Goals 7 (affordable and clean energy), 11 (sustainable cities and communities) and 13 (climate action) represented the strongest investment risks and return opportunities for the Fund. Over time, it expects all its investment managers and advisers to prioritise these SDGs when making investment decisions on behalf of theFund."

The initial steps to implement this statement cover:

1. measuring the carbon footprint of the equity holdings of the fund

2. transferring the passive global equity portfolio to a low carbon portfolio

3. transferring the residual active segregated global equity portfolio to the London CIV sustainable equity fund.

## 8. Voting Rights and Policy

**8.1 The Fund believes that its long-term investment interests are enhanced by the highest standards of corporate governance and corporate responsibility amongst the companies in which we invest. Poor governance can negatively impact shareholder value. Stewardship aims to promote long term success of companies in order to benefit shareholders too. Stewardship involves monitoring and engaging with companies on matters such as strategy, performance, risk, capital structure and corporate governance. This includes culture and remuneration.**

**8.2 The Fund exercises its voting rights at the Annual/Extraordinary General Meetings of all UK companies within the FTSE 350, European companies within the Eurotop 300, and US companies in the S & P 500, in which the Fund has shareholdings. The voting policy is based on best practice. For the UK this is encompassed in the UK Governance Code. In overseas markets, the voting policy takes account of local best practice principles. The voting system is operated by templates monitored by PIRC. For controversial issues the views of the Pension Fund Panel will besought.**

**8.3 The Fund reports annually to the Pension Fund Panel on the operation ofits voting policy throughout the year. This report is comprehensive and ensures transparency, and is a public document.**

**8.4 The Financial Reporting Council has introduced a tier system, to evaluate the Stewardship policies of signatories. MHCLG (Ministry of Housing, Communities and Local Government) encourage administering authorities to state how they implement the seven principles and guidance of the UK Stewardship Code, which apply on a comply or explain basis. Our approach to this is attached at Appendix 3. Our corporate governance provider, PIRC, has received a top Tier 1 rating for its policies. The Fund expects its external investment managers, where applicable, to be signatories to the Stewardship Code and to have reached Tier One level of compliance. As at the time of writing this was confirmed**

## APPENDIX 1 : GOVERNANCE OF FUND

### 1. LBH is the Administering Authority

LBH is responsible for managing the Fund in accordance with the Regulations. The Statement of Corporate Governance gives details of the membership and operation of the Pension Fund Panel. Trustees include Councillors, an employers' representative, a pensioners' representative and a staff representative. The Panel meets at least quarterly.

The Terms of Reference of the Pension Fund Panel are:

a. To consider on the advice of the S151 Officer and Council's Fund Managers, the Council's general policy with regard to Pension Fund Investments

b.To make arrangements for the management of the Fund in line with the Investment Strategy Statement

c. To monitor the performance of the Fund and its Managers

d. To exercise the Council's voting rights at AGM's and EGM's of companies in which the Fund has holdings,afterconsideringtheadviceoftheS151Officerand appropriate Manager (s);and

e. To overview and agree pension fund administration matters e.g. approval of Administration Strategy and delivery of the benefits service.

### 2. The Fund Managers are responsible for:

a. attending meetings with the Pension Fund Panel and with officers, as requested;

b. the investment of the Pension Fund assets in compliance with prevailing legislation, the constraints imposed by this document and their detailed Investment Management Agreements

c. security selection within asset classes;and

d. active management of their cash balances.

### 3. The Custodian, Northern Trust, is responsiblefor:

a. its own compliance with prevailing legislation

b. ensuring the Fund's relevant investment holdings are properly and securely held and registered

c. providing the administering authority with monthly valuations of the Scheme's assets and details of all transactions during the month;and processing income and corporate actions arising from the Fund's relevant investment holdings.

### 4. The Independent Advisor, MJHudson-Allenbridge, is responsiblefor:

a. provision of expert advice, for example on implementing the Investment Strategy Statement and on other compliance issues

b. provision of expert advice on Pension Fund performance i.e. investment selection, and research into specific issues

c. attendance at each meeting of the Pension Fund Panel;and

d. liaison with Trustees and officers of the LBH Pension Fund.

### 5. The Actuary, Barnett-Waddingham, is responsiblefor:

a. undertaking a triennial valuation of theFund;

b. undertaking an annual assessment of the liabilities and assets of relevant employers of the Fund under international accounting standards for their Statement of Accounts;and

c. providing advice as to the maturity of the Scheme and its funding level, in order to aid the Pension Fund Panel in balancing the short term and long term objectives of the Pension Fund.

## 6. The Director of Finance and Corporate Services (S151 Officer) is responsiblefor:

a. acting as professional advisor to theFund;

b. the appointment of any professional external consultants, as required, and subject to the approval of the Pension Fund Panel

c. alerting the Pension Fund Panel and the Executive of any problems in the funding level or administration of the Fund (in his capacity as the Council's Section 151 Officer);and

d. ensuring compliance with this document and bringing breaches thereof to the attention of the Pension Fund Panel.

## 7. LBH has an established Pension Board

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

a. secure compliance with the LGPS regulations and any other legislation relating to the governance and administration of the LGPS;

b. secure compliance with requirements imposed in relation to the LGPS by the Pensions Regulator

c. carry out such other matters as the LGPS regulations may specify;and

d. secure the effective and efficient governance and administration of the Lgps for the Hounslow Pension Fund.

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

## 8. Administration of benefits is undertaken by West Yorkshire Pension Fund. They are responsiblefor:

a. calculation of pension benefits, lump sum benefits and early retirements;

b. collection of pension related data from employers and members; and

c. correspondence and communications.

## 9. The London CIV (Collective Investment Vehicle) will be responsible for administering the management the Fund's investments that are on the CIV platform.

Hounslow Pension Fund will maintain control of its Investment Strategy and asset allocation, with the CIV aiming to open sub-funds to enable London Borough Pension Funds to implement their investment strategies in a cost effective manner.

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

# APPENDIX 2 : FUND MANAGER MANDATES AND BENCHMARKS

## 1. BlackRock

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

| Asset Class | Benchmark | Allocation % | Range % |
|---|---|---|---|
| UK Equities – segregated | FTSE All Share | 45 | +/ – 5 |
| Global equities excl UK – passive | MSCI AC World Excl UK | 33 | +/ – 5 |
| Index-Linked Gilts | FTSE Over 5 Years ILG | 6 | +/ – 5 |
| Conventional Bonds | iBoxx Sterling Non Gilts | 16 | +/ – 5 |
| Cash | | 0 | 0–10 |
| TOTAL | | 100 | |

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

## 2. Aberdeen

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

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

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

## 3. Aberdeen Diversified GrowthFund

Aberdeen is appointed to manage a Diversified Growth Fund. The strategy is to invest in a range of diversifying assets, including infrastructure.

The manager's benchmark is 1 month LIBOR + 4.5% over five years, with lower volatility than equities.

## 4. BlackRock Aquila Life Market Advantage Fund

BlackRock is appointed to manage the Aquila Life Market Advantage Fund. The strategy is to pursue a diversified, risk-controlled investment process that aims to achieve returns equivalent with a global 60% equity/40% bond portfolio over a market cycle, but with approximately 40 % less risk than the comparator i.e. there is less downside exposure during extreme market conditions.

The manager's benchmark is 3 month LIBOR + 3.5%, over three years.

## 5. Long view Active Global Equity Mandate on the London CIV

This is an actively managed pooled fund investing in global equities. The portfolio is concentrated on around 35 stocks, with a strong tilt towards the United States.

The aim is to outperform the benchmark (MSCI World Index) by at least 2% p.a. net of fees.

## 6. Columbia Threadneedle Pensions Property Fund

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

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

## 7. CBRE Lionbrook Property Fund

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

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

## 8. Fidelity Multi-Asset Income Fund

The Fund is structured to delivering our twin requirements of yield and capital growth. It invests in a mixture of growth, hybrid and income assets, targeting market inefficiencies through flexible asset allocation. The aim is to deliver 4% income absolute return (gross of fees). In addition, it is expected to deliver 2 – 3% capital growth p.a.

# APPENDIX 3 : STATEMENT OF COMPLIANCE WITH THE UK STEWARDSHIP CODE

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

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

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

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

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

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

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

**Principle 4**: Institutional investors should establish clear guidelines on when anyhow they will escalate their activities as a method of protecting and enhancing shareholder value.

Responsibility for day-to-day interaction with companies is delegated to the Fund's investment managers, including the escalation of engagement when necessary. On occasion, the Fund may itself choose to escalate activity; this will typically be through our membership of the LAPFF e.g. through co-filing shareholder resolutions.

**Principle 5**: Institutional investors should be willing to act collectively with other investors where appropriate.

The Fund seeks to work collaboratively with other institutional shareholders in order to maximise the influence that it can have on individual companies. This is achieved through our LAPFF membership, together with initiatives proposed by our investment managers or other advisors.

**Principle 6**: Institutional investors should have a clear policy on voting and disclosure of voting activity.

The Fund aims to exercise all votes associated with its segregated equity holdings and operates a custom policy which reflects the Fund's investment objectives. Fund officers are responsible for voting decisions and are supported by specialist proxy research.

On a general basis, the Fund will support resolutions which are consistent with the UK Governance Code and represent best practice. In overseas markets, we will take account of local best practice principles. Where resolutions or issues fall short of the expected standards, we will either abstain or vote against, depending on the individual circumstances of the company and the issues presented.

**Principle 7**: Institutional investors should report periodically on their stewardship and voting activities.

The Fund reports on its stewardship activity to the Panel annually, and this document is publicly available.

# Appendix 3
# Funding Strategy Statement

# Contents

## Introduction

This is the Funding Strategy Statement for the London Borough of Hounslow Pension Fund (the Fund). It has been prepared in accordance with Regulation 58 of the Local Government Pension Scheme Regulations 2013 as amended (the Regulations) and describes London Borough of Hounslow's strategy, in its capacity as administering authority, for the funding of the London Borough of Hounslow Pension Fund.

The Fund's employers and the Fund Actuary, Barnett Waddingham LLP, have been consulted on the contents of this statement.

This statement should be read in conjunction with the Fund's Investment Strategy Statement (ISS) and has been prepared with regard to the guidance (Preparing and Maintaining a funding strategy statement in the LGPS 2016 edition) issued by the Chartered Institute of Public Finance and Accountancy (CIPFA).

## Purpose of the Funding Strategy Statement

The purpose of this Funding Strategy Statement (FSS) is to:

- Establish a clear and transparent fund-specific strategy that will identify how employers' pension liabilities are best met going forward;
- Support the desirability of maintaining as nearly constant a primary contribution rate as possible, as defined in Regulation 62(6) of the Regulations;
- Ensure that the regulatory requirements to set contributions to meet the future liability to provide Scheme member benefits in a way that ensures the solvency and long-term cost efficiency of the Fund are met; and
- Take a prudent longer-term view of funding those liabilities.

# Aims and purpose of the Fund

The aims of the Fund are to:

- Manage employers' liabilities effectively and ensure that sufficient resources are available to meet all

  liabilities as they fall due;
- Enable primary contribution rates to be kept as nearly constant as possible and (subject to the administering authority not taking undue risks) at reasonable cost to all relevant parties (such as 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; and
- Seek returns on investment within reasonable risk parameters.

The purpose of the Fund is to:

- Pay pensions, lump sums and other benefits to Scheme members as provided for under the Regulations;
- Meet the costs associated in administering the Fund; and
- Receive and invest contributions, transfer values and investment income.

## Funding objectives

Contributions are paid to the Fund by Scheme members and the employing bodies to provide for the benefits which will become payable to Scheme members when they fall due.

The funding objectives are to:

- Ensure that pension benefits can be met as and when they fall due over the lifetime of the Fund;
- Ensure the solvency of the Fund;
- Set levels of employer contribution rates to target a 100% funding level over an appropriate time period and using appropriate actuarial assumptions, while taking into account the different characteristics of participating employers;
- Build up the required assets in such a way that employer contribution rates are kept as stable as possible, with consideration of the long-term cost efficiency objective; and
- Adopt appropriate measures and approaches to reduce the risk, as far as possible, to the Fund, other employers and ultimately the taxpayer from an employer defaulting on its pension obligations.

In developing the funding strategy, the administering authority should also have regard to the likely outcomes of the review carried out under Section 13(4)(c) of the Public Service Pensions Act 2013. Section 13(4)(c) requires an independent review of the actuarial valuations of the LGPS funds; this involves reporting on whether the rate of employer contributions set as part of the actuarial valuations are set at an appropriate level to ensure the solvency of the Fund and the long-term cost efficiency of the Scheme so far as relating to the pension Fund. The review also looks at compliance and consistency of the actuarial valuations.

## Key parties

The key parties involved in the funding process and their responsibilities are set out below.

### The administering authority

The administering authority for the Fund is London Borough of Hounslow. The main responsibilities of the administering authority are to:

- Operate the Fund in accordance with the LGPS Regulations;

- Collect employee and employer contributions, investment income and other amounts due to the Fund as stipulated in the Regulations;
- Invest the Fund's assets in accordance with the Fund's Investment Strategy Statement;
- Pay the benefits due to Scheme members as stipulated in the 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 actuarial valuation process in conjunction with the Fund Actuary;
- Prepare and maintain this FSS and also the ISS after consultation with other interested parties;
- Monitor all aspects of the Fund's performance;
- Effectively manage any potential conflicts of interest arising from its dual role as both Fund administrator and Scheme employer; and
- Enable the Local Pension Board to review the valuation process as they see fit.

### Scheme employers

In addition to the administering authority, a number of other Scheme employers participate in the Fund.

The responsibilities of each employer that participates in the Fund, including the administering authority, are to:

- Collect employee contributions and pay these together with their own employer contributions, as certified by the Fund Actuary, to the administering authority within the statutory timescales;
- Notify the administering authority of any new Scheme members and any other membership changes promptly;
- Develop a policy on certain discretions and exercise those discretions as permitted under the Regulations;
- Meet the costs of any augmentations or other additional costs in accordance with agreed policies and procedures; and
- Pay any exit payments due on ceasing participation in the Fund.

### Scheme members

Active Scheme members are required to make contributions into the Fund as set by the Department for Levelling Up, Housing and Communities (DLUHC).

### Fund Actuary

The Fund Actuary for the Fund is Barnett Waddingham LLP. The main responsibilities of the Fund Actuary are to:

- 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 Regulations;
- Prepare advice and calculations in connection with bulk transfers and the funding aspects of individual benefit-related matters such as pension strain costs, ill-health retirement costs, compensatory added years costs, etc;
- Provide advice and valuations on the exiting of employers from the Fund;
- Provide advice and valuations relating to new employers, including recommending the level of bonds or other forms of security required to protect the Fund against the financial effect 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 which may be of relevance to their role in advising the Fund; and
- Advise on other actuarial matters affecting the financial position of the Fund.

## Funding strategy

The factors affecting the Fund's finances are constantly changing, so it is necessary for its financial position and the contributions payable to be reviewed from time to time by means of an actuarial valuation to check that the funding objectives are being met.

The most recent actuarial valuation of the Fund was carried out as at 31 March 2022. The results of the 2022 valuation are set out in the table below:

| 2022 valuation results | |
|---|---|
| Surplus (Deficit) | £53m |
| Funding level | 104.5% |

On a whole Fund level, the primary rate required to cover the employer cost of future benefit accrual was 19.3% of payroll p.a.

The individual employer contribution rates are set out in the Rates and Adjustments Certificate which forms part of the Fund's 2022 valuation report.

The actuarial valuation involves a projection of future cashflows to and from the Fund. The main purpose of the valuation is to determine the level of employers' contributions that should be paid to ensure that the existing assets and future contributions will be sufficient to meet all future benefit payments from the Fund. A summary of the methods and assumptions adopted is set out in the sections below.

## Funding method

The key objective in determining employers' contribution rates is to establish a funding target and then set levels of employer contribution rates to meet that target over an agreed period.

The funding target is to have sufficient assets in the Fund to meet the accrued liabilities for each employer in the Fund.

For all employers, the method adopted is to consider separately the benefits accrued before the valuation date (past service) and benefits expected to be accrued after the valuation date (future service). These are evaluated as follows:

- The past service funding level of the Fund. This is the ratio of accumulated assets to liabilities in respect of past service. It makes allowance for future increases to members' pay and pensions. A funding level in excess of 100% indicates a surplus of assets over liabilities; while a funding level of less than 100% indicates a deficit; and
- The future service funding rate (also referred to as the primary rate as defined in Regulation 62(5) of the Regulations) is the level of contributions required from the individual employers which, in combination with employee contributions is expected to cover the cost of benefits accruing in future.

The adjustment required to the primary rate to calculate an employer's total contribution rate is referred to as the secondary rate, as defined in Regulation 62(7). Further details of how the secondary rate is calculated for employers is given below in the Deficit recovery/surplus amortisation periods section.

The approach to the primary rate will depend on specific employer circumstances and in particular may depend on whether an employer is an "open" employer – one which allows new recruits access to the Fund, or a

"closed" employer – one which no longer permits new staff access to the Fund. The expected period of participation by an employer in the Fund may also affect the total contribution rate.

For open employers, the actuarial funding method that is adopted is known as the Projected Unit Method. The key feature of this method is that, in assessing the future service cost, the primary rate represents the cost of one year's benefit accrual only.

For closed employers, the actuarial funding method adopted is known as the Attained Age Method. The key difference between this method and the Projected Unit Method is that the Attained Age Method assesses the average cost of the benefits that will accrue over a specific period, such as the length of a contract or the remaining expected working lifetime of active members.

The approach by employer may vary to reflect an employer's specific circumstance, however, in general the closed employers in the Fund are admission bodies who have joined the Fund as part of an outsourcing contract and therefore the Attained Age Method is used in setting their contributions. All other employers (for example councils, higher education bodies and academies) are generally open employers and therefore the Projected Unit Method is used. The administering authority holds details of the open or closed status of each employer.

## Valuation assumptions and funding model

In completing the actuarial valuation it is necessary to formulate assumptions about the factors affecting the Fund's future finances such as price inflation, pay increases, investment returns, rates of mortality, early retirement and staff turnover etc.

The assumptions adopted at the valuation can therefore be considered as:

- The demographic (or statistical) assumptions which are essentially estimates of the likelihood or timing of benefits and contributions being paid, and
- The financial assumptions which will determine the estimates of the amount of benefits and contributions payable and their current (or present) value.

### Future price inflation

The base assumption in any valuation is the future level of price inflation over a period commensurate with the duration of the liabilities, as measured by the Retail Price Index (RPI). This is derived using the 20 year point on the Bank of England implied Retail Price Index (RPI) inflation curve, with consideration of the market conditions over the six months straddling the valuation date. The 20 year point on the curve is taken as 20 years is consistent with the average duration of an LGPS Fund. A deduction of 0.3% p.a. is applied to the yield at the 20 year point to reflect the shape of the yield curve. A further deduction of 0.4% p.a. is applied to reflect the view that investors are willing to pay a premium for inflation-linked products in return for protection against unexpected inflation.

### Future pension increases

Pension increases are linked to changes in the level of the Consumer Price Index (CPI). Inflation as measured by the CPI has historically been less than RPI due mainly to different calculation methods. However, RPI is due to be aligned with CPIH (CPI but with allowance for housing costs) from 2030.

Therefore, reflecting the anticipated amendment to RPI from 2030 and therefore the relative difference between RPI and CPI, a deduction of 0.35% p.a. is made to the RPI assumption to derive the CPI assumption.

### Future pay increases

As some of the benefits are linked to pay levels at retirement, it is necessary to make an assumption as to future levels of pay increases. Historically, there has been a close link between price inflation and pay increases with pay increases exceeding price inflation in the longer term. The long-term pay increase assumption adopted as at 31 March 2022 was CPI plus 1.0% p.a. which includes allowance for promotional increases.

### Future investment returns/discount rate

To determine the value of accrued liabilities and derive future contribution requirements it is necessary to discount future payments to and from the Fund to present day values.

The discount rate that is applied to all projected liabilities reflects a prudent estimate of the rate of investment return that is expected to be earned from the Fund's long-term investment strategy by considering average market yields in the six months straddling the valuation date. The discount rate so determined may be referred to as the "ongoing" discount rate.

A summary of the financial assumptions adopted for the 2022 valuation is set out in the table below:

| Financial assumptions as at 31 March 2022 | |
|---|---|
| RPI inflation | 3.2% p.a. |
| CPI inflation | 2.9% p.a. |
| Pension/deferred pension increases and CARE revaluation | In line with CPI inflation |
| Pay increases | CPI inflation + 1.0% p.a. |
| Discount rate | 4.7% p.a. |

### Asset valuation

For the purpose of the valuation, the asset value used is the market value of the accumulated fund at the valuation date, adjusted to reflect average market conditions during the six months straddling the valuation date. This is referred to as the smoothed asset value and is calculated as a consistent approach to the valuation of the liabilities.

The Fund's assets are notionally allocated to employers at an individual level by allowing for actual Fund returns achieved on the assets and cashflows paid into and out of the Fund in respect of each employer (e.g. contributions received and benefits paid).

### Demographic assumptions

The demographic assumptions incorporated into the valuation are based on Fund-specific experience and national statistics, adjusted as appropriate to reflect the individual circumstances of the Fund and/or individual employers.

Further details of the assumptions adopted are included in the Fund's 2022 valuation report.

### McCloud/Sargeant judgments

When the Government reformed public service pension schemes in 2014 and 2015 they introduced protections for older members. In December 2018, the Court of Appeal ruled that younger members of the Judges' and Firefighters' Pension schemes have been discriminated against because the protections do not apply to them. The Government has confirmed that there will be changes to all main public sector schemes, including the LGPS, to remove this age discrimination. A consultation has been run in relation to the changes proposed for the LGPS and legislation is now being drafted to bring forward these changes. We understand the updated Regulations are to be consulted on over the course of 2022 with revised Regulations effective from October 2023.

For the 2022 valuation, as required by the Department for Levelling Up, Housing & Communities, in calculating

the value of members' liabilities it was assumed that:

- The current underpin (which only applies to those members within 10 years of their normal retirement age at 31 March 2012) will be revised and will apply to all members who were active in the Scheme on or before 31 March 2012 and who join the post 1 April 2014 scheme without a disqualifying service gap;
- The period of protection will apply from 1 April 2014 to 31 March 2022 but will cease when a member leaves active service or reaches their final salary scheme NRA (whichever is sooner);
- Where a member remains in active service beyond 31 March 2022 the comparison of their benefits will be based on their final salary when they leave the LGPS or when they reach their final salary scheme normal retirement age (again whichever is sooner);
- Underpin protection will apply to qualifying members who leave active membership of the LGPS with an immediate or deferred entitlement to a pension; and
- The underpin will consider when members take their benefit.

Further details of the McCloud/Sergeant judgment can be found below in the Regulatory risks section.

### Guaranteed Minimum Pension (GMP) indexation and equalisation

On 23 March 2021, the Government published the outcome to its Guaranteed Minimum Pension Indexation consultation, concluding that all public service pension schemes, including the LGPS, will be directed to provide full indexation to members with a GMP reaching State Pension Age (SPA) beyond 5 April 2021. This is a

permanent extension of the existing 'interim solution' that has applied to members with a GMP reaching SPA

on or after 6 April 2016. Details of the consultation outcome can be found here.

The 2022 valuation approach for GMP is that the Fund will pay limited increases for members that have reached SPA by 6 April 2016, with the government providing the remainder of the inflationary increase. For members that reach SPA after this date, the Fund will be required to pay the entire inflationary increase.

## Deficit recovery/surplus amortisation periods

Whilst one of the funding objectives is to build up sufficient assets to meet the cost of benefits as they accrue, it is recognised that at any particular point in time, the value of the accumulated assets will be different to the value of accrued liabilities, depending on how the actual experience of the Fund differs to the actuarial assumptions. This theory applies down to an individual employer level; each employer in the Fund has their own share of deficit or surplus attributable to their section of the Fund.

Where the valuation for an employer discloses a deficit then the level of required employer contributions includes an adjustment to fund the deficit over a maximum period of 14 years. The adjustment may be set either as a percentage of payroll or as a fixed monetary amount.

Where the valuation for an employer discloses a surplus then the level of required employer contribution may include an adjustment to amortise the surplus over a minimum period of 10 years.

The Fund's policy at the 2022 triennial valuation was to include an adjustment to amortise the surplus for those employers whose funding level was over 120%. The surplus was to be amortised to target a 120% funding level over a minimum period of 10 years. The negative secondary rate is restricted such that no employer has a total contribution rate of less than 10% p.a.

The deficit recovery period or amortisation period that is adopted for any particular employer will depend on:

- The significance of the surplus or deficit relative to that employer's liabilities;
- The covenant of the individual employer (including any security in place) and any limited period of participation in the Fund;
- The remaining contract length of an employer in the Fund (if applicable); and
- The implications in terms of stability of future levels of employers' contribution.

Ahead of the 2022 valuation, the Fund commissioned an employer covenant review from Barnett Waddingham LLP based on an analysis of credit risk reports obtained from Dun & Bradstreet (D&B). This was

carried out as at 31 March 2020, with a report issued 3 March 2021. Where this review highlighted any concerns with regard to the default risk of an employer, particular attention was given to the deficit recovery period adopted for the employer and whether any security for the Fund was in place.

The Fund has commissioned a further employer covenant review following the 2022 triennial valuations. This is to take place in the summer of 2023 and will instruct the 2025 valuation as well as the possibility of a contribution reivew in the intervaluation period for risk employers that it highlights, if necessary.

A general summary of the approach used for employers in the Fund is set out in the table below, however, the approach adopted may differ to reflect the situation specific to the employer.

| Type of employer | Examples | Maximum recovery period |
|---|---|---|
| Major scheduled bodies | County and district councils, police and fire bodies | 14 years |
| Academies | Academies, free schools | 14 years |
| Admission bodies | Contractors | Remaining contract length |
| Admission bodies (other than contractors) | Charities, etc…. | Future working lifetime |

## Pooling of individual employers

The policy of the Fund is that each individual employer should be responsible for the costs of providing pensions for its own employees who participate in the Fund. Accordingly, contribution rates are set for individual employers to reflect their own particular circumstances.

However, certain groups of individual employers are pooled for the purposes of determining contribution rates to recognise common characteristics or where the number of Scheme members is small.

The funding pools adopted for the Fund at the 2022 valuation are summarised in the table below:

| Pool | Type of pooling | Notes |
|---|---|---|
| Academies and Free Schools | Past and future service pooling | All academies in the pool pay the same total contribution rate |
| Small Employers | Past and future service pooling | All employers in the pool pay the same total contribution rate |
| Risk benefits pooled employers | Ill-health risks only | All employers in the fund are pooled such that their funding position is not adversely affected as a result of an ill health retirement |

The main purpose of pooling is to produce more stable employer contribution levels, although recognising that ultimately there will be some level of cross-subsidy of pension cost amongst pooled employers.

### Small employers pool

The Small Employers pool was set up at the 2022 triennial valuation with the aim to share pensions' risks across

a larger employer based to achieve more stable contribution rates.

It is the Fund's policy to admit any employer with 15 or fewer members to this pool by default, unless there are extenuating circumstances which mean this is not appropriate. If an employer joins the Pool and their membership increases such that they have more than 15 active members, then at the discretion of the Administering Authority they may be allowed to remain in the Pool.

New employers will transfer assets fully funded from their letting authority. They will then be assigned assets in line with the Small Employers pool funding level.

Further information can be found in the Pooling note for employers 2022 report, dated 13 January 2022.

### Ill health self-insurance

To mitigate the risk to employers and the Fund against additional ill-health retirement strain costs, the administering authority has implemented an ill-health self-insurance pool within the Fund. This has been effective from 1 April 2020.

A portion of all employers' contributions into the Fund are allocated to a segregated ill-health section of the Fund. When an ill-health retirement occurs, a funding strain (i.e. the difference between the value of the benefits payable to the ill-health member and the value that was assumed as part of the actuarial valuation) is generated in the employer's section of the Fund. As part of the self-insurance policy, assets equal to the funding strain are transferred from the segregated ill-health assets section of the Fund to the employer's section of the Fund to cover the funding strain. Employers will pay the same total contribution rate to the Fund and so this self-insurance approach will not impact employers' contributions.

### Forming/disbanding a funding pool

Where the Fund identifies a group of employers with similar characteristics and potential merits for pooling, it is possible to form a pool for these employers. Advice should be sought from the Fund Actuary to consider the appropriateness and practicalities of forming the funding pool.

Conversely, the Fund may consider it no longer appropriate to pool a group of employers. This could be due to divergence of previously similar characteristics or an employer becoming a dominant party in the pool (such that the results of the pool are largely driven by that dominant employer). Where this scenario arises, advice should be sought from the Fund Actuary.

Funding pools should be monitored on a regular basis, at least at each actuarial valuation, in order to ensure the pooling arrangement remains appropriate.

## Risk-sharing

It is possible for employers that participate in the Fund to enter a risk-sharing arrangement with another employer in the Fund.

For example, there are employers participating in the Fund with pass-through provisions: under this arrangement the pass-through employer does not take on the risk of underfunding as this risk remains with the letting authority or relevant guaranteeing employer. When the pass-through employer ceases participation in the Fund, it is not responsible for making any exit payment, nor receiving any exit credit, as any deficit or surplus ultimately falls to the letting authority or relevant guaranteeing employer.

## Contribution payments

Employers pay contributions on a monthly basis. Primary contributions are certified as a percentage of payroll and therefore amounts paid by employers each month will fluctuate in line with payroll each month. Secondary contributions can be certified as a percentage of payroll or as a monetary amount. Monetary amounts are payable in 12 equal monthly instalments throughout the relevant year.

Employers must pay contributions in line with the Rates and Adjustments Certificate, but they may be able to alter the timing of contributions payable and/or pay in additional contributions with agreement from the administering authority. The administering authority may apply a discount to employers who pay their deficit contributions up front, as long as the payment is received by the end of April in a particular Scheme year.

Employers should discuss with and gain agreement from the administering authority before making up front payments at the discounted rate.

# New employers joining the Fund

When a new employer joins the Fund, the Fund Actuary is required to set the contribution rates payable by the new employer and allocate a share of Fund assets to the new employer as appropriate. The most common types of new employers joining the Fund are admission bodies and new academies. These are considered in more detail below.

## Admission bodies

New admission bodies in the Fund are commonly a result of a transfer of staff from an existing employer in the Fund to another body (for example as part of a transfer of services from a council or academy to an external provider under Schedule 2 Part 3 of the Regulations). Typically these transfers will be for a limited period (the contract length), over which the new admission body employer is required to pay contributions into the Fund in respect of the transferred members.

### Funding at start of contract

Generally, when a new admission body joins the Fund, they will become responsible for all the pensions risk associated with the benefits accrued by transferring members and the benefits to be accrued over the contract length. This is known as a full risk transfer. In these cases, it may be appropriate that the new admission body is allocated a share of Fund assets equal to the value of the benefits transferred, i.e. the new admission body starts off on a fully funded basis. This is calculated on the relevant funding basis and the opening position may be different when calculated on an alternative basis (e.g. on an accounting basis).

As per the policy in the previous section, if a new employers has 15 or fewer active members they will automatically be moved to the Small Employers pool and be assigned assets in line with the funding level of this pool upon joining.

There may also be special arrangements made as part of the contract such that a full risk transfer approach is not adopted. In these cases, the initial assets allocated to the new admission body will reflect the level of risk transferred and may therefore not be on a fully funded basis or may not reflect the full value of the benefits attributable to the transferring members.

### Contribution rate

The contribution rate may be set on an open or a closed basis. Where the funding at the start of the contract is on a fully funded basis then the contribution rate will represent the primary rate only; where there is a deficit allocated to the new admission body then the contribution rate will also incorporate a secondary rate with the aim of recovering the deficit over an appropriate recovery period.

Depending on the details of the arrangement, for example if any risk sharing arrangements are in place, then additional adjustments may be made to determine the contribution rate payable by the new admission body. The approach in these cases will be bespoke to the individual arrangement.

Employers joining the Small Employers pool will pay contributions in line with the other employers in that pool as certified at the most recent actuarial valuation.

### Security

To mitigate the risk to the Fund that a new admission body will not be able to meet its obligations to the Fund in the future, the new admission body may be required to put in place a bond in accordance with Schedule 2 Part 3 of the Regulations, if required by the letting authority and administering authority.

If, for any reason, it is not desirable for a new admission body to enter into a bond, the new admission body may provide an alternative form of security which is satisfactory to the administering authority.

### Risk-sharing

Although a full risk transfer (as set out above) is most common, subject to agreement with the administering authority where required, new admission bodies and the relevant letting authority may make a commercial agreement to deal with the pensions risk differently. For example, it may be agreed that all or part of the pensions risk remains with the letting authority.

Although pensions risk may be shared, it is common for the new admission body to remain responsible for pensions costs that arise from:

- above average pay increases, including the effect on service accrued prior to contract commencement; and
- redundancy and early retirement decisions.

The administering authority may consider risk-sharing arrangements as long as the approach is clearly documented in the admission agreement, the transfer agreement or any other side agreement. The arrangement also should not lead to any undue risk to the other employers in the Fund.

Legal and actuarial advice in relation to risk-sharing arrangements should be sought where required.

## New academies

When a school converts to academy status, the new academy (or the sponsoring multi-academy trust) becomes a Scheme employer in its own right.

### Funding at start

On conversion to academy status, the new academy will join the Academies sub-pool and will be allocated assets based on the funding level of the sub-pool at the conversion date, allowing for any transferred deficit.

Assets are transferred from the local authority to the academy sub-pool using the active cover approach. The active cover approach is based on the funding level of the local authority's active liabilities, after fully funding the local authority's deferred and pensioner liabilities. This determines any deficit attributable to the transferring members.

Note that if the local authority is more than fully funded at conversion date, based on the active cover approach, the academy will not transfer any surplus to the pool.

When a free-school joins the Fund they have no previous past service and so start with zero assets and liabilities though will be allocated notional assets based on the funding level of the sub-pool at the next formal valuation.

### Contribution rate

The contribution rate payable when a new academy joins the Fund will be in line with the contribution rate certified for the Academies funding sub-pool at the 2022 valuation.

# Contribution reviews between actuarial valuations

It is anticipated for most Scheme employers that the contribution rates certified at the formal actuarial valuation will remain payable for the period of the rates and adjustments certificate. However, there may be circumstances where a review of the contribution rates payable by an employer (or a group of employers) under Regulation 64A is deemed appropriate by the administering authority.

A contribution review may be requested by an employer or be required by the administering authority. The review may only take place if one of the following conditions are met:

- it appears likely to the administering authority that the amount of the liabilities arising or likely to arise has changed significantly since the last valuation;
- it appears likely to the administering authority that there has been a significant change in the ability of the Scheme

employer or employers to meet the obligations of employers in the Scheme; or

- a Scheme employer or employers have requested a review of Scheme employer contributions and have undertaken to meet the costs of that review. A request under this condition can only be made if there has been a significant change in the liabilities arising or likely to arise and/or there has been a significant change in the ability of the Scheme employer to meet its obligations to the Fund.

In the event that a contribution review arises either requested by the employer or deemed appropriate by the administering authority, the administering authority will consult with the Fund Actuary regarding the next steps and potentially issuing a revised rates and adjustment certificate for the period until the next triennial actuarial valuation.

## Cessation valuations

When a Scheme employer exits the Fund and becomes an exiting employer, as required under the Regulations the Fund Actuary will be asked to carry out an actuarial valuation in order to determine the liabilities in respect of the benefits held by the exiting employer's current and former employees. The Fund Actuary is also required to determine the exit payment due from the exiting employer to the Fund or the exit credit payable from the Fund to the exiting employer.

Any deficit in the Fund in respect of the exiting employer will be due to the Fund as a single lump sum payment, unless it is agreed by the administering authority and the other parties involved that an alternative approach is permissible. For example:

- It may be agreed with the administering authority that the exit payment can be spread over some agreed period;
- the assets and liabilities relating to the employer may transfer within the Fund to another participating employer; or
- the employer's exit may be deferred subject to agreement with the administering authority, for example if it intends to offer Scheme membership to a new employee within the following three years.

Similarly, any surplus in the Fund in respect of the exiting employer may be treated differently to a payment of an exit credit, subject to the agreement between the relevant parties and any legal documentation.

In assessing the value of the liabilities attributable to the exiting employer, the Fund Actuary may adopt

differing approaches depending on the employer and the specific details surrounding the employer's cessation

scenario.

For example, if there is no guarantor in the Fund willing to accept responsibility for the residual liabilities of the exiting employer, then those liabilities are likely to be assessed on a "minimum risk" basis leading to a higher exit payment being required from (or lower exit credit being paid to) the employer, in order to extinguish their liabilities to the Fund and to reduce the risk of these liabilities needing to be met by other participating employers in future.

If it is agreed that another employer in the Fund will accept responsibility for the residual liabilities, then the assumptions adopted will be consistent with the current ongoing funding position, but additional prudence may be included in order to take into account potential uncertainties and risk e.g. due to adverse market changes, additional liabilities arising from regulatory or legislative change and political/economic uncertainties.

The additional level of prudence to be adopted for both scenarios above will be set by considering the distribution of funding levels under a large number of economic scenarios, with the aim being to gain a reasonable level of confidence that the Fund will be able to meet its benefits obligations to the relevant members in future.

Where a cessation valuation reveals a deficit and an exit payment is due, the expectation is that the employer settles this debt immediately through a single cash payment. However, should it not be possible for the employer to settle this amount, providing the employer puts forward sufficient supporting evidence to the administering authority, the administering authority may agree a deferred debt agreement (DDA) with the employer under Regulation 64(7A) or a debt spreading agreement (DSA) under Regulation 64B having taken advice from the Fund Actuary.

Under a DDA, the exiting employer becomes a deferred employer in the Fund (i.e. they remain as a Scheme employer but with no active members) and remains responsible for paying the secondary rate of contributions to fund their deficit. The secondary rate of contributions will be reviewed at each actuarial valuation until the termination of the agreement.

Under a DSA, the cessation debt is crystallised and spread over a period deemed reasonable by the administering authority having regard to the views of the Fund Actuary.

Whilst a DSA involves crystallising the cessation debt and the employer's only obligation is to settle this set amount, in a DDA the employer remains in the Fund as a Scheme employer and is exposed to the same risks (unless agreed otherwise with the administering authority) as active employers in the Fund (e.g. investment, interest rate, inflation, longevity and regulatory risks) meaning that the deficit will change over time.

## Exit credit policy

The Local Government Pension Scheme (LGPS) (Amendment) Regulations 2018 were introduced in May 2018 which allow administering authorities to make an exit credit payment to exiting employers. This will be reviewed on a case by case basis before any payment is made. Considerations will be based on any previous agreements made and discussions between the administering authority, the exiting employer and the guaranteeing employer (if relevant).

Having regard to any relevant considerations, the administering authority will take the following approach to the payment of exit credits:

- Exit credits will only be paid if the ceasing employer has a surplus on the minimum risk basis at the cessation date. Allowance will be made for additional liabilities incurred as a result of redundancies.
- Any exit credit payable will be subject to a maximum of the actual employer contributions paid into the Fund. Where risk sharing arrangements are in place, any contributions made or required to be made to meet additional liabilities incurred as a result of redundancies, ill health retirement strains, excessive salary increases or anything else covered in the risk sharing agreement will not be included in the calculation of any exit credit payable.
- Any employer who cannot demonstrate that they have been exposed to underfunding risk during their participation in the Fund will not be entitled to an exit credit payment. This will include the majority of "pass-through" arrangements. This is on the basis that these employers would not have not been asked to pay an exit payment had a deficit existed at the time of exit.
- The administering authority does not need to enquire into the precise risk sharing arrangement adopted by an employer but it must be satisfied that the risk sharing arrangement has been in place before it will pay out an exit credit. The level of risk that an employer has borne will be taken into account when determining the amount of any exit credit. It is the responsibility of the exiting employer to set out why the arrangements make payment of an exit credit appropriate.
- The administering authority will pay out any exit credits within six months of the cessation date where possible. A longer time may be agreed between the administering authority and the exiting employer where necessary. For example if the employer does not provide all the relevant information to the administering authority within one month of the cessation date the administering authority will not be able to guarantee payment within six months of the cessation date.
- Under the Regulations, the administering authority has the discretion to take into account any other relevant factors in the calculation of any exit credit payable and they will seek legal advice where appropriate.

## Regulatory factors

At the date of drafting this FSS, the government is currently consulting on potential changes to the Regulations, some which may affect the timing of future actuarial valuations. This is set out in the Local government pension scheme: changes to the local valuation cycle and the management of employer risk consultation document.

Further details of this can be found in the Regulatory risks section below.

# Bulk transfers

Bulk transfers of staff into or out of the Fund can take place from other LGPS Funds or non-LGPS Funds. In either case, the Fund Actuary for both Funds will be required to negotiate the terms for the bulk transfer – specifically the terms by which the value of assets to be paid from one Fund to the other is calculated.

The agreement will be specific to the situation surrounding each bulk transfer but in general the Fund will look to receive the bulk transfer on no less than a fully funded transfer (i.e. the assets paid from the ceding Fund are sufficient to cover the value of the liabilities on the agreed basis).

A bulk transfer may be required by an issued Direction Order. This is generally in relation to an employer merger, where all the assets and liabilities attributable to the transferring employer in its original Fund are transferred to the receiving Fund.

# Links with the Investment Strategy Statement (ISS)

The main link between the Funding Strategy Statement (FSS) and the ISS relates to the discount rate that underlies the funding strategy as set out in the FSS, and the expected rate of investment return which is expected to be achieved by the long-term investment strategy as set out in the ISS.

As explained above, the ongoing discount rate that is adopted in the actuarial valuation is derived by considering the expected return from the long-term investment strategy. This ensures consistency between the funding strategy and investment strategy.

# Risks and counter measures

Whilst the funding strategy attempts to satisfy the funding objectives of ensuring sufficient assets to meet pension liabilities and stable levels of employer contributions, it is recognised that there are risks that may impact on the funding strategy and hence the ability of the strategy to meet the funding objectives.

The major risks to the funding strategy are financial, although there are other external factors including demographic risks, regulatory risks and governance risks.

## Financial risks

The main financial risk is that the actual investment strategy fails to produce the expected rate of investment return (in real terms) that underlies the funding strategy. This could be due to a number of factors, including market returns being less than expected and/or the fund managers who are employed to implement the chosen investment strategy failing to achieve their performance targets.

The valuation results are most sensitive to the real discount rate (i.e. the difference between the discount rate assumption and the price inflation assumption). Broadly speaking an increase/decrease of 0.5% p.a. in the real discount rate will decrease/increase the valuation of the liabilities by 10%, and decrease/increase the required employer contribution by around 2.5% of payroll p.a.

However, the Investment and Pension Fund Committee regularly monitors the investment returns achieved by the fund managers and receives advice from the independent advisers and officers on investment strategy.

The Committee may also seek advice from the Fund Actuary on valuation related matters.

In addition, the Fund Actuary provides funding updates between valuations to check whether the funding strategy continues to meet the funding objectives.

## Demographic risks

Allowance is made in the funding strategy via the actuarial assumptions for a continuing improvement in life expectancy. However, the main demographic risk to the funding strategy is that it might underestimate the continuing improvement in longevity. For example, an increase of one year to life expectancy of all members in the Fund will increase the liabilities by approximately 3%.

The actual mortality of pensioners in the Fund is monitored by the Fund Actuary at each actuarial valuation and assumptions are kept under review. For the past two funding valuations, the Fund has commissioned a bespoke longevity analysis by Barnett Waddingham's specialist longevity team in order to assess the mortality experience of the Fund and help set an appropriate mortality assumption for funding purposes.

The liabilities of the Fund can also increase by more than has been planned as a result of the additional financial costs of early retirements and ill-health retirements. However, the administering authority monitors the incidence of early retirements; and procedures are in place that require individual employers to pay additional amounts into the Fund to meet any additional costs arising from early retirements.

The administering authority is currently implementing an ill-health self-insurance pool within the Fund whereby a portion of all employers' contributions into the Fund are allocated to a segregated ill-health section of the Fund. When an ill-health retirement occurs, a funding strain (i.e. the difference between the value of the benefits payable to the ill-health member and the value that was assumed as part of the actuarial valuation) is generated in the employer's section of the Fund. As part of the self-insurance policy, assets equal to the

funding strain are transferred from the segregated ill-health assets section of the Fund to the employer's

section of the Fund to cover the funding strain.

## Climate risk

There are a large number of interlinked systemic long-term financial risks related to climate change which could potentially have a material impact on the assets and/or the liabilities of the Fund. The most obvious of these climate change risks will be the financial risks to the value of the Fund's assets, the potential increased volatility of markets and potential changes in life expectancy. It is possible that some of these factors will impact the assets and liabilities of the Fund in the same direction, although not necessarily by the same amount.

The Fund therefore has a fiduciary duty to consider climate change risk when making investment decisions and to ensure any decisions support the effective management of climate change. The Fund therefore expects their appointed investment managers to be informed about climate change risks and take investment opportunities accordingly within their processes. More detail is included in the Fund's Investment Strategy Statement.

As part of the 2022 valuation, the Fund Actuary provided the Fund with a climate risk analysis which assessed

the potential exposure of the Fund's funding position to climate risk under different climate scenarios. The

principles behind the analysis were agreed with the Government Actuary's Department (GAD).

The results of this analysis demonstrated that the funding strategy agreed as part of the 2022 valuation was sufficiently robust in the context of climate scenario analysis and any potential contribution impacts.

The Fund will continue to assess this risk on a regular basis.

## Maturity risk

The maturity of a Fund (or of an employer in the Fund) is an assessment of how close on average the members are to retirement (or already retired). The more mature the Fund or employer, the greater proportion of its membership that is near or in retirement. For a mature Fund or employer, the time available to generate investment returns is shorter and therefore the level of maturity needs to be considered as part of setting funding and investment strategies.

The cashflow profile of the Fund needs to be considered alongside the level of maturity: as a Fund matures, the ratio of active to pensioner members falls, meaning the ratio of contributions being paid into the Fund to the benefits being paid out of the Fund also falls. This therefore increases the risk of the Fund having to sell assets in order to meets its benefit payments.

The government has published a consultation (Local government pension scheme: changes to the local valuation cycle and management of employer risk) which may affect the Fund's exposure to maturity risk. More information on this can be found in the Regulatory risks section below.

## Regulatory risks

The benefits provided by the Scheme and employee contribution levels are set out in Regulations determined by central government. The tax status of the invested assets is also determined by the government.

The funding strategy is therefore exposed to the risks of changes in the Regulations governing the Scheme and changes to the tax regime which may affect the cost to individual employers participating in the Scheme.

However, the administering authority participates in any consultation process of any proposed changes in Regulations and seeks advice from the Fund Actuary on the financial implications of any proposed changes.

There are a number of general risks to the Fund and the LGPS, including:

- If the LGPS was to be discontinued in its current form it is not known what would happen to members'
- benefits.
- More generally, as a statutory scheme the benefits provided by the LGPS or the structure of the scheme could be changed by the government.
- The State Pension Age is due to be reviewed by the government in the next few years.

At the time of preparing this FSS, specific regulatory risks of particular interest to the LGPS are in relation to the McCloud/Sargeant judgments and the timing of future funding valuations consultation. These are discussed in the sections below.

### McCloud/Sargeant judgments

The Court of Appeal judgment on the McCloud and Sargeant cases, relate to age discrimination against the age-based transitional provisions put into place when the new judicial pension arrangements were introduced in 2015. The members argued that these transitional provisions were directly discriminatory on grounds of age and indirectly discriminatory on grounds of sex and race, based on the correlation between these two factors reflected in the judicial membership. The Tribunal ruled against the Government, deeming the transitional provisions as not a proportionate means of achieving a legitimate aim.

The Government subsequently applied to the Supreme Court to appeal the judgment but their application was denied on 27 June 2019. On 16 July 2020, the Government published a consultation on the proposed remedy to be applied to LGPS benefits in response to the McCloud and Sargeant cases. A ministerial statement in response to this was published on 13 May 2021 and revised Regulations are awaited to bring a remedy into play.

At the time of drafting this FSS, Regulations and therefore confirmation of the remedy are not yet finalised and are expected in 2023.

### Cost control mechanism

As a result of the public service pension schemes reforms, the Government established a cost control mechanism for all those schemes to ensure a fair balance of risks between scheme members and the taxpayer. The process has been complex and has still not been fully resolved. Although the 2016 cost cap valuation report for the LGPS has been published, at the time of writing there is still a challenge outstanding regarding the inclusion of McCloud in the cost cap. Therefore, there is still a possibility that the 2016 valuation may have to be revisited with the small chance that benefit improvements will be required and potentially backdated to April 2019.

For the purposes of the 2022 valuation, we have made no allowance for any potential benefit changes. The Fund's prudence allowance already allows for an element of regulatory uncertainty and any potential impact is not deemed to be material.

### Consultation: Local government pension scheme: changes to the local valuation cycle and management of employer risk

On 8 May 2019, the government published a consultation seeking views on policy proposals to amend the rules of the LGPS in England and Wales. The consultation covered:

- amendments to the local fund valuations from the current three year (triennial) to a four year (quadrennial) cycle;
- a number of measures aimed at mitigating the risks of moving from a triennial to a quadrennial cycle;
- proposals for flexibility on exit payments;
- proposals for further policy changes to exit credits; and
- proposals for changes to the employers required to offer LGPS membership.

The proposals for flexibility on exit payments and for further policy changes to exit credits have been finalised, however, are still to be finalised for the remaining three proposals. This FSS will be revisited once the outcome is known and reviewed where appropriate.

Timing of future actuarial valuations

LGPS valuations currently take place on a triennial basis which results in employer contributions being reviewed every three years. In September 2018 it was announced by the Chief Secretary to HMT, Elizabeth Truss, that the national Scheme valuation would take place on a quadrennial basis (i.e. every four years) along with the other public sector pension schemes. The results of the national Scheme valuation are used to test the cost control mechanism and HMT believed that all public sector scheme should have the cost control test happen at the same time.

Changes to employers required to offer LGPS membership

At the time of drafting this FSS, under the current Regulations further education corporations, sixth form college corporations and higher education corporations in England and Wales are required to offer membership of the LGPS to their non-teaching staff.

With consideration of the nature of the LGPS and the changes in nature of the further education and higher education sectors, the government has proposed to remove the requirement for further education corporations, sixth form college corporations and higher education corporations in England to offer new employees access to the LGPS. This could impact on the level of maturity of the Fund and the cashflow profile, but these types of employers only account for around 2% of the Fund's liabilities. However, there is an increased risk of contribution income being insufficient to meet benefit outgo, if not in the short term then in the long term as the payroll in respect of these types of employers decreases with fewer and fewer active members participating in the Fund.

This also brings an increased risk to the Fund in relation to these employers becoming exiting employers in the Fund. Should they decide not to admit new members to the Fund, the active membership attributable to the employers will gradually reduce to zero, triggering an exit under the Regulations and a potential significant exit payment. This has the associated risk of the employer not being able to meet the exit payment and thus the exit payment falling to the other employers in the Fund.

## Employer risks

Many different employers participate in the Fund. Accordingly, it is recognised that a number of employer- specific events could impact on the funding strategy including:

- Structural changes in an individual employer's membership;
- An individual employer deciding to close the Scheme to new employees; and
- An employer ceasing to exist without having fully funded their pension liabilities.

However, the administering authority monitors the position of employers participating in the Fund, particularly those which may be susceptible to the events outlined, and takes advice from the Fund Actuary when required. In particular, the Fund will commission an employer risk review from the Fund Actuary on a regular basis, every three years as a minimum, to help identify the employers in the Fund that might be considered as high risk. In the case of admitted bodies, the Fund has a policy of requiring some form of security from the employer, in the form of a guarantee or a bond, in case of employer default where the risk falls to the Fund. Where the risk of default falls on the liabilities of an original letting authority, the Fund provides advice to the letting authority to enable them to make a decision on whether a guarantee, some other form of security or a bond should be required.

In addition, the administering authority keeps in close touch with all individual employers participating in the Fund to ensure that, as administering authority, it has the most up to date information available on individual employer situations. It also keeps individual employers briefed on funding and related issues.

## Governance risks

Accurate data is necessary to ensure that members ultimately receive their correct benefits. The administering authority is responsible for keeping data up to date and results of the actuarial valuation depend on accurate data. If incorrect data is valued then there is a risk that the contributions paid are not adequate to cover the cost of the benefits accrued.

## Monitoring and review

This FSS is reviewed formally, in consultation with the key parties, at least every three years to tie in with the triennial actuarial valuation process.

The most recent valuation was carried out as at 31 March 2022, certifying the contribution rates payable by each employer in the Fund for the period from 1 April 2023 to 31 March 2026.

The timing of the next funding valuation is due to be confirmed as part of the government's Local government pension scheme: changes to the local valuation cycle and management of employer risk consultation which closed on 31 July 2019. At the time of drafting this FSS, it is anticipated that the next funding valuation will be due as at 31 March 2025.

The administering authority also monitors the financial position of the Fund between actuarial valuations and may review the FSS more frequently if necessary.

# Appendix 4
# Governance Compliance Statement

# Governance Compliance Statement

## 1. Background

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

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

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

## 2. Structure

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

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

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

1. To consider, on the advice of the Director of Finance and Corporate Services and the Council's Fund Managers, the Council's general policy with regard to Pension Fund Investments.

2. To make arrangements for the management of the Fund in line with the Investment Strategy Statement.

3. To monitor the performance of the Fund and its Managers.

4. To exercise the Council's voting rights at AGM's and EGM's of companies in which the Fund has holdings, after considering the advice of the Director of Finance and Corporate Services and appropriate Manager(s).

5. To overview and agree pension fund administration matters e.g. approval of Administration Strategy and delivery of the benefits service.

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

Other Requirements

1. Size of Committee – 8 elected members;

2. Quorum – 4 of the elected members.

3. All members and representatives are required to undertake introductory mandatory 3 day training with LGE (Local Government Employers). This is over 3 separate days in the autumn in London – September, October, and November and is also available virtually for those who prefer to attend remotely.

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

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

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

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

**2.2 Other Delegations of Powers**

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

**2.3 Terms of Reference for Hounslow Pension Board**

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

1. **Introduction**

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

2. **Powers of the Pension Board**

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

3. **Role of the Pension Board**

3.1 The role of the Pension Board is defined by regulation 106 (1) of the LGPS

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

• the Regulations; and

• with other legislation relating to the governance and administration of the LGPS; and

• with any requirements imposed by the Regulator in relation to the LGPS; and

• to ensure the effective and efficient governance and administration of the LGPS.

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

3.2 The Council considers para regulation 106 to mean that the Pension Board is providing oversight of pension matters and, accordingly, the Pension Board is not a decision making body in relation to the management of the Pension

Fund. In relation to ensuring the effective and efficient governance and administration of the Pension Fund, this will be interpreted to mean having oversight of whether the aims and objectives outlined within the Pension Fund's Governance and Administration strategies are being achieved, having regard to any overriding requirements included within guidance from the DLUHC, the Scheme Advisory Board or the Pensions Regulator.

Membership comprises of two employer representatives, one of which should be the London Borough Hounslow, the largest employer and two scheme member representatives. Member representatives in this context refer to members of the Pension Scheme i.e. active members, deferred members, or pensioner members. Appointments to be made by an appointments panel rather than Council.

**Quorum**

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

**Voting**

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

**Meetings**

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

# APPENDIX 2

## Compliance Statement with Statutory Principles

**1. Introduction**

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

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

**2. Structure**

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

*Compliant*

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

1. To consider on the advice of the Director of Finance and Corporate Services Council's Fund managers, the Council's general policy with regard to Pension Fund Investments.

2. To make arrangements for the management of the Fund in line with the Investment Strategy Statement.

3. To monitor the performance of the Fund and its Managers.

4. To exercise the Council's voting rights at AGM's and EGM's of companies in which the Fund has holdings, after considering the advice of the Director of Finance and Corporate Services and appropriate Manager (s).

5. To overview and agree pensions fund administration matters e.g. approval of the Administration Strategy and delivery of the pension fund benefits service.

2.2 DLUHC principle: 'That representatives of participating LGPS employers, admitted bodies and scheme members (including pensioner and deferred members) are members of either the main or secondary committee established to underpin the work of the main committee.'

*Compliant*

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

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

*Compliant*

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

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

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

*Compliant*

Not applicable as there is no secondary committee.

**3. Representation**

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

i) employing authorities (including non-scheme employers, e.g., admitted bodies);

ii) scheme members (including deferred and pensioner scheme members);

iii) independent professional observers; and

iv) expert advisors (on an ad-hoc basis).'

*Compliant*

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

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

*Compliant*

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

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

*Compliant*

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

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

*Compliant*

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

**4. Voting**

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

*Compliant*

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

**5. Training/Facility time/Expenses**

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

*Compliant*

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

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

*Compliant*

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

*Partially compliant*

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

A Training Log is maintained.

**6. Meetings (frequency/quorum)**

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

*Compliant*

PFP meets at least once a quarter.

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

*Compliant*

Not applicable as there is no secondary committee.

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

*Compliant*

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

**7. Access**

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

*Compliant*

**8. Scope**

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

*Compliant*

PFP covers investment, liability, administration and governance matters.

**9. Publicity**

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

*Compliant*

**This Governance Compliance Statement is a public document on Part 1 of the PFP Agenda of 21st of June 2023. It also appears as an Appendix to the Annual Report 2022/23 which is publicly available.**

# Appendix 5
# Communications Policy

# Communications policy statement

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

The Administering Authority has over 60 employers in to the fund, including the London Borough of Hounslow itself, academies and new free schools and admitted bodies.

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

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

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

# Members, representatives of members and prospective members

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

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

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

| Method | Communication message |
|---|---|
| Electronic | Electronic: all members have access to the Administering Authority website delivered in partnership with our pension administrators West Yorkshire Pension Fund, www.wypf.org.uk. The website provides scheme information and access to individual member details via the MyPension facility. WYPF host a number of fund specific and shared services policies. |
| Newsletters | The Administering Authority issues an annual newsletter to all members in the scheme providing the latest information on the LGPS |
| Annual Benefit Statements | Active and deferred members are issued with an annual benefit statement which provides the current value of the benefits with the Hounslow LGPS |
| Annual General Meeting | The Administering Authority AGM includes presentations regarding the fund performance and administration matters. The Fund will decide on the format and media of the AGM annually. |
| Annual report and accounts | Available on the Hounslow pension website. Provides information on the annual management of the Administering Authority |
| Pension Fund Panel Reports | Public reports available on the Hounslow website, **www.hounslow.gov.uk**. This provides information on decisions made by the Pension Fund Panel |

| Method | Communication message |
|---|---|
| Pension increase note | Provided annually to pensioners, this provides information on any pension increase due to their benefits |
| Pension surgeries | Allows members to meet with the administrator representatives to discuss their specific queries either face to face or online |
| Dedicated information sessions | Dedicated information sessions will be presented on an *ad hoc* basis to provide information on relevant pension issues |
| Hounslow pensions website | **www.wypf.org.uk** |
| Dedicated email | **pensions@wypf.org.uk** |
| Dedicated telephone helpline | 01274 434 999 |

# Scheme Employers

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

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

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

| Method | Communication message |
|---|---|
| The Administering Authority Pension Administration Strategy<br>(and appendices) | Information regarding the policies of the Administering Authority and Scheme Employer responsibilities in the LGPS |
| Electronic | Electronic: Scheme Employers have access to an employer section of Administering Authority website delivered in partnership with administrators, www.wypf.org.uk. The website provides scheme information specific to scheme employers. WYPF host a number of fund specific and shared services policies. |
| Employer meetings | Held annually to provide Scheme Employers with a forum to<br>address queries regarding the Administering Authority |
| Dedicated contact | Scheme Employers are provided with a dedicated contact in the Administering Authority who will provide a phone and email advisory service. Employer visits and online surgeries may be available on request via contact to:<br>The Strategic Pensions Manager: 020 8583 5635<br>hitesh.sharma1@hounslow.gov.uk |
| Dedicated information sessions | Dedicated information sessions will be presented on an ad hoc basis to provide information to scheme employers on<br>relevant pension issues |

# Public Statements made about the Pension Fund

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

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

# Appendix 6
# Corporate Governance Report

London Borough of Hounslow

**Report for:**
**INFORMATION**

| | |
|---|---|
| **Contains Confidential or Exempt Information** | No |
| **Title** | Voting Annual Report |
| **Member Reporting** | Councillor J Sharma, Chair Pension Fund Panel |
| **Contact Details** | Joan Coelho, Strategic Pensions and Treasury Accountant<br>Telephone: 020 8583 3637<br>Email: joan.coelho@hounslow.gov.uk |
| **For Consideration By** | Pension Fund Panel |
| **Date to be Considered** | 18th December 2023 |
| **Implementation Date if Not Called In** | Not applicable |
| **Affected Wards** | All |
| **Keywords/Index** | Pension Fund |

**10. Outline:**

10.1 The Fund believes that its long-term investment interests are enhanced by the highest standards of corporate governance and corporate responsibility amongst the companies in which it is invested. Poor governance can negatively impact shareholder value. Stewardship aims to promote long term success of companies in order to benefit shareholders too. Stewardship involves monitoring and engaging with companies on matters such as strategy, performance, risk, capital structure and corporate governance. This includes culture and remuneration. This report provides an analysis of the voting rights exercised, on behalf of the London Borough of Hounslow Pension Fund, from 1st April 2022 to 31st March 2023.

**11. Recommendation:**

The Panel are asked to:

11.1 Note this report for votes cast for the period 1st April 2022 to 31st March 2023

**12. Report Summary:**

PIRC Ltd is the proxy voting agent appointed, by the Pension Fund Panel, to cast votes on behalf of the London Borough of Hounslow Pension Fund regarding the voting rights attached to the shares held within its investment portfolio. This report summarises the votes cast for the period 1st April 2022 to 31st March 2023 and highlights the key corporate governance issues considered when casting a vote.

**13. Introduction:**

13.1 The Fund is committed to performing its duty as a shareholder by actively engaging with companies that it is invested in by way of exercising its voting rights. This is considered good practice and is in accordance with the Myners Principles which the fund adheres to. PIRC Ltd are the Funds appointed proxy voting agent responsible for casting votes on behalf of the Fund.

13.2 Votes are cast in accordance with a bespoke template which has been prepared by PIRC Ltd in association with Officers to ensure that best practice in corporate governance is encouraged in all companies in which the fund is invested. The template has been designed to reflect the latest guidance available as covered by the UK Corporate Governance Code which provides guidance for companies and includes matters relating to Board governance and remuneration as well as social, economic, and environmental policies. For overseas companies, the relevant local best practice guidance is used to determine the voting policy.

13.3 Table 1 below shows the portfolios which the fund holds direct voting rights.

**Table 1: Portfolios with direct voting rights**

| Investment Portfolio | Market Value £m | % of Total Fund at March 2023 |
|---|---|---|
| Aberdeen Global Equities (incl. UK) | 147.2 | 12.1 |
| Blackrock UK Equities | 233.1 | 19.2 |
| Total | 380.3 | 31.3 |

**14. Overview of Votes Cast:**

14.1 Table 2 below shows the number of events (for e.g., Annual General Meetings, Extraordinary General Meetings), the total number of resolutions and therefore votes cast, and finally the proportion of votes cast in favour or against, including abstained or withheld votes.

14.2 In total, 1,146 resolutions across 65 meetings were considered (in the previous year, 2021/22, there were 1,156 resolutions across 73 meetings) which equates to approximately 17 resolutions per meeting.

14.3 In recent years, changes to the Fund's portfolio have decreased the number of direct holdings for which voting rights are held and increased the number of pooled holdings which do not carry voting rights. Pooled holdings are typically held as units within a particular investment fund which may hold shares in several companies as part of its portfolio. However, as the pooled fund is the direct holder (and the Fund is only an indirect holder) of these shares it consequently owns the voting rights attributed to these holdings. Although this is still the case for most of the pooled funds, in 2022/23 Blackrock extended voting rights to the Hounslow's Pension Fund on its holdings in the ACS World Low Carbon Equity Tracker Fund. The exercise of these votes began in 2023/24 and will be reported of next year.

14.4 Table 2 highlights that for the period under consideration, over two-thirds of all resolutions proposed were supported whilst just over 26% were voted against or abstained. Abstained or withheld votes are essentially votes against the resolution and most, usually concern the appointment of directors in the United States which allow a 'for' or 'withhold' vote option as opposed to voting against a nominee.

**Table 2: Analysis of votes cast**

| Period | No. of meetings | No. of resolutions | % of resolutions supported | % of resolutions voted against |
|---|---|---|---|---|
| Apr 22 – Jun 22 | 2 | 24 | 70.8 | 29.2 |
| Jul 22 – Sep 22 | 33 | 696 | 74.0 | 26.0 |
| Oct 22 – Dec 22 | 15 | 256 | 74.2 | 25.8 |
| Jan 23 – Mar 23 | 15 | 170 | 71.8 | 28.2 |
| Total | 65 | 1,146 | 73.6 | 26.4 |

14.5 Table 3 below splits the number of meetings and resolutions across the different geographical regions within which the fund votes. The table shows that most of the meetings, at which the fund exercised its voting rights, are held by UK listed companies. This is due to most of the funds global holdings being held within pooled funds for which direct voting rights are not held.

14.6 Voting rights apply to direct UK equity holdings.

**Table 3: Geographic Voting Overview**

| Geographic Region | No. of Meetings | Resolutions |
|---|---|---|
| UK | 61 | 1,061 |
| EU | 3 | 63 |
| USA & CANADA | 1 | 22 |
| Total | 65 | 1,146 |

14.7 Table 4 further analyses the votes cast against each of the main resolution types.

**Table 4: Analysis of Voting Recommendations**

| Resolution Type | For | (%) | Oppose | (%) |
|---|---|---|---|---|
| Annual Reports | 38 | 29.5 | 91 | 70.5 |
| Executive/All Employer Pay Scheme | 9 | 56.3 | 7 | 43.8 |
| Articles of Association | 10 | 100.0 | 0 | 0.0 |
| Auditors Appointment | 92 | 86.0 | 15 | 14.0 |
| Directors | 444 | 85.7 | 74 | 14.3 |
| Dividend | 47 | 100.0 | 0 | 0.0 |
| Share Issue/ Re-Purchase | 113 | 50.9 | 109 | 49.1 |
| Corporate Donations | 27 | 84.4 | 5 | 15.6 |
| Corporate Actions, Debt & Loans, and Other | 64 | 98.5 | 1 | 1.5 |
| Total | 844 | 73.6 | 302 | 26.4 |

## 15. Key Corporate Governance Issues Considered

15.1 The first version of the UK Corporate Governance Code was produced in 1992 by the Cadbury Committee. The current version in practice was last issued in early 2019. Based on this, the fund's voting template is updated to ensure that the voting policy is always in line with best practice in corporate governance.

15.2 PIRC Ltd provide a comprehensive analysis of the corporate governance issues raised for each meeting and below are the key areas considered:

**15.2.1 Board Structure**:

Best practice dictates that at least half of the Board should be made up of independent Non-Executive Directors (NEDs) to ensure that there is sufficient scrutiny of decisions made by the executive directors who effectively represent the management of the company. This ensures that no one individual has unfettered powers of decision and that the Board collectively is responsible for the long-term success of the company.

In addition, the Chairman who is ultimately responsible for the Board should not be a former executive of the company and that this role should operate as a distinct role independent to that of the Chief Executive.

One of the more recent updates to the UK Corporate Governance Code was a requirement for a NED to be designated as a Senior Independent Director (SID) to provide additional oversight to support the Chairman.

Our voting template is designed to vote against the appointment or re-election of Directors in the following instances:

- If the role of the Chairman and Chief Executive is combined,
- If the Chairman was not independent upon appointment or has been in post for over 9 years,
- If a NED has been in post for over 9 years,
- If there is an insufficient number of independent members on the Board.
- At least 50% of the Board should consist of independent members.

Over 14% of Director appointments were opposed as shown in Table 4.

**15.2.2 Remuneration:**

- Currently the areas which receives the most 'oppose' votes are those relating to the approval of pay schemes. Proposals within this category vary between all staff share schemes (which are generally well received by shareholders due to the inclusive nature of schemes as they are open to all staff and improve staff engagement), remuneration of non-executive directors and finally executive director remuneration policies. Table 4 shows that over 43% of resolutions relating to pay schemes were voted against. The vast majority of these oppose votes fall into the category of executive director remuneration policy.

- Approval of the executive remuneration policy is now a binding vote and therefore a company would require at least a 50% vote for implementation of the policy.
- Good corporate governance requires that the remuneration of executives is linked to clear performance targets with caps in place to avoid excessive pay outs.
- When considering whether to vote for the remuneration policy for any particular company or not the following includes some of the factors considered;
  - Sufficient disclosure of all payments made including salary, pension contributions annual bonuses and LTIPs (Long Term Incentive Plans),
  - Salary paid in relation to peer companies and internal pay ratios,
  - Varied metrics to measure performance including non-financial measures,
  - Contract terms including rights upon termination or takeover,
  - Vesting periods of LTIPs.

Explicit reference to maximum awards received under LTIPs are required in addition to specific details of the performance measures used, contract terms as well as clear link between remuneration and the sustained (long term) success of the business.

PIRC provide a ranking system which covers all of the above areas when determining whether to vote 'for' or 'against' the remuneration report for any particular company and will provide a two-letter rating from A to E which looks at both transparency of disclosure and 'pay for performance'. The Fund template is set to approve only those reports which rate either an A or B status.

PIRC's reports also include sector comparisons as well as analysis of supplementary payments which are a growing area of concern as attempts to curb bonuses are introduced.

#### 15.2.3 **Audit Appointment, Fees and Rotation**:

- The introduction of the EU Audit Regulation in April 2016 means that certain non-audit fees will now not be permissible. The funds policy has therefore been updated to oppose the re-election of auditors in instances where the non-audit fee is over 25% of audit fees.
- Other key governance issues considered include the following:

  - The audit committee should compromise of independent Board members,
  - All FTSE 350 companies to put their external audit contract out to tender at least every three years,
  - At least one member should have competence in accounting and/or auditing,

Our template will vote against the appointment of auditors if all of the above criteria is not met and Table 4 shows that just over 14% of proposed audit appointments are voted against.

#### 15.2.4 **Annual Reports:**

All UK listed companies are required to report on how they have applied the main principles of the Code and where not applied, provide an explanation for non-compliance. In addition, shareholders must have an opportunity to approve the dividend. If this is not the case, then the annual reports will be voted against.
Over 70% of annual reports were voted against as shown in Table 4. The reasons for this are specific to each company but many of these were as a result of sustainability issues not being properly addressed meaning the annual report is not accurately reflecting the material and financial impact of non-traditional financial risks.

#### 15.2.5 **Share Issuance/Re-Purchase:**

Requests to issue additional shares or to re-purchase shares already in issue is considered a normal resolution if up to a set limit of 5% for new share issues and 10% for share buy-backs. Most of the proposals in this category relate to new share issuances and the funds policy is to vote against this proposal if the limit is over 5% and not accompanied by a reason for breaching the normal limit, for e.g., to raise cash for a viable takeover bid. Companies should clearly provide a justification for all share related changes and state how these benefits the existing shareholders to prevent dilution of share value.

Table 4 shows that nearly half of all proposals in this category were opposed.

**16. Impact of Voting (Examples):**

16.1 Table 5 below provides a cross-section of the voting themes and how Hounslow Pension Fund's (HPF) votes were cast in relation to the outcome:

| | | | Overall Outcome | | |
|---|---|---|---|---|---|
| **Nature of Vote:** | **HPF Voted:** | **Reason for Vote:** | **For (%)** | **Abstain (%)** | **Oppose (%)** |
| Say on Climate | For | Environmental and climate responsibility is a fundamental to good governance. | 82.1 | 2.6 | 15.3 |
| Approve Net Zero | Oppose | The company had not pledged to refrain from financing new projects that involve fossil fuel | 85.5 | 3.5 | 11.1 |
| Issue Shares for Cash | For | Aligns with the share issuance policy. | 89.2 | 0.7 | 10.1 |
| Re-election of Non-Executive Director | For | Re-election of the Non-Executive Director does not go against the policy, and this role is accountable to the Company's Sustainability Programme. | 84.4 | 3.7 | 11.9 |
| Re-appointment of auditors | Oppose | Current auditors have been in place for more than ten years. There are concerns that failure to regularly change audit partners can compromise the independence of the auditor. | 96.3 | 0.1 | 3.6 |

**17. Comments of the Interim Executive Director of Finance and Resources**

This report provides the Pension Fund Panel with information about the voting activity undertaken in accordance with the policy that forms part of the investment strategy statement (ISS) during 2022/23. The policy states that long-term investment interests are enhanced by the highest standards of corporate governance and corporate responsibility amongst the companies in which it is invested. Poor governance can negatively impact shareholder value. Stewardship aims to promote long term success of companies to benefit shareholders.

Stewardship involves monitoring and engaging with companies on matters such as strategy, performance, risk, capital structure and corporate governance. This includes culture and remuneration. The long-term investment interests are enhanced by the highest standards of corporate governance and corporate responsibility amongst companies. As such the fund exercises its rights to vote based on the UK Governance Code best practice to hold the companies in which it invests to the highest standards of corporate governance and corporate responsibility.

**18. Legal**

There are no immediate legal implications arising from this report.

**19. Sustainability Impact Appraisal**

In keeping with the Fund's ISS, external fund managers are expected to consider ESG issues when assessing potential investment opportunities. The Fund is an active shareholder in the exercising of its company share voting rights, to promote and support good corporate governance principles. Share voting is undertaken by PIRC Ltd, the proxy voting agent appointed, by the Fund to undertake voting in accordance with the ISS voting policy.

**20. Risk Management**

Research has shown that companies with good corporate governance perform better than those with poor corporate governance practices in the long term.

**21. Equalities, Human Rights and Community Cohesion**

The Council is not being asked to make any decisions on actions related to equalities, human rights and community cohesion.

**22. Any Other Implications**

There are no further implications.

**23. Consultation**

The appointment of a proxy voting service provider was approved by the Pension Fund Panel. The current contract is in place until July 2024

**24. Timetable for Implementation**

This report is for information only.

**25. Appendices**

None.

# Appendix 7
# Pensions Administration Strategy

# Contents



## Regulatory framework and purpose

## 1. The regulations

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

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

### 1.1. Purpose

This strategy covers West Yorkshire Pension Fund, Lincolnshire Pension Fund, Hounslow Pension Fund and Barnet Pension Fund, administered under a collaboration agreement. Within this document the shared service administration, based in Bradford with a satellite office in Lincoln, will be referred to as 'the administrator'.

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

Each of the funds that make up WYPF's shared service arrangement also manage and maintain separate stand-alone fund policies which are available under the relevant fund's 'policies' area on the shared service website. Where there is a conflict between the shared administration strategy and a fund's stand-alone policy the individual fund's policy will prevail.

## 2. Review of the strategy

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

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

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

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

## 3. Liaison and communication

### 3.1. Authorised contacts for employers

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

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

If they wish, employers may also nominate additional contacts by completing an authorised user list. If a third-party organisation provides services for the employer they too can be added as an authorised contact. Overall responsibility for pension administration remains with the employer regardless of the services they outsource and proactive contract management of third-party providers is expected.

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

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

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

### 3.2. Liaison and communication with employers

The administrator will provide the following contact information for employers and their members.

- A named Pension Fund Representative for regulatory or administration queries, training, advice and guidance
- A named Finance Business Partner to assist with the monthly returns process
- A dedicated contact centre for member queries

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

| Format of communication | Frequency | Method of distribution |
|---|---|---|
| Pension Fund Representatives | 8.30am to 4.30pm Monday to Friday | Virtual meetings/face-to-face/telephone/e-mail |
| Website | Constant | Web |
| Fact card | 1 per year | Mail |
| Fact sheets | Constant | Web |

| Format of communication | Frequency | Method of distribution |
|---|---|---|
| Employer guide | Constant | Web/electronic document |
| Ad hoc training | As and when required | Virtual meetings |
| Update sessions | Up to 2 per year | Meeting |
| Annual meeting | 1 per year | Meeting |
| Manuals/toolkits | Constant | Web/electronic document |
| Pension Matters and round-up | 12 per year and as and when required | Wordpress blog and gov.direct bulk mail |
| Social media | Constant | Web |
| Ad hoc meetings | As and when required | Virtual meeting/face-to-face |
| Employer webcasts | 1 per week | Virtual meeting |

## 4. Employer duties and responsibilities

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

### 4.1. Events for notification

- 4.1.1. Employers should be able to provide the following information in relation to their employees in the Fund

| Event | Preferred method of notification | Other methods available | Target | Acceptable performance |
|---|---|---|---|---|
| Monthly postings (submitted via secure portal) | Approved spread-sheet | None | 19th day of the month following the month in which contribu-tions were deducted | 100% compliance of compli-ance of returns received in target |
| New starters | Monthly return | | Notified via the monthly return, the administrator will process the data within two weeks following monthly return sub-mission | 100% compliance or better |
| Change of hours, name, payroll number or job title | Monthly return (ex-ception report) | Web form | Notified via monthly returns, the administrator will process the data within two weeks following monthly submission.<br><br>For exception report out-put from the monthly return, change data response must be provided to the administrator within two weeks of receipt of the exception report.<br><br>If the employer isn't using monthly return then informa-tion is due within six weeks of change event. | 90% compliance or better |
| 50/50 and main scheme elections | Monthly return | | Notified by the employer via monthly return, the administra-tor will process the data within two weeks following monthly data submission. | 90% compliance or better |

| | | | |
|---|---|---|---|
| Service breaks/absences | Web form | Within six weeks of the date of the absence commencing | 90% compliance or better |
| Under three-month optouts | Monthly return | Notified by the employer via monthly return, the administrator will process the data within two weeks following monthly data submission. | 90% compliance or better |
| Leavers | Monthly return<br><br>Web form<br><br>Monthly returns (exception reports) | Notified by the employer via monthly return, the administrator will process the data within two weeks following monthly data submission, else within six weeks of leaving.<br><br>For exception reports, leaver forms must be provided within two months of receipt of the exception report. | 90% compliance or better |
| Retirement notifications | Web form | 10 days before the member is due to retire unless the reason for retirement is ill health or redundancy | 100% compliance |
| Death in service notifications | Web form | Within three days of the date of notification | 100% compliance |

4.1.2. Notifiable events

Employers should also provide information on any circumstances which might affect their future participation in the Fund or their ability to make contributions to the Fund “notifiable events”. These include the following:

- **A decision which will restrict the employer’s active membership in the Fund in future**
  Examples include: ceasing to admit new members under an admission agreement; ceasing to designate a material proportion of posts for membership; setting up a wholly owned company whose staff will not all be eligible for Fund membership; outsourcing a service which will lead to a transfer of staff
- **Any restructuring or other event which could materially affect the employer’s membership**
  Examples include: a Multi-Academy Trust re-structuring so there is change in constituent academies, the employer merging with another employer (regardless of whether or not that employer participates in the Fund), a material redundancy exercise, significant salary awards being granted, a material number of ill health retirements, large number of employees leaving voluntarily before retirement or the loss of a significant contract or income stream
- **A change in the employer’s legal status or constitution which may jeopardise its participation in the Fund**
  Examples include the employer ceasing business (whether on insolvency, winding up, receivership or liquidation), loss of charitable status, loss of contracts or other change which means the employer no longer qualifies as an employer in the Fund
- **If the employer has been judged to have been involved in wrongful trading**
- **If any senior personnel, e.g. directors, owners or senior officers have been convicted for an offence involving dishonesty, particularly where related to the employer’s business**
- **Where the employer has, or expects to be, in breach of its banking covenant**
- **Details of any improvement notice (or equivalent) served by the appropriate regulator, e.g. Education Funding and Skills Agency, Office for Students, Charity Commission, Regulator for Social Housing etc, or S114 notice for local authorities**

Employers should provide this information in advance of the event occurring (where possible) or as soon as practicable thereafter.

### 4.2. Responsibilities

Employers are responsible for ensuring that member and employer contributions are deducted at the correct rate, including any additional contributions. Organisations with third-party providers can't delegate responsibility for this even if day- to-day tasks are carried out by that provider.

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

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

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

Employers are responsible for keeping the Administering Authority informed of all events or decisions which might affect their participation in the Scheme, including the 'notifiable events' as set out in 4.1.2 above. In such circumstances the Administering Authority may increase an employer's contribution as set out in the Funding Strategy Statement. Any increase may be backdated where the employer has failed to provide information to the Administering Authority in a timely manner.

### 4.3. Discretionary powers

Employers are responsible for exercising the discretionary powers given to employers by the regulations. The employer is also responsible for compiling, reviewing and publishing its policy to employees in respect of the key discretions as required by the regulations. A copy of these discretions must be sent to the administrator.

### 4.4. Member contribution bands

Employers are responsible for assessing and reassessing the contribution band that is allocated to a member at least once a year in April or more frequently if required in their policy. The employer must also inform the member of the band that they have been allocated on joining the scheme and when they have been reallocated to a different band.

### 4.5. Internal dispute resolution procedure (IDRP)

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

## 5. Payments and charges

### 5.1. Payments by employing authorities

Employers will make all payments required under the LGPS regulations, and any related legislations, promptly to the relevant pension fund and /or its additional voluntary contribution (AVC) providers (Prudential/Scottish Widows/ Standard Life) as appropriate.

### 5.2. Paying contributions

Member and employer contributions can be paid over at any time and should be accompanied by a monthly postings submission however they must be paid to the relevant fund by the 19th day of the month following the month in which the deductions were made. The monthly posting submission should be uploaded to the administrator by the same deadline and the data should reconcile to the payment made to the relevant fund.

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

### 5.3. AVC deductions

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

### 5.4. Late payment

Employers can be reported to The Pensions Regulator where contributions are received late in accordance with the regulator's code of practice. If a matching monthly posting submission is not provided with a contribution payment by the deadline this will also be recorded as a late payment because the relevant pension fund will not be able to correctly allocate the payment received.

### 5.5. Awards of additional pension

Where an employer awards a member an additional pension all augmentation costs must be paid in full in one payment.

### 5.6. Early retirement costs

Employers should pay the full amount of the cost of any early retirements.

WYPF employers must pay this within the 30-day payment term stated on the invoice. Depending on the ability to pay, WYPF may agree to payment by monthly instalments over a maximum period of 12 months. Interest will be charged at a rate determined by the fund actuary.

LPF, BPF and HPF will invoice their respective funds' employers and will have their own payment terms that should be discussed with them if the need arises.

### 5.7. Interest on late payment

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

### 5.8. Employer contributions

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

### 5.9. Actuarial valuation

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

### 1.10 Administration charges

The cost of running the administrator is charged directly to the shared service partners; the actuary takes these costs into account in assessing employers' contribution rates.

## 6. Administering authority duties and responsibilities

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

### 6.1. Scheme administration

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

- Employer annual meeting
- Member annual meeting where appropriate
- Pre-retirement courses
- New starters induction courses
- Employer training webcasts (replacing workshops)
- Bite size training videos

### 6.2. Responsibilities

The administrator will ensure the following functions are carried out.

6.2.1. Provide a helpdesk facility for enquiries, available during normal office hours, providing a single point of access for information relating to the schemes being administered
6.2.2. Create a member record for all new starters admitted to the scheme
6.2.3. Collect and reconcile employer and employee contributions
6.2.4. Maintain and update members' records for any changes received by the administrator
6.2.5. At each actuarial valuation the administrator will forward the required data in respect of each member and provide statistical information over the valuation period to the relevant fund so that their actuary can determine the assets and liabilities for each employer
6.2.6. Each fund will communicate the results of the actuarial valuation to the relevant employers
6.2.7. Produce a benefit statement each year for every active, deferred and pension credit member
6.2.8. Provide estimate of retirement benefits on request by the employer
6.2.9. Calculate and pay retirement benefits, deferred benefits and death in service benefits in accordance with

LGPS rules, members' options and statutory limits.

6.2.10. Comply with HMRC legislation

## 6.3. Decisions

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

## 6.4. Discretionary powers

The administering authorities with support from the administrator will ensure the appropriate policies are formulated, reviewed and publicised in accordance with the scheme regulations.

## 6.5. Internal dispute resolution procedure (IDRP)

The administrator will deal with employer appeals at stage two of the IDRP for WYPF, HPF and LPF. The Pension Manager of London Borough of Barnet Pension Fund will undertake this role for BPF.

An adjudicator will be nominated to deal with appeals at stage one and stage two of the IDRP where the appeal is against a decision the administrator has made or is responsible for making. For LPF, the decision maker in these stage one appeals is the Head of Pensions.

## 6.6. Fund performance levels

The minimum performance targets are shown below.

| Service | Days | Minimum target |
|---|---|---|
| 1. New member records created | 10 | 85% |
| 2. Update personal records | 10 | 85% |
| 3. Posting monthly contributions to member records | 10 | 95% |
| 4. Calculate and action incoming transfer values | 35 | 85% |
| 5. Deferred benefit – payment of lumps sums | 3 | 90% |
| 6. Provide details of deferred benefit entitlement | 10 | 85% |
| 7. Refund of contributions – notification of entitlement | 5 | 85% |
| 8. Refund of contributions - payment | 5 | 90% |
| 9. Pay transfers out on receipt of acceptance | 35 | 85% |
| 10. Provide estimate of retirement benefits | 10 | 75% |
| 11. Retirement benefits – payment of lump sum | 3 | 90% |
| 12. Retirement benefits – calculation of pension/lump sum | 10 | 85% |
| 13. Calculation and payment of death benefits on receipt of all necessary information | 5 | 90% |

| Service | Days | Minimum target |
|---|---|---|
| 14. Make death grant payment to the member’s nomination (provided all relevant information is received) | 1 month | 100% |
| 15. Percentage of telephone calls answered within 20 seconds | | 90% |
| 16. Annual benefit statements issued to deferred members | | by 31 May |
| 17. Annual benefit statements issued to active members | | by 31 August |
| 18. Make payment of pensions on the due date | | 100% |
| 19. Issue P60s to pensioners within statutory deadlines | | 100% |
| 20. Provide information on request in respect of pension share on divorce within legislative timescales | | 100% |
| 21. Implement Pension Share Orders within legislative timescales | | 100% |
| 22. Undertake annual reviews to establish continuing entitlement to pensions for children over the age of 17 | | 100% |

# 7. Unsatisfactory performance

## 7.1. Measuring performance

Both employer and administrator targets will be measured on a quarterly basis using the Civica document management system. Administrator performance levels will be published on a monthly basis to the shared service pension funds and fire authorities. Overall administrator performance will be published by the funds in their Report and Accounts.

## 7.2. Unsatisfactory performance

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

# Appendix A – Main contact registration and authorised user list

## Main contact registration form

West Yorkshire Pension Fund | Lincolnshire Pension Fund | London Borough of Hounslow | BARNET LONDON BOROUGH

### Main contact registration form

| **Employer name and location code** |
|---|
| **Employer address** |

**Important**: please read the guidance note on **Managing your contacts** before you complete this form.

**Strategic contact**

| | |
|---|---|
| Name | Address if different from above |
| Job title | |
| Phone | Specimen signature |
| Email | |

**Administration contact**

| | |
|---|---|
| Name | Address if different from above |
| Job title | |
| Phone | Specimen signature |
| Email | |

**Finance contact**

| | |
|---|---|
| Name | Address if different from above |
| Job title | |
| Phone | Specimen signature |
| Email | |

**Contact at third-party payroll provider** (if applicable and not listed above)

| | |
|---|---|
| Name | Company name and address |
| Job title | |
| Phone | Specimen signature |
| Email | |

| **Date signatures valid from** | **Signed (by current authorised signatory)** |
|---|---|

## Authorised user list

West Yorkshire Pension Fund | Lincolnshire Pension Fund | London Borough of Hounslow | BARNET LONDON BOROUGH

authorised payroll user list oct 2018

Employer name

### Authorised payroll user list

Please give the full name, phone number and email address of the additional people you authorise to submit information for you. We will give them a secure administration account.

| Full name | Phone number | Email address |
|---|---|---|
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| | | |
| **Date authorised users valid from** | | |
| **Signed (by current authorised signatory)** | | |

## Appendix B – Schedule of charges

| Performance areas | Reason for charge | Basis of charge |
|---|---|---|
| 1. Any overpayment made to a member due to inaccurate information provided by an employer will be recovered from employer, if the total overpaid is more than £50. | If the overpaid amount is the result of the employer's error, and the amount is over £50, then as such it will be recharged to the employer, plus costs of resolving and recovering the overpayment. If the overpayment is recovered from the member, then the amount recovered will be passed back to the employer, less any cost of overpayment recovery actions. | Actual amount overpaid + admin charge (admin charge will be based on managerial input at level III). |
| 2. Contributions to be paid anytime but latest date by 19th of month (weekends and bank holidays on the last working day before 19th) | Due by 19th of the month – late receipt of funds, plus cost of additional time spent chasing payment. | Number of days late interest charged at base rate plus 1%. |
| 3. Monthly return due anytime but latest by 19th of the month, errors on return, i.e. employer/employee rate deducted incorrectly, exception reporting errors to be resolved within two months. | Due by 19th of the month, any additional work caused by late receipt of information incorrect information, incorrect contributions. | Failure to provide appropriate information, resulting in significant work will result in admin charge (at Senior Pensions Officers level II). |
| 4. Change in member detail | If submitted via monthly data, the administrator will process data within 2 weeks following monthly data submission. For exception reports output from monthly returns, change data response must be provided to the administrator within 2 weeks of receipt of the exception report. | Failure to provide appropriate information, resulting in significant work will result in admin charge (at Pensions Officer level I). |
| 5. Early leavers information | If submitted via monthly data, the administrator will process data within 2 weeks following monthly data submission, else within 6 weeks of date of leaving. For exception reports leaver forms provided to WYPF within two months of receipt of the exception report. | Failure to provide appropriate information, resulting in significant work will result in admin charge (at pension officers level I). |
| 6. Retirement notifications | Due 10 working days before last day of employment unless the reason for retirement is ill health or redundancy – additional work caused by late receipt of information. | Failure to provide appropriate information, resulting in significant work will result in admin charge (at senior pension officers level II). |
| 7. Death in membership | Due within 3 working days of the notification – additional work caused by late receipt of information. | Failure to provide appropriate information, resulting in significant work will result in admin charge (at pension manager level III). |
| 8. AVC deducted from pay to be paid anytime but latest date by 19th of the month (weekends and bank holidays on the last working day before 19th). | Additional investigative work caused through lack of compliance by employer. | Failure to comply by employer, causing additional work for WYPF will result in admin charge (at pension officers level I). |
| 9. Re-issue of invoices | Charge based on number of request. | Additional work caused by reproducing invoices will result in admin charge (at pension officer level I). |
| 10. Authorised officers list not updated – Pension Liaison Officers, monthly contributions responsible officers | Costs of additional work resulting from employer's failure to notify the administrator of change in authorised officers list. | Failure to comply by employer, causing additional work for WYPF will result in admin charge (at Pensions Officer level I). |
| 11. Security breach on system re data protection | Recharge employers any fines imposed on us in this event | Actual amount fine imposed + admin charge (admin charge will be based on managerial input at level III). |

| | | |
|---|---|---|
| 12. Pension sharing order | For pension sharing order work, each party will be charged according to the instruction in the court order. | The charge is £350 + VAT for this work. |
| Miscellaneous items:<br>• Benefit recalculation<br>• Member file search and record prints<br>• Supplementary information requests | Where information is requested by members that is in addition to routine information. | A notional charge of £50 + VAT will be levied. Where the member has more than one known record, the charge is for each record. |

## Appendix C – Charging Levels

Charges will be made on half a day basis, but for less than a quarter day no charge will be made and for more than half a day a full-day charge will be made. Any part or all of these charges may be waived at head of service discretion.

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

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

# Independent auditor's statement to the members of London Borough of Hounslow on the pension fund financial statements included within the London Borough of Hounslow Pension Fund annual report

## Report on the financial statements

We have examined the Pension Fund financial statements for the year ended 31 March 2023 included within the London Borough of Hounslow Pension Fund annual report, which comprise the Fund Account, the Net Assets Statement and the notes to the financial statements, including the summary of significant accounting policies.

### Opinion

In our opinion, the Pension Fund financial statements are consistent with the audited financial statements of London Borough of Hounslow for the year ended 31 March 2023 and comply with applicable law and the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2022/23.

I have not considered the effects of any events between the date I signed my report on the full financial statements 4 October 2024 and the date of this statement.

### Respective responsibilities of the Chief Financial Officer and the auditor

As explained more fully in the Statement of the Chief Financial Officer's Responsibilities, the Chief Financial Officer is responsible for the preparation of the Pension Fund's financial statements in accordance with applicable United Kingdom law.

Our responsibility is to report to the Members of London Borough of Hounslow as a body, whether the Pension Fund financial statements within the Pension Fund annual report are consistent with the financial statements of London Borough of Hounslow.

We conducted our work in accordance with Auditor Guidance Note 07 – Auditor Reporting, issued by the National Audit Office. Our report on the Pension Fund financial statements contained within the audited financial statements of London Borough of Hounslow describes the basis of our opinions on the financial statements.

## Use of this auditor's statement

This report is made solely to the members of London Borough of Hounslow, as a body and as administering authority for the London Borough of Hounslow Pension Fund, in accordance with Part 5 paragraph 20(5) of the Local Audit and Accountability Act 2014. Our work has been undertaken so that we might state to the members of [name of Authority] those matters we are required to state to them and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than London Borough of Hounslow and London Borough of Hounslow's members as a body, for our audit work, for this statement, or for the opinions we have formed.

Suresh Patel

4 October 2024

Suresh Patel, Key Audit Partner
For and on behalf of Forvis Mazars LLP
30 Old Bailey, London,
EC4M 7AU